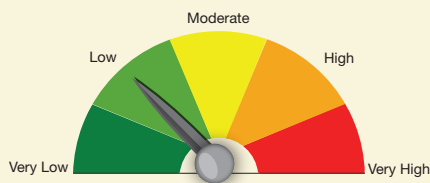


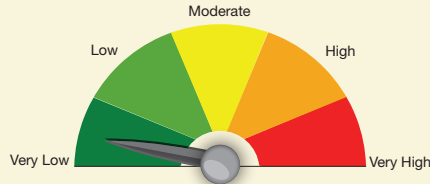
## Country Risk Tier

CRT-1

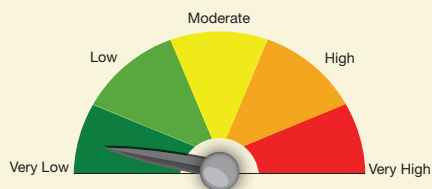
### Economic Risk



### Political Risk



### Financial System Risk



[For information on companies followed](#)

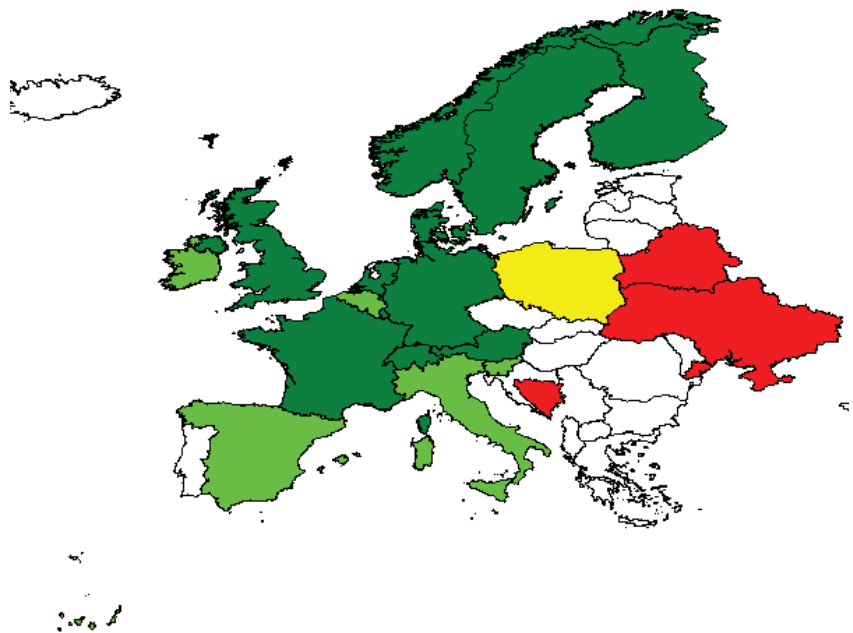
[Market Outlooks](#)

# Luxembourg

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political and Financial System Risk.

- Luxembourg is a CRT-1 country with very low levels of risk across all three categories. The global financial crisis has been a challenge for Luxembourg due to its reliance on exports and financial services. Luxembourg's economy stagnated in 2008, will contract in 2009 and recovery is not expected until the second half of 2010.

- A.M. Best considers the majority of countries pictured below to be categorized as CRT-1 and CRT-2. The exceptions are the Eastern European countries of Bosnia and Herzegovina, Belarus, Ukraine and Poland.



CRT 1 2 3 4 5



### Regional Summary: Western Europe

- Western Europe is a highly developed and affluent region. The European Union (EU) is an economic and political union of 27 countries that accounts for 30% of world gross domestic product (GDP). The EU is facilitating a single European market with standardized regulatory systems and free movement of people, goods, services and capital.
- The euro-zone is made up of the 16 EU members that have adopted the euro as their currency.
- Most, if not all, of Western Europe is experiencing a severe economic slowdown and many countries are, or soon will be, in an official recession. While the European Central Bank has cut interest rates to spur demand, economic growth in the region has stagnated.

### Economic Risk: Low

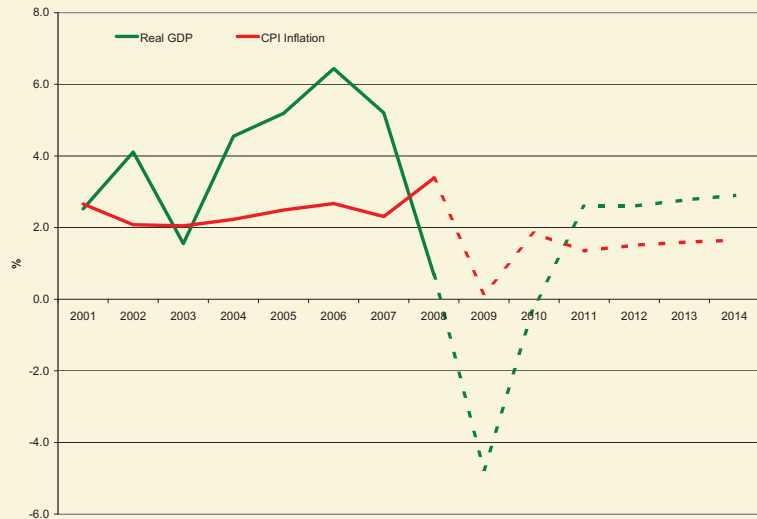
- With a population of only 490,000, the Grand Duchy of Luxembourg is the smallest member of the European Union (EU) and Economic and Monetary Union (EMU). The country’s economy is based on substantial international activity, as exports and imports of goods and services are both very large relative to the economy. In addition, the financial services sector makes up more than a quarter of GDP.
- This dual exposure to global economic conditions (via trade) and the financial services sector has brought Luxembourg’s economy into recession.

Vital Statistics 2008		
Nominal GDP	USD bn	54.97
Population	mil	0.5
GDP Per Capita	USD	113,044
Real GDP Growth	%	0.7
Inflation Rate	%	3.4
Premiums Written (Life)	USD mil	16,001
Premiums Written (Non-Life)	USD mil	3,318
Premiums Growth (07-08)	%	13.4

Regional Comparison	
	Country Risk Tier
Luxembourg	CRT-1
Germany	CRT-1
Netherlands	CRT-1
Belgium	CRT-2
Norway	CRT-1
Denmark	CRT-1

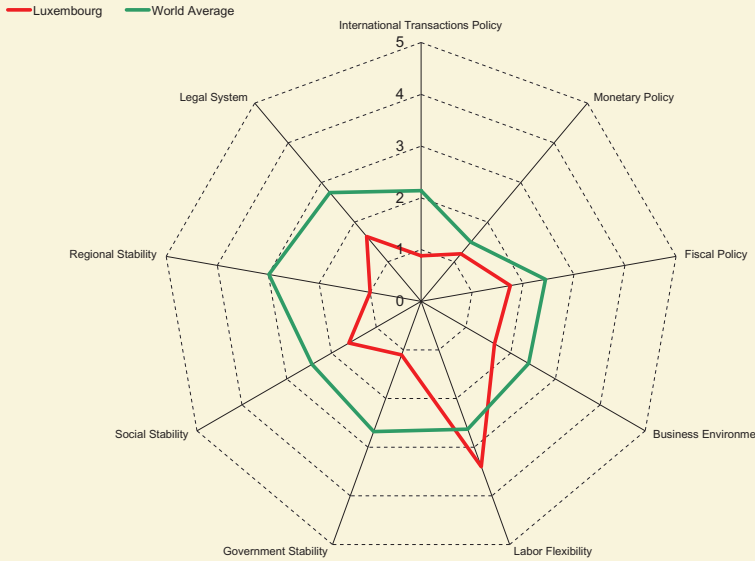
Source: IMF, Swiss Re and A.M. Best



Source: IMF World Economic Outlook (10/08) and A.M. Best

### Political Risk Summary

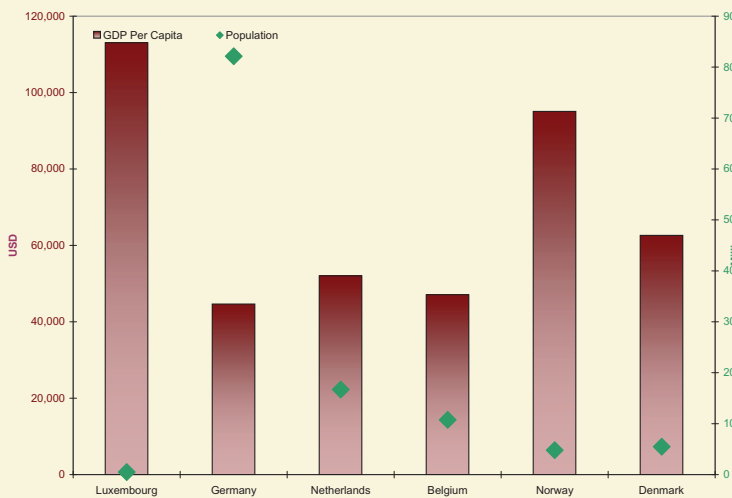
Score 1 (best) to 5 (worst)



Source: A.M. Best

### Political Risk: Very Low

- Luxembourg is a member of the European Union and one of the original 11 countries to adopt the euro as its currency in 1999.
- Government spending has historically been large and reform was being undertaken to reduce spending and maintain a balanced budget. However, given current economic conditions this tightening of fiscal policy will not be possible and some deficit spending may be employed to help stimulate the economy.



Source: IMF and A.M. Best

### Financial System Risk: Very Low

- The insurance industry in Luxembourg is regulated by the Commissariat aux Assurances and the main industry association is the Association des Compagnies d'Assurances (ACA/Insurance Company Association).

## GUIDE TO BEST'S COUNTRY RISK TIERS

A.M. Best defines country risk as the risk that country-specific factors could adversely affect the claims paying ability of an insurer. Country risk is evaluated and factored into all Best's Credit Ratings. Countries are placed into one of five tiers, ranging from "CRT-1" (Country Risk Tier 1), denoting a stable environment with the least amount of risk, to "CRT-5" (Country Risk Tier 5) for countries that pose the most risk and, therefore, the greatest challenge to an insurer's financial stability, strength and performance.

A.M. Best's Country Risk Tiers are not credit ratings and are not directly comparable to a sovereign debt rating, which evaluates the ability and willingness of a government to service its debt obligations.

### Country Risk Tiers

Country Risk Tier	Definition
CRT-1	Predictable and transparent legal environment, legal system and business infrastructure; sophisticated financial system regulation with deep capital markets; mature insurance industry framework.
CRT-2	Predictable and transparent legal environment, legal system and business infrastructure; sufficient financial system regulation; mature insurance industry framework.
CRT-3	Developing legal environment, legal system and business environment with developing capital markets; developing insurance regulatory structure.
CRT-4	Relatively unpredictable and nontransparent political, legal and business environment with underdeveloped capital markets; partially to fully inadequate regulatory structure.
CRT-5	Unpredictable and opaque political, legal and business environment with limited or nonexistent capital markets; low human development and social instability; nascent insurance industry.

### Country Risk Reports

A.M. Best Country Risk Reports are designed to provide a brief, high level, explanation of some of the key factors that determine a country's Country Risk Tier assignment. It is not intended to summarize A.M. Best's opinion on any particular insurance market, or the prospects for that market.

### Categories of Risk

Country Risk Reports provide "scores" for three categories of risk for each country. These "scores" are: (1) Very Low; (2) Low; (3) Moderate; (4) High and (5) Very High.

Category of Risk	Definition
Economic Risk	The likelihood that fundamental weaknesses in a country's economy will cause adverse developments for an insurer. A.M. Best's assessment of economic risk evaluates the state of the domestic economy, government finances and international transactions, as well as prospects for growth and stability.
Political Risk	The likelihood that government or bureaucratic inefficiencies, societal tensions, inadequate legal system or international tensions will cause adverse developments for an insurer. Political risk comprises the stability of the government and society, the effectiveness of international diplomatic relationships, the reliability and integrity of the legal system and of the business infrastructure, the efficiency of the government bureaucracy and the appropriateness and effectiveness of the government's economic policies.
Financial System Risk	Financial system risk (which includes both insurance and non-insurance financial system risk) is the risk that financial volatility may erupts due to inadequate reporting standards, weak banking system or asset markets and/or poor regulatory structure. Along with the risk that the insurance industry's level of development and public awareness, transparent and effective regulation and reporting standards and sophisticated regulatory body will contribute to a volatile financial system and compromise the ability of an insurer to pay claims.

### Political Risk Summary

To provide additional detail on the political risk in a given domicile the Country Risk Reports include the Political Risk Summary. The Political Risk Summary is a radar chart that displays scores for nine different aspects of political risk scored on a scale of 1-5 with 1 being the least amount of risk and 5 being the highest amount of risk.

Category	Definition
International Transactions Policy	Measures the effectiveness of the exchange rate regime and currency management.
Monetary Policy	Measures the ability of a country to effectively implement monetary policy.
Fiscal Policy	Measures the ability of a country to effectively implement fiscal policy.
Business Environment	Measures the overall quality of the business environment, and ease of doing business.
Labor Flexibility	Measures the flexibility of the labor market, including the company's ability to hire and fire employees.
Government Stability	Measures the degree of stability in a government.
Social Stability	Measures the degree of social stability including human development and political rights.
Regional Stability	Measures the degree of stability in the region
Legal System	Measures the transparency and level of corruption in the legal system.

### Country Risk Tier Disclosure

A Country Risk Tier (CRT) is not a credit rating, rather it represents a component of A.M. Best's credit rating methodology that is applied to all insurers. A CRT is not a recommendation to purchase, hold or terminate any security, insurance policy, contract or any other financial obligation issued by a government, an insurer or other rated issuer, nor do they address the suitability of any particular policy, contract or other financial obligation for a specific purpose or purchaser.

Financial Strength Ratings are distributed via press release and/or the A.M. Best Web site at [www.ambest.com](http://www.ambest.com) and are published in the *Rating Actions* section of *BestWeek*®. Financial Strength Ratings are proprietary and may not be reproduced without permission.  
Copyright © 2009 by A.M. Best Company, Inc. Version 070208

