

# BEST'S COUNTRY RISK REPORT

## Australia CRT-1

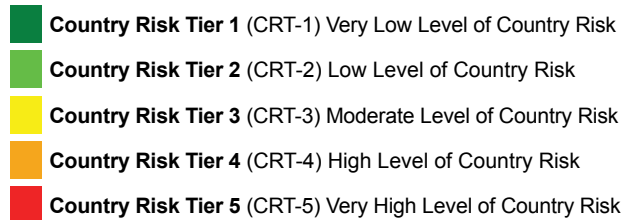
August 22, 2018

Region: Oceania

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Australia is a CRT-1 country with very low levels of economic, political, or financial system risk. The economy has experienced positive economic growth for over a decade, even during the 2008 financial crisis. In 2017, Australia posted a 2.3% growth rate. Growth is expected to rise towards 3.1% during 2018, before moderating over the medium term. Growth has been underpinned by prudent macroeconomic policies, strong exports, and household consumption.
- The map depicts Oceania, Indonesia, and Papua New Guinea. A.M. Best considers Australia to be CRT-1 and New Zealand, CRT-2.

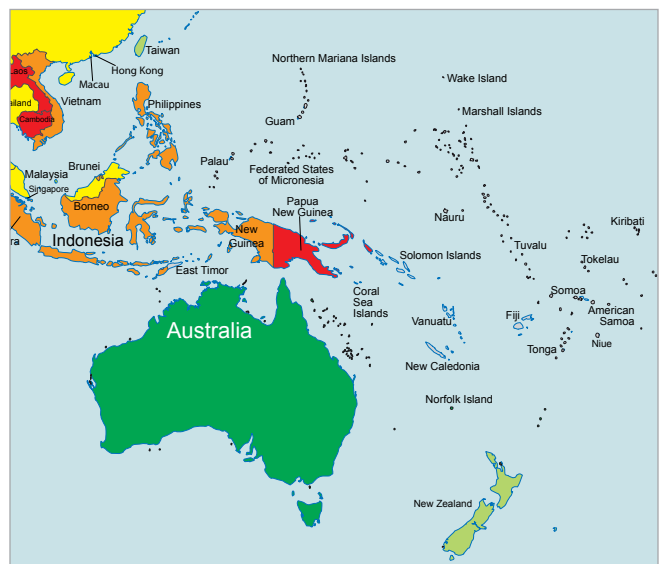


## Regional Summary: Oceania

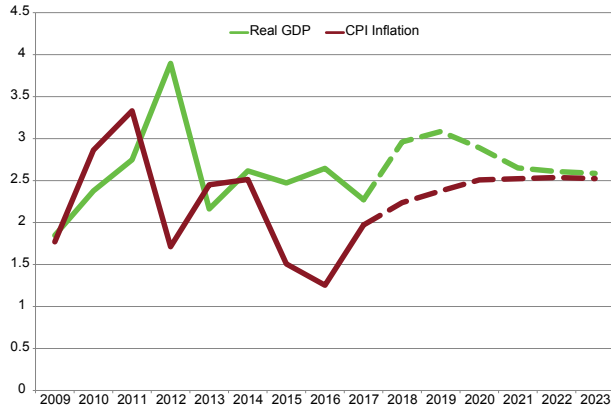
- Australia and New Zealand, the two largest nations in the South Pacific Ocean, account for the vast majority of the region's economic activity. Both have strong political and cultural ties with the United Kingdom, enjoy high living standards, and benefit from an educated workforce.
- The region's unemployment has declined, which has helped bolster domestic demand and spending slightly, but wage growth remains sluggish.
- Challenges include the potential for natural disasters, dependence on commodity sectors that increase its exposure to external, global conditions and price shocks, housing affordability, and low levels of foreign direct investment outside of the mining sector.
- The region has significant amounts of mineral resources, sound infrastructure, transparent tax and legal systems, and stable governments. It is also geographically positioned to capitalize on its export potential with Southeast Asia. Both Australia and New Zealand are participating in the Trans-Pacific Partnership agreement.

Vital Statistics 2017		
Nominal GDP	USD bn	1379.55
Population	mil	24.8
GDP Per Capita	USD	55,707
Real GDP Growth	%	2.3
Inflation Rate	%	2.0
United Nations Estimates		
Literacy Rate	%	n.a.
Urbanization	%	89.7
Dependency Ratio	%	51.1
Life Expectancy	Years	82.3
Median Age	Years	38.7
Insurance Statistics		
Insurance Regulator	Australian Prudential Regulation Authority	
Premiums Written (Life)	USD mil	32,169
Premiums Written (Non-Life)	USD mil	47,893
Premiums Growth (2016 - 2017)	%	-7.3
Regional Comparison		
	Country Risk Tier	
Australia	CRT-1	
Indonesia	CRT-4	
Japan	CRT-2	
Malaysia	CRT-3	
New Zealand	CRT-2	
Singapore	CRT-1	

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



### Economic Growth (%)



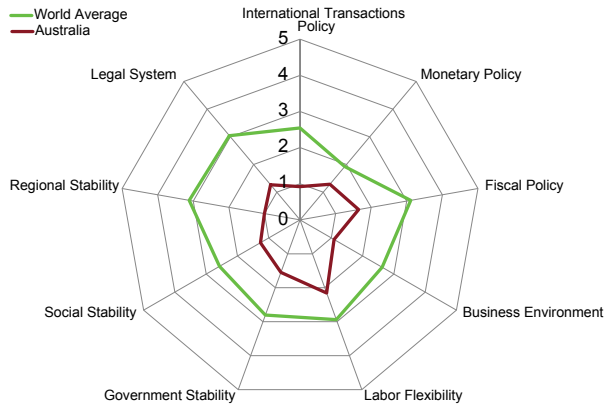
Source: IMF World Economic Outlook and A.M. Best

### Economic Risk: Very Low

- Australia's economy is well diversified and dominated by its services sector, which accounts for nearly 70% of GDP. The largest components are finance, property, and business services.
- The country has benefited from strong public investment in infrastructure as well as an acceleration in private business investment. Infrastructure spending currently adds 0.5% to the GDP growth rate.
- Unemployment has come down, to 5.4% in June 2018, although wage growth remains weak. Inflation is below the central bank's target.
- Housing prices have appreciated significantly due to a housing shortage and a growing population. More housing is being built, but the government has also adopted policies to aid first-time home buyers, including grants and tax relief programs.

### Political Risk Summary

Score 1 (best) to 5 (worst)

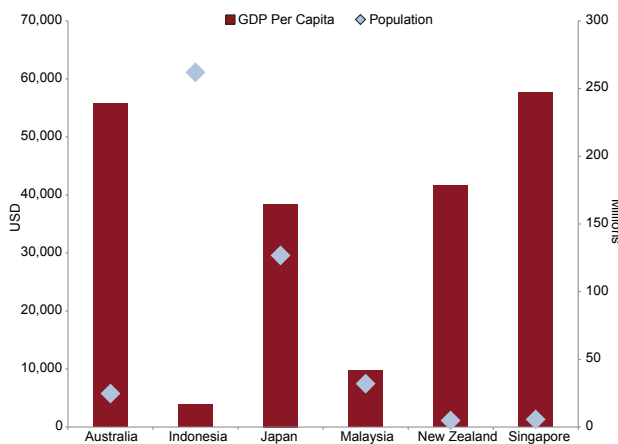


Source: A.M. Best

### Political Risk: Very Low

- The Liberal-National coalition came into power in 2016, but lacks a strong majority. The government has still been able to pass key legislation, including the strengthening of consumer protections for financial products.
- Australia's legal system is strong, stable, and transparent, with minimal corruption. The stable regulatory environment, combined with a resilient economy, makes Australia an attractive location for foreign direct investment.
- The government passed corporate tax reform legislation, which will lower the corporate tax rate to 25% by 2026. Although a corporate tax cut will increase the budget deficit, it could attract more companies to settle in Australia.
- The government has also focused on accelerating competition, innovation, and productivity in the service sector, particularly in the tech industry.

### GDP Per Capita and Population



Source: IMF and A.M. Best

### Financial System Risk: Very Low

- The Australian Prudential Regulation Authority (ARPA) and the Australian Securities and Investment Commission (ASIC) regulate the insurance industry in Australia. ARPA also serves as the regulator of the entire financial services industry and conforms to international standards.
- Monetary policy is expected to remain accommodative. In August 2016, the Reserve Bank of Australia lowered its policy interest rate to 1.5%, where it remains as of August 2018.
- Interest rates remain low, but housing prices and household debt ratios have risen. According to the IMF, despite the banking system's large exposure to the housing market, the system remains well capitalized and will be able to absorb any dislocations in the market.
- Credit lending to private citizens has grown rapidly in the past several years and is projected to rise even further, which could expose the credit market to risk in the event of an economic downturn.