

# BEST'S COUNTRY RISK REPORT

## Canada CRT-1

August 22, 2018

**Region:** North America

[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.
- Canada is a CRT-1 country with very low levels of economic, political, and financial system risk. Its strong institutional framework, well diversified economy, and well regulated financial system all contribute to its low country risk profile. GDP grew 3.0% in 2017 and is projected to moderate and remain stable, hovering just under 2%. Sustained growth will be driven by business investment and household consumption. Inflation is also expected to remain relatively stable at around 2.1%.
- The map depicts the countries A.M. Best evaluates in North America.



- Country Risk Tier 1 (CRT-1)** Very Low Level of Country Risk
- Country Risk Tier 2 (CRT-2)** Low Level of Country Risk
- Country Risk Tier 3 (CRT-3)** Moderate Level of Country Risk
- Country Risk Tier 4 (CRT-4)** High Level of Country Risk
- Country Risk Tier 5 (CRT-5)** Very High Level of Country Risk

## Regional Summary: North America

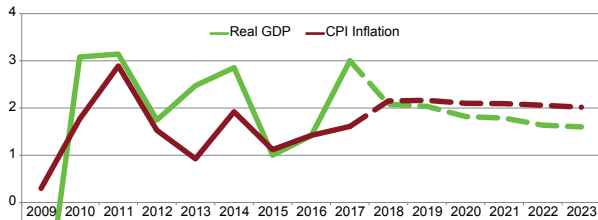
- North America is dominated by the US, which accounted for USD19.4 trillion of the almost USD22.2 trillion in economic activity for the US, Canada, and Mexico in 2017.
- Economic conditions in the US and Canada are largely favorable due to low unemployment, moderate but steady growth, and relatively low inflation. Although conditions in Mexico have been more volatile, they would still be considered largely positive.
- Risks in the region are growing due to rising fiscal deficits, the growing potential for a spike in inflation and the resulting need for a faster than expected monetary policy tightening, frothy asset markets, uncertainty surrounding trade policy, geopolitical tensions, political gridlock and upcoming elections, and growing consumer debt.
- The US Federal Reserve continues to normalize monetary policy, after first ending asset purchases in 2014, raising interest rates for the first time in 2015, and starting to shrink its USD4.5 trillion balance sheet in 2017. To date, the process has been relatively smooth, but unanticipated monetary policy has the potential to cause volatility.

Vital Statistics 2017		
Nominal GDP	USD bn	1652.41
Population	mil	36.7
GDP Per Capita	USD	45,077
Real GDP Growth	%	3.0
Inflation Rate	%	1.6
United Nations Estimates		
Literacy Rate	%	n.a.
Urbanization	%	82.2
Dependency Ratio	%	47.3
Life Expectancy	Years	81.9
Median Age	Years	42.2
Insurance Statistics		
Insurance Regulator	Office of the Superintendent of Financial Institutions	
Premiums Written (Life)	USD mil	51,592
Premiums Written (Non-Life)	USD mil	67,927
Premiums Growth (2016 - 2017)	%	1.6
Regional Comparison		
	Country Risk Tier	
Canada	CRT-1	
Australia	CRT-1	
France	CRT-1	
Mexico	CRT-3	
Russia	CRT-4	
United States	CRT-1	

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



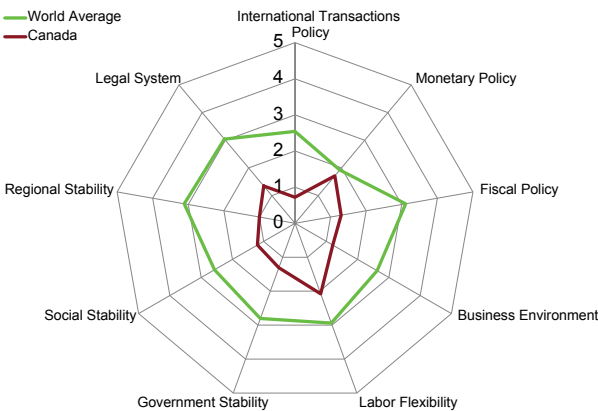
### Economic Growth (%)



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

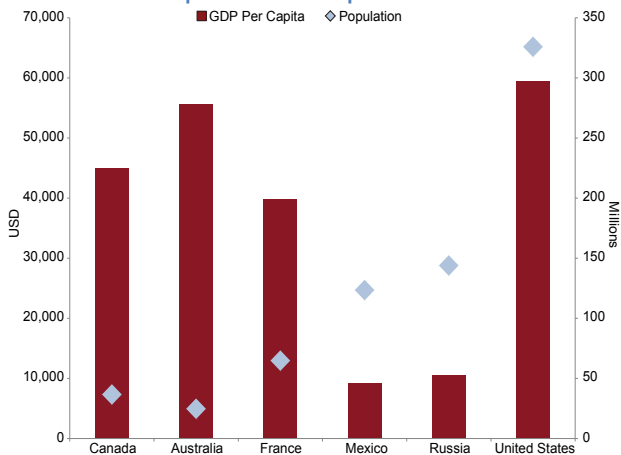
### Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

### GDP Per Capita and Population



Source: IMF and A.M. Best

## Economic Risk: Very Low

- Canada is an open economy with abundant natural resources and a highly educated workforce. Its main sectors include services, which accounts for three quarters of the GDP, energy production, manufacturing, and mining.
- Despite tightening trade with the US owing to appreciation of the Canadian dollar and security concerns, the two countries are the world's largest bilateral trade partners. Canada is seeking to diversify its export destinations by signing trade agreements with nations other than the US.
- Trade has been bolstered significantly since Canada's participation in NAFTA, although the recent NAFTA negotiations and disputes with the US will likely have a negative impact on Canada's economy.
- Domestic demand has been strong and the current account deficit is expected to narrow as a result. Economic growth is characterized by high levels of inclusiveness and sustainability, according to the World Bank Group.

## Political Risk: Very Low

- Canada's central government is stable and currently led by the centrist and pro-business Liberal Party.
- Regulations are well-defined, but they can vary significantly among provinces, increasing trade barriers that could impede growth. Politics on the provincial levels can be less stable as well, particularly in British Columbia, Quebec, and Ontario.
- The legal system is well-developed, but contract enforcement can sometimes be inefficient. Starting a business in Canada is ranked as second-easiest in the world, while contract enforcement ranks 114 out of 190 countries, according to the World Bank.
- Labor union protests are relatively common but generally peaceful. Environmental activism is on the rise owing to the energy industry's expansion, slightly raising the risk of attacks. Violence is generally infrequent and small-scaled.

## Financial System Risk: Very Low

- The insurance industry is regulated at both federal and provincial levels. The Office of the Superintendent of Financial Institutions (OSFI) provides prudential oversight of federally regulated insurers, while the Canadian Council of Insurance Regulators focuses on ensuring regulatory consistency.
- The tax system is competitive and well-defined, although complicated by multiple levels of differing systems. The IMF recommends enhanced communication and coordination among different levels of government agencies and regulators.
- The banking system is sound, with substantial capital and strong profitability, despite high household debt. Mortgage rules are being strengthened (since January 2018) to help mitigate the risk. The IMF has also recommended the building of a fiscal buffer.