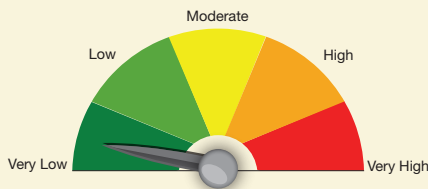


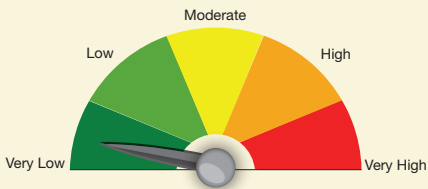
Country Risk Tier

CRT-1

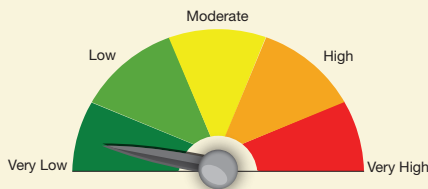
Economic Risk



Political Risk



Financial System Risk



[For information on companies followed](#)

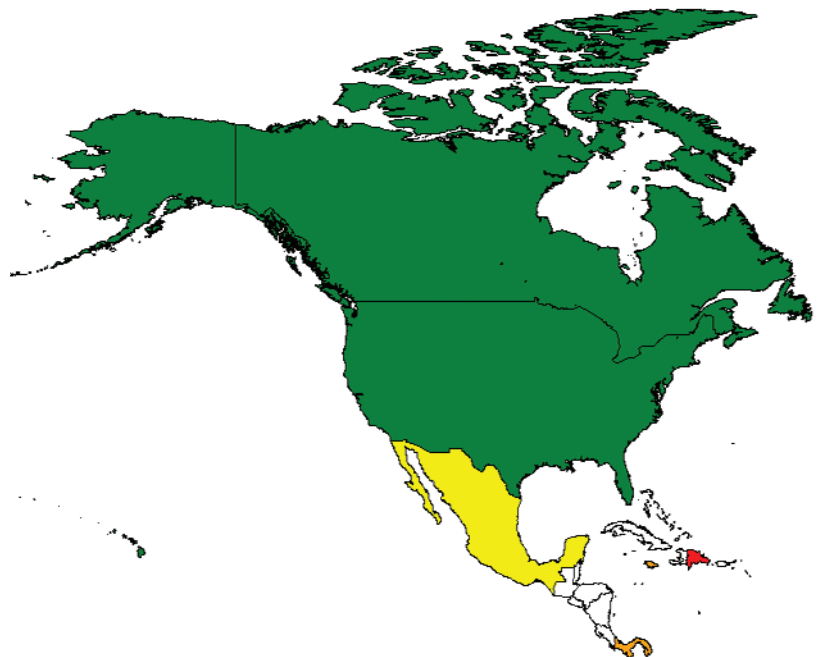
[Market Outlooks](#)

Canada

- 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. The global financial turmoil led Canada’s economy into recession in late 2008 and 2009. However, Canada entered the recession in a position of strength with sound macroeconomic fundamentals and a strong regulatory environment. The combination of the solid initial position and a decisive policy response helped the Canadian economy to rebound relatively strongly.

- The map below depicts the countries A.M. Best evaluates in North America, Latin America and the Caribbean. Economic performance in the region over the course of 2008 and 2009 echoes that of the United States due to decreased tourism revenues, slumping financial services sectors, and sharp reduction in overseas remittances. The region grew modestly in 2010 and is experiencing a weak recovery in 2011.



CRT 1 2 3 4 5



Regional Summary: North America

- The North America region is dominated by the United States of America, which accounts for USD 14 trillion of the total USD 16 trillion in economic activity.
- The United States experienced its worst recession in the post WWII era from December 2007 to June 2009. While the recession has officially ended, sluggish growth and stubbornly high unemployment continue to have a dampening effect on the region’s economic activity.

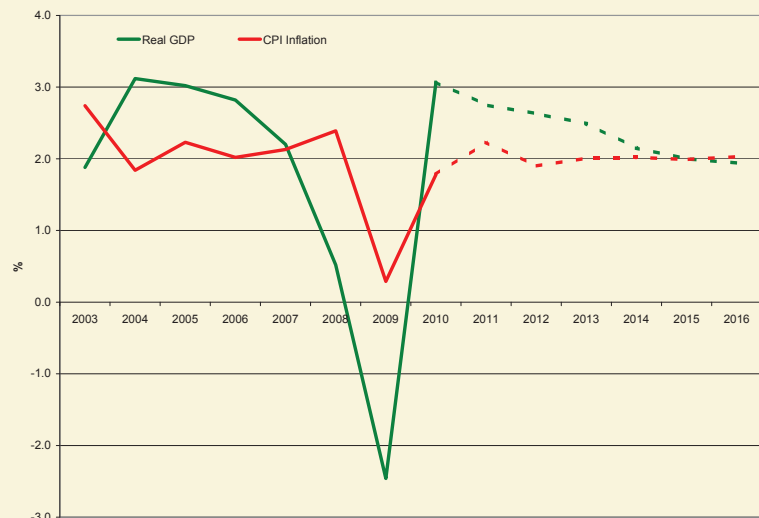
Economic Risk: Very Low

- Canada’s economy is developed, with services and manufacturing accounting for the majority of the country’s output.
- International trade is vital to the economy, as exports represent about 40% of GDP, with nearly 80% of those exports going to the United States.
- The economy rebounded by 3.1% in 2010 and is growing by about 2.8% in 2011. The economy is expected to grow at about that pace over the next few years.
- While Canada has not been severely impacted by the current fragile state of the U.S. economy, the strength of future growth in Canada will be dictated, at least in part, by the growth of the U.S. economy.

Vital Statistics 2010		
Nominal GDP	USD bn	1574.1
Population	mil	34.1
GDP Per Capita	USD	46,215
Real GDP Growth	%	3.1
Inflation Rate	%	1.8
Premiums Written (Life)	USD mil	50,812
Premiums Written (Non-Life)	USD mil	32,234
Premiums Growth (08-09)	%	-3.0

Regional Comparison	
	Country Risk Tier
Canada	CRT-1
United States	CRT-1
Russia	CRT-4
Mexico	CRT-3
Australia	CRT-1
France	CRT-1

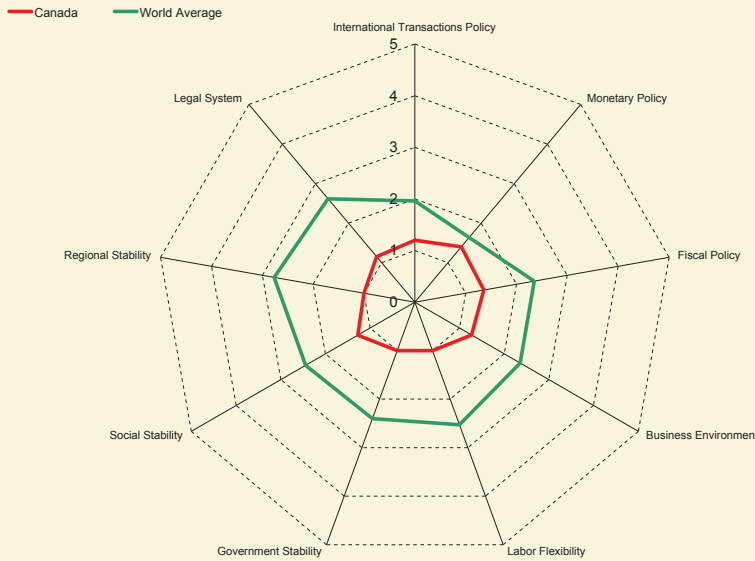
Source: IMF, Axco, Swiss Re and A.M. Best



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

Political Risk Summary

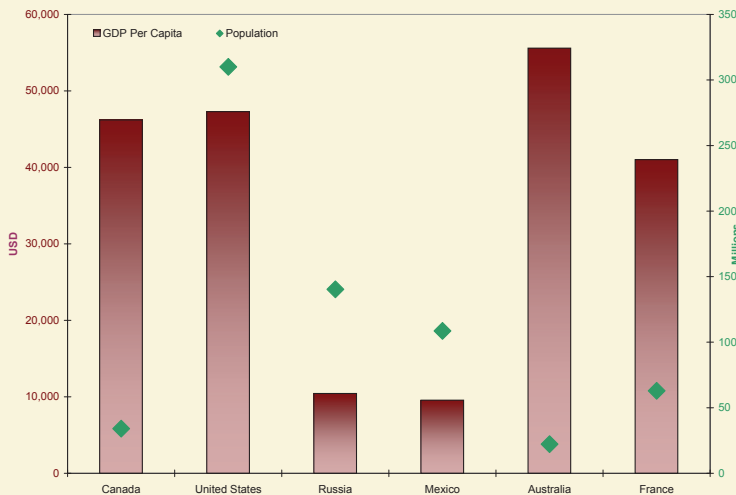
Score 1 (best) to 5 (worst)



Source: A.M. Best

Political Risk: Very Low

- Canada is a high-income country with significant natural resources and an established legal system.
- Canada’s economy is inexorably linked to that of the United States, due to the latter’s geographic proximity, cultural similarities, and economic size.
- The government plans to eliminate its deficit by 2014, which had expanded under fiscal policy to help stimulate the economy.



Source: IMF and A.M. Best

Financial System Risk: Very Low

- Insurance companies in Canada can be licensed at a national and/or provincial level.
- Federal companies are registered under the Insurance Companies Act of Canada and are regulated by the Office of the Superintendent of Financial Institutions of Canada.
- The banking sector withstood the global financial crisis due to conservative lending practices and strong capitalization and has emerged as one of the strongest banking sectors in the world.

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 erupt 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.

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