

BEST'S COUNTRY RISK REPORT

Finland CRT-1

August 22, 2018

Region: Europe

[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
- Finland is a CRT-1 country, with low or very low levels of economic, political, and financial system risk.
- Finland's economy is diversified and highly industrialized. The country's main exports include machinery, paper, chemicals and timber.
- GDP growth in 2017 was 3.0%, with 2018 GDP expected at 2.6%. Medium term growth is expected to range from 1.0% to 2.0%.
- A.M. Best categorizes the majority of countries pictured in the map as CRT-1 and CRT-2. Notable exceptions are many of the Eastern European countries such as Belarus, Romania, and Ukraine.



Economic Risk



Political Risk



Financial System Risk

- 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: Western Europe

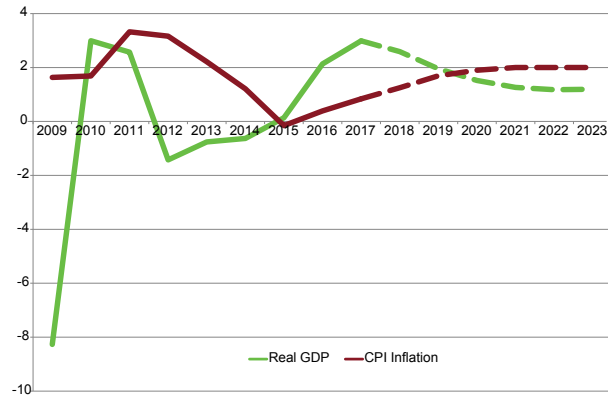
- Western Europe is a highly developed and affluent region. The 28 countries of the EU accounted for approximately 21.9% of the world's domestic product in 2016 and 21.6% in 2017, a figure that is projected to grow to 22.5% in 2018.
- Growth has been driven largely by rising domestic demand due to growing consumer and business confidence, lower unemployment rates, and credit growth.
- The European Central Bank (ECB) has decided to end its three-year EUR2.4 trillion quantitative easing program by the end of 2018, although it did signal that any rise in interest rates before September 2019 was unlikely. The policy rate has been below 1.0% since July 2012 and has been at 0.0% since March 2016.
- Concerns include political instability in certain countries, ongoing uncertainty about Brexit and its potential implications, and below-trend growth and inflation.

Vital Statistics 2017		
Nominal GDP	USD bn	253.24
Population	mil	5.5
GDP Per Capita	USD	46,017
Real GDP Growth	%	3.0
Inflation Rate	%	0.8
United Nations Estimates		
Literacy Rate	%	n.a.
Urbanization	%	84.5
Dependency Ratio	%	57.9
Life Expectancy	Years	81.0
Median Age	Years	42.5
Insurance Statistics		
Insurance Regulator	Financial Supervisory Authority	
Premiums Written (Life)	USD mil	21,370
Premiums Written (Non-Life)	USD mil	4,788
Premiums Growth (2016 - 2017)	%	2.9
Regional Comparison		
		Country Risk Tier
Finland		CRT-1
Denmark		CRT-1
Germany		CRT-1
Netherlands		CRT-1
Norway		CRT-1
Sweden		CRT-1

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



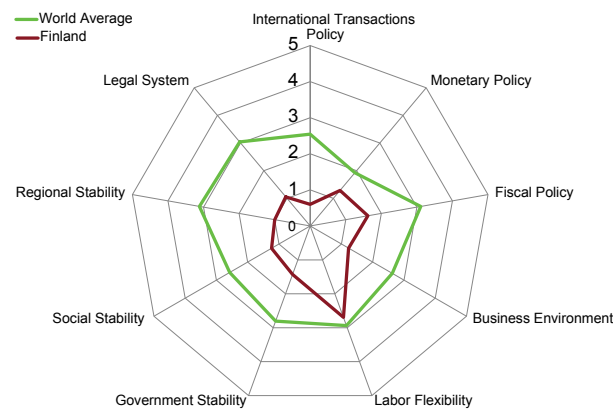
Economic Growth (%)



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

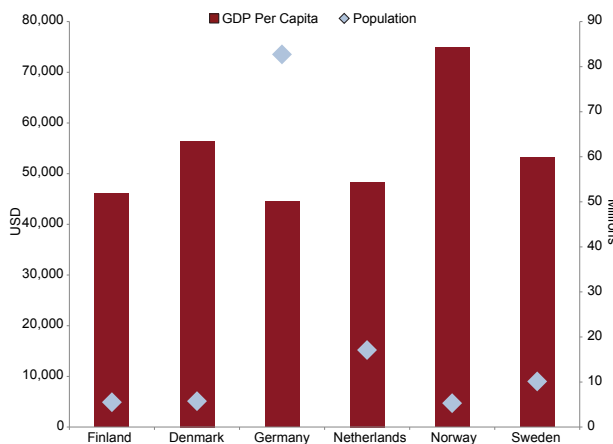
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: Low

- Exports account for over one third of the economy, which leaves the country vulnerable to changes in global demand conditions. Germany and Sweden are Finland's top two trading partners.
- While Finland has a high GDP per capita owing to its well-educated workforce, one of the country's main challenges will include lowering high labor costs and minimizing frequent labor disputes. There are concerns about wage growth surpassing productivity.
- The pressures of an aging population will also weigh heavily on Finland. Reforms to the country's pension system, such as raising the minimum retirement age, have been implemented.
- The unemployment rate remains high, at 8.7% in 2017. The high rate of unemployment can be attributed to labor market rigidities.

Political Risk: Very Low

- Finland is a member of the European Union and one of the original 11 countries to adopt the euro as its currency in 1999.
- The government is largely stable and is characterized by consensus and continuity. Policy compromises and broad coalitions are the norm.
- The current prime minister is Juha Sipilä, from the Centre Party. He leads a coalition with the Finns and the National Coalition Party. Regional elections are scheduled for October 2018 and the general election, for April 2019.
- Among the government's top priorities are healthcare and administrative reforms. The government hopes to lower future healthcare expenditures and possibly initiate some privatization of the healthcare industry. Finland has one of the fastest aging populations in Europe.

Financial System Risk: Very Low

- The Financial Supervisory Authority (FIN-FSA) regulates the Finnish insurance industry. Regulations and guidelines follow the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), the European Securities and Markets Authority (ESMA), in addition to EU legislation.
- Prudential supervision of Finland's biggest banks falls to the European Central Bank, while FIN-FSA is responsible for supervising the nine smaller banks. The IMF has recommended that further resources be dedicated to supervision, to mitigate future risks.
- The IMF notes that financial shocks remain a risk owing to banks' reliance on close connections to other Nordic economies and on wholesale funding.
- The Systemic Risk Buffer legislation is set to be implemented next year, which would impose additional capital requirements on banks.