

BEST'S COUNTRY RISK REPORT

Iceland CRT-3

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.
- Iceland, a CRT-3 country, has a low level of political risk and moderate levels of economic and financial system risk. GDP growth in 2017 was 3.6%, with 2018 growth expected at 3.2%. Medium term growth is expected to range between 2.5% and 3.0%.
- Inflation is expected to tick up slightly in 2018, to 2.4%, from 1.8% in 2017.
- Iceland consistently ranks well in global competitiveness indices, with high levels of transparency, low levels of corruption, and a highly skilled workforce.
- A.M. Best categorizes the majority of countries pictured in the map below 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

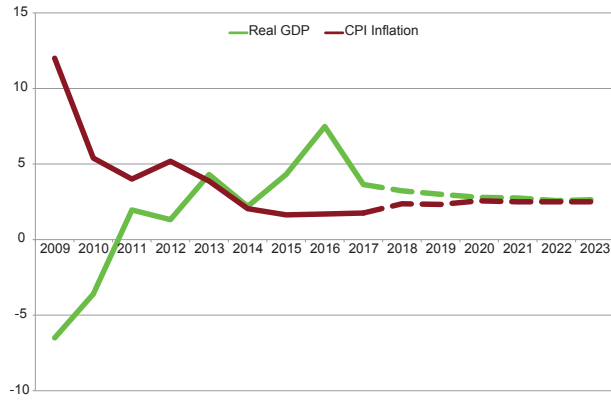
- Western Europe is a highly developed and affluent region. The 28 countries of the EU accounted for approximately 21.9% of the world's domestic product in 2016 and 21.6% in 2017, a figure that is projected to grow to 22.5% in 2018.
- Growth has been driven largely by rising domestic demand due to growing 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	23.91
Population	mil	0.3
GDP Per Capita	USD	70,332
Real GDP Growth	%	3.6
Inflation Rate	%	1.8
United Nations Estimates		
Literacy Rate	%	n.a.
Urbanization	%	94.3
Dependency Ratio	%	51.6
Life Expectancy	Years	83.1
Median Age	Years	36.5
Insurance Statistics - As of 2016		
Insurance Regulator	The Financial Supervisory Authority of Iceland	
Premiums Written (Life)	USD mil	44
Premiums Written (Non-Life)	USD mil	463
Premiums Growth (2015 - 2016)	%	23.8
Regional Comparison		
	Country Risk Tier	
Iceland	CRT-3	
Ireland	CRT-2	
France	CRT-1	
Italy	CRT-2	
Spain	CRT-2	
United Kingdom	CRT-1	

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



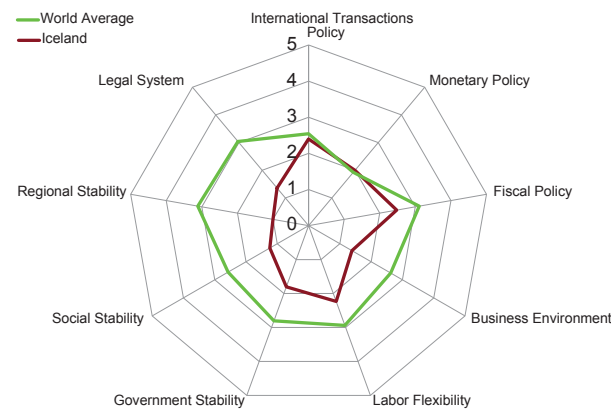
Economic Growth (%)



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: Moderate

- Iceland's economy is driven by fishing, manufacturing, and tourism. Increases in domestic demand and in investment are expected to be the main drivers of growth in the next couple of years. Tourism, which grew almost 400% from 2010 to 2017, is expected to moderate.
- Because of its small size, the economy is vulnerable to external conditions. The country is dependent on the economic performance of its major trading partners. Iceland's top three export markets are the Netherlands, Spain, and the UK.
- GDP per capita is among the highest in the world, at approximately USD70,300. Iceland benefits from a highly educated workforce.
- In March 2017, the country was able to successfully exit from the capital controls it had put in place to stabilize the currency in the aftermath of the financial crisis.

Political Risk: Low

- Iceland's political system is among the world's most stable and mature democracies, despite the recent frequent changes in government.
- Iceland held parliamentary elections for the second time in under a year, after the government collapsed in September 2017. Snap elections were held after one party in the ruling coalition quit the government over allegations of corruption.
- Government policies will continue to focus on maintaining economic stability and developing the island's infrastructure.
- Iceland is not currently a member of the European Union. Instead, it is a full member of the European Economic Area (EEA) and the European Free Trade Association (EFTA). A referendum on EU membership is possible in the coming year.
- Iceland scores well in the most recent World Bank's Ease of Doing Business Survey. The country ranks 23 out of 190 countries. Iceland scores particularly well in registering property and resolving insolvencies.

Financial System Risk: Moderate

- The Financial Supervisory Authority (FME) regulates Iceland's insurance industry.
- Although the insurance market is fairly small, it is well-developed and offers a full range of products.
- Overheating is a risk. In the housing market, prices have increased sharply and demand outstrips supply. Credit lending has been moderate but, given current conditions could accelerate.
- The banking system is smaller than it was before the financial crisis. Banks are now more focused on the domestic market, with stronger capitalization and liquidity ratios.