

BEST'S COUNTRY RISK REPORT

India CRT-4

August 22, 2018

Region: Asia

[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.
- India, a CRT-4 country, has a moderate level of economic and financial system risk and a high level of political risk. It has recently become the world's fastest-growing major economy, with GDP growth projected to reach 7.4% this year. Its economy has benefited from a well-diversified economic base and rapid expansion in multiple sectors. The government has instituted economic reforms aimed at sustaining growth. Ensuring the country's rapid growth is inclusive will remain a challenge.
- Since 2008, inflation has declined and is expected to stabilize around 5% over the medium term.
- The map depicts the countries in the South Central Asia A.M. Best evaluates. They are all considered CRT-3, CRT-4 or CRT-5.



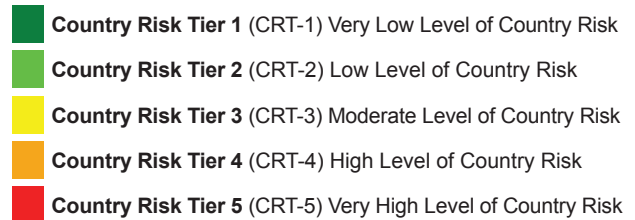
Economic Risk



Political Risk



Financial System Risk



Regional Summary: South Central Asia

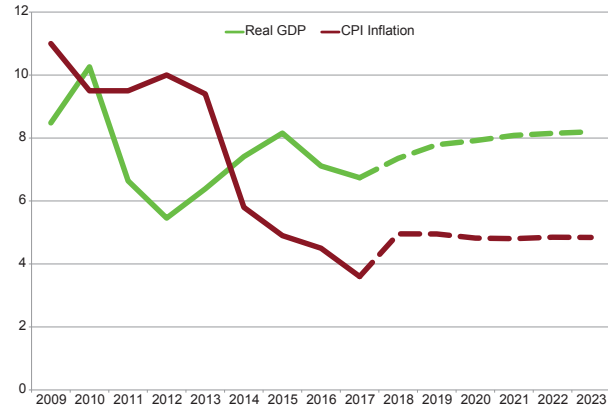
- India, the largest country in South Central Asia, has been the fastest growing major economy in the world in recent years, surpassing China.
- Heightened geopolitical tensions in the region have the potential to hold back economic growth through subdued foreign investment. Additional headwinds include low levels of wealth, endemic corruption, underdeveloped tax systems and regulations, infrastructure deficiencies, cumbersome bureaucracy that can be a major impediment to doing business, and a high likelihood of natural disasters.
- The region is highly vulnerable to global financial conditions. The monetary normalization process poses risks to financial stability across the region owing to an increase in financing costs, the potential for significant capital outflows, and volatility in exchange rates.
- High levels of non-performing loans have been a long-standing concern and have the potential to hurt credit growth and investment.

Vital Statistics 2017		
Nominal GDP	USD bn	2611.01
Population	mil	1316.9
GDP Per Capita	USD	1,983
Real GDP Growth	%	6.7
Inflation Rate	%	3.6
United Nations Estimates		
Literacy Rate	%	71.2
Urbanization	%	33.5
Dependency Ratio	%	52.2
Life Expectancy	Years	68.8
Median Age	Years	27.9
Insurance Statistics		
Insurance Regulator	Insurance Regulatory and Development Authority	
Premiums Written (Life)	USD mil	73,240
Premiums Written (Non-Life)	USD mil	24,764
Premiums Growth (2016 - 2017)	%	10.1
Regional Comparison		
		Country Risk Tier
India		CRT-4
China		CRT-3
Indonesia		CRT-4
Kazakhstan		CRT-4
Russia		CRT-4
Thailand		CRT-3

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



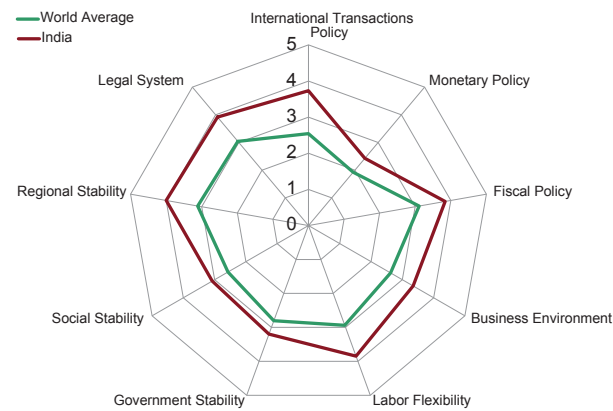
Economic Growth (%)



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

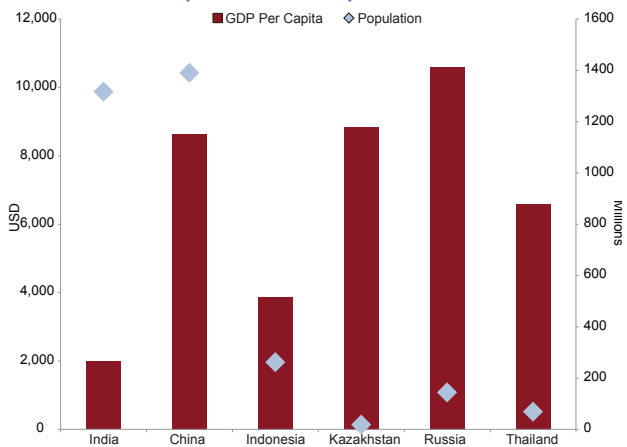
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: Moderate

- India has the sixth highest GDP in the world, having recently overtaken China as the world's fastest-growing major economy. The economy consists primarily of IT, financial services, and manufacturing. Agriculture accounts for only 15% of the economy but employs nearly half the population.
- India's economy has grown steadily since the 1990s. The IT sector has expanded rapidly and the export of goods has increased. The 2016 demonetization of the economy and the implementation of a new tax structure slowed growth but the slowdown is expected to be short-lived.
- India is increasingly becoming more integrated into the global market. It is a member of the WTO and the South Asian Association for Regional Cooperation (SAARC), and has signed bilateral trade agreements with various economies. India's economy benefits from a diverse export base, a low cost of labor, a young population, and a large domestic market.
- Inflation is expected to rebound in 2018, and therefore the Reserve Bank of India is likely to tighten monetary policy.

Political Risk: High

- The current government is led by the Bharatiya Janata Party, which holds a majority in the lower house. Reforms are expected to slow owing to the possibility of a fractured parliament after the next general elections.
- The government welcomes foreign direct investment. The Commercial Act of 2016 created new commercial centered courts in an effort to accelerate the resolution of commercial arbitration cases.
- The bureaucracy is cumbersome and is likely to lead to project delays, especially in the energy sector. Bribery is common and unlikely to decline in the short term, owing to the lack of capacity of anti-corruption authorities.
- Tensions with Pakistan over Kashmir remain elevated. In July 2017, India rejected China's offer to mediate, affirming its commitment to only bilateral negotiations.
- Protests are frequent but largely non-violent. The demonstrations are usually sparked by concerns about social inequality, farmers' rights, and perceived land and environmental law violations.

Financial System Risk: Moderate

- The insurance industry is regulated by the Insurance Regulatory and Development Authority (IRDA).
- The capital markets are strong and have large potential for growth. The banking system is healthy and stable, dominated by public and nationalized banks. The financial system also benefits from the ample foreign exchange reserves and comfortable external liquidity.
- The Goods and Services Tax (GST) passed in 2017 is an indirect tax that has triggered protests by stakeholders owing to disagreements on the rates.