BEST'S COUNTRY RISK REPORT

Switzerland

CRT-1

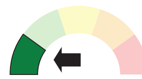
August 22, 2018

Region: Western Europe

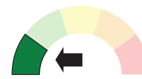
[Country Risk Criteria Procedures]

[Guide to Best's Country Risk Tiers]

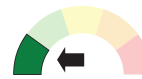
- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Switzerland is a CRT-1 country, with very low levels of economic, political, and financial system risk. Switzerland is not a member of the European Union.
- The Swiss economy continues to grow modestly, with real GDP up 1.1% in 2017, and 2018 growth expected at 2.3%. The country has one of the highest per capita GDP in the world, estimated at over USD80,000.
- A.M. Best categorizes the majority of countries pictured in the map as CRT-1 and CRT-2. Notable exceptions are the Eastern European countries of Bosnia and Herzegovina, Belarus, 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

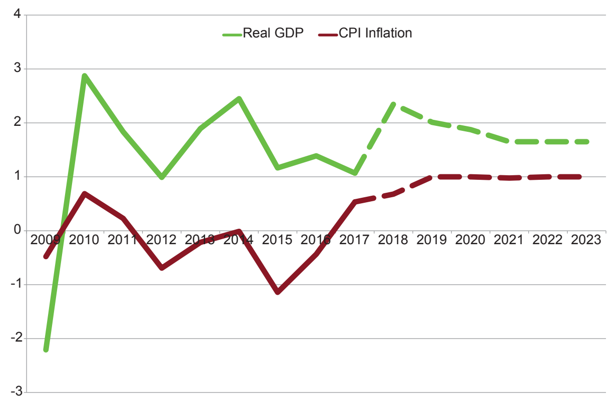
Regional Summary: Western Europe

- 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	678.58
Population	mil	8.4
GDP Per Capita	USD	80,591
Real GDP Growth	%	1.1
Inflation Rate	%	0.5
United Nations Estimates		
Literacy Rate	%	n.a.
Urbanization	%	74.1
Dependency Ratio	%	48.8
Life Expectancy	Years	82.6
Median Age	Years	42.4
Insurance Statistics		
Insurance Regulator	Financial Market Supervisory Authority	
Premiums Written (Life)	USD mil	29,944
Premiums Written (Non-Life)	USD mil	27,960
Premiums Growth (2016 - 2017)	%	-1.8
Regional Comparison		
	Country Risk Tier	
Switzerland	CRT-1	
France	CRT-1	
Germany	CRT-1	
Italy	CRT-2	
Spain	CRT-2	
United Kingdom	CRT-1	

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

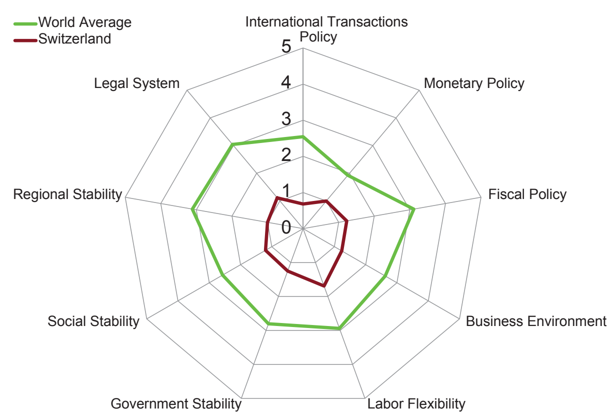
Economic Growth (%)



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

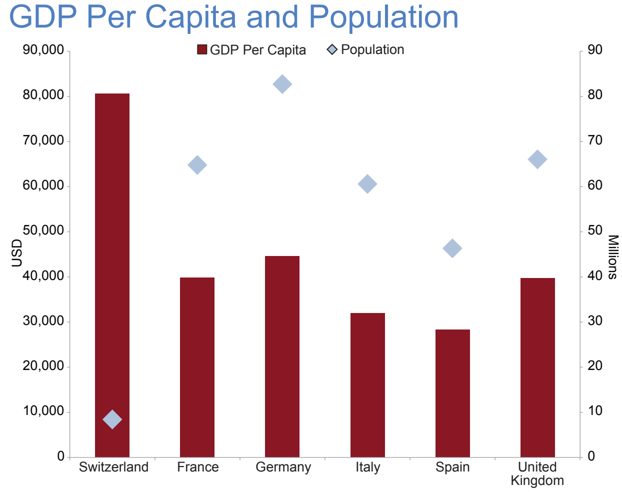
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: Very Low

- Switzerland's wealthy and open economy is centered on its financial services sector and its highly advanced technology manufacturing industry. It is well diversified and well integrated into the global economy.
- Declines in global demand, international trade tensions, or an increase in financial sector volatility would adversely affect the modest growth expectations.
- Inflation turned positive in 2017, following five years of deflation. Higher energy prices, the depreciation of the franc, higher investment, and strong internal and external demand for Swiss goods should keep inflation positive, but modest, in the near to medium term.
- Switzerland's aging population and limited immigration will increase pressure on its public pension system.

Political Risk: Very Low

- Switzerland, though not part of the EU, has strong ties with it due to its numerous bilateral agreements.
- Switzerland's four main political parties have a history of collaboration and maintaining government stability. However, immigration and anti-EU sentiment serve as contentious and potentially divisive topics.
- The right-wing Swiss People's Party (SVP) is currently gathering the necessary signatures to hold a country-wide referendum in July 2019 on the free-movement-of-people agreement with the EU. The SVP promotes a policy of "limited immigration."
- The government is attempting to reform the corporate tax system, to comply with OECD and EU regulations. Tax Package 17, as it is known, is focusing on cutting corporate tax rates. There is concern that the reforms will shift the fiscal burden to individuals.
- Switzerland has very little corruption, benefits from a strong infrastructure, and maintains a solid legal framework and an independent judiciary system.

Financial System Risk: Very Low

- The Swiss financial sector, including insurance, has been regulated by the Financial Market Supervisory Authority since 2009.
- The Swiss National Bank currently maintains the lowest base lending rate in the world, at -0.75%. It maintains this rate to help spur inflation, diminish the attractiveness of the Swiss franc as a safe haven currency, and increase the competitiveness of Swiss goods and services.
- The Swiss banks continue to improve their capital buffers, enhancing the system's overall stability. Although currently stable, increased bank lending to the real estate sector for development could pose concentration risk.
- Under international pressure, Switzerland agreed to comply with OECD transparency tax standards. The country, however, does remain on the EU's grey list for tax havens.