Announcement on Revision of Standard Full Rates for Compulsory Automobile Liability Insurance

(The GIROJ filed the revision with the Commissioner of the Financial Services Agency on January 17, 2017, and was notified the result of the conformance examination on January 30, 2017.)

The General Insurance Rating Organization of Japan (GIROJ) revised the Standard Full Rates for CALI, which stands for Compulsory Automobile Liability Insurance. The outline of the revision is as follows:

1. Outline of the revision

The levels of the Standard Full Rates for CALI will decrease by 6.9% on average*1 *2.

*1 The percentages of increase or decrease vary by insured vehicle type, insurance period and so forth. With regards to the percentages of revision for typical contracts, please refer to “3. Examples of the Standard Full Rates by main vehicle types”.

*2 The new rates will be applied to contracts whose insurance periods start on and after April 1, 2017.

2. Background of the revision

The following are the main background of the revision.

(1) Due to factors such as a decline in the number of deaths caused by traffic accidents, it is possible to reduce pure premium rates by 8.2% on average.

With regards to pure premium rates, underwriting result has improved against the backdrop of declining traffic deaths and other relevant factors. Among the contracts to be made during FY2017, a surplus of 5.7% is expected. In addition, since underwriting results have held steady, amount of residual funds are expected to be 224.2 billion yen at the end of FY2016. By utilizing the funds over five years from 2017 to 2021, it is possible to reduce the Standard Full Rates by 8.2% on average.

What are residual funds?

Residual funds are the composite of the cumulative underwriting balance of past contracts and accumulated interests.

- Underwriting balance of past contracts:

  The balance between the amount estimated at the time of calculating premium rates and the actual results, which is caused by factors, such as changes in the occurrence of traffic accidents

- Interest:

  Interest accrued between the time when a contract is concluded and the time when a claim is paid

Since the Standard Full Rates for CALI are calculated in accordance with the principle of no loss and no profit*3, the above residual funds are also reflected in the level of premiums. Specifically, if residual funds are accumulated steadily, the surplus can be utilized to reduce future premiums.

*3 CALI is a compulsory insurance for protecting the victims. Article 25 of the Automobile Liability Security Act specifies that “the premium rates shall be as low as possible to the extent required to cover the reasonable costs under efficient management.” Accordingly, the premium rates are calculated so as not to make both profits and deficits. This is called the “principle of no loss and no profit.”

(2) Due to the rise in the consumption tax rate to 8% from 5%, it is necessary to raise expense loading by 1.3% on average.

Expense loading is a portion of the Standard Full Rates and allocated for expenses of CALI operators, such as company expenses and agency commissions. In the process of calculating the recent Standard Full Rates, the level of company expenses was set lower than the estimated amount by utilizing the cumulative underwriting balance, which was generated until the implementation of the revision in April 2013. Besides, a rise in the consumption tax rate was not reflected in the calculation.

Afterward, in April 2014, the consumption tax rate increased to 8% from 5%. Partly due to the hike, the shortage of company expenses widened. The cumulative shortage is expected to reach 17.5 billion yen by the end of FY2016. To get rid of this shortage, an average increase of 1.1% has become necessary.

In addition, as in the case of company expenses, the agency commissions of the recent Standard Full Rates were calculated based on the former consumption tax rate of 5%. As a result of the consumption tax increase, etc., an average increase of 0.2% has become necessary.

Consequently, expense loading requires a 1.3% upward adjustment on average when combining a part of company expenses and that of agency commissions.

3. Examples of the Standard Full Rates by main vehicle types

The change in the level of an applicable premium varies depending on an insured vehicle type, an insurance period, etc. The following are main examples.

●Insurance period: 24 months (two-year contract)

Vehicle type	Standard Full Rates before the revision A	Standard Full Rates after the revision B	Revised amount C = B - A	Percentage of revision D = C / A
	JPY	JPY	JPY	%
Private passenger automobile	**27,840**	**25,830**	**(2,010)**	**(7.2)**
Private small-size freight automobile	**29,680**	**29,470**	**(210)**	**(0.7)**
Light automobile (subject to vehicle inspection)	**26,370**	**25,070**	**(1,300)**	**(4.9)**
Small-size two-wheeled automobile	**13,640**	**11,520**	**(2,120)**	**(15.5)**
Motorcycle	**9,870**	**9,950**	**80**	**0.8**

●Insurance period: 36 months (three-year contract)

Vehicle type	Standard Full Rates before the revision A	Standard Full Rates after the revision B	Revised amount C = B - A	Percentage of revision D = C / A
	JPY	JPY	JPY	%
Private passenger automobile	**39,120**	**35,950**	**(3,170)**	**(8.1)**
Private small-size freight automobile	–	–	–	–
Light automobile (subject to vehicle inspection)	**36,920**	**34,820**	**(2,100)**	**(5.7)**
Small-size two-wheeled automobile	**18,020**	**14,690**	**(3,330)**	**(18.5)**
Motorcycle	**12,410**	**12,340**	**(70)**	**(0.6)**

The above rates apply to regions excluding remote islands and Okinawa Prefecture.

Note that the average percentages of revision[*4] at “1 Outline of the revision“ and “2 Background of the revision” mentioned above, are calculated by weighted averaging the percentage of revision for respective policy conditions in accordance with the number of insured vehicles under their policies.

*4 Standard Full Rates: Decrease by 6.9%; Pure premium rates: Decrease by 8.2%; Expense loading: Increase by 1.3%