Announcement on Filing of Revised Standard Full Rates for Earthquake Insurance

1. Outline of filing

The details of the filing of revised Standard Full Rates for Earthquake Insurance are as follows.

1. **The basic rates are to be increased by a national average of +5.1%, with a maximum increase of +14.7% (construction class B in Fukushima prefecture) and a maximum decrease of -18.1% (construction class A in Aichi, Mie, and Wakayama prefectures).**
   The transitional measure for the basic rates is also to be revised.
2. **The lump-sum discount factors for long-term contracts are to be revised (revision of long-term coefficients).**

Since the initial filing on September 30, 2015, Standard Full Rates for earthquake insurance [*1] have been through a three-phased revision process. The filed rates this time are for the final revision. The details of the filing are as follows.

The basic rates of premiums for earthquake insurance are to be revised [revision of basic rates of Standard Full Rates for earthquake insurance].
The basic rates are fixed through the combination of prefecture and construction class (A or B). As the result of the update in Event Catalog and earthquake insurance contracts data, which are fundamental to calculating premium rates, the basic rates are to be increased by a national average of +5.1%, with a maximum increase of +14.7% (construction class B in Fukushima prefecture) and a maximum decrease of - 18.1% (construction class A in Aichi, Mie, and Wakayama prefectures).
The revision is based on the idea that the maximum increase after aggregating the three revisions cannot be more than +50%.

	Construction class A	Construction class B
Maximum increase based on the indicated rate change	+14.6% (Saitama)	+14.7% (Fukushima)
Maximum decrease based on the indicated rate change	▲18.1% (Aichi, Mie and Wakayama)	▲14.2% (Aichi, Mie and Wakayama)

A transitional measure to alleviate sudden increases in insurance premiums was introduced in a filing on March 25, 2009, for some of the buildings that had been classified as class A were reclassified as class B. In the filing on May 28, 2019, the basic rates with the transitional measure are to be revised, so that they are revised to be closer to the actual rates [revision of the transitional measure].
Currently, the percentage of contracts within the scope of the transitional measure is approximately 0.4% of all the earthquake insurance contracts.

The lump-sum discount factors for long-term contracts for a policy period[*2] of two to five years are also to be revised. In the calculation of the filed lump-sum discount factors for long-term contracts, the assumed interest rates were changed after considering the interest rates in recent years. The result of the revision is displayed in the following chart, showing that overall, the discount rates are reduced. For example, the discount rates for three-year contracts are reduced from 6.7% to 5.0%; accordingly, the lump-sum premiums are to be increased by +1.8% [The revision of long-term coefficients].

Policy period		Two years	Three years	Four years	Five years
Long-term coefficients	Current coefficients (discount rates)	1.90 (5.0%)	2.80 (6.7%)	3.70 (7.5%)	4.60 (8.0%)
	Filed coefficients (discount rates)	1.90 (5.0%)	2.85 (5.0%)	3.75 (6.3%)	4.65 (7.0%)
	Indicated percent change	0.0%	＋1.8%	＋1.4%	＋1.1%

*1 Regarding the words within a framed box, refer to the *keyword* section on page 2.
*2 The longest policy period for earthquake insurance contracts is five years.

Keyword 1 *Standard Full Rates for earthquake insurance*

Standard Full Rates for earthquake insurance are calculated from basic rates, discount rates, and long-term coefficients.

Standard Full Rates = Basic rates x Discount rates x Long-term coefficients

└ Including the transitional measure

Basic rates :

The rates before being multiplied with the discount rates and/or long-term coefficients.
Basic rates vary by prefecture and construction class.

Discount rates :

Discount factors are applicable especially to buildings with high seismic performance.
Discount rates vary by building age and seismic performance.

Long-term coefficients :

The coefficients used to calculate the lump-sum premium for a contract for a policy period of two to five years. Long-term coefficients are calculated by considering the circumstances, such as the operational costs for contracting procedures, which are not incurred after the second year of the contracts, and the trend of the assumed interest rates.
Long-term coefficients vary by policy period (from two to five years).

Keyword 2 *Event Catalog*

Event Catalog contains the data on earthquakes that have occurred in or around Japan and is used for "Probabilistic Seismic Hazard Map" prepared by the Headquarters for Earthquake Research Promotion under the Ministry of Education, Culture, Sports, Science, and Technology. The indicated data are fundamental in calculating basic rates.

The data for Event Catalog are available on the website* of the National Research Institute for Earth Science and Disaster Resilience, which also prepares "Probabilistic Seismic Hazard Map" and conducts its technical review.

* http://www.j-shis.bosai.go.jp/en/

Keyword 3 *Transitional measure*

The building constructions for earthquake insurance are divided into two categories: construction class A (mainly non-wooden buildings) and construction class B (mainly wooden buildings).

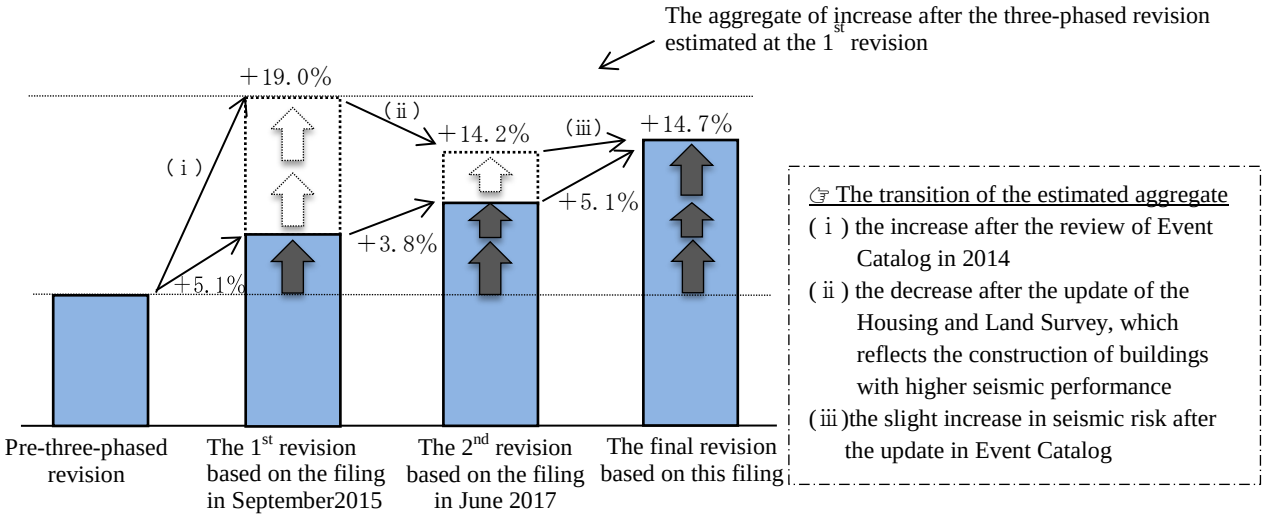
In the filing on March 25, 2009, the standards for construction classes A and B were revised and, accordingly, some of the buildings classified as class A were reclassified as class B, which led to an increase in premiums. To prevent large and sudden increases in premiums for those contracts, the transitional measure was introduced, which caps the basic rates with the transitional measure at 1.3 times that of class A and sets them lower than that of actual class B.

This transitional measure is applicable to existing earthquake insurance contracts attached to fire insurance contracts taken out before December 31, 2009 and is not applicable to the earthquake insurance contracts attached to new fire insurance contracts.

2. Three-phased revision process

As a result of the full review of Event Catalog in 2014 following the 2011 Great East Japan Earthquake, a significant increase in Standard Full Rates of earthquake insurance was imminent. In the follow-up meeting of the "Project team for earthquake insurance system", there was a discussion regarding a multi-phased revision for easing policyholders' concerns over sudden increases in premiums and maintaining the number of new contracts of earthquake insurance. Based on this discussion, a three-phased revision process was mentioned in the filing on September 30, 2015. Following the first and second revisions, based on the filings in 2015 and 2017 wherein the rates were increased by a national average of +5.1% and +3.8% respectively, the present filing marks the final revision.

In the second and final filings, several key data for calculating premium rates were updated. For example, Event Catalog, the Housing and Land Survey and earthquake insurance contract data were updated in the second filing and Event Catalog and earthquake insurance contract data were updated in the final filing. At the time of the initial filing on September 30, 2015, the aggregate of the increase in the rates after the three-phased revision was estimated at 19.0%. However, at the time of the second filing, the estimated aggregate was found to be lower than expected due to the construction of buildings with high seismic performance. For the final revision based on this filing, as the seismic risk had increased slightly with the updated Event Catalog, the estimated aggregate results were a +14.7% increase.



During the three-phased revision, a premium deficit has been generated due to the incremental process. Based on the discussion in the follow-up meeting, this deficit is to be compensated for in the following revision after the completion of three-phased revision.

* Regarding the words within a framed box, refer to the following *keyword 4*.

Keyword 4 *The follow-up meeting of the "Project team for earthquake insurance system"*

To re-examine the earthquake insurance system following the 2011 Great East Japan Earthquake, the "Project team for earthquake insurance system" was established under the Ministry of Finance in April 2012 and its report was published in November 2012.

To check the status of the assignments identified in the report, the follow-up meeting of the "Project team for earthquake insurance system" had been held since November 2013 and the summary of the meetings was published in June 2015.

3. Indicated rate change in basic rates and long-term coefficients

◆Basic rates（Per insured amount of ¥1,000）

Construction class* / Prefecture	Construction class A			Construction class B					
							Rates with a transitional measure		
	Current rate [¥]	Filed rate [¥]	Indicated rate change	Current rate [¥]	Filed rate [¥]	Indicated rate change	Current rate [¥]	Filed rate [¥]	Indicated rate change
Hokkaido	0.78	0.74	▲5.1%	1.35	1.23	▲8.9%	1.01	1.23	＋21.8%
Aomori	0.78	0.74	▲5.1%	1.35	1.23	▲8.9%	1.01	1.23	＋21.8%
Iwate	0.71	0.74	＋4.2%	1.16	1.23	＋6.0%	0.92	1.23	＋33.7%
Miyagi	1.07	1.18	＋10.3%	1.97	2.12	＋7.6%	1.39	1.63	＋17.3%
Akita	0.71	0.74	＋4.2%	1.16	1.23	＋6.0%	0.92	1.23	＋33.7%
Yamagata	0.71	0.74	＋4.2%	1.16	1.23	＋6.0%	0.92	1.23	＋33.7%
Fukushima	0.85	0.97	＋14.1%	1.70	1.95	＋14.7%	1.10	1.26	＋14.5%
Ibaraki	1.55	1.77	＋14.2%	3.20	3.66	＋14.4%	2.01	2.29	＋13.9%
Tochigi	0.71	0.74	＋4.2%	1.16	1.23	＋6.0%	0.92	1.23	＋33.7%
Gumma	0.71	0.74	＋4.2%	1.16	1.23	＋6.0%	0.92	1.23	＋33.7%
Saitama	1.78	2.04	＋14.6%	3.20	3.66	＋14.4%	2.31	2.64	＋14.3%
Chiba	2.50	2.75	＋10.0%	3.89	4.22	＋8.5%	3.25	3.93	＋20.9%
Tokyo	2.50	2.75	＋10.0%	3.89	4.22	＋8.5%	3.25	3.93	＋20.9%
Kanagawa	2.50	2.75	＋10.0%	3.89	4.22	＋8.5%	3.25	3.93	＋20.9%
Niigata	0.78	0.74	▲5.1%	1.35	1.23	▲8.9%	1.01	1.23	＋21.8%
Toyama	0.71	0.74	＋4.2%	1.16	1.23	＋6.0%	0.92	1.23	＋33.7%
Ishikawa	0.71	0.74	＋4.2%	1.16	1.23	＋6.0%	0.92	1.23	＋33.7%
Fukui	0.71	0.74	＋4.2%	1.16	1.23	＋6.0%	0.92	1.23	＋33.7%
Yamanashi	1.07	1.18	＋10.3%	1.97	2.12	＋7.6%	1.39	1.63	＋17.3%
Nagano	0.71	0.74	＋4.2%	1.16	1.23	＋6.0%	0.92	1.23	＋33.7%
Gifu	0.78	0.74	▲5.1%	1.35	1.23	▲8.9%	1.01	1.23	＋21.8%
Shizuoka	2.50	2.75	＋10.0%	3.89	4.22	＋8.5%	3.25	3.93	＋20.9%
Aichi	1.44	1.18	▲18.1%	2.47	2.12	▲14.2%	1.87	2.12	＋13.4%
Mie	1.44	1.18	▲18.1%	2.47	2.12	▲14.2%	1.87	2.12	＋13.4%
Shiga	0.71	0.74	＋4.2%	1.16	1.23	＋6.0%	0.92	1.23	＋33.7%
Kyoto	0.78	0.74	▲5.1%	1.35	1.23	▲8.9%	1.01	1.23	＋21.8%
Osaka	1.26	1.18	▲6.3%	2.24	2.12	▲5.4%	1.63	2.12	＋30.1%
Hyogo	0.78	0.74	▲5.1%	1.35	1.23	▲8.9%	1.01	1.23	＋21.8%
Nara	0.78	0.74	▲5.1%	1.35	1.23	▲8.9%	1.01	1.23	＋21.8%
Wakayama	1.44	1.18	▲18.1%	2.47	2.12	▲14.2%	1.87	2.12	＋13.4%
Tottori	0.71	0.74	＋4.2%	1.16	1.23	＋6.0%	0.92	1.23	＋33.7%
Shimane	0.71	0.74	＋4.2%	1.16	1.23	＋6.0%	0.92	1.23	＋33.7%
Okayama	0.71	0.74	＋4.2%	1.16	1.23	＋6.0%	0.92	1.23	＋33.7%
Hiroshima	0.71	0.74	＋4.2%	1.16	1.23	＋6.0%	0.92	1.23	＋33.7%
Yamaguchi	0.71	0.74	＋4.2%	1.16	1.23	＋6.0%	0.92	1.23	＋33.7%
Tokushima	1.55	1.77	＋14.2%	3.65	4.18	＋14.5%	2.01	2.29	＋13.9%
Kagawa	1.07	1.18	＋10.3%	1.97	2.12	＋7.6%	1.39	1.63	＋17.3%
Ehime	1.20	1.18	▲1.7%	2.24	2.12	▲5.4%	1.56	2.12	＋35.9%
Kochi	1.55	1.77	＋14.2%	3.65	4.18	＋14.5%	2.01	2.29	＋13.9%
Fukuoka	0.71	0.74	＋4.2%	1.16	1.23	＋6.0%	0.92	1.23	＋33.7%
Saga	0.71	0.74	＋4.2%	1.16	1.23	＋6.0%	0.92	1.23	＋33.7%
Nagasaki	0.71	0.74	＋4.2%	1.16	1.23	＋6.0%	0.92	1.23	＋33.7%
Kumamoto	0.71	0.74	＋4.2%	1.16	1.23	＋6.0%	0.92	1.23	＋33.7%
Oita	1.07	1.18	＋10.3%	1.97	2.12	＋7.6%	1.39	1.63	＋17.3%
Miyazaki	1.07	1.18	＋10.3%	1.97	2.12	＋7.6%	1.39	1.63	＋17.3%
Kagoshima	0.71	0.74	＋4.2%	1.16	1.23	＋6.0%	0.92	1.23	＋33.7%
Okinawa	1.07	1.18	＋10.3%	1.97	2.12	＋7.6%	1.39	1.63	＋17.3%

* Construction class A: Mainly non-wooden buildings; Construction class B: Mainly wooden buildings.

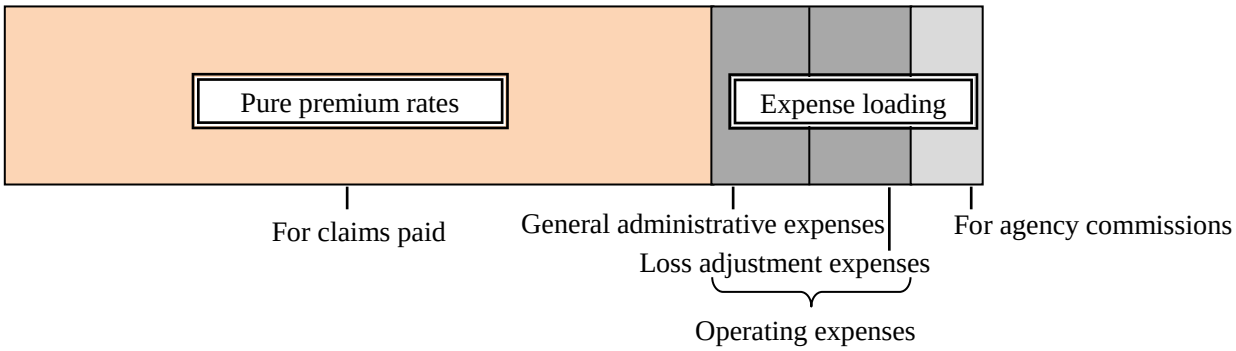
◆Long-term coefficients

Policy period		Two years	Three years	Four years	Five years
Long-term coefficients	Current coefficients	1.90	2.80	3.70	4.60
	Filed coefficients	**1.90**	**2.85**	**3.75**	**4.65**

<Outline of Standard Full Rates of Earthquake Insurance>

Standard Full Rates for earthquake insurance are composed of pure premium rates and expense loading. Pure premium rates correspond to insurance claims paid by insurance companies when accidents occur. Expense loading comprises the operating expenses allocated for loss adjustment, administrative work for contracts, and so on, and agency commissions paid by insurance companies to agencies for providing the service of contracting insurance policies.

Basically, in general Insurance, expense loading includes profits. However, earthquake insurance does not include profits because it is of a highly public nature and is jointly managed by both the government and insurance companies.



Regarding Standard Full Rates, the member insurers of GIROJ can use the rates. Currently, all member insurers of GIROJ directly use Standard Full Rates.

<Filing of Standard Full Rates for Earthquake Insurance>

GIROJ calculates Standard Full Rates for earthquake insurance and files them with the Commissioner of the Financial Services Agency under the Act on Non-life Insurance Rating Organizations. The Commissioner of the Financial Services Agency examines the rates (Examination of Conformity) in accordance with the three principles of insurance premium rates (i.e. reasonable, adequate, and not unfairly discriminatory).

When interested parties (e.g., policyholders or the insured) object to the filed rates, they have a right to appeal against the Commissioner of the Financial Services Agency.

<Outline of GIROJ>

GIROJ is a legal entity incorporated under the Act on Non-Life Insurance Rating Organizations.

The members of GIROJ are general insurance companies. The three main operations of GIROJ are the following:

Calculation and provision of premium rates	Claims survey for Compulsory Automobile Liability Insurance(CALI)	Databank
		
GIROJ calculates Standard Full Rates and Reference Loss Cost Rates* that are “reasonable, adequate and not unfairly discriminatory,” and provides them for the insurers.	GIROJ conducts a “fair, quick and considerate” claims survey for CALI.	GIROJ summarizes a large amount of data on insurance, and provides the results for insurers and other parties. GIROJ also issues publications for consumers.

* GIROJ calculates Reference Loss Cost Rates for voluntary automobile insurance, fire insurance, personal accident insurance, etc.; and Standard Full Rates for CALI and earthquake insurance.