

Announcement on Revision of Reference Loss Cost Rates for Fire Insurance

1. Outline of revision

General Insurance Rating Organization of Japan (GIROJ) revised Reference Loss Cost Rates*¹ for Homeowners' Comprehensive Insurance as follows.

- i) Rates are to be increased by an average of 4.9%.^{*2}
- ii) Discounts are to be introduced for relatively new dwellings.^{*3}

◆ The figures for revised rates and discount rates in this document only apply to Reference Loss Cost Rates. They are not identical to the contents of revision of premiums actually charged to policyholders.^{*4}

- *1 Pure Premium Rates correspond to the portion of rates allocated for future claims payments by insurers. GIROJ calculates advisory rates (Reference Loss Cost Rates) for this portion and provides them for the member insurers.
- *2 The percentage changes of Reference Loss Cost Rates described in i) above (i.e., an average of 4.9% increase) are the average of all contracts with various policy conditions (prefecture, construction class, building age, etc.). Therefore, as shown in "Section 3 Examples of percentage changes" on the next page, percentage changes of individual contracts vary depending on their policy conditions.
- *3 Rates are shown in "Reflection of risk differentials by building age" on the next page.
- *4 When each insurer calculates Pure Premium Rates for its own insurance products, they can use Reference Loss Cost Rates directly, or they can use them with modification, or they can calculate Pure Premium Rates independently, at their own discretion. Regarding Expense Loading, which is allocated for insurers' business expenses, and so on, each insurer calculates it independently. Premiums actually charged to policyholders are decided by Pure Premium Rates and Expense Loading calculated by each insurer. Therefore, the contents of revision of premiums actually charged to policyholders are not identical to those of Reference Loss Cost Rates described in this document (such as percentage changes/discount rates).

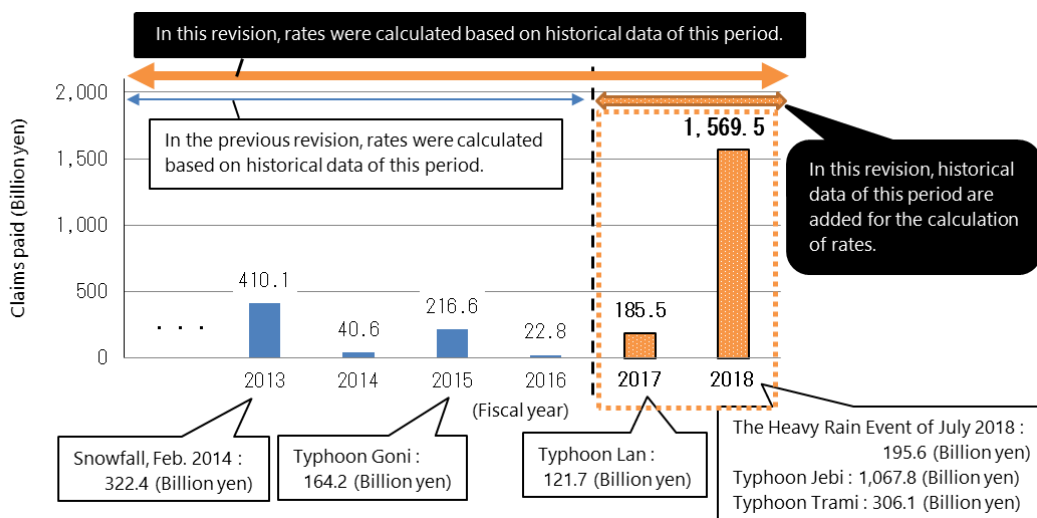
2. Background of revision

i) Increase in claims related to natural disasters

Reference Loss Cost Rates for Homeowners' Comprehensive Insurance increased by an average of 5.5% in the 2018 revision*, which was calculated based on historical data up to fiscal year 2016. To secure balance between premiums and claims paid, the rates are to be increased again, considering the influence of natural disasters that had occurred until fiscal year 2018.

* GIROJ filed the revision with the Commissioner of the Financial Services Agency on May 21, 2018 and was notified of the result of the conformance examination on June 15, 2018.

<Amounts of claims paid related to natural disasters by fiscal year>



(Reference)
The figures in the chart are extracted from the Japanese version of the "Factbook 2019 General Insurance in Japan" issued by The General Insurance Association of Japan. In the chart, the amounts of claims paid include the amounts for fire, miscellaneous, voluntary automobile, and marine insurance.

ii) Reflection of risk differentials by building age

The extent of damages such as water damage from plumbing, covered by Homeowners' Comprehensive Insurance, are influenced by deterioration of buildings. In fact, relatively new dwellings have lower risk than older dwellings. Discounts* for relatively new dwellings are to be introduced to reflect the risk differentials.

Buildings aged under 5 years	Buildings aged 5 years and more but less than 10 years
28% discount on average*	20% discount on average*

* Discount rate varies depending on policy conditions (prefecture, construction class, etc.).

3. Examples of percentage changes

The following are percentage changes in Reference Loss Cost Rates for each construction class*¹ in the case in which the insured amount is 20 million yen for buildings and 10 million yen for household properties. This table shows examples of Tokyo, Osaka, and Aichi prefecture (three major metropolitan areas) as well as prefectures with the largest/smallest changes in this revision among the 47 prefectures.

◆ Chart 1 shows average percentage changes by construction class and prefectures, which averaged out all contracts irrespective of building ages.

Chart 1	Class M		Class T		Class H	
	Prefecture	Percentage change	Prefecture	Percentage change	Prefecture	Percentage change
Three major metropolitan areas	Tokyo	+ 1.4 %	Tokyo	+ 4.9 %	Tokyo	+ 0.1 %
	Osaka	+ 8.9 %	Osaka	+ 16.6 %	Osaka	+ 14.9 %
	Aichi	+ 4.2 %	Aichi	+ 11.0 %	Aichi	+ 10.9 %
Largest	Kumamoto	+ 24.1 %	Miyazaki	+ 24.7 %	Kumamoto	+ 31.3 %
Smallest	Shizuoka	▲ 3.8 %	Fukuoka	▲ 6.8 %	Fukuoka	▲ 15.9 %

*1 Construction class

Class M: Fire-resistant (e.g., reinforced concrete buildings) apartment buildings

Class T: Fire-resistant buildings that are not classified into Class M, and semi-fire-resistant buildings (e.g., steel construction)

Class H: Buildings not classified into Class M and Class T (e.g., wooden construction)

◆ Chart 2 and 3 show examples of “percentage changes under contracts that cover buildings aged under 5 years, and to which the discount rate for relatively-new dwellings is applicable”^{*2} and “percentage changes under contracts that cover buildings aged 10 years or over, and to which the discount rate is not applicable”.

<Percentage changes under contracts that cover buildings aged under 5 years>

Chart 2	Class M		Class T		Class H	
	Prefecture	Percentage change	Prefecture	Percentage change	Prefecture	Percentage change
Three major metropolitan areas	Tokyo	▲ 18.1 %	Tokyo	▲ 8.7 %	Tokyo	▲ 13.2 %
	Osaka	▲ 13.1 %	Osaka	+ 0.1 %	Osaka	▲ 2.0 %
	Aichi	▲ 17.6 %	Aichi	▲ 3.4 %	Aichi	▲ 4.2 %
Largest	Kumamoto	+ 1.4 %	Miyazaki	+ 10.2 %	Kumamoto	+ 10.1 %
Smallest	Shizuoka	▲ 23.4 %	Fukuoka	▲ 19.2 %	Fukuoka	▲ 29.4 %

<Percentage changes under contracts that cover buildings aged 10 years or over>

Chart 3	Class M		Class T		Class H	
	Prefecture	Percentage change	Prefecture	Percentage change	Prefecture	Percentage change
Three major metropolitan areas	Tokyo	+ 6.3 %	Tokyo	+ 9.6 %	Tokyo	+ 1.9 %
	Osaka	+ 14.1 %	Osaka	+ 21.7 %	Osaka	+ 17.3 %
	Aichi	+ 9.2 %	Aichi	+ 18.1 %	Aichi	+ 15.4 %
Largest	Kumamoto	+ 30.3 %	Miyazaki	+ 34.1 %	Kumamoto	+ 35.0 %
Smallest	Shizuoka	+ 0.8 %	Fukuoka	▲ 0.8 %	Fukuoka	▲ 13.9 %

*2 In the case in which the discount for relatively new dwellings is already applied to the insurance product, the positive or negative effect of percentage changes may switch in some cases.

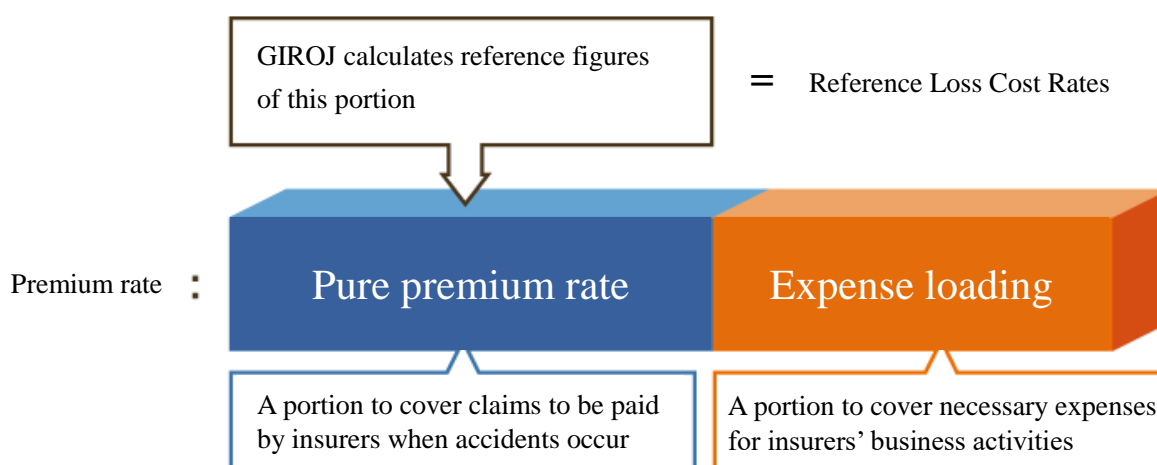
<Outline of Reference Loss Cost Rates>

The premium rate consists of the pure premium rate and expense loading. The pure premium rates that GIROJ calculates are called Reference Loss Cost Rates.

Any member insurers of GIROJ can use Reference Loss Cost Rates directly. They are also allowed to use the rates with some modification corresponding to the characteristics of their own products (Reference Loss Cost Rates are only reference figures with no obligation to be used, and insurers are allowed to set their own pure premium rates without using them.). The premium rate that applies to each policy consists of the pure premium rate and expense loading, which is calculated by an insurer.

The insurer decides whether it adopts the revised Reference Loss Cost Rates. Please note that actual premiums are determined at the discretion of an insurer.

When the insurer decides to use Reference Loss Cost Rates for their own insurance products, it is at the insurers' discretion when to start selling the insurance products.



<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



GIROJ calculates Standard Full Rates and Reference Loss Cost Rates* that are “reasonable, adequate and not unfairly discriminatory,” and provides them for the insurers.

Claim surveys for Compulsory Automobile Liability Insurance (CALI)



GIROJ conducts a “fair, quick and considerate” claims survey for CALI.

Databank



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.