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

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

1. Outline of the revision

Standard Full Rates for CALI are to be decreased by an average of 16.4%.[*1*2]

***1 The percentage changes of individual contracts vary depending on their policy conditions (e.g., type of automobile or policy period). Please refer to the charts in Section 2 "Examples of percentage changes in major types of automobiles."**

***2 The revised rates are to be applied to the contracts beginning April 1, 2020.**

The main reason for the revision is to reflect a reduction in the number of traffic accidents. The revision also takes into account the consumption tax, increased from October 1, 2019, and the revision of CALI claim payment standards[*3] effective April 1, 2020.[*4]

The number of traffic accidents has decreased over the past few years.[*5] Accordingly, improved underwriting income owing to lesser claims paid, and consequently, the residual funds[*6] have helped in bringing down the premium rates significantly. Eventually, Standard Full Rates are to be decreased by an average of 16.4%.

As shown in the breakdown list of Standard Full Rates, which comprise Pure premium rates and Expense loading, Pure premium rates have been decreased by 16.3% and Expense loading, which includes Operating expenses and Agency commissions, has been decreased by 0.1%.

Standard Full Rates		
	Expense loading	
Pure premium rates (cover the claims to be paid in the future)	**Operating expenses** (cover the administrative costs for insurance contracts and claim settlements)	**Agency commissions** (cover the costs of agents to process insurance contracts)
Decreased by 16.3%[*7] owing to improved underwriting income resulted mainly from a reduction in the number of traffic accidents, and owing to utilization of "residual funds" as an additional source to cover the claims to be paid in the future.	Decreased by 0.4%[*7] because the number of claims paid has decreased, for example.	Increased by 0.3%[*7] because consumption tax was raised, for example.

Decreased by an average of 16.4% in Standard Full Rates as a whole

*3 The government has revised the CALI claim payment standards to reflect not only the legal change in the statutory interest rate stipulated by the Civil Code but also the recent updates on average life expectancy, prices, wages, etc.

*4 An increase in consumption tax and revision of CALI claim payment standards increase premium rates per se.

*5 The number of traffic accidents in Japan reached around 950,000 in 2004; it has steadily come down to around 380,000 in 2019, a decrease of 11.5% from the previous year (source: National Police Agency).

*6 Please refer to the following pages.

*7 Each figure is the calculation result of multiplying percentage changes, described in the CALI Council documents, by the component ratio of Standard Full Rates as per the 2017 revision (i.e., Pure premium rate: 0.719, Operating expenses: 0.213, and Agency commissions: 0.068). Therefore, the figures above are different from those described in the CALI Council documents.

<Notes>

(1) Pure premium rates

Underwriting income of CALI has improved owing to a drop in the number of traffic accidents, so the rates can be decreased by 6.1%.
Moreover, at the end of FY2019, the total of the accumulated underwriting balance of past contracts and accumulated interest, called "residual funds," (please refer to <Basic concept of calculating Standard Full Rates for CALI> on the last page) is expected to be a surplus of 545.3 billion yen. By utilizing the surplus over 5 years (from FY2020 to FY2024), the rates can be decreased by 10.2%.

From the reasons stated above, Pure premium rates are to be decreased by 16.3%.

(2) Expense loading

a) Operating expenses

The rates can be decreased by 0.6% because of several factors, such as less administrative costs accrued for claim settlements along with decrease in the number of claims paid due to relatively fewer traffic accidents.
In contrast, the accumulated balance owing to Operating expenses is predicted to be 13.6 billion yen (at the end of FY2019). To compensate for the deficit, Operating expenses need to be increased by 0.3%.

Considering the above-mentioned ratios, Operating expenses are to be decreased by 0.4% as a whole.

b) Agency commissions

The rates are to be increased by 0.3% because consumption tax was increased, for example.
The specific amount for the Agency commission is to be revised from 1,660 yen to 1,723 yen.

From the reasons stated above, Expense loading is to be decreased by 0.1%.

2. Examples of percentage changes in major types of automobiles

The percentage changes of individual contracts vary depending on their policy conditions (e.g., type of automobile or policy period).

The chart below shows major examples.

●Policy period : 24 months (two-year contract) (JPY, %)

Type of automobile	SFR* before the revision A	SFR* after the revision B	Revised amount C=B–A	Percentage change D=C÷A
Private passenger automobile	25,830	21,550	△ 4,280	△ 16.6
Private small-size freight automobile	29,470	24,790	△ 4,680	△ 15.9
Light automobile (subject to inspection)	25,070	21,140	△ 3,930	△ 15.7
Small-size two-wheeled automobile	11,520	9,680	△ 1,840	△ 16.0
Moped	9,950	8,950	△ 1,000	△ 10.1

●Policy period : 36 months (three-year contract) (JPY, %)

Type of automobile	SFR* before the revision A	SFR* after the revision B	Revised amount C=B–A	Percentage change D=C÷A
Private passenger automobile	35,950	29,520	△ 6,430	△ 17.9
Private small-size freight automobile	—	—	—	—
Light automobile (subject to inspection)	34,820	28,910	△ 5,910	△ 17.0
Small-size two-wheeled automobile	14,690	11,900	△ 2,790	△ 19.0
Moped	12,340	10,790	△ 1,550	△ 12.6

*SFR = Standard Full Rates

Figures do not include those for the isolated islands and Okinawa Prefecture.

<Basic concept of calculating Standard Full Rates for CALI>

Standard Full Rates for CALI are calculated in accordance with "the principle of no loss and no profit," so that no profit or loss will be accrued.[*1] Under this principle, Standard Full Rates for CALI utilize residual funds[*2] in the premium levels (pure premium rates).

*1 CALI is a type of insurance that has an aspect of social policy; therefore, the Automobile Liability Security Act stipulates that its premium rates "must be as low as possible to the extent required to cover the reasonable costs under efficient management."

*2 Residual funds are the total of accumulated "underwriting balance of past contracts" and accumulated "interest."

●Underwriting balance of past contracts:
The difference 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 a contract is arranged and the time a claim is paid.