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 6.7%.*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 contracts beginning on April 1, 2021 or later.

The main reason for the revision is that the number of traffic accidents has been reducing by several factors such as the promotion of advanced driver-assistance technologies. Additionally, the effect on residual funds*3 after people staying at home during the COVID-19 pandemic has also been reflected in the revision.

The rates are to be decreased mainly because i) the underwriting result has been improved more than expected at the time of the revision in April 2020 due to fewer claims paid, ii) the residual funds are expected to increase accordingly. Eventually, Standard Full Rates are to be decreased by an average of 6.7%.

Standard Full Rates are comprised of pure premium rates and expense loading. As the breakdown of the percentage decreases, pure premium rates have decreased by 6.6% and expense loading has decreased by 0.1%, which is the result of the percentage increase or decrease in operating expenses and agency commissions (Please refer to the next page for the details).

Structure of Standard Full Rates

Standard Full Rates		
Pure premium rates (cover the claims to be paid in the future)	**Expense loading**	
	Operating expenses (cover the administrative costs for insurance contracts and claim settlements)	**Agency commissions** (cover the costs of agents to process insurance contracts)

*3 Residual funds are the total of accumulated "underwriting balance of past contracts" and accumulated "interest." Standard Full Rates for CALI are calculated in accordance with "the principle of no loss and no profit." Under this principle, Standard Full Rates for CALI utilize residual funds in the premium levels (Pure premium rates have been decreased by utilizing the residual funds in this revision).

Underwriting balance of past contracts: The balance between pure premium income and claims paid in the past contract.

Interest: Interest accrued between the time a contract is arranged and the time a claim is paid.

Supplementary information of the breakdown described on Page 1

(1) Pure premium rates (decreased by 6.6%)

Pure premium rates were decreased in the revision of April 2020 by utilizing the residual funds, which meant the underwriting result of CALI would lack the balance. At the time of this revision, the rates needed to be increased by 6.8%, which is lower than expected due to fewer claims paid by a reduction in the number of traffic accidents.

In contrast, the amount of residual funds is predicted to be 596.5 billion yen at the end of FY2020 (which includes the increased amount of 42.3 billion yen after people staying at home during the COVID-19 pandemic). By utilizing residual funds over 5 years (from FY2021 to FY2025), the rates can be decreased by 13.4%.

From the reasons stated above, to reflect a reduction in the number of traffic accidents, pure premium rates are to be decreased by 6.6% in total.

(2) Expense loading (decreased by 0.1%)

a) Operating expenses

The operating expenses can be decreased by 0.4% due to 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 deficit of operating expenses balance is predicted to be 9.7 billion yen at the end of FY2020, and this deficit must be compensated.

From the reasons stated above, operating expenses are to be decreased by 0.2%.

b) Agency commissions

The specific amount for the agency commission is to be revised from 1,723 yen to 1,733 yen, reflecting the FY2019 figures in wage statistics.

From the reasons stated in a) and b), expense loading is to be decreased by 0.1% as a whole.

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

● 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	21,550	20,010	- 1,540	- 7.1
Private small-size cargo automobile	24,790	23,150	- 1,640	- 6.6
Light automobile (subject to inspection)	21,140	19,730	- 1,410	- 6.7
Small-size two-wheeled automobile	9,680	9,270	- 410	- 4.2
Moped	8,950	8,850	- 100	- 1.1

*SFR = Standard Full Rates

● 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	29,520	27,180	- 2,340	- 7.9
Private small-size cargo automobile	–	–	–	–
Light automobile (subject to inspection)	28,910	26,760	- 2,150	- 7.4
Small-size two-wheeled automobile	11,900	11,230	- 670	- 5.6
Moped	10,790	10,590	- 200	- 1.9

*SFR = Standard Full Rates

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 Please refer to *3 on page 1.