

# Announcement on Revision of Reference Loss Cost Rates of Fire Insurance

General Insurance Rating Organization of Japan (GIROJ) revised Reference Loss Cost Rates<sup>\*1</sup> of the fire insurance as below.

\*1 General insurance premium rates, which are the basis for general insurance premium, are composed of the “pure premium rates” and “Expense loading.” “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. Please refer to page 3 for details.

## 1. Outline of revision

Reference Loss Cost Rates of the fire insurance (Homeowners' Comprehensive Insurance) are to be increased by an average of 10.9%.<sup>\*2\*3</sup>

\*2 When each insurer calculates “pure premium rates” for its own insurance products, they can use Reference Loss Cost Rates directly, they can use them with modification, or they can calculate original “pure premium rates” without using them, at their own discretion. Regarding the “Expense loading,” which is allocated for insurers' business expenses and so on, each insurer calculates it independently. Therefore, the figures for revised rates of Reference Loss Cost Rates differ from revised rates of insurance products that policyholders purchase from insurance companies.

\*3 The rate of revision (average increase of 10.9%) above is an average of the rates for all the contract term combinations (prefecture, construction class, construction age, coverage, etc.). The rate of revision differs in accordance to the contract terms as shown in the “Section 3 Examples of percentage changes” on page 2.

## 2. Key background factors for revision

### i) Increase in natural hazard risk

GIROJ calculates Reference Loss Cost Rates of the fire insurance, which correspond to the portion of rates (pure premium rates) allocated for future claims payments, on the basis of insurance statistics, and so on.

In October 2019, Reference Loss Cost Rates were revised (average increase of 4.9% due to increase in damage from natural disasters and other factors) on the basis of insurance statistics up to fiscal year 2018, considering the influence of large-scale natural disasters that occurred between fiscal year 2017 to 2018. Subsequently, comparably large-scale natural disasters occurred between fiscal year 2019 to 2020; the risk of natural disasters is now considered higher than ever before. In light of this situation, the rates (pure premium rates) are required to be increased.

<Claim payments for major natural disasters (windstorms and water damages) occurred between fiscal year 2017 to 2020> (figures at the end of each fiscal year which include prospective payments)

Fiscal year	Name of disaster	Claims paid (Fire Insurance)
2017	Typhoon Talim (No.18,2017)	30 billion yen
	Typhoon Lan (No.21,2017)	107.8 billion yen
2018	The Heavy Rain Event of July 2018	152.0 billion yen
	Typhoon Jebi (No.21,2018)	920.2 billion yen
	Typhoon Trami (No.24,2018)	285.6 billion yen
2019	Typhoon Faxai (No.15,2019)	424.4 billion yen
	Typhoon Hagibis (No.19,2019)	475.1 billion yen
	The Heavy Rain Event on October 25, 2019	15.5 billion yen
2020	The Heavy Rain Event of July 2020	84.8 billion yen
	Typhoon Haishen (No.10,2020)	93.2 billion yen

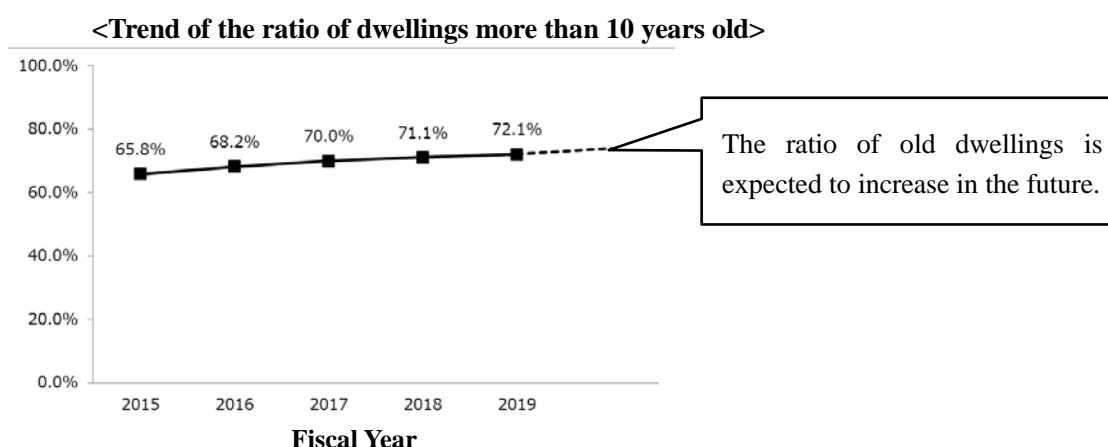
(Reference) Researched by the General Insurance Association of Japan

The risk of natural disasters as stated above is expected to change significantly in the future<sup>\*4</sup>, and it is becoming difficult to evaluate long-term risk. To counteract it, the Reference Loss Cost Rates of the fire insurance are to be applied for a maximum of 5 years (currently 10 years).

\*4 According to the Fifth Assessment Report (2014) of the Intergovernmental Panel on Climate Change (IPCC), and so on, the global average temperature is estimated to increase, and the risk related to climate changes will increase.

## ii ) Reflection of risk trend

Old dwellings have higher risks as a whole for fire insurance compared to newly-build dwellings in terms of damages from fire and water leakage as a consequence of deterioration of electrical equipment, and feedwater and drainage equipment, and damages from destruction from typhoon, heavy snow, and so on. In recent years, the ratio of old dwellings to overall number of dwellings is increasing. The ratio is expected to increase in the future, and to reflect this risk trend into Reference Loss Cost Rates, the premium rates (pure premium rates) are required to be increased.



(Reference) The figure was made by GIROJ. GIROJ aggregated the number of insurance policies in force at the end of each fiscal year. Dwellings whose construction date were unknown were excluded from the figure.

## 3. Examples of percentage changes

The following are examples of percentage changes<sup>\*5</sup> in Reference Loss Cost Rates calculated per construction class<sup>\*6</sup> and prefecture in the case in which the insured amount is 20 million yen for buildings and 10 million yen for household properties. This table presents examples of Tokyo, Osaka, and Aichi prefecture (three major metropolitan areas) as well those with the largest/smallest changes in this revision among the 47 prefectures.

Reference Loss Cost Rates are to be increased the most (+36.6%) in Okinawa prefecture (Class H, building age over 10 years), and decreased the most (-13.8%) in Yamaguchi prefecture (Class H, building age less than 5 years).

### <Building age under 5 years>

	Class M		Class T		Class H	
	Prefecture	Percentage change (%)	Prefecture	Percentage change (%)	Prefecture	Percentage change (%)
Three major metropolitan areas	Tokyo	+ 1.7	Tokyo	- 0.6	Tokyo	+ 3.3
	Osaka	+ 15.3	Osaka	+ 15.6	Osaka	+ 24.6
	Aichi	+ 4.5	Aichi	- 2.1	Aichi	+ 3.8
Largest	Miyazaki	+ 30.5	Yamanashi	+ 21.9	Oosaka	+ 24.6
Smallest	Yamagata	- 4.7	Yamaguchi	- 11.6	Yamaguchi	- 13.8

<Building age over 10 years>

	Class M		Class T		Class H	
	Prefecture	Percentage change (%)	Prefecture	Percentage change (%)	Prefecture	Percentage change (%)
Three major metropolitan areas	Tokyo	+ 7.3	Tokyo	+ 3.2	Tokyo	+ 5.9
	Osaka	+ 21.5	Osaka	+ 22.4	Osaka	+ 30.9
	Aichi	+ 9.3	Aichi	+ 2.2	Aichi	+ 7.6
Largest	Miyazaki	+ 33.0	Yamanashi	+ 33.4	Okinawa	+ 36.6
Smallest	Yamagata	+ 1.1	Yamaguchi	- 7.1	Yamaguchi	- 10.3

\*5 In a case where the rates are to increase to a large extent, a certain measure is adopted to reduce the changes to alleviate the burden on the policyholders.

\*6 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)

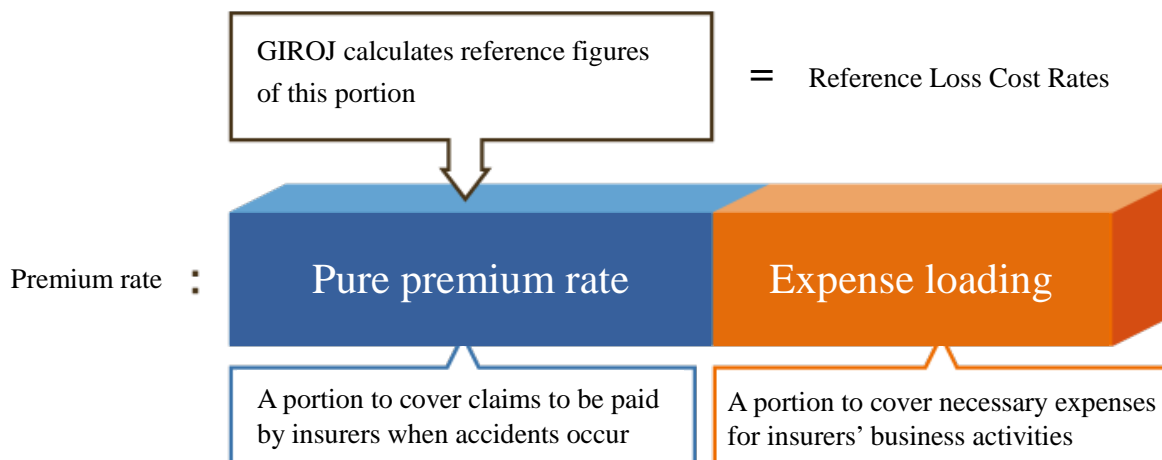
<Outline of Reference Loss Cost Rates>

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.