Information Update on Revisions in Compulsory Automobile Liability Insurance Standard Full Rates

General Insurance Rating Organization of Japan revised Standard Full Rates for Compulsory Automobile Liability Insurance (CALI). An outline of these changes is hereby presented for your reference.

1. Outline of Revisions

Standard Full Rates for CALI will be lowered by an average of 11.4%. [*1, *2]

***1. The actual revision rates will vary by the terms of specific policies (automobile type, policy period, etc.). Examples of the percentage changes for specific policy terms are provided in Section 2 “Examples of Percentage Changes in Major Automobile Types.”**

***2. It is assumed these revised rates are to be applied to policies with policy periods beginning on or after April 1, 2023.**

The primary reasons for these revisions include anticipated improvements in loss ratios against the backdrop of various types of government measures enacted in the interest of traffic safety, shifts in people’s lifestyles prompted by the COVID-19 pandemic, and other related factors. The fact that the increase in residual funds[*3] has exceeded forecasts issued at the time of the April 2021 revision is additionally reflected in these changes.

Moreover, with the Revised Act on Securing Compensation for Automobile Accidents to be enforced in April of this year, levies are scheduled to be newly established for appropriation to the program to promote protection for injured parties. The main purposes of this program include furnishing support for such injured parties and the prevention of accidents. These levies will be included in Standard Full Rates (refer to the table below).

Based on these changes, Standard Full Rates will be lowered by an average of 11.4%. The details are listed in (1) to (3) below, with additional references provided on the following page.

(1) Pure premium rates (including pure levy rates) will be lowered by 12.4%

(2) Operating expenses (including additional levy rates) and agency commissions will be lowered by 0.2% overall

(3) Increases owing to newly established levies for appropriation to the program to promote protection for injured parties will amount to 1.2%

<Composition of Revised Standard Full Rates for CALI>

Standard Full Rates			
Pure premium rates	Expense loading		
Pure premium rates (portion to cover future insurance claims)	**Operating expenses** (portion to cover policy administrative costs, claim settlements, etc.)	**Agency commissions** (cover the costs of agents' insurance contract solicitation)	**Levies appropriated for the program to promote injured party protection, etc.**[*5]
Pure levy rates[*4]	**Additional levy rates**[*4]		

*3. Residual funds comprise the total of the accumulated "underwriting balance of past policies" and accumulated "interest." Because Standard Full Rates for CALI have been computed in accordance with the "No loss, no profit" principle, no profits or losses are generated, with residual funds also reflected in policy rates (utilizing in lowering of pure premium rates upon this revision).

Underwriting balance of past policy: Difference between pure premium income and claims paid in past policies.

Interest: Interest accrued from the time a policy is signed through the payment of claims.

*4. Applied to funds for the Government's Program Guaranteeing Compensation for Automobile Accidents (relief system targeting injured parties of hit-and-run and other automobile accidents for which compensation is not paid under CALI and mutual insurance).

*5. As noted in this information, the portion to be included in Standard Full Rates from the upcoming revisions.

<Supplemental Information Concerning Details of Rate Revisions>

(1) Pure premium rates (lowered by 12.4%)

With the current pure premium rates revised in April 2021 lowered by utilizing residual funds, the resulting level has been inadequate to cover the underwriting balance. For these latest revisions, as a result of various government measures addressing traffic safety, the inadequacy in this balance is 5.1%, lower than initial projections.

Residual funds are forecast to be 723.9 billion yen at the end of FY2022. By utilizing these funds over the five-year period from FY2023 through FY2027, it will be possible to lower the pure premium rates by 17.4%.

With the ability to implement a further decrease of 0.1% through revisions in pure levy rates, a decrease of 12.4% will occur in pure premium rates (including pure levy rates).

(2) Operating expenses and agency commissions (lowered by 0.2%)

With a decrease in claim settlement costs included in operating expenses accompanying reductions in the number of claims paid owing to fewer traffic accidents, it has proved possible to lower operating expenses by 0.3%. At the same time, however, the accumulated deficit demanding compensation in operating expenses is forecast to reach 2.2 billion yen at the end of FY2022.

Agency commissions will be revised from 1,733 yen to 1,735 yen, reflecting the figures in wage statistics.

As a result of these factors, it has proved possible to lower operating expenses (including additional levy rates) and agency commissions by 0.2%.

(3) Levies for appropriation to the program to promote protection for injured parties (1.2% as amount equivalent to increase)

The amounts of these levies (100, 125, 150 yen per year) have been indicated by the Ministry of Land, Infrastructure, Transport and Tourism, with the government ordinance determining those amounts scheduled to be revised from here on.

The revised rates listed in (1) and (2) above have been calculated by multiplying the specific revised rates listed in materials issued by the Compulsory Automobile Liability Insurance Council (please refer to the Japan Financial Services Agency website) by the Standard Full Rates composition ratios implemented in April 2021 (pure premiums: 0.642, operating expenses: 0.267, agency commissions: 0.091). As a result, the rates differ from the revised rates appearing in the Council's materials.

2. Examples of Percentage Changes in Major Automobile Types

Revised rates vary by specific policy terms (automobile type, policy period, etc.).

Major examples are indicated below (Premiums for areas other than remote islands or Okinawa Prefecture).

● Policy period: 24 months (two-year policies) (Unit: yen, %)

Automobile Type	Existing SFR* A	Revised SFR* B	Difference C=B−A	Percentage change D=C÷A
Private passenger automobile	20,010	17,650	−2,360	−11.8
Light automobile (subject to inspection)	19,730	17,540	−2,190	−11.1
Small-size two-wheeled automobile	9,270	8,760	−510	−5.5
Moped	8,850	8,560	−290	−3.3

* SFR: Standard Full Rates

● Policy period: 36 months (three-year policies) (Unit: yen, %)

Automobile Type	Existing SFR* A	Revised SFR* B	Difference C=B−A	Percentage change D=C÷A
Private passenger automobile	27,180	23,690	−3,490	−12.8
Light automobile (subject to inspection)	26,760	23,520	−3,240	−12.1
Small-size two-wheeled automobile	11,230	10,490	−740	−6.6
Moped	10,590	10,170	−420	−4.0

* SFR: Standard Full Rates