Announcement on Revision of Reference Loss Cost Rates for Fire Insurance

General Insurance Rating Organization of Japan (GIROJ) revised Reference Loss Cost Rates[*1] for fire insurance as follows.

*1 General Insurance premium rates, which are the basis for general insurance premiums, 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 5 for details.

1. Outline of revision

Reference Loss Cost Rate for fire insurance (Homeowners' Comprehensive Insurance) will be revised as follows: [*2]

(1) Reference Loss Cost Rates are to increase by an average of 13.0%.[*3]

(2) Premium rates for water disasters will be segmentalized into five categories according to the regional risks.

- **Regional unit: By municipality in which the insured building is located**
- **Number of risk categories: Five categories from "Category 1" (the lowest premium group) to "Category 5" (the highest premium group)**
- **Range of premium rates: The difference in rates between the regions with the highest premiums and the regions with the lowest premiums is approximately 1.2 times[*4]**

For details regarding the classification of rate structure, see the attachment.

*2 When each insurer calculates "pure premium rates" for its own insurance products, it can use Reference Loss Cost Rates directly, it can use them with modification, or it 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 Reference Loss Cost Rates described in this document may differ from those of insurance products that policyholders purchase from insurance companies. Consequently, premiums for water disasters coverage may also be different.

*3 The percentage change (average increase of 13.0%) above is an average of the rates for all the contract condition combinations (prefecture, construction class, construction age, coverage, etc.). Therefore, the percentage changes in accordance with the contract condition, as shown in "3. Examples of percentage changes" on page 4.

*4 This figure is the total of all coverage (fires, wind disasters, snow disasters, water disasters, etc.).

2. Key background factors for revision

(1) It is necessary to adjust fire insurance premiums, as the amount of insurance claims for damages caused by natural disasters has increased, and the risk environment has changed significantly.

In recent years, natural disasters that cause a significant degree of damage have been occurring every year (see figure on the right).

In addition, the amount of insurance claims for fire insurance are in an uptick trend due to the increased number of aging dwellings and the rising repair costs (see References 1 and 2.)

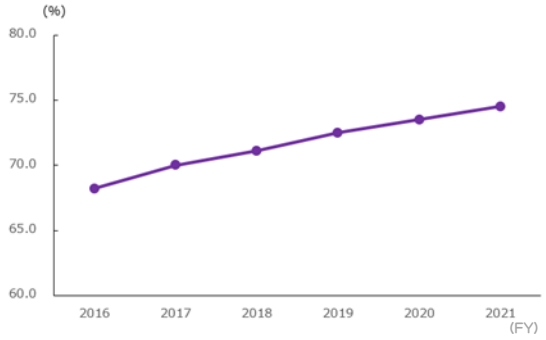
Recent Severe Natural Disasters

2021	• January: Cold snap; heavy snow • July: Heavy rain • August: Heavy rain
2022	• Typhoon Nanmadol • Tropical Storm Talas • June: Hailstorms

Reference 1: Aging dwellings

The more aging dwellings, the more likely damages and accidents they suffer from. As the number of older dwellings increases, the risk of destruction (due to typhoon or heavy snow, etc.), or the risk of fires and water leaks (due to older electric wiring and plumbing) also rises.

(Percentage of Homes 10+ Years Old)



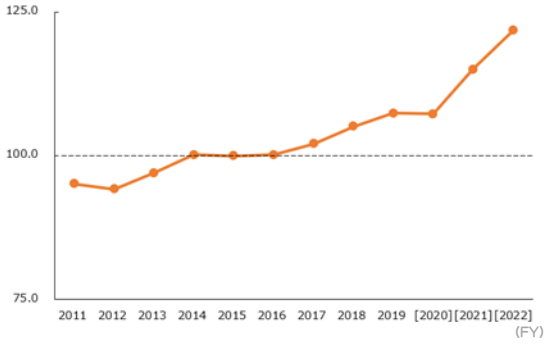
• Total number of policies in effect at the end of the fiscal year (FY)

Reference 2: Rising Repair Costs

Indicators such as material and labor costs for construction work (MLIT Construction Cost Deflator) show an upward trend.

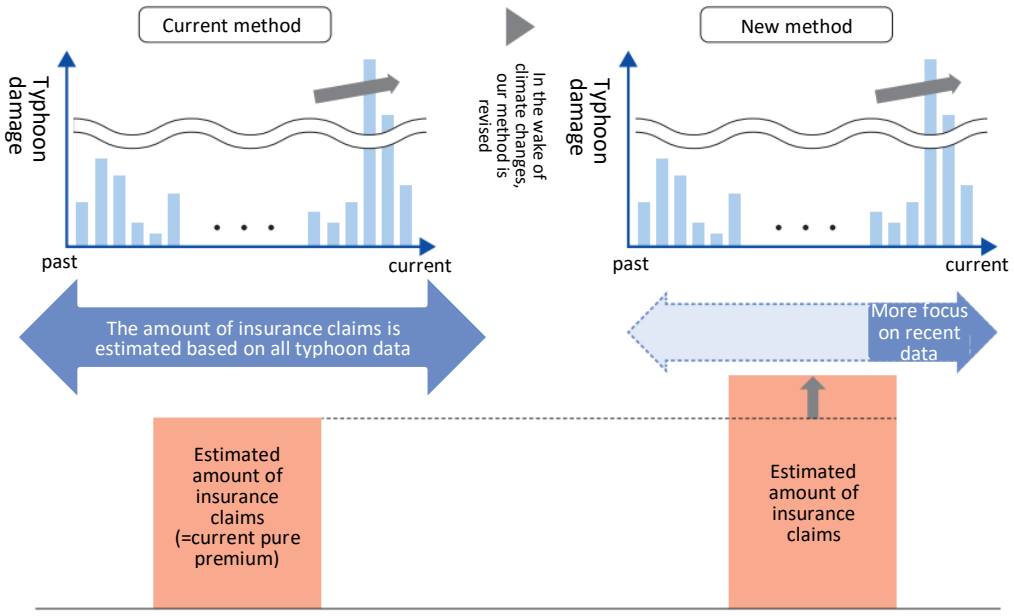
- The graph on the right shows the figures for "Housing Composite" as of 5/31/2023.
- FY 2015 as the base (=100)
- Preliminary values for FY2020 - FY2022

Construction Cost Deflator



The risk environment in terms of natural disasters has changed significantly in recent years. International studies suggest that climate change (global warming) should have affected the increase in the number of damaging typhoons and the changes in the frequency of typhoons approaching Japan. The tendency of typhoon genesis has also changed dramatically. Upon evaluating risks as a process of calculating Reference Loss Cost Rates for fire insurance, the method is being revised to put more focus on the recent typhoon data, so that we can be more prepared to respond to these changes (see figure on the next page.)

Revised Method of Evaluating Typhoon Damage



(2) Improving fairness among policyholders in terms of the burden of water disaster premium rates

A premium rate for the coverage of water disasters (the "water disaster premium rate"), part of Reference Loss Cost Rates for fire insurance, is currently the same all over Japan. Greater damages due to flooding, landslides, and all other water disasters in recent years have raised the premiums for fire insurance in general. This situation requires the structure of the water disaster premium rate to be revised from the perspectives described below:

(i) It is important to ensure that the policyholders' premium burdens are fairly determined when they face different levels of water disaster risks.

(ii) More information on water disaster risks, such as local flood hazard maps, has become popular. Based on such information, some policyholders, assessing their own risk to be low, tend to remove water disaster coverage from their fire insurance policies in order to save on their premiums. If this trend prevails, a further increase of water disaster premium rate will become inevitable in order to ensure that insurers charge an adequate amount of premiums. The increase of policyholders who cannot afford to pay for water disaster coverage may undermine the function of compensation in the society as a whole.

Based on this situation and the discussions at the Financial Services Agency's "Council of Experts on Determination of Fire Insurance Premium Rates Based on Exposure to Water Damage Risks," the water disaster premium rate which has been the same all over Japan, will be segmentalized (for details of the segmentalized premiums structure, see the attachment).

3. Examples of percentage changes

The table below shows examples of percentage changes[*5] in Reference Loss Cost Rates calculated per construction class[*6] and prefecture in the case in which the insured amount is 20 million yen for buildings and 10 million yen for household properties, and the buildings are older than 10 years.

The table below compares the water disaster premium rates after the revision of Reference Loss Cost Rates, when the rate is applied uniformly versus when different rates are applied according to the risk categories. This table presents examples of Tokyo, Osaka, and Aichi (three major metropolitan areas), as well as prefectures with the largest/smallest changes after this revision.

<Insured amount: 20 million yen for buildings and 10 million yen for household properties; Building age: older than 10 years>[*7]

Class M

	Rate Revision Only		Different Water Disaster Premium Rates	Percentage change by water disaster risk category (Categories 1 to 5)
	Prefecture	Percentage change		
Three Major Metros	Tokyo	+10.4%		+ 4.3% to +20.2%
	Osaka	+16.9%		+11.6% to +25.9%
	Aichi	+13.7%		+7.6% to +23.6%
Largest	Miyazaki	+23.9%		+20.4% to +29.9%
Smallest	Kagawa	+10.5%		+3.7% to +21.3%

Class T

	Rate Revision Only		Different Water Disaster Premium Rates	Percentage change by water disaster risk category (Categories 1 to 5)
	Prefecture	Percentage change		
Three Major Metros	Tokyo	+13.3%		+5.2% to +26.8%
	Osaka	+21.5%		+14.9% to +32.6%
	Aichi	+14.8%		+7.2% to +27.2%
Largest	Gunma	+23.2%		+16.9% to +33.6%
Smallest	Yamagata	+9.2%		+3.7% to +18.4%

Class H

	Rate Revision Only		Different Water Disaster Premium Rates	Percentage change by water disaster risk category (Categories 1 to 5)
	Prefecture	Percentage change		
Three Major Metros	Tokyo	+6.3%		-1.3% to +19.0%
	Osaka	+17.3%		+11.4% to +27.1%
	Aichi	+8.9%		+1.9% to +20.6%
Largest	Gunma	+18.1%		+12.3% to +27.7%
Smallest	Tokyo	+6.3%		-1.3% to +19.0%

*5 In a case where the rates are to increase to a large extent, the sudden change alleviation measure was implemented to reduce 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)

*7 The table shows the average percentage changes for each prefecture. Because the water disaster premium rates are segmentalized at a municipal level in this revision, the percentage changes differ among municipalities within the same prefecture.

The risk category of each municipality for the purpose of the water disaster premium rates for Reference Loss Cost Rates for fire insurance can be viewed on GIROJ website (Water Disaster Risk Category Search System).
URL: https://www.giroj.or.jp/ratemaking/fire/touchi/

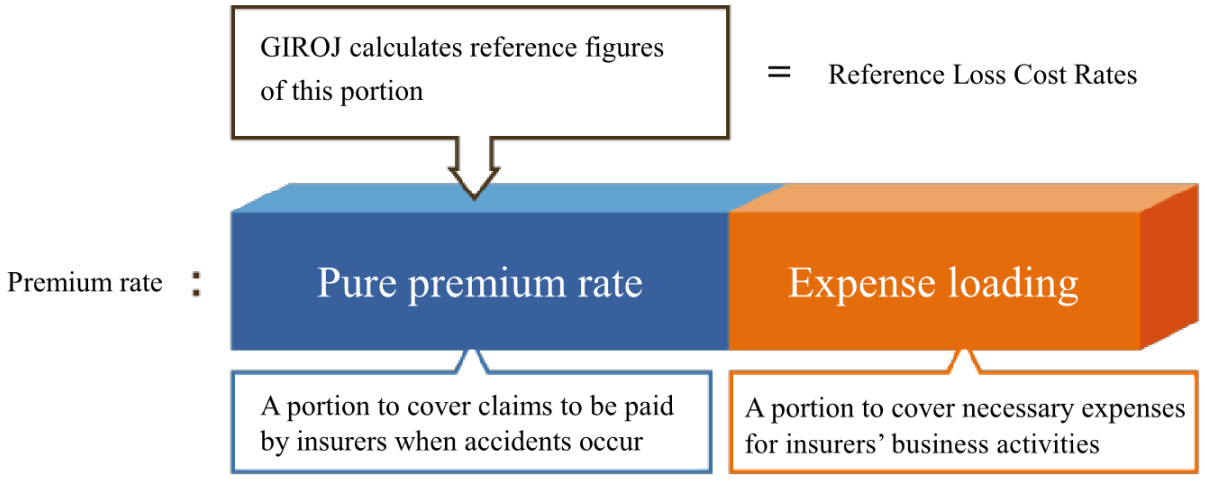
<Outline of Reference Loss Cost Rates>

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	**Claim surveys for Compulsory Automobile Liability Insurance (CALI)**	**Databank**
		
GIROJ calculates Standard Full Rates and Reference Loss Cost Rates* that are "reasonable, adequate and not unfairly discriminatory," and provides them for the insurers.	GIROJ conducts a "fair, prompt and kind" claims survey for CALI.	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.