

Announcement on Revision of Reference Loss Cost Rates for Voluntary Automobile Insurance

General Insurance Rating Organization of Japan (GIROJ) revised Reference Loss Cost Rates*¹ for voluntary automobile 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 3 for details.

1. Outline of revision

As of January 1, 2025, in Reference Loss Cost Rates for voluntary automobile insurance, the “model-based group rating system”^{*2} for private light four-wheeled passenger automobiles^{*3} will be restructured to adopt seven classes, increased from the current three.^{*4}

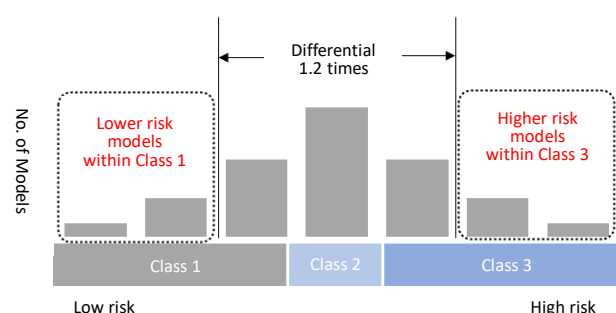
- *2 The model-based group rating system categorizes automobiles according to the risks to be insured into the classes (1, 2, 3 ...). From the perspective of voluntary automobile insurance, the risk of each automobile varies with its characteristics, such as body style, structure, equipment, and performance, as well as the characteristics of drivers. To reflect the risk differentials in the premiums, risks of automobiles are assessed according to models. The model is an official unit of automobiles that classifies them based on their basic structure and other features. The model is indicated in the vehicle inspection certificate. Applicable classes are set separately for each coverage type (bodily injury liability, property damage liability, bodily injury indemnity coverage, and physical damage to the automobile itself).
- *3 Private light four-wheeled passenger automobiles are vehicles with *kei-5*(light 5), *kei-7*(light 7), and *kei-8*(light 8) license plates.
- *4 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. Therefore, the revision of Reference Loss Cost Rates described in this document may differ from that of insurance products that policyholders purchase from insurance companies.

2. Background of revision

As user groups have become more diversified, as a result of increased number of private light four-wheeled passenger automobiles in use, and safety performance technologies have been increasingly developed, the actual risks defined by the model-based groups have become more diversified.

The “model-based group rating system” was introduced on January 1, 2020, for private light four-wheeled passenger automobile. When the system was introduced, there were three classes (Classes 1 through 3). However, based on the actual risk seen in the insurance data, there are a certain number of lower-risk models in the current Class 1 and higher-risk models in the current Class 3 (see figure on the right).

Actual risk for private light four-wheeled passenger automobile



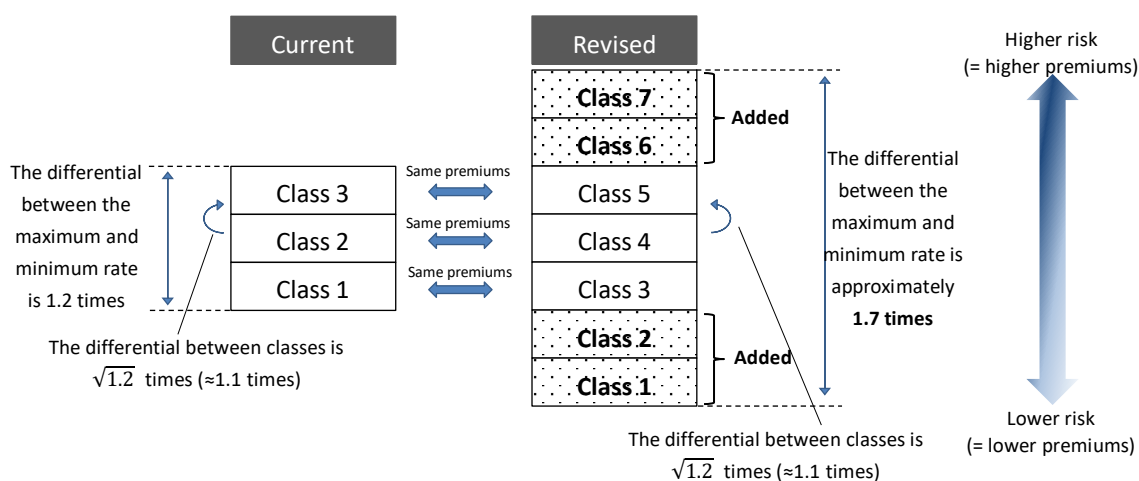
This is partly due to diversification of user groups, as a result of increased number of private light four-wheeled passenger automobiles in use, and diversification of the safety performance technologies of each vehicle as advanced driver assistance system (ADAS) technologies, such as autonomous emergency braking (AEB), have been developed. As a result, the actual risks of the model-based groups have become more diversified.

Therefore, more classes will be added as follows so that each model will be assigned into the class that more accurately reflects its risk in order to ensure that the policyholders' premium burdens are fairly determined.

3. Details of revision

The "model-based group rating system" for private light four-wheeled passenger automobile will adopt seven classes, adding two classes with lower risk (lower premiums) than the current Class 1 and two classes with higher risk (higher premiums) than the current Class 3.

Illustration of revision



The "model-based group rating system" for private light four-wheeled passenger automobile will adopt seven classes, adding two classes with lower risk (lower premiums) than the current Class 1 and two classes with higher risk (higher premiums) than the current Class 3.

The premium rates for current Classes 1 through 3 correspond to the premium rates for revised Classes 3 through 5. The differential in premium rates between the lowest and highest premium classes is currently 1.2 times but will increase to approximately 1.7 times after the revision.

Every year in January, GIROJ reviews whether the class of each model corresponds to the most recent actual risk. If the class allocated to each model corresponds to the actual risk, that model will remain in the same class; if the risk is lower or higher, the model will be moved to a lower or

higher class accordingly.

(This is the same as currently conducted.)

As of January 2025, in case where the actual risk of a model corresponds to its class, that model will move from the current Classes 1 through 3 to the corresponding Classes 3 through 5 (see the illustration of the revision).

(If the risk of the model does not correspond to the class, the model will be shifted to a different class as appropriate.)

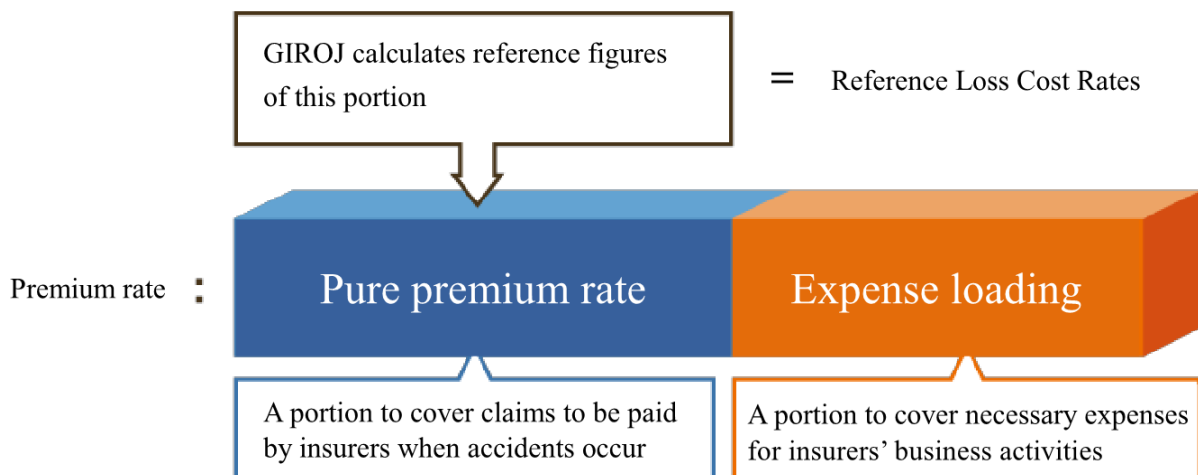
<Outline of Reference Loss Cost Rates>

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, prompt and kind” 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.