

Questions and Answers
Topic (5-2): Key points in proper ratemaking
for automobile insurance

Q-1: [From Regulatory/supervisory authorities]

In Viet Nam, we also have applied pure premium for VAI, the insurers must follow strictly the pure premium. In any descending premium case, the premium after descending cannot be lower than the pure premium. How is it in Japan?

A-1:

Firstly, premium rates must be “Reasonable”, “Adequate” and “Not unfairly discriminatory”. To answer your question, “Adequate” is crucial. “Adequate” means that pure premium rates must be sufficient to pay claims and be affordable for applicants. Therefore, premium rates should not be so low as to violate “adequate”.

For your information, the Japanese Financial Services Agency (FSA) checks whether or not rates are set in accordance with these three principles. Every time the rates are revised, the FSA checks the premium rates of insurance companies through FSA product examinations.

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**Q-2: [From Faculty of Insurance, National Economic University]**

I have a question about the Pure premium. It is divided into two factor: frequency and severity. What is the standards to divide losses into two factors? For example, is a loss of \$1000 considered as frequency?

**A-2**

“Severity” stands for a claim that is to be paid following an accident. If you divide the Total amount of claims paid (L) by the Total number of claims (n), you determine the “severity”.

“Frequency” stands for the probability of an accident occurring. If you divide the Total number of claims (n) by the Total number of insured vehicles (N), you determine the “frequency”.

In your example, it is not frequency because the unit of frequency is a percentage. We predict changes in the future environment by calculating the two factors separately.

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