

# **Automobile Insurance in Japan**

**Non-Life Insurance Rating Organization of Japan (NLIRO)**

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# Contents

● INTRODUCTION ● .....	1
<b>PART 1. COMPULSORY AUTOMOBILE LIABILITY INSURANCE (CALI) .....</b>	<b>3</b>
<i>Chapter 1. Automobile Liability Security Law .....</i>	<i>3</i>
1. Origin of the system .....	3
2. Liability under the Automobile Liability Security Law .....	4
<i>Chapter 2. Outline of CALI .....</i>	<i>6</i>
1. Obligation to effect automobile liability insurance .....	6
2. Insurer's obligation to provide insurance.....	6
3. Insurers .....	7
4. The insured .....	7
5. Insurer's liability .....	8
(1) Scope of insurer's liability.....	8
(2) Limits of insurance.....	8
6. Exclusion from coverage.....	9
7. Claim for indemnity.....	9
(1) Payment of insurance claims .....	9
(2) Claim for indemnity against the insurer .....	10
(3) Provisional payment.....	10
8. Premium rates .....	10
(1) Role of NLIRO.....	10
(2) Risk classification .....	10
(3) No-loss, no-profit rule.....	11
9. Mutual pool .....	11
<i>Chapter 3. Settlement of claims .....</i>	<i>12</i>
1. Outline of claims handling .....	12
2. Assessment of the amount of a claim or damages .....	12
(1) Damages for bodily injury.....	12
(2) Damages for permanent disability.....	12
(3) Damages for death.....	13
(4) Damages for bodily injury suffered prior to death (or permanent disability) .....	13
3. Reduction in the amount of a claim.....	13
(1) Reduction due to gross negligence on the part of victims .....	13
(2) Reduction due to uncertainty over the existence of a proximate cause relationship.....	13

4. Adjustment with social insurance .....	14
5. CALI dispute settlement scheme.....	14
<b>Chapter 4. Government's Automobile Liability Compensation Business.....</b>	<b>15</b>
<b>Chapter 5. CALI Council.....</b>	<b>16</b>
<b>PART 2. VOLUNTARY AUTOMOBILE INSURANCE.....</b>	<b>17</b>
<b>Chapter 1. Coverage available .....</b>	<b>17</b>
1. Coverage for third party liability.....	17
(1) Legal liability covered under this insurance.....	17
(2) Limits of the insurer's liability .....	18
(3) Exclusions .....	18
(4) Out-of-court settlement by the insurer .....	19
(5) Right of the victim to claim for damage directly to the insurer.....	19
(6) Extension of coverage for the insured while driving another person's automobile.....	20
2. Coverage for self-incurred personal accident.....	20
(1) History.....	20
(2) Amount of benefit paid .....	21
(3) Exclusions .....	22
(4) Extension of coverage for the insured while driving another person's automobile.....	22
3. Protection against uninsured automobiles .....	23
(1) History.....	23
(2) Amount of benefit paid .....	23
(3) Exclusions .....	24
(4) Extension of coverage for the insured while driving another person's automobile.....	24
4. Coverage for passengers' personal accident.....	25
(1) Coverage .....	25
(2) Amount of benefit paid .....	25
(3) Exclusions .....	25
5. Coverage for damage to own vehicle.....	26
(1) Coverage .....	26
(2) Exclusions .....	26
(3) Insured amount and insurable value.....	27
(4) Deductibles.....	27
(5) Endorsement to limit causes of loss .....	28
6. Trends in new product development.....	28
<b>Chapter 2. Premium rating.....</b>	<b>29</b>
1. Role of NLIRO.....	29
2. Risk classification and premium rating plan.....	29

<b>Chapter 3. Settlement of claims</b> .....	<b>31</b>
1. Bodily injury liability.....	31
(1) Payment of claims for bodily injury liability.....	31
(2) Unitary claims payment system.....	31
2. Property damage liability and damage to own vehicle.....	31
(1) Adjuster system.....	31
(2) Repair research and training center.....	32
(3) JAPAN AUDATEX.....	32
3. Facilities for settlement of disputes and consultation.....	32
(1) Japan Center for Settlement of Traffic Accident Disputes.....	32
(2) Other organizations.....	32

## Appendix

1. <i>Limits of Insurer's Liability for Compulsory Automobile Liability Insurance (CALI)</i> .....	34
2. <i>CALI and CALMA: Underwriting Results</i> .....	36
3. <i>CALI: Summary of Premium Tariffs</i> .....	37
4. <i>Number of Claims Filed under the Government's Automobile Liability Compensation Business</i> .....	38
5. <i>Voluntary Automobile Insurance: Underwriting Results</i> .....	39
6. <i>Diffusion of Voluntary Automobile Insurance</i> .....	40
7. <i>Judicial Precedents of Large Awards of Damages for Traffic Accidents</i> .....	41
8. <i>Number of Automobiles in Use and Victims of Road Traffic Accidents</i> .....	42



## ● Introduction ●

Automobile insurance in Japan is operated under two different systems (and also two different policies), compulsory automobile liability insurance (hereinafter referred to as “CALI”) and voluntary automobile insurance. CALI was established and has been operated under the Automobile Liability Security Law, which was promulgated and became effective in 1955. This insurance only covers bodily injury liability, and the law specifies the limits of insurer’s liability for death, each grade of permanent disability and bodily injury. On the other hand, voluntary automobile insurance includes third party liability coverage (bodily injury liability and property damage liability), self-incurred personal accident coverage, protection against uninsured automobiles coverage, passengers’ personal accident coverage and coverage for damage to the insured’s own vehicle (hereinafter referred to as “damage to own vehicle”). With respect to liability for bodily injury, voluntary automobile insurance acts as excess cover to CALI.

The premium rates for the two kinds of automobile insurance described above are worked out by the Non-Life Insurance Rating Organization of Japan (hereinafter referred to as “NLIRO”) on the basis of the data gathered from the insurers which are members of NLIRO (hereinafter referred to as “member insurers”). NLIRO is a nonprofit organization established under the Law Concerning Non-Life Insurance Rating Organizations (hereinafter referred to as “the Rating Organizations Law”). It was created by the merger of its predecessors, the Property and Casualty Insurance Rating Organization of Japan (PCIRO) and the Automobile Insurance Rating Organization of Japan (hereinafter referred to as “AIRO”), and began its operations on July 1, 2002.

NLIRO calculates Reference Loss Cost Rates (advisory pure premium rates) for fire insurance, personal accident insurance, voluntary automobile insurance and nursing care payments insurance, as well as Standard Full Rates (advisory premium rates) for CALI and earthquake insurance. NLIRO files these rates with the Commissioner of the Financial Services Agency (hereinafter referred to as “FSA”), who examines the rates on the basis of “three principles of premium rates,” that is, “reasonable,” “adequate” and “not unfairly discriminatory.” Member insurers are not obligated to use them.

In the non-life insurance sector, direct net premiums (including the savings portion of maturity-refund-type insurance premiums) totaled ¥8,265.7 billion in fiscal year 2009. Automobile insurance (CALI and voluntary automobile insurance), which is now the largest line, amounted to ¥ 4,370.5 billion, representing 52.9% of total direct net premiums in non-life insurance.



## Part 1. Compulsory Automobile Liability Insurance (CALI)

### Chapter 1. Automobile Liability Security Law

#### 1. Origin of the system

A rapid increase in automobile traffic was seen several years after the end of World War II. In 1948, the number of automobiles in use in Japan was 238,000, only slightly more than the highest figure recorded in pre-war days. By 1954, however, the figure exceeded one million and, by 1967, ten million.

In line with this rapid progress in motorization, the number of accidents increased drastically, resulting in a serious social problem. The number of people killed or injured in automobile accidents rose from 21,450 in 1948 to 78,764 in 1954, more than tripled in six years. The number of casualties continued to climb as shown in the following table, and the number of deaths in 1970 is still worst on record.

Year	Number of Autos in Use (thousand)	Road Traffic Accidents			Auto Insurance Premiums (¥ million)	Ratio of Auto Prem. To Total Non-life Premiums
		Number of Accidents	Number of Deaths	Number of Injured		
1948	238	21,341	3,841	17,609	360	—
1954	1,311	93,869	6,374	72,390	3,870	7.1%
1960	3,302	449,912	12,055	289,156	20,864	20.0%
1965	7,897	567,286	12,484	425,666	112,796	41.1%
1970	18,587	718,080	16,765	981,096	575,103	57.1%

- Note: 1. Number of Autos in Use represents the number of automobiles in use excluding motorcycles as of the end of each calendar year.  
2. Number of Deaths represents the number of those who died within twenty four hours of accidents occurred during each calendar year.  
3. Auto Insurance Premiums represent direct net premium income of CALI and voluntary automobile insurance for each fiscal year starting on April 1 of the year and ending on March 31 of the following year.

Before the enactment of the Automobile Liability Security Law, the tort liability regarding traffic accidents was mainly governed by Article 709 and other provisions of the Civil Code. Under the provisions, the victim of a traffic accident was able to claim for damages only when he/she could prove a willful act or negligence on the part of the party at fault. Normally, however, it is difficult, sometimes even impossible, to prove this. Furthermore, a lack of financial resources to pay for damages on the part of the party at fault often made it difficult for the victim to obtain compensation.

To ensure financial relief to such victims of traffic accidents, the Automobile Liability Security Law was enacted in 1955. The law, which came into effect in February 1956, imposed on every automobile user a kind of strict liability with respect to traffic accidents resulting in death or bodily

injury to a third party. The law also obligated, with very few exceptions, every automobile user to effect CALI in order to secure funds for compensation.

At the inception of the CALI system, the insured amounts (i.e. the limits of insurer's liability) required by the law were very modest compared with today's standards, namely, ¥300,000 for death, ¥100,000 for serious injury and ¥30,000 for slight injury. As a result of several revisions, the limits of insurer's liability are ¥30,000,000 for death and ¥40,000,000 for permanent disability respectively. (see pg. 9)

Note: The abbreviations indicated below are used in the following sections:

the Law	Automobile Liability Security Law (Law No. 97, July 29, 1955)
the Enforcement Ordinance	Enforcement Ordinance of the Automobile Liability Security Law (Cabinet Ordinance No. 286, October 18, 1955)
Art._ Par._ of the Law	Article_ Paragraph_ of the Automobile Liability Security Law
Art._ Par._ of the Enforcement Ordinance	Article_ Paragraph_ of the Enforcement Ordinance of the Automobile Liability Security Law
CALI	Compulsory Automobile Liability Insurance (operated by non-life insurance companies)
CALMA	Compulsory Automobile Liability Mutual Aid (operated by an agricultural cooperative or a federation of agricultural cooperatives, a consumer cooperative or a federation of consumer cooperatives, a common facility cooperative or a federation of common facility cooperatives)

## 2. Liability under the Automobile Liability Security Law

The Law provides in Art. 3 that any person who operates an automobile for his/her benefit shall be liable to compensate for death or bodily injury caused to any other person arising from the operation of the automobile unless he/she is able to prove all three of the following conditions:

- neither he/she nor the driver failed to exercise due diligence in operating the automobile,
- there was an intention or negligence on the part of the victim or a third party other than the driver, and
- there was no structural defect or functional disorder in the automobile.

It is construed that “a person operating an automobile for his/her benefit” (on whom liability for damages is imposed) as referred to in the Law includes any person who has control over the operation of the automobile and obtains benefit therefrom, regardless of whether he/she owns the automobile and whether he/she is driving or otherwise occupying the automobile at the time of the occurrence of the accident\*.

The provisions of the Law transfer the burden of proof of negligence from the “victim” to the “person operating an automobile for his/her benefit.” Because of this shift in the burden of proof, the liability imposed by the Law on the person who operates the automobile for his/her benefit can

be said to be very strict, since it is normally not easy for such a person to prove all three of the conditions mentioned above. Accordingly, the concept of this liability is considered very close to that of no-fault liability, and as a result the main obstacle to compensating victims of traffic accidents is believed to have been removed.

- \* Before the enforcement of the Law, those who were liable for damages had been limited to persons who violated, intentionally or negligently, the right of other persons (Article 709 of the Civil Code), although if an employee caused damage to another party in an accident during the course of his/her employment, his/her employer was, in many cases, held liable (Article 715 of the Civil Code).

## *Chapter 2. Outline of CALI*

### **1. Obligation to effect automobile liability insurance**

Under the CALI system, no automobile shall be operated unless a contract for CALI (or CALMA) as provided in the Law has been concluded (Art. 5 of the Law)<sup>\*1</sup>.

The purpose of the Law is to protect victims of traffic accidents through the introduction of a liability system which forces a party at fault to secure funds to pay for damages. Therefore, every automobile has an obligation<sup>\*2</sup> to be insured by CALI (or CALMA). Violation of the obligation to insure may result in imprisonment with labor for a period not exceeding one year or a fine not exceeding ¥500,000 (Art. 86-3 of the Law).

A valid CALI certificate must be presented both at the time of initial registration of an automobile and at each vehicle inspection<sup>\*3</sup> carried out periodically by administrative authorities thereafter. The CALI policy period must cover the full length of time before the next vehicle inspection (Art. 9 of the Law). This system is considered the surest way to preclude any uninsured automobile from being used on public roads, and ensures that every automobile, which undergoes inspection, is insured by CALI (or CALMA).

\*1 In 1966, motorcycles were newly included in “automobiles” to which the Law is applied, and so it became compulsory to effect CALI on motorcycles. As these motorcycles (as well as some types of light automobiles) are exempted from periodical vehicle inspections, the insured is required to attach to such automobiles an insurance sticker provided by the insurer which certifies the existence of a CALI contract concluded on the automobile as well as its expiry date (Art. 9-2 and Art. 9-3 of the Law). The purpose of the system is to detect easily any uninsured automobiles and to eliminate them from public roads.

\*2 The only exceptions to this obligation are those automobiles which are used by the Self-Defense Forces of Japan or by the forces of the United States of America or the United Nations, or those which are only used away from any road open to public traffic (Art. 10 of the Law and Art. 1-2 of the Enforcement Ordinance).

\*3 Intervals between vehicle inspections depend on the type of automobile. In the case of a private passenger automobile, for example, the first inspection has to be conducted within three years of the date of registration, and inspections are required every two years thereafter. In the case someone fails to present a certificate of CALI, the automobile is not allowed either to be registered or to pass the inspection, and such automobile is prohibited from being operated.

### **2. Insurer’s obligation to provide insurance**

In general, an insurer may decide to accept or reject any application for an insurance contract at its own discretion. However, the purpose of the Law is to ensure that every automobile is insured by CALI. To achieve the aim of this compulsory insurance system, it is necessary not only to

compel the owner of an automobile to effect CALI on his/her automobile but also to prohibit the insurer, being the other party to the contract, from declining any application for a CALI contract. For this reason, the insurer is prohibited from refusing to conclude a CALI contract, except when there is any due reason as provided in the Law, such as non-payment of the premiums and/or a breach in the obligation of disclosure on the part of the applicant (Art. 24 of the Law and Art. 11 of the Enforcement Ordinance).

Neither of the parties to a CALI contract may cancel or terminate the contract, except in a very limited number of cases. The contract may only be canceled when the insured automobile comes to be regarded as any automobile to which the Law is not applicable, when the policyholder willfully or negligently breaches the obligation to disclose information or when there is another CALI (or CALMA) contract to cover the same automobile (Art. 20-2 of the Law).

### **3. Insurers**

Those insurers which can accept CALI contracts are non-life insurance companies as stipulated in the Insurance Business Law (Art. 6 of the Law).

Further, as a result of the revision of the Law in 1966, agricultural cooperatives and a federation of agricultural cooperatives established under the Agricultural Cooperative Society Law have been permitted to carry on this type of insurance business. The Law was further revised on December 20, 1995, allowing consumer cooperatives or a federation of consumer cooperatives (established under the Consumers' Livelihood Cooperative Society Law), as well as common facility cooperatives or a federation of common facility cooperatives (established under the Law on Cooperatives of Small and Medium Enterprises, etc.) to carry on the said insurance business. The actual business performed by such entities is the same as that operated by insurers, but this system is called CALMA instead of CALI, because under the current Insurance Business Law, "insurance" business can only be carried out by stock or mutual companies, and other names are required to denote insurance business operated by any other entity, including cooperatives.

### **4. The insured**

Under CALI, the insured is the "owner" and "driver" of an automobile (Art. 11 of the Law). The "owner" means the owner of an automobile or any other person entitled to use it, who operates such automobile for his/her benefit (Art. 2 Par. 3 of the Law). Thus, a person who operates an automobile without permission of the person entitled to its use (a thief, for example) is not regarded as the "owner."

The "driver" means a person who drives or assists in driving an automobile for another person's

benefit, but who is not the owner of the automobile (Art. 2 Par. 4 of the Law). Art. 3 of the Law stipulates that the person held liable for damages should be the owner of the automobile.

## **5. Insurer's liability**

### **(1) Scope of insurer's liability**

According to the general policy conditions of CALI, the coverage is afforded with respect to any operation of the insured automobile within the territory of Japan, including Japanese vessels located outside of Japan (Art. 1 of the general policy conditions of CALI). The nationality or country of residence of the insured or the victim does not affect the insurance coverage.

### **(2) Limits of insurance**

Under CALI, the limits of insurance are set out by the Enforcement Ordinance for death, each degree of permanent disability and other bodily injury.

In the case of death or permanent disability resulting from bodily injury, indemnities are assessed separately for the loss incurred prior to death or stabilization of the state of permanent disability and for the actual loss resulting from death or permanent disability. Under CALI, the amount of indemnification is subject to the respective limits of insurance.

The limits of insurance are applied to each victim without any total limit per occurrence. Any payment for a claim does not reduce the limits of insurance for the rest of the policy period as the limits are automatically reinstated. As CALI has specifically been established by the Law for the purpose of protecting the victims of automobile accidents, the limits of insurance have a nature of basic amounts of indemnity which secure the minimum financial responsibility of the party at fault.

The limits of insurance currently in force are as follows (Art. 13 of the Law and Art. 2 of the Enforcement Ordinance):

<input type="checkbox"/> For death	¥	30,000,000
<input type="checkbox"/> For permanent disability		
(1) For permanent disability requiring nursing care at all times or as needed		
1st grade	¥	40,000,000 (at all times)
2nd grade	¥	30,000,000 (as needed)
(2) For permanent disability (other than the above)		
1st grade	¥	30,000,000
2nd grade	¥	25,900,000
3rd grade	¥	22,190,000
4th grade	¥	18,890,000
5th grade	¥	15,740,000
6th grade	¥	12,960,000
7th grade	¥	10,510,000
8th grade	¥	8,190,000
9th grade	¥	6,160,000
10th grade	¥	4,610,000
11th grade	¥	3,310,000
12th grade	¥	2,240,000
13th grade	¥	1,390,000
14th grade	¥	750,000
<input type="checkbox"/> For other bodily injuries	¥	1,200,000

## 6. Exclusion from coverage

Under CALI, the insurer is excluded from liability for indemnification only for damage caused by malicious intent of the policyholder or the insured (Art. 14 of the Law). The insurer can exclude such loss, but the victim is protected under the insurance. As mentioned below, the victim is entitled to make a claim directly against the insurer and he/she can directly recover the amount of damages from the insurer. In this case, the insurer, which has indemnified the victim, may claim compensation from the Government for the amount it paid as damages (Art. 16 Par. 4 and Art. 72 Par. 2 of the Law).

The Government, in its turn, is subrogated to the right owned by the victim against the liable party (the policyholder or the insured) to the extent of the amount paid by the insurer (Art. 76 Par. 2 of the Law).

## 7. Claim for indemnity

### (1) Payment of insurance claims

Under the Law, the insured is entitled to make a claim against the insurer up to the amount that

he/she has paid as damages to the victim (Art. 15 of the Law). This is to prevent the insured from misappropriating the CALI claim and leaving the victim uncompensated in case the insured receives the claim before he/she makes indemnification to the victim for damage.

## (2) Claim for indemnity against the insurer

On the other hand, if the owner has become liable to compensate for damage pursuant to the provision of Art. 3 of the Law, the victim is entitled to make a claim for the amount of damage against the insurer to the extent of the limits of insurance described above (Art. 16 Par. 1 of the Law). When the insurer pays the victim the amount claimed, it is deemed to have indemnified the insured for his/her loss under the liability insurance contract (Art. 16 Par. 3 of the Law).

## (3) Provisional payment

The victim is also entitled to ask the insurer for a provisional payment before the amount of damages is actually determined (Art. 17 of the Law). Since it often takes a long period of time before the amount of damages is determined, the provisional payment system was adopted as a measure to ease the financial burden of the victim. The amount payable under this system is ¥2,900,000 in the case of death, whereas the amount payable is ¥50,000, ¥200,000 or ¥400,000 depending upon the degree of injury suffered in the case of bodily injury (Art. 5 of the Enforcement Ordinance).

# 8. Premium rates

## (1) Role of NLIRO

CALI premium rates calculated by NLIRO, which are called Standard Full Rates, are filed with the FSA. Filing is deemed approved after a 90-day examination period (which may be changed at the FSA's discretion). The examination period starts from the day after the FSA accepts the filing. When NLIRO has made a filing of rates, it must make a public announcement in the Official Gazette or principal daily newspapers. The Commissioner of the FSA has to refer, in advance, to the CALI Council (Art. 33 of the Law). The Commissioner of the FSA should then obtain the consent of the Minister of Land, Infrastructure and Transport (Art. 28 Par. 2 of the Law). After that, each of member insurers may use these rates as its own rates by individually filing to the FSA.

The Anti-monopoly Law does not apply to certain activities of CALI, such as calculating Standard Full Rates by NLIRO and the use of the said rates by member insurers.

## (2) Risk classification

For the purpose of the CALI premium rating, automobiles are classified according to the type, size and use of the automobile<sup>\*1</sup>. A bonus-malus system<sup>\*2</sup> has not been adopted in the tariff of the

## CALI premium rates.

\*1 There are two exceptions to the above:

- (1) For historical reasons, premium rates for Okinawa Prefecture are different from those for other areas of Japan. Also, premium rates for isolated islands are different from those applied to the mainland (i.e. the four main islands of Hokkaido, Honshu, Shikoku and Kyushu).
- (2) Premium rates applicable to commercial passenger automobiles vary according to the area.

\*2 Under this system, a discount is granted to an insured who has been claim-free for a certain number of years, or, conversely, a surcharge is imposed on an insured who has made a claim.

### (3) No-loss, no-profit rule

Under the Law, it is stipulated that premium rates shall be as low as possible within the range of compensating reasonable costs of insurance business under the efficient management (Art. 25 of the Law). This provision has been construed to prohibit the insurer from making any profit out of the operation of CALI, which works under a “no-loss, no-profit” rule.

Since CALI is based on such a “no-loss, no-profit” rule, any underwriting surplus and investment income obtained from the operations of CALI are set aside and reserved cumulatively. Further, such amounts may only be utilized for the improvement of the underwriting balance and for other specific purposes, such as the development of measures to prevent traffic accidents, the protection of and providing assistance to the victims of accidents or their survivors and the improvement of emergency medical services. Furthermore, if there is any underwriting loss or profit from the operations of CALI, such an underwriting result is adjusted by a future revision of CALI premium rates.

## 9. Mutual pool

The “mutual pool” system is formed by all insurers participating in the CALI (and CALMA) scheme for the purpose of preventing deterioration in the underwriting results of insurers because of the obligation to accept any applicants regardless of their risk. Under the system, all CALI (and CALMA) premiums, after deducting operating expenses relating to CALI (and CALMA) business, are brought into the pool and redistributed to each insurer\*.

\* Prior to enforcement of the amended Law in April 2002, all CALI and CALMA premiums were reinsured by the Government on a 60% quota share basis, with the exception of contracts on motorcycles. The remaining 40% were brought into the mutual pool and redistributed to each insurer.

## *Chapter 3. Settlement of claims*

### **1. Outline of claims handling**

Normally, in the case of an accident, an insurer goes through all aspects of claims handling, including receipt of notification of the accident, confirmation of the insurance contract, investigation of the situation and the extent of loss and payment of the amount claimed. However, under CALI, which is characterized by its function as a basic compensation system to provide relief to victims of traffic accidents, a high degree of fairness, objectivity and uniformity are required in claims handling. Because of this requirement, a significant part of claims handling procedures, including determination of the validity of a claim and the reasonability of the damage amount assessed, is carried out by NLIRO's Claims Survey Offices\*. The result of the survey carried out by NLIRO is provided to the relevant insurer.

\* As of April 1, 2011, NLIRO has 54 Claims Survey Offices in major cities throughout Japan.

### **2. Assessment of the amount of a claim or damages**

Under the CALI scheme, the amount of loss suffered by victims of traffic accidents is assessed in a standardized manner in accordance with the standards for payment as announced by the Minister of Land, Infrastructure and Transport and the Prime Minister. The standards adopt, as far as possible, fixed-forms and fixed-amount methods of calculation in order to make quick and impartial handling of about 1,300,000 claims annually. The items of loss\* included in the standards are indicated below. The amount of each loss, as set forth in the standards, is subject to re-examination, taking into consideration changes in the levels of wages, prices and indemnity.

#### **(1) Damages for bodily injury**

- ① direct damage
  - expenses in respect to medical treatment (examination fees, hospital fees, outpatient fees, fees for nursing care, miscellaneous expenses, etc.)
  - documentation fees
  - other expenses
- ② loss of earnings due to absence from work
- ③ damages for pain and suffering

#### **(2) Damages for permanent disability**

- ① loss of future earnings
- ② damages for pain and suffering, etc.

### (3) Damages for death

- ① funeral expenses
- ② loss of future earnings
- ③ damages for pain and suffering on the part of the victim and his/her survivors

### (4) Damages for bodily injury suffered prior to death (or permanent disability)

Direct damages, loss of earnings due to absence from work, and damages for pain and suffering are included in this category of loss, and the standards applicable to “damages for bodily injury” is correspondingly applied to this item.

In order to facilitate the protection of victims, the assessment of claims should be performed carefully. In particular, if the victim or survivor contests the assessment of negligence or the level of permanent disability determined, such a dispute must be evaluated by experts such as lawyers and doctors. With this in mind, NLIRO established a “CALI (CALMA) Claim Assessment Board” system in April 2002. Under this system, the Board and related task forces are composed of outside experts, with the purpose of assessing difficult claims that need a high degree of expertise, or claims in which the assessment is contested.

- \* Any costs incurred by the insured arising from a litigation between the insured and the victim are not covered under CALI (Article 8 of the general policy conditions of CALI).

## **3. Reduction in the amount of a claim**

As described above, CALI is designed to provide relief to victims of traffic accidents. However, the full amount of loss is not always indemnified; in other words, in the following special cases, the amount of indemnity might be reduced.

### (1) Reduction due to gross negligence on the part of victims

In general tort liability cases, the principle of comparative negligence applies. However, under CALI, the amount of indemnity is reduced only when a victim has shown gross negligence, 70% or more, in the accident. The ratio of reduction, in case of death or permanent disability, is limited to 20%, 30% or 50% depending upon the degree of the victim’s negligence. In the case of bodily injury other than permanent disability, however, the ratio of reduction is only 20%.

### (2) Reduction due to uncertainty over the existence of a proximate cause relationship

In some cases, it is difficult to prove medically the existence of a proximate cause relationship between the negligent act and the damage. However, from the viewpoint of CALI, which is designed to give relief to the victim, it is of concern if the victim cannot be indemnified for damages

because of uncertainty over the existence of a proximate cause relationship. Accordingly, insurers are required to pay the victim 50% of the amount of the loss due to death or permanent disability.

#### **4. Adjustment with social insurance**

In the case where a victim of a traffic accident suffers bodily injury and is a beneficiary of the social insurance schemes, he/she can either receive a benefit from a social insurance such as health insurance or workers compensation insurance, or receive an insurance claim payment under the CALI scheme. However, he/she cannot receive double benefits under both CALI and other social insurance schemes with respect to the same loss. This means that a social insurer that paid benefits to the victim can be subrogated to the right of claim that the victim has against the relevant CALI insurer or to the party responsible up to the amount of benefit paid. Thus, the amount the victim is entitled to claim against the CALI insurer will be reduced to that extent.

#### **5. CALI dispute settlement scheme**

Under the amended Law, which was enforced in April 2002, the CALI dispute settlement scheme was newly introduced in order to facilitate fair and appropriate settlement of claims. In cases where a victim of a traffic accident or the insured contests the insurer's settlement of claims, he/she may apply for mediation through the Dispute Settlement Organization for Compulsory Automobile Liability Insurance Claims, a corporation established in the public interest and designated by the Minister of Land, Infrastructure and Transport and the Prime Minister.

## *Chapter 4. Government's Automobile Liability Compensation Business*

When a person is killed or injured in an accident caused by an uninsured, unidentified<sup>\*1</sup> or stolen<sup>\*2</sup> automobile, the victim can receive compensation under the Government's Automobile Liability Compensation Business (Art. 71 and Art. 72 of the Law).

The items of indemnity provided under the Government's Automobile Liability Compensation Business are basically identical to those under CALI. Further, if the victim is entitled to any benefit from social security or public compensation schemes such as health insurance or workers compensation insurance under the provisions of the Law and the Enforcement Ordinance, the amount of such benefit is to be deducted from the amount of compensation under this business (Art. 73 of the Law and Art. 21 of the Enforcement Ordinance).

The business is financed by a levy that is charged on the premiums of CALI and CALMA at a proportion specified by the Government.

The business comes under the responsibility of the Minister of Land, Infrastructure and Transport (Art. 83 of the Law). However, the Government has entrusted the implementation of this business to CALI and CALMA carriers (Art. 77 of the Law and Art. 22 of the Enforcement Ordinance). The victim may file a claim with any of those carriers. If a claim is made against CALI, NLIRO investigates the claim. After the Government has paid the indemnity under the business, it can be subrogated to the right of the victim to seek compensation from the liable party for damage up to the amount it paid (Art. 76 of the Law).

\*1 Such as in a "hit and run" case.

\*2 In the case a stolen automobile covered by CALI caused an accident and the insured was not negligent in the maintenance of the automobile, while the thief was found to be solely liable for the damages.

## *Chapter 5. CALI Council*

As CALI is a compulsory insurance system of a highly public nature with the purpose of providing a remedy to the victims of traffic accidents, a higher degree of appropriate management is required compared to the management of other insurance businesses. To ensure democratic management and fair and reasonable decisions on administrative acts regarding the policy conditions as well as insurance premium rates, the CALI Council\* has been established within the FSA (Art. 31 of the Law).

The Commissioner of the Financial Services Agency must refer to the CALI Council, in advance, regarding CALI related matters, such as the issuance of operating licenses, approval of the policy conditions, examination of the premium rates and orders to revise them (Art. 33 of the Law).

- \* The CALI Council is composed of thirteen members, comprising seven persons of learning and experience (which usually means professors or the like who are in a neutral position), three persons with expertise and experience in the road transportation and traffic accidents and three persons with expertise and experience in the insurance business (Article 1 and 2 of CALI Council Ordinance).