

CFA/CEJ Press Conference April 13, 2020: Table 5

How a Reduction in Driving and Accidents Affects Auto Insurance Premium

	Base Case Example	If Claims Drop by 33%	If Claims Drop by 50%	If Claims Drop by 67%
Claims and Claim Settlement Expense	\$195.00	\$130.65	\$97.50	\$64.35
Variable Expenses -- Commissions, Profit	\$52.50	\$38.85	\$31.82	\$24.79
Fixed Expenses -- Administrative	\$52.50	\$52.50	\$52.50	\$52.50
Premium	\$300.00	\$222.00	\$181.82	\$141.64
Shelter-in-Place Payment		26.0%	39.4%	52.8%

Notes:

Claim and Claim Settlement Expenses include amounts paid plus reserves for claims received but not yet paid plus claim settlement expenses, like adjusting and legal

Variable Expenses are expenses that vary with the premium. Examples include agent commissions at, say, 12% of premium and profit at, say, 5%, of premium

Fixed Expenses are expenses that exist in the **short term** regardless of claims or premium. Examples include building and administrative costs.

**Assume that current expenses are half variable and half fixed and
and that current rates target a 65% ratio of claims to premium**

Premium = (Claims and Claim Settlement Expense + Fixed Expense) / (1 - Variable Expense)