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### FIRE INSURANCE SCHEDULE RATING.

The business of fire insurance is a commercial enterprise. It is conducted in order to supply a given article, which is, indemnity in case of loss by fire, in exchange for payment of fixed prices that are styled rates. As conducting this business involves risks to the capital invested and expenses the rates have to be fixed high enough, first, to provide for all obligations and risks incurred; second, to pay all running expenses, and third, to provide a fair return of profit on the capital invested. Unless each and all of these conditions are covered the business is not profitable and is likely to be discontinued.

Fire insurance differs in one essential from other mercantile business. A merchant or manufacturer knows exactly what the goods he sells have cost. He can form a fair estimate of what his expenses are or will be in a given time; he can judge also what he will lose by bad debts, by sacrifices to get rid of unsaleable stock. A bank and a loan company each can estimate closely what the results will be of their transactions. Every class of business has its own standard percentage of probable profit and loss.

In fire insurance, however, the loss, on any given risk or in any given period, cannot possibly be even estimated with any degree of certainty; it is literally an "unknown quantity" until a fire occurs that reveals the loss, and until the period is over when the losses can be made up from the record. Uncertainty is the ever present feature in fire insurance; whether a year's business has yielded a profit or inflicted a loss cannot be known until the last stroke of the bell announcing the year's demise.

Those who conduct a business so conditioned have, of course, a record of experiences relating to different classes of properties insured, which is some guide as to the risk they involve. But absolutely individual risks are rare, for the great bulk of properties insured are in cities and towns where a building that, of itself, is a model of safety, may be a fine example of the peril of bad company by being exposed to the risk of a very dangerous neighbour.

Another feature of fire insurance differs materially from ordinary mercantile business. The merchant sells at a given price what he has in stock or contracts to deliver goods he can procure; the market value of the articles sold are known. In fire insurance a sale is made for cash of an article to deliver which may cost the underwriter an enormous sum in excess of what was anticipated and calculated upon; a conflagration may sweep away in a day all his receipts of the year and of several previous years. It is as though a merchant by one bad debt lost, not merely his profits, but all his receipts from other customers for a length of time.

Manifestly, such conditions necessitate the closest supervision of risks, the utmost possible care in their classification and selection, and the application of the most expert knowledge and widest experience in so fixing rates as for them to be proportioned, to the utmost possible extent to the risk assumed, that is, for the price of the indemnity to be provided to bear a relation to the possible cost of such indemnity. What is known as "Schedule Rating" is a system for discriminating between risks, that is, "the fixing of a basis rate adequate to the hazards of a standard structure of each class, and adding thereto for any deficiencies that may present themselves in the inspection of risks. In this case each risk stands upon its own merit and is rated as it approximates to or departs from the standard of its class. As deficiencies are charged for in making up the rate, so credit is given when such deficiency is removed until the basis rate is reached."

The equity of this system is manifest, and it has this advantage, that the insured, the property owner, can reduce the rate of his insurance by bringing his risk up to the higher standard. Hence a common