

UNIFORM CLASSIFICATION OF FIRE RISKS.

An Observer's Suggestions—A Simple Form of Classification as a Beginning—Seven General Classes.

This important matter—the practical and real net cash results, as to profit or loss, derived from underwriting upon the different classes of hazards—has always attracted attention; but more particularly now that insurance departments of different states have taken up the subject with a view to uniformity, writes Observer in the New York Spectator. Out of all the several discussions which have taken place there has developed a rather peculiar condition. Most companies classify their business to a greater or less extent. In fact, the list ranges from something like fifty to several hundred classifications—all applying to the same aggregation of risks.

A curious feature in this connection is that the insurance department of New York, in its tentative plan for statistical information, submitted to companies in May last, quotes a list of twenty-seven classifications, while the state of Texas, in the recently published experience table for the year ending June 30, 1912, presents seventy-five divisions.

SIMPLIFIED CLASSIFICATION.

Yet out of all this difference of opinion and experience it may be possible to formulate a simple and short form of classification which will not entail unreasonable hardship or expense upon companies, and at the same time provide a beginning—a starter—for all companies in conformity with state suggestions or requirements. This the writer thinks is possible, if not probable.

As in the case of the standard policy, it is possible to submit a form of classification which will be just as acceptable to the insurance departments as was that document many years ago. The New York department would have made, at that time, a standard policy for New York State if the companies had not gotten together and prepared one in self-defence. Why not the same procedure now?

Trouble as to the proposal for state supervision of classification lies in the enormous amount of work for companies to comply with state requirements and the disturbance of their individual systems and methods. Therefore the use of a simplified form of classification would appear to be at the start a better way of handling this complex subject.

Is it not fair, in fact reasonable, to suppose or expect if all or most of the companies ask or demand the same rates because of the same (so-called) experience or unity of belief as to tariff organization and regulations, that the universal classification of risks should be just as feasible and practicable as the Universal Mercantile Schedule? And this schedule has been in successful operation for many years in the metropolitan district.

Uniformity of rates should be governed by uniformity of experience, and this can only be secured by a uniform system of classification.

But, again, this principle of uniformity in statistical information may be combated by the argument that there are companies of \$200,000 capital and others of several millions of strength. Therefore, and for that very reason, how is it possible to make uniform rates from united experience or classification results for all grades of companies? And yet this is exactly what is done to-day all over the country where tariff or board rates, rules or regulations, are maintained for all companies—small or large—without regard to united experience.

PROGRESS AND PAST EXPERIENCE.

By reason of the wonderful progress—almost revolutionary—as to mercantile and manufacturing life, which has been working and developing during the past five years, such as difference in insurable values, brought about by changed locations involving rate variations, besides altered methods of conducting business, there is reason to believe that these conditions, so different from those in vogue heretofore, have brought about many changed views as to individual classification. Some prominent underwriters have indicated that this very fact precludes the possibility of an extended and elaborate classification list.

Nevertheless it does not appear that there should be an abandonment of results obtained from long experience, training and education in the business. This reasoning is sound fundamentally, and it does not seem reasonable to conceive an opinion at variance therewith. As to classification of risks, for the purpose of arriving at the proper charges to make on each class of hazard, the author of this article has, for several years, had very decided views.

Rome was not built in a day; neither can a classification list that will suit all companies be constructed immediately. It is the belief of the writer that this can be accomplished only by gradual stages. Eventually universal classification must come, but not suddenly nor abruptly. Therefore, merely as a suggestion, the following simple form of classification is submitted, which will not collide with the established and adopted lists of each individual office. It will be noted that the subjoined list includes but seven divisions, and certainly such a meagre array should not disturb the voluminous, and, in some cases, ponderous classification lists maintained by several companies.

The object of this article is to submit a simple form of classification which will formulate a basis—that is all—simply a beginning. From this a more extended and elaborate list can evolve and be developed as time, circumstances or experience will warrant or demand.

SUGGESTED CLASSIFICATION.

Suppose such a classification of risks as the following, embracing the entire field of fire underwriting, was tried for two, three or even five years, including records of premiums received and losses and loss expenses with incidental legal outlays paid during that period; would it not be a step forward—an advance in the direction of what is bound to come and what is sought after?

The proposed column headings are as follows:

Constructien Frame or Brick and Frame		Construction, Brick, Superior or Fireproof		Blanket Form	
Building, Use and occupancy Rent or Lease		Contents		Premiums	Losses and Adjust- ment and Legal Expenses
Premiums	Losses and Adjust- ment and Legal Expenses	Premiums	Losses and Adjust- ment and Legal Expenses		

The seven general classes, with their subdivisions, are named below:

RISKS.

Class A.—Dwellings—not more than two families; apartment houses or flats—no stores; apartment houses or flats—with stores (see class B.); stables—private; hotels—apartment or transient; churches, schools, colleges, convents, club houses and public buildings; office buildings—chief occupancy. Totals reported for class A.