

OFFICIAL ORGAN OF THE INSURANCE FEDERATION OF BRITISH COLUMBIA

BASIS AND PRACTICE OF SCHEDULE RATING.

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or deductions, and you would have to add 5 per cent or 2 per cent or 10 per cent to the sum of various items that made up the rate, or you would have to deduct 10 per cent. or two per cent. or 5 per cent. from it and the result was if you discussed with an assured how his rate was made up — and an insured always wants to know that — and you would explain it to him and he would say “I am charged 15 cents for an open stairway—that is costing me \$150 a year—I can close that for \$50.” You will say “All right, close that right away and you will get a reduction.” Instead however of the assured getting \$150, this 15 cents reduction for the open stairway, there were percentages to be deducted for certain conditions and perhaps he would only get \$50 instead of \$150, and you could not explain that it wasn't a clever trick and sharp practice. Then, too, the difficulty of applying it. I remember a remark made by the manager of a rating bureau in Columbus, Ohio, — he said that he had a staff of clerks for the sole purpose of figuring out these alterations. Every time there was a little alteration in a risk, he had to hand it over to an arithmetical expert to figure the percentage additions and deductions. The result of that trip was I came back with my mind made up that we required a schedule which would not require expert men to apply it, one that would be comparatively easy to explain to the public and also that our agents, managers and inspectors could quickly become familiar with. It was necessary to formulate a schedule that would meet the varying conditions and so we formed the Mercantile Schedule. It starts with a basic rate for each town so many cents on the dollar, which is the rate for a standard brick building unoccupied and unexposed, and without special interior protection — that is to say — a three story brick building with first class roof, heated with hot water, without vertical openings unprotected, the area not exceeding 25 feet by 100 feet, and without exposure, that is no building alongside or with independent walls parapeted 2 feet above the roof on each side, walls of standard thickness, 12 inches for the top storey, 16 inches for the next storey, and increasing four inches to the ground floor and with non-hazardous occupancy. That risk would rate at the basic rate that is in a town that is specified at 40 cents, it would rate at 40 cents. Then to that rate would be added extras for all the varying features of deficiencies. For instances, if finished in wood instead of plaster, if heated by stoves or by a furnace instead of hot water, if it is lighted with kerosene lamps, or occupied by a hazardous stock or if a hazardous manufactory is carried on there, if exposed, or if it has wooden cornice or mansard roof — all such varying things are considered. Most men think his own risk is better than Tom Jones' across the street but while he sees the good features he shuts his eyes to the defects. The purpose of the schedule is to take into consideration the details of construction and occupation, and fix a moderate charge for each feature, and when these are added up the result is the rate. Then in the schedule we allow for reductions if there be conditions better than the average such as if the building be only one or two stories a further reduction if there is no basement, and a further reduction if it has specially thick or double floors; another reduction if there are appliances on each floor to extinguish an incipient fire — if the stand pipe is carried up through the roof and a hose provided on the roof so that the building can be protected in case of fire in an adjoining building, there is another reduction.

There was a great deal of discussion among our own members when this schedule was proposed, and I can assure you that every individual item in the schedule was discussed at length. We tested the first schedule for a year by actual application and then revised and changed

it. When you begin to prepare a schedule you will say there is a building that has a shingle roof — that is worth at least 15 cents, and wooden ceilings, they are worth 10 cents, and there is a stove, 25 cents on for that, and so on. The rates soar higher than an aeroplane, and you have to revise the schedule by actual test of the various items. When the reports were read on the schedule some said it would drive the business off the Company's books because the men whose rate was reduced would stay with us. While those whose rate was increased would go to the non-tariffs, and it would mean ruination, etc., and it had to stand the fire of fierce criticism.

So much for the ordinary schedule; that is the mercantile schedule we first adopted, which was for the ordinary joist constructed building. Fifteen years ago there were not many fire proof buildings and they were only commencing to construct mill construction buildings for warehouses. We found that men were putting up new buildings, new warehouses, and decided to build substantially but that as our system of rating did not quite fit the mill constructed buildings, we prepared a new schedule, and when we had prepared it one of the greatest difficulties was how to fix the rate on the risks which were not quite standard, and how we were going to deal with them in the way of co-insurance. After a great deal of discussion and testing, we hit upon the plan of formulating a schedule basing the rate for mill construction buildings on the same rate as the ordinary risk and charging for deficiencies. Then in the application of the co-insurance allowance, instead of it being 20 per cent. off the rate of a brick building and 15 per cent. off a frame building, we provided that if the mill construction building is of standard construction, that is to say, if the floors are completely cut off from one another, if there is an absence of combustible trim or finish in the building, and it is properly fitted with stairs and elevators in an outside brick tower so that a fire on one floor would burn a long time before it got to another floor, we would allow 55 per cent off the schedule rate for co-insurance. On the other hand, we found a good many mill construction buildings which were only so-called mill construction buildings.

They were in fact very much in the position of a man who will buy himself a heavy overcoat and gauntlets, and warm underclothing, and put them all on and go out on the wintry street in his barefeet. A good many people build mill construction buildings on that system. They have heavy walls and double floors, and then they will put a well hole in the centre or construct an open stairway or a chute and expect you to give them a low rate. They have merely built a good stove and the contents of such a building will be burned more thoroughly than in the ordinary joisted building. The latter will fall before it is half burned, and you may pick out \$10,000 of salvage from the cellar, but the other will stand and everything in it will be consumed. We therefore provided that as the risk departs from the standard we reduce the amount allowed for co-insurance, so that if there is a 10 cent deficiency there will be only 50 per cent. off, and if the deficiencies require a charge up from 16 to 25, it makes 75 per cent. off. And so on, until when the charges for deficiency amount to 55 cents, the risk is rated as an ordinary building. This has worked out very satisfactorily. I want to impress upon you, however, that where the value is great it is most important to see that the good construction and fire preventive appliances which have been factors in the rate be maintained and it is necessary to inspect these risks at least twice a year. You cannot rely on an inspection every year or two, it is necessary the same as in sprinklered risks, that they should be inspected twice a year.

Fire proof buildings are rated practically on the same schedule with the same idea of the necessity of reducing