

### SCHEDULE-RATING—ITS RATIONALE AND ADVANTAGES.

One of the benefits resulting from the establishment of insurance institutes and clubs has been, and while they remain in operation will continue to be, the publication of papers on the various phases of insurance business which were prepared by officials possessed of expert knowledge.

The problem of the underwriter is, how to fix upon such rates for fire insurance as are proportionate to the risk. By "proportionate" is meant such a charge as will provide a fund adequate (1) to meet the claims for losses, both ordinary and exceptional, such as those caused by a conflagration; (2), to provide an income sufficient to pay all current expenses; (3), to secure a sufficiency over and above loss claims and expenses to yield a fair return upon the capital invested in the business.

It is so obvious as to be axiomatic, that the hazards of the fire business vary so widely as to render a common rate based on the above conditions as unjust and illogical as it would be for a dry-goods merchant to charge a common price per yard for his goods regardless of their several qualities.

On the other hand there is a grave, practical difficulty in the way of varying the rate in every case strictly according to the estimated risk. The infinite varieties of risks render some generalization of them, some system of grouping risks into classes a necessity to the underwriter.

We are favoured by Mr. Charles F. Simonson, Superintendent of Surveys, Chicago, with a copy of his paper on "The Advantages of Schedule Rating," read before the Fire Insurance Club, Chicago, on 22nd December, 1903.

Mr. Simonson points out how inconsistent have been the rates for some classes of risks for which "no good reason could be given when the class and situation were identical, the result being that, the rates could not be justified or defended." The demand for readjustment became imperative, on which he remarks:

This led us to frame schedules not only to meet this demand, but to discriminate where discrimination was necessary. To furnish a guide to the inspector and a reasonable defence for every action and decision, and the results have been immediate and encouraging beyond our fondest hopes. In order to do this, a practical knowledge of the hazards of each separate class was necessary. Uniform deficiency charges were used wherever possible, arranged according to the hazard. Each charge was studied in its relation to every other charge, to the degree of hazard involved and the effect to be produced by the schedule as a whole. This was accomplished by first obtaining a basis rate from an application of from 50 to 100 or more risks of each class in the field. Our guide was the combined experience tables of the companies, which gave us not only a knowledge of prevailing rates, but of the increase necessary on unprofitable classes to produce a five per cent. underwriting profit.

In regard to the results of this work, the author says they are:

"A schedule built and arranged according to the hazard and needs of each separate business—a schedule which creates uniformity in charges and credits for deficiencies and improvements that must meet the long-felt want for a discriminating tariff which shall be uniformly applied to each class according to its hazard, construction and fire protection—a schedule which has never heretofore been formulated."

A number of illustrations are given in order to show in what way the variations in rates were adapted to the variations in risks.

The charges for deficiencies, should mark the difference between a standard risk and one that is removed as far as possible from that standard. By rating all parts of a plant under the one schedule, the uncertainty which formerly existed as to which tariff to apply to auxiliary buildings is removed, and schedule application is made uniform throughout the field. Again, by having a different rate on each building or division, with a separate occupancy or degree of hazard, we secure "specific" rating and encourage the use of specific forms, which should always be used, unless co-insurance is guaranteed."

The following extract is given from the letter of a leading manufacturer, to show the benefit of the system of schedule-rating:

The use of the schedules as we understand them by our experience is simply this: "If you have improvements in your plant for protection against loss by fire, the schedules make specific allowances for them; if you have not these improvements, but will make them, you will be given proper credit; if your factory is poorly equipped and the assured "will" not make the improvements required by the schedules, they will be compelled to pay the rate set apart for poorly-equipped plants, or do without insurance in the first-class companies."

Testimony is given from agents and inspectors which show that, in their judgment, the schedule system "will produce better conditions, reduce losses, improve business."

The following passages in the paper before us are commended to the consideration of all policyholders:

"To those who 'will not' understand all rates are arbitrary, but to the discerning public there is nothing arbitrary about a tariff that gives the assured the opportunity to make his own rate according to the situation. We, the fire insurance companies, do not desire high rates, but reduced losses through improved business. It is well known that the lowest rated class produces the most profit, showing that, with reduced loss ratio rates naturally seek the lower levels caused by competition of those seeking the most profitable classes. High rates cannot maintain on a class that is profitable for any length of time, and the new tariffs do away with antagonism heretofore existing, and bring the assured and underwriter together in a combined endeavour to reduce the hazard and to limit the loss."