

## CLASSIFICATION IN FIRE INSURANCE.

## PART III.

We continue this subject from page 264 of the November issue of *INSURANCE SOCIETY*.

The present chaotic condition of fire insurance rates is an evidence, if one were needed, that heretofore no practical uniform system of classifying the business of the companies, by which the value of the hazard can be properly, or even approximately, measured, has been generally adopted. To be sure, some few of the more practical offices have systems of classification more or less extensive; but the want of harmony among even these few, as to the basis on which their plans are founded, make them almost valueless for the purposes intended, because of the various experiences of the several offices, and the different methods of recording them, where only an uniform and homogenous system can be of any practical service in elucidating the vexed question of the actual cost of insurance, and where the actual measure of internal hazards, as indicated by the various classes or kinds of losses, inherent, external, fraudulent or otherwise, furnishes the basis of the rates to be affixed, to make them adequate to the hazards assumed; and this measure can only be found, approximately, if not exactly, by a thorough system of classification which shall embrace not only a plan for the registration of the risks themselves but also of the various losses among them, with their causes and costs, as they may occur.

As has already been said, no system of classification can be made to embrace every class of hazard in detail, without rendering such classification more cumbersome in bulk than valuable in facts. Nor is this minuteness of detail needful for the practical purposes of the business. A few of the more prominent mercantile and manufacturing hazards may be made the subjects of individual classification, while the remainder can be grouped into classes with reference, as nearly as may be, to the greater or less similarity of hazard as to a common inflammability and combustibility, thus presenting, at a minimum cost of time and labor, a system of practical classification within the reach of every company disposed to avail itself of its present opportunities.

From the aggregated results of such a classification of hazards written and losses incurred thereon, the cost of each class can, under the operation of average, be measurably approximated, sufficiently so at least to be a valuable and suggestive aid to the formation of a fair judgment as to the value, insurance-wise, of any classes of business that may chance to be offered; and classification can go no further than to aid and assist judgment in such cases.

The principle which underlies insurance in all of its branches is that, given sufficient statistics, the result of recorded experience of each class of risks upon which to form a reliable ratio of average, the affixing of a premium rate adequate to cover the risk assumed, is a mere matter of commercial computation. There should be no more difficulty in thus fixing rates for the most hazardous than for the least hazardous risk, any difference in the hazard

being compensated for by a proportionate increase in the premium rate. To properly apply the law of average, however, we must first obtain the statistics,—the larger and more comprehensive they may be, the broader the average, and, consequently, the more closely will the ratio approximate the true results to be established.

Nevertheless, while, as a matter of theory and of general practice, the doctrine of average admits of definite statements in numbers, yet, when applied to fire underwriting statistics it can, of necessity, only be expressed in the most general terms; hence it seldom occurs that the results desired can be so nearly approximated in any case as to dispense with the exercise of judgment in its application, and more must not be expected of it than its ordinary application is intended to supply as an auxiliary to experience seconded by judgment and intelligence competent to estimate and apply the information thus furnished.

Another point to be noticed and remembered, is that, as knowledge and improvements generally increase, and what might not inappropriately be termed the "inner history" of many of the extra and specially hazardous classes of the business, becomes better known and understood, the records of the past, under the influence of such advancement, will lose some of their pristine values, in consequence of improved methods of manufacture and modes of manipulations. This will only be an additional incentive to maintain the system of classification from year to year, so that recorded statistics shall keep pace with the onward progress in the customary subjects of insurance.

The subject of fire losses among the different classes, and their causes, is secondary only to that of the premiums received in ascertaining the cost of insurance; they should therefore be classified upon the same general system as are the premiums, with a view to show just why and under what especial conditions the several classes of risks do burn; whereby fires from hazards inherent to each class, and for which each is duly chargeable, may be distinguished and separated from simply accidental causes to which any and all classes of risks may be subject, and which are not necessarily entirely imputable as losses to such classes. To do this effectually, the several causes, such as inherent, direct or accidental, fraudulent, remote or adjoining fires, and unknown, should be severally classified, with their several amounts of insurances and the amounts of losses thereon; and these causes and their amounts duly aggregated, when found, and applied to their several classes, in contradistinction to the several amounts of premiums received thereon, and this continued for a series of years, will present a "fire history" of each class registered that cannot fail to be invaluable as indicating what risks may be desirable, money-wise, and what undesirable for the underwriter. Such a classification of losses will also decide, as far as figures can decide, the much-mooted questions of losses arising from over-insurance, and the proportions of fraudulent to honest losses, which are now but matters of opinion and guessing.

The matter of business expenses, loading, etc., which forms so great a factor in the life branch statistics, has no necessary application to the classifying of fire hazards and losses. It comes in, as a matter of course, in the making up of the yearly results, from which the average rate of expenses can be deducted; and when the profits—or balances