

Contents rates or loss costs - what are they and how are they determined?

Two fire rates or loss costs are normally computed for a property:

1. Dollar and cents rate or loss cost per \$100.00 of insurance coverage on the BUILDING.
2. Dollar and cents rate or loss cost per \$100.00 of insurance coverage on the CONTENTS.

You will find that the contents rates or loss costs are normally higher than the building rates or loss costs. This increased rate or loss cost is due to the fact that contents are normally more readily damaged by fire, smoke, and water than the building. This measure of damageability of contents is called "Susceptibility" which, in turn, results in a susceptibility charge. This charge varies based upon the construction class, the combustibility class of the building, the protection class, and the susceptibility class.

Other bulletins¹ have discussed construction class and protection class. Therefore, this bulletin will concentrate on combustibility class and susceptibility class.

Both combustibility class and susceptibility class relate to occupancy and are necessary to classify in order to compute contents rates or loss costs. Combustibility classifications measure the effect of combustibility of contents on the building structure.

There are five general categories of combustibility which are as follows:

- C-1 Noncombustible (example - clay tile manufacturer).
- C-2 Limited Combustibility (example – offices).
- C-3 Combustible (example - hardware store).
- C-4 Free Burning (example - cotton bales).
- C-5 Rapid Burning or Flash Burning (example - match factory).

Susceptibility classifications measure the damage to merchandise or materials either from the direct or resultant effects of fire, smoke and water are as follows:

- S-1 Minimal Damage (example - marble).
- S-2 Slight Damage (example - sheet metal).
- S-3 Moderate Damage (example – household appliances).
- S-4 Heavy Damage (example - books).
- S-5 Extreme Loss (example - flowers).

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As was described in Insurance Bulletin No. 4², contents rates or loss costs are computed after the building rate or loss cost has been figured. Building conversion factors and contents conversion factors are two of the factors that vary from state to state and are part of the adjustments used in stabilizing rates or loss costs within the individual states, even though the rating method has changed. Those factors vary based upon the occupancy code, construction class and the protection class. The building conversion factor is used to produce the contents base. The contents conversion factor is a multiplying factor on the susceptibility charge. Those two are added to produce the contents rate or loss cost.

The contents rates or loss costs are never less than the building rates or loss costs and are almost always higher. How high depends a great deal on the construction class of the building. In fire resistive construction, the contents would normally suffer much more severe damage than the building. On the other hand, in a frame building, one could expect a total loss from a major fire and, therefore, the contents rates or loss costs will be much closer to the building rates or loss costs.

Whether your customer will be the building owner and occupant, or just the occupant, the subject of contents fire insurance rates or loss costs will be of real interest to him. While you cannot directly affect the contents rate or loss cost, all of the factors which affect the building rate or loss cost will be reflected in the contents rate or loss cost.

Since the insurable value of your customer's contents will, in some cases, be appreciably greater than the insurable value of the building, it becomes increasingly important to understand how building rates or loss costs are developed so that true building rate or loss cost comparisons (and thereby contents rate or loss cost comparisons) are made. It is important to be familiar with such rate or loss cost aspects as:

1. Exposure.
2. Exterior wall construction.
3. Column protection.
4. Automatic sprinkler protection.
5. Flamespread of insulation and/or interior finish.
6. Occupancy features.
7. Public Protection Classifications.

A complete treatment of these subjects can be found in your MBMA "INSURANCE FACTS" booklet and other subjects in this series of insurance bulletins.

¹Insurance Bulletin No. 5 - What effect does exterior wall construction or column protection have on insurance rates or loss costs? and Insurance Bulletin No. 10 - What does public protection class mean in a rate or loss cost?

²Insurance Bulletin No. 4 - Insurance Services Office Commercial Property Evaluation Methods.

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