

What effect does occupancy have on rate or loss cost?

Fire Insurance rates or loss costs are really predicated on two things - the building construction and occupancy. On any given building site, factors such as public protection grading (which includes the fire department classification) and exposure conditions would, in most instances, have already been determined. In order to be able to intelligently discuss potential fire insurance rate or loss cost levels and recommend alternate methods of protection for a particular building, we must be sure all factors are fairly compared, including occupancy. Thus, we will be able to compare "our building" insurance costs with "other construction" insurance costs.

There are two basic types of occupancies:

1. Non-Manufacturing
2. Manufacturing

Within each group, the Specific Commercial Property Evaluation Schedule lists individual occupancies with their basic occupancy charge, combustibility classification and susceptibility classification.

How does occupancy affect rates? Two ways. One way is the application of the basic occupancy charges to the building grade. The more hazardous the occupancy, the greater the charges.

The other way is the rate for contents. The more contents can be damaged by fire, water and smoke, the greater the contents rate or loss cost. This is called Susceptibility.

Perhaps we can best illustrate this by an example using a metal building with all other factors equal with the exception of the occupancy.

Occupancy	Building Loss Cost	Contents Loss Cost
Hardware Store	1.08	1.400
Auto Sales and Service	0.42	0.695
Office Building	0.24	0.341
Bar Steel Warehouse	0.09	0.151

The important thing to keep in mind is that different occupancies will produce materially different rates or loss costs in the same building just as the same occupancy can produce materially different rates or loss costs in different buildings. Remember, the key is to be sure that all factors are as nearly the same as possible when making rate or loss cost comparisons.

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