

THE EFFECT OF OCCUPANCY ON RATES

Fire insurance rates are predicated on two things--building construction and occupancy. There are two types of occupancies:

1. Non-Manufacturing
2. Manufacturing or Special Hazards

Within each type, the rating schedule lists individual occupancies with their basic occupancy charge, combustibility classification and susceptibility classification.

Occupancy affects rates in 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 are for those hazards.

The other way is the rate for contents. The more that contents can be damaged by fire, water, and smoke, the greater the contents rate. This is called susceptibility.

Here is an example using a metal building with all factors equal with the exception of the occupancy.

Occupancy	Building Rate	Contents Rate
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 in the same building, just as the same occupancy can produce materially different rates in different buildings. In multiple occupancy buildings, such as strip malls, the net occupancy charge is the sum of the highest occupancy charge for the highest hazard occupant plus 15% of the next 10 highest occupancy charges (or the next five if the building is sprinklered).

Learn how building use and construction methods impact insurance rates.

Auxiliary buildings that are an integral part of a sprinklered or non-sprinklered occupancy and are on the same premises will normally be coded the same as the principal occupancy.

Hazards of Occupancy (H of O) may also apply and be added to the basic occupancy charge. Examples of H of O charges to the building rate include:

1. Building heating deficiencies
2. Electrical services deficiencies
3. Poor housekeeping

Other hazards specific to the occupant may include:

- Flammable liquids storage and use arrangement
- Chemical, acid or gas storage
- Cooking and food preparation arrangements
- Dust collection and refuse removal systems
- Heat-producing equipment (e.g. furnaces)

Be sure that all factors for metal building and other types of competing building construction are as nearly the same as possible when making rate comparisons.

Hazards to occupants include:

- Flammable liquids
- Chemical storage
- Food prep arrangements
- Dust collection
- Heat-producing equipment

