

A rating schedule is an advisory schedule of loss cost adjustments that assists insurers in the development of premiums.

THE EFFECT OF OCCUPANCY ON INSURANCE RATES¹

Commercial property insurance rates are initially predicated on the type of building construction and its occupancy. These are the first two elements of COPE (Construction, Occupancy, Protection and Exposure), the method insurers use for rating buildings and determining insurance premiums. Insurers have established six broad categories of occupancies:

Habitational	Office
Institutional	Service
Mercantile	Manufacturing/Industrial

A rating schedule is an advisory schedule of loss cost adjustments that assists insurers in the development of premiums. It lists the various occupancies, each of which is rated on its basic occupancy charge, a combustibility of contents classification and a susceptibility of contents classification. For pricing purposes, occupancies generally are classified according to the hazards they present.

The Specific Commercial Property Evaluation Schedule (SCOPE) is a program developed by ISO to specify the degree of hazard that an occupancy presents within a particular classification. For specifically rated risks, the degree of hazard data becomes part of the rating information that is supplied to the insurer (see **MBMA INSURANCE BULLETIN NO. 2 - “Commercial Property Insurance Rating Methods”** - and read the section titled **“Types of Property Rating: Class Rating and Specific Rating”** for a detailed explanation).

Insurers consider four factors when assessing the relative hazards of a particular occupancy:

- Basic occupancy.
- Combustibility of contents.
- Susceptibility of contents.
- Additional occupancy hazards.

Occupancy affects rates in several ways. One way is the application of the basic occupancy charge as applied to the building’s specific class of construction. The more hazardous the occupancy, the greater the

¹The Metal Building Manufacturers Association (MBMA) provides these insurance bulletins as informational guides. The information contained in these bulletins is general in nature and is not intended to serve as legal advice. Readers are advised to consult with their own counsel and/or insurance broker on matters specific to them.



charges are for those hazards. For instance, a private parking garage with no public parking and space for no more than five vehicles may have a charge of only 10% while a sawmill may have a charge as high as 750%.

Another way occupancy influences rates is based on the nature of the contents typical to the occupancy. The more likely that contents can be damaged by fire, water and smoke, the greater the contents rate. This is called susceptibility. Even contents that do not burn can sustain damage from smoke and water. A relatively small fire can produce a large financial loss if the contents of the building lose their value when contaminated by smoke.

Table 1 contains examples of Building and Contents Rates featuring a metal building system structure, all other factors being equal, with the exception of the occupancy.

Table 1: Building and Contents Rate Comparison by Occupancy Type for a Metal Building System Structure

Occupancy	Building Rate	Contents Rate
Hardware Store	0.067	0.067
Auto Sales & Service	0.037	0.050
Office Building	0.066	0.102
Distillery & Winery	0.039	0.054

The important thing to keep in mind is that different occupancies will produce different rates in the same building, just as the same occupancy can yield materially different rates in different buildings. In multiple-occupancy buildings, such as strip malls, the occupancy type of each tenant space will be considered by the insurer. Insurers will rate by the types of occupancies planned for the structure and will re-evaluate the rate as tenants change.

As an example, a clothing store in a strip mall presents a different fire hazard than one created by a neighboring unit that is a restaurant. A paint spray booth and an office area within a manufacturing facility also represent different levels of hazard. Proper separations with appropriate fire-rated wall assemblies can help mitigate the negative impact of higher hazard areas within a structure.

In addition to the insured's type of occupancy, the insurer considers how the insured manages those operations. Since each insured manages its exposures and hazards differently, each has its own "hazards of occupancy" that are considered in the underwriting process. The individual nature of these operation practices can yield different rates for businesses that, from the outside, may appear identical.

Insurers may determine that a property has additional occupancy hazards for which surcharges will apply. An example is the surcharge for cooking. Although the basic occupancy charge for a restaurant is





100%, an individual restaurant may have additional hazard charges. These may include charges for lack of clearance, grease accumulation and a nonstandard exhaust system. However, these charges may be partially offset by a credit for automatic fire-extinguishing protection.

Other examples of occupancy hazard charges to a building rate might include:

- Building heating deficiencies.
- Electrical equipment defects.
- Highly combustible materials.
- Heat-producing or utilizing devices.
- Poor housekeeping.

To obtain an equitable rate comparison among different types of construction, it is critical that all factors an insurer will consider and rate are the same when evaluating insurance costs for metal building system structures, as compared to other types of building construction.

ISO (formerly the Insurance Services Office) is an insurance advisory organization that provides statistical and actuarial information to insurance companies. ISO is a wholly-owned subsidiary of Verisk.

Insurance rates may be adjusted for strategic business reasons and are influenced by the business goals of the insurer, not solely by the characteristics of the building and the relevant risks. For example, insurers may set rates somewhat lower for regular customers or types of buildings that they have decided to pursue as a matter of business strategy. Any rates used herein are for comparison purposes only and should not be treated as actual rates that might apply within any rating jurisdiction.