

The contents rate is the premium required to cover damage to the contents of a building.

## THE EFFECT OF BUILDING CONTENTS ON INSURANCE RATES<sup>1</sup>

The contents of a building can vary considerably from one type of occupancy to another—from a state-of-the-art computer server farm, to a business office, to a clothing store. The contents rate is the premium required to cover damage to the contents of a building and is calculated as a percent per \$100 of coverage (insured value). Contents rates are always higher than or equal to the building insurance rate (also calculated as a percent per \$100 of coverage). This increase is because most structures are not totally consumed in a fire but the contents are easily damaged by fire, smoke and water. This is especially true given the increase in the presence of electronic equipment (computers, printers, cash registers, security devices, etc.). The measure of potential damage to the contents is termed susceptibility and results in a susceptibility charge.

The hazards reflected by the type of occupancy also provide insight into the importance of additional hazards that might be present. Poor housekeeping, for example, can increase risk in any occupancy; however, that hazard has less potential effect in an office building than in a sawmill. A high basic occupancy charge magnifies the effect of additional hazards. Occupancy charges are covered in **MBMA INSURANCE BULLETIN NO. 7 - “The Effect of Occupancy on Insurance Rates.”**

Both combustibility class and susceptibility class relate to occupancy and are necessary to compute contents rates. Combustibility classifications measure the effect of combustibility of contents on the building structure. ISO has established five categories of combustibility (Table 1).

**Table 1: Combustibility Classifications per ISO’s Specific Commercial Property Evaluation Schedule (SCOPEs)**

Class	Examples
C-1 Noncombustible	Clay tile manufacturer
C-2 Limited Combustibility	Offices, schools, apartments
C-3 Combustible	Supermarkets, hardware stores, pet stores
C-4 Free Burning	Furniture/cabinet makers, paper manufacturers, stables
C-5 Rapid Burning or Flash Burning	Mattress factory, feed mill, ammunition storage

<sup>1</sup>The 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.

Susceptibility classifications (Table 2) measure the damage to merchandise or materials from the direct or resultant effects of fire, smoke and water.

**Table 2: Susceptibility Classifications per ISO's Specific Commercial Property Evaluation Schedule (SCOPEs)**

Class	Examples
S-1 Minimal Damage	Marble
S-2 Slight Damage	Sheet metal
S-3 Moderate Damage	Household appliances
S-4 Heavy Damage	Clothing, furniture
S-5 Extreme Loss	Animals, flowers

ISO breaks susceptibility classes into five categories, but other insurance advisory organizations may use only three—Low, High or Average—for a particular class of occupancies. Contents rates are always computed after the building rate has been determined as they are correlated to the occupancy code, construction class and the protection class of the structure. A building that has a structural system that is highly susceptible to fire, such as wood, is more likely to have its building's rate value close to the contents rate value.

Another factor that affects the final premium is whether the property owner selects actual cash value or replacement cost. Actual cash value is the value of an item today (new cost minus depreciation), not the amount it would cost to replace it. Replacement cost provides enough coverage to fully replace the insured property if it is damaged or destroyed by a covered loss.

**Table 3: Example Building and Contents Rates by Occupancy Type for a Metal Building System (Noncombustible Construction) 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

Table 3 above illustrates the effect of susceptibility on the Contents Rate when using a metal building system as the example of the type of construction, all other factors being equal, with the exception of the occupancy.

In the Table 4 example shown below, a metal building system (noncombustible construction) structure was selected, but a different state and territory (location) was chosen. The contents rates in this office building example could be further broken down into Low, High or Average susceptibility depending on the actual contents. Note how the building rate differs from the office building example in Table 3. Location can make a tremendous impact on rates, in this case more than double; see **MBMA INSURANCE BULLETIN NO. 3 - "The Impact of Location on Insurance Rates"** for details.





**Table 4: Example of Different Contents Rates for the Same Construction (Metal Building System Structure) and Occupancy Type (Office)**

Occupancy	Building Rate	Contents Rate - Low	Contents Rate - High	Contents Rate - Average
Office Building	0.137	0.163	0.225	0.202

In fire-resistive construction, the contents normally suffer much more severe damage than the building. While the designer of the building cannot directly affect the contents rate, all of the COPE factors (Construction, Occupancy, Protection and Exposure), which affect the building rate, will also be reflected in the contents rate.

Since the insurable value of the contents will, in some cases, be substantially greater than the insurable value of the building structure, it is important to understand how building rates are developed. This is necessary to ensure that overall rate comparisons between building construction types (which includes contents rates) are made correctly.

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