

Understanding Commercial Property Rates

Insurance companies use a process called underwriting to evaluate the likelihood that a business will file a claim. The greater the likelihood of a claim, the higher the premium will be. If an insurance company determines that your business is at a high risk for a loss, it may decline to issue you a policy.

Fire risk is typically the primary factor that determines a business's commercial property rates. State-licensed fire inspectors contract with insurance companies to perform inspections as part of the underwriting process. Inspectors use a standard rating system and weigh five factors to determine a structure's fire rating. The five factors are:

- **Construction materials.** Buildings made of potentially combustible materials will have higher premiums, while those made of fire-resistant materials could earn a discount. Additions to an existing structure might negatively affect a fire rating, so it's a good idea to consult with your agent or insurance company before remodeling. Internal structural elements can also affect a fire rating. Using wood partitions, floors, and stairways in an otherwise fire-resistant building will likely nullify any rate reduction. Fire-resistant interior walls, floors, and doors can help maintain a good fire rating.
- **Location.** Buildings in cities or towns with good fire protection, as assessed by the Texas Commission on Fire Protection, typically cost less to insure than buildings outside a city where fire protection may be limited.
- **Occupancy.** A building's use also affects its fire rating. An office building will likely rate favorably. A restaurant or auto repair shop will likely rate less favorably. One relatively hazardous occupant will negatively affect the fire rating of an entire building. If your business is in a building with a more hazardous occupant, your premiums will be higher.
- **Fire protection measures.** Automatic sprinklers can reduce a building's fire rating by as much as 50 percent. Buildings with fire extinguishers and automatic alarms and those within 500 feet of a standard fire hydrant will generally have lower ratings.
- **Exposure.** Nearby hazards increase a building's fire risk. Proximity to external fire hazards, such as a lumberyard or oil storage tank, will affect a fire rating even more. Internal exposure risks might include cluttered buildings and grounds, heavy mechanical or electrical equipment, or on-site storage of volatile materials.