

DIVISION OF PAYROLL.

E. C. DEKAY.

It has been held by many underwriters that classifications and rates for workmen's compensation insurance should apply only to industries as a whole, and that each risk should be written at a single rate, representing as accurately as possible, the average cost of carrying the insurance for that particular industry. This system, while making for simplification in both underwriting and statistics, would be most inequitable, as nearly every individual risk is bound to have conditions surrounding its operations, which are not found in others of a generally similar character.

The separate underwriting of each individual operation in a given industry, is equally undesirable, inasmuch as an unrestricted application of such a system would not only destroy the value of the statistics resulting from the experience of these industries, but would produce an infinite number of divisions, whose individual values should normally be considered as negligible. Such a method would not tend to establish statistics of real value, but would only result in unlimited abuses and greatly increase the cost of underwriting.

In the old liability manual, arbitrary rules were made, and, where there were exceptions, these were treated separately. Something of this spirit still seems to prevail in the minds of those who were subjected to the old influences, and their considerations of classifications and rates are frequently colored by such memories.

We therefore have two extremes of opinion to bring into harmonious accord, if we are to create rules which will even partially insure accurate assignments of operations upon which the value of underwriting statistics must finally depend. Unless we can be reasonably sure as to what operations have been included in the experience reported under each manual classification, the compilation of loss ratios is bound to be more or less unsatisfactory.

The Massachusetts Commission to investigate practices and rates in insurance makes the following statement on p. 53 of their report dated April 22, 1915: "The great variety of the classifications of

industries of the Commonwealth, together with the imperfect understanding of the rules and regulations as to payroll divisions, makes it possible for the unscrupulous or ignorant underwriter to completely destroy the all-important effects of uniformity," and on p. 50 the Commission states, "Since pure premiums are constructed from payrolls, it is very essential that the payroll audits disclose the actual facts as to the exposed payroll during the year. It is very essential, likewise, that employers be assigned to proper classifications, and that payrolls be not split as to occupations, in violation of manual rules."

The fundamental principle of payroll division was recognized in New York state by the adoption of a standard form of policy which authorized the use of fourteen divisions of payroll, enumerated in the declarations, and respectively designated by the letters *A* to *O* inclusive.* The difficulties, however, arose out of the necessity for a further distribution of operations under subdivision *A*, describing the "general business operations upon the employer's premises," and it is with this feature of the situation that the differences of opinion as to payroll division are chiefly concerned.

In endeavoring to formulate rules for the regulation of payroll division, it is necessary to combine the qualities of both strength

* These divisions were as follows:

A. General business operations upon the employer's premises, including all operative management and superintendence and all ordinary repairs and upkeep of machinery and ordinary repairs to buildings, not included in Divisions *M* and *N*.

B. Employees engaged in the erection, installation, repair or demonstration of the employer's product elsewhere than upon the employer's premises herein defined.

C. Executive officers of corporations.

D. Clerical force—exclusively engaged in office duties.

E. Draughtsmen—office duties exclusively.

F. Outside salesmen, collectors and messengers—wherever engaged.

G. Drivers—wherever engaged.

H. Helpers and others engaged in connection with vehicles.

J. Chauffeurs—wherever engaged.

K. Metal stamping—give number of hand-fed machines.

L. Railroads—operation and maintenance.

M. Employees engaged in the repair, alteration and construction of buildings, structures or plants, except machinery.

N. Millwrights—erecting, repairing and removing machinery—not included in Division *A* above.

O. Blasting operations, including all employees connected therewith.

and flexibility. They must be rigid, and at the same time susceptible of such interpretation as will work justice to both the assured and the carrier.

The extremes which we must consider represent the classification by industries, on the one hand; and by individual occupations on the other. By using the industry as a base, and directing that any modification of its normal operations be subdivided under fixed rules, we should, in a great measure, eliminate the errors resulting from payroll divisions based on ignorance, or competitive expediency.

A very important criticism of various manual classifications has been made in regard to the inclusion within one classification of operations representing a combination of totally different hazards, such as "Brick Mfg.—including underground mining." Such classifications should be amended as speedily as possibly so as to provide for the underwriting of the unrelated hazards on a divided payroll basis.

In the first days of the operation of the New York Act, I thought that a restriction could be scientifically and equitably imposed, by limiting divisions of payroll, to subsidiary operations representing a fixed percentage of the total operating payroll, unless such subsidiary operation, even though it represented less than the minimum percentage, was in itself of sufficient volume to produce independent statistics.

To accomplish this object, the following rule was suggested:

"No division of payroll shall be allowed where the payroll of the subsidiary operation amounts to less than ten per cent. of the total payroll, exclusive of clerical; unless such subsidiary payroll amounts to \$2,500 or represents at least five employees."

Some of the underwriting experts, however, feel that this restriction would work a hardship to small employers, and that, where the conditions laid down in the proposed rules, are *all* existent, a division should be not only permitted, but *directed*.

To establish a uniform method of underwriting, the following rules are submitted, for consideration, with the belief that they represent a crystallization of the best ideas on this important question:

SUGGESTED RULES FOR PAYROLL DIVISION.

Definitions.

Not Available for Division of Payroll.—This term when used as a part of a manual classification, means that the classification so qualified shall not be used for writing business, unless such classification is in itself the governing classification.

Governing Classification.—The governing classification of a risk is defined as that classification which carries the largest amount of payroll, disregarding all items under subdivision *B* to *O*, inclusive, in the declarations.

Incidental Operations shall be taken to include all the operations which normally prevail in the business industry or employment represented by the governing classification, and are not separable under the rules for underwriting subsidiary operations.

Subsidiary Operations shall be taken to mean such operations of the assured as are properly described by existing manual classifications and which may or may not be incidental to the governing classification.

Separable.—In order that a subsidiary operation of an assured may be considered as separable, *all* of the following conditions shall obtain in connection therewith:

1. Separate payroll record.
2. Separate as to location, regardless of whether such separation of location be by buildings or portions thereof.
3. Separate as to exposure to operating hazards with no interchange of employment.

DIVISION OF PAYROLL REQUIRED.

1. Where the general business operations of the assured combine one or more subsidiary operations which conform to all three requirements of separability, such operations shall be underwritten on a divided payroll.

2. The manufacture of containers shall, wherever such operations are conducted in accordance with the above rules, be separately underwritten.

3. Stevedoring operations connected with the handling of the assured's materials or product, shall, under similar conditions, be separately underwritten.

NO DIVISION OF PAYROLL.

1. No division of payroll shall, under any circumstances, be allowed for a subsidiary operation whose payroll amounts to less than \$500 per annum, or represents less than one employee.