



EMPLOYER CLASSIFICATION STRUCTURE

1. Introduction

In the fall of 1999, the Workers' Compensation Board of British Columbia's Panel of Administrators approved a new employer classification structure. This paper discusses the reasons the Board developed the new classification system and describes various aspects of the new structure.

This document is one of several discussion papers that have been made available to interested parties during the process of redesigning WCB Assessment Department policies and business practices.

2. Background

This section addresses the following items:

- a) the importance of the classification system;
- b) how the new classification structure fits into the Board's Strategic Plan;
- c) why the Board decided to change its old classification structure;
- d) what authority the Board has to change the classification structure; and,
- e) the classification systems in other Canadian jurisdictions.

2.a. The Importance of the Classification System

The purpose of a classification system is to classify employers into groups to facilitate fair and equitable assessment rates. A classification system should ensure that the costs of compensation are distributed fairly among the industries responsible for those costs. It should also enable the Board to set rates that provide financial incentives for industries to engage in injury prevention and disability management.

In 1997, the Board's lowest assessment rate was \$0.16 per \$100 of payroll and its highest was \$17.50. From these figures, it is apparent that the classification of an individual firm can have a huge impact on the size of the firm's annual assessment.

The *Assessment Department Administrative Inventory*,¹ conducted by Dr. Allan Hunt in 1992, concluded that problems with the Board's classification structure stood out as deserving "special attention". During his research, he discovered "universal suspicion and

¹ Allan Hunt, *Workers' Compensation Board of British Columbia Assessment Department Administrative Inventory*, (British Columbia: W.E. Upjohn Institute for Employment Research, 1992).

distrust of the Assessment Department among the employers of British Columbia.”² His final report recommended a thorough review of the classification structure in order to enhance the credibility of the entire assessment system.

2.b. The Classification System in the Context of the Strategic Plan

In April of 1996, the Board published *Transforming the Workers’ Compensation Board of British Columbia: A Strategic Plan* which outlined a strategy for the future of the Board. One of the three main focal points of this strategy was to “review and revise the classification, assessment and Experience Rated Assessment systems”³ as part of an effort to improve employer service and equity. The Strategic Plan promised that the Board would begin a broad employer service project to deal with these issues.

The Employer Services Strategy (ESS) project is the Financial Services Division’s response to the Strategic Plan. Since 1996, the ESS project team has designed a variety of tools intended to improve the Board’s overall assessment function and, as a result, to enhance the Board’s ability to monitor and prevent industrial related injuries within British Columbia. These measures include the design of a new Employer Policy Holder System supported by sophisticated computer technology, an enhanced Rate Making methodology, and a new Experience Rating Plan.

The new classification structure complements and forms a foundation for these reforms. For example, the Board calculates and charges employers an assessment rate based on their classification category, the process of rate-making depends on classification. Partly for this reason, the October 1996 ESS *Phase 1 Project Report* described a new classification structure as the “core of the recommended Assessment Model.”⁴

2.c. Why Did the Board Change the Old Classification Structure?

The old classification system was out-of-date. It reflected an economic environment that was far less complex than it is today and it therefore spoke of industries that no longer exist, have undergone technological transformation, or have evolved into new businesses. Moreover, entirely new industries have developed in the thirty years since the old system was created.

Consequently, certain classification categories no longer made sense. For example, subclass 0620 included such diverse industries as the manufacturing of sugar and poultry processing. Historically, these two industries were considered sufficiently similar for the Board to have classified them together in the same subclass; however, over time, these two industries evolved separately and their classification together no longer made sense.

² Ibid., p. 58.

³ *A Strategic Plan*, p. 16.

⁴ *Employer Services Strategy Phase One Project Report*, (October 21,1996), p. 10.

Understandably, given the out-of-date nature of the old classification structure, many employers complained that they found it difficult to understand. They often argued that they were classified with industries with which they had little in common, and at the same time they were in different groups from their immediate peers or competitors. The 1992 *Assessment Department Administrative Inventory* found that most employers “definitely [were] not satisfied that the classifications [were] being made correctly.”⁵

Notably, many industries had changed and they no longer shared similar claims records and costs with the other industries in their subclass. As a result, a good deal of cross-subsidization was occurring within subclasses where high-risk industries with high injury costs were being subsidized by low risk industries with low injury costs. For example, in subclass 0620, the estimated claims cost in poultry processing was \$72 000 per 100 person years of employment, whereas in the manufacturing of sugar it was \$19 000.⁶ Subclass 0620’s assessment rate was \$2.87; however, the cost rate for poultry processing alone was \$5.10, whereas the cost rate for the rest of the subclass, with poultry processing removed, was \$2.19.⁷ From these figures it can be seen that a lower risk industry (the manufacturing of sugar) was subsidizing the claims costs of a higher risk industry (poultry processing).

Many employers had a claims history that was 500 to 1000 percent worse than the average for their subclass. When it occurred to this extreme, cross-subsidization created poor prevention incentives. Since the rates of employers who had poor claims histories relative to their subclass were artificially low, these employers had little financial incentive to reduce their claims frequency by providing safer work sites. Employers who were grouped with higher risk industries, and whose rates were therefore higher than they should have been, knew they could not reduce their rates through improved safety performance. Therefore, because many industries were mismatched within subclasses, the old classification system worked against the Board’s goal of enhancing workplace safety.

Furthermore, the old classification system had no review mechanism to rearrange subclasses or form new ones. It therefore lacked the flexibility necessary to cope with today’s rapidly changing economy. In most instances, a firm’s classification was based on outdated information, gathered when it first registered with the Board. This data was no longer an accurate description of the employer’s business operations.

Finally, the old classification structure was having a negative impact on the rate-making system. To accurately calculate rates, it is necessary to use data from the last 2057 short-term disability claims in a subclass. Under the old structure, there was no minimum size for a subclass). Consequently, some subclasses) were so small that in order to study 2057 short-term disability claims it was necessary to look at data from many years past. This system was unfair because some employers were paying rates based on the claims record of their industry from as much as forty-nine years ago, even if their workplace safety had

⁵ Hunt, *Assessment Department Administrative Inventory*, p. 26.

⁶ 1995 figures

⁷ 1995 figures

improved greatly in the intervening years. When an industry's historical safety performance outweighs its recent safety performance as the basis for its rates, the industry has few financial incentives to invest in prevention measures. Therefore, this situation was another way that the old classification structure undermined the Board's prevention objectives.

2.d. The Board's Authority to Change the Classification Structure

Section 37 of the *Workers' Compensation Act* provides the authority for the Board to develop and implement the new classification structure. Section 37 reads, in part, as follows:

- (2) The Board may do one or more of the following:
 - (a) create new classes in addition to those referred to in subsection (1);
 - (b) consolidate or rearrange any existing class;
 - (c) assign an employer, independent operator, or industry to one or more classes established by or under this section;
 - (d) withdraw from a class
 - (1) an employer, independent operator, or industry,
 - (2) a part of the class, or
 - (3) a subclass or a part of a subclass,and transfer it to another class, or form it into a separate class.

In light of Section 37, the Board can rearrange Classes and Sub-Classes when industry trends and demands dictate.

2.e. Classification Systems in Other Jurisdictions

As can be seen from the table in Appendix 1, most Canadian jurisdictions use classification categories that are very similar to British Columbia's new ones. Presently, all jurisdictions, with the exception of Quebec, use classification structures based on "business activity" or what products or services a firm produces. Quebec uses a classification structure based partially on occupation. Policy Number 30:10:00, reproduced in Appendix 2, explains the reasons behind the British Columbia Board's rejection of occupational classification.

British Columbia's new classification structure creates Rate Groups based on similarities between business activities and cost rates. The table in Appendix 1 indicates that seven jurisdictions establish their rate-setting category based on the same two criteria; the others, with the exception of Quebec, use one of these criteria. Another possible insurance model would be to set rates on the basis of cost experience (or individual underwriting). However, the British Columbia Board considered this model and rejected it because it was overly subjective, cumbersome, and costly to administer, without providing any obvious benefit to the Board or to the employer community.

Five Canadian classification systems are primarily based on Statistics Canada's Standard Industry Classification (SIC) system, which allows employers to be classified with greater consistency. The British Columbia Board's new classification structure is also partially based on the SIC system, as well as the North American Industry Classification System (NAICS). A foundation in these classification systems will allow the Board to benefit from the ability to make better cross-jurisdictional comparisons. However, after consultations with industry representatives, these systems have been modified to reflect the economic and industrial realities of British Columbia. In this way, the Board has developed new classification categories that meet its unique needs, while retaining useful elements from the other classification systems.

In a survey conducted by Nexus Actuarial Consultants in 1996, other Canadian jurisdictions identified the following factors as contributing greatly to the success of a classification system:

1. consistency in the classification of employers;
2. employer acceptance of the classification system;
3. ease of classification;
4. ongoing review of the classification system with a methodology for changing classification units and rate groups when necessary.⁸

The Board's new classification structure addresses these four critical success factors.

3. Discussion

This section addresses the following items:

- a) the objectives of a classification system;
- b) the terminology used for the new classification structure;
- c) a brief overview of the old classification structure;
- d) a more detailed look at the new classification structure;
- e) a discussion of the ways in which the new classification structure will be reviewed and revised; and,
- f) the affect of the new classification structure.

3.a. Objectives of a Classification System

The new classification structure is designed to meet the following principles:

- the facilitation and promotion of accident prevention, and the support of rehabilitation and return to work measures;
- the fair and equitable distribution of the costs of work-related injuries amongst employers;
- the grouping together of firms that have common characteristics and levels of risk, hence the system does not work unfairly amongst competitors;

⁸ Nexus Actuarial Consultants Ltd., *WCB BC Survey of Canadian Workers' Compensation Jurisdictions*, (August 8, 1996), p. 12.

- comprehensibility to stakeholders and to the public;
- a balance of individual accountability and modified collective liability;
- the formation of classification groups large enough to be financially and statistically credible and to reflect sound insurance principles and practices;
- the flexibility to accommodate changes in industry and competition; and,
- administrative efficiency.

3.b. Terminology

The *Workers Compensation Act* uses the terms “class” and “subclass” when describing the classification structure. The new classification system refers to classes and subclasses as sectors and rate groups respectively. This use of new terminology has assisted both internal and external stakeholders to differentiate between the old and the new classification structures. However, it is important that the language used in policy be consistent with the language of the *Act*. Therefore, amendments to policy refer both to sectors and rate groups as well as classes and subclasses.

3.c. The Old Classification Structure

3.c.i. Industries

Under the old classification structure, the smallest groupings of employers were labelled industries. The Board classified employers into 365 industries. Industries were intended to group employers with other employers who operated similar businesses. However, due to changes in business many employers were no longer classified in the proper industry.

3.c.ii. Subclasses

Industries were grouped into 71 subclasses. Rates were assessed annually at the subclass level. Each subclass should have been large enough to be accountable for all of its costs and to ensure stable assessment rates by spreading the impact of infrequent, high cost claims across many employers. However, under the old classification structure there was no minimum size for a subclass. Consequently, problems, described earlier, were caused by the existence of subclasses that were too small.

3.c.iii. Classes

Subclasses were grouped together into classes, which represented broad categories of economic activity. In the past, the Board did not make much use of classes for statistical or assessment purposes. The old system had 10 classes and 4 deposit accounts. (Deposit accounts are unique classes that pay for the cost of their own claims and are not part of the rate-making system.)

3.c.iv. The Aggregate

The largest classification category was the Aggregate, made up of all WCB registered employers in the province.

3.d. The New Classification Structure

The new classification system is based on the structure presented in Figure 1:

Figure 1: A Comparison of the Old and New Classification Structures

Old Classification Structure	New Classification Structure
Aggregate	Aggregate
Class	Sector
Subclass	Rate Group*
No equivalent	Subsector
Industry	Industry Group
No equivalent	Classification Unit

*Rate Groups do not form part of the classification “hierarchy”. They are not made up of Subsectors, but of Industry Groups. Industry Groups from different Subsectors may be placed together into the same Rate Group if they share similar cost rates.

3.d.i. Classification Units

The first category in the new classification structure is the Classification Unit. Classification Units have no equivalent in the old classification structure; they represent a further refinement of the old Industry classification into distinct business activities.

Employers are classified into Classification Units with other employers who produce similar products or provide comparable services. Other criteria used to establish a Classification Unit include similarity of processes, inputs, and equipment. Each Classification Unit is made up of a relatively homogenous group of employers who are considered by the Board to be peers and competitors in business. Approximately 600 Classification Units have been created under the new classification system.

The purpose of the classification category “Classification Unit” is to allow the Board to precisely define specific types of business and to collect payroll and claims information for each one. With this information, the Board is able to see which types of business have the greatest numbers of claims relative to payroll and should, therefore, be the focus of injury prevention activities. The precise definition of each Classification Unit also allows employers to verify that they are classified correctly and consistently with their peers and competitors.

To ensure that Classification Units accurately represent specific industrial activities, there is no minimum size for a Classification Unit. As a result, many Classification Units are too small for the Board to calculate credible statistical data about their claims history. The Board does not have enough data on recent claims to provide reliable estimates of future claims. Therefore, the calculation of statistics such as injury frequency and average cost

per claim can not be accurately done at the Classification Unit level. To overcome this problem, Classification Units are grouped into larger pools called Industry Groups.

3.d.ii. Industry Groups

The purpose of the classification category “Industry Group” is to combine Classification Units into larger groups that are big enough to allow statistics about their claims history to be calculated. Therefore, the definition of an Industry Group is “a collection of one or more Classification Units whose size meets or exceeds the minimum size for an Industry Group.” The minimum size for an Industry Group is a collection of Classification Units with at least:

- 1) 200 short term disability claims over the last five years, with a minimum of 25 claims in each of the last two years; or
- 2) \$40 million of annual assessable payroll in each of the last three years.

Minimum size criteria ensure that Industry Groups are large enough to be regarded as having some predictability for future claims experience. Therefore, these figures may periodically be reviewed and modified by the Board’s actuary to ensure that a balance between stable rates and flexible classifications is maintained.

According to the criteria, some Classification Units are large enough to stand on their own as Industry Groups. However, if a Classification Unit is too small, it is classified into an Industry Group with other Classification Units that produce similar products or services and where there is a reasonable consideration of similarities in cost rates.

An example of an Industry Group might be “Fruit Farms,” made up of the Classification Units “Berry Farms,” “Orchards,” and “Vineyards.”

Classification Units that are combined into an Industry Group all come from the same Subsector.

3.d.iii. Subsectors

The purpose of Subsectors is to provide boundaries within which Classification Units are classified into Industry Groups. This boundary ensures that employers can recognize that they are classified fairly, since they share similarities with other employers in their Industry Group. A Subsector is therefore the final check that ensures that a Classification Unit is classified in the appropriate Industry Group.

An example of a Subsector is Agriculture. The Agriculture Subsector may include the Industry Groups “Fruit Farms”, “Vegetable Farms”, and “Animal Farms”.

3.d.iv. Rate Groups

Rate Groups serve the same purpose as subclasses under the old classification structure. They are the classification level at which assessment rates are calculated and charged to employers. However, unlike subclasses, Rate Groups have a minimum size.

The purpose of the Rate Group category is to combine Industry Groups into large enough insurance pools that their risk can be measured and therefore their future costs can be predicted. Using this information, the Board can calculate the appropriate assessment rate to be charged to each Rate Group.

A minimum size for a Rate Group is important because it allows rates to be set using only recent claims data. As a result, employers no longer have to pay rates based on the claims record of their industry from several decades ago and they have more incentive to improve their current workplace safety record. Therefore, the new classification structure avoids the negative impact that the old one had on the rate-making system.

The definition of a Rate Group is a collection of “one or more Industry Groups who have similar cost rates and whose size meets or exceeds the minimum size for a Rate Group.” The minimum size for a Rate Group is a collection of Industry Groups with at least:

- 1) 2000 short term disability claims over the last five years, with a minimum of 250 claims in each of the last two years; or
- 2) \$400 million of annual assessable payroll in each of the last three years.

These minimum size criteria are based on actuarial principles and ensure that Rate Groups are large enough to be viable for statistical and insurance purposes. These figures may periodically be reviewed and modified by the Board’s actuary to ensure that the balance of stable rates and flexible classifications is maintained.

Some Industry Groups are large enough to stand alone as Rate Groups. However, if an Industry Group is too small to do so, it is classified into a Rate Group with other Industry Groups that have similar cost rates over the last three years. Industry Groups combined to form a Rate Group are generally from the same Sector.

3.d.v. Sectors

Sectors are the equivalent of classes under the old classification structure. However, they are arranged differently under the new classification structure.

Sectors are large categories of employers that are involved in the same area of the economy at the broadest level. Under the new classification system, there are 7 principal Sectors:⁹

1. Primary Resource - the extraction of natural resources and agriculture;
2. Manufacturing - the production of goods;
3. Construction - the building of structures, roads, etc.;

⁹ The deposit accounts will continue to form their own sectors and will be administered by the Board in the same manner as they are currently.

4. Transportation and Warehousing - air, land, marine transport, and storage;
5. Trade - wholesale and retail;
6. Public Services - publicly funded services; and
7. General Services - privately funded services.

The purpose of Sectors is to provide boundaries within which Industry Groups are classified into Rate Groups. There are exceptions to this practice when an Industry Group's cost rates differ substantially from those of all the other Industry Groups in its Sector. In this case, Industry Groups are classified into Rate Groups with Industry Groups from a different Sector.

The category "Sector" also permits broad structural data to be derived, which assists the Board in determining and communicating injury trends.

3.d.vi. The Aggregate

Similarly to the old classification structure, the largest classification category is the Aggregate, made up of all the employers in the province.

The Aggregate category is used to pool and distribute certain costs that are difficult to allocate to individual Rate Groups. For example, the Board's administrative costs are distributed from this level down to Rate Groups.

3.e. Movement Within the Classification Structure

The Board conducts ongoing maintenance and review of each Sector to ensure that employers are correctly classified in the Classification Unit that best represents their business. During the review process, the Board, if necessary, rearranges old Classification Units and adds new ones to the classification structure. Individual firms are shifted to different Classification Units if their type of business has changed or evolved. This review process ensures the classification structure is continuously up-dated.

However, this first review process is not the only way the classification structure is changed and updated. Under the new structure, Classification Units become their own Industry Group if they grow big enough, or they may cease to be their own Industry Group if they decline in size. Industry Groups and Rate Groups are also rearranged if their annual assessable payroll or their annual number of short-term disability claims change substantially. The classification status of any group is not altered unless it exhibits such a change consistently over three consecutive years. However, each group is "flagged" or identified each year if it has exhibited enough change for it to be a potential candidate for restructuring.

When an Industry Group's cost rates differ from the average of its Rate Group by more than a certain percent for three consecutive years, it is moved to a new Rate Group. Currently, this amount is approximately 20%; however, this figure can be reviewed

periodically and modified by the Board's actuary to ensure that the balance of stable rates and flexible classifications is maintained. Industry Groups must therefore also be monitored annually for changes in their cost rates. Each year, the Board "flags" or warns any Industry Group whose cost rates fall outside the margins. After three consecutive "flags," an Industry Group is moved to the Rate Group that better represents its actual cost rate.

This second review process involves monitoring Classification Units, Industry Groups, and Rate Groups annually for all of these changes. All monitoring and "flagging" is done automatically with the new information technology implemented under the ESS project.

These review processes have made the new classification structure more responsive to industry changes and more flexible than the old one. However, too much flexibility may make the classification system very volatile. Restructuring a group only on the basis of sustained changes lasting for at least three consecutive years reduces this risk.

3.f. Affects of the New Classification Structure

The new classification structure is designed to be dynamic, adaptable, and up-to-date. The various review procedures ensure that the classification structure is able to adjust to an evolving economic environment and to changes in individual industries. Furthermore, because Classification Units are more narrowly defined than the old "Industries," the Board is able to classify individual employers more consistently and logically into meaningful categories.

The problems caused by excessive cross-subsidization within subclasses is diminished, because Rate Groups are only made up of Industry Groups with similar cost rates. Excessive cross-subsidization does not occur because an Industry Group whose cost rate begins to differ too much from the average of its Rate Group is moved to a new one. In this manner, the new classification structure holds Industry Groups more accountable for their costs, while maintaining the principle of modified collective liability.

By improving the accuracy of classification and reducing cross-subsidization, the new classification structure ensures that the Board charges the same assessment rate to direct competitors. Therefore, the Board avoids the danger of becoming an economic factor in competition. As well, the equity of the entire classification system is increased.

The new classification structure enhances the Board's efforts to prevent workplace injury and disease. It creates better financial incentives for prevention because it reduces the incidence of cross-subsidization and holds industries accountable for the true cost of their claims. Under the new structure, an Industry Group with a low cost rate relative to its Rate Group is moved to a Rate Group paying lower rates. Consequently, firms may attempt to prevent injuries in order to move their Industry Group into the Rate Group paying the lowest possible rate. The same financial incentives also encourage industry associations to actively promote workplace safety.

Prevention incentives are also created because the new classification structure supports the enhanced rate making system. Since Rate Groups under the new structure have a minimum size, current claims data is emphasized more when assessment rates are calculated. Lastly, by collecting claims data at the Classification Unit level, the new classification structure provides the Board with a means of identifying those types of business where claims are most frequent and where prevention and return to work activities need to be targeted.

4. Conclusion

The Workers' Compensation Board of British Columbia's new classification structure, in conjunction with the entire ESS project, improves incentives for workplace safety as well as the Board's client services. Both employers and workers benefit from the new advanced classification system.

Thank you for your interest in the Workers' Compensation Board's new classification structure. For more information, please contact:

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APPENDIX 1

**CLASSIFICATION CATEGORIES IN OTHER JURISDICTIONS
PRELIMINARY SURVEY (February 1998)**

JURISDICTION	SMALLEST CATEGORY	INTERMEDIATE CATEGORY	RATE-SETTING CATEGORY	LARGEST CATEGORY
ALBERTA	402 Industries <ul style="list-style-type: none"> • based on business activity (products, services, equipment, occupational mix) • very loosely based on SIC codes 	N/A	171 Rate Groups <ul style="list-style-type: none"> • based on similarity of business activity • based on similarity of injury costs 	9 Sectors
SASKATCHEWAN	~550 Sub-Rate Codes <ul style="list-style-type: none"> • based on business activity (products, services) 	N/A	60 Rating Units <ul style="list-style-type: none"> • based on similarity of industrial undertaking • if not large enough to be statistically credible, then combined based on similarity of injury costs 	11 Classes
MANITOBA	250 Industry Classifications <ul style="list-style-type: none"> • based on business activity (products, services) 	N/A	8 Rate Categories <ul style="list-style-type: none"> • based on similarity of injury costs (5 year history) • public sector forms additional and separate Rate Category 	9 Sectors

<p style="text-align: center;">ONTARIO</p>	<p>800+ Classification Units</p> <ul style="list-style-type: none"> • based on business activity (products, services, equipment, processes) • SIC codes 	<p style="text-align: center;">N/A</p>	<p>219 Rate Groups</p> <ul style="list-style-type: none"> • based primarily on similarity of business activity 	<p style="text-align: center;">9 Classes</p>
<p style="text-align: center;">QUEBEC</p>	<p style="text-align: center;">N/A</p>	<p style="text-align: center;">N/A</p>	<p>324 Unit Groups</p> <ul style="list-style-type: none"> • based on occupation (type of labour performed by workers) • below minimum size will be combined with other Unit Groups based on similarity of risk 	<p style="text-align: center;">5 Sectors</p>
<p style="text-align: center;">NEW BRUNSWICK</p>	<p>Classification Units</p> <ul style="list-style-type: none"> • based on business activity (products, services) • SIC codes 	<p>99 Industry Groups</p> <ul style="list-style-type: none"> • based on 3 digit SIC code • minimum size: \$400 000 in injury costs over last 5 years • if 3 digit SIC code group below minimum size, grouped according to similarity in 5 year cost history 	<p>35 Rate Groups</p> <ul style="list-style-type: none"> • based on similarity of 5 year cost history • minimum size \$2 million in injury costs over last five years 	<p style="text-align: center;">10 Classes</p>

NOVA SCOTIA	<p>Classification Units</p> <ul style="list-style-type: none"> based on business activity (products, services) SIC codes 	<p>110 Industry Groups</p> <ul style="list-style-type: none"> based on similarity of business activity 	<p>40 Rate Groups</p> <ul style="list-style-type: none"> based on similarity of cost/payroll minimum size: \$2 million in injury costs over last five years 	14 Classes
PRINCE EDWARD ISLAND	<p>341 Industries</p> <ul style="list-style-type: none"> based on business activity (products, services) SIC codes 	N/A	<p>38 Rate Groups</p> <ul style="list-style-type: none"> primarily based on similarity of business activity secondarily based on similarity of claims costs 	5 Classes
NEWFOUNDLAND and LABRADOR	<p>Industries</p> <ul style="list-style-type: none"> based on business activity (products, services) SIC codes 	N/A	<p>Rate Groups</p> <ul style="list-style-type: none"> based on similarity of claims costs 	7 Classes
YUKON	<p>93 Industries</p> <ul style="list-style-type: none"> based on business activity (products, services) 	N/A	<p>7 Classes</p> <ul style="list-style-type: none"> based on similarity of business activity based on similarity of claims costs 	N/A
NORTHWEST TERRITORIES	<p>37 Sub-Classes</p> <ul style="list-style-type: none"> based on business activity (products, services) 	N/A	<p>8 Classes</p> <ul style="list-style-type: none"> based on: similarity of claims costs similarity of business activity 	N/A

APPENDIX 2

ASSESSMENT OPERATING POLICY	POLICY NO. 30:10:00
	PAGE 1 OF 2
	DATE: JUN/93
SUBJECT: THE CLASSIFICATION SYSTEM	REPLACES ISSUE DATED: JAN/83

Under the *Workers Compensation Act*, the cost of compensable injuries and diseases is paid entirely by the employers in the province. The costs related to these injuries and diseases along with all other costs associated with the administration of these claims and carrying out other statutory requirements are collected from the employers in the province in the form of assessments. The operations of the assessment classification system determines the rate at which each employer must contribute towards the payment of these costs.

The classification system is based on the principle that the cost of producing a product or providing a service includes the cost of injuries or diseases incurred by the workers producing the product or providing the service. The classification system is therefore constructed on the basis of industrial undertaking rather than on an occupational or hazard basis. In other words, if a specific product were being manufactured, the classification would be the same regardless of the process used in its manufacture, or whether the manufacturing was done by the employer's workers or subcontracted out to another firm. An industrial classification therefore includes all occupations within the industry, including office or clerical staff.

Occupational rating has been considered by the Board but rejected for many reasons, including:

1. If the employers in B.C. collectively must pay \$400 million in a year to cover the costs payable under the Act in that year, they would still pay \$400 million under a system of classifying by occupation. If the assessment rate for some occupations went down, it would have to increase by a corresponding amount for other occupations to collect the same amount of assessment revenue.
2. Occupational rating would complicate the assessment procedures for both employers and the Board. The need for specific guidelines for each occupation would be apparent.
3. Regardless of any such guidelines, considerable difficulties would arise in assigning individuals to occupational groups leading to incorrect reports and significantly more auditing functions within the Board and disputes to be resolved. The resulting increase in administrative costs would have to be paid by the employers.

ASSESSMENT OPERATING POLICY	POLICY NO. 30:10:00
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4. There would be a greater opportunity for fraud in the reporting of individuals in the wrong occupational category, and auditing and investigating in order to minimize such a problem would again result in higher administrative costs. Additionally, incorrect or fraudulent reporting creates an inequity to those who report correctly.
5. Often, an individual may work at two or more occupations. Setting guidelines to determine the correct split in payroll between occupational groups would be difficult and not acceptable to all employers.
6. Occupational rating would require far more classifications and assessment rates than are currently used. Each classification would have fewer employers in it, and would therefore be a less stable statistical base on which to set assessment rates.

Another method of classifying firms is to establish only one group into which all employers are classified, regardless of their industrial undertaking. In this way, every employer would pay the same assessment rate and all would share in the total costs of administering the Act. This is the pure collective liability theory of assessment; but the inequity of assessing very hazardous industries at the same rate as industries with relative few injuries is obvious. At the other end of the scale is self-insurance, where a firm pays only its own costs.

The B.C. Board, along with other jurisdictions in Canada, has chosen to make self-sufficient groups of employers on the basis of the industries in which they operate. In establishing these groups, the size is of critical importance. Since one serious injury can cost in excess of \$1 million, it is apparent that the size of the group must be large enough to provide for an adequate spread of the risk and stability in the assessment rate.

Not all industrial classifications are large enough to stand alone; they must be grouped together to provide an adequate insurance base. This grouping is done on the basis of industry similarity and an experienced cost similarity. Therefore, while there are separate classifications for very small industrial groups to provide statistical data, each industrial group does not necessarily stand alone but will be grouped with others based on industry and cost similarity if necessary.

These two factors, classification by industry and forming a group large enough to be a valid insurance base, are the basis of the classification system.

