

Annual Construction Cost Insights

CHUBB®



Chubb is committed to making sure that our mutual clients' homes are adequately insured for the full cost of reconstruction. To support this commitment, we establish an annual Construction Cost Adjustment Factor (CCAF) to maintain adequate coverage for our policyholders, based on research from both internal and trusted external sources. **Based on our most current data, Chubb's average CCAF for the U.S. is 5.8%, noting that the actual percentage in your region may vary since it reflects local market conditions.**

How We Establish the CCAF

- Each year we evaluate data from RSMeans, a cornerstone of the construction cost industry for over 70 years. This data draws from over 2,000 data points in 731 locations across North America.
- This data is internally reviewed and validated by the Chubb Risk Consulting team using a combination of our own Bureau of Labor Statistics-based Cost Index Tool, Marshall & Swift/Boeckh year-over-year cost trend data, local Chubb Claims input, and information

provided through interviews with local contractors who specialize in building high-value residences in Chubb markets.

- We also analyze our claim trends to ensure we establish replacement costs that are in-line with the types of claims our clients experience.

Factors That Influence the Average

Our data evaluation points to rising cost indexes in residential construction:

- Industry analysts report overall increases in annual construction costs of 4.4% (Corelogic Marshall & Swift/Boeckh 12/2018).
- Over the last 12 months, some common items that contribute to reconstruction costs have increased on average:
 - Labor has risen on a year over year basis 3.0% (2018 ENR).
 - Overall residential construction material costs have increased by 4% (Bureau of Labor Statistics PPI 2018). Individual materials include:
 - Concrete products are up 6.3%

Personal Risk Services

- Metal products are up 11.4%.
- Wood products are up 7.25%.
- Petroleum products are up 1.0%.
- Gypsum products are up 7.0%.

Other Factors Impacting Insurance to Value Specific to Chubb Claims and How We Respond

Our overall CCAF must also take into consideration cost factors, over and above the basic inflationary pressures on labor and materials, resulting from the specific types of losses our clients regularly experience, along with our long-standing commitment to claims excellence and meeting client expectations:

- Many of our homeowners make periodic renovations and improvements to their homes, impacting the replacement cost and potentially rendering Chubb's coverage figures inadequate. These improvements increasingly include high cost materials and custom work, as evidenced by the thousands of claims Chubb settles each year.
- At the time of loss, our commitment to moving quickly, along with our willingness to use high quality contractors (including those chosen by our clients), often remove the benefit of the competitive bid process, raising costs above those found on the open market.
- Our clients tend to live in more affluent, higher cost communities. Chubb is very experienced at settling losses in these areas and understands that the natural demand for high quality contractors here often causes repair costs to rise more rapidly than in other communities.
- Rebuilding a single home instead of multiple new homes reduces a builder's economy of scale on labor and materials, increasing costs.

- We must take into account requirements that homes be rebuilt to comply with current building codes (which continue to advance), including more efficient energy codes and more stringent fire codes.
- With regard to average interior reconstruction costs, we consider the impact of the involvement of specialists like architects, interior designers and reconstruction consultants; the use of high-end finishes, woodwork and custom cabinetry; and the use of "smart home" technology and complex audio/visual systems. The participation of the noted specialists can increase standard fees by as much as 20-60% according to the MSB cost guide.
- We consider the increased awareness of and concern for environmental issues by many of our clients with respect to construction materials and practices.
- We also consider the impact of the increased costs we typically pay to "match" the quality and appearance of damaged materials or finishes with those of adjoining, undamaged areas.

These expert reviews not only help ensure insurance to value adequacy on behalf of our valued clients, they also support the long-term viability of our business and ability to maintain our longstanding commitment to paying claims promptly and fairly, regardless of their size or frequency.

To learn more, visit
www.chubb.com/agent-marketing

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