

Annual Construction Cost Insights

2016 - 2017

CHUBB®



Chubb is committed to making sure that our mutual customers' homes are 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 within a range of 3.5% - 6% for the period, depending on regional cost differences, which is comparable to last year.**

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 Range

Our data evaluation points to rising costs in residential construction:

- Industry analysts report overall increases in construction costs in the past year of 3.4% (Engineering News Record-ENR-9/2016).
- Over the last 12 months, some common items that contribute to reconstruction costs have increased on average:
 - Labor has risen with a range of 2.8% - 3.6% (ENR 9/2016).
 - Overall material costs have increased by 4.5% (ENR 1/2017).

Personal Risk Services

- Cement products are trending downward -4.8%.
- Steel is up slightly 0.8%.
- Lumber has increased 10.3%.

These trends in key construction costs will continue to be shared with you via our Quarterly Construction Reviews.

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

Our overall CCAF must also take in to 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.
- Rebuilding a single home instead of multiple new homes reduces a builder's economy of scale on labor and materials.

- 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 construction materials and practices.
- We also consider the impact of the increased costs we typically pay to "match" the quality and appearance of repaired 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/personal

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