



## Chubb's Response to Construction Costs

2015-2016



Chubb is committed to making sure that our mutual customers' homes are insured for the full cost of reconstruction. As part of this, we establish an annual Construction Cost Adjustment Factor (CCAF) to maintain adequate coverage for our policyholders, and each year we conduct research to establish it. Based on our research, Chubb's average CCAF for the U.S. will increase to 5.49% overall.

### How we establish the CCAF

- Each year we incorporate data purchased 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 to construct a residential "basket of goods" that contains 26 material inputs and 13 labor inputs at a 3 digit zip code level of specificity.
- This data is internally reviewed and validated by the Chubb Appraisal Unit's Technical Specialist team using 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 interviewing local contractors involved in building high value residences in our target markets.

- We also analyze our loss trends to be sure we establish replacement costs that are in line with the types of claims we pay.

### Residential Construction Costs

We must consider the rising costs in residential construction when calculating the CCAF:

- Industry analysts report overall increases in construction costs in the past year of 2.5% (Engineering News Record-ENR-9/2015).
- Over the last 12 months, costs for **Materials & Labor** for the most part continue to increase:
  - Common labor has risen 3% and skilled labor at 2.8% (ENR)
  - Concrete is up 3.5% (Bureau of Labor Statistics-BLS)
  - Custom wood cabinetry has risen 3.5% (BLS)
  - Wood siding & trim is up 2% (BLS)
  - Lumber and plywood are down 9% (BLS)
  - Diesel fuel is down by 44.2% (BLS)

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

## Other Factors Impacting Insurance to Value and Chubb's CCAF Response

- Our overall CCAF must also take in to consideration other loss cost factors, over and above inflationary pressures on labor and materials, in order to maintain ITV adequacy:
- Many homeowners make renovations and improvements to their homes, increasing the replacement cost and potentially rendering Chubb's coverage figures low.
- At the time of loss, the need to move quickly, along with limited contractor availability, often remove the benefit of the competitive bid process, raising costs above those found on the open market.
- Following a major catastrophe, which is when we pay the bulk of our losses, both material and labor costs can escalate rapidly for extended periods, rendering a CCAF that only considers account inflation under normal market conditions inadequate.

- Our replacement costs must consider requirements that homes be rebuilt to comply with current building codes, including more efficient energy codes and more stringent fire codes.
- Rebuilding a single home instead of multiple new homes reduces a builder's economy of scale on labor & materials, and introduces additional complexities of working around an existing site—often with difficult access issues.

With these factors in mind, this year's CCAF has been developed to include a blend of residential inflation and structure loss severity trend data. Thanks, as always, for partnering with Chubb.

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