

Replacement Cost Case Studies

At Chubb we know you've worked hard to turn your house into a home, and we want to make sure it always feels that way, even if something happens and you need to repair, replace, or rebuild. That's why we complete a home assessment on the properties we insure: to help make sure you have proper "Insurance to Value" or the right replacement cost coverage on your policy to rebuild in the event of a covered loss.

At each renewal we apply our annual Construction Cost Adjustment Factor (CCAF) to your policy, based on our experience and other trusted industry sources, to help ensure you maintain adequate coverage over the years, even as the economy and prices fluctuate.

It's also important to remember that Replacement Cost and Market Value are different concepts. Market Value is influenced by factors like the number of homes on the market, recent sales in the area, commuting distances, etc. On the other hand, Replacement Cost is an estimate of the actual cost to rebuild your home as is, with the same level of detail and finishes. That number is based on characteristics of the home (size, features, age, access, etc.), current and projected material and labour costs, architect and contractor fees, and building code upgrades.

The following examples demonstrate how a home assessment and CCAFs help ensure that, should you sustain a covered loss, Chubb can restore all the details that went into making your house a home.

Fire in furnace leading to total loss

A fire originated in the furnace ductwork system resulting in a total loss to a 7,800 square foot home. The home featured quality interior finishing such as a custom kitchen with high-end appliances, a double wood fireplace, built-in cabinetry and a finished basement with home theatre.

Valuation History:

- \$2,152,000: 2019 Replacement Cost Established (\$319/sq. ft.)
- \$2,152,000: Coverage at the time of the loss as it was within 12 months of inspection
- \$2,232,000: 2019 Reconstruction Estimate

The home's coverage was 98% insured to value because we conducted our home assessment.

Luckily, our Extended Replacement Cost policy provides our clients with a sense of comfort knowing they can rebuild their home to its original condition – even if the cost exceeds your policy limit.



Wood-burning fireplace results in a total loss

A fire broke out caused by an issue with a wood-burning fireplace resulting in a total loss of 4,700 square foot home. The home featured reclaimed wood floors, tumbled stone finished baths, Venetian plaster walls and a stone veneer exterior with a slate roof.

Valuation History:

- \$1,900,000: 2004 Replacement Cost Established (\$390/sq. ft. for living area)
- \$3,783,000: 2019 Coverage at the time of the loss 2019
- \$3,636,000: 2019 Reconstruction Estimate (\$804/sq. ft. living area)

The home's coverage was sufficient because we conducted a home assessment in 2004 and applied our annual CCAF factors each year to keep pace with inflated construction costs.

Partial fire loss highlights importance of maintaining "Insurance to Value"

An electrical fire in the attic caused extensive damage to a 3,600 sq. foot home originally built in 1909, highlighting the importance of heat detectors in attics. An inspection was completed in 2012 where a replacement cost was calculated, however prior to 2018 when the claim occurred the client decided to reduce the breadth of their coverage to Verified Replacement Cost (90% of replacement cost).

Valuation History:

- \$3,970,000: 2012 Replacement Cost Established (\$340/sq. ft. for living area)
- \$4,346,000: 2019 Coverage at the time of the loss based on VRC
- \$2,316,000: 2018 Reconstruction Estimate

Reconstruction costs for this partial fire loss affecting only the interior finishes resulted in a claim consuming **53% of the Coverage A**. Should this have been a total loss, it is unknown if the client would have had enough coverage to reconstruct their custom home without having to pay out of pocket.

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The claim scenarios described here are intended to show the types of situations that may result in claims. These scenarios should not be compared to any other claim. Whether or to what extent a particular loss is covered depends on the facts and circumstances of the loss, the terms and conditions of the policy as issued and applicable law. Facts may have been changed to protect privacy of the parties involved.

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