Chubb Personal Insurance

Replacement Cost Versus Market Value – A Loss Scenario Case Study

BACKGROUND

South Dakota, March 2, 2011: The homeowner was smoking a cigar in the garage and dropped the ashes into a garbage can. The ashes smoldered all night in the can and eventually caught the garage on fire. Fire spread into and throughout the home. The fire department was called by a neighbor about 6:15 a.m. Firefighters had to deal with extreme temperatures and freezing hose valves. The home was a total loss.

APPRAISAL AND LOSS HISTORY

- New Line submitted 8/10/07 at an initial Coverage A figure of $525,000
- Appraised by Chubb on 10/03/07 for $630,393
- Average Construction Cost Adjustment Factor of 3.5% applied per year
- Total Fire Loss occurred March 2011
- Coverage at the time of loss: $697,000
- Final building settlement: $709,684

MARKET VALUE INDICATIONS

- Year of Construction: 2005
- Most recent Trulia market value estimate: $499,950
- Most recent Homes.com market value estimate: $402,000

CONCLUSION

Insurance to Value ("ITV") on this home was 98% at the time of the loss as a result of an appraisal that accurately estimated the replacement cost in 2007 and coverage that was adjusted upwards to keep pace with inflating constructions costs, which outpaced market value appreciation over the subsequent three years. As a result of maintaining coverage adequacy during a period of economic recession and declining real estate values, the client was able to rebuild to code with like kind and quality materials, effectively ensuring total indemnification against the loss.

Chubb Personal Insurance
P.O. Box 1600
Whitehouse Station, NJ 08889-1600
www.chubb.com/personal

Form 02-01-0636 (Ed. 7/13)