



Personal
Insurance

CHUBB

Replacement Cost Versus Market Value – A Loss Scenario Case Study

BACKGROUND

New Jersey, December 21, 2011: Christmas tree lights left on all day overheated, setting the tree alight and burning down the house. The tree had seven to eight strands of lights. Three were new; the rest had been stored in the basement, which had flooded during the October 2011 storms. The home was primary residence, protected with alarms.

Prevention Tip: Connecting multiple light strands can create electrical overload — check the rating of decorative lights and consider replacing them annually.



APPRAISAL AND LOSS HISTORY

- New Line submitted on 12/15/04 at initial Coverage A figure of \$900,000
- Appraised by Chubb on 01/06/05 for \$1,502,339.
- Average Construction Cost Adjustment Factor of 5% applied per year.
- Total Fire Loss occurred December 2011
- Coverage at time of loss: \$2,036,000
- Final building settlement: \$2,036,000 with no ERC payment necessary.

MARKET VALUE INDICATIONS

- Year of Construction: 2004
- Purchase Price in 2004: \$1,060,000
- Current Market Value (2012 Zillow Estimate): \$1,377,500
- Zillow Value Range: \$1.14M – \$1.64M
- Trulia Value Estimate: \$977,000

CONCLUSION

Insurance to Value (“ITV”) on this home was 100% at the time of the loss as a result of an appraisal that accurately estimated replacement cost in 2005 and coverage that was adjusted upwards to keep pace with inflating constructions costs, which outpaced market value appreciation over the subsequent seven 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 within policy limits with like kind and quality of materials, effectively ensuring total indemnification against the loss.

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