



MAINTAIN ADEQUATE COVERAGE FOR YOUR HOME

Understanding renewal inflation (2021)

AIG Private Client Group takes great pride in establishing accurate home replacement costs and understanding exactly what it takes to maintain adequate coverage. We diligently monitor factors that affect home construction and consider how they fluctuate over time and by location.

Unprecedented catastrophic activity over the past few years continues to influence construction costs. The resulting need for significant rebuilding, along with a simultaneous increase in renovations, has increased demand for materials and skilled labor.

Applying the Residential Reconstruction Index (RRI)

Our teams of risk management, underwriting and claims experts carefully evaluate the construction industry multiple times a year to determine how cost variations impact our ability to rebuild your home. We then calculate our RRI, which is an inflation factor applied to all homeowners policies at renewal.

By applying this inflation factor at renewal, we ensure you keep coverage current for the full cost of reconstruction. The emphasis we place on the RRI, as well as accurate home valuations, enables us to offer guaranteed or extended replacement cost coverages at competitive rates.*

One size doesn't fit all

The construction industry and building trends differ from state to state. We look at all states individually and come up with the appropriate RRI for each. Therefore, if you own homes in multiple states, you may find the RRI on your policy is different for each home. Additionally, we maintain two RRI's for California to accurately account for varying costs throughout the state.

AIG Private Client Group's average RRI for 2021 is 5.7%.

It ranges from as low as 4.7% in several states to 10% in parts of California where high catastrophe activity impacts pricing due to material and labor shortages.

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Our RRI rationale

The RRI is based on national, regional and state-specific residential construction data that we obtain from top industry sources. We also capture detailed input from contractors and architects who build homes we insure and are involved in our claims process. The combination of these sources allows us to incorporate both historical and anticipated trends in the RRI. We are very careful to make sure the data we use relates to the quality of homes we insure, not the standard market, so you can be confident that it applies to your residence.

Here are the primary factors that support our research and rationale:

- **Skilled labor** and the high demand for it increase home building costs. The areas most affected by higher labor rates are catastrophe-damaged locales as well as resort, remote and densely populated exclusive communities.
- Increases in **lumber and plywood** costs are reaching as high as 20-50%.
- Costs for **concrete and steel** have increased by 5-10%.
- Demand and delays to obtain **specialty materials** and products drive up costs, especially when they are imported.
- **California wildfires** continue to impact the costs to rebuild homes, with many areas showing increases of 50% and higher.

If you have questions or would like to know a specific state's RRI, please contact your independent insurance advisor.



*Availability varies by state.

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