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## Overcoming Underinsurance: What We're Doing, and How You Can Help

Over the past year, AIG Private Client Group has been addressing underinsurance issues head-on. A dedicated team of risk managers has carefully analyzed cost trends in the home-building industry in order to:

"58% of homes are under-valued for insurance purposes"

-Marshall & Swift/Boeckh LLC survey

- effectively integrate timely data into our home inspection reports;
- supplement the way in which we calculate replacement costs at policy inception; and
- prevent coverage adequacy from deteriorating over time.

Our collective efforts also led to the creation of AIG Private Client Group's own Residential **Reconstruction Index (RRI)**.

### RRI: What It Includes

Unlike other renewal processes, AIG Private Client Group's RRI reflects more than the effects of inflation on rebuilding: it also captures precise marketplace factors that drive costs up or down, and considers fluctuations in costs to rebuild architecturally unique homes by geographic location.

Our RRI is regularly adjusted using proprietary and public resources that encompass ever-changing market costs, changes in building codes and the decorating habits of your high net worth clients.

### RRI: Why It Matters

Advising your clients on the appropriate amount of insurance coverage for their residences can be a very difficult undertaking, especially when there are so many factors impacting reconstruction costs. Among the considerations:

- **Market Pressures** — Unprecedented global development, coupled with rising transportation costs, have pushed general construction costs up an average of 7% per year since 2001.\*
- **Material Shortages** — Over the past year, prices for building materials such as concrete, copper and gypsum have risen by 11%, 100% and 22%, respectively.
- **Catastrophic Events** — 2006 has been relatively free of major natural events in the U.S., yet government statistics show a 6% increase in building costs spurred by demand created in the aftermath of events in 2005.
- **Home Improvements** — Homeowners spent an estimated \$155 billion on home improvements in 2005, a 27% increase from just two years ago.\* This increase creates a potential disparity between the cost to rebuild after a loss and the amount of total coverage in place.

**Most importantly, accurate valuations will help us continue to provide broad rebuilding coverage at competitive prices — a huge benefit for your clients and a concept that has become increasingly obsolete in the home insurance market.**

### The Bottom Line

If property valuations are not adjusted annually to account for all the factors that influence rebuilding costs, the adequacy of coverage will erode. This gap can become even more exaggerated with unique, historical and custom-built homes.

Talk to your clients about the impact of underinsurance, and how being with a carrier like AIG can keep them ahead of the curve. For more information about our improved RRI, please contact John DeNegre, Valuation Director, AIG Private Client Group: [john.denegre@aig.com](mailto:john.denegre@aig.com).

The impact of underinsurance on your clients can be severe:

1. If they reside in a state where rebuilding costs are capped, reimbursement may be insufficient.
2. If they opt for a cash settlement, we can only provide up to the coverage limit.

\*Source: **Housing Boom's Dark Side**, *The Wall Street Journal*, August 26, 2006