

Insurance Recovery Process Summary (IRPS)

The storm damage insurance recovery process is proven to be very confusing. This is an attempt to educate homeowners and separate fact from fiction. These explanations are intended as general guidelines, whereas each case is unique and has its own specific details.

First, insurance companies are in business to make a profit and do not want to spend more than necessary to make repairs to your property. This is not necessarily bad. Profitable insurance providers are better able to continue to service their customers in the future. If you research the Internet, it is public record that they are also able to continue to pay their management healthy bonuses. Oftentimes these individual bonuses are in the Millions of dollars and equate to thousands of homeowner insurance premiums for each bonus. These are basic facts important in understanding the beginning of the process of returning your property to its original state or better.

Insurance companies oftentimes use independent adjusters to assist them in addressing larger incidents of catastrophic damage. These incidents may include: fire, flood, tornado, hail damage etc. Most insurance companies have pricing software systems that these insurance adjusters use to develop a Statement of Loss (SOL) for your property. Pricing maximums are set up in an attempt to efficiently make available funds to attract at least minimum quality labor and materials in your geographic area. In this SOL are numerous line items, each addressing a single damaged item of your property. Because there are so many line items, it is *rare and improbable that any contractors' estimate will ever match exactly the SOL provided by the insurance company*. This is especially true if the contractor that is to complete the work is not present at the adjuster's meeting to assess specific damage. It is critical to choose ONE contractor in the beginning of the process that you intend to have complete the repairs and *have the contractor of your choice attend the adjuster's meeting for your property claim*.

Once the exact line items of damage are determined and agreed upon, the insurance company is the ultimate final authority that decides what amount will be paid for the exact repairs to your property. Therefore, *your insurance provider is the **only** entity that can provide what is to become the final exact estimate*. Considering this fundamental concept, it is the primary goal of this article to help you understand why **it is unnecessary to spend your valuable time getting 3 or more estimates from contractors for the repairs to your property**. The best investment of your time is to secure a quality contractor that you are comfortable with and that is experienced in working with insurance claims and adjusters. Then, have this contractor attend the adjusters meeting to assess the damage to your property.

As stated above, it is improbable that a contractor's estimate will ever match exactly an insurance SOL. Getting 3 or more estimates is NOT the primary concern. Since the final cost of repairs is ultimately approved by the insurance company, with possible input from

the contractor and the local market, **hiring a professional contractor and the quality of their work and materials should be your primary concern.** This is where you want to invest your time. Chose one contractor and let them work with the adjuster assigned to your claim. So many homeowners spend fruitless hours getting estimates that are above or below the amount originally approved to be paid by the insurance company on the SOL. This is because homeowners don't fully understand the process and/or none of the contractors were present at the adjusters meeting and do not know specifically what the insurance company has approved line item by line item. This is one of the largest contributors to making the whole process cumbersome. It also contributes to frustration on behalf of the adjuster having to deal with three or more contractors and trying to negotiate a final SOL. Let one contractor negotiate the LINE ITEMS with the insurance company and the insurance company will then determine the price per line item and come up with the final amount.

It is absolutely critical to have a contractor of your choice present at the adjusters meeting. This is for many reasons.

It is safer to have more than one person at the property especially if the SOL involves getting on the roof of any dwellings. So let your contractor work with the insurance adjuster.

Secondly, the insurance adjuster and the contractor may agree on exactly what the individual items are that need to be replaced and the process to replace them. This is more efficiently and accurately completed at your property versus trying to achieve the same objective via numerous time consuming phone calls. The SOL will be more accurate and the process more time effective if the contractor and the adjuster physically inspect the property together. Once the exact items are agreed upon the contractor can then verify that the adjuster for your property is using an up-to-date price list with their software for your geographic area. This is important since most independent adjusters work with different price lists from across the country. An accurate price list for your geographic area, used to create your individual SOL, will help you maintain a relationship with a **quality contractor**.

One of the most common mistakes made by homeowners in the process is trying to attend the adjuster's meeting themselves without an experienced contractor. The homeowner thinks they are going to get a big insurance check and then get a contractor to do the work cheaper. This is NOT how the process works. *The insurance company is smart and is not going to pay out more than the actual repairs cost (remember they are in business to make a profit).* The homeowner then tries to get 3 or more estimates. This scenario is inherently flawed. Besides taking up much of your time meeting 3 different contractors (if they all even show up to their appointments) the contractors giving the 3 estimates are only able to guess as to what the insurance company is EXACTLY covering. If these contractors don't know the exact line items that the adjuster accounted for it is impossible for you to get an accurate contractors estimate. Thus, ALL contractor estimates will either be above the SOL amount or below the SOL amount and will be a big waste of your time as a homeowner.

If a contractor's estimate is below the SOL amount then two possibilities exist. Either the contractor's line items are inaccurate in comparison to the SOL or, the contractor is willing to work for less than the insurance company is willing to pay. As stated in the beginning of the article, like any company, the insurance company is interested in making a profit. Yet, the insurance company has also invested considerable resources to determine what a reasonable market value is for repairs to be completed by a quality contractor. In other words, the insurance company wants to pay the minimum to attract the maximum quality contractor. So if a contractor is willing to work for less than the SOL it is assumed the craftsmanship or materials are questionable and this contractor should be avoided. You could get 2 out of the 3 estimates that fall into this category and you can see you have wasted much of your time here. Also, avoid contractor's that are willing to pay your deductible. Profit margins are already slim in the insurance company's pursuit of profitability. Any contractor that is willing to pay a deductible must cut corners somewhere to make up the difference and this is not something you want to find out after it is too late.

Another reason that getting multiple estimates is NOT your primary concern is that if a contractor's estimate is **less than** the insurance SOL then that "lesser amount" is the ONLY AMOUNT the insurance company will pay. If you get a contractor's estimate for less than the amount the insurance company is willing to pay, then that is the ONLY AMOUNT the insurance will pay. For example, XYZ insurance company adjusts your property for \$8,200.00. The homeowner finds a contractor that will do the work for \$6,900.00. First, is the \$6,900 contractor estimate going to complete the repairs exactly as the SOL describes? Also, what corners were cut during the construction process to allow the contractor to complete the repairs for only \$6,900 when the insurance company was willing to pay \$8,200? If the contractor's profit margins are negligible will they be able to service any warranty or repair issues for you in the future? Why would the contractor be willing to leave the difference of \$1,300 (\$8,200-\$6,900) in the coffers of the insurance company? The answer is simple. They don't understand the process.

Many insurance policies are RCV policies or Replacement Cost Value policies and may or may not have code upgrade addendums/clauses. If you have a RCV policy in the above example the insurance company will depreciate the \$8200 and give you a first check to begin repairs. In this illustration we will use the number \$4500 as this first deposit check. This first insurance check is called an ACV or Actual Cash Value check. It may or may not have your mortgage company listed as an endorsee. If you have a mortgage, your mortgage company will endorse the check and will require that repairs be completed. (Also, if you do not complete the repairs and sell your home in the future, you must legally disclose that the property has been damaged.) When the insurance company issues this first check they will also subtract your deductible from this first check. If your deductible is \$500 they would deduct \$500 from the ACV check, \$4,500 in this example, and you would receive a first check for \$4,000. In this example the deductible, \$500, is your portion of the \$8,200 that you are required to pay for the repairs. Please direct any questions you have regarding your deductible to your insurance Agent.

The difference between the ACV check and the total amount the insurance company is offering to pay overall, in this case \$8,200, is the depreciation. The depreciation in our example is \$3,700.

$$\$8,200(\text{RCV}) - \$4,500(\text{ACV}) = \$3,700(\text{recoverable depreciation}).$$

To determine the depreciation the insurance company takes into account the age of the damaged property and the extent of the damage to determine the depreciation. In this case $\$8,200 - \$4,500 = \$3,700$. This “recoverable” depreciation is the amount available once the repairs are complete and your contractor invoices the insurance company, in this case, for \$8,200. If your contractor completes the repairs for less than \$8,200, say \$6,900 then the insurance company would only release depreciation of \$2,400 instead of the \$3,700 the contractor could have received.

$$\$6,900 - \$4,500 = \text{only } \$2,400 \text{ (could have received } \$3,700 \text{ if contractor would have come to a “price agreeable” of } \$8,200 \text{ with adjuster)}$$

Each insurance company has different policies for determining depreciation. When the repairs in the above case are completed according to their SOL, the contractor is to invoice the insurance company for the balance. If the above contractor only invoices the insurance company for \$6,900, then \$6,900 is the TOTAL MAXIMUM THE INSURANCE COMPANY WILL PAY. This error may occur for various reasons. The most common is that no two estimates are for the EXACT same components or line items. There are numerous components involved in, for example, a roof replacement. As stated above, the SOL and contractor’s estimate will never be exactly the same. The other reason is that the contractor is inexperienced and doesn’t know to invoice for the depreciation.

Illustration 1.1: (the correct process if the contractor works with the adjuster)

$$\begin{array}{l} \$8,200 \text{ RCV (Total maximum insurance will pay if they are invoiced for it)} \\ - \text{minus } \$3,700 \text{ “recoverable” depreciation- to be paid when repairs are completed} \\ \quad \$4,500 \text{ ACV} \\ - \text{minus } \$500 \text{ deductible} \\ \quad \$4,000 \text{ Net ACV settlement to get the repairs started} \end{array}$$