Insurance
Information
Institute

settling insurance claims after a disaster

What you need to know about

- how to file a claim
- how the claim process works
- what's covered and what's not

First Steps to Settling Your Claim

Phone Your Agent or Company Immediately

Insurance policies place a time limit on filing claims. Find out what the time limit is. Ask questions: Am I covered? Does my claim exceed my deductible? (Your deductible is the amount of loss you agree to pay yourself when you buy a policy.) How long will it take to process my claim? Will I need to obtain estimates for repairs for structural damage?

Make Temporary Repairs

Take reasonable steps to protect your property from further damage. Save receipts for what you spend and submit them to your insurance company for reimbursement. Payments for temporary repairs are part of the total settlement. So if you pay a contractor a large sum for a temporary repair job, you may not have enough money for permanent repairs. Beware of contractors who ask for a large amount of money up front and contractors whose bids are very low — they might cut corners and leave you with problems after they're gone. Don't make extensive permanent repairs until the claims adjuster has been to your home and assessed the damage.

If You Need to Relocate, Keep Your Receipts

If your home is severely damaged and you need to find other accommodations while repairs are being made, keep records of all additional expenses incurred. Homeowners insurance policies provide coverage for the "loss of use" of your home, if it is damaged by an insured disaster.

Prepare for the Adjuster's Visits

Your insurance company may send you a claim form, known as a "proof of loss" form, to complete. Or an adjuster may visit your home first. (An adjuster is a person professionally trained to assess the damage.) In either case, the more information you have about your damaged possessions — a description of the item, approximate date of purchase and what it would cost to replace or repair — the faster your claim generally can be settled.

- You are going to need to substantiate your loss. **Prepare a home inventory of damaged or destroyed items** and give a copy to the adjuster along with copies of receipts. Avoid throwing out damaged items until the adjuster has visited your home. You should also consider photographing or videotaping the damage. If your property was destroyed or you no longer have any records, you will have to work from memory.

- **Identify the structural damage to your home and other buildings on your premises**, like a garage, tool shed or in-ground swimming pool. Make a list of everything you would like to show the adjuster, for example, cracks in the walls, damage to the floor or ceiling and missing roof tiles. You should also get the electrical system checked. Most insurance companies pay for such inspections.

- If possible, **get written bids from reliable, licensed contractors** on the repair work. The bids should include details of the materials to be used and prices on a line-by-line basis. This makes adjusting the claim faster and simpler.

- **Keep copies of the lists and other documents you submit to your insurance company.** Also keep copies of whatever paperwork your insurance company gives you and record the names and phone numbers of everyone you speak to.

- **Homeowners insurance policies usually don't cover flood damage**. You need a separate flood insurance policy. If you have flood insurance through the federal government's National Flood Insurance Program your homeowners claim adjuster may coordinate claims for flood damage with other damage claims.

How the Settlement Amount is Determined

Type of Policy

Replacement Cost and Actual Cash Value: Replacement cost provides you with the dollar amount needed to replace a damaged item with one of similar kind and quality **without deducting for depreciation** — the decrease in value due to age, obsolescence, wear and tear and other factors. An **actual cash value** policy pays you the amount needed to replace the item **minus depreciation.**

Suppose, for example, a tree fell through the roof onto your eight-year-old washing machine. If you had a replacement cost policy for the contents of your home, the insurance company would pay to replace the old machine with a new one. If you had an actual cash value policy, the company would pay only a percentage of the cost of a new washing machine because a machine that has been used for eight years would be worth less than its original cost.

Suppose, also, that the tree damaged your 15-year-old roof so badly that it had to be completely replaced. If you had a replacement cost policy, the insurance company would pay the full cost of installing a new roof. If you had an actual cash value policy, it would pay a smaller percentage of the cost of replacing it.

Extended and Guaranteed Replacement Cost: If your home is damaged beyond repair, a typical homeowners policy will pay to replace it up to the limits of the policy. When the value of your insurance policy has kept up with increases in local building costs, a similar dwelling can generally be rebuilt for an amount that is within the policy limits.

Some insurance companies offer a replacement cost policy that will pay a certain percentage over the limit to rebuild your home — 20 percent or more, depending on the insurer — so that if building costs go up unexpectedly, you will have extra funds to cover the bill. These are called extended replacement cost policies. A few insurance companies still offer a guaranteed replacement cost policy that pays whatever it costs to rebuild your home as it was before the disaster. But neither an extended nor a guaranteed replacement cost policy will pay for the use of more expensive materials than those that were used in the one that was destroyed.

Mobile Home: If you own a mobile home, you may have a policy based on replacement cost, actual cash value or, in a few cases, a "stated amount." With a stated amount policy, the maximum amount you receive if your home is destroyed is the amount you agreed to when the policy was issued. The depreciation in the value of your home is not considered in the settlement. If you opt for the stated amount, update your policy annually to make sure that the stated amount will cover the realistic cost of replacing your mobile home. Check with local mobile home dealers to find out what similar homes sell for now.

Policy Limits

The value of most peoples' insurance policies is adequate because the policies usually include an inflation-guard clause to keep up with increases in local building costs. If you have replacement cost coverage, your insurance company will pay the full cost of repairing or replacing the damaged structure with a building of "like kind and quality." In other words, if you were adequately insured and lived in a three-bedroom ranch before the disaster, your insurance company would pay to build a similar three-bedroom ranch.

Most insurance companies recommend that a dwelling be insured for 100 percent of replacement cost so that you have enough money to rebuild if your home is totally destroyed. **You may not be fully covered if you have made significant improvements on your house that have increased its value, such as enclosing a porch to create another room or expanding your kitchen, without informing your insurance company of the changes.**

Temporary Living Expenses

If you can't live in your home because of the damage, **your insurance company will advance you money to pay for reasonable additional living expenses**. The amount available to pay for such expenses is generally equal to 20 percent of the insurance on your home. So on a home insured for $100,000, up to $20,000 would be available. This amount is in addition to the $100,000 to pay for repairs or to rebuild your home. Some insurance companies pay more than 20 percent. Others limit additional living expenses to the amount actually spent during a certain period of time, such as 12 months, instead of a maximum percentage of the policy limit.

Among the items typically covered are extra food costs, increased housing costs, telephone or utility installation costs in a temporary residence, and extra transportation costs to and from work or school. Insurance policies often discuss additional living expenses under the heading "loss of use."

Rebuilding and Making Repairs

If your home was destroyed, you have several options.

- You can rebuild your home on the same site.
- You can sell the land your old home was built on and build in a different place, even another state.
- You may decide that you want to rent a new home. If you decide not to rebuild, the settlement amount depends on state law, what the courts have said about this matter, and the kind of policy you have. Find out from your insurance agent or company representative what the settlement amount will be based on.

Concerning repairs, suppose you decide to change the flooring materials when you rebuild. If you replace an expensive floor with materials that are cheaper, you are not entitled to the difference in cash.

Other Factors

Compliance with Current Building Codes: Building codes require structures to be built to certain minimum standards. In areas likely to be hit by hurricanes, for example, buildings must be able to withstand high winds to reduce the risk of hurricane damage. If your home was damaged and it was not in compliance with current local building codes, you may have to rebuild the damaged sections according to current codes.

In some cases, complying with the code may require a change in design or building materials and may cost more. Generally, homeowners insurance policies won't pay for these extra costs, but some insurance companies offer an endorsement that pays a specified amount toward such changes. (An endorsement is a form attached to an insurance policy that changes what the policy covers.)

The Use of Public Adjusters: Your insurance company provides an adjuster at no charge to you. You also may be contacted by adjusters who have no relationship with your insurance company and charge a fee for their services. These are known as public adjusters. If you decide to use a public adjuster to help you in settling your claim, this service could cost you as much as 15 percent of the total value of your settlement. Sometimes after a disaster, the percentage that public adjusters may charge is set by the insurance department. If you do decide to use a public adjuster, first check references and qualifications by calling the Better Business Bureau and your state insurance department.

Compensation for Damage

To Vehicles: If your car was damaged and you have "comprehensive" coverage in your auto insurance policy, you should contact your auto insurance company. If your car has been so badly damaged that it's not worth repairing, you will receive a check for the car's actual cash value — what it would have been worth if it had been sold just before the disaster. Your local bookstore or library may have used car prices that will give you an idea of what your car was worth.

To Trees and Shrubbery: Most insurance companies will pay for the removal of trees that have fallen on your home but they won't pay to remove the trees that have fallen and haven't caused damage to your home. They won't pay to replace trees or shrubbery that have been damaged in a storm because high winds cause so much damage to trees and shrubs every year that if trees and other landscaping were covered, homeowners insurance would be unaffordable.

From Water: Homeowners policies don't cover flood damage but they do cover other kinds of water damage. For example, they would generally pay for damage from rain coming through a hole in the roof or a broken window as long as the hole was caused by a hurricane or other disaster covered by the policy. If there is water damage, check with your agent or insurance company representative as to whether it is covered.

The Payment Process

Disasters can make enormous demands on insurance company personnel. Sometimes after a major disaster, state officials request insurance company adjusters to see everyone who has filed a claim before a certain date. When there are a huge number of claims, the deadline may force some adjusters to make a rough first estimate. If the first evaluation is not complete, set up an appointment for a second visit. The first check you get from your insurance company is often an advance. If you're offered an on-the-spot settlement, you can accept the check right away. Later on, if you find other damage, you can "reopen" the claim and file for an additional amount. **Most policies require claims to be filed within one year from the date of the disaster**. Remember that your insurance company won't pay more than the limits of the policy, unless you have an extended or guaranteed replacement cost policy.

Some insurance companies may require you to fill out and sign a "proof of loss" form. This formal statement provides details of your losses and the amount of money you're claiming and acts as a legal record. Some companies waive this requirement after a disaster if you've met with the adjuster, especially if your claim is not complicated.

The choice of repair firms is yours. If your home was adequately insured, you won't have to settle for anything less than you had before the disaster. Be sure the contractor is giving you the same quality materials. **Don't get permanent repairs done until after the adjuster has approved the price.** If you've received bids, show them to the adjuster when he or she arrives. If the adjuster agrees with one of your bids, then the repair process can begin. If the bids are too high, ask the adjuster to negotiate a better price with the contractor you would like to use. Adjusters may also recommend firms that they have worked with before. Some insurance companies even guarantee the work of firms they recommend but such programs are not available everywhere. Make sure contactors get the proper building permits.

If You Can't Reach an Agreement with Your Insurance Company: If you and your adjuster can't agree on a settlement amount, contact your agent or your insurance company's claim department manager. Make sure you have figures to back up your claim for more money. **If you and your insurance company still disagree, your insurance policy allows for an independent appraisal of the loss**. You hire an independent appraiser and your insurance company also hires an independent appraiser.Together the appraisers choose a mediator. The decision of any two of these people is binding. You and your insurance company each pay for your own appraiser and share the other costs. However, disputes rarely get to this stage.

Some insurance companies may offer you a slightly different way of settling a dispute called "arbitration." When settlement differences are arbitrated, a neutral "arbiter" hears the arguments of both sides and then makes a final decision.

How You Will Receive the Money: When both the dwelling and the contents of your home are damaged, you generally get two separate checks from your insurance comp-any. If your home is mortgaged, the check for home repairs will generally be made out to you and the mortgage lender (mortgagee). As a condition of granting a mortgage, lenders usually require that they are named in the homeowners policy and that they are a party to any insurance payments related to the structure. The lender gets equal rights to the insurance check to ensure that the necessary repairs are made to the property in which it has a significant financial interest. This means that the mortgage company or bank will have to endorse the check. Lenders generally put the money in an escrow account and pay for the repairs as the work is completed.

You should show the mortgage lender your contractor's bid and say how much the contractor wants up front to start the job. Your mortgage company may want to inspect the finished job before releasing the funds for payment. If you don't get a separate check from your insurance company for the contents of your home and other expenses, the lender should release the insurance payments that don't relate to the dwelling. It should also release funds that exceed the balance of the mortgage. State bank regulators often publish guidelines for banks to follow after a major disaster, setting out how these and other matters should be handled. Contact state offices to find out what these guidelines are.

Some construction firms want you to sign a “direction to pay” form that allows your insurance company to pay the firm directly. Make certain that you’re completely satisfied with the repair work and that the job has been completed before signing any forms. The firm then will bill your insurance company directly and attach the form you signed.

If you have a replacement cost policy for your personal possessions, you normally need to replace the damaged items before your insurance company will pay you. If you decide not to replace some items, you will be paid their “actual cash value.” Your insurance company will generally allow you several months from the date of the cash value payment to replace the item and collect full replacement cost. Find out how many months you are allowed. Some insurance companies supply lists of vendors that can help replace your property. Some companies may supply some replacement items themselves.

After Your Claim has been Settled and the Repair Work is Underway: Take some time to evaluate your homeowners insurance coverage. For example, was your home adequately insured? Did you have replacement cost coverage for your personal property? Talk to your insurance agent or company representative about possible changes.

Important Phone Numbers

STATE INSURANCE DEPARTMENTS

AK:	907-465-2515	NC:	919-733-2032
AL:	334-269-3550	ND:	701-328-2440
AR:	501-371-2600	NE:	402-471-2201
AZ:	602-912-8400	NH:	603-271-2261
CA:	916-492-3500	NJ:	609-292-5360
CO:	303-894-7499	NM:	505-827-4601
CT:	860-297-3800	NV:	775-687-4270
DC:	202-727-8000	NY:	212-480-6400
DE:	302-739-4251	OH:	614-644-2658
FL:	850-413-3100	OK:	405-521-2828
GA:	404-656-2070	OR:	503-947-7980
HI:	808-586-2790	PA:	717-787-2317
IA:	515-281-5705	PR:	787-722-8686
ID:	208-334-4250	RI:	401-222-2223
IL:	217-782-4515	SC:	803-737-6212
IN:	317-232-2385	SD:	605-773-3563
KS:	785-296-3071	TN:	615-741-2241
KY:	502-564-3630	TX:	512-463-6464
LA:	225-342-5900	UT:	801-538-3800
MA:	617-521-7794	VA:	804-371-9741
MD:	410-468-2000	VI:	340-774-7166
ME:	207-624-8475	VT:	802-828-3301
MI:	517-373-0220	WA:	360-753-7301
MN:	651-297-7161	WI:	608-266-3585
MO:	573-751-4126	WV:	304-558-3354
MS:	601-359-3569	WY:	307-777-7401
MT:	406-444-2040		

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