

The Homeowner's Guide to an Insurance Claim

Introduction

Filing an insurance claim can feel overwhelming, especially when a property owner encounters unfamiliar terms.

This guide explains complex terms in simple, everyday language and uses a practical example to make the concepts easier to understand.

Homeowners often approach insurance claims with questions like,

'I've never done this before - why is it so complicated?'

Drawing from years of experience, this simple guide addresses the most common concerns that homeowners have voiced to me. Understanding the following concepts should make the process easier to navigate.

This guide provides general educational information about property insurance claims. It is not legal advice and does not replace guidance from an insurance professional, attorney, or licensed adjuster.

1. Knowing the Role of an Insurance Contact Person

When dealing with an insurance claim, it's important to understand the roles of the various professionals involved. The terms insurance agent, insurance claims representative, and independent adjuster are often used interchangeably, but they each have distinct responsibilities in the insurance process. The following sections describe the role of each.

2. Insurance Agent

An insurance agent is the person who helps individuals or businesses select the right insurance policy. They act as intermediaries between property owners and insurance companies. Agents work directly with clients to assess their needs and recommend suitable coverage options, such as home, auto, or life insurance. There are two types of agents:

Captive agents: Represent a specific insurance company and can only sell that company's policies.

Independent agents: Work with multiple insurance companies and can offer a wider range of policies from various insurance companies to their clients.

Insurance agents are not typically involved in the claims process, but they may assist clients in understanding their coverage and provide guidance during the filing of a claim. They are often friends of the owners because of long standing relationships.

3. Insurance Claims Representative

An insurance claims representative (also known as a claims adjuster) works for the insurance company and is responsible for managing the claims process. Their main job is to assess whether a claim is valid and determine the amount of compensation the insured is entitled to receive. They primarily do the following:

- A. Investigate the claim by reviewing the policy, assessing damages, and talking to the policyholder.
- B. Communicate with the insured to gather necessary documentation and clarify details.
- C. Approve or deny claims based on the findings and in accordance with the policy terms.

The claims representative ensures that the policyholder receives a fair settlement according to the terms of their insurance policy.

4. Independent Adjuster (IA)

An independent adjuster is a third-party professional hired by an insurance company to evaluate claims. Unlike a claims representative who is employed directly by an insurer, an independent adjuster works as a contractor or on behalf of multiple insurance companies. They are typically called in to handle claims during times of high volume (such as after natural disasters) or when the insurer needs an unbiased opinion. Because of volume demands, IA's are often from another state. Independent adjusters primarily do the following:

- A. Assess damages to the property and provide an impartial evaluation.
- B. Write estimates and provide their recommendations to the insurance company regarding the settlement amount.
- C. IA's often have specialized expertise in certain types of claims, like property or auto damage.

Because they are not employed by the insurer, independent adjusters are seen as neutral parties, providing an unbiased evaluation of the claim.

5. Documenting Damage

When it comes to filing an insurance claim for damage, proper documentation is crucial. Without clear evidence, such as photos, it becomes difficult for the insurance company to verify the extent of the damage and make an accurate determination of compensation. Here's why documenting damage is essential and how time, bias, and objectivity play into the claims process.

6. Why Photos Matter

Photos are the most reliable and concrete form of evidence when it comes to proving damage. Simply saying that something is damaged (whether it's the roof, windows, or siding) isn't enough. Insurance adjusters need visual evidence to assess the condition of the property accurately. Photos should capture not only the damage itself but also the surrounding areas to show the full context. This helps establish the cause of the damage, whether it's from a storm, accident, or another source.

7. The Importance of Timing

Timing plays a critical role in an insurance claim. It's important to note when the damage occurred and when the claim was submitted.

It is important to know the time period for when the policy was effective. It is important to know when the storm occurred.

Not all policies are the same. Some policies have limitations on reporting damage and some do not.

8. Bias vs. Unbiased

In the claims process, bias refers to having a personal interest or stake in the outcome. For example, if someone stands to profit from a claim, they have a bias.

Contractors normally always have a bias toward a certain outcome. This doesn't mean their observations are invalid, but it's important to recognize that their judgment will be influenced by their interests.

Contractors talk differently away from owners hearing. It is a highly competitive field of work. Some companies employ salespeople whose sole job is to "sell roofs."

Why would a sales representative freely give their time to inspect a roof and tell the owners there is no sale to be made when their job is to sell roofs?

On the other hand, an unbiased party is someone who has no vested interest in the decision and doesn't stand to benefit from the claim's outcome. Their opinion is often valued as impartial, as their job is to objectively assess the damage and provide an honest evaluation.

9. Understanding the Estimate

When damage is found (or claimed) an estimate will be written. The insurance company will have an estimate. The contractor may produce an estimate. Sometimes they don't match. The main differences are often in the scope of work: what needs to be removed and replaced.

Determining what needs to be removed and replaced is normally the single most significant difference in an insurance dispute.

Understanding the terms in an estimate is essential for anyone reviewing it. The following are simple definitions commonly found in an estimate:

Replacement Cost: This is the amount needed to replace or repair the damaged property with materials of similar kind and quality, without considering depreciation. It ensures the home or belongings are restored to their original condition.

Actual Cash Value (ACV): Unlike replacement cost, ACV accounts for depreciation. It is the value of the item at the time of loss, considering its age and condition. It's essentially the cost to replace the item, minus its wear and tear.

Depreciation: This refers to the decrease in value of an item due to age, use, or wear. For example, roof shingles with a 40-year life that are 10 years old would have lost 25% of their value due to depreciation ($10 \text{ years} \div 40 \text{ years} = 25\%$).

Deductible: This is the amount the insured is responsible for paying out of pocket before insurance covers the remaining costs. For example, if the claim is \$10,000 and the deductible is \$1,000, the insurance will cover \$9,000. Deductibles are either a dollar amount or a percentage of the damage based on an agreement with the owner at coverage write-up.

Overhead: This represents the business operating expenses of the contractor. It includes costs such as office supplies, staff salaries, insurance, rent for their office space, and other administrative expenses. These are essential to keep the business running and are separate from the direct costs of labor and materials for the project.

Profit: This is the amount the contractor or company earns as income from the job after covering all the costs, including overhead. It's a reward for taking on the risks and managing the work.

O&P: O&P is short for Overhead and Profits. O&P is calculated as a percentage (often 10% for overhead and 10% for profit) of the total repair costs, including materials and labor. Not all claims will include O&P, though. Insurers usually add it when the repair project involves multiple trades (e.g., roofing, plumbing, and electrical work) or requires significant coordination, known as "general contractor-level work."

Net Claim: After subtracting the deductible and any non-covered expenses, the net claim is the amount the insured will receive from the insurer.

Total Recoverable Depreciation: If the policy has replacement cost coverage, the insured may be able to recover the depreciation amount after repairing or replacing the item. This ensures the owner receives the full replacement cost once the work is completed.

10. A Simple Example of an Insurance Estimate

A tree falls on a house, causing damage to the corner of the garage roof. Repairing the structural damage and replacing a section of the roof shingles will cost a total of \$10,000. The shingles, with a 40-year lifespan, are currently 10 years old. The cost to replace the damaged portion of shingles is \$3,000. The insurance policy includes a \$1,000 deductible. Here's how the claim might be processed:

Replacement Cost: \$10,000

Depreciation: \$750 for the shingles (25% of \$3,000)

Actual Cash Value (ACV): \$9,250 (\$10,000 - \$750 depreciation)

Deductible: \$1,000

Net Claim: \$8,250 (\$9,250 - \$1,000 deductible).

If the owner has replacement cost coverage, the owner can recover the \$750 depreciation for the shingles after completing the repairs. This would bring the total reimbursement to \$9,000 (\$8,250 + \$750).

O&P was not included in this example since there would be but one contractor doing all the work.

11. The Engineer's Role

The engineer's role in an insurance claim is limited to engineering and science. Engineers typically do not determine dollar figures. The engineer's role in an insurance claim is normally limited to determining:

1. What was damaged?
2. What was the cause of the damage?
3. When was it damaged?
4. Offer repair recommendations?

Engineers are licensed and regulated by the Board of Professional Engineers in the state where the work is to be done. For large, complicated projects, permits with the state will not happen unless an engineer is consulted.

12. The Building Code

The building code is a set of rules that establish minimum standards for the design, construction, and maintenance of buildings to ensure public health, safety, and welfare.

The International Code Council (ICC) is the organization that develops and prints model codes like the International Building Code (IBC) and the International Residential Code (IRC).

Once written, building codes are adopted by local, state, or national governments. For example, in Minnesota, the Minnesota Department of Labor and Industry adopts and enforces the Minnesota State Building Code which adopts most of the IBC and IRC.

13. The Building Department and Permitting

Building departments and permitting play a crucial role in ensuring the safety, compliance, and quality of construction projects, including re-roofing.

The building department oversees the enforcement of local building codes and regulations, which are designed to protect homeowners and the community.

Permits are required for a re-roof to verify that the planned work aligns with these codes, covering aspects like materials, structural integrity, and fire resistance.

This process helps to ensure that the project meets safety standards and is performed correctly by qualified professionals.

Obtaining a permit safeguards the current homeowners (and future owners) against potential legal or insurance complications in the future. Permits ensure proper licensing of contractors.

The permitting process also provides an opportunity for inspections, where building officials can confirm that the work is progressing appropriately and complies with all requirements. This oversight ultimately protects the homeowner's investment and contributes to the longevity of the property.

14. Code Inspections vs Quality Workmanship

Building officials conduct inspections during a project, like re-roofing, to verify compliance with local building codes and regulations. While these inspections provide a layer of oversight and help identify visible issues, they are not a guarantee that the contractor has completed every aspect of the work correctly or to the highest standard.

The code inspector focuses on key elements and may not uncover hidden problems or deviations from best practices.

Ultimately, the responsibility for quality workmanship rests with the contractor and the homeowner's due diligence in selecting reliable, properly licensed professionals.

15. Summary

Understanding these terms and the claims process can make filing an insurance claim smoother and less stressful.

If owners have policy questions, they should not hesitate to contact the insurance agent for personalized assistance with policy coverage issues.

If owners have questions about a specific claim, the question needs to be directed toward the insurance claim representative who is handling the claim.

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