

# **The Homeowner's Guide to Working with Property Insurance Claims**

By: Glenn Whitehead

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## **Introduction**

Having work done on your home is usually an exciting prospect. One big exception, however, is insurance work. If you are having insurance work done, it's because something bad has happened. A broken pipe has flooded your house, a grease fire has ruined your kitchen, a hailstorm has damaged your roof. The possibilities are endless. As a general contractor, I specialized in insurance repairs and restoration for several years, I'm a licensed insurance claims adjuster, and I have sustained significant damage to my own home from a hurricane. I've experienced it from all sides and I'm well aware of what a scary and stressful process it can be. I decided to write this manual to help others avoid some of the mistakes and problems I've seen made by others. As is the case with anything, dealing with insurance claims isn't nearly as frightening or intimidating, if you understand the process. I've broken it down into sections covering each step and tried to put it into terms that can be easily understood even if you have no background construction or insurance. The goal is to prevent the claims and repair process from becoming worse than the actual property damage.

# Section 1: Be Prepared

There are several basic steps you can take before you experience a loss that will make the process much easier to deal with.

**1. Know where your documents are-**Keep copies of your policy, mortgage, and contact information for your agent and the insurance company in a safe secure location away from your home. I would suggest a safety deposit box in a bank or in the safe box in a friend or relative's house. While you should also have copies in the safe waterproof proof box in your home, in the event of a catastrophe, such as a fire or flood, you may not have access to your home and papers. To simplify and expedite the process you must be able to quickly get your hands on these documents.

**2. Know and understand your policy and coverages-**Most people never think about what type of insurance they have until they need to use it. Avoid unpleasant surprises by reading your policy and if you're unsure about the coverages or limits, consult your agent. That's their job. Among the things you should know are:

- **What types of losses are covered?**-Most standard homeowners policies now exclude coverage for losses caused by water damage and mold. Many will not cover falling objects including trees or damaged electronics caused by power surge. There may be additional coverages you want or need to buy.
- **What are the policy limits?**-Many people don't realize they are under insured until they have a claim. Be sure that, in the event of a total loss, your policy will pay the amount needed to rebuild your home or replace your contents. As construction costs and consumer prices increase, you need to increase your policy limits. Talk to your agent to determine the amount of

coverage you need.

- **Do you have replacement value or actual cash value coverage?**-As things like roofs, appliances, furniture, and flooring a, their value depreciates. A refrigerator that cost you \$2000 ten years ago may only be worth \$500 today. Actual cash value coverage will only pay you what an item is worth today; not what you paid for it. Replacement value coverage will pay you the cost of replacing it with a brand-new one at today's prices. Replacement value coverage is more expensive, but well worth the price.
- **How much is your deductible?**-Years ago, deductibles were usually a standard flat rate (such as \$500 or \$1000). Today most policy deductibles are based on a percentage of the policy value. If you have a \$200,000 home, your deductible maybe 1% or \$2000, making it a waste of time to even file a claim on small damages. Many policies have a higher deductible for certain losses like hurricane or windstorm(**possibly double or triple the normal deductible**). Make sure you read the new policy when your coverage renews (usually yearly). Insurance companies have been known to change the deductibles and coverages without ever notifying the homeowner and; yes it's legal.
- **Keep a written inventory of contents.**-This will come in handy when processing your claim. Write down everything you have and it's value. Keep receipts for expensive items such as electronics and jewelry. Pictures and video are also a good idea. Keep copies in the safe place with your documents.
- **Keep some emergency supplies on hand.**-It is a condition of your policy that you make an effort protect your property against further damage in the event of a loss. This includes

things like covering broken windows and leaking roofs. You might consider keeping a tarp, hammer and nails, some duct tape, and possibly a cordless drill on hand. Your insurance will reimburse you for these items in the event of a loss. This is also a good way to cover your deductible. We'll cover that in further detail later.

## Section 2: What To Do When A Loss Occurs

Most importantly, don't panic. Make sure everyone is safe. Don't take foolish chances to try to save material possessions. It will seem horrible and frightening, but, if you've taken the steps we discussed in Section 1, your insurance will cover it. Keep a clear head and start the process.

**1. Take reasonable steps to protect the property.** Turn off the water supply if you've got a broken pipe, have broken windows and holes in the walls or roofs temporarily covered. But again, be careful. Don't climb up on a steep or structurally damaged roof. Don't use power tools in a rainstorm. The risks are just not worth it. Call your insurer. Most of them can send someone out to do emergency protective work and pay them directly.

**2. Report the loss as soon as possible.**-Most insurance companies have 24-hour claims lines. The sooner you start the process, the quicker you can begin resolving it. You should know the policy requirements for reporting, but if you do it in a reasonable amount of time, as dictated by the circumstances, you should be fine.

**3. Take pictures or video of the damages.**-It's important to get visible proof of the amount of damage before you begin making temporary repairs or cleaning up. Don't assume that the insurance company will take your word for it.

**4. Beginning assessing the amount and cost of the damages.**- Write a detailed list of everything that is damaged before things are thrown away in the cleanup. If you do it from memory, you'll forget things. Include every item from socks to books and DVDs.

It all adds up. If you lose power to freezers and refrigerators, inventory the ruined food before throwing it out

**5. Be careful what you sign.**-There are contractors and service companies that monitor emergency radios and prey on victims of catastrophes in their weakest moments. Carefully examine authorizations and agreements with emergency contractors to be sure you're not giving them the right to full proceeds of your claim in return for boarding up your roof. Don't be persuaded by them telling you how they will quickly negotiate your claim and get your home fixed. The insurer will move at their pace regardless of who you're contractor is. Never authorize them to begin work on your home without a detailed estimate and price that you've had a chance to thoroughly examine and compare with others. Don't make a bad situation worse by rushing into a contract with a crook.

## **Section 3: The Damage Estimate**

This is when the process can get confusing. Insurance companies and contractors will try to take the advantage of your lack of knowledge about the process. This is where knowing your policy and your rights will come in handy. Just remember, the only party that is concerned about your interests is you. Taking the following steps will help insure those interests are protected.

- 1.** Get an estimate from an adjuster and as many as three or four from contractors before accepting an offer from the insurance company. Adjusters will sometimes offer to write you a check on their first visit. This is great, but don't sign anything finalizing or closing the claim until you've got some other cost estimates to compare. Additionally, your insurance company may offer to send a contractor to your home instead of an adjuster. This eliminates their expense of having an adjuster come out and write an estimate. The contractor will write it and send it to them for approval. The problem is; these contractors are working for their own interest and trying to keep the adjuster and the insurer happy. Nobody is looking out for you. It's fine to get an estimate from the insurer's "preferred contractor", but, have an adjuster come out as well and get some estimates from independent contractors. This is your home; you've got to control the process.

- 2.** Don't authorize the contractor to negotiate with your insurance company. You can get estimate from them and use it to negotiate. However, you should always maintain control.

- 3.** Don't accept a lowball offer. You do have rights and insurance

companies are obligated by law to pay you a fair amount. To get the maximum amount available, you should use multiple bids from reputable contractors because these estimates will include overhead and profit. If you elect to handle the repairs yourself, then you can keep the profits (usually about 20%). We'll talk more about this later. If the insurer refuses to budge on their offer and you still believe it's not enough, you may need the services of a public adjuster. This is a licensed adjuster, who will represent you in negotiations. They will usually work for a percentage of any additional money they obtain for you. While there are attorneys who will do the same thing, the fees will most likely be higher.

**4. Don't close the claim until the work has been completed**  
Many times, after you agree on an initial damage estimate, the insurer will ask you to sign a form closing the claim, relieving them of any responsibility for paying for any further work associated with the loss. Don't sign it. Additional damage that was not initially visible may be uncovered when the work is underway. The insurance company is still responsible for covering this damage unless you have relieved them of that responsibility.

## Section 4: Contracting The Work

I would strongly recommend not hiring contractors until you have agreed on a price with the insurance company. As I mentioned earlier, some contractors, who specialize in insurance losses, will immediately pressure you to sign an authorization (which is in fact, a contract) and tell you they will work for whatever the insurer pays. But, unless the price of the work is written into the contract, they are not bound by what the insurer pays and may later send you a bill for, what they claim, is the difference. Even though you will be eager to begin the repair process, don't make a costly mistake. After you have negotiated a settlement with your insurance company, you can then assess all of the candidates to decide the best way to get the job completed. If you've got multiple estimates in the beginning, you can evaluate the bidders and make a choice. If you are not impressed by any of the bidders; keep looking. There are reliable contractors out there to work with. My

[Do It Yourself Contractor Kit](#) has all of the tools you will need to guide you through the process of selecting and hiring a contractor. When interviewing contractors, it's important that you explain that the job is being funded by the insurance company and that progress payments, as well as final payment, may be subject to inspections by your insurance or mortgage company. This should also be spelled out in the written contract to avoid disputes later. One option that's available is; acting as your own general contractor and managing the process yourself. While it will take a commitment and a lot of time on your part, it will help insure that the work is completed to your satisfaction and you can put the overhead and profit in your pocket. Your policy probably states

that you are not entitled to profit from the loss. There is nothing, however, that says that you or a friend or relative, cannot be a contractor and be hired to perform the work. In this case, you're not profiting from the loss, you're just paying yourself for doing the repairs. You can print business cards on the computer, open a business checking account if necessary, and print your own proposals, invoices, and receipts for documentation. You are obligated to use the insurance funds to perform the work and return your home to equal or better condition than before the loss. But, your insurer or mortgage company cannot dictate who will do the work. While were on the subject, the insurer or mortgage company may pressure you to tell them who your contractor is and then wish to issue a two-party check to you and the contractor. This is their way of being certain that you don't pocket the funds and leave the house in damaged condition. Tell them to make the check out to you only and that they are welcome to perform periodic inspections before releasing further funds. Having someone else's name on the check reduces your control of the project. If you have a mortgage on your home, chances are, the insurance checks will be made to you and the mortgage company. This is to protect their interests and you cannot prevent it. However, the mortgage company is required to respond in a timely manner in inspecting the work and dispersing the funds to you. They may also require releases of lien by the contractors before releasing progress and final payment. For more information on the payment process and the necessary forms and documents, [click here](#). Your insurer may try and induce you into using one of their preferred contractors by telling you they will warranty the work. Do the proper homework in selecting your contractor and get your warranty from them. I'm not saying you should never use the preferred contractors. Many of them are qualified reputable companies. But you should use the same methods of investigating them that you do others and contract directly with them; independent of the insurance company. I can't stress enough that

you keep the insurer out of the repair process. It is not their job and they are not qualified to do it. Always keep in mind; insurance adjusters are paid by insurance companies. They are looking out for the people who sign their paychecks; not you. There many of them who are honest, good people, who will treat you fairly. Just don't rely on them to look out for your interests.

## **Section 5: The Repair Process**

Whether you hire a general contractor or choose to oversee the work yourself, you want to be sure that the home is restored to equal or better condition than it was in before the loss (when handled properly, it should be in better condition). This means inspecting the work as it progresses and making corrections when needed. The contractors are working for you and the responsibilities should be detailed in their contract. Hold them to it. The only leverage you have is the money. Don't pay too much in advance and don't pay for work that hasn't been done or is unsatisfactory. Most contractors will require a deposit or down payment. On smaller items of \$5000 or less, 50% may be acceptable. On amounts larger than that, I would try to keep it to 25% or at the most one third of the contract amount and agree to make regular progress payments as the work is completed. Keep in mind, when large sums are involved, the mortgage company will, most likely, only release a portion of the money initially. Do not make final payments until work has been completed to your satisfaction. Once you've paid, your leverage and control are gone. Before releasing payments you should get partial and final releases of lien from your contractors and subcontractors. If you're using a general contractor, you will need releases from them and their subs. If they don't pay their subcontractors, those subs can legally place a lien against your property which may force you to pay them additional money in order to have the lien released. This will, most likely, be required by your mortgage company. But, you need

copies to protect yourself. This is true of any work you have done your home, not just insurance work

## Section 6: Terms and Definitions

The following are language and terms, commonly used in insurance policies and damage estimates. Having some knowledge and understanding of their meaning will help you make informed decisions and protect your interests.

**Perils Insured Against**-These are the causes of damages that your insurance policy covers such as: fire, hailstorm, hurricane, and vandalism, etc..

**Date of Loss**-The actual date that the home was damaged

**Dwelling**-The actual structure of the home

**Contents**-These are your personal belongings. They include everything from furniture and freestanding appliances to your clothes, books, and children's toys, etc..

**Exclusions**-These are things your insurance policy will not pay for they may include perils such as water damage or mole or certain possessions. Read your policy carefully

**Other Structures**-These are buildings or amenities to your property that are not attached to the dwelling. This could include a detached garage, decks and gazebos, or fencing.

**Remove/Reset**-Commonly abbreviated in estimates are "R/R", this is the process of removing an item to do work, such as painting, and putting the same item back in place. This should not be confused with replacing the item with a new one.

**Policy Limits**-This is the maximum amount the insurance company will pay for each coverage regardless of the price to actually make repairs. It's important to periodically review your coverages to insure they're adequate. If a fire causes \$225,000 in damages, but, the insurance policy limits for the dwelling are \$185,000, that's all you'll receive.

**Like Kind and Quality**-Your insurance policy will pay to return your home and contents to equal condition of the prior to the loss. They will not pay additional money to cover items that are unique or no longer available. For instance: if the lower cabinets in your kitchen are damaged and are no longer available, they will not pay for upper cabinets to match, if the uppers were not damaged. Some adjusters may let you slip this one by, but, don't count on it.

Hopefully, this manual has provided you with the resource for working through the unpleasant process of insurance restoration. It doesn't have to be a horrible experience. In fact, if done right, you should have a nicer home when finished than before the loss

For more information on the construction and repair process, visit us online at [YourselfHomeRepair.com](http://YourselfHomeRepair.com) or, for a step-by-step guide to managing your repair or remodeling project, check out my [Do It Yourself Contractor Kit](#).

Thanks for your purchase and good luck!

Glenn Whitehead