

Homeowners Insurance Claim Settlement Process

If you have suffered damage to your home or personal belongings as the result of a natural disaster you likely have many unanswered questions about how the insurance settlement process works. Keep in mind that it is a process that needs to be worked through step-by-step, but there is plenty of assistance available to you through your insurance company and other financial service providers.

Insurance Settlement Process Step-by-Step

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Step 1: Adjusting Your Claim

When you are allowed back into your home contact your insurance company to set up a meeting with a claims adjuster. An adjuster will inspect the damage to your home and offer you a certain sum of money for repairs. The first check you get from your insurance company is often an advance against the total settlement amount. It is not the final payment.

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 disaster. Check with your state department of insurance.

When both the structure of your home and personal belongings are damaged, you generally receive two separate checks from your insurance company, one for each category of damage. You should also receive a separate check for additional living expenses that you incur while your home is being renovated.

Step 2: What About My Mortgage?

If you have a mortgage on your house, the check for repairs will generally be made out to both you and the mortgage lender. As a condition of granting a mortgage, lenders usually require that they are named in the homeowner's 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 let the lender know 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 to the contractor. Bank regulators have guidelines for lenders to follow after a major disaster. If you have any questions, contact your state banking department.

Step 3: How Do I Select a Contractor and Who Pays?

Hiring a reputable contractor to do repairs or construct a new home is critical. Word of mouth is still one of the best ways to choose a contractor. Also check with the area Home Builders Association, Better Business Bureau or Chamber of Commerce. Make certain they are licensed and have adequate insurance coverage.

Don't become a victim of disaster fraud. After a natural disaster, professionals often go from door-to-door in damaged neighborhoods, offering clean up or repair services. Many of these business people are reputable. Others are not. The dishonest ones may pocket payment without completing the job or use inferior materials and perform shoddy work not up to code.

Contractor Checklist:

- Get more than one estimate. Don't be pushed into signing a contract right away.
- Get everything in writing. Cost, work to be done, materials, time schedule, guarantees, payment schedule and other expectations should be detailed.
- Demand references and check them out.
- Ask to see the salesperson's driver's license and write down the license number and license plate number.
- Ask for proof that the contractor is bonded, carries liability insurance, and covers his/her workers with workers compensation insurance.
- The contractor's business card should have a verifiable street address and office phone number.
- Never sign a contract with blanks; unacceptable terms can be added later.
- Never pay a contractor in full or sign a completion certificate until the work is finished. Request a lien waiver indicating the contractor has paid its subcontractors and suppliers.
- Insurance coverage may be rendered void if intentional misrepresentation by a policyholder is discovered.
- If you believe you have been approached by an unlicensed contractor or adjuster, or have been encouraged to fabricate an insurance claim, contact your insurance company or call the National Insurance Crime Bureau Hotline at 1-800-TEL-NICB (1-800-835-6422).

How Does the Contractor Get Paid?

Some construction firms require you to sign a 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 you let the insurance company make the final payment. Remember, you won't receive a check for the repair job. The construction firm will bill your insurance company directly and attach the "direction to pay" form you signed.

Step 4: What About My Stuff?

The first step is to add up the cost of everything inside your home that has been damaged in the disaster. Now is the time to review your personal inventory, to help you remember the things you may have lost. If you don't have an inventory, look for photographs or videotapes that picture the damaged areas. For expensive items, you may also contact your bank or credit card company for proof of purchase. When making your list, don't forget items that may be damaged in out of the way places such as the attic or tops of closets.

Most companies provide coverage for 50% to 70% of the amount of insurance you have on the structure of your home. So, if you have \$100,000 worth of insurance on the structure of your home, you would have between \$50,000 to \$70,000 worth of coverage for your belongings.

How Do I Collect Payment?

If you have a replacement cost policy, you will be reimbursed for the cost of buying new items. An actual cash value policy will reimburse you for the cost of the items minus depreciation. Regardless of which type of policy you have, the first check will be calculated on a cash value basis. Most insurance companies will require you to purchase the damaged item before they will reimburse you for its full replacement cost.

If you have financed your home, your bank may have received a check for both repairs to your home and your possessions. If you don't get a separate check from your insurance company for your belongings, ask the lender to send the money to you immediately.

If you have a replacement cost policy, you may be required to buy replacements for items damaged before your insurance company will compensate you. Make sure to keep receipts as proof of purchase.

If you decide not to replace some items, in most cases you'll be paid the depreciated or actual cash value of the items that were damaged. You don't have to decide what to do immediately.

Your insurance company will generally allow you several months from the date of the cash value payment to replace the item. Ask your agent how many months you are allowed before you must replace your personal possessions. Some insurance companies supply lists of vendors that can help replace your property.

Step 5: How Do I Get By While My Home is Repaired or Rebuilt?

Additional Living Expenses. Your check for additional living expenses should be made out to you and not your lender. This money has nothing to do with repairs to your home and you may have difficulty depositing or cashing the check if you can't get the mortgage lender's signature. This money is designed to cover your expenses for hotels, car rentals and other expenses you may incur while your home is being fixed.

Step 6: Options for Rebuilding

If your home has been destroyed, you have several options:

Rebuild your home on the same site.

The amount of money you'll have to rebuild your home depends on both the type of policy you bought, and the dollar limit specified on the first "declarations" page of your policy. Generally, you are entitled to the replacement cost of your former home, providing that you spend that amount of money on the home you rebuild. Remember, your insurance policy will pay to rebuild your home as it was before the disaster. It won't pay to build a bigger or more expensive house. A similar rule applies to repairs.

Decide not to rebuild or to rebuild in a different location.

The amount you'll get from your insurer will be determined by your policy, state law, and what the courts have ruled on this matter. If you decide not to rebuild, review your policy and ask your insurance agent or company representative what the settlement amount will be.

RMIA offers the following advice to speed the insurance claims settlement:

- Call your insurance agent or insurance company's 800 number. Be prepared to give your agent or insurance representative a description of your damage. Your agent will report the loss immediately to your insurance company or to a qualified adjuster who will contact you as soon as possible to inspect the damage. Be sure to give your agent a telephone number where you can be reached.
- Take photos of the damaged areas. These will help with your claims process and will assist the adjuster in the investigation.
- Prepare a detailed inventory of all damaged or destroyed personal property. Be sure to make two copies - one for yourself and one for the adjuster. Your list should be as complete as possible, including a description of the items, dates of purchase or approximate age, cost at time of purchase and estimated replacement cost.
- Collect canceled checks, invoices, receipts or other papers that will assist the adjuster in obtaining the value of the destroyed property.
- Make whatever temporary repairs you can. Cover broken windows, damaged roofs and walls to prevent further destruction. Save receipts for supplies and materials you purchase. Your insurance company will reimburse you for reasonable expenses in making temporary repairs.
- Secure a detailed estimate for permanent repairs to your property and give it to the adjuster. The estimate should contain the proposed repairs, repair costs and replacement prices.

Serious losses will be given priority. Even with many additional adjusters, it will take time to process the many damage claims being filed. If your home has been seriously damaged, your agent will do everything possible to assure you are given priority.