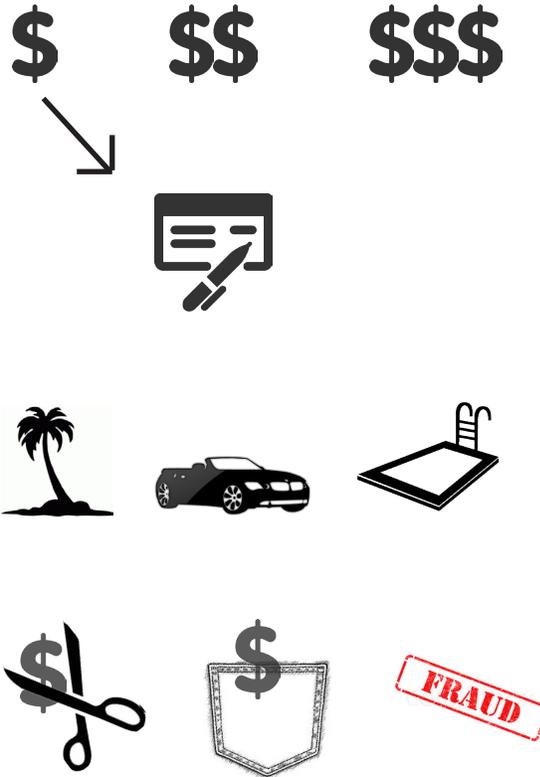


How Insurance Companies USED to Pay vs. How They Pay NOW

USED to:

- Ask homeowner to collect 3 bids
- Would choose the lowest one & write 1 single check for the total amount
- Unfortunately, some people then used the check meant to replace their roof to go on vacation/buy a car/pool/etc.
- OR, had their uncle/neighbor/or Joe Schmo do the job for a fraction of what the insurance paid, not pay their deductible and pocket the rest....which is insurance fraud.



NOW:

- Adjuster writes the estimate using fair market pricing software. They no longer accept "bids." (i.e., bids are irrelevant)
- Insurance writes 2 checks: 1st = only a fraction of the total claim (ACV check). They withhold the rest as "depreciation." Homeowner is responsible for out of pocket deductible.
- This 2nd check is only paid AFTER full claim amount has been invoiced. (Similar to a deposit: imagine you were a homeowner putting in a swimming pool. You would pay a deposit up front [ACV], and when the work was done, you'd pay the rest [depreciation].)

Total claim RCV: \$10,000
 Homeowner's out of pocket deductible: \$1,000
 Insurance funds available: \$9,000




 Deductible: \$1,000
 [out of pocket]


 1st ACV: \$6,000
 [issued immediately]


 2nd Depreciation: \$3,000
 [WITHHELD]

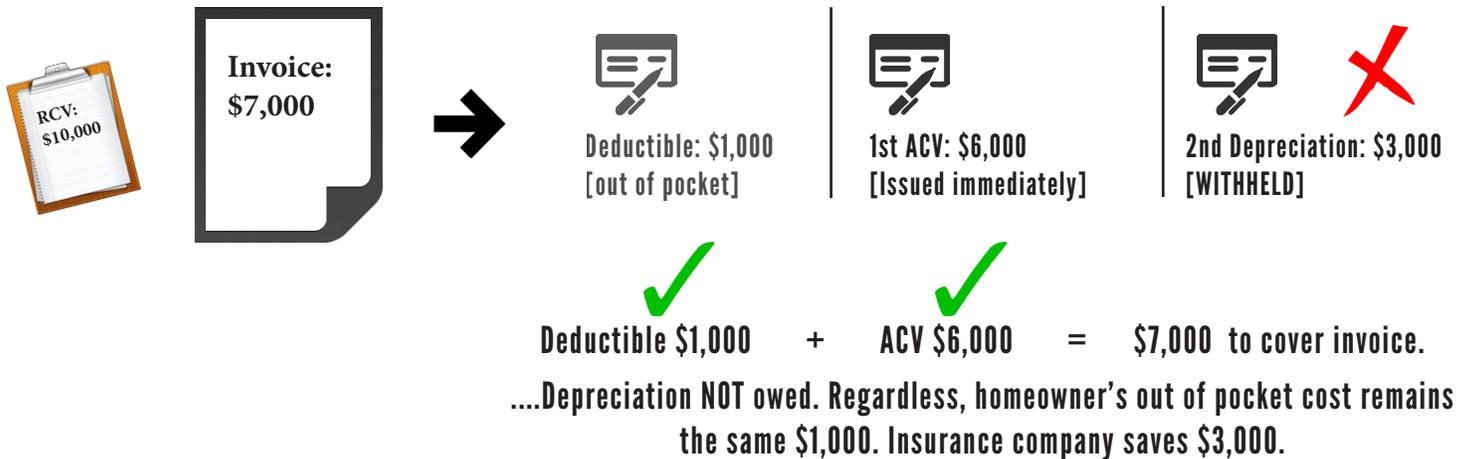


Full Depreciation of \$3,000 released to cover full cost.

\$1,000 + \$6,000 + \$3,000 = total RCV coverage of \$10,000

SO...

- If invoice reflects a **lower amount than the original estimated total**, insurance releases **ONLY enough to cover the invoiced amount**, nothing more.



- In the end, homeowner **ONLY** pays their deductible out of pocket, nothing more. So they can't save or pocket any money by "bid shopping." In fact, it only benefits the insurance company!
- It only makes sense that the homeowner gets the best quality work done for the amount allowed. Their out of pocket expense remains their fixed deductible amount regardless of the final price, so wouldn't they rather get a \$10,000 roof for \$1,000 instead of a \$7,000 roof for the same \$1,000?

If you could pick a brand new car for just \$1,000, would it make more sense to choose a Honda Civic or a brand new BMW?



\$1,000



\$1,000

DUH!

It makes the most sense to get the maximum VALUE for the amount you would personally be spending.

Deductibles



The **deductible** is the fixed amount out-of-pocket expense that a policyholder must pay before the insurance company will cover expenses above and beyond that cost for an incurred loss. (Think: co-pay at the doctor's office.)

Example: a homeowner may have a replacement cost policy with a \$1,000 deductible that covers their property against loss for up to \$500,000. If a tree fell on the house and caused \$10,000 worth of damage, the homeowner would pay just their \$1,000 deductible toward the repairs in their claim, and the insurance company would pay for the remaining \$9,000. Likewise, if a tornado came and wiped out the entire house, leaving \$500,000 worth of "repairs," the homeowner would still only be responsible for the \$1,000 deductible out of pocket, and the insurance company would pay the remaining \$499,000.

Property insured up to \$500,000 with fixed deductible of \$1,000



Claim: \$10,000
Out of pocket: \$1,000



Claim: \$500,000
Out of pocket: \$1,000

Note: some policies may have percentage deductibles typically ranging from 1-2% of the total value the home is insured for. In this case, a 1% deductible on a \$500,000 home would equal \$5,000.

Policy & Premium

The deductible is part of the "policy," which is a contract a homeowner has with their insurance company. For example, the policy (contract) a homeowner may have with their insurance company says that in exchange for an annual premium payment of \$1,750, their homeowners insurance policy will cover up to \$500,000 in losses toward their home, with a deductible of \$1,000. This means that per the contract, the homeowner's obligations are to pay the annual insurance premium, and in exchange, in the event of a loss the insurance company will cover any losses above and beyond the first \$1,000. That being said, for a minor loss that results in \$800 in damages, filing a claim would be unnecessary, because it does not even exceed the deductible amount which the homeowner would be responsible for.