Your Neighbor's Roofer

Multiple Bids??

What Should Penny Wise Do???

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Chapter 20 - NEVER PUT YOUR WORK OUT FOR BID WHEN YOU HAVE AN INSURANCE CLAIM

This probably sounds counterintuitive, doesn't it? I know what you're thinking - "I'm a pretty shrewd guy. I figure that I can get my insurance check, put the job out for bids, hire a cheap contractor, and put a pretty tidy sum of cash in my pocket.

Besides, my adjuster told me to get three bids." Is it really possible to profit from an insurance claim? Not likely if you want to avoid committing insurance fraud and here's why:

The insurance industry absolutely abhors the idea of policyholders profiting from their insurance claims, with good reason. It violates the principle of indemnification – breaking even/being made whole.

That's why they have built in a safeguard to prevent such a scenario from occurring – it's called holding back **depreciation**. We covered the subject of depreciation two chapters back. Let's think back a minute to a previous lesson regarding the principle of indemnification.

To recap - the principle of **indemnification** states: "*Indemnity is the basis and foundation of insurance coverage. The objective is that your insured should* ***neither reap economic gain nor incur a loss*** *if adequately insured. This objective requires that your insured receive a payment equal to that of the covered loss so that your insured will be restored to the same financial position after the loss as before the loss*"

> **Profiting: Pocketing more than the amount of your actual loss.**
>
> **= Indemnification: Breaking even (minus your deductible of course).**
>
> **Losing: The event causes you to sustain an economic loss – you are having to come out of pocket more money than your deductible.**

So how does the insurance industry use depreciation to prevent policyholders from profiting from their insurance claim? It works like this; let's picture an imaginary homeowner named Penny Wiese and she has a hail claim that has made the replacement of her roof necessary. She has what's called a 20-year 3-tab roof (meaning her shingles have a life expectancy of 20 years – a 20 year warranty). Let's assume that her roof is 8 years old. She makes a claim for hail damage and her insurance carrier sends out one of their claims adjusters. The adjuster does his inspection and determines that her roof is a total loss and requires replacement. Penny receives a check along with the adjuster's claim estimate for the following amount according to the adjuster's estimate (we'll use round numbers to keep it simple):

Using the previous example of Penny Wiese:
Replacement cost of the roof: $10,000 – The amount it will cost to replace Penny's roof using materials of **Like Kind and Quality** (LKQ).

Applicable depreciation: $4,000 - If Penny has a roof with a 20-year life expectancy, and it's 8 years old, then the carrier will likely depreciate the roof 40% or $4,000;

Actual cash Value: $6,000 - The depreciated (ACV) value of the roof;

Deductible: $2,000 - Penny's co-pay – her contribution for the work to restore her damaged property.

Initial check: $4,000.

> **Replacement Cost – Depreciation = Actual Cash Value – Deductible = First Check**
>
> **$10,000 - $4,000 = $6,000 - $2,000 = $4,000**

As stated previously, Penny does not receive a check for $10,000 up front. Here's what the policy language (in a standardized homeowner's policy) states about how the checks are issued:

> *We will pay only the actual cash value of the damaged building structure(s) until repair or replacement is completed. Repair or replacement must be completed within 365 days after loss unless you request in writing that this time limit be extended for an additional 180 days. Upon completion of repairs or replacement, we will pay the additional amount claimed under replacement cost coverage.*

This means that in Penny's case her carrier will send her the actual cash value (depreciated value) payment minus her deductible - that's $4,000 up front. As long as Penny completes the work and requests the depreciation amount being held back (thus called the *hold-back*) within 365 days **from the date of the loss** (not from the date of issue of the first check), they will send her the depreciation amount being held back.

Penny, being the shrewd consumer that she is, put her roof project out for bid. She got three estimates, the cheapest being $7,500. She paid El Cheapo Stinko roofers a $4,000 (her initial check) down payment. She plans on collecting the $4,000 in depreciation being held back from the carrier and adding it to her $4,000 first check. She plans to pay her contractor the remaining $3,500 (out of her $4,000 hold-back check) and put a cool $500 in her pocket without having to pay any deductible. Penny believes that she is a genius – **she is not –** her plan will **not** work.

Here's the rub: Once Penny's cheap contractor finishes the work and invoices her, she requests the hold-back. The carrier will ask her for either a receipt or final invoice from her contractor. They **could** (and very well may) even request copies of cancelled checks that she made out to the contractor for the work – this is not nearly as uncommon as people believe.

Oops – Penny is in a bind, especially if they ask for copies of cancelled checks. Penny has a receipt for $7,500, not $10,000, if her cheap roofer gave her a receipt at all. She has a decision to make, being on the ball, realizes that if she sends in the $7,500 receipt that her contractor gave her for the work, the carrier is only obligated to send her an extra $2,500, not the full $4,000 being held back. $7,500 invoice - initial check $4,000 = $3,500 (minus her $2,000 deductible) = $1,500 second check, **NOT** $4,000. Wow - she's only getting another $1,500 from the carrier. She will **still** be $2,500 short.

Penny is reimbursed for only what she **actually spends** and not one cent more. Penny realizes that she's in a bind. The insurance industry knows full well how consumers think when a substantial amount of money is put into their hands. People want to **game the system** and keep some of that money for themselves – carriers are not stupid.

Here's the policy language that creates this agreement (emphasis mine):

> *Upon completion of repairs or replacement, we will pay the additional amount claimed under replacement cost coverage, **but our payment <u>will not exceed</u> the smallest of the following**:*
>
> *(1) the limit of liability under this policy applicable to the damaged or destroyed building structure(s);*
>
> *(2) the cost to repair or replace that part of the building structure(s) damaged, with material of like kind and quality and for the same use and occupancy on the same premises; or*
>
> *(3) the amount actually and necessarily <u>spent</u> to repair or replace the damaged building structure(s).*

Basically, this policy language states that the carrier limits their payment to Penny to an amount not to exceed how much it actually **cost her** to repair the damage with materials of like kind and quality - never to exceed the policy limits. In Penny's case, this is $7,500 since this is how much El-Cheapo-stinko roofing company charged her to replace her roof. So Penny thought that she was going to put a cool $500 in her pocket from this claim and not have to pay her $2,000 deductible.

It Gets Even Worse for Penny

Penny **likely** got a substandard, maybe even illegal (not to code) roof because any contractor that offers to perform work for a deeply discounted rate less than insurance company pricing almost certainly cuts corners, doing cheap work to help offset the cost of the discount that they gave Penny. Would you do work that's worth $10,000 for only $7,500? Perhaps if you were desperate. Who knows if her roofer cut corners – Penny certainly does not! We have caught El-Cheapo-stinko roofers even putting seconds (factory rejects) on unsuspecting consumers' roofs. A '**second**' is a shingle that did not pass the manufacturer's standards to bear their name, so they sell them out back of the plant without their name on them – they have no wrappers on them. This is not an uncommon practice with the El-Cheapo-stinko roofers of the world.

Caveat Emptor – Buyer Beware

There Is No Such Thing as a Free Lunch

If It Sounds Too Good to Be True, It Likely Is!

Her gears are turning now – Occasionally, it occurs to homeowners like Penny that they could falsify a receipt or final invoice and collect the entire $5,000 hold-back. There are even contractors out there who will not only suggest policyholders do this but even suggest it and assist them with such activity. Here is where people **really get themselves into trouble**. By participating in activity such as this, you are committing insurance fraud. If the amount in question exceeds $1,500, such is the case with Penny, it is a felony. People who commit felonies are sent to the penitentiary - sometimes for extended periods of time. And the judge may add onto your sentence a substantial fine. If you mail, FAX or possibly even email the fraudulent invoice over state lines, then that also may be wire fraud on top of the insurance fraud – what a mess.

Here is the law and penalties regarding insurance fraud:

www.statutes.legis.state.tx.us/Docs/PE/htm/PE.35.htm

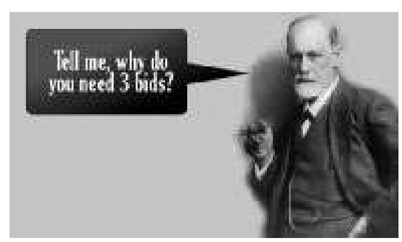
Here is the law and penalties regarding mail/wire fraud:

www.federalcharges.com/texas-wire-fraud-charges-penalties/

These penalties are substantial – it simply is never worth the risk.

In the interest of full disclosure, occasionally a carrier may forget to ask some policyholders to provide a receipt or final invoice before sending them the hold-back. Although this infrequently happens, are you going to bet (your freedom) that you will be this fortunate? Of course, you could go ahead and simply ask your adjuster or agent whether your carrier requires a receipt or final invoice to get the depreciation being held back. But this will be a neon sign over your head about what you are planning. Of course, they'll know **why** you're asking that question. They deal with these issues every day - day in and day out, and they are not stupid. They know many homeowners are trying to game the system.

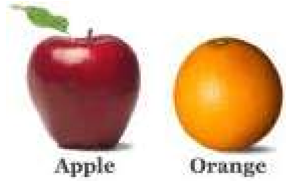
But my adjuster told me that I SHOULD put the work out for bid!



Of course they did – that's what they're taught to say by their managers. You putting your roof out for bid substantially increases the profit **for the carrier**. Think about it - if Penny put's her roof out for bid and gets the work done for $7,500, then the carrier will pay her only $7,500. Not the $10,000 original estimate that they made her. By suggesting (telling) the consumer that they need to get three bids, they just **saved themselves** a cool $2,500, unbeknownst to Penny, because Penny doesn't understand how the claims process works. Realize this, if a carrier has 10,000 storm-damaged roofs in your town X an average of $2,500 savings each, that's $25 million that should be pumped into your town's economy. Money that belongs to the consumer, but they do not get it because their told to get three bids and many believe that they can game the system. Aren't you glad that you're not Penny and that you found this website – share this eBook with your neighbors? So essentially, if Penny gets competitive bids to do the work, she is bidding against herself to the benefit of the carrier. This is why many reputable contractors don't go out and **bid against themselves** either.

Let's sum it up:

Getting bids to obtain a discount on your insurance work is not likely to save you any money or put any money in your pocket whatsoever. You will likely be saving the carrier a significant sum of money. How nice of you to be so thoughtful. Moreover, you'll be attracting exactly the kind of contractors that you want to **steer clear of**. More times than not, contractors who give discounts (off insurance pricing) are overwhelmed by the temptation to cut corners when performing these cheap jobs, in an attempt to make up for the discount that they have given you to get the job (more on that in a moment). The best roofers do not bid against other roofers on insurance claims, because they know that they are not participating in a fair bid system – it's apples to oranges. The good guys are bidding to do the work to industry standards



(IBC – building code) and carry insurance to protect themselves and their clients from accidents. El-Cheapo-stinko roofers will certainly be cutting corners, may be installing seconds, and certainly do not carry insurance. They may carry fake certificates implying that they do carry insurance, but they do not. Again, the bids are not apples to apples – not even close many times. How would you know for sure? You'd be amazed at the poor quality (illegal) roofs that we see all the time when we do inspections. What's more, the El-Cheapo-stinko roofer's warranty isn't worth the paper it's written on. What's the chance that they will still be in business, here in town, even one year from now? Slim to none.

OK, if I don't put the work out for bid, what should I do?

Now that's an intelligent question. We're going to recommend to you exactly the same thing that we would recommend our family, friends and/or neighbors do in similar situations. We would help them find a professional contractor in their area who doesn't perform work on the cheap - the reason is simple. Basically there are two different types of contractors:

1. Professionals: Professional contractors understand how the claims process works and know there's no advantage to the property owner receiving a discount with an insurance claim. They do great work for a fair price – at or near fair market pricing. Since they are not working on the cheap, they aren't tempted to cut corners performing work for you. They are insured and they train their workers to be hyper-safety conscious.

2. All others: These are sometimes called *mushroom roofers* (often gypsies) – they're called mushroom contractors because they pop

up overnight. Mushrooms are a fungus, by the way. They wilt in the sunlight shortly after they appear. Non-professionals **HAVE to give discounts**. It's the only way they know how to acquire customers, and sometimes they have to offer **deep** discounts. Rather than providing greater value to the policyholder, they always simply lower their price - and now we see that there is no advantage to either Penny or you in getting a discount from one of these swindlers.

Professionals do not work on the cheap. How would you like it if someone offered to pay you for work at 75% of the fair market rate where you work? What kind of work would you be tempted to do for the reduced payment? What about the average worker out there who feels like they're getting stiffed 25% off the fair market rate? Think about **this** - **carriers do not overpay** for property damage. They thoroughly research precisely what the fair market price is for any given locale, varying from month to month. If they tell Penny that the fair market value of her roof is $10,000, then even a $9,500 bid should cause Penny cause for concern. Why would a reputable contractor be charging **less than insurance prices**? Insurance companies love consumers getting discounts from contractors, because the discounts always revert back into **their pockets**. Now, do you see why the carrier recommends that you get three bids? By the way, the typical front-line adjuster hasn't thought this the whole way through either, but their boss certainly **has**.

THE TEMPTATION IS OVERWHELMING. The temptation for contractors to cheat and cut corners when performing work on the cheap on your property is **especially prevalent** on roofing jobs. As a former General Contractor, I was acutely aware that roofing contractors could

easily take shortcuts doing a roofing job because unless you are watching them continuously (assuming that you know what you're looking for), it will almost always go unnoticed. Unscrupulous roofers are well aware that the average consumer could sit under a shade tree in their front yard all day long and watch their every move and likely not be aware that they are cutting corners. GCs know that it is far easier to cut corners on roofing than on any other trade – **BY FAR!** Again, the temptation is overwhelming for **some** roofing contractors.

That's why 'discount roofers' have notoriously poor reputations, much like life insurance and used car salesmen.

By hiring a truly professional contractor that is not offering any discounts to lure in unsuspecting customers, the chances of the contractor being tempted to take shortcuts with your job is virtually eliminated. By hiring one of our pre-screened, recommended contractors (select the ‘**LOCATING A COMPETENT, REASONABLY PRICED CONTRACTOR WHO YOU CAN TRUST** ’ chapter), you have an excellent chance of getting a true professional that you can trust to do the right thing, every time while serving you. If your contractor referred you to this website, then they are likely one of our recommended contractors. If you're unsure, email us and ask.

Another huge benefit of hiring a true professional: There is one more significant benefit for hiring a professional contractor. You will actually get a fair settlement that includes **ALL** of the damage that you sustained, not just that which is easy to see and document. Based upon our experiences over the last few decades handling claims, the typical unscrupulous carrier's initial offer to settle the claim comes to only about 60-70% of what a homeowner is actually due. The same holds true in commercial claims as well.

How can this be? It's simple. As stated before, an insurance claim is nothing more than a financial negotiation, not that different from purchasing a car or a home. The carrier makes you an initial offer to settle a claim just like a prospective home buyer makes an initial offer to buy a home. The seller of the home is in no way

obligated to accept the first offer that comes along. In fact, if he does, he will be thought of as a simpleton. Likewise, if I ever have an insurance claim, there is no way that I'm simply going to lie down and accept whatever initial offer my insurance carrier happens to feel that I might accept. I would do my own thorough inspection, not a cursory one like many, super-busy adjusters perform. I would pay special attention to areas where I know from experience hidden damage is typically found.

But since you don't have our experience, you can hire one of our personally pre-screened and trained contractors to do this for you. They will be super thorough and make sure that every single thing is accounted for in their estimate of damage. Again, if you were referred to this website by a contractor, then they are likely one of our preferred contractors who we consult with. If you're not sure, email us the contractor's name and we'll let you know.

Don't be surprised if a true professional contractor's estimate is more (many times significantly more) than what the carrier is offering to settle your claim – again, the carrier is **making an <u>offer</u>** to settle. If you have hired a professional contractor and your carrier is lowballing your claim, then hire us and invoke the appraisal clause of your policy. The carrier must pay the fair market rate for the work necessary to restore your home to its pre-storm condition, using materials of like kind and quality. In appraisal, we will arrive at a price that allows you to do just that!