

Alan Daley: The new magnet for insurance scams in Florida

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When consumers experience water damage unconnected to hurricanes, they usually call a plumber, a roofing specialist or their insurance company to repair the damage.

The plumbing or roofing contractor will probably suggest that the consumer assign the insurance benefits, so that payment for any work will go directly from the insurer to the contractor – a process known as “assignment of benefits” (AOB).

Like in 49 other states across the U.S., the process is supposed to help consumers fix things quickly and let the insurer seamlessly settle claims, but Florida’s process is having some serious problems, which are leading to higher consumer prices.

The problems started small but have metastasized and they now require the immediate attention of honorable elected officials. [A new report](#) from Citizens, the state-owned insurer, details mounting AOB fraud. The report, “Non-Catastrophic Homeowner Water Claims” reveals that homeowners would have seen premium decreases in 2016 had it not been for AOB costs increasing exponentially.

The process has become a way for contractors and attorneys to wring out dollars from insurers well beyond the actual costs of repair. Some vendors (e.g. extraction companies or mold remediators) are so highly motivated to obtain an AOB that they sometimes offer roofers and plumbers a referral fee of up to [\\$1,500](#). The vendors’ bills sometimes include cost for unnecessary work or for work that is never performed. That extra cost leads to an increase in the insurance premiums that consumers pay and they deplete reserves set aside to repair damage from hurricanes.

When insurers question these costs, some attorneys will sue the insurance company on behalf of the repair contractor. The insurer is faced with paying the AOB invoice or paying the AOB invoice plus attorney fees. Florida law allows contractors’ attorneys to collect litigation fees from the insurer, if the attorney prevails in court.

On the other hand, if the insurer prevails, the insurer cannot collect litigation costs from the attorney. This encourages insurers to pay for suspicious vendor charges in order to avoid lawsuits. Other states allow for AOB arrangements, but none allow for this one-way attorney fee situation, which has helped spawn AOB fraud in Florida.

Proponents of the one-way attorney fee say it benefits consumers, but in fact it’s a scam that hurts consumers. Litigation is seldom needed to obtain payment for repairs and the litigation costs bloat the costs underlying insurance premiums that consumers will pay in future years.

Between AOBs that conceal unnecessary work or work never done and the one-way attorney fees, consumers are plagued by corrupt practices that make homeowners insurance far costlier than it should be. From 2013 to 2014, Florida was inundated with 92,521 AOB lawsuits — a [1,000% increase from 2005 to 2006](#).

Out of every insurance premium dollar, 18 cents go for future hurricane costs and 28 cents go to defray non-hurricane water damage costs. In Southeast Florida where AOB lawsuits are concentrated, 50 cents of each premium dollar is spent on non-hurricane water damage costs.

Citizens testified before its regulators that [“\[W\]ater losses are the major reason. Citizens is seeking rate hikes for the coming year, especially in South Florida. Were it not for water loss... 99 percent of South Floridians -Miami-Dade South Florida policyholders would be seeing rate decreases.”](#)

Florida’s homeowner insurance prices are among the highest in the nation, even though a hurricane hasn’t hit the state in over 10 years. Consumers need insurance for their homes, but they do not benefit from the pointless costs that the [nearly \\$1 billion](#) AOB scams add to insurance premiums. [Demotech](#), a firm that assesses the financial condition of insurance companies, predicted that at the current growth rate, AOB lawsuit costs will undermine insurance company stability in the state. Furthermore, Florida is the only state where AOB scams are prevalent and growing.

Floridians may have some hope thanks to an AOB reform bill in the Florida Senate (Sen. Hukill’s [SB 596](#)) and a House bill that is emerging as well. Whatever comes out of the Legislature this session, reforming this festering abuse is a must, if we ever hope to get homeowner insurance premiums under control in the state.

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