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Fraud Pushing Up Premiums In Florida
By Steve Pociask
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By some accounts, Florida has the highest homeowner's insurance rates in the country and rates keep rising, despite not having a major hurricane in the last decade. The culprit – a concentration of non-weather related water claims. In many cases, these claims are pushed along by unscrupulous contractors and attorneys.

According to Citizens Property Insurance Corporation (Citizens), the state-run insurer of last resort, 90% of all water damage claims come from the Miami-Dade, 30% of claims skip an inspection by the insurer and, as a result, many claims are packed with inflated costs. Because of one-way attorney's fees that give contractors strong leverage, insurers tend to settle blindly and quickly in order to avoid legal costs, which means that Floridians will pay more in 2016. In fact, water damage claims will mean that 99% of South Florida homeowners will see pay increases next year, instead of pay decreases, according to experts.

The problem is Assignment of Benefits (AOB) is a process that was originally designed to help Florida's consumers get their homeowner insurance claims paid more promptly by signing over control of their claims to vendors and contractors, thereby allowing insurers to pay vendors quickly and directly for repair work. In most states the process works just fine, but in Florida fraud has become a major problem and one that needs to be fixed.

How does this fraud happen? When Floridians sign over control of their insurance claims, they often do so under pressure or before insurance inspectors are able to see damages. This provides dishonest vendors – including water extraction companies, roofers, mold remediators and others – the opportunity to use the AOB process to inflate claim damages by adding more work than is needed or billing for work that is never performed. When insurers pay these claims, the added costs pass through to consumers in the form of higher premiums.

Alternatively, if insurers resist paying these inflated costs, the claims can become even more expensive. This is because law firms are operating side-by-side with shady vendors, even hosting classes where they teach vendors how to use the AOB process to maximum their revenues. The result leads to even higher costs for consumers – either indirectly from increased damage settlements and legal costs that insurers must pass along to consumers in the form of higher insurance prices, or directly from lawsuits and liens on homeowners.

The litigious activity is spurred on by “one-way attorney fees” that allow lawyers to get paid fees when they win, but gives insurers nothing when they win. The one-sided process encourages

attorneys to sue whenever possible, and encourages insurers to pay rather than go to trial – all of which increases your insurance rates.

It is “sue and settle.” It is fraud and all of this can happen without the homeowner ever realizing that overbilling has occurred or a lawsuit may have been filed in their own name.

Looking back, the number of AOB lawsuits involving residential properties increased from 70 in 2009 to more than 2,000 in 2014—about a 3,000% (that’s not a typo) increase over the years, which represents an astounding average compound growth rate of nearly 100% per year. In comparison, real U.S. per capita income grew at a compound average growth rate of 0.6% per year, according to the U.S. Census. On its current track, if not stopped, this fraud will soon be become a billion dollar per year business. While most consumers are treading water, these contractors and attorneys are getting rich.

Floridians should be preparing for the next major storm, but fraud is undercutting their efforts. Today, non-weather related water damage accounts for the majority of Citizen’s claims — not hurricane or storm damage. In Miami-Dade pay 56 cents of every premium dollar goes to water damage claims and only 2.6% goes to hurricane reserves.

Like the law of unintended consequences, rules that were designed to help consumers are now being perverted by an unscrupulous partnership between shady attorneys and dishonest vendors. Some water remediation businesses are so confident that they can overcharge insurers that they will pay referral fees to plumbers and other contractors as high as \$1,500. Some roofers are offering to pay consumer deductibles or give away a free flat screen TV in return for a signed AOB agreement to install a new roof — whether it is needed or not.

To rein in this fraud, Florida Senator Hukill has introduced reforms, and a companion House bill is expected soon. This legislation would give consumers more control over the process and still allow contractors to be paid directly by the insurer. It is a good pro-consumer compromise. If this bill gets blocked it would be a travesty for consumers.

It has been a decade since the last hurricane. Instead of preparing for the inevitable storm, the “sue and settle” system in Florida means that consumers lose. It is time to fix the AOB system, fight fraud, and educate homeowners.

About the Author

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