

What Could Raise Hurricane Irma's Costs? Letting Contractors Handle Claims

Assignment of benefit contracts blamed for upending insurance market in Florida

By
Nicole Friedman and Leslie Scism
Oct. 23, 2017 7:00 a.m. ET



Within hours of a fire at Kelly Laub's four-bedroom house in New Smyrna Beach, Fla., in June, four contracting companies showed up to offer rebuilding services.

Each vendor wanted Ms. Laub to sign a document giving the contractor the rights to her homeowners insurance benefits, she said. In exchange, they offered to repair her home and negotiate with her insurance company on her behalf.

These assignment of benefit, or AOB, contracts are upending the insurance market in one of the largest U.S. states. Insurers and regulators said the pacts are responsible for driving up insurance rates for some Florida homeowners and spurring a boom in contractor lawsuits against insurers.

Based on current AOB trends, the average statewide annual homeowners insurance premium for a \$150,000 new home is projected to rise from \$1,232.08 in 2017 to \$1,595.07 in 2022, a 29% increase, according to the Florida Office of Insurance Regulation. These increases are higher than nationwide projections from the Insurance Information Institute, a trade group.

Rate increases could steepen, executives said, if damage from Hurricane Irma last month causes major losses for the state's insurers or an increase in AOB-related lawsuits. Many Irma-related insurance claims are still being processed so it's too soon to see much litigation related to the storm. Catastrophe-modeling firms expect the insured losses to reach the tens of billions.

“The concern is that when you have a large event such as Irma, that when you add AOB on top of it, it’s just going to magnify the impact of the storm,” said Don Matz, president of Tower Hill Insurance in Gainesville, Fla. Tower Hill has raised rates for homeowners in some Southeast Florida counties by up to 15% in the past year partly due to AOB costs, he said.

AOBs allow repair companies to report a homeowner’s claim to an insurer and be paid directly, without the money going first to the consumer. Contractors can sue the insurer if there is a disagreement about the cost of the claim. They also can go after homeowners to make up for shortfalls if the insurer doesn’t pay the full amount requested, according to regulators.

Other states allow AOB agreements, but they have had a larger impact in Florida because of a state law that requires the insurer to pay attorneys’ fees if more money is awarded after a lawsuit than was initially offered. Insurers say the use of AOB agreements in Florida encourages contractors to overcharge insurers for repair work and perform more work than is needed.

Heritage Insurance in Clearwater, Fla., will pay out about \$50 million more than it otherwise would have this year due to AOB claims, said Chief Executive Bruce Lucas.

In Miami-Dade, Broward and Palm Beach counties, where AOB lawsuits are most prevalent, Heritage’s average cost for a water claim has risen from \$8,000 three years ago to \$25,000, Mr. Lucas said.

Some lawyers, consumer advocates and contractors say AOB agreements can help homeowners who are unfamiliar with the claims process and don’t know how to navigate the system. Many homeowners are frustrated when some insurers can take days or even weeks to send adjusters to inspect damage, said Sha’Ron James, Florida’s insurance consumer advocate.

“The lawyers have found an opening,” Ms. James said. “They realized there are a lot of unhappy consumers.”

Some contractors say the agreements also ensure builders are paid fairly for their work. “Unless I have an assignment of benefit, I may not get paid, or I won’t get paid the right amount,” said David DeBlander, president of Pro Clean Restoration and Cleaning in Pensacola, Fla.

More than 28,000 AOB lawsuits were filed in Florida in 2016, up from 405 in 2006, according to the state’s Department of Financial Services. Through July of this year, more than 20,000 AOB lawsuits were filed.

Insurers and regulators warn that AOB costs could accelerate rate increases in the state. When [HCI Group](#) Inc.’s Homeowners Choice unit requested a 3.3% rate increase from Florida’s Office of Insurance Regulation this year, regulators told the company the increase wasn’t sufficient to cover its rising AOB costs. An actuarial analysis indicated a hike of 19% was justified. The insurer ended up increasing its rates by 8%.

Earlier this year, state insurance regulators unsuccessfully sought legislation to curb AOB lawsuits by limiting the instances in which insurers are required to pay attorneys' fees. Lawmakers are taking up the issues again, and the new effort is in the early stages.

Some law firms say insurers are trying to take homeowners' rights away in pursuing legislation to reduce AOB lawsuits. One firm, Cohen Law Group in Maitland, Fla., holds AOB workshops for vendors to "show you the insider secrets that the insurance companies don't want you to know," its website says.

Not all homeowners are embracing the agreements. Brooke Fehr, a magazine editor in Sanford, Fla., tried to get repair estimates from about five roofing companies after Irma. All but one wouldn't look at her roof unless she signed an AOB contract, she said.

After seeing warnings from state regulators and her insurance company, she decided not to sign. "It's really tough to be put into this position," Ms. Fehr said. "You're basically told nobody will do business with you if you don't [assign benefits], but the state is saying absolutely don't do business this way."

The state warns consumers not to sign anything before talking to their insurance companies. It has been issuing these warnings since at least 2016.

Ms. Laub, the homeowner in New Smyrna Beach, refused to sign any assignment of benefits contracts following her house fire.

She had signed one earlier in the year for roof damage and regretted it, because the roofing company turned out to be unreliable.

"Once they have that assignment of benefits, the policyholder is kind of out of the loop," she said.

Write to Nicole Friedman at nicole.friedman@wsj.com and Leslie Scism at leslie.scism@wsj.com