

## Understanding the insurance claims payment process

# How are you paid? Who gets the check? Do you need to replace items immediately?



**After a disaster, you want to get back to normal as soon as possible, and your insurance company wants that too! You may get multiple checks from your insurer as you make temporary repairs, permanent repairs and replace damaged belongings. Here's what you need to know about claims payments.**

### **The initial payment isn't final**

In most instances, an adjuster will inspect the damage to your home and offer you a certain sum of money for repairs, based on the terms and limits of your [homeowners](#) policy. The first check you get from your insurance company is often an advance against the total settlement amount, not the final payment.

If you're offered an on-the-spot settlement, you can accept the check right away. Later, if you find other damage, you can reopen the claim and file for an additional amount. Most policies require claims to be filed within one year from the

date of disaster. Check with your state insurance department for the laws that apply to your area.

### **You may receive multiple checks**

When both the structure of your home and your personal belongings are damaged, you generally receive two separate checks from your insurance company, one for each category of damage. If your home is uninhabitable, you'll also receive a check for the additional living expenses (ALE) you incur if you can't live in your home while it is being repaired. If you have flood insurance and experienced flood damage, that means a separate check as well.

### **Your lender or management company might have control over your payment**

If you have a mortgage on your house, the check for repairs will generally be made out to both you and the mortgage lender. As a condition of granting a mortgage, lenders usually require that they are named in the homeowners policy and that they are a party to any insurance payments related to the structure.

Similarly, if you live in a [coop or condominium](#), your management company may have required that the building's financial entity be named as a co-insured. This is so the lender (and/or, in the case of a coop or condo, the overall building), who has a financial interest in your property, can ensure that the necessary repairs are made.

When a financial backer is a co-insured, they will have to endorse the claims payment check before you can cash it.

Depending on the circumstances, lenders may also put the money in an escrow account and pay for the repairs as the work is completed. Show the mortgage lender your contractor's bid and let the lender know how much the contractor wants up front to start the job. Your mortgage company may want to inspect the finished job before releasing the funds for payment to the contractor.

If your home has been destroyed, the amount of the settlement and who gets it is driven by your policy type, its specific limits and the terms of your mortgage. For example, part of the insurance proceeds may be used to pay off the balance due on the mortgage. How the remaining proceeds are spent depend on your own decisions, such as if you want to rebuild on the same lot, in a different location or not rebuild at all. These decisions are also driven by state law.

### **Your insurance company may pay your contractor directly**

Some contractors may ask you to sign a "direction to pay" form that allows your insurance company to pay the firm directly. This form is a legal document, so you should read it carefully to be sure you are not also assigning your entire claim over to the contractor.

When in doubt, call your insurance professional before you sign. Assigning your entire insurance claim to a third party takes you out of the process and gives control of your claim to the contractor.

When work is completed to restore your property, make certain the job has been completed to your satisfaction before you let your insurer make the final payment to the contractor.

### **Your ALE check should be made out to you**

Your check for additional living expenses (ALE) has nothing to do with repairs to your home. So, ensure that this check is made out to you alone and not your lender. The ALE check covers your expenses for hotels, car rental, meals out and other expenses you may incur while your home is being fixed.

### **Your personal belongings will be calculated on cash value first**

You'll have to submit a list of your damaged belongings to your insurance company. [Having a home inventory](#) will make this a lot easier. Even if you have a replacement value policy, the first check you receive from your insurer will be based on the cash value of the items which is the depreciated amount based on the age of the item.

Why do insurance companies do this? It is to match the remaining claim payment to the exact replacement cost. If you decide not to replace an item, you'll be paid the actual cash value (depreciated) amount for it.

### **To get replacement value for your items, you must actually replace them**

To get fully reimbursed for damaged items, most insurance companies will require you to purchase replacements. Your company will ask for copies of receipts as proof of purchase, then pay the difference between the cash value you initially received and the full cost of the replacement with an item of similar size and quality.

You'll generally have several months from the date of the cash value payment to purchase replacements. Consult with your agent regarding the time frame.

In the case of a total loss, where the entire house and its contents are damaged beyond repair, insurers generally pay the policy limits, according to the laws in your state. That means you can receive a check for what the home and contents were insured for at the time of the disaster.

