

# Real Stories: Assignment of Benefits

Florida homeowners are increasingly plagued by a vicious, but technically, legal scam. This cautionary tale is based on actual events though the names have been changed.

## Damaged Homes, Incomplete Repairs

An 84-year-old woman living in Sanford was at home when the pipes backed up and caused plumbing issues throughout her home. There was damage to multiple bathrooms, the bedroom carpet, and other areas of the home. Like many homeowners, she called a plumber and water mitigation company before contacting her homeowner's insurance company or agent.

The contractors had her sign an Assignment of Benefits (AOB) agreement before they would start any repairs on her home. By signing this agreement, the elderly woman lost her rights to both the claim settlement check and the management of repairs. The AOB agreement also changed the parties listed on the claim check to include all parties: the homeowner, water mitigation company, and the contractor. This meant that the check could not be cashed until all signatures were provided. The contractor essentially hijacked the claim check and also demanded being paid an additional \$5,000 above the actual cost for repairs. The insurance company attempted to negotiate, but the water mitigation company hired a lawyer who also insisted on getting all of the claims funds, adding his legal fees and leaving nothing for the homeowner.



**Where are they now?** The homeowner is facing a potential lawsuit against her by the contractor and his lawyer while living with damage and incomplete repairs in her home. Although the insurance company paid the claim in a timely manner, over a year later the homeowner has not received any funds from her claims settlement because she signed over her rights in the AOB agreement.

## The Real Cost of Inflated Claims

Hillsborough county homeowner "Jane Doe" contacted a plumber right away when her washing machine supply line failed. The plumber soon contacted a water mitigation company. The mitigation company arrived and instructed the homeowner to sign an AOB agreement so they could get started on home repairs. The company began replacing walls, tearing up the baseboards, and installing new carpet. By industry standards, this work should have cost about \$4,200, but the water mitigation company sent a bill to the insurance company for more than \$20,000. On top of this, the water mitigation company hired a mold company as a "consultant" on the repairs. Rather than being paid by the water mitigation company that hired them, the mold company sent a bill to the insurance company for its services. To make matters worse, the mold company did not actually do the reported work listed on its \$1,600 invoice.

**Where are they now?** Even though the insurance company made timely, appropriate payments on this claim, the water mitigation company filed suit for its inflated invoices. Due to litigation, the claim remained open for more than a year. Around this time, the insurance company received a panicked phone call from Jane. She was three days away from closing on the sale of her home when she found out that the new owners could not get insurance on the home because the water loss claim was still open. By signing away her rights to the claim, Jane was unaware of the situation and unable to take action while the water and mold company acted purportedly "on her behalf." When homeowners sign an AOB form, the contractors now represent the homeowner, and the insurance company can no longer speak with the homeowner in detail about the claim.

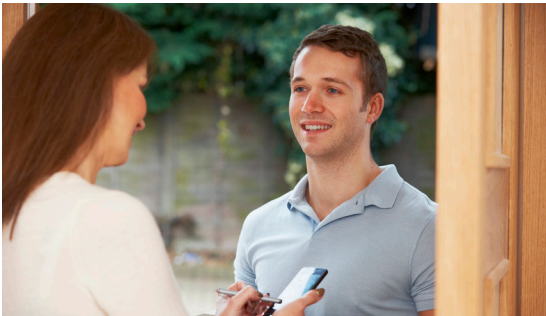
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## The Ripple Effect of Longstanding Open Claims in Litigation

“John Doe,” a homeowner in Lakeland, noticed a leak in his ceiling and discovered it was coming from a malfunctioning A/C unit. To clean up his home and repair the water damage, John reached out to a water mitigation and mold company. Before beginning any work on the home, the companies required John to sign an AOB agreement. It wasn't long before the water and mold companies submitted heavily inflated invoices and sued John's insurance company.

**Where are they now?** Months later, John attempted to purchase a separate policy for rental property from an entirely different insurance company and he was denied coverage due to the open claim on the other policy. The issue of contractors using an AOB agreement to obtain rights to a claim extends far beyond the associated policy and property.

## Tech-Savvy Contractors Have Compelling Offers Homeowners Don't Refuse



One of the trickiest parts about the AOB forms is that many consumers don't even know they're signing it. The contractor simply says they need it to “take care of everything” on the homeowner's behalf. When said like this, AOB sounds great. But contractors do not actually need an assignment of benefits agreement to get paid. In fact, most reputable contractors do not use AOB forms.

Contractors who are using AOBs to get rich are also becoming more tech savvy. They are using mobile devices to collect signatures from homeowners. This not only expedites the process for the contractor, but the homeowner never actually sees what they are signing.

### What Can We Do?

Educate. Educate. Educate.

Everyone in the industry must educate homeowners so they know what to do when water damage overflows their home or offers for a “free new roof” come knocking on their door. Yet educating consumers is only part of the solution. Everyone has a role that will help reduce AOB issues.

- **Insurance companies** should educate customers and report fraud to the appropriate authorities. They should work with policy makers, claims professionals, contractors, agents, and key decision-makers to identify and eliminate assignment of benefits misuse and scams. Insurers should collect data and help the appropriate agencies combat the growing abuse of AOB.
- **Insurance agents** should serve as a resource to guide their clients in the claims process, help get the insurance company involved quickly, and educate customers on scams and the pitfalls of AOB contracts.
- **Consumers** should be aware of AOB contracts, always know what they're signing, and remember to call their agent or insurance company first when their homes are damaged. If a consumer suspects fraud, they should reach out to their insurer and the Consumer Insurance Advocate at 1-877-MY-FL-CFO.

The legislature, the courts, the consumer advocates, the agents, and the insurance companies must all work together to create the changes necessary to eliminate an environment that makes “Litigation for Profit” part of the landscape.