



Insurance and Risk
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Claims - Beware of the Assignment of Benefits Provision!

The Assignment of Benefits contract provision creates several potential challenges for a policyholder because it gives service companies the right to deal directly with your insurance company.

Who is impacted by an Assignment of Benefits provision?

- Any policyholder that suffers a property loss and hires remediation services and contractors to help with cleanup and repairs.
- Any policyholder that suffers an automobile loss such as a windshield glass claim.
- If you sign a contract that includes an AOB provision, you have assigned your right to claim proceeds to a third party.

What is an Assignment of Benefits (AOB)?

“An Assignment of Benefits (AOB) is a legal tool that allows a third party to be paid for services performed for an insured homeowner who would normally be reimbursed by the insurance company directly after making a claim. AOB is commonly used when a homeowner experiences a water loss – such as a leaky pipe, an overflow for a sink, or a damaged appliance and contacts a contractor or water remediation company for assistance. Most AOB agreements presented to the homeowner allow the contractor to stand in the shoes of the homeowner for insurance collection purposes. Some argue that this legal arrangement allows unscrupulous contractors to overinflate or submit improper claims, causing legal battles between the contractor and the insurance company, with the consumer left out of the picture.”¹

Property Policy Scenario: “A cracked water pipe floods a home. A plumber fixes the leak and refers the homeowner to a water extraction company. The extraction company assures the homeowner it’s there to help, promises to take care of everything including billing the insured directly, and reminds the homeowner that any delay in signing could lead to dangerous and toxic mold growth. The insured signs the contract, often unaware of what she has just signed. The extraction company moves quickly, often well before insurance company is able to inspect damage or collect evidence, and sometimes before the insurer is even aware of the loss. The extractor bills the insurer \$12,000. The insurer knows an extraction on a comparable house typically runs about \$3,500 and tries to negotiate with the company. The company responds with a 10 day notice and files suit for breach of contract; it can put a lien on the insured’s property, and under Florida law, even foreclose, if the bill is not paid. In far too many situations, the insurer pays the claim to avoid attorney fees, which can mount quickly in such situation.”²

Automobile Policy Scenario: “A cracked windshield occurs on your automobile while you are driving. You contact an auto glass company, which offers to deal directly with the driver’s insurance company. The driver signs the assignment of benefits form and the windshield is fixed. Similar to the property insurance scenario, if the insurance company fights the amount of the windshield repair, the two sides

end up in court and the insurer can get swaddled with all the legal fees. The mess can land back in policyholders' laps if they are listed as a plaintiff in a lawsuit, even unknowingly.”³

Where will I find an Assignment of Benefits provision?

- Most contracts do not utilize Assignment of Benefits terminology, so you need to understand the concept to understand what rights you are giving up.
- Read any paperwork that includes contractual language very carefully!

How can the Assignment of Benefits provision affect me?

- You can lose control of the claims process including the right to negotiate the price for the service provided.
- You lose the right to receive payment for your claim from the insurance company.
- You may still be held liable for payment, even if the insurance company doesn't pay them.
- This arrangement creates an opportunity for improper or inflated claims involving unscrupulous services providers and their attorneys.
- Improper or inflated claims could affect your insurance premium or your ability to obtain coverage.
- Your claim could result in liens on your property if a vendor isn't paid by the insurance company.

How do I protect my rights?

- Please review every contract for services related to your insurance claim with your insurance company Adjuster before you sign it!
- It's important for you to determine if any contract includes an Assignment of Benefits provision. This provision is often found in service company contracts (roofers, water extraction companies, plumbers, etc.) that provide property damage remediation or repair services involving insurance claims.
- When you have a loss, obtain several different bids or estimates from different companies and review them for AOB verbiage.
- If you are unsure of the contract and if the provision for AOB is present, do not be afraid to seek out legal guidance or advice from your attorney, or your insurance company.
- Contact your agent.

¹ Assignment of Benefits, Florida Department of Financial Services, 2016

² Assignment of Benefits FAQ, pg. 1, FAIA, 2017

³ Editorial: Lawmakers ignore insurance mess. Tampa Bay Times, 2017

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