

Depreciation Q&A:

Replacement Costs vs. Actual Cash Value



1

My adjuster offered a cash settlement. What does this mean?

A. Most homeowners policies are on a replacement cost basis, meaning if you proceed with repairs, your insurer will cover the approved full replacement cost of the repairs, less your deductible. If you take a cash settlement, this is usually a depreciated amount of the repairs that you would accept in lieu of repairs. Some people take a cash settlement when they want to complete repairs themselves, or in the case on minor damage would accept a cash settlement instead of completing repairs.

2

When I cash settle, what happens if there is another storm next year?

A. If you accept a cash settlement and do not complete the repairs, your insurer will typically not cover damages from another storm, since you were already compensated for the cost of repairs. Even if there is additional damage to the same area, since you have been paid for the cost of the damage already, no additional damage will be covered.

3

If I take a cash settlement, then do the repairs myself, do I have to let my insurance company know?

A. Yes. A cash settlement commonly happens if a person does not want to complete repairs, therefore damages from a subsequent storm would not be covered. Some insurers may specifically exclude damage from future storms unless you provide evidence of repairs. Usually, you will need to provide photos and receipts for the repairs to ensure you are properly covered for future storm damage. Once repairs are completed, reach out to your insurance rep right away to ensure you have proper coverage.

4**My mortgage company wants my cash settlement cheque. Is this right?**

A. Your mortgage company is usually listed in your insurance policy, since they have a financial interest in the property. Many mortgage companies will request any cash settlement be applied to the mortgage. Make sure you speak to your mortgage company to ensure everyone is agreeable to a cash settlement and understands if repairs will take place and when.

5**Winter is coming. Can I wait until spring to complete repairs?**

A. Yes you can, as long as your home is weather tight and no additional damages will take place. It is your responsibility to mitigate and prevent any further damage. In some cases, temporary repairs might be required, to ensure water and snow will not damage your home. Work with your insurance adjuster and contractor to complete repairs as soon as possible to ensure additional damages are prevented.

6**Can repairs take place over winter?**

A. Yes, many home repairs can take place over the winter months. Speak with your contractor to understand your options and when repairs can take place.

7**What happens if I take a cash settlement and do not complete repairs?**

A. Depending on what components were damaged in the storm, your home could suffer additional damage whenever it rains or snows. For example, if your roof was damaged by hail, water or snow could enter your home causing damage to the inside of your house. Since your roof was unrepaired, this new damage might not be covered under your insurance policy, since you did not prevent the loss from happening.

8**Should I complete the necessary repairs right away?**

A. Yes. Damages caused by the hail storm should be repaired as soon as possible to ensure your property is protected from the weather. If you repair you property, and another storm comes along and causes damage, your policy will respond and again cover the cost of repairs.

9**Do I pay my deductible to my insurance company?**

A. No. Typically the deductible would be payable to your contractor, the company that is completing the repairs. Sometimes the deductibles are payable up front and the remainder is paid by your insurance company, once the repairs are completed. If you can't afford your deductible, speak to your contractor to understand what options you have available to you.

Questions?

Call IBC's Consumer Information Hotline at:

1-844-2ask-IBC (1-844-227-5422) or email: AskIBCWest@ibc.ca