The ABI
Together Driving Change



A guide to *cash settlements*

For people using buildings insurance policies after a significant event, loss or damage to their home

Who is this guide for?

This guide is for people whose insurance company has offered them a cash settlement to fix significant damage to repair their home. This type of damage usually needs structural or specialist repair work, typically (but not always) arising from events such as flood, fire, storm or subsidence.

The word 'significant' in this context refers to the impact the event has on your home, not just on its financial value. This guide may be relevant even if the overall cost of the repairs is relatively small, as long as the damage requires structural or specialist repair work.

This guide sets out what a cash settlement means in practice, the options that may be available and what support is available to help you through the repair process. It is about cash settlements that are meant to pay for the cost of repairing or rebuilding your home. It does not cover cash settlements that are based on how much your home could be sold for.

About us

The ABI
Together Driving Change

The ABI is the definitive voice of the UK's world leading insurance and long-term savings industry, which is the largest sector in Europe and the third largest in the world.

We represent more than **300 firms** within our membership including most household names and specialist providers, providing peace of mind to customers.

As a productive, inclusive and essential sector to the UK economy, together, we're driving change to protect and build a thriving society.



What is a *cash settlement?*

When you make a buildings insurance claim following significant building damage that requires structural or specialist repair work, your insurer will first check whether the damage is covered by your policy. Once your insurer has confirmed this, it will consider the best way to handle your claim.

There are generally three options:

Option 1. Cash settlement

Your insurer makes a payment or a series of payments to you, and you take responsibility for the building work and repairs. This includes deciding which contractors to use in order to restore the property to its original condition. A cash settlement may be paid as a lump sum or in staged payments as the work progresses or as you receive invoices for the work.

Option 2. Managed repair (not a cash settlement)

Your insurer takes responsibility for managing the building work and repairs, using contractors who may be from its approved supplier panel and who meet its quality and competency criteria. For more complex work, contractors may be appointed following a formal tendering process and may not be from the insurer's standard panel. The insurer is responsible for making sure the work is completed to an appropriate standard.

Option 3. A combination of cash settlement and managed repair

In some cases, a combination of approaches may be agreed, so that certain specialist work (such as drying or decontaminating the building or making it safe) are managed by your insurer's contractors, and your insurer gives you a cash settlement to carry out other reinstatement work (work to restore the property to its original condition, such as building or redecorating).

Both cash settlements and managed repairs can lead to good outcomes. No two claims are the same, and the right option for you will depend on the circumstances of your claim. Your insurer will work with you to find the most appropriate solution.

It is important to understand that your insurer will decide the appropriate settlement option, taking account of your circumstances, the nature of the damage and the requirements of your policy. Your insurer will also consider your preferences and individual circumstances when making this decision.

How does the claims process work and what is *a loss adjuster?*

Major claims such as those involving significant water damage, fire damage or subsidence can be complex, and insurers understand the potentially devastating effect they can have on your life at home. Your insurer may appoint a loss adjuster or surveyor (or both) to support you through the process, assess the damage to your home and any repair work that is needed, and help it decide on the most appropriate settlement option.

A loss adjuster is a professional appointed by your insurer to confirm the circumstances of your claim and the extent of any damage caused, and to make sure the claim is covered by your policy. The loss adjuster will assess your claim. Depending on the authority under which they are acting and the complexity of the claim, they may either decide the settlement amount or recommend an amount to the insurer for it to approve.

The loss adjuster's main role is to support and manage the claims process. A surveyor is typically involved in advising on and overseeing the repairs or reinstatement work. In some cases, you may want to appoint your own surveyor.

The loss adjuster will support you throughout the claims process and discuss various options with you. If it is agreed that a cash settlement is the best option for you, the loss adjuster will not oversee the repair work as that responsibility will pass to you (see below).

> ***Note:*** *The loss adjuster and any surveyor appointed by the insurer are separate professionals. A surveyor appointed by the insurer may be from an independent surveying practice and is not part of the loss adjusting firm. You may also choose to appoint your own surveyor to advise you and act on your behalf, independently of the insurer. You can find details on how to find a surveyor here.*

You can appoint a loss assessor to act on your behalf. Loss assessors are regulated professionals. Their fees are usually paid from the cash settlement or charged direct to you, and will not be covered by your insurer. In other words, you will have to pay the fees out of your insurance payout or with your own money. You do not have to appoint a loss assessor.

If you are thinking of appointing a loss assessor, here are some important things to consider.

- If the loss assessor is providing insurance claims advice or negotiating on your behalf, check that they are authorised by the **Financial Conduct Authority (FCA)**. You can do this on the FCA Register at register.fca.org.uk.
- **Understand the fees.** Loss assessors may charge a fixed fee or a percentage of your cash settlement. Make sure you fully understand how much you will be charged, when you will have to pay and whether you will still have to pay any fees if you change your mind.
- **Don't feel pressured.** Be cautious if someone approaches you shortly after a loss and asks you to sign an agreement immediately. Take some time to read the agreement and ask questions if you are not sure about anything.
- **Ask your insurer what support it can offer before deciding to appoint a loss assessor.** Many claims are handled successfully without one.

Insurers, and their network of suppliers, are experts at managing this process and carry out a significant number of property repairs every year.

What is a surveyor?

A surveyor is a professional who is responsible for assessing the state and condition of buildings and explaining the options for carrying out necessary repairs.

What is a loss adjuster?

A professional appointed by your insurer to confirm the circumstances of your claim and the extent of damage caused, and to make sure the claim is covered by your policy. The loss adjuster will tell your insurer how much it should pay out for your claim.

What is a loss assessor?

An independent person who evaluates and negotiates claims on your behalf.

What to expect during the claims process

If you suffer significant damage to your home, your insurer's first priority is to help you get your life back on track as quickly and safely as possible. This might mean, for example, providing emergency payments, arranging alternative accommodation for you and carrying out appropriate repairs.

If your insurer offers you a cash settlement, this will normally be for reinstatement work once any necessary specialist work has been completed. The timing of any cash settlement offer will depend on the nature and extent of the damage. For example, if your property is damaged by fire, your insurer will normally offer any cash settlement after the property has been made safe.

Floor or water damage

If your home has suffered flood or water damage, your insurer will usually need to arrange specialist work to dry out the property, remove any contamination and make the property safe before the reinstatement work starts. A cash settlement will usually be offered once the specialist work has been completed and the full extent of the reinstatement work can be properly assessed.

Fire damage

Following a fire, your insurer will usually arrange for a property to be made safe and, where necessary, for demolition work to be carried out. A cash settlement for the reinstatement work will normally be offered after this initial work has been completed.

Subsidence

For subsidence claims, insurers will usually need proof that any structural cracks and other damage have been properly repaired before they will continue to provide cover for subsidence-related damage in the future. This proof is normally provided through a Certificate of Structural Adequacy (COSA) issued by a qualified expert once the repairs are completed.

If you choose a cash settlement for a subsidence claim, you should be aware of the following.

- You will be responsible for appointing and paying for a suitably qualified expert approved by your insurer to inspect the repairs and issue the COSA.
- Until the COSA is issued, your insurer will normally refuse to cover any further subsidence under the policy.
- If major building work is carried out by contractors who are not your insurer's contractors or approved by the loss adjuster, your insurer may place additional restrictions on the cover provided. In some cases, it may also withdraw or stop providing cover altogether.

> ***Note:*** *a cash settlement may not be appropriate for structural subsidence repairs, particularly where specialist repair methods are required (for example, repairs to cracks that the Building Research Establishment (BRE) has rated classification 2 or above and which are carried out using methods such as reinforcing the bed joint). This is because, for a valid COSA to be issued, your contractor will need to have full details of what caused the subsidence and the measures that were taken to reduce the impact on your home. If your contractor does not have this information, any COSA they produce may be of limited value to your insurer. If you are considering a cash settlement for structural subsidence repairs, please discuss this carefully with your insurer before making any decision.*

This is one of the main reasons why insurers usually prefer to manage subsidence repairs themselves. If your insurer manages subsidence repairs using its approved contractors, it remains responsible for the contractor's performance and for the effectiveness of the repairs. If you are considering a cash settlement for a subsidence claim, please discuss this carefully with your insurer before making a decision.

The claims proccess

1. Contact your insurer as soon as possible, either online or by phone, to start the claims process. Your insurer can tell you about any immediate help you may be offered, including alternative accommodation, emergency payments and emergency measures to make the property safe or secure. You should also take steps to reduce any further damage to your property, as long as it is safe to do so.

2. Due to the complexity of major claims, your insurer may appoint a loss adjuster or surveyor (or both) to support you and help assess the damage. The loss adjuster or surveyor will visit your property, assess the level of damage and the repairs that are needed, and work with you and your insurer throughout the process.

3. Your insurer will usually appoint a contractor to carry out any specialist work that is needed immediately. For example, work may be needed to:
   - Decontaminate, stabilise and dry out the building following water damage;
   - Demolish certain parts of the building to make it safe following a fire; or
   - Stabilise the building in the case of subsidence.

   These types of work require specialist knowledge and are usually carried out by contractors appointed by your insurer. However, depending on the policy terms and the circumstances of your claim, you may be entitled to appoint your own structural engineer and contractors.

4. Once the initial specialist work is finished, your insurer or loss adjuster (or both) will work out exactly what work is needed to repair the damage, how much it will cost and who will need to carry it out. At this stage, your insurer will usually get quotes for the repairs, often through its approved contractor network. You may also be asked to get your own quotes at an appropriate stage in the process.

5. Your insurer or loss adjuster (or both) will work with you to decide the most appropriate settlement option. They will take account of your circumstances and needs, including:
   - Whether you have any characteristics that indicate you may be vulnerable or other circumstances that might affect your ability to manage the repair process;
   - Your preferences and any particular reasons you may have for preferring a cash settlement;
   - The complexity of the work needed; and
   - The availability and suitability of the contractors you want to use.

6. If a cash settlement is considered to be the appropriate option, your insurer will explain what is included in the cash settlement offered, what it means in practice and what your responsibilities will be. Once you and your insurer have reached an agreement, your insurer will make a formal offer. You will need to decide whether to accept this offer, ask for further information or turn it down and go ahead with a managed repair instead.

7. If you decide to accept the cash settlement, you will be paid in line with the payment terms agreed with your insurer (either with a lump sum or in staged payments). You will then be responsible for arranging the repair work to your home. Your insurer will provide you with information about its role after the cash settlement.

Additional information for customers who may need extra support

Having to make a major insurance claim because your home has been damaged is always likely to be stressful. Insurers understand this and try to help everyone through the process, step by step.

However, it can be even more stressful for some people, for example if you are already finding things difficult because of age, illness or disability, financial stress such as debt, or another event (such as the death of a loved one). If this applies to you, please tell your insurer. It will talk to you about what extra help and support it can offer you and whether or not a cash settlement is the right option for you.

If you need extra support from your insurer, it is important that your insurer takes steps to try to make sure you have the information and support you need to make an informed decision about whether a cash settlement is right for you. Your insurer will ask you some additional questions to make sure it understands your circumstances and needs.

Insurers must act to deliver good outcomes for all their customers and try to avoid causing harm wherever possible by identifying and reducing potential risks before they happen. This means that there may be circumstances where a cash settlement may not be right for you.

Having characteristics that indicate you may be vulnerable does not automatically mean that a cash settlement is not suitable for you. Your insurer will consider your individual circumstances carefully. In some cases, a cash settlement may actually be the best option (for example, if you would prefer to use contractors you already know and trust).

If you need extra support from your insurer, we encourage you to tell it about your circumstances as early as possible in the claims process. This will help your insurer to provide appropriate support and to consider whether a cash settlement or managed repair is better suited to your needs.

Important things to ask before accepting acash settlement

- Read your insurance policy to make sure you understand what is and is not covered. If you are in any doubt, ask your insurer.
- Get a detailed breakdown from your insurer or the appointed loss adjuster, including a clear, itemised explanation of how the insurer reached the settlement figure, and which costs are covered or which are not covered.
- Get individual quotes from suitably qualified and experienced builders, surveyors or tradespeople to compare against your insurer's offer. This can help identify any differences in the extent of the work or pricing. See below for guidance on how to check a contractor's credentials (qualifications, certification, experience and so on).
- If there are differences between the quotes you have received and the cash settlement you are offered, ask your insurer to explain how it worked out the settlement amount. Your insurer may have received discounted rates from suppliers on its panel that are not available to you as an individual customer. If you believe the cash settlement amount is not enough to pay for the work needed, discuss this with your insurer. If you cannot find a contractor who is willing to carry out the work for the cash settlement amount, consider whether a managed repair might be more appropriate.
- Get independent additional professional advice if you need to (for example, from a loss assessor as set out above).
- Ask your insurer whether it will be available to help if you have any questions or if any issues arise during the repairs.

Important things to think about before accepting a cash settlement

- Once you accept a cash settlement, you become the main point of contact for the building work and are responsible for overseeing the work. You will need to make decisions and deal with any disagreements or issues that arise with contractors. Depending on the complexity of the work, you may want to appoint a surveyor to help oversee the work on your behalf. (The cost of a surveyor may sometimes be included in the settlement amount but this would usually only happen if your insurer would expect to pay that cost if it was managing the work.)
- You're responsible for the quality of the repairs carried out by your chosen supplier. If there is a problem with the quality of the work, your insurer will not be responsible for the cost of putting this right.

- You're responsible for hiring suitably qualified contractors to carry out the work. Below we have set out guidance on how to check a contractor's credentials.
- You should ask your contractor or surveyor if any health and safety or building regulations apply to the work needed on your property. For most people, the contractor or surveyor is responsible for meeting any health and safety regulations relating to building work.
- You're responsible for making sure any planning or building regulation requirements are met.
- The amount you are offered as a cash settlement reflects the expected total cost of the repairs as assessed by your insurer. Please note that cash settlements depend on the limits and conditions of your policy. This means that, for example, if the policy limit is not enough to cover the full cost of the reinstatement work, or if you are underinsured (that is, the cover you took out was not sufficient for your home), the cash settlement amount may not cover the total cost of the work. If you are not sure whether your policy limit is high enough, please talk to your insurer about this before accepting any cash settlement. You will have to pay the cost of any additional work or materials, or changes in design that are not covered by your policy limit.
- You should not pay your contractor for all the work up front. You may need to pay for materials in advance, but you should generally only pay labour costs when the relevant stage of work has been completed and you are satisfied with it. Make sure you have an agreed, staged payment plan in place with your contractor before the work begins. When each stage of work has been completed, make sure you are satisfied with the standard of work before making any further payments.
- Insurers will only pay VAT if they receive a valid VAT invoice that includes a valid VAT registration number. To confirm the final amount of VAT due, you should give your insurer a copy of the estimate and a valid VAT invoice once the work is finished or you have received the invoice.
- If there are any unexpected changes in the extent or cost of the work (for example, if further damage is discovered during the work or if there is a change in the regulatory requirements that apply), you should contact your insurer as soon as possible to discuss this.

Checking a contractor's credentials

Before appointing a contractor to carry out work, you should check their credentials and reviews. Here are some useful websites.

- **TrustMark** (trustmark.org.uk) – the Government-backed quality scheme for domestic building work
- **Checkatrade** (checkatrade.com) – a consumer review platform for tradespeople
- **RICS** (rics.org) – for finding a qualified surveyor
- **Gas Safe Register** (gassaferegister.co.uk) – for gas work
- **NICEIC** (niceic.com) – for electrical work

We have provided details of these websites and schemes for information only. Neither we nor our members recommend any particular provider, platform or scheme listed, and you should make sure that any service you use is appropriate for your needs.

Your insurer may also be able to provide guidance on what checks to carry out, but it is not responsible for checking the suitability of your chosen contractor.



What are the benefits of each option?

There is no single 'right' option. The best approach for you will depend on your individual circumstances, the nature and extent of the damage, and your personal preferences. Your insurer will work with you to identify the option that is most suitable for you. Both options have their own advantages.

Benefits of a cash settlement

- You have control over which contractors you choose to carry out the work. This means you can use a contractor you already know and trust.
- You have more control over the timings of the work.
- You can make additional improvements to your home at the same time as the repair work. This may avoid further disruption in the future, but you will need to pay for any extra work yourself.
- You may be able to get the work completed sooner if you already have access to suitable contractors.

Benefits of a managed repair

- Your insurer will appoint contractors that meet its criteria and are competent to do the work.
- Your insurer is responsible for making sure the repairs are completed to the appropriate standard and will put right any problems if the work does not meet this standard.
- Work completed by your insurer's approved contractors usually benefits from a workmanship guarantee, providing additional protection if any defects arise after the work is completed.
- You do not need to manage the process of finding and overseeing contractors yourself, which can be time-consuming, stressful and complicated particularly if you don't have experience in managing large building projects.

Please remember that whichever option you choose, significant building work is likely to disrupt your daily life. Your insurer will try to help reduce the disruption wherever possible, and you should discuss your concerns and preferences with your insurer at an early stage of the claims process.

What to do if you are not satisfied with your insurer's decision

If you are not happy with the way your claim has been handled and want to make a complaint, you should follow your insurer's complaints procedure.

If after going through the complaints procedure you are still not satisfied, the next step is to complain to the free and independent Financial Ombudsman Service, who will look into the case on your behalf.



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