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Repair, Risks and Liability

A TRUE STORY FROM THE FIELD

Consumers Need Our Help!
Avoiding a Total Loss Disaster
A Year in Review

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“HOW DO YOU RECTIFY A STATE FARM INSURED’S UNDER-INDEMNIFICATION OF LOSS AFTER APPRAISAL?”



Robert is a recognized Public Insurance Adjuster and Certified Vehicle Value Expert specializing in motor vehicle-related insurance claim resolution. As the general manager of Auto Claim Specialists, Robert expertly leads this National Public Insurance Adjuster Agency, which is currently licensed in over 25 different states and specializes in providing automotive-related claim liquidation techniques, strategies and motor vehicle valuation services to all parties, including individual consumers, body shops, auto dealers, repair facilities, towing and storage operations, lenders, finance companies, banks, legal professionals, governmental agencies and others. The firm's consistent success can be attributed to Robert's 35-plus years of automotive industry knowledge, practical hands-on experience and multiple certifications, including licensure by the Texas Department of Insurance as a Public Insurance Adjuster. Auto Claim Specialists clients can absolutely trust that they will be provided with analytical, sophisticated, state-of-the-art, comprehensive, accurate, unbiased and up-to-date data and information that all parties can rely upon as both factual and objective. Robert can be reached at (800) 736-6816, (817) 756-5482 or AskTheExpert@autoclaimspecialists.com.

Dear Mr. McDorman:

I manage Henderson Collision Center in Henderson, a wholly owned subsidiary of Burl's Collision Center. I read your editorial in the October 2020 issue entitled, "Is State Farm Totaling Clients' Vehicles without Inspection or Appraisal?" We are experiencing this same issue at our facility. Since the pandemic began, this sensitive situation has escalated even further. Shortly after reading your editorial, we had a State Farm claim that mirrored your editorial. We took your advice and were frankly shocked at the results our client experienced.

In our client's situation, her date of loss was September 4, 2020. We found out through our client that State Farm, on or about September 21, deemed her vehicle a total loss without any type of inspection or appraisal. Our client explained to us the proposed settlement offered by State Farm (after her deductible) was \$2,726.65 less than her payoff. Shortly after speaking with our client, State Farm called and requested our charges. We emailed State Farm an itemized invoice of our charges; later that day, State Farm called us back and informed us they would not be paying for \$960.88 of our charges relating to the inspection, tear down, storage and various other related operations. I explained to State Farm that these proper charges relating to the work performed and storage fees due had never been an issue over the years with them or any other carrier. State Farm informed me they handle each claim on a case-by-case basis and would be deducting \$960.88 of our charges from the insured's settlement. Afterwards, I called our client and went over with her my conversation with State Farm and our charges. She said she understood and was certain State Farm would be honoring this liability after she spoke with them.

On or about September 24, our client called me back and informed me she was

not only going to be left owing a balance to her lender of \$2,726.65 but State Farm would indeed be holding \$960.88 from her settlement for our charges that they refused to cover. I again went over our charges in detail and explained to her each item on our itemized invoice. At the end of our conversation, she summed up the total of \$3,687.53 that she would now owe her lender and dejectedly said she didn't know what to do. That is when I referred her to you and agreed to hold her vehicle at our facility for no additional charges until this situation was resolved.

On October 11, our client called me to release her vehicle to State Farm and thanked me for referring her to Auto Claim Specialists. She enthusiastically told me through the appointment of Auto Claim Specialists as her public insurance adjuster, her vehicle was being completely paid off, all of our charges were being paid and she would even be receiving a return on her equity of \$432.84. Will you please explain the outcome to us? Do you see this often?

Thank you for your question, and we appreciate the referral of your clients. Your client's particular situation is a common and sensitive issue here in Texas. Yes, we see this type of situation daily in our office, and there has been an alarming spike in this type of loss dispute since the pandemic began. As you recall from reading the October 2020 editorial, State Farm's policy has limited the right of appraisal to actual cash value disputes only. Fortunately, the State Farm **Appraisal Clause** language that severely limits the insured's right to contest a loss is not the norm, nor should it ever become so. In fact, it should be changed to match the other carrier policies that allow appraisal for the covered loss.

As to how we were able to see to it your client was made whole: As a rule on these types of claims, we always request the client to email us the market valuation report, complete settlement breakdown (including all itemized deductions) and any available exterior and interior pictures of the

vehicle. We will then forward this information and documents to our subsidiary, Vehicle Value Experts, and request they provide us with an actual cash value appraisal of the vehicle. There is never a charge for us to review the insured carrier's proposed undisputed loss settlement statement.

Upon receiving your client's market valuation report and complete settlement breakdown, we identified that State Farm had valued the loss vehicle at \$9,562. The settlement breakdown revealed State Farm had identified their undisputed liability loss as \$9,739.89 after the applicable \$500 deductible. The \$9,739.89 ($\$9,562 + \$597.63 + \$80.26 - \$500 = \$9,739.89$) included sales tax of \$597.63 and a title transfer fee of \$80.26. This, plus some exterior and interior pictures of the vehicle, was forwarded to Vehicle Value Experts, and we requested an actual cash value appraisal.

Upon receiving the appraisal results, it was discovered the proposed State Farm settlement fell far short of its true liability as defined under the State Farm policy limits of liability. The Audatex Autosource valuing tool used by State Farm, which utilized a complex algorithm to arrive at the market value of \$9,562, was far off the mark. As we always inform our clients, this formulated market value calculation is nothing but a quick and rough estimate of the actual cash value of the loss vehicle which (if you can believe it) typically errs to the advantage of the carrier. An appraisal is applicable in every loss scenario such as this.

After a thorough review of the State Farm proposed loss statement and the Vehicle Value Experts loss statement, we recommended to the client that the proper way to see to it she was made whole for her loss was to invoke her policy right of appraisal to move the valuation of her vehicle into the hands of experts. After our consultation, she agreed to appoint Auto Claim Specialists as her public insurance adjuster and Vehicle Value Experts as her independent third-party appraiser and invoke her policy right of appraisal to identify the actual cash value as defined in the State Farm policy.

Auto Claim Specialists placed State Farm on notice of our appointment and provided the company with the appraisal notice from the insured. As requested, State Farm timely appointed its independent third-party appraiser and provided Auto Claim Specialists with the proper contact information. At the conclusion of the appraisal process, the independent third-party appraisers identified and agreed to the actual cash value of the loss vehicle as \$13,440. This changed State Farm's liability for the loss after the deductible to \$13,860.26 ($\$13,440 + \$840 + \$80.26 - \$500 = \$13,860.26$), which included sales tax of \$840 and title transfer fees of \$80.26. Through the right of an appraisal to identify the actual cash value, it was determined State Farm's initial undisputed settlement offer of \$9,739.89 under-indemnified the insured by \$4,120.37 – a 30 percent miss!

The supplemental liability of \$4,120.37 allowed the insured to satisfy the remaining payoff balance due to her lender of \$2,726.65 and overcome the under-indemnification of the \$960.88 liability for associated fees due to the collision facility, leaving a net return on her equity of the vehicle of \$432.84. However, please note that the offset of

the \$960.88 collision facility liability from the \$4,120.37 State Farm supplemental liability is a mockery that under-indemnified the insured \$960.88. It is our position from reviewing the collision facility's invoice relating to this claim that this charge was a valid liability of State Farm that they refused to pay. Unfortunately, and by design, this charge was not applicable to appraisal under the State Farm policy. As previously outlined, State Farm has limited the right of an appraisal to actual cash value disputes only. We clearly can see from this claim the absolute harm to the insured when the right of appraisal is limited to only certain elements of the covered loss.

It is my professional opinion that a motor vehicle policy with limited or restricted appraisal rights leaves insureds facing similar situations such as this claim more times than not. The biased, manipulative and overly profit-minded insurance carrier should never be given the absolute right over the liquidity of the insured's loss. Protection of the party's appraisal rights should be mandatory on all elements of the covered loss.

The under-indemnification in total loss and repair procedure claims in Texas is rampant. Besides the higher settlements for total loss clients averaging 28 percent above the carrier's undisputed loss statement, we have also reduced clients' out-of-pocket expenses an average of 35 percent on repair procedure disputes such as the example provided here. These under-indemnification percentages are staggering and harmful to Texas citizens.

The spirit of the **Appraisal Clause** is to resolve loss disputes fairly and to do so in a timely and cost-effective manner. The invoking of the **Appraisal Clause** removes inexperienced and biased carrier appraisers and claims handlers from the process, undermining their management's many tricks to undervalue the loss settlement and under-indemnify the insured. Through the **Appraisal Clause**, loss disputes can be resolved relatively quickly, economically, equitably and amicably by unbiased, experienced and independent third-party appraisers as opposed to more costly and time-consuming methods, such as mediation, arbitration and litigation.

In today's world regarding motor vehicle insurance policies, frequent changes in claim management and claim handling policies and non-standardized GAP Addendums, we have found it is always in the best interest of the insured or claimant to have their proposed insurance settlement reviewed by an expert before accepting. There is never an upfront fee for Auto Claim Specialists to review a motor vehicle claim or proposed settlement and give their professional opinion as to the fairness of the offer.

Please call me should you have any questions relating to the policy or covered loss. We have most insurance policies in our library. Always keep in mind a safe repair is a quality repair, and quality equates to value. I thank you for your question and look forward to any follow-up questions that may arise.

TXA

Sincerely,
Robert L. McDorman