Assignments of Benefits Under Homeowners Insurance Policies: Iowa Supreme Court Rules that Assignment Was Void Because Contractor Was Acting as Unlicensed Public Adjuster

Article By Wystan M. Ackerman Robinson & Cole LLP Property Insurance Coverage Insights

- Insurance Reinsurance & Surety
- Litigation / Trial Practice
- Criminal Law / Business Crimes
- Iowa

Friday, February 21, 2020

One practice that has plagued the insurance industry in recent years has been contractors soliciting homeowners to make insurance claims after a hailstorm, for example, and then obtaining an assignment of rights to the claim and pursuing litigation against the insurer. The Iowa Supreme Court recently ruled that a contractor’s attempt to obtain such an assignment of rights was void because the contractor was acting as an unlicensed public adjuster, in violation of state law. The line of argument made here may be useful to insurers in other jurisdictions faced with abusive practices by contractors.

The Iowa Supreme Court quoted from a report by the Insurance Information Institute explaining that:

In Florida, abuse of [assignment of benefits contracts (AOBs)] has fueled an insurance crisis. The state’s legal environment has encouraged vendors and their attorneys to solicit unwarranted AOBs from tens of thousands of Floridians, conduct
unnecessary or unnecessarily expensive work, then file tens of thousands of lawsuits against insurance companies that deny or dispute the claims. This mini-industry has cost consumers billions of dollars as they are forced to pay higher premiums to cover needless repairs and excessive legal fees. And consumers often do not even know that their claims are driving these cost increases.

The abuse therefore acts somewhat like a hidden tax on consumers, helping to increase what are already some of the highest insurance premiums in the country.


In this case, the court’s opinion stated that the contractor sought an 81.3 percent increase in the insurer’s first estimate, and then, after the insurer prepared a supplemental estimate and issued a supplemental payment, the contractor sought an additional 90.4 percent increase, then filed suit.

In ruling that the assignment of rights by the insured to the contractor was void, the court applied two Iowa statutes, one of which prohibited a residential contractor from representing a homeowner on certain types of insurance claims, and another statute that required public adjusters to be licensed. The court concluded that the contractor was acting as a public adjuster because he solicited the homeowners uninvited to inspect their roof and to make an insurance claim, attended inspections of the property with the adjuster, and submitted an estimate to the insurer on behalf of the homeowners. The court noted that, as a general principle of Iowa law, “contracts entered into by parties lacking a required license are void as against public policy.” Id. at *9.

The Iowa court noted that a total of 45 states require licensure of public adjusters, and that courts in New York and Texas had held that contracts entered into by unlicensed public adjusters are void. Insurers thus may be able to take advantage of this decision, or at least the general line of argument made here, in other states.

Copyright © 2020 Robinson & Cole LLP. All rights reserved.