

Cash settlements

 WORKER ADVICE LINE
(03) 9602 3326


If the client has received a cash settlement, it is important that they seek free, independent advice before accepting it.

What is a cash settlement?

After extreme weather events such as fires, floods or storms, an insurer may offer a **total loss claim**, which means the insurer will pay the full insured amount according to your policy. Or they may offer a **lump-sum payment**, which is also known as a **cash settlement**. In most cases, it is the insurer who decides which of these options is offered.

Cash settlements are increasingly common after disasters due to delays, labour shortages and material supply issues. While they may provide quicker access to funds and greater flexibility, a major risk is that the amount offered **may not be enough to cover the full cost of repairs or rebuilding**.

A cash settlement is a **legally binding agreement**. Once accepted, it is generally **final**, and the insurer's obligations under the policy come to an end. You should seek **legal and financial advice** before accepting a cash settlement.

Cash settlements may be offered when:

- 1. The property is a write-off** or unsafe to repair, but the client is entitled to a payment under the policy.
- 2. Only part of the damage is covered**, and a cash settlement avoids delays or complex repair sequencing.
- 3. The property is underinsured**, meaning the cost to repair or rebuild exceeds the insured amount due to rising construction costs, regulatory changes or labour shortages

What are the risks of cash settlements?

Cash settlements carry significant risks:

- The settlement amount **may be less than the cost of repairing or rebuilding** if costs increase or damage is underestimated.
- The client becomes **fully responsible** for the risk in managing repairs, engaging licensed trades and ensuring quality. There is also no warranty on those repairs under the insurance policy.
- Poor or incomplete repairs may affect **future insurance coverage or claims**. If you don't complete repairs, it may affect future insurance coverage and claims.
- If the client is a **Centrelink recipient**, accepting a Cash Settlement needs to be declared to **Centrelink**, and it may impact Centrelink payments in a range of ways. Contact the SSRV Worker Helpline on 03 9481 0655 Monday - Friday, 9.00 am – 5.00 pm to find out more.
- If you hold a mortgage on your property, the bank may hold the cash settlement funds that were paid by the insurer.

What are the benefits of a cash settlement?

Clients may consider accepting a cash settlement where:

- They want **control over repairs** and the ability to choose their own trades.
- They are confident the settlement amount **accurately reflects the full cost** of repairs or rebuilding, and other unexpected future costs.

Clients' rights when it comes to cash settlements

Insurers must explain how the cash settlement amount was calculated, outline available settlement options and recommend that the client seek independent advice. The client can ask the insurer for an uplift to their cash settlement. This is an additional amount to account for unexpected future costs, for example increases in building costs due to high demand.

By accepting a cash settlement, the client agrees that the insurer's responsibilities under the policy are complete and takes on full responsibility for repairs or replacement. This can result in significant **out-of-pocket costs** if actual expenses exceed the settlement amount.

The client may also request **fast-tracking of claims** after extreme weather events or ask for an **advance payment** where there is an urgent financial need.

Challenging a cash settlement

Before accepting a cash settlement offer, the client should:

- Review their insurance policy carefully
- Obtain independent repair quotes
- Ask the insurer to explain how the settlement amount was calculated
- Seek legal advice to assess whether the offer is fair and adequate

If the client is not happy with the offer, they can reject it and make an internal complaint to their insurer to review the decision. If the client is unhappy with the insurer's internal complaint response, they can complain to the Australian Financial Complaints Authority (**AFCA**). They are a free, independent organisation that investigates and resolves disputes between insurers and policyholders. The client can also seek free, independent legal or financial advice. See below for where to go for help.

In limited disaster-related circumstances:

- If the client accepts a cash settlement that is finalised within one month of the declared catastrophe, the client can ask the insurer to review that decision within 12 months.

Where to go for help

Clients and community workers can seek free, confidential assistance from **Consumer Action Law Centre** for help with cash settlements, insurance claims and disputes with insurers.



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Monday - Friday 10am - 1pm & 2-5pm

(03) 9602 3326

 advice@consumeraction.org.au