

PROPERTY & CASUALTY • DISPUTE RESOLUTION

The Hidden Cost of Skipping Appraisal

In property and casualty insurance claims, the decision to pursue appraisal versus litigation is often framed as a tactical choice. In reality, it is a financial strategy with significant implications for indemnity spend, expense leakage, operational efficiency, and customer retention.

While litigation may appear to offer greater control, particularly in disputed or suspicious claims, the hidden cost of bypassing appraisal frequently outweighs its perceived benefits.

Appraisal, as a contractual alternative dispute resolution mechanism embedded in most property policies, is designed to resolve disagreements over the amount of loss. Its primary advantage lies in cost containment. Compared to litigation, which routinely incurs tens of thousands of dollars in legal fees, expert costs, and internal handling expenses, appraisal is relatively inexpensive. Even in complex losses, total appraisal costs typically remain a fraction of litigation spend. This cost efficiency is not merely about expense; it also stabilizes the total claim outcome. Appraisal reduces volatility by narrowing disputes to valuation rather than opening the door to broader legal arguments and unpredictable jury decisions.

Speed is another critical advantage. Appraisal can often resolve disputes within a few months, whereas litigation may take years. This difference in cycle time directly impacts operational costs, including adjuster workload, reserve management, and administrative overhead. Prolonged litigation ties up resources and introduces

reserve uncertainty, which can distort financial reporting and strain claims operations. By contrast, appraisal allows carriers to close files more quickly, improving efficiency metrics and reducing backlog.

Customer experience and retention further underscore the value of appraisal. Litigation is inherently adversarial; once a claim enters the legal system, the relationship between insurer and insured is effectively severed. Appraisal, while still a dispute process, is generally perceived as more neutral and less confrontational. Policyholders are more likely to view it as a fair mechanism, which can preserve some degree of trust. In an industry where retention and reputation are increasingly important, this distinction carries measurable long-term value.

Where Appraisal Falls Short

Despite these advantages, appraisal is not without its limitations. Its most significant constraint is scope. Appraisal addresses only the amount of loss and does not resolve coverage disputes. In cases where causation, exclusions, or policy interpretation are at issue, appraisal may be inappropriate or even detrimental. Invoking appraisal in such scenarios can risk implicitly conceding coverage, particularly in jurisdictions where courts interpret appraisal awards broadly. For this reason, litigation remains a necessary tool when coverage defenses are central to the claim.

Another disadvantage of appraisal is the potential for upward pressure on indemnity. Neutral umpires may gravitate toward compromise positions, which can result in awards that exceed the carrier's initial estimate. While this increase is often modest and predictable, it can still be higher than a negotiated settlement would have achieved. Additionally, appraisal outcomes are binding in most cases, limiting opportunities for appeal or further negotiation.

What Litigation Offers — and What It Costs

Litigation, on the other hand, offers strategic advantages that appraisal cannot. It allows carriers to fully contest coverage, develop legal precedent, and deter fraudulent or inflated claims. In situations involving suspected fraud or systemic abuse, such as coordinated contractor inflation, litigation can serve as a necessary corrective measure. It also provides procedural safeguards, including discovery and cross-examination, which are absent in appraisal.

However, these benefits come at a cost, both literal and figurative. Litigation introduces significant financial exposure, including the risk of adverse judgments, attorney fee shifting, and bad faith claims. It also amplifies reputational risk and increases the likelihood of regulatory scrutiny. The variability of outcomes in litigation makes it inherently less predictable, with the potential for “nuclear” verdicts that far exceed the original dispute.

A Third Path: Appraisal With a Reservation of Rights

A third alternative would be to include a Reservation of Rights notification at the same time the appraisal is invoked. Including a Reservation of Rights (ROR) when invoking appraisal provides critical legal and financial protection for the insurer while still allowing the claim to move toward resolution. While appraisal is designed to resolve disputes over the amount of loss, without a clearly stated ROR an insurer risks creating the appearance that coverage has been accepted in full. This can lead to unintended waiver of policy defenses, particularly in jurisdictions like Texas where courts closely scrutinize claim handling conduct.

An ROR preserves the insurer's ability to later contest key issues such as causation, exclusions, and compliance with policy conditions. It draws a clear boundary between determining the value of the damage and determining whether those damages are covered. This distinction is essential because appraisers and umpires may include items in an award that fall outside policy coverage.

From a financial standpoint, the ROR allows the insurer to benefit from the efficiency and cost savings of appraisal without exposing itself to paying non-covered losses. It also reduces bad faith risk by demonstrating transparency and consistency in claim handling. Ultimately, combining appraisal with a well-crafted ROR enables carriers to control costs, maintain defensibility, and preserve flexibility in resolving complex claims.

The Bottom Line

Ultimately, the decision to skip appraisal should not be taken lightly. While litigation has its place, particularly in coverage-driven or high-risk claims, appraisal remains the more efficient and financially prudent option in the majority of valuation disputes.

The hidden cost of bypassing appraisal is not just higher expense, it is increased uncertainty, prolonged resolution, and diminished customer trust.

For claims organizations seeking to balance cost control with fair outcomes, appraisal is not merely an alternative; it is often the optimal path.