

## The Scoop on “Scope” (of loss)

### What is a scope of loss?

A scope of loss is a document or a set of documents and measurements that describe the amount and type of damage that has been done to a structure, plus the **quantity and quality of materials** and the **current cost of those materials and labor** that will be needed to repair or rebuild that structure. A scope of loss often includes photos, diagrams, and a detailed estimate broken down by construction trades and materials. Visit the UP Claim Help library to see a [sample Scope of Loss](#). A complete scope of loss will specify the work that needs to be done to comply with the local building codes in the area.

A scope of loss is different from an **estimate** in the amount of detail it provides. A scope of loss is typically more detailed than an estimate. **A clear and complete scope of loss helps a property owner get a fair, full and prompt insurance claim settlement** and resist “lowballing,” should that occur. There is not one set format for a scope of loss. It can be a binder, a list or a package of documents. The objective of a scope of loss is to describe all the damage that has been done to a specific property plus the work and costs that will be required to restore the property to its pre-loss condition, including improvements required by current building codes.

### Describing the pre-loss property

Most insurance companies value a loss and make a settlement offer by preparing an estimate or a scope of loss. The insurance company’s adjuster will usually inspect the property and interview the insured; asking questions like: How many rooms were in the house? What were the dimensions of each room? What kinds of finishes (paint, floor covering, molding, hardware, etc.) were in each room? Quality and quantities. Insurance companies generally base their claim settlement offers on estimates or scopes of loss.

You – the insured – can prepare or hire a claim or construction professional to prepare your own scope, and then see how it measures up against the insurance company’s scope. Some claims get settled without a scope of loss having been prepared by either side, but with complicated and larger losses, a

complete scope is a virtual necessity.

Some insurance adjusters prepare their own scopes, others hire outside contractors to prepare them. Many adjusters today use a computer program called [Xactimate™](#) to prepare their scopes, estimates and settlement offers. Xactimate is a tool, and should not be the last word. Computers don't rebuild homes – contractors do. If a person using Xactimate software doesn't input complete or accurate information about your property and/or current costs, the printout it produces will be inaccurate. But an Xactimate printout looks very impressive, and you want your scope to look just as professional in case a dispute arises.

A scope of loss should contain as much detail about your pre-loss property as possible. If you are preparing your own scope of loss, use whatever information you can get your hands on to recreate detailed descriptions of what your property (interior and exterior) was like before the loss. The more detailed the information you can provide about what you had, the more policy benefits you will be able to collect to rebuild/repair your home.

#### **Examples of items that can help you document the pre-loss property:**

- Photos
- Plans
- Drawings
- Appraisals and other real estate documents
- Videotape
- Oral descriptions
- Debris and foundation left on the premises

## **What if I didn't get documents or photos out of my home before it was damaged or destroyed?**

People who did work at your home, friends, and local government offices may have useful records and photos of your pre-loss home. For example, if you recently refinanced the house it's very likely there was an appraisal done that includes pictures and information about the house. Contact your lender and ask for a copy of the appraisal. Contact your local city building department to find out if they still have the

plans for your home on file. Did you ever host a birthday party or special event at your home? If so, ask friends/family for photos from the event. Those photos likely show the interior/exterior finishes in your home (in the background of the pictures) and can refresh your memory about things such as whether a room had decorative molding or not. Details such as whether a door had a standard or custom finish matter and have dollar value.

## Why is scope of loss so important?

Typically, the insurance company will make a settlement offer for repairing/replacing your home that is based on a set of documents prepared by or for the adjuster assigned to your claim. The insurance company may base this offer on a “scope of loss,” “estimate,” “loss evaluation” or some other label. The label doesn’t matter. What matters is that it is complete and accurate. The more detail you provide about your pre-loss home, the more accurate that offer should be. But lowballing on claims is fairly common, so you need to be pro-active to nail down the true costs of returning your home to its pre-loss condition.

## What is “lowballing”?

“Lowballing” occurs when the insurance company’s offer of what they will pay to repair/replace your home is **less than** what it will actually cost you. Unless you have the construction expertise needed to evaluate whether the scope of work/materials and the cost assigned to those items in the insurance company’s offer is accurate, **you may not even realize you are being “lowballed.”** It’s a classic example of, “You don’t know what you don’t know.” The best way to know if you’re being “lowballed” by an insurance company is by having a scope of loss prepared by an independent third party. **This is known as an “independent scope of loss.”**

Even if you do not feel that you are being lowballed by the insurance company, there are other reasons to have an independent scope of loss prepared. An “as was” independent scope of loss aids in negotiating the settlement of the claim with the insurance company by providing a benchmark for rebuilding costs. An independent scope of loss provides you with a complete picture of all the costs associated with rebuilding the home that was damaged or destroyed. And if you’re underinsured, it helps you nail down how much the shortfall truly is.

## **Should I hire a professional to prepare an independent scope of loss?**

In most situations, yes. You will need to hire and pay a construction estimator, public adjuster, or experienced contractor to prepare an independent scope of loss. Most disaster survivors find it hard to accept the idea of having to pay someone to prepare an independent scope of loss. But that independent scope is very often the key to getting a fair insurance settlement and moving forward. Your contractor may be great at construction but not so great with preparing detailed estimate paperwork.

## **Who prepares an independent scope of loss?**

A variety of professionals can prepare a scope of loss, including but not limited to forensic estimators, forensic architects, construction professionals or contractors. Know that the level of detail contained in the scope of loss may likely depend on who you hire to prepare the scope of loss. A scope of loss prepared by a forensic estimator will likely contain a greater level of detail than a scope of loss prepared by a working contractor for the simple reason that a contractor's primary business is construction, rather than cost documentation.

## **Is it better to use an independent scope of loss or a contractor's estimate/bid to negotiate with the insurance company?**

As with all things, there are pros and cons to both approaches. The important thing to remember is that credible documentation increases your negotiating power.

An advantage of using an independent scope of loss to negotiate with the insurance company is that it usually contains a greater level of detail about the scope of work to be performed and its associated costs. When the insurance company is provided with a credible detailed scope of loss, it becomes harder for them to underpay the claim. Additionally, an independent scope of loss is more likely to be formatted similarly to the insurance company's scope of loss. This can be a distinct advantage because it allows an easier "apples to apples" comparison of the work and costs estimated by the insurer and the insured.

A disadvantage of having a scope of loss prepared is the cost. A detailed scope of loss can cost \$3,000-\$12,000 or more, depending on the size of your home and amount of detail/work required.

An advantage of using a contractor's bid/estimate to negotiate with the insurance company is that some contractors will provide a bid/estimate on the destroyed home free-of-charge, as a means of showing good will, and hopefully, getting your business for the rebuild.

A disadvantage of using a contractor's bid/estimate to negotiate with the insurance company is that the contractor is not likely going to build a house identical to the one that was destroyed. Hence, they may not have sufficient information and/or training to properly value the cost to rebuild the destroyed home with the necessary detail.

## How do I hire a professional to prepare a scope of loss?

Search for and interview experienced reputable construction estimators in your area. Use the ["Find Help" directory](#) as a starting place.

If your loss occurred in a natural disaster, communicate with other impacted property owners in your community about which professional(s) they are using for this service.

## Questions to ask before hiring anyone to prepare an independent scope of loss:

1. Have you previously prepared an independent scope of loss?
2. If so, how many?
3. When were they prepared?
4. Are you familiar with local construction costs in my area? If so, how?
5. Have you ever had to "defend" your work in court? If so, what was the result?
6. How much will you charge for preparing a scope of loss and what is included?
7. Ask for references and call the references.
8. Clarify the scope of work to be performed and fee(s) charged:
  - a. Does the scope of work include responding to insurance company questions regarding the scope?

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- b. If not, how much does the preparer charge to respond to insurance company questions?
  - c. Is the preparer willing to meet with you and the insurance company adjuster to “defend” his scope against the insurance company’s scope?
9. If the person holds a contractor’s license, check the license status with the Contractors State Licensing Board.

## **Will the insurance company reimburse me for the cost of an independent scope of loss?**

The short answer is probably not. But, do not be afraid to “think outside the box”. Some insureds have successfully argued that the cost of having an independent scope of loss prepared qualifies as an “Additional Living Expense” and received reimbursement on that basis. From a tactical standpoint, consider submitting the cost of the independent scope of loss preparation for reimbursement **after** the insurance company has accepted/agreed/negotiated on the basis of the independent scope of loss. The insurance company’s reliance on your independent scope of loss adds to the argument that it was a necessarily incurred cost relating to the loss.

## **What if I want to rebuild a different home than the one that was destroyed?**

Your insurance company owes you to replace what you had. But, realistically, very few people replace their destroyed house with an identical house. Problems often arise if you try to negotiate a settlement on the new home you want instead of the one you had. The insurance company may balk if the proposed new home contains greater square footage and/or different features than the destroyed home.

**It is a better strategy to reach an agreement with the insurance company about how much it will pay to replace the destroyed house before discussing how much you want them to pay to rebuild the new house.**

An independent scope of loss can be utilized to document how much the insurance company would have had to pay to rebuild the destroyed home and, accordingly, how much it is obligated to pay, even if you are building something different.

## The bottom line

Different insurance companies use different processes to value a loss. Not all insurance companies will prepare a scope of loss to value the cost to replace/repair a destroyed/damaged home. If your insurance company is not preparing its own scope of loss, **ask them how they intend to value your loss.** And, remember that whatever process your insurance company uses, your goal is to fully document the loss and negotiate a settlement of your claim that will cover the true cost of replacing and/or repairing your damaged/destroyed property...even if that cost is theoretical because you're building or buying something different. Having a scope that specifies materials quantities and qualities, trades and code upgrades gives you a basis for an "apples to apples" comparison and a fair settlement.

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