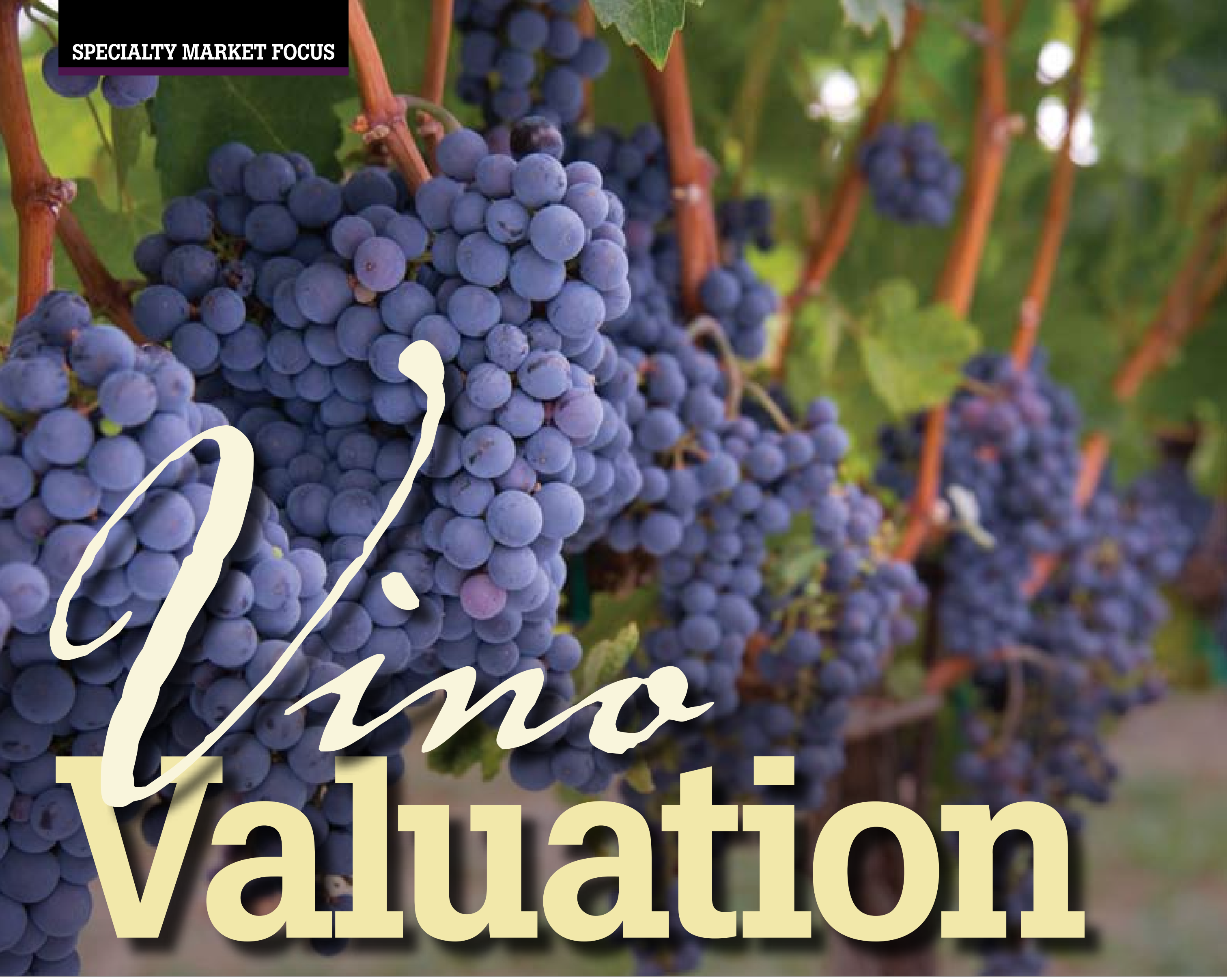

Vino Valuation

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Wineries provide a juicy business opportunity for brokers prepared to do their homework

>> BY SUZANNE SHARMA

Consumption of wine in Canada is on the rise and as patio season is upon us, many Canadians are opting for a chilled glass of pinot grigio instead of a pint of lager.

In recent years, growth in domestic wine consumption has outperformed that of beer and spirits. A study by British firm ISWR for Vinexpo found that wine consumption in Canada grew by 22.5% between 2005 and 2009, while spirits consumption grew 7% during this time. Further, Canadians consumed 40.4 million cases of wine in 2009 alone, and Canada will see wine sales volume grow 19% by 2014.

Wine makers continue to prepare for the increasing demand for their product by expanding their operations, according to experts.

"Wineries have changed significantly in terms of expansion and growth across the country," says Larry Deramo, assistant vice president of commercial lines business development at The Dominion. "It's become an investment and lifestyle opportunity for people like sports celebrities, artists and retired executives."

Today's wineries are no longer considered a simple agricultural business. Instead, wineries are deemed manufacturers that cultivate a product, as well as retailers that sell that product. Additionally, many wineries include on-site businesses that create added exposures, such as a tasting room, banquet hall, restaurant or café.

Wineries are a relatively low-risk insurance market that is expanding, and these clients require professional advice. In fact, those in the field say wineries are a largely untapped business opportunity since there are few brokers in Canada that specialize in this niche compared to other specialty markets.

Growth in wineries has already begun to trigger interest from brokers, and has also driven insurers to develop products that are specific to wineries, says Rick Roberts, managing director at Beacon Underwriting.

One of the most unique items addressed in winery policies is how stock is valued, and this differs greatly from other retail or manufactured products.

Wine makers purchase (or grow) grapes, but the stock cannot be valued at that price. The grapes go through a fermentation process that turns them into wine, and the end product is worth much more than the initial raw materials. The stock must be valued at the potential retail price so that in case of loss, the winery is able to claim business income.

Roberts, who has been a partner in a winery since 2004, agrees that it is important to be covered for potential business income loss. There is a specific period of time that wineries have to ferment and process the product, and if that window of opportunity is missed, the operation may not have any income for that timeframe if undercovered.

He states that the valuation of stock was the most important consideration when purchasing insurance for Therapy Vineyards, the winery in which he is a partner, located outside of Penticton, BC.

Broker Insight

Q&A with John Beevor-Potts, commercial broker, Hub International

Q. How specialized is this product?

A. The unique part about wineries is with respect to the stock and the potential loss of business income associated with stock. Winery programs should value the stock at what the end price of the wine is going to be per bottle, so that if there is a loss, the entire value of stock is covered for business income loss.

Q. What are some of the intricacies involved with placing this product?

A. In the last few years, insurers have put together specific winery programs. As a broker, it's a challenge to keep on top of coverage changes, and identify new products and players. Also, there is quite an amount of work involved in filling out applications for wineries and doing calculations to come up with proper stock and business interruption values. Brokers must work together with the client to accurately complete applications.

Q. What have been the trends with pricing and limits?

A. I'm always happily surprised to find these programs are competitive in pricing and rates. In BC, wineries tend to be newer and modern. They have loss control programs, professional staff, and no severe or frequent losses, so when you put that all together, it's a profitable class of business that insurers want to be involved with.

"We want to know that if the stock is sitting in barrels for two years and there is a fire or a collapse of the building, then it is valued at the retail price."

The partners purchased a policy that is designed specifically for wineries. It includes coverages such as extensions for transportation, off-site storage and business interruption.

Claims Cases

According to sources, winery claims are infrequent. However, if a loss does occur it can be significant.

Theft is one of the most common worries. Roberts remembers an incident that took place in the Okanagan a few years ago. About 30 cases of wine were stolen, causing a claim of about $15,000, according to Roberts.

Another situation that can arise is product recall. The Dominion's Deramo recalls an example where a winery had sold its wine to several stores. "The bottles were on the shelf and the wine hadn't fermented properly, so the wine bottles started popping. The winery had to recall the inventory, and the expenses to recall the product were covered."

John Alaimo, assistant vice president of commercial lines at Aviva Canada, reveals another product recall scenario. "This particular winery distributed products through the Liquor Control Board of Ontario (LCBO), which has strict guidelines. So the wine itself was consumable and fine, but there was some slight discolouration and bubbles in the bottles. There was no [worry of] harm from consuming it, but because of its appearance, the LCBO ordered it off their shelves," he says.

Related to product recall is the risk of contamination. James Grant, president and CEO of Signature Risk Partners Inc., remembers the case of a winery that was storing wine in an outdoor tank.

"Late at night, someone pried open the tank and dipped their hand in with a cup. The wine wasn't ready to be consumed yet so it tasted horribly, but the bigger problem was that because they put their hand in the tank it contaminated the entire batch," says Grant.

Other risk exposures can include property damage due to fire, wind or storm, damage to equipment and infestation. There is also a distribution and transportation exposure because many wineries sell direct and they transport the product themselves.

"[They] have a van that they own and will put maybe 35 cases of wine in it, and deliver it to their restaurant customers, for example," says Elaine Collier, chief underwriting officer at Signature Risk Partners Inc.

Collier adds that liability exposure is also a concern. Many wineries have off-site tastings, some of which are at high-profile or corporate events where there is the risk of over-serving.

"If there is a winery staffed and manning a tasting, we want to ensure they are adequately covered for their liability at the event," she says.

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— Elaine Collier, chief underwriting officer, Signature Risk Partners Inc.

Coverages

The rate of property coverage for winery policies depends on items such as construction, fire alarms, sprinkler systems, and the valuation of the building itself, according to Alaimo. Liability coverage rates depend on how well the business is performing, and how the winery is running its operations in terms of safety.

"Also, you've got a different exposure from these boutique wineries that sell their product, but also have a retail store, banquet hall or restaurant," says Alaimo. "Rates vary according to many things and also client-to-client."

However, winery clients require coverage that goes beyond simple property and liability exposures in order to ensure they are protected against all perils.

According to Linda Regner Dykeman, senior vice president of commercial lines at The Dominion, winery policies have become more sophisticated to include items such as product recall, equipment breakdown and contamination exposures.

In addition, policies should include business interruption and loss, and depending on the client, may even include event cancellation if the winery hosts events on-site. The Dominion's product, Vintage Choice, speaks to the specific needs of this specialty class of business, says Regner Dykeman.

Signature Risk Partners Inc. also offers a product, Signature Wine, which was launched in November 2009 after researching the industry, speaking to wine associations and winery owners and operators.

"We reviewed the existing winery programs that we could find (which wasn't many) and we learned that they were little more than commercial food distribution programs that had been cut and pasted to look like a winery program," says Grant. "We pulled together a master wish list, went over it with winery owners and then developed a policy from there."

He adds one of the greatest challenges they've experienced, which they'd initially thought would be an advantage, is winery owners aren't used to looking for a program because there aren't many high-profile ones available.

"They've typically bought very basic coverage, so one of our biggest challenges is educating wineries so they understand the benefit of the custom package we've put together," he says. TB

Broker Advice

Deal with an insurer that knows about policy wording specific to wineries and stock valuation. There might be half a dozen in the country and if you're a broker that doesn't have access to those markets, you're not going to be able to provide the customized product and service that is required. Also, learn the business. There are provincial wine institutes and you can go online and get their bulletins sent to stay current with what's happening in the industry (e.g. prices of grapes and supplies).

— Rick Roberts, managing director, Beacon Underwriting

Do a full risk management analysis of all the exposures. Look beyond just insurance coverages, and go through a potential loss scenario with the insured. There are so many different ways that wineries are operating today (e.g. banquet hall, restaurant, tasting room), so the more we know about the operation, the more we can ensure we provide the proper solutions.

— John Alaimo, AVP of commercial lines, Aviva Canada

Know that some of the existing programs are really only commercial packages that aren't specifically written for wineries. Don't be distracted by frills and high limits. For example, one program could offer a couple hundred thousand dollars in transit coverage. The reality is the client may only have 35 wine cases on the road at one time, so they may only need $20,000 in coverage, not $100,000.

— James Grant, president, Signature Risk Partners Inc.