

## **Why the insure-to-value discussion is more important than ever**

Property Casualty 360

As Greater Los Angeles moves forward with cleanup and rebuilding efforts following the January wildfires, many property owners may soon face another wave of distress. In an interview with CNBC, Amy Bach, executive director of nonprofit consumer advocacy group United Policyholders, shared that as many as two-thirds of wildfire victims will discover that their properties are underinsured — a realization that can feel like a second form of loss. For insureds, this news can be devastating, and carriers often bear the brunt of their frustration.

This troubling scenario highlights the ongoing challenge of insurance-to-value (ITV). The issue is complex, driven by rising material costs, widespread labor shortages, and broader socioeconomic factors. While agents and brokers have little control over these external pressures, they are responsible for keeping their clients well-informed and adequately covered.

Given these challenges, it is more crucial than ever for agents and brokers to initiate conversations about ITV with their clients, especially those who insure unique properties like wineries and breweries. Proactive discussions can help close coverage gaps before they lead to significant financial losses.

The importance of being proactive

The drastic increase in catastrophic wildfires and hurricanes we've seen for more than a decade has made ITV a trending topic. I've seen the value firsthand in talking with insureds about ITV before a natural disaster, rather than having the conversation afterward.

In 2017, wildfires ravaged Napa and Sonoma Counties, leaving a path of destruction through the heart of California wine country. One winery owner lost everything; a home, multiple barns and sheds, and the tasting room. The devastation was compounded by a harsh reality: The property was underinsured by

nearly 40%. To make matters worse, several smaller damaged structures were not even listed in the policy because the insurer never received record of them. The shock and disbelief this business owner faced underscored a critical lesson about the importance of regularly reviewing and updating insurance coverage.

Since then, I've made it a priority to connect with agents and brokers to ensure proactive ITV discussions are taking place regularly with clients.

### Navigating expanding coverage gaps

As important as the ITV discussion was in 2017, it is twice as important now. When wildfires destroy large neighborhoods, as was the case in Pacific Palisades, or when hurricanes cut wide swaths of damage, as was the case with Helene in 2024, there are not enough workers to help rebuild. These labor shortages increase costs. So, too, do inflationary pressures that have taken the costs of building materials to new heights.

Little relief is expected in 2025. Geopolitical events like cross-border tariffs and the continuing war in Ukraine have impacted critical construction material prices, sending costs even higher. Amid such widespread fluctuations, insureds who may have been fully covered based on their risks as recently as six months ago may be underinsured today.

To keep clients updated on ITV, agents and brokers should commit to at least semi-annual check-ins, especially with more complex accounts. During those conversations, agents should explain the risks of being underinsured, similar to the way they discuss other risk-management and loss-control strategies. Make it clear that failing to maintain ITV means they may not be able to fully rebuild if they suffer a total loss.

### Putting boots on the ground

I strongly recommend that agents make site visits, especially if they write business for wineries, breweries and other complex risks. These large-scale properties cover hundreds of acres and include lots of moving parts, such as crush facilities that harvest grapes and produce wines for other brands.

By conducting routine on-site inspections, agents can obtain a complete picture of these properties and

see potentially easy-to-miss items, such as wind machines, solar panels or infrastructure for irrigation and wastewater treatment. Having boots on the ground also gives agents a feel for facility operations.

In-person facility tours are even more essential when assessing ITV for older properties. Many wineries are historic, family-owned businesses. Sometimes, a larger corporation will purchase them. But surprisingly, that company may continue relying on the original owner's spreadsheets for property values, and sometimes, those spreadsheets date back decades.

Even if they are more recent, they most certainly will not include updates for modern-day building costs and inflation. Without conducting a thorough property inspection, agents will find it impossible to accurately assess ITV in these scenarios.

### Building stronger relationships by digging deeper

Agents and brokers can bring added value to their insureds by driving the ITV conversation forward with these five tips:

- **Address renovations, expansions and new acquisitions.** During check-ins with insureds, be sure to discuss any recent renovations, expansions, or additions to their property. Ask if they have invested in new equipment or constructed new buildings since your last conversation, as these changes can significantly impact coverage needs. Additionally, inquire about their supply chain logistics, including whether they are storing inventory at off-site locations that might also require coverage. Proactively addressing these details can help prevent costly gaps in insurance protection.
- **Discuss major purchases.** Ask insureds about any significant investments they've made recently, such as new tanks, canning lines, or on-site generators, which are now essential for many California wineries facing rolling blackouts. Ensuring these high-value items are properly included in the policy is crucial for maintaining adequate coverage.
- **Keep abreast of market trends and seasonal changes.** Track changes in material, labor and rebuilding costs, then relay the latest information to your insureds. Also, reach out at the start of storm season in each region, reminding insureds to take down tents, bring in umbrellas, clear brush and secure their properties.
- **Stress the importance of thorough record keeping.** Encourage insureds to update their property values, inventory and equipment costs at least annually so you can compare them against

any changes.

- **Offer continual reminders.** In addition to regular check-ins, reinforce the ITV message with updates in your email newsletter and risk bulletins.

#### Taking a no-surprises approach

Do not let the sting of being underinsured strike your insureds at their biggest time of need. With ongoing site assessments and constant communication, agents and brokers can communicate the importance of ITV and build stronger relationships. Aim to offer the most accurate coverage possible so there are no surprises later.