Outlook.

Cannabis

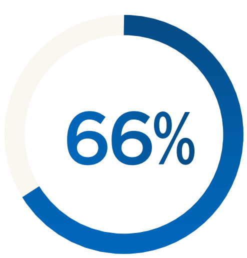
As the cannabis industry grows, planning for the future will determine which companies thrive and which decline.

HUB

Risk & Insurance | Employee Benefits | Retirement & Private Wealth

What to Expect in 2024

As the industry expands, cannabis businesses face more competition and decreased investment, forcing them to lower product prices and cut costs. At the same time, the cost of doing business continues to climb. As business risks increase — whether it's exposure to catastrophic events and vandalism or product recalls and increased competition — an updated risk management strategy is essential for cannabis operators to ensure long-term resilience and profitability.



Of cannabis companies cite governmental regulatory and legislative changes as the biggest threat to profitability.

HUB International 2024 Outlook Executive Summary

Profitability

Operational efficiencies can offset rising business costs.

Acceptance of medical and recreational cannabis is at an all-time high, with medical marijuana now legal in 40 states and the District of Columbia, and recreational cannabis approved for sale in 23 states and D.C.[1] Retail cannabis sales are projected to grow to $54 billion by 2027.[2]

However, the explosion of cannabis operations has resulted in market saturation. Operators are selling more product, but the increased competition has pushed prices downward.[3] The average retail price of cannabis fell as much as 20% in the U.S. between 2021 and 2022,[4] and some economists predict that fewer than a quarter of cannabis businesses will turn a profit by the end of 2023.[5]

Losses related to catastrophic events such as fires, particularly those caused by a failure of High Intensity Discharge (HID) lighting systems used to grow crops, or theft of expensive cannabis products like cannabis oil, present further challenges to profitability. And a rapidly spreading plant pathogen called HLVd could cost cannabis growers billions of dollars in coming years.[6]

Extreme weather events, including droughts, floods, storms and wildfires, have affected yields for some cannabis growers.[7] The impact of these events is a significant concern for the industry, with 62% of the HUB International 2024 Outlook Executive Survey[8] cannabis respondents citing climate change and natural hazards as a top risk to profitability in 2024, followed by loss of credibility and business interruptions.

Improved operational efficiencies and a strong risk management program can help cannabis operators tackle these challenges to profitability. However, operators need someone to navigate the complicated insurance landscape. An insurance broker with industry expertise can educate cannabis companies on the nuances in their policies, such as stock coverage, to ensure they adequately protect their product and their bottom line.

1. MJBizDaily, "Where Marijuana is Legal in the United States," August 2023.
2. MJBizDaily, "U.S. Cannabis Economic Impact," April 2023.
3. Daily Mail, "Recreational weed industry 'verges on collapse' due to steep taxes, plunging prices, glut of competition and thriving illicit pot market," August 28, 2023.
4. BDSA.com, "Pricing Compression in an Evolving Cannabis Market," December 27, 2022
5. Financial Regulation News, "Whitney Economics: Domestic cannabis business profitability under 25 percent," June 27, 2023.
6. SF Gate, "More than 90% of Calif. pot farms infected with 'severe' pathogen," May 25, 2023.
7. Cannabis Business Times, "In 2022, Outdoor Cannabis and Hemp Growers Braced for and Encountered Climate Change Effects," December 28, 2022.
8. HUB's 2024 Outlook Executive Survey polled 900 C-Suite and VP-level executives on the issues facing them on profitability, employee vitality and organizational resilience

Vitality

Steady cannabis workforce in high demand.

Cannabis expansion is expected to generate

63,000

new jobs by 2025

A strong workforce is critical to operating a successful cannabis business, making the competition for good employees fierce. Cannabis expansion is expected to generate 63,000 new jobs by 2025, but with unemployment in the U.S. below 4%, finding qualified workers to fill those positions will be challenging.

Cannabis industry respondents to HUB's Outlook Executive Survey listed recruitment, retention, absenteeism and employee wellbeing as the most cited concerns affecting workforce vitality. However, declining profits are forcing many large cannabis companies to reduce payroll[9] or cut back on benefits, which is likely to hinder recruitment and retention efforts.

Investing in workers through training and growth opportunities and offering robust, personalized benefits can be key differentiators for cannabis companies. Cannabis employers that offer personalized benefits — which may include various health plan options, financial wellness initiatives and employer-sponsored retirement plans — create **quality employee experiences (QEX)**, which drive increased engagement and productivity.

Another benefits challenge for cannabis companies is ensuring their plans stack up against the competition. Fewer than a quarter of HUB cannabis survey respondents said they pay for benefits and benchmarking data, though it may provide insights that both improve recruitment and retention, as well as save money.

CASE STUDY: One HUB cannabis client was spending more than double what their competitors invested on employee health benefits. After analyzing the uptake of their benefits and using benchmarking data, they were able to save nearly $300,000 a year by modifying their funding to align with others in the marketplace while still offering several health plan options.

9. MJBizDaily, "Marijuana Industry Layoffs and Cost-Cutting Likely to Continue in 2023," January 17, 2023.

Resiliency

A robust risk plan will fuel industry growth and resiliency.

Whether they are growers, retailers or distributors, cannabis companies operate in a complex marketplace with a highly sensitive product. Hazards in cannabis growing and processing facilities remain a concern for underwriters. High-pressure sodium growlights present significant fire risks; fertilizers and extraction equipment can compromise worker safety.

Other perils also threaten the resiliency of cannabis growers. Extreme heat and wildfires continue to endanger California's Emerald Triangle, the country's top cannabis growing region.[10] And rising rates of social engineering fraud — which made up more than 50% of cyber claims in the first half of 2022[11] — presents a new cyber exposure.

Despite these perils, fewer than 20% of cannabis industry respondents to HUB's Outlook Executive Survey say they have a significant loss prevention program for both owned and non-owned assets or a comprehensive business continuity management plan. This indicates that the majority of cannabis business operations are underinsured and unprepared to weather a catastrophic event.

Rates are rising for many lines of coverage, and carriers are making modifications, such as reducing indemnity time in business interruption insurance. To withstand these challenges, cannabis operations should purchase insurance strategically and invest in stronger risk management.

One strategy is creating a robust business continuity plan.

CASE STUDY: When a HUB cannabis client updated its plan, it entered into an agreement with a generator supplier which stated that if a power outage occurred, the cannabis company would have generators delivered within the day to continue operations. When a disaster cut power, they were able to quickly resume operations while competitors remained in the dark for days.

10. MJBiz Daily, "Severe weather disrupts US cannabis operations from coast to coast," July 18, 2023.
11. Insurance Business, "Cyber insurance trends to watch in 2023," December 13, 2022.

Cannabis expansion sparks new opportunities, exposures.

Many cannabis operators plan to either broaden their cannabis operations into new areas or expand their product mix to meet consumer demand.

In the next 12 to 24 months, 46% of cannabis survey respondents said developing new cannabis products is a top priority for strengthening their business and growing market share, while 40% are looking to improve cultivation and production processes.

Product line and geographic expansion are helping cannabis operators to diversify and generate additional revenue, but these options are not without risk. Some companies are expanding into new products such as Delta 8 THC,[12] which skirt a legal loophole in states that haven't legalized recreational cannabis, or adding minor cannabinoids like cannabigerol (CBG), cannabinol (CBN) and cannabichromene (CBC) to their mix.[13] Inconsistent safety rules and regulations across states can make navigating new markets particularly troublesome and can open up businesses to new and unfamiliar liabilities.[14]

Before plunging into a new product line, cannabis companies should ensure they've considered all the risks, acquired adequate product recall insurance and have implemented all regionally required testing methods for contamination and potency.[15] And operators need to know and be prepared for the legislative and regulatory risk when expanding, especially across state lines.

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are looking to **improve cultivation and production processes.**

Equally important: Have a knowledgeable broker review any new contracts for expansion to make sure you're not inadvertently taking on risks and ensure you have the right insurance program to cover new exposures.

12. New York Times, "How Delta-8 THC Works, and Why Experts Are Worried About It," July 1, 2022.
13. Willamette Week, "Can't Tell CBN From CBG? This Guide to the Most Common Cannabinoids Will Help," April 19, 2023.
14. Missouri Independent, "As More States Legalize Pot, Their Uneven Safety Rules Can Pose a Risk," July 10, 2023.
15. Environmental Health Perspectives, "Comparison of State-Level Regulations for Cannabis Contaminants and Implications for Public Health," September 14, 2022.

Make a plan

HUB cannabis specialists will work with you to develop a tailored strategy that will protect the bottom line, support your workforce and build resiliency for 2024. Here are some initial considerations:

Focus on strategically financing your risk.

With an uptick in significant weather events across the country and a challenging economic climate, cannabis companies have fewer financial resources to invest in insurance. Conduct a deep analysis of exposures and strategically finance that risk to build resiliency.

Rethink your benefits strategy.

Stand out from the competition by offering benefits your employees want. By embracing data analytics and benchmarking, you can be sure you're offering a competitive — and personalized — benefits package to your workforce.

Do your due diligence before expanding.

With the saturated cannabis marketplace, the idea of adding a new, related product to the mix makes sense. Be sure you are aware of all regulatory issues relating to an expansion and the additional risk it presents.

Be transparent with your broker.

Consistent communication with your broker will help you identify and mitigate issues in advance of your next renewal and position your company in the best light. Review exposures and insurance needs at least 90 days prior to policy renewal to allow your broker to find the optimal mix of coverage for your business needs.

Cannabis Industry Rate Guide — U.S.

HUB International interviews brokers and risk services consultants and analyzes survey data to bring you our proprietary rate report each quarter. Read the HUB 2024 Commercial Lines Rate Report to know what to expect in advance of your next renewal.

Coverage	2024 Cannabis Rate Outlook	Insights
Commercial Auto	+5% to 15%	Rates will increase to offset insurer losses from increased vehicle replacement costs, production backlogs on part replacements, labor costs and higher medical costs. Companies with favorable experience are likely to see lower rates. Capacity may be limited in some states.
General Liability	-5% to Flat	While GL rates have been historically high in cannabis, rate increases have decreased across property and casualty lines compared with other industries. However, the severity of claims in cannabis will keep GL premiums high.
Product Liability	-5% to Flat	New market entrants and increased capacity will continue to drive down historically high premiums. Underwriters will pay close attention to insureds' risk management practices. Clean accounts may see slight rate reductions.
Workers' Compensation	Flat	As workers' compensation remains the most profitable line in commercial insurance, carriers are offering competitive rates. Inflation may affect future loss costs through higher wages, increased costs for healthcare and elevated prescription drug prices.
Umbrella & Excess Liability	-5% to Flat	Smaller operations typically purchase adequate limits through their primary policies; it's becoming more common for larger companies to purchase additional limits through an umbrella policy. Most policies do not extend over auto in the cannabis industry. While rates may be down for select accounts, overall premiums remain high.
Commercial Property	-5% to Flat	Insurance for older greenhouses and hoop houses will be limited. High overall catastrophe (CAT) losses will affect property rates in all industries, but to a lesser extent in cannabis because rates have always been high. Expect flat to slight premium decreases and coverage that is more restrictive. Concerns around lighting and safes/vaults/storage will have a direct impact on coverage and rates.
D&O: Private	-10% to +10%	Rates for private D&O insurance have improved but will be dependent on loss history. Pricing, retentions and limits are trending favorably after years of difficult market conditions. Carriers have lessened restrictive classes, increasing competition for D&O business.

Coverage	2024 Cannabis Rate Outlook	Insights
D&O: Public	-20% to +5%	The D&O market for public companies continues to improve as capacity and competition have increased. Most insureds with good claims history will see favorable renewal terms, though those with difficult risk profiles will see price increases.
Cyber	Flat to +10%	While cybercrime claims have risen, strong competition has muted rate hikes. However, increased ransomware activity and cybercrime could change the landscape in 2024, though not to the extent as in previous years.
Stock Throughput	+5% to 10%	Expect a lengthy underwriting process with restricted terms and conditions due to a lack of markets for risks with THC operations. Additional capacity is available due to enhanced risk modeling but will come at a premium.
Crop	N/A	For indoor crop, rates follow commodity prices and fluctuate by carrier. Coverage is not widely available for outdoor crop or crop cultivated in hoop houses.

NOTE: ***Rate*** is typically defined as the amount of money necessary to cover losses, expenses, and provide an insurance company with a profit for a unit of exposure. ***Exposure*** refers to a business' or individual's susceptibility to various risks encountered daily. Carriers evaluate the level of risk an insured faces in calculating insurance premiums.

HUB Cannabis

When you partner with HUB, you're at the center of a vast network of experts who will help you improve your profitability, enhance the vitality of your workforce and remain resilient into the future. For more information on how to manage your insurance costs, reduce your risk and take care of your employees, talk to a HUB cannabis advisor. We're here to help.

$70M
in commercial insurance premium brokered by HUB

830
cannabis clients

2,100
insurance policies managed

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