

HUB 2023

Outlook.

Cannabis



New products present opportunity but risk remains.



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HUB Cannabis

Setting the Scene

A growing industry settles into its own normal.

More than four years after legalization, the cannabis industry is growing and evolving, yet the market remains tightly regulated, with supply chain issues and compliance issues affecting profitability. Inflation, competition and rising wages necessary to attract and retain workers are also pressuring the industry's bottom line.

Cannabis sales hit a record

\$376M

in May 2022.¹

1. MJBiz Daily, "[Canadian adult-use cannabis sales grow slightly to nearly \\$376 million in May](#)," July 22, 2022.

What to Expect in 2023

Product development is driving growth of the cannabis industry. But supply chain issues, industry consolidation, strict regulations and inflationary pressures present financial struggles. Staffing shortages and limited underwriter appetite to insure the industry will test its resilience, with under-insured growers and retailers in danger of financial ruin in the event of a catastrophic fire or flood.



Rising costs, supply chain issues may choke profits.

Rising costs and supply chain disruptions significantly hindered cannabis company profits in 2022, and these same issues threaten profitability in 2023.

In Ontario, a cyberattack targeting the cannabis retail distribution corporation's partners crippled the supply chain, leaving retailers without products to sell.² Striking cannabis workers in British Columbia caused further disruptions to the cannabis supply chain. As a result, some retailers laid off workers and others closed their doors.³

For cultivators, the war in Ukraine and sanctions on Russia have driven up the cost of fertilizer by up to 80%, and a shortage of carbon dioxide used in plant production is further choking profits.⁴

In addition, small- and medium-sized cannabis companies are experiencing downward pressure on product costs as

Cultivators

The war on Ukraine and sanctions on Russia have driven up the cost of fertilizer by up to

80%

larger competitors undercut prices. Rising inflation rates are also straining the bottom line, making growing and transporting product more expensive. Skyrocketing construction costs are making it more expensive to build or replace structures while increasing the cost to insure. These issues are expected to increase property insurance rates more than 10% in 2023.

With the profitability pressure these challenges present, a solid risk management plan is imperative. A cyberattack or business interruption can financially devastate a cannabis company, making insuring against these risks essential. Cannabis companies need to analyze their exposures and ensure they have a strategy in place to weather any storm.

2. Samfiru Tumarkin LLP, "[Aurora Cannabis laying off 12% of workers, reorganizing](#)," June 23, 2022.

3. CBC, "[Pot shop owners worry they'll lose customers if halt on OCS deliveries stretches on](#)," August 9, 2022.

4. Vancouver Sun, "[Cannabis stores start shutting down, 'collateral damage' from BCGEU strike](#)," August 25, 2022.



Investing in employees will attract and retain talent.

Between 2020 and 2021, cannabis employers laid off roughly 30% of their workforce due to pandemic-related lockdowns.⁵ Some rehired staff as the country reopened, but mergers and reorganizations in 2022 brought additional layoffs.⁶ Job security will remain a significant challenge for the industry in 2023, especially with fears that COVID-19 variants will lead to shutdowns.

To attract and retain employees amid this market uncertainty, cannabis companies are improving benefits programs. Personalizing benefits to create flexible, customized offerings is a cost-effective way to help engender loyalty and improve retention.

Job security will remain a significant challenge for the industry in 2023, especially with fears that COVID-19 variants will lead to shutdowns.

In addition, many organizations also focused on creating more friendly and inclusive environments that foster positive work relationships as a strategy to increase employee retention. This focus on taking better care of workers is also increasing employee loyalty and morale.

5. MarketWatch, "[Canada's cannabis companies cut 6,000 jobs during COVID-19 pandemic.](#)" November 19, 2021.
6. CTV News, "[Pot company Canopy Growth to lay off 243 workers in new cost-reduction strategy.](#)" April 26, 2022.



Increasing risks may weed out the competition.

Cyberattacks, product recalls and property exposures are among the top concerns for cannabis companies. Health Canada has flagged dozens of marijuana products in the past year for everything from mislabeling to mildew to failure to list all ingredients.⁷ The Ontario cyberattack on a cannabis distributor cost retailers in the province millions. Several dispensaries went up in flames in 2022,⁸ and fire from malfunctioning grow lights remains a top concern for cultivators. These risks are costly and time-consuming to mitigate and can drive an unstable cannabis organization to bankruptcy.

Despite these exposures, insurance coverage and a solid risk management plan are an afterthought for many cannabis businesses. And with many carriers unwilling to enter the cannabis market due to a lack of historical data on the risks, cultural stigma and the industry's unsettled legal status in the U.S., capacity for insurance protection remains limited.



Yet with an increasing number of incidents that could lead to major claims — from cyberattacks to climate change — insurance coverage will remain the most cost-effective way to transfer risk and build resilience in 2023. Cannabis companies need to examine their vulnerabilities, prioritize what must be insured and create a plan to minimize their exposure. Experts can show carriers that the organization has taken the necessary steps and help locate the right coverage to protect cannabis companies from a potentially catastrophic event.

Even low-limit policies for cyber, business interruption, property and product recall coverage can make the difference between maintaining a growing, viable company and bankruptcy.

7. MTL Blog, "[This Cannabis Product Was Recalled by Health Canada Due to a Faulty Package Label](#)," April 9, 2022.

8. Global News, "[Cannabis dispensary fire in Oliver called suspicious, police investigating](#)," February 22, 2022.



Make a plan

HUB can help develop a strategy that will protect the bottom line, support your workforce and build resiliency for 2023.



✓ **Prepare for business interruptions.**

Whether it's a harvest delay due to a natural disaster, a recall from a tainted product or a supply chain breakdown, you need a plan that protects your business from loss of income or business interruption. An organizational resiliency plan doesn't have to be complex and expensive to be effective.

✓ **Know your exposures.**

Understand the root cause of your insurance claims and loss trends and show carriers how you plan to prevent future losses. Explaining how you approach risk management will serve you well when it comes to securing coverage.

✓ **Build a competitive advantage with benefits.**

Give your employees the ability to personalize their benefits. Creating a customized health and retirement benefits plan will give you a recruiting and retention advantage.

✓ **Be transparent with your broker.**

Let your broker know what changes you've made to the business throughout the year, so there are no surprises at renewal. Review exposures and insurance needs at least 90 days prior to policy renewal, allowing your broker extra time to identify the best options.



Be Prepared

HUB International analyzes proprietary national survey data and interviews commercial insurance brokers and risk services consultants to create an annual rate outlook for Canada.

On the next page is our outlook on insurance rates in Canada for 2023. Discuss your business exposures with your HUB insurance broker to understand what to expect in advance of your next renewal.



Rate Outlook — Canada

Coverage	2023 Canadian Rate Outlook	Insights
Automobile	↑ 5%	<p>Automobile rates in Canada will slightly increase. Fleets may expect to see more aggressive pricing by new entrants to the marketplace.</p> <p>Quebec policyholders may see more favourable rates and better terms.</p> <p>Rates for policyholders in provinces with public auto will remain mostly flat.</p>
Liability	↑ 5% to 10%	<p>Policyholders could see increases of up to 10% in general liability depending on class and loss experience. Companies with good loss experience may see rate reductions.</p> <p>An increasingly competitive medical malpractice marketplace has driven down rates. Policyholders are likely to see flat rates or small drops.</p>
STRATA/Condo	↑ 5% to 10%	<p>Property valuations are rising 7% to 10%, and although insurance rates remain relatively flat, the increasing valuations may lead to rate hikes of 5% or more to account for rising claims costs.</p> <p>Capacity has historically been limited, but more competition is entering the marketplace. However, this may be short lived with the market for catastrophe reinsurance hardening.</p> <p>Quebec policyholders will see rate increases of 5% to 10% as capacity remains limited.</p>
Umbrella & Excess Liability	↑ 5% or higher	<p>Rates will increase 5% or more depending on class and loss experience. Best-in-class policyholders will see flat renewals or slight rate upticks based on increased exposure.</p>
Property	↑ 10% or higher	<p>Best-in-class insureds will have more modest increases, with escalating competition for new business commercial property (Class A & B).</p> <p>Quebec insureds will see 5% increases but can expect better terms.</p> <p>Insurers are focused on insurance to value with rising inflation; clients will experience higher premiums due to an increase in building values.</p>
Directors & Officers	↑ 5% to 10%	<p>Rates will depend on the strength of an insured's financials and industry outlook. Clients that restructure placement may be able to secure premium reductions.</p> <p>Quebec insureds will see rates of 15% or higher due to legal defense cost payouts.</p> <p>D&O coverage will be challenging for healthcare and particularly long-term care. Insureds in those sectors can expect rate increases of 10% to 20%.</p>
Cyber Liability	↑ 10% or higher	<p>Rates will increase from 10% to 200% based on cyber controls, loss history and industry.</p> <p>Healthcare will see rate increases for cyber coverage of 200% to 300% as carriers reduce capacity.</p>
Environmental	↑ 5% to 10%	<p>Capacity restrictions for certain risks and increasing claim severity remain a challenge.</p>
Inland Marine	↑ 5% to 10%	<p>Rising accident frequency and severity will prompt continued rate increases in this sector.</p>

Industry Perspective Rate Outlook — Canada

Industry	2023 Rate Outlook	Insights
Agribusiness	↑ 5% to 10%	Regional mutual insurers are the primary providers in agribusiness. Livestock will see rates rise 10% to 15% at renewal due to decreased capacity and market appetite.
Cannabis	↑ Flat to 5%	<p>For the past four years, rates in this emerging market have been high primarily due to lack of capacity, but in 2023 further rate increases will be minimal.</p> <p>D&O and cyber will remain challenging, with limited capacity due to few carriers writing business in this industry. Although competition in the D&O market is increasing, expect rate increases of 10%, depending on the insured's financial health.</p> <p>Property and liability rates will rise 5% to 10% due to rising construction costs.</p>
Construction	↑ 5% to 10%	<p>Supply chain delays, labour shortages and rising inflation will continue to drive construction costs up for both commercial and residential projects. Rates will rise about 5% depending on risk, largely due to higher property valuations affecting premiums.</p> <p>The lack of skilled workers is likely to result in higher liability rates.</p>
Entertainment	↑ 5%	<p>The industry is facing reduced coverage, increased deductibles and limited coverage options, with rates rising 5% to 10% in 2023. However, rates are beginning to stabilize.</p> <p>In auto (touring), higher levels of claim frequency and severity have resulted in decreased carrier appetite.</p> <p>Larger venues may struggle to find sufficient coverage.</p>
Financial Institutions	↑ 5% to 10%	<p>Rates for general partnership liability coverage will increase 5% to 10%. Portfolio company private D&O renewals will likely have flat to 10% rate increases, although insureds that agree to increase retentions may see rate decreases. Financial institutions with significant long-term debt may see increases at renewals of 20% or higher.</p> <p>Cyber rates will continue their ascent and insureds can expect premium increases of 20% to 40%, although some institutions could see rates rise as much as 300%.</p>
Healthcare	↑ 10% to 20%	<p>Until we see the impact of increasing interest rates, inflation will drive up the cost of premiums. The trend toward adding components of private healthcare will continue to change the healthcare landscape in Ontario, and other provinces may follow.</p> <p>A softening market in senior care will keep property rates flat for that sector. However, inflation will continue to drive up building valuations, increasing costs.</p>
Hospitality	↑ 10% to 20%	<p>Rising building valuations — up 10% compared with the prior year — may continue.</p> <p>Protected property risks will see rates rise 5% while challenged properties can expect rate increases of 10% or greater. The double-digit rate increases in liability in recent years have waned, mostly due to increased risk management protocols by insureds.</p> <p>Capacity for liquor liability continues to be challenging.</p>

Industry Perspective Rate Outlook — Canada

Industry	2023 Rate Outlook	Insights
Nonprofit	↑ 10% to 20%	Supply chain delays, reduced government funding, labour shortages and a potential recession will challenge nonprofit organizations. The availability of liquor liability coverage for hosting private and public events remains limited. Rates for umbrella and cyber coverage are likely to increase in excess of 30%.
	↑ 5% to 10%	All insureds will face increased underwriting scrutiny on insurance to value. Premium costs are increasing due to rising construction costs and supply chain delays. With fewer carriers competing for business, some insureds will need to evaluate their total insurance budget and limits purchased. Best-in-class properties with sound business continuity plans will move to the top of the underwriting pile.
Real Estate	↑ Flat to +10%	Residential and Multifamily: Best-in-class residential realty will find increased capacity in the market and may obtain rate reductions, but underwriters remain disciplined in this industry. Overall premiums are up as insurance to value and reconstruction costs have increased.
	↓ Flat to -5% Best-in-class	Commercial real estate: More insurers have entered this space, and best-in-class-properties can expect rate reductions. Older properties, catastrophe-exposed properties and insureds with poor loss experience can expect high levels of underwriter scrutiny. Deductibles for flood and earthquake exposures will rise to limit carrier exposure. In Manitoba and Saskatchewan, rates for framed realty will rise 10% to 15%, with inflation potentially pushing premiums higher.
Sports	↑ 10% to 20%	Capacity remains limited in the industry. With few new entrants to the marketplace, rates will continue to rise.
Transportation	↑ 5% to 10%	The market is more stable than in the past few years, and best-in-class insureds will see better terms and conditions. However, insurer interest in the trucking segment remains limited across the provinces. Umbrella coverage will remain challenging, particularly for transportation companies with exposure in the U.S. Auto dealerships will continue to struggle for coverage, with rates rising 15% or more in 2023.

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 us, you're at the centre of a vast network of experts who will help you reach your goals. For more information on how to manage your insurance costs, reduce your risk and take care of your employees, talk to a HUB cannabis insurance specialist.

\$94M

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