

Cannabis



Risky business for emerging risks in the cannabis industry.



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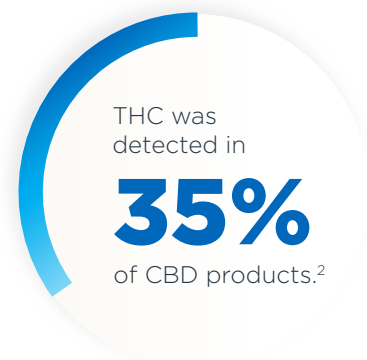
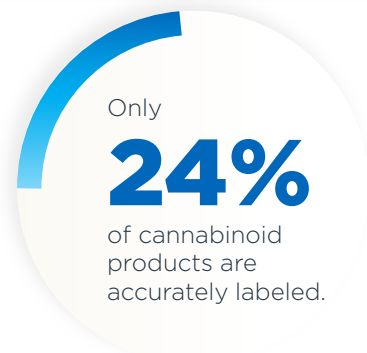
Challenges abound for budding industry

Cannabis operators continue to fight an uphill battle, with an adverse regulatory environment, labor shortages, supply chain disruptions and the always-present threat of property damage and product recalls looming large over the industry. With nearly all cannabis companies experiencing at least one product recall over their lifetime,¹ the time is now to plan how to respond.

1. Cannabis Science and Technology, ["What to Expect with Product Recalls,"](#) April 27, 2022.
2. JAMA Network, ["Cannabinoid content and label accuracy of hemp-derived tropical products available online and at national retail stores,"](#) July 20, 2022.

Product labeling mishaps bring high liability risks

CBD and THC cannabis products are routinely mislabeled.



What to Expect in 2023

Threats to profitability lurk around every corner, from staffing challenges and product loss to a lack of access to capital and a difficult regulatory environment. Cannabis companies that invest in their employees will benefit from increased worker loyalty. Those that focus on mitigating their greatest exposures will be resilient in the event of a catastrophic loss.



Let's be blunt: There's a bevy of challenges to profitable growth.

Obstacles to profitability persist in cannabis. From supply chain disruptions and product recalls to regulatory issues and economic challenges, comprehensive risk management will reduce the impact of these exposures.



Rising inflation and higher costs for fertilizer, building materials, packaging and more are hurting the industry's bottom line. Yet cannabis companies are hesitant to raise prices in an ultracompetitive market.

High taxes and barriers to interstate commerce continue to challenge the industry, with more than 20 of the largest publicly traded cannabis companies losing about \$550 million on revenues of nearly \$4.5 billion in the first half of 2022.³

Although merger & acquisition deal volume declined in 2022 compared with 2021, more private equity and venture capital firms are investing in the industry.⁴ But lenders and investors are demanding more detailed proof of future profitability, and those pursuing new capital must show how they will grow financially and present their risk management strategy for insuring themselves against losses.⁵

However, the industry's fast pace of growth, myriad opportunities for product development and increased access to insurance capacity offer the cannabis industry every reason for optimism in 2023.

3. Politico, "[Why weed companies can't make any money.](#)" September 4, 2022.

4. mg Magazine, "[How to find and utilize investment.](#)" May 2022.

5. Marijuana Business Daily, "[Marijuana M&A has cooled in 2022, but it's 'far from disastrous,' insiders say.](#)" September 28, 2022.



Investing in people will spark success.

High turnover and a skilled labor shortage are testing cannabis companies, forcing operators to spend additional time and money to attract and retain employees. It's a challenge that will become harder as the industry grows: The number of jobs in the cannabis industry grew 33% between 2021 and 2022, and the need for new workers shows no signs of slowing.⁶

Low wages, few benefits, industry stigma and the physical labor required of jobs on the cultivation side has compounded the labor issue. Many companies are adding health insurance and offering 401(k) plans, raising wages and adopting other worker-friendly practices to attract and retain workers.

And given state government scrutiny and compliance requirements of the industry, cannabis companies must train employees on the skills needed to perform the job and government regulations. Investing in training and onboarding will improve safety and employee loyalty.

Personalized benefits programs offer a partial answer. Personalizing benefits to meet individual employee needs results in positive employee experiences — and a benefits strategy centered around delivering [quality employee experiences \(QEX\)](#) helps to build a workplace that attracts and retains workers.

The number of jobs in the cannabis industry grew between 2021 and 2022, and the need for new workers shows no signs of slowing.⁶

33%

6. Leafly, "The US cannabis industry now supports 428,059 jobs," February 23, 2022.



Prioritize risk strategies to stay out of the weeds.

Cannabis facilities face hazards from the very components and systems required to cultivate plants, including high intensity discharge (HID) lighting, chemical exposures and butane in oil extractions.

The National Fire Protection Agency has issued standards to prevent products from going up in flames.⁷ Underwriters are closely inspecting the equipment used in production and fire suppression systems as a condition of insuring a property.



For cannabis growers located near a hurricane or wildfire zone, the risks are even higher. Property policies typically don't cover cultivators' hoop houses and other out-buildings, and more carriers are limiting or excluding coverage for losses from large-scale natural disasters.

Coverage for crop losses from catastrophic events is limited and often prohibitively expensive for cannabis crops. Even if a cultivator's buildings and crop survive a nearby wildfire, contamination from dust, smoke, ash and fire retardants can ruin a crop.⁸

But cannabis companies are becoming increasingly savvy and taking steps to shore up their risk strategies and are scrutinizing policies to make sure they're aware of any gaps in coverage to plan for how to address them.

Cyber remains a significant loss-driver in the industry, which is hit disproportionately hard by hackers who perceive cannabis businesses as being flush with cash and lacking sufficient IT controls.⁹ But cyber insurance uptake among cannabis companies is up, and rates have begun to ease, particularly for companies with advanced cybersecurity controls and training.

7. Firefighter Nation, "[NFPA Approves 420, Standard on Fire Protection of Cannabis Growing and Processing Facilities](#)," May 7, 2021.
8. Marijuana Business Daily, "[West Coast wildfires threaten hundreds of marijuana businesses, fueling concerns about a 'new normal'](#)," December 17, 2021.
9. Marijuana Business Daily, "[Ransomware typically begins with email scams, but training employees can protect your business](#)," October 1, 2021.



New cannabis concoctions bring high liability risks.

The swiftly expanding cannabis industry is introducing new products to the market at a breakneck pace, presenting new challenges.

Cannabis companies filed more claims against their product liability policies in the first six months of 2022 than in the past five years. The recalls and litigation are also impacting product liability coverage,¹⁰ where rates are expected to rise from 10% to 15% in 2023.

New products — such as THC-infused beverages, sugar-free cannabis tarts and cannabinoid-containing baking staples like coconut oil and brown sugar — require additional research and development for extraction, packaging, storage and distribution. And many products require refrigeration and bottling, adding greater complexity to distribution.

The continued growth of the cannabis edibles and beverages market is also driving companies to create new formulas, products and strengths. The THC beverages market alone is projected to grow more than 15% year-over-year between now and 2025.¹¹

Cannabis companies filed more claims against their product liability policies in the first six months of 2022 than in the past five years.

But this innovation does add risk. States issued dozens of recalls in 2022 for marijuana edibles, including mislabeling and mold and salmonella contamination.¹² These incidents have attracted the attention of plaintiffs' attorneys who have filed suits on behalf of consumers claiming injury from these mislabeled or contaminated products.

Cannabis companies with solid risk management plans, and advisors to ensure their insurance policies cover the many exposures, will be well-positioned to grow and succeed in 2023.

10. Marijuana Business Daily, "[Oklahoma recalls 99 medical marijuana products, suspends lab's license.](#)" May 25, 2022.

11. Technavio, "[Cannabis-infused Edible Products Market by Product and Geography.](#)" July 2021.

12. Michigan Live, "[64,000 pound, \\$229 million Michigan marijuana recall is the result of bureaucratic 'abuse,' new lawsuit claims.](#)" November 24, 2021.



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 2023. Here are some initial considerations:



Cookie cutter employee benefits won't cut it.

Take your benefits program to the next level with highly personalized options that won't break your budget. You can have access to the same benefits as other industries, including 401(k) plans. HUB's [Workforce Persona Analysis](#) can give you the insights you need to achieve a competitive advantage.



Build company resiliency.

With more carriers offering specialty coverages for the cannabis industry, now is the time to look at how best to protect your executives and build resiliency by insuring against directors and officers liability claims, business interruptions and cyberattacks. Your HUB broker can identify the best policies for your company.



Prepare for a product recall.

The odds of experiencing a product recall are high. Your first line of defense is your internal policies and procedures, and that includes thoroughly vetting your vendors and partners. Be thoughtful about the general and product liability coverage you purchase and ask your broker to clearly explain the differences in coverage.



Be transparent with your broker.

Let your broker know what changes you've made to the business, so there are no surprises at renewal. Review exposures and insurance needs at least 90 days prior to policy renewal, so your broker can 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 the Cannabis industry.

We expect rate increases for nearly all coverages in Cannabis, as carriers are experiencing high losses and costs.

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



Cannabis Industry Rate Outlook – U.S.

Coverage	2023 Cannabis Rate Outlook	Insights
Automobile	↑ 5% to 20%	Proper onboarding, including motor vehicle record (MVR) screening and driver safety programs remain important for reducing exposure in the challenging labor environment. Rising litigation, increased repair costs and medical inflation are contributing to poor underwriting performance.
General Liability	↔ Flat	While GL is not a rate driver, claims severity has kept premiums high.
Product Liability	↓ 10% to 15%	New market entrants and increased capacity is reducing historically high premiums, but underwriters continue to pay close attention to risk management policies and procedures. Claims for mental anguish and contamination or mislabeling of gummies are rising. Class action litigation, which was largely absent from the market, is increasing, with an uptick in lawsuits filed by plaintiff attorneys specializing in this sector.
Workers' Compensation	↑ 5%	Rates are relatively stable. Companies making quick hiring decisions due to the labor shortage need to pay attention to the quality of workers and adopt best practices for onboarding to reduce the risk of accidents and injuries. Sound risk management can mitigate exposure to pesticides, disinfectants, and ergonomic-related claims.
Umbrella & Excess Liability	↑ 5% to 10%	Smaller operations typically purchase adequate limits through their primary policies, but larger companies are increasingly buying additional limits through an umbrella policy. Most policies do not extend over auto in this sector.
Property	↑ 5% to 10% (No CAT exposure)	<p>The cost to rebuild has increased due to economic inflation and supply chain delays. Property for indoor growing and volatile extractions remains challenging due to frequency of fire claims.</p> <p>Coverage availability for hoop houses remains limited with underwriting scrutiny on building standards and buildings refurbished from their original use.</p> <p>Expect underwriters to scrutinize organizational resiliency and business continuity plans.</p> <p>Insureds should discuss their business interruption coverage and limits with their broker to ensure adequacy.</p>
Directors & Officers Liability	↑ 5% to 10%	New non-standard E&S entrants are creating downward pressure, although insureds can expect modest increases from market leaders. Carriers are beginning to broaden coverage, lower premiums and offer competitive retentions in this sector.

Cannabis Industry Rate Outlook – U.S.

Coverage	2023 Cannabis Rate Outlook	Insights
Cyber Liability	↑ 20% to 40% or higher	Compared with the last two years, rates have begun to ease for clients without significant exposure changes or claims who also maintain the requisite cybersecurity controls. Clients with substandard controls (i.e., lack of multi-factor authentication (MFA), endpoint detection and response (EDR), and offline backups) will continue to experience difficult renewals and a lack of market competition.
Environmental Liability	↑ 5%	Coverage is emerging in this sector, but not readily purchased for cannabis-risks due to lack of capacity in the marketplace and budget.
Stock Throughput	↔ Flat	Capacity is limited for THC operations risks. Expect a lengthy underwriting process with restricted terms and conditions.
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.

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When you partner with us, you're at the center 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.

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