

# Outlook.

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## Cannabis

Driving growth in cannabis will determine which companies thrive and which decline.



Risk & Insurance | Employee Benefits | Retirement & Private Wealth



# What to Expect in 2024

Despite heavy regulation, falling prices and heavy taxes, new cannabis markets will open opportunities for those willing to take the leap. But change can be risky. Cannabis operations that support workers and enhance their risk management strategies will blossom.



**Regulatory fees account for more than 10% of operating costs.**

Business of Cannabis, "[Cannabis Industry Fees Are Preventing Profits, shows Health Canada Report.](#)" August 23, 2023.

## Overregulation and taxation limit profits, but exports offer hope.

The cannabis industry will face greater profitability challenges in 2024 than they've encountered since the Cannabis Act was federally legislated in 2018. But as acceptance of cannabis continues to spread around the globe, opportunities for growth in emerging markets abound.

Businesses will continue downsizing as a saturated market drives down revenues. Regulatory compliance will limit profits, with such fees accounting for more than 10% of operating costs for some cannabis firms.<sup>1</sup> And excise taxes remain high, with little indication of changing.<sup>2</sup> In fact, 85% of respondents to the HUB International 2024 Outlook Executive Survey<sup>3</sup> listed regulatory challenges as a threat to their profitability.

But there is reason for optimism. The Cannabis Act is soon up for review — which could provide some tax relief — and the burgeoning export industry provides opportunities for expansion. Export revenue increased nearly 50% in 2022, as European demand for high-quality medical marijuana grows.<sup>4</sup>

Similarly, while the standard recreational market is saturated in Canada, the demand for rare, small batch product continues to grow. Health Canada granted more craft licenses in 2022 than standard licenses<sup>5</sup> — and some of these cultivators are commanding more than \$1,000 per ounce for rare, hand-watered, organic product.<sup>6</sup>

But entering new markets brings new risk. Most general liability or product recall coverage defines a coverage territory, and claims that occur outside of those geographical limits are typically not covered.

# 85%



of respondents to HUB's 2024 Outlook Executive Survey<sup>3</sup> listed **regulatory challenges** as a threat to their profitability.

With the rollback of Canadian regulations requiring cannabis companies to maintain certain policy limits for product recall insurance, companies can now purchase more commensurate limits and save on premiums. However, others are cancelling these policies altogether and taking on the risk.

Cannabis companies should talk to their broker before changing or eliminating product recall coverage to ensure they are not creating unnecessary gaps and exposures.

1. Business of Cannabis, "[Cannabis Industry Fees Are Preventing Profits, shows Health Canada Report](#)," August 23, 2023.
2. Saltwire, "[High taxes threatening cannabis industry N.L. producer tells Trudeau](#)," March 16, 2023.
3. 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.
4. MJBiz Daily, "[Canadian cannabis exports surge 50% to CA\\$160 million in 2022-23](#)," August 29, 2023.
5. MJBiz Daily, "[Canadian marijuana entrepreneurs shift focus to 'micro' licenses](#)," July 17, 2023.
6. High Times, "[Growing at the highest caliber humanly possible: The art of small batch](#)," August 18, 2023.

## Promote retention and engagement with personalized benefits.

The cannabis industry is struggling with absenteeism, a lack of employee engagement and high rates of turnover. Cannabis industry respondents to HUB's survey most often cited employee engagement, recruitment and absenteeism as issues affecting the vitality of their workforce.



Although the challenging economic climate for cannabis has led to some layoffs,<sup>7</sup> stable organizations struggle to recruit and retain qualified employees because of uncompetitive compensation and benefits packages.<sup>8</sup> In fact, more than half of budtenders leave a job within one year.<sup>9</sup>

Investing in workers through training, showing career pathways and offering personalized benefits can differentiate cannabis companies for current and potential employees. Cannabis employers offering personalized benefits that include different health plan options, financial wellness initiatives and employer-sponsored retirement plans will create **quality employee experiences (QEX)**, which drive increased engagement and productivity.

While 85% of cannabis industry respondents use data and analytics to inform benefits strategy, they may want to dig deeper to gain better insights on what their people want and need out of their benefits.

**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.

7. MJBiz Daily, "[Cannabis producer Canopy cutting 800 jobs, closing flagship Canadian facility](#)," February 9, 2023.
8. MJBiz Daily, "[Non-revenue-generating cannabis jobs in peril as demand grows for hourly workers](#)," September 8, 2023.
9. Headset, "[An analysis of employee turnover in cannabis retail](#)," July 13, 2022.

## Cash-strapped organizations should reconsider insurance protections.

Due to the highly regulated nature of the industry, virtually all cannabis companies have a risk management program. However, 90% of HUB's 2024 Outlook Executive Survey respondents noted that they don't have enough insurance to protect their profits, and just 40% said their company's risk management and insurance strategy is aligned with C-suite objectives and organizational goals.

This mismatch between need and execution threatens resiliency and indicates that businesses should implement formalized risk management review processes. Adoption of catastrophe (CAT) modelling and risk forecasting will continue to grow, informing insurance decisions that will both save money and improve resiliency.

Financial constraints have led many cannabis companies to forgo directors and officers (D&O) coverage and cyber insurance, though rates for those coverages are improving. The number of cyberattacks each year is holding steady, but the cannabis industry remains one of the top three most targeted sectors by hackers.<sup>10</sup>

Data-driven risk forecasting may reveal that a cannabis company is unlikely to sustain a significant loss under one policy. By reducing limits the company can better protect itself by purchasing coverages in an area with greater exposure.

For example, many cannabis companies are unaware of the policy nuances in stock insurance, potentially leaving finished stock underinsured. If a cannabis company suffers a loss without sufficient stock coverage, their business interruption is also likely to be impacted and result in coinsurance penalties.

*Adoption of catastrophe (CAT) modelling and risk forecasting will continue to grow, informing insurance decisions that will both save money and improve resiliency.*

Education is key. Cannabis company leaders need to understand the limits of their existing coverage and disregard the notion that policies they once viewed as "extra" are not necessary to manage their risk.

10. Canadian Lawyer, "[Cybersecurity attacks in Canada hold steady, but things are getting worse](#)," July 18, 2023.

## Product expansion brings both risks and rewards.

Shrinking profits, elevated inflation and high tax burdens have forced cannabis companies to up their creativity and enter new markets. From adding new smokable products, prerolls or gummies to their product lines to expanding sales to convenience stores, opportunities abound.<sup>11</sup> In addition, regulatory changes in several provinces have relaxed rules around cannabinoids, which may make it easier to bring these products to market.

Of the 42 cannabis recalls in the country since legalization in 2018, nearly

# 70%



were due to mislabelling.

Developing new products is a top priority for half of Canadian cannabis companies, according to HUB's survey, but this brings additional risk, particularly in the form of product recalls.

Even with a robust quality assurance program, a company's products can be recalled for myriad reasons: contamination; the failure to print a warning message; a typo in a cannabinoid name; unlabelled substances; or an incorrect description of dosage or intended use. Of the 42 cannabis recalls in the country since legalization in 2018, nearly 70% were due to mislabelling.<sup>12</sup>

Until recently, licensed producers in Ontario and British Columbia were required to carry \$15 million in product recall insurance. In November 2022, Ontario dropped that requirement to \$5 million, and now requires companies to carry at least \$15 million in commercial general liability insurance. British Columbia made similar mandatory insurance changes.<sup>13</sup>

**CASE STUDY:** One Ontario-based HUB client worked with their broker after the law change to evaluate their product recall risk. They were able to substantially reduce their premium while retaining adequate recall protection and used the savings to increase business interruption coverage.

Although cannabis companies in these provinces that reduce product recall coverage will save on premiums, most general liability policies exclude product recall claims. If a company has insufficient limits and a recall occurs, it could threaten the resilience of the operation.

11. C-Store Dive, "[Circle K expands Canadian cannabis agreement with 4 new locations](#)," November 9, 2022.
12. MJBiz Daily, "[Why are Canadian cannabis products recalled for incorrect labels?](#)" May 22, 2023.
13. Canadian Underwriter, "[What's new with cannabis insurance regulations?](#)" May 18, 2023.

# Make a plan

HUB cannabis insurance, risk management and employee benefits 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 risk.

With significant weather events becoming more frequent and intense across the country and a challenging economic climate, cannabis companies need to better analyze exposures and strategically finance their risk to build resiliency. A broker with knowledge of the cannabis industry can help identify potential risks and the best insurance mix for your business.

## ✓ It's all about your people.

Improve recruitment and retention by giving employees the personalized benefits they want without increasing costs. **HUB's QEX approach** will give you a competitive advantage.

## ✓ Do your due diligence before expanding.

With a saturated cannabis market, it's an enticing proposition to add a new related product. 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.

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# Canada Commercial Rate Outlook

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 Outlook to know what to expect in advance of your next renewal.

Coverage	2024 Canadian Commercial Rate Outlook	Insights
<b>Commercial Automobile (5 or fewer vehicles)</b>	+5% to 10%	Some inflationary claims cost pressures remain. Given the higher frequency of claims and greater repair costs, rate filings are increasing in most provinces.
<b>Commercial Automobile (6 or more vehicles)</b>	+1% to 5%	Underwriting performance remains profitable, but the cost of some claims has risen due to inflation. Supply chain delays have stretched timelines to resolve claims.
<b>Liability</b>	+5% to 10%	Improved performance in general liability has helped insurers offset poor performance on property lines. Carrier appetite has broadened as insurers look to underwrite more liability to diversify their book.
<b>Excess Liability</b>	+5% to 10%	Excess casualty remains fairly stable with some variability depending on exposure and attachment point. Given increases on primary coverage, some excess layers are increasing accordingly. Some classes of business with favorable loss history might see rate reductions.
<b>Commercial Property</b>	+5% to 25% (varies by geography)	Commercial property rates will continue to increase, and in some locales, they could rise substantially as a result of increased reinsurance costs. Capacity will be challenging in CAT-prone zones. Increased claim frequency and severity, supply chain delays and unprecedented catastrophic activity — including wildfires across the country and a 1,000-year flood event in Nova Scotia — will also affect rate.  As the cost to rebuild has increased, focus remains on insurance-to-value, which will affect overall premiums.
<b>Residential/Habitational Property</b>	+5% to 10%	Rising reinsurance rates, construction costs, and supply backlogs are pushing up rates and elongating claims timelines. Additional attention on insurance-to-value will also affect overall premiums given the increased reconstruction costs.
<b>Catastrophic Perils</b>	+11% to 20%	Increases will be much higher in CAT-prone areas. Unprecedented wildfires across the country and the catastrophic flood in Nova Scotia were indicative of the increased severity and frequency of perils.



**Agribusiness**

+11% to 20%

Limited capacity will present challenges in agribusiness. Rates will continue to rise for insuring buildings and equipment. In addition, inflation will make it difficult for agribusinesses to secure adequate limits, particularly for enterprises with an adverse claims history.

Premiums for food and beverage operations continue to rise. Risks remain difficult to place due to the increasing severity of losses worldwide.

In farming, claims from forest fires have reduced capacity. However, liability rates remain stable, with underwriters offering ample capacity.

**Cannabis**

+5% to 10%

Expanding export opportunities and the loosening of global regulations have increased liability insurance options, with more competition entering the market.

Property remains static with 5% rate increases continuing. However, rising inflation is elevating the reconstruction value of buildings by a minimum of 5%. With many buildings already underinsured, property insurance costs will further rise as building valuations increase. However, new entrants are expected in the property market, increasing capacity.

D&O remains stable, but economic strain and highly leveraged balance sheets will prompt underwriters to closely scrutinize accounts.

**Construction**

+1% to 5%

Rates are holding steady for most of the industry, though best-in-class risks may see slight rate reductions.

Premiums are growing as a result of valuation adjustments due to inflation and gross receipts changes.

Large value course of construction is seeing some upward rate pressure on higher value frame projects due to the number of carriers required to place those risks.

**Education**

+10% to +12%

On property coverage, rates are expected to rise 5% with inflationary increases of property values up 7%.

Institutions that have not right-sized their property valuations will continue to see double-digit increases in attempts to close the gap on under-valuations.

After several years of large rate increases, cyber rates are expected to stabilize, particularly for institutions that have improved their cybersecurity.

Commercial general liability rates are expected to rise 5%, except for abuse coverage, which continues to be challenging. Underwriters are linking rates for abuse and molestation coverage to the risk management and mitigation policies, procedures and training protocols of policyholders.

D&O rates will rise 5% on average, but institutions facing renewal after a three-year guaranteed rate could see much larger increases.

**Entertainment**

+5%

Property and liability rates in the event space are expected to increase 5% to 10% in 2024.

In film, policyholders with claim-free accounts may see flat renewal rates.

D&O in the entertainment sector will likely increase 5% with cyber up about 15% on average.

Abuse and molestation insurance remains challenging, with rates rising 25% or more due to reduced capacity.

**Financial  
Institutions**Flat to  
rate reductions

For the most part, financial institutions will see an accommodating insurance market. Rates are likely to be flat for private company D&O insurance; for public companies, rates for D&O coverage will be flat in 2024 after premiums declined in 2023.

General partnership liability coverage will decrease as much as 10%, as there are only a handful of carriers in this segment in Canada.

Cybercrime insurance rates are flat for primary layers, especially for smaller companies. For excess layers, however, rates are falling 20% to 30%, or even more.

Premiums for reps and warranties (R&W) insurance will experience no or moderate increases in 2024, due to an expected rebound in M&A. However, rates fell significantly in 2023, as increased competition for a smaller number of deals led to discounting.

**Healthcare**

Rate reductions

For medical malpractice insurance, there has been an expansion of capacity and significant competition for new business; insurers are agreeing to steep discounts as a result.

Those seeking healthcare D&O insurance will also see significant rate reductions, especially in high-risk markets.

There are difficulties in property insurance in healthcare. Some underwriters may offer discounts through bundling property and liability coverage.

**Hospitality**

+5% to 10%

Rates are improving for both property and liability across the country. However, hospitality businesses with property exposures to natural catastrophes such as wildfires may see greater rate increases due to the frequency and severity of these events in many provinces within the past year.

Properties in the Maritimes may also see increased rates due to potential hurricane exposure.

**Nonprofit**

+7% to 20%

The insurance landscape is becoming more challenging.

Small and medium enterprises in the nonprofit sector will see rate increases, particularly in D&O, cyber and abuse and molestation coverage. With limited capacity, insurers are enforcing more stringent underwriting guidelines, extending the time necessary to successfully secure a quote.



**Business**      **2024 Canadian Rate Outlook**      **Insights**

**Real Estate**

-5% to +10%

Real estate insurance will see a mixed rate environment in 2024.  
Properties in high-catastrophe (CAT) risk zones will see little or no rate relief in 2024 and are likely to experience premium hikes.  
Rate reductions may be available for best-in-class properties with clean loss histories. However, the higher cost of rebuilding, along with greater property valuations, are likely to offset premium decreases.

**Sports**

+5%

Depending on the age and construction of buildings, property in the sports industry is expected to rise 5% or more.  
Abuse and molestation coverage will continue to be challenging. Unlike the days when it was included in general liability pricing, abuse coverage will continue to be underwritten separately; the sports industry can expect to see limits reduced for such coverage in 2024

**Transportation**

Rate reductions for fleets  
+5% to 10% for IRCA

Increased competition in the transportation market has led to market softening across Canada, but poor underwriting results posted by one large insurer in the space could impact rates in the future.  
Additional capacity through Lloyd's is also making excess liability more available.  
**Fleets:** Historically, only best-in-class trucking companies enjoyed better terms and conditions, but the market conditions are now allowing second- and even third-tier companies tap into those benefits.  
**IRCA:** Renewals can expect to see 5% to 10% rate increases.

**NOTE:** *Rate* is typically defined as the amount of money necessary to cover losses and expenses, as well as provide an insurance company with a profit for a unit of exposure. *Exposure* refers to a business' or individual's susceptibility to various daily risks. 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

**825**

cannabis clients

**2,100**

insurance policies  
managed

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