



COMMERCIAL INSURANCE

EMPLOYEE BENEFITS

PERSONAL INSURANCE

RISK MANAGEMENT

SURETY

CANNABIS

Markets in Focus



Insurance Pricing & Market Update

Q3 2024

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INTRODUCTION

The cannabis industry is poised for significant growth, with legal sales projected to reach \$58 billion by 2028, up from \$36 billion in 2023.¹ This growth is driven by emerging markets in states like Connecticut, Florida, Illinois, Maryland, Missouri, New Jersey, New York, Ohio, and Pennsylvania, which are expected to expand rapidly. The National Survey of Drug Use and Health reported that approximately 40.7 million Americans aged 18 and older used marijuana in 2022.²

Workforce drug positivity for marijuana reached a 25-year high in 2022, with a positivity rate of 5.7% in states where recreational marijuana is legal, compared to 3.9% in states where only medical marijuana is legal. In states where neither recreational nor medical marijuana is legal, the positivity rate was 3.1% in 2022.³





In Texas, lawmakers are considering significant regulatory changes for hemp dispensaries, which offer various cannabis derivative products. On a national level, the Drug Enforcement Administration (DEA) is taking steps to reschedule marijuana from a Schedule I to a Schedule III drug under the Controlled Substance Act (CSA), a process that will involve multiple steps before judicial review.

Despite the industry's growth potential, cannabis businesses are facing financial challenges. According to Whitney Economics, the industry is experiencing delinquent payments totaling \$3.8 billion, with payments overdue by approximately 1.6 months.⁴ This financial strain is attributed to high borrowing costs and the need to maintain cash reserves.

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MARKET OUTLOOK

PROPERTY

- + Underwriters would like to see commercial property rates increases from 5-10%, however there is pricing pressures trending downward upon renewal due to increased competition, including new entrants to the market.
- + The market remains susceptible to potential disruption from competition and new entrants, and regulations changes.
- + Risk mitigation practices by an insured impact carriers' underwriting decisions and overall risk appetite.
- + Theft remains top of mind for carriers as new states enter certain geographical areas more prone to burglary.
- + Insurance carriers persist in ensuring property values align with replacement costs.



CASUALTY

General Liability

- + The general liability average premium increased 5-10% with loss experience varying state by state. Slip and falls continue to impact premises liability.
- + Excess & Surplus lines (E&S) reinsurance renewals want to see increases but may remain flat.
- + Underwriters are becoming more flexible in their appetites for specific cannabis classes and offering broader coverage compared to previous offerings.
- + Product liability claims and large lawsuits have increased due primarily to false or misleading product labels.
- + Health related claims are anticipated to be a concern, as policy exclusions will be tested state by state. State response could support or challenge policy language.
- + An increase in competition in the cannabis insurance sector is a result of more states legalizing cannabis. Competitive pressure has led to reevaluating coverage and pricing for certain products.

An increase in competition in the cannabis insurance sector is a result of more states legalizing cannabis.

Excess Liability

- + Excess liability market is flat or seeing single digit increases.
- + Some middle-market regional carriers are reducing excess lines to \$1M - \$2M or exiting altogether due to concerns about large claims verdicts. Excess capacity becomes more available above \$10M.⁵
- + It remains difficult for insurance carriers to collect adequate premiums to keep these lines profitable due to nuclear jury verdicts and the continued increase in claims frequency.

Workers' Compensation

- + Legalizing medicinal marijuana has raised questions about its reimbursement under workers' compensation. On March 17, 2023, Pennsylvania joined states like Connecticut and New York in requiring reimbursement under specific conditions. Meanwhile, 18 states explicitly deny this; others remain silent or state that reimbursement is not mandatory.⁶
- + The proposed reclassification of cannabis under the Controlled Substance Act (CSA) has the potential to mitigate ambiguity and answer questions about providing coverage under workers' compensation at the time of an injury. The reclassification would enable increased regulation and research similar to prescription medication.
- + While usage and legality pose challenges, the early stages before reaching the consumer present risks. The extraction processes can expose individuals to injury if safety is not prioritized. The challenge can be the need for more quality ventilation for flammable liquids. Inhalation of harmful fumes can increase the chances of injury.



Auto

- + Commercial auto premiums increased by an average of 9.8% in Q1 2024. Vehicle repair costs have risen by 23% since 2022, leading to higher claims costs and premiums.⁷
- + Auto carriers continue to be plagued by nuclear verdicts and rising medical costs. Medical inflation continues to impact carriers and claim severity.
- + As an industry, profitability has yet to be achieved in the last five years.
- + Finding carriers willing and able to offer coverage limits for hired and non-owned autos remains a challenge.⁸
- + Commercial auto rates are forecasted to rise in the high single digits as the years go on.⁹

Commercial auto premiums increased by an average of **9.8% in Q1 2024.**

EXECUTIVE RISK

Professional Liability

- + Professional liability is seeing rate increases; however, seeing rate hikes means the carrier is taking an approach to staying in the market. In doing so, they are well positioned to cover underwriting losses and recognize the global economic pressures.¹⁰

Directors and Officers (D&O)

- + D&O premiums decreased by an average of -0.8% in Q1 2024. Despite the rise in D&O filings in 2023, the pricing for D&O insurance remains generally more favorable than the previous year.
- + The current pricing environment is shaped by the influx of new capacity in the market and a decrease in IPOs and de-SPAC transactions.
- + The effect of increased litigation and IPO activity on pricing remains uncertain.







MAJOR CLAIMS IN THE SECTOR

PRODUCTS LIABILITY

- + **\$129 million verdict:** The plaintiffs consumed improperly alkalized water, forming a toxic chemical. One plaintiff required a liver transplant. Jurors awarded \$100 million in punitive damages and over \$29 million in compensatory damages.¹¹
- + **\$11 million verdict:** Children of the deceased filed a lawsuit claiming the deceased smoked cigarettes for many years, resulting in lung cancer. Jurors awarded \$11 million.⁸

GUIDANCE



BEGIN THE RENEWAL PROCESS EARLY

Partner with your broker early to prepare for any changes to increase greater renewal success.



PARTNER WITH INDUSTRY EXPERTS

It is important to work with your broker's industry experts who understand the business and the market when placing the specific risk. Collaborating with a team that can best represent your risk and partner with your operations is more critical than ever in this disciplined market.



HIGHLIGHT CYBER SECURITY & PROACTIVE RISK MANAGEMENT

IMA has a team solely dedicated to managing cyber risks. They offer expert assistance, including coverage analysis, economic loss exposure benchmarking, contract language review, in-depth cyber threat analysis, and strategic development of comprehensive, high-value cyber insurance programs.



CONTRACT REVIEW

Our contract review team adds value to our clients' overall risk management program by ensuring the indemnity language is market standard and doesn't expose our clients to unforeseen losses that may not be insurable.

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MORE THAN JUST INSURANCE

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MARKETS IN FOCUS CONTRIBUTORS

MICHAEL HENNESSEY, National Cannabis Practice Leader

ANGELA THOMPSON, Sr. Marketing Specialist, Market Intelligence & Insights

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