



STUDENT OF THE INDUSTRY PARTING SHOT

Cannabis Cover? Reefer Restitution? Doobie Defense?

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We don't know what to call insurance protection for the marijuana industry because our industry does not want to cover the marijuana industry. Thusly, it is unnamed. You read it here first though, I'd go with "The Ganja Guard."

If you haven't been following this issue as your state is one of the minority that soon may have some degree of legalization regimes in place, it's time to pay attention. According to an article I just read in [Leader's Edge](#), odds are increasing your agency could get a call for coverage at some point...but seller beware! The article does a nice job of touching on why insurers are afraid and you should consider that. I'll summarize by saying, insurers are cautious because many laws are federally-based and most insurers face these. Cross the line and jail time is a possibility.

This presents a challenge for our industry. Marijuana risk management is a growing opportunity. Below I estimate the P&C written premiums at about \$275 million annually.

Marijuana Industry Revenue	\$6.7 Billion
Estimated Cost of Risk	4%
P&C Premiums	\$268 Million
Average IA Commissions	13.7%
Opportunity Cost to IA Industry	\$36.7 Million

Source: See Notes

I've seen this movie before! That represents about \$1,000 in commissions for every independent agency in the United States. Those that find their coverage outside our industry, often never come back to traditional insurance. Exactitudes are impossible with this less regulated market but estimates are about 1/3 of all dollars set aside to fund commercially insurable losses are now a part of the "alternative market" of captives, risk retention groups and/or formal self-insurance.

NOTES: For those of you curious on the mathematics and figures. The \$6.7 billion in revenues is taken from the Leader's Edge article and the authors Scott Sinder and Chelsea Gold site "Business Insider, Forbes" as their source. The cost of risk is based on my assumption that such business would pay more than the average business. The average cost of risk is calculated by the ratio of commercial direct written P&C premiums in USA today (\$290 billion in 2016) and adding 33% to that for the alternative market. That total, of \$385 billion, is then divided by USA GDP of \$18.5 Trillion. The quotient gives an average cost of risk for commercial insurance of 2% of revenues. Since marijuana is deemed risky and new (and it has many tough coverage issues like product's liability), I doubled that to 4%. The average agent commission is taken from AM Best Aggregates and Averages and their figures for "Total US P&C Agency Group." Direct and contingent commissions divided by written premiums for that same IA group of \$302 billion is 13.7%. The IIABA's Agency Universe Study estimates there are about 38,000 independent agencies in the USA.

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