

Insurance Faces Risks in Cannabis and Psychedelics Boom

Cannabis Industry Expansion Spurs Insurance Risks as Psychedelics, Kratom, and Delta-8 Enter the Market

A Decade After Legalization, the Cannabis Sector Has Evolved Into a Complex Market Facing Emerging Liability Threats

Over a decade since Washington and Colorado made history by legalizing adult-use cannabis, the once-marginalized industry has ballooned into a multi-billion-dollar enterprise. The market's footprint now spans from recreational use and wellness to pharmaceuticals and consumer goods. However, this growth has invited a growing list of complications—especially for insurers tasked with evaluating risk in an ever-evolving and poorly regulated landscape.

Adjacent Substances Create New Liability Challenges for Insurers in the Cannabis Space

While cannabis remains the cornerstone of this industry, adjacent psychoactive substances like hemp-derived cannabinoids, kratom, and psychedelics are gaining traction among consumers and retailers. These substances are being sold alongside traditional cannabis products in head shops, CBD stores, and even gas stations. But for the insurance industry, these emerging products pose severe challenges due to the lack of regulatory frameworks and scientific data on long-term effects.

Kratom, a Southeast Asian plant known for its stimulant and opioid-like properties, has seen an explosion in popularity as a natural alternative for managing pain, anxiety, and even opioid withdrawal. Despite its availability across retail outlets, the substance remains largely unregulated at the federal level. Without FDA approval or standardized testing protocols, insurers view kratom as a high-risk liability.

The situation is further complicated by the prevalence of kratom in existing CBD retail channels. A large majority of these stores now carry kratom, adding another layer of complexity to their insurance needs. The uncertainty surrounding its medical claims and the possibility of adverse effects make it a substance insurance carriers are hesitant to underwrite.

The Rise of Psychedelics Introduces New Opportunities and Unknowns

Psychedelics such as psilocybin and MDMA are increasingly making their way into medical and therapeutic conversations. States like Oregon and Colorado have taken steps toward legalizing these substances for controlled, therapeutic use. Additionally, clinical trials are showing promise, with some psychedelic therapies being hailed as revolutionary for mental health conditions like PTSD and depression.

Despite these developments, the psychedelic space is still nascent from a regulatory and operational perspective. Companies involved in psychedelic research or therapy remain in early stages, meaning many are not yet ready for commercial insurance coverage. The experimental nature of these treatments, coupled with the potential for adverse outcomes—even if rare—poses considerable underwriting risks.

Insurers are monitoring these developments but are largely refraining from offering comprehensive product or liability coverage until more is known about the regulatory direction and clinical data.

Hemp-Derived Cannabinoids Like Delta-8 Continue to Complicate Risk Assessment

Another complex area for insurers is the proliferation of hemp-derived cannabinoids like Delta-8 THC. These compounds, chemically synthesized from CBD extracted from industrial hemp, have soared in popularity due to a perceived legal loophole in the 2018 Farm Bill. This legislation legalized hemp but did not account for synthetic THC analogs like Delta-8.

Delta-8 is now widely available through non-traditional cannabis retail channels with minimal oversight. States are scrambling to establish regulatory frameworks, with legal battles like the one in Texas over Delta-8 legality further muddying the waters. For insurers, the lack of clear legality and the high variability in manufacturing practices make covering Delta-8 products especially risky.

Even Delta-9 THC, the primary psychoactive compound in traditional cannabis, is now being extracted from hemp to take advantage of federal legal gray zones. The result is a rapidly growing market with inconsistent product quality and little consumer protection.

Cannabis Insurance Market Faces Low Premiums and High Long-Term Exposure

Despite the increased complexity, the product liability and general liability insurance market for cannabis remains competitive and relatively inexpensive. Rates are low due to limited historical claims, but this affordability may be giving cannabis operators a false sense of security.

Much like an iceberg, the visible risks are just a fraction of the potential liabilities lurking beneath the surface. As more claims are filed and courts begin to adjudicate cannabis-related cases, premiums are expected to rise. However, some operators are skipping product liability coverage altogether to cut costs amid intense financial pressures.

Oversaturated state markets have exacerbated the issue. In places like Michigan, the failure to limit cannabis cultivation has led to massive supply gluts, forcing wholesale flower prices to drop dramatically. Where a pound of cannabis flower once sold for \$4,000, it can now be found for as little as \$600. The resulting margin squeeze is pushing smaller operators out of the market, consolidating risk among fewer, larger companies.

This consolidation may eventually help stabilize the insurance landscape, but for now, it is creating volatility. Fewer policyholders with larger operations mean insurers face higher individual exposures. If a product liability issue arises, the financial consequences could be significant.

Navigating the Future: Cautious Optimism Tempered by Regulatory and Market Realities

While the cannabis sector offers massive potential for growth and innovation, it also demands a disciplined approach to risk management. The influx of unregulated substances like kratom and Delta-8, along with the advent of psychedelic therapies, underscores the need for clearer federal and state-level guidelines.

Insurers are unlikely to aggressively expand coverage for these emerging products until robust regulatory frameworks are in place. In the meantime, cannabis companies venturing into these adjacent markets must be cautious. Skipping insurance coverage or underestimating liability exposures could prove disastrous.

Ultimately, the cannabis industry is still maturing. As the market evolves, so too must its risk mitigation strategies. Insurance carriers, regulators, and operators will need to collaborate more closely to ensure that innovation does not outpace safety and accountability.

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