

Industry Analysis

Cigarettes and Tobacco Products

Q2 2014

Industry Overview

The percentage of teens who have tried vaping or inhaling nicotine from electronic cigarettes more than doubled in 2012, according to a recent report from the Centers for Disease Control and Prevention (CDC). The report, which was based on a 2012 poll of almost 25,000 middle and high school students in the U.S., found that e-cigarette smoking increased significantly among middle school students from 0.6 percent in 2011 to 1.1 percent in 2012. In the case of high school students, the use of e-cigarettes rose from 1.5 percent to 2.8 percent over the same period.

Over recent years, vaping has become a phenomenon, fueled by the recent visibility of numerous celebrities engaged in this trend. The term vaping came from the act of exhaling water vapor from e-cigarettes, which are battery-powered devices that heat a liquid-filled cartridge. Aimed to mimic the function of a traditional cigarette without the ash and odor, these devices usually contain various components that include nicotine, propylene glycol or glycerol to produce the aerosol.

According to the Tobacco Vapor Electronic Cigarette Association, there are about four million vapers in the U.S., and sales of the devices are expected to exceed \$1 billion by the end 2013. While e-cigarettes continue to gain steam, there are mixed reactions on its efficacy. Fans of e-cigarettes say they are an effective way to stop smoking traditional tobacco cigarettes, arguing that they can lessen nicotine intake without ingesting the tars and other dangerous additives in cigarettes. However, critics say e-cigarettes encourage minors to smoke and encourage lifelong addiction, and point out they are far from nicotine free. Currently, there is no regulation of e-cigarettes by the Food and Drug Administration, (FDA) similar to tobacco products. The European Parliament recently refused to classify and regulate e-cigarettes like other nicotine delivery systems including patches, to the dismay of the companies which manufacture them and the delight of e-cigarette users in Europe who voiced strong opposition to the regulations. With only small and inconclusive studies currently available about e-cigarettes, FDA and the CDC said they will continue to explore ways to increase monitoring and research on these devices.

Among human indulgences, tobacco usage is perhaps the most ubiquitous given its accessibility, affordability, and addictive nature. Tobacco is consumed in many forms and through a number of different methods. Its products are being chewed, snuffed, and (mostly) smoked all around the world. Today, vaping is becoming increasingly popular. Originally cultivated in the Americas, since 1492, tobacco has spread to many other countries. Cigarette manufacturing alone is estimated to have reached over \$1 billion in 2012.

Despite its ubiquity, however, acceptance of tobacco use is less than universal. The link between tobacco and cancer has been made between the cancers and lung diseases suffered by chimney sweeps and the fact that they have been caused by tobacco. And as tobacco-consumption grew across the world, so did the use of tobacco. Today, cigarettes and tobacco products are highly regulated and are the subject of contrasting opinions and fashions, throughout its history. Nevertheless, tobacco remains a lucrative multi-billion dollar business.

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