

— EBOOK

12 Questions to Ask Before Purchasing Cannabis Insurance

LEARN WHAT COVERAGE YOU NEED FOR YOUR
CANNABIS BUSINESS

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Cannabis is one of the largest growing industries in the United States.

In 2021, the cannabis industry was worth \$27 billion, up 30% from 2020, and it is expected to continue growing with the adoption of more state-related cannabis laws.

From medical to recreational, cannabis has a variety of applications, but as with any industry, these businesses need insurance to protect themselves, their employees, and their products. It can be hard to know what parts (growers/cultivators, lab testing facilities, distributors, retail, etc.) of the cannabis industry need coverage. Keep reading to learn what types of coverages you might need.



SECTION

1

CANNABIS INSURANCE 101

Common Types of Cannabis Coverage Insurance

GENERAL LIABILITY

General liability coverage can help protect business owners and cover slips, trips, and falls in a retail space. In addition, Product liability protects the business owner if their products cause an injury or makes someone ill.

PROFESSIONAL LIABILITY

Cannabis professionals, especially those who work in healthcare, dispensaries, and labs, often provide advice or recommendations to patients and customers. If this advice leads to a negative outcome, the business owner and/or employee may be held liable for professional negligence or faulty guidance. Professional liability insurance can help pay for legal fees.

WORKERS' COMP

Workers' comp policies vary by state, but all states require some sort of coverage. Workers' comp protects the rights of workers who are injured on the job.

COMMERCIAL UMBRELLA

This coverage serves as an extension of your other business liability policies. If an expense exceeds a different policy's limit, umbrella insurance can help bridge the gap.

COMMERCIAL PROPERTY COVERAGE

While it can be purchased on its own, most often this type of coverage is bundled into a broader program, and comes with significant variables, such as policy limits, named and excluded perils, and more.

COMMERCIAL AUTO INSURANCE

This type of coverage is intended to pay for losses involving cars, trucks, vans, and other vehicles that operate while doing business. As in most states, this type of insurance is required if you have a business vehicle or use your personal vehicle for business.

MANAGEMENT LIABILITY

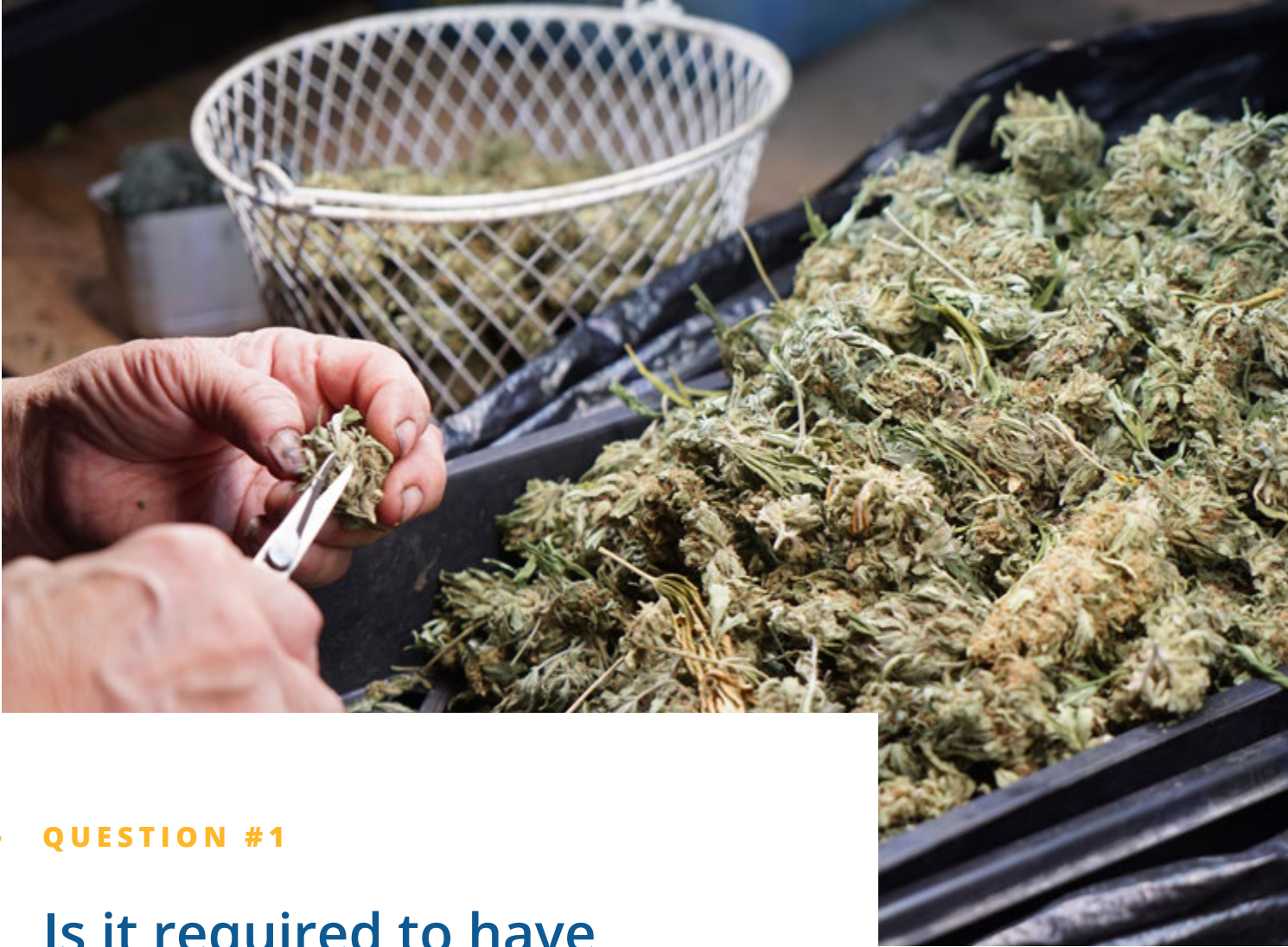
Management liability covers managers, business owners, directors and officers, executive team members, etc. from lawsuits from their employees as well as outside agencies.



SECTION

2

12 Questions to Ask Before Purchasing Cannabis Insurance



QUESTION #1

Is it required to have insurance for my cannabis business?

Yes! In Massachusetts, cannabis businesses can't get their license through the [Cannabis Control Commission](#) without having [workers' compensation](#), [general liability](#), and product liability insurance.

If you have an existing business but you're planning to expand into the cannabis industry, you will need to revisit your insurance policy. A typical business insurance policy will not cover the sale of cannabis. As some insurance carriers do not offer cannabis insurance, the business may need to explore other insurance carriers.



QUESTION #2

What type of insurance coverage does my business need?

That depends on your business operations. Cultivators need different insurance from dispensaries or cannabis convention spaces. Your insurance agent will be able to help determine what type of coverage you need. In addition to the insurance coverages listed above, it may be beneficial to have business interruption and cyber insurance.

BUSINESS INTERRUPTION (UNDER A PROPERTY POLICY)

Business interruption insurance is an add-on to a property insurance policy. Business interruption coverage covers loss of income and certain operating expenses in case the business is temporarily shut down due to a covered loss.

CYBER INSURANCE COVERAGE

Since the COVID-19 pandemic, it's becoming more vital for businesses to have cyber insurance because of the uptick in cyber attacks. A cyber attack can result in the loss of employee and customers' personal information (addresses, phone numbers, credit card and social security information, and more.) With some medical cannabis companies, a cyber attack can result in a [HIPAA violation](#). Cyber insurance coverage can help cover costs of legal fees, investigations, fines and penalties, and more.



QUESTION #3

Is cannabis insurance required in my state?

Most states don't require cannabis-specific insurance. There may be local or community rules or restrictions for cannabis companies, such as limiting the number of cannabis-related establishments in the area or instating distance requirements (ex. not within a certain distance of a school). Although cannabis insurance is not required in every state, (workers' compensation, general liability, and product liability insurance are) we encourage every business to have insurance to protect themselves in case of an emergency.

QUESTION #4

How are cannabis business insurance policies usually structured?

Ideally, cannabis business insurance policies are structured in bundles. Depending on the business' insurable values (via the property policy), there may eventually be a "layering" of carriers, in order to achieve certain coverage limits. However, for a less-established cannabis business (i.e., in their first 5 years of operation) a bundled program will work for 9 out of 10 companies.



QUESTION #5

What are some common insurance gaps (or missed coverages) that cannabis business owners may not be aware of?

Product liability is a common one. Unless specifically requested, it is not included in a general liability policy.

If a business transports cannabis, it will need an auto insurance policy.

Professional liability is commonly overlooked by cannabis owners. However, this insurance is extremely important, especially for anyone giving advice or recommendations. If a budtender at a retail facility recommends a certain product to someone and they have an accident while under the effects of cannabis, they may seek legal action.

Also, Tenants Improvements & Betterments (TIB) is often overlooked. Building coverage protects the landlord; TIB protects the tenant and the money they invest into building out the location. For example, if a tenant is building a greenhouse and there is a fire, TIB covers the investment the business owner has put into the construction. Because this coverage is often self-funded by the owner, an experienced cannabis insurance partner will recommend covering this investment up to 100%, until revenue starts coming in.



QUESTION #6

Will my business insurance policy cover the sale of non-cannabis-infused products?

No. Cannabis coverage is listed in surplus lines insurance, which is not always standard for a business. Since this type of insurance is riskier for the insurance carrier, some companies do not offer cannabis insurance.

QUESTION #7

Do contractors and subcontractors need cannabis insurance?

No. For pre-operations construction projects, they don't have cannabis exposure, so they don't need cannabis insurance.

QUESTION #8

How much does cannabis insurance cost?

No two businesses will have the same rates. But there are ways to estimate what your premiums might cost, even as a cannabis startup.

For a very general estimation, a business can calculate its liability premium by using a rate of \$2.90-\$3.00/1,000 of revenue.

Annual revenue and crop valuation are the key drivers of premium. The cost of your general liability policy, for example, is based on expected revenue during the year. When it comes to property coverage (for your building, contents, and crop, as well as business interruption), the premium is based on the total insurable value of those four highlighted components. You might use a rate of \$.50-.70/\$100 for the insurable values.

Workers' compensation pricing is defined by multiple class codes, depending on the different job duties of the people you employ. The codes are a way for insurance companies to measure risk associated with the industry.



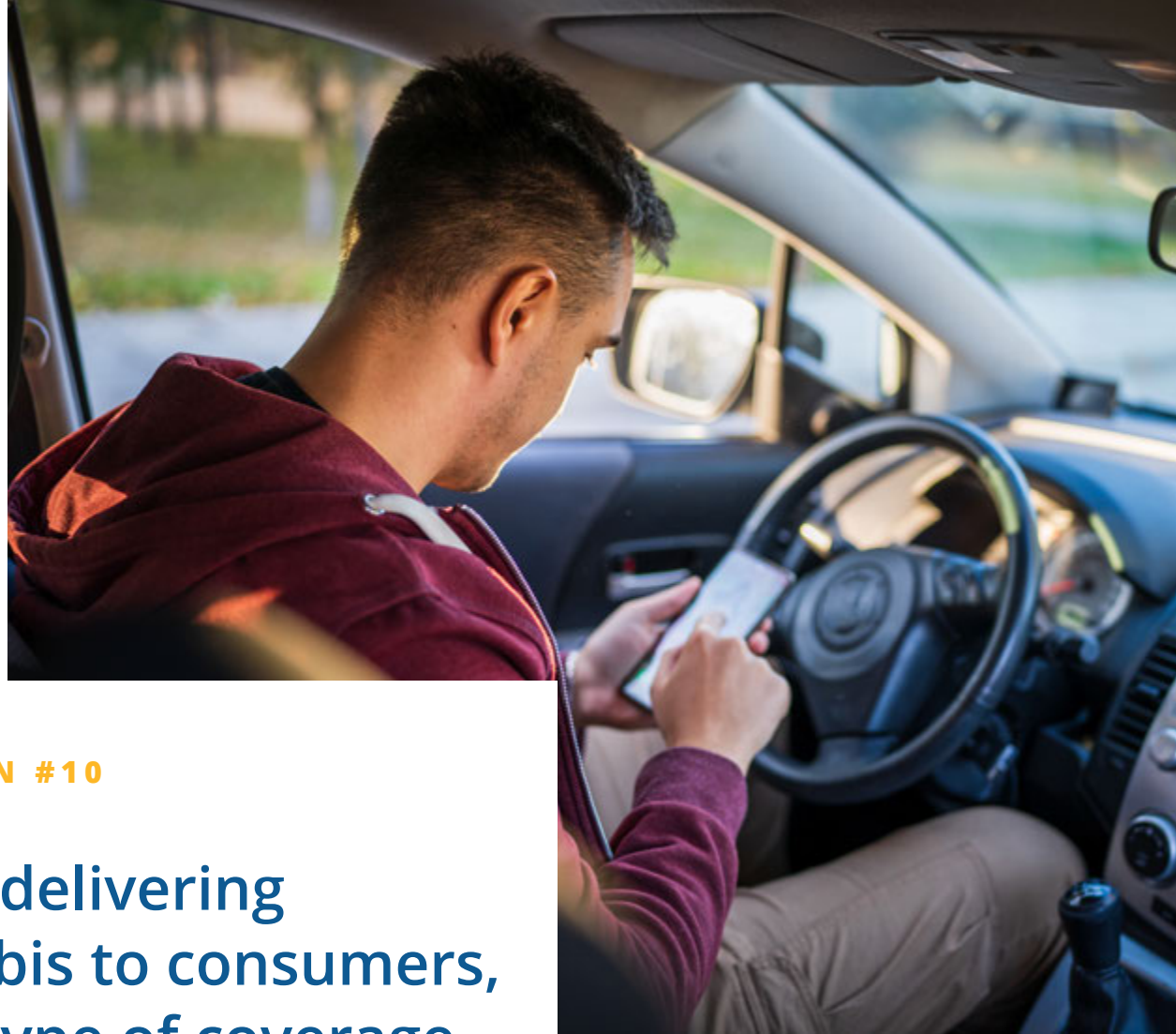


QUESTION #9

What's the difference between product recall and product withdrawal insurance?

These coverages would be most applicable to cannabis cultivators. This coverage depends on state testing requirements. In some states, the testing process is more thorough, but either way, product recall and withdrawal insurance are important for every business.

Product recall deals with tainted products that need to be pulled from circulation due to mold, yeast, or bacteria that prevents the plant from yielding a quality product. If the issue is determined to be specific to the crop and not a specific batch, the entire product could be withdrawn. If this is necessary, the product withdrawal or recall coverage would provide coverage to protect the financial interest of the organization.



QUESTION #10

When delivering cannabis to consumers, what type of coverage is needed to protect cargo on board?

Depending on the carrier, commercial auto coverage will offer some amount of “goods in transit” coverage, which would address instances of theft on the road. However, every situation is unique, which is why we emphasize the need to connect with a licensed agent in your area. For example, in Massachusetts, there are specific requirements about how the product is protected — lockboxes, cameras, alarms, etc.



QUESTION #11

Will some companies consider lower insurance rates for owners/budtenders who have completed marijuana certification programs?

If a business elects to purchase professional liability, then yes, training and education can certainly help impact rates in a positive way. Investing in employees to be safer and more knowledgeable is definitely a positive consideration — especially compared to a startup with no experience. The more knowledgeable the employee is, the better.



QUESTION #12

What information do marijuana business owners need to provide in order to get an insurance quote?

This will depend on the business and the types of coverage they are looking for. However, in addition to basic information, such as business name and location, the insurance agents will be looking for the following information:

- Projected revenue
- Value and property insurance including crops, inventory and office equipment
- Types of security measures
- Is extraction taking place on the premise?



SECTION

3

Recommended Coverages for Different Types of Cannabis Businesses



Insurance coverages that are applicable to different cannabis operations.

- **Required marijuana business insurance (in MA)**
- **Highly recommended**
- **Good options to explore with a local cannabis insurance agent**

	Dispensaries	Cultivators	Product Manufacturers / Extractors / Processors	Testing Labs	Landlords	Wholesalers	Event or Convention Spaces
General Liability	●	●	●	●	●	●	●
Product Liability	●	●	●	●	N/A	●	N/A
Workers Comp	●	●	●	●	N/A	●	●
Commercial Umbrella	●	●	●	●	N/A	●	N/A
Commercial Property Coverage (fire, theft, etc)	●	●	●	●	●	●	Property coverage extending to the rented venue
Commercial Auto / Hired, Non-owned	●	●	●	●	N/A	●	N/A
Professional Liability	●	●	●	●	N/A	●	N/A
Business Interruption/ Business Income	●	●	●	●	●	●	N/A
Cyber Insurance	●	●	●	●	●	●	N/A
Management Liability	●	●	●	●	N/A	●	●

CONCLUSION

Do Your Research Before Purchasing Cannabis Business Insurance

It's safe to say that every business involved in the industry needs cannabis business insurance. Now that you know the basics of cannabis insurance, you may have an idea of what coverage your business needs. So, what's the next step? Contact a local insurance agent who can answer any questions you have, and start the process of applying for the right insurance coverage.

Why C&S?

Our agents are the best in the field and will work with you to find the best coverage for your needs. We have access to national and local insurance carriers and can secure comprehensive coverage programs and competitive rates on your behalf.

We've been working with cannabis insurance providers since the legalization of cannabis in Massachusetts in 2016. We've seen the evolution of medicinal, recreational, and retail stores. We're familiar with all aspects of the industry and can help any organization whether it's a startup or an established business, get the best insurance product possible.

[Contact Us for a Quote](#)

ABOUT THE AUTHOR



Eric McLaughlin

Eric McLaughlin brings considerable experience in commercial insurance to the C&S team, specializing in coverage needs and risk management for post-acute healthcare facilities, transportation including multi-state fleets, as well as cannabis-related businesses. His experience with captives and high-deductible programs is invaluable to our clients who want to take their risk management strategy to a higher level and have more control over their total cost of risk. Eric works closely with his clients to understand their operations and unique risk profiles. He acts as a dedicated advisor and partner, ensuring that clients' insurance programs continually evolve to address changes both internally and on an industry level.

Outside of work, Eric enjoys spending time with friends and family. Born and raised in the Bay State, he is an ardent Boston sports fan. Eric resides in Marshfield with his wife and two children.