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The Challenges of Insuring the Cannabis Industry

*A Guide for Our Retail
Broker Partners*

WHITE
PAPER



The legal cannabis industry is expanding. As more cannabis-related businesses are established, there will be an increased need for insuring these risks. However, because cannabis-related businesses are considered high risk and fall largely to specialty risk and surplus lines carriers, insuring the industry is becoming even more challenging – especially with today’s hard market, regulatory challenges and more carriers electing to pull out of tougher classes of business.

For brokers to successfully tap into cannabis-related business opportunities and to ensure their clients have the right coverage, a level of expertise that goes beyond general commercial lines business insurance will be required. In this white paper, we’ll look at what risk managers should know when it comes to insuring this specialty market and the challenges they’ll face when putting cannabis operations on the books.

WHY THE CANNABIS INDUSTRY REMAINS AN EXCESS & SURPLUS LINES PRODUCT

The demand for insurance for the cannabis industry has grown exponentially over a very short period. And while more states have legalized or decriminalized cannabis, the industry remains relatively untested, lacking the credibility of more established industries. Which is why, despite the need, the insurance market for cannabis businesses remains limited, as are coverages and policy limits.

“The cannabis industry is burgeoning, and underwriters and carriers just don’t have a long history of placing cannabis-related risks,” said Morgan Moore, Life Science Practice Leader at Amwins’ NutraRisk division.

Excess and surplus (E&S) lines have helped fill this critical gap by providing financial protection for risks that a standard insurance company is either not willing to take on or lacks the market capacity to do so. Risks typically assumed in E&S lines include operations in new and emerging industries, those with an unusual or adverse loss experience, and those with little to no loss history. Based on the above, it’s easy to see why insuring the cannabis industry remains an E&S play.

“Even as more laws are passed in favor of cannabis operations, there are layers of complexities about this industry – indicating that even in five to 10 years from now, this market will continue to remain a surplus lines product,” said Moore. *“That’s not to say this will be the case for other lines such as workers’ compensation or auto, but for property and casualty, it’s a tall order to think that in the very near future the cannabis industry will fall into a standard market.”*

KEY MARKET CHALLENGES

When approaching a cannabis business, brokers need to understand the specific challenges they'll be up against. The following are the top issues facing brokers.

Cannabis operations are often complex business structures

Because of the tax treatment and federal legalities, many cannabis operators establish very unique business scenarios. These types of enterprises are often set up with multiple named insureds and multiple business entities.

Knowledgeable markets are hard to come by

For retail agents soliciting brokers or carriers to engage with, it can be very difficult to vet sources that understand the unique risks associated with the cannabis industry.

"I've seen firsthand the complexities involving the cannabis extraction process," said Norman Ives, Cannabis Practice Leader at NutraRisk. *"It's vital to work with industry experts who understand the risks and specific underwriting considerations of these types of operations."*

The industry is still very new

Because the cannabis industry is so new, there are few established actuarial tables and risk management profiles for cannabis operations that have been in existence for five or 10 years. As a result, there is a lack of best practices from an insurance standpoint, as well as from the standpoint of an industry trying to establish its own guidelines for what the cannabis industry should look like moving forward. This has challenged both underwriters and carriers.

The sales process can be exhausting

In the cannabis space, there is a growing level of sales fatigue when it comes to putting new business on the books. For example, the products that brokers are selling are more expensive than the more traditional insurance products these business owners are used to. In addition, they are typically more restrictive. During the short window of time in the sales process, brokers need to work harder to keep the attention of prospects and try not to sell on price alone.

"When marketing to cannabis operators, it's important for brokers to use a consultative approach or come at these



businesses in a way that demonstrates a level of expertise that goes beyond the insurance product or service," said Ives. *"Every day, cannabis operations are solicited by insurance sales calls. To be successful, brokers need to differentiate themselves from the pack and lead with a benefit or something of value that they can offer the business."*

Not all policies are created equal

The policy language in a cannabis insurance policy is vital in providing adequate coverage for cannabis-related businesses (CRBs). Unfortunately, securing coverage that meets the specific needs of the industry can be challenging. According to the [National Association of Insurance Commissioners](#) (NAIC), too many CRBs that obtain coverage walk away with policies fraught with coverage gaps and inadequate limits. According to the [NAIC's Cannabis Working Group](#), the biggest risks that CRBs face involve theft, general liability and product liability.

According to Ives, *"In most other segments of insurance, brokers are trying to expand the profile of the coverages that their insureds have – such as explaining the need for cyber and product liability. Unfortunately, in the cannabis insurance space, they're having to spend what little time they have in front of insureds just trying to minimize the holes in their policies."*

Take Note!

The NAIC's Cannabis Working Group exists to help CRBs better understand the cannabis industry's insurance coverage gaps and to help them develop best practices for addressing insurance issues of concern.

"Some policies don't clearly state that they specifically exclude vape products. Instead, the policy will only exclude vape products that are made overseas by foreign manufacturers, where, unbeknownst to brokers or their insureds, the majority of vaping products are made."

- Norman Ives, Cannabis Practice Leader, NutraRisk

BEST PRACTICES

Work with a knowledgeable wholesaler

A wholesaler who is an expert in the cannabis industry not only understands what most standard policies contain, but also has the ability to transfer information to the retail agent/insured to help them understand how to make the best use of the limited coverage options that are available.

"For retail brokers who do most of their business in the standard market, breaking into the cannabis space requires finding a wholesaler that can be a partner in helping them understand the coverages needed to protect these types of businesses," said Morgan. "And while there are a handful of general agencies out there that write for the industry, there exists a huge learning curve among them when it comes to properly insuring cannabis risks or even having the right mix of products and programs."

Understand your prospects' level of business acumen

Some prospects are legacy cannabis operators who have been involved in the industry for decades and never purchased an insurance policy. Selling to these prospects exponentially complicates the sales process, because it requires convincing them of the necessary coverages. On the flip side, there is the traditional entrepreneur, who, while not seasoned in the cannabis industry, understands business, is ready to step into the cannabis world and now needs the guidance of a broker who can help.

Know what coverage gaps to look for

As mentioned previously, it is important for brokers to identify potential coverage gaps in policies. Today, the top three liability-related policy gaps in most cannabis-related insurance policies are:

- » Lack of coverage for vaping-related products. Vaping-related products typically account for 15%-18% of a retail dispensary's sales. Today, most standard policies specifically exclude vaping products.
- » Low-risk health hazard endorsements. All too often, these endorsements remove coverage for health-related claims that do not fall under trip and fall. This substantially erodes the quality of a business's product liability coverage.
- » Limitations in assault and battery coverage. For dispensaries that hire security guards, the misconduct of employees or customers can result in costly liability claims. Limits that are too low can put the business at serious financial risk.



CONCLUSION

According to the Cannabis Business Executive, there are currently 300-plus surplus lines carriers, a growing number of managing general underwriters and a very small handful of admitted carriers (in California and Arizona) that are currently serving the cannabis market. While the property and casualty market is gradually beginning to expand product lines, the ability to secure adequate and affordable coverage that goes beyond the basic market-issue policy remains limited.

However, as underwriters gain more knowledge working with the cannabis industry and companies experience low claim losses for existing operations, more E&S carriers will view the industry as a viable profit center and be willing to enter or expand into this emerging market.

"Today, we have more information on cannabis operations, as well as more loss history than ever before," Moore continued. "The industry is hopeful that as legalization at the federal level continues to evolve, we'll likely see apprehensions ease and appetites for cannabis operations expand even further."

Whether you have a simple placement or a tough challenge, NutraRisk provides the insurance solutions your clients are looking for. We have products and specialty programs for cannabis operations of all sizes and have developed exclusive programs for retail insurance agents and brokers to better serve their clients in the wellness, nutraceutical and dietary supplement space.

From dispensaries and growers to manufacturers and distributors, the NutraRisk team understands how to properly address exposures in the ever-expanding cannabis industry. To learn more about our cannabis and nutraceutical markets and programs, contact one of our specialists today.

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