

Cannabis Industry Insurance Buyer's Guide

Protect Your Growing Business
Every Step of the Way



Allen Financial Insurance Group

Advocacy | Tailored Insurance Solutions | Peace of Mind



A High Growth Industry That is Still Evolving

The cannabis industry is blooming. Market-watchers expect to see double digit sales growth every year through 2022, despite frequent changes in the regulations that govern this rapidly evolving industry.

To protect their investments and keep making the bold moves needed to reap the rewards in this high growth industry, cannabis business operators at every step in the supply chain need to be proactive when it comes to managing risk. And that starts with the right insurance coverage.

Insured But Not Protected?

You face a unique combination of risks that few insurance brokers and insurance companies understand. Don't wait until you file a claim to learn that your current coverage is inadequate.

This guide will help you understand what risk management and business insurance you should consider and how to choose an insurance broker who understands your business and will be there for you when you have a claim.



When You Face Allegations of Bodily Injury or Property Damage

Product liability applies to every business that brings a product to market. The risks are wide-ranging. You'll need insurance to help defend your company against claims and allegations and help pay damages if you are found legally liable when something bad happens in connection with the use of your product

WHAT YOU NEED TO KNOW

Product Liability Insurance can protect producers, processors, packagers, distributors and retailers when they are presented with a third-party claim related to:

- Inhaled, edible or infused products that caused illness
- Bodily injury or property damage caused by product misuse
- Manufacturing or product-related defects that result in a loss
- Labeling and marketing representations, or
- Faulty or misused equipment including vape cartridges, batteries and lighters

Product Liability Insurance should be on your list no matter where you are in the cannabis supply chain. An important, related coverage to consider is product recall insurance (Withdrawal Coverage) which may cover the costs associated with removing a defective product from retail store shelves in order to prevent third party claims.

DID YOU KNOW?

Retailers can be held liable for a defective product, even if they had nothing to do with the manufacturing process.

A Cautionary Tale

To meet unanticipated demand, a cultivator purchased cannabis from a wholesale grower. When a few customers complained of a strong sulfur taste, it was discovered that the grower had used the wrong pesticide concentration. The contaminated product had to be pulled from the shelves to avoid injuring customers. The cost to the cultivator was high, as most of the affected product had already been delivered to retailers.

The right Product Liability insurance combined with Withdrawal Coverage is key to avoiding a large loss to your business.



AUTO INSURANCE

Don't Put Precious Cargo at Risk

How you choose to get your product to market can expose your cannabis business to significant risk.

As a rule, personal Auto Insurance will not cover your losses in the event of an accident when a personal car is used for company business. In the cannabis business, there are additional risks.

WHAT YOU NEED TO KNOW

Personal auto insurance does not cover cargo. The value of cannabis shipments lost or damaged in an accident cannot be recouped through personal auto insurance alone.

Using a courier service to ship cannabis can also leave you exposed. A courier's cargo insurance will cover all cargo on-board to a maximum dollar limit that is shared by all cargo owners. Your portion of the shared payout may be far less than the value of your loss.

Cargo insurance should be on your list of insurance needs.

AVOID CANNABIS TRANSPORTATION TROUBLES

Use only company vehicles to avoid the risks inherent in using personal automobiles to transport your product. And take these sensible steps to ensure that it reaches its destination safely.

- **Use Unmarked Vehicles** – The cash and cargo your employees carry is a tempting target. Don't make it easy for thieves to identify your vehicles.
- **Require Driver Training** – Safe driving skills may be your best insurance but when an accident happens, your drivers must know how to handle themselves on the scene. That includes informing law enforcement of any cannabis in the vehicle.
- **Conduct Background Checks** – Prevent problems before you hire them. DUI or drug related offenses are a red flag. And it pays to stay vigilant after hiring. Be alert to the driving behavior issues that can be revealed by a simple vehicle check-in/check-out protocol.
- **Review Driver MVR** – As part of your pre-hire and ongoing driver review process, you should regularly check the accident and violation history of your drivers and take corrective action when needed.

Know the Rules in Your State or Province

States that have legalized cannabis are rolling out strict rules to control its movement. For example, the California Bureau of Cannabis Control has proposed designated permits for the operators of vehicles transporting cannabis, detailed tracking of all shipments and felony charges for any cannabis business operator using a minor to move cannabis products.

A well-informed insurance broker should know the transportation rules in your area.



There's No Business Without Your Place of Business

The right Property Insurance can insure that you survive calamity but only if you're covered for the unique risks of your cannabis business.

WHAT YOU NEED TO KNOW

1. **Traditional property insurance will not cover crop loss** — If you're a grower, your property insurance will cover your grow facilities in the event of a loss due to fire or water damage, but you'll need specific crop insurance to protect the value of any product losses.
2. **Rental agreements exclude coverage when tenant activities are illegal under federal law** — The state and federal legal landscape can create compliance confusion when it comes to your property insurance. You may be exposed.
3. **Equipment is not covered by property insurance policies** — Equipment and machinery breakdowns can mean a loss of revenue, but your property insurance will not replace those losses. You'll need specific breakdown insurance to close that coverage gap.
4. **Risk avoidance is loss avoidance** — Your best protection against property-related losses is to reduce or eliminate risk throughout your operation. Ask your broker about the risk management services they can provide.

Don't Count on Your Landlord's Insurance

If you lease your facilities, you may be assuming that your landlord's insurance will protect you in the event of a loss. Don't count on it. Your landlord's insurance may even be nullified for having leased to a cannabis operation.

Ask your insurance broker to review your lease agreement and advise you on any action required.



Protection Against an Elevated Threat

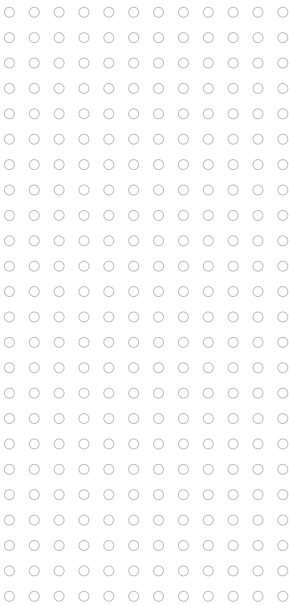
With legalization and the rapid growth of the cannabis industry comes the very real threat of product theft, and that threat comes from both inside and outside your business. Crime Insurance can protect you against loss due to theft of product, cash or other assets.

WHAT YOU NEED TO KNOW

When it comes to coverage for losses due to cannabis theft, insurance carriers make clear distinctions between business and personal property and between growing stock and finished stock. Coverage limits and exclusions will vary from carrier to carrier. No two policies will be the same and a careful review of coverage limits is required to ensure that you're protected.

Prevention is the best defense for any business. Security systems and protocols are even more important in the cannabis business.

- **Secure your business** — Make sure every point of entry to your facilities is secure including doors, windows and any rooftop access points.
- **Enforce Accountability** — Use check-in and check-out procedures that account for every ounce of product and dollar of cash passing through your business.
- **Be Vigilant** — Keep security systems including sensors, alarms, cameras, and recording equipment in good working order.





DIRECTORS & OFFICERS LIABILITY INSURANCE

The Key to Attracting Executive Talent

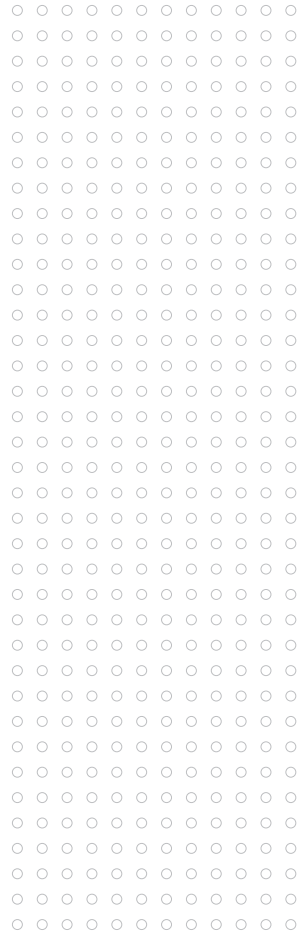
The cannabis industry faces some unique challenges including an uncertain and sometimes hostile regulatory environment, limited access to bank services and a heavy reliance on private investors — all of which can increase the risk of lawsuits claiming wrongful acts, errors or omissions by your executives.

Directors and officers you attract from more established industries and who are unfamiliar with these challenges are likely to want assurance that they will be protected in the event of a claim.

WHAT YOU NEED TO KNOW

Investors, creditors, regulators, clients, employees, suppliers and even competitors—any and all of these parties can bring a lawsuit claiming wrongful acts, errors or omissions in the management of your company committed by any of your directors or officers. Without the right D&O coverage, your company won't be able to protect your balance sheet and your officers in the event they are found liable for damages.

Directors and officers insurance (D&O) can cover your executives' defense costs and damages when your executives are named in a lawsuit that results directly from their decisions.



Legal Defense Insurance: A Canadian Option for Retailers

Canadian cannabis retailers face significant exposure given the many federal and provincial regulations and penalties governing cannabis sales and use. With recreational cannabis use legal across Canada, cannabis retailers face liability risks that are similar in nature to those faced by establishments that sell liquor. Legal defense coverage will defray certain costs associated with defending a suit claiming that a cannabis consumer product caused impairment leading to bodily injury, whether to the consumer or others.

Ask your broker about Legal Defense Insurance for your Canadian business operators.

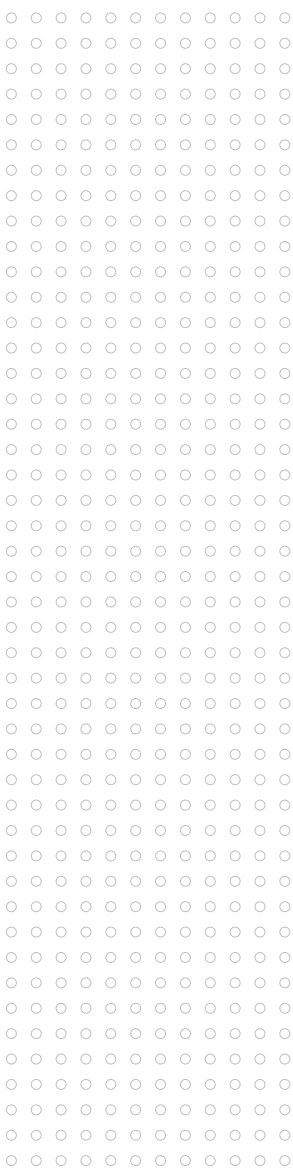
Who Says You Can't Get Insurance for your Cannabis Business?

The insurance industry has been cautious in getting on board with cannabis, but the coverage options are growing every day. You can get the protection your business deserves.

Business insurance you will want to consider includes:

- Cargo Insurance
- Commercial Auto Insurance
- Crime Insurance
- Crop Insurance
- Cyber Insurance
- Directors & Officers Insurance
- General Liability
- Employment Practices Liability Insurance
- Kidnap & Ransom Insurance
- Product Liability
- Product Withdrawal
- Property Insurance
- Special Event Insurance
- Surety Bonds
- Umbrella Liability
- Workers' Compensation

But be aware that insurance carriers use different definitions, policy exclusions, and coverage language. A broker who knows the unique risks in the cannabis industry will help you understand how the fine print can impact your business.



Employee Benefits

Employee Benefits should be a key component of your strategy to attract and retain the talent you need as you grow your business. Talk to your broker about how the right benefits package including medical, dental, vision, accident, and critical illness, and identity theft protection can give you a competitive hiring advantage.



Eliminate Unnecessary Risks and Manage the Ones You Can't Control

You can take concrete steps to protect your cannabis business and manage insurance premiums and deductibles with a solid risk management program. Start with an audit of your workplace, processes and practices. Identify the opportunities to improve safety and security. Take corrective action as required. Train your employees and put your improved procedures into action. And get the right insurance to protect your business against losses you can't control.

Go Deeper

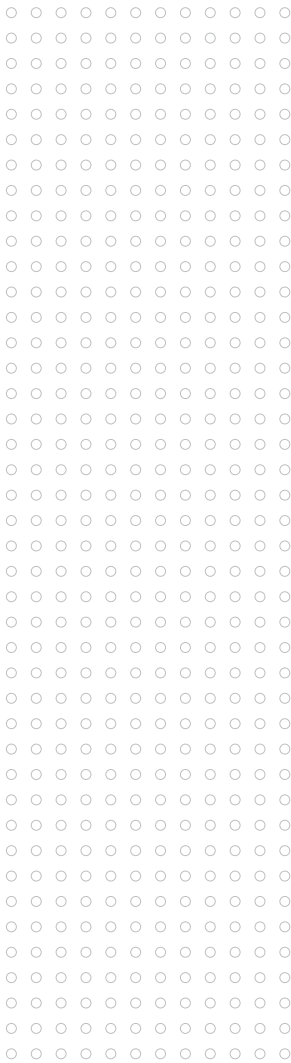
<https://www.egggroup.com/cannabis-insurance/>

Checklist: Choosing the Right Insurance Broker



Most insurance brokers are not yet up to speed on the unique risks that threaten your cannabis business. Don't get caught without the coverage your business deserves. Get the answers to these important questions before choosing your insurance broker.

- ☐ **Does the broker have other cannabis business clients?**
You don't want to be the first. Your business is risky enough.
- ☐ **How many insurance carriers can the broker bring to the table?**
The numbers of carriers underwriting the risks in the cannabis industry is growing. An experienced broker that is well regarded by insurance carriers has the best chance of securing optimal coverage and pricing for your cannabis business.
- ☐ **Does the broker offer expertise and services in addition to insurance?**
Your broker should introduce you to employee benefit consultants and certified risk managers who know the cannabis industry and will work with you to develop a holistic approach to risk and benefits management.
- ☐ **What risk management resources does the broker offer?**
The best brokers know how to help you reduce your risk and prevent losses with risk management services that address workplace safety, fleet operations, cybersecurity, and more.
- ☐ **Can the broker review your contracts and advise you on risk exposures?**
Experienced brokers will provide this service at no additional charge.
- ☐ **What experience does the broker's claims staff have when it comes to cannabis?**
When you must file a claim, both your broker and your account management team should be committed to advocating on your behalf with the insurance carrier.
- ☐ **As the market expands, what other services or expertise can the broker offer?**
If you are planning to conduct cross-border business (i.e., US and Canada), an insurance broker who is structured to handle your needs in a seamless manner can help you avoid gaps in coverage. Working with a single brokerage firm with knowledge and experience on both sides of the border reduces your risk and your administrative workload.
- ☐ **What cannabis industry associations is the broker involved in?**
A broker that is truly committed to your success stays on top of all the developments in your industry.



Get Started

The right insurance, a solid risk management program and the right employee benefits are three important pillars in your strategy for success in the cannabis industry.

Contact **AFIG** today for a no-obligation assessment of your current exposures.

eggroup.com/cannabis-insurance/

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