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## Up In Smoke: The Cannabis Industry Faces Unique Risks. How Can Operators Ensure They're Covered?

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*Unsplash/Richard T*

Cannabis has become a major industry in the U.S. The cannabis market is projected to reach \$45.3B in 2025 and grow annually by 2.24%, reaching nearly \$50B by 2030.

As the number of cannabis farms and dispensaries continues to grow, these operators need to ensure that they are protected from the risks all businesses face and those that are unique to cannabis operations.

“Cannabis operators, whether they are cultivators, producers or sellers, face a lot of increased hazards, including fire, theft, vandalism and equipment breakdown,” said Goodman-Gable-Gould/Adjusters International. or GGG/AI, Senior Vice President Anthony D’Amico. “The losses that could be sustained as a result of these occurrences could destroy their business if they do not have the proper insurance coverage in place.”

D’Amico and his team at Goodman-Gable-Gould/AI are public insurance claims adjusters who help policyholders comply with insurance policy requirements and assist them in evaluating, measuring and documenting their losses, and securing claim recovery when property damage has been sustained. He said that while GGG/AI can help cannabis operators get the compensation they are entitled to under their policy, it is imperative that cannabis business owners are proactive in how they put their policies together to ensure they have proper coverage.

“When a loss occurs, the insured lives and dies with the policy in force,” he said, adding that while public adjusters provide invaluable guidance in assisting clients in navigating through the loss adjustment process, the outcome is significantly impacted by the boundaries of the insurance policy.

This means cannabis operators need to go above and beyond to ensure that the coverage they obtain aligns with their risk and loss exposure. In particular, they need to pay attention not only to limits of liability, sub-limits, exclusions and coverage limitations but also to special conditions such as protective safeguard requirements — or warranties — that they must be compliant with, and other policy “nuances” such as a coinsurance requirement, D’Amico said.

### **Complying With Protective Safeguards**

D’Amico said that cannabis policies typically require that an operator have protective safeguards in place designed to protect their product against theft, fire or water damage and alert them to any equipment breakdown, such as malfunctioning grow lights as well as temperature and humidity controls so they can address issues quickly and minimize potential losses.

“Insurance companies enforce these safeguards very seriously,” he said. “One of the protective safeguards against theft is that they’re required to store the product in vaults, and insurers give a very comprehensive definition of what constitutes a vault. If a policyholder is not in full compliance and an issue arises, they will not get reimbursed.”

D’Amico added that having and maintaining comprehensive video surveillance systems and burglary and fire alarms that are connected directly to the police and fire agencies are often mandated in these safeguards.

And it’s not just theft that cannabis operators will not be covered against if they do not have the right vault. Goodman-Gable-Gould/AI Executive Vice President Staci Goodman explained that even if the protective safeguard does not necessarily impact the loss that occurred, if a policyholder is not in compliance with it, it is possible that their coverage can be voided.

“If you have a protective safeguard that states there needs to be a certain security system in place and you don’t have it, and then your property experiences a fire, even if you have the right fire safeguards in place, the insurance company may not have to pay,” she said. “All it takes is a minor slip-up to potentially void all of your coverage.”

### **Understanding Coinsurance Provisions**

In insurance parlance, a coinsurance provision in a policy states that an insurance company can penalize a policyholder’s loss recovery if the amount of insurance purchased is not equal to or greater than a specified percentage of the value of the insured property.

“Basically, what that says is that in order for you to recover the full amount of your losses, you have to have insurance coverage that equals 100% or 80%, or whatever amount is specified, of the value of the insured property,” D’Amico said.

Setting this number can be difficult, Goodman said, especially when operators are trying to recover losses stemming from business interruption since it’s hard to know exactly how much money a business

will make in any given year. For example, if an operator has a policy in place with a limit of \$500K, but then they experience a business interruption incident in a year where they were projecting to make \$1M, if their policy contains a coinsurance clause mandating that they need to carry at least 80% of coverage to fully recoup their loss, they will not recover the entire \$1M.

“In this case, the most you could recover would be 50% of your loss,” Goodman said. “You may have had enough coverage initially, but not enough to provide for a complete recovery of your income loss that results from the occurrence.”

Coinsurance can be a difficult concept to fully understand, but dealing with it properly is critical for avoiding a substantial uninsured loss, D’Amico said.

“Be sure to ask your agent or broker if your policy is being written with coinsurance and, if so, make certain that the coinsurance percentage and limits of liability are accurately assessed to avoid the prospect of an unexpected and detrimental uninsured loss,” he said.

### **Public Adjusters Can Help**

D’Amico said that it is a hard market for cannabis insurance products and premiums have increased, but it is important for operators to do their due diligence and prioritize getting the best possible coverage. They need to put those safeguards in place to ensure that if problems arise, they are prepared to show their insurance company that they have done their part. After that, in the event of a loss, their next step should be to contact a public insurance adjuster.

While public adjusters like Goodman-Gable-Gould/Adjusters International can’t help cannabis operators recoup losses that their policy doesn’t cover — unless some unique subrogation opportunity exists — they can adjust claims on behalf of the policyholder in an efficient and professional manner and serve as a strong advocate, allowing the insured to recover all of the benefits they are entitled to under the policy.

“We take the policy as it exists and then, given all of the facts and circumstances of the loss, we obtain the best possible recovery for the policyholder,” D’Amico said. “This assistance is key in ensuring that the insured receives their full benefits.”

He added that while the policy provides a "map" for the evaluation and adjustment of a loss, the directions are difficult to follow, and taking the wrong direction can adversely impact the insured’s recovery.

"This is where we come in, providing the insured with the necessary support and guidance, including forensic accounting services, necessary to perfect the claim," he said.

*This article was produced in collaboration between [Goodman-Gable-Gould/Adjusters International](#) and Studio B. Bisnow news staff was not involved in the production of this content.*