

April / May 2021



CLAIM Act promises positive changes ahead for how cannabis businesses are insured.

New Jersey's U.S. Sen. Robert Menendez recently introduced the Clarifying Law Around Insurance of Marijuana Act of 2021 (CLAIM Act) — a monumental bill for the cannabis space. If passed, it puts forth principals that will allow those in the cannabis industry to be able to obtain insurance products such as property, casualty, employers liability and title insurance just as any other business owner.

When most people hear the word “claim,” their thoughts gravitate towards insurance. A claim is a loss, a formal request by a policyholder to an insurance company for coverage or compensation for a covered loss. Not exactly a positive experience. Now let's associate the word “claim” with cannabis. This is a positive experience.

As a professional who is in the insurance industry, I will say that the timing of the introduction of the CLAIM Act could not be better. Although the cannabis industry has been around for many years, the industry has struggled with obtaining fairly priced insurance policies which include adequate coverage.

Putting together an insurance policy is a complex process.

For the insurance companies to know what coverages to offer in a policy they need to understand the cannabis industry. The insurance company has to underwrite each risk and take into consideration building occupancy. i.e. the wholesaler/distributor, where the cannabis is grown versus the retailer who occupies retail space in a building where they are selling the product. Each one needs different coverages on their policies.

Additionally, the process of putting together a policy is very regimented. At times it can be years before the insurance company has the approval from the state Department of Banking and Insurance to offer the terms of the policy. One of the many reasons it takes such a long time is because every word is reviewed as to the level of the words “and,” “or,” “not,” and “on.” These words can change the intent of the coverage entirely.

Over the past few years, the growth of the cannabis industry has been growing faster than the insurance companies could offer adequate policies. The policies that were being offered at the time were limited and expensive.

Cannabis business owners were in a tough situation because they needed the policy for protection but had to pay a lot of money for limited coverage.

Eventually, the momentum of the cannabis industry and insurance companies caught up to each other. The insurance companies are now offering better coverage and the cost has come down. The same concept of supply and demand is occurring, the cannabis industry is growing, and more insurance policies are required.

The insurance market has opened for business owners engaging in the cannabis industry. Just as a new restaurant needs availability of obtaining insurance policies so will the business owner of a cannabis dispensary.

Another benefit of the CLAIM Act is allowing business owners to have options to choose from. The insurance industry is going to continue to change for the better. You will start to see more insurance companies offering policies because they see the opportunity to make money and do not want to miss out on the booming industry.

The CLAIM Act does not just apply to insurance. It also applies to those in the financial industry. The bill is to allow federally regulated banks to provide financial items such as checks, credit cards and services to those in the cannabis space.

Learning takes time. It may have taken longer than expected; however, in the end we are going to be better for it. For the cannabis industry, the word “claim” is good.

Author's note: This column is dedicated to my friend ABM, a partner at the firm. He was passionate about the insurance business and knew cannabis sector was going to grow. His passing was untimely.