

# Green Rock - Insurance Brokerage

## Insurance & Risk Management for the Medical Marijuana Industry

### Strategic risk management

**Green Rock is your partner in identifying insurable risks and advising you on your options, insurance program design and traditional and non-traditional risk transfer methods available.**

Strategic Risk Management is a process for identifying, assessing and managing risks and uncertainties, affected by internal and external events or scenarios, that could inhibit an organization's ability to achieve its strategy and strategic objectives with the ultimate goal of creating and protecting an organization's assets.

This definition is based on six principles

1. It's a process for identifying, assessing, and managing both internal and external events and risks that could impede the achievement of strategy and strategic objectives.
2. The ultimate goal is creating and protecting an organization's assets.
3. It's a primary component and necessary foundation of the organization's overall enterprise risk management process.
4. As a component of ERM, it is by definition effected by boards of directors, management, and others.
5. It requires a strategic view of risk and consideration of how external and internal events or scenarios will affect the ability of the organization to achieve its objectives.
6. It's a continual process that should be embedded in strategy setting, strategy execution, and strategy management.

## Crucial Strategy

The cannabis industry is stronger today than it has ever been. Aware of that strength, it is easy to forget the industry's limitations, risks, and continued political struggle. The industry as a whole, and each individual within it, manage risks daily, whether we realize we are or not.

There are two crucial risk management strategies every cannabis executive should consider: the first is to educate every employee about the multi-layered regulatory environment in order to avoid unnecessary risk, and the second is active political engagement to help shape those laws and regulations for to eliminate as much risk as possible for the industry and the public.

Cannabis regulation is sometimes very vague, and other times incredibly specific. Certain practices common in other industries might be prohibited and uncommon practices might be required. To protect the business, every employee of a cannabis company should at least have a basic understanding of how the regulations work and how to get more information when necessary.

Federal law prohibits all cannabis activities, but the Cole Memo advises US Attorneys not to criminally charge medical cannabis businesses that are licensed by state agencies unless they violate the eight federal drug war priorities:

- No drug sales to minors
- No drug money flowing to gangs, cartels, or criminal enterprises
- No transporting drugs across state lines
- No using a regulated cannabis business as a cover for producing or selling other illegal drugs
- No violence or firearms in or around state licensed drug businesses
- No drugged driving or other public health threats
- No using federal land to grow, process, or sell cannabis
- No consuming cannabis on federal land

A comprehensive risk management program begins with a General Liability policy to protect your business against lawsuits for bodily injury and property damage to others.

## **Marijuana Dispensary Crime and Security Risks**

**Counter Theft.** Dispensaries may keep four or five pounds of marijuana readily available for sale, which equates to ten to twenty thousand dollars of merchandise behind the counter. Brazen thieves may hold a salesperson at gunpoint to steal cannabis.

**Smash-and-Grab Attacks.** Thieves may crash through storefronts or crawl through warehouse windows to quickly nab whatever inventory is easily available.

**Internal Theft.** The FBI has called employee theft the “fastest growing crime in America.” Medical marijuana dispensary employees have the insider knowledge to rob their employers.

**Gang-Driven Robbery and Violence.** Arizona and California dispensaries face an additional security hurdle: Protection against drug cartels, who may act violently to defend their drug trade turf.

Recognizing the extreme risk of robbery, established medical dispensaries in states such as Washington may deploy the following security measures:

- Motion detectors.
- HD cameras, on the sales floor, in processing rooms, and in warehouses.
- Panic buttons.
- Bulletproof glass and acrylic counter windows, as common in banks.
- Remote-viewing camera systems.
- Sensors detecting entry through ceilings and floors.
- Safes for inventory and cash.
- Buzz-through doors for entering clinics.
- Comprehensive background checks for employees; ongoing background checks for security guards.
- Careful selection of security guards with experience in stressful, potentially violent situations.
- Security services provided by a third party. (Beware: Traditional security firms such as ADT may abandon your business if they decide it’s too risky to work in a field that’s not approved by federal law.)
- Positive relationships with local law enforcement, including an in-house liaison to the police department.

As the medical and recreational marijuana market grows, so do industry support services such as security. However, there are still plenty of gray areas that cannabis business owners must navigate to create secure storefronts.

## **Product liability – managing risks**

In the Cannabis industry, nearly every phase from seed to sale has an exposure to this type of coverage. Lab testing, Manufacturing Infused Products, CBD manufacturing, trimming and Grow facilities are all experts in their field and Professional liability is an exposure.

Consider the next few steps as the beginning of a comprehensive product liability protection program.

**Statements of financial responsibility**, e.g., certificates of insurance, can help your company avoid bearing financial responsibility for product-related claims by confirming that a contractor or supplier has the appropriate insurance in the case of a claim.

**Hold harmless agreements** help ensure that your contractors and suppliers are contractually responsible for their own negligence and/or errors and omissions in the case of a claim

**Labels, warnings and instructions** should be prominent, understandable and provided where applicable. Each label should include information such as a content description, strength and potency, date of issue, instructions for use and storage, and expiration date. Furthermore, it should have relevant warnings such as “topicals not to be ingested,” “avoid eye contact,” “keep away from children,” and “do not use while operating heavy machinery.” A regularly scheduled safety review should confirm that products comply with the latest standards.

**Third Party Testing** - All batches should be tested by a third party, checking quality and verifying that the product is free of contaminants such as molds or pesticides

## **Workers compensation – Managing risks**

**Hire good employees** that will help your patrons, educate them and make the experience of visiting your retail marijuana store a pleasant one. You likely want someone interested in the industry, but in new markets, experience isn't always available. As a general best practice across all industries, dependable employees usually have stable work histories with little to no gaps in employment. You will also want to look at the length of employment.

- Contact Previous Employers
- Contact References
- Do criminal background check

**Establish, modify work procedures**

**Clearly define job responsibilities**

**Know your state's law and regulations**

## **Cash - risk management**

- Have cash handling policy in place
- Use of an armed guard is probably the most cost-effective method.
- Use security cameras, safes, alarm, locks, hidden weapons detection systems
- Counterfeit money detectors: Counterfeit money is big business in many parts of the world. Fake money with zero value is used by criminals in small amounts to pay for marijuana. Any business that deals on an all-cash basis faces a high risk for counterfeit money, especially in dispensaries.
- Limit how much cash you accumulate at any one time before transporting it to a safe location
- Use armored car service company to transport cash
- Train for the worst-case scenario - Employees should be trained using proven protocols in how to react in an armed robbery or active shooter situation.

## **Auto liability- risk management**

Transportation security is a key concern for cannabis growers. In some places, current rules don't allow professional transport companies to handle marijuana. Drivers need ways to secure cash.

- Use company owned/leased vehicle if possible
- Equipped transport vehicle with secure storage (safe)
- Use GPS tracking
- Require MVR's for all drivers with annual updates, prove of insurance and car registration
- Do criminal background check
- Establish, modify cash, product, plants handling procedures
- Require all drivers to successfully complete a defensive driving course
- Train for the worst-case scenario - Drivers should be trained using proven protocols in how to react in an armed robbery or active shooter situation – how to spot potential trouble,

## **Regulatory compliance**

Medical marijuana and cannabis derivative products present industry members with huge compliance challenges. Cannabis regulations can be especially difficult to comprehend and follow.

- Know your local, state and federal rules, laws and regulations - regulations spanning lab testing, quality assurance testing, seed to sale tracking, packaging and labeling requirements, plant limitations, environmental restrictions, ownership restrictions and more.

## **Business continuity & interruption**

Preparing for and responding to negative events, from the mundane to the catastrophic, from the predictable to the unforeseen, has become a fact of life for businesses.

- Produce continuously, rather than in bursts
- Maintain inventory tracking and protocols
- Back up essential business info
- Document all inventory, cash on side, sales
- Establish an effective business continuity plan
- Prepare strategic disaster recovery plan
- Know your Insurance coverage

## Green Rock – Insurance Brokerage

Green Rock Life Sciences was founded to deliver innovative risk management products and insurance program management to the life sciences community and is a partner in developing and facing the business challenges of the cannabis and medical marijuana industry.