

# Why Cannabis Businesses Need Insurance Amid Climate Risks

## Why Cannabis Operators Can't Ignore Insurance in the Era of Climate Change

Many business owners are thinking about climate change as they reflect on a historic 2024 hurricane season and anticipate what a [second Trump administration](#) might mean for environmental and business regulation.

It's an especially critical subject for cannabis license holders—particularly those operating plant-touching businesses such as cultivation facilities and medical marijuana dispensaries or adult-use stores.

### The Insurance Gap in the Cannabis Industry

Insurance is mandatory for a cannabis business, yet it often slips through the cracks. Securing insurance policies remains as difficult as obtaining investment funding, payroll services, and other financial products that are standard in other industries.

As experienced firsthand by Colorado cannabis business owners, filing a claim is the worst time to realize your insurance coverage is inadequate. The risk of climate-related insurance claims continues to rise annually.

### Recent Disasters in Cannabis Markets

The increasing frequency and intensity of natural disasters highlight the urgent need for insurance.

Wildfires leveled entire neighborhoods in Southern California in January 2024, and Hurricane Helene devastated southern Appalachia in the fall. These events underscore that no region is immune to climate-related destruction.

Wildfires, floods, heat waves, and freezes are already affecting businesses nationwide. Over the past five years, several notable natural disasters have severely impacted cannabis businesses:

In 2019, Colorado-based Los Sueños Farms lost 20,000 cannabis plants due to an early October snowstorm.

A University of California Berkeley study found that wildfire and smoke exposure between 2020 and 2021 caused \$2.4 billion in damages and a 25% production loss for cannabis cultivators.

The 2022 landfall of Hurricane Ian closed hundreds of Florida cannabis businesses, damaged property, and caused stock declines.

Even regions with less extreme weather are experiencing temperature and humidity shifts, affecting decisions such as outdoor vs. indoor cultivation and cannabis genetics selection.

## **Insuring Against Disaster**

Planning for future climate impacts adds complexity to running a cannabis business. State licensing requirements often mandate various insurance coverages, including business owners' policies, commercial general liability, and workers' compensation.

However, due to federal marijuana prohibition, many brokers and insurers hesitate to issue policies. Cannabis businesses, particularly those in emerging markets, frequently struggle between licensing and leasing requirements and the availability of "admitted market" insurance products, such as homeowners or travel insurance.

When standard policies aren't an option, businesses must rely on "surplus line" insurance, which covers unique liabilities but comes with additional costs and complexities. Some states, like Vermont, require cannabis business owners to self-insure by maintaining escrow funds for specific liability thresholds if they cannot obtain commercial insurance.

Additionally, insurance costs are rising across all industries due to climate change. Crop insurance, for instance, is becoming more expensive, but due to federal prohibition, there is limited data available on commercial cannabis crops—an essential factor for insurers in underwriting decisions.

## **Cannabis Insurance Changes Ahead?**

Some progress has been made, such as the USDA's 2021 decision to improve crop insurance for hemp producers. This change provided more insurance options for cultivators in the federally legal hemp industry and set a potential precedent for future high-THC cannabis policies.

Under current regulations, insurance remains a significant burden due to narrow profit margins and high tax obligations. However, as more states legalize cannabis—such as Nebraska in the 2024 election cycle—more businesses are exposed to climate-related risks.

## **Key Insurance Considerations for Cannabis Businesses**

To avoid costly mistakes, cannabis business owners should carefully review their licensing requirements, leases, and insurance policies. The difference between a claim approval and denial often depends on nuanced policy wording.

To ensure adequate coverage, cannabis operators should ask insurers:

**Can you walk me through the exclusions section?**

**What documentation is required for claims?**

**If I need to appeal a denied claim, what does that process look like?**

Insurance is crucial for protecting cannabis businesses from climate change, natural disasters, and daily operational risks. Overlooking insurance could lead to catastrophic financial losses—far more expensive than securing proper coverage in the first place.

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