

# Why Business Interruption Insurance Matters for Companies

The cannabis industry has grown rapidly in recent years, attracting entrepreneurs, investors, and consumers alike. Yet, with growth comes risk—and cannabis companies often face unique challenges that traditional businesses may not encounter. From regulatory restrictions and limited access to financial services to the heightened scrutiny of operations, every cannabis business must navigate uncertainty.

One critical but often overlooked safeguard is **business interruption insurance**. This type of coverage protects income and operational costs when a business faces downtime due to a covered event, such as fire, theft, or certain natural disasters. For cannabis companies, where margins can be tight and disruptions costly, business interruption insurance may be the difference between recovery and financial ruin.

## What Business Interruption Insurance Covers

At its core, business interruption insurance is designed to replace lost income and cover necessary expenses during periods when normal operations are disrupted. Standard property insurance may pay for physical damages, but it does not account for the financial losses that occur while a business cannot function.

For cannabis companies, this means coverage can extend to:

- **Lost Revenue:** The income your business would have generated if operations had continued uninterrupted.
- **Fixed Operating Expenses:** Costs such as rent, utilities, and payroll that do not disappear during downtime.
- **Relocation Costs:** Expenses for temporarily moving to another facility to continue operations.
- **Loan Payments:** Ensuring ongoing financial obligations are met, even when revenue is halted.

In essence, business interruption insurance acts as a bridge, helping businesses survive financially until they can return to normal operations.

## Why Cannabis Companies Are Especially Vulnerable

While all businesses can be affected by unexpected disruptions, cannabis companies are particularly vulnerable for several reasons.

### Limited Access to Traditional Banking

Because cannabis remains federally illegal in the United States, many cannabis businesses operate with restricted banking options. This often means limited access to credit lines or emergency funding. Without a financial cushion, downtime from a disaster can be devastating.

## **High Regulatory Compliance Costs**

Cannabis companies invest heavily in licensing, compliance, and security. These ongoing expenses do not pause when operations are interrupted, and the financial burden can quickly mount without insurance support.

## **Specialized Facilities and Equipment**

From cultivation grow houses to extraction labs, cannabis businesses rely on specialized infrastructure. Rebuilding or replacing damaged equipment often takes longer than in other industries, prolonging downtime and magnifying financial losses.

## **Narrow Margins in a Competitive Market**

As competition intensifies and pricing pressures rise, many cannabis businesses operate with thin profit margins. A disruption that halts revenue for even a few weeks can put the company's long-term viability at risk.

## **Covered Events vs. Exclusions**

It's important to note that not all interruptions are covered. Most policies protect against downtime caused by physical damage from covered perils, such as:

- Fire or smoke damage
- Theft or vandalism
- Certain natural disasters (depending on policy and region)

However, exclusions are common. For example, many policies exclude coverage for losses stemming from earthquakes, floods, or pandemics unless specifically added as endorsements. For cannabis companies, there may also be insurer-specific exclusions tied to federal illegality, making it crucial to work with knowledgeable brokers to secure appropriate coverage.

## **Real-World Example: The Cost of Downtime**

Consider a cannabis dispensary with \$5 million in annual revenue, which translates to roughly \$416,000 per month. If a fire forces the business to shut down for three months, the lost income alone could exceed \$1.25 million—before accounting for ongoing rent, payroll, or loan obligations.

Without business interruption insurance, the dispensary could face insurmountable financial strain, potentially closing its doors permanently. With coverage, however, lost income and operational costs could be reimbursed, giving the company the runway needed to recover and reopen.

## **The Role of Business Interruption in Risk Management**

For cannabis companies, risk management goes beyond security cameras and compliance programs. Financial resilience is equally important. Business interruption insurance complements other forms of coverage—such as property, crop, and liability insurance—by addressing the operational risks that follow a physical loss.

When integrated into a broader risk management strategy, business interruption insurance provides executives and investors with peace of mind. It signals that the company is prepared for contingencies, which can be particularly important in attracting capital and building trust with stakeholders.

## Special Considerations for Cannabis Companies

Because of the unique legal and regulatory environment surrounding cannabis, there are special considerations businesses should keep in mind when seeking business interruption coverage.

### 1. Work With Cannabis-Savvy Insurers

Not all carriers are comfortable underwriting cannabis risks. It is important to work with insurers and brokers experienced in the industry to ensure exclusions don't undermine coverage.

### 2. Understand Federal vs. State Law Issues

Since cannabis is federally illegal, certain claims may be contested under federal law. Ensure your policy is crafted with this in mind.

### 3. Review Waiting Periods and Limits

Most business interruption policies include a waiting period (often 48–72 hours) before coverage kicks in. Limits on coverage duration (e.g., 12 months of lost income) should also be evaluated to match business needs.

### 4. Consider Supply Chain Risks

Cannabis companies often rely on single suppliers for packaging, extraction, or distribution. Some policies can extend coverage to supplier interruptions, which is vital in a tightly regulated supply chain.

## Steps to Secure Strong Coverage

For cannabis executives, the process of securing business interruption insurance should involve careful planning. Key steps include:

- **Conducting a Risk Assessment:** Evaluate which perils pose the greatest risk to your operations.
- **Calculating Potential Losses:** Estimate lost revenue and expenses in the event of a prolonged shutdown.
- **Comparing Policy Terms:** Review exclusions, waiting periods, and coverage limits across insurers.
- **Aligning Coverage With Growth Plans:** As your business expands, ensure your policy evolves accordingly.

By taking these steps, cannabis companies can avoid gaps in coverage and ensure their policies truly meet operational needs.

## Final Thoughts

In an industry as volatile and competitive as cannabis, business interruption insurance is more than just another policy, it's a critical tool for survival. It protects income and operational costs during periods of downtime, providing the financial stability needed to weather unforeseen events.

While cannabis businesses face unique vulnerabilities, from regulatory complexities to limited financing options, business interruption insurance offers a safeguard that allows companies to focus on recovery rather than financial collapse. For cannabis companies determined to thrive in the long term, securing this coverage is not optional, it's essential.

