

R&W Insurance: A New Safety Net for Cannabis Transactions

R&W Insurance in the Cannabis Industry: A Powerful Tool for M&A Risk Management

The cannabis industry has witnessed remarkable growth and transformation over the past decade as legalization gains traction across the globe. Despite this progress, mergers and acquisitions (M&A) within the cannabis space have not kept pace with the industry's overall expansion. A combination of regulatory hurdles, market volatility, and operational challenges has slowed deal activity.

However, as the market continues to mature over the next one to two years, analysts predict an uptick in consolidation and strategic transactions. To navigate this evolving landscape, many cannabis operators and investors are turning to Representations and Warranties Insurance (RWI), A critical risk management tool that helps foster confidence, streamline transactions, and protect all parties involved.

At [Cannabis Risk Manager](#), our team has deep experience in structuring and placing these policies, both as brokers and former cannabis operators. Drawing from both sides of the table, we explore below how RWI functions, its benefits, and the key considerations for its use in the cannabis sector.

Understanding Representations and Warranties Insurance

Representations and warranties are key contractual assurances provided by a seller to a buyer in any business transaction. They confirm that specific facts about the company, its financials, operations, compliance, and other details are true and complete.

[Representations and Warranties Insurance \(RWI\)](#) is designed to protect the buyer from financial losses if any of those representations or warranties prove inaccurate after closing. Essentially, it transfers post-closing risk from the transaction parties to the insurer, creating a more secure and predictable deal environment.

In traditional transactions, buyers rely on indemnification provisions, escrow funds, or holdbacks to protect themselves from undisclosed liabilities. RWI replaces or supplements these mechanisms, providing both financial protection and peace of mind for buyers and sellers alike.

Bridging the Information Gap in Cannabis Transactions

One of the most significant challenges in cannabis M&A is accessing reliable information. The industry's relatively young age, combined with evolving state and federal regulations, often leads to incomplete or inconsistent data during due diligence.

RWI helps bridge this information gap by incentivizing sellers to make accurate and complete disclosures, knowing that their statements are insured. This encourages transparency and reduces the information asymmetry that can derail or delay deals.

For buyers, RWI enhances trust in the transaction, creating a more informed and balanced negotiation process.

Enhancing Deal Certainty and Investor Confidence

In cannabis, where regulatory uncertainty and compliance risk often create hesitancy, RWI offers a powerful advantage: enhanced deal certainty. Buyers and lenders gain confidence knowing that key transaction risks are covered by a reputable insurer.

This assurance can lead to smoother negotiations, faster closings, and more favorable financing terms. It can also make cannabis assets more attractive to institutional investors and private equity firms that may otherwise hesitate to enter a high-risk, tightly regulated market.

Protecting Seller Interests and Unlocking Value

While RWI provides significant protection to buyers, it also offers tangible benefits for sellers.

Traditionally, sellers have had to set aside a portion of the sale proceeds in escrow or accept holdbacks often 10% or more of the purchase price to cover potential indemnity claims. With RWI in place, that requirement is usually reduced or eliminated, allowing sellers to receive more of their proceeds upfront.

Moreover, in the event of a claim, the buyer can recover losses from the insurer rather than the seller directly, reducing post closing disputes and preserving ongoing relationships when the seller remains involved in operations.

Post Closing Recourse Without Disruption

Even after a transaction closes, unforeseen issues can arise from compliance violations to tax misstatements. With RWI, buyers have a clear and reliable avenue for financial recourse, avoiding lengthy disputes or litigation.

This mechanism ensures that the buyer can maintain operational focus without the distraction of post-closing legal wrangling. For deals where sellers stay on in management roles, it also helps prevent conflict and maintain business continuity.

Key Considerations for RWI in the Cannabis Industry

While RWI presents significant benefits, its effectiveness depends on proper structuring, due diligence, and industry expertise.

1. Deal Size and Pricing

RWI is generally best suited for deals with an enterprise value above \$25 million and where the parties seek at least \$5 million in coverage. Premiums typically range from 2–4% of the coverage amount, depending on deal complexity and risk factors.

2. Regulatory Compliance Challenges

Because cannabis remains a highly regulated and fragmented industry, insurers often approach cannabis-related risks with caution. Policies may vary significantly in scope and exclusions. Working with brokers experienced in cannabis underwriting, such as the [Cannabis Risk Manager](#) team, helps ensure the best coverage terms and access to insurers comfortable with the sector.

3. Higher Premiums and Deductibles

Due to the industry's perceived volatility and evolving legal framework, premiums and deductibles tend to be higher compared to other sectors. Policies may also exclude certain regulatory or licensing risks. Buyers and sellers should carefully review terms to ensure coverage aligns with their transaction structure and risk tolerance.

4. Importance of Comprehensive Due Diligence

RWI policies rely on thorough due diligence to assess and verify the target company's compliance, operations, and financial health. This process typically includes third-party reviews of legal, tax, environmental, and operational records.

For cannabis businesses, this step may involve verifying state and municipal licensing, inventory tracking systems (e.g., METRC), product testing compliance, and security protocols. Proper documentation not only facilitates underwriting but also strengthens the overall transaction.

5. Policy Customization for Cannabis Risks

Each cannabis transaction is unique spanning cultivation, manufacturing, retail, and ancillary services so policy customization is essential. Tailored RWI policies can address cannabis-specific exposures such as:

- Product liability
- Cross-state regulatory compliance
- Intellectual property disputes
- Banking and payment restrictions

Working with brokers who understand these nuances ensures that the coverage truly reflects the realities of cannabis operations.

The Strategic Role of RWI in Cannabis M&A Growth

As the cannabis industry evolves, strategic consolidation will likely accelerate, bringing new opportunities for growth and innovation. RWI can serve as a key enabler of this next phase, allowing companies to navigate complex transactions with greater confidence.

Beyond risk mitigation, RWI helps attract capital investment, encourage cross-border transactions, and support institutional acceptance of cannabis as a legitimate, insurable sector.

Using RWI to Build Trust and Growth in Cannabis Deals

Representations and Warranties Insurance is no longer an optional tool, It's becoming a standard practice in high-value cannabis transactions. By bridging information gaps, increasing deal certainty, and offering

reliable post-closing protection, RWI helps stakeholders overcome the challenges of this complex market.

While cannabis M&A may carry unique regulatory and operational risks, partnering with experienced brokers and insurers makes it possible to secure tailored coverage that fits each deal's structure and needs.

At **Cannabis Risk Manager**, we bring our combined expertise as **former cannabis operators and seasoned insurance professionals** to guide clients through the RWI process from evaluating deal suitability to underwriting and policy placement. With the right preparation and guidance, cannabis businesses can leverage RWI to unlock smoother deals, stronger investor confidence, and sustainable long term growth.

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