

Transforming Risk Management with Captive Insurance Solutions

Captive Insurance: A Strategic Solution Where Traditional Markets Fail Cannabis Companies

When Insurance Has No Guarantees, Its Value Collapses

In a functioning insurance market, the value of a policy lies in a simple premise: an insured pays premiums in exchange for a guaranteed, enforceable promise to cover defined risks. But for cannabis businesses, the traditional market often fails to deliver that guarantee. When a carrier can deny coverage, cancel policies without warning, or refuse to engage with the industry at all, the reliability of insurance begins to break down.

This is precisely the type of market failure captive insurance was designed to solve. And as cannabis operators continue facing inconsistent coverage, inflated premiums, and limited access to vital protections, captives are emerging as one of the industry's most powerful financial and operational tools.

Captive Insurance Eliminates Coverage Doubt by Making the Insured the Owner

Unlike traditional insurance, where businesses rely on external carriers, captive insurance is a form of formalized self-insurance. Companies form their own insurance entities—regulated, licensed, and structured like any other carrier to insure risks that are:

- Hard to insure
- Misunderstood
- Rejected by commercial markets
- Overpriced or inconsistently covered

The core advantage is simple and transformative: the insured is also the owner of the insurance company. That means the issue of enforceability disappears. There is no carrier to walk away, no unexpected policy cancellation, and no hidden coverage gaps created by unfamiliar underwriters.

How Captives Work: Premium In, Claims Out, Revenue Retained

A captive insurance company operates much like a standard insurer, but with key differences that benefit the insured business:

1. Premiums Become an Asset Not a Cost

The business pays premiums into a wholly owned subsidiary. Those premiums can then be:

- Invested
- Managed strategically
- Used to build long-term surplus

2. Claims Are Paid from the Captive

If the business experiences a covered loss, the captive pays the claim, just like a commercial carrier.

3. No Claims? The Reserves Become Profits

When claims are low or nonexistent, the reserves:

- May be converted into dividends
- Can be reinvested
- Help grow the captive into a stronger, long-term financial engine

For cannabis companies with strong risk management programs, this creates a significant revenue opportunity, transforming insurance from a cost center into a strategic asset.

Regulatory Barriers: Why Cannabis Captives Face Extra Complexity

Even though state and federal laws *permit* cannabis-focused captives, states are not obligated to issue licenses. This leaves cannabis businesses in an uneven regulatory landscape.

Several states with robust cannabis industries—including California and Washington—lack captive insurance legislation entirely. Without statutory authority, an insurance department cannot issue a captive license.

Additionally, each state enforces “doing business” requirements for insurance carriers. Licensed or surplus lines status is typically required to operate within state borders. But because many cannabis operators must domicile their captives in other states—or even offshore—they must navigate a patchwork of direct procurement or direct placement laws.

Direct Procurement Laws: The Legal Workaround for Unlicensed Insurers

Direct procurement allows businesses to purchase insurance from a carrier located outside the state, even if that carrier is unlicensed locally. But the rules differ drastically among states:

Colorado

All solicitation must occur outside the state. This effectively eliminates in-state brokers or agents.

California

Purchasing is allowed, but businesses must pay a direct procurement tax. This is a common and manageable pathway for cannabis captives.

Washington

Direct procurement is effectively prohibited. Cannabis businesses must use an authorized fronting company to access captive coverage.

New York

Makes exceptions for certain professional groups, making association captives a potential cannabis solution.

Industrial Insured Exemptions

Many states permit large, sophisticated insureds—those meeting criteria such as:

- A full-time insurance manager
- Minimum premiums (often \$25,000+)
- A minimum number of employees (typically 25+)

to buy insurance from unauthorized carriers, including captives.

These varied pathways show why cannabis companies must understand every available regulatory option before forming a captive.

Finding the Right Domicile: The Search for a Cannabis-Friendly Captive Home

Because state licensing is discretionary, and many states refuse to license cannabis captives, companies often must look elsewhere. Potential domiciles may include:

- Vermont
- Montana
- Arizona
- Delaware
- Certain offshore jurisdictions

But domicile selection will not always align with where the cannabis business operates, creating additional complexities under the receiving state's procurement laws.

For example:

- California operators may use out-of-state captives and simply pay taxes.
- Washington operators may require a fronting carrier.

These nuances make expert guidance essential.

Captive Insurance Is the Best Available Risk Solution Despite Industry Growing Pains

Cannabis companies urgently need reliable insurance. Unfortunately, traditional carriers remain hesitant, uninformed, or outright unwilling to participate meaningfully in the space.

Captive insurance offers:

- Guaranteed claim enforceability
- Premium recapture and long-term financial gains
- Tailored coverage
- Independence from volatile commercial markets
- Support for emerging and misunderstood risks

However, challenges persist:

- Many states reject cannabis captive license applications
- Domicile options remain limited
- Risk data is still emerging, affecting actuarial accuracy
- The cannabis industry continues facing federal uncertainty

These roadblocks are expected for a rapidly expanding, maturing market. Like ride-sharing apps before them, cannabis companies are finding ways to operate regardless of government delays or regulatory fragmentation.

As the Cannabis Industry Grows Toward Multi Billion Dollar Scale, Captives Will Become Standard

With the legal cannabis market growing toward its projected multi-billion-dollar annual revenues, the insurance landscape will inevitably evolve. Captive insurance will be central to this transformation.

As the industry matures:

- Actuarial data will expand
- More domiciles will accept cannabis captives
- Legislative frameworks will stabilize
- Fronting and procurement barriers will relax

Early adopters those who understand captives now—stand to shape and dominate an entirely new specialty insurance sector.

Captives Are the Future of Cannabis Risk Management

The cannabis industry faces a fragmented, unreliable insurance marketplace with few traditional options. Captive insurance represents the strongest, most stable solution available today even with regulatory complexities.

Companies that explore captives early will gain:

- Greater financial control
- More reliable coverage
- Lower long-term cost of risk
- A strategic advantage over competitors

As the industry continues to grow, captive insurance won't just be an alternative, it will be the foundation of cannabis risk management.

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