



RISK in Focus

## Cannabis Production

### Background

U.S. cannabis retail sales were expected to reach \$18.6B in 2020, an impressive 19.4% increase over the prior year. An even more dramatic rise of 28.9% is predicted for 2021. There are more than 23,000 businesses in the cannabis retail space with more than 56,000 employees. Overall, companies in this sector report 18.0% profit margins.<sup>1</sup>

Public policy regarding cannabis sales continues to be the purview of the states, since legalization at the national level has not yet happened. By the end of 2020, though, 15 states and the District of Columbia had fully legalized the sale and production of cannabis for both medical and recreational use. Each has established their own standards and requirements regulating the retail sale of cannabis products.

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RISK in Focus



# Cybersecurity

## RISK in Focus

# Cybersecurity

### Background

A cannabis dispensary is confronted with the same types of cyberthreats as many other retail stores. They must constantly be on guard for phishing, protect and prepare for ransomware attacks, and insulate their IT systems from exposures through Internet of Things (IoT) vulnerabilities.

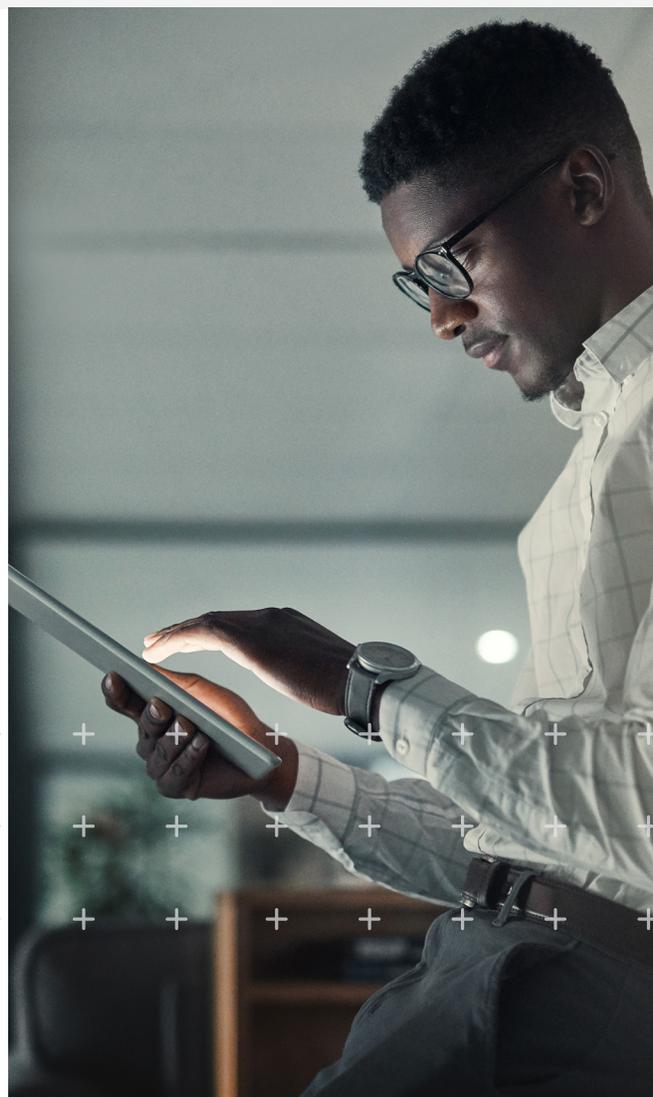
There is an added area of risk that cannabis retailers face, though, stemming from state regulatory requirements regarding the retention of records related to transactions at all levels in the cannabis supply chain.

California's METRC (Marijuana Enforcement Tracking Reporting Compliance) program, for example, requires retailers and others to collect personally identifiable information from customers, including names, addresses, delivery addresses, waiver form data, and copies of driver's licenses – extremely valuable information for hackers.<sup>2</sup> Additionally, dispensaries tend to collect this type of personal information through their loyalty programs, along with financial information obtained during debit card and other ACH transactions.

## Hazards Contributing to the Risk

### Hazard 1: Underestimating the Sophistication of Hackers

Employers need to make their employees aware of newest iterations of scams and phishing attacks. For example, some phishing web sites now display apparently secure https encryption so the user may assume the site is secure. And increasingly, the infiltration is occurring on mobile platforms like Facebook and WhatsApp.<sup>3</sup>



## **Hazard 2: Failure to Have Detailed Procedures for Dealing with Customer Information**

Cannabis dispensaries should put detailed, high-level IT protocols in place that are, in turn, translated into even more detailed directives within every employee's job description. These protocols should also describe the potential disastrous outcomes that might occur and consequences and punishments for any deviations from these protocols.

These facilities should also carefully limit access to sensitive customer information as it's collected and stored to make sure that only the employees that need certain information have access to it.

The facility's IT protocols should address the use of unsecured, personal mobile devices by staff at the facility. Management should consider banning their use altogether in carrying out any element of an employee's responsibilities at the dispensary.

## **Hazard 3: Working with Outdated Software**

Most software updates contain security upgrades designed to address newly discovered vulnerabilities. Cannabis retail facilities should enforce policies that require the prompt upgrading of software when it becomes available. Additionally, they should maintain settings on software that require staff to regularly update personal passwords.

## **Hazard 4: Failure to Properly Train and Oversee Staff**

Establishing data management protocols and expectations are only a first step. IT teams should continually train store workers and reinforce required cybersecurity practices. The facility should maintain or contract for the services of an IT help desk that can answer questions with very short response times.



RISK in Focus

**Secure  
Storage +  
Delivery**



## Background

With its historical cash focus and highly valued products, it's no wonder that retail cannabis dispensaries present inviting targets. This was certainly the case in early years, when "cash" literally meant greenbacks, and security systems were less sophisticated. In reality, cash script is not the typical tender for retail transactions anymore making daytime robberies less of a risk than several years ago. Many facilities have shifted to debit card/ACH transactions as well as to other new, third-party payment processing options.

The fact is, most theft occurs from insiders – as much as 90% by many estimates – and during deliveries. We discuss both of these risks below.

## Hazards Contributing to the Risk

### **Hazard 1: Failure to Maintain a Robust Dispensary Security Plan**

As a condition of licensing, most states require cannabis dispensaries to submit, maintain, and abide by security plans. These safety measures, requirements, and protocols include specifications on surveillance systems, perimeter security, burglary systems, employee and customer access within the building, fire evacuation procedures, security sign-in logs, employee training, and other elements.

Even though these documents are required by government agencies, owners shouldn't think of them as a bureaucratic exercise that they put on a shelf after submission. These plans should also serve as a detailed source of truth about the entire security strategy that can guide employees and provide assurance to insurers.



## Hazard 2: Neglecting to Impose and Monitor Protocols for Retail Cannabis Delivery

Along with the increase in retail cannabis delivery during COVID came greater risks for off-premises robbery and delivery diversion. Like other aspects of cannabis sales, retail delivery laws vary by state. Some require that deliverers maintain a special licenses. In many cases, delivery is provided by employees in personally owned vehicles. These drivers should be required to adhere to pre-planned routes and schedules. Their autos should never be branded with dispensary logos. Drivers should also be trained to watch for vehicles loitering near the dispensary waiting to follow and intercept likely delivery vehicles.

Owners should determine if the potential for loss prevention that comes from batch deliveries (with multiple stops) outweighs the extra time, travel, and even additional employees that would be needed for single delivery systems. In either case, owners need to keep close tabs on their delivery drivers in

real time. Best practices include GPS-based fleet software similar to that used in the trucking industry. These systems can determine if the vehicle is on the expected route or if it's been diverted – for understandable or troublesome reasons. Similar technology can also be used to monitor the cash and/or product.<sup>4</sup>



## Hazard 3: Inadequate Overnight Storage of Product

After-hours robberies of dispensaries should be a major concern for an owner. While tracking the movement of products between the sales cases and secure storage is time-consuming, this kind of overnight storage of product as well as cash within vaults, DEA-approved security cages, and safes is an important loss-prevention step often required by insurers and state regulators.



#### **Hazard 4: Lax Monitoring of Employee Diversion of Cannabis**

Employers should be cognizant that their biggest source of inventory shrinkage is likely to employee diversion. And with state requirements to closely track products all the way to the consumer, this kind of diversion can put an operating license in jeopardy. Facility security plans should address this internal issue through surveillance systems, maintenance of secure areas, and detailed operational procedures.

Equally important, though, is setting the proper expectations.<sup>5</sup> Potential and new employees should quickly be disabused of the impression that employers will turn a blind eye to their people pocketing product. Zero tolerance is the key message when employees are onboarding, and punitive action must follow by the book when there's a proven violation.



**Maintaining a  
Stable, Qualified  
Workforce**

**Background**

Human resource challenges in the cannabis retail industry are somewhat different than in other types of retail or other industries in general. Many retailers have difficulty finding employees. That's not necessarily the case with dispensaries. Job applicants are plentiful – the jobs are attractive, but not necessarily for the right reason.

Cannabis retail is a fast-growing field and employment levels are expected to increase by more than 19% annually through 2026.<sup>6</sup> Staff turnover, though, is relatively high.

**Hazards Contributing to the Risk****Hazard 1: Hiring Unprofessional Budtenders**

Budtenders, or sales associates, are the face of the dispensary. If these workers are not prepared to provide a good experience for all types of customers – from the inexperienced to the veterans – the dispensary misses out on the chance to develop customers for life.

When serving novice purchasers, it's important that the budtenders be patient in explaining all the options and making appropriate, prudent suggestions. When serving their regular customers, it's critical that they're prepared to make recommendations on new products. In both cases, the best cannabis sales associates have a passion for the product, remain current on new products and trends, and are personable and friendly, making every customer feel welcomed and comfortable.

**Hazard 2: Insisting that Employees have Cannabis Experience**

Dispensaries don't have the luxury of only hiring experienced budtenders, greeters, and inventory managers – nor should they insist on this. Traits like professionalism, an eagerness to learn, attention to detail, and of course ethical behavior are important as well. An industry veteran without those traits may be a worse hire than an industry novice that has those work characteristics.

### **Hazard 3: Failure to Make the Dispensary a Rewarding and Pleasant Place to Work**

We live in an employee's job market – especially in the cannabis field. Dispensary owners need to make their dispensary job opportunities better than what their competitors are offering. This includes creating pathways for advancement, offering above-average pay and benefits, and investing in the workplace experience.

A positive experience begins with onboarding, and it continues with ongoing check-ins and mentorships. Facility owners and managers can create a positive experience by maintaining a professional and fun working atmosphere. These are not mutually exclusive.

Employee benefits are increasingly important as well. Reportedly, only 50% of dispensaries offer full employee benefits.<sup>7</sup> That could be a significant employment differentiator.

Other programs that can increase employee loyalty include sponsoring memberships in cannabis associations and advocacy groups, coordinating employee engagement in the community, recognizing performance during company-wide meetings, and holding team-building events outside the workplace.<sup>8</sup>



RISK in Focus



**Insurance  
Availability +  
Coverage**

RISK in Focus

## Insurance Availability + Coverage

### Background

Given the continuing evolution of legal issues related to cannabis sales along with their variability from state to state, not to mention the fact that cannabis businesses are illegal in the eyes of the federal government, many insurance carriers are choosing to not indemnify the risks faced by cannabis retail operations. Other insurers specialize in it. Regardless, dispensaries must carry basic levels of insurance as required by state regulations, contracts, and prudent business management principals.

### Hazards Contributing to the Risk

#### Hazard 1: Failing to Adequately Budget for Insurance

For a given retail location, insurance policy prices reflect the complexity and size of the cannabis operation as well as its compliance record. Dispensary owners know as well as anyone that they typically pay a premium for any services they purchase. That's true for insurance coverage too.<sup>10</sup> As the industry becomes more normalized and legal issues are resolved, those insurance price differentials may diminish.



## Hazard 2: Neglecting to Consider All Areas of Insurable Risk

Dispensary owners understand the risks inherent in their business. They may not be aware, though, of opportunities to transfer some of those risks.

All are familiar with the need for General Liability insurance – most states (and landlords) require this coverage. The same is true for workers compensation. Property and Casualty (P&C) insurance is also generally well-understood and commonly purchased by dispensary companies.

**Additionally, though, dispensary owners can protect their significant investments with:**

- + Product Liability Insurance
- + Directors and Officers (D&O) insurance
- + Employment Practices Liability
- + Tenant Improvement Coverage
- + Business Income Insurance
- + Auto insurance to supplement the personal auto insurance of a driver using their own vehicle

It's important that cannabis businesses obtain coverage in these areas that is tailored to the unique nature of the industry and that these policies offer sufficient policy limits.

## Hazard 3: Not Understanding the Details of Dispensary Insurance Coverage

A good rule of thumb for dispensary owners is ask their insurance provider what they're not covered for, rather than what they *are* covered for. This will highlight certain broad categories of risk they could insure against or endorsements they might obtain. Just as important, asking that key question could uncover exclusions they were not aware of.

## Hazard 4: Not Taking Advantage of the Insurer's Resources

Cannabis companies should ask for and expect support from the insurer by people who with a specialty in that industry. It's not too much to expect them to provide support from a dedicated cannabis practice team for matters including contract reviews, lease reviews, claims management, and loss prevention guidance.

<sup>1</sup>Thomas, Brigitte. Medical & Recreational Marijuana Stores. IBISWorld Industry Report OD4142. PDF File. March 2021.

<sup>2</sup><https://www.law.com/njlawjournal/2020/07/01/in-cannabis-industry-profitability-and-data-security-go-hand-in-hand/?sreturn=20210720120313>

<sup>3</sup><https://blog.rsisecurity.com/5-cyber-security-threats-in-the-cannabis-industry/>

<sup>4</sup><https://www.gpsinsight.com/blog/cannabis-delivery/>

<sup>5</sup><https://mgretailer.com/business/human-resources/reducing-temptation-how-to-prevent-employee-theft-at-dispensaries/>

<sup>6</sup>Thomas. Medical & Recreational Marijuana Stores.

<sup>7</sup><https://flowhub.com/learn/dispensary-employee-retention>

<sup>8</sup><https://flowhub.com/learn/dispensary-employee-retention>

<sup>9</sup><https://covercannabis.com/cannabis-operations/dispensary/>

<sup>10</sup><https://www.nasdaq.com/articles/focus-u.s.-cannabis-insurers-get-ready-to-roll-as-federal-legalization-nears-2021-08-19>



## More Than Just Insurance

IMA is an integrated financial services company specializing in risk management, insurance, employee benefits and wealth management. It is the sixth-largest privately-held and employee-owned insurance broker in the country and employs more than 1,200 associates.

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