




# Empowering Wellness, Mitigating Risk: A Guide to Insurance for Your Wellness Company



In a sea of change, wellness companies are riding a wave of growth and innovation. The people have spoken and they want more access to alternative wellness experiences, plant medicines, and naturopathic practices. It's an incredible time to be in this space, but as always, an abundance of opportunity comes with an abundance of risk.



## Understand the Wellness Industry

The wellness industry is undergoing a revolution. An increase in access to cannabinoids like CBD, psychedelics like psilocybin, and other naturopathic remedies has opened new doors of healing and maintaining wellness in all the systems of the body. More people than ever are seeking alternative wellness and health solutions to take care of their physical and mental health. From ketamine therapy to CBD skincare and everything in between, there's an abundance of opportunity in this space.

But with growth of market share comes growth in exposures and ultimately, risk. Changing regulations on the federal level can threaten state-run programs, the fledgling supply chain for cannabinoids and psychedelics is unstable, and there are not yet established quality control regulations.

So how do you survive and thrive in an industry such as this? With planning, practicality, and a touch of flexibility to ride the waves of change that come your way.

## Types of Insurance Coverage for Wellness Companies

Your specific umbrella of coverage will be unique to your plant-based wellness business and your needs based on where you operate, but there are several “best practice” policies that wellness companies need.

### Product Liability Insurance

This policy provides coverage for claims related to the sale or use of hemp and wellness products. Since manufacturing and testing practices aren’t regulated at the federal level, hemp and wellness businesses that sell products are at risk of lawsuits claiming injury or damage and this policy helps protect you against the cost of going to court – even when the claims are unfounded.

### General Liability Insurance

This policy protects against third-party claims for bodily injury and property damage. It’s often referred to as “slip and fall” insurance and is necessary for any business with a retail, warehouse, or other physical location that employees, vendors, or customers visit.

### Workers’ Compensation Insurance

A business that has employees outside of the owner/ founder must have Workers’ Comp insurance – it’s mandatory in 49 states (except Texas.) This policy helps businesses by providing coverage for employees who sustain work-related injuries or illnesses.

### Property Insurance

Property damage can occur in many ways – malicious vandalism, major weather storms,

and fire are just a few examples. A property insurance policy safeguards business property and assets from damage or theft and reimburses you for direct loss of real property, business personal property, and product inventory.

### Crop Insurance

The entire hemp and psychedelic industries are predicated on a stable supply chain with plenty of hemp and mushrooms – but sometimes nature intervenes. This policy offers protection to hemp cultivators from natural disasters and crop failure.

### Cyber Liability Insurance

In today’s digital age, cyber attacks are a constant threat – and unfortunately, they’re on the rise. Cyber liability insurance provides security against data breaches and cyber attacks by protecting your company against lawsuits resulting from malicious electronic activities, such as phishing. This policy also offers recovery benefits, data restoration, and reimbursement for income lost and payroll spent.

### Directors and Officers Insurance

For companies large enough to have multiple business executives, D&O insurance provides coverage for legal actions against business executives, safeguarding personal assets. Many venture capitalists require companies they invest in to have this coverage.

## Assessing Your Coverage Needs

While there are many overlaps in coverage for holistic businesses, no two are exactly the same, and the coverage your business needs is unique to you. Don't settle for a one-size-fits-all policy: take the time to assess and understand your specific coverage needs.

### 1 Risk Management

The risks your business is facing are the places you need insurance coverage. To understand where that is, you need a risk management plan. It can sound daunting to take on, but we've broken it down into 5 actionable steps to help you get started.

This plan will not come together in a day, nor should it be authored by a single person. To get a comprehensive idea of your business exposures, bring in other team members who are key players in each sector of your business. By pooling your collective brain power, you'll be able to examine your business from every angle and ensure nothing is missed. If you still feel like you need help, reach out to us! We're happy to provide an experienced risk management eye.

#### ■ Step 1: Identification

AlphaRoot co-founder Carl Niedbala says, "We don't know what we don't know." Without knowing what your risks or exposures are, you can't cover them. The first step is identifying all of the risks your business faces. (Yes, all of them, big and small!) You don't have to do anything about them yet. You're just naming them here.

#### PRO TIP

If you find yourself stuck, pull in a fresh perspective. Other members of your team

may identify risks you've overlooked and a risk modeling software can help you map out potential problems.

#### ■ Step 2: Analysis

Once you have a list of every potential exposure your business faces, you have to quantify them. Which risks are absolutely unavoidable? Which ones are unlikely to occur? Which exposures will cause the most damage to your business if they happen?

The point here is not to be pessimistic, but to be realistic. Having a plan to deal with problems sets you up for success if they happen, so it's well worth your time to walk through each risk and play out the worst-case scenario.

#### PRO TIP

Actuarial tables can be helpful at this stage to provide an analytic perspective.

#### ■ Step 3: Evaluation (and action)

The evaluation stage is about likelihood and consequences. Once you understand your exposures and the fallout from each, you have to decide how to deal with them.

If a risk is unlikely with minor consequences, then you may just acknowledge its existence and move on. But if a risk is likely or could have a largely negative impact, you need to take steps to cover the exposure.

This is the stage where you put your knowledge into action and build the umbrella of insurance coverage your business needs, based on your risk assessment calculations. How you deal with business risks is up to you — but don't pretend they don't exist.

**PRO TIP**

Insurance coverage isn't the only action you can take based on your assessment. You can also write a crisis management plan, alter certain processes to avoid risks, or develop a damage recovery plan. Insurance is one step, but it's not the only step!

**■ Step 4: Tracking**

Tracking your risks happens over time. This stage is a key piece of a risk management plan, but not one that you can cover when you're making the plan itself. Instead, tracking your risks helps you create a living document that allows you to monitor potential risks over time and which ones come to fruition.

This is not a "fun" step of a risk management plan, but it's well worth the time invested. Tracking your risks allows you to gain a better understanding of your business and tweak certain processes or update your risk management plan and coverage in response.

**PRO TIP**

It can be easy to let the tracking stage fall off your radar in favor of the day-to-day tasks. Carve out time each month or quarter to take a deep dive into your risk tracking.

**■ Step 5: Treatment**

Treatment and evaluation are similar stages because they're both action-based. In this stage, your action is evolving as your business risks evolve. In this phase, you can evaluate your internal processes and insurance coverage to make sure both are up-to-date with your company's growth.

**PRO TIP**

An expert insurance partner is great to rely on here to give you a 20,000-foot view of the industry as a whole.

**2 Understanding Insurance Jargon**

The hemp and wellness industries are filled with jargon that industry insiders know well – and so is insurance. When you're creating your risk management plan, you'll need to know a few key terms: policy limits, premiums, exclusions, and deductibles.

**■ Premiums**

This is the payment you give to an insurance company in exchange for protection. Based on factors that include: location, company size, product, developmental stage, revenue, and claims history.

**■ Deductibles**

The part of a loss that you agree to cover after filing a claim. This can be a flat rate (predetermined dollar amount for each loss) or a percentage of the overall covered loss amount.

**■ Policy limits**

The amount of insurance you buy or the maximum amount your carrier will pay for a specific loss.

**■ Exclusions**

A provision that makes your company ineligible for coverage due to specific reasons or happenstances.



## The Application and Underwriting Process

There's a process to secure insurance coverage and it's fairly consistent from industry to industry – here's how it works.

You contact an insurance company or brokerage (preferably one that specializes in the hemp and plant-based wellness industries), explain your needs, and send your application. This application is used to provide you with an estimated quote for coverage before being sent to an underwriter.

The underwriter is responsible for analyzing and assessing the risk potential of providing you with coverage. Based on their analysis, an underwriter will either: confirm the quoted rate, change terms and premiums to better reflect your risk, or deny coverage entirely.

Having your application complete when requesting a quote for coverage is the best way to keep the process moving along quickly. Underwriters need a lot of information to do their job, and it's important that you provide everything at once so they don't have to chase any information down.

Here's what you need in most insurance applications.

### General Business Information

#### 1 Business license and formation documents

This includes your business license, DBA, articles of incorporation, tax status, stakeholders, and any other relevant documents establishing your legal entity.

#### 2 Financial statements

Recent financial statements such as balance sheets, profit and loss, loans, and

income statements are needed to assess your financial stability and risk profile. “Recent” means the last fiscal year or 12 months of statements.

#### 3 Business plan

This helps the insurer understand your long-term goals, growth plans, and potential future risks. Your business plan should include:

- **Operational Information**

##### Standard operating procedures (SOPs)

These documents detail your processes for handling hemp, psychedelic, and naturopathic products, security measures, employee training, and other operational aspects.

##### Security protocols

Information on your security systems, access controls, and surveillance measures for various locations (cultivation facilities, processing facilities, dispensaries).

##### Loss history

Any past claims or incidents, including details of the event, cause, and resolution.

- **Hemp and Psychedelic-Specific Information**

##### Licensing and regulatory compliance documents

This includes licenses for cultivation, processing, distribution, or retail sales, as applicable in your state.

##### Inventory tracking system

Details of your system for tracking hemp and psychedelic inventory from seed to sale, ensuring compliance with traceability regulations.

### Testing reports

Independent lab reports demonstrating the quality and potency of your cannabis products.

#### ■ Additional Documents (may vary)

##### Lease agreements

Copies of lease agreements for your facilities.

##### Employee training records

Documentation of training programs for employees on safety, security, and compliance procedures.

##### Contracts with vendors and partners

Copies of contracts with suppliers, distributors, and other business partners.

Got that? Good. Here are a few other common pitfalls to avoid during the application process.

#### 1. Incomplete or inaccurate information

Ensure all documents and information submitted are accurate, up-to-date, and complete to avoid delays or potential coverage issues.

#### 2. Lack of understanding of your risk profile

Thoroughly assess your specific risks (e.g., cultivation, processing, distribution) and tailor your application accordingly. The worst thing an underwriter can do during their analysis is be surprised! The more details you provide, the better.

#### 3. Not having documented safety and security protocols

Clearly defined and documented SOPs demonstrate proactive risk management and can positively influence quotes. Additionally, many hemp-specific policies

require certain safety measures. Having this in place in advance can go a long way.

#### 4. Neglecting to disclose past claims or incidents

Be transparent about any past claims, including details and resolutions, to avoid potential coverage denials.

#### 5. Failing to understand coverage limitations and exclusions

Review coverage details and exclusions carefully to avoid unexpected gaps in protection. You are responsible for understanding the limits of your coverage. If you're not sure how each policy works, ask your insurance broker to go over them with you.

#### 6. Rushing the process

Take your time! Research different insurance options, compare quotes, and consult with a broker before making a decision. You don't need to partner with the first company you get a quote from — take your time to ensure you find an insurance company that is a good fit.

#### 7. Underestimating the value of professional guidance

Partnering with a qualified insurance broker experienced in the hemp and holistic industries can save time, improve your application, and secure better coverage. Insurance companies that don't specialize in hemp or naturopathic practices may not fully understand the risks and nuances that come with these industries.



## Managing Insurance Costs

Insurance is a key piece of the puzzle for long-term business success, but it can be expensive. How can you manage your insurance costs so you're not paying extravagant premiums?

Here are some strategies to reduce your insurance premiums:

### Implement robust risk management practices

Insurance and risk management go hand in hand. The more you manage your risk, the less you need to lean on your insurance policies – an ounce of prevention is worth a pound of cure. Follow best practices for training employees and maintaining a high level of safety and compliance in the workplace. Empower your employees to take action when they notice something isn't right before it becomes an issue. It takes an entire team to ensure workplace safety.

### Maintain a clean loss history

Your loss history, also known as your claims history, has a direct impact on your premium. The more claims you have on record, the more you can pay in premiums. Maintaining a clean loss history means relying on your entire team to follow safety and compliance best practices, which can significantly reduce the risk of an issue arising.

### Bundle your policies

You've probably seen insurance commercials claiming that people save when they bundle home and auto insurance – and the same principle applies to your business too. Creating a tailored insurance package that bundles your policies together can help you save money in the long run, rather than keeping each policy in its own silo.

### Remain compliant

Compliance is a big task for a hemp and psychedelic business owner to manage – but being out of compliance is expensive. Prioritizing compliance is more than just a best practice – it's a financial strategy to save you money in the long run. The same goes for following safety best practices: a fine from OSHA can cost up to tens of thousands of dollars.

### Invest in loss prevention technology

Some insurance policies, particularly those around theft, require you to take specific loss prevention steps. Investing in loss prevention technology is an up-front cost that helps you keep your insurance costs (and your inventory costs) low in the long run. Camera, RFID tags for inventory, high-tech safes, employee badge scanners – all of this tech can help you reduce your potential loss, which keeps you from having to file a claim and keeps your premium low.

### Maintain financial stability

Maintaining financial stability is no small task in the wellness industry, but did you know doing so can help reduce your insurance costs? Unstable financial status means more risk for your insurance company while financially stable companies will benefit from better rates and premiums.

These strategies are all about reducing the need to file an insurance claim, but you may still need to file a claim from time to time. How you handle your claim can make a big difference in how it impacts your insurance cost.

The most important part of filing a claim is learning from it. Claims can highlight operational gaps in your risk management



plan that your company can learn and become safer from. Lean on your insurance carrier's knowledge of the industry and of insurance – they may be able to help you pinpoint any gaps in your processes that led to having to file a claim and can prevent it from happening again.

## Regulatory Compliance and Insurance

Understanding and managing changing, complex regulations is a burden to any business owner, but especially so in a nascent space like holistic healing. As the industry expands with increased access to different medicines across states, regulations for companies become more challenging to manage. But you don't have to do it alone.

Your insurance partner can help you understand relevant regulations, stay up to date on changes, and ensure that your umbrella of insurance coverage gives you adequate protection. Both the state government and the federal government have insurance mandates for businesses and these have to be part of your coverage.

Knowing where regulatory compliance intersects with insurance sets you up for long-term success, and working with the right insurance provider takes a load off your shoulders. There are some policies that may be specific to you, your business, or your industry, while others are mandatory simply to do business in a state, like Worker's Compensation.

If you don't know where to start with regulatory compliance, reach out to your insurance broker. They can help you make sense of current regulations as well as become aware of any potential changes to regulations coming down the state or federal pipeline.

## Future Trends in Cannabis Insurance

Access to alternative medicines and plant-based therapies has never been greater in the US than it is right now – and we're still at the precipice of what this industry could be. Prohibition continues to roll back and innovative minds enter this space daily. As the industry evolves, your insurance coverage must too.

New coverage options are created as needs arise and regulations change. Technological and AI advances make it easier to predict and actualize risk, and understand exposures.

With each election year, voters choose again and again to increase access to plant medicine and alternative therapies. There is no turning back the tide on natural health and wellness solutions – there is only growth ahead.



## Choosing the Right Insurance Partner

Navigating the holistic wellness space can be challenging, but it's made easier with the right team of experts in your corner. The right insurance provider is more than someone to give you quotes and send you e-documents – they're an industry expert ready to help you navigate changing regulations, ensure your coverage is adequate, and manage your insurance cost.

Don't take the first quote you get for the sake of simplicity – the time you spend researching, vetting, and qualifying insurance partners pays dividends when you find the right fit. Look for an insurance provider who has experience in the wellness space and understands the nuances of working with CBD, hemp, psychedelics, and other alternative medicines. These products come with much scrutiny and require an experienced touch to insure properly.

Check the reputation of the insurer you're interested in working with. This can include reading Google reviews, checking with industry peers to see who they use, and even asking your potential insurance partner to provide referrals to happy clients.

The right insurance partner is a person or a company that acts as an extension of your team and always keeps your business success in mind. Insurance is not most people's favorite topic, but it is vital for success, and having a trusted partner you can rely on, ask questions, and heed their advice goes a long way. Don't be afraid to be discerning with your insurer – it's your business, after all.

Protecting your hemp company can seem confusing; however, we're a full-service insurance brokerage working with carriers worldwide to offer you the best coverage possible. We're here to help! Please reach out to us today by email [info@alpharoot.com](mailto:info@alpharoot.com) or calling **646-854-1093** for a customized letter or learning more about your hemp insurance options.



# About AlphaRoot



AlphaRoot is a subsidiary of Founder Shield, utilizing its technological tools to provide white-glove insurance brokering services to the Cannabis Industry.

Our goal is to educate the cannabis companies about the risks associated with their business and take the stress out of buying insurance for innovative businesses. We're on a mission to take a broken and confusing experience and create the most seamless and informative insurance purchase process available.

We partner with the leading cannabis insurance carriers to craft tailored risk management programs that allow you to focus on the things that matter, growing your business.

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