

Commercial Crime

What is Commercial Crime Insurance & What Does it Cover?

Commercial crime insurance policies protect cannabis businesses against the theft of a company's cash or securities, or their client's money or assets while in the company's possession or control. Each company within the cannabis vertical has crime exposure – in fact, studies have shown a large portion of crime in the cannabis industry is committed by company insiders. Whether a company is responsible for the transportation of biomass or has large amounts of cash on hand from sales, it's crucial to obtain a cannabis specific commercial crime policy. A typical commercial crime policy is divided into several coverage parts. A company may buy one or all coverage parts depending upon the industry and the carrier. A summary of crime coverage is as follows:

Social Engineering Fraud/E-Theft/E-Crime

Employee Theft

Burglary/Robbery

Forgery & Alteration

Fraudulent Money Orders

Wire Transfer Fraud

Counterfeit Money

ERISA/Employee Dishonesty

Assets/Monies in Transit

Theft of Client's Property of Securities

Why does a Cannabis Business Need Commercial Crime Insurance?

Most companies hire trustworthy employees and have solid internal controls prevent theft of their assets and products. However, trusted individuals can and do steal and assets or products are at risk of robbery and theft. Cyber/electronic theft is a growing area for commercial crimes due to wire transfer fraud and social engineering. A carefully crafted crime insurance policy can protect a company from such losses. A standalone commercial crime policy is a must for any company especially those operating with large amounts of cash.

What are Notable Coverage Features and Exclusions Within Commercial Crime Policies?

Cannabis commercial crime policies are in the early developmental phase. Insurance carriers are slowly making their entrance into this line of insurance; yet there have been a few companies willing to provide coverage to cannabis companies to reduce their crime liability. When reviewing a crime policy, it's important to consider the following coverage features or exclusions found within a crime insurance policy:

Acts of Owners

Indirect or Consequential Loss

E-Crime Authentication Clause

Audit and Claims Expense

Cannabis Specific Exclusions – Product and Inventory

Loss Discovered vs Loss Sustained

Commercial Crime

Statistics

US companies lost an estimated \$50 billion in 2019 due to employee fraud. Recent studies have confirmed most of the harm comes from employees, not from a disreputable bookkeeper.

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- 80% of workplace crime is carried out by employees
 - 86% of schemes involve asset misappropriation – the median loss is \$100K
 - 29% of employee theft cases lasted more than 5 years – the average loss for 5 year claims is \$2.2M
 - 25% of employees who commit fraud against their employer have been with the company for 10+ years
 - 70% of those who have witnessed a workplace crime do NOT bother to report it

Crime Insurance Best Practices

- Implement a Positive Pay system
- Require multi-factor authentication for wire transfers
- Require all employees handling cash to take at least one week of continuous vacation annually
- Require a separation of duties between the person handling the cash, making deposits, writing checks and reconciling bank statements
- Educate workforce on social engineering training
- Have bank statements delivered to owner or trusted executive
- Verify any changes to vendor information verbally with the last known contact

Claim Scenarios

Stolen Corporate Funds

A cannabis company executive delegated her secretary to set up travel arrangements and gave the secretary a corporate credit card and account information for payment. The secretary used the given information to make purchases. The executive was out roughly \$800,000 as a result of secretary's actions. Fortunately, a commercial crime policy would help cover claims costs and indemnity in this situation.

Stolen Corporate Funds

A small dispensary experienced an armed robbery costing them roughly \$75,000 in inventory and \$50,000 in cash. It was ultimately determined an employee was responsible for coordinating the robbery, but the insured was still unsure if their insurance policy would provide coverage for the loss. Fortunately, the insured's cannabis specific commercial crime policy provided coverage for the loss of securities located inside the premises resulting directly from theft and the loss of property located inside the premises resulting from an actual robbery.

Let's talk about your insurance needs.
Contact a cannabis industry insurance expert today.

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