

CANNABIS IN THE TIME OF COVID: A SMALL BUSINESS BANKING EMERGENCY

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It is a time of international turmoil, and the banking industry is rushing to assist those struggling to stay afloat. While [airlines](#), retailers, and restaurants are receiving much-needed aid, one sector that supports [more than 211,000 full-time jobs](#) has been excluded from COVID-19 federal aid: Cannabis.

For many, COVID-19 marks the start of a 'new normal.' In the following, we offer **three trends** on how Cannabis Banking has reached a long-awaited turning point, and **four recommendations** for Community Banks to meet this critical small business banking opportunity.

TREND #1: NO ONE *CARES* ABOUT CANNABIS

On March 25, 2020, the Senate passed the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) to provide financial relief to individuals and small businesses in the US amid the COVID-19 outbreak. The Paycheck Protection Program is one of the primary arms of the CARES Act. It tasks the Small Business Administration (SBA) with lending \$349 billion to small businesses to cover payroll, rent, utilities, interest on mortgages, and other debt obligations.

While most small businesses are celebrating the CARES Act, those employed by the cannabis industry are feeling left out. [CARES has excluded marijuana-related businesses \(MRBs\) from all aid.](#) Cannabis is still illegal under federal law, and therefore, cannot receive federal funding. [SBA Pacific NW has clarified](#) that "marijuana-related businesses are not eligible for SBA-funded services."

The Bureau of Labor Statistics projected jobs in the Cannabis industry to grow to [250,000 by the end of 2020](#) – that is, more jobs than are expected to be employed by manufacturing, utilities, or the government in 2020. The bottom line: a significant contributor to the US economy is ignored by the CARES Act and ineligible for SBA loans.

TREND #2: THE MOVE TO 'ESSENTIAL'

All states where marijuana is available to medical users have deemed the businesses' essential' as recognized healthcare providers. States, where it is available recreationally, have reacted in varying ways. States such as Michigan, Oregon, California, Massachusetts, and Nevada have expanded existing or implemented new regulations that allow for delivery. Others, such as New Jersey, Oklahoma, Washington, Illinois, are allowing curbside pickup for customers.

This pandemic could be the catalyst needed to finally drive substantial legislative change. Although the focus on drafting COVID-19 related legislation has taken priority over all other legislative items (potentially delaying the actual passage of the SAFE Act and local legislative initiatives), we predict the move to deem cannabis an essential service makes the passage of the bill more likely once it reaches the floor.

TREND #3: ROOM TO GROW

In the wake of COVID-19, the cannabis industry has experienced an economic boost due to American consumers buying a hefty quarantine supply. MRBs encountered sales that surpassed 4/20 numbers, the leading cannabis holiday for sales. States, where recreational sales are legal, saw significant sales increase, including California with a 159 percent increase and Washington with a 100 percent increase in mid-March.

In addition to this short-term boost, the cannabis industry is demonstrating long-term growth potential with increased employment rates. In the past two months, dispensaries around the nation are finding themselves short-staffed as delivery requests have surged, and capacities to fulfill are limited. As a result, MRBs are looking to those who have been recently unemployed to fill roles for retail, fleet, and inventory assistance.

THE OPPORTUNITY FOR COMMUNITY BANKS

For community banks who have considered entering this market – now might be the right time. As described in a previous article, 'Budding Opportunities,' community banks have a niche opportunity for this market as they are subject only to the cannabis restrictions of states in which they operate. As restaurants, construction companies, and startups suffer, cannabis continues to sustain profitability – potentially offering a much-needed revenue source for community banks. And with comprehensive legislation looking more promising than ever thanks to the label of 'essential service,' this is a good time to invest in the industry before other financial players.

RECOMMENDATION #1: FOCUS ON DIGITAL ACCESS

Given COVID-19 quarantine and social distancing restrictions, community banks must provide online applications and servicing options. For example, [Severn Bank](#) in Maryland offers online banking with bill pay and remote deposit to medical marijuana

small businesses. Banks can also help cannabis businesses go digital themselves, financing investments in cannabis-specific digital point of sale (POS) solutions such as [Flowhub](#) and [Greenbits](#).

RECOMMENDATION #2: SEND THE RIGHT MESSAGE

Customers are being deluged with information, promotional offers, and confusion about the CARES Act. There is also an opportunistic trap, where businesses don't want to be seen as capitalizing off of a tragedy. The key is to reach your target audience with the right messaging. Here are some quick tips:

- Set up dedicated pages on your website
- **Focus on education:** host info sessions and webinars dispelling myths around access to CARES funding, and providing alternative solutions
- **Show that you care:** reach out to any existing customers, checking in on their well-being and the state of their business

RECOMMENDATION #3: OFFER THE RIGHT PRODUCT

Community banks can provide cannabis businesses with the capital needed to sustain through expansion or loss. Whether that is providing loans for more delivery trucks, capital for employment benefits (such as paid leave), or even financial guidance as cannabis companies navigate this uncharted territory.

As SBA loans are not an option, here are other products MRBs might require:

- A **business line of credit** will provide the ongoing access that cannabis businesses in their first or second year of operations. This line of credit can prove invaluable in financing continued growth.

- If vendors are slow to pay due to the pandemic, then a **merchant cash advance** will help clients to keep things on track without collateral or a personal guarantee.
- Whether your client is a dispensary in need of a new POS or security system, any of the many tools or machines needed to cultivate cannabis, or another business-essential piece of equipment, **equipment financing** can make a real difference.

RECOMMENDATION #4: STAY FOCUSED ON COMPLIANCE

Given the continued regulatory scrutiny institutions aligned with the cannabis industry face, senior management should continuously monitor their BSA/AML Compliance Programs to ensure operating effectiveness. Additionally, institutions should proactively put in place controls and mitigating activity¹ to address emerging risks such as:

- Enhancing risk assessment methodology to incorporate direct and indirect risks of cannabis-related businesses

- Updating relevant customer data captured as part of the customer due diligence and enhanced due diligence processes
- Developing 'red flags' and enhanced monitoring procedures to assist in identifying illicit cannabis-related business activity
- Creating and delivering training related to the current and emerging risks of the cannabis industry

Capco is working closely with our clients and vendor partners to ensure continuity of business for the small business community. To learn more about strategies for tackling this complex issue, reach out to So Jene Kim (Capco Risk Partner) and Olivia Markbreiter (Senior Digital Consultant).

1. Williams, Margaret "The Dilemma for Financial Institutions with Providing Services to Marijuana Businesses," Association of Certified Anti-Money Laundering Specialists (ACAMS) 03 March 2016.

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