

UP IN SMOKE: DEBUNKING FOUR MYTHS ABOUT CANNABIS BANKING



Today, banking for the cannabis industry and for ‘Marijuana-related businesses (MRBs)’ is treated as the stuff of fairy tales. No one seems to know the size of the opportunity or the scope of the challenge. However, cannabis is just like any other industry: there are booms and busts, gold rushes and recessions, regulatory burdens and emerging technologies. In fact, the cannabis industry is already showing signs of maturing with increased M&A activity and the rise of ancillary products like cannabidiol (CBD) entering mainstream retailers.

It is time for banks to see through the hype and the fear of the cannabis industry and understand the facts – cannabis banking can be a massive financial services opportunity. Here are four debunked myths to help you explore the nuances of entering this space:

MYTH #1: CANNABIS WILL NEVER BE LEGALIZED, SO WE CAN NEVER BANK IT.

FACT #1:

Today, cannabis is recreationally legalized in 11 states, medically legalized in nine, and decriminalized in 13. Cannabis remains illegal in 17 states, which cramps efforts to regulate and safely bank this industry. However, change is expected: the US House of Representatives passed the [Secure and Fair Enforcement \(SAFE\) Banking Act](#) – which would allow financial institutions to bank legitimate MRBs in legalized states. The pressure is currently on for the US Senate to follow suit. Meanwhile, financing of certain legitimate MRBs such as CBD (cannabidiol, a non-addictive cannabis extract commonly used to treat anxiety and muscle pain) is readily available nationwide with all 50 states legalizing it in varying degrees. Retailers have taken notice: according to Wise Guy Research Consultants, [the CBD industry is estimated to rise by CAGR of 39.5 percent](#) from 2018-2025 to reach \$3.86 billion. CBD oil products have already gained credibility with mainstream retailers, including Walgreens, CVS, and Rite-Aid, releasing plans to bring CBD products to their shelves. CBD is also available online and in many brick and mortar shops across the country. Most importantly, the FDA recently approved the first drug with CBD as an active ingredient, [Epidiolex](#), to treat severe forms of epilepsy. While many

believe that marijuana banking means financing dispensaries and growers, the rise of CBD and other ‘non-plant touching businesses’ illustrates the opportunity for banks and credit unions to consider the legal implications of working with MRBs without waiting for protections in federal legalization.

The key message here is that banking for marijuana-related businesses will happen and is happening.



MYTH #2:

BIG BANKS WILL BE THE FIRST MOVERS, SMALLER BANKS DON'T STAND A CHANCE

FACT #2:

[Overall, there are 493 banks and 140 credit unions that can support MRBs.](#) Community banks and credit unions are poised to be first movers with the most significant potential for upside. The reason for this competitive advantage is partially due to federal regulations: as cannabis becomes legalized state by state, credit unions and community banks in states where marijuana has been legalized are taking advantage of this barrier to entry for national banks.

[Salal Credit Union](#), a Seattle-based institution with around \$650 million in assets, opened its first marijuana-related accounts in 2014. Salal offers checking accounts, employee accounts, ACH, online banking, and other digital features for customers in Washington and Oregon and currently holds over 400 cannabis-related accounts out of its 30,000-total membership. [Salal projects that 80 percent of its future net worth](#) will stem from cannabis-related banking.

MYTH #3:

IT'S EXPENSIVE TO ENTER THIS MARKET. I DON'T HAVE THE RIGHT BANKING PRODUCTS

FACT #3:

As with the rest of the banking industry, banking-as-a-service (BaaS) providers are enabling banks and nonbanks to bring new products and services to market rapidly. These technology companies develop white label and turnkey solutions that financial institutions and fintech challengers can quickly plug into their core banking system and offer under their branding. An example of a leading cannabis BaaS tech provider is [Hypur](#). Hypur provides MRB banking and payments software with capabilities such as lifecycle management, cash tracking technology, and the ability to source deposits using the automated invoice management software. Hypur can integrate into point-of-sale (POS) providers, e-commerce platforms, and data analytics software. By finding the right technology partner, banks can quickly scale to enter this market.

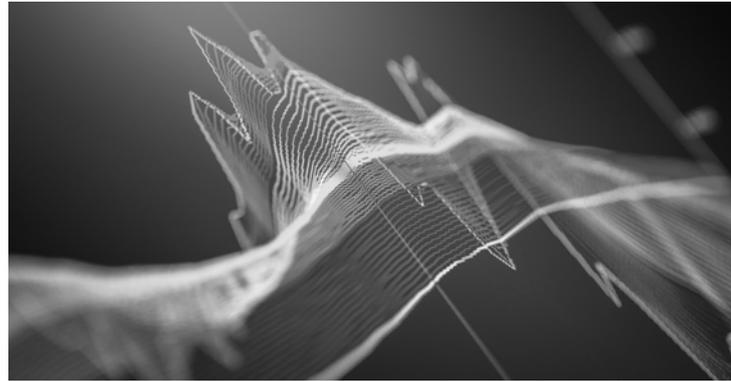


MYTH #4:

IF I DO ENTER THIS MARKET, IT'S ALL ABOUT CASH MANAGEMENT

FACT #4:

Although cash management is a crucial concern, once banking becomes more widely available for MRBs, fewer transactions will have to be cash-based. In fact, MRBs are looking for banks that can provide holistic banking partnerships, from lending to advisory services. For example, M&A advisory: nearly \$8 billion have been inked for MRB M&A. High-need products and services will also include asset-based lending, payments, and tax services.



Cannabis banking is coming, and the industry needs trusted banks and advisors for sophisticated banking needs. As the legal cannabis industry grows, through cannabis-related products like CBD and the sale of marijuana itself, MRB's will need to rise to meet this demand. To succeed, MRB's will need access to banking products and financial services that are tailor-made to the unique servicing and regulatory needs of their clients. This presents an opportunity that community banks and credit unions cannot ignore. Are you prepared to meet this demand? Knowing the facts is the first step.

To learn more about how your community bank or credit union can capitalize on cannabis banking, contact So Jene Kim, Partner at So.Jene.Kim@capco.com.

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