

Cannabis Banking Unlocked

November 2, 2022





Objectives

1

Understanding the
cannabis market –
local and nationally

2

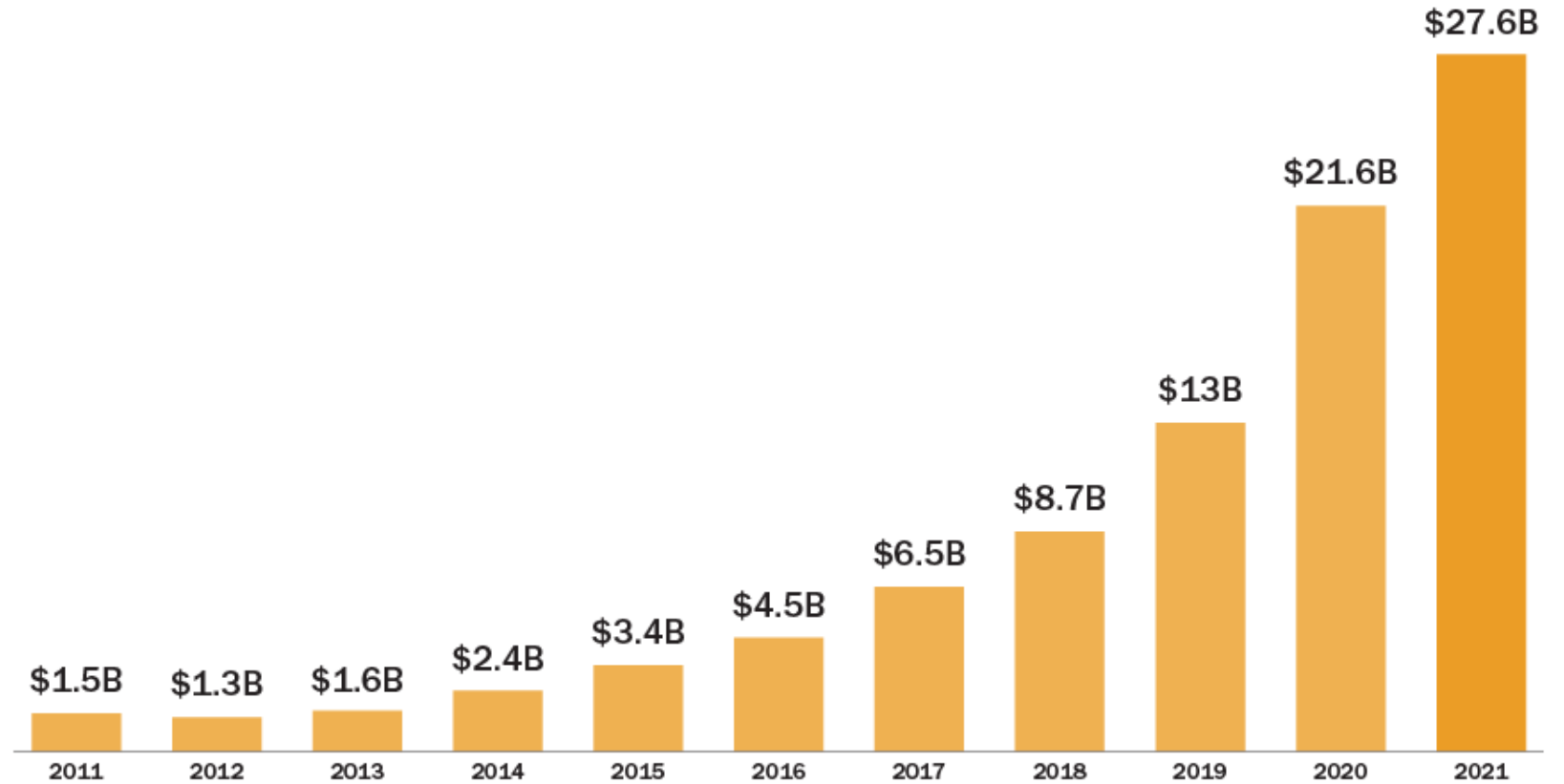
Risk and Rewards

3

Recommendations

U.S. Cannabis Retail Sales

Medical and recreational cannabis estimates in U.S. dollars.



Source: Marijuana Business Factbook

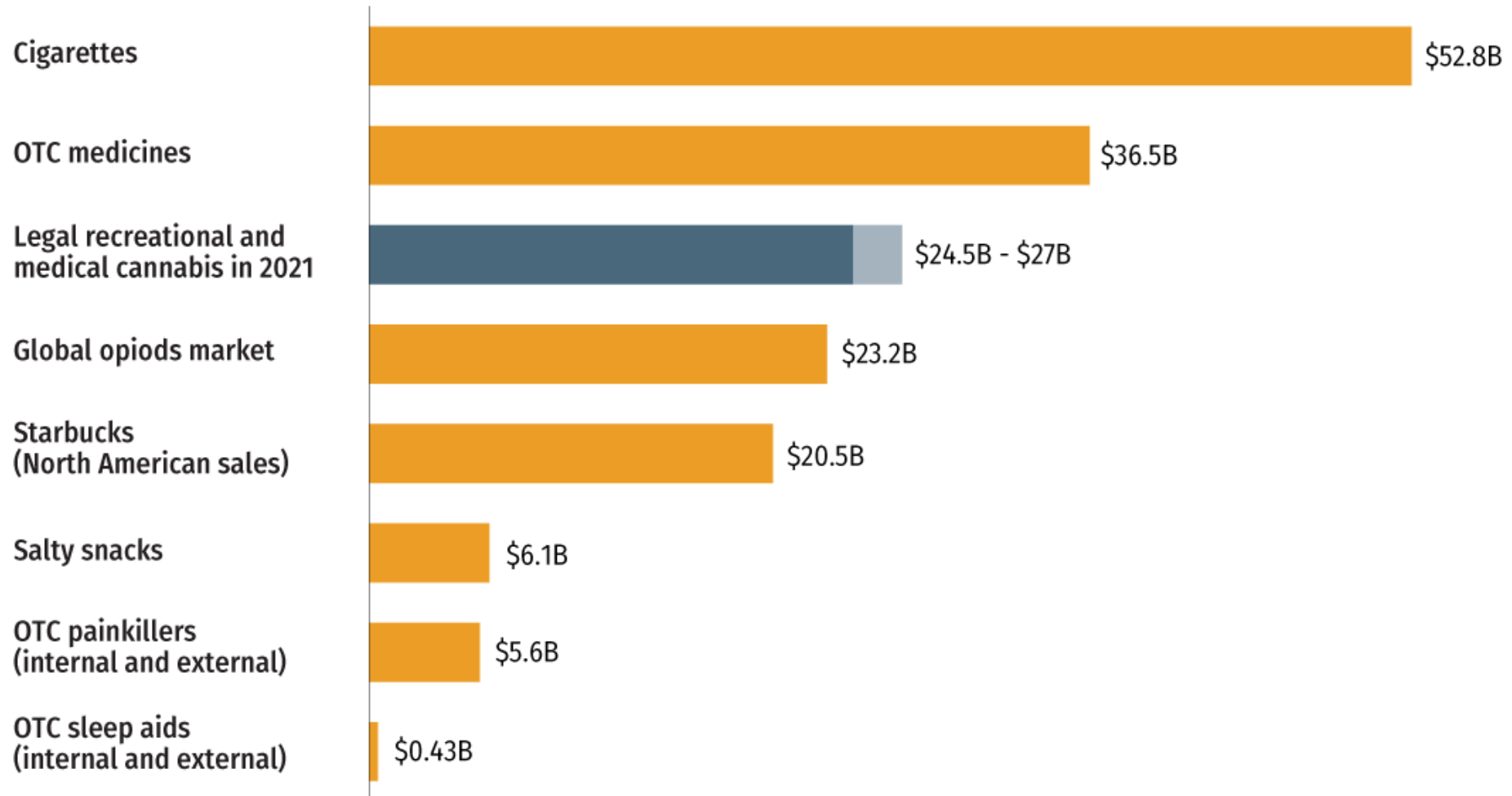
© 2021 MJBizDaily, a division of Anne Holland Ventures Inc.



shield compliance

Cannabis banking, *simplified.*

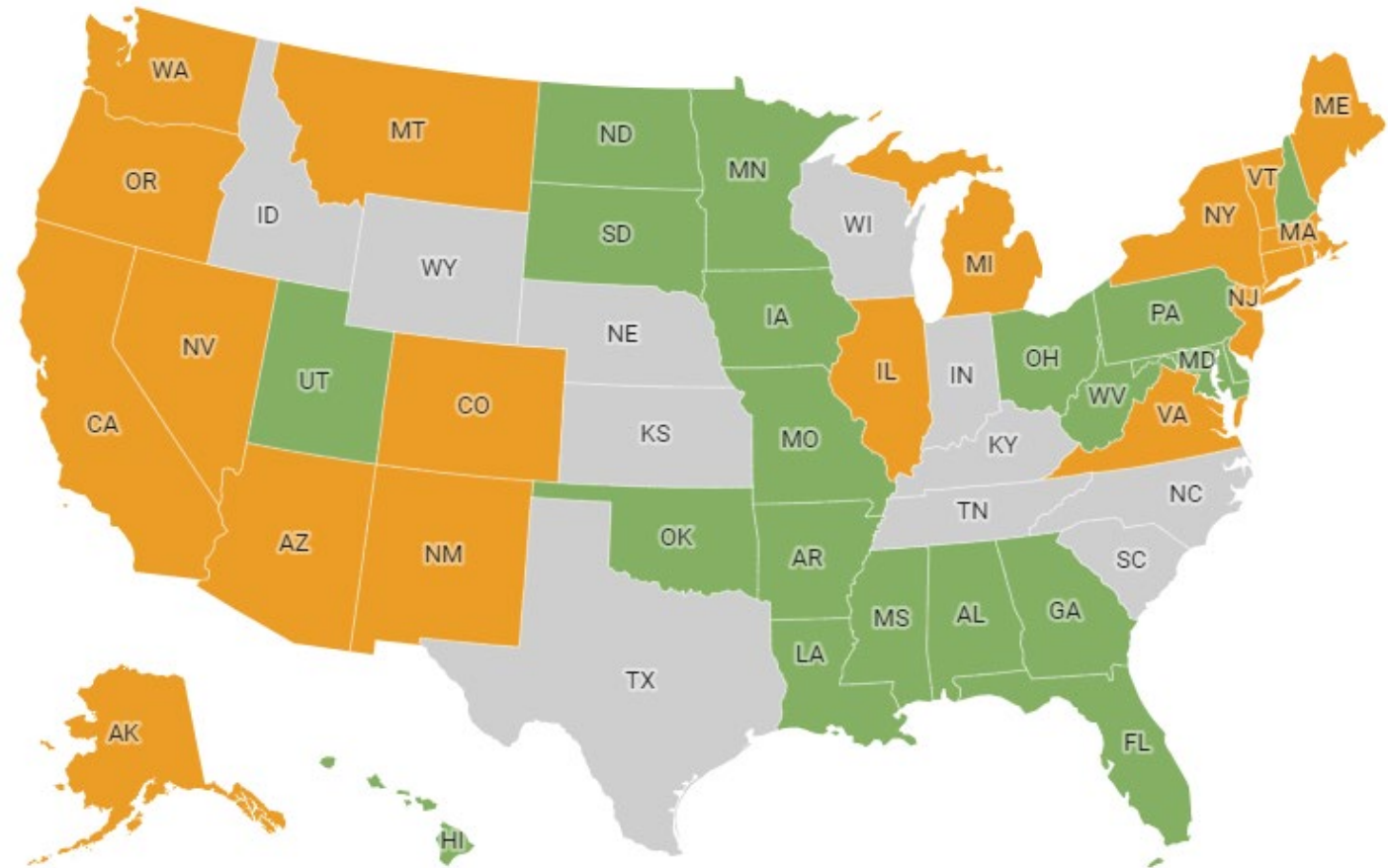
U.S. Cannabis Sales Vs. Other Industries



Source: MJBiz Factbook research, Statista, Consumer Healthcare Products Association, BCC Research, Mordor Research, Allied Research, Starbucks financial filings, IRI Market Advantage
© 2022 MJBiz, a division of Emerald X, LLC

Note: All data reported for 2021.

Where is Cannabis Legal?



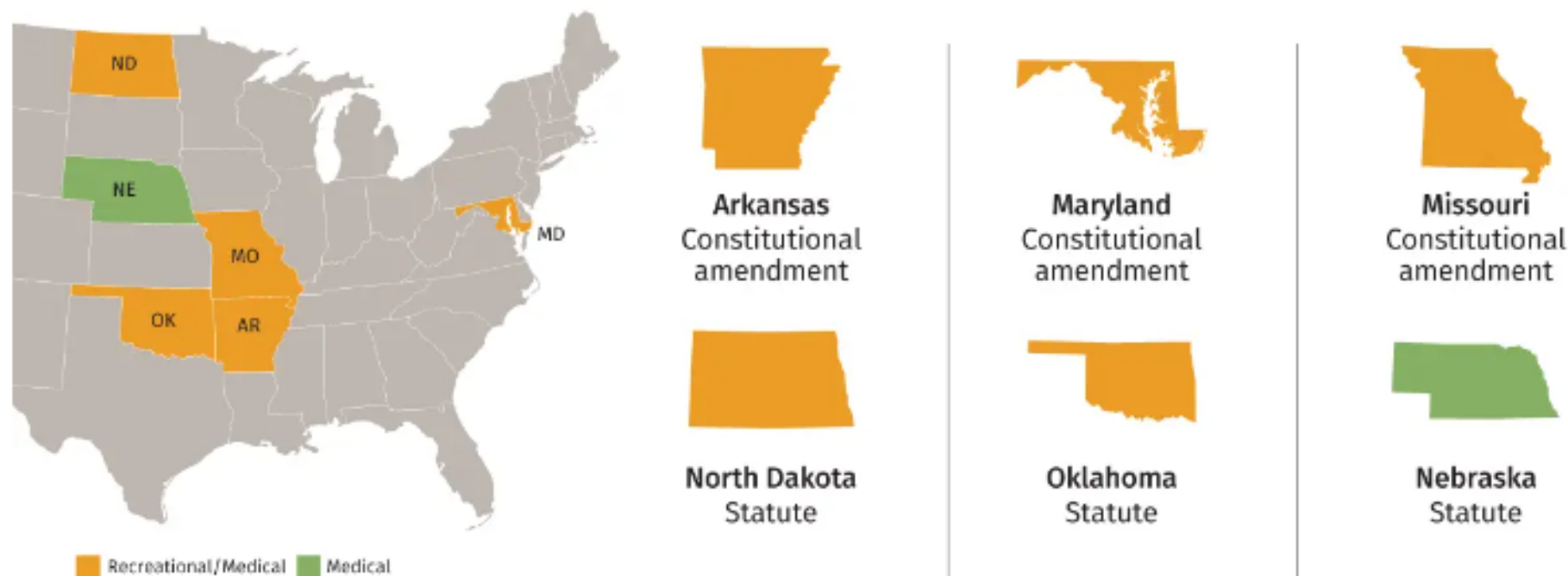
Legalized states
■ Recreational/Medical ■ Medical ■ None

Does not include states that have legalized only CBD-based oils.

Created with [Datawrapper](#)

Marijuana Legalization Initiatives

Voters in several states could decide whether to legalize marijuana during the November midterm elections.



Source: MJBizDaily research

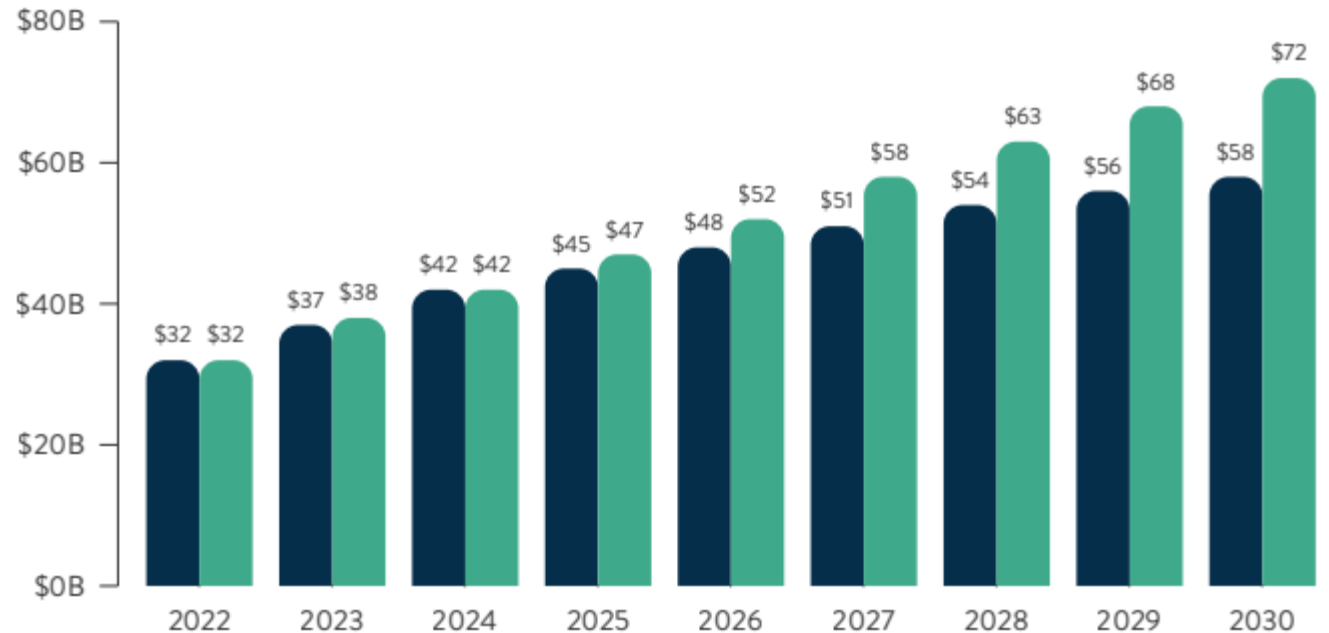
© 2022 MJBiz, a division of Emerald X, LLC

New State
Markets Could
Boost U.S.
Legal Cannabis
Sales to \$72B
by 2030

Legal Cannabis Sales Growth

Current legal market growth projection vs.
expanded legal market growth

● Current Legal Sales ● Potential Legal Sales



Note: Historically, states which legalize adult-use cannabis on top of existing medical markets experience declines in medical market patient participation.



shield compliance

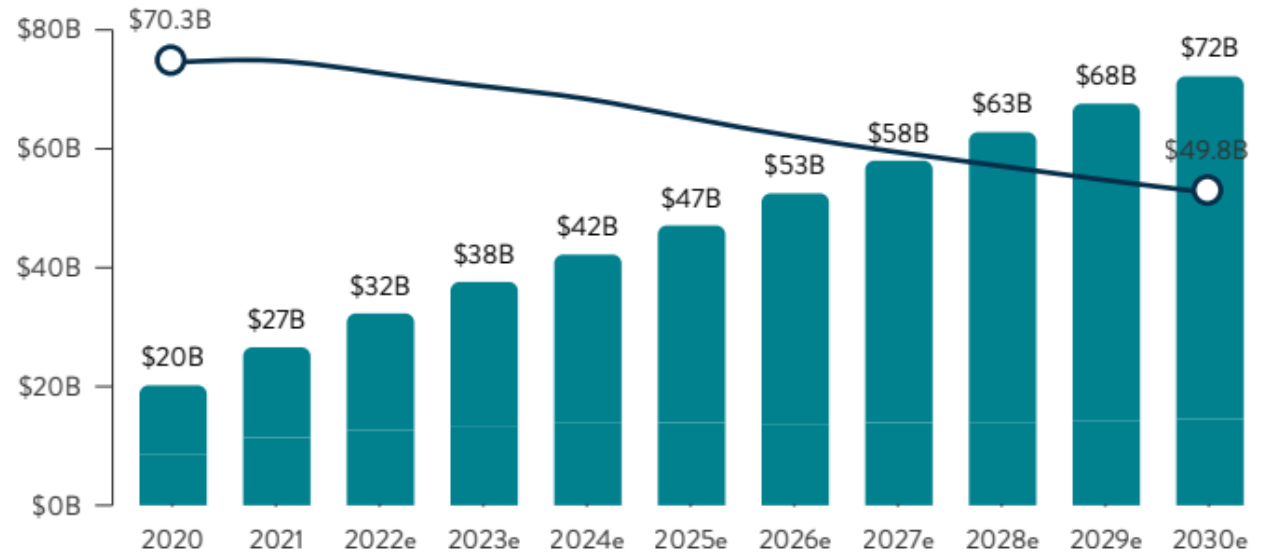
Cannabis banking, simplified.

Illegal Market Dominates

Legal vs. Illicit Sales

With activation of new expected state markets by 2030; \$USD billions

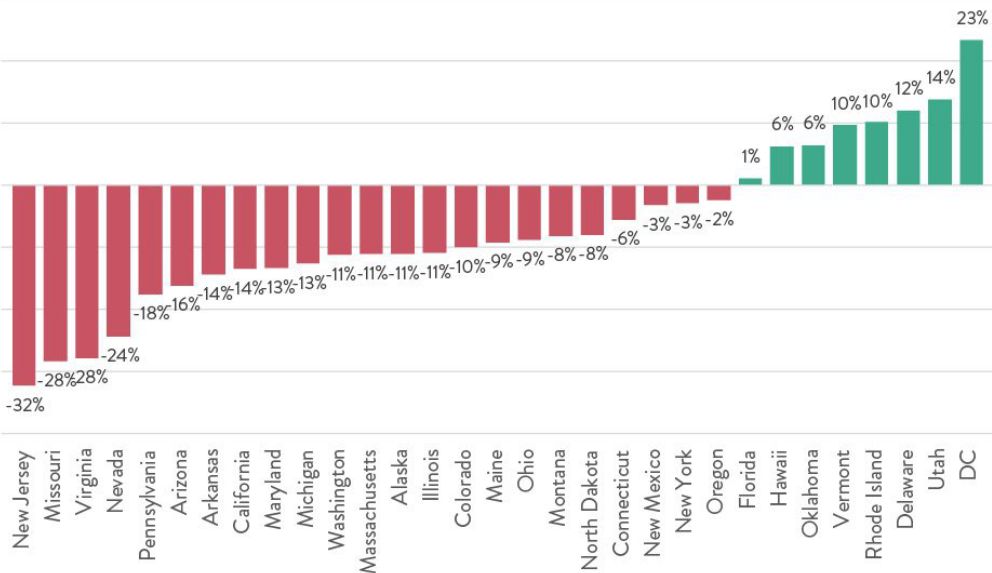
● Total Legal Market ● Illicit Market



California will continue to constrict the revenue of legal market by driving price-sensitive consumers to the unregulated market.



■ Change in Average Spend Per Dispensary Transaction
(Q2 2021 vs. Q2 2022)



7% Average decline in consumer spending per transaction across markets tracked nationally.

Cannabis Benchmarks US Spot Index: 2019 - Present

Source: Cannabis Benchmarks®, a division of New Leaf Data Services



Legal and Compliance Considerations

Federal Drug Laws

- Schedule 1 drug at the federal level

Federal Banking Guidance

- Original Cole Memo
- Guidance from Treasury

Persistent BSA\AML Risk

- Core BSA\AML\KYC risk today and tomorrow



Legacy Funds



Persistent Risks

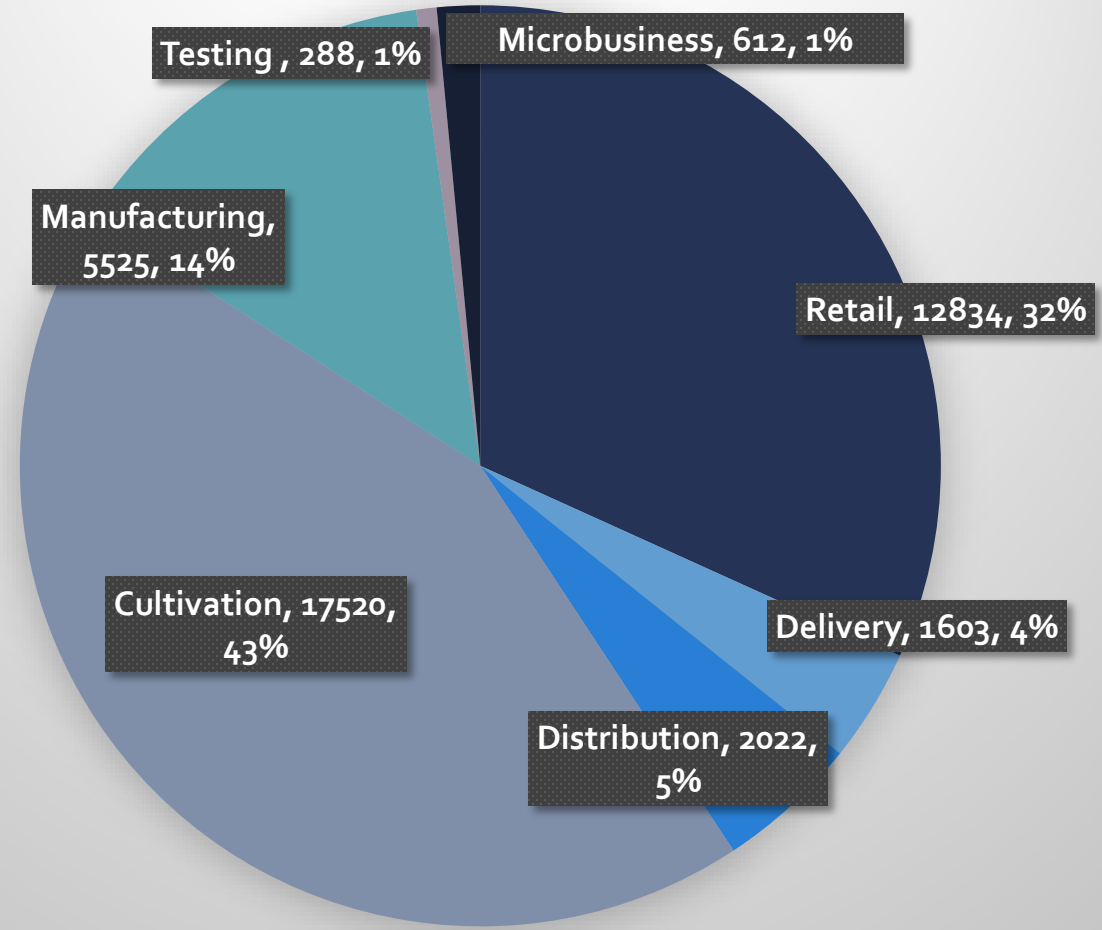
- Fundamental KYC/BSA/AML Risks
 - Legacy Funds
 - Illegal Proceeds
 - Undesirable Parties



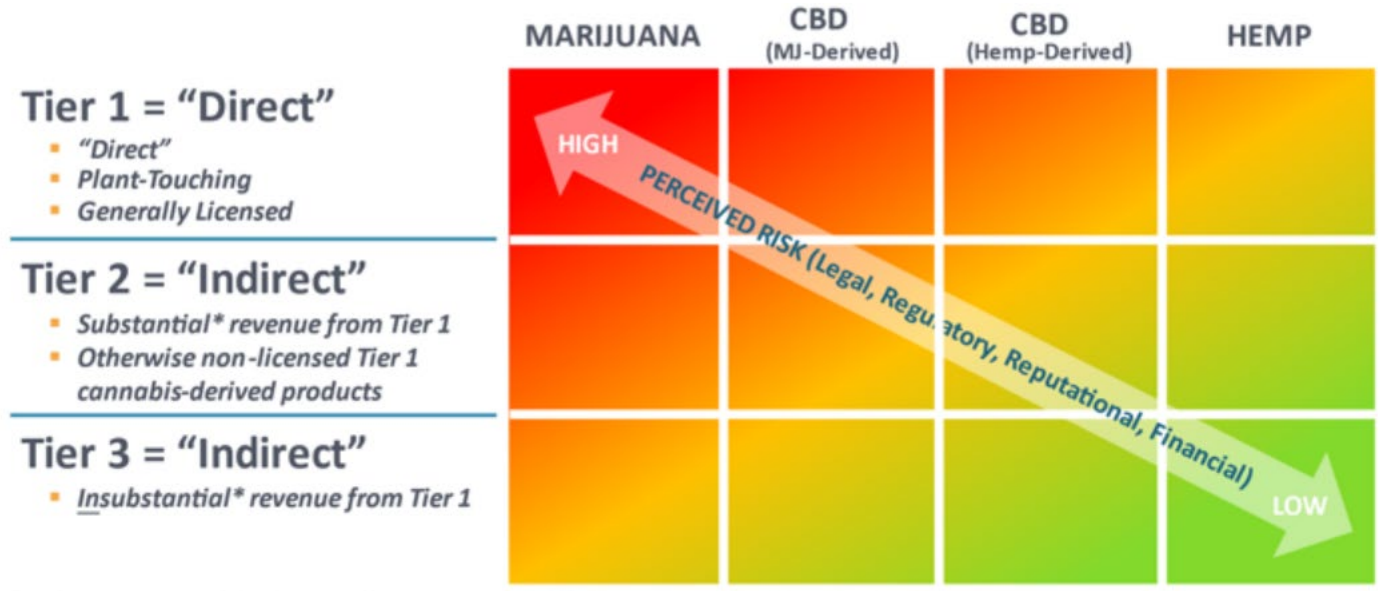
They've just got a better grade of weed over there!

Cannabis-Related Businesses (CRBs or MRBs)

Licenses by Type



Risk-Based Tiering Framework



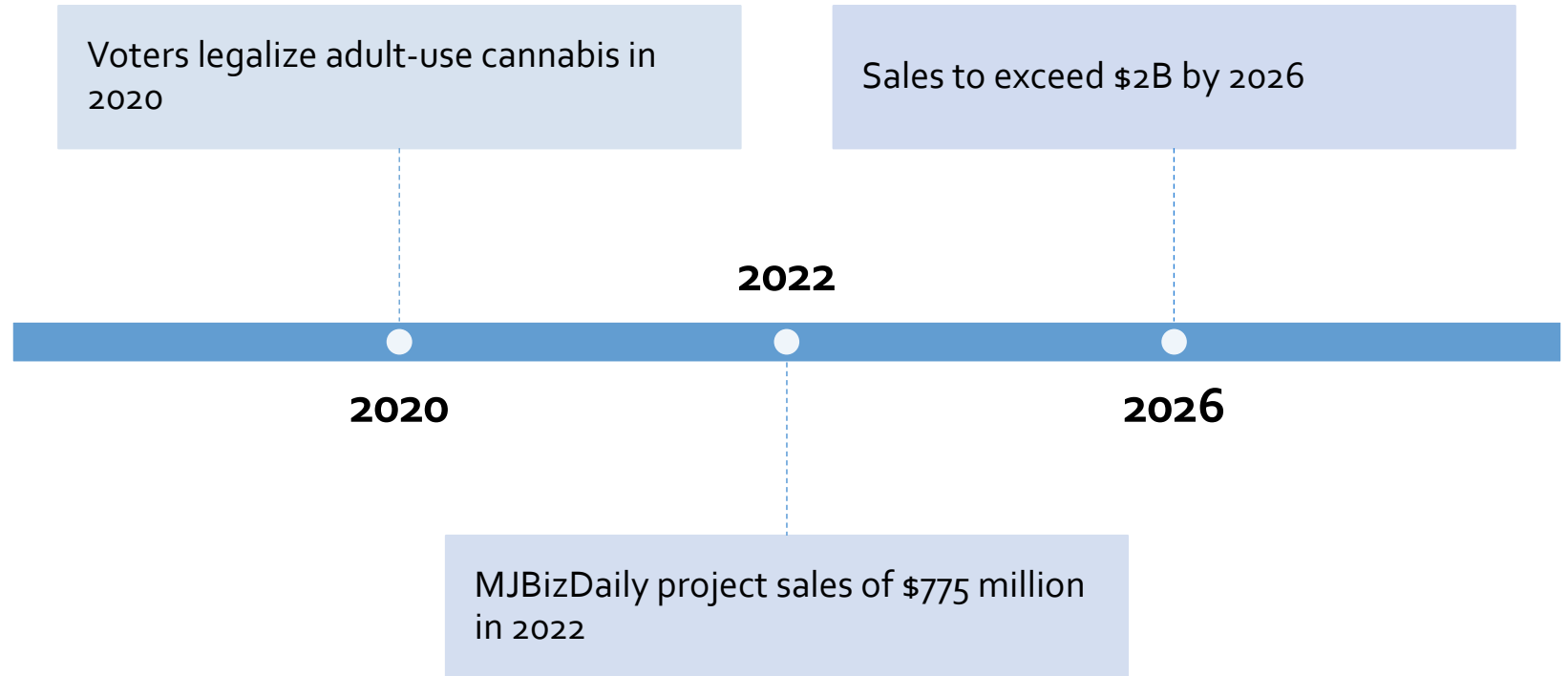
NY Licensure

- As of September, there are **261 conditional cultivator licenses** approved.
- There are **25 conditional processors** approved so far.
- A total of 903 applicants are seeking to open regulated **adult-use marijuana stores** in New York State.
 - Competition is stiff for **retail** licenses, with only **150 available**, according to the Associated Press.
 - But regulators have committed to prioritizing those who:
 - Demonstrate business acumen.
 - Have been **convicted of a cannabis-related offense** or are related to someone who has.
- State-licensed sales in New York could begin as early as late 2022 or early 2023.
- Some Native American tribes not subject to New York laws have begun launching adult-use programs.

New York Supply and Demand

- Cannabis growers in New York have produced a large enough crop to stock the state's adult-use marijuana retailers before sales begin by the end of the year, according to state officials.
- The marijuana supply news comes on the heels of Gov. Kathy Hochul's recent pronouncement that New York's adult-use program is "on track" to open **20 stores** this year.

NY Boom Coming



Business Opportunity



Low-Cost Deposits



Non-Interest Income



Earning Assets



Banking as a Service

Banker's Objectives

Compliance Outcomes

Bridge the gap between traditional systems/processes and regulatory expectations

Profitability

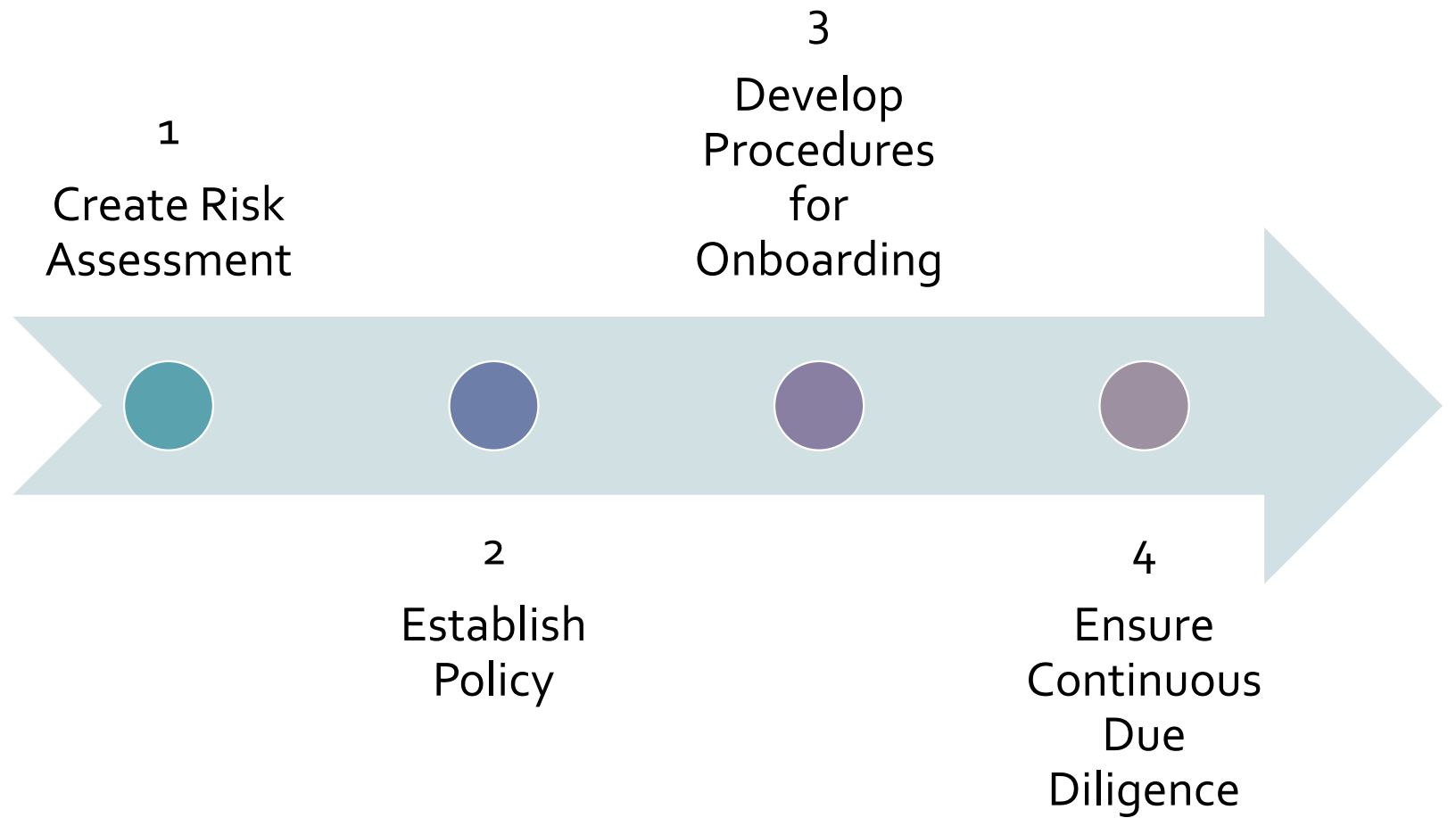
Offset direct and indirect costs of program management through NII

Client Experience

Consistent expectations and ease of use



Cannabis Banking Program Milestones



1. Risk Assessment

Liquidity

- Increased deposit volatility due to the tax burden and life stage of many operators

Business Concentration

- Consider the bank's dependency on this source of funding and non-interest income

Compliance

- Increased burden on compliance function to ensure BSA\AML compliance

Counter Party

- Determine limitations on correspondent banking services, insurance coverage, and third-party cash logistics providers

2. Policy Development

- **Standalone policy** for cannabis banking services that defines:
 - Approval authority for account opening.
 - Affirms the requirements of the FinCEN guidance for MRB Banking
 - Define direct and in-direct business (aka Tier 2)
 - Provide direction on enhancements to current policy:
 - **Additional KYC requirements**
 - **Modifications to beneficial owner policy**
 - Information collected from beneficial owners
 - Percentage ownership at which UBO information is collected
 - Ongoing due diligence requirements
 - Site inspections, financial disclosures, etc.
 - Portfolio-specific risk rating criteria
 - Requirements for **client termination**
 - Considerations for program termination
 - **Limitations on products and services**



3. Onboarding

- Procedures for application, underwriting, and approval
- Validate **licenses** and conduct adverse media searches
- Post-approval onboarding and account opening
- Update or append existing account documentation to enforce compliance requirements
- Internal or external site visits

4. Continuous Due Diligence

- Validate State Cannabis Licenses
- Conduct Regular Adverse Media Search
- Sales and Transaction Information
 - Collect regular sales data from verifiable sources (**state seed to sale tracking**)
 - Collect supporting documentation for large deposits unrelated to sales activity (investment, asset sales, etc)
- Sales Reconciliation
 - Periodically determine if **deposit activity related to sales is correlated with verifiable sales data**
- Scheduled Due Diligence
 - **Site visits**
 - Refreshed documentation
- File SARs on All Clients
 - Follow guidance regarding **limited, priority, and termination SAR filings** at account opening and every 90-days after that

Operational Considerations

Limitations on branch activity

Impact or restrictions on international wires and foreign exchange activities

Segregation of duties between relationship management and BSA operations

Management and board reporting



shield compliance

Cannabis banking, *simplified.*

Product and Business Development



Pricing



Client Agreements



Cash Logistics



shield compliance

Cannabis banking, *simplified.*

Examination Concerns

Serious

- Inadequate reconciliation of sales activities to deposit activity.
- Insufficient management oversight.
- Timeliness of SARs

Recommendations

- Slow to leverage seed to sale tracking integration
- Timeliness of recurring due diligence items
- Case and alert volume
- Profitability



What's Next



SAFE Banking

- Closer to possible Senate approval but uncertain
- Enhanced certainty and regulatory clarity
- Few, if any, changes to underlying compliance requirements

What's Not Changing

- Reconcile Deposit Activity Against Market Activity
- Monitor Licenses
- Scrutinize Underlying Beneficial Owners
- Government Reporting Requirements



shield compliance

Cannabis banking, *simplified.*



Cannabis Payments

Cashless ATM

- Utilizes ATM rails from regional debit networks.
- Emulates CASH WITHDRAWAL transaction at point of sale.
- Obscures transaction and may result in other charges to the consumer (potential UDAAP violation).

ACH Wallet

- Lowest cost processing option.
- Easy and compliant settlement.
- Requires enrollments in most cases.
- Low acceptance rates / consumer adoption.
- Chargeback risk like check acceptance (some mitigants available to validate account balance).

PIN Debit

- Limited sponsors
- Transaction clear on regional debit networks – network sponsorship will determine percentage of card base covered.
- Ability to pivot to VISA and MASTERCARD under the same merchant agreement / hardware.

Action Plan



Crawl, walk, run



A playbook exists; work with experts



Consider the impact beyond BSA department



Build for today, plan for tomorrow

Shield Family of Products and Services

Engage



Informed
Account
Onboarding

Assure



Data-Driven
Compliance
Monitoring

Force



Shared
Staffing and
Professional
Services

Transact



Retail
Payment
Services

Gateway



Payment
Sponsor and
Lender
Services

Marketplace



Additional
Service
Providers

Shield Stats – Q3 2022

3,920 CRBS

9,372 Licenses
Monitored

\$688 Million
Deposit
Balances

4.3 Million
Transactions

\$20.7 Billion
Deposited

\$104 Million
Fees Earned



shield compliance

Cannabis banking, *simplified.*

Download the Cannabis Banking Playbook

Richard Drennen

Business Development Officer, Shield Compliance

richard@shieldbanking.com

(859) 595-6440

