



Digital Directions
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A Conversation About the Growth of Cannabis Payments and Banking
May 10, 2022

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1

1

Today's Conversation



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2

2

What is Cannabis?



- Flowering plants of the species *Cannabis sativa*.
- The cannabis plant contains about 540 chemical substances.
- Cannabinoids are a group of substances found in cannabis – Tetrahydrocannabinol (THC) and Cannabidiol (CBD)
- THC is the substance that's primarily responsible for the effects of marijuana on a person's mental state.

Source: NIM

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3

3

But It's More Complicated...


"Cannabis or Marijuana"

- THC > 0.3%
- Psychoactive
- Recreational & Medical Uses




"Hemp"

- Cultivar of *C. sativa*
- THC ≤ 0.3%
- Non-psychoactive
- Many industrial uses



"CBD"

- CBD ≠ THC
- Non-psychoactive
- Evolving uses
- Cannabis or Hemp Derived




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4

And Legal Oversight Varies


"Cannabis or Marijuana"

- Federal Legality = Illegal
- State Legality = Varies
 - Oversight = DOJ/DEA/States




"Hemp"

- Federal Legality = Legal
- State Legality = Varies
 - Oversight = USDA/FDA/States



"CBD"

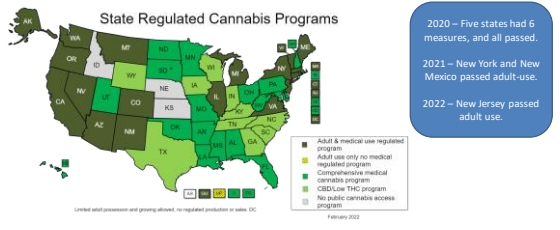
- Federal Legality = It Depends
- State Legality = Varies
- Oversight = FDA/States



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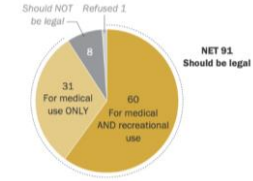
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State Regulated Cannabis Programs



6

The New Cannabis Consumer – 91% Support Cannabis Legalization



Source: Survey of U.S. adults conducted April 5-11, 2021.
PEW RESEARCH CENTER

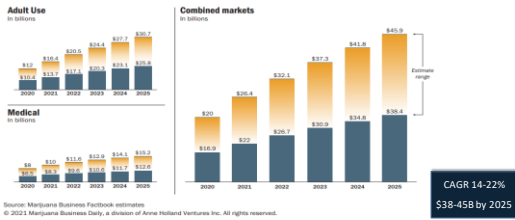
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7

7



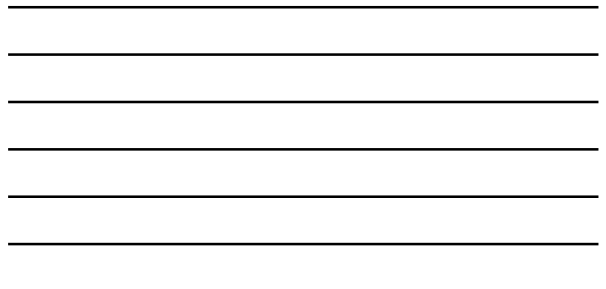
Cannabis Market Size & Growth
U.S. Cannabis Retail Sales Estimates: 2020-25



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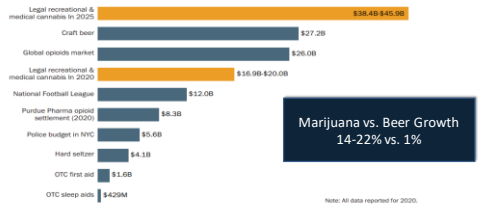
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8



Cannabis Offers a HUGE (and Growing) Relative Market

U.S. Cannabis Sales Vs. Other Industries



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9

9



Regulatory and Network Rules Are Evolving

SAFE (Safe and Fair Enforcement) Banking Act	MORES (Marijuana Opportunity Reinvestment and Expungement Act)	Visa/Mastercard
<ul style="list-style-type: none"> Passed by the House six times since it was first introduced in 2013 	<ul style="list-style-type: none"> H.R. 3617, passed in the House of Representatives 220-204 	<ul style="list-style-type: none"> Transactions are not eligible for card processing so long as cannabis is federally illegal

10

So What Is A Bank To DO?

11

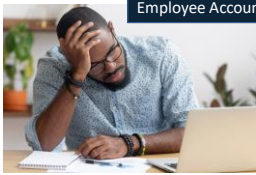
What are your options for serving cannabis?

- Do-It-Yourself Program**
 - Expensive & High Risk
 - Loans, Deposits, and Fees
 - Need AML & Cannabis Expertise
- DIY + Tools**
 - Compliance Management
 - Onboarding
- DIY + Outsourcing**
 - Compliance Services
 - Underwriting, EDD, KYC, Reg. Filings
- Referral Programs**
 - Low Risk, Cost Effective



12

Cannabis Opportunities for Banks



Employee Accounts

Problem:
Major Banks and Credit Unions closing or not opening cannabis employee accounts

Reasons:
Lack of Programing
Restrictive Policies
Federal Legalization

Opportunity:
Deposit Accounts, Credit/Debit Cards,
Auto Loans, Mortgages



13

Cannabis Opportunities for Banks

Problem:
Significant demand for financial services for growing number of businesses

Reasons:
Lack of Programing
Restrictive Policies
Federal Legalization

Opportunity:
Business Accounts, Armor Car Services,
Business Solutions, Business Loans



Business Accounts



14

Considerations for Serving Cannabis

- **Economic Participation & Inclusion**
 - Businesses and Employees are severely underserved
 - ~200 formal programs in the U.S.
 - Without access to financial services businesses and employees are economically disadvantaged
- **Concern for Community- Safety**
 - Without reliable banking service, businesses are forced to receive and pay in cash



15

Considerations for Serving Cannabis

Strategic Objectives

- **New Non-Interest Income**
 - Counteract the current yield slump
- **Deposit Growth**
 - Significant large deposit potential
 - Stand-alone Dispensary \$1-2 million/year (2021)
- **Membership/Customer Growth**
- **Cost Benefit**
 - DIY vs. Partnership/Outsource



16

Considerations for Serving Cannabis

Costs and Financial Impact

- **New In-house Cannabis Program Costs**
 - Cost for a new program can be significant
 - New legal and compliance expenses, AML/BSA personnel, Sales/marketing expenses, Technology integrations and systems, Audit expenses
- **Capital Adequacy**
 - Build up of large deposits compress Cap Ratio
 - Stand-alone Dispensary \$1-2 million/year (2021)
- **Operations**
 - High volume FinCEN reporting
 - High touch without automation



17

Considerations for Serving Cannabis

Risk vs Reward

- **Strategy, Compliance, Transaction – 3 areas covered**
- **Reputational Risk**
 - Cannabis usage is normalizing
 - Employment is growing
 - 1% in Michigan
 - 91% support legalization
 - Cease & Desist risk
- **Competition is creating Fee Compression**
 - Becoming a high-volume business



18

FIRESIDE CHAT



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19
