

## Are You Banking Medical Marijuana Companies?

The Banking Medical Marijuana Companies  
Survey Results Summary

Conducted 3Q 2015



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## Purpose of the Survey:

Working with medical marijuana related companies has presented a challenge for financial institutions. The dichotomy of this situation is the glaring federal laws that still prohibit the use of marijuana for medical or recreational use and the overwhelming revenue business it would bring to banks seeking to further their competition. Without discussing the legality of it and too many what if's, we wanted to get an idea of what the industry is already doing about this issue.

The purpose of this survey was to get a better idea of which financial institutions, if any, were conducting business with medical marijuana companies; how they discovered they are; how they are managing that risk; and what they believe is the greatest risk to their institution by doing so. If financial institutions are not working with medical marijuana related companies, why not; how are they ensuring that they aren't; and would they change their minds if it became legal on the federal level.

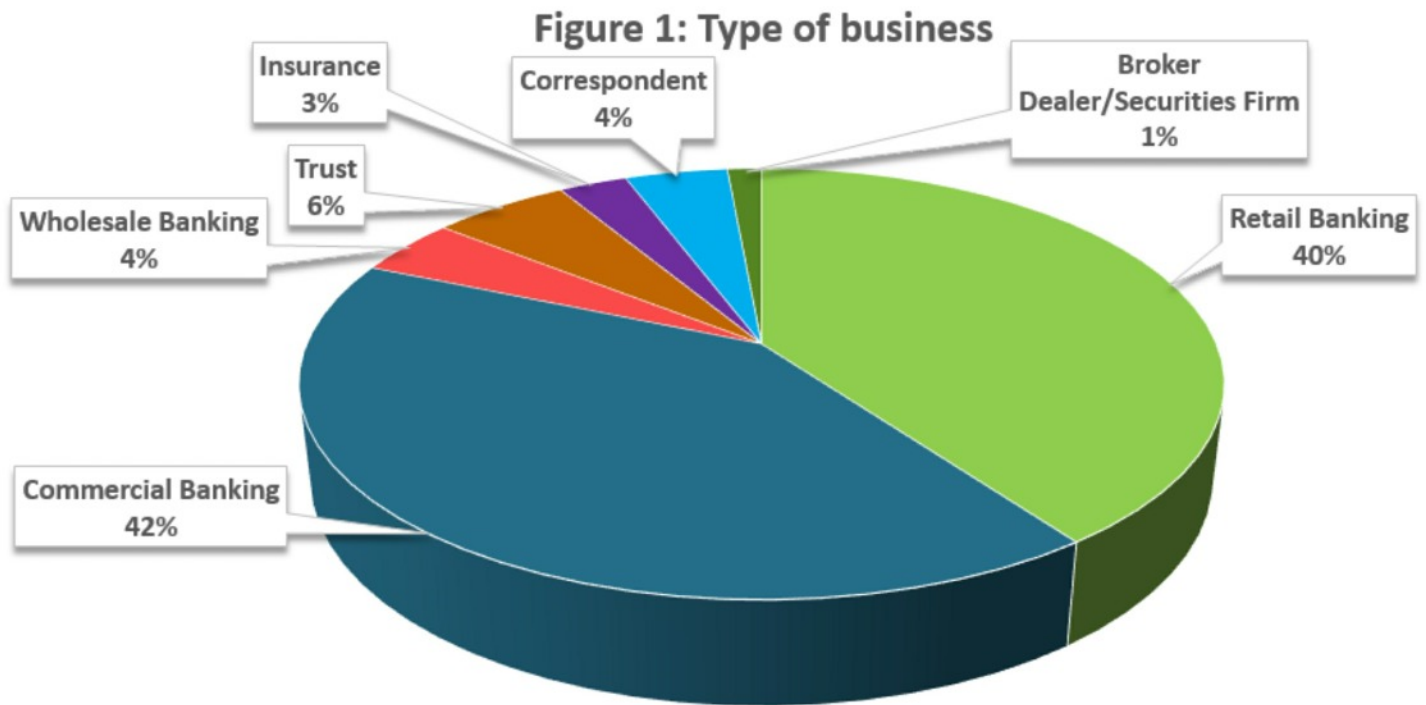
## Purpose of this Report:

The purpose of this report is to summarize and demonstrate the overall findings of this survey. A detailed version of this report showing how retail and commercial banks are addressing this issue in their institutions is available. To receive a copy, please send us an [email](#) requesting a detailed copy of the survey results.

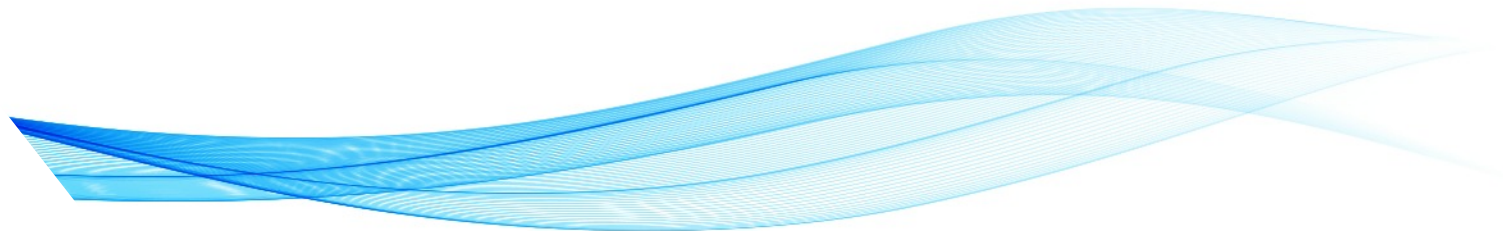


## Demographic Results:

Just over 40% of our respondents represent a commercial bank, while the next largest group of respondents at 40% represents a retail bank. While we had other types of institutions represented in a number of categories, such as wholesale banks, trusts, insurance companies, correspondent banks and broker dealer/ securities firms, together they represented 18.87% of our respondents.

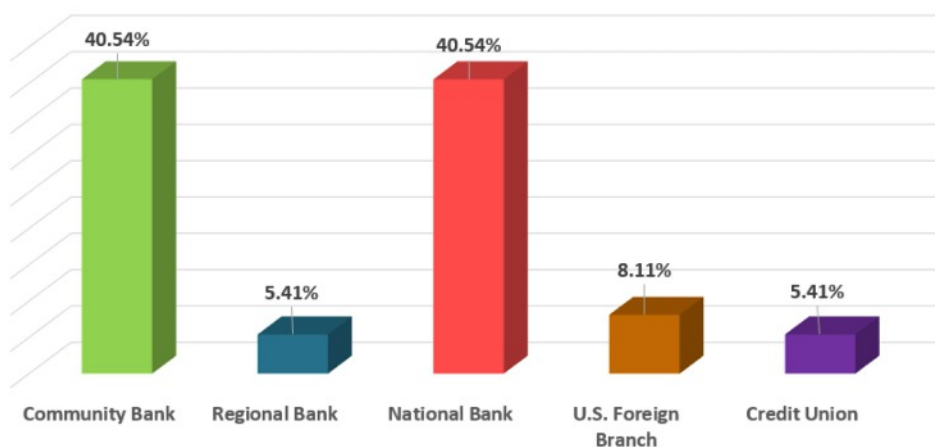






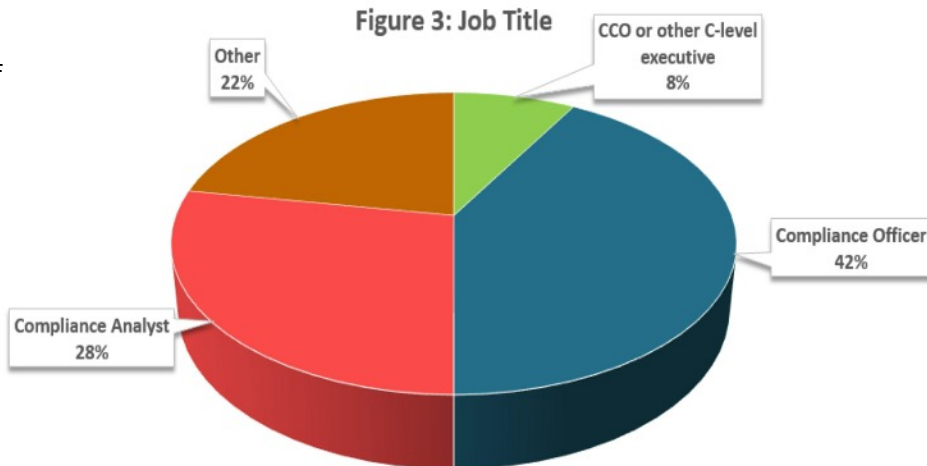
Equally, the two largest group of respondents to this survey represent a community bank and a national bank, followed by a U.S. foreign branch, and then equally by a regional bank and a credit union.

**Figure 2: Type of Institution**



When asked about the job title within their company, almost half of respondents (42%) answered as a compliance officer whether if be BSA, OFAC, or general compliance, followed by a compliance analyst at 28%. Close behind that was the 'Other' category, which could be any other role in a company not described within the survey, with 22%. Finally, coming in with 8% of the respondents was a Chief Compliance Officer (CCO) or other 'C' level executive.

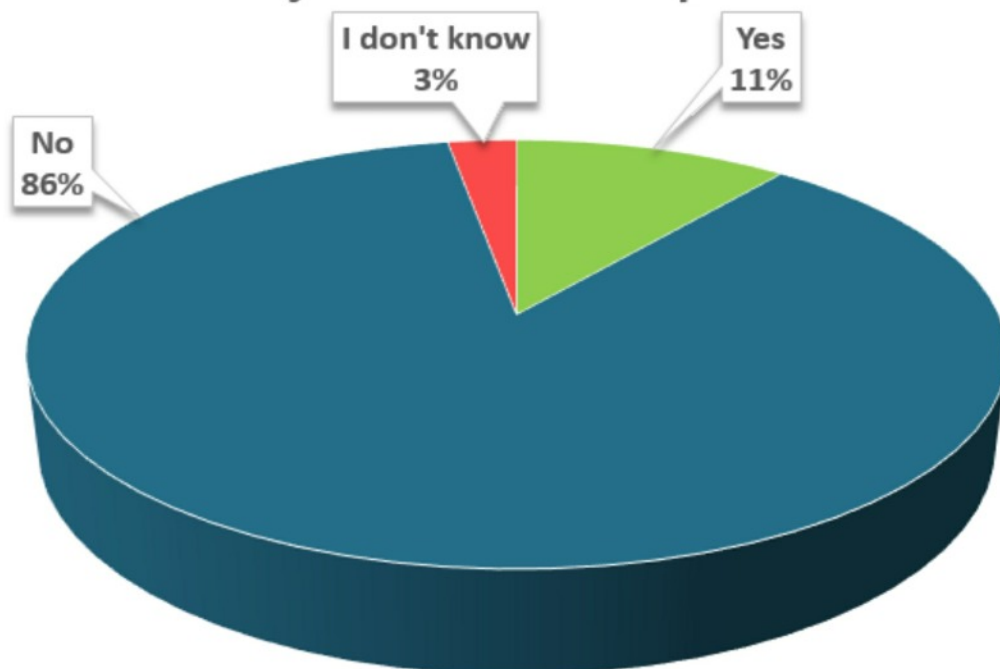
**Figure 3: Job Title**

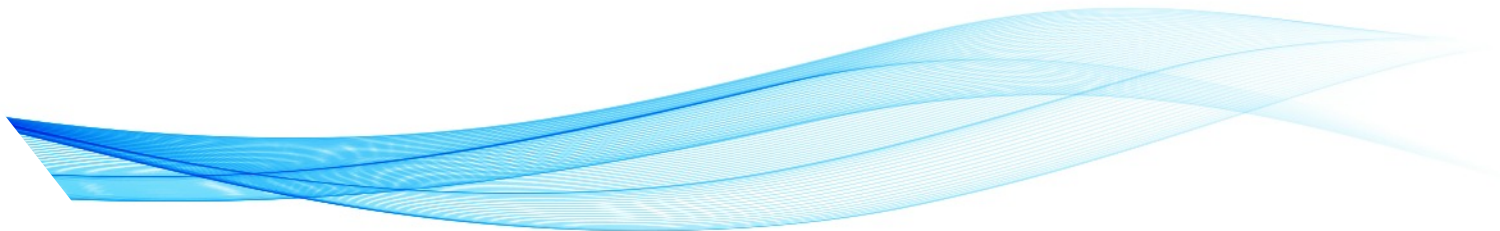


## Survey Questions:

The purpose of this survey was to get a better idea of what banks and other types of financial institutions, if any, were involved with medical marijuana companies and what the industry's opinion was on the topic. When asked if their institution is currently banking with medical marijuana or related companies we were not surprised to find out that an overwhelming majority (86%) do not bank with these companies. However, we were surprised that there were several more 'Yes' than originally expected, taking in about 11% of the poll.

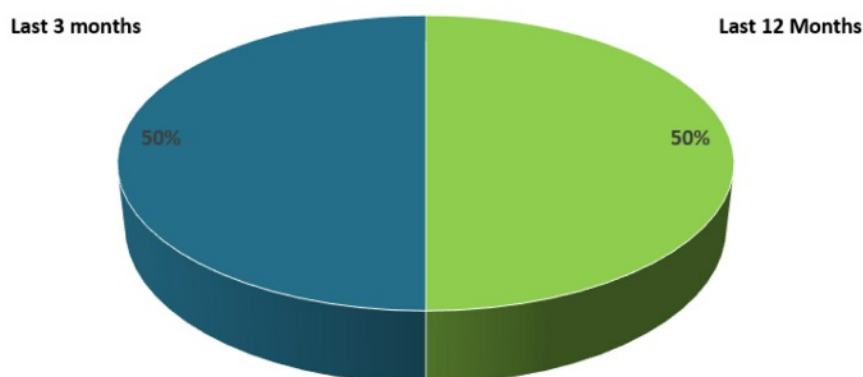
**Figure 1: Is your institution currently banking with any medical marijuana related companies?**





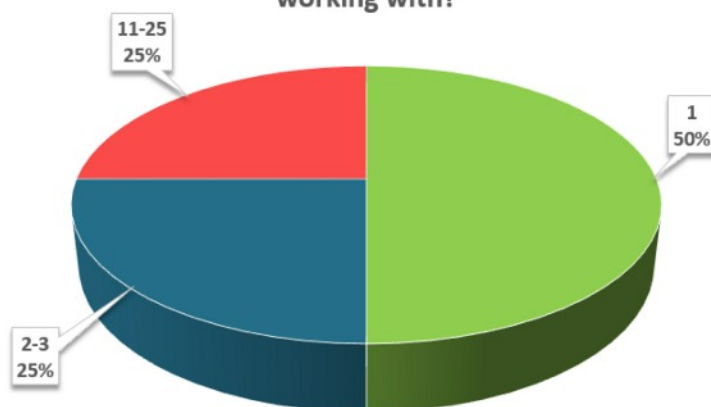
Following up on the respondents who answered “yes” to banking with medical marijuana related companies, we asked when their institution first began banking with them. It was interesting to see that while there were several answers to choose from, ranging from three months to 18 months, only two categories were utilized with an even 50-50 split. Half of the respondents began banking within the last three months, while the other half began within the 12 months.

**Figure 2: When did your Institution Begin Banking with a Medical Marijuana related Company?**



However, not surprising the majority of our respondents said that they only have one medical marijuana related company that they’re currently doing business; however, 25% said 2-3 and another 25% said 11-25.

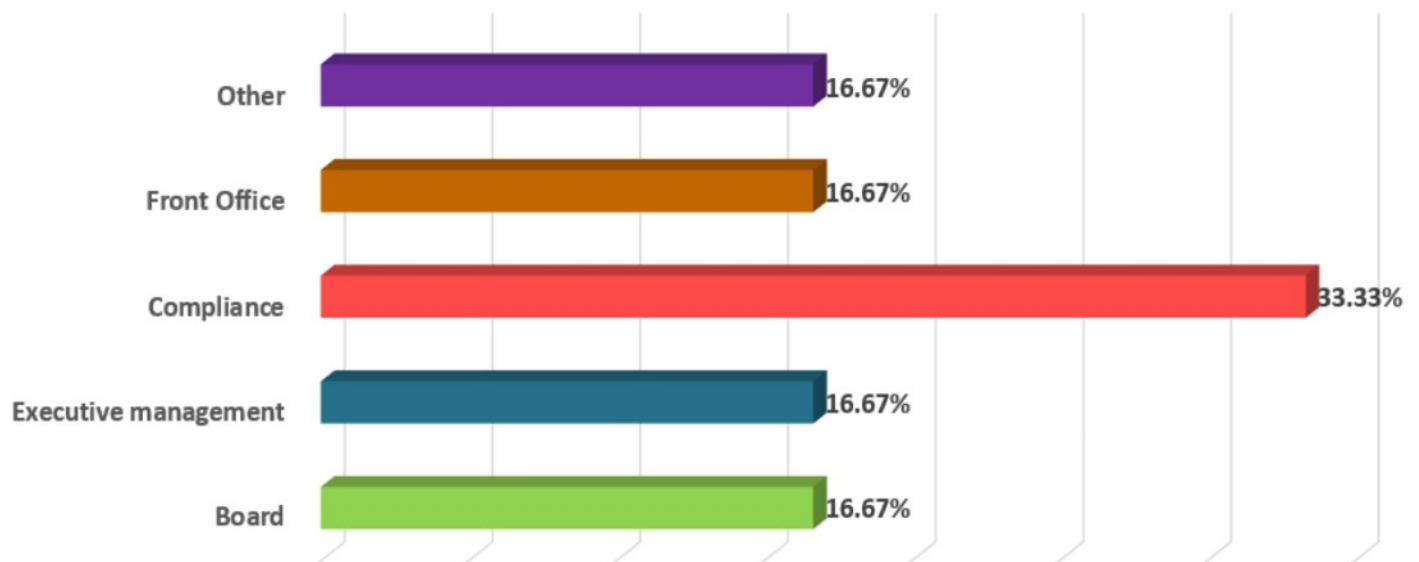
**Figure 3: How many medical marijuana related companies are you working with?**



## Survey Responses for Institutions Banking Medical Marijuana Related Companies:

Once we had an idea of how many institutions were banking medical marijuana and for how long, we wanted to know how they came to that decision. Not surprisingly the one department that stood out when asked which department initiated that they bank with medical marijuana was the compliance department with 33.3% of the responses. After that, all other departments polled were equal with 16.6% of the responses.

**Figure 4: Which department at your institution initiated that you bank with medical marijuana related companies?**



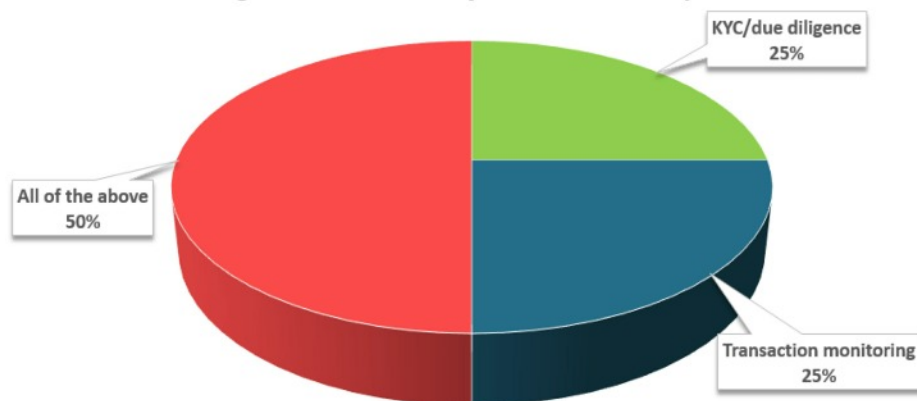


We then asked the institutions who are currently banking with medical marijuana related companies what they believe is the greatest risk involved. While they had a range of answers to choose from including cash management, legal issues, and lending; we ended up with a clean cut graph with only three

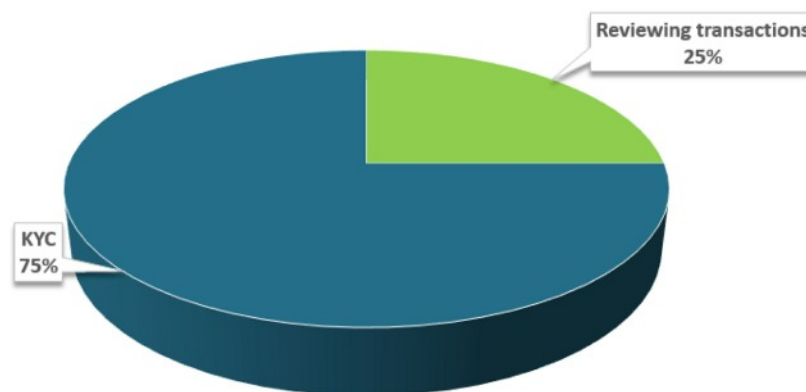
responses being chosen. Half of all institutions surveyed believe all of the possible answer choices were equal risk, while 25% apiece believed KYC/due diligence and transaction monitoring were the major problem areas.

When asked their approach to finding if any existing customers are medical marijuana related companies, the preferred method was KYC (75%) with the rest of the responses favoring transaction review (25%)

**Figure 5: What does your institution believe is the greatest risk in working with medical marijuana related companies?**



**Figure 6: What is your approach to finding if any existing customers are medical marijuana related companies?**

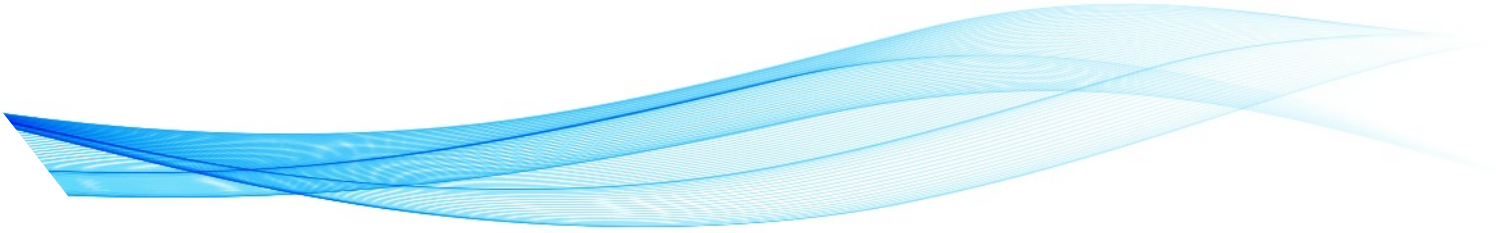


## Survey Responses for Institutions Not Banking Medical Marijuana Related Companies:

We next reviewed the answers of the respondents who have not been banking with medical marijuana or related companies, and asked what their reasons were for staying away. There was a tie for the top answer, each with just under a quarter of the poll apiece (23%). The first top spot was because its not legal in their state, the second was because executive management said no. The next three answers combine for just under half the given responses with 44%, can't manage the risk (18%), the ROI isn't worth the risk (14%), and customers have not approached the bank (12%).

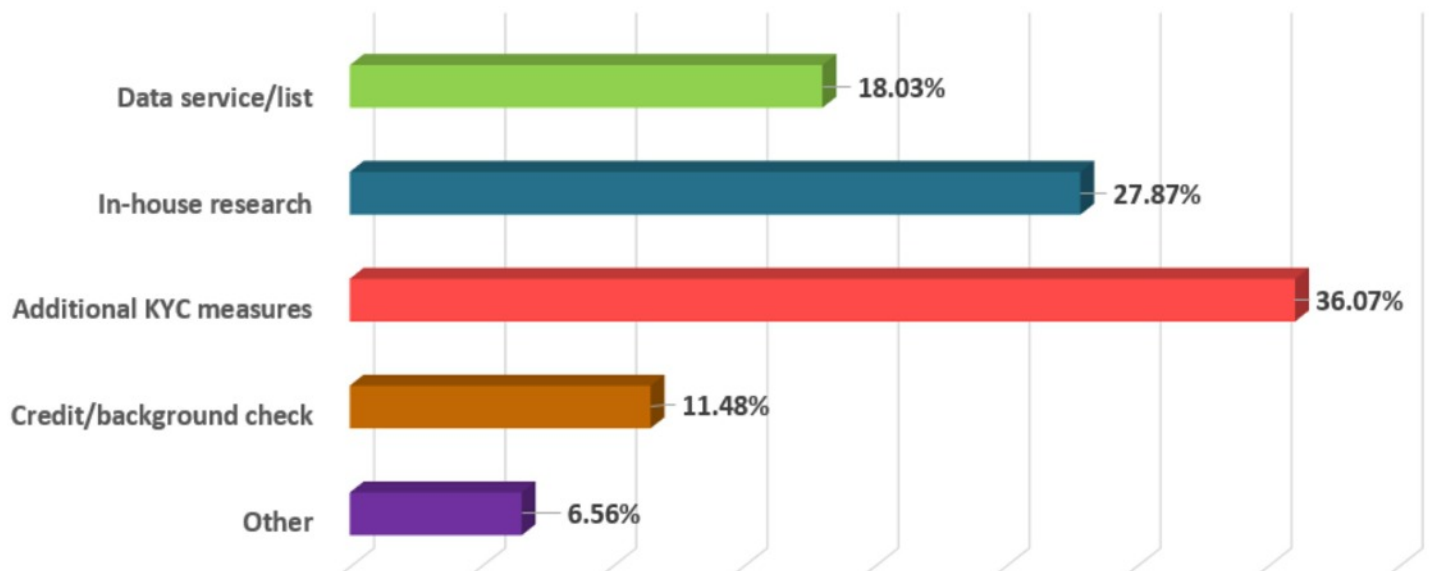
**Figure 1: Why aren't you banking with any medical marijuana related companies?**





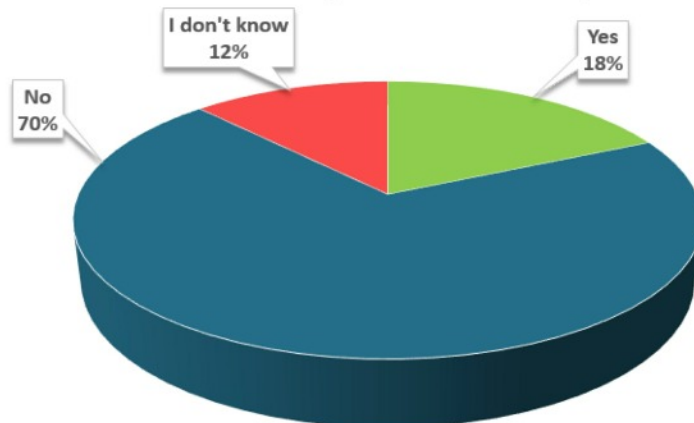
We also asked how these banks and other financial institutions are validating that they aren't banking medical marijuana related companies. This led to a variety of answers, with the majority of respondents answering that they use additional know your customer (KYC) measures with 36%. This was followed by in-house research, 28%, and data service/list, 18%. We found the least popular answers to be utilizing credit/background checks, 11.5%, and finally other unspecified methods at 6.5%.

**Figure 2: How are you validating that your institution isn't banking medical marijuana related companies?**



For the respondents who don't currently bank with medical marijuana, we asked if their institution would support banking with medical marijuana related companies in the future. Unsurprisingly, 70% answered no they would not. However, what is surprising is the decrease from 86% who said they don't currently bank with medical marijuana earlier in the survey. Of that margin, 7% would be open to it; while 9% still do not know one way or the other.

**Figure 3: Do you know if your institution would support banking with medical marijuana related companies?**



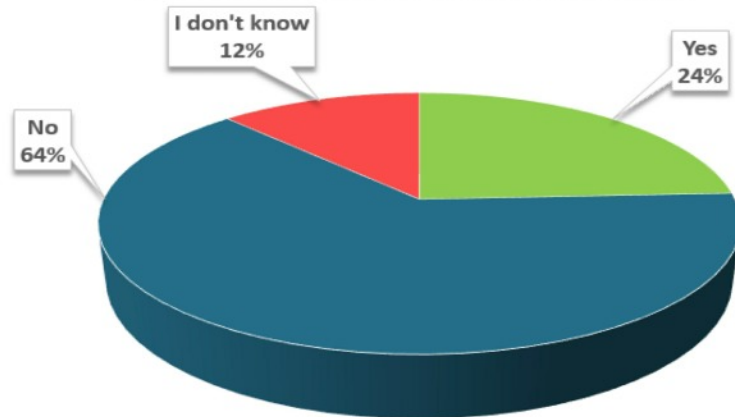
When asked what their institutions biggest concern with banking medical marijuana 64.5% answered all of the above, indicating there are strong concerns involved with working with the new industry.

**Figure 4: What is your institution's biggest concern with banking medical marijuana related companies?**



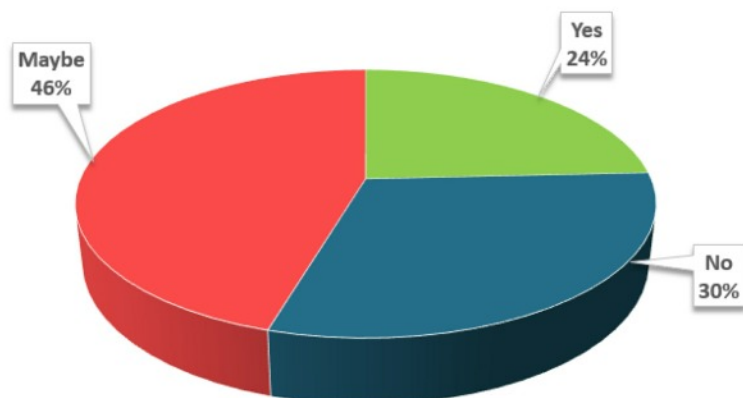
We also asked if the respondent had the confidence that you could manage the risks, would you present the confidence to your institution. The majority at 64% said no they would not present it to management, 24% said yes and 12% said I don't know.

**Figure 5: If you personally had the confidence that you could manage the risks, would you present your confidence and the potential business to the institution?**



Finally, we asked if the federal law changed and banks were encouraged to work with medical marijuana related companies, there was an interesting split in answers. The majority said maybe (46%), while 30% said no, and 24% said yes.

**Figure 6: If the federal law changes and banks are encouraged to conduct business with medical marijuana related companies, do you know if your institution would start banking with them?**





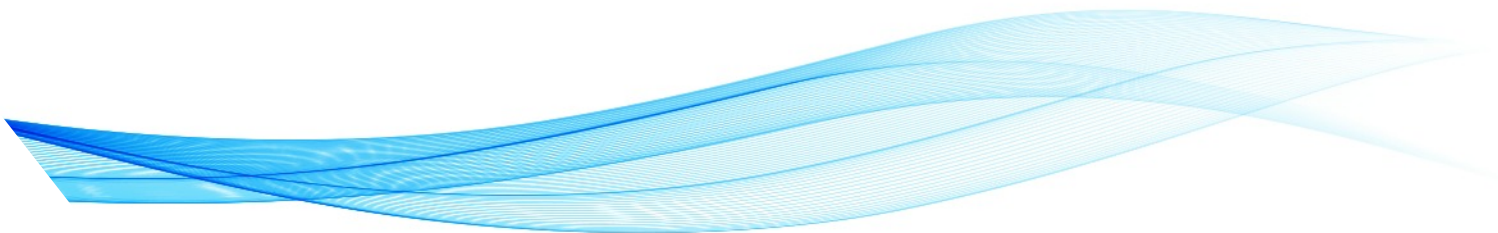


## Conclusion:

This survey was slightly different from our previous surveys in that we asked what banks were doing, but also what they would do under different circumstances. As we'll cover, for some it didn't seem to matter if federal law changed regarding medical marijuana related companies, they aren't going to conduct business with them. Of course the risk(s) involved with these companies is something to be aware of and mitigate for, however, by not banking them what are we doing as a financial community to these business by forcing them to take other measures, such as hiding what could have been legitimate business monies.

Of our respondents, the majority are not working with medical marijuana related companies, which is not surprising. However, for the small that group that is, they started working with them sometime in the last 12 months, or even sooner, in the last three months. The majority are working with only one company, and the compliance department initiated that they begin banking medical marijuana related companies. Understandably, the majority felt there is no single greatest risk to the institution, but a number of them including cash management, KYC/due diligence, transaction monitoring, lending and legal issues. That's not surprising because they are viable concerns, but ones we believe can be managed. The majority are also determining if the business they're working with are medical marijuana related companies through KYC measures, and much less through transaction monitoring. Generally speaking this is a good method because you need to know before they're a customer, but these types of companies will likely be risk rated differently and therefore monitored a bit more closely.

For the institutions that are not banking medical marijuana companies, the majority aren't because it isn't either legal in their state or executive management said no, both of which interpret to us a semi-proactive approach to the potential revenue business to their institution. There are a variety of ways they're validating that their customers are not medical marijuana related companies, but the majority are using additional KYC measures. That is helpful of course to weeding out new customers, but not necessarily existing customers; however, for the existing customers, we would presume based on the responses that's why they're utilizing a data service/list, in-house research, credit/background check and other unidentified means. The majority said that their institution would not support banking medical



marijuana related companies, which is not surprising given the number of respondents that said executive management said no to banking these companies. Also for this group, most of them agree that there is no single greatest risk, like those who do bank with medical marijuana related companies, but if there were one leader it would be legal issues. Finally, despite if they had the confidence that they could manage the risk, they still wouldn't present it to management as a potential revenue maker for the business, and even if the federal law changed, only just under half said that their institution might participate in the business one day.

Overall, the industry is concerned about the potential risks to the business, as any good compliance professional would be concerned of, and they're only slightly more interested in conducting business with these companies if the laws changed and they were encouraged to work with them. However, like previously stated we're a little surprised at the aversion given the potential revenue business to a bank. Further, as active as compliance professionals are at trying to prevent money laundering, by closing off these companies to bank appropriately within the financial industry could cause a number of further headaches and push the legitimate proceeds into the hands of illegitimate businesses. Not that an individual bank needs to crusade that mission, but as an overall industry, it is a question that needs to be answered so long as marijuana is legal, whether medically or recreationally, on a state level.

## About AML-ology

AML-ology is the study of AML (anti-money laundering) trends and solutions by providing newsletters and survey reports to AML dedicated professionals. A monthly newsletter is sent with a scientific or academic approach to an AML hot topic. A survey is conducted each quarter based on the hot topics being discussed in by the AML community. To sign up to receive the AML-ology newsletter or survey, please visit [here](#).

We provide this report as a value-add to the compliance community to better the anti-money laundering community as a whole. Thank you to everyone who participated. We hope you will participate in future surveys as well.

## About ARC Risk and Compliance

ARC Risk and Compliance ([www.arcriskandcompliance.com](http://www.arcriskandcompliance.com)) is a solution provider for anti-money laundering (AML) technology and compliance. We found our start within the anti-money laundering (AML) technology consulting space, but we quickly found that wasn't enough. After visiting a number of organizations, the largest piece of the puzzle that was missing was the bridge between compliance and technology. We knew we wanted to grow and we discovered what was missing.

We needed to find a way to help the compliance department and the IT department within an organization find a common space to discuss their challenges. We're able to speak compliance with the compliance officers and technology with the IT team. That gives us a unique skill set that gives you the best experience in one place.

Many of ARC Risk and Compliance employees and consultants were leaders in designing, developing and deploying the leading software vendors of today: Actimize, eGIFTS, Global Vision, Norkom, Prime Compliance Suite, and so on. Our SME team has a strong compliance background that can assist Banks with regulatory citations and other types of compliance matters.

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