



Banking Cannabis

The Information You Need to
Know to Build a Successful
Banking Cannabis Program

by Michelle Drolet



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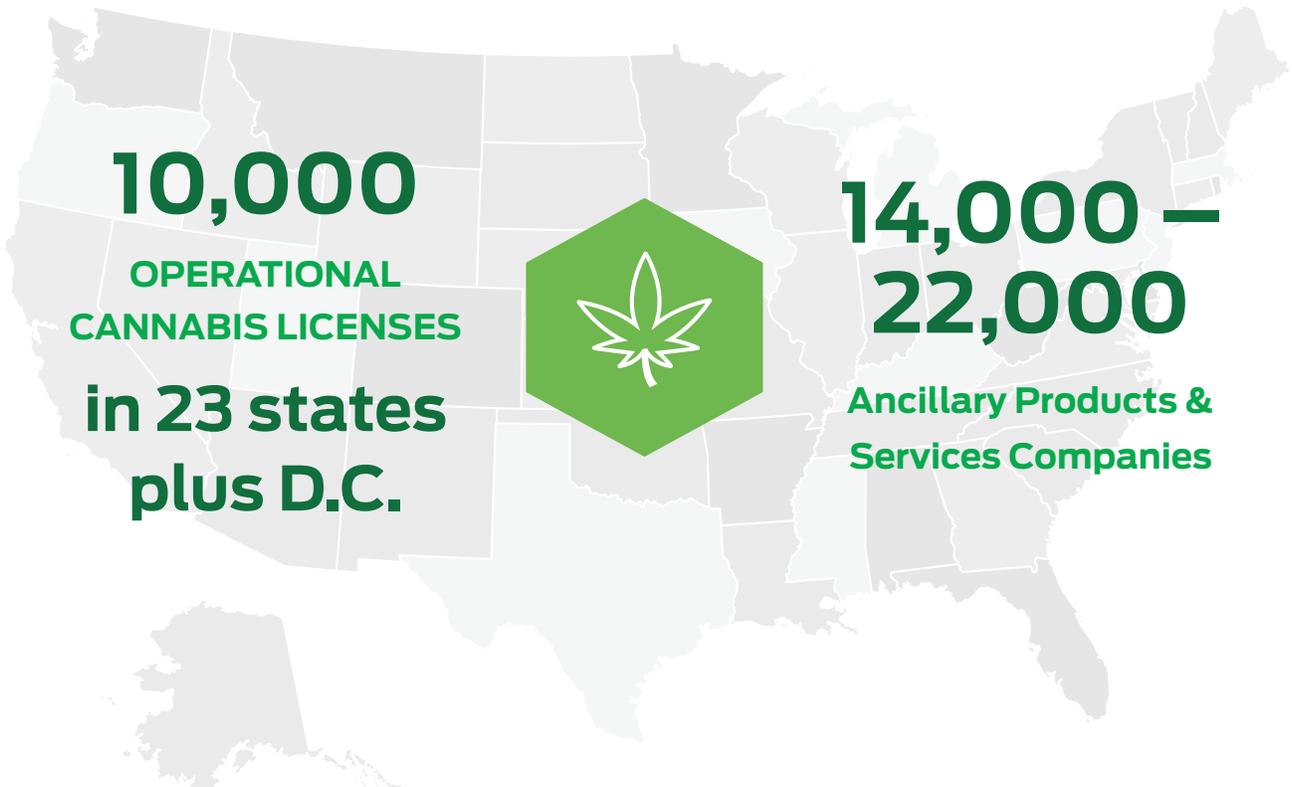


About the Author

Michelle Drolet is the CEO and co-founder of Towerwall, a data security company. She serves as chairperson of the Board of Directors. As one of Towerwall's resident information security experts, Ms. Drolet assists organizations through the security process to help them protect critical data by the evaluation, establishment, education and enforcement of sound information security, network security and data security practices. Ms. Drolet is responsible for all aspects of business for Towerwall. She has more than 22 years of, network and data security experience. She has leveraged that knowledge to make Towerwall a leading data security service and solution provider. Well respected in the analyst and trade community, Ms. Drolet is often published in national magazines and is a regular contributor to the Network World Blog: INFOSEC AT YOUR SERVICE.

National Cannabis Outlook

With more states legalizing medical and recreational marijuana, the Cannabis Industry is growing quickly. Current estimations are there are more than:



Medical & Recreational Sales at Retail	
2015	\$3.0 - \$3.4 billion
2016	\$3.5 - \$4.3 billion
2017	\$4.0 - \$5.5 billion
2018	\$4.9 - \$7.8 billion

* Source: Marijuana Business Daily

Massachusetts Cannabis Outlook

Massachusetts became the eighteenth state to legalize **medical marijuana** when voters passed a ballot in 2012.* In 2016, Massachusetts voters approved a new law allowing **recreational** use of marijuana for adults over the age of 21.

Here is the current breakdown of the industry's two segments:

Recreational Cannabis	
How MA Voted	54% of Massachusetts voters approved ballot Question 4 legalizing adult-use cannabis
Overseen by	State Treasurer and the Cannabis Control Commission
Retail Timeline	First retail shops could open in mid 2018 (75 licenses)
Annual Sales	\$650 million-\$750 million** (Within a few years of the program's launch, estimated annual retail sales)

Medical Cannabis	
Overseen by	Department of Public Health (DPH)
Dispensaries	7 medical dispensaries open to date (35 licenses)
Patients	Over 24,000 patients
Annual Sales	\$25 - \$35 million** (Estimated 2016 Sales)

*Altieri, Erik (November 6, 2012). "Massachusetts Becomes 18th State to Legalize Medical Marijuana". NORML. Retrieved March 30, 2013.

** Source: Marijuana Business Daily

The Banking Problem

60%
of All Cannabis Business
Don't Have Bank Accounts*



Most financial institutions won't work with the \$6.7 billion cannabis industry. Here are a few reasons why:

1. Federal Laws

Federal laws make it difficult for cannabis businesses to open checking or savings accounts in federally insured financial institutions. It's nearly impossible for these businesses to wire funds, access lines of credit, or maintain payroll accounts. The result is an industry that has been forced to pay its bills, employees, suppliers, and taxes in cash.

2. The Cash Nature

The cash nature of the cannabis industry poses threats to public safety. It also impedes the objectives of transparency, tax revenue maximization, and elimination of the black market.

3. Government Regulations

Guidance from Department of Justice has established enforcement and compliance priorities for banks that serve the cannabis industry. However, the rigorous programs required to effectively monitor cannabis businesses' compliance are too onerous for most financial institutions.

*Source: Marijuana Business Daily Facebook 2016

Who is Banking Cannabis?

Federally insured banks are not allowed to Bank Cannabis. Cannabis businesses are left to choose from a small pool of providers including:

Small State
Chartered Banks

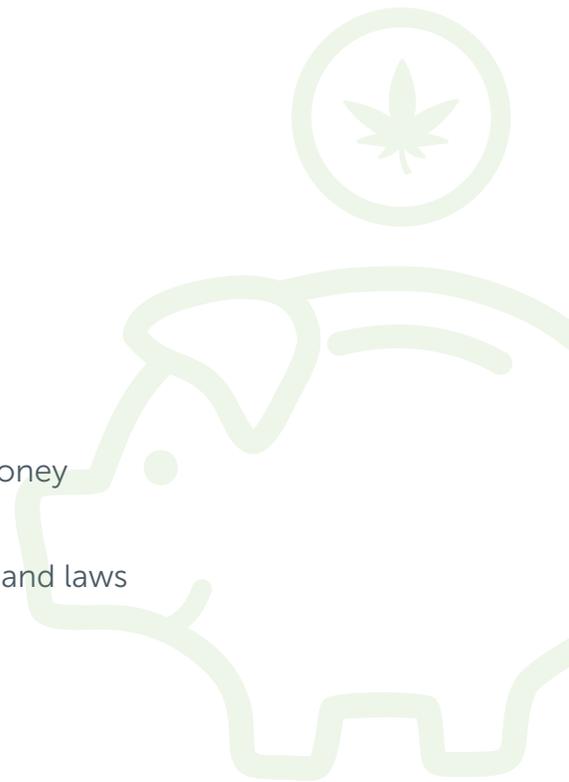


Credit Unions

Very few banks or credit unions publicly acknowledge opening cannabis accounts. FinCEN and the Treasury Department (2016) reported **266 depository institutions nation-wide currently maintain accounts with marijuana-related businesses (MRBs).**

Banks who provide services to cannabis businesses are required to:

- Adhere to strict state and federal regulations and laws
 - SARs, FinCEN guidelines, Justice Department memos
- Conduct customer due diligence
 - Know the Business – Know the Owners – Know the Money
- Continuously monitor the business
- Verify the business is compliant with regulatory mandates and laws
- Report suspicious activity



The 4 Levels of Cannabis Compliance

1

Federal

IRS (280e & Cash Requirements)
OSHA
EPA
Department of Agriculture
Department of Labor
Consumer Protection, HIPAA, etc.

2

State

Regulatory Agency (differs from state-to-state)
Agriculture
Waste & Water
Medical Boards
Pesticides
Labor & Employment
Health & Safety, etc.

3

County

Permits
Land Use
Tax
Fire
Waste
Occupational Privilege

4

City

Public Health & Safety
Fire
Tax & Assessors
Water Waste, Permits, etc.

License Types

- Dispensary / Store
- Cultivation Center
- Infused Producer (Edibles & Concentrates)
- Transport/Courier
- Distributor

Other Classifications

- Demonstrating responsible stewardship
- Achieving and maintaining "continuous compliance" with federal, state, and local laws and regulatory requirements
- Establishing a history of compliance success
- Enabling cannabis businesses to maintain good standing with the public, bankers, investors, and property owners
- Promoting a positive and responsible image of cannabis businesses in our communities

How Towerwall Can Help

For over 23 years Towerwall has provided compliance and information security services to business of all sizes and across all industries. In that time, we have never swayed from our commitment to keep pace with the changing compliance and security landscape and to meet our customer's needs.

With this in mind, Towerwall has expanded its service offerings to include cannabis business related compliance, data privacy, and information security. Our best in class services are now available to cannabis businesses who are trying to thrive in one of the most highly regulated industries in the country.

We don't just do cannabis regulatory compliance, we do deep risk management, risk prevention, and risk remediation for cannabis businesses as well as for the ancillary businesses that service them.



Towerwall's Cannabis Banking Service offerings include:

- A risk-based assessment approach
- Due diligence and monitoring of cannabis customers
 - In accordance with SARs, AML, BSA, Cole Memo, FinCEN requirements and guidelines
- Assessing and scoring cannabis customer's continuous compliance with state, local, and federal regulations and laws
- Helping Banks...
 - Build effective cannabis risk management programs
 - Ensure cannabis customer's demonstrate a "history of compliance"

Cannabis Compliance Services

Compliance Services

Enables cannabis dispensaries, cultivation centers, and processors and the ancillary businesses* that service them, to demonstrate a history of compliance with federal, state, and local regulations and requirements. Including:

- **Regulatory Compliance Risk Assessments**
- **Compliance Verification**
- **Compliance Gap Report**
- **Compliance Risk Scores**
- **Corrective Action Plan**
- **Violation Remediation**

*Ancillary businesses include but are not limited to cannabis medical doctors, lab testers, banks, credit unions, etc.

Policy Development

- **Standard Operating Procedures** - rules and procedures for dispensaries, cultivation sites, and processing and testing facilities that bring all aspects of the business operation into line with current regulations.
- **Written Information Security Plan (WISP)** - regulatory required document for all businesses who have custody of or access to personal information about a Massachusetts resident.
- **Incident Response Plans** - documented steps for quick response and recovery from security related incidents and unplanned business disruptions.
- **Security and Data Privacy Policies** - written policies that outline best practices and promote data security and privacy standards for your business and employees.

Privacy & Compliance Awareness

- **Data Privacy and Security Awareness** - provides awareness initiatives that can be adopted by employees and build a culture of data privacy and information security in cannabis businesses.
- **Compliance Thought Leadership** - Towerwall's foremost authorities inform and educate attendees on the value of compliance in the cannabis industry and how it can be leveraged by state agencies, local municipalities, banks, and credit unions.

Data Privacy Services

Ensures cannabis businesses who access, store, or transfer private health information or personal identifiable information are compliant with federal, state, and credit card data privacy mandates. Including:

- **HIPAA Compliance Assessments** - Health Insurance Portability and Accountability Act - requires businesses to protect the privacy and security of private health information that is accessed, stored, or transmitted.
- **State Data Privacy Compliance Assessments** - Such as Massachusetts 201 CMR 17.00 - requires businesses to develop a written, regularly audited plan to protect a Massachusetts resident's personal information that is accessed or stored.
- **PCI Compliance Assessments** - Payment Card Industry Data Security Standard (PCI DSS) - requires all businesses that accept, process, store, or transmit credit card information to maintain a secure environment.

Banking Compliance Due Diligence Services

- **Prospect Compliance Scores** - banks and credit unions, commission Towerwall to conduct cannabis-specific business assessments and due diligence on prospective cannabis banking customers and leverage compliance risk scores as a decision making factor.
- **Ongoing Compliance Assessments** - provides ongoing "know your customer" compliance due diligence to ensure cannabis customer maintain a history of continuous compliance with state and local regulations and banking requirements.

Secure Infrastructure Services

Ensures the people, process, and technology practices used in cannabis businesses protect the confidentiality, integrity, and availability of their computer systems and the information they contain. Including:

- **Antivirus Software**
- **Firewall Protection**
- **Data Loss Prevention Tools**

Take the Next Step

Contact us to learn more about our compliance services, training programs and to build a custom Banking Cannabis Program for your institution.

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About Towerwall

At Towerwall, we believe that a second set of eyes is crucial to your data security. Many vendors implement a “check list” mentality when tasked with assessing more than one business operation. Whereas, Towerwall uses proven methods for assessing risk, coupled with extensive experience to provide you with an actionable security risk assessment. For over 23 years, Towerwall has helped scores of companies safeguard their data and leverage their investment in IT with advanced information security solutions and services. As a market leader within the IT security industry, we offer complete IT security services. By working together we can collectively lower the risk and cost of a data breach. Each passing day we come to see the stakes are getting higher, but more than simply good business practice, today state-of-the-art data security is the law. Our time-tested methodologies provide a consistent, repeatable, and measurable approach to information security.

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