

## Banks Leave it to Startups to Take the High Road in Providing Services to Dispensaries

By Sheila Salehpour, J.D. Candidate 2018 | February 19, 2016

After legalization victories in Alaska, Oregon, Washington, Colorado, and the District of Columbia, the war on drugs (and marijuana in particular) may finally be losing its thunder in the Court of Public Opinion. Still, a pro-marijuana victory lap is premature with [twenty-five states](#) continuing to ban both recreational and medical marijuana use.

Even in states that have fully legalized marijuana, a new battle is underway: federally regulated banks, major credit card companies such as Visa and MasterCard, and electronic payment services such as PayPal have refused to process pot-related transactions. Possession or distribution of marijuana still violates federal law, so banks and financial services providers that support those activities are at risk of being prosecuted or sanctioned. As a result, startup companies such as [Tokken, Hypur, and Kind Financial](#) have stepped in to provide much-needed financial services to authorized dispensaries that have been forced into cash-only transactions.

While [new regulatory guidance](#) from the Treasury Department’s Financial Crimes Enforcement Network allows banks to take money from legal marijuana businesses as long as they pass a rigorous due diligence inquiry and risk analysis, the law is still clearly not on their side. As a result, [only a limited number of credit unions and small banks have opened bank accounts](#) for marijuana-related businesses, and only for those they deem to be “extremely good customers.” Such customers are required to keep meticulous records of financial transactions, to reduce the risk that the banks will later be found to have violated anti-money laundering laws.

However, the task of closely monitoring cash-only marijuana transactions has unsurprisingly proven to be difficult for dispensaries, allowing startups to step in and provide financial transparency services. For example, Tokken is a new Bitcoin company that plans to use a combination of Automated Clearinghouse (ACH) and the Bitcoin blockchain to [provide record-keeping services](#) for a number of dispensaries in Colorado. The [Bitcoin blockchain](#) is a shared public ledger on which all confirmed transactions through Bitcoin are recorded and verified chronologically through an electronic interface protected by cryptography. Through the blockchain, dispensaries can not only move away from cash-only transactions, but they will also have access to a clean and auditable transaction record, in turn making wary banks more likely to support their financial dealings.

With major changes in the marijuana industry currently underway, it is increasingly clear that startups can serve as an important bridge between traditional banking and progressive marijuana transactions. If banks remain steadfast in their orthodoxy, however, it will be up to startup companies like Tokken to smoke out more viable alternatives, leaving banks at risk of watching potential profits slip through their fingers.