Rethinking the Economics of Specialized Banking

A commercial market can look attractive on paper. Demand is there, the deposit opportunity is meaningful, and the potential customer relationships fit the bank's broader strategy. Then management begins calculating what it will actually cost to serve that market.

For industries requiring additional compliance expertise, enhanced due diligence, or specialized monitoring, the operational investment can change the economics considerably. An appealing business opportunity may become harder to justify once staffing, technology, and ongoing administrative costs are included.

Cannabis banking offers a useful example. The industry has a well-documented need for financial services, yet many institutions remain reluctant to participate. Regulatory uncertainty, risk appetite, and the ability to manage the associated risks are important considerations. The cost and complexity of operating a program matter as well.

Before ruling out a specialized market on cost alone, banks should examine whether the expense is inherent to the business or driven by assumptions about how the program would need to operate.

Look beyond the deposit opportunity

Banks routinely evaluate commercial relationships based on deposits, lending potential, fee income, and overall profitability. Specialized markets require a closer look at the cost of maintaining those relationships.

Two customers with similar deposit balances may require very different levels of attention. One might fit comfortably within the bank's existing commercial operations, while the other requires additional documentation, more frequent reviews, specialized monitoring, and greater compliance involvement. Across a growing portfolio, those differences can become significant.

There's also the upfront investment. Before serving its first customer in a specialized market, a bank may need to develop policies, train employees, adapt systems, and hire personnel with industry-specific experience. These costs begin accumulating well before the program generates meaningful revenue.

Determining how much capacity to build creates another challenge. Investing heavily before demand materializes can leave a program carrying substantial overhead. Underestimating demand can create onboarding delays, operational backlogs, and

pressure on compliance teams. Either scenario can undermine the economics of an otherwise promising opportunity.

Understanding the available operating models

Banks already rely on outside providers for a wide range of operational functions, from core processing and payments to specialized technology and compliance support. Yet when evaluating new commercial markets, institutions sometimes assume that most of the additional capabilities must be developed internally.

For some banks, building and maintaining those capabilities makes sense. Others may already have much of the infrastructure required to serve a specialized market and can build on those resources.

An institution with established commercial banking operations, experienced compliance leadership, and strong customer relationships may need relatively limited additional support. Other institutions may require specialized expertise, additional personnel, or a more comprehensive operating structure.

There are several ways to address these needs. Banks can develop dedicated internal teams, adapt existing systems and personnel, use specialized outside providers for selected activities, or combine these approaches.

Specialized support can extend beyond technology or occasional compliance assistance. Depending on the arrangement, outside providers may support onboarding, due diligence, transaction monitoring, periodic reviews, program administration, and customer servicing. Some institutions use these services selectively, while others rely on more comprehensive operating arrangements.

Each approach carries costs and operational considerations. Internal teams require hiring, training, management, and sufficient business volume to justify the expense. Outside providers require due diligence, integration, performance monitoring, and ongoing oversight. Service quality, available expertise, and the ability to respond as the portfolio grows should also factor into the decision.

Comparing these options before committing to an operating structure can produce a more realistic assessment of the market's potential.

Cannabis banking offers a useful example

The additional requirements associated with cannabis banking are substantial. Institutions must account for differences between federal and state law, applicable regulatory

guidance, enhanced customer due diligence, transaction monitoring, and reporting obligations.

Much of that difficulty stems from the conflict between federal and state law. According to a 2026 GAO report, 39 states and the District of Columbia have legalized cannabis for medical or adult use, yet many institutions remain hesitant to serve the industry. Banks can serve state-licensed cannabis businesses by following FinCEN's 2014 guidance, which sets out due diligence expectations and how to file the required Suspicious Activity Reports.

In cannabis banking, the additional requirements may include:

- License verification
- Enhanced due diligence
- Specialized transaction monitoring
- Ongoing account reviews

For a bank considering entry, these requirements represent both an operational investment and a risk management commitment. Management needs to assess whether the institution has the expertise, systems, and controls to manage the risks associated with the business, including its ability to meet ongoing regulatory requirements, maintain effective monitoring, and respond as customer activity and the portfolio evolve.

The resources required can vary considerably between institutions. A bank with experienced compliance personnel, established commercial banking operations, and systems capable of supporting enhanced monitoring may be able to build on much of its existing infrastructure. Another institution may need to make a substantially larger investment to meet similar requirements.

That difference matters. Two banks evaluating the same market may reach very different conclusions about its financial attractiveness because their starting capabilities and operating costs are different.

Outside expertise may help address some of those gaps, but it doesn't eliminate the institution's responsibilities. Regardless of how the program is structured, the bank remains accountable for its regulatory obligations and appropriate oversight of activities performed on its behalf.

Management needs sufficient visibility into program operations to:

- Evaluate performance
- Identify emerging issues
- Ensure appropriate controls remain effective

The objective is to establish an operating model that provides effective risk management and reliable service at a cost the business can support.

Make operating costs part of the initial decision

When banks evaluate new commercial markets, operational design is sometimes addressed after the strategic decision has been made. By then, assumptions about staffing, systems, and program structure may already be influencing the financial analysis.

These considerations belong earlier in the evaluation, alongside the institution's risk appetite and ability to manage the business. Management should understand which capabilities the bank already possesses, where additional resources are required, and how different operating arrangements would affect costs as the portfolio grows.

The relationship between account volume and operating costs is particularly important. Some expenses, including specialized systems and experienced personnel, may remain relatively fixed. Others increase with onboarding activity, monitoring requirements, and customer servicing.

Consider a program initially serving 50 accounts. Much of the infrastructure required to support those customers may be capable of handling substantially more business. If the portfolio grows to 200 accounts without a corresponding increase in fixed costs, the economics can improve considerably. Those figures are illustrative, and actual results will depend on customer complexity, transaction activity, and the resources required to maintain appropriate controls.

Looking at costs on a per-account basis at different portfolio sizes can help management understand when a program might become profitable and how much growth its existing infrastructure can support.

The analysis should account for expected revenue, customer acquisition and servicing costs, the time required to reach sufficient scale, and the ongoing expense of compliance and risk management. It should also consider what happens if growth falls short of expectations or operational demands prove greater than anticipated.

A market that appears uneconomical with a fully dedicated internal team may look different under another operating structure. An institution anticipating substantial volume may find that investing internally produces better long-term economics. The appropriate approach depends on the bank's capabilities, financial objectives, and ability to manage the business effectively.

A more complete view of the opportunity

Banks have good reasons to be selective about the markets they enter. Some specialized industries will fall outside an institution's risk appetite or prove too costly to serve. Others may warrant a closer look once management understands what the business requires and how those capabilities could be provided.

The economics of a market and the economics of a particular operating model aren't necessarily the same. Understanding the difference may reveal opportunities that would otherwise be dismissed.

Since 2015, Safe Harbor has helped financial institutions serve cannabis-related businesses across 41 states. Whether you need support with onboarding, due diligence, and monitoring, or a fully managed program, our team can help you find the right structure for your credit union. Schedule a conversation to get started.