



Case Study: In-House Credit Card Processing: Opportunities, Challenges and Benefits

When a credit union uses an in-house processing model, the credit card account and all of its major loan controls—balance consolidation, authorization decisions, transaction posting, statement creation, etc.—reside within the credit union's core system as part of a stand-alone credit card processing module, typically purchased as an add-on from the core provider.

By contrast, when a credit union contracts with a full-service card processor, it outsources all of those functions to the provider, which handles all core processing, card program paperwork and back-office support, and usually includes fraud detection and management solutions, cybersecurity and compliance as well.

As full-service and in-house choices have proliferated, the sheer number of new vendors and plans has created considerable confusion for credit unions trying to make intelligent, informed decisions. Faced with the challenge to preserve both member centricity and margins, today's credit unions are becoming increasingly proactive in evaluating their card program processing needs.

PSCU spoke to three of its Owner credit unions about their experiences with in-house credit card processing and their decision to take their credit programs in house and the challenges and benefits of operating an in-house program.

Citadel Federal Credit Union

(Exton, Pa.) has been a PSCU Owner credit union since 2004. The credit union has always processed its credit card accounts in its own shop. Since joining PSCU as an Owner, Citadel has used PSCU's in-house credit card solution to support its portfolio of 46,000 credit cards.

Pathways Financial Credit Union

(Columbus, Ohio), a PSCU Owner credit union since 1986, uses the CUSO's full-service credit card processing to support its portfolio of 3,100 credit cards. In recent years, the credit union found it challenging to compete effectively with larger issuers in terms of portfolio growth, operational efficiency and cost control. Pathways is scheduled to implement in-house credit processing with PSCU in mid-2017.

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TruStone Financial Credit Union

(Plymouth Minn.), a PSCU Owner credit union since 1996, used PSCU's full-service credit card processing to support its portfolio of 18,000 credit cards. TruStone implemented in-house credit card processing with PSCU in late 2016.

Key Drivers for Using an In-House Credit Processing Solution

Credit unions that process their own credit cards often mention flexibility and control as key reasons for implementing an in-house credit card system. In the case of Citadel FCU, Liz Fee, VP, Payments and Deposits for the credit union, believes that with a greater level of control it will be better positioned to achieve a higher percentage of single-call resolutions and reduce the rate of call transfers to other service areas of the credit union.

Michael Shafer, President and CEO of Pathways Financial FCU, outlined the main drivers for its interest in in-house credit processing after years of being in a full-service credit card processing environment. "The way the industry is moving makes it difficult for smaller financial institutions to compete with the bigger players in the market. We wanted more hands-on control of our program. We wanted to streamline and simplify the process for our staff and deliver a better experience for our members, and also realize higher growth in the program."

Shafer cited examples of how an in-house credit solution could address several critical areas of need for the credit union. The credit union's call center agents preferred to service cardholders through the familiar interface of the core system they use every day, rather than the separate system they needed to use to resolve credit card inquiries. "Anytime there are multiple systems involved, it creates challenges for the credit union and makes for a longer learning curve for our staff," said Shafer. "Moving credit to our core platform also gives our staff better exposure to the servicing side of our credit cards and equips them better to discuss the card product with members. Plus, we see value in having both debit and credit on the same core system."

Pathways' members also expressed a desire to have their payments processed faster – in real time – versus through a nightly batch process. Other areas of high interest to the credit union are more sophisticated cardholder alerts through a third-party provider and a better view into collections data.

For TruStone Financial FCU, in-house credit processing offered it opportunities for tighter integration with its core; the ability to nimbly implement new services; and greater functionality, operational efficiencies and overall better control of its card program. TruStone viewed these characteristics as differentiators for its credit offerings over those of other credit unions in its asset size category.

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Challenges of In-House Processing

A particular challenge for credit unions that support their own credit card processing functions relates to the effort and resources needed to run a successful in-house model. “Credit unions need to understand this is a huge undertaking,” said Liz Fee of Citadel FCU. “The credit union needs to have the resources and expertise to handle increased call volume, process disputes, execute marketing campaigns and provide an excellent level of member service.”

Citadel still routes after-hours credit-related member calls to PSCU’s call centers and continues to work with PSCU to detect and prevent account fraud and configure its custom fraud detection strategies.

When a credit union elects to process its cards in-house on its core system, it assumes many of the card program support functions that are normally provided by its full-service processing partner. Examples of these functions include statementing, disputes, program parameter settings, rate and fee calculations, payment processing, regulatory compliance and call center support.

Shafer of Pathways advised that it is important for credit unions to learn as much as they can about the scope and cost of the new responsibilities they will inherit by bringing credit card processing in house. Under a full-service credit card processing arrangement, it is possible to lose sight of some of the myriad behind-the-scenes efforts that go into supporting a card program.

In the case of Pathways, the credit union elected to continue to leverage the expertise of PSCU’s fraud detection and prevention resources to protect its members’ cards from unauthorized use. “We understood the challenge of implementing a fraud detection practice and the difficulty of achieving the results they do, so that is a PSCU service we will continue to use,” said Shafer.

TruStone observed that the preimplementation planning process for in-house credit spawned multiple projects within the credit union, each requiring a dedicated team to execute. The data gathering and analysis process, for example, was an extensive effort necessary to ensure that card program parameters and functionality could be replicated within the credit card module on the core. Additionally, new processes were needed to track the credit union’s expenses associated with the ongoing support of its own credit card portfolio.

“We probably underestimated the scope and effort of all the tasks and responsibilities we were now assuming with in-house credit,” said Cathy Worth, Card Services Manager for TruStone. “Looking back at the experience, it was a large-scale and time-intensive project that affected virtually every department in the credit union. The training effort and learning curve was another area of impact. We probably learned more in six months than we had in 20 years of doing full-service credit.”

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TruStone's Worth advised credit unions that are considering moving to in-house processing to not underestimate the detail involved in such a project. Credit unions that may lack in-depth large-scale project management experience will need to depend on their vendors to identify each task and their interdependencies and make sure the execution is flawless. "It is a big project," she said. "I believe implementing in-house credit for small to mid-sized credit unions would be a tall order. They would need to really understand in-house processing and have a great project management team to succeed."

TruStone is addressing several other elements of its credit card program to close some gaps between its full-service processing experience and its in-house credit environment, including loyalty rewards points, plastics-reissue events and educating members on how to use their online banking facility to perform self-service on their credit card accounts.

Flexibility, Control and Branding: Key Benefits of In-House Credit Processing

"By processing credit cards in-house, we become a one-stop shop for our members and create a seamless service experience, which is very important to us," said Citadel's Fee. "Most of the card service functions will reside in our home banking system and eliminate the need for members to access a third-party application to perform credit card account self-service."

Citadel is also mindful of its brand representation on member-facing products and services. With in-house credit processing, it can better ensure the prominence and quality of its brand during member interactions with their credit card account.

TruStone echoed a similar list of benefits that other credit unions have experienced with their in-house credit programs. "We now have tighter integration of our credit card portfolio with our core, so we can paint a more complete, real-time picture of our members' accounts both in-branch and through their use of our online banking application," said Worth.

In-house credit has also met the credit union's need for speed when implementing new features and services for its card programs. And because both credit and debit data now reside on the core, the member experience has been enhanced to exceed both the credit union's and their members' expectations for a seamless and comprehensive service interaction.

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Proof Points for In-House Credit Success

Citadel views portfolio growth as the primary criterion when judging the success of its in-house credit program. Other markers of success include the ability to offer multiple types of card programs and rewards, a consistent service experience for members and real-time payment processing. “We’ve experienced double-digit growth in our portfolio for the past four years, so clearly, having the flexibility and responsiveness in our business to set up and control our card programs has worked for us,” said Fee. “We have considered going to full-service processing from time to time, but the consistency we get with the member experience on the service side is a big plus; we do not want the member to feel any disconnects in their interactions with the credit union.”

Pathways is scheduled to implement in-house credit processing with PSCU in mid-2017. The primary measurement for determining the success of the move rests on whether it meets the credit union’s objectives. Shafer expects a cleaner, easier and more efficient service experience for Pathways’ staff and members by combining both credit and debit processing on the same core system. He also noted that the cost savings the credit union hopes to realize from moving to an in-house credit solution will fund enhancements to its loyalty rewards offering and overall member service model.

Pathways will evaluate the performance and results of in-house credit processing on a regular basis to ultimately measure the success of its decision. “We know what we have and where we are today,” said Shafer. “So, if in three years, we have had to hire seven more employees, or if profitability has not increased or we have not seen an appreciable difference in operational efficiency or service levels, we will reflect on the past. We could return to full service if the numbers don’t add up.”

TruStone started with in-house processing in November 2016, so its track history is young, but it plans to measure its success in terms of expense savings, greater efficiency and productivity for member-facing services, and improvements in the quality of its members’ interactions with its e-services team.

For Help and More Information

A credit union’s card processing options have evolved greatly. The full-service versus in-house decision is now more than a plain black-or-white choice. PSCU routinely works with credit unions to create customized hybrid processing plans that offer the best possible fit for them—tailored and priced to include everything they need to support their in-house processing initiatives.