

Pros and Cons In/Outsourcing Credit Cards

Is your credit union an innie or an outie? We're not referring to belly buttons, but rather credit card business services. The decision of whether to insource or outsource such services is one that must be weighed carefully. See what factors should go into the decision-making equation.

By Laura Gater

Credit card services can and do provide opportunities for credit unions to reach out in yet another way to members, and non-members as well. In harnessing this opportunity, credit unions assume a huge responsibility for all of the details and complexities that are involved. Many choose to outsource a portion of the business associated with credit card services, while some prefer to handle all of the business in-house. The choice for either insourcing or outsourcing the services is one that is not easily made, for the workforce must be available and competent if the choice is to insource the work. If the services are to be outsourced, then the funds must be available and reliable, and experienced providers must be located.

Who's Doing What?

The University of Wisconsin Credit Union (UWCU) in Madison, Wis., outsources the processing of its credit card service. The inherently complex nature of a credit card program



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Laura Hilton – Visa Operations Manager,
America First

makes this the best fit for the credit union, according to Carma Atkinson, card services manager.

In order to provide its members with the best service, UWCU handles all credit card inquiries in-house during regular business hours. The credit union has offered credit cards to its members for 20 years.

Coastal Federal Credit Union in Raleigh, N.C., has offered its members credit cards even longer – almost 30 years. “We have outsourced some of the work in processing credit cards for more than 20 years. This [approach] allows Coastal to provide 24/7 coverage on many issues without having to staff for it. Additionally, the processors we have contracted with provide us with a wealth of knowledge about the credit card industry – from ways to increase transaction volume to updates on legal actions in which we must be kept aware. Credit card processing is not a core competency of ours, so it was important to us to contract with a vendor that could provide this knowledge,” explains Brandon McAdams, area manager of loan servicing operations.

Coastal approves and processes new applications and decides credit scoring and interests rates charged as well as the make-up of the various cards in its program. The credit union also updates card information on file through a mainframe connection to its processor’s database, initiates the ordering of new cards and reissues, and keeps its plastic inventory stocked. A sizable portion of member inquires are handled at Coastal, from address changes to payment questions.

“We have outsourced many functions,” says McAdams. “Our processor currently tracks and researches fraud instances as well as work disputes. They maintain a Website for our members to do online banking activities related to their credit card as well as our bonus points program. Many reports are created and housed in their system. They process and mail our requests to issue cards, send letter checks or even mailers. They create and mail monthly statements.”

America First Federal Credit Union in Riverdale, Utah, prefers to handle its own credit card production, mainly for quality control and service issues, says Laura Hilton, Visa operations manager at the CU. America First has provided credit cards for 24 years. It outsources some of the services associated with cards, but not all of them.

MidSouth Federal Credit Union in Macon, Ga., depends on insourcing and outsourcing to provide all of its credit card services. This way, members have access to their credit card accounts 24 hours a day, 7 days a week, 365 days a year, notes Sean Farrell, the CU’s vice president of support services.

“We handle all of the card production, fraud and chargebacks. First Data (America First’s processor) does provide our authorizations, card activation, FALCON, after hours, and lost or stolen cards,” explains Hilton.

The University of Wisconsin Credit Union’s credit card processor provides the routing, authorization and posting of all cardholders’ transactions and settlements with Visa. In addition, it also provides account retention, statement and lock-box payment processing, fraud and dispute processing, security services, loyalty program and card plastic production. UWCU is responsible for account application development and compliance, underwriting and account origination, monetary adjustments and non-monetary adjustments.

UWCU has outsourced many credit card services since their implementation in 1989. Meanwhile, America First has decided that handling all credit card services in-house would be a huge task for it to undertake, so it just delegated two aspects to its partner.

“First Data is in the processing business, so it has been much easier to have them handle all the day-to-day processing and the 24-hour services,” says Hilton.

Credit card processing is quite complex and ever-changing, so UW is happy with its decision to outsource. “Outsourcing the processing allows us to focus on product innovation and quality member services,” explains Atkinson.

At MidSouth, which has provided credit cards for more than 10 years, statement processing, fraud detection, payment processing and the credit card creation process are all outsourced. Outsourcing these related services is more cost-efficient than providing them in-house.

“Providing members with the ability to report lost and

“This is a time of opportunity
for credit unions....”

– Glenn Schechter

stolen cards directly to us during our business hours, and being able to view their accounts online and make payments online also helps us maintain member information. So it's (outsourcing's) more for member service purposes,” states Farrell.



Glenn Schechter – Director Credit Services,
PSCU Financial Services

of our products. We do all this mainly just to be in control of our production.”

Atkinson says that UW feels the costs involved in processing a credit portfolio in-house would much exceed the processing costs for outsourcing. She points out that the equipment needed to emboss cards or produce statements is expensive and highly regulated. In addition, processors are able to obtain volume discounts for account authorization and retention that the credit union itself could not obtain.

Hilton agrees. “The cost to bring all of these services in-house would be tremendous, not to mention the 24-hour coverage required. The insourcing of the card production is a member service issue, and therefore justified for the convenience and service we provide.”

As UWCU's portfolio grows, Atkinson and the board of

directors have begun to investigate processing disputes and fraud in-house.

“Our team of card service representatives has extensive dispute/fraud processing backgrounds, so we feel that offering in-house dispute and fraud processing would add value to our members as well as save the credit union on processing expenses,” she explains. “It is important to note that we own our credit card program. By outsourcing we mean that some of the functions needed to support a program are done at a processor. We make the end decisions on how our program functions and the experience our members receive [when] using their cards.”

“Our members get the best with both in-house and outsourcing,” says Farrell. “All members have access to their accounts at all times, yet they can come in and make payments in person or online, and [they can] access their accounts and statements online.”

Outsourcing Providers Can Help

Credit unions often look to outsourcing some of their non-core functions in order to take advantage of providers' specialized skills and objective viewpoints. Members benefit from outsourcing as does credit union management, who can better spend their time on a core credit union competency – building relationships with members and helping them with their financial needs.

Glenn Schechter is the director of credit services at PSCU Financial Services in St. Petersburg, Fla. PSCU provides credit, debit/ATM and prepaid processing, along with mobile and home banking, bill pay, lending, risk management and 24/7 contact center solutions.

PSCU's clients may choose full service (complete outsourcing), flexible service (they can perform a number of their own in-house services), and self-service (credit unions do everything in-house but use PSCU for authorizations and payment settlements).

“Credit unions use us for a variety of card processing and other services to grow and service their membership. As a cooperative, there is a natural extension to partner with the credit unions that own our organization. Throughout the year, we deliver to our member credit unions financial returns through either dividend payment or reduction in pricing of our services,” Schechter explains. “Now is the opportune time for credit

unions. Banks are alienating their credit card holders and driving them to seek other financial service providers. One credit



Tim Smith – Vice President Collections,
Firstsource Solutions

union we work with in the Northeast has seen its membership rolls recently grow by more than 1,000 new members who are tired of the disrespect and arbitrarily raised rates from banks. This is a time of opportunity for credit unions to offer the services that drive members to make their credit union their primary financial institution.”

In December 2008, the Federal Reserve Board required creditor practice changes that will address deceptive acts and unfair creditor practices and will dramatically change the way cards are delivered to consumers, according to Schechter. Although credit unions haven't participated in unfair practices and deceptive acts, they will be required to get in line with the new changes. PSCU will be busy helping them through this process.

“Outsourcing has allowed Coastal to become 24/7. Our outsourcing services provider's fraud monitoring and blocking as well as their 24/7 call center are invaluable. They also provide the behind-the-scenes support to make operational any ideas of where our program should go, with ideas from their own experiences or lessons learned from their other clients,” states McAdams. “Despite all that outsourcing has brought, we still believe in maintaining a relationship with our members. We are confident that our processor can provide excellent service; however, [we] do not want to remove all interaction with members. No report created can accurately reflect the needs of our members as clearly as working with them.”

Firstsource Solutions is a leading business process outsourcing (BPO) provider that focuses on helping clients manage consumer lifestyles via research analytics, member acquisition services, processing services and managing services. Firstsource works within the banking and financial services industry. It counts six of the ten largest credit card companies

“Outsourcing saves credit unions from investing money in technology.”

– Tim Smith

in the United States as clients, providing them with back office operations such as collections management (both early and late stage), credit risk evaluation and application processing.

“Various credit unions have different core competencies, but their delivery of solutions is not strong,” says Tim Smith, vice president of collections at Firstsource Solutions in Amherst, N.Y. “A heavy investment in practices like Six Sigma helps us improve our core processes. Credit unions have many areas to focus on, while we are able to put a great deal of investment in analytical and technical processes, and collection is our core competency.”

Outsourcing has been around a long time, and it is purely economically driven. Instead of building out additional capabilities, companies choose to outsource them to a company that focuses on particular services – services credit unions don't have the financial sources to improve on.

“Outsourcing saves credit unions from investing money in technology. Instead, they can manage their profits and get a desirable return in the market,” says Smith.

When business processes are outsourced, that means more time is freed up for credit unions to focus on closer alignment with their members and to take care of their complaints and issues more quickly. One example cited by Smith is limited hours for member service calls. If calls are outsourced, they can be accepted 24 hours a day, thereby increasing member access to the credit union and providing quicker resolution of problems.

“A lot of people, unfortunately, look at cost and only cost when looking to outsourcing,” he says.

Smith advises credit unions that are looking for a business partner to process their credit card services to: 1) make sure the provider has a proven track record in the credit union

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Sankar Krishnan – Managing Director Global Transaction Services, Adventity

industry; 2) ensure that the provider is culturally compatible organization-wise with their credit union; and 3) be sure the contract has a very sound communication structure to resolve issues, with defined timeframes, defined resolutions and defined escalation paths for resolution of problems.

Some of the issues and concerns that arise when credit unions make the decision to outsource particular functions related to credit cards involve technology. “Credit unions have yet to explore the full benefits of strategic outsourcing. They have done some [exploration], but still have a lot of room to grow and use it (outsourcing) as a core strategy to improve their bottom line,” says Sankar Krishnan, managing director of global transaction services at Adventity in New York, N.Y. “They need to really look at a partner that can work with them on customer segmentation, value-added pricing and call centers, which may involve tens of thousands of transactions.”

TMG is a financial and credit union service organization (CUSO) that is owned by Iowa credit unions and their members. TMG’s core products include credit, debit, ATM and a variety of prepaid solutions, as well as online reporting and item processing. It provides plenty of options for members to choose from, including credit-card-associated services.

“Most every credit union outsources some component of its credit cards,” says John Russell, president and CEO of TMG in Des Moines, Iowa. “There are more than 3,600 credit unions in the U.S. that issue credit cards, many more than the number of banks that issue credit cards. Credit unions have lasted longer in the credit card market because they’ve had partners, like members’ groups, that handle outsourcing for them at the back end of their business.”

Sunmark Federal Credit Union in Schenectady, N.Y., sold its credit card portfolio nearly six years ago but maintains an affinity card relationship, which maintains the credit union

name on the cards. Sunmark’s decision was based on its business priorities at the time. Staffing and maintaining credit card services and development fell behind.

“At the time we sold the portfolio, our product was less competitive and we weren’t growing it. Our partner offers business points for credit card use, something we were unable to offer. We made the decision to outsource credit cards in order to provide services that would better benefit our members,” explains Susan Siegel, senior vice president of marketing and branch operations.

Inourcing Is Also an Option

Inourcing, meanwhile, involves a much higher cost of processing, and smaller credit unions will be saddled with a lot of work that will take them a while to process. That means that they will have trouble meeting member demands on a timely basis.

Small and medium-size credit unions cannot offer the wide range of processes an outsourcing provider (the correct outsourcing provider) can without investing a great deal of money into the project. Most credit unions keep operations that are closest to members in-house. Such operations include maintaining a call center and choosing to provide key services directly to their member credit card holders.

“Credit card processors do these functions for a living, so they have more knowledge of them. It’s very easy to find an outsourcing partner to cover weekends, for example, when many credit unions are closed,” explains Krishnan. “The credit card processing functions can be outsourced so credit unions can focus on their core business. U.S. credit unions are losing out because they are not evolving and acknowledging that partners can enable them to provide better services.”

Laura Gater is a freelance business and medical writer based in Northeast Indiana. She has written articles for a variety of trade and consumer publications, including “For the Record,” “Corrections Forum,” “Podiatry Management,” “Healthcare Traveler,” “University Business” and “Diversity/Careers in Engineering and IT.”