Decision Guide:

Full-Service Versus In-House Processing: Your Credit Union's Complete Guide to Picking the Perfect Plan and Avoiding Possible Pitfalls

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Credit card programs have become key drivers of credit union growth and profitability in recent years. Not only does a well-run card program typically contribute up to a third of annual earnings, it provides a proven means of attracting new members, creating top-of-wallet loyalty and cross-selling additional offerings as well.

Yet as credit unions deal with ever-growing regulatory, cybersecurity and competitive demands, they also find themselves juggling intense pressure to control expenses while maintaining program quality.

Preserving Member-Centricity and Margins

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.

That cost-consciousness has led to a trend toward credit unions using their contract-renewal and RFP processes to investigate the growing range of full-service and in-house processing options available to them.

Reducing Complexity and Confusion

Here at Advisors **Plus**, the consulting arm of PSCU, our credit card experts have observed an additional trend 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.

So it's increasingly a reality that while credit unions may set out with the best intentions of making a strategic card processing decision to support their mission and members, price and feature quotes are often so complex that comparing apples to apples becomes tough.

Will an in-house plan provide flexibility or strain staffing resources? Will a full-service plan provide economies of scale on key services or result in hidden charges for unnecessary frills? In short, will efforts to reduce expenses turn out to be penny wise or pound foolish?

Decision Support from PSCU's Advisors Plus

Our goal in creating this Decision Guide is to give your credit union an impartial, self-paced framework for understanding the factors involved in making the right processing decision for your credit union. We want to give you the help you need to assess which type of plan will provide the best long-term fit for your resources, your needs — and your budget.

By sharing the insights our Advisors **Plus** consultants have gained from their decades of expertise, backed by PSCU's status as the nation's leading provider of both full-service and in-house card processing solutions, our aim is to equip your management team with the tools to make the right decision for your credit union in three key ways:

1. Understand exactly **what vendors mean when they talk about "full-service" and "in-house" card processing** to decide which processing option will best support your card program's strategic, marketing and financial goals. For example, articulating your credit union's vision for its member experiences will help you more carefully consider the different ways full-service and in-house card processing options can add value to that strategic vision.

2. **Avoid vendor and consultant pressure to make a hasty decision.** Our questions will give you breathing room to take your time in weighing all the risks and benefits, internal staffing issues, overhead and third-party impacts that will go into tailoring the best decision for your credit union and your members.

3. Ask the right questions of every department to **assess your existing resources and accurately account for the future costs** associated with potential changes to your credit card program environment. Ask "do the risks and benefits align with my credit union's strategy," and be candid and realistic in answering.

Defining the Differences Between Full-Service and In-House

Let's start with how, exactly, PSCU defines the difference between full-service and in-house processing. When a credit union uses an in-house processing model, the credit card account itself and all of its major loan controls — balance consolidation, authorization decisions, transaction posting, statement creation, etc. — are housed within the 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, who handles all core processing, card program paperwork and back-office support, usually including anti-fraud solutions, cybersecurity and compliance as well. To remain competitive, many full-service providers also provide access to varying degrees of marketing, analytics, digital technology and payments expertise.

Making the Case for In-House Processing

In general, then, credit unions that migrate to in-house credit solutions will see a reduction in their processing costs but will see an uptick in costs due to additional staffing, IT updates and increased compliance demands.

What's more, when a credit union moves to in-house processing, many functions, such as sophisticated fraud protection, marketing analytics and payments expertise, which were previously bundled into full-service processing fees, must be re-created without the cost savings of full-service economies of scale.

If in-house processing rarely results in cost savings, why do so many credit unions consider it? The primary motivation is strategic — to access the flexibility and personalized data needed to provide the kind of member-centric marketing and service that creates a true branding differentiator in highly competitive markets or versus big banks. Credit union efficiencies and member experience consistency can be very tangible benefits of an in-house credit solution.

And even though the cost savings associated with a move to in-house may not be substantial, PSCU has found that overall expense outlays rarely rise much, if at all, during a shift from full-service to in-house. Bottom line? In our experience, the financial difference between in-house and full-service credit models is typically a wash for credit unions.

Finding Your Credit Union's Perfect Fit

That means when consultants or vendors review an RFP and propose dramatic cuts to your credit union's expenses simply by crossing out line items from a full-service provider's price quote, it's a signal to your management to be highly skeptical about your prospects for realizing those savings over the long run.

Not only are line items such as compliance, contact center support and cybersecurity most definitely necessary, but there's absolutely no need for your credit union to cut back on such vital aspects of its card program in pursuit of illusory cost savings.

There are many reasons to choose one processing option over another, but believing in overly optimistic expense reduction promises should never be one of them. And thanks to today's more robust in-house and hybrid processing solutions, your credit union can steer clear of too-good-to-be-true cost savings while crafting a processing solution that deals to its strengths and compensates for its weaknesses.

A Robust New Range of Solutions

In short, the emphasis of this Decision Guide is on helping your credit union explore the entire card processing spectrum, from full-service to in-house, to make the "right" decision for its needs. How do we define "right"? It's the card processing decision that will allow your credit union to achieve your mission and growth goals without threatening your financial stability, taxing your organizational structure or undermining your ability to delight your members.

Our questions are designed to be flexible, because not every credit union using this Decision Guide will be starting from the same place. For example, if a credit union currently works with a full-service provider, it can use these questions to explore whether it makes sense to bring some or all of those card processing functions in-house. If your credit union presently manages some or all of its own card processing in-house, it can use the Guide to investigate whether full-service processing might allow it to streamline costs and operations by taking advantage of greater economies of scale.

Making Sense of Mixed Answers

As your credit union works through the Guide, we think some of your answers will skew toward full-service processing, while others will probably point in the direction of a better fit with an in-house solution.

That represents an opportunity — not a concern — because it can alert your credit union to customizing a solution that combines the best of various full-service and in-house components.

Finally, remember that it's your members who make your credit union great, so it's their well-being and satisfaction that must be your top priority. Advisors **Plus** and PSCU are here to support your team in maintaining that focus and in crafting the best possible card processing program to meet your credit union's needs.

Key Questions to Ask Your Credit Union

1. **Overall Card Program Strategy:** *The fact that your credit union is considering in-house processing means that your card programs represent a pivotal component of your credit union's growth strategy. Be sure to take into account that your organization has multiple other growth priorities and competitive pressures as well.*

   Trying to do too much too quickly without the appropriate credit union staffing can be the kiss of death for in-house programs. The high-quality, predictable support of a full-service solution might be the best option to ease pressures and growing pains.

- **Is your credit union well-established in the marketplace or is it relatively new?**
  Newer credit unions often find it advantageous to build a solid member service track record using a full-service provider rather than diluting their focus and resources by taking on the responsibility of hiring and training a large specialty staff.

- **Are your members experiencing any unique demographic or economic challenges?**
  Credit unions whose members are experiencing liquidity problems due to regional or industry pressures may want to prioritize other products over cards until their members are back on their feet. In this instance, being able to count on the predictability of full-service costs in the face of inconsistent card demand may help your credit union better manage the ups and downs of its overall program.

- **Does your card program have a strong strategic direction, with investments that support it?**
  If cards contribute strongly to your credit union's branding and competitive advantage and your program is well-established and funded, it may have reached the point where you are looking for more in-house flexibility in designing and executing your card growth programs.

  But it's also important to define what form that flexibility should take for your credit union. Your definition will aid your credit union in determining if an in-house program or simply modifications to a full-service program will be the best fit.

- **Is your credit union's market particularly segmented and/or competitive with banks?**
  If so, sophisticated marketing analytics, omnichannel banking services, cybersecurity and anti-fraud protection will be critical to your ongoing success. The decisioning factors here require your credit union to dive deeply into the cost, solution and staffing differences between in-house and full-service. Leveraging industry solutions at scale may be a plus to you for the full-service model.

  On the other hand, having the flexibility to manage those solutions within your credit union may argue for the in-house credit model. Ultimately, look for the solution that best allows your credit union to offer lower rates and fees without sacrificing service quality.

2. **Marketing and Branding**: *When credit unions want to know more about in-house processing, it's often because they believe they'll have increased flexibility to tailor their marketing campaigns and programs to address their members' needs more precisely. This can certainly be true, but tailored marketing campaigns typically require access to robust analytics administered by a talented and trained marketing team.*

   Evaluate the depth of your credit union's analytics solutions, your team's knowledge and flexibility, the relative sophistication of your members' service demands, and the size of your annual marketing budget, as well as assessing the staffing necessary to analyze, create, execute and track successful omnichannel credit card marketing programs.

- **Is the same marketing staff at your credit union responsible for both credit and debit programs?** If the answer is yes, it's a sign that you may require additional personnel resources to go in-house.

- **How often does your credit union's marketing department introduce new card products or program enhancements?** If frequent product introductions or line extensions are a hallmark of your program, review the work required end-to-end to support these efforts. Your credit union will face a difficult trade-off between gaining enhanced timing flexibility in-house and possibly sacrificing greater access to the product and marketing support resources available with full-service.

- **Does your marketing department require the ability to tailor its offerings to different member segments or needs?** If so, your credit union may find it extremely useful to have access to a full-service provider's full range of cutting-edge predictive and campaign tracking analytics.

- **Is your marketing department currently committed to offering customized card features, rewards and/or product design?** Here again, the trade-off is often between balancing the autonomy of in-house programs against access to the design and technology resources of a full-service provider.

- **Does your marketing department demand the flexibility to react to changing market conditions with new offers, timely repricing, etc.?** The right person in the right job is critical here to ensure that your credit union makes the right decisions at the right time in response to changing market conditions.

  Do you have the depth of subject matter expertise in portfolio risk analysis, economic forecasting, etc. for an in-house program? Or is it more realistic to partner with a full-service provider to supplement your existing credit union staff?

- **Does your credit union run multiple promotional campaigns at the same time?** Whether in-house or full-service, your credit union needs to understand if the solution it chooses will support multiple campaigns at the same time, how the offers will be built and tracked, what analytics will be available to leverage for the campaigns, each campaign's technology/software requirements — and your credit union's capacity to coordinate all of the above processes.

  Credit unions can typically pay a full-service provider to manage this type of work on their behalf. Yet, with the right software and credit union expertise, many in-house credit solutions also offer credit unions the capability to create and manage such promotional campaigns. The goal is to avoid underperforming portfolios by adequately preparing up front for all required costs and resources.

3. **Technology and Data Analytics:** *Technology is where the greatest gap between in-house expertise and full-service economies of scale often opens up. Perhaps more than any other functional area of your credit union, your IT department will likely find itself playing a critical role in the day-to-day management of an in-house credit program.*

   Credit unions that are tech savvy and tech heavy are often well suited to providing the hardware, software, database analytics, cybersecurity, anti-fraud solution, enterprise cloud storage and on-site development talent that come with supporting an in-house credit solution.

   - **Does your credit union's IT department have the expertise and manpower to perform the necessary technological upgrades to your card processing platform and do routine system maintenance?** Access to 24/7/365 outsourced technology expertise to eliminate the potentially catastrophic headaches of stand-alone system crashes is probably one the greatest arguments for full-service card processing.

     Credit unions that are successful with in-house credit programs have hardware, software and onsite development resources ready to go and capacity tested.

   - **Does your credit union have the ability to provide processor support enhancements?** Issuer-mandated upgrades to processor support are usually, by definition, mandatory. The cost of full-service solutions means that vendors take on the coding, development and management required to provide support for the mandates — and must build in the lead times to meet the specified deadlines.

     In-house credit unions must coordinate directly with their core, statement provider, account risk solutions, etc. to support these mandates. Expect your credit union's legal and compliance teams to play a significantly larger role with credit cards in an in-house environment than in a full-service environment.

   - **Does your credit union have the resources and expertise to invest in technological upgrades such as EMV, mobile banking apps, mobile bill pay, cardholder alerts, P2P payments, web portals, paperless statements, pay by phone, etc.?** Full-service providers will typically offer a full solutions suite, as well as the economies of scale necessary to fund and amortize R & D on expensive technology innovations. If in-house credit providers offer a solution, it will typically be a suite around card usage.

     The management of functions outside of card usage will be owned by the credit union, which can be appealing from an operational efficiency and member experience point of view. However, in-house credit unions must be prepared with the appropriate staff and expertise to fund, implement and manage these types of technology solutions.

4. **Contact Center and Member Service**: *Your credit union will probably find it relatively straightforward to assess its basic contact center capabilities. Remember, though, to take full stock of the necessary web-based and omnichannel avenues of support, as well as live chat, SMS and social media monitoring capabilities.*

    - **Can your credit union provide 24/7/365 phone and web-based service?** Ensuring 24-hour access to contact center services and sophisticated dispute resolution capabilities is a unique strength of full-service providers. Successful in-house credit unions tend to include extensive contact center operations.

    - **Is your credit union prepared to deliver top-quality service when your members want it and through the channels they prefer?** The ideal contact center provides consistency in its professional approach to training, scripting and empowered problem-solving. It is experienced in delighting your members, and dissatisfaction will be rare. Full-service environments provide a common way for credit unions to provide round-the-clock coverage, either by outsourcing all member calls or supplementing a credit union's limited contact center capabilities with outsourced full-service support.

      With in-house solutions, it is more typical for the credit union to provide a majority of the contact center support. Be sure to understand the cost, staffing and scripting implications of providing seamless member support when evaluating the difference between full-service and in-house credit processing.

5. **Member-Facing and Back-Office Operations:** *Your credit union's front- and back-office support personnel must be thoroughly trained and kept current on service protocols, in addition to demonstrating the proven ability to perform under stress when meeting the increased demands that in-house processing will require. Furthermore, be aware that staffing needs will fluctuate and certain tasks could require as many as three shifts to compete with the level of service offered by full-service providers.*

    - **How formalized are your credit union's current front- and back-office training procedures?** Full-service vendors provide high-quality support personnel who are highly trained, as well as staffing that can be reconfigured to accommodate peak demand. Credit unions considering in-house solutions must plan not only for the time and expense of training new employees, but also for the opportunity costs and bottlenecks associated with relying on existing employees to conduct that training.

    - **Do your branch and back-office personnel have written operating rules and procedures?** Full-service vendors employ back-office personnel whose only job is to efficiently and accurately handle processing tasks. When success depends on accuracy and efficiency, procedures must be fully in place and second nature before making a switch to in-house.

- **Will your member-facing branch personnel require support in offering instant approval for credit card applications?** Full-service vendors routinely support in-branch (as well as direct mail and online) credit card applications. When considering a move to in-house, be sure to assess the levels of processing support your credit union will require for its in-branch activities.

6. **Human Resources and Staffing:** *Hiring highly trained marketing, IT, contact center and card processing support staff represents one of the largest — and non-negotiable — costs of going in-house.*

   - **Can your credit union provide a competitive credit card program without making significant investments in internal resources and capabilities?** If the answer to this question is no, then barring your credit union's overwhelming commitment to ramping up its staff and resources, full-service will probably represent the best solution, at least in the near term.

   - **Would your credit union be willing to reduce or refocus headcount if it were to revert from in-house to full-service processing and certain functions were no longer needed?** With full-service processing, the ebbs and flows of demand from week to week and year to year are borne by the full-service vendor rather than the credit union, making it easier to optimize and budget for changing staffing needs. This may sound like an unlikely problem, but it's actually quite real. We have often seen credit unions remain committed to tasks they once brought in-house because the colleagues who perform them have become valued members of the team.

7. **Subject Matter Expertise:** *If your credit union currently uses a full-service provider, it may take its access to various subject matter experts somewhat for granted. However, when considering a move away from full-service, your credit union should carefully consider what areas of subject matter expertise it will actually need. That's because, even with a large salary budget, hiring may be challenging since most highly trained experts work as consultants or for full-service providers.*

   - **Does your credit union have in-house compliance and regulatory expertise?** Full-service providers furnish turnkey compliance and regulatory support as part of their solutions. To duplicate full-service expertise in-house, your credit union will most likely need to add specialty personnel or contract with outside experts.

   - **Does your credit union require cutting-edge payments expertise on-staff?** Full-service vendors pride themselves on having on-staff expertise that provides both real-time guidance and access to market forecasts and industry trend analyses. Successful in-house credit unions invest in in-house payments expertise.

- **Does your credit union have in-house cybersecurity and anti-fraud card management expertise?** Full-service vendors provide leading-edge solutions and access to anti-card-fraud algorithms and analytics at scale. It's vital for in-house credit unions to research and understand which anti-fraud solutions will be available with an in-house model, as well the cost of these solutions.

- **Does your credit union need in-house portfolio management, analytics and account risk management expertise?** The leading full-service vendors offer access to consulting, risk management and analytics support to their clients as a powerful means of differentiating their services. Any evaluation of full-service versus in-house credit should take into account whether the costs associated with obtaining those resources from a full-service provider are a good match with your credit union's resource requirements and budget.

Evaluating Your Credit Union's Insights

If your credit union is like many succeeding in the marketplace today, it must master ever more complex financial, marketing and technology skills. We hope that a close review of your Decision Guide answers has given you insights into your credit union's strengths, as well as understanding of possible gaps in areas such as digital engagement, anti-fraud protection, subject matter expertise and compliance.

The good news about any gaps you have identified is that, while full-service and in-house represent the endpoints of the processing continuum, PSCU offers extraordinary flexibility in customizing hybrid solutions that can supplement any gaps in your resources. Our augmented in-house solutions add expertise where you need it, while allowing your credit union's strengths to shine in expanding and deepening your member relationships.

Simply stated, your credit union's card processing options have greatly evolved. The full-service versus in-house decision is now more a range of opportunities than a stark either-or choice. These days, 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 and nothing they don't.

Where Do We Go from Here?

So, if your credit union will soon be starting the card processing decision process, our Advisors **Plus** and PSCU experts stand ready to help you reimagine the upside potential of today's credit card processing alternatives. Why not contact your PSCU Account Executive today to continue the exciting conversation this Decision Guide has begun?

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About Advisors Plus

Advisors **Plus** serves as the consulting arm of PSCU, helping credit unions to meet their financial and business challenges and grow. The team provides practical, data-driven expertise in the areas of business strategy, credit cards, debit and checking, marketing growth campaigns, digital and branch channel engagement, and contact center and operations optimization.

With over 250 years of combined experience, Advisors **Plus** consultants partner with credit union management to provide actionable solutions for sustainable business growth, exceptional member experiences and measurable operational efficiencies. For more information, visit **AdvisorsPlus.com.**

About PSCU

Established in 1977, PSCU (St. Petersburg, Fla.) is the nation's leading credit union service organization (CUSO). The company was recognized as CUSO of the Year in 2016 by the National Association of Credit Union Service Organizations. PSCU's products, financial services solutions and service model collectively ***support*** over 850 Owner credit unions representing more than 20 million credit, debit, prepaid, online bill payment and mobile accounts; ***protect*** over 2 billion transactions annually from fraud; and ***optimize*** credit union performance and growth. Comprehensive 24/7/365 member support is delivered through call centers located throughout the United States. For more information, visit **PSCU.com**.