

Insourcing vs. Outsourcing: Top 3 Questions to Ask



Ongoing changes in the regulatory, competitive, and economic landscape are driving many financial institutions to review their credit card program strategy and evaluate whether to invest in growing an internal program or explore an outsourced solution.

Leaders should ask themselves these 3 questions:

1. What is the true cost of a credit card program?
2. What do my customers need?
3. When should I consider outsourcing?

This whitepaper will outline key considerations when debating whether to maintain inhouse issuing, or if it's time to seek an outsourced partnership.

1. What is the true cost of a credit card program?

Let's start with profitability. Financial institutions often discover the total cost of an insourced card program is considerably higher than initially assumed. To accurately evaluate a card program's total return and efficiency, it is critical to examine program financial statements with all expenses to clearly understand the contribution that each account brings to the bottom line.

In addition to easily identifiable items such as processing costs, rewards program management, and network dues — consider costs related to changes in regulations (CECL), variable interest rates, and capital reserves.

Administrative costs necessary to support the program can often be left out of the profitability equation, and include managing risk, fraud, collections, disputes, third-party provider relationships, and more. The number of employee hours required alone can account for about 60% of non-interest expenses.¹ Another potentially overlooked expense, which must be considered relative to the card program's profitability, is the cost of ongoing investments in product upgrades and technology to facilitate digital integration.



¹ (June 2, 2023) "How Much Value is Provided by Your Rewards Credit Card?" Kohl Analytics Group. https://www.kohlag.com/reward_credit_card_value

2. What do my customers need?

It shouldn't be a surprise that a digital-forward experience is highly ranked, but a strong reward program and fraud protection are close, if not equally, ranked by cardholders.



Technology

From account acquisition to reward redemption, financial institutions should offer the entire cardholder lifecycle digitally. Nearly 80% of cardholders are enrolled in their card's mobile app, with adoption rates even higher for consumers under 65.²

The cost and resources of implementing these features is significant and the investment in ongoing technology management and updates can be daunting, or even unexpected, as technology evolves. A recent report said smaller financial institutions have doubled their investments in digital transformation from \$200,000 per one billion in assets to \$425,000 from 2021 to 2023. Credit unions and community banks often lack the resources and capital to invest in technology for members and risk losing business to competitors.³



Rewards and products

Offering an array of products to meet the unique need of your consumer is also important. From secured cards to high-reward products, matching the right products with the different lifestyles of your members is key. A recent report by Elan Credit Card and PYMNTS Intelligence showed that 81% of surveyed cardholders ranked rewards and cash-back programs as a top reason for choosing one card instead of another.⁴

Review your current program with these questions in mind:

- Do we provide a product suite to meet customer needs across the credit score spectrum?
- Can our program's products and rewards compete against national issuers?
- Do we have the resources to market our cards effectively?

² (Oct 25, 2023) "CPFB Report Finds Credit Card Companies Charged Consumers Record-High \$130 Billion in Interest and Fees in 2022" Consumer Financial Protection Bureau. <https://www.consumerfinance.gov/about-us/newsroom/cfpb-report-finds-credit-card-companies-charged-consumers-record-high-130-billion-in-interest-and-fees-in-2022/>

³ (May 15, 2023) "CUs & Banks Doubled Digital Transformation Investments in 2022, Report Finds" Credit Union Times. <https://www.cutimes.com/2023/05/15/cus-banks-doubled-digital-transformation-investments-in-2022-report-finds/>

⁴ (May 2023) "Credit Card Use During Economic Turbulence." PYMNTS Intelligence and Elan Credit Card. <https://www.elanfinancialservices.com/credit-card/resource-library/credit-card-usage.html>



Fraud protection

Cybersecurity and fraud is top of mind for consumers. In December 2022, the Nilson Report forecasted that U.S. losses from card fraud would total more than \$165 billion over the next 10 years.⁵

Investment in the management of fraud protection can be expensive and time consuming. Many national issuers provide real-time, AI managed tracking to their consumers. Offering a similar option will keep your financial institution's cards competitive. Be sure to consider the cost of adding this type of tracking in your evaluation, as well as easy to use mobile app features for your members if they are at risk, such as turning their card on or off as needed. In addition, understanding the average cost of each fraud event is key to planning your program and how that will affect your revenue stream.

3. When should I consider outsourcing?

Whether staffing, liquidity, or resources is prompting an evaluation, the time is now. Initiating a review of your existing program, or your need for a new program, will be the ideal starting point.

As you consider your options, review the following questions:

- Can our financial institution maintain a competitive credit card program long term?
- Do we have the capital to invest in digital capabilities to meet customer expectations?
- Can we allocate the resources needed to manage the program's profitability and risk in a changing economy?

If a financial institution is dissatisfied with the answers to these questions, it may be time to evaluate the benefits of an outsourced partnership.

Many financial institutions are hesitant to explore outsourcing because they fear losing control over the customer experience. The key to mitigating this concern is to choose the right partner. A quality partner should understand the financial institution's culture and provide program visibility and ownership.

A successful partnership allows financial institutions to leverage the expertise, scale, and investments of the issuing partner while transferring the expenses and concerns related to managing a card program.

⁵ (January 12, 2023) "Credit Card Fraud Statistics" Bankrate. <https://www.bankrate.com/finance/credit-cards/credit-card-fraud-statistics/>

Consider a Partnership with Elan

Partners of Elan Credit Card benefit from a proven, holistic credit card program that focuses on the unique needs of each financial institution and its cardmembers.

Cardholders benefit from a larger product suite, a robust rewards program, ever-evolving digital capabilities, and a dedicated fraud protection team. The comprehensive fraud protection provided by Elan utilizes fraud scores, device recognition and behavioral biometric tools, integrated with our identity proofing platform to alert us early to possible fraud attempts.⁶

Elan takes on compliance, regulatory requirements, technology and product development, risk, and more, so our partners can focus on their cardholders.



What makes Elan a partner of choice? Don't ask us, ask our partners.

"I definitely look at Elan as a partner. They are an extension of the credit union. It is seamless to our members."

Mary Matheson, CEO
Wakota Federal Credit Union

"We're offering a top-notch credit card and product with the strength of Elan behind us."

Robb Scott, President/CEO
Copper State Credit Union

"Partnering with Elan has really expanded our credit card product offerings to provide our members with quite a few more options. Including a more robust rewards program."

Ross Cranston, Member Engagement Specialist
Sharonview Federal Credit Union

Watch the video at www.cupartnership.com/resource-library/elan-partner-stopping-fraud.html to hear more from Elan partners.

⁶ (October 23, 2023) "Stopping Fraud Before It Starts" Elan Credit Card. <https://www.elanfinancialservices.com/credit-card/news-and-community/stopping-fraud.html>

