Greater Income and Control with Credit Cards as a Service

payments fintechs

Summary: CFIs that want to issue credit cards have a new alternative to the agent bank model and the cost of investing in their own credit card-issuing system. They can leverage CCaaS fintechs. CFIs get more income and control — customers get broader product offerings and a more digital experience. We explore this option more.

There is no third-party retailer that's gotten quite as huge as Etsy. Started in 2005, Etsy became the global marketplace for small businesses and individual sellers to sell their handmade, custom, and creative wares, with Etsy taking listing fees and a percentage of each sale. From 2020 to 2021, their active seller count almost doubled, from 4.3MM to 7.5MM, with over 96MM active buyers.

The third-party retailer model is a popular one across many industries, from retail ecommerce to the financial industry. In finance, one example of the third-party model is the agent bank model, which smaller institutions use to provide credit cards to their customers. For community financial institutions (CFIs), there are actually multiple ways that they can provide this service.

In the US, just 10 banks manage 85% of credit card spending every year. It's a lot of spending, too: the nation has more than 500MM total credit cards, or about two per household, which is collectively used to spend about $4T annually.

In the past, CFIs that wanted to offer their customers credit cards did so by partnering with an agent bank, using that agent bank third-party model. The larger bank issues the credit cards, typically makes the underwriting decisions or asks the CFI to guarantee a customer's credit, and takes the bulk of the profit that the cards generate. A CFI participating in an agent bank program might receive between 4% and 7% of total revenue.

A New Option for Issuing Credit Cards

CFIs that want to issue credit cards have a new alternative to the agent bank model and the cost of investing in their own credit card-issuing system. They can either directly do business with a fintech company that offers credit cards as a service (CCaaS) or form a relationship with a sponsor bank that itself works directly with a CCaaS fintech. CFIs that plan to issue upwards of 10K credit cards might work directly with a fintech; otherwise, it generally makes more sense to use a sponsor bank.

CCaaS sponsors and fintech providers charge CFIs and other issuers a fee for their services. Unlike the agent bank approach, the CFI owns the credit card customer relationships and gets 100% of the associated revenue.

"The advantage of using Corserv instead of an agent bank are control and the revenue opportunity," says Jamie Sweeney, senior vice president at Pinnacle Bank, a TN-based CFI that works with Corserv to issue Mastercard credit to its customers. *"As our own issuer, we get all our own fees and revenues from the cards, and we control the underwriting."*

The CFI also acts as a CCaaS partner bank, helping smaller banks issue credit cards to their own customers. This type of partnership can allow a CFI to begin issuing credit cards in 120 days.

Benefits of CCaaS

CFIs that use CCaaS appreciate an option that gives them substantially more net revenue than the old model and doesn't require an investment in technology or additional staff. Other potential advantages include:

- Increased flexibility in product offerings, such as the option to add fleet cards
- Rewards for card use
- Secured cards
- Expense management features for business banking customers

As part of their relationship with a CFI, CCaaS partners and fintechs typically provide bank identification numbers (BINs) and cardholder agreements. They also take care of card servicing: chargeback processing, settling with card networks, and providing customer service call centers. CCaaS partners set underwriting criteria for client banks and make sure client banks follow relevant regulations.

CCaaS-sourced cards often have online applications and instant approval for CFI customers, and can be used in Apple Pay or Google Pay. Users can change their PINs and handle other card management online.

Simplification is another benefit. Some financial institutions have multiple vendors servicing their credit card offerings. Having a single relationship to manage is a significant plus.
CCaaS is a potentially attractive alternative to the older ways of providing credit cards to CFI customers. CFIs get more income and control — customers get broader product offerings and a more digital experience.

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ECONOMY & RATES

Rates As Of: 01/25/2023 09:01AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	4.72	0.30	0.30
6M	4.84	0.08	0.08
1Y	4.66	-0.04	-0.04
2Y	4.14	-0.29	-0.29
5Y	3.57	-0.43	-0.43
10Y	3.47	-0.41	-0.41
30Y	3.62	-0.34	-0.34

FF Market	FF Disc	IORB
4.33	4.50	4.40
SOFR	**Prime**	**OBFR**
4.30	7.50	4.32