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Why some community banks are changing their approach to card issuance

By Robin Arnfield | September 7, 2022

Community banks that want their own credit card are adopting an alternative to the agent bank model where a larger bank issues their cards, owns the customer relationship and receives the bulk of the revenue.

Instead of investing upfront in their own credit card systems, community banks can partner with a credit-cards-as-a-service (CCaaS) provider to offer card programs to their own customers while receiving the full revenue from their cards. They can either use a sponsor bank which has a partnership with a CCaaS provider or work directly with a fintech.

CCaaS providers include Corserv Solutions in Atlanta, i2C in Redwood City, California, Zeta in San Francisco, and Brim Financial in Toronto

Corserv has established sponsorship partnerships with two community banks to provide CCaaS to smaller banks through its Account Issuer Program. Corserv is working with Pinnacle Financial Partners, a Nashville, Tennessee-based Mastercard issuer with $40.1 billion of assets, and The Bank of Missouri (TBoM), a Perryville, Missouri-based Visa issuer with $2.8 billion of assets. Both banks work with smaller ones to help them offer credit cards (larger ones can work directly with Corserv).

Banks that are clients of the sponsor banks own their credit card customer relationships and receive 100% of the revenue in return for paying a fee to their sponsor. By contrast, a bank participating in an agent bank program receives 4% to 7% of the total revenue, according to Corserv.

From left: Jerry Craft of Corserv, Mark Barker of The Bank of Missouri, Adam Swinemar of Laurentian Bank of Canada.

TBoM already issues 7 million general-use and private-label credit cards and installment loans on behalf of 14 fintechs across the U.S., but it is new to the CCaaS model.

“We wanted to diversify our credit card portfolio from fintechs to FDIC-insured banks who traditionally play in the prime and super-prime space where, from a credit loss perspective, there’s minimal risk,” said Mark Barker, TBoM’s executive vice president and chief contract services officer.

Pinnacle migrated from its agent bank, Elan Financial Services (a subsidiary of Minneapolis-based U.S. Bank), when it began issuing its own credit cards on Corserv’s CCaaS platform in 2012.

“The advantages of using Corserv instead of an agent bank are control and the revenue opportunity,” said Jamie Sweeney, Pinnacle’s senior vice president. “As our own issuer, we get all our own fees and revenues from the cards, and we control the underwriting.”

Pinnacle and TBoM provide BINs and cardholder agreements for their client banks and handle card servicing including chargeback processing, settlement with the card networks, and call centers. Both banks set the underwriting criteria for their client banks and are responsible for ensuring the client banks comply with regulations.

Pinnacle has been acting as BIN sponsor for other community banks since 2014, and 25 banks are now issuing Mastercard-branded credit cards through Pinnacle.

By using Pinnacle and Corserv’s CCaaS offering, a community bank can set up a comprehensive card program and start issuing credit cards in 120 days without heavy upfront investment and additional staff, Zilvinas Bareisis, head of retail banking at Boston-based consultancy Celent, wrote in a March 2022 report.

TBoM, which has $2.8 billion of assets, announced in June that it would issue its own credit cards on Corserv's platform and act as Visa-branded credit card sponsor bank for other community banks.

So far, TBoM has one fully executed CCaaS agreement with a community bank, which had no previous card program, with launch scheduled for mid-September. "We aim to add six to eight community banks a year under the five-year life of our existing agreement with Corserv," Barker said.

Prior to Corserv, TBoM used an agent bank for five years.

"The benefit of using Corserv instead of an agent bank is increased flexibility in our product offering," said Barker. "The agent bank provided us with a limited product offering, but Corserv has a wide variety of products for us and our client banks to choose from."

For example, Corserv lets TBoM develop and offer purchasing cards to its commercial accounts as well as rewards-based cards and fleet cards, none of which were available from its agent bank, Barker said.

Having multiple banks as clients makes it cost effective for Pinnacle to develop new card products, Sweeney said. In the past year, Pinnacle has developed purchasing cards with expense management capabilities for its large commercial clients using Corserv's technology, and it is currently building a secured credit card.

"We benefit from our client banks' group buying power and we can leverage down our operating costs," Sweeney said.

Most of the banks in Pinnacle's Account Issuer program previously used agent banks.

"They didn't have any control over the services provided by the agent bank, and they experienced problems with underwriting," Sweeney said. "If you take a good customer to an agent bank for a credit card and they reject the client, then you must provide a credit guarantee for the client. You take all the risk, but don't receive any offsetting revenue, as the agent bank gets it."

Whether a bank connects directly with Corserv or through a sponsoring bank depends on the number of cards it issues, Corserv CEO Jerry Craft said.

"Unless a bank intends to issue 50,000 to 100,000 credit cards, it's more cost effective for them to be a Pinnacle or TBoM client," he said. "If a bank issues over 50,000 cards, then Corserv can serve them on a direct issuer basis."

Several banks have opted to partner directly with Corserv. These include Plains Commerce Bank in Sioux Falls, South Dakota, which has $1 billion of assets; Fidelity Bank in Wichita, Kansas with $2.7 billion of assets; BayCoast Bank in Swansea, Massachusetts with $2.25 billion of assets; and Machias Savings Bank in Machias, Maine with $2.36 billion of assets.

Laurentian Bank of Canada, which is based in Montreal and has CA$28.7 billion of assets, works directly with Brim as its CCaaS provider.

"We've had our current Visa credit card product for 20 years," said Adam Swinemar, Laurentian's senior vice president of digital, product and marketing. "By integrating with Brim, we'll be able to replace the five vendors currently servicing our Visa product with a single platform hosted by Brim."

Laurentian will also be able to adjudicate new cardholders and give them virtual cards that they can activate and start using immediately, as well as providing digital customer self-service.

"Our current processes for supporting cardholders are highly manual," said Swinemar. "Customers can't apply online or be instantly approved for cards, and our cards can't be placed in Apple or Google Pay. Also, currently cardholders can't change their PINs or manage their cards digitally."

Laurentian plans to use Brim's capabilities to expand nationwide from its home market of Quebec. "We see credit cards as a great way to introduce new customers across Canada to Laurentian, and we'll be able to cross-sell to new cardholders," said Swinemar.