

CREDIT UNION INNOVATION PLAYBOOK

TRUST BUT VERIFY EDITION



The Credit Union Innovation Playbook, a collaboration between PYMNTS and PSCU, delves into the innovation agendas of players in the credit union ecosystem. Each edition of the Playbook homes in on a specific innovation focus, exploring the differences between how credit union members and leadership prioritize innovation in four select areas: risk and fraud, digital banking, data and analytics and loyalty strategies.

42%

OF CU MEMBERS WANT THEIR FIS TO PRIORITIZE ANTI-FRAUD INNOVATION

44%

OF CUs USE FINTECHS TO ENHANCE DATA AND FRAUD PROTECTION

58%

OF CU MEMBERS MIGHT SWITCH TO FINTECHS FOR BETTER DATA SECURITY

22%

OF CUs MEASURE ROI IN TERMS OF IMPROVED DATA SECURITY

67%

OF CU MEMBERS TRUST THEIR FIS WITH DATA SECURITY

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ABOUT

INTRODUCTION

Credit unions' (CUs') importance has never been as clear as it was during the first few weeks of 2019. The record-breaking government shutdown — which lasted 35 days and stretched from late December 2018 into the new year — left hundreds of thousands of federal employees either furloughed or forced to work without paychecks.

More than 500 CUs stepped forward to provide financial lifelines to those affected during the uncertain times.¹ These included military-focused Navy Federal Credit Union, which provided eligible members with no-interest, no-fee loans of up to \$6,000; NorthStar Credit Union of North Dakota, which deferred federal workers' loan payments; and Congressional Credit Union, which offered members zero percent interest for 60 days, to cite just a few examples.²

This above-and-beyond service helps CUs stand apart from traditional banking competitors. Customers become more than consumers once onboarded with credit unions, transitioning to “members” with controlling stakes in their organizations. Events like the recent government shutdown highlight not only how CUs help existing and potential members who have been thrust into financial uncertainty, but also demonstrate that their members' trust is justified.

¹ Author unknown. Over 500 credit unions across the country offering government shutdown assistance. Credit Union National Association. 2019. <https://www.cuna.org/shutdownassistance/>. Accessed March 2019.

² Credit unions step up during government shutdown. PYMNTS.com 2019. <https://www.pymnts.com/credit-unions/2019/government-shutdown-federal-worker-paychecks/>. Accessed March 2019.



Trust makes CU members among the most loyal financial consumers, too. As much as 81.3 percent of them indicate that it originally led them to bank with their current credit unions, and is also the main reason members stick with their CUs, cited by 80.6 percent. These figures were just 75.4 percent and 70.7 percent, respectively, among traditional banks' consumers.

Credit unions operate differently than commercial banks, but they are still financial institutions (FIs). Their customers want access to the same banking and payments innovations as their commercial

bank customer counterparts, meaning CUs must invest in those their member crave if they want to maintain their member-centric reputations and competitive edges.

Many credit unions are partnering with FinTechs to accomplish this, largely because doing so offers a quicker and more cost-effective path to delivering such innovations. Sixty-four percent of CU executives report working with FinTechs to shorten the time it takes to bring innovations to the market, while 60.0 percent do so to reduce innovation costs, improve return on investment (ROI) and

more quickly get competitive offerings to their members.

So, how does members' trust inform CUs' innovation strategies? Moreover, does it complicate the already-complex relationships between members, their credit unions and the FinTechs enlisted to meet members' expectations?

PYMNTS, in collaboration with PSCU, is launching a Credit Union Innovation Playbook series to better understand the unique perspectives of CUs, their members and their FinTech partners. Each edition will explore these relationships to determine how each side perceives innovations' importance, and deliver actionable, findings-supported market insights.

More importantly, the series will guide credit unions through an increasingly complex ecosystem, tapping into a confidential telephone study of CU executives, members and FinTech executives — all of whom shared information about plans, concerns and obstacles — to do so.

Our top-level findings, published in our

Credit Union Innovation Index, confirmed that CUs enjoy a particularly competitive edge over commercial banks and tech companies: their members' trust. Credit union members not only trust their FIs more than non-members, but are also more satisfied with their services. CUs also have a blind spot in that they generally do not perceive FinTechs as competitors, however. This gives such firms a major opportunity, as many already believe they can and should sell directly to credit unions' end consumers or members.

Our inaugural playbook will delve deeper into the market factors driving innovation for members, CU leadership and FinTechs. Each will highlight a different aspect, with the first focused on security, fraud and anti-money laundering (AML). It also examines the importance the three entities place on keeping financial assets and personal data safe, and where CUs' innovation priorities should lie. The insights are based on input collected from 3,813 consumers, 102 credit union executives and 49 FinTech executives.

KEY FINDINGS:

MANY CUs ARE TURNING TO FINTECH FIRMS AS PARTNERS IN THEIR INNOVATION PRIORITIES, WHICH INCLUDES DATA SECURITY AND ANTI-FRAUD EFFORTS.

1

Anti-fraud and data security measures are among CU members' top innovation priorities.

As much as 42.4 percent say they want their CUs to focus on anti-fraud solutions as innovations over the next three years; 33.0 percent cited data security as their top innovation priority.

2

Only 13.7 percent of surveyed members cited lack of trust as a reason for being uninterested in financial innovations.

This indicates that a significant share of CU members have confidence that the innovations will be financially beneficial.

3

The innovation priorities of CUs' members and leadership are not always aligned.

For example, while members consider rewards and loyalty to be highly important, 33.3 percent of CU executives base ROI on reducing data security and fraud risks.

4

FinTechs and CUs are teaming up to deliver on their innovation goals, including data security and anti-fraud efforts.

These partnerships carry risks for CUs, however, with 64.3 percent of FinTechs expressing interest in bypassing them to sell directly to members.

5

While FinTechs are interested in directly serving CU members, they face a significant trust gap, especially regarding data security.

A majority of CU members (55.8 percent) said they would not switch from a CU to a FinTech because they have less trust in the latter.

MEMBERS TRUST THEIR CUS BECAUSE THEY

**FOCUS ON SECURITY
INNOVATIONS**

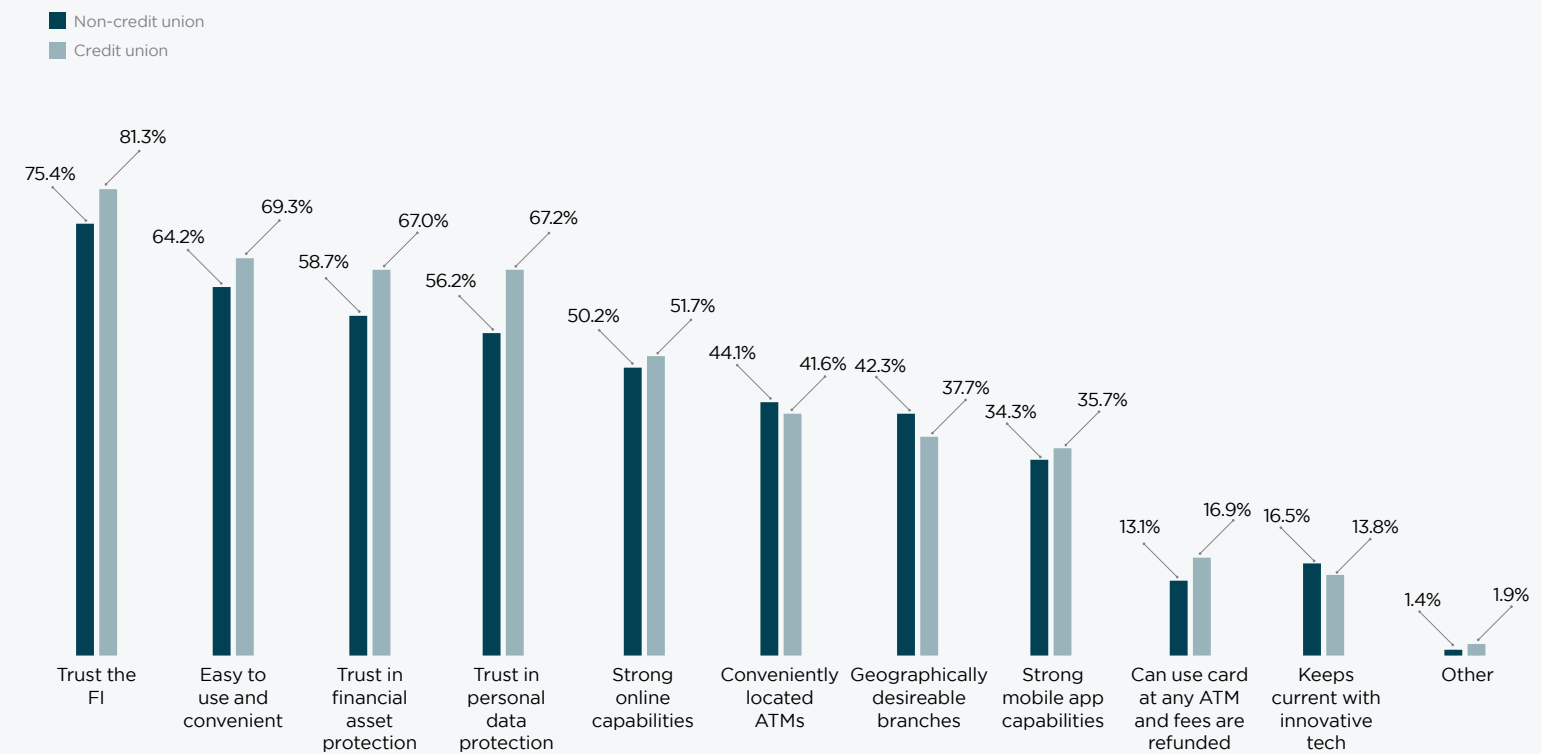


MEMBERS TRUST THEIR CUs BECAUSE THEY FOCUS ON SECURITY INNOVATIONS

CUs are known for their members-oriented business model, an element of their operations that is more than just a branding tactic. That focus is actually the most important reason members sign up with credit unions in the first place — and essential to retaining them.

Delivering on this financial services approach helps members feel secure in trusting their FIs to protect their assets. Establishing this level of trust is essential to many members' credit union relationships, both before they decide to join the ranks and after they have enrolled. Trust is the first factor potential members consider when selecting their CUs, as shown in Figure 1, with 81.3 percent saying it's the reason they choose to bank where they did. This is higher than the share of non-credit union members who cite it as a reason they bank with their own FIs.

Figure 1: Factors encouraging respondents to choose their FIs
Share of consumers who cited select reasons for banking with various FIs



Many CU members also trust their FIs to responsibly handle both their financial assets and personal data. Most believe credit unions will keep their financial assets safe from fraud (67.0 percent) and protect their personal data (67.2 percent), but a slightly higher share indicated they decided to join a CU because it provided easy and convenient service (69.3 percent).

Credit unions' trustworthiness is essential to not only encouraging membership, but also to retaining it. Trust was cited by 80.6 percent of respondents as a reason to remain CU members, as seen in Figure 2, while 60.6 percent trust the credit union to keep their personal data safe and 50.6 percent trust CUs to keep funds and information safe from fraudsters.

Credit union leadership appears to understand trust's importance, both in persuading potential members to join and in convincing existing ones to stick around. A quick look at their innovation investments over the past few years indicates it is working to honor customers' trust by making AML efforts a top innovation priority. Most CU leaders (79.4 percent) said AML was a main innovation focus during the last three years, another 62.7 percent pointed to data security and an equal share prioritized mobile and digital payments innovation.

Figure 2: Consumers' reasons for staying with an FI
Share of consumers who cited different reasons for continuing to bank with FIs

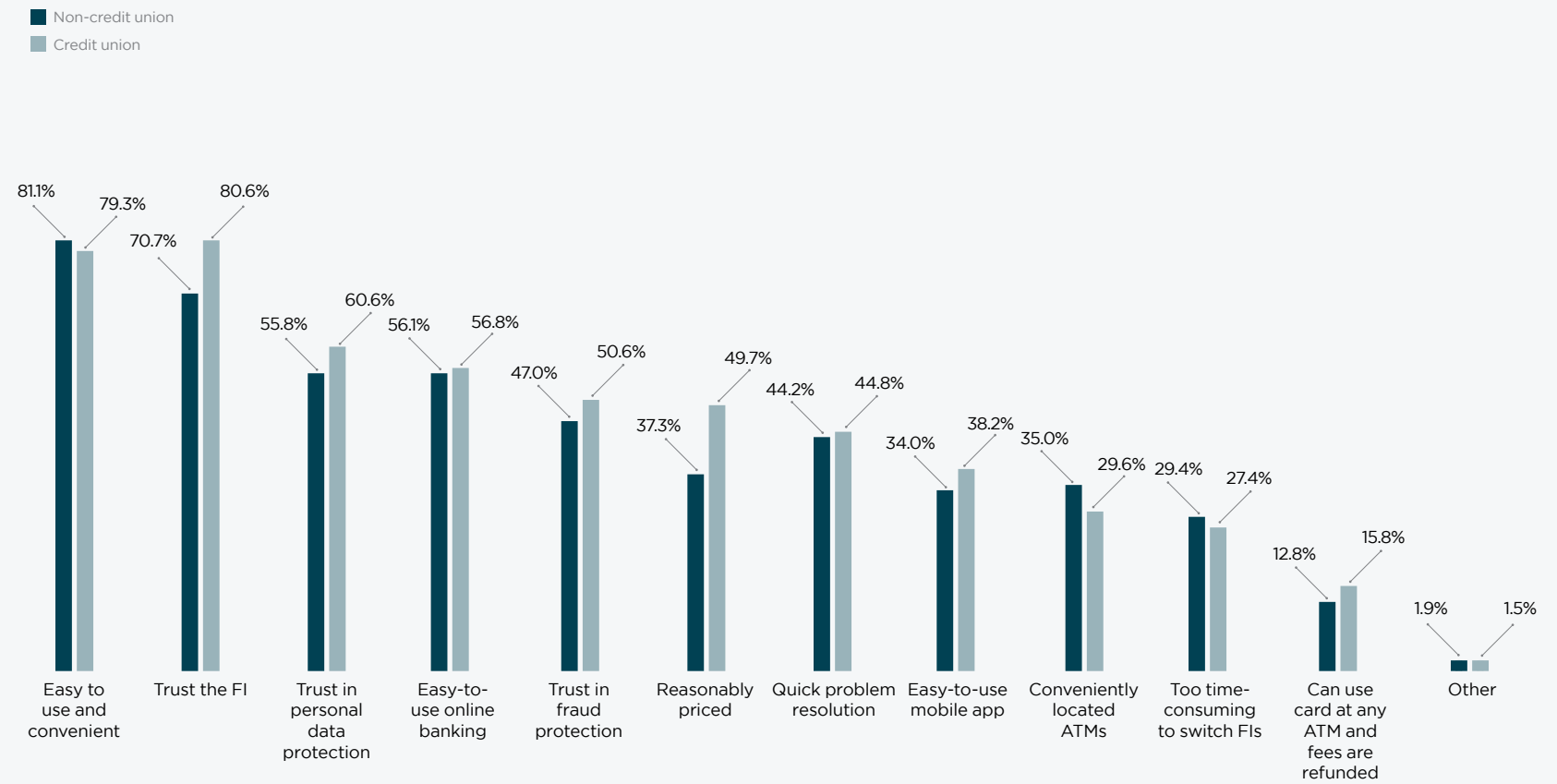
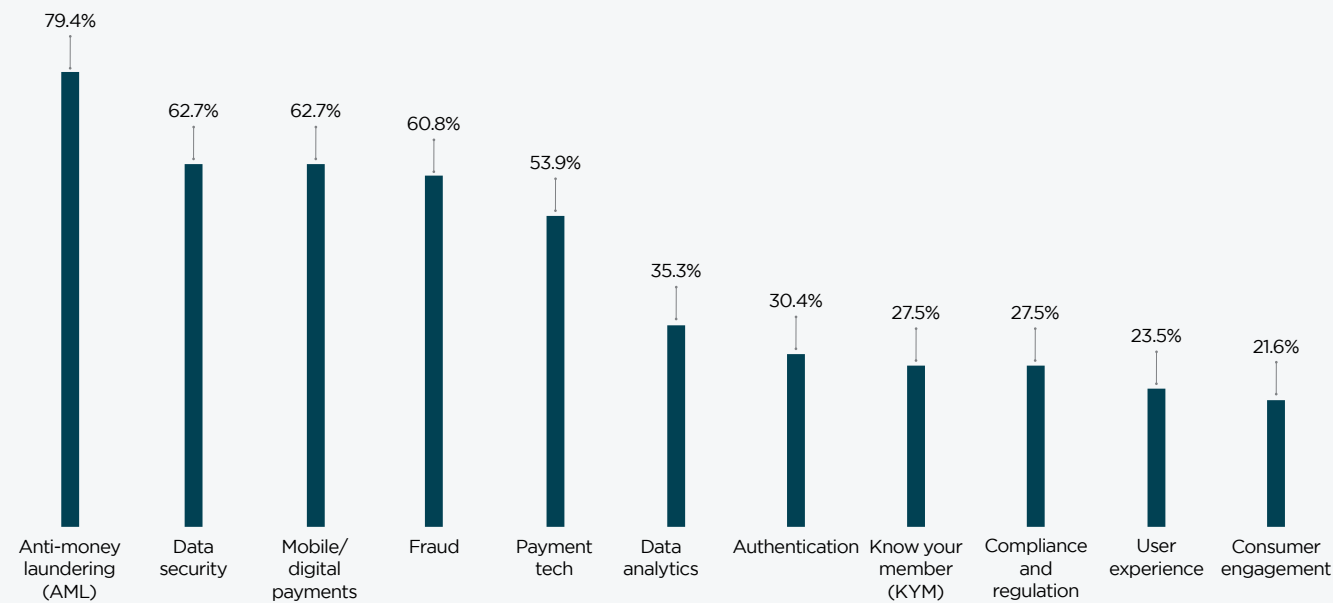


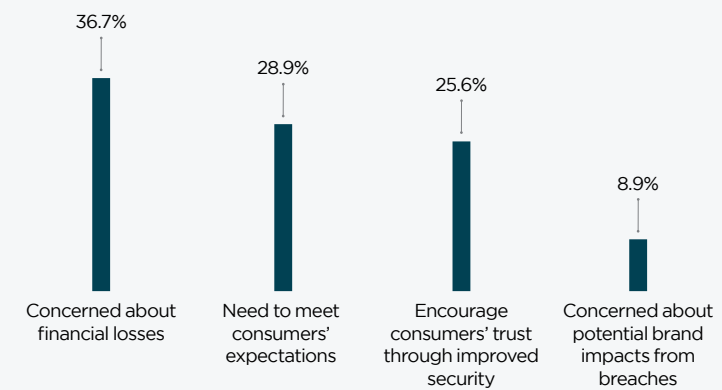
Figure 3: CUs' investment focuses for the past three years
Share of CU executives who cited select innovation priorities



CU executives appear to understand that they must work to keep their institutions trustworthy, as evidenced by their reasons for pursuing these innovations. This means they must work to keep their operations

free from thieves, fraudsters and other bad actors, and it's little surprise that 36.7 percent of them said they invested to prevent their CUs from suffering financial losses.

Figure 4: Why CUs invest in fraud or data security
Share of CU executives who cited various reasons for security-focused investments



Credit union executives' focus on building and maintaining trust can be seen beyond their AML innovations, as 28.9 percent were concerned about meeting consumer expectations and 25.6 percent had improved security to encourage members' continued business. A significant share

of members indicated they joined CUs and remained with them because the institutions could be trusted with their financial assets. As such, credit union executives appear to understand how important trust is to both members and the broader CU market brand.

MEMBERS' TRUST IN CUS' COMMITMENT TO

**SECURITY ENABLES
INNOVATION**



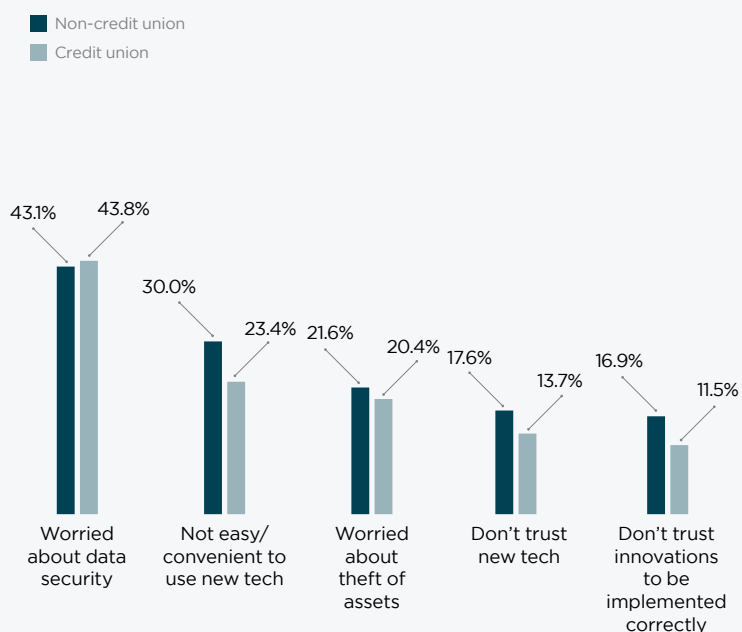
MEMBERS' TRUST IN CUS' COMMITMENT TO SECURITY ENABLES INNOVATION

Trust is an indispensable element of credit unions' recruitment processes. It should ideally also play a prominent role in their retention efforts, but such consideration should not stop there. Members expect their CUs to be mindful of their financial well-being. The innovations credit unions prioritize can communicate a great deal about how well they handle their members' trust, and it appears they are doing something right: Very few members do not trust their CUs to innovate in areas that fit their needs.

In fact, lack of trust is one of the least-cited reasons members might not be interested in CUs' innovations. Just 13.7 percent are not interested in their credit unions' innovations because of a lack of trust, as shown in Figure 5, and even fewer (11.5 percent) do not trust the innovations to be rolled out effectively. This indicates a high level of confidence in CUs' commitments to pursuing innovations that serve members' financial interests.

Figure 5: Reasons consumers are not interested in financial innovations

Share of members who want their FIs to pursue select innovation priorities in the next three years



Our findings also hold a cautionary note for credit union executives, however: 43.8 percent of members say they were not interested in CUs' innovation efforts because of data security concerns, while 20.4 percent reported fears of asset theft. This insight should indicate that many members are concerned that innovations could put their data at risk, which could ultimately undermine their trust.

Most members rely on their CUs to pursue innovations with their best interests in mind, but many expressed apprehensions about their personal data security. Any innovation plans credit unions pursue should, therefore, serve to ensure that members' data remains protected and their hard-won trust is not compromised.



CU MEMBERS WANT

**MEMBER-FACING
INNOVATIONS**



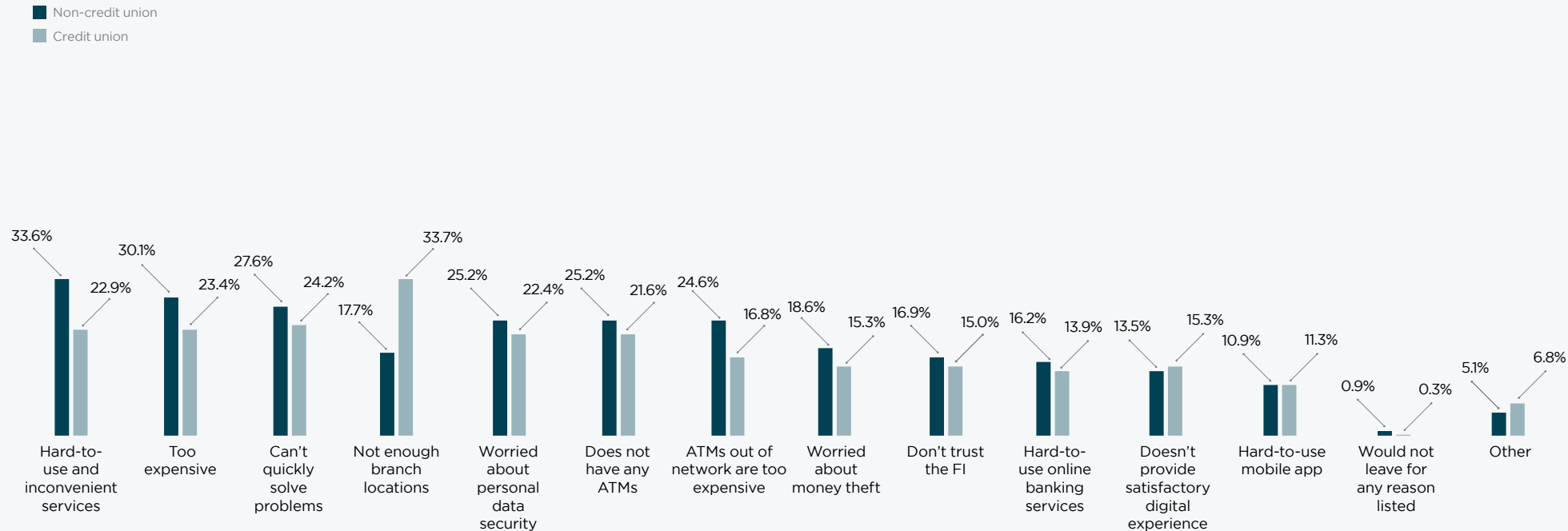
CU MEMBERS WANT MEMBER-FACING INNOVATIONS

In-person engagement is one of the most effective ways CUs can deliver member-oriented experience. It becomes more difficult for them to deliver on that experience without a sufficient network of physical branches, however. Those with

inadequate physical branch networks must focus their innovation efforts on expanding availability and improving online service accessibility if they want to ensure member retention and deliver the very services that make CUs appealing.

Members point to several reasons that could prompt them to leave their credit unions, but only 15.0 percent pointed to a lack of trust. This number was slightly higher for non-CU members, at 16.9 percent.

Figure 6: Reasons for leaving an FI
Share of consumers who cited different reasons for abandoning an FI



CUs' real member-retention issue is an insufficient physical footprint. More members point to a lack of brick-and-mortar branch locations (37.7 percent) than any other factor as a reason they might leave their credit unions, so CUs must make it easier for members to access staff at physical locations.

That said, most credit unions lack the deep pockets enjoyed by their larger, for-profit bank counterparts, making the prospect of constructing new branches largely unfeasible. Some have found a way to expand their footprints by joining shared branch networks, but this is not a viable option for many.³

Some members' lifestyles also make physical branch network investments less appealing. Navy Federal and Pentagon Federal both cater to military members who frequently travel for deployments, while others serve airline personnel and other highly mobile populations. Their members might not be able to step inside a physical location, making investment in new bank branches potentially moot.

As an alternative to expanding their brick-and-mortar presences, CUs can serve all of their members using digital-facing interfaces like websites and mobile apps. In fact, credit unions can enhance their consumers' experiences by supplementing their physical branches with digital offerings, including easy-to use and convenient mobile apps and websites, comprehensive fraud solutions and expert call centers.

CUs are already relying on their online presences to help retain members, as seen in Figure 2, with 56.1 percent of members indicating that it is a reason they bank with their CUs.

There is room for improvement in credit unions' mobile app experiences, however. Approximately 38.2 percent of existing members said they would stay with their credit union because it offers a strong mobile banking app experience. CUs thus must improve their mobile app experiences to deliver a member-centric approach to financial services — especially if they are unable to invest in building additional bank branches.

³ Author unknown. California Coast Credit Union Joins PSCU Cooperative as Newest Owner. PSCU Jan. 2018. <https://www.pscu.com/california-coast-credit-union-joins-pscu-cooperative-as-newest-owner>. Accessed March 2019.



USING FINTECHS TO HELP

**ENHANCE
SECURITY**





USING FINTECHS TO HELP ENHANCE SECURITY

One thing is clear: CUs and their members have high expectations when it comes to anti-fraud- and data security-focused innovations. Satisfying these priorities is also a big reason CUs enlist FinTechs' help.

CU members rank fraud and data security efforts among their top three priorities. As seen in Figure 7, 49.1 percent cite loyalty and rewards as a top areas in which they want their credit unions to innovate in the next three years.

Figure 7: Consumers' innovation priorities
Share of members who want their FIs to pursue select innovations in the next three years

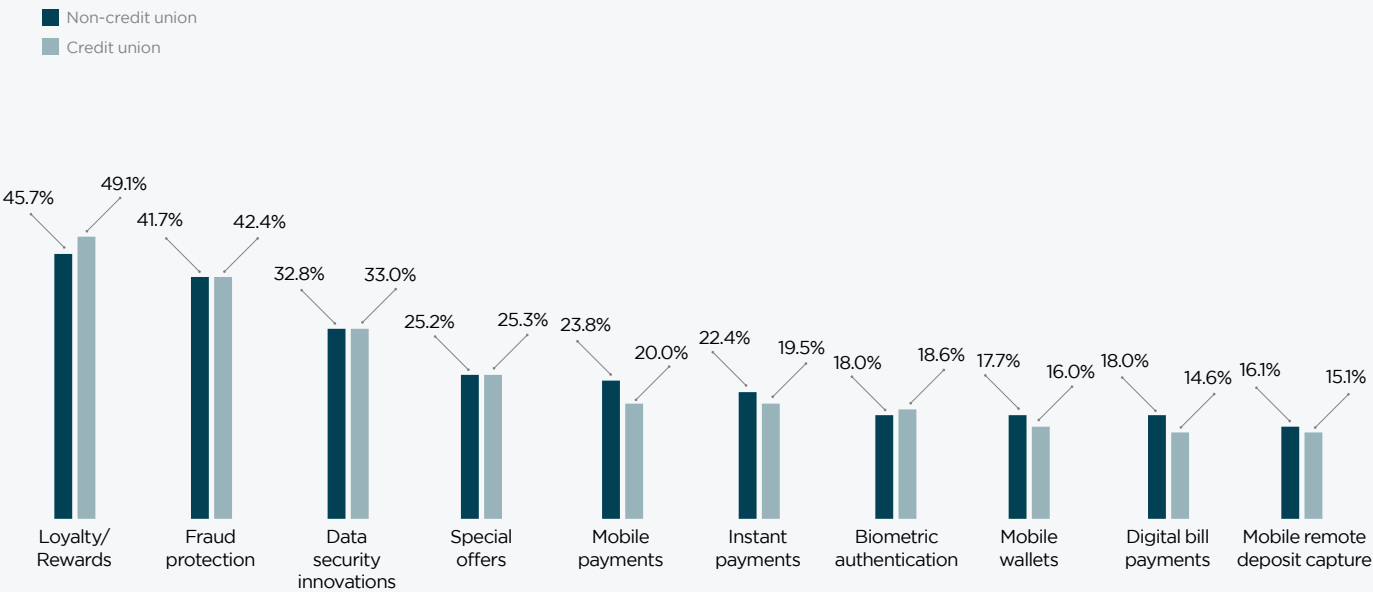
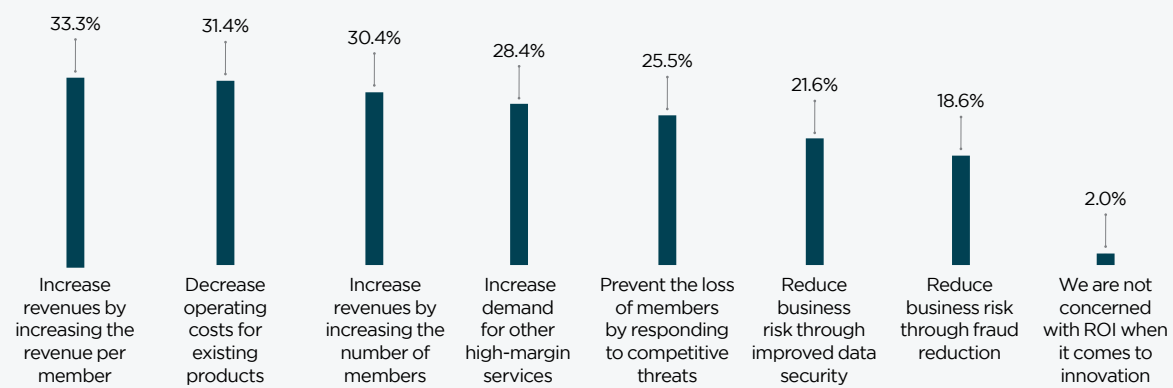


Figure 8: How CUs measure ROI

Share of CU executives who gauged different innovations' successes in select terms



Meanwhile, 42.4 percent point to account and fraud protection as a top concern, and 33.0 percent want their CUs to focus on innovations to reinforce and strengthen data security.

The same cannot be said for CU executives' priorities. Figure 3 showed data security and anti-fraud innovations were credit unions'

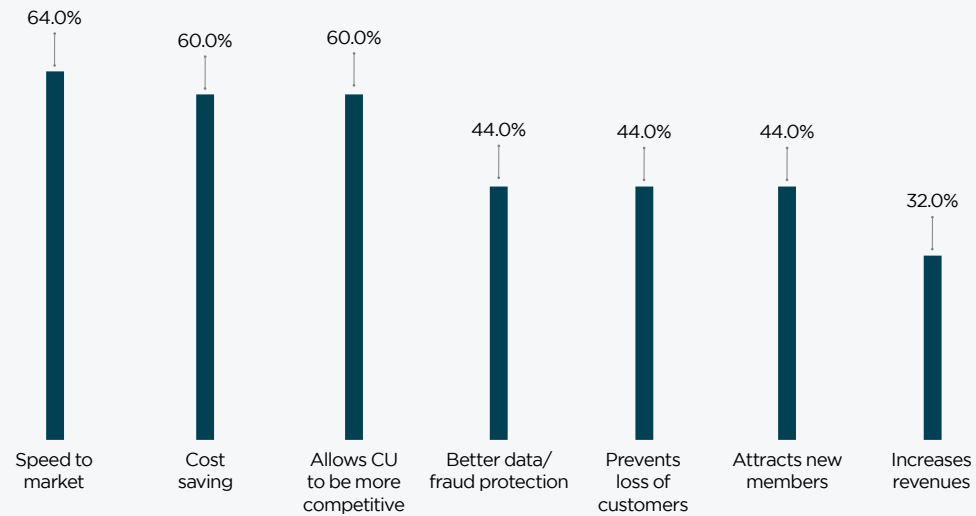
top investments during the past three years — far higher than loyalty and rewards, which was what members really wanted. In fact, less than one-quarter of this leadership says it has invested in anything pertaining to user experience and consumer engagement, showcasing a disconnect between members' and executives' innovation priorities.



There are several reasons why this might be the case. From an executive's perspective, reducing data security and fraud risk produces a lower ROI than introducing more rewards programs. Their biggest indicator is increasing member-based revenues and reducing costs associated with existing products, and 33.3 percent report measuring ROI by whether the innovation raises revenue

generated per member. Slightly fewer pointed to decreasing operating cost (31.4 percent) and increasing revenues by increasing the number of members (30.4 percent). In other words, CU executives see innovations that improve member services, reduce operating costs and help boost membership ranks as the most valuable.

Figure 9: Why CUs purchase FinTech products
Share of CU executives who cited select reasons for purchasing FinTech solutions

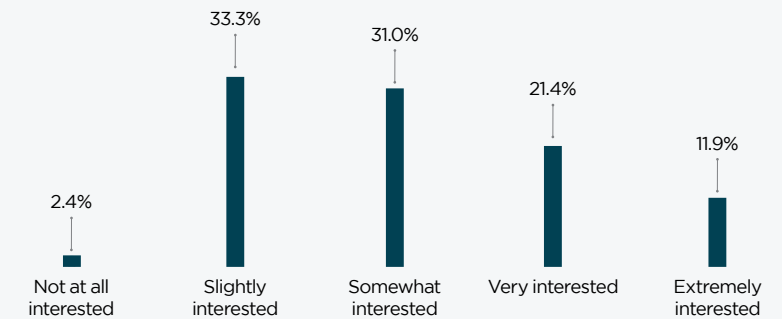


Many CU executives are partnering with FinTechs to meet both their own innovation priorities — cost-savings and making their credit unions more appealing to potential members — and current members’ desires for data and financial assets protection. Sixty-four percent say the ability to quickly get a solution to the market was key behind purchasing a FinTech’s products, while 60.0

percent invest in such offerings to reduce innovation costs or help their institutions become more competitive.

CU executives also consider FinTech partnerships as ways to invest in members’ interests and opportunities to expand their ranks. Forty-four percent of those surveyed see such pairings as ways to improve members’ data security, enhance fraud

Figure 10: FinTech firms’ general interest in selling directly to customers
Measure of FinTech executives’ interest in transacting directly with CU partners’ end customers



protection, prevent losing current members and make their institutions more appealing to potential members.

FinTechs appear to have a different view, though, with 64.3 percent of respondent firms expressing interest in selling their products directly to end consumers. This could indicate that these firms see their CU partnerships as opportunities to directly

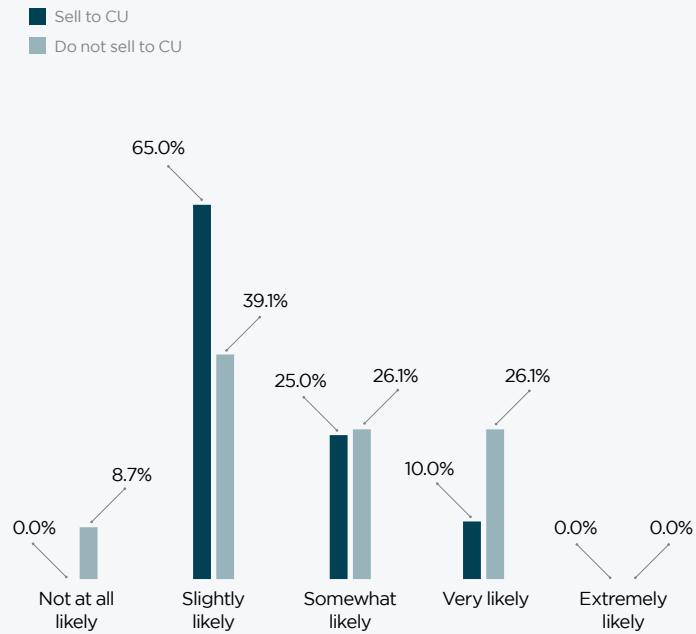
engage with members.

FinTechs are not only interested in selling directly to CU members, but a significant share also believe it is possible to do so. Among those that currently sell products to CUs, 35.0 percent would either be “somewhat” or “very” likely to sell directly to CU members if they could, potentially cutting CUs out of the arrangement.



Figure 11: FinTechs' confidence in direct-to-consumer selling

Measure of how FinTech executives gauged the likelihood of end-consumer selling



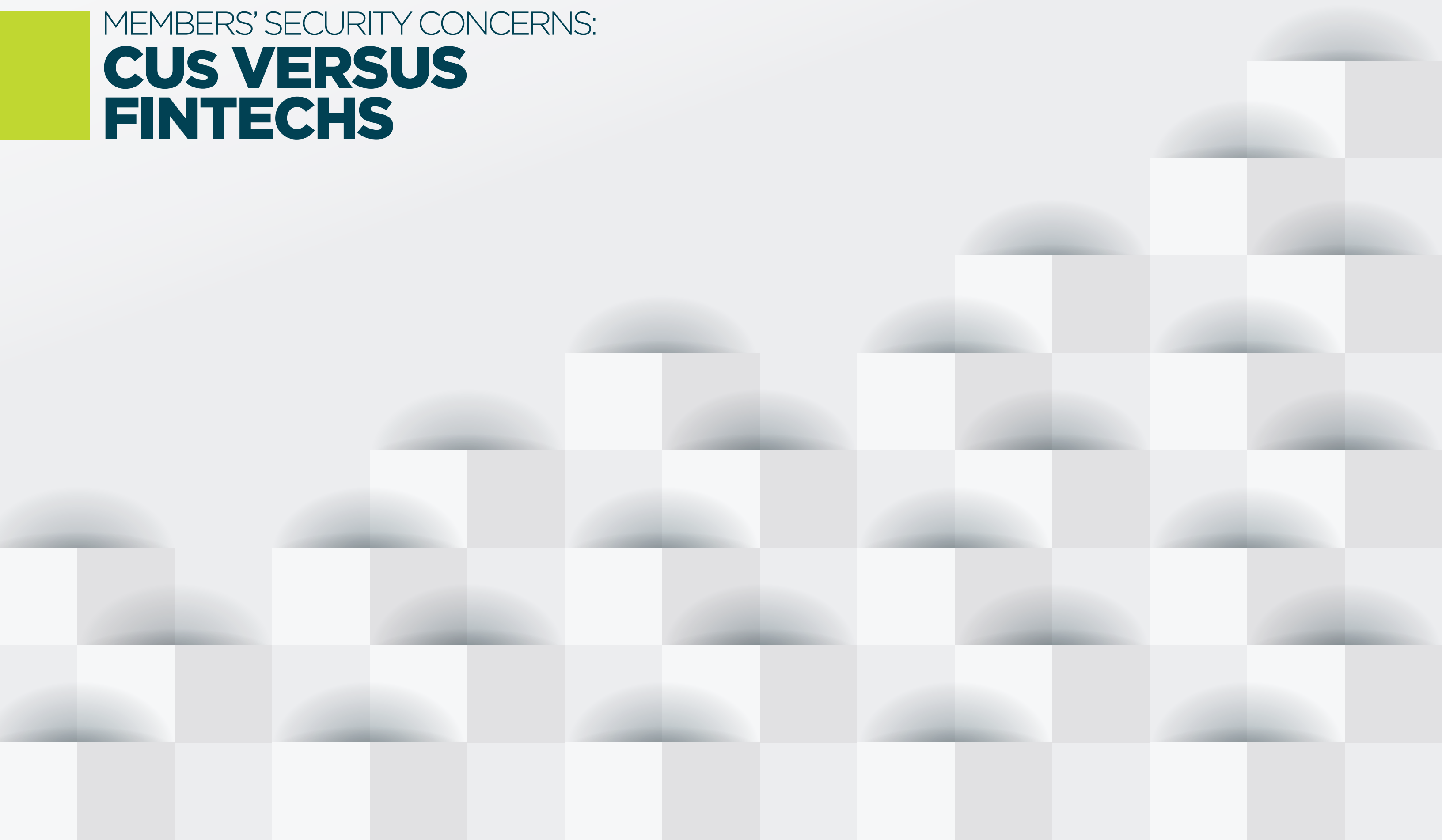
Credit union members want their FIs to make data security and fraud top innovation priorities, but it seems that executives' innovation goals are not always aligned. Keeping data and funds safe from bad actors is certainly important to them, but innovations that result in cost savings and increased revenues are seen as more valuable.

FinTech products can help CUs deliver on their commitments by providing innovative solutions while reducing cost, but credit unions need to be cautious. CU executives should bear in mind many FinTechs want to provide their services directly to members, and that several would not hesitate to circumvent their business partnerships to boost their own bottom lines.



MEMBERS' SECURITY CONCERNS:

**CUS VERSUS
FINTECHS**





MEMBERS' SECURITY CONCERNS: CUS VERSUS FINTECHS

This eagerness to work with CU members can make some credit unions nervous about FinTech partners, but these fears are largely misplaced based on member attitudes. Very few of them would consider leaving their FIs over data security concerns, as noted earlier, but there are members who might. FinTechs likely see this as an opening to directly pitch their services.

Data security concerns could be a deciding factor for most CU members, though, as 57.6 percent noted they would consider switching from a credit union if they trusted a FinTech's data security capabilities. This is not the top reason members would make a switch, however: 78.8 percent said they would join a FinTech if it offered easy-to-use and convenient services.

Figure 12: Reasons consumers change to larger FinTechs
Share of members who cited select reasons for leaving FI for a FinTech

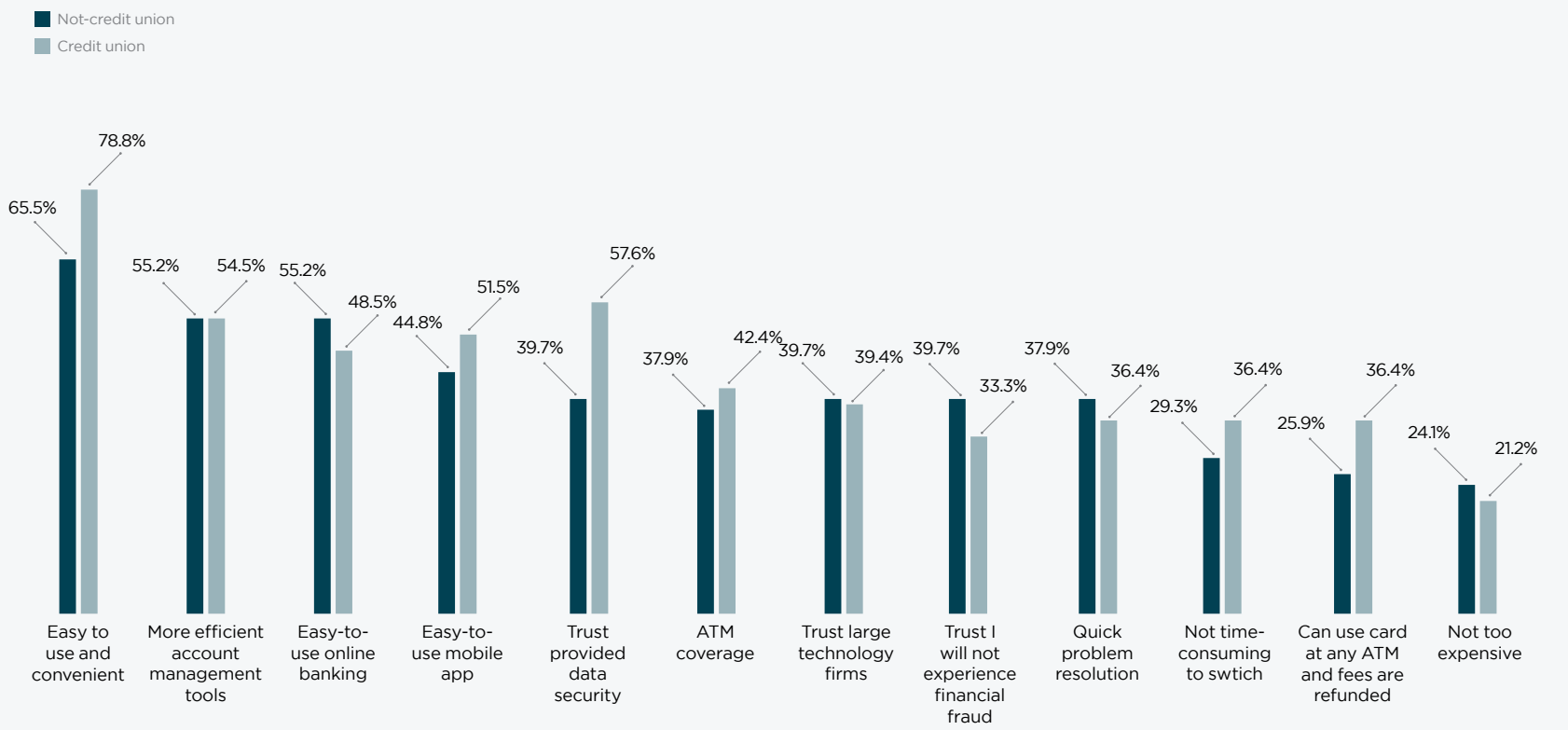
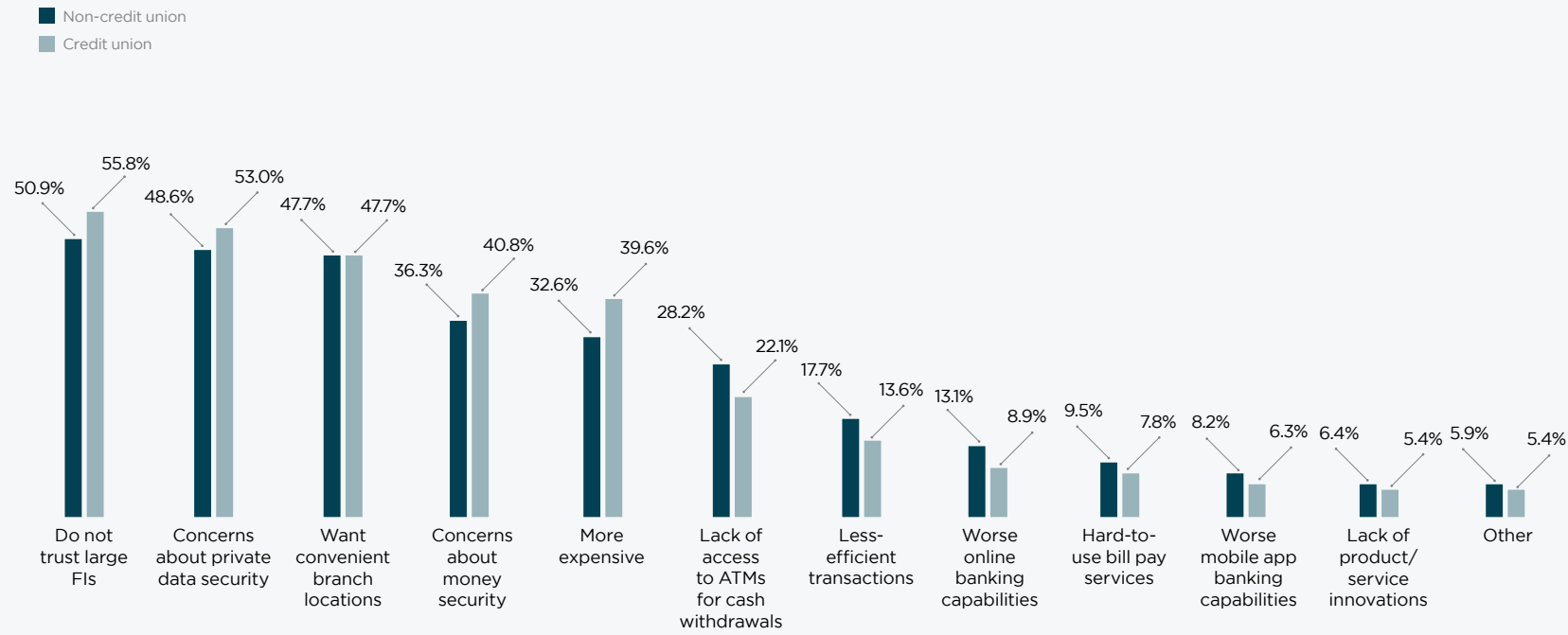


Figure 13: Reasons consumers would not change to larger FinTechs
Share of consumers who cited select reasons for not leaving their FIs



While some credit union members cite convenience and trust over data security as reasons to switch to FinTechs, they do not see such technology firms as more trustworthy than their CUs. More than half (55.8 percent) would not switch to FinTechs because they trust their brands less and are concerned about their private data security (53.0 percent).

FinTechs can offer members easy-to-use and convenient financial products. These firms face a trustworthiness gap that will make it difficult for them to successfully recruit credit union members, however. The odds of members leaving their CUs for FinTechs are slim, although a switch is not entirely impossible. Credit unions would do well to keep this in mind.



CONCLUSION

Credit unions have made names for themselves by offering member-oriented experiences, low-interest loans and rewarding savings accounts, but the most valuable tool in their portfolios might be trust. Trust is still the main reason members decided to enroll with CUs, and is also the most common reason they remain with them.

Credit union executives must understand their members' innovation priorities and frustrations if they want to honor that trust. Leaders still have lessons to learn about how to maintain their reputations as trustworthy, member-first organizations, but focusing on the innovations members expect will be a significant step in fulfilling their commitments. It could even bring new members into their ranks.

ABOUT

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