

JULY 2019

PYMNTS.com PSCU

The Credit Union Innovation Playbook: Loyalty Innovation Edition a PYMNTS and PSCU collaboration, delves into credit unions' investments in loyalty and rewards innovation plans. Each edition homes in on a specific focus, exploring the differences in how credit union members and leadership prioritize innovation in four select areas: risk and fraud, digital banking, data and analytics and loyalty strategies.

CREDIT UNION INNOVATION PLAYBOOK

LOYALTY INNOVATION EDITION



49%

PORTION OF CU MEMBERS
WHO WOULD LIKE THEIR CUS
TO INVEST IN LOYALTY/
REWARDS INNOVATION IN
THE NEXT THREE YEARS

37%

SHARE OF CUS THAT FOCUS
ON LOYALTY INNOVATION THAT
OBSERVE MARKET TRENDS
BEFORE LAUNCHING NEW
PRODUCTS AND FEATURES

47%

PORTION OF CUS THAT
FOCUS ON LOYALTY
INNOVATION THAT SAY
THEIR IT INFRASTRUCTURE
MAKES INNOVATION EASIER

50%

SHARE OF LOYALTY-
FOCUSED FIS THAT
COMPLETE INNOVATION
INITIATIVES IN FOUR
TO SIX MONTHS

63%

SHARE OF CUS THAT FOCUS
ON LOYALTY INNOVATION
THAT INVESTED IN DATA
SECURITY IN THE PAST
THREE YEARS

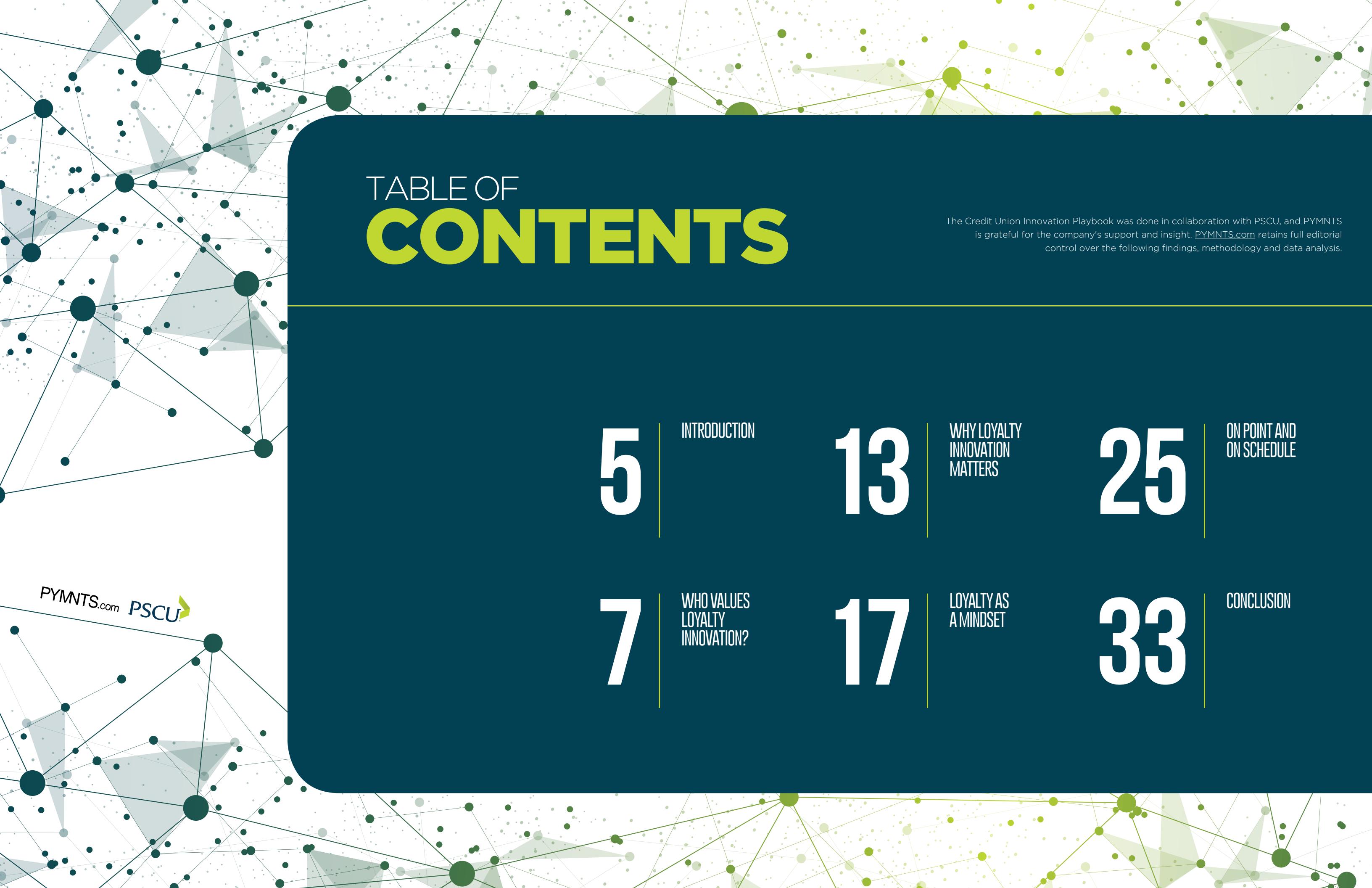


TABLE OF CONTENTS

The Credit Union Innovation Playbook was done in collaboration with PSCU, and PYMNTS.com is grateful for the company's support and insight. PYMNTS.com retains full editorial control over the following findings, methodology and data analysis.

5	INTRODUCTION	13	WHY LOYALTY INNOVATION MATTERS	25	ON POINT AND ON SCHEDULE
7	WHO VALUES LOYALTY INNOVATION?	17	LOYALTY AS A MINDSET	33	CONCLUSION

INTRODUCTION

Consumers take their loyalty to credit unions (CUs) seriously, but they can also be fickle about it. PYMNTS' research suggests nearly four out of 10 members are likely to leave their current credit unions to explore banking options elsewhere, for example.

With so many customers willing to switch to competitors, one might expect CUs to invest in the areas their members most value. Our study reveals innovation priorities are one of the biggest disconnects between CU decision-makers and the members they serve, however: 49.1 percent of surveyed members want their credit unions to focus on loyalty innovations — which include rewards offerings, in-app coupons and card-based cash-back programs, among other options — but just 29.4 percent of decision-makers say their CUs focused on them during the past three years.

Why do so few credit unions invest in the very area about which their members seem to care most?

PYMNTS surveyed more than 2,000 CU members and interviewed over 100 executives at United States-based credit unions for the Credit Union Innovation Index and Playbook series, a PSCU collaboration.¹ The Loyalty Innovation Edition drills into what CUs that invest in loyalty innovation get right, and how it influences CU-member relationships.

¹ January 2019 Credit Union Innovation Index. PYMNTS.com. 2019. <https://www.pymnts.com/study/credit-union-innovation-index-study-2019/>. Accessed July 2019.

KEY FINDINGS:

1. Nearly four out of 10 CU members say they would be willing to switch primary FIs.

We asked members how likely they are to leave their CUs for other financial institutions (FIs). Our research found that both 39.8 percent of members who want their CUs to focus on loyalty innovation and 38.6 percent of those who do not report being likely to switch to competitors.

2. CUs that invest in loyalty innovation are more likely to innovate for customer-centric reasons.

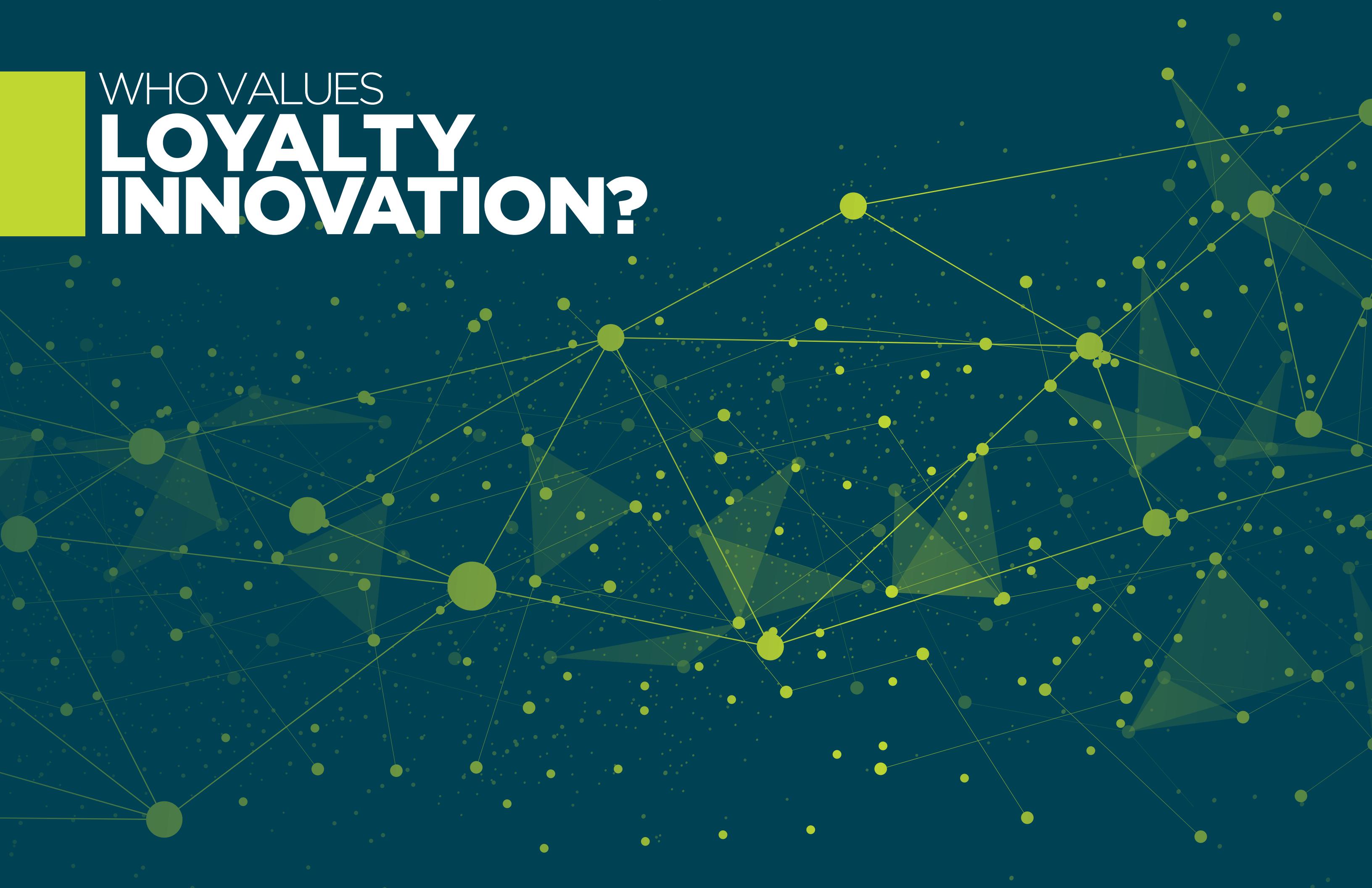
Surveyed decision-makers who implement loyalty innovations are often motivated by how such plans might affect members. Thirty percent from CUs that focus on loyalty innovation build their agendas to respond to potential members' needs, for example, as do 22.2 percent of those from other credit unions. Meanwhile, 33.3 percent of decision-makers from the former and 27.8 percent from the latter design such plans to respond to existing members' needs, and 40 percent and 27.8 percent, respectively, design theirs to meet changing consumer behaviors.

3. Innovation is faster and easier for the CUs that prioritize loyalty innovation.

CU decision-makers who set loyalty innovation as a priority list more factors that make innovation easier, according to our analysis. They are considerably more likely to say their personnel's expertise contributed to this, cited by 60 percent of credit unions that prioritized loyalty innovation and 33.3 percent of those at other CUs. This is followed by IT infrastructures at 46.7 percent and 23.6 percent, respectively, and budgets at 36.7 percent and 22.2 percent.

Credit unions that focus on deploying loyalty-focused innovations are demonstrably faster at bringing innovations to market than those that do not. Our research found 53.3 percent of the former complete innovations in six months or less, as do 34.7 percent of their non-loyalty-focused counterparts.

These are just a few examples of the advantages enjoyed by CUs that make loyalty innovation a focus, illustrating the central role it plays in the minds of their members. In the following pages, we will explore just how important loyalty innovation truly is to credit union members, and why the CUs that invest in it choose to do so.



WHO VALUES **LOYALTY** **INNOVATION?**

WHO VALUES LOYALTY INNOVATION?

Credit union members are known for feeling loyal to their CUs, more so than consumers from other FIs. It makes sense, then, that loyalty innovation would be among the areas in which members want their credit unions to invest.

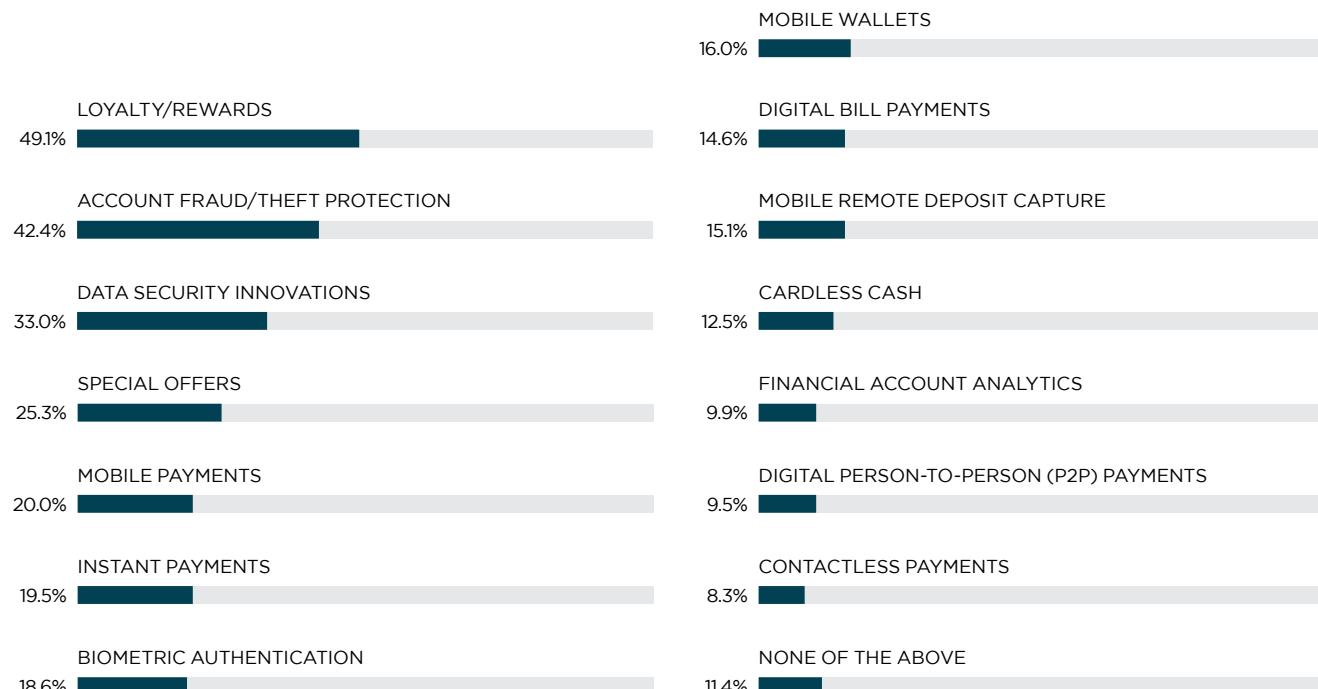
Our research suggests CU members place the highest value on loyalty innovation, with 49.1 percent of those in our survey saying they want their credit unions to focus on it. This makes loyalty the most commonly cited area of innovation, followed by account fraud and theft protection (42.4 percent) and data security innovation (33 percent).

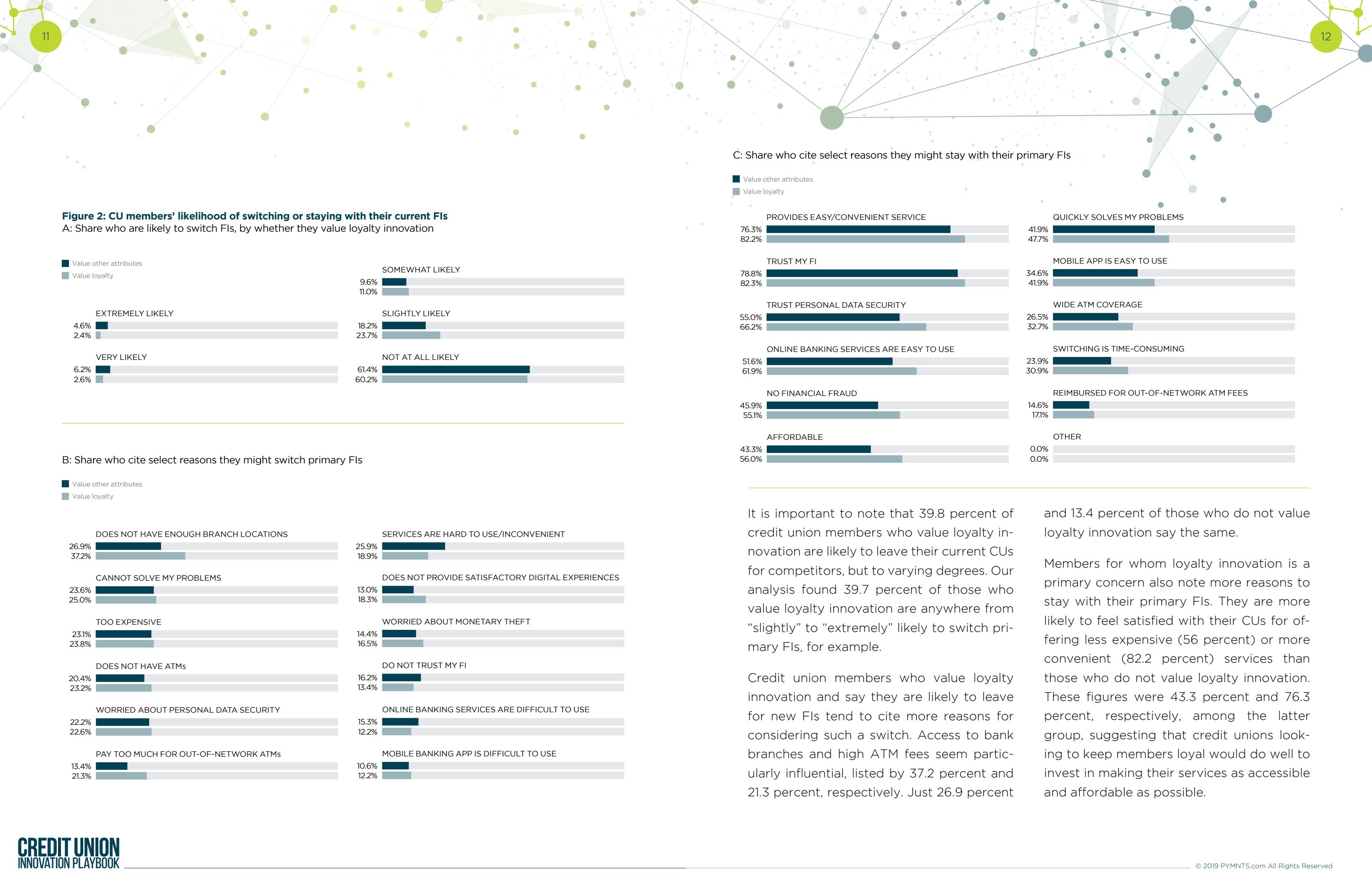
Perhaps unsurprisingly, credit union members who want their CUs to focus on innovating new loyalty and rewards programs also appear to feel stronger loyalty toward those institutions than those who do not. Our research shows 10.8 percent of those who do not value loyalty innovation are “very” or “extremely” likely to leave their current FIs to bank with competitors, but just 5.1 percent of CU members who do value loyalty innovation say the same.

49.1%

OF SURVEYED CU MEMBERS SAY THEY WANT THEIR CREDIT UNIONS TO FOCUS ON LOYALTY AND REWARDS INNOVATION.

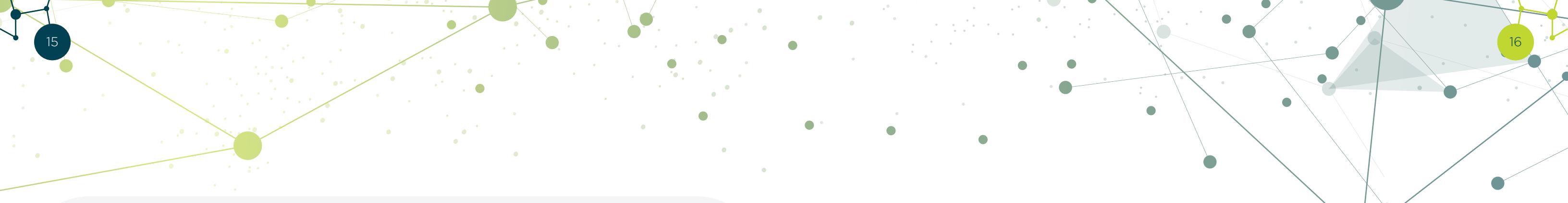
Figure 1: CU members' innovation priorities
Share who would like their CUs to invest in select innovation areas over the next three years





WHY LOYALTY INNOVATION MATTERS





WHY LOYALTY INNOVATION MATTERS

CU members constitute a diverse group, but each has unique financial needs. This leads to varying expectations regarding their credit unions' loyalty innovation strategies.

Most surveyed CU members say they want their credit unions to innovate, though not all who like innovation feel it would compel them to switch FIs. Our research found 7.3 percent say theirs must innovate or they would consider switching, while another 59 percent like innovation, but would not change FIs.

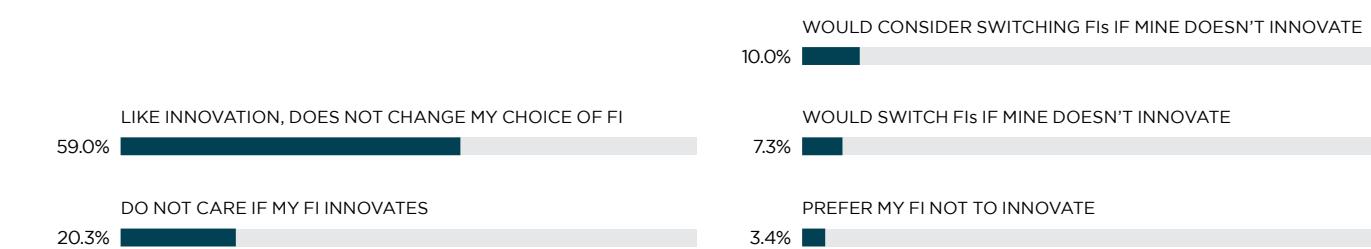
The share of credit union members who want their FIs to innovate far exceeds that of those who do not value innovation. Just 3.4 percent of the former in our survey say they would prefer their CUs not innovate at all, compared to 76.3 percent who would like theirs to do so and 17.3 percent who would be willing to switch FIs if their credit unions do not.

These findings suggest that CUs could improve their standings with members by innovating, as a far greater portion are likely to appreciate such initiatives. This is understandable. Innovating new products and services can help credit unions strengthen their ties with members through newer, faster, more convenient and more secure banking methods — even if that means optimizing something as simple as opening bank accounts.

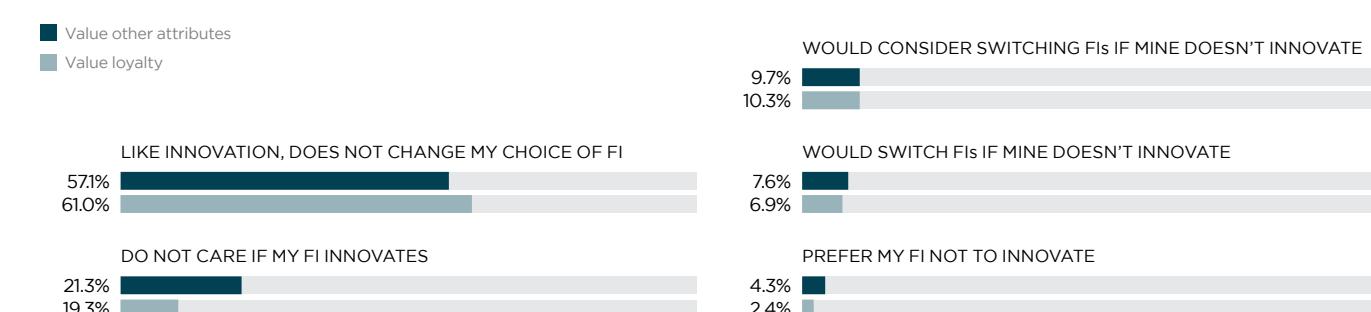
Moreover, most members who value loyalty innovation will not leave if their CUs devote time and resources to loyalty innovation. Our research suggests they are more likely to appreciate their credit unions investing in product and services improvements, but their innovation-related opinions do not appear to change by which they believe should be highest priority. Sixty-one percent of members at CUs that prioritize loyalty innovation say they like innovation, for example,

Figure 3: How CU members prioritize innovation

A: Share who agree with select statements about the importance placed on CU innovation



B: Share who agree with select CU innovation importance statements, by whether loyalty innovation is the highest innovation priority



but it does not change their decisions about where to bank. A similar portion (57.1 percent) of those at credit unions that do not prioritize loyalty innovation say the same.

A small share of CU members actively dislike the idea of credit union innovation, though. They represent a tiny portion of our sample, but their opinions on innovation offer insights into why some consumers might

feel wary about their FIs investing in new technologies.

CU decision-makers can take several measures to help overcome these obstacles. Member outreach efforts can raise awareness about innovation initiatives, including how credit unions plan to use them to address members' concerns and improve offered products and services.

LOYALTY ASA MINDSET





LOYALTY AS A MINDSET

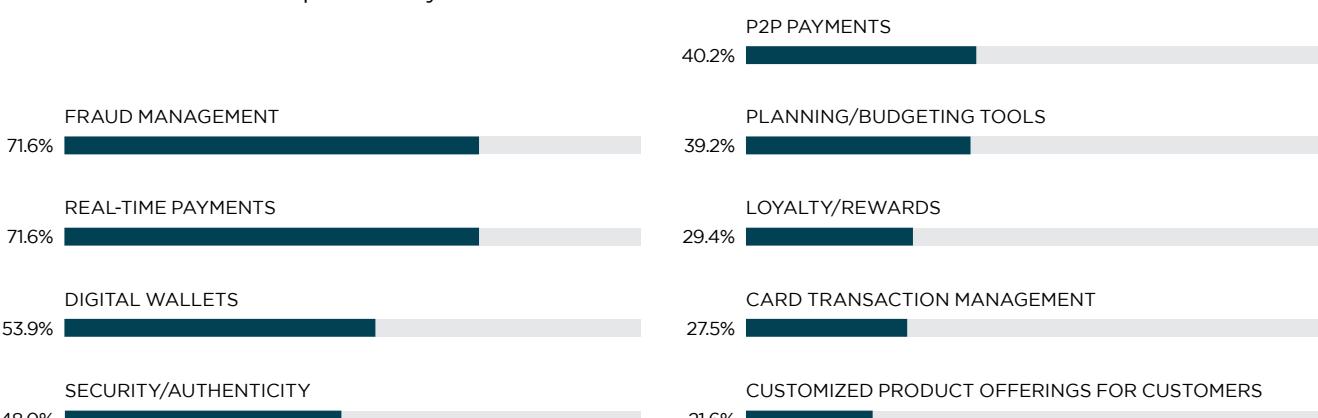
Loyalty innovation can help secure credit union members' satisfaction with their CUs, but our research shows that few decision-makers consider it to be among their highest priorities. Just 29.4 percent of those surveyed say their credit unions focused on loyalty innovation during the past three years, making it the seventh-most common CU innovation area overall.

The two most common areas on which surveyed credit union decision-makers report focusing are fraud management and real-time payments. Each is an innovation focus for 71.6 percent of sample decision-makers, followed by digital wallets (53.9 percent), security and authentication (48 percent) and person-to-person (P2P) payments (40.2 percent), to name a few.

So, why do so few credit unions invest in loyalty innovation? The answer just might lie in the mindsets of the decision-makers calling the shots.

Figure 4: CUs' innovation priorities

Share of CU decision-makers whose CUs focused on select innovations in the past three years



29.4%

OF SURVEYED CU DECISION-MAKERS SAY THEIR CREDIT UNIONS FOCUSED ON LOYALTY INNOVATION DURING THE PAST THREE YEARS, MAKING IT JUST THE SEVENTH-MOST COMMON CU INNOVATION AREA OVERALL.



33.3%

OF SURVEYED DECISION-MAKERS AT LOYALTY-FOCUSED CUs SAY THEY INNOVATE TO MEET CURRENT MEMBERS' NEEDS.

Our research suggests decision-makers at CUs that focus innovation strategies on improving loyalty and rewards have broader mindsets, favoring innovation and more member-centric planning than those at other credit unions. They often design their innovation agendas with several factors in mind, and are more likely than decision-makers from non-loyalty-focused CUs to say they innovate for their users, members and consumers.

Thirty percent of respondents from loyalty-focused credit unions design their innovation agendas to respond to potential members' needs, according to our research, compared to 22.2 percent of the CUs that do not focus on loyalty innovation.

Similarly, 33.3 percent of respondents from loyalty-focused CUs do so at least in part to respond to existing members' needs, compared to 27.8 percent of the control group, and 40 percent of the former and 27.8 percent of the latter design innovation plans to meet changing consumer behavior.

Conversely, decision-makers at non-loyalty-focused credit unions are far more likely to say they innovate to meet regulatory and compliance requirements — presumably to avoid legal penalties and fees — at 38.9 percent compared to 26.7 percent of those at loyalty-focused CUs. In this sense, the former appears to be more concerned with cost than its competitors.

These responses show decision-makers at loyalty-focused CUs are more likely than others to say their FIs invested in a greater number of innovation areas over the

past three years. The only two in which the non-loyalty-focused credit unions are more likely to make investments are anti-money laundering (AML) and authentication.

Figure 5: Factors that CUs take into consideration when designing innovation agendas
Share that cite select factors as motivators for launching innovations

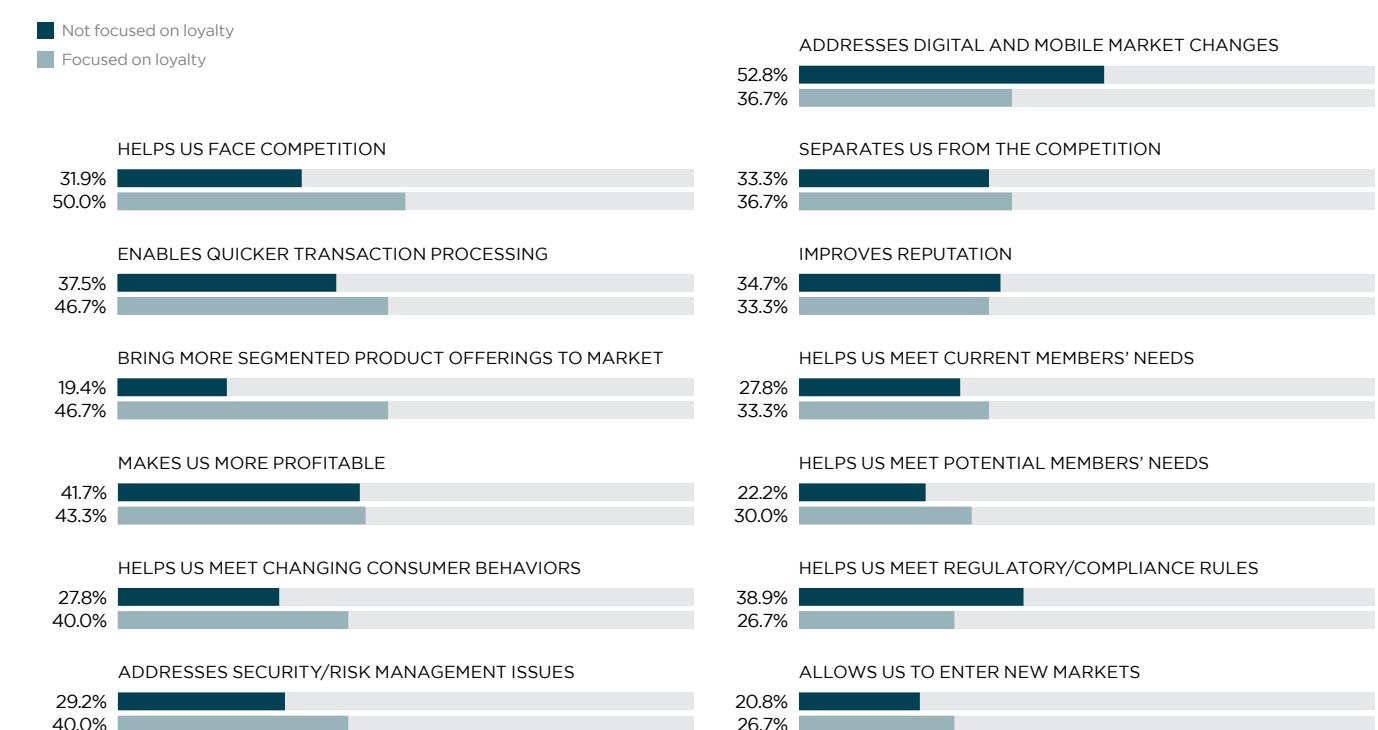
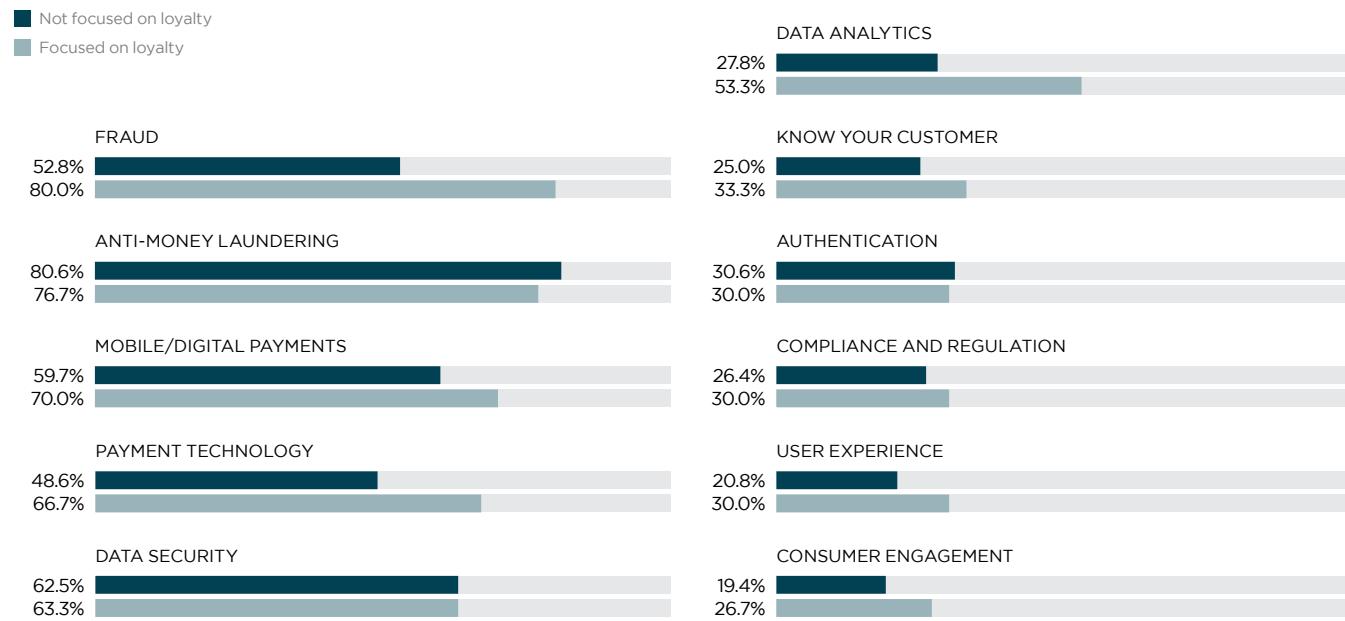


Figure 6: A retrospective look at CUs' innovation priorities

Share that reported focusing on select areas when investing over the past three years



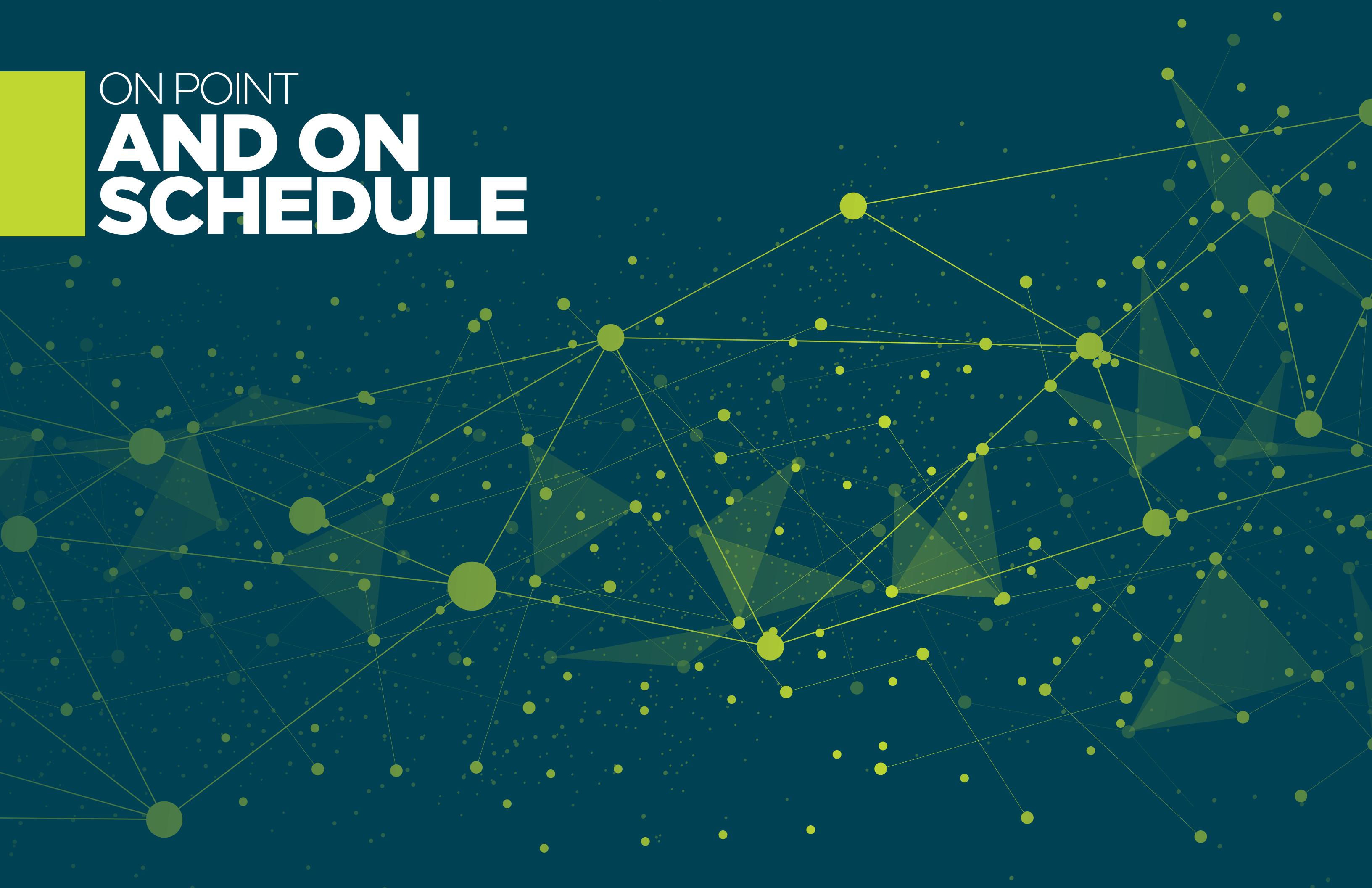
Our research found 80.6 percent of these CUs invested in AML, compared to 76.7 percent that did so in loyalty innovation. The difference between loyalty- and non-loyalty-focused credit unions that invested in authentication is negligible, however, at 30 percent and 30.6 percent, respectively. It seems those that prioritize loyalty are also generally more prolific innovators.

Interestingly, decision-makers at CUs that implemented loyalty innovation during the past three years are far more likely than others to say their FIs invested in mobile/digital payments, anti-fraud efforts, payments technology, data analytics, know

your customer (KYC), user experience and consumer engagement innovations. Thirty percent say their credit unions rolled out user experience innovations during this time frame, for example, compared to 20.8 percent from CUs with no loyalty innovation histories. Similarly, 33.3 percent of loyalty-focused credit unions centered on KYC innovation, compared to 25 percent of their non-loyalty-focused counterparts.

This suggests that the CUs that prioritize loyalty innovation are more customer-centric than others. Moreover, this mindset appears to affect their ability to implement innovation plans.





ON POINT
**AND ON
SCHEDULE**

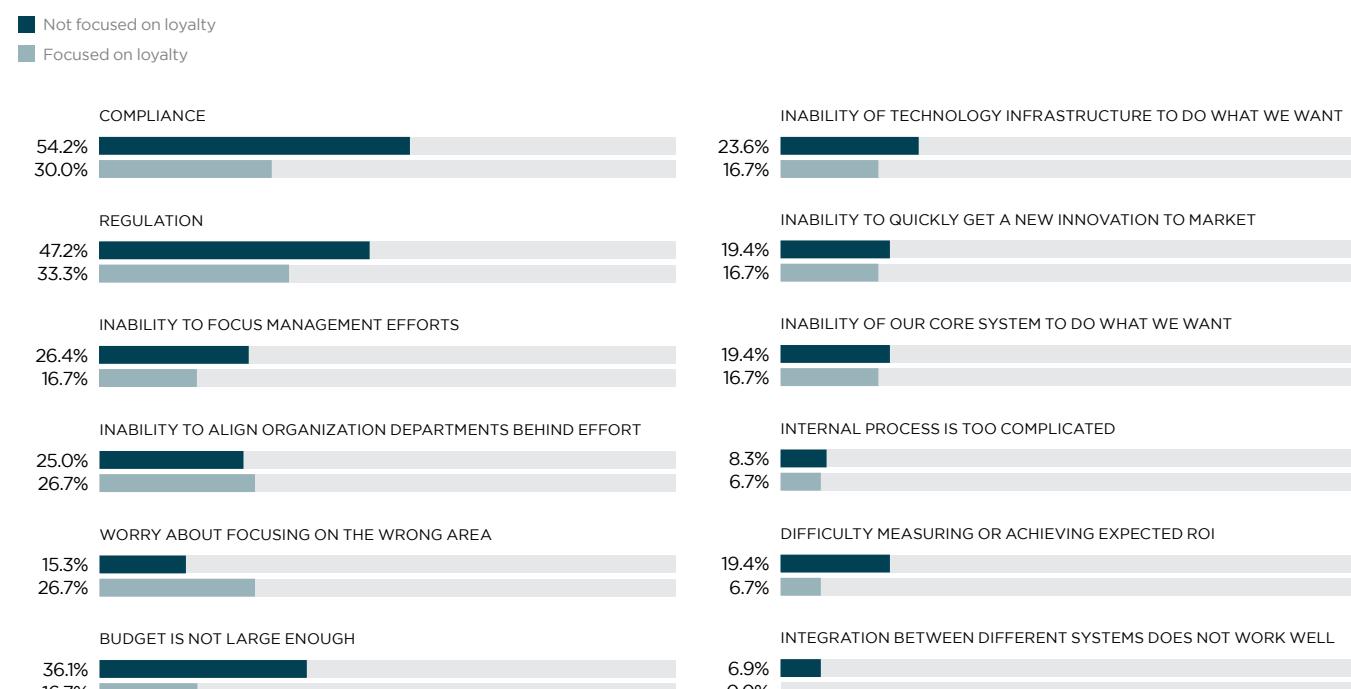
ON POINT AND ON SCHEDULE

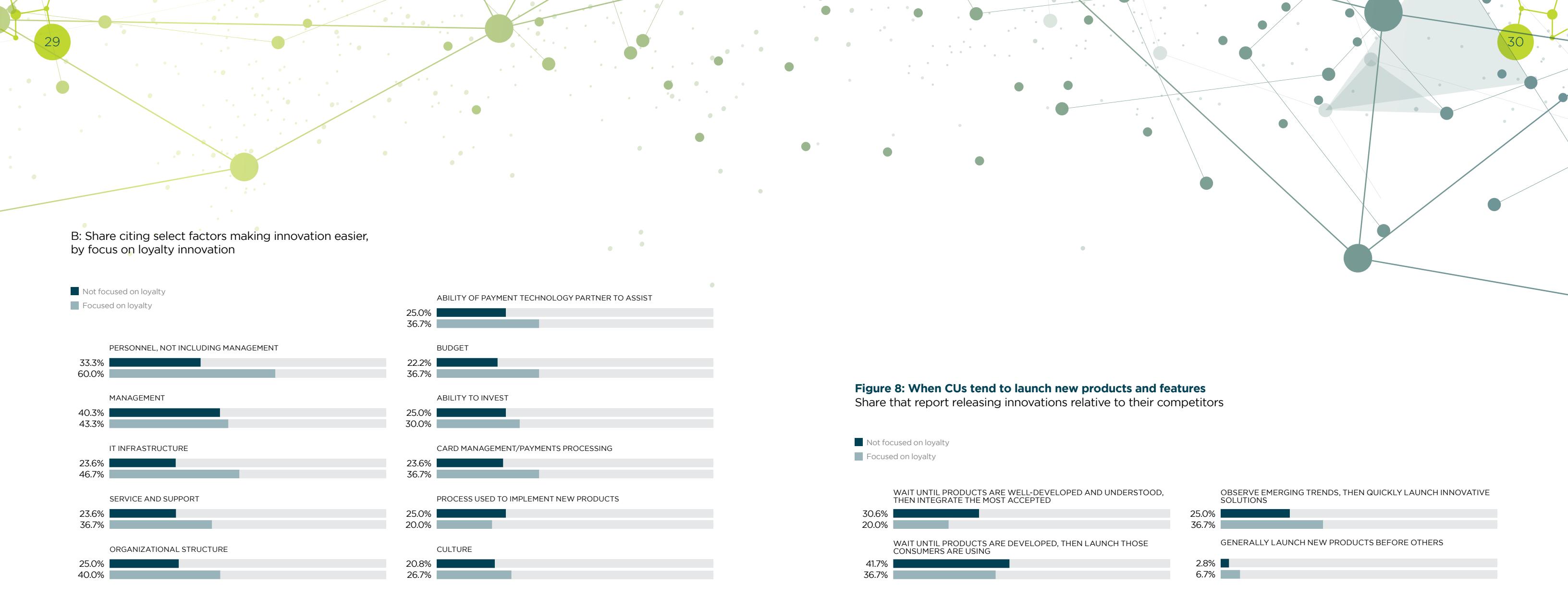
We cannot definitively say that the credit unions that invest in loyalty innovation will be more successful, of course, but our research suggests these factors are strongly correlated. A focus on loyalty innovation can serve as a strong indicator of innovative success. Decision-makers at loyalty-focused CUs not only report facing fewer innovation obstacles, according to our data, but also have faster innovation processes than those at credit unions without such focuses.

Compliance and regulatory standards impede innovation processes, though. The former is cited by 54.2 percent of decision-makers from credit unions that do not focus on loyalty innovation, but just 30 percent of those from CUs that do. Decision-makers at loyalty-focused credit unions report being less encumbered by regulation (33.3 percent), compared to those at non-loyalty-focused CUs (47.2 percent).

Figure 7: Factors that help and inhibit CUs' innovation rollouts

A: Share citing select factors making innovation more difficult, by focus on loyalty innovation





One factor significantly afflicts loyalty-focused credit union decision-makers more than their non-loyalty-focused counterparts: fear of innovating in the wrong areas. Our research found 26.7 percent of those at the former say this worry impedes innovation, and 15.3 percent of those at the latter feel the same.

Decision-makers at loyalty-focused CUs also report having more tools at their disposal to

make innovation easier. They are far more likely to say their personnel (60 percent), IT infrastructures (46.7 percent) and budgets (36.7 percent) help facilitate innovation, to cite a few examples, than decision-makers at non-loyalty-focused credit unions. The latter report 33.3 percent, 23.6 percent and 22.2 percent, respectively, for those attributes.

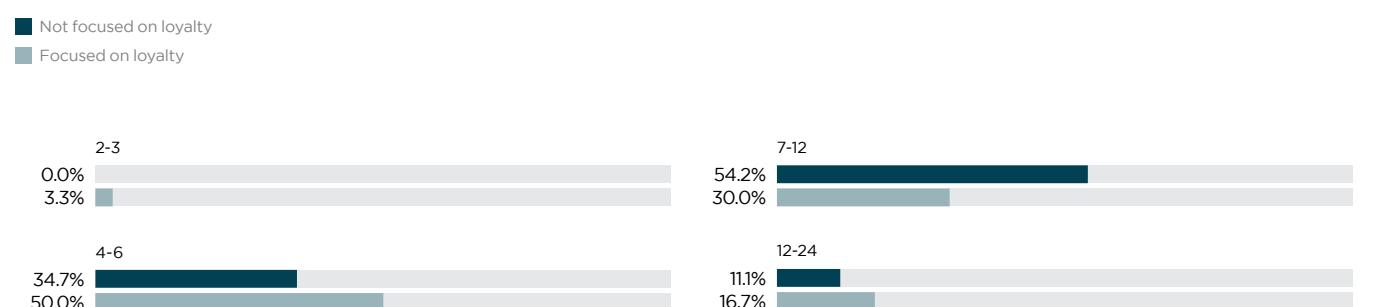
In short, the CUs that invest in loyalty innovations benefit from consumer-focused business cultures and infrastructures their competitors appear to lack. It is perhaps unsurprising that loyalty-focused credit unions tend to release new products and features to market faster than their

competitors. Our analysis found 6.7 percent of decision-makers at loyalty-focused CUs generally launch new products before others, and that 36.7 percent first observe emerging trends and are quick to launch innovations shortly thereafter.



Figure 9: How quickly CUs implement innovation plans

Time it takes to launch new products and features, in months

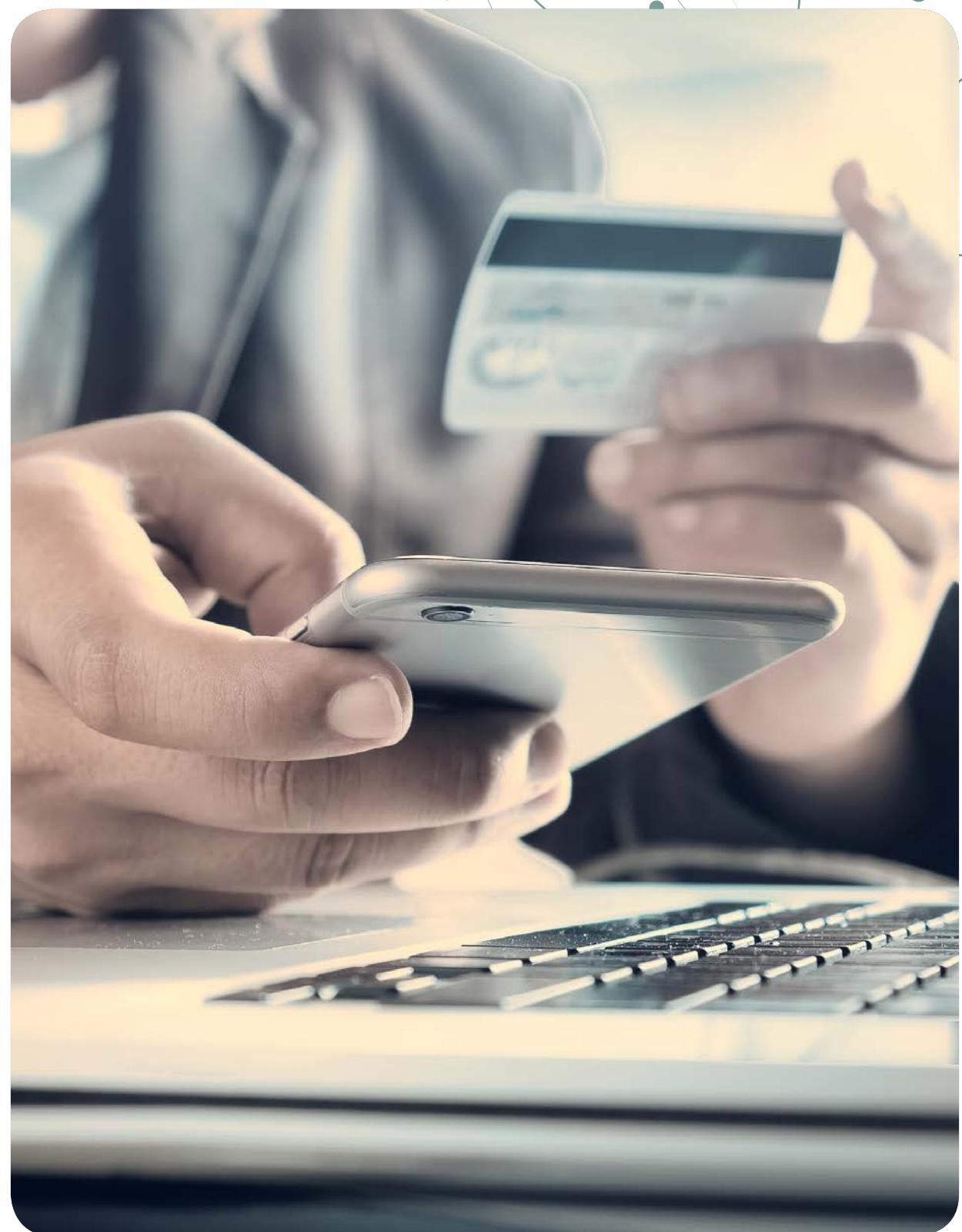


Just 2.8 percent of credit unions that do not focus on loyalty innovation say they generally launch new products and/or features before competitors, and 25 percent say they observe emerging trends and then launch innovations.

When asked how quickly they roll out innovations in absolute rather than relative terms — in months, rather than compared to competitors' average pace — CU decision-makers' answers indicate that credit unions focused on loyalty innovate faster than those that are not focused on it. Half of them roll out innovations in four to six months, and 3.3 percent complete them in as little as two to three. By comparison,

34.7 percent of non-loyalty-focused CUs take four to six months for new products and features, and none manage to release them in two or three.

Most non-loyalty-focused credit unions require more than seven months to launch new products and features. In fact, 54.2 percent do so in seven months to one year, while 11.1 percent need between one and two years. Just 30 percent and 16.7 percent of loyalty-focused CUs, respectively, took this much time to complete their innovation plans. This serves as yet another example of a correlation between CUs' focus on loyalty innovation and their effectiveness in enacting innovations more broadly.





CONCLUSION

Credit union members take loyalty seriously, and their CUs should do the same. Fewer than one-third of all credit unions are currently investing in loyalty innovation, though, despite this being the very area about which their members care most. This disconnect may not currently be driving members away from their CUs, but it does

suggest that many credit unions have an opportunity to use innovation to improve member relationships going forward.

CU decision-makers would do well to examine competitors that already invest in loyalty innovation to learn how member-centric mindsets can help improve their innovation efforts.

METHODOLOGY

The Credit Union Innovation Playbook series, a PYMNTS and PSCU collaboration, expands upon some of the key findings from PYMNTS' January 2019 Credit Union Innovation Index. Our analysts gathered data from 4,331 respondents in three subsamples, including CU members, credit union executives and FinTech executives.

We collected survey response data from a census-balanced sample of 4,989 American

citizens — 2,087 of them credit union members — for the consumer portion of our analysis. We then surveyed 108 decision-makers at U.S.-based CUs of various sizes, revenues and branch location counts to obtain an inside look into what drives credit unions' innovation plans. The final component of our analysis considered response data from 49 American FinTech executives.

ABOUT

PYMNTS.com

PYMNTS.com is where the best minds and the best content meet on the web to learn about "What's Next" in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.

PSCU

PSCU, the nation's premier payments CUSO, supports the success of over 900 Owner credit unions representing more than 2 billion transactions annually. Committed to service excellence and focused on innovation, PSCU's payment processing, risk management, data and analytics, loyalty programs, digital banking, marketing, strategic consulting and mobile platforms help deliver possibilities and seamless member experiences. Comprehensive, 24/7/365 member support is provided by contact centers located throughout the United States. The origin of PSCU's model is collaboration and scale, and the company has leveraged its influence on behalf of credit unions and their members for more than 40 years. Today, PSCU provides an end-to-end, competitive advantage that enables credit unions to securely grow and meet evolving consumer demands. For more information, visit pscuc.com.

DISCLAIMER

The Credit Union Innovation Playbook, a PSCU collaboration, may be updated periodically. While reasonable efforts are made to keep the content accurate and up-to-date, PYMNTS.COM: MAKES NO REPRESENTATIONS OR WARRANTIES OF ANY KIND, EXPRESS OR IMPLIED, REGARDING THE CORRECTNESS, ACCURACY, COMPLETENESS, ADEQUACY, OR RELIABILITY OF OR THE USE OF OR RESULTS THAT MAY BE GENERATED FROM THE USE OF THE INFORMATION OR THAT THE CONTENT WILL SATISFY YOUR REQUIREMENTS OR EXPECTATIONS. THE CONTENT IS PROVIDED "AS IS" AND ON AN "AS AVAILABLE" BASIS. YOU EXPRESSLY AGREE THAT YOUR USE OF THE CONTENT IS AT YOUR SOLE RISK. PYMNTS.COM SHALL HAVE NO LIABILITY FOR ANY INTERRUPTIONS IN THE CONTENT THAT IS PROVIDED AND DISCLAIMS ALL WARRANTIES WITH REGARD TO THE CONTENT, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, AND NON-INFRINGEMENT AND TITLE. SOME JURISDICTIONS DO NOT ALLOW THE EXCLUSION OF CERTAIN WARRANTIES, AND, IN SUCH CASES, THE STATED EXCLUSIONS DO NOT APPLY. PYMNTS.COM RESERVES THE RIGHT AND SHOULD NOT BE LIABLE SHOULD IT EXERCISE ITS RIGHT TO MODIFY, INTERRUPT, OR DISCONTINUE THE AVAILABILITY OF THE CONTENT OR ANY COMPONENT OF IT WITH OR WITHOUT NOTICE.

PYMNTS.COM SHALL NOT BE LIABLE FOR ANY DAMAGES WHATSOEVER, AND, IN PARTICULAR, SHALL NOT BE LIABLE FOR ANY SPECIAL, INDIRECT, CONSEQUENTIAL, OR INCIDENTAL DAMAGES, OR DAMAGES FOR LOST PROFITS, LOSS OF REVENUE, OR LOSS OF USE, ARISING OUT OF OR RELATED TO THE CONTENT, WHETHER SUCH DAMAGES ARISE IN CONTRACT, NEGLIGENCE, TORT, UNDER STATUTE, IN EQUITY, AT LAW, OR OTHERWISE, EVEN IF PYMNTS.COM HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

SOME JURISDICTIONS DO NOT ALLOW FOR THE LIMITATION OR EXCLUSION OF LIABILITY FOR INCIDENTAL OR CONSEQUENTIAL DAMAGES, AND IN SUCH CASES SOME OF THE ABOVE LIMITATIONS DO NOT APPLY. THE ABOVE DISCLAIMERS AND LIMITATIONS ARE PROVIDED BY PYMNTS.COM AND ITS PARENTS, AFFILIATED AND RELATED COMPANIES, CONTRACTORS, AND SPONSORS, AND EACH OF ITS RESPECTIVE DIRECTORS, OFFICERS, MEMBERS, EMPLOYEES, AGENTS, CONTENT COMPONENT PROVIDERS, LICENSORS, AND ADVISERS.

Components of the content original to and the compilation produced by PYMNTS.COM is the property of PYMNTS.COM and cannot be reproduced without its prior written permission.

You agree to indemnify and hold harmless, PYMNTS.COM, its parents, affiliated and related companies, contractors and sponsors, and each of its respective directors, officers, members, employees, agents, content component providers, licensors, and advisers, from and against any and all claims, actions, demands, liabilities, costs, and expenses, including, without limitation, reasonable attorneys' fees, resulting from your breach of any provision of this Agreement, your access to or use of the content provided to you, the PYMNTS.COM services, or any third party's rights, including, but not limited to, copyright, patent, other proprietary rights, and defamation law. You agree to cooperate fully with PYMNTS.COM in developing and asserting any available defenses in connection with a claim subject to indemnification by you under this Agreement.