

CREDIT UNION

Innovation Index



The 2020 Credit Union Innovation Index, conducted in partnership with PSCU, analyzes the evolution of innovation trends in the financial services ecosystem. Drawing from a data sample of 3,908 U.S. consumers, 137 credit union leaders and 55 FinTech executives, the index examines the shifting importance financial consumers place on innovation as well as the innovation types they prioritize and how well CUs' and CU competitors' innovation plans are meeting their expectations.

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MARCH
2020

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



INTRODUCTION



Credit unions' (CUs) foundational loyalty appears to be at risk.

The share of CU members reporting they were willing to change primary FIs over insufficient innovation increased by 4.6 percentage points between 2018 and 2019 – from 17.3 percent to 21.9 percent. This shift hints at a broader decline in members' overall CU satisfaction. CU satisfaction rates are still high (88.5 percent), but the share of members who are "very" or "extremely" satisfied with their CUs fell 3.5 percent between 2018 and 2019.

CUs must then innovate to provide their members with fast, convenient and easy-to-use payments services, especially as FinTechs and challenger banks expand digital payments options' volume and variety. CUs ignoring or undervaluing these critical developments risk causing their members to lose satisfaction and leave.

CUs need to ask themselves whether their innovation plans match their members' priorities and investigate whether challenger banks, FinTechs and technology firms are developing

products and services that align better with consumers' financial needs.

Such queries are just a few of the topics PYMNTS explores in this edition of the Credit Union Innovation Index, done in collaboration with PSCU. This annual study brings together insights from our survey of 3,908 United States consumers, 137 CU executives and 55 FinTech executives to understand the complex relationship dynamics between CUs and their members, consumers who primarily bank with non-CU financial institutions (FIs) and emerging competitors like FinTechs and challenger banks.

Our latest research suggests many CUs are focusing on value-adding innovations to their products and services rather than concentrating on potential member loss. CUs are conscious that innovation can help them better meet their members' needs. Our research finds that 82.4 percent of CU executives say CUs might like to innovate offerings like peer-to-peer (P2P) payment apps because they believe their members want access, a far greater share than those motivated by factors like profitability (cited by

36.3 percent of interested CUs) or lower costs (31.9 percent). These findings highlight CUs' commitment to member-centric innovation.

Innovating such products as P2P payment apps and point-of-sale (POS) credit options may provide CUs a vital opportunity to improve their current services and also entice new members, particularly millennials and bridge millennials. Our research shows that these two age groups are the most interested in using new products like these: 50.8 percent of millennials and 47.7 percent of bridge millennials express interest in them. Just 38 percent of Generation X say the same.

These findings suggest that CUs' innovation priorities and plans can be nuanced, but the deeper reality is even more complex. This Credit Union Innovation Index explores how CUs are tailoring innovation strategies to their current members, growing their memberships by enticing other FIs' customers looking for better products and services and accomplishing the CU-specific goals that vary depending on the populations they serve.

KEY FINDINGS

1.



CU MEMBERS' SATISFACTION IS DOWN BUT STILL EXCEEDS THAT OF NON-CU MEMBERS.

We saw a slight drop in CU members' satisfaction rates between 2018 and 2019, with the share of CU members saying they were either "very" or "extremely" happy with their CUs dropping from 91.7 percent to 88.5 percent. CU members are still far more satisfied with their CUs than other consumers are with their FIs, however. Our research shows that just 80.8 percent of non-CU members felt "very" or "extremely" satisfied with their FIs, meaning CU members have significantly more confidence in their FIs than others do.

2.



CU MEMBERS VALUE INNOVATION MORE THAN THEY DID A YEAR AGO.

Our 2019 data shows that 21.9 percent of CU members would consider leaving their current FIs if their CUs were not planning to innovate, and 17.3 percent said so in 2018. This is lower than the portion of non-CU members who would consider switching FIs to access innovative products and services (30.1 percent) but remains significant. We also discovered that 57.3 percent of CU members value CU innovation, even if they would not necessarily switch FIs over the matter.

3.



CONSUMERS ARE INTERESTED IN USING NEW PAYMENT TOOLS, AND FIs ARE TAKING NOTICE.

Neither CU members nor other FIs' consumers are always familiar with alternative payment options, such as P2P payment apps, POS credit options and voice recognition technology – but they express interest once informed. Our survey finds that only 25.2 percent of CU members say they know what P2P payments are, but 35.8 percent say they would be interested in using P2P payments if available. These figures are even more stark among non-CU members, as 28.3 percent know what P2P payments are and 41.3 percent would be interested in using them.

4.

CU MEMBERS ARE OPEN TO USING CHALLENGER BANKS — ESPECIALLY IF THEY ARE OWNED AND OPERATED BY CUs.



Our research indicates that 19.4 percent of CU members are either “somewhat,” “very” or “extremely” interested in using challenger banks, and another 1.7 percent already use them. They are also more likely to switch to CU-owned-and-operated challenger banks than those operated by non-CU FIs or technology firms. Our study shows that 42.1 percent of CU members would be interested in challenger banks if the FIs were backed by other CUs. Only 13.4 percent of CU members would consider using challenger banks if they were operated by national banks, and 16.4 percent would consider using hypothetical options operated by technology giants like Google or Apple.

CU members and non-CU members alike also report high levels of PayPal banking interest, with 30.9 percent and 36.4 percent respectively saying they would consider banking with a theoretical PayPal-branded challenger bank. CU members and non-CU members are therefore more likely to consider banking with PayPal than with any other brand of any kind.

5.

CUs ARE MORE ATTUNED THAN EVER TO CHALLENGER BANK AND FINTECH COMPETITORS.



A large proportion of CU executives are concerned by the competitive threat posed by challenger banks such as Ally, Chime and GoBank, as 41.4 percent said they believe that such banks will be either “very” or “extremely” significant competitors in the next three years. Their biggest cause for concern? They believe that challenger banks are faster innovators, as 80.5 percent of CU executives in our study believe that challenger banks are significant competitors and share this concern. Other common concerns include the fear that challenger banks may be able to offer better apps (58.5 percent), better products (56.1 percent) or more convenience (43.9 percent). CUs’ fears about challenger banks therefore center on innovation.

The remaining 58.9 percent of CUs that do not consider challenger banks to be threats feel confident primarily because they believe they already provide the products and services their members need — our research shows that 62.7 percent of CU executives not considering challenger banks to pose competitive threats feel this way. Such executives also believe members considering switches will be deterred by challenger banks’ poor data security (61 percent) and higher costs (59.3 percent).

6.

ONE IN FIVE CU MEMBERS IS INTERESTED IN OR ALREADY USING A CHALLENGER BANK.



CUs' competitive concerns about challenger banks are not unfounded. CU members are less likely to have interest in such FIs than non-CU members, but a significant portion of them would be willing to leave their current CUs to bank with challenger banks instead. Our survey finds that 19.4 percent of CU members are either "somewhat," "very" or "extremely" interested in switching to challenger banks, and 1.7 percent already use them in addition to their CUs. A larger share of non-CU members, 27.3 percent, express similar levels of interest in switching to challenger banks, and 2.3 percent already use them.

The primary challenger bank appeal for CU members lies in the ease and convenience of services: 35.9 percent of interested CU members say they would consider using challenger banks because they believe their online banking services would be easier and more convenient to use. A smaller share of non-CU members, 32.4 percent, say the same. This makes CU members even more likely than non-CU members to switch to challenger banks for more convenient, user-friendly digital banking services.

7.

MICROBUSINESS-FOCUSED CUs PRIORITIZE MOBILE BANKING AND DIGITAL WALLET INNOVATION.



CUs that consider microbusinesses important to their membership are more likely to report plans prioritizing mobile innovation in the next three years. 66.7 percent of these microbusiness-focused CUs expect to focus on mobile banking innovation, and 61.1 percent plan to focus on digital wallet innovation. Other high-priority innovation areas for microbusiness-focused CUs include card management and transaction alerts (41.7 percent), fraud management (55.6 percent) and faster and real-time payment services (52.8 percent).

The following report delves deeper into these findings and more to provide a comprehensive overview of the latest in CU innovation and explore how CUs must tailor their innovation plans to the unique needs of their communities.

SLIPPING BUT STILL STABLE



CU members are still highly satisfied with their CUs, although to a slightly lesser extent than last year. Our most recent survey shows that 88.5 percent of CU members are either “very” or “extremely” satisfied with their CUs, a 3.5-percentage-point year-over-year decrease in CU member satisfaction from the 91.7 percent we reported in 2018. Those findings mean that CU

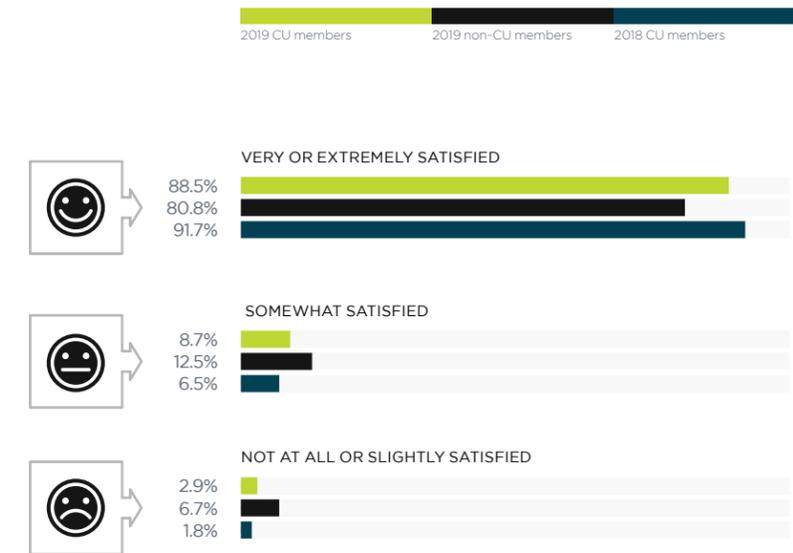
members remain happier with their CUs than other customers are with their primary FIs, despite the drop. Non-CU members’ primary FI satisfaction rate was 80.8 percent in 2019, meaning that an additional 7.7 percent of CU members are satisfied with their FIs than others are, on average.

CU members’ satisfaction is primarily driven by the same factor that drove it

in 2018: loyalty. Consumers who bank with CUs are affected by feelings of trust and loyalty towards those CUs than those who bank with non-CUs, though these marks also weakened. Seventy-four percent of satisfied CU members cite trust as their reason for contentment, while 79.5 did so in 2018. This is yet again higher than the share measured among satisfied non-CU members, as 62.3 percent of them cite trust as one of the reasons they feel satisfied with their FIs.

FIGURE 1: Financial consumers’ satisfaction and dissatisfaction with their FIs

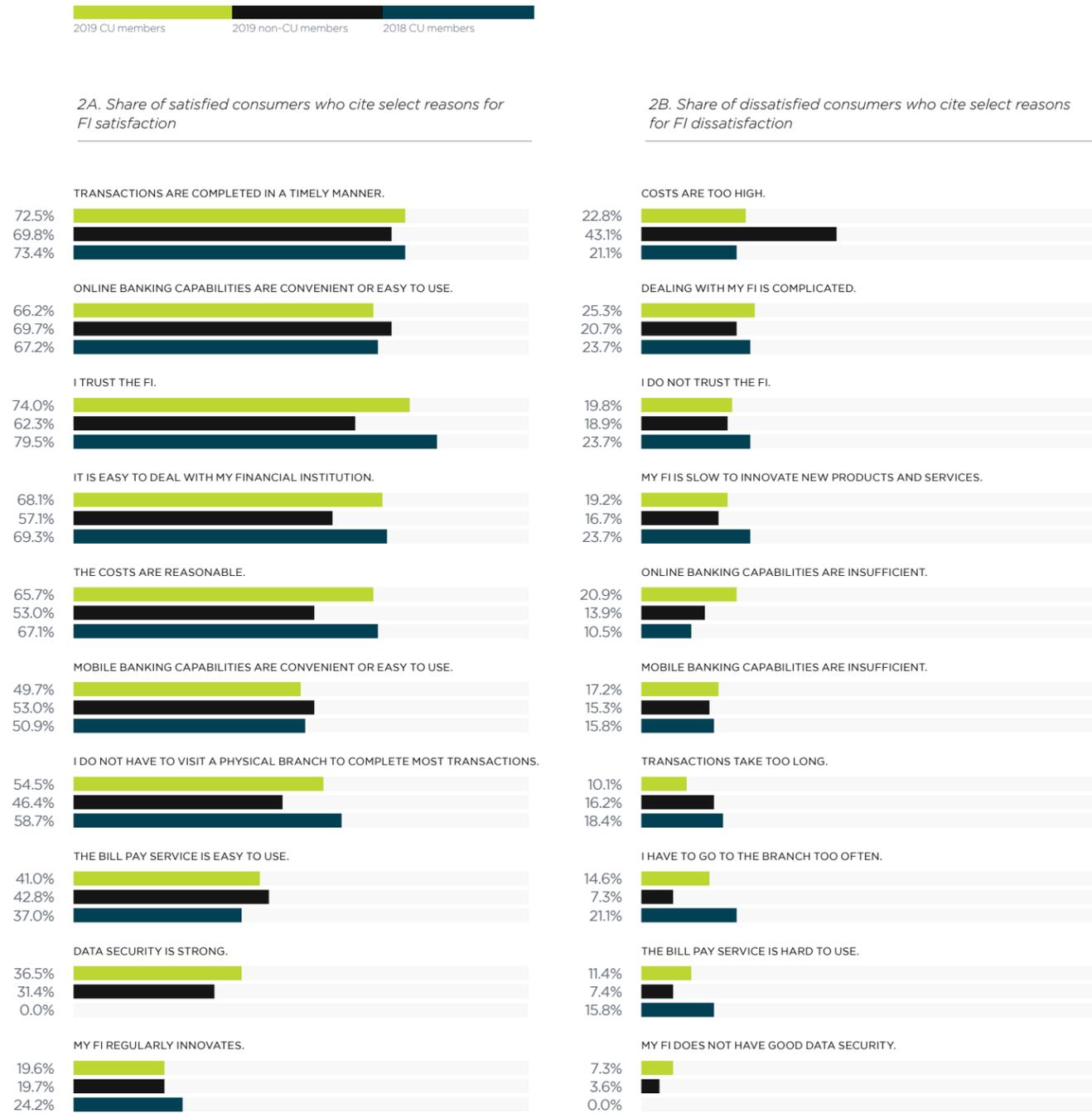
Share of CU members and non-CU members who report select levels of satisfaction



Source: PYMNTS.com

88.5%
of CU members are “very” or “extremely” satisfied with their primary FIs.

FIGURE 2: Main drivers of satisfaction and dissatisfaction with FIs



Source: PYMNTS.com



43.1%

of individuals without CU membership cite high costs as a reason they feel dissatisfied with their FIs.



FIs' transaction speeds impact non-CU members' satisfaction more than feelings of trust. Our research found that 69.8 percent of individuals without CU membership cited fast transactions as a reason they were satisfied with their FIs, and just 62.3 percent cited trust. This made trust just the third-most commonly cited reason non-CU members give for their FI satisfaction. Online banking capabilities' presence, convenience and ease of use were cited by 69.7 percent of satisfied non-CU members.

It is worth noting that CU and non-CU members may differ slightly as to why they feel satisfied with their FIs, but we find no major statistical differences. Both express high degrees of satisfaction for largely similar reasons. The real separation lies in their reasons for dissatisfaction.

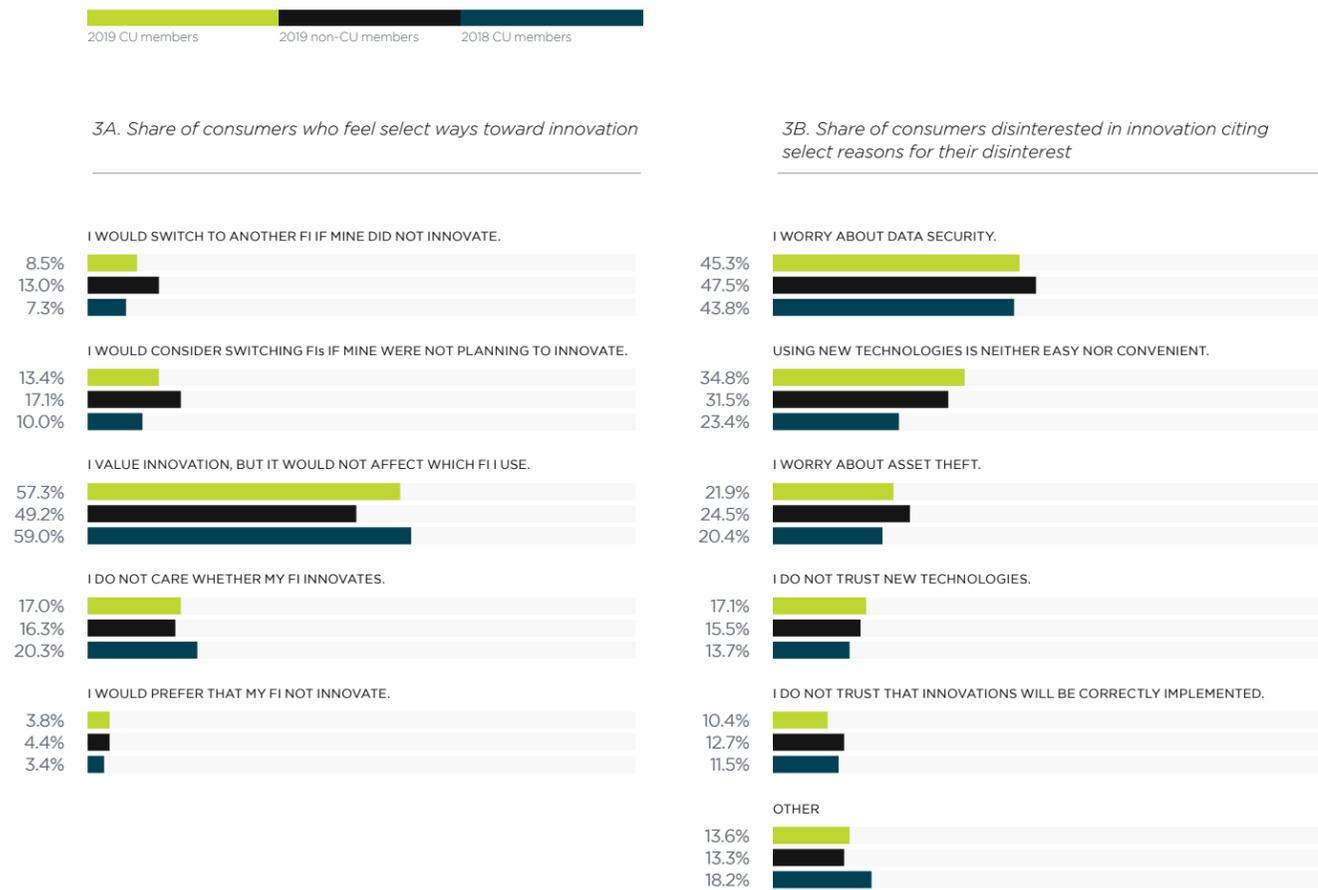
CU members and non-CU members sharply diverge in their primary cause of dissatisfaction. Non-CU members who are not satisfied with their FIs are far more likely than CU members to feel dissatisfied with their FIs' high costs: 43.1 percent cited them in

2019. This is almost double the 22.8 percent of CU members who cited high costs the same year.

Fighting off dissatisfaction is where CU innovation can become deeply impactful. CUs looking to keep their current members satisfied with their financial products and services can innovate to improve their offerings and possibly even attract new members.

Their members seem to understand this, as well, as innovation is now more important to CU members than in our previous data. The share of CU members who say they would be willing to leave their CUs for other FIs if their CU failed to innovate increased from 17.3 percent to 21.9 percent between 2018 and 2019 – itself a proportional increase of 26.6 percent. A notable 57.3 percent of CU members report that they value CU innovation but would not leave their current CUs over it. This data shows that the vast majority of CU members desire CU innovation, even though not all of them would immediately leave in its absence.

FIGURE 3: Financial consumers' valuations of innovation



Source: PYMNTS.com



“The vast majority of CU members desire CU innovation, even though not all of them would immediately leave in its absence.”



Non-CU members remain likely to switch primary FIs over this topic, however. Our research shows that 30.1 percent of non-CU members would at least consider changing FIs over lackluster innovation plans.

Also involved are the 20.8 percent of CU members who either do not care about innovation or would prefer that their FIs not innovate, primarily due to data security worries. This concern has grown more pronounced since last year, with the share of CU members citing poor data security as a reason for

innovation disinterest increasing from 43.8 percent to 45.3 percent.

We also discover that more CU members worry that new technologies would be neither easy to use nor convenient. The share of uninterested CU members citing this as a cause of disinterest jumped from 23.4 percent in 2018 to 34.8 percent in 2019. This 48.7-percent relative increase speaks to CU members' apparent lack of confidence in their FIs' innovations.

INNOVATIONS CU MEMBERS WANT THE MOST

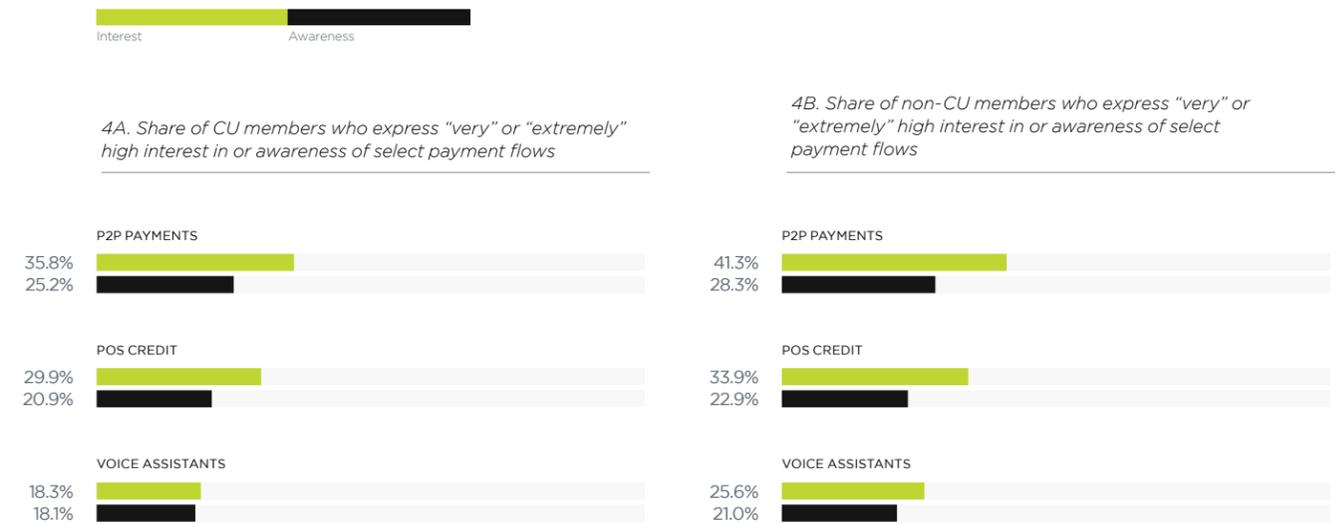


Consumers who value FI innovation show interest in a wide variety of new technologies and financial service offerings, especially P2P payment apps, POS credit services and voice assistants.

Many CU members and non-CU members would be interested in using these new payment flows, even without previous knowledge of them. Our research shows that only 25.2 percent

of CU members were aware of P2P payments, but 35.8 percent were “very” or “extremely” interested in using them. Individuals also express interest in POS credit, with 29.9 percent saying they would like to use it if it were available, even though only 20.9 percent say they had been aware of the service. This strongly suggests that CU member interest in P2P payments and POS credit services will increase as members gain familiarity.

FIGURE 4: Consumers' interest in and awareness of potential FI innovations



Source: PYMNTS.com

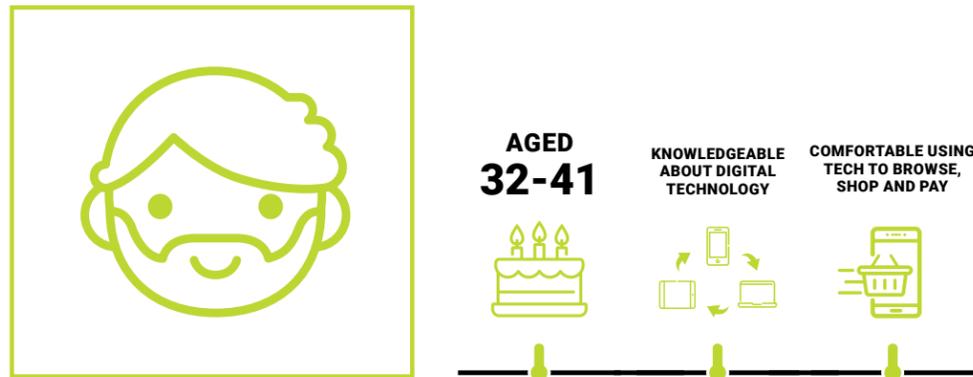
Non-CU members show even more awareness of and interest in these payment flows. According to our research, 28.3 percent of non-CU members are familiar with P2P payment services, and 41.3 percent would be interested in using them. They also express interest in POS credit options, with 22.9 percent reporting familiarity with them and 33.9 percent desiring to use them.

CU members and non-CU members demonstrate interest in using voice assistants, though to a lesser extent than P2P payments or POS credit options.

CU members are less interested in using voice assistants than non-CU members, with 18.1 percent of the former saying they know what voice assistants are and 18.3 percent expressing interest. Twenty-one percent of the latter report awareness, and 25.6 percent would want to use them.

P2P payments appeal to consumers of all ages, but no generations are quite as enthusiastic about them as millennials and bridge millennials.

BRIDGE MILLENNIALS AS FINANCIAL CONSUMERS



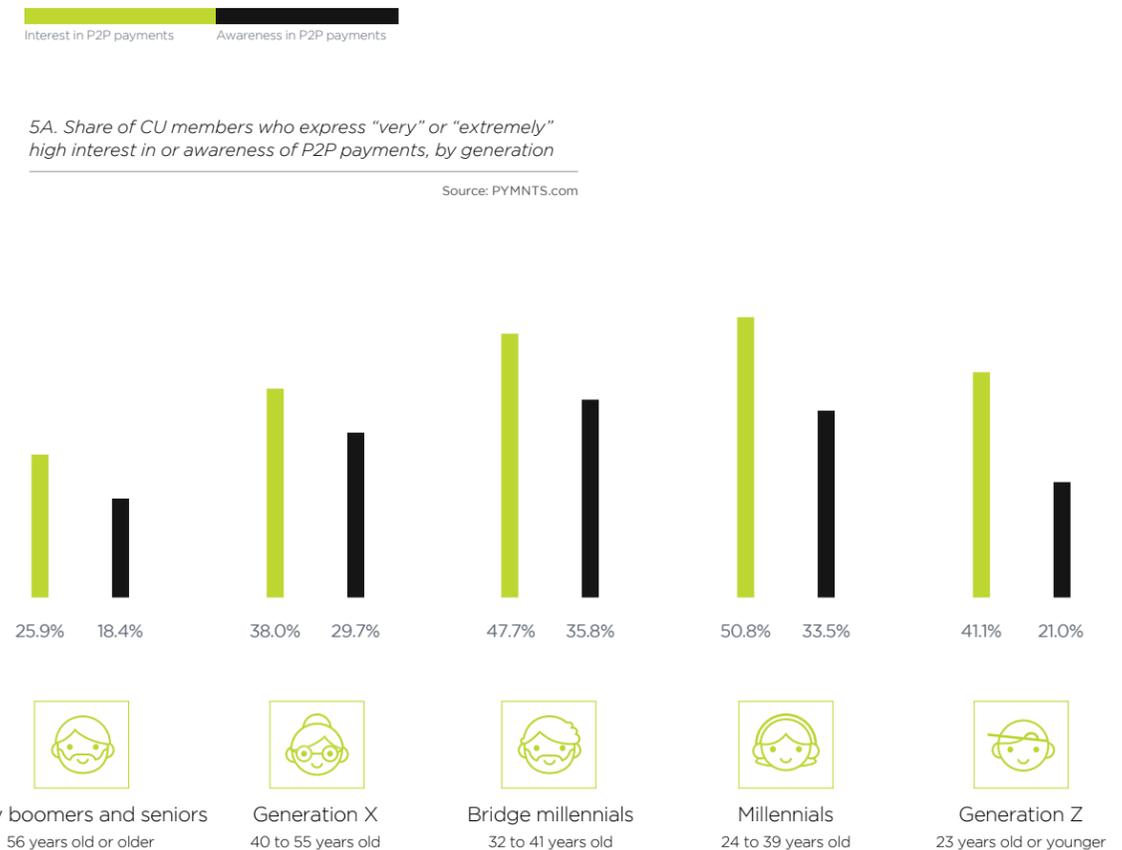
BRIDGE MILLENNIALS are a powerful cohort of consumers composed of both older millennials and younger Gen X members between the ages of 32 and 41. They have grown up around computers, smartphones and tablets, meaning they are knowledgeable about digital technology and comfortable using it to browse, shop and pay. Bridge millennials tend to be more professionally established than their younger millennial and Gen Z counterparts, typically possessing more disposable income. The average bridge millennial takes 18.3 shopping trips each year to buy apparel and accessories and spends \$2,225 annually doing so. These stats contrast sharply with the equivalent measures for baby boomers, who spend just \$1,389 over the eight comparable shopping trips they take annually.¹

¹ Connected Consumer Report. PYMNTS.com. 2018. <https://www.pymnts.com/study/connected-consumer-playbook-study/>. Accessed March 2020.

Millennials and bridge millennials banking with CUs show higher rates of P2P payment awareness and interest than any other generations. Our survey shows that 33.5 percent of millennial CU members and 35.8 percent of bridge millennial CU members are already familiar with P2P payments and that 50.8 percent and 47.7 percent would be interested in

using them, respectively. Baby boomers and seniors make up the least likely generation of CU members to express P2P payment awareness or interest, as 18.4 percent of such respondents say they know what P2P payments are and just 25.9 percent would be interested in using them.

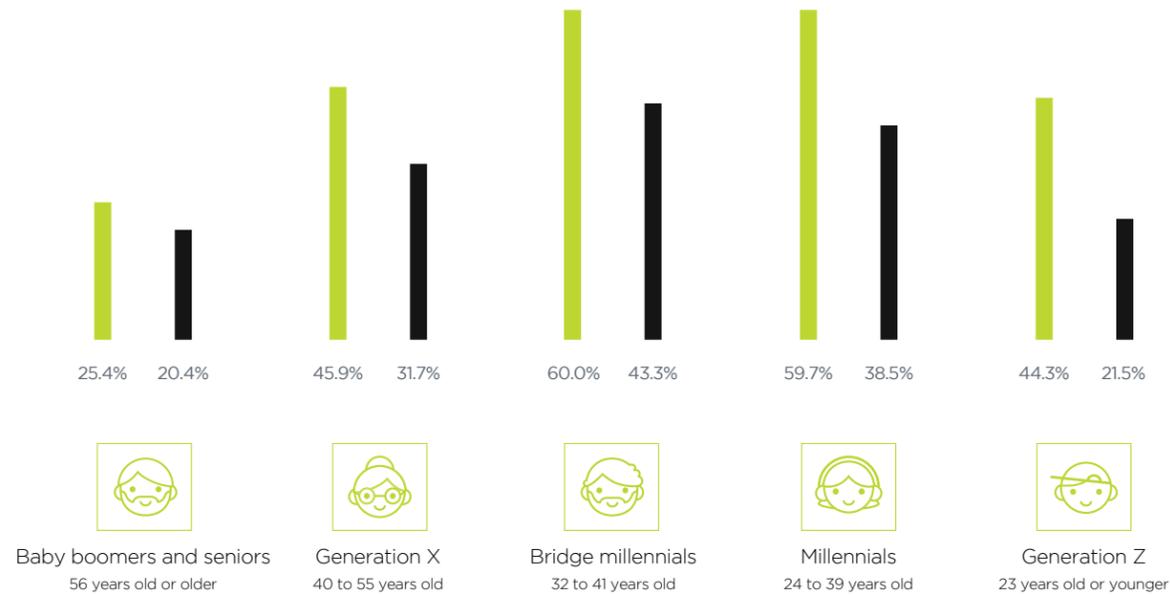
FIGURE 5: Interest in P2P payments across generations





5B. Share of non-CU members who express very or extremely high interest in or awareness of P2P payments, by generation

Source: PYMNTS.com



Knowledge of and desire to use this payment flow is once again higher among non-CU members, as 38.5 percent of such millennials and 43.3 percent of such bridge millennials say they know what P2P payments are. We also find that 59.7 percent of non-CU millennials and 60 percent of non-CU bridge millennials report they would like to use P2P payment services if offered.

New payment flow options thus present an opportunity for CUs to provide services that large portions of their membership want to use, in turn attracting non-CU members. We see especially high growth potential among millennials and bridge millennials who do not currently bank with CUs. P2P payment options could be a promising enticement that sways them away from their current FIs toward CUs.

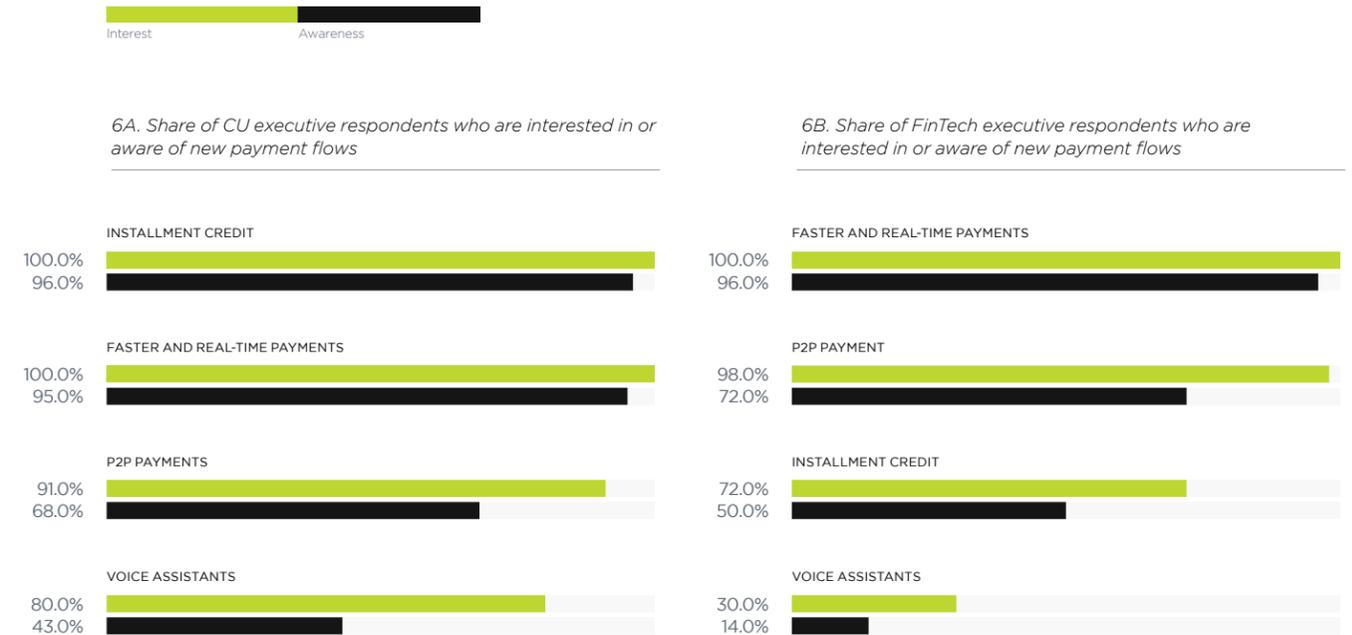


THE INNOVATION, TIME-TO-MARKET CHALLENGE



CUs and other FIs both seem to understand how great payment services innovation can be. Curiosity about P2P payments, voice assistants and other new payment flows are widespread among executives at CUs and other FIs alike. Sixty-eight percent of CU executives and 72 percent of FinTech executives reported P2P payments awareness in 2019, for example, while 91 percent and 98 percent said they were interested in offering them, respectively.

FIGURE 6: FI executives' interest in and awareness of new payment flows



Source: PYMNTS.com

Both CUs and FinTechs are more interested in faster and real-time payments than the P2P payments their customers desire. Ninety-five percent of CU executives and 96 percent of FinTech executives say they are aware of faster and real-time payment technologies, and every respondent would like to adopt them. CU executives are even more aware of and interested in installment credit innovations than P2P payment applications, as 96 percent reported understanding installment credit and, again, all expressed adoption interest.

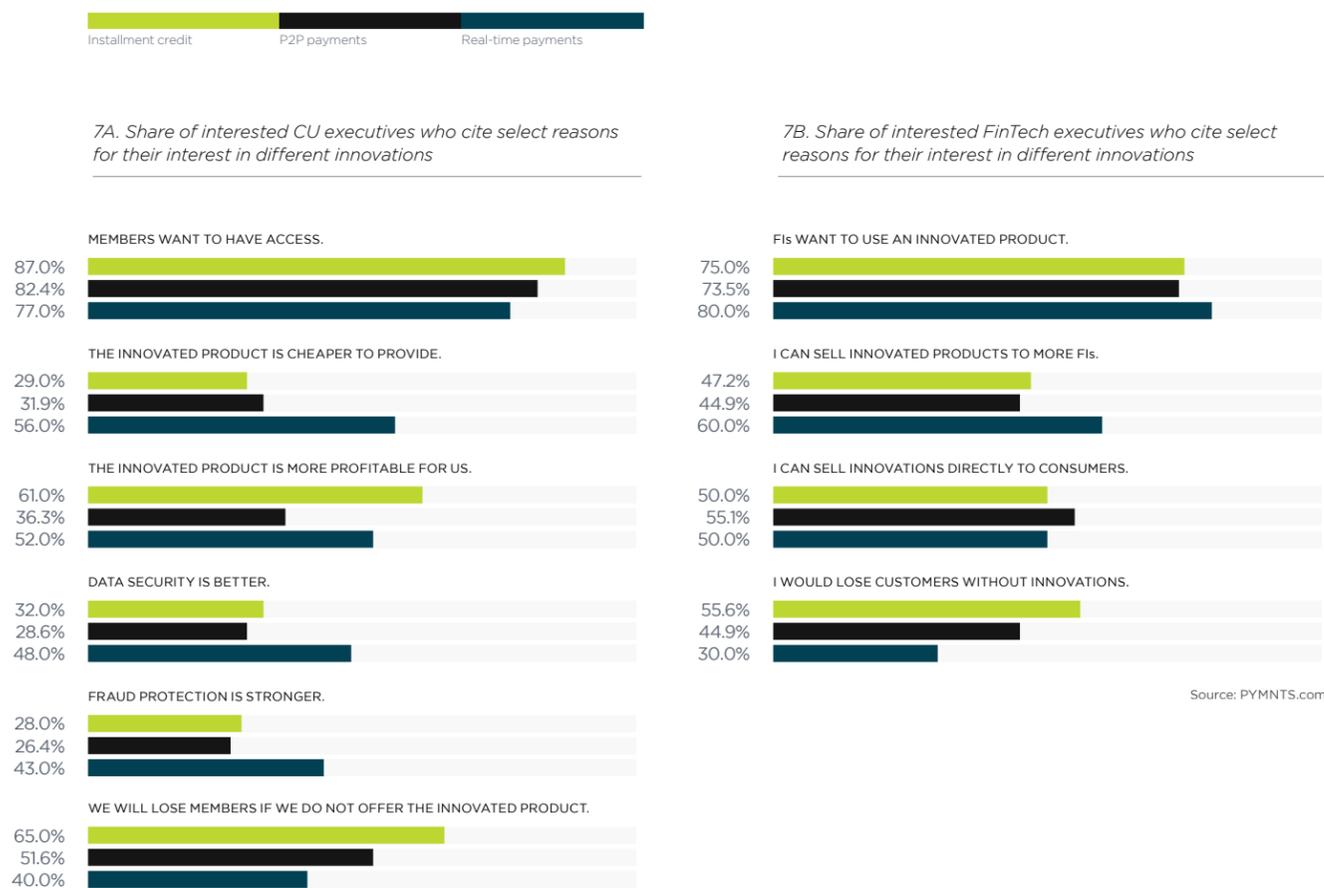
CUs and FinTechs are both convinced that the payment flows they are interested in are the ones their consumer bases want most – CUs are interested in

innovations they believe their members want, and FinTechs are interested in those they believe FIs want. This diverging type of key customer explains why each group prioritizes certain innovations over others. CUs and FinTechs are meeting very different needs.

The CU executives we surveyed say they are interested in installment credit, P2P payments and real-time payments primarily because their members request access to the offerings. Member requests were cited by 87 percent of CU executives interested in installment credit, 82.4 percent of those interested in P2P payments and 77 percent of those interested in real-time payments.

“P2P payment options could be a promising enticement that sways millennials and bridge millennials away from their current FIs toward CUs.”

FIGURE 7: Why CUs and FinTechs are interested in adopting different innovations



CUs also innovate to bolster their financial performances — especially when considering real-time payments offerings. Fifty-six percent of CU executives who would like to adopt real-time payments say the technology’s lower cost motivates them. This same motivation is cited by 29 percent of CU executives aiming to prioritize installment credit innovations and 31.9 percent of those who would like to focus on P2P payments, by comparison.

We also find that 52 percent of CU executives who show interest in real-time payments innovations cite profitability as a motivation, as do 36.3 percent of those who would like to innovate P2P payment products. Even more CU executives who would like to innovate installment credit products cited this justification for their interest: 61 percent.

FinTechs’ innovation priorities are slightly different. Serving FIs, not end users, is the primary and secondary driver for FinTech innovation. This is underscored by the finding that more FinTech executives cited their desire to meet FIs’ needs as key innovation motivators than the desire to meet end users’ needs.

Seventy-five percent of FinTech executives who are interested in innovating installment credit products demonstrate interest because they believe FIs want to use them. So do 73.5 percent of FinTech executives who want to innovate P2P payment products and 80

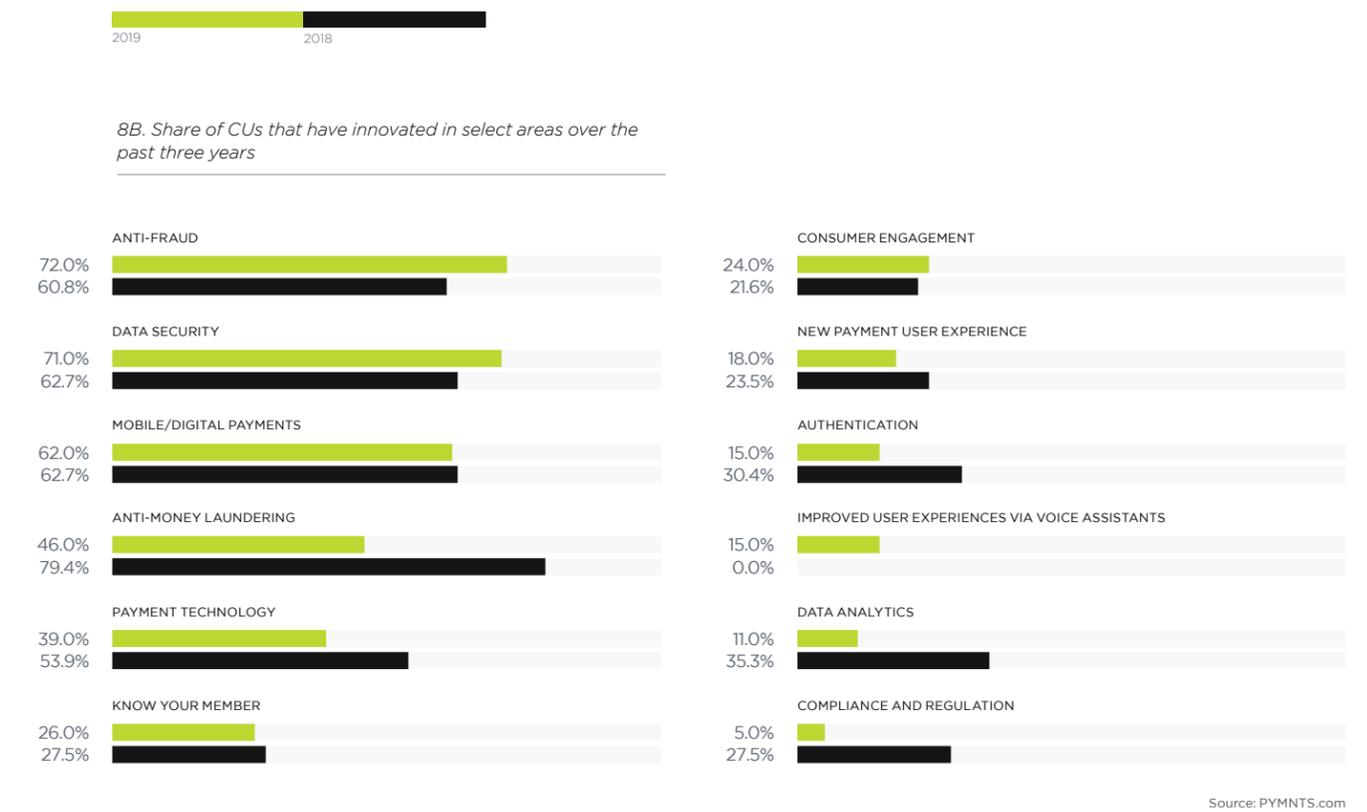
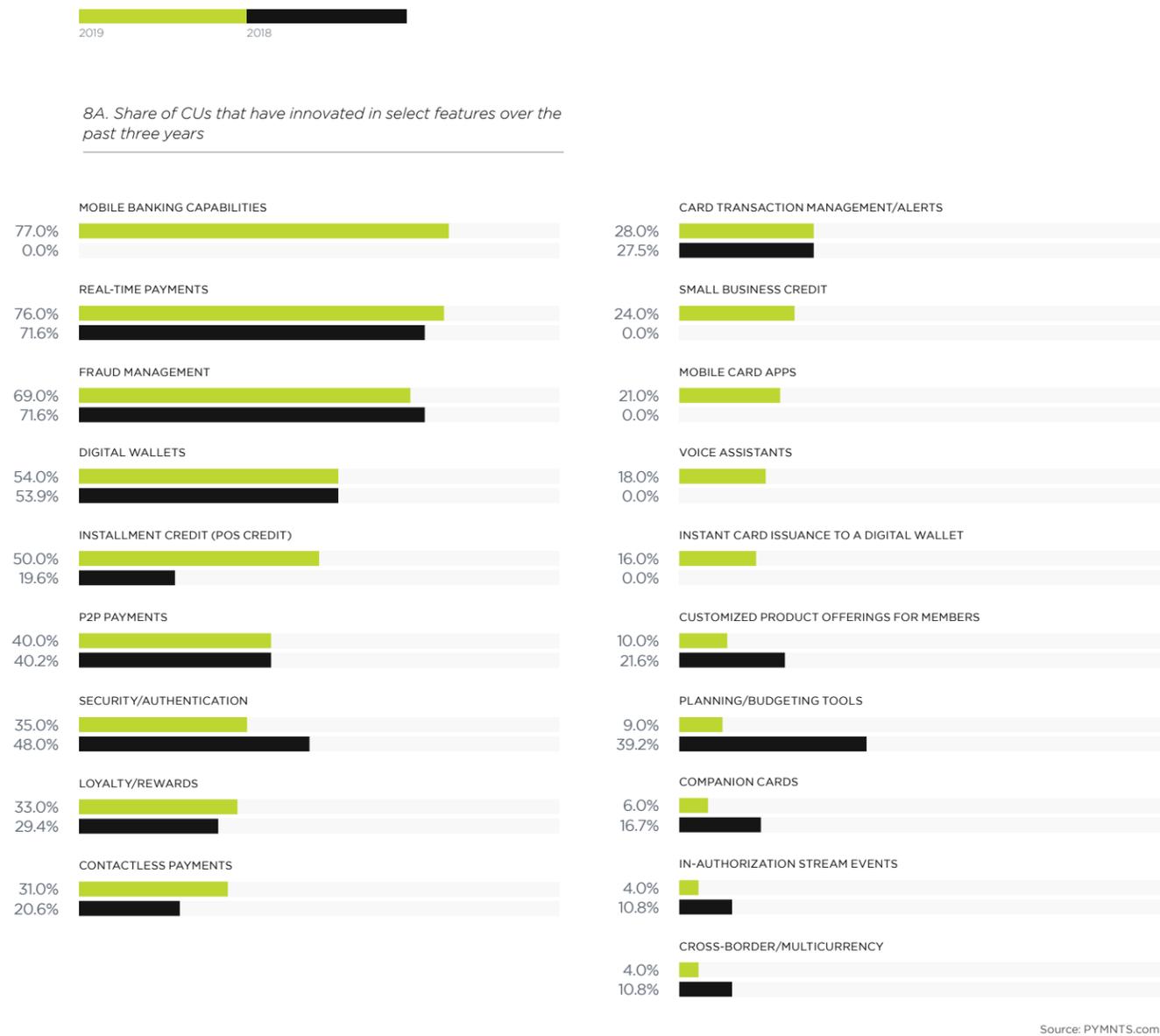
percent of those who would like to innovate real-time payment options. These shares are higher than those citing any other reason for wanting to innovate any of the three offerings we studied.

The second-most common reason FinTech executives say they would like to innovate these three products is that they believe FIs would then show greater interest in them. This is cited by 47.2 percent of FinTech executives who want to innovate installment credit products, 44.9 percent of those who would like to innovate P2P payment products and 60 percent of those who would like to innovate real-time payment products.

Interest is not the same thing as implementation. A more telling question may be whether CUs and FinTechs are working to innovate these offerings for their members — and if so, which innovations they are prioritizing.

Our research suggests that CUs share common priorities. Seventy-seven percent say they have innovated their mobile banking capabilities during the past three years, for example, while 76 percent say they have innovated real-time payments products. Sixty-nine percent have pursued fraud-management innovations, and 54 percent have innovated digital wallet services. These four features represent CUs’ most common points of focus during the past four years.

FIGURE 8: CUs' innovation agendas over the past three years



CUs' priorities look slightly different when we consider their areas of innovation over the past three years rather than the particular features they have developed. The most common topic of CU innovation in that time has not been mobile capabilities but rather fraud protection, followed closely by data security. Seventy-two percent of CUs worked on anti-fraud innovation during the past three years, and 71 percent did so for data security. The mobile apps and payments area comes in third, as 62 percent of CUs made it an area of focus over that time.

The most notable change since 2018, however, has been CUs' decreased emphasis on anti-money laundering innovation. The share of CUs reporting a focus on anti-money laundering innovation in the past three years decreased from 79.4 percent to 46 percent between 2018 and 2019. Its ranking plummeted from the most common innovation area to the fourth-most common in a single year.

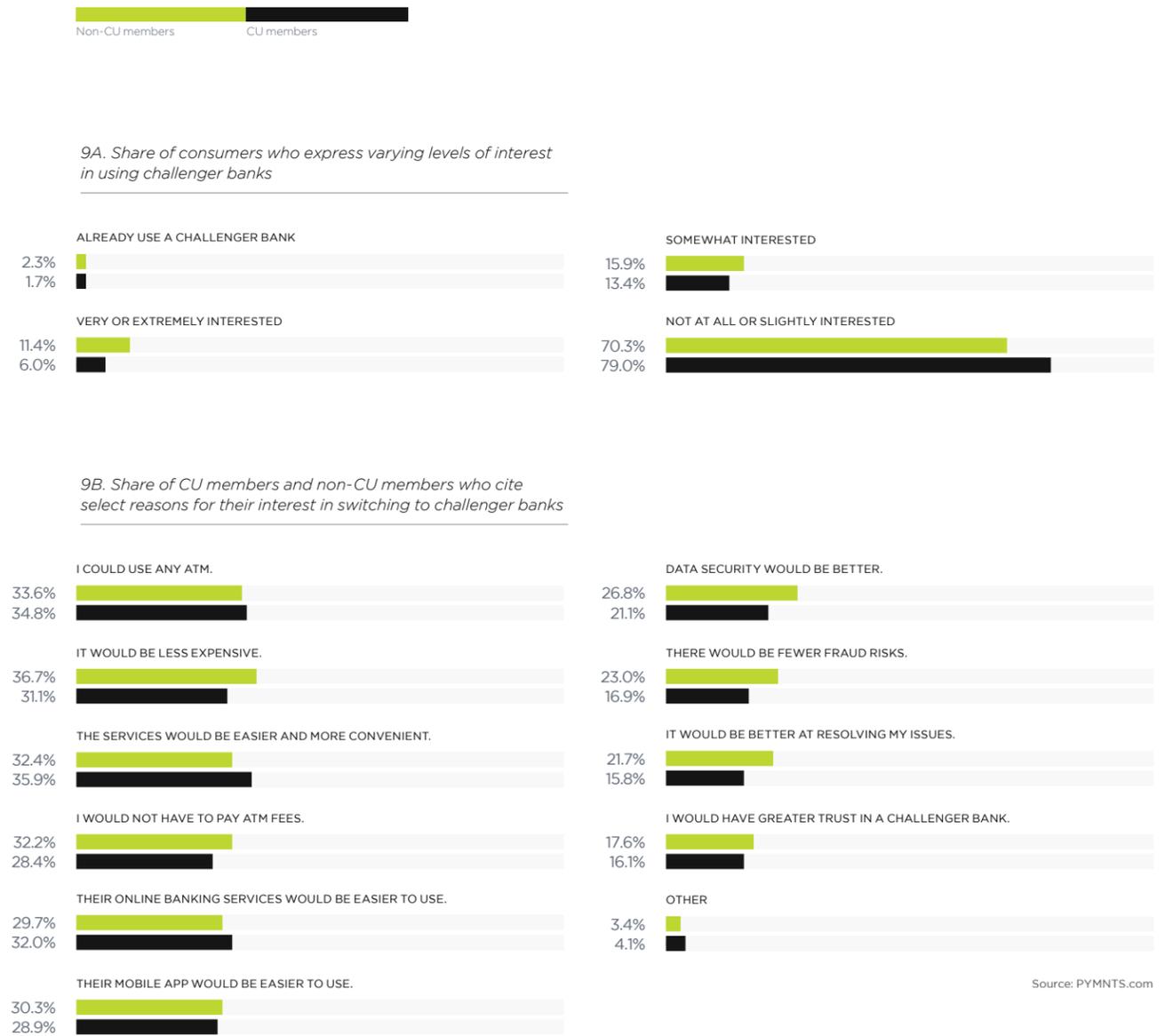
SIZING UP THE COMPETITION



Many CUs express member loss worries, so our research investigates how many members might actually consider leaving their CUs. It turns out that other CUs, other competing FIs and FinTechs are not the only threats CUs should be eyeing. Challenger banks – digital-first financial service providers that do not have a brick-and-mortar presence – can also provide fierce competition.

Some CU members say they would be interested in switching over to challenger banks competing with their current CUs, instead. Our survey shows that 6 percent of CU members are very or extremely interested in using them, and 1.7 percent already use them in addition to their current CUs. Another 13.4 percent would be somewhat interested in using them – a lower level of interest that nonetheless signifies CU vulnerability, as it means 21.1 percent of CU members have some degree of interest in leaving their CUs for a challenger bank.

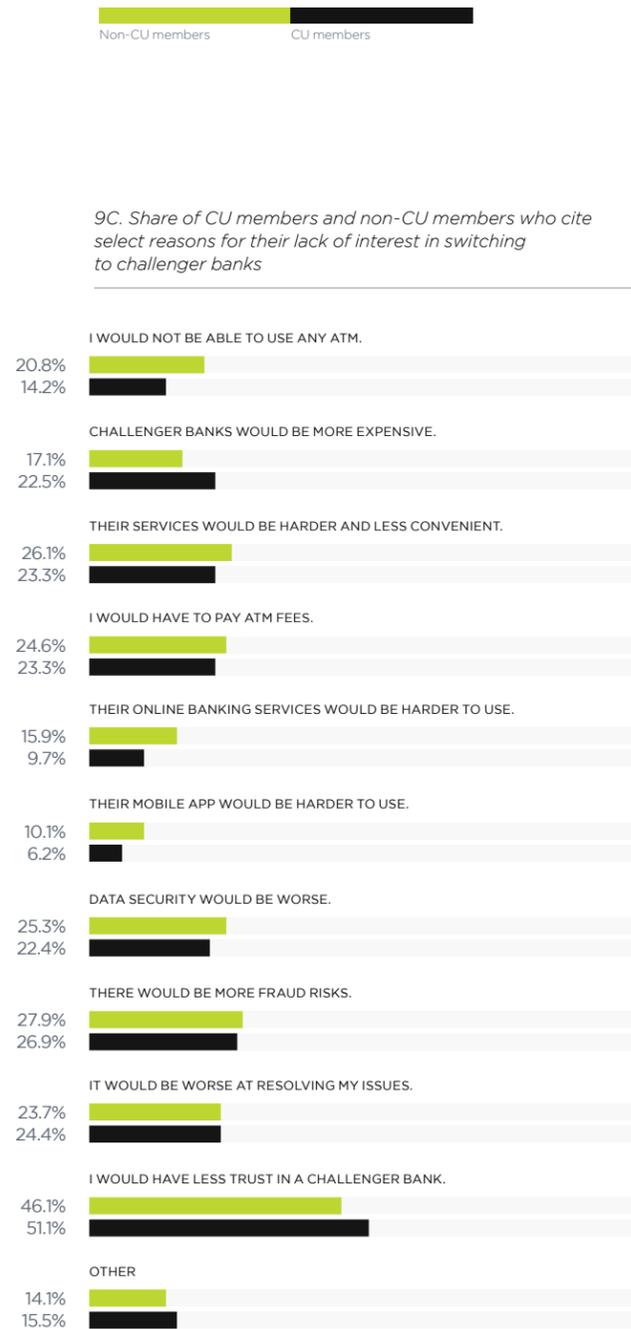
FIGURE 9: Why consumers might consider switching to challenger banks



Source: PYMNTS.com



FIGURE 9: Why consumers might consider switching to challenger banks



9C. Share of CU members and non-CU members who cite select reasons for their lack of interest in switching to challenger banks

Source: PYMNTS.com

25.5%

of CU members who would not consider banking with challenger banks cite concerns over higher prices as their deterrent.

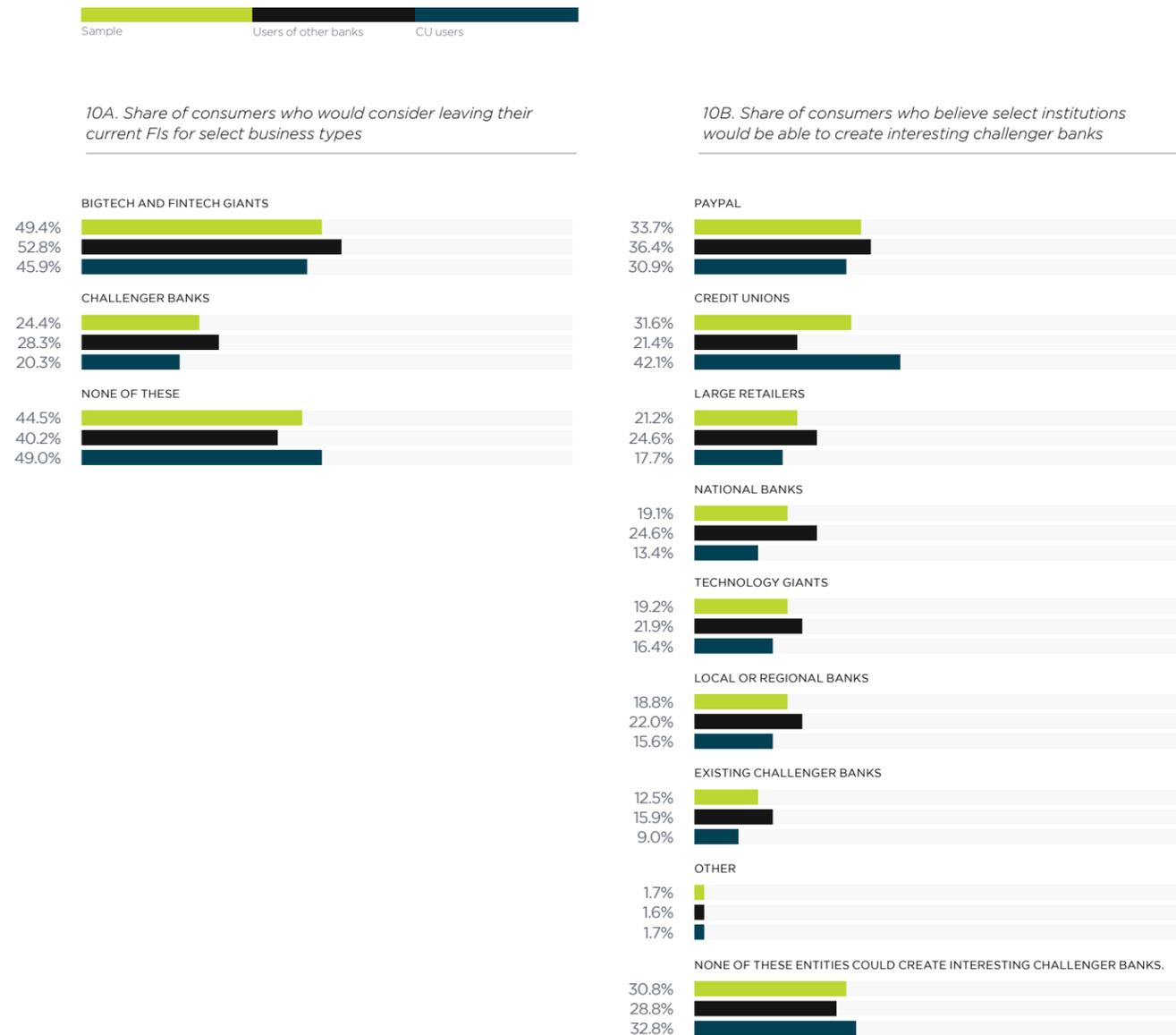
This makes CU members considerably less likely than non-CU members to potentially switch FIs. Our research shows that 2.3 percent of non-CU members already use challenger banks in addition to their primary FIs, while 11.4 are very interested in them and 15.9 are somewhat interested. As a whole, 29.6 percent of non-CU members express similar levels of interest in challenger banks as CU members.

CU members and non-CU members who would consider switching cite similar reasons. The most common is the desire to use any ATM, which 34.8 percent of CU members and 33.6 percent of non-CU members cited. The second- and third-most common impetuses for switching are lower expenses and easier, more convenient services. The former is cited by 31.1 percent of CU members and 36.7 percent of non-CU members, while 35.9 percent of CU members and 32.4 percent of non-CU members cited the latter.

Most consumers would not consider switching FIs, and among the 79 percent of CU members who would not consider switching to challenger banks, 51.5 percent say they are staying put because they would have less trust in a new FI than their current CU. This concern also cited by 46.1 percent of non-CU members who would not consider switching. The second, major concern is fraud risk, which 26.9 percent of CU members and 27.9 percent of non-CU members reported.

With which challengers would consumers be willing to bank? There are seemingly several key factors that influence consumer interest in banking with FinTechs and companies like Apple, Google and PayPal. Our survey shows that 49.4 percent of all consumers would consider leaving their current FIs to bank with FinTechs or major technology companies, compared to 24.4 percent that would consider switching to current challenger banks such as Ally, Chime or GoBank.

FIGURE 10: The businesses that pose the biggest threats to CUs



45.9%

of CU members would consider leaving their current CUs to bank with BigTech firms or FinTechs.

CU members show slightly less interest in using either challenger banks, FinTechs or large technology companies than non-CU members. Our research shows that 45.9 percent and 20.3 percent of CU members would consider banking with technology companies and challenger banks, respectively, and 52.8 percent and 28.3 percent of non-CU members would do the same.

This shows that while challenger banks and technology firms pose a certain competitive threat to CUs, their members are still more likely to consider other CUs before they would consider switching to tech firms. Our research indicates that 42.1 percent of CU members would be interested in using challenger banks if they were operated by other credit unions.

PayPal is a standout competitor, as well. CU members

and non-CU members both show strong interest in the idea of banking with hypothetical challenger banks created by technology giants, but PayPal exists in another category, because there is no brand that consumers would trust more than PayPal: 30.9 percent of CU members and 36.4 percent of non-CU members say they would consider banking with the technology giant. This is more than the share that would consider banking with all other large technology companies combined – 16.4 percent of CU members and 21.9 percent of non-CU members. PayPal is so popular as a potential alternative to consumers' current FIs that non-CU members are more likely to say they would bank with the company than with either large national banks (24.6 percent) or credit unions (21.4 percent). This not only confirms consumers' confidence in PayPal but should alarm CUs and impel them to act.

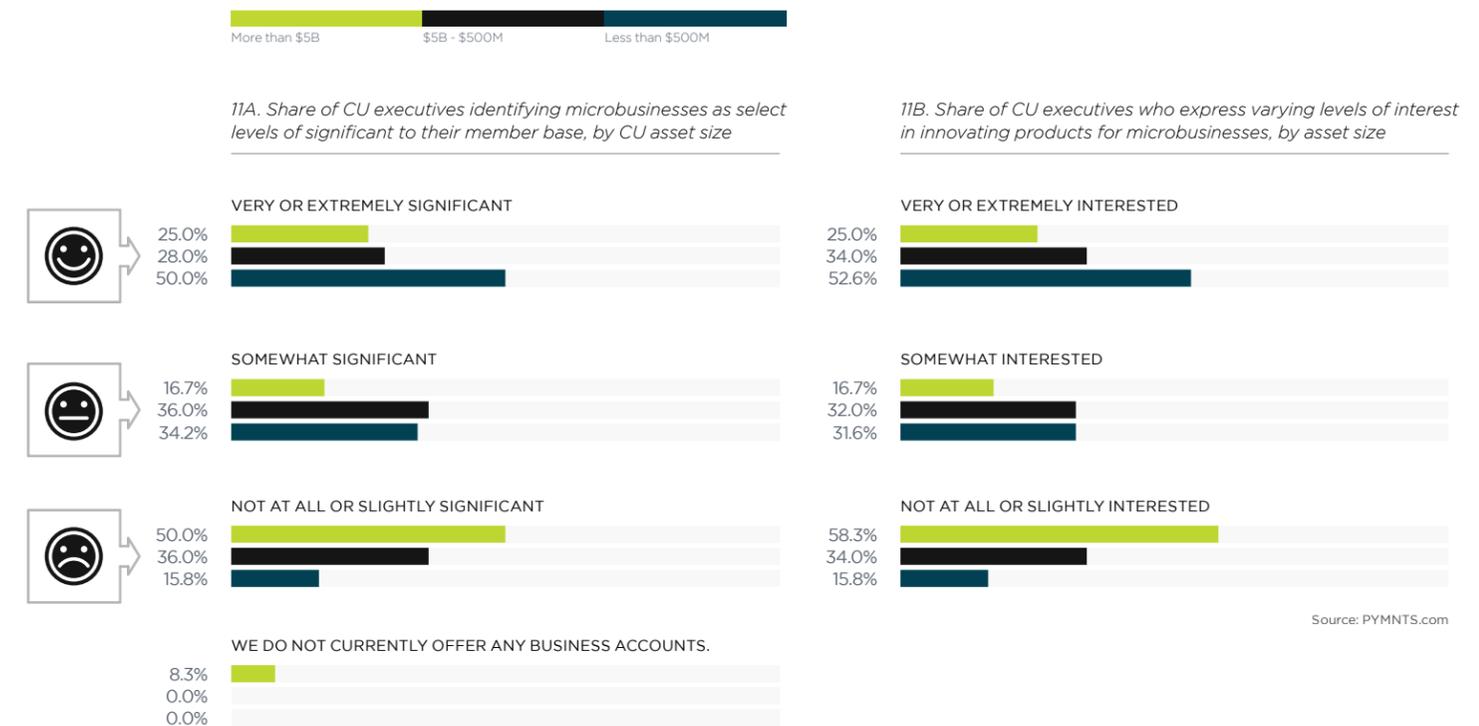
DEEP DIVE: HOW MICROBUSINESSES DRIVE CU INNOVATION



Microbusinesses are key CU members, and they play an imperative role in CUs' innovation plans as a result. Not all CUs provide accounts and services to microbusinesses, but those that do have to design and implement innovations that do not overlook microbusiness needs.

This is especially true for smaller CUs that more commonly cater to community needs. Our research shows that 50 percent of CUs with less than \$500 million in assets (small CUs) say that microbusinesses form a very or extremely important part of their member base, compared to 28 percent of CUs holding between \$500 million and \$5 billion in assets (medium CUs) and 25 percent of those with more than \$5 billion in assets (large CUs).

FIGURE 11: The importance of microbusinesses as part of CUs' memberships



Small CUs are also the most likely group to say they are very or extremely interested in innovating for microbusinesses. Our survey shows that 52.6 percent of them express “very” or “extremely” high levels of interest in doing so, compared to just 34 percent of medium CUs and 25 percent of large CUs. This makes sense: Microbusinesses are greater parts of small CUs' memberships, and so the FIs must prioritize those members' needs when planning.

The reverse is also true: The larger the CU, the less likely they are to say that microbusinesses are an

important part of their membership base and such FIs show less interest catering to them.

Half of large CUs say that microbusinesses form either a “slightly” or “not at all” significant part of their member base, but only 36 percent of medium CUs and 15.8 percent of small CUs that say the same. An additional 8.3 percent of large CUs exist that say they do not offer any type of business accounts at all, while every single medium and small CU in our study offers some type of business account.



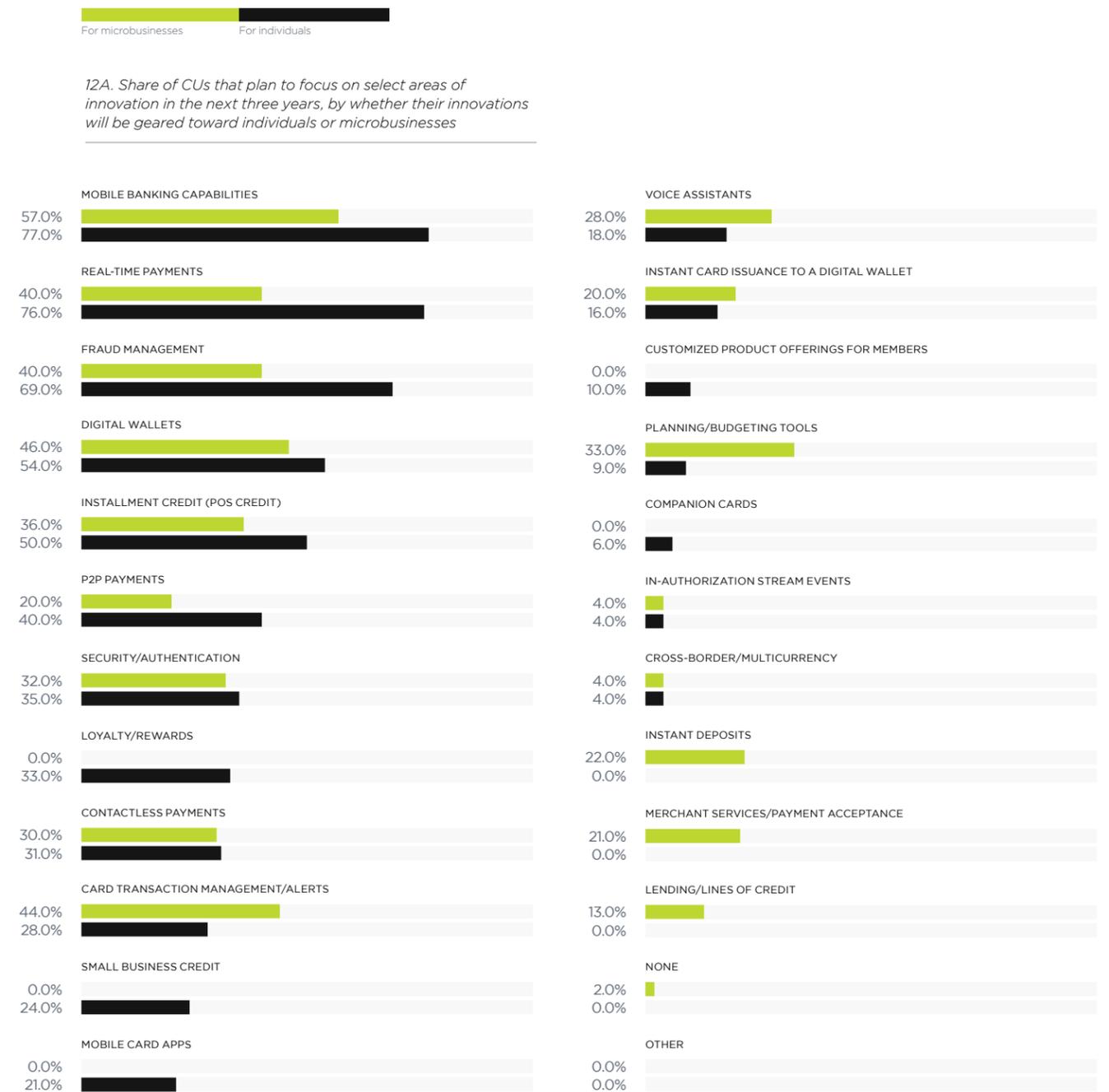
At the same time, 58.3 percent of large CUs say they are either “not at all” or “slightly” interested in innovating to meet microbusinesses’ needs. Thirty-four percent of medium CUs and 15.8 percent of small CUs say the same.

So what are the concrete ways in which microbusiness support impacts CUs’ innovation plans? It primarily affects CUs’ planned areas and features for innovation.

CUs for whom microbusinesses form a critical portion of their member base are far more focused

on innovating card transaction services, planning and budgeting tools and instant deposits, for example. Forty-four percent of microbusiness-focused CUs plan to focus on card transaction innovation over the next three years, while 33 percent plan to focus on innovating new budgeting tools. Only 28 percent and 9 percent of nonmicrobusiness-focused CUs share that focus, respectively. We also find that 22 percent of microbusiness-focused CUs are intent on developing new instant deposit services, but not a single nonmicrobusiness-focused CU respondent plans to do the same.

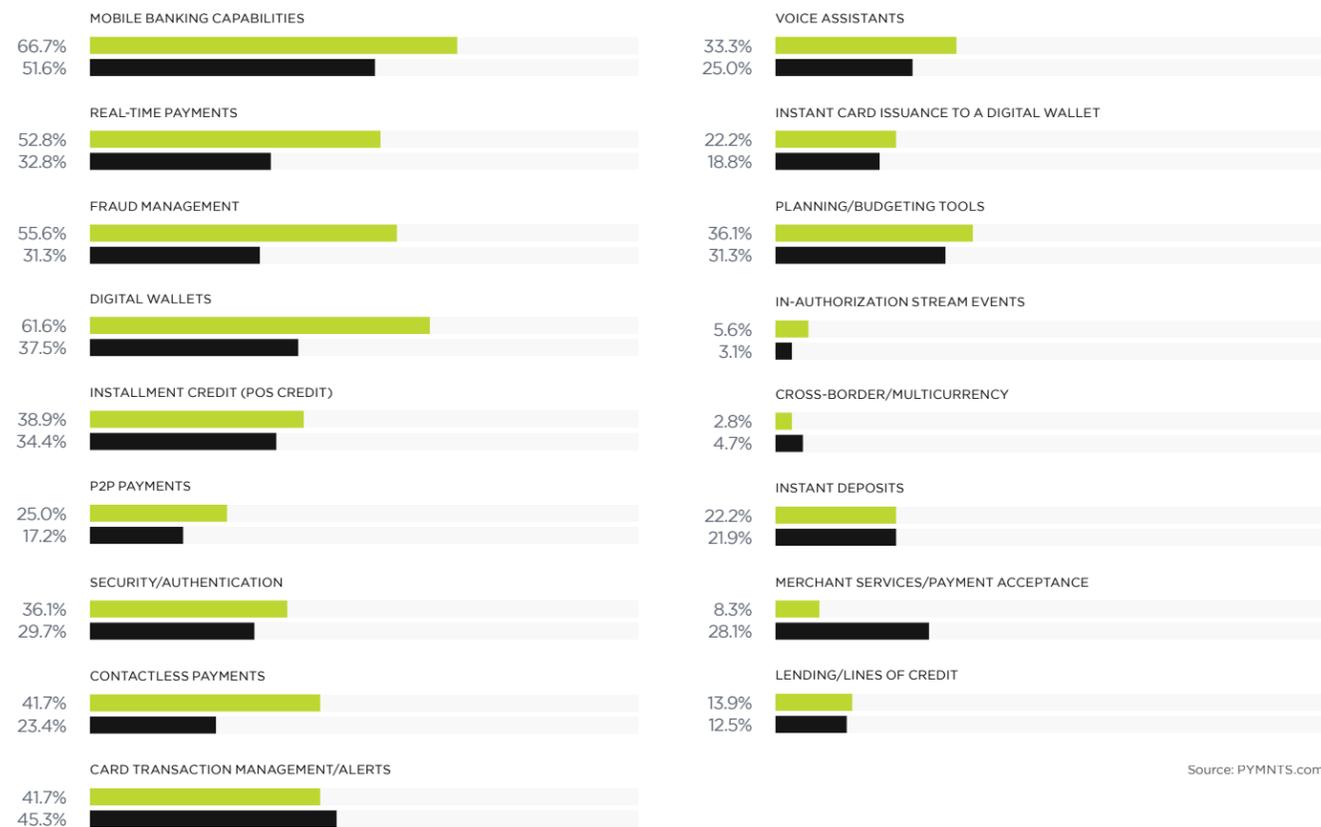
FIGURE 12: How CUs’ innovation priorities vary according to their member base



Source: PYMNTS.com



12B. Share of CUs that plan to focus on select areas of innovation in the next three years, by significance of microbusinesses in their base



Source: PYMNTS.com



66.7%

of microbusiness-focused CUs plan to innovate their **mobile banking capabilities.**



Microbusiness-focused CUs are more likely than nonmicrobusiness-focused CUs to plan to innovate in general, exceeding other CUs' likelihood to plan in 14 of the 17 innovation areas we studied in 2019. The most common planned innovation area is mobile banking capabilities (66.7 percent), followed by digital wallets (61.1 percent) and fraud management (55.6 percent). These are intended areas of focus for 51.6 percent, 37.5 percent and 31.3 percent of nonmicrobusiness-focused CUs in the next three years, respectively.

The only sectors in which nonmicrobusiness-focused CUs are most likely to ready innovations are card transactions, the area of merchant services and payment acceptance and the domain covering cross-border and multi-currency services. These will be priorities for 45.3 percent, 28.1 percent and 4.7 percent of nonmicrobusiness-focused CUs, respectively, but they will be areas of focus for only 41.7 percent, 8.3 percent and 2.8 percent of microbusiness-focused CUs, respectively. These statistics illustrate just some of the many ways in which microbusinesses drive CU innovation.

CONCLUSION



CU members are loyal to their trusted CUs, but they also increasingly value and desire innovation. Most CU members would like their CUs to invest in innovation, and many would even consider switching FIs over it. Prioritizing innovation can therefore not only satisfy current members, reduce costs and increase profits but also give CUs an approach to expanding their membership. Consumers from other FIs value innovation even more than CU members, and no demographic is more innovation-driven than those of millennials and bridge millennials. Innovating the products such age groups demand therefore creates a major growth opportunity.

Every CU should take a holistic, multifaceted approach to innovation, one which considers all these factors and more. The real difference between CUs is not the need for innovation but rather the question of which innovations best suit their members and their communities. Considerate planning and smart, tailored actions will empower CUs to leverage their close member relationships into viable, long-term business strategies.

METHODOLOGY



The 2020 Credit Union Innovation Index, a PYMNTS and PSCU collaboration, examines survey response data collected from 4,100 respondents to gauge the state of innovation in the financial ecosystem. We surveyed respondents from three subsamples, including 3,908 U.S. consumers, 137 decision-makers at various CUs throughout the U.S. and 55 FinTech executives, about their FIs' recent and upcoming innovation plans as well as their awareness of and interest in various financial and payment product innovations to understand the innovation areas that they will prioritize going forward.

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