

CREDIT UNION

MARCH 2020

TRACKER®

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releases online product to
help customers lower debt*

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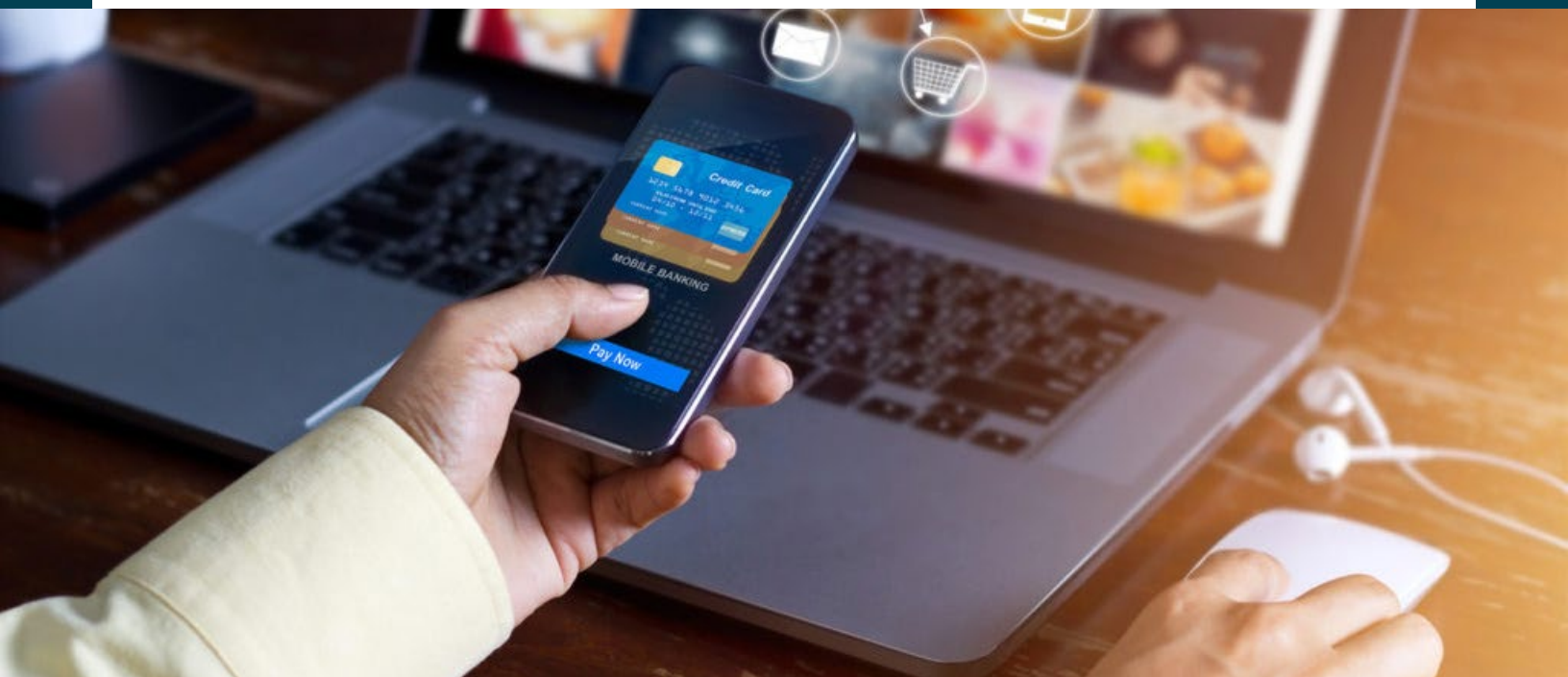
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WHAT'S INSIDE



Credit unions (CUs) are digitizing their operations to keep pace with competitors, safeguard transactions, expand online operations and provide current and future members with mobile banking capabilities. They need to meet customers where they are, and many are accustomed to the convenience and speed of banking on the go. The financial institutions (FIs) that do not keep up with this demand may see their customers switching to competitors.

United States-based CUs do not possess rival banks' IT budgets, however, meaning they are often already behind in the technological innovation race. They may be financially constrained, but CUs' strong bonds with their members are built on trust and a sense of community

— a significant asset when attracting customers. Sixty-five percent of credit union members told PYMNTS that trust was the main factor that led them to choose their CUs, 58.4 percent reported being "extremely" satisfied with their CUs and 59 percent would stay with their CUs even if the entities were not as innovative as competitors.

The CU-member bond is important, as is offering options and services that members want. Consumers of all generations, especially younger ones, are using mobile banking apps, but many also value physical branches where they can speak with bankers about matters such as mortgages or personal financial options. Credit unions cannot afford to do away with branches and shift

to digital offerings, so they must instead meld the two together in a cost-effective way.

Striking a balance between digital and in-person interactions is not credit unions' only problem, though. They must also boost their security, as hacking and fraud remain constant challenges for all FIs. CUs and solution providers are thus turning to blockchain and other emerging technologies that could secure operations and lower overall costs.

AROUND THE CREDIT UNION WORLD

Navy Federal Credit Union recently launched a VoiceID offering for member verification and fraud protection. The CU will integrate the service into its call center, and the feature [enables](#) members to create voice prints by recording passphrases that authenticate them on future calls. Navy Federal hopes such personalized security offerings will eliminate lengthy verification processes,

improve call times for employees and reduce unnecessary frictions.

Other credit unions are teaming up to provide enhanced digital banking support for their members. Vermont State Employees Credit Union (VESCU) recently [partnered](#) with cloud-based financial services provider Lumin Digital and will utilize the latter's software for business and retail banking. The solution provides a single application through which CUs can organize all online features, supporting more seamless interactions between credit unions and their members.

Emerging technologies could also play a part in protecting CUs' operations, including products powered by advanced data analytics, artificial intelligence (AI) and machine learning (ML). Such solutions could be key to preventing evolving fraud types, according to Jack Lynch, senior vice president and chief risk officer at credit union service organization (CUSO) PSCU. The group is focused on advancing its Linked Analysis tool,



which uses AI to connect CUs with different platforms and provide better security for transactions between them, merchants and customers.

For more on these stories and other credit union developments, read the Tracker's News and Trends section (p. 11).

HOW USSFCU'S DIGITAL IT INFRASTRUCTURE MAKEOVER COULD BOOST ITS OPERATIONS

Credit unions in the U.S. are enjoying healthy growth and fostering community-focused relationships with their members, but they face mounting challenges from rivals trying to attract their members and hackers working to steal sensitive data. In this month's Feature Story (p. 7), Timothy Anderson, CEO of United States Senate Federal Credit Union (USSFCU), explains why the Washington, D.C.-based CU is stepping up to the digital challenge with an IT and data storage infrastructure overhaul it hopes will boost its online capabilities and enhance data safety for its high-profile customers.

DEEP DIVE: WHY CUS MUST INNOVATE OR FAIL AMID INDUSTRY CONSOLIDATION

The credit union industry loses one company every four days, mainly to consolidation, meaning they must innovate or die after failing to keep pace with the technological innovations driving the sector. This month's Deep Dive (p. 16) explores the efforts many CUs are taking to bolster their online and mobile banking app capabilities, defend transactions and provide seamless customer experiences for members who are used to quick and convenient banking — with often-limited IT budgets.

EXECUTIVE INSIGHT

Consumers want to be able to access digital services quickly and seamlessly, but they also need to feel that their finances are being handled safely. How can CUs strategize when designing digital onboarding and services to best strike the balance between ease of access and security?

"While consumers want quick, easy access to digital services, they also value security. In fact, according to PSCU's 2019 Eye on Payments Study, nearly 40 percent of consumers agree they make decisions about how to pay for something based in part on which is the most secure. Additionally, seven out of 10 respondents reported using mobile phone alerts to manage their cards, which speaks to the importance of giving consumers the ability to control their banking experiences and providing a feeling of safety when making purchases and conducting transactions with their credit unions.

Exploring different ways to keep members safe — including through authentication, the use of biometrics and artificial intelligence technologies — will ensure consumers and their information are protected. While these tools and solutions are important for safety, credit unions also need to keep in mind the member experience when solidifying their authentication tactics. Credit unions should continuously educate their members, explaining why traditional means of authentication are no longer enough to protect account and personal information. The more members know about changes in security and expectations for their day-to-day account activities and how their credit union is working to keep their information protected, the more seamless the experience will be for both parties."

Sean McElroy

chief information security officer at Lumin Digital

5 FIVE FAST FACTS

51%

Share of FIs that agree eliminating customer frictions is as important as identifying fraud



5%

Portion of U.S. credit unions that currently offer mobile banking apps



25%

Share of consumers who switched FIs in 2018 after being victimized by fraud



59%

Portion of consumers who would stay with their CUs despite a lack of innovation



65%

Share of surveyed CU members who say they chose their CUs because of trust





FEATURE STORY

HOW A DIGITAL MAKEOVER
COULD BE KEY TO CUs'
MEMBER ACQUISITION
PLANS



Competition for customers — especially millennials — from larger banks and FIs has long required credit unions to keep pace with their more innovative counterparts. This often means providing digital solutions and convenient banking options despite smaller technology and innovation budgets, however. Security is an ongoing concern as well, with countless fraudsters set on hacking CUs' to obtain customers' data.

A digital infrastructure overhaul that boosts CUs' online presences, accelerates new product and services introductions and improves staff productivity can help CUs expand their customer bases and operations, according to Timothy Anderson, CEO of [United States Senate Federal Credit Union](#) (USSFCU). The CU recently revamped its infrastructure to compete against banks and attract more members.

"One of the things that we often say is that we always have to be mindful of protection and security," Anderson said. "The No. 1 goal is serving our members, obviously, and making sure that we're secure and safe — especially with all the delivery channels that we offer."

Serving members means more than releasing products that align with the latest trends. Credit unions must discover where and how their members want to transact and then ensure their in-house growth and innovation strategies match up with those preferences. USSFCU is now working to balance its online and physical presences to better engage with current and potential customers.

ATTRACTING CUSTOMERS WITH UNIQUE BRAND, FINANCIAL STABILITY

USSFCU was chartered in 1935 by nine U.S. Senate employees and now has more than 40,000 members, mostly



politicians, their families and staff. The CU also attracts members from across the country, Anderson said, most of whom are interested in USSFCU because of its status as the official credit union of the U.S. Senate.

"That [fact] brings a lot of stability that most other financial institutions don't enjoy," he noted. "However, that is the floor where our stability starts, and we have built on that for almost a century. Making measured decisions [on] growth and expansion that ensure we grow at a healthy rate while incurring as little risk as possible has been a longstanding strategy for [us]."

Fraud perpetrated against customers' personal and financial data is a major challenge for all FIs, and the industry's digital push into mobile banking is opening up new channels for both customer interactions and cybercriminals. CUs need to ensure that their operations are secured if they want to maintain member loyalty.

Credit unions have deep senses of community among their members, meaning that breaches could do incalculable damage to that trust — and to CUs' bottom lines. USSFCU has taken steps to mitigate such issues, however, sometimes going as far as avoiding sharing data with third-party providers to keep members secure.

"In terms of security, we are pretty much averse to sharing member data," Anderson explained. "I believe [that] things have kind of really evolved. ... We take extra precautions, and ... [that] oftentimes means that perhaps we won't [share data]."

That trust has been documented as crucial to success, too. Recent PYMNTS [research](#) found that 65 percent of surveyed CU members cite the feeling as the main factor for picking a primary credit union. USSFCU's high-profile member base has made security even more important, with management often operating under the assumption that USSFCU is constantly under attack to prevent major problems.

"Because of who we serve, it goes without saying that member security and protection of member data is of the utmost importance," Anderson said. "We go to extreme measures to ensure that our data security meets the highest levels and undergoes rigorous testing to ensure what we have in place is impermeable."

Security issues are always changing, though, and USSFCU must continually evolve its protections to match those shifts. This includes upgrading its infrastructure to ensure its IT team has the best chance of preventing data-related catastrophes.

DIGITAL MAKEOVER PUSHES SECURITY, NEW SERVICES

USSFCU knew it needed a technological makeover to keep up with fraud's sophisticated nature and permanently provide the necessary levels of security. It partnered with a cloud infrastructure and digital workspace technology provider to drive its digital transformation and scale its operations, shifting to a "software-defined infrastructure." Its partner's solution includes a converged storage framework that allows USSFCU's relatively small IT team to securely and rapidly deliver applications and services to customers as well as efficiently manage remote branches.

One significant benefit has been that the CU can now expand its online capabilities and innovate more quickly. Smaller resource pools may make small operations feel constrained, but Anderson believes many fail at innovation because they lack organizational IT

strategies that prioritize solutions appropriate to the CU and its customers.

"There's [probably] not a bank or credit union that ... doesn't have mobile banking, so we have the typical mobile banking products," he said. "We're not looking to have the best products out there, but we're looking to have products that our members want."

USSFCU serves more younger customers than one might think, Anderson added. Young pages and interns staff the Senate, and many of them are members of Generation Z. These members are more comfortable with mobile banking — meaning credit unions need to offer such options — but they also value branches for informational opportunities.

"Traditional branches are transitioning more to relationship centers," Anderson explained. "They are quickly becoming less of a place to make transactions and more of a place to engage, inform and educate. ... We [plan to] balance these centers with robust online banking and mobile app technologies that will allow members to perform almost any function they would need from their device."

USSFCU and its CU counterparts will be around for a while, especially if they continue to evolve and deliver on their members' preferences. Digital transformations will help them remain safe and scalable banking destinations for their members, regardless of their members' ages or workplaces.



NEWS & TRENDS



PARTNERSHIPS AND EVENTS

VSECU, LUMIN DIGITAL TEAM UP ON DIGITAL BANKING SUPPORT

The financial industry is full of CUs looking to build out their platforms to satisfy today's digital consumers, and Vermont State Employees Credit Union (VSECU) is among them. The FI has [partnered](#) with PSCU-owned, cloud-based digital banking provider Lumin Digital to support online banking services. VSECU will utilize Lumin Digital's software for both business and retail banking as well as to provide a single application through which the CU can organize all its online features, enabling seamless experiences for it and its customers. VSECU hopes

to officially open its digital platform in July and estimates it will have 25,000 users waiting to sign on at that time.

VSECU is just one of several credit unions that PSCU has signed onto the Lumin Digital platform in the past few months. First South Financial Credit Union [partnered](#) with the company in February to develop its digital banking platform and create more support for its on-line customers.

HAPPY MONEY ANNOUNCES TFCU PARTNERSHIP FOR INSTALLMENT LOANS

Teachers Federal Credit Union (TFCU) is also working to make its online services more attractive to consumers. The Hauppauge, New York-based CU recently [partnered](#)

with FinTech Happy Money on an online lending product that gives loan recipients more opportunities to build credit and save money. Happy Money utilizes smart algorithms to categorize potential borrowers, isolating those that have more potential and desire to eliminate their debt. This allows the CU to approve borrowers that may have higher income levels and thus better chances of paying off their debts.

Happy Money customers have paid off nearly \$1.5 billion in credit card debt with these installment loans, according to the company. TFCU has not announced when it will officially integrate the lending service to its online platform, but it hopes the solution will enable it to positively impact its customers' financial health through eventual savings.

PRIORITY ONE CREDIT UNION MOVES CORE BANKING TO SYMITAR

Pasadena, California's Priority One Credit Union is turning to the cloud to upgrade its internal banking processes. The CU plans to use financial services provider Jack Henry & Associates' Symitar cloud solution for its core banking software, according to a recent [press release](#). The move will [allow](#) Priority One to store its internal data in the cloud, better protecting it from fraud and enabling it to provide stronger services and more innovative products, said Charles R. Wigginton Sr., the CU's president and CEO.

FIs find cloud technology intriguing because it allows them to keep their data out of in-house servers that may be more easily hacked. They also come with data redundancy features that duplicate or otherwise safeguard key data points, which can back up information that may be



lost in hacks or ransomware attacks that lock down servers until firms pay certain amounts.

CUSTOMERS PLACE HIGHER VALUE ON INNOVATION, PYMNTS FINDS

Cultivating customer loyalty is as much a priority for CUs as it is for other businesses, and keeping abreast of consumer trends and banking preferences is thus critical. PYMNTS' [Credit Union Innovation Index](#) discovered that what consumers value most from their FIs is changing, with 21.9 percent of customers in 2019 stating they would leave their CUs for another financial company due to lack of innovation. This number was only 17.3 percent in 2018. This 4.6 percent increase is significant and shows that consumers are drawn to financial providers that can keep up with today's technologies. Nearly 20 percent of current CU customers also reported interest in challenger banks,

including FinTechs that typically offer more innovative features than other competitors. CUs will need to make note of this trend if they wish to serve today's tech-savvy consumers.

SECURITY AND PAYMENTS

CUNA RECOVERS FROM CYBER LEAK

The Credit Union National Association (CUNA), a trade association for credit unions that advocates for the industry, recently saw a "cyber incident" take its systems offline, proving how necessary it is for FIs and other companies to always improve their security approaches. A recent [article](#) on the breach noted that ransomware may have targeted CUNA's systems, though this has yet to be confirmed. A spokesperson for the association noted that the fraudsters only had access to a limited amount

of personal information, including business and email addresses. CUNA does not store data such as credit card details or Social Security numbers, which means sensitive personal identifiers were not available to the attackers.

NAVY FEDERAL CREDIT UNION LAUNCHES VOICEID TO IMPROVE SECURITY, ONBOARDING

Security is a top concern for every FI, and Navy Federal Credit Union is using biometrics to grant its customers an extra layer of fraud protection. The CU [announced](#) the launch of its new VoiceID feature, which will enable voice print-based identity verification for consenting customers, on March 2. VoiceID will be integrated into Navy Federal's traditional contact center, and customers who wish to use it must enroll in the program. The onboarding process prompts them to select and record passphrases that they repeat on later calls to authenticate themselves.

Navy Federal will still rely on human employees for part of the VoiceID enrollment process. Personalizing security in this manner will eliminate the lengthy verification process and allow calls to happen quicker, which will improve call times and keep members from having to deal with friction-filled authentication tools, according to the CU.

PSCU TESTS OUT BLOCKCHAIN IDENTITY VERIFICATION PROOF OF CONCEPT

Blockchain technologies represent another way for credit unions to add cybersecurity to their platforms, with CUSO PSCU in the process of a proof of concept for such a security offering. PSCU partnered with CU fraud solutions provider CULedger and Baxter Credit Union (BCU) on the proof of concept of CULedger's MemberPass platform – a blockchain-based service for identity verification.





MemberPass allows credit unions or CUSOs to have one digital credential that serves as member verification. The partnership will determine how blockchain could help protect customers' identities and speed transactions.

Blockchain is changing the way data is categorized and stored, making it easier for FIs to protect information and more difficult for fraudsters to access data. PSCU is also planning to invest in similar projects to build out enhanced support for its credit unions through a three-year, \$100-million initiative announced last year.

CULEDGER ADDS NEW CUS TO MEMBERPASS FOR ENHANCED CYBERSECURITY

Other CUs are also interested in blockchain's security solutions, and some are joining PSCU and BCU in the products they are tapping to enhance security. CULedger has added three additional credit unions to its MemberPass service, including Achieva Credit Union, HawaiiUSA Federal Credit

Union and Eagle Express Federal Credit Union. All of its partners will be using MemberPass' existing cybersecurity features in their contact centers, replacing knowledge-based authentication (KBA)-focused verification features like online security questions with blockchain-based cybersecurity solutions. It will also include tools that will authenticate customers on the back-end without their input.

Achieva, HawaiiUSA and Eagle Express will join 11 MemberPass platform members, according to the press release. Achieva will complete its implementation later this year, but HawaiiUSA and Eagle Express have yet to provide timelines for their offerings.

DATA ANALYTICS, ML INVESTMENT COULD ALSO AID PROTECTION

CUs must be willing to explore new technologies, including advanced data analytics, AI and ML. Investing in these technologies is a top priority for PSCU, Jack Lynch, the CUSO's senior vice president and chief risk officer, said in a recent [interview](#) with PYMNTS. PSCU will continue to advance solutions like its Linked Analysis tool, which uses AI to connect credit unions with different platforms and provides more security for transactions among CUs, merchants and customers.

PSCU is far from the only organization [implementing](#) ML and similar tools to support CUs. The National Credit Union Administration (NCUA) developed an automated cybersecurity examination tool that multiple credit unions are utilizing, according to PYMNTS data.

COVID-19 IN THE CU SPACE

CUDA PROMISES FLEXIBILITY ON LOANS DUE TO COVID-19

Credit unions are not immune to the new coronavirus pandemic's financial and social pressures. COVID-19 has halted many of the typical payment cycles between businesses, customers and FIs, including repayment of loans and creeping interest – payments some consumers may have had to forgo due to healthcare costs. Kevin Johnson, CEO of the Credit Union Development Association (CUDA), recently gave a [statement](#) to ease stress in this area, noting that “all credit unions will be understanding and will be flexible” toward loan repayment during periods of quarantine and financial strain.

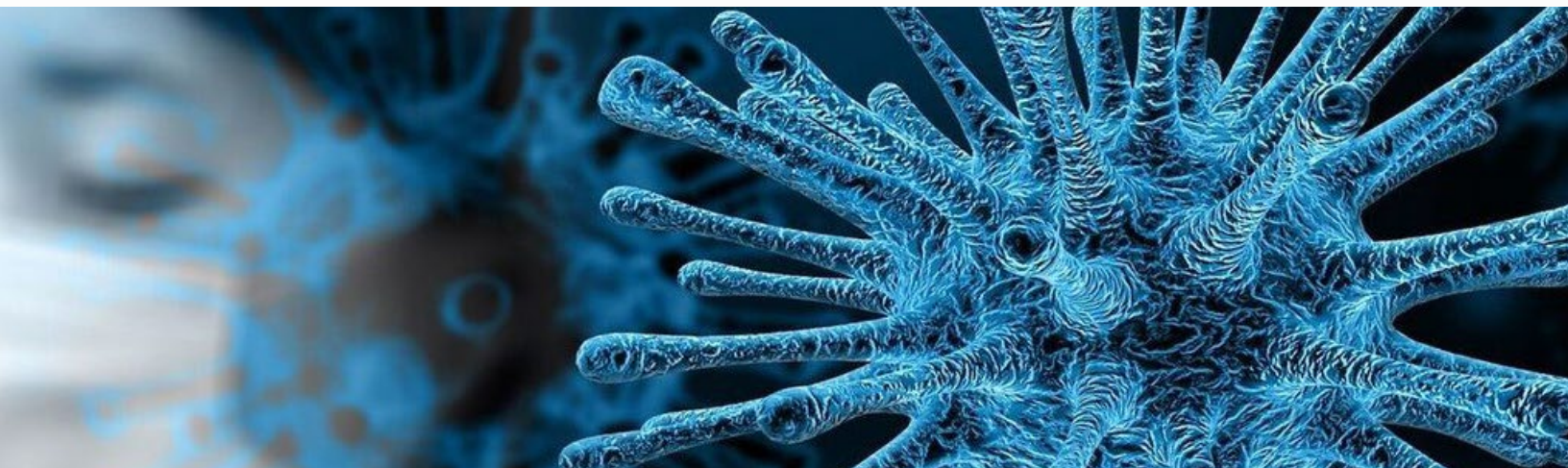
This statement does not promise that all CUs will forgive or halt loan repayments, however, nor that all of them will stop collecting interest. Individual credit unions may respond differently, Johnson added, noting that the best course of action for members may be to call their CUs to determine personalized solutions. Many credit unions are also attempting to gain more clarity from the state and federal government

regarding the pandemic, as what is currently expected of them is still undefined.

COVID-19 FORCES CUS TO SHUTTER BRANCHES

The COVID-19 pandemic is prompting businesses to close many of their physical branches, and CUs are following suit. Minnesota's largest CU, Wings Financial Credit Union, has [shut down](#) three of its 24 in-state branches thus far, but it is allowing consumers to interact with ATMs and personal teller machines at these locations. The latter are equipped with video screens that can be used to interact with tellers, who can walk members through any transactions or financial decisions.

The Minnesota Credit Union Network also released a statement requesting that consumers utilize digital banking tools whenever possible rather than ATMs or other machines. Additional FIs in the state are following this same path, with Bremer Bank shuttering all 80 of its branches and also promoting online banking.



DEEP DIVE

WHY CREDIT UNIONS' STRUGGLES TO GO DIGITAL REPRESENTS A MAJOR INDUSTRY CHALLENGE

Some financial players may think that digital transformations are nothing more than a past trend. Many banks, businesses and service providers implemented their first digital platforms decades ago and have since steadily built out their solutions with newer technologies like AI-supported customer service channels. Overlooking digital transformations in the present could be problematic, however, especially for companies or FIs that did not adopt these innovations as soon as competing entities.

Credit unions have generally been slower to adopt digital services, as less than 5 percent of those in the U.S. currently have mobile banking apps, according to one [study](#). App-powered offerings are becoming the banking method of choice for many consumers — a [study](#) found that 97 percent of millennials currently use mobile banking apps. Mobile banking's personalization capabilities allow consumers to set alerts and receive notifications tailored to their individual financial situations, an attractive alternative to branch-based encounters that reduces processes' reliance on paper.

Younger consumers have expressed interest in innovative options, but budgetary restrictions and increasing digital fraud concerns may have limited CUs' ability or willingness to modernize. Outdated technologies are likely to redirect potential or existing customers to competing services, especially given the rise of online-only competitors and any security lapse's lasting impact. Twenty-five percent of consumers who [switched](#) FIs in 2018 did so because they were victims of fraud at their prior institutions, for example. Baby boomers, members of Generation X and millennials all [cite](#) trust as the most important factor when choosing their financial partners, and institutions that cannot protect against modern, sophisticated fraud will surely lose that trust.

Consumers who want seamless, personalized connections with FIs are unlikely to accept any excuses for failing to implement solutions that meet their needs. The following Deep Dive explores why credit unions must adapt and act to protect customers that increasingly prefer digital channels.



CONFRONTING DIGITAL LAG

Eighty-six percent of FIs [note](#) that digital transformations will fundamentally change the financial industry and how they interact with customers. Only 43 percent have implemented digital strategies, however, with the rest — including some CUs — still playing catch-up. CUs must first truthfully evaluate their current innovation status and their customers' precise expectations before allocating resources towards a digital transformation.

In doing so, these credit unions must identify the channels and technologies that deserve their time and money as well as strategize how best to roll out such features once they are fully developed. Mobile banking applications are especially important, but simply introducing one is not enough to close a technological gap or stand out. CUs must instead tailor their efforts to how customers want to bank and optimize how their offerings interconnect. In-app banking features can complement a CU with strong physical locations by helping users find convenient branches — a [priority](#) among millennials and members of Gen X.

Developing this integrated support is critical to seamless customer experiences, as technologies that do not meet consumers' evolving standards can frustrate more than help. Approximately one-third of consumers [reported](#) reacting negatively to their FI after being forced to abandon actions on mobile banking apps, for example. Millennials, who almost all [use](#) mobile banking apps, abandoned such activities on mobile most often: 43 percent did so, while only 25 percent of Gen X customers did the same. Easing mobile frictions could enable credit unions to better compete against banks and FIs with strengthened digital financial services.

CUs that currently do not offer banking apps must work toward designing, launching and supporting such solutions quickly to adequately compete with both existing and emerging players within the financial services space. CUs are not only working to attract members from fellow credit unions but also from established banks, up-and-coming FinTechs and online-only banks that [promise](#) speed and convenience to consumers that clamor for mobile options.

CUs must also keep their platforms updated for security purposes. Those still utilizing outdated technologies are leaving themselves open to opportunistic fraudsters hunting for weak points. Credit unions cannot forget about providing satisfying customer experiences when strengthening their systems, however, as some prospective members will never finish bank account applications with long authentication processes.

OUTDATED TECHNOLOGY AND FRAUD WORRIES

Credit unions need to both satisfy consumers' demands and stop fraudsters, but actions to achieve these goals can sometimes complicate FIs' ability to meet their other needs. They must respect their sometimes limited resources and [keep](#) costs low while trying to implement newer authentication tools such as biometrics. Such operations can drain CUs' finances — requesting an additional review of a consumer's credit card application can cost approximately \$10, for example — and the time cost for consumers can be major. One [study](#) found that three-quarters of the 40 percent of consumers who abandoned bank applications did so because enrollment took longer than they would have liked. That data suggests that CUs need to eliminate customer frictions, which 51 percent of FIs [agree](#) is an equal

priority to identifying fraud, even though they must shore up authentication, keep transaction speeds fast and offer reliable online services.

Even selecting a verification technology to develop a streamlined implementation is complicated, as credit unions are [abandoning](#) KBA tools because of their growing weaknesses but have yet to settle as an industry on whether AI-enabled tools, biometrics or fraud metrics powered by alternative data sources will replace them.

What is clear is that CUs must make plans and take actions to innovate their digital platforms, regardless of the challenges they face. Consumers tend to view cybersecurity concerns as their FIs' problems, and they will not wait for their current providers to figure out solutions if a competing entity has already solved the issue. Credit unions that fail to add secure, fast and effective digital features may soon find themselves outstripped by FIs that have launched the solutions their clients and customers demand.



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