

CREDIT UNION

INNOVATION

PLAYBOOK

Microbusiness Opportunity Edition

The 2020 Credit Union Innovation Playbook series, a PYMNTS and PSCU collaboration, analyzes the evolution of the innovation trends in the financial ecosystem. The Microbusiness Opportunity Edition draws from a data sample of 3,908 consumers, 100 credit union leaders and 50 FinTech executives to examine microbusinesses' impact on decision-makers for CUs of all sizes.

The logo features a dark blue square on the left containing a white network of interconnected triangles and lines. To the right of this square, the words "CREDIT UNION" are stacked vertically in a large, bold, lime green sans-serif font. Below "CREDIT UNION", the word "INNOVATION" is written in a smaller, lime green, spaced-out sans-serif font. At the bottom right of the logo, the word "PLAYBOOK" is written in white, uppercase letters inside a dark blue rectangular box.

CREDIT UNION INNOVATION PLAYBOOK

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

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INTRODUCTION

The COVID-19 pandemic has triggered an innovation wave among credit unions (CUs), especially those serving microbusinesses. CUs are being called upon to provide financial support for small to mid-sized businesses (SMBs) during the economic downturn as well as to serve members via digital channels to help them avoid contagion risks.

Many credit unions are using innovations to achieve these goals. More than 250 CUs across the United States are using a digital compliance platform developed by

the Credit Union National Association that facilitates faster loan application processing by ensuring their operations comply with recent legislation.¹ Others, including Colorado-based Ent Credit Union, are innovating financial relief programs that extend SMBs' credit lines and temporarily defer their loan payments.

The innovations arising from these unprecedented economic circumstances seemingly herald the beginning of a long-term shift to digital-first banking. Businesses and consumers are moving away

from cash and card-based transactions toward digital alternatives, and experts are not anticipating that this demand will fade anytime soon.²

This means CUs' engagement strategies will likely continue to focus on providing digital capabilities long after the COVID-19 pandemic's impacts have subsided. What are some of the key technologies that can help credit unions meet the needs of microbusinesses in their communities and help them prepare for the new, far more digitized ecosystem?

The Credit Union Innovation Playbook: Microbusiness Opportunity Edition, a PYMNTS and PSCU collaboration, examines how CUs are prioritizing their innovations to serve microbusinesses in the future. We surveyed 100 credit union decision-makers to learn more about how they consider microbusinesses' needs when designing and implementing their innovation agendas as well as how those agendas differ among CUs of different types and sizes.

This is what we learned.

¹ Credit Union Tracker. PYMNTS.com. 2020. <https://www.pymnts.com/tracker/credit-union-may-2020/>. Accessed June 2020.

² Berger, M. The coronavirus is upending cash economies. Mobile money could emerge as the winner. Washington Post. 2020. <https://www.washingtonpost.com/world/2020/05/15/coronavirus-is-upending-cash-economies-mobile-money-could-emerge-winner/>. Accessed June 2020.

01

Microbusinesses form an important part of CUs' broader communities.

Microbusinesses are defined as those that either generate less than \$1 million in annual revenues or have just one employee. Microbusinesses play a vital role in many credit unions' communities, and 36 percent of CU executives consider these firms to be an important part of their member bases. They are particularly important to small credit unions, as 50 percent of decision-makers at CUs with less than \$500 million in assets say they consider microbusinesses to be a significant part of their membership. This compares to 28 percent of decision-makers at mid-sized credit unions with \$500 million to \$5 billion in assets and 25 percent of those at large CUs with more than \$5 billion in assets who say the same.

03

Digital banking will be central to microbusiness-focused CUs' three-year innovation plans.

Credit unions with member bases significantly composed of microbusinesses are more likely than other CUs to plan to offer digital banking innovations, such as mobile banking options and digital wallets, over the next three years. Our survey reveals that 66.7 percent of microbusiness-focused CUs plan to innovate new mobile banking capabilities in the next three years, compared to 51.6 percent of credit unions for which microbusinesses do not constitute significant portions of their membership. We also found that 61.1 percent of microbusiness-focused CUs plan to innovate digital wallet solutions, compared to only 37.5 percent of those without many microbusiness members.

02

Approximately 4 out of 10 CUs consider microbusinesses when creating their innovation agendas.

Many credit unions say microbusinesses are a top consideration when crafting their innovation agendas. Our research shows that 40.8 percent of CU executives plan to increase the number of products designed with microbusinesses in mind. The share is even higher among small CUs, as 55.3 percent aim to introduce more microbusiness-focused products in the future. Just 32.7 percent and 27.3 percent of mid-sized and large CUs, respectively, say the same.

04

Providing faster payments processing is a key driver of CUs' microbusiness innovations.

Our research shows that 69.4 percent of decision-makers at microbusiness-focused credit unions want to innovate to provide faster payment capabilities, while 66.1 percent of non-microbusiness-oriented CUs say the same. The desire to satisfy members' rapidly changing demands and meet potential microbusinesses' needs are also important factors motivating CUs to innovate, with 55.6 percent of microbusiness-focused CUs citing the former and 52.8 percent citing the latter as reasons to do so.

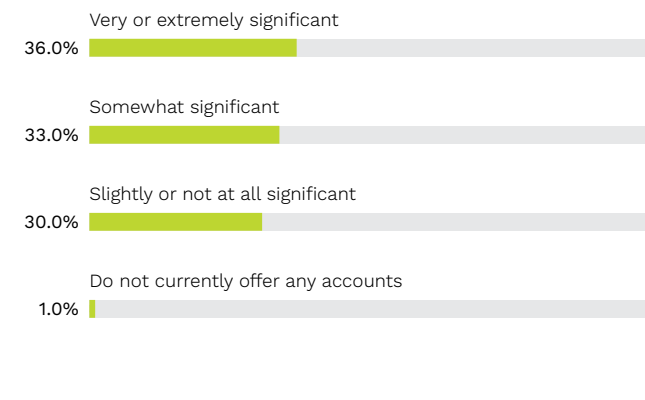
THE CU-MICROBUSINESS CONNECTION



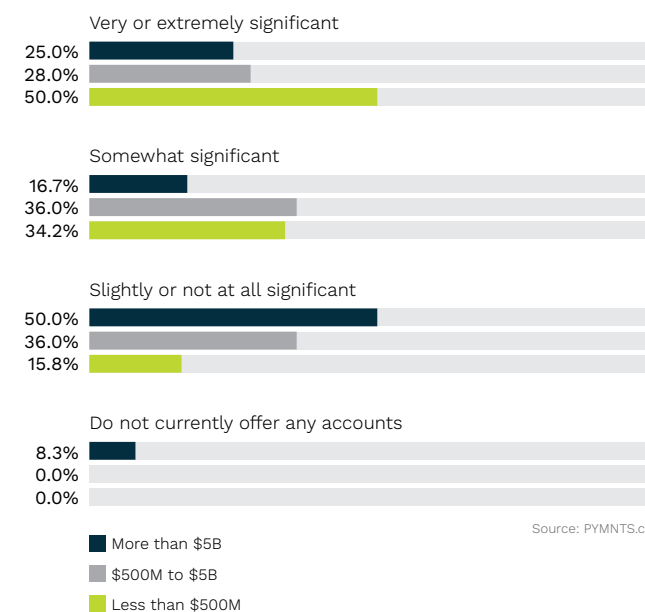
FIGURE 1:

Microbusinesses' importance in CUs' communities

Share of CU leaders identifying microbusinesses as having select levels of significance to their member bases



Share of CU leaders identifying microbusinesses as having select levels of significance to their member bases, by asset size



Source: PYMNTS.com

Microbusinesses are prominent players in the credit union ecosystem. Thirty-six percent of CU leaders consider microbusinesses to be “very” or “extremely” significant portions of their member bases, while 33 percent consider them “somewhat” significant and 30 percent say they are “slightly” or “not at all” significant.

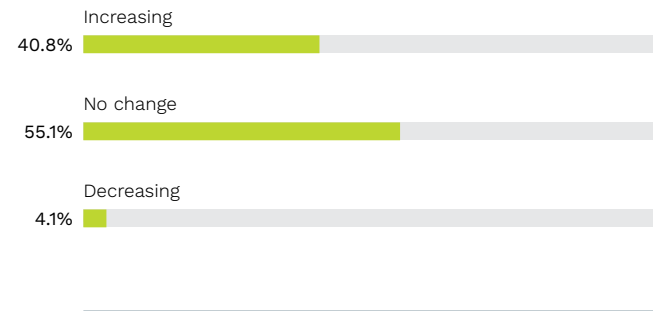
Small CUs generally focus more on microbusinesses than their mid-sized or large counterparts. Fifty percent of decision-makers at small CUs say that microbusinesses form an important part of their member bases, compared to 28 percent and 25 percent of leaders at mid-sized and large CUs, respectively.

This contrasts with our findings regarding the largest credit unions, which tend to be the least focused on microbusinesses. We found that 50 percent of decision-makers at large CUs say microbusinesses are “not at all” significant or “slightly” significant portions of their membership. Only 36 percent of mid-sized credit union leaders and just 15.8 percent of those at small CUs say the same.

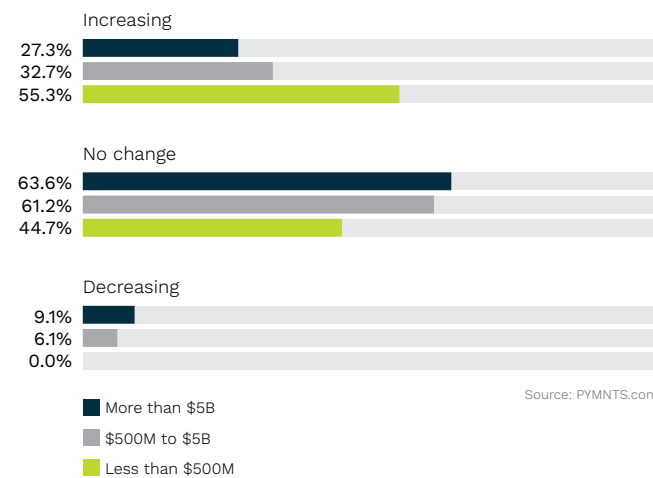


FIGURE 2:
CUs' intentions to pursue microbusiness-focused innovations

Share increasing or decreasing the number of product offerings for microbusinesses



Share increasing or decreasing the number of product offerings for microbusinesses, by asset size



Source: PYMNTS.com

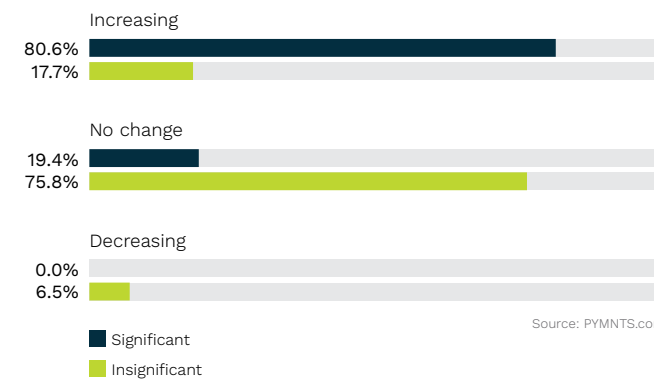
40.8%

OF CUs PLAN TO EXPAND THEIR MICROBUSINESS-FOCUSED PRODUCT OFFERINGS IN THE FUTURE.

Small credit unions and those with many microbusiness members are likelier than other CUs to plan on innovating new products for such businesses in the future. Our research shows that 40.8 percent of all CUs plan to expand the number of products and services they offer microbusinesses over the next three years, while 55.3 percent of small credit unions aim to do so. We found that CUs with significant contingents of microbusiness members are even more likely to plan microbusiness-oriented innovations, with 80.6 percent intending to do so.

FIGURE 3:
CUs' intentions to pursue microbusiness-focused innovations

Share increasing or decreasing the number of product offerings for microbusinesses, by microbusiness significance in member base



Source: PYMNTS.com

Larger credit unions and those that do not consider microbusinesses to be an important part of their membership bases are not only less likely to plan to develop new products for microbusinesses — they are actively reducing the number of offerings they provide. Our study finds that 9.1 percent of large CUs aim to decrease the number of products and services geared toward microbusinesses, while 6.1 percent of mid-sized CUs plan to do the same.

PLANNING FOR MICROBUSINESS INNOVATION

Microbusiness-focused CUs and their non-microbusiness-oriented counterparts tend to focus on different digital innovation types, but both groups are interested in offering innovative payments experiences. Fifty-seven percent of all credit unions plan to innovate new mobile banking capabilities in the next three years, while 46 percent aim to develop digital wallet options. Card transaction management and alert features are on the agenda for 44 percent of CUs, and faster and real-time payments will be a focus for 40 percent of them. Significant portions of credit unions also intend to implement contactless payments, offer instant deposits and improve their merchant services and payments acceptance.

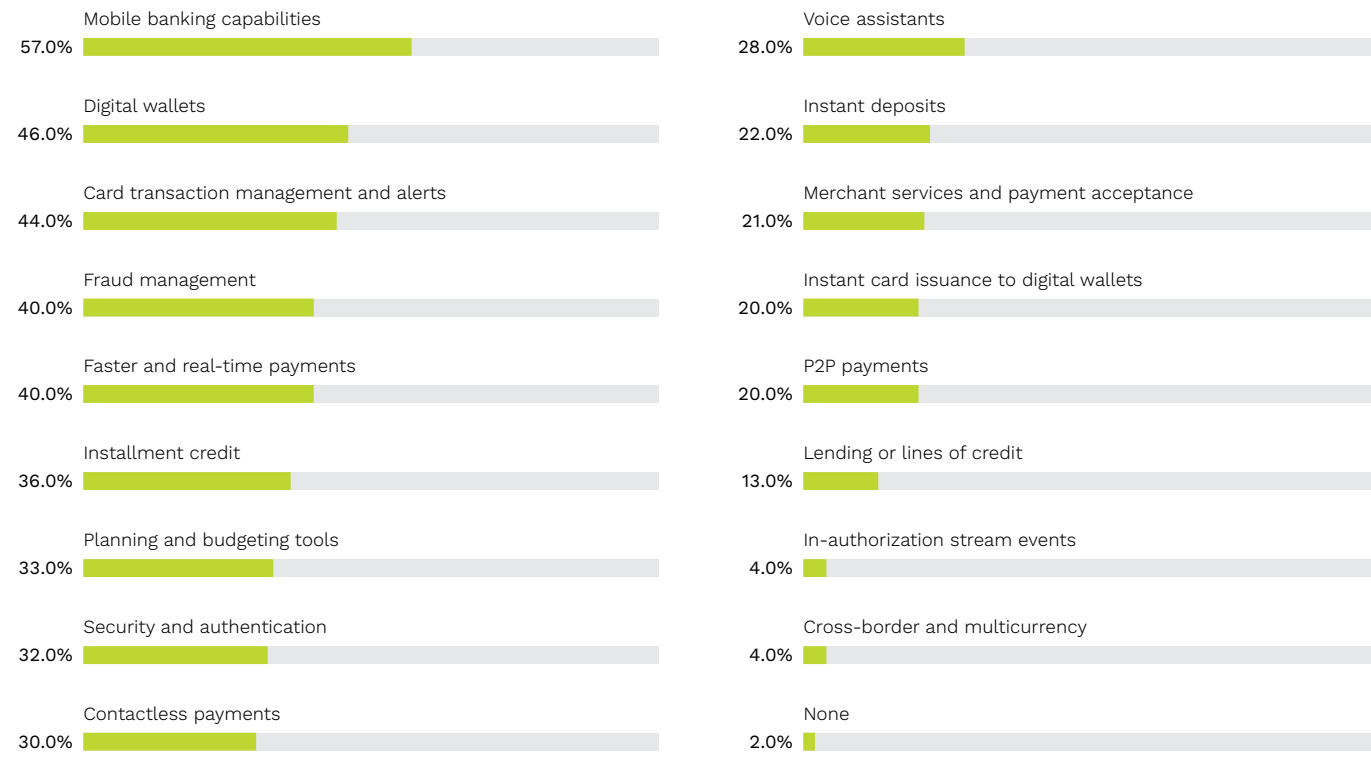
Large CUs are the most likely to plan to innovate new digital wallet capabilities, card transaction management tools and faster and real-time payments. Our study found that 66.7 percent of these CUs plan to focus on expanding their digital wallet capabilities, for example, compared to 36 percent and 52.6 percent of mid-sized and small CUs, respectively, that plan to do so.

57%

OF CUs PLAN
TO DEVELOP
**NEW MOBILE
BANKING
CAPABILITIES**
DURING THE NEXT
THREE YEARS.

FIGURE 4:

Microbusiness-focused technologies CUs plan to develop going forward
Share of CUs planning to focus on select innovations over the next three years



Source: PYMNTS.com

61.1%

OF MICROBUSINESS-FOCUSED CUs
PLAN TO **ADD DIGITAL WALLET**
OPTIONS IN THE NEXT THREE YEARS.

Credit unions that count microbusinesses as important parts of their membership bases are doubling down on their innovation goals, focusing on not only payments-related innovations but also numerous other developments that support varying use cases. Non-microbusiness-focused CUs, on the other hand, are taking aim at card transaction management and alert features as well as merchant services and payments acceptance.

TABLE 1:

Technologies CUs plan to develop in the future

Share planning to focus on select innovations over the next three years, by asset size and microbusiness significance

INNOVATIONS	ASSET SIZE			SIGNIFICANCE	
	Less than \$500M	\$500M to \$5B	More than \$5B	Significant	Insignificant
Mobile banking capabilities	60.5%	56.0%	50.0%	66.7%	51.6%
Digital wallets	52.6%	36.0%	66.7%	61.1%	37.5%
Card transaction management and alerts	28.9%	52.0%	58.3%	41.7%	45.3%
Fraud management	47.4%	36.0%	33.3%	55.6%	31.3%
Faster and real-time payments	47.4%	30.0%	58.3%	52.8%	32.8%
Installment credit	36.8%	30.0%	58.3%	38.9%	34.4%
Planning and budgeting tools	34.2%	34.0%	25.0%	36.1%	31.3%
Security and authentication	39.5%	26.0%	33.3%	36.1%	29.7%
Contactless payments	44.7%	22.0%	16.7%	41.7%	23.4%
Voice assistants	26.3%	28.0%	33.3%	33.3%	25.0%
Instant deposits	15.8%	26.0%	25.0%	22.2%	21.9%
Merchant services and payment acceptance	10.5%	28.0%	25.0%	8.3%	28.1%
Instant card issuance to digital wallets	18.4%	22.0%	16.7%	22.2%	18.8%
P2P payments	28.9%	14.0%	16.7%	25.0%	17.2%
Lending or lines of credit	7.9%	16.0%	16.7%	13.9%	12.5%

Source: PYMNTS.com

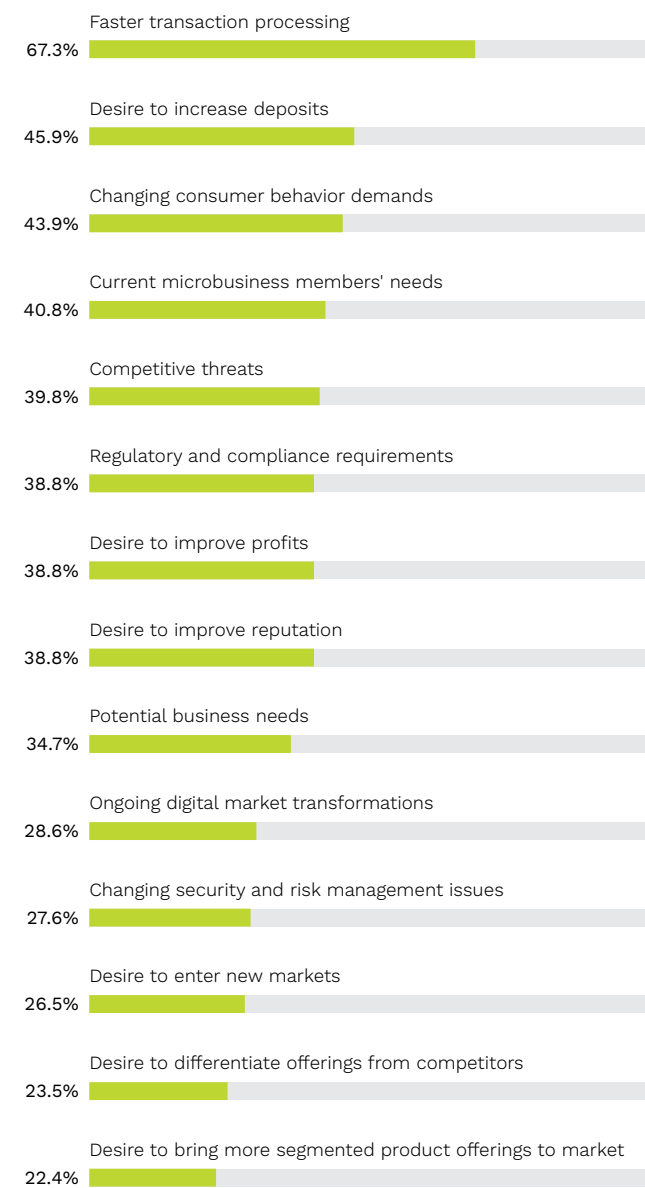
HOW MICROBUSINESSES DRIVE CU INNOVATION

Credit unions that develop products and services for microbusinesses generally do so with the needs of their members in mind. Our study finds that 67.3 percent of CU decision-makers innovating new products and services for microbusinesses are motivated to do so to provide their users with faster payment experiences. Other common motivators for microbusiness-focused credit unions include the desire to meet changing consumer behavior and demands, responding to existing microbusiness members' needs and addressing competitive threats, which are cited by 43.9 percent, 40.8 percent and 39.8 percent of them, respectively.

Credit unions investing in microbusiness-focused innovations also do so to improve both their financial standing and their reputations. We found that 36.1 percent of microbusiness-focused CU decision-makers innovate to boost their deposit volumes, for example, and that 30.6 percent do so to improve their bottom lines. Another 38.8 percent of CUs innovating for microbusinesses do so because they believe it will enhance their reputations.

FIGURE 5:

What motivates CUs to innovate for microbusinesses
Share developing products and services for microbusinesses for select reasons



Source: PYMNTS.com

All microbusiness-focused CUs report innovating for these reasons, though their likelihood of doing so varies according to their sizes. Large credit unions are the most likely to report innovating to increase the volume of the deposits they receive, for example, at 90.9 percent. Just 36.7 percent of mid-sized CUs and 44.7 percent of small credit unions say the same. Large CUs are also likelier than their mid-sized or small counterparts to develop new products and services that will facilitate faster transactions, enhance their financial performances, differentiate them from competitors and bring more segmented product offerings to the market.

TABLE 2:
What motivates CUs of different sizes to innovate for microbusinesses
 Share developing products and services for microbusinesses for select reasons, by asset size

REASONS	ASSET SIZE		
	Less than \$500M	\$500M to \$5B	More than \$5B
Faster transaction processing	65.8%	67.3%	72.7%
Desire to increase deposits	44.7%	36.7%	90.9%
Changing consumer behavior demands	47.4%	44.9%	27.3%
Current microbusiness members' needs	36.8%	40.8%	54.5%
Competitive threats	39.5%	40.8%	36.4%
Regulatory and compliance requirements	39.5%	38.8%	36.4%
Desire to improve profits	44.7%	30.6%	54.5%
Desire to improve reputation	52.6%	34.7%	9.1%
Potential business needs	31.6%	38.8%	27.3%
Ongoing digital market transformations	28.9%	26.5%	36.4%
Changing security and risk management issues	34.2%	24.5%	18.2%
Desire to enter new markets	26.3%	28.6%	18.2%
Desire to differentiate offerings from competitors	26.3%	16.3%	45.5%
Desire to bring more segmented product offerings to market	21.1%	20.4%	36.4%

Source: PYMNTS.com

72.7%

OF LARGE CUs THAT INNOVATE FOR MICROBUSINESSES DO SO TO PROVIDE FASTER TRANSACTION PROCESSING.

Small CUs that innovate for microbusinesses tend to be more concerned with meeting consumers' changing demands, improving their own reputations and addressing security issues. Our study finds that 47.4 percent of microbusiness-focused small CUs innovate to meet consumers' changing demands, for example, compared to 44.9 percent of mid-sized CUs and 27.3 percent of large credit unions that say the same. We also note that 52.6 percent and 34.2 percent of microbusiness-focused small CUs innovate to improve their reputations and address security issues, respectively. This compares to 34.7 percent of mid-sized

and 9.1 percent of large CUs that innovate for the former reason and 24.5 percent of mid-sized credit unions that do so for the latter.

Size is not the only factor that influences CUs' microbusiness innovation plans. Credit unions with significant shares of microbusiness members are more driven to innovate for microbusinesses for almost every reason. Non-microbusiness-focused CUs develop new products and services for microbusinesses to increase deposits, meet members' changing demands, comply with regulatory requirements and improve their

financial performances. Improving deposit sizes is a particularly important factor for non-microbusiness-focused CUs that are innovating for these businesses, with 51.6 percent of credit unions in this group saying so. This figure is 36.1 percent among credit unions reporting that microbusinesses make up significant shares of their member bases.

Another factor drives many CUs to innovate for microbusinesses, even if they do not have many microbusiness members: improved financial stability. Our research shows that 43.5 percent of CUs that do not count microbusinesses as an important portion of their membership bases are nevertheless driven to innovate for them for this reason, compared to 30.6 percent of CUs with significant portions of microbusiness members.

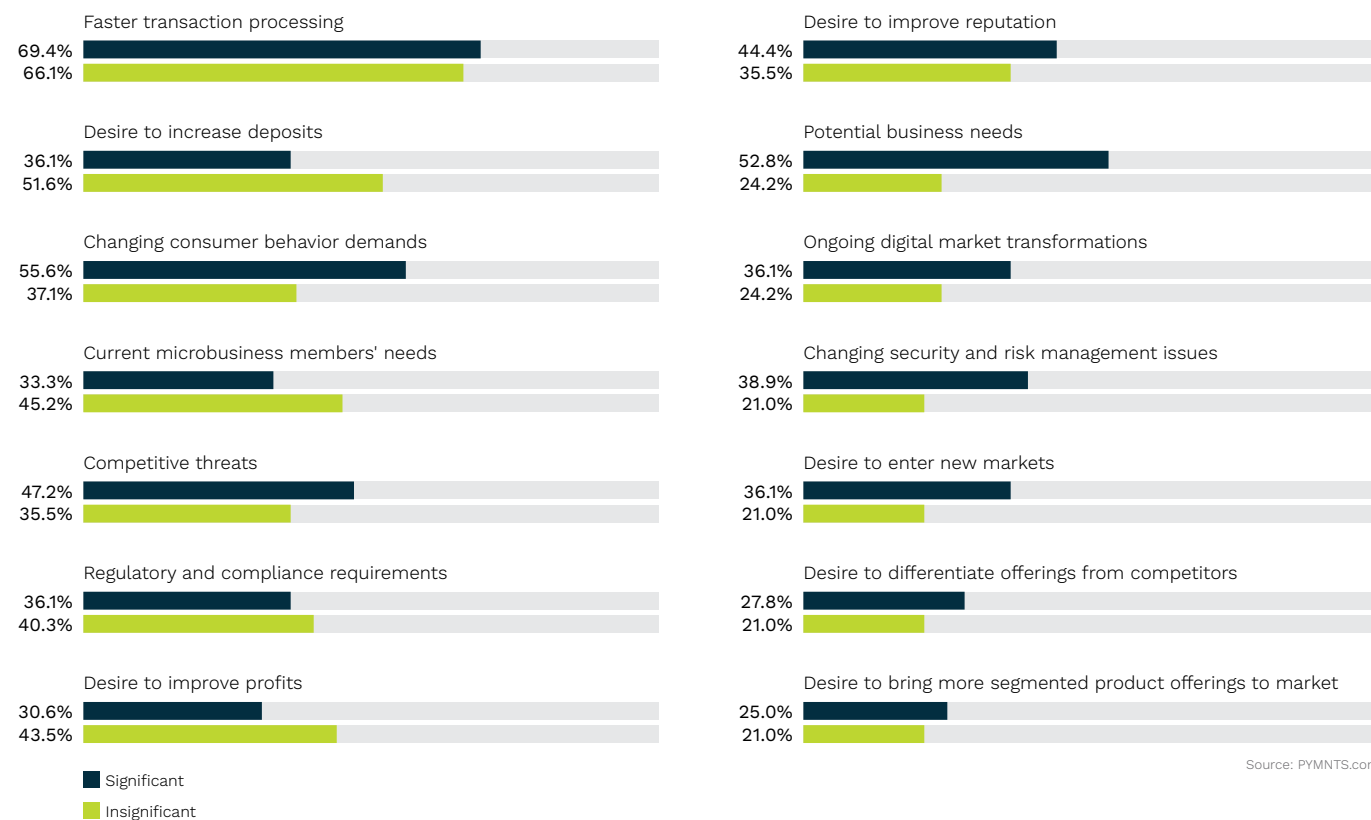
55.6%

OF MICROBUSINESS-FOCUSED CUs CONSIDER **CONSUMERS' CHANGING DEMANDS WHEN DESIGNING NEW PRODUCTS AND SERVICES** FOR MICROBUSINESSES.

FIGURE 6:

What motivates different types of CUs to innovate for microbusinesses

Share developing products and services for microbusinesses for select reasons, by microbusiness significance in member base



Non-microbusiness-focused CUs' drive to innovate for microbusinesses could signal a potential growth opportunity, suggesting that many credit unions see clear economic benefits to winning over microbusiness accounts, particularly if these CUs do not count many of these businesses among their ranks. Microbusinesses thus present a new frontier for credit unions looking to expand their membership bases, and innovation could be key to winning them over.





CONCLUSION

Microbusinesses and their financial needs have considerable impacts on credit unions' innovation strategies. A large share of CUs develop products and features with microbusinesses in mind, but even those that do not focus on microbusinesses see value in innovating to meet their needs and demands to boost their financial stability, improve their reputations or gain an edge over competitors. CUs would do well to consider this market segment when designing and implementing their innovation strategies, as doing so could open new growth opportunities.

METHODOLOGY

The 2020 Credit Union Innovation Playbook series, a PYMNTS and PSCU collaboration, examines survey data collected from 4,058 respondents to gauge the state of innovation in the financial ecosystem. We surveyed respondents from three subsamples — 3,908 U.S. consumers, 100 decision-makers at various U.S. CUs and 50 FinTech executives — about their FIs' recent and upcoming innovation plans, their awareness of various financial and payment product innovations and their interest in taking on their own innovation efforts. The Microbusiness Opportunity Edition focuses on microbusinesses' impact on decision-makers for CUs of all sizes.



ABOUT

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