



# CREDIT UNION

# INNOVATION

STUDY



The Credit Union Innovation Study, a PYMNTS and PSCU collaboration, provides a big-picture analysis of the current state of credit union innovation in the United States. We surveyed a census-balanced panel of 4,817 U.S. consumers, 101 credit union decision-makers and 50 FinTech executives to learn which innovations members want to see from their CUs, which innovations their CUs are prioritizing and the threat posed by FinTech competitors.

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 sans-serif font. To the right of "INNOVATION", the word "STUDY" is enclosed in a dark blue rectangular box with white text.

# CREDIT UNION INNOVATION STUDY

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

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# INTRODUCTION



**T**ax season in the United States lasts from January 1 to April 15, but finding and filing a year's worth of bills and payments in three and a half months can still prove to be a hassle for consumers without access to the right set of digital tools.

That is a problem Leaders Credit Union recently sought to resolve via an innovative new receipt management solution that can be accessed through its mobile banking app. The mobile tool allows users to upload pictures of paper receipts and sort them into itemized categories for easy tax filing.<sup>1</sup>

That solution is one among a growing wave of mobile banking innovations that credit unions are extending to deliver the digital-first and predominantly mobile banking experience their members have come to expect.

Such mobile innovations, while useful, have become so ubiquitous among credit unions that many CU members no longer consider them to be innovative at all. Only 23 percent of CU members say they would like to see their CUs innovate mobile banking capabilities, while a far larger share want them to focus on loyalty and rewards programs and contactless cards. This not only highlights a disconnect between CUs' innovation agendas

and their members' expectations but also underscores that mobile banking capabilities have become table stakes for many consumers. Only the most cutting-edge, innovative offerings will capture members' attention.

Credit unions are thus facing mounting pressure to offer products and services that go above and beyond meeting their members' mobile banking needs. What technologies will help CUs stand out now that digital and mobile banking capabilities have become ubiquitous?

PYMNTS has been researching the state of credit union innovation since 2018 as part of its Credit Union Innovation series, a

PYMNTS and PSCU collaboration. Our latest edition offers a big-picture analysis of how the pandemic has shifted consumers' banking needs and details how credit unions and other FIs must rise to deliver the digital technologies and services that meet their shifting demands. We surveyed a census-balanced panel of 4,817 U.S. consumers to discover the types of innovations credit unions must prioritize in order to stay competitive. We also surveyed 101 credit union decision-makers and 50 FinTech executives from across the U.S. to learn which innovations they are prioritizing and how those priorities align with their members' needs.

**This is what we learned.**

<sup>1</sup> Chilingirian, N. Fintech round-up: CU partnerships spotlight fraud control, financial wellness. Credit Union Times. 2021. <https://www.cutimes.com/2021/01/28/fintech-round-up-cu-partnerships-spotlight-fraud-control-financial-wellness/>. Accessed February 2021.

# 1

**The branch is no longer important to credit union members. Digital-first services now drive member retention.**

The pandemic has radically changed members' banking needs, and this shift is reflected in the types of services that members expect their CUs to provide. This year marks the first time when conveniently located branches is not the feature that consumers most commonly consider when choosing their FIs. Fifty-seven percent of all consumers now say that they choose their FIs in part because of their convenient branch locations, down from the 67 percent who said the same in 2019. Far more consumers — 64 percent — now say they consider how much they trust their FIs when selecting where to bank.

Consumers' demand for brick-and-mortar banking services has declined, yet their demand for digital services such as online banking capabilities and mobile apps has remained largely stable. Many credit unions are falling short in their ability to deliver these digital services, however, especially compared to banks. There are three times as many dissatisfied CU members as there are dissatisfied bank or Fin-Tech customers who say they are unhappy with their FIs' innovation performance.

# 2

**Credit union members are more satisfied than traditional bank customers, but one in five would still leave their credit unions for banks that offer more innovative solutions.**

Eighty-eight percent of CU members now report being either “very” or “extremely” satisfied with their CUs, compared to 81 percent of traditional bank customers. High satisfaction rates may not stop CU members from switching over to banks, however. CU members want their FIs to innovate, and 22 percent of all CU members say they would consider leaving their CUs for competing FIs if their CUs do not innovate. We found that the less satisfied they are, the more likely they are to make the switch. This makes innovation imperative for credit unions looking to retain their members — and aiming to attract even more.

Certain age groups are more willing than others to leave their FIs over innovation, and millennials and bridge millennials are at the top of the list.<sup>2</sup> Thirty percent of millennials and 31 percent of bridge millennials value innovation so highly that they would be “very” or “extremely” likely to leave their current CUs for competitors if it meant gaining access to more innovative products and services, such as contactless payments. Twenty-four percent of Gen X consumers and 12 percent of baby boomers would be “very” or “extremely” likely to at least consider switching, by comparison.

<sup>2</sup> Generation Z consumers are more likely than either millennials or bridge millennials to be willing to switch FIs over innovation, but they make up a much smaller subset of CU members in the United States. We have therefore omitted mention of them from this sentence.

# 31%

OF BRIDGE MILLENNIAL CREDIT UNION MEMBERS WOULD AT LEAST **CONSIDER LEAVING THEIR CUs TO BANK WITH COMPETITORS** THAT OFFERED MORE INNOVATIVE PRODUCTS AND SERVICES.

# 3

**Credit unions have accelerated the pace of innovation. Almost 50 percent more credit unions said that they launched new products or services before their competition in 2020 than in 2019.**

Credit unions took a more proactive approach to innovation in 2020 than they did in 2019, by their own estimation. Twelve percent of CUs say they launched new products and services before their competitors in 2020, and 46 percent say they were quick to innovate new solutions after observing market trends. This is far more than the 8 percent of CUs that reported innovating before their competitors and the 30 percent that reported innovating quickly after having observed market trends in 2019.

The trouble is that CUs appear to have a very different idea than do their members about what constitutes “innovative” products and services. Many CU members do not consider the technologies their CUs developed in 2020 to be innovative at all — they see them as basic requirements. One of the most common innovation areas on which CUs focused in 2020 was mobile wallet capabilities, with 86 percent of all CUs citing it as one of their innovation areas. Only 17 percent of members, however, expressed interest in mobile wallet innovation.

# 4

**A remote workforce has made it harder for credit unions to get the products and services they innovate to market.**

The pandemic has both exposed how essential innovation is to credit unions and also made it harder to innovate products and services. Many credit unions say that complications arising amid the pandemic have sidelined their innovation agendas, with 81 percent citing the difficulties of innovating with a remote workforce. We also found that 64 percent of CU executives say they have trouble rolling out new products quickly enough to meet consumers' rapidly shifting expectations.

Credit unions therefore find themselves in a double bind. Delivering new products to market is more challenging than ever, but those that cannot innovate products that meet their customers' expectations quickly and efficiently risk losing members to competitors that can.

# 5

**More than half of credit union members use other FIs for credit products. Fifty-one percent of CUs say the invisible threat of "portfolio leakage" can severely impact their financial performance.**

CUs that fail to innovate also face the risk of portfolio leakage, in which loyal members turn to financial products offered by their competitors. This risk is not only difficult to manage but also difficult to identify. CUs may not always be able to detect when members are using financial products provided by competitors in lieu of their own, but it is easy to understand how the practice might impact their finances. Fifty-one percent of all CUs say that portfolio leakage in even one of their financial products or services would have a severely detrimental impact on their financial performance, regardless of whether their members are obtaining their mortgages, personal loans or auto loans from competing institutions.

The portfolio leakage problem may also be more widespread than many CUs realize. Sixty-two percent of CU members who have personal loans currently obtain them from their CUs' competitors, in fact, and 66 percent of those who have mortgages have obtained them from other FIs.

Competing CUs and other FIs are not the only organizations that are vying for the business of credit union members. The strong majority of FinTechs are also interested in selling products and services directly to CU members. Fifty-eight percent of FinTechs would like to offer personal loans directly to CU members, and 34 percent are interested in selling mortgages to them.



# 53%

OF CREDIT UNION MEMBERS CURRENTLY USE CREDIT PRODUCTS FROM THEIR CUS' COMPETITORS.

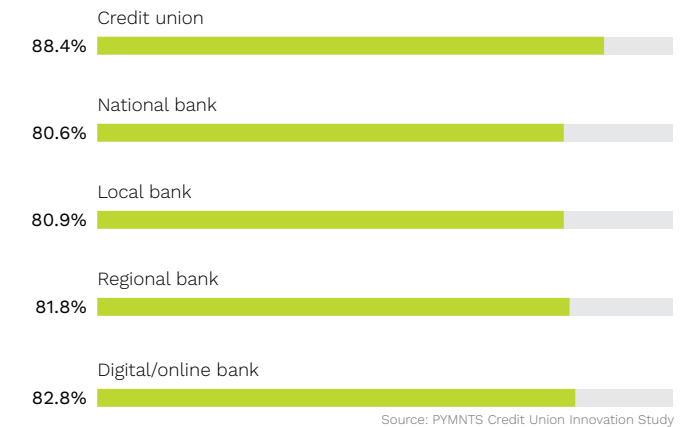
# CUs' ENDURING RELATIONSHIP WITH THEIR MEMBERS



The pandemic has radically altered how credit unions interact with their members, but one aspect of the credit union banking experience remains unchanged: member satisfaction. Credit union members continue to be more satisfied with their banking experience than individuals who use national, regional, local or digital-only banks as their primary FIs. Eighty-eight percent of all CU members say they are either “very” or “extremely” satisfied with their CUs, in fact, and approximately 81 percent of national bank customers and local bank customers express similar levels of satisfaction.<sup>3</sup>

Credit unions have historically been built around meeting the specific needs of their communities, and the trust that CU members tend to feel toward their credit unions plays a big role in keeping them satisfied with their banking experiences. Thirty-two percent of all satisfied CU members say trust is the single most important reason they feel satisfied with their banking experiences. This makes 2020 the third consecutive year in which trust was the primary satisfaction driver among CU members.

**FIGURE 1:**  
**How many financial customers are satisfied with their banking experiences**  
 Share of CU members and other FI customers who are “very” or “extremely” satisfied



There is also a key financial aspect to CU member satisfaction. Not having to pay fees is now the second-most common reason that CU members cite for being satisfied with their credit unions. This highlights how critical it has become for CUs to provide financial relief to their members in today’s uncertain economic environment.

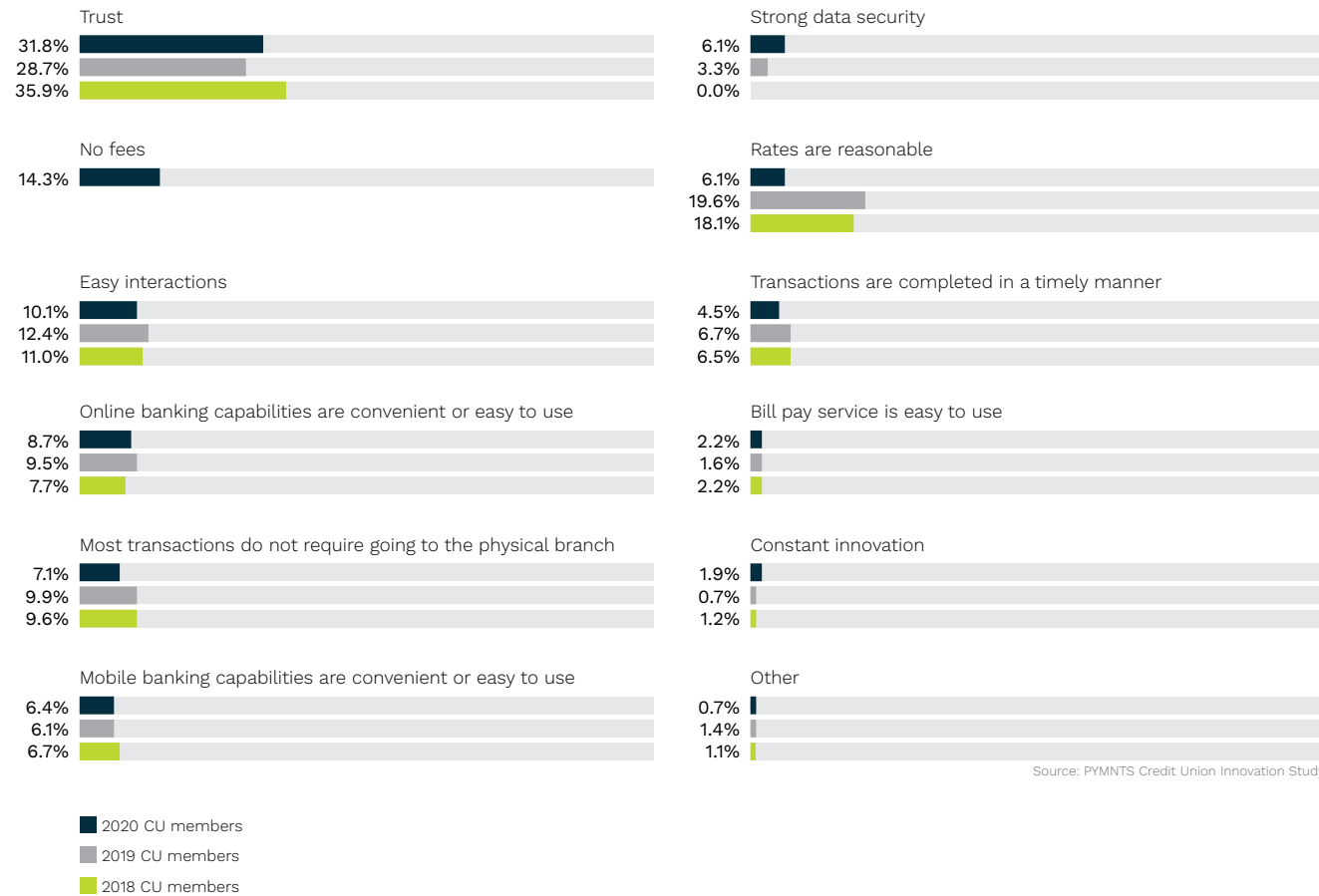
Digital banking options also play a critical role in keeping members happy. Credit unions and other FIs across the U.S. have either shuttered their brick-and-mortar branches or are operating at limited capacity, making online interaction an essential part of the new banking experience. Convenient and easy-to-use online banking capabilities are now the fourth-

<sup>3</sup>We will hereafter refer to these “very” or “extremely” satisfied CU members as “satisfied members.”

**FIGURE 2:**

**Why satisfied CU members are happy with their primary FIs**

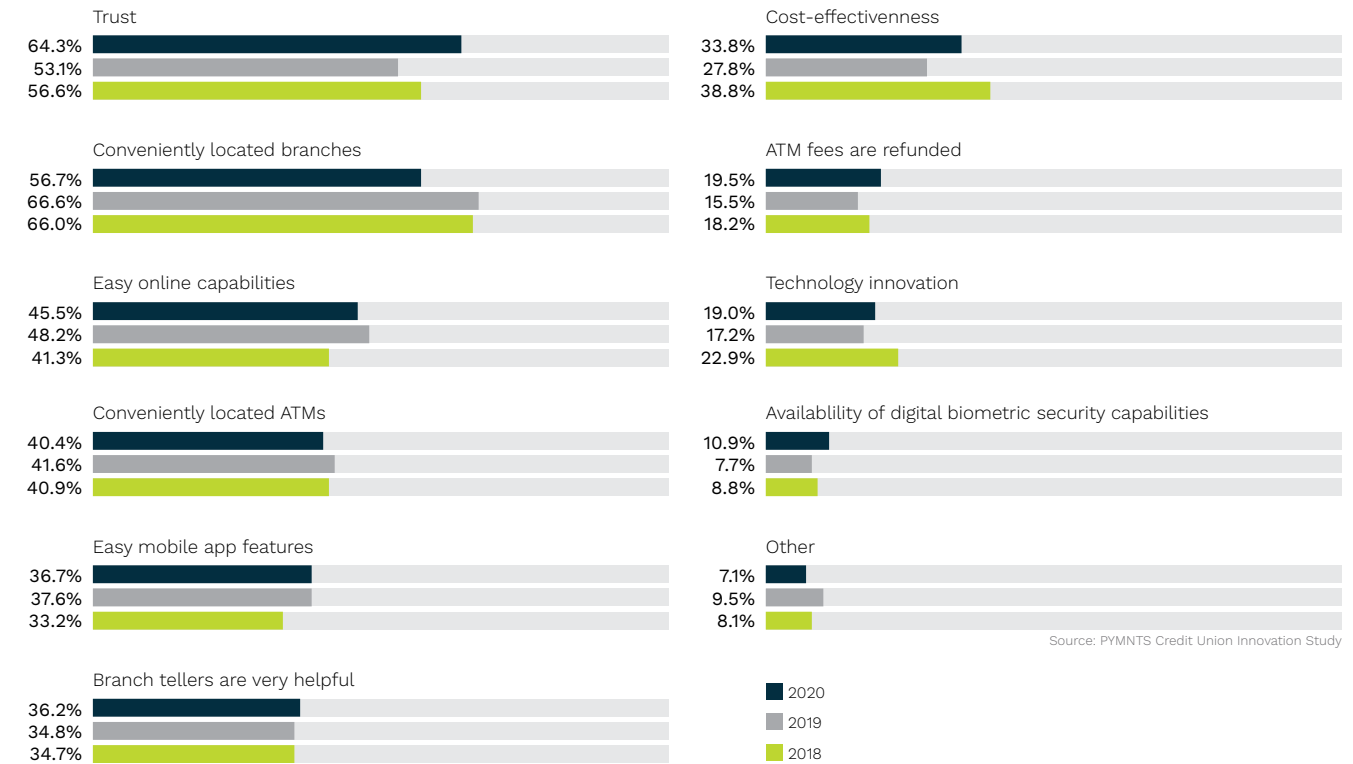
Share who cite select primary reasons for satisfaction with their banking experiences, by year



**FIGURE 3:**

**How consumers choose their primary FIs**

Share citing select reasons for choosing their financial institutions, by year



most common reason satisfied CU members say they are happy with their CUs. Other common reasons they give for feeling satisfied include not having to visit brick-and-mortar branches to make most of their transactions and having access to easy-to-use mobile banking features.

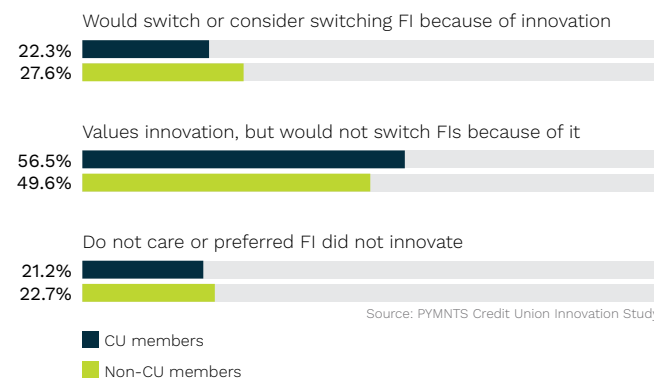
Being able to bank remotely is so important to consumers, in fact, that having a physical bank branch is no longer the first factor they consider when choosing where to bank. The share of consumers who consider conveniently located branches has dropped dramatically in the last year, decreasing from 67 percent to 57 percent. More consumers — 64 percent — now cite trust as a factor in their choice of FIs.

Consumers' waning need for physical branches reflects a broader, market-wide shift away from brick-and-mortar banking in favor of online banking. The importance consumers place on digital banking options has therefore remained largely stable since 2019, even as their demand for physical branches has declined. Forty-six percent of consumers say they consider whether FIs offer easy-to-use online

capabilities when choosing their primary FIs, and 37 percent consider whether they offer easy-to-use mobile features. This newer, digital-first financial ecosystem is placing unprecedented pressure on credit unions and other FIs to deliver the online banking capabilities their customers have come to expect — or risk losing members.

# MEMBER RETENTION: WHY “GOOD” IS NOT GOOD ENOUGH

**FIGURE 4:**  
**How many financial customers would be willing to switch FIs over innovation**  
 Share expressing select attitudes toward FI innovation, CU members versus non-CU members



C U members may be more satisfied with their banking experiences than other financial customers, but satisfaction is not always enough to prevent them from leaving for another FI. Seventy-nine percent of CU members want their credit unions to innovate, and 22 percent would at least consider switching FIs if they failed to do so. Only 21 percent of CU members are either indifferent to or against their CUs developing new products or services. Innovation is therefore a necessary action that CUs must take to retain their members.

Innovation can also help CUs attract new members from competing FIs. Bank and FinTech customers are even more willing than CU members to leave their primary FIs to access more innovative products and services. Our research shows that 28 percent of all non-CU members would at least consider switching to primary FIs that can offer more innovative products and services.

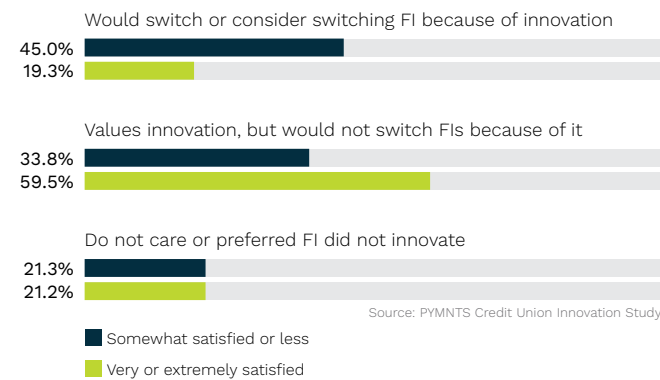
# 22%

OF CREDIT UNION MEMBERS WOULD AT LEAST CONSIDER LEAVING THEIR CURRENT CUs FOR COMPETITORS IF THEY OFFERED MORE INNOVATIVE FINANCIAL PRODUCTS.





**FIGURE 5:**  
**How many CU members would be willing to switch FIs over innovation**  
**5a:** Share expressing select attitudes toward FI innovation, by satisfaction with CUs



Innovation can also help CUs prevent their own members from jumping ship. The more satisfied CU members are with their banking experiences, the less willing they are to switch primary FIs over innovation. Forty-five percent of members who are only “somewhat” satisfied or less would at least consider switching primary FIs, while only 19 percent of satisfied members would do the same.

**5b:** Share expressing select attitudes toward FI innovation, by generation

	Generation Z 24 or younger	Millennials 25 to 40	Bridge millennials 33 to 43	Generation X 41 to 56	Baby boomers/seniors 57 or older
Would switch or consider switching FI because of innovation	43.5%	29.6%	31.1%	24.2%	11.6%
Values innovation, but would not switch FIs because of it	38.7%	47.2%	45.8%	55.2%	67.4%
Do not care or preferred FI did not innovate	17.8%	23.2%	23.1%	20.6%	20.9%

Source: PYMNTS.com

Unsatisfied members are not the only members more prone to switching FIs, however. Younger members show a similar willingness to leave their CUs for competitors that can offer more innovative products and services. Millennials and bridge millennials are all far more likely than members of Generation X, baby boomers and seniors to at least consider leaving CUs if competitors can offer more innovative products. Generation Z members are the most willing of all age groups to leave their CUs over innovation, however, with 44 percent saying they would at least consider it. Prioritizing innovation is thus key to attracting and retaining the youngest members.

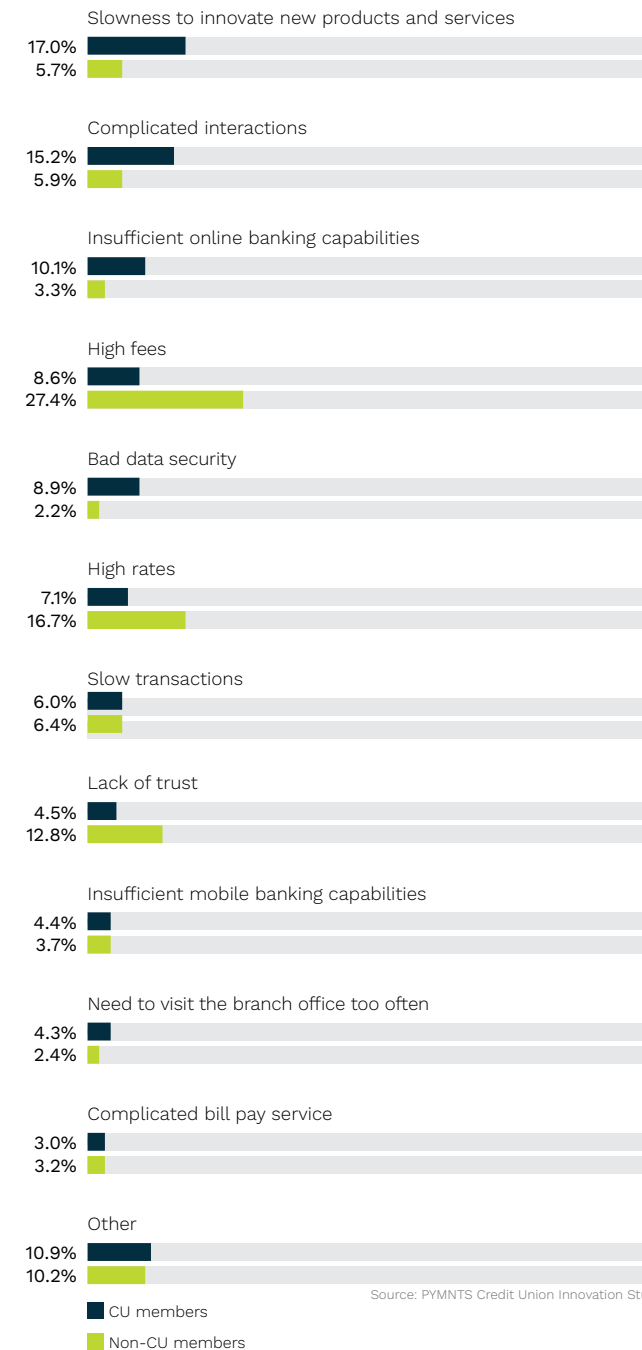
# 30%

OF MILLENNIAL CREDIT UNION MEMBERS WOULD AT LEAST CONSIDER SWITCHING PRIMARY FIs OVER INNOVATION.

# FALLING SHORT: IMPROVING THE INNOVATION AGENDA

**FIGURE 6:**  
**Why some consumers are dissatisfied with their primary FIs**

Share citing select reasons for their dissatisfaction, CU members versus non-CU members

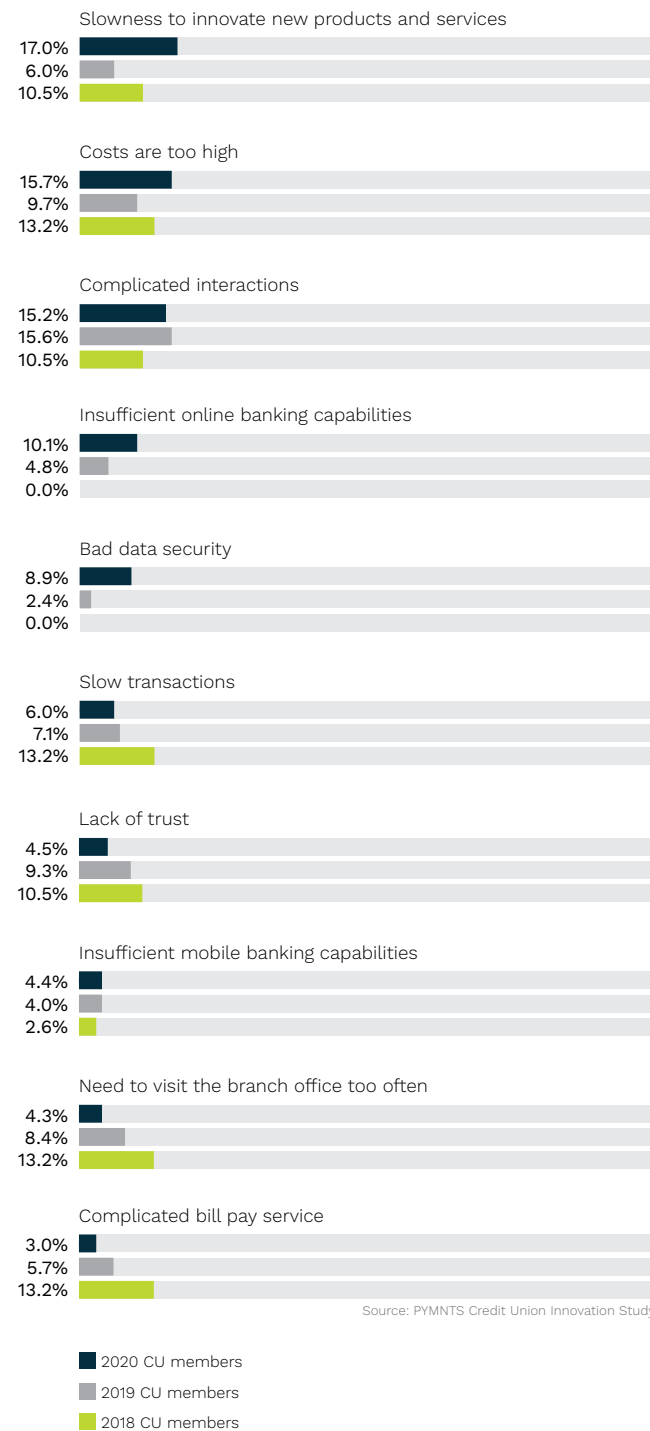


**M**any CUs are not measuring up to their members’ expectations when it comes to innovation — especially when compared to banks. Failing to innovate products and services is the most common reason members cite for unhappiness with their CUs. CU members are, in fact, roughly three times more likely than unsatisfied bank customers to be discontented with their CUs’ failure to innovate.

Credit union members who are not happy with their banking experiences are also far more likely than bank customers to report problems with insufficient online banking options. Ten percent of all dissatisfied CU members say their CUs do not provide sufficient online banking capabilities, in fact — three times the equivalent share of dissatisfied banking members. Frustrations with data security and needing to visit brick-and-mortar branches too often are also more common among dissatisfied CU members than among dissatisfied bank and FinTech customers.

**FIGURE 7:**  
**Why some CU members are dissatisfied with their credit unions**

Share of dissatisfied members citing select reasons for their dissatisfaction, by year



Even more startling is the fact that members are more unhappy with their CUs' innovation efforts than they were in 2019. Seventeen percent of dissatisfied members citing lack of innovation as a grievance may not seem like much, but it is almost a threefold increase over the share that identified it as a problem just one year ago.

Many dissatisfied members also say that their credit unions' digital offerings are slipping. Twice as many dissatisfied members say they are unhappy with their CUs' online banking capabilities now than there were one year ago. Almost four times as many say they are dissatisfied with their CUs' data security and 10 percent more say that their CUs do not offer enough mobile banking options than said so in 2019. This puts such members in a precarious position of not having access to sufficient online banking options, even as the widespread branch closures and reduced capacity restrictions heighten their need for such options.

## SLOW INNOVATION IS THE MOST COMMON REASON CREDIT UNION MEMBERS GIVE FOR **FEELING DISSATISFIED WITH THEIR CUs.**

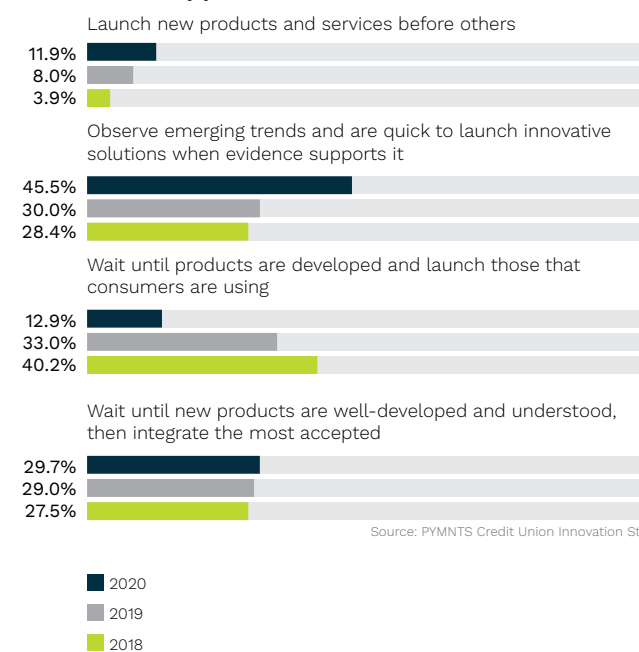


# THE INNOVATION INTEREST GAP

**FIGURE 8:**

**How quickly CUs roll out new products and services**

Share that take select approaches to innovation rollouts, by year

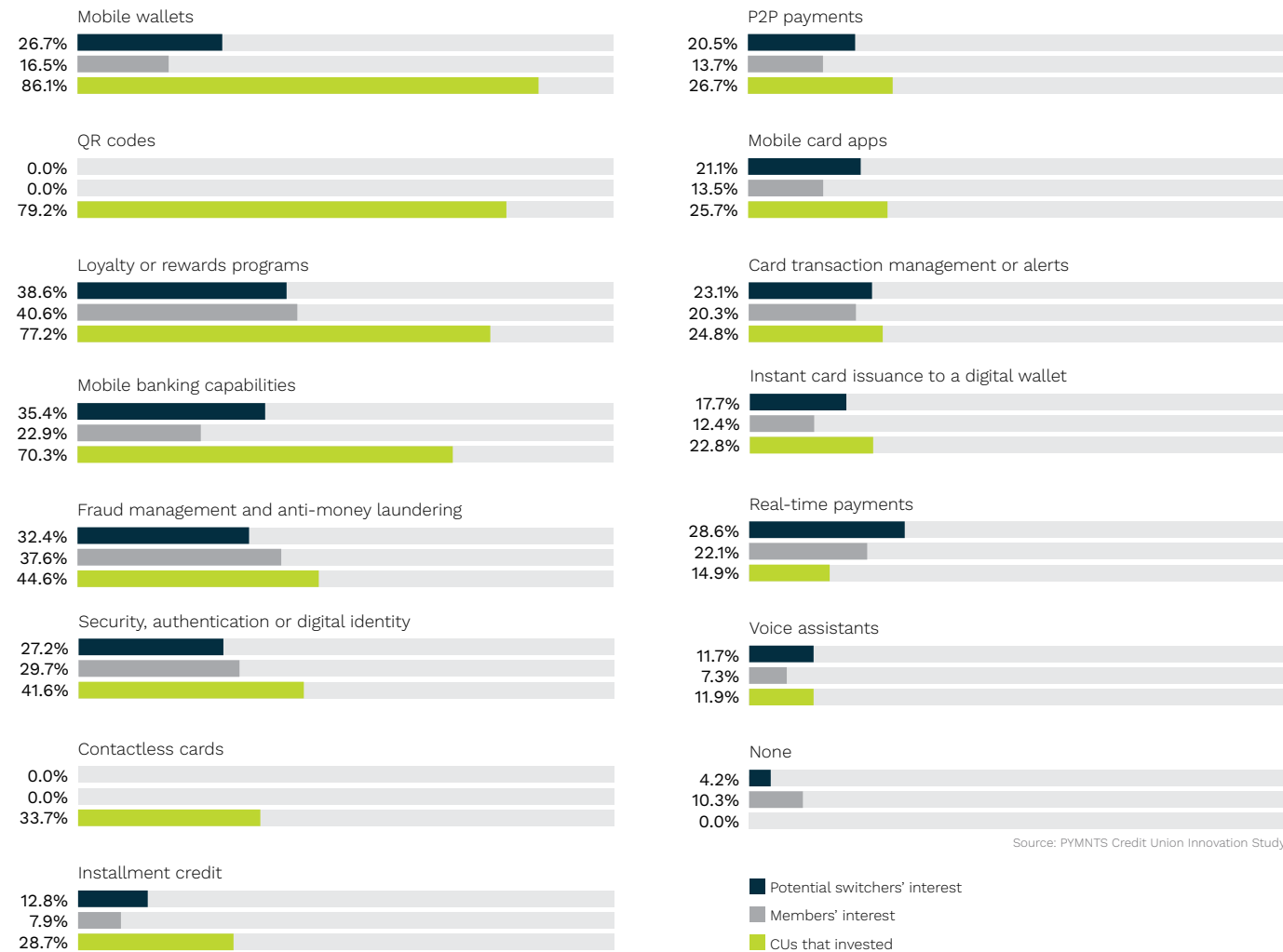


Members’ dissatisfaction with their CUs’ innovation plans and digital banking options might come as a shock to CU decision-makers, many of whom believe their institutions are more innovative now than they have been in recent memory. Credit unions have been far more proactive in their approaches to innovation in 2020 by their own estimation, with many saying they have been rolling out new products and services faster than they had before the pandemic began.

Twelve percent of CU decision-makers say they launched new products before most of their competitors in 2020, for example — up from just 8 percent who aimed to roll out new solutions before competitors in 2019. We also found that 46 percent of CU decision-makers say they focused on innovating new solutions shortly after observing market trends in 2020. Only 30 percent of CU decision-makers reported being as quick to develop new products and services in 2019.

**FIGURE 9:**  
**How CUs' recent investments compare to their members' innovation interests**

Share of CUs that invested in select innovations in the last three years versus the share of members that are very or extremely interested in them



The trouble is that CUs and their members often have very different ideas about what constitutes an “innovative” product or service. Some of the most common innovation areas in which CUs invested in 2020 were hardly prioritized by their members.

Eighty-six percent of CUs invested in developing mobile wallet products and services in the last three years, for example, even though 17 percent of their members expressed interest in this type of innovation. Seventy percent of CU decision-makers say their organizations invested in developing new mobile banking capabilities in 2020, while only 23 percent of their members wanted their CUs to innovate in this area. Many credit unions also have invested in installment credit, P2P payments and many other areas that were not necessarily of interest to their members. This suggests the presence of a deep divide between the products and services in which CUs are investing and those their members actually want them to offer.

This does not mean that CU members lack interest in such products and services, however. Online and mobile capabilities are, after all, areas in which CU members most commonly believe their credit unions are falling short. The data strongly suggests that while members want their CUs to provide mobile wallets, mobile banking capabilities, P2P payments and other similar services, they simply do not see such products and services as innovative. To most CU members, these products and services are less cutting-edge and differentiating than they are essential.

The challenge going forward will thus be for credit unions to find innovations that can go above and beyond these perceived necessities and help them stand apart from their competitors.

# REELING FROM THE PANDEMIC'S IMPACT

**FIGURE 10:**

**Why some CUs faced difficulty rolling out their innovation agendas in 2020**

Share of CUs that cite select factors as having hindered their innovation plans last year



Source: PYMNTS Credit Union Innovation Study

Most credit unions understand how important digital innovation is in the current banking environment, but the pandemic has made it harder than ever to design and implement cohesive innovation strategies. Eighty-one percent of CU executives say their organizations struggle to roll out innovations now that their workforces are remote, and 64 percent say it is difficult to produce new products and services at the speed that their members are shifting away from banking in person.

Other common factors that CU executives say are holding them back from innovating the products and services they might like include complex internal decision-making and review processes, small budgets and the concerns that they might invest in the wrong areas — ones that do not meet their members' needs and expectations.

Some of these factors are direct results of the pandemic, but others are long-standing structural issues that credit unions have been facing since we began studying CU innovation in 2018. The CUs in our research have, for example, long expressed concerns about such factors as new products' inability to generate ROI and a general lack of resources needed to innovate.

Many credit unions do have strategies in place for overcoming these innovation barriers, however, explaining why 54 per-

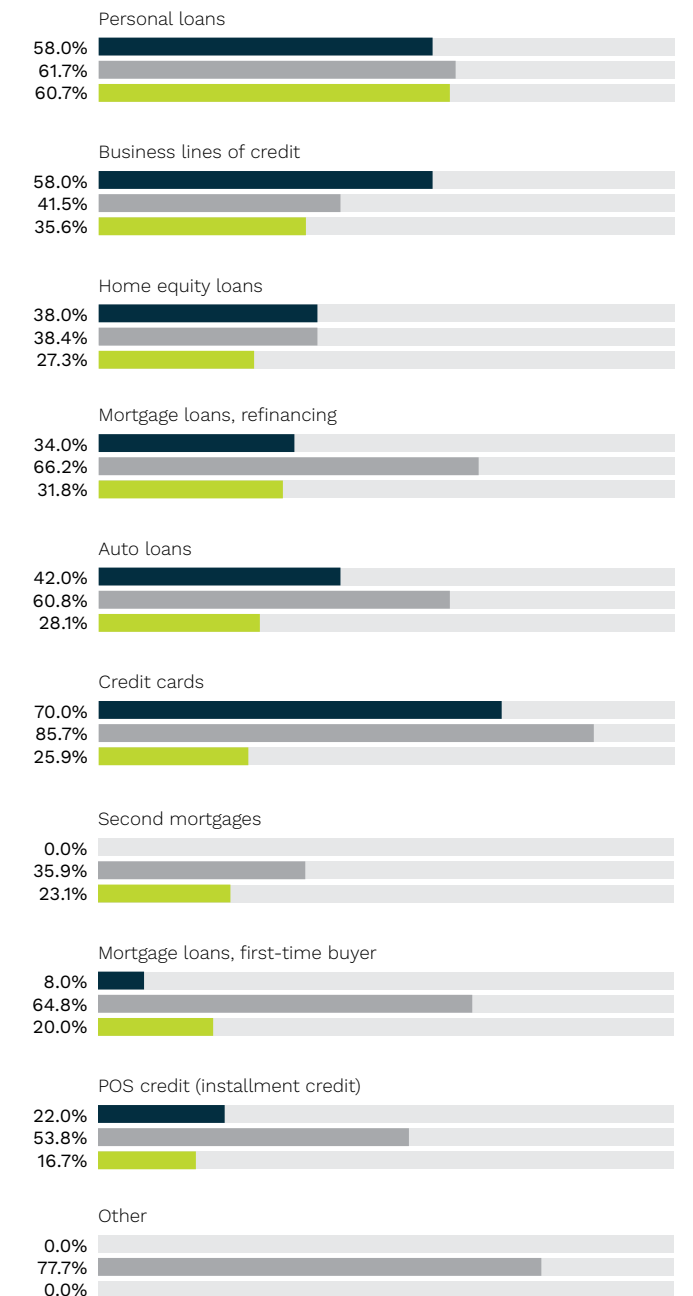
cent of CUs believe it is important to have processes that enable members to make suggestions for new areas of innovation. Fifty percent also believe it is critical to have members test innovations before they are launched into the market. Pre-cautionary measures like these can help credit unions gain greater insight into how innovations might perform before they are launched, allowing them to make any necessary adjustments and execute contingency plans beforehand.

Many CUs also believe that forming partnerships with credit union service organizations (CUSOs), industry consultants and outside vendors can help them avoid releasing new products and services that fall short of members' needs and expectations.

FinTechs and credit unions have joined forces countless times to innovate products and services, but CUs must also be wary of FinTechs as potential competitors. Credit union members may not leave their CUs to bank with FinTechs outright, but they may still use products offered by FinTechs in lieu of products that are offered by their CUs.

Credit unions are often unaware of how many of their members use other FIs to obtain financial and credit products. Sixty-two percent of all CU members who have personal loans have obtained them through other FIs and FinTechs, and 66 percent of those who have mortgages used other FIs to obtain them. Sixty-one percent of members go elsewhere to obtain auto loans, and 38 percent use other FIs or FinTechs for equity loans.

**FIGURE 12:**  
**Measuring the invisible threat of portfolio leakage**  
Share of FinTechs interested in selling products to members directly versus share of members who obtain select products from FIs that are not their primary CUs

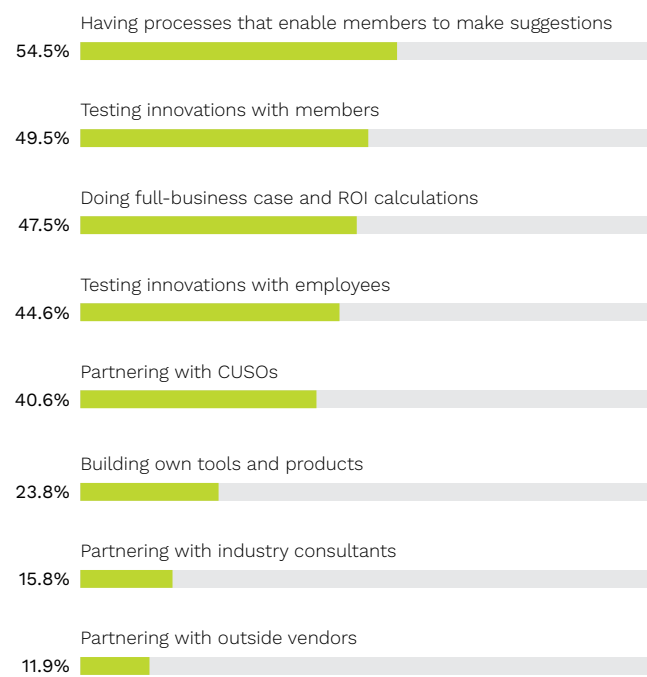


Source: PYMNTS Credit Union Innovation Study

■ Share of FinTech firms interested in selling products directly to customers  
■ Share of CU members who obtain select products from other FIs  
■ Share of CUs that believe this type of portfolio leakage would have a severe detrimental impact

**FIGURE 11:**  
**Which factors CUs believe are critical to the innovation process**

Share of CU decision-makers who believe select factors are important to the innovation process



Source: PYMNTS Credit Union Innovation Study

**41%**  
OF CU  
DECISION-MAKERS  
BELIEVE THAT  
PARTNERING WITH  
CREDIT UNION  
SERVICE ORGANIZA-  
TIONS IS CRITICAL  
TO THE INNOVATION  
PROCESS.

This so-called “portfolio leakage” problem can cut into credit unions’ bottom lines, and it is all the more detrimental because of how difficult it is to detect. It is far more difficult for CUs to know whether their members are using competitors for financial products than it is to see when they leave entirely.

Many FinTechs are eager to sell directly to CU members. Fifty-eight percent of FinTechs would be interested in selling personal loans directly to CU members, and 34 percent would like to sell them mortgages. A sizable share of FinTechs would be willing to sell CU members nearly every product and service they already receive from CUs, in fact.

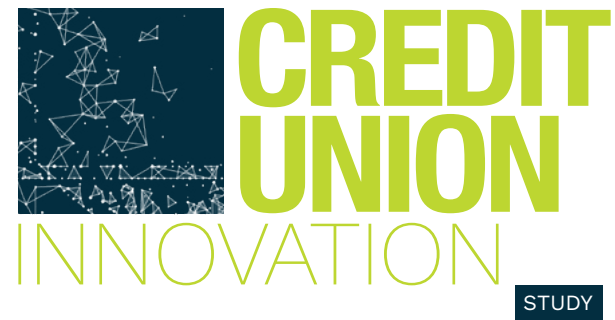
Credit unions may not always be able to tell when their members are obtaining products from other services, but they have a very clear idea of how portfolio leakage might impact their financial performance. Sixty-one percent of CUs say that having some of their members obtain personal loans from other FIs would have a severe impact on their finances. Twenty-eight percent say that a leak in their auto loans portfolio and 27 percent say that leakage in their home equity portfolios would have the same effect.

# 61%

OF CU DECISION-MAKERS SAY THEIR FINANCIAL PERFORMANCE WOULD BE SEVERELY IMPAIRED IF MEMBERS OBTAINED PERSONAL LOANS THROUGH COMPETING FIs.







# CONCLUSION

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**T**he bar for CU innovation is higher than ever. Members expect their credit unions to provide a full range of digital banking features as a starting point. Online banking options, mobile banking apps, P2P payments and other digital offerings are no longer cutting-edge but rather expected fundamentals to the banking experience. Credit unions must therefore go above and beyond by developing products and services that meet consumers' rapidly shifting financial and payment needs. Failing to do so may increase their members' likelihood of switching to competitors and also worsen the "invisible" threat of portfolio leakage. The key to keeping their members, attracting new ones and providing each with the benefit of the personalized financial services that have come to define the CU banking experience will be accurately determining which innovations meet their communities' specific needs.

## METHODOLOGY

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**T**he 2021 Credit Union Innovation Study, conducted in partnership with PSCU, analyzes the evolution of innovation trends in the financial services ecosystem. Drawing from a data sample of 4,817 U.S. consumers, 101 credit union leaders and 50 FinTech executives, our study examines the shifting importance financial consumers place on different financial innovations and evaluates how well the innovation plans of CUs and CU competitors are meeting members' needs and expectations.

# ABOUT

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