



CREDIT UNION

INNOVATION

PLAYBOOK



The Credit Union Innovation Playbook, 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 types of contactless payment innovations CU members would like their CUs to prioritize and whether credit unions are investing in these areas of interest.



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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.

TABLE OF CONTENTS

Introduction	01
Turning to touchless	05
The wrong type of touchless	09
The switching power of touchless payments	13
The delivering touchless payments checklist	17
Conclusion	19
Methodology	20



INTRODUCTION

Onalaska, Wisconsin-based Altra Federal Credit Union began offering contactless credit and debit cards in February, and the credit union (CU) considers its new contactless cards and mobile wallet offering to be integral to providing the seamless, omnichannel and touchless payments experiences that its members now see as essential.¹

Altra's members are not alone in wanting more touchless payments options, either. PYMNTS' latest research shows that half of all CU members in the United States are

more interested in touchless technologies, like contactless cards, mobile wallets, card-on-file options and QR code-enabled payments, than they were before the pandemic began. Members are so invested in being able to make touch-free payments that one in five of them would leave their current CUs for financial institutions (FIs) that enabled touchless payments access.

The trouble is that not all credit unions realize just how important touchless payments have become to their members, and those that do are not investing in the

options their members want the most. How can CUs ensure that they are delivering the touchless payments innovations that their members need?

The Credit Union Innovation Playbook: Touchless Payments Edition, a PYMNTS and PSCU collaboration, aims to understand the scale of credit unions' untapped payments innovation potential. We surveyed a census-balanced panel of 4,817 U.S. consumers to learn how their heightened demand for touchless payments is changing their attitudes towards CU inno-

vation and uncovered which touchless technologies they want their CUs to prioritize. We also surveyed 101 credit union decision-makers and 50 FinTech executives from across the U.S. to discover whether they are prioritizing touchless payments innovations and, if so, which types of technologies they are developing.

This is what we learned.

¹ Author unknown. Altra embraces technology to create a safer and more secure purchasing experience for its members. MedCity Beat. 2021. <https://www.medcitybeat.com/partnered/2021/altra-credit-union-contactless-payments>. Accessed February 2021.

HALF OF ALL CREDIT UNION MEMBERS ARE MORE INTERESTED IN TOUCHLESS PAYMENTS NOW THAN THEY WERE BEFORE THE PANDEMIC.

The ongoing pandemic is fueling consumers' increased demand for using touchless payments, and the pandemic is playing a key role in driving that interest. Forty-eight percent of all CU members say their interest in touchless payments technologies has increased since the pandemic began, underscoring the degree to which the crisis has shifted their payments preferences.

Interest in touchless payments is even higher among digital-first banking generations, like millennials and Generation Z, whose members have grown up using connected devices to shop, pay and manage their finances. Fifty-four percent and 59 percent of millennial and Gen Z CU members, respectively, say they are more interested in using touchless payments for in-store purchases now than they were prior to March 2020. This signals that touchless payments capabilities will be key to attracting and retaining these digitally savvy members going forward.

CU MEMBERS WANT CONTACTLESS CREDIT AND DEBIT CARDS ON TOP OF THEIR WALLETS. THREE TIMES AS MANY CU MEMBERS WANT TO USE CONTACTLESS CREDIT CARDS AS MEMBERS THAT PRESENTLY HAVE ACCESS TO THEM.

Credit union members express interest in all types of touchless payments options, but their interest in contactless credit and debit cards is unmatched. Thirty-nine percent of all CU members are either "very" or "extremely" interested in using contactless credit cards while 35 percent are "very" or "extremely" interested in using contactless debit cards. This makes contactless cards the first- and second-most in-demand touchless payments options among CU members. Only 19 percent of all CU members express similar levels of interest in QR code-enabled payments and card-not-present (CNP) capabilities, by contrast.

CUs generally recognize the importance of touchless payment options in meeting their members' demands, but few of their members have access to the touchless payment methods they want to use. Credit union members are three times as likely to be interested in contactless credit cards as they are to report using them, for example. They are also twice as likely to want to use contactless debit cards as they are to use them. Closing the gap between CU member interest in contactless cards and access to them will therefore be critical for credit unions aiming to meet their members' touchless payment demands.

CU MEMBERS ARE MORE INTERESTED IN CONTACTLESS CARDS THAN IN MOBILE WALLETS, BUT THEIR CREDIT UNIONS ARE TWO AND A HALF TIMES MORE LIKELY TO BE INVESTING IN MOBILE WALLETS.

Many CUs have their touchless innovation priorities backward, investing too much in mobile wallets and not enough in contactless cards. Eighty-six percent of all CU decision-makers say they are investing in mobile wallet innovations — two and a half times the share investing in contactless credit and debit cards. This discrepancy exists despite the fact that CU members are 15 percent more likely to want to use contactless cards as they are to want to use mobile wallets.

TWO OUT OF THREE FINTECHS WOULD GO AROUND CUs AND FIs TO SELL TOUCHLESS PAYMENT OPTIONS DIRECTLY TO CONSUMERS IF THEY HAD THE CHANCE.

Credit unions could lose their members if they do not begin investing in touchless payments innovations. Our research shows that 15 percent of all credit union members would be "very" or "extremely" likely to leave their current CUs to bank with competitors if those competitors were able to offer them touchless payments options. We also found that 21 percent of members would be "somewhat" likely to switch FIs for touchless payments.

This is especially notable because many FinTechs are innovating those touchless payments to steal CUs' members away. Sixty-four percent of FinTech executives say they would go around their partner CUs and banks if it meant selling directly to end users. CUs are thus in a race to roll out touchless payments innovations before their FinTech competitors beat them to the punch.



TURNING TO TOUCHLESS

Demand for payment methods that allow users to transact without making physical contact with cash, cards or card readers has been surging among CU members and non-members alike since the pandemic's onset. Forty-nine percent of all consumers and 48 percent of all credit union members say they are more interested in using touchless payment options, such as contactless credit and debit cards, mobile wallet, cards on file and QR codes, now than they were prior to the pandemic.

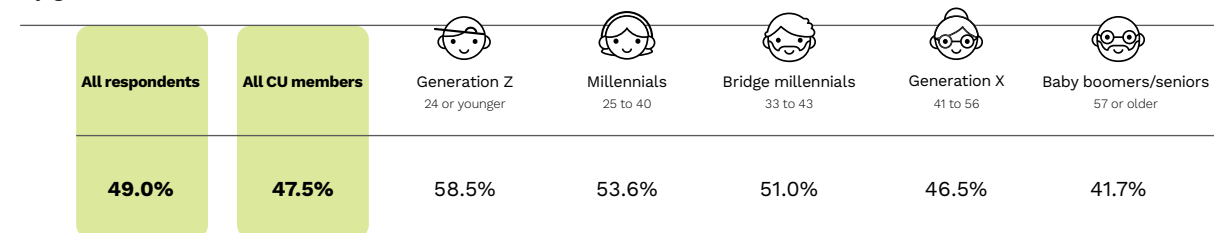
Touchless payment options appeal to all CU members, but the extent of this interest tends to vary with age. Younger credit union members are more likely to say that their interest in touchless payments has

increased since the pandemic began. Fifty-nine percent of Gen Z members say that their interest in touchless payments has increased since the pandemic started and 54 percent of millennial members say the same. Baby boomers and seniors are on the opposite end of the spectrum, with just 42 percent of credit union members in this age group expressing higher interest in touchless payments since the pandemic's onset.

CU members do not find all touchless technologies equally appealing, however. Contactless credit and debit cards are at the top of members' minds when it comes to touchless payment options as 39 percent and 35 percent say they are "very" or "extremely" interested in using

Figure 1:
How CU members' interest in touchless payments has changed since the pandemic began

Share of CU members with increased interest in touchless payments since the pandemic's onset, by generation

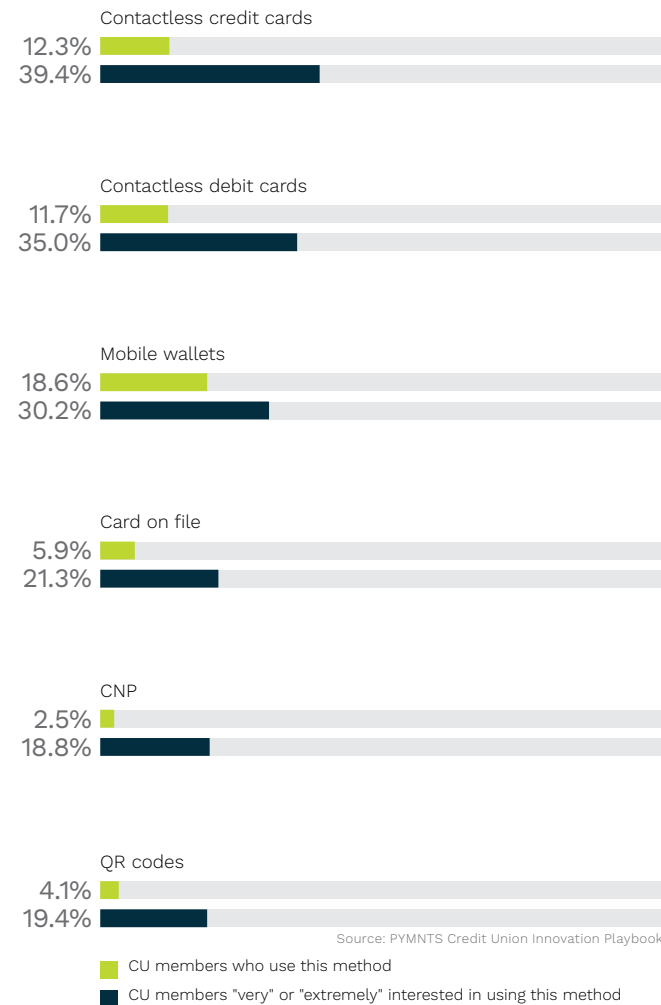


Source: PYMNTS Credit Union Innovation Playbook

such cards, respectively. This is almost double the number of CU members who express the same level of interest in CNP options and QR code-enabled payments.

The trouble is that many CU members who want to use contactless cards do not have access to them. Only 31 percent as many CU members use contactless credit cards as would like to use them, and only 33 percent as many CU members use contactless debit cards as would like to use them. A similar pattern can be found for mobile wallets, card-on-file options, CNP options and QR codes. There are far more CU members who would like to use each of these technologies than currently use them. Closing this gap through innovation will be critical to meeting credit union members' payment needs going forward.

Figure 2:
CU members' interest in and usage of touchless payments technologies
 Share who use or are interested in using touchless technologies



CONTACTLESS CREDIT AND DEBIT CARDS TOP CU MEMBERS' WISH LISTS.



THE WRONG TYPE OF TOUCHLESS

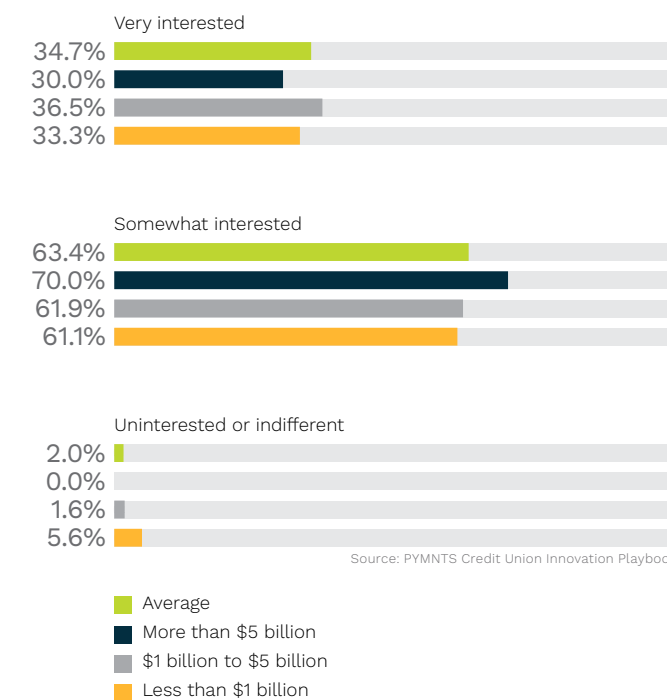
Three major hurdles prevent CUs from delivering the touchless payment capabilities that their members want. The first is that they often underestimate their members' interest in such technologies. Only 35 percent of all CU decision-makers believe that their members are "very" interested in touchless payments when 48 percent of members are either "very" or "extremely" interested in them.

Large credit unions are especially prone to misjudging members' interest in touchless payments.² Only 30 percent of decision-makers at large CUs believe their members are "very" interested in such technologies. Decision-makers at mid-sized CUs are the most likely to say that their members are interested in touchless payments, but even they seem unaware of just how much their members want to use them. Thirty-seven percent of mid-sized CUs report that their members are "very" interested in touchless payments.

Credit unions are not only underestimating their members' interest in touchless payments, but are also often underinvesting in the touchless technologies their members want most: contactless credit and debit cards. Contactless credit

Figure 3:
Credit unions' beliefs regarding how interested members are in touchless payments

Share of CU decision-makers who believe members have select levels of interest in touchless payments, by size



and debit cards are only the ninth-most common innovation area in which CUs invested in 2020, with the most common being mobile wallets. Credit unions are instead two and a half times more likely to be investing in mobile wallets than in contactless cards despite the reality that their members are less interested in mobile wallets. Eleven percent fewer CU members are interested in mobile wallets than contactless cards and other touchless payments options.

² Our analysis defines "large credit unions" as those holding more than \$5 billion in assets, "mid-sized credit unions" as those holding between \$1 billion and \$5 billion in assets and "small credit unions" as those holding less than \$1 billion in assets.

Figure 4:
Which innovation areas have received CU investment funds each year

Share of CUs that have invested in select innovation areas, by year



Source: PYMNTS Credit Union Innovation Playbook

This is not to say credit unions are unaware of the importance of contactless card innovation, however. More credit unions are offering contactless cards now than they have since we began studying CU innovation in 2018. Thirty-four percent of all CUs invested in contactless cards in 2020 — up 8.7 percent from 2019 and up 60 percent from 2018. This shows that some — although not enough — credit unions recognize the importance of investing in contactless cards to meet their members’ demands and expectations.

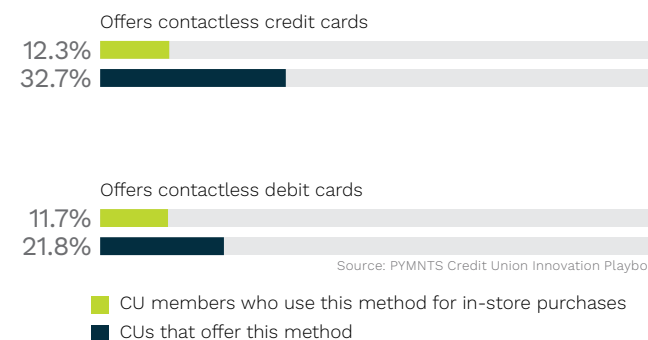
The third and final hurdle preventing CU members from accessing the touchless payments they want is a lack of awareness. Many CU members appear to not know that their CUs issue contactless cards. Our survey shows that 33 percent of all CUs already offer contactless credit

cards and 22 percent offer contactless debit cards. This means credit unions are twice as likely to offer contactless cards as their members are to use them, suggesting that many CU members who would like to use contactless cards are unaware that such cards are available.

It is also critical that credit unions do not put all their eggs in one basket, however. CU members may be more interested in contactless credit and debit cards than all other types of touch-free payments experiences, but issuing contactless cards should not preclude credit unions from investing in other touchless payment capabilities, like QR codes and card-on-file options. CUs should strive to provide several touch-free payment options that meet their members’ rapidly shifting needs and circumstances

Figure 5:
How many credit unions issue contactless credit and debit cards

Share of CUs that offer contactless credit and debit cards versus the share of members who use them



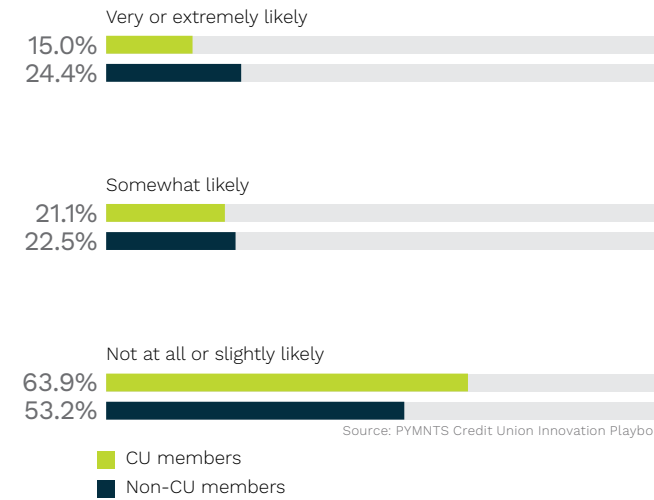
Source: PYMNTS Credit Union Innovation Playbook

THE SWITCHING POWER OF TOUCHLESS PAYMENTS

Figure 6:

How many CU members would be willing to switch FIs for touchless payments

Share of CU members and non-CU members who would be "not at all" to "extremely" likely to switch primary FIs over touchless payments



36%

OF CU MEMBERS WOULD BE AT LEAST "SOMEWHAT LIKELY TO SWITCH PRIMARY FIs OVER INNOVATION.

Credit unions that fail to recognize their members' appetites for touchless payments options risk losing them. Fifteen percent of all CU members would be "very" or "extremely" likely to leave their CUs to bank with competitors if those competitors could offer touchless payment options and 21 percent would be "somewhat" likely to do the same.

Investing in touchless payments innovation can also help credit unions recruit new members from competing FIs — especially those from banks and FinTechs. Bank and FinTech customers are far more willing than CU members to switch primary FIs for touchless payments options, as 24 percent are "very" or "extremely" likely to do so. Another 22 percent of bank and FinTech customers would be "somewhat" likely to do the same. This shows that CUs have an opportunity to expand their membership bases by developing new touchless payments capabilities.

Figure 7:
FinTechs' interest in developing new touchless payments capabilities
 Share that are "very" or "extremely" interested in innovating new touchless payments products or services

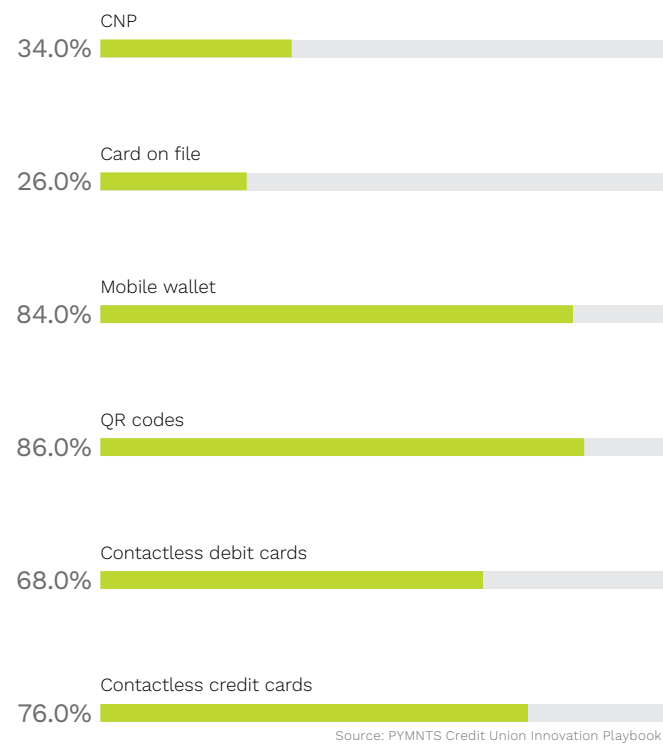
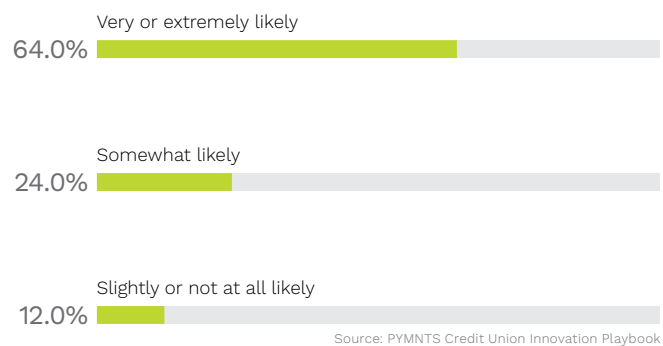


Figure 8:
FinTechs' willingness to sell touchless technologies directly to end users
 Share that are "not at all" to "extremely" likely to disintermediate and sell touchless products directly to consumers



Bringing new touchless payment technologies to market is also critical for CUs looking to defend against the competitive threat FinTechs pose. The majority of FinTechs are interested in rolling out touchless payment innovations that could put them in direct competition with credit unions. Seventy-six percent of FinTechs are "very" or "extremely" interested in developing contactless credit cards and 68 percent are just as interested in innovating contactless debit cards. We also found that 84 percent are interested in implementing new mobile wallets and 86 percent would like to develop QR code-enabled payment capabilities.

Many of these FinTechs have every intention of selling their new touchless capabilities directly to end users, including to CU members. Sixty-four percent of FinTech executives say they would be "very" or "extremely" likely to go around the banks and credit unions with which they work to sell touchless payments to their users. Twenty-four percent would also be "somewhat" likely to disintermediate and sell to members directly. It is therefore clear that CUs are in a race against FinTechs to roll out new touchless payments capabilities, whether they know it or not.

64%

OF FINTECHS WOULD BE "VERY" OR "EXTREMELY" INTERESTED IN DISINTERMEDIATING AND SELLING TOUCHLESS TECHNOLOGIES DIRECTLY TO END USERS.



THE DELIVERING TOUCHLESS PAYMENTS

CHECKLIST

1 KEEP AN OPEN DIALOGUE

Learn the types of payments innovations members want their CUs to innovate.

2 INVEST IN THE RIGHT TYPES OF TOUCHLESS

Ensure that investments are being directed towards the touchless payment options that members want most, including contactless credit cards, contactless debit cards and mobile wallets.

3 KEEP YOUR EGGS IN MULTIPLE BASKETS

Invest in a wide assortment of touchless payment options, rather than in any single technology, so that a broader swath of members can access whichever touchless options meet their specific needs and circumstances.

4 SEEK HELP FROM THIRD PARTIES

Enlist help from third-party service providers like credit union service organizations that can help CUs speed their touchless innovations' time to market without risking disintermediation.

5 KEEP MEMBERS INFORMED

Use emails, texts and mailing lists to keep members informed about innovation rollouts to keep them in the loop about the scope of their CUs' touchless payment offerings and ensure that they have easy access to information they might need to make the most of those offerings.



CONCLUSION

Credit union members' demands for touch-free payments experiences have skyrocketed since the pandemic began, but many CUs have barely gotten their touchless payment innovations off the ground. Moreover, many of the CUs that have invested in touchless payment innovation have prioritized mobile wallet innovations when their members would rather that their CUs focus on contactless cards. Credit unions that do not make haste in bringing new touchless payment options to market risk losing their members to banks and FinTechs.

The key for credit unions to maintain their competitive edge going forward will be to enact a comprehensive, multi-tiered touchless innovation plan to provide members with an assortment of touchless payment options. Only by diversifying their touchless payment offerings will CUs be able to meet their members' diverse and rapidly shifting payment needs while also minimizing the risk of FinTech disintermediation and portfolio leakage.

METHODOLOGY

The Credit Union Innovation Playbook: Touchless Payments Edition draws from a census-balanced survey of 4,817 U.S. consumers issued between Nov. 11, 2020, and Dec. 9, 2020, in which we inquired about their usage and interest in a variety of touchless payment methods. Respondents were 50 years old, on average. Fifty-one percent were female and 36 percent held college degrees. Our study also used a survey of 101 credit union decision-makers and 50 FinTech executives about their current touchless payment offerings, investments and innovation plans to provide a comprehensive overview of the state of CU innovation in the United States.

ABOUT

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