

CREDIT UNION

OCTOBER 2021

TRACKER®



FEATURE STORY — 8

VyStar Credit Union on deploying rewards programs to drive member loyalty

NEWS & TRENDS — 12

15 percent of CUs still uncommitted to digital strategy

DEEP DIVE — 16

How CUs are leveraging loyalty programs to improve member retention

CREDIT UNION TRACKER®

TABLE OF CONTENTS

03

WHAT'S INSIDE

A look at recent credit union developments, including why flashy digital offerings are luring customers away from CUs and toward traditional banks and FinTechs

08

FEATURE STORY

An interview with Melissa Thomas, senior vice president of payments and operations at VyStar Credit Union, on how rewards programs can be paired with customer service and other incentives to boost member loyalty

12

NEWS AND TRENDS

The latest credit union headlines, including new credit card programs from PSCU and Navy Federal Credit Union and why 15 percent of CUs are still uncommitted to a digital strategy

16

DEEP DIVE

An in-depth examination of how CUs are attempting to retain customers through loyalty and rewards programs

20

ABOUT

Information on PYMNTS.com and PSCU

ACKNOWLEDGMENT

The Credit Union Tracker® was produced in collaboration with PSCU, and PYMNTS is grateful for the company's support and insight. PYMNTS.com retains full editorial control over the following findings, methodology and data analysis.

WHAT'S INSIDE



Credit unions (CUs) may be facing stiff competition from traditional banks and FinTechs, but they remain a force to be reckoned with in the financial landscape. There are currently more than 5,000 federally insured credit unions in the United States, [representing](#) \$1.98 trillion in assets and 127.2 million members — roughly one-third of the country's population. The industry earns more than \$21 billion per year in revenue and processes \$1.19 trillion in loans — a fraction of those processed by traditional banks, but still a substantial portion of the country's total.

CUs have a reputation for emphasizing strong, personalized member relationships over flashy digital initiatives. Lately, however, digital-native FinTechs and banks with deep pockets for digital investments have been tempting members away from CUs. A recent [study](#) found that 40 percent of financial institution (FI) customers are likely to leave their primary FIs if the digital experiences they offer are not comparable in terms of ease and convenience to online shopping experiences. CUs are no exception to this finding.

Many CUs are discovering that rewards programs offer a powerful secret to both gaining and retaining loyalty. Traditional FIs commonly offer credit cards with cash back initiatives, and CUs are successfully deploying these tactics in ways targeted to their members. Pasadena, California-based Wescom Credit Union, for example, which primarily serves students at the nearby University of California Los Angeles (UCLA), [launched](#) a new credit card that provides cash rewards for purchases through UCLA athletics programs and on-campus merchants.

Research shows that rewards programs such as these can be vital to promoting customer retention and loyalty. CUs that lack such incentives could quickly see their member bases diminish in favor of traditional banks and FinTechs.

CREDIT UNION DEVELOPMENTS AROUND THE WORLD

Digital innovation is clearly an essential component of member retention, but some CUs are still hesitant to get on board, according to a recent [study](#). Remarkably, 15 percent of CUs remain uncommitted to a digital strategy. Some of this hesitancy can be attributed to the pandemic, with CUs waiting for less volatile financial circumstances before risking investment in long-term change. The risks of a less-than-robust digital push may be even greater, however. Most CUs have found that digital partnerships have resulted in steady growth, and collaboration offers a promising path to digitization for CUs concerned about costs.

Credit union service organization PSCU is working to foster CU member loyalty and reduce attrition. The organization recently [unveiled](#) a new prepaid card platform that allows cardholders to view their transaction histories, check balances and receive real-time alerts through the PSCU My Card Manager mobile app. The pandemic inspired the prepaid card option by sparking an increased member focus on money management. Prepaid card programs are key to fostering member loyalty, granting CUs one more way to keep members engaged.

Navy Federal Credit Union, the largest CU in the country, is also looking to sweeten the deal for its members. The CU is [increasing](#) its card rewards to offer 1.75 percent cash back on all purchases, with an additional \$250 bonus for new cardholders who spend \$2,500 within 90 days of opening an account. Navy Federal's head of card products,





Justin Zeidman, said in a press release that the program is intended to reward the CU's members for choosing it as their primary FI, thereby promoting customer loyalty and discouraging them from closing their accounts.

For more on these stories and other credit union developments, read the Tracker's News and Trends section (p. 12).

VYSTAR ON PAIRING REWARDS OFFERINGS AND MEMBER-CENTRIC SERVICES TO BUILD LOYALTY

Rewards programs can go a long way toward fostering member loyalty, but they are just one part of a multifaceted approach to doing so. CUs must also provide exceptional customer service, including occasional, on-point surprise incentives, to keep members engaged. In this month's Feature Story (p. 8), PYMNTS spoke with Melissa Thomas, senior vice president of payments and operations

for Jacksonville, Florida-based [VyStar Credit Union](#), about how the CU leverages cash rewards and features such as early direct deposit to encourage member retention.

DEEP DIVE: IMPROVING MEMBER RETENTION THROUGH LOYALTY PROGRAMS

Member attrition is a constant worry for CUs as large banks and FinTechs continue to attract customers with appealing and innovative digital services. Retaining members is vital for long-term success, and many CUs are finding that rewards and loyalty programs are crucial to doing so. In this month's Deep Dive (p. 16), PYMNTS explores how CUs are reducing member churn by offering cash back credit cards and other strategic loyalty incentives.



EXECUTIVE INSIGHT

More than half of CU members use at least one product or service from a competing FI. How can CUs encourage more members to leverage their own products instead?

“Consumers have more choices than ever when it comes to financial products and services, and many have a second account somewhere besides their primary financial institution. With so many banks, credit unions and FinTechs competing for their business, it’s easy for members to be lured away and explore the experience other providers can offer. Credit unions may not necessarily be able to prevent members from trying out or ‘moonlighting’ with competitors, but they can work to prevent them from taking all their business to another financial institution.

An essential component of member retention is innovative payments solutions. Members most frequently interact with their credit unions through payments — whether it’s credit card, debit card, writing a check, ATM transactions or bill pay — most are interacting through some sort of payment channel. As members want to choose how they transact, making those payment options personalized, simple and secure is key to preventing the temptation from other financial providers.

Leveraging loyalty and rewards programs is another key driver of member retention. While credit unions can often face challenges with implementing rewards programs on their own, collaborating with third-party partners, such as a CUSO, can be beneficial for member loyalty. Retaining members is vital for long-term success, and credit unions that express a greater willingness to adopt the services that their members demand will be better poised to minimize the enticement from competitors.”

BRIAN SCOTT

Senior vice president and chief growth officer



5 FIVE FAST FACTS

52%

Portion of CU leaders who believe members will use secondary FIs if CUs are unwilling to provide their desired products



55%

Share of CU members who obtain at least one financial product from FIs other than their primary CUs



27%

Increase in CUs investing in loyalty programs during the past year



98%

Portion of CUs that have invested in loyalty programs during the past year



11%

Decrease in CU members during the past year who say they would leave their CUs for another FI



FEATURE

STORY



VYSTAR CREDIT UNION ON
**DEPLOYING REWARDS PROGRAMS
TO DRIVE MEMBER LOYALTY**

The past 19 months have been a game-changer for the financial industry, with social distancing and stay-at-home orders driving unprecedented numbers of consumers to bank digitally. Sixty-four percent of Americans [used](#) some form of digital banking this year, with 80 percent preferring it to visiting a brick-and-mortar establishment.

More FIs than ever are deploying digital banking options to satisfy customer demand for remote offerings, which means consumers have more choices than ever when selecting FIs. Some might find digital-native FinTechs appealing, while others prefer traditional banks with universal name recognition, prompting many credit unions to rely on loyalty and rewards programs to attract and retain members.

“We’ve offered loyalty rewards for many years through our consumer and business credit cards,” said Melissa Thomas, senior vice president of payments and operations for Jacksonville, Florida-based [VyStar Credit Union](#). “And we do find that members do like that ability ... to have rewards points that they could utilize for various purposes, such as travel, merchandise, giving to charities or gift cards.”

Providing tangible rewards is just half the equation, however. Thomas told PYMNTS during a recent interview that the CU drives member loyalty by offering rewards programs and cultivating relationships with members through their innovative services.



CASH REWARDS TO INCENTIVIZE MEMBER LOYALTY

Providing cash rewards programs is the first pillar of member retention for many CUs and other FIs. These programs typically revolve around offering monetary rewards for consumers who use FIs’ services, but VyStar found that personalizing rewards based on members’ locations and interests allowed it to craft a more targeted and enriching experience.

“We offer transaction-based cash rewards and merchant-funded rewards, where members can set up GPS locations and can find rewards at merchants closest to where they’re located,” Thomas said. “We also have



a merchant-funded mall for our loyalty rewards, where, as members are using their credit cards, they can go to a digital mall that gives them the ability to earn additional cash rewards.”

Flexibility is the name of the game when it comes to rewards program success, however. Members desire the ability to earn cash rewards in a way that suits them, she explained, and some want the money immediately while others would rather squirrel it away for a rainy day.

“For our cash back credit card, they can redeem their cash back on demand,” Thomas said. “They can get it paid out annually if they want to build up their cash back, or, if they want to be able to have that money sent to their checking or savings account or pay their credit cards, they can do that on demand at any time.”

Simple transactional rewards are not the only way to foster member loyalty, however, and nearly all CUs find that superior customer service can be invaluable to winning over members.

“FOR OUR CARD PROGRAM AND OUR LOYALTY PROGRAM, **WE DON'T CHARGE AN ANNUAL FEE, WE DON'T EXPIRE POINTS AND WE DON'T CHARGE A BALANCE TRANSFER FEE.** WE REALLY GAINED [MEMBER] LOYALTY BY HAVING NO FEES.”

FOSTERING LOYALTY THROUGH CUSTOMER SERVICE

Rewards programs are not a silver bullet for member loyalty, and any FI that relies solely on these methods to prevent customer abandonment does so at its own peril. Loyalty must also be earned by providing exceptional customer service, which Thomas said sometimes includes implementing small, member-focused surprises that yield big results.

“We just implemented a system where we pay direct deposits up to two days early,” she said. “We want to assist members any way we can to help them with their financials and being able to offer this benefit, it really makes us stand apart.”

CUs also need to ensure that members believe they are getting the best deal possible with their banking services. Cash rewards can be beneficial, but CUs must also enable members to save money during everyday transactions if they wish to remain competitive with other FIs.

“For our card program and our loyalty program, we don’t charge an annual fee, we don’t expire points and we don’t charge a balance transfer fee,” Thomas said. “We really gained [member] loyalty by having no fees as a selling point.”

Member loyalty can be a fickle thing, and CUs must constantly work to earn and retain it. Rewards programs can go a long way, but maintaining a constant level of value and customer service is another crucial component that can turn casual members into devoted ones.

NEWS & TRENDS



CU LOYALTY PROGRAMS

CLOSE MEMBER RELATIONSHIPS ARE KEY FOR CU MEMBER RETENTION

Consumers have more choices than ever regarding FIs, with banks, CUs and FinTechs all competing for their business. A recent PYMNTS study found that 55 percent of CU members use at least one product or service from a competing FI, but CUs seem reluctant to try to prevent member abandonment. Just 45 percent of CUs reported a willingness to introduce new business credit initiatives to keep members from leaving.

PSCU's chief experience officer, Dean Young, believes CUs must step up their game when it comes to member loyalty. They may have limited resources to spend on new programs, but with one-third of CU members saying they can get better loan rates elsewhere, member loyalty is key to member retention. Instead of chasing lower rates, CUs should lean into their intrinsic advantages and leverage loyalty programs, direct communication and other methods to reduce member attrition.

NAVY FEDERAL CREDIT UNION DEBUTS NEW CASH REWARDS

Navy Federal Credit Union, the largest CU in the country, is looking to retain members by offering more cash back via its cashRewards credit card. The CU announced that the upgraded card will offer 1.75 percent cash back on all purchases, with an additional \$250 bonus for new cardholders who spend \$2,500 within 90 days of opening the account. Cardholders who have direct deposit receive the rebate automatically. Navy Federal's head of card products, Justin Zeidman, said in a press release that this program is meant to reward members for choosing the CU as their primary FI, promote their loyalty and discourage them from closing their accounts.

NEW CU TECHNOLOGY INNOVATIONS

PSCU UNVEILS NEW PREPAID CARD PLATFORM

CU members are expressing increased interest in reloadable prepaid cards, and CUs and their service providers are working to meet this demand. PSCU recently unveiled a new prepaid card platform that allows cardholders to view their transaction histories, check balances and receive real-time alerts via the PSCU My Card Manager mobile app. Cody Banks, PSCU's vice president of payment and fraud solutions, noted that prepaid card programs are key to fostering member loyalty, granting CUs another way to keep members engaged.

The pandemic served as the impetus for PSCU's prepaid card option by spurring increased member interest in money management. The program will include a smart budgeting tool that will recommend budgets after 30 days of tracking spending data and will leverage push notifications to warn users of potential overspending.

FOUR CUs PARTNER TO FORM NEOBANK AIMED AT UNDERBANKED POPULATIONS

Digital-only neobanks have become popular in recent years, but until now, they have arisen exclusively from FinTechs and traditional banks rather than CUs. A new joint venture from USALLIANCE Financial, Digital Federal Credit Union, Service Credit Union and Affinity Plus Federal Credit Union has changed that, with the launch of Bank Dora. This new venture is a neobank that offers online, fee-free checking accounts, complete with debit cards and access to 30,000 fee-free ATMs.

Since its launch, the name has sparked controversy, as it contains the word "bank" despite being a CU venture. The CU partners argue that "bank" is a verb in this context rather than a noun, as individuals do indeed bank at credit unions. The term Dora, meanwhile, comes from Dora Maxwell, a pivotal figure in the growth of CUs in the 20th century.

CHALLENGES IN THE CU SPACE

15 PERCENT OF CUs HAVE NOT COMMITTED TO A DIGITAL STRATEGY, STUDY FINDS

Digital banking surged in popularity during the pandemic as physical branches closed or limited their hours to promote social distancing. Digitization has now firmly established itself as the future of the financial industry, yet 15 percent of CUs still have not committed to a digital strategy, according to a recent

study. Part of this hesitancy can be attributed to the pandemic, with some CUs waiting for a less volatile industry and economy before risking investment in long-term changes. The risks of a less-than-optimal digital push may be just as great, however.

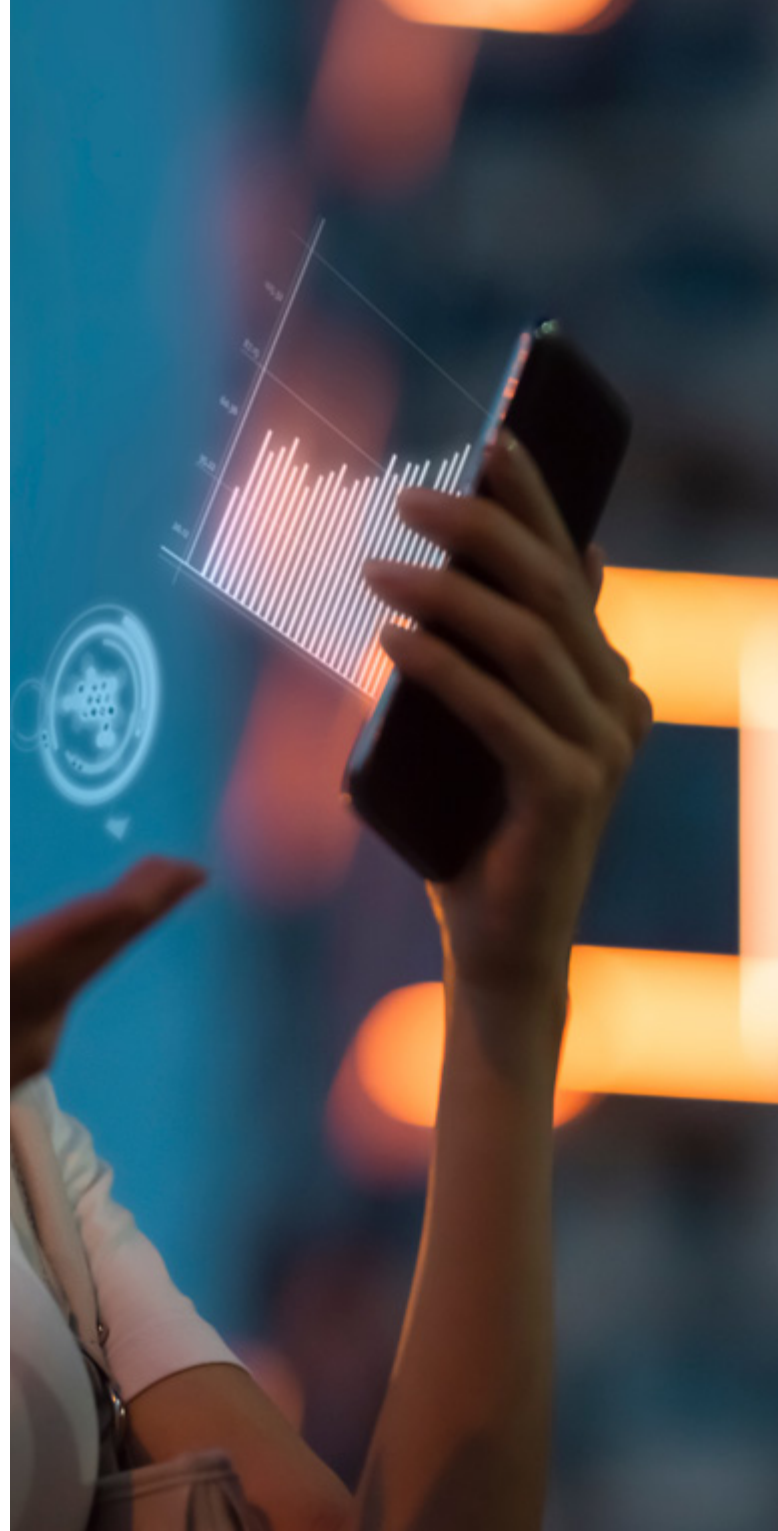
CUs that commit to deploying digital initiatives may find that their best route forward is through FinTech partnerships. Seventeen percent of CUs surveyed said their FinTech collaborations have significantly increased loan productivity, and 15 percent said the same about their deposit account opening productivity.



40 PERCENT OF FI CUSTOMERS SAY THEY WILL SWITCH FOR BETTER DIGITAL EXPERIENCES

CUs that are not investing in a digital strategy risk losing members. A recent study found that 40 percent of FI customers are likely to leave their primary FIs if their digital experiences are not comparable to online shopping experiences. CUs often tout their tight-knit relationships with members and communities, but these might not be enough to save CUs if they lack digital offerings. The study found that 56 percent of consumers preferred community FIs but that these institutions' digital offerings did not meet respondents' expectations.

More than half of respondents said that convenience, defined as the ability to perform any banking service remotely, is the most important quality in an FI. Fifty-three percent chose a national bank chain over a community FI because it had better digital experiences, meaning that small CUs need to meet this digital challenge.



DEEP DIVE



HOW LOYALTY PROGRAMS CAN **IMPROVE CUs' MEMBER RETENTION**

Consumers may find the diversity of today's banking options overwhelming, as the digital shift means that choice is no longer limited by proximity. Digital-first FinTechs, for example, have no physical presence at all and can attract customers from around the globe. FIs typically lose 15 percent of their customers to attrition each year, and the initial costs of replacing lost customers exceed the benefits: Each new customer generates only \$150 in profit each year but takes \$200 to acquire and onboard.

Credit unions surrounded by traditional bank rivals cannot afford to lose members to the growing ranks of virtual competitors. Retention is becoming imperative for CUs, making rewards that sweeten the deal for CU members more popular — and more crucial — than ever.

The following Deep Dive explores recent trends in FIs' loyalty and rewards programs and how CUs are leveraging these initiatives to retain members and gain new ones. It also examines how CUs can overcome some of the challenges they face in implementing these programs.

WHAT LOYALTY PROGRAMS FOR FI CUSTOMERS LOOK LIKE

Consumers are avid loyalty program users wherever and whenever these options are available. A PYMNTS survey found that 50 percent of retail shoppers use loyalty programs, for example, and 55 percent would be “very” or “extremely” interested in loyalty offerings from merchants in their communities. This interest in rewards extends to the financial space as well, according to other PYMNTS [research](#). Digital wallet users value rewards so highly, for example, that 45 percent of Amazon Pay users, 40 percent of Google Pay users and 39 percent of Apple Pay users would be “very” or “extremely” likely to leave their current FIs for competitors that offer rewards. Age is also a factor: Bridge millennials were the most willing to switch FIs for access to rewards at 33 percent, while baby boomers and seniors were the least likely to switch at 15 percent.

Loyalty programs for traditional FIs have many different forms, with one of the most common being cash back programs for payment cards. Citi, for example, offers a 1 percent cash back reward on all purchases and an additional 1 percent when the user pays their credit card bill. Other banks prefer rewarding customers for debit purchases or for opening new checking accounts. Radius Bank, for example, offers increased interest rates when customers retain balances of \$2,500 per month. What these programs have in common is the offer of a monetary reward for either using the bank's services or maintaining active accounts, thus keeping customers from taking their money to competitors.





Rewards programs at CUs typically resemble those of their traditional bank counterparts, and many CUs are seizing the opportunity to reward their members for their loyalty. Pasadena, California-based Wescom Credit Union, for example, has a member base that includes a large portion of students at the nearby University of California Los Angeles (UCLA). Younger members are the most likely demographic to drop CUs in favor of FinTechs, so Wescom recently launched a new credit card geared toward students and

alumni that offers cash rewards for purchases through UCLA athletics programs and on-campus merchants. Other examples include Navy Federal Credit Union, which recently [upgraded](#) its credit card rewards program for members with direct deposit accounts.

Initiatives such as these sound straightforward, but CUs can face greater challenges in their implementation than competitors.

LOYALTY PROGRAM CHALLENGES AND REWARDS FOR CUs

CUs looking to launch rewards programs must contend with interest rate caps, program deployment costs and the potential fraud from bad actors attempting to exploit loyalty rewards without being actual members. As not-for-profit organizations, CUs may [have](#) fewer funds available than commercial banks to invest in these programs and products, or they may lack access to the same technologies and technical skills as their FinTech competitors, making them less agile in implementing rewards offerings. Many CUs are surmounting these obstacles by collaborating with third-party partners that can handle the back-end implementations for rewards programs. Partners can also protect against fraud and reduce programs' costs and operational burdens. The right partnerships can help CUs foster member loyalty without incurring undue challenges and expenses.

Consumers have more choices than ever about their banking institutions, and rewards are a key driver in this decision. CUs might face challenges in implementing rewards programs independently, but they need not go it alone. The potential costs of lacking these programs may be incalculable, but the benefits that strategic partnerships can deliver to both CUs and their members are likely to be substantial.



ABOUT

PYMNTS.com

[PYMNTS.com](#) is where the best minds and the best content meet on the web to learn about “What’s Next” in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.



[PSCU](#), the nation’s premier payments CUSO, supports the success of more than 1,800 financial institutions representing more than 6.9 billion transactions annually. Committed to service excellence and focused on innovation, PSCU’s payment processing, risk management, data and analytics, loyalty programs, digital banking, marketing, strategic consulting and mobile platforms help deliver possibilities and seamless member experiences. Comprehensive, 24/7/365 member support is provided by contact centers located throughout the United States. The origin of PSCU’s model is collaboration and scale, and the company has leveraged its influence on behalf of credit unions and their members for more than 40 years. Today, PSCU provides an end-to-end, competitive advantage that enables credit unions to securely grow and meet evolving consumer demands. For more information, visit [pscu.com](#).

We are interested in your feedback on this report. If you have questions or comments, or if you would like to subscribe to this report, please email us at creditunion@pymnts.com.

DISCLAIMER ■

The Credit Union Tracker®, a PSCU collaboration, may be updated periodically. While reasonable efforts are made to keep the content accurate and up to date, PYMNTS.COM: MAKES NO REPRESENTATIONS OR WARRANTIES OF ANY KIND, EXPRESS OR IMPLIED, REGARDING THE CORRECTNESS, ACCURACY, COMPLETENESS, ADEQUACY, OR RELIABILITY OF OR THE USE OF OR RESULTS THAT MAY BE GENERATED FROM THE USE OF THE INFORMATION OR THAT THE CONTENT WILL SATISFY YOUR REQUIREMENTS OR EXPECTATIONS. THE CONTENT IS PROVIDED “AS IS” AND ON AN “AS AVAILABLE” BASIS. YOU EXPRESSLY AGREE THAT YOUR USE OF THE CONTENT IS AT YOUR SOLE RISK. PYMNTS.COM SHALL HAVE NO LIABILITY FOR ANY INTERRUPTIONS IN THE CONTENT THAT IS PROVIDED AND DISCLAIMS ALL WARRANTIES WITH REGARD TO THE CONTENT, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, AND NON-INFRINGEMENT AND TITLE. SOME JURISDICTIONS DO NOT ALLOW THE EXCLUSION OF CERTAIN WARRANTIES, AND, IN SUCH CASES, THE STATED EXCLUSIONS DO NOT APPLY. PYMNTS.COM RESERVES THE RIGHT AND SHOULD NOT BE LIABLE SHOULD IT EXERCISE ITS RIGHT TO MODIFY, INTERRUPT, OR DISCONTINUE THE AVAILABILITY OF THE CONTENT OR ANY COMPONENT OF IT WITH OR WITHOUT NOTICE.

PYMNTS.COM SHALL NOT BE LIABLE FOR ANY DAMAGES WHATSOEVER, AND, IN PARTICULAR, SHALL NOT BE LIABLE FOR ANY SPECIAL, INDIRECT, CONSEQUENTIAL, OR INCIDENTAL DAMAGES, OR DAMAGES FOR LOST PROFITS, LOSS OF REVENUE, OR LOSS OF USE, ARISING OUT OF OR RELATED TO THE CONTENT, WHETHER SUCH DAMAGES ARISE IN CONTRACT, NEGLIGENCE, TORT, UNDER STATUTE, IN EQUITY, AT LAW, OR OTHERWISE, EVEN IF PYMNTS.COM HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

SOME JURISDICTIONS DO NOT ALLOW FOR THE LIMITATION OR EXCLUSION OF LIABILITY FOR INCIDENTAL OR CONSEQUENTIAL DAMAGES, AND IN SUCH CASES SOME OF THE ABOVE LIMITATIONS DO NOT APPLY. THE ABOVE DISCLAIMERS AND LIMITATIONS ARE PROVIDED BY PYMNTS.COM AND ITS PARENTS, AFFILIATED AND RELATED COMPANIES, CONTRACTORS, AND SPONSORS, AND EACH OF ITS RESPECTIVE DIRECTORS, OFFICERS, MEMBERS, EMPLOYEES, AGENTS, CONTENT COMPONENT PROVIDERS, LICENSORS, AND ADVISERS.

Components of the content original to and the compilation produced by PYMNTS.COM is the property of PYMNTS.COM and cannot be reproduced without its prior written permission.

The Credit Union Tracker® is a registered trademark of What's Next Media & Analytics, LLC (“PYMNTS.com”).