



# CREDIT UNION INNOVATION

Responding To Member Demands For Digital Financial Services

Credit Union Innovation: Responding To Member Demands For Digital Financial Services, 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 4,832 U.S. consumers, 101 credit union decision-makers and 51 FinTech executives to learn which types of contactless payment innovations CU members would like their CUs to prioritize and discover whether credit unions are investing in these areas of interest.





# CREDIT UNION INNOVATION

Credit Union Innovation: Responding To Member Demands For Digital Financial Services was done 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.

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# INTRODUCTION

**W**hen Merrifield, Virginia-based Navy Federal Credit Union launched its car buying service in 2021, it offered members an online platform to search for vehicles from local dealers, discover prices on these vehicles and line up auto loans and other financing options. Navy Federal says the partnership with TrueCar gives the credit union (CU) a means of providing its members with guidance and negotiating power when remotely shopping for a car.

The remote shopping service is also an example of the steps CUs will need to take to ensure that members remain satisfied — an issue that has taken on greater urgency. CUs, as a group, suffered a drop in member satisfaction in 2021, falling

to 86% from 92% in 2018. The decrease leaves CUs level with digital and online banks, which have an 85% customer satisfaction rating. The drop also halves the edge CUs had over their traditional bank competitors.

PYMNTS' research shows that many consumers, particularly bridge millennials, millennials and members of Generation Z, value innovative digital services like mobile remote deposit, digital wallets, instant card issuance to a digital wallet, peer-to-peer (P2P) payments and cashless card withdrawal.<sup>1</sup> As in the case of Navy Federal, some of the most forward-thinking CUs are working on shoring up their member satisfaction with investments in innovative products and

services that appeal to consumers who are in or entering their peak earning years.

These are just some of the key findings in Credit Union Innovation: Responding To Member Demands For Digital Financial Services, a PYMNTS and PSCU collaboration. We examine CU members' interest in innovative digital financial products and services and CUs' efforts to satisfy this growing demand. We surveyed 4,832 consumers from Oct. 27, 2021, through Dec. 2, 2021, to gather information on the types of innovative products and services CU members want from their primary financial institutions (FIs) and the innovation areas in which CUs plan to invest going forward.

We also surveyed 101 credit union executives with responsibilities in financial planning and analysis, fraud detection and analysis, product development, operations and payments from Nov. 3, 2021, through Nov. 26, 2021, and 51 executives from FinTechs that provide services to CUs, commercial and community banks and individual consumers.

## **This is what we learned.**

<sup>1</sup> How US Consumers Define the Super App. PYMNTS.com. December 2021. <https://www.pymnts.com/connectedeconomy/2021/how-170-million-us-consumers-define-the-super-app/>. Accessed January 2022.





**CUs ARE INVESTING IN EXPANDING MOBILE BANKING CAPABILITIES BUT ARE OVERLOOKING THE P2P PAYMENT INNOVATIONS THAT CAN KEEP POTENTIAL SWITCHERS FROM STRAYING.** They are also underinvesting in the innovation areas that could help win over millennials and bridge millennials.

Seventy-four percent of CUs made investments in mobile banking in 2021, a slight increase from the 70% who made investments in this area in 2020. Mobile wallets are another product category in which the investment rate appears high: 64% of CUs invested in this area in 2021. That number is a retreat from the 86% who made mobile wallet investments in 2020. CUs' track record on investing in P2P payments is also mixed, as 50% invested in offering P2P payments as a service in 2021 — nearly double the 27% that invested in P2P in 2020.

**THE MOST INNOVATIVE CUs HAVE HEARD THEIR MEMBERS' CALLS FOR MORE DIGITAL OPTIONS AND ARE MORE PROACTIVE IN BRINGING NEW DIGITAL PRODUCTS TO MARKET.** These so-called “early launchers” provide a template for others to follow, being among the best at focusing on digital banking and payments as well as expense management innovations.

The 19% of CUs classified as early launchers in 2021 are a nearly fivefold increase from the 4% of CUs classified as such in 2018. At the same time, fewer CUs are content to sit back as rivals launch new products and services. Seventeen percent of CUs were classified as “followers” in 2021 compared to 40% in 2018. Thirty-six percent of CUs are classified as “quick followers” and are slightly behind the early launchers.

**CREDIT UNIONS ARE HITTING THE MARK ON RETAINING MEMBER TRUST AND OFFERING LOW FEES, BUT THEY ARE RAPIDLY LOSING GROUND TO NEOBANKS THAT OFFER BETTER DIGITAL CAPABILITIES.**

For the first time, neobank customers were just as satisfied as CU members with their banking experiences.

In 2021, 86% of CU members said they were “very” or “extremely” satisfied with their primary financial institution — a decrease of 6% from 2018. By comparison, digital and online banks registered 85% customer satisfaction from their clientele in 2021, rising from 83% in 2020. The drop in CU member satisfaction to a level on par with the digital banking competition is one of the big stories in retail financial services and highlights one of the challenges CUs face. CUs must incorporate innovative products and services to reestablish their edge in member satisfaction.

**TWENTY-FOUR PERCENT OF CU MEMBERS WOULD SWITCH FIs FOR MORE INNOVATIVE PRODUCTS.** Providing these “potential switchers” the ability to deposit checks via mobile, issue cards directly to their mobile wallets and make and receive P2P payments can help keep them from jumping ship.

PYMNTS' research shows that “potential switchers” are more likely than other consumers to want to deposit checks via mobile apps, have CUs issue cards directly to their mobile wallets and make and receive P2P payments. Thirty-four percent of millennials, 36% of bridge millennials and 31% of Gen Z consumers show a greater willingness than older age groups to switch their primary FI to another for access to innovative products and services. By comparison, 24% of Gen X consumers and 13% of baby boomers and seniors would switch to access innovative digital financial services.





# INNOVATIVE PRODUCTS:



## HOW CUS DRIVE MEMBER SATISFACTION

The relative measurements of customer satisfaction between CUs and the FIs and digital and online banks with which they compete have changed. To date, this shift has not been excessive, but the noticeable decline in satisfaction among CU members points to profound changes in consumer-oriented financial services that have been years in the making.

CUs have historically stood apart from other FIs, enjoying a much higher customer or member satisfaction rate. Neobanks are a close match on this measure, and CUs should consider rethinking their mix of products and services to retain the loyalty of their members while gaining new ones.

Fortunately, CUs retain a significant strength based on their members' trust in them. Trust is the primary reason members are satisfied with their CUs, with 39% saying so in 2021 — a portion 22% higher than the share from 2020. By comparison, just 22% of non-CU members rate trust as the most important reason they are satisfied with their primary FI.

The trust CU members place in these FIs has helped them hold their share of the retail financial services market. However, the rise of popular digital financial services and the intense competitive pressure from neobanks means CUs are under growing pressure to roll out new services to retain members' loyalty. The changes that have roiled the market in recent years also affect how members view their CUs and their expectations for the services they receive. PYMNTS' data shows CU members and other consumers weigh several issues before they open checking accounts, apply for credit cards and set funds aside for their kids' college tuitions: fee structures and digital and mobile capabilities.

**Table 1:**  
**How credit union member satisfaction has evolved**

1A: Share of financial institution customers who are satisfied with their primary institution, by type of institution and year

	2018	2019	2020	2021
<b>Credit union</b>	91.7%	88.5%	88.4%	86.3%
<b>Digital/online bank</b>	90.3%	84.7%	82.8%	84.8%
<b>Regional bank</b>	84.7%	80.4%	81.8%	81.2%
<b>National bank</b>	88.4%	80.8%	80.6%	80.6%
<b>Local bank</b>	89.0%	80.0%	80.9%	79.2%

Source: PYMNTS | PSCU Credit Union Innovation

1B: Most important reason CU members say they are satisfied with their primary FI, by year

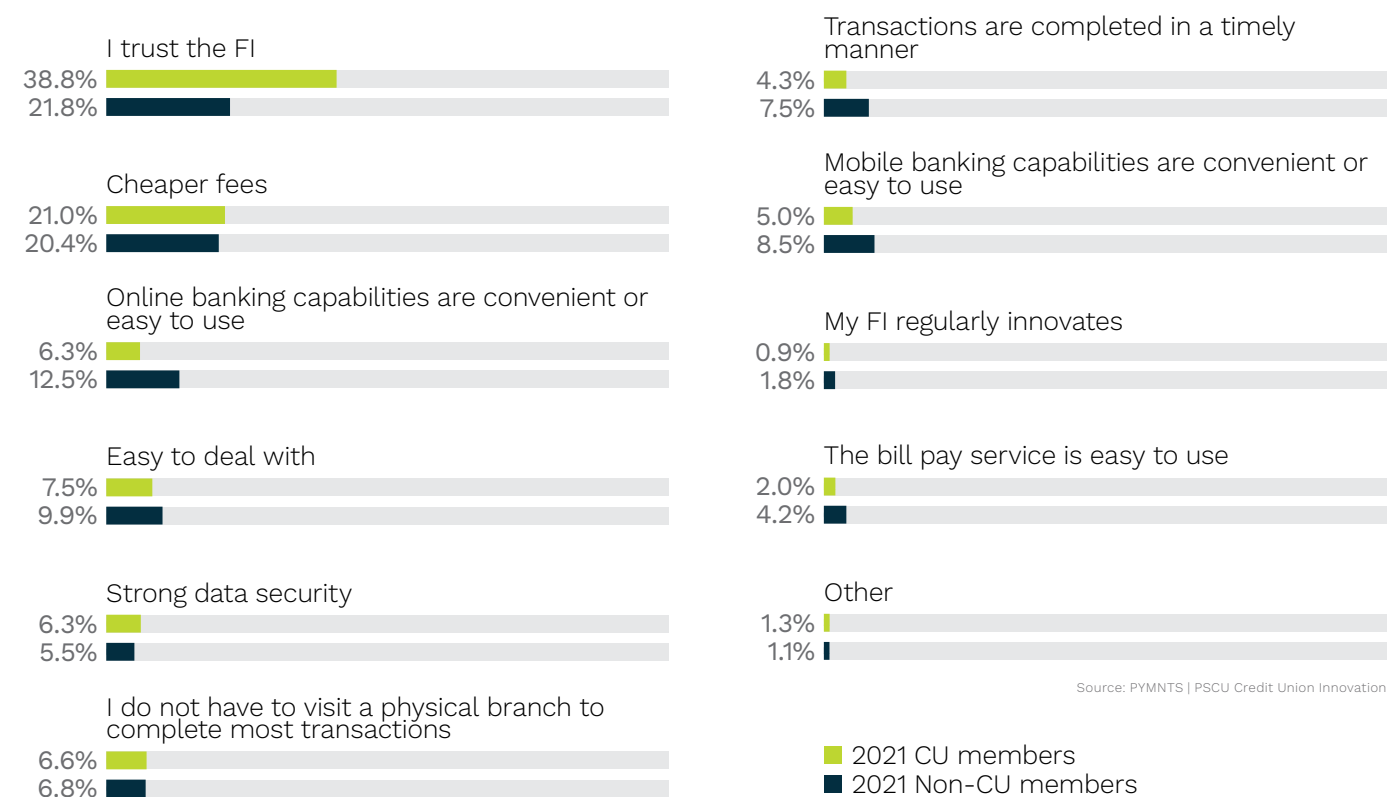
	CU Members	2018	2019	2020	2021
<b>I trust the FI</b>		35.9%	28.7%	31.8%	38.8%
<b>Cheaper fees</b>		18.1%	19.6%	20.4%	21.0%
<b>Online banking capabilities are convenient or easy to use</b>		7.7%	9.5%	8.7%	6.3%
<b>Easy to deal with</b>		11.0%	12.4%	10.1%	7.5%
<b>Strong data security</b>		0.0%	3.3%	6.1%	6.3%
<b>I do not have to visit a physical branch to complete most transactions</b>		9.6%	9.9%	7.1%	6.6%
<b>Transactions are completed in a timely manner</b>		6.5%	6.7%	4.5%	4.3%
<b>Mobile banking capabilities are convenient or easy to use</b>		6.7%	6.1%	6.4%	5.0%
<b>My FI regularly innovates</b>		1.2%	0.7%	1.9%	0.9%
<b>The bill pay service is easy to use</b>		2.2%	1.6%	2.2%	2.0%
<b>Other</b>		1.1%	1.4%	0.7%	1.3%

Source: PYMNTS | PSCU Credit Union Innovation

For example, 21% of satisfied CU members cite low fees as the most important reason for their satisfaction, which is the third consecutive annual increase in this measurement. This level does not translate to online and mobile banking offerings, however. Credit union members are less likely than before to cite their CUs' online and mobile banking capabilities as the most important reason for their satisfaction. Convenience and ease of use of online banking capabilities were cited

by 6% of CU members as the top reason for their satisfaction, and 5% cited convenience and ease of use of mobile banking capabilities as the most important reason. In contrast, non-CU members are nearly twice as likely to report convenience and ease of use of online banking capabilities (13%) and mobile banking capabilities (9%) as the most important reason they are satisfied with their primary FI.

**Figure 1:**  
**Credit union member and non-member satisfaction**  
Most important reason members are satisfied with their primary FI, by CU membership status



Source: PYMNTS | PSCU Credit Union Innovation

■ 2021 CU members  
■ 2021 Non-CU members





GROWING  
DEMAND FOR  
**INNOVATIVE  
PRODUCTS AND  
SERVICES**

**S**ome CU members have enough interest in digital products and services that they would switch to a rival FI if their current CU did not offer them. These include mobile remote deposit capture, instant card issued to a digital wallet, P2P payments, digital wallets and cashless card withdrawal.

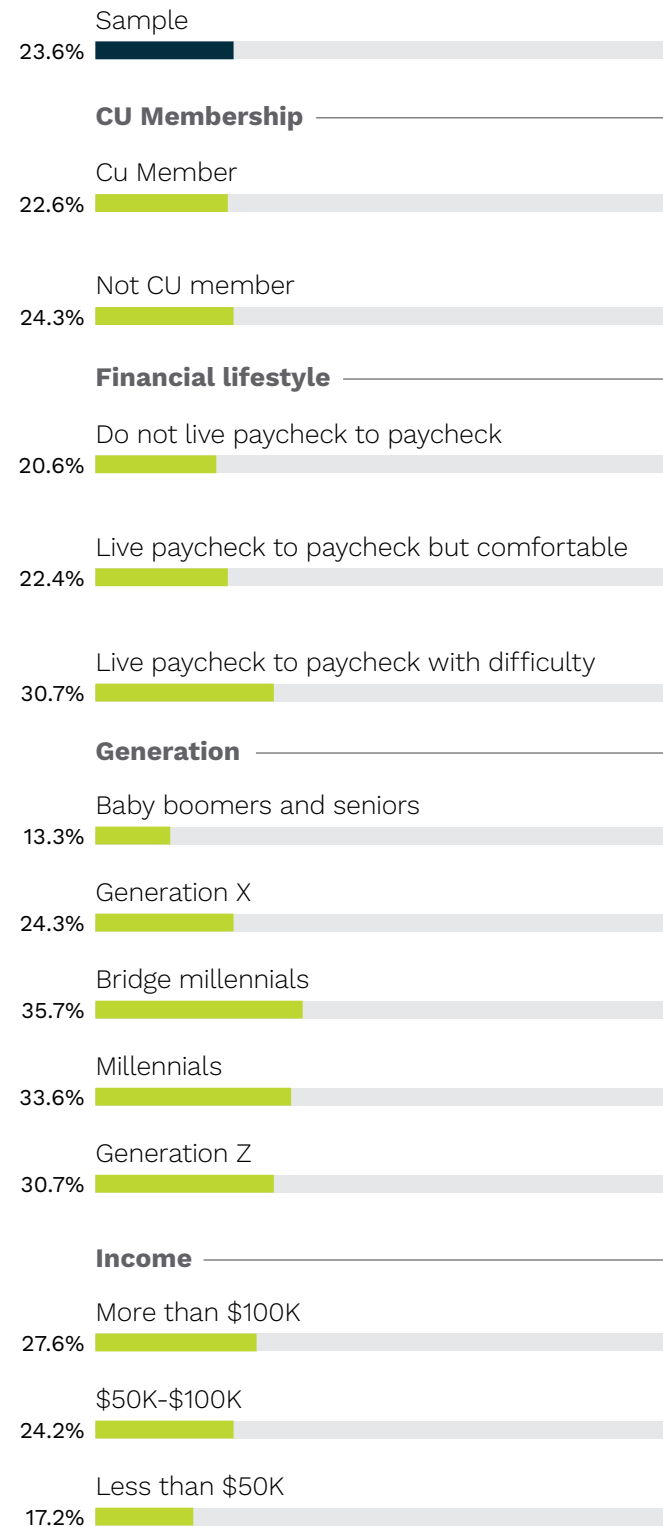
Thirty-eight percent say they would switch to a rival FI if their CU did not let them deposit checks via a mobile app, and 38% say they would switch if their CUs did not provide digital cards that can be issued directly to their digital wallets. Other services that would lead CU members to switch to a rival if they were not available include P2P payments (cited by 35% of members), digital wallets (36%) and cardless cash withdrawals (35%).



Each of these five areas of innovation shows the vulnerabilities that pose the greatest risk for CUs to lose members, but they also provide a roadmap for how CUs can strengthen relationships with their members through innovation efforts of their own. CUs have also become more committed to developing innovative products in the past several years. Each of the five areas that members cite as enough incentive to leave have been targeted for increased investment and innovation.

As more CUs invest in innovative products and services and sustain these investments for the long term, they will position themselves to garner a high level of member satisfaction.

**Figure 2:**  
**Digital innovation's appeal for financial institution customers**  
 Share of CU members and all consumers who are willing to switch FIs to find innovative digital products



Source: PYMNTS | PSCU Credit Union Innovation

# 38%

of consumers say they would switch to a rival FI if their CU did not let them deposit checks via a mobile app.





# INNOVATIVE PRODUCTS AND THE RISE OF THE MILLENNIALS

Consumers who are most likely to switch their primary FI based on select factors cite several areas of innovation as significant to their decisions. Thirty-five percent of “potential switchers” cite loyalty and reward programs, 32% pick account fraud protection and 32% select data security.

Consumers who value these factors the most are baby boomers and seniors, 38% of whom cite loyalty and rewards programs as a factor they consider. This area is also cited by 35% of Gen X, 33% of bridge millennials, 34% of millennials and 26% of Gen Z, showing that nearly all age groups cite this area as important. Forty-six percent of baby boomers and seniors consider account fraud protection an important area of innovation.

Younger age groups also give comparable weight to other emerging areas of banking innovation when they consider their primary FI. These factors include mobile banking, selected by 29% of potential switchers, mobile payments, selected by 31%, and digital bill payments, selected by 22%.

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## 29%

OF BRIDGE MILLENNIALS SAY AN FI'S MOBILE BANKING CAPABILITIES ARE A FACTOR WHEN CONSIDERING THE QUALITY OF THEIR PRIMARY FI'S INNOVATIONS.








For example, 29% of bridge millennials say an FI's mobile banking capabilities are a factor when considering the quality of their primary FI's innovations, as do 27% of millennials, 25% of Gen X consumers and 24% of Gen Z consumers. Just 13% of baby boomers and seniors say mobile banking is an issue of interest to them. Forty-one percent of Gen Z consumers

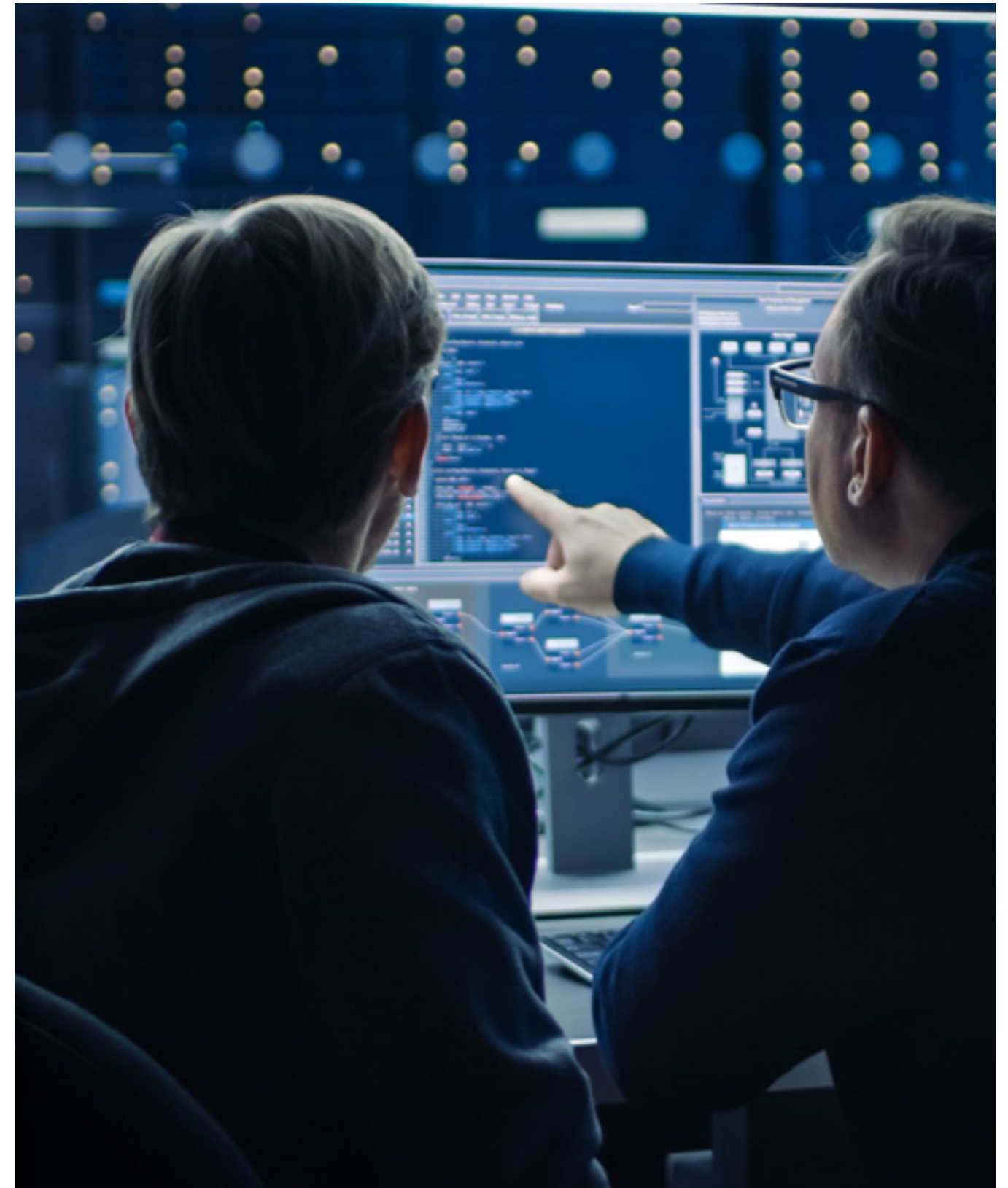
and 31% of millennials and bridge millennials say mobile payments are of interest when asked to consider their primary FI's potential innovation.

The pattern is similar for other areas of banking innovation, including mobile payments, digital bill payments, real-time payments and mobile card apps.

**Table 2:**  
**Consumers' interest in select areas of innovation**  
 Share of consumers who say they consider select areas of potential innovation when deciding to switch FIs

	 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
<b>Loyalty or rewards offerings</b>	26.2%	33.6%	32.6%	34.8%	37.5%
<b>Account fraud protection</b>	27.6%	24.7%	28.5%	30.9%	45.4%
<b>Data security innovations</b>	19.2%	28.4%	30.9%	29.0%	34.3%
<b>Card transaction management</b>	20.1%	20.5%	19.6%	16.1%	19.4%
<b>Mobile banking capabilities</b>	23.9%	27.1%	28.6%	25.2%	12.8%
<b>Mobile payments</b>	41.2%	31.1%	30.5%	21.9%	7.7%
<b>Digital bill payments</b>	27.0%	24.5%	24.5%	17.5%	9.5%
<b>Real-time payments</b>	24.9%	23.3%	23.3%	22.6%	12.8%
<b>Contactless payments</b>	23.6%	20.0%	18.8%	15.9%	10.7%
<b>Mobile card apps</b>	26.3%	27.7%	26.0%	14.9%	3.7%

Source: PYMNTS | PSCU Credit Union Innovation







# THE DIGITAL INNOVATION CHALLENGE

**F**or four consecutive years, there has been a steady rise in the share of CUs focused on bringing innovative products and services to their members. This group of early launchers rose to 19% in 2021, compared to 12% in 2020, 8% in 2019 and 4% in 2018, underscoring CUs' growing awareness of the importance of innovation.

Early launchers are more likely than other CUs to innovate mobile banking capabilities and mobile wallets, personal loans, data analytics, buy now, pay later (BNPL) options and planning and budgeting tools. But even among the other classes of CUs — quick followers, followers and laggards — there is a high level of interest in innovation. In a few instances, one of the other classes of CUs outscores the early launchers for innovation. In some cases, other CUs are innovating at a level that nearly matches the early launchers.

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CREDIT UNIONS THAT ARE CLASSIFIED AS **EARLY LAUNCHERS** OF NEW PRODUCTS ARE MORE LIKELY THAN OTHER CUs TO **INNOVATE WITH DIGITAL BANKING CAPABILITIES.**



For example, 74% of early launchers say mobile banking is one of the areas in which they are innovating, but 81% of quick followers are also innovating in this area, as are 72% of followers and 65% of laggards.

Similarly, 74% of early launchers say they are innovating with mobile wallets, as are 53% of quick followers, 72% of followers and 65% of laggards.

Overall, early launchers are 17% more likely than other CUs to innovate with BNPL options, 20% more likely to innovate with personal loans and 54% more likely to innovate with planning and budgeting tools.

**74%**

OF THE CREDIT UNIONS CLASSIFIED AS EARLY LAUNCHERS OF NEW PRODUCTS ARE INNOVATING WITH MOBILE WALLETS.

**Table 3:**

**CUs are not uniform in their approach to digital innovation**

3A: Share of CUs moving at various paces for digital innovation, by year

	2018	2019	2020	2021
<b>Early launchers</b>	3.9%	8.0%	11.9%	18.8%
<b>Quick followers</b>	28.4%	30.0%	45.5%	35.6%
<b>Followers</b>	40.2%	33.0%	12.9%	16.8%
<b>Laggards</b>	27.5%	29.0%	29.7%	28.7%

Source: PYMNTS | PSCU Credit Union Innovation

3B: Share of CUs investing in select innovations, by type of CU

	Early launchers	Quick followers	Followers	Laggards
<b>Mobile banking capabilities</b>	73.7%	80.6%	72.4%	64.7%
<b>Loyalty or rewards program</b>	78.9%	69.4%	72.4%	52.9%
<b>Mobile wallets</b>	73.7%	52.8%	72.4%	64.7%
<b>BNPL</b>	68.4%	58.3%	51.7%	58.8%
<b>Fraud management and anti-money laundering</b>	57.9%	63.9%	62.1%	35.3%
<b>Personal loans</b>	63.2%	44.4%	51.7%	58.8%
<b>P2P payments</b>	68.4%	30.6%	48.3%	76.5%
<b>Real-time payments</b>	42.1%	47.2%	44.8%	64.7%
<b>Contactless cards</b>	73.7%	38.9%	37.9%	47.1%
<b>Data analytics</b>	57.9%	44.4%	44.8%	29.4%
<b>Call center or customer service</b>	31.6%	50.0%	44.8%	35.3%
<b>QR codes</b>	36.8%	47.2%	37.9%	35.3%
<b>Small business credit</b>	47.4%	38.9%	51.7%	11.8%
<b>Planning or budgeting tools</b>	57.9%	33.3%	34.5%	29.4%
<b>Card transaction management or alerts</b>	42.1%	36.1%	27.6%	41.2%
<b>Digital onboarding</b>	47.4%	27.8%	24.1%	58.8%
<b>Installment credit</b>	21.1%	33.3%	17.2%	29.4%

Source: PYMNTS | PSCU Credit Union Innovation





# CONCLUSION

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**C**redit unions are in the midst of a financial services industry undergoing a revolution driven by the dramatic rise of digital services. The revolution is whetting consumers' appetites for innovative products and services that make it easier to manage their personal finances and execute the day-to-day transactions that let them purchase the things they need and want. The most innovative CUs are responding by rolling out digital services, such as mobile banking, digital wallets, P2P payments and BNPL options. These services are helping them retain member loyalty in the face of stiffer competition from traditional FIs and a growing number of challenger banks that offer outstanding digital customer experiences. The CUs that strategically invest in innovative products and services will position themselves to leverage the high level of member trust and exceptional service CU brands are known for, growing membership and gaining share of wallet at the expense of their competitors.

## METHODOLOGY

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Credit Union Innovation: Responding To Member Demands For Digital Financial Services, a PYMNTS and PSCU collaboration, is based on a survey of 4,832 consumers, 101 credit union executives and 51 executives from FinTechs. We examine CU members' and other consumers' interest in innovative digital financial products and services and CUs' efforts to satisfy this growing demand. The CU executives have responsibilities in areas such as financial planning and analysis, fraud detection and analysis, product development, operations and payments. We sought information from these executives on the areas they have targeted for investment.

# ABOUT

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