



CREDIT UNION INNOVATION

Product Innovation As The Key To Membership Growth

Credit Union Innovation: Product Innovation As The Key To Membership Growth, a PYMNTS and PCSU 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.



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Credit Union Innovation: Product Innovation As The Key To Membership Growth 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
The need to innovate	07
Spoiled for choice: The FI selection process	11
The digital features that make a difference	15
Deep Dive: Real-time payments make a difference	17
Conclusion	21
Methodology	22

INTRODUCTION

Credit unions (CUs) have become the underdog in the constant competitive battle between financial institutions (FIs). Establishment banks can harness far more resources, and digital-native FinTechs have a running start regarding the innovative digital solutions that consumers crave. CUs' traditional advantage over their counterparts — member loyalty — can quickly be whittled away if they do not step up their digital service offerings.

Much of this shift to digital can be attributed to the world's change to remote banking amid the pandemic. Branch visits are becoming rarer, and the face-to-face time with employees that FIs leverage to earn member loyalty is rapidly decreasing. Taking their place are digital services that members can access from their own homes. These capabilities are quickly swelling to cover more than the simple withdrawals, deposits and other basic functions that digital banking has traditionally comprised. FI customers can now

perform an extensive range of banking functionalities from anywhere, including applying for loans and mortgages and opening new accounts, and the FIs that offer the most seamless functions are pulling ahead.

CU executives are cognizant of this capability gap, however, and are pulling out all the stops to ensure that their institutions can keep their digital edge. PYMNTS surveyed 4,832 consumers, 101 CU executives and 51 FinTech executives between Oct. 27 and Dec. 2, 2021, to determine where

CUs fall behind with digital services, what is required to maintain member loyalty and what digital innovations can have the most impact on keeping CUs competitive with their larger or more agile counterparts.

This is what we learned.

CU EXECUTIVES UNDERSTAND THAT INNOVATIVE DIGITAL PRODUCTS ARE THE LINCHPIN FOR RETAINING MEMBERSHIP AND STAYING COMPETITIVE WITH TRADITIONAL BANKS AND FINTECHS. To this end, they are establishing new initiatives and partnerships to deliver the digital services their members require.

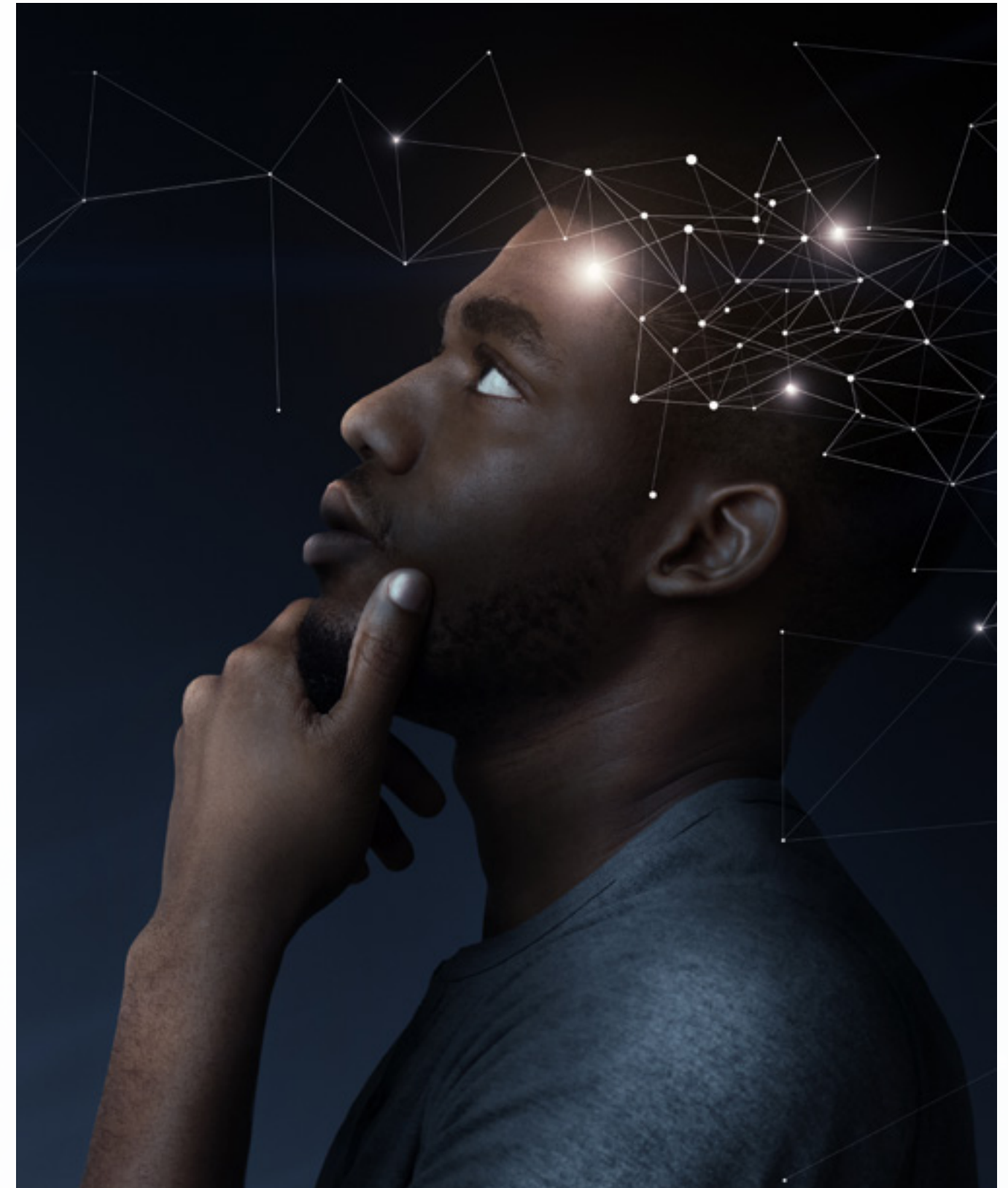
Partnerships will be critical to delivering and ensuring the effectiveness of extensive digital services, as CUs often lack the in-house capabilities to develop such services on their own. Forty-two percent of CU executives said that partnerships with vendors are important, and 40% emphasized relationships with credit union service organizations (CUSOs).

Measuring the exact impact of these digital programs will be just as important as the actual development process so that CUs can improve and iterate on their service offerings. Thirty-nine percent of executives surveyed said business case analyses and calculations of the return on investment (ROI) were important.

DEMOGRAPHIC SHIFTS ARE PRESSURING CUs AND OTHER FIS, AND YOUNGER GENERATIONS ARE PLACING A GREATER EMPHASIS ON DIGITAL SERVICES. Good customer service may have been enough to foster member loyalty among previous generations, but millennials and Generation Z members have different priorities.

Fifteen percent of Gen Z customers said they are dissatisfied or only slightly satisfied with their current FIs, the highest share of any generation surveyed. These consumers had various reasons for their dissatisfaction: 40% cited high costs, 21% complained about the poor quality of mobile banking services and 21% said it was difficult to use bill-pay services.

Millennials and bridge millennials had lower dissatisfaction rates at 5.3% and 6%, respectively. These generations are just now entering their peak earning years, however, and their members' opinions will have an outsized effect on what should drive retention efforts.



CUs ARE GROWING MORE COGNIZANT OF THE CAUSES OF MEMBER DISSATISFACTION AND ARE BECOMING MORE AGGRESSIVE WITH DEVELOPING AND INTRODUCING NEW PRODUCTS. Nineteen percent of CUs are now classified as “early launchers” — institutions that innovate new products before their rivals.

The portion of early launcher CUs stood at just 12% last year, an increase of 58%. Another 36% of CUs are classified as “quick followers,” up from 28% of CUs in 2018. The combination of early launchers and quick followers now comprises half of all CUs, indicating an industry shift in the early development and launch of new digital banking products.

The group classified as “followers” — those that wait until consumer preferences for specific products become clear before introducing their own offerings — shrank to 17% of all CUs. The proportion of “laggers,” or those that wait until market demand for select products and services is understood before introducing their own offerings, remained steady at 29%.

MOBILE BANKING, LOYALTY PROGRAMS, MOBILE WALLETS, PEER-TO-PEER (P2P) PAYMENTS AND REAL-TIME PAYMENTS ARE SOME OF THE BEST DIGITAL INVESTMENTS WHEN ATTRACTING AND RETAINING MEMBERS. The CUs developing these offerings are some of the most responsive to consumer demands.

Early launchers are introducing these programs in spades, with 79% offering loyalty programs, 74% offering mobile banking and 74% offering contactless cards. Products that provide innovative payment options for consumers and merchants are also popular: 68% of early launchers offer buy now, pay later (BNPL) programs and P2P payments.



REAL-TIME PAYMENTS ARE OF PARTICULAR INTEREST TO CUs' MILLENNIAL AND BRIDGE MILLENNIAL DEMOGRAPHICS.

These generations are expected to form a large part of the member base moving forward, as they are currently in or about to enter their prime earning years.

We found that 61% of millennials and 59% of bridge millennials are highly interested in real-time payments. Twenty-three percent of consumers interested in using real-time payments said they are easy to use and convenient, and 22% said they appreciate the instant availability of funds. Another 14% said that real-time payments could help them track their financial situations.

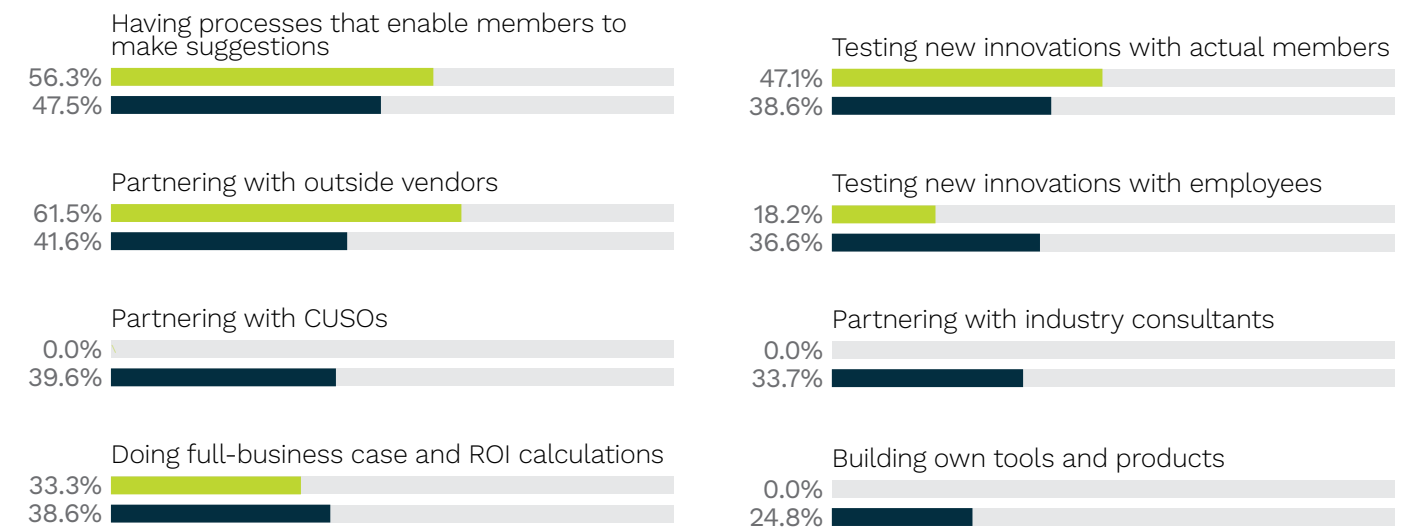
THE NEED TO INNOVATE

CUs have traditionally had a much different reputation than traditional banks and FinTechs — traditional banks have an institutional presence and massive resources, and FinTechs represent a relatively new class of organization that foregrounds digital capabilities. CUs are working hard to shed their expected reputation, however, and position themselves as digital innovators in their own right.

Figure 1:

CUs and FinTechs on innovation

Share of CU executives who consider select methods of innovation important and share of FinTech firms that think each method makes innovation successful



Source: PYMNTS | PSCU Credit Union Innovation

- Share of FinTech executives who consider innovation very or extremely successful when select method is used
- Important methods for CU executives when carrying out innovations

Table 1:
CUs and FinTechs on innovation
Share of CU executives who consider
select methods of innovation important, by year

	2018	2019	2020	2021
Having processes that enable members to make suggestions	21.6%	36.0%	54.5%	47.5%
Partnering with outside vendors	28.4%	50.0%	11.9%	41.6%
Partnering with CUSOs	0.0%	26.0%	40.6%	39.6%
Testing new innovations with actual members	24.5%	16.0%	49.5%	38.6%
Doing full-business case and ROI calculations	20.6%	8.0%	47.5%	38.6%
Testing new innovations with employees	22.5%	17.0%	44.6%	36.6%
Partnering with industry consultants	27.5%	34.0%	15.8%	33.7%
Building own tools and products	14.7%	15.0%	23.8%	24.8%

Source: PYMNTS | PSCU Credit Union Innovation

Cooperation is the key to success when it comes to digital innovation. Forty-two percent of CU executives said it is essential to partner with outside vendors to ensure the successful rollout of new digital services, and 40% feel the same way about CUSOs.

Listening to member feedback and considering it when developing new digital services is also critical, but this attitude has faded recently. In 2018, 22% of CU executives felt that it was important to have processes that enabled members to make suggestions, and this number grew to 55% by 2020. This number shrank in 2021 to 48%, however, perhaps suggesting that there is a growing familiarity with digital processes and more confidence in making the right decisions on an executive level.

This strengthening belief in CUs’ abilities to innovate independently is also reflected in CU executives’ perspectives on homegrown digital products. Just 15% of respondents indicated they wished to build their own products in 2018, but 25% felt this way in 2021.

47.5%

Share of CU executives that
desire member suggestions
for improving digital processes





SPOILED FOR CHOICE:

THE FI SELECTION PROCESS

F I customers are spoiled for choice when it comes to picking an FI, often with dozens of brick-and-mortar options and a nearly infinite variety online. The prevalence of digital options means that it is easier to switch FIs than ever before, and customers are allowing themselves to be choosier, abandoning FIs that do not offer the exact digital options they desire.

In 2018, 19% of customers considered switching because of digital innovation. PYMNTS’ data shows that 24% were willing to switch in 2021. While most customers are still sticking to their primary FI, this number of stalwarts grows smaller each year, and it might not be long before most customers are willing to leave.

The exact digital innovations that consumers consider when deciding to switch FIs vary greatly, as dozens of different options are available. The most popular innovation among consumers willing to switch was loyalty and rewards offerings, with 35% of willing-to-switch consumers considering it an area of interest. Other popular innovations include account fraud protection, data security, mobile banking capabilities and real-time payments.

Table 2:
Consumers’ willingness to switch for better innovation
Share of consumers that would change FIs for digital innovations

	2018	2019	2020	2021
Would switch or consider switching FIs because of innovation	19.2%	26.1%	25.6%	23.6%
Values innovation, but would not switch FIs because of it	56.0%	53.2%	52.3%	48.2%
Do not care or would prefer that their FIs do not innovate	24.8%	20.7%	22.1%	28.2%

Source: PYMNTS | PSCU Credit Union Innovation

Figure 2:
Consumers’ interest in select areas of innovation

Share of consumers who are interested in select features when considering their primary FIs’ potential innovations, by willingness to switch FIs

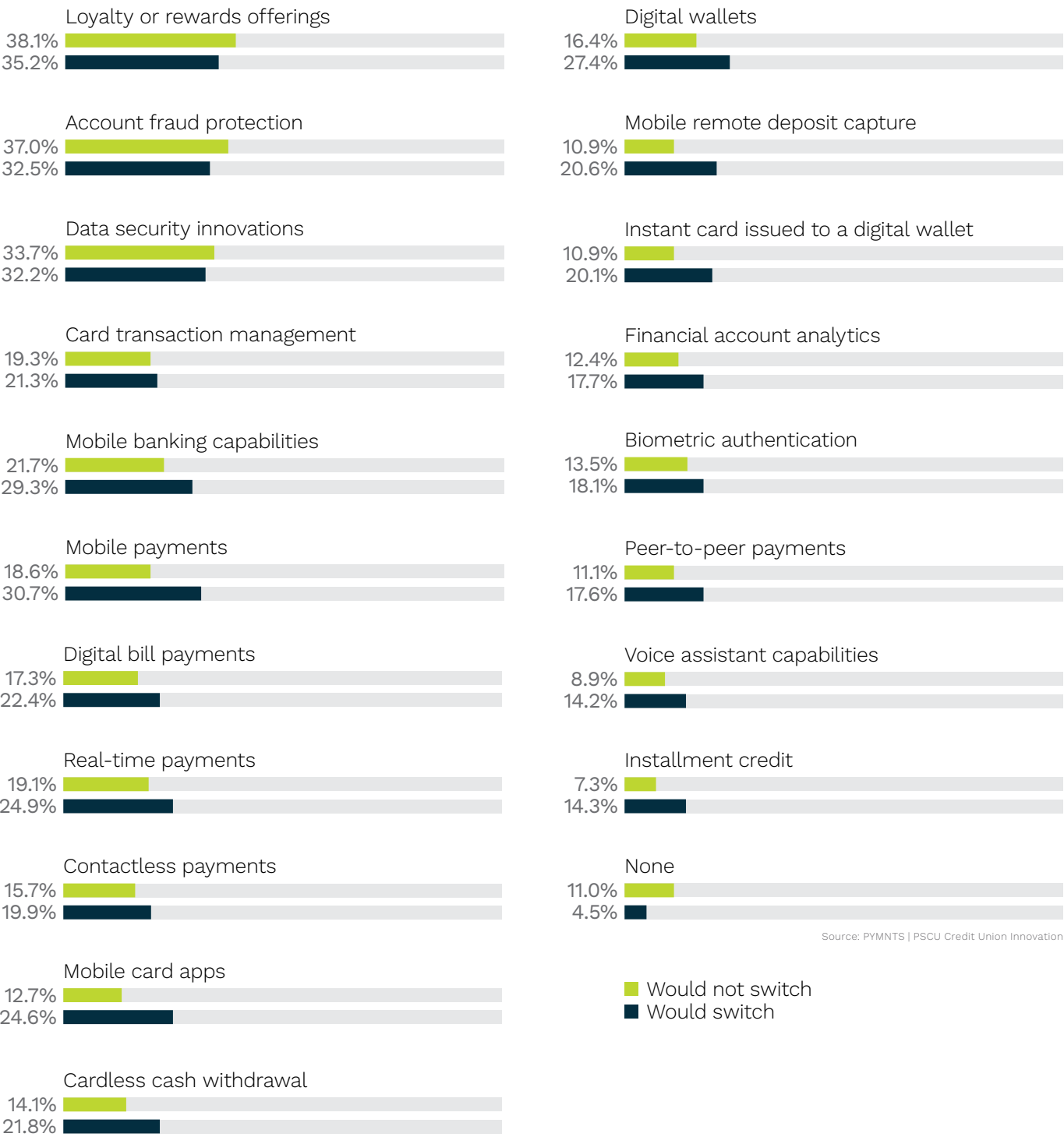







Table 3:
Consumers’ interest in select areas of innovation

Top 10 features consumers are interested in when considering their primary FIs’ potential innovations, 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
Loyalty or rewards offerings	26.2%	33.6%	32.6%	34.8%	37.5%
Account fraud protection	27.6%	24.7%	28.5%	30.9%	45.4%
Data security innovations	19.2%	28.4%	30.9%	29.0%	34.3%
Card transaction management	20.1%	20.5%	19.6%	16.1%	19.4%
Mobile banking capabilities	23.9%	27.1%	28.6%	25.2%	12.8%
Mobile payments	41.2%	31.1%	30.5%	21.9%	7.7%
Digital bill payments	27.0%	24.5%	24.5%	17.5%	9.5%
Real-time payments	24.9%	23.3%	23.3%	22.6%	12.8%
Contactless payments	23.6%	20.0%	18.8%	15.9%	10.7%
Mobile card apps	26.3%	27.7%	26.0%	14.9%	3.7%

Source: PYMNTS | PSCU Credit Union Innovation

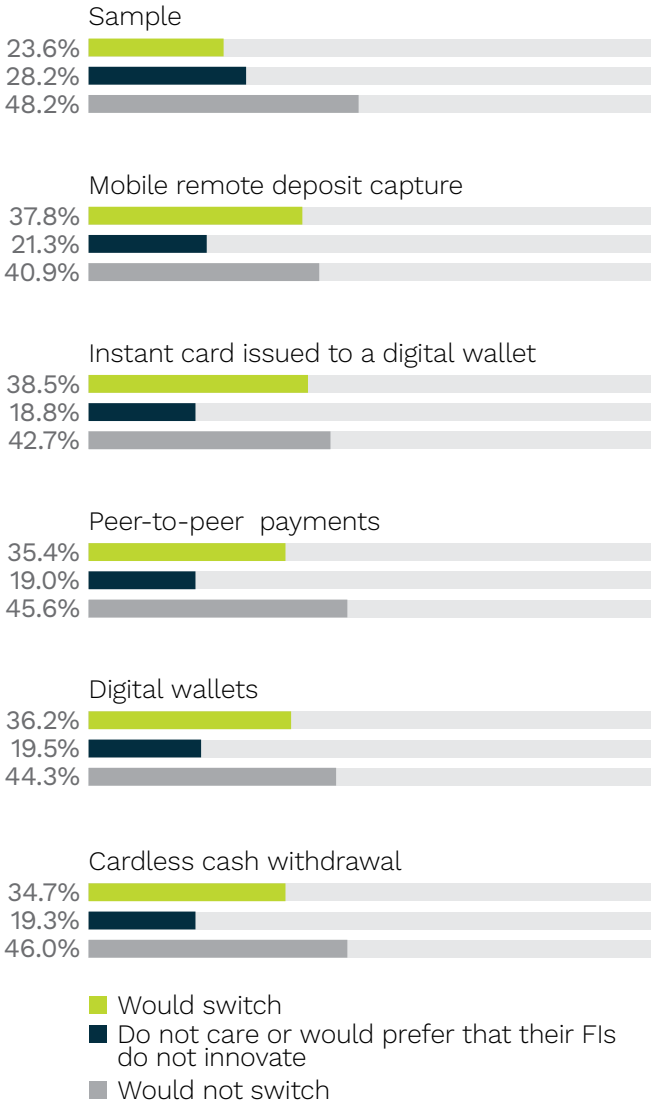
The preferred types of innovations also vary by generation. Baby boomers and seniors cared mostly about account fraud protection, for example, and millennials, bridge millennials and members of Gen Z emphasize loyalty offerings, mobile banking and real-time payments in addition to fraud protection. This reflects an overall tendency to prioritize convenience over security for younger generations.

Other feature preferences also surfaced when consumers decided whether to switch FIs. Twenty-seven percent of those willing to switch considered digital wallets a primary area of interest, and 20% were interested in instant cards attached to digital wallets. Consumers were also interested in a variety of convenience features, such as voice assistants, cardless cash withdrawal and mobile remote deposit capture.

THE DIGITAL FEATURES THAT MAKE A DIFFERENCE

Consumers’ preferences for digital features are as diverse as the consumers themselves, with each having unique needs when picking an FI. These can range from features that have become table stakes for digital banking, such as digital wallets or P2P payments, to more exotic offerings such as cryptocurrency.

Figure 3:
What encourages consumers to switch FIs
Share of consumers who would or would not switch FIs for select innovations



Digital wallet options and P2P payments are two factors likely to influence consumers to switch FIs. Thirty-six percent of consumers cited digital wallets as a key draw that would lead them to switch banks, and 35% of those seeking P2P payments said the same. The feature most likely to pull consumers away from their current banks is instant cards issued to digital wallets, as 39% of these feature-seekers were willing to switch FIs.

36.2%

Portion of consumers who would **switch CUs for access to digital wallets**

DEEP DIVE:



REAL-TIME PAYMENTS MAKE A DIFFERENCE

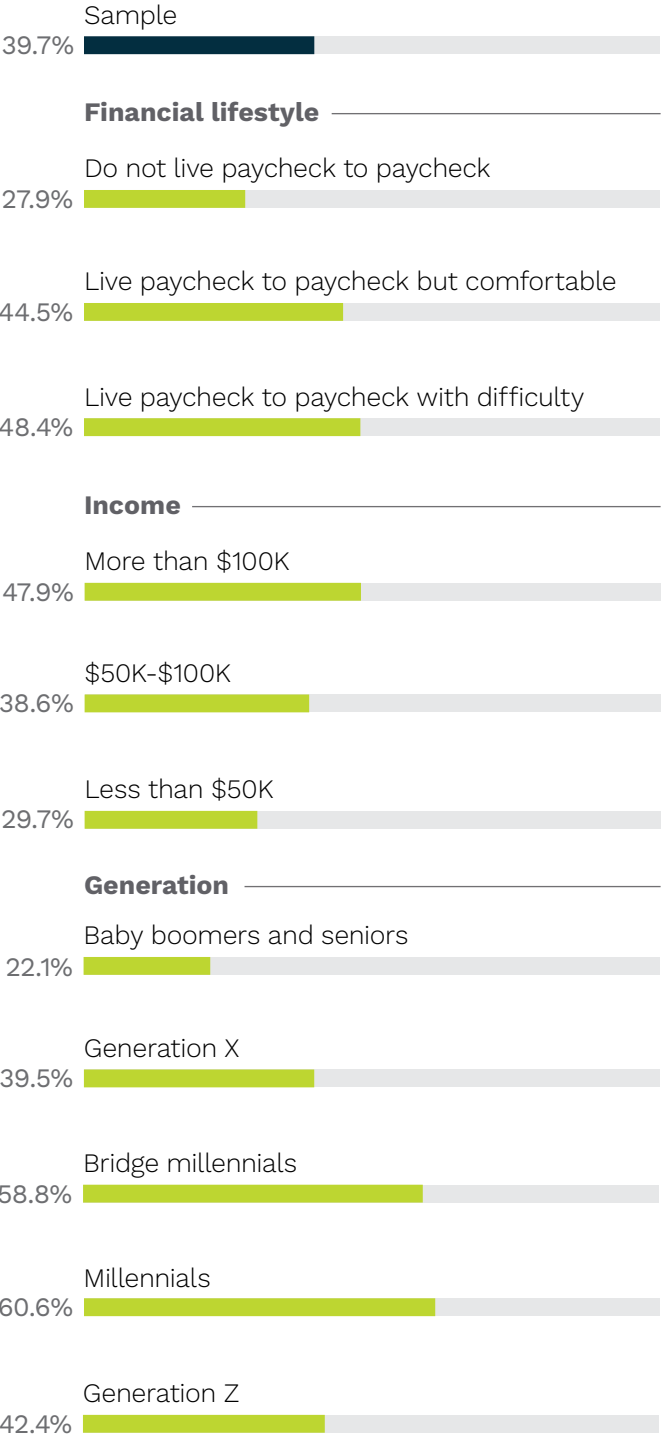
CUs are developing, testing or rolling out a wide variety of digital programs to their memberships, but few punch as far above their weight as real-time payments. Sixty-one percent of millennials say they are “very” or “extremely” interested in leveraging this capability, although their exact reasons for doing so vary. Twenty-three percent of respondents interested in using real-time payments said they were easy and convenient to use, with another 22% appreciating the instant availability of funds.

77.2%

Share of CUs that offer **real-time payments** to all members

Figure 4A:
Factors that draw consumers to real-time payments

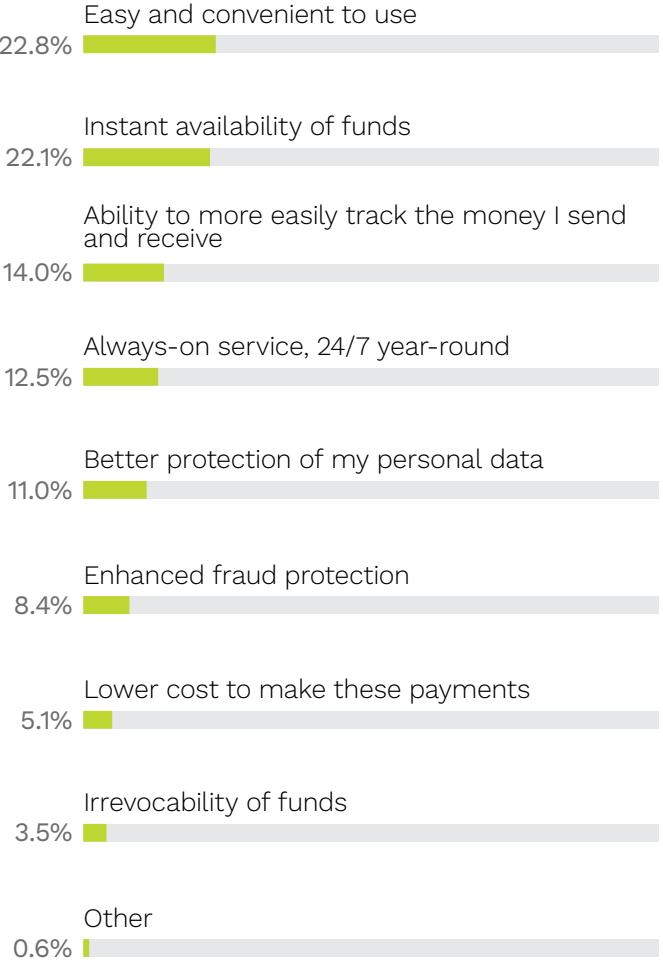
Share of consumers who say they are “very” or “extremely” interested in real-time payments, by demographic



Source: PYMNTS | PSCU Credit Union Innovation

Figure 4B:
Factors that draw consumers to real-time payments

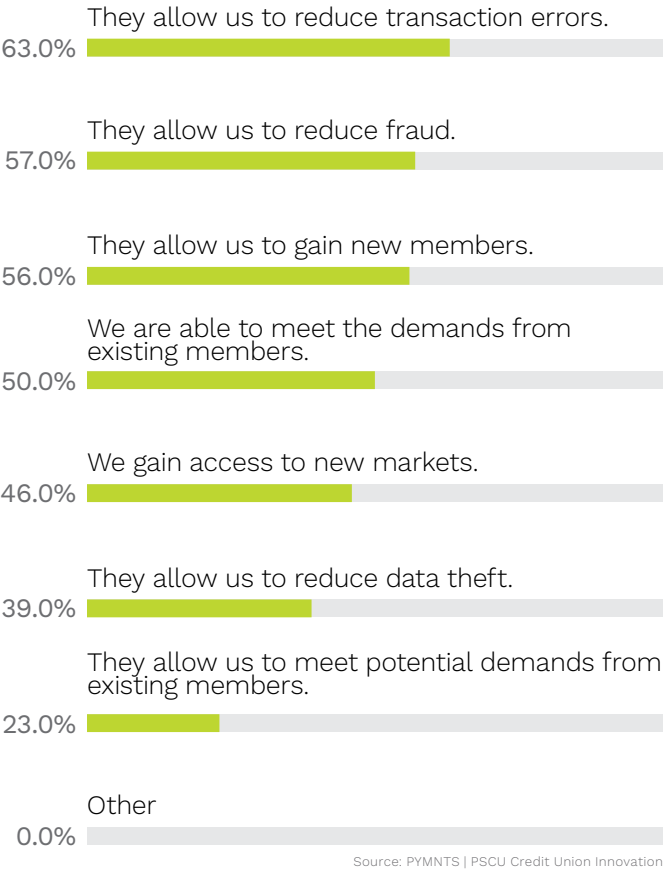
Share of consumers who cite their most important reason for preferring real-time payments



Source: PYMNTS | PSCU Credit Union Innovation

Figure 5A:
The benefits of real-time payments

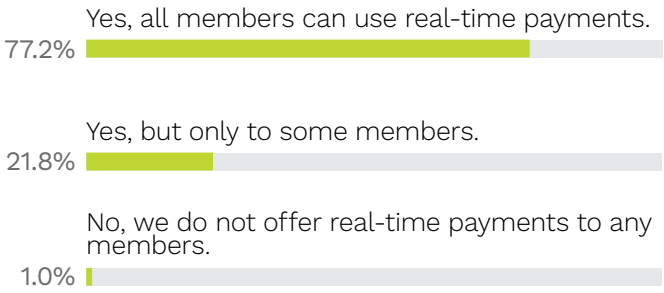
Share of CUs offering real-time payments that cite benefits of doing so



Source: PYMNTS | PSCU Credit Union Innovation

Figure 5B:
The benefits of real-time payments

Share of CUs offering real-time payments



Source: PYMNTS | PSCU Credit Union Innovation

These real-time payment implementations are benefiting members and providing boons for CUs. We found that 63% of CUs said real-time payments allowed their accounting teams to reduce transcription errors, and 57% said real-time payments reduce the potential for bad actors to commit fraud. Access to new members and markets was also a key draw, with 56% saying that they boosted new member acquisition, 50% saying that real-time payments met demands from existing members and 46% boasting access to new markets. These benefits and more drove 99% of all CUs to offer real-time payments to some or all of their members.

63%

Portion of CUs that say real-time payments help them **reduce transaction errors**



CONCLUSION

Consumer preferences have shifted, emphasizing convenience and an FI's variety of services over face-to-face interactions with tellers, managers, loan officers and other staff. FinTechs and traditional banks may have gotten a head start in offering these key services, but there is an advantage to seeing how consumers have reacted to the digital offerings implemented. CUs have a clear understanding of what members actually want as well as the roadblocks that their competitors faced when developing these services. Real-time payments appear to be a top priority, but consumers are hungry for all types of digital innovation, and there is even the opportunity to come up from behind in some cases, like crypto. CUs have plenty of opportunities to innovate, and they must seize these opportunities to thrive.

METHODOLOGY

Credit Union Innovation: Product Innovation As The Key To Membership Growth, 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 their targeted areas for investment.

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