



CREDIT UNION INNOVATION

The Race To Meet Consumer Demand

Credit Union Innovation: The Race To Meet Consumer Demand, a PYMNTS and PSCU collaboration, is based on a survey of 6,483 U.S. financial institution account holders, including 2,073 CU members and 4,410 customers of other FIs from April 1 to April 21. We asked survey respondents how much they valued innovative products and services from their FIs. We also interviewed 101 credit union executives about their responsibilities for a range of functions, including operations, product development and research and development, from April 4 to April 20. We also interviewed 50 FinTech executives who provide products and services to consumers, credit unions, commercial banks and community banks from April 6 to April 20.



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Credit Union Innovation: The Race To Meet Consumer Demand 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

In late May 2022, Mountain America Credit Union of Sandy, Utah, helped sponsor the Cryptopia conference in nearby Draper to help its members learn about cryptocurrency, blockchain technology, decentralized finance (DeFi) and other emerging technologies. The full-service credit union, with more than \$14 billion in assets, co-sponsored the event as part of a larger effort to gather feedback from members about their interest in emerging technologies. Mountain America is also trying to understand how these technologies may change the way financial institutions (FIs) deliver products and services to members and customers.

“Mountain America’s members are increasingly using decentralized finance (DeFi),” Marcus Daley, the CU’s chief technology officer, wrote in an online column for Utah Business.¹ He added that the CU wanted to help its members use both traditional methods of finance and more modern methods, such as the exchange of peer-to-peer (P2P) payments through blockchain technology.

Like many other FIs in this era of emerging technologies, Mountain America is contending with the challenge of continuing to satisfy its members with the traditional services they have used for decades and also delivering the latest offerings that a growing portion of members want.

PYMNTS data has found that half of CU members say they value product innovation, and nearly one-quarter say they would take their business to another FI to find innovative products and services. The CUs that work overtime to understand the types of innovation that best satisfy member demand can reduce the likelihood that members will take their accounts to another FI or a FinTech.

These are some of the findings in the latest edition of Credit Union Innovation: The Race To Meet Consumer Demand, a PYMNTS and PSCU collaboration. We surveyed 6,483 United States FI account holders, including 2,073 CU members and 4,410 customers of other FIs, from April 1

to April 21 about how they valued innovative products and services from their financial services providers. PYMNTS also interviewed 101 credit union executives from April 4 to April 20 about their responsibilities for a range of functions, including operations, product development and research and development. Finally, we interviewed 50 executives from FinTechs that provide products and services to consumers, credit unions, commercial banks and community banks from April 6 to April 20.

This is what we learned.

¹ Daley, M. Mountain America Credit Union thinks Defi could be the next big thing. Utah Business. 2022. <https://www.utahbusiness.com/mountain-america-credit-union-thinks-that-defi-could-be-the-next-big-thing/>. Accessed June 2022.

FI ACCOUNT HOLDERS AND CU MEMBERS INCREASINGLY WANT MORE INNOVATIVE OFFERINGS, AND THREE OUT OF 10 SAY THEY WOULD SWITCH PROVIDERS TO GET THEM.

In PYMNTS' most recent survey of CU members and other FI account holders, a record 29% of FI account holders would switch to an FI with more innovative products and services. The previous high-water mark for account holders willing to switch for more innovation was 26% in 2019 and 2020. But the willingness to switch is less pronounced among CU members than for account holders at other FIs. Just 24% of CU members would consider switching to receive innovative products compared to 31% of the customers of other financial institutions. In addition to the CU members who say they are willing to change institutions, 50% report they want innovative products and services but are not willing to move their accounts to another FI to find them.

CUs ARE HAVING A MORE CHALLENGING TIME BEATING COMPETITORS TO MARKET WITH INNOVATIVE OFFERINGS BECAUSE OF THE FINANCIAL SERVICES SECTOR'S RAPID PACE OF PRODUCT INNOVATION.

Thirty-nine percent of CU executives now say they are shifting product development efforts to adding new features to existing products. This share is a six-percentage-point increase from 2021. The share of CU executives who stress new product development dropped to 18% in 2022 from 21% in 2021. Thirty-seven percent split their efforts between new product development and adding features to existing products.





MEMBERS INCREASINGLY EXPECT THEIR CU TO DELIVER FEATURE-RICH PRODUCTS AND SERVICES, ALTHOUGH THEY REMAIN LESS LIKELY THAN THE AVERAGE FI ACCOUNT HOLDER TO SWITCH TO ANOTHER FI IN SEARCH OF INNOVATIVE PRODUCTS.

The average CU member cites 3.23 areas for innovation that interest them, up from 2.95 in 2021. CU members' interest in innovative products now narrowly exceeds that of account holders at other FIs, who cite an average of 3.22 areas of innovation. Interest in having access to more payment capabilities and mobile banking has increased for CU members and account holders at other FIs. Consumers are also more interested in data security and protection from account fraud.

CUs ARE FOCUSING ON GIVING MEMBERS MORE ADVANCED PAYMENT METHODS, INCLUDING REAL-TIME PAYMENTS AND P2P FUNDS TRANSFERS.

Sixty percent of CUs say they are investing in innovative products like real-time and P2P payments, an increase from the 50% of CUs that made these investments in 2021. When it comes to mobile banking, however, the current year has seen a decrease in the proportion of CUs making investments to 60% from 74% a year ago. More CUs classified as early launchers are investing in mobile banking — 83% in 2022 compared to 74% a year ago. But the share of CUs in the other three product launch profiles dropped between 2021 and 2022.

DIGITAL CHANNELS RULE THE ROOST

The surge in digital activity sparked by the pandemic shows no sign of abating. Twenty percent of all FI account holders use only digital channels to engage with their FIs — a seven-percentage-point increase from 13% in 2021. Eighteen percent of CU members stick to digital channels exclusively, while another 16% use their CUs' services solely through a branch. The remaining 66% switch back and forth between physical and digital access.

As expected, younger consumers are more likely to interact with their FIs solely through digital channels. Twenty-six percent of Generation Z account holders and 25% of millennial account holders report banking through digital channels. Just 13% of baby boomers and seniors are completely digital when they do their banking.

In addition, the increase in the proportion of FI account holders willing to switch to another FI to find more innovative products and services indicates the value consumers place upon innovation. PYMNTS has found that more than 80% of FI account holders who rate themselves as highly

satisfied with their current provider would be ready to switch their accounts to find more innovative products and services.

There is little difference in the level of consumers' preference for digital banking based on income level or where consumers live. Twenty percent of consumers at all income levels are digital-only bank customers and CU members. But consumers making less than \$50,000 annually and living in rural areas show a stronger preference for completing all of their bank activity at a branch.

Table 1:

Consumer interest in innovative financial products

Share of all FI account holders and their interest in innovative financial products, year by year

	2018	2019	2020	2021	2022
Would switch or consider switching FIs because of innovation	19.2%	26.1%	25.6%	23.6%	28.6%
Values innovation, but would not switch FIs because of it	56.0%	53.2%	52.3%	48.2%	47.3%
Do not care or prefer FI would not innovate	24.8%	20.7%	22.1%	28.2%	24.1%

Source: PYMNTS | PSCU Credit Union Innovation

66%
of CU members want
mobile payments,
an increase from
60% in 2021.

Figure 1:
Consumer interest in innovative financial products
Share of CU members and nonmembers and their interest in innovative financial products

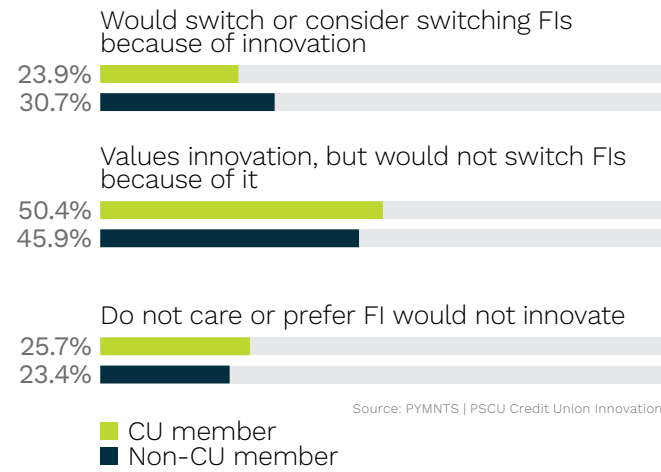
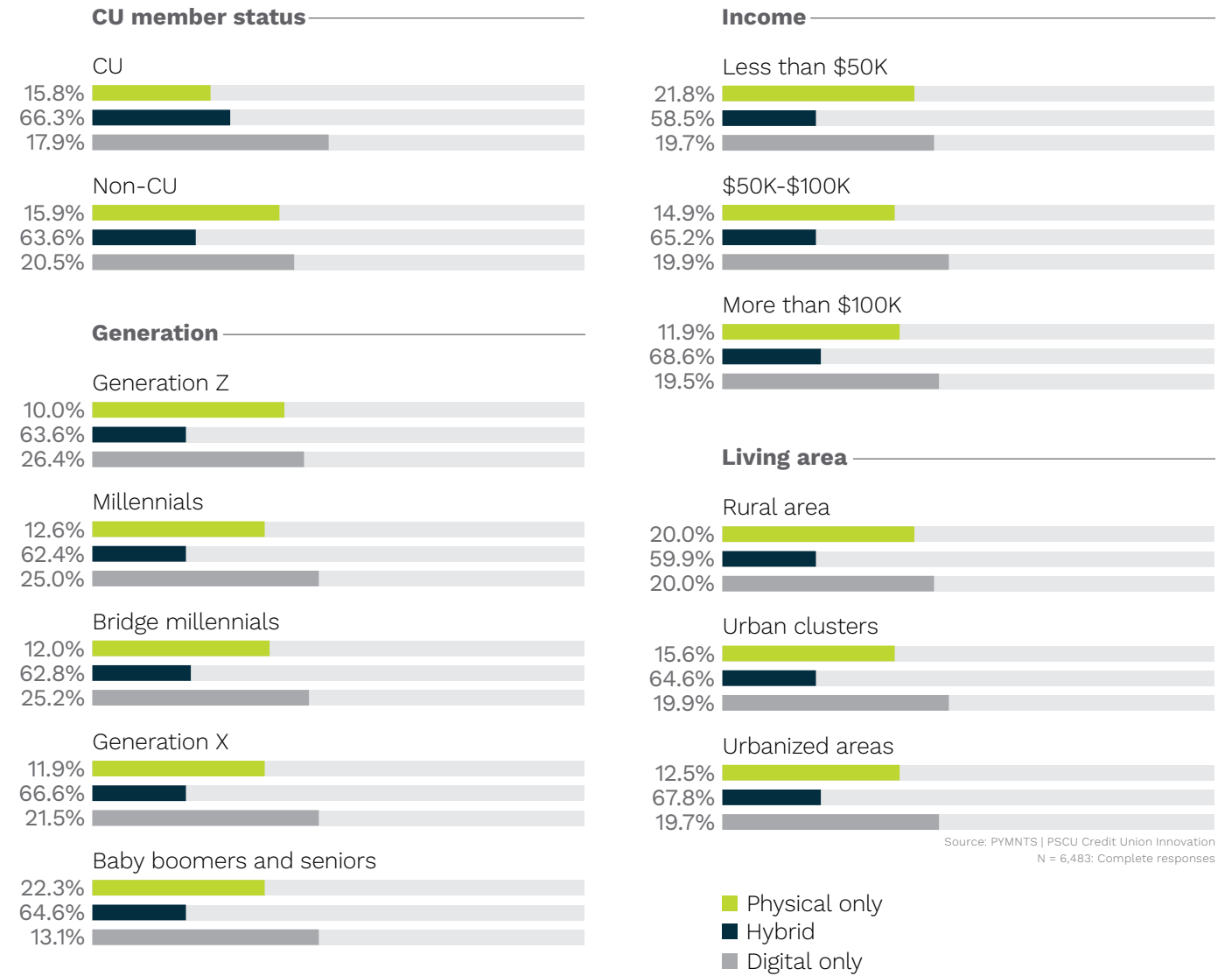


Figure 2:
Consumers' digital and physical banking preferences
Share of account holders and how they bank, by demographic characteristics





RANKS OF EARLY LAUNCHERS START TO SLIP

The share of CUs classified as early launchers of new products fell in 2022 to 17% from 19% in 2021. This decline was the first time there was a drop in the proportion of CUs classified as early launchers since PYMNTS launched the Credit Union Innovation series in 2018. PYMNTS defines early launchers as CUs that say part of their business strategy is to launch innovative products and services before their competitors.

Early launchers are more likely than other CUs to innovate mobile banking, real-time payments and personal loan offerings. The other classes of CUs consist of quick followers, followers and laggards.

More CUs are innovating by adding features to existing products instead of launching new products — this share rose six percentage points to 39% from 33% in 2021.

The proportion of CUs that split their innovation efforts equally between enhancements to existing products and the launch of new ones fell for the second consecutive year to 37%. Just 18% of CUs are focusing solely on innovating new products and services.

Table 2A:

The current state of CU product innovation

Share of CUs with select product launch strategies

	2018	2019	2020	2021	2022
Early launchers	3.9%	8.0%	11.9%	18.8%	16.8%
Quick followers	28.4%	30.0%	45.5%	35.6%	34.7%
Followers	40.2%	33.0%	12.9%	16.8%	21.8%
Laggards	27.5%	29.0%	29.7%	28.7%	26.7%

Source: PYMNTS | PSCU Credit Union Innovation
N = 101: Complete responses

Table 2B:
The current state of CU product innovation
 Share of CU executives focused on specific development strategies

	2018	2019	2020	2021	2022
Existing products' new features	33.3%	30.0%	32.7%	32.7%	38.6%
Equally focused on new features for existing products and the release of new products	28.4%	27.0%	49.5%	43.6%	36.6%
Development of entirely new products	38.2%	42.0%	13.9%	20.8%	17.8%
Do not have an innovation focus right now	0.0%	1.0%	4.0%	3.0%	6.9%

Source: PYMNTS | PSCU Credit Union Innovation
 N = 101; Complete responses

Thirty-nine percent of CUs say it has become increasingly difficult to introduce new products and services, up from 26% in 2021. The difficulty of introducing new products and services is the second-most frequently cited technology challenge cited by CU executives. Forty-two percent of CU executives say they face challenges integrating their different systems when trying to develop innovative products and services, making this the most frequently cited technology problem by CU executives.

Fifty-six percent of the FinTechs that provide digital products to CUs say CUs are taking too long in deciding to adopt new technology, a big jump from the 38% of FinTechs that reported this problem in 2021. This suggests that CU executives may not recognize the extent to which their internal decision-making inefficiency may be hindering their readiness to roll out innovations.

53%

OF CU MEMBERS EXPRESS INTEREST IN **RECEIVING MOBILE BANKING SERVICES,** COMPARED TO 47% IN 2021.



Figure 3A:

Challenges in innovation

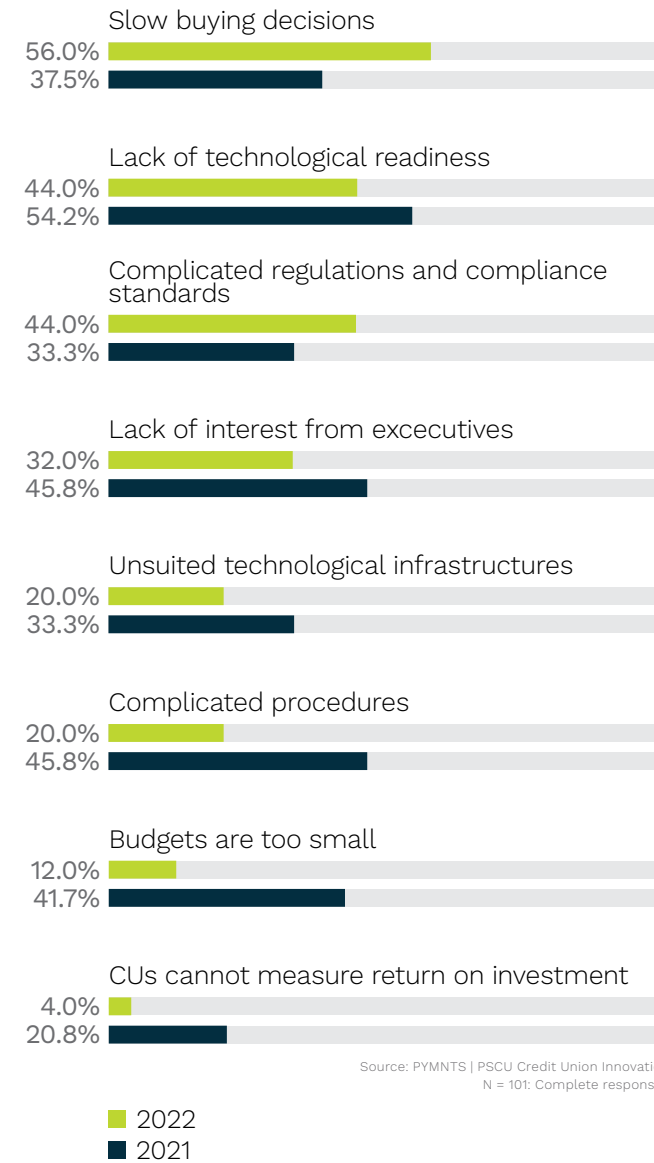
Share of CU executives citing select challenges when bringing products to market



Figure 3B:

Challenges in innovation

Share of FinTechs citing select impediments when selling to CUs



THE INNOVATIVE PRODUCTS MEMBERS WANT

A growing proportion of CU members now say they want mobile banking and mobile payments products from their trusted CU. Sixty-six percent want mobile payments, an increase from 60% in 2021, and 53% now express interest in mobile banking, compared to 47% in 2021. A similar trend exists among account holders at other FIs.

More than 60% of CU members and account holders at other FIs have expressed interest in more payment capabilities, including real-time payments, cardless cash withdrawal and contactless payments, in each of the past three years, outpacing the other product categories surveyed. No other category has polled above 53% since 2020. Seventy percent

of consumers who bank solely through digital channels — a group that accounts for 20% of all FI account holders and CU members in 2022 — are interested in receiving more payment capabilities. Demand is brisk even with account holders who do all their banking at a physical branch: 58% have expressed an interest in more payment capabilities.

FIGURE 5A:

Consumers growing interest in innovative products

Average areas of interest when considering innovations, by CU membership status and year

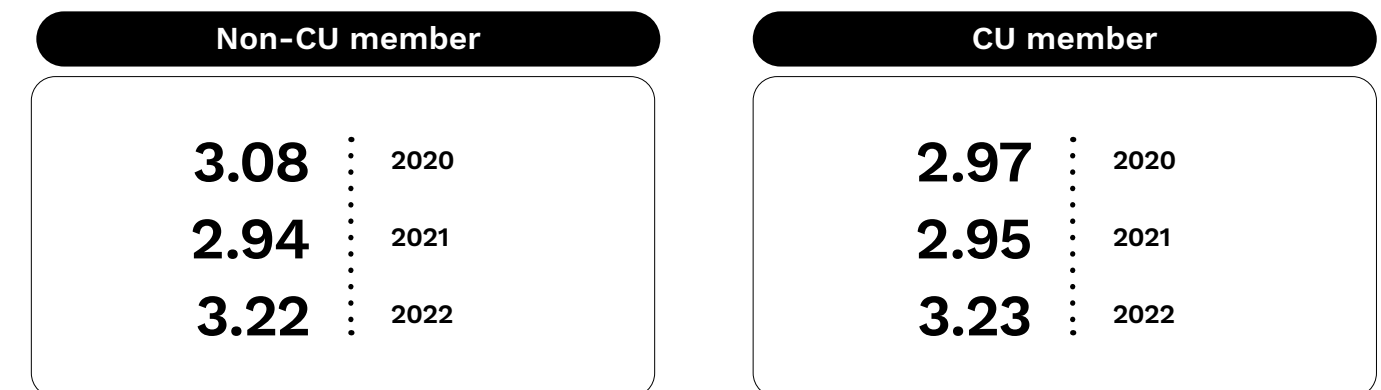
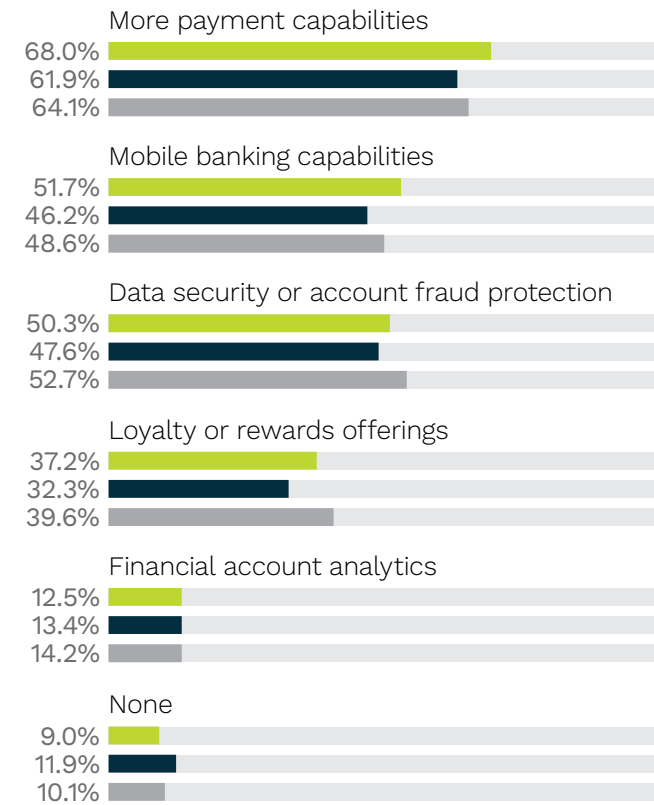




Figure 5B:

Consumers growing interest in innovative products

Areas of interest for non-CU members when considering primary FIs' potential innovations



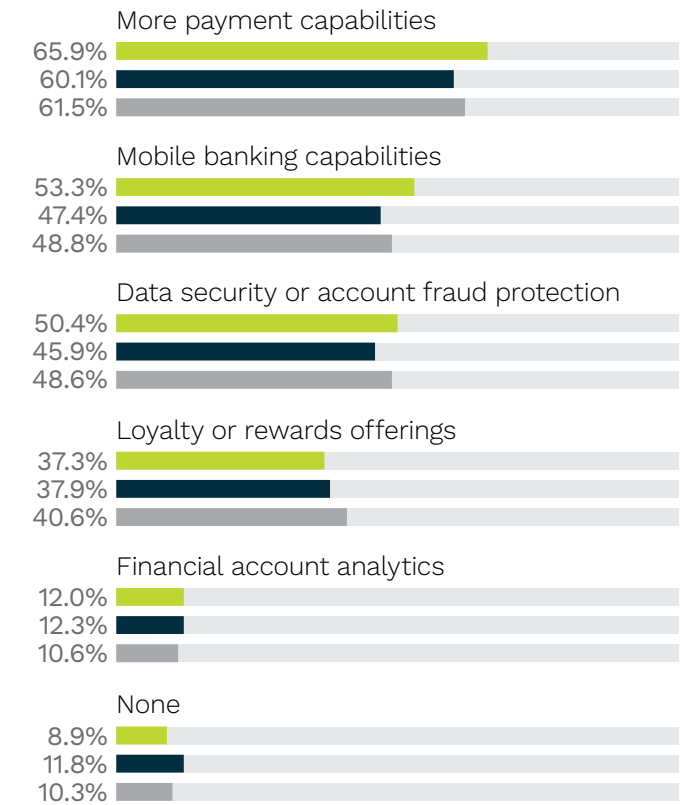
Source: PYMNTS | PSCU Credit Union Innovation
N = 6,483; Complete responses

■ 2022 non-CU members
■ 2021 non-CU members
■ 2020 non-CU members

Figure 5C:

Consumers growing interest in innovative products

Areas of interest for CU members when considering primary FIs' potential innovations



Source: PYMNTS | PSCU Credit Union Innovation
N = 6,483; Complete responses

■ 2022 CU members
■ 2021 CU members
■ 2020 CU members

58%

of financial institution account holders who do all their banking at a **physical branch** have expressed an interest in having **more payment capabilities.**

REAL-TIME PAYMENTS

ON THE RISE

More CUs are making investments in real-time payments, and this trend is evident in the shifts among the four product-launch profiles tracked by PYMNTS. Nearly twice as many CUs classified as early launchers are investing in real-time payments in 2022, at 83%, compared to 42% in 2021. In addition, 68% of CUs classified as quick followers are investing in real-time payments this year, up from 47% a year ago.

The increase in investments in real-time payments by CUs accompanies consumers' growing interest in these payments. The share of consumers who say they are "very" or "extremely" interested in making and receiving real-time payments rose to 47% from 40% in 2021. Consumers continue to say that convenience and transaction speeds are the most prominent reasons they want to use real-time payments.

Mobile banking is still a significant priority for many CUs, but overall investment in this area is down from 2021. Sixty percent of CUs say they are investing in mobile banking products this year compared

to 74% in 2021. While the share of early launchers making investments rose to 83% in 2022 from 74% in 2021, the proportion of CUs targeting mobile banking for investments decreased in 2022 in each of the three other product strategy profiles. For example, 64% of quick followers are investing in mobile banking in 2022 compared to 81% in 2021, and just 30% of followers are investing in mobile banking this year compared to 65% a year ago.

47%

of consumers say they are "very" or "extremely" interested in **making and receiving real-time payments**, compared to 40% in 2021.

Figure 6A:

The upward trend in payment method innovation

Share of CU executives citing select products or features receiving innovation investment

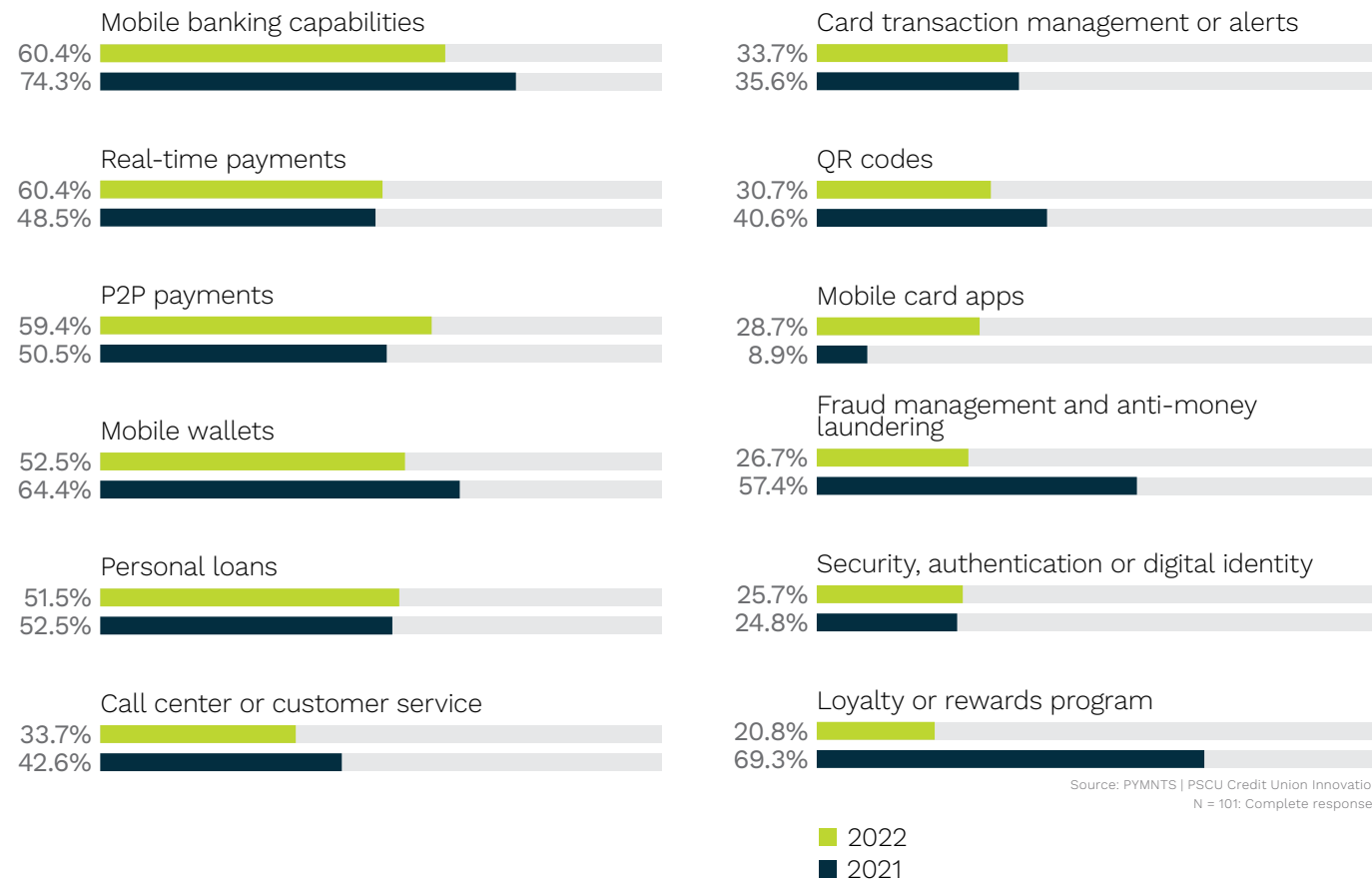


Figure 6B:

The upward trend in payment method innovation

Share of CU executives citing select products or features receiving innovation investment, by launch strategy

	Early launchers	Quick followers	Followers	Laggers
2021				
Mobile banking capabilities	73.7%	80.6%	64.7%	72.4%
Real-time payments	42.1%	47.2%	64.7%	44.8%
P2P payments	68.4%	30.6%	76.5%	48.3%
Mobile wallets	73.7%	52.8%	64.7%	72.4%
Personal loans	63.2%	44.4%	58.8%	51.7%
Call center or customer service	31.6%	50.0%	35.3%	44.8%
Card transaction management or alerts	42.1%	36.1%	41.2%	27.6%
QR codes	36.8%	47.2%	35.3%	37.9%
Mobile card apps	10.5%	8.3%	17.6%	3.4%
Fraud management and anti-money laundering	57.9%	63.9%	35.3%	62.1%
Security, authentication or digital identity	36.8%	16.7%	29.4%	24.1%
Loyalty or rewards program	78.9%	69.4%	52.9%	72.4%
2022				
Mobile banking capabilities	83.3%	63.6%	30.0%	69.2%
Real-time payments	83.3%	68.2%	50.0%	46.2%
P2P payments	66.7%	45.5%	80.0%	76.9%
Mobile wallets	50.0%	63.6%	50.0%	69.2%
Personal loans	66.7%	50.0%	50.0%	46.2%
Call center or customer service	16.7%	31.8%	30.0%	46.2%
Card transaction management or alerts	33.3%	31.8%	10.0%	53.8%
QR codes	0.0%	45.5%	30.0%	69.2%
Mobile card apps	33.3%	45.5%	10.0%	15.4%
Fraud management and anti-money laundering	33.3%	22.7%	10.0%	7.7%
Security, authentication or digital identity	16.7%	27.3%	10.0%	46.2%
Loyalty or rewards program	33.3%	27.3%	10.0%	38.5%

Source: PYMNTS | PSCU Credit Union Innovation
N = 101: Complete responses





CONCLUSION

As the digital shift continues and gains momentum, more consumers will inevitably demand that their trusted financial services provider delivers more digital products and services. Much of this interest stems from consumers' desire for greater convenience and time saved. The 20% of FI account holders who use only digital banking channels are proof of this. As CUs increase their investments in innovative products and enhance existing offerings, they will appeal to the members who want access to digital payments, lower their exposure to the risk of member churn and best position themselves to maintain relationships with account holders.

METHODOLOGY

Credit Union Innovation: The Race To Meet Consumer Demand, a PYMNTS and PSCU collaboration, is based on a survey of 6,483 U.S. FI account holders, including 2,073 CU members and 4,410 customers of other FIs from April 1 to April 21. We asked survey respondents how much they valued innovative products and services from their FIs. We also interviewed 101 credit union executives about their responsibilities for a range of functions, including operations, product development and research and development, from April 4 to April 20. We also interviewed 50 FinTech executives who provide products and services to consumers, credit unions, commercial banks and community banks from April 6 to April 20.

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