



CREDIT UNION INNOVATION

Cryptocurrency As A Key To Member Loyalty

Credit Union Innovation: Cryptocurrency As A Key To Member Loyalty, a PYMNTS and PSCU collaboration, is based on a survey of 6,483 consumers, 101 credit union executives and 51 FinTech executives. We examine CU members' and other consumers' interest in innovative digital financial products and services, including cryptocurrency payment products and CUs' efforts to satisfy this growing demand. The CU executives we surveyed 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.

43,29	10,98%
4,1344	-0,63%
3,5378	+2,94%
1,1477	+1,25%
0,04607	+0,26%
1,2898	-1,54%
51,28	-0,73%
80,77	+1,23%
0,2587	-0,35%
47,67	-0,27%
0,3472	+0,57%



CREDIT UNION INNOVATION

Credit Union Innovation: Cryptocurrency As A Key To Member Loyalty was done in collaboration with PSCU, and PYMNTS is grateful for the company's support and insight. PYMNTS retains full editorial control over the following findings, methodology and data analysis.

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INTRODUCTION

Credit union (CU) executives have approached expanding their cryptocurrency product offerings with measured caution. Regulators are assessing how digital assets might affect consumers and the risks digital assets might pose to consumers and CUs.¹ Currently, CUs are prohibited from holding digital assets on their balance sheets. They are permitted, however, to offer services to their members via third-party providers with digital asset management services.

PYMNTS' data shows that many CU executives are still reluctant to enable cryptocurrency services. Nearly 80% of the executives we surveyed cited little to no interest in innovating on crypto, and 56% say cryptocurrency's volatil-

ity is enough to discourage them from doing so. The lack of understanding of cryptocurrency among consumers and CU officials may explain why 51% of CU executives do not want to make crypto products and services available to their members.

But our research underscores inherent risks for CUs that ignore innovation around crypto service offerings. With roughly one-quarter of CU members and a larger share of nonmembers having owned cryptocurrency, demand for crypto products and platforms is very unlikely to disappear. Cryptocurrency has been around for more than a decade, and for most of that time, consumers have primarily regarded it

as an investment opportunity, not a means of exchange. That may be starting to change. Most consumers want to be able to go to their financial institutions for crypto services. In fact, 60% of cryptocurrency holders say they want to be able to view their external crypto holdings through their accounts.

CUs need to assess the benefits available to them by rolling out crypto products and the risks they face if they are disintermediated by exchanges, FinTechs and other financial institutions (FIs) that package cryptocurrency products and services that appeal to consumers' needs.

These are just a few of the key findings in Credit Union Innovation: Cryptocur-

rency As A Key To Member Loyalty, a PYMNTS and PSCU collaboration. Our report is based on a survey of 6,483 consumers, 101 credit union executives and 51 executives from FinTechs. We examined interest in innovative digital financial offerings, including cryptocurrency payment products among CU members and consumers, as well as CUs' efforts to satisfy this growing demand. We interviewed CU executives with responsibilities in areas such as financial planning and analysis, fraud detection and analysis, product development, operations and payments to learn more about areas they have targeted for investment.

This is what we learned.

¹ Harper, T. Relationships with Third Parties that Provide Services Related to Digital Assets. National Credit Union Administration. 2021. <https://www.ncua.gov/regulation-supervision/letters-credit-unions-other-guidance/relationships-third-parties-provide-services-related-digital-assets>. Accessed August 2022.

INTEREST FROM THE SIZABLE PORTION OF CRYPTO-SAVVY CU MEMBERS AND CONSUMERS PRESENTS FINTECHS AND OTHER CU COMPETITORS AN OPPORTUNITY TO EXPAND THEIR REACH WITH CRYPTOCURRENCY OFFERINGS.

CUs and other FIs can appeal to a sizable portion of consumers by expanding their cryptocurrency product offerings. Nearly 60% of cryptocurrency users would be very or extremely interested in viewing external holdings through their FIs, and interest is particularly high among younger consumers. One-quarter of CU members held cryptocurrency in the past 12 months, including 52% of millennial CU members and 47% of Generation Z members. That share, however, drops significantly for older age groups: 22% of Generation X CU members and just 7.7% of baby boomer and senior members held crypto at some point in the past 12 months. As such, cryptocurrency offerings are likely to appeal to younger, tech-savvy CU members and prospects.

TWENTY-TWO PERCENT OF CU EXECUTIVES SAY THEY ARE INTERESTED IN PROVIDING CRYPTOCURRENCY SERVICES TO MEMBERS.

Twenty-two percent of surveyed FinTechs already offer cryptocurrency services, a proportion equal to the share of CUs interested in offering crypto services. Demand for cryptocurrency products is unlikely to fade, especially if the investment market for cryptocurrency-based instruments continues to stabilize. PYMNTS' data shows that 45% of bank customers who purchased cryptocurrency in 2022 bought it as a potentially income-generating investment, compared to 40% who did so in 2021.





A GROWING PROPORTION OF CONSUMERS AND CU MEMBERS SAY THEY VALUE PRODUCT INNOVATION SO MUCH THAT THEY WOULD SWITCH THEIR PRIMARY FI IN PURSUIT OF IT.

Twenty-nine percent of consumers in 2022 say they value product innovation so much that they would leave their primary FI for another CU or bank if they were not receiving enough innovative products. This share is a 5 percentage point increase from the 24% who said the same in 2021. Another 47% of FI accountholders in 2022 say product innovation is important to them, although they would not be likely to switch where they keep their accounts to pursue it.

FOR CU EXECUTIVES, LACK OF KNOWLEDGE ABOUT CRYPTOCURRENCY IS NEARLY AS STRONG A DETERRENT TO INNOVATION AS CRYPTOCURRENCY'S RECENT MARKET VOLATILITY, WHICH 56% OF EXECUTIVES CITED AS A REASON NOT TO ENABLE CRYPTO TRANSACTIONS VIA THEIR CU'S DIGITAL PROPERTIES.

Fifty-one percent of CU executives say their reluctance to offer cryptocurrency products comes from their own lack of knowledge about crypto and the lack of understanding of crypto among consumers. The reasons CU executives cite for not wanting to invest in crypto point to the obstacles that CUs must overcome if they want most of their members to use accounts that let them trade crypto or use it as a payment method. Forty-eight percent of CU executives are concerned about crypto's tax implications, while 42% say there are not enough merchants willing to accept crypto as a means of payment.



SEARCHING FOR THE RIGHT CRYPTO OPPORTUNITY

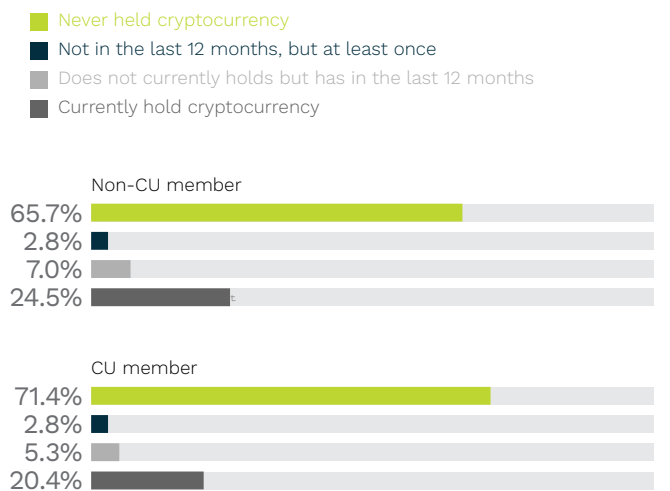
Many CU members are interested in cryptocurrency: 26% hold or have held cryptocurrency. However, the share of CU members that have held crypto lags behind that of customers of other FIs, as 31% of nonmembers have held crypto. This gap underscores the opportunity for CUs to strengthen member loyalty by rolling out cryptocurrency products and services.

Other segments of the financial services industry are also racing ahead to offer digital currencies. Customers of digital or online-only banks are much more likely than customers of more traditional banks and CU members to have access to crypto trading through their accounts. While 36% of customers of digital-only banks can trade crypto, as can 18% of customers of all banks, just 16% of CU members can buy and sell cryptocurrency through an account with a financial institution.

Most FI account holders tend to bypass their CUs or banks when they want to buy or sell cryptocurrency. Just 18% of bank customers used a banking app or bank website to buy or sell digital currency in the 12 months through April 2022.

FIGURE 1A:
Cryptocurrency ownership and banking needs

Share of CU members and nonmembers who have owned, currently own or have never owned cryptocurrency



Source: PYMNTS
Credit Union Innovation: Cryptocurrency As A Key
To Member Loyalty, September 2022
N = 6,483: Complete consumer responses, fielded
April 1, 2022 – April 21, 2022

FIGURE 1B:
Cryptocurrency ownership and banking needs

Share of CU members and nonmembers who currently hold or have held cryptocurrency, by generation

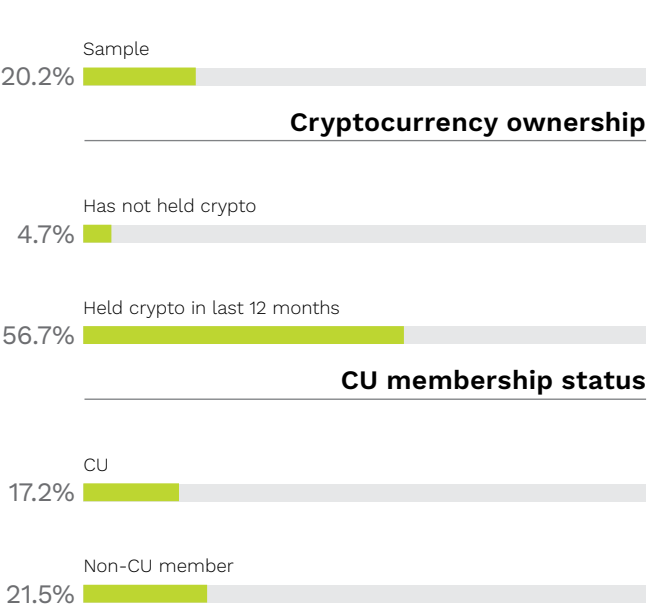
	CU MEMBERS			CU NONMEMBERS		
	Currently holds	Held in past 12 months	Holds or has ever held	Currently holds	Held in past 12 months	Holds or has ever held
Generation Z	22.2%	21.5%	43.7%	34.6%	15.0%	49.6%
Millennials	43.1%	9.2%	52.3%	43.3%	11.2%	54.5%
Bridge millennials	40.5%	6.9%	47.4%	39.8%	9.6%	49.4%
Generation X	19.0%	2.6%	21.6%	24.4%	6.7%	31.2%
Baby boomers and seniors	5.8%	1.9%	7.7%	7.6%	1.9%	9.5%
Sample	20.4%	5.3%	25.7%	24.5%	7.0%	31.5%

Source: PYMNTS
Credit Union Innovation: Cryptocurrency As A Key To Member Loyalty, September 2022
N = 6,483: Complete consumer responses, fielded April 1, 2022 – April 21, 2022



FIGURE 1C:
Cryptocurrency ownership and banking needs

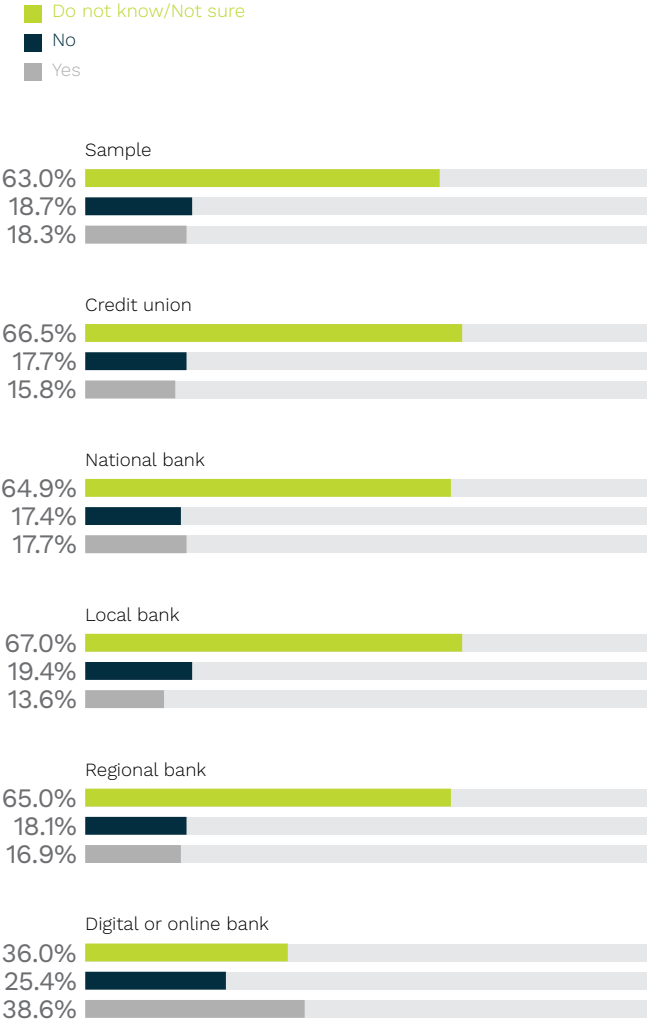
Share of consumers who are interested in seeing their external crypto holdings through their bank apps or websites



Source: PYMNTS
Credit Union Innovation: Cryptocurrency As A Key To Member Loyalty, September 2022
N = 6,483: Complete consumer responses, fielded April 1, 2022 – April 21, 2022

FIGURE 1D:
Cryptocurrency ownership and banking needs

Share of users with access to a bank platform that allows them to receive, sell and store cryptocurrency, by type of primary FI



Source: PYMNTS
Credit Union Innovation: Cryptocurrency As A Key To Member Loyalty, September 2022
N = 6,483: Complete consumer responses, fielded April 1, 2022 – April 21, 2022



PROFITING FROM CRYPTO'S YOUTH MOVEMENT

Credit members' motivations for using cryptocurrencies vary by demographics, and understanding these differences offers important insight into cryptocurrency product rollout maps and strategies.

Millennial CU members are more likely than other age groups to cite motivations other than investing for purchasing cryptocurrencies, with 29% citing privacy in financial transactions and 25% citing peer-to-peer (P2P) payment capabilities. Baby boomers and seniors are primarily interested in crypto for investment purposes.

Among consumers annually earning more than \$100,000, 29% say they are highly interested in having banking platforms that let them view holdings in external exchanges, and just 10% of the consumers earning less than \$50,000 say they want this feature from their bank.

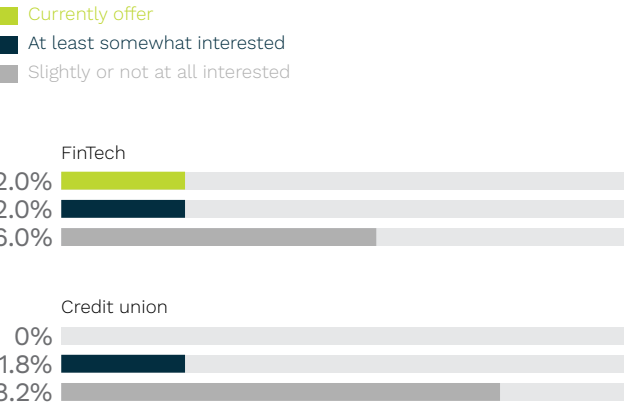
Millennials are the age group most interested in the ability to view their crypto

holdings through their banking platform, with 42% expressing interest in this feature. By comparison, just 3.1% of baby boomers and seniors say the same. CU members are slightly less likely to be interested than those who are not members, at 17% and 22%, respectively. Generational differences in customer bases can help to explain this gap.

Sixty percent of CU executives interested in providing cryptocurrency services were motivated by wanting to allow members to invest and potentially make a profit. Efficiency in financial transactions was the second-most popular reason, at 45%, followed by interest in expanding payment options for online purchases at 35%.

FIGURE 2A:
Crypto innovation

Share of CU and FinTech executives interested in innovating with crypto



Source: PYMNTS
Credit Union Innovation: Cryptocurrency As A
Key To Member Loyalty, September 2022
N = 101: Complete credit union executive responses; N = 51:
Complete FinTech executive responses, fielded April 1, 2022 - April
21, 2022

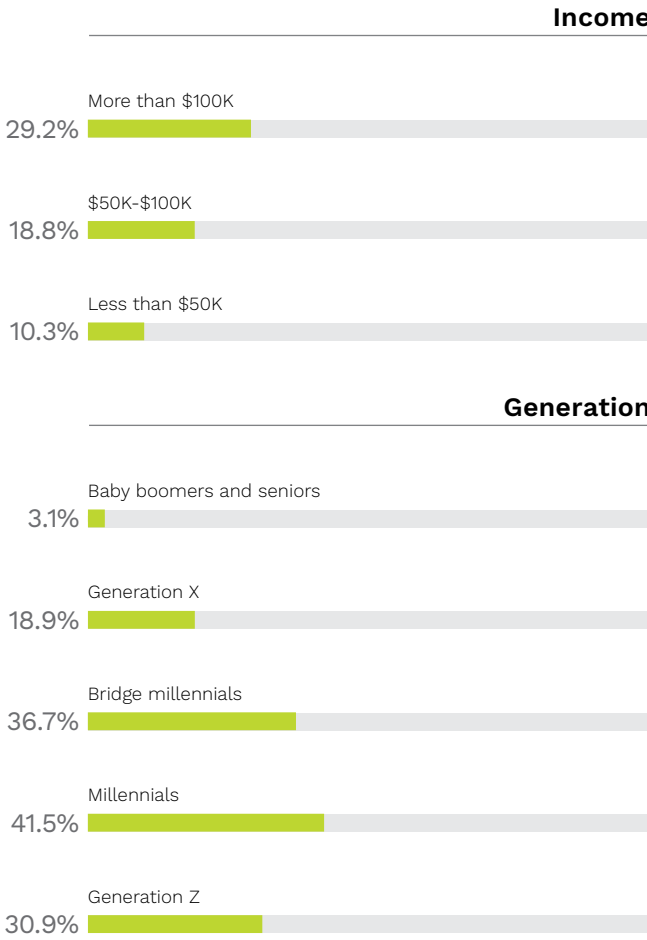
67%

OF CU
MEMBERS SAY
THEY WANT MORE
PAYMENT OPTIONS.



FIGURE 2B:
Crypto innovation

Share of CU members interested in making crypto transactions in the next year, by income level and generation



Source: PYMNTS
Credit Union Innovation: Cryptocurrency As A
Key To Member Loyalty, September 2022
N = 6,4863 Complete consumer responses;
fielded April 1, 2022 - April 21, 2022

THE LURE OF NEW PRODUCTS

More than three-fourths of FI account holders say they want innovative products from their financial services provider, and nearly three in 10 want product innovation so much that they would switch their primary FI to find more innovative products and services. The interest in innovative products and services is so great that 18% of FI account holders who only use a physical branch and do not use digital banking services say they would switch their primary FI in pursuit of innovative products and services.

FI account holders who are not CU members are somewhat more likely to switch where they keep their accounts than CU members. While 24% of CU members say they would switch where they keep their accounts for innovative products and services, 31% of nonmembers would be willing to switch.

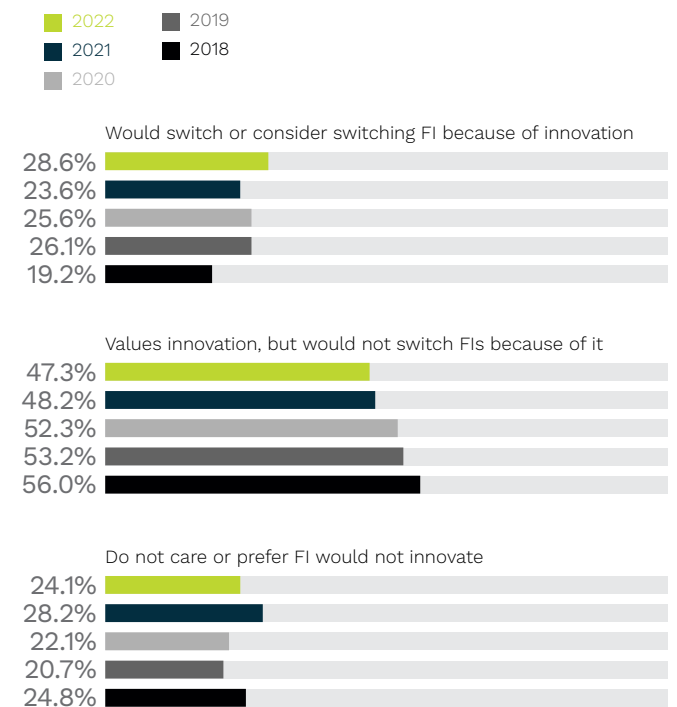
An additional 50% of CU members say they value product innovation, just not enough to switch where they keep their accounts, and 46% of consumers who are not CU members also say the same.

Sixty-seven percent of CU members say they want more payment options, while 52% want more mobile banking options, making these two innovations the most sought-after features among CU members. The interest in each of these innovations rose 5 percentage points from 2021 to 2022.

FIGURE 3A:

The consumers who want innovation

Share of CU members citing specific levels of readiness to switch where they bank



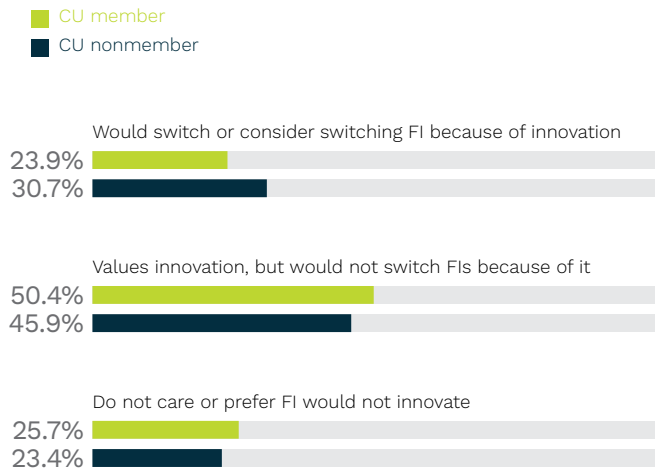
Source: PYMNTS

Credit Union Innovation: Cryptocurrency As A Key To Member Loyalty, September 2022
N = 6,483: Complete consumer responses, fielded April 1, 2022 - April 21, 2022



FIGURE 3B:
The consumers who want innovation

Share of CU members and nonmembers citing specific levels of readiness to switch where they bank



Source: PYMNTS
Credit Union Innovation: Cryptocurrency As A Key To Member Loyalty, September 2022
N = 6,483: Complete consumer responses, fielded April 1, 2022 - April 21, 2022

39%

of CU executives say they are shifting their product development efforts to add new features to existing products.



LIMITED CRYPTO INNOVATION TO DATE CREATES A WINDOW OF OPPORTUNITY

The hesitation many CUs and FIs have around cryptocurrency creates an opportunity that forward-thinking CUs can take advantage of — if they move decisively with innovative cryptocurrency products before their rivals.

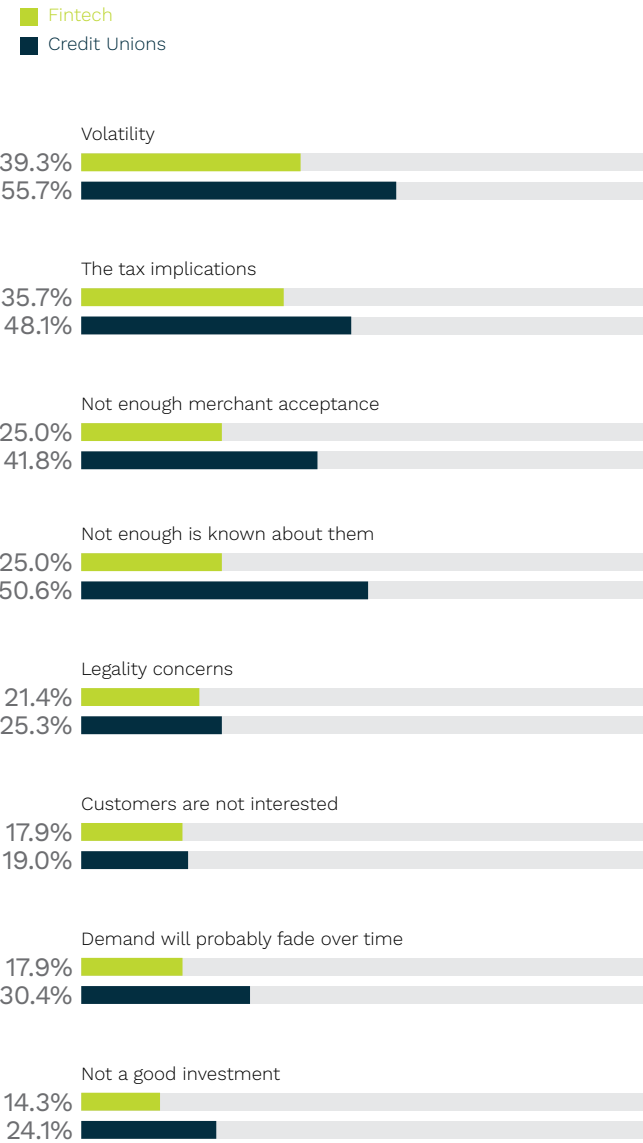
Thirty-nine percent of CU executives say they are shifting their product development efforts to add new features to existing products, a 6 percentage point increase from 2021. The share of CU executives who stress new product development dropped from 21% in 2021 to 18% in 2022.

The shift in strategy may enable CUs to roll out innovative products and services more quickly to meet member demand for cryptocurrency-enabled products and services.

The average CU member cites 3.2 areas that interest them for innovative products, up from 3 in 2021, almost matching the areas cited by account holders at other types of FIs.

FIGURE 4A:
Product innovation

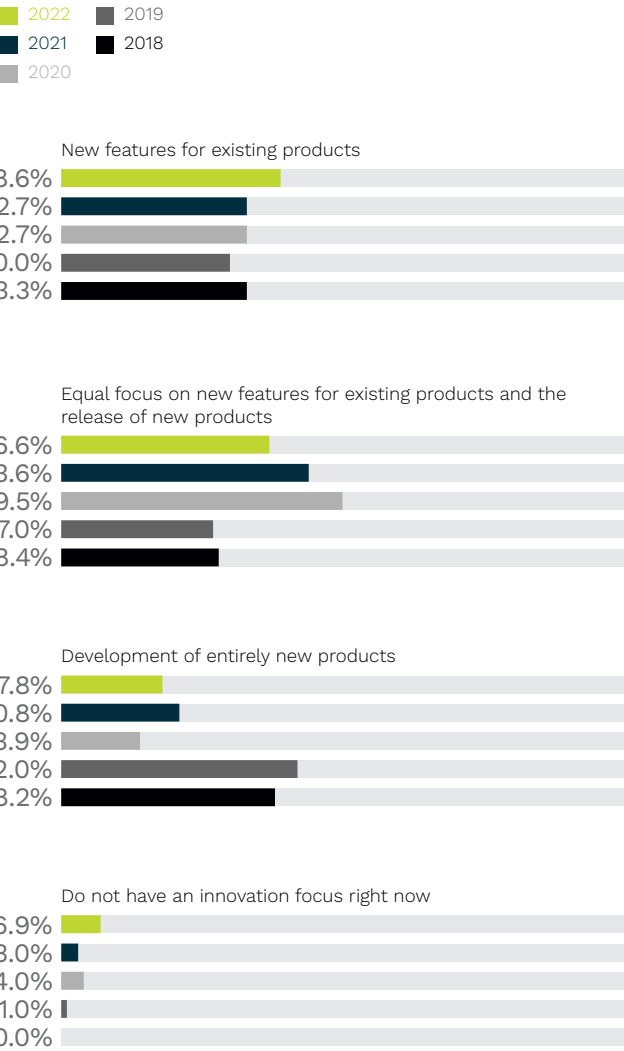
Share of CU and FinTech executives citing select deterrents to innovation around cryptocurrency



Source: PYMNTS
Credit Union Innovation: Cryptocurrency As A Key To Member Loyalty, September 2022
N = 101: Complete credit union executive responses; N = 51: Complete FinTech executive responses, fielded April 1, 2022 - April 21, 2022

FIGURE 4B:
Product innovation

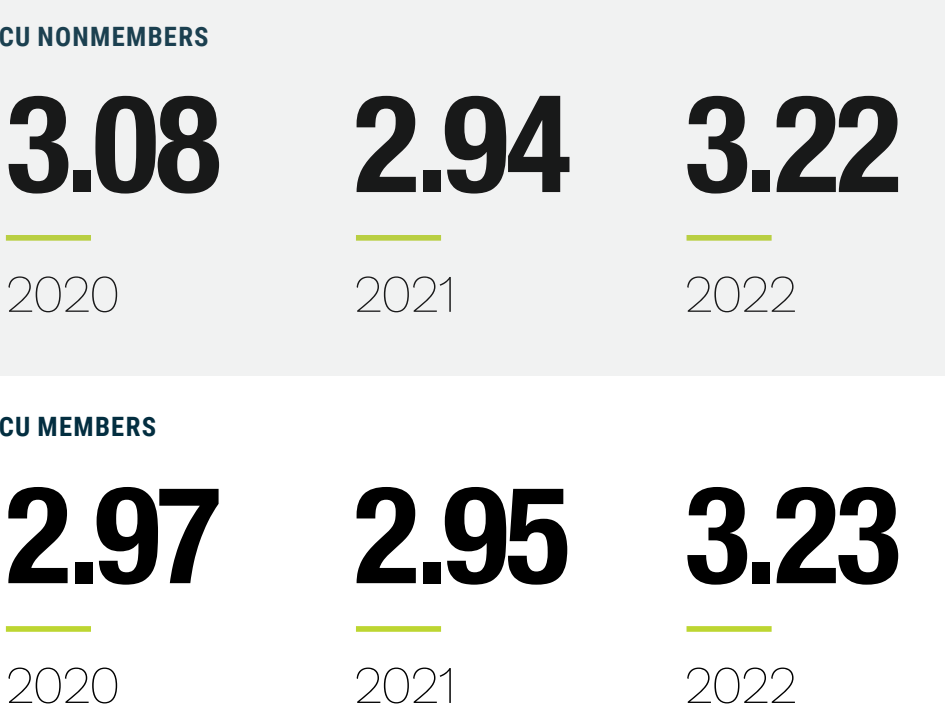
Share of CU executives selecting specific statements about where they are focusing their product innovation efforts



Source: PYMNTS
Credit Union Innovation: Cryptocurrency As A
Key To Member Loyalty, September 2022
N = 101: Complete credit union executive responses,
fielded April 1, 2022 - April 21, 2022

FIGURE 4C:
Product innovation

Average number of product innovations CU members and nonmembers say they want



Source: PYMNTS
Credit Union Innovation: Cryptocurrency As A
Key To Member Loyalty, September 2022
N = 6,483: Complete consumer responses,
fielded April 1, 2022 – April 21, 2022





CONCLUSION

Consumers' interest in buying and selling cryptocurrency as an investment and using it as a payment method can be expected to continue to grow despite the slump in the financial markets that persisted through the first half of 2022. However, regulatory uncertainty, market volatility and a lack of education around cryptocurrency as a means of payment have many CU executives questioning their next steps in cryptocurrency innovation. This leaves the door open to competitive pressures from other financial institutions seeking to grow market share, particularly among wealthier and younger, digitally-savvy consumers who use crypto. This dynamic also presents forward-thinking CUs with an opportunity they can capitalize upon with the right strategy and product roadmap. Not taking advantage of this opportunity presents risks. Twenty-four percent of CU members are willing to switch to a new FI to get the innovative products and services they want. CUs can help their cause by tailoring their offerings to appeal to the younger and upper-income consumers most interested in crypto products and services.

METHODOLOGY

Credit Union Innovation: Cryptocurrency As A Key To Member Loyalty, a PYMNTS and PSCU collaboration, is based on a survey of 6,483 consumers, 101 credit union executives and 51 FinTech executives. We examine CU members' and other consumers' interest in innovative digital financial products and services, including cryptocurrency payment products and CUs' efforts to satisfy this growing demand. The CU executives we surveyed 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.

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