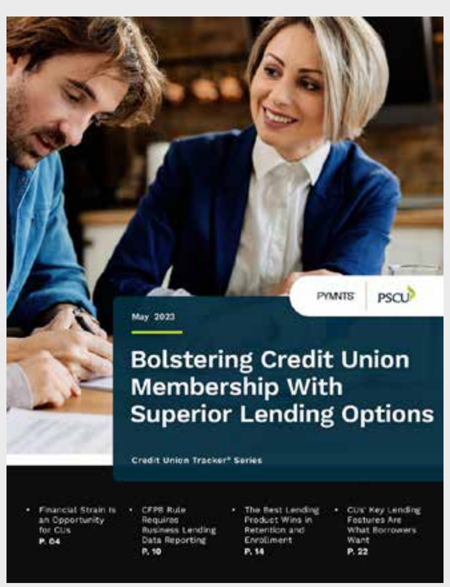
PYMNTS | PSCU

June 2023

How CUs Can Help Younger Consumers in a Distressed Economy

Credit Union Tracker® Series

Read the previous edition



MAY 2023

Credit Union Tracker® Series

What's Inside

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Acknowledgment

The Credit Union Tracker® Series is produced 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.

Need to Know

In a Challenging Economy, Young Consumers Are Feeling the Pinch

Understanding members' and communities' needs has always been an important aspect of success for credit unions (CUs), but as inflation and recession fears loom large, this understanding is more important than ever.

Faced with a bleak economic picture, consumers are looking to their financial institutions (FIs) for assistance, with one survey finding that 59% of retail bank customers expect their FIs to help improve their financial health. Although consumers of all ages are struggling financially, younger generations are particularly impacted, and to help young members navigate these challenging times, CUs must understand their unique needs and expectations.

Americans are feeling the strain of a troubled economy and looking to FIs for help.

65%

Share of Americans who feel their financial situations will not improve in 2023

29%

Share of Americans who feel their financial situations will worsen in 2023

59%

Share of retail bank customers who expect their FIs to help improve their financial health

Need to Know

Younger consumers are uniquely challenged by a worsening economic situation.

A McKinsey report found that 26% of employed Generation Z consumers report their income does not support a good quality of life, compared to 20% of other generations, and 45% are concerned with the stability of their employment. Millennials are also feeling the strain. According to recent PYMNTS data, 73% of millennials were living paycheck to paycheck — the highest rate among all generations, although Gen Z was close behind, at 66%.

PYMNTS also found that both generations were the most likely to have experienced a financially stressful event in the last three years, with more than seven in 10 consumers from either group experiencing such an event. In contrast, only 51% of baby boomers and seniors cited having experienced the same type of event.

Based on the experiences of Generation Z and millennial consumers, younger demographics are feeling the most financial strain.

Share of Generation Z consumers worried about the stability of their employment

Share of millennials living paycheck to paycheck

Need to Know

Younger consumers are in need of credible financial education and advice.

Difficulties stemming from current economic conditions notwithstanding, younger consumers are also more likely to struggle in other aspects of financial well-being. First and foremost, younger demographics are more apt to lack important financial education. FICO found, for example, that Generation Z has the lowest levels of credit education, with 29% of this age cohort unaware of their credit scores or lacking them altogether. This generation is also more likely to have low credit scores and high levels of student loan debt.

Relatedly, younger consumers are also seeking financial information and counsel — perhaps from dubious sources. Implicit evidence of this is that 79% of Generation Z and millennials in a recent survey turned to social media for financial advice. In contrast, only 11% were using financial advisers. It is evident that younger consumers could use some support — and CUs are in a great position to help.

Consumers of younger age groups are strikingly in need of credible financial education.

29%

Portion of Generation Z consumers who do not know **their credit scores or lack them altogether**

79%

Share of Generation Z and millennials who have received financial tips from social media

News and Trends

CUs Innovate to Meet Younger Members Where They Are

To meet the needs of younger members, the University of Hawaii Federal Credit Union (UHFCU) partnered with Zogo, an app that gamifies financial literacy. Through the partnership, UHFCU pays Zogo a licensing fee for a co-branded Zogo app available for UHFCU members.

The move comes after the CU realized in 2020 that it was struggling to meet the needs of its younger members during the pandemic. The efforts seem to be successful so far, according to Zogo, with 96% of users reporting that the app has improved their financial literacy.

News and Trends

PSCU unveils credit card-based BNPL solution for CUs

PSCU recently released a solution to help CUs provide members with buy now, pay later (BNPL) options. The solution allows CUs to offer members the ability to convert post-purchase credit card transactions into installment payments, giving members a flexible way to budget for and afford larger purchases. PYMNTS found that interest in BNPL has markedly increased among consumers in recent years, with BNPL now accounting for 3.8% of eCommerce sales in America and 9% in Europe. Moreover, this type of lending product is especially popular among younger consumers, with millennials being the most likely generation to use BNPL. PSCU's solution will provide members with a monthly payment option with a fixed APR.

News and Trends

Pioneer Valley Credit Union embraces omnichannel banking

Springfield, Massachusetts-based Pioneer Valley Credit Union partnered with Mahalo Banking, a firm that provides online and mobile banking solutions for CUs, to improve its modern banking offerings. Pioneer Valley is the nation's oldest CU and had previously offered online banking services through two different vendors.

The CU recently made the decision to abandon this approach, citing a disjointed user experience, to pursue an omnichannel solution instead. This move, CU officials say, is meant to provide members with a cohesive banking experience, replete with a seamless user interface and better usability — characteristics that Gen Zers and millennials have come to expect from their banking.

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PYMNTS Intelligence

Technology Is Key to Meeting Younger Members' Expectations

CUs are meeting the needs of members, especially younger ones, by leveraging technology and an array of modern tools. These efforts have been strikingly successful so far, with a survey finding that 77% of Americans who use CUs to handle their primary financial needs are the most satisfied with the service compared to users of other FI types. Notably, consumers between the ages of 18 and 26 are the most likely age group to prefer CUs, at 24%.

This is not the end of the story, however. Although CUs have done a good job at meeting member needs, they must keep innovating on new technologies. The financial services landscape is rapidly changing, and members of all ages have an insatiable desire to use the latest digital solutions and tools. CUs need to adopt a policy of perpetual innovation to keep up, and technology is key to these efforts.

PYMNTS Intelligence

Innovation is needed to retain and attract members

Continued innovation is important to retaining current members. More than 80% of self-identified highly satisfied financial account holders would be open to switching to another provider in search of more innovative solutions and services, according to PYMNTS research. CUs must also keep innovating to attract new members, especially younger demographics, as only 5% of millennials and 4% of Generation Z are CU members.

This is why CUs are actively working on expanding their product and service offerings. In 2022, for example, PYMNTS found that 60% of CUs reported investing in innovations such as real-time and peer-to-peer (P2P) payments, up from approximately 50% in 2021. Such investments will help CUs appeal to Gen Zers and millennials, as 31% of the latter and 41% of the former say mobile payments are an area of interest when it comes to their primary FIs' potential innovations.

80%

Share of self-regarded highly satisfied account holders who would switch providers to find more innovative products and services

60%

Share of CUs in 2022 that reported investing in real-time and P2P payments

4%

Share of Generation Z consumers who are CU members

CUs are also working to improve their mobile banking offerings. Among CUs that PYMNTS classified as early launchers — companies at the forefront of technological innovation — 83% were investing in mobile banking, up from 74% in 2021. Such investments are essential because younger members are quite interested in using mobile banking to handle their financial needs. According to a survey, only 6% of Generation Z preferred to visit a physical branch, while the majority elected to use mobile options.

PYMNTS Intelligence

CUs should innovate lending to meet young members' needs

CUs can also use technology to meet members' lending needs and improve product offerings. This is important because 26% of CU members report being highly likely to borrow from a lender that is not their FI based on the favorability of loan terms, according to a PYMNTS survey. The same survey found that younger members were even more likely to switch, possibly due to these demographics' higher debt burdens.

It is no surprise, then, that CUs are heavily investing in their lending capabilities. According to PYMNTS, for example, 53% of CU executives reported making highly significant efforts to reduce the onboarding time for prospective borrowers, while the remaining share of executives characterized their efforts as slightly or somewhat significant.

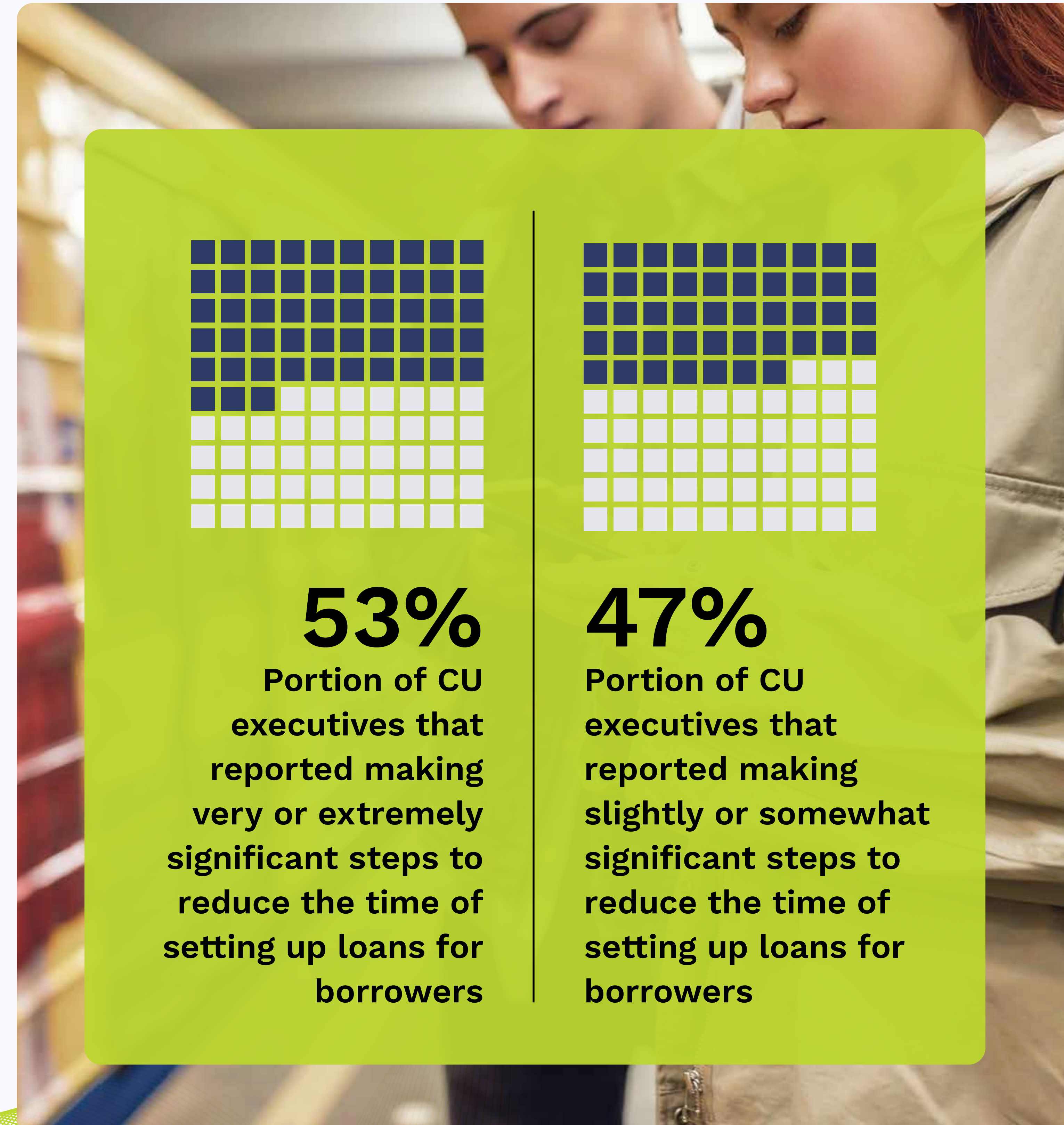


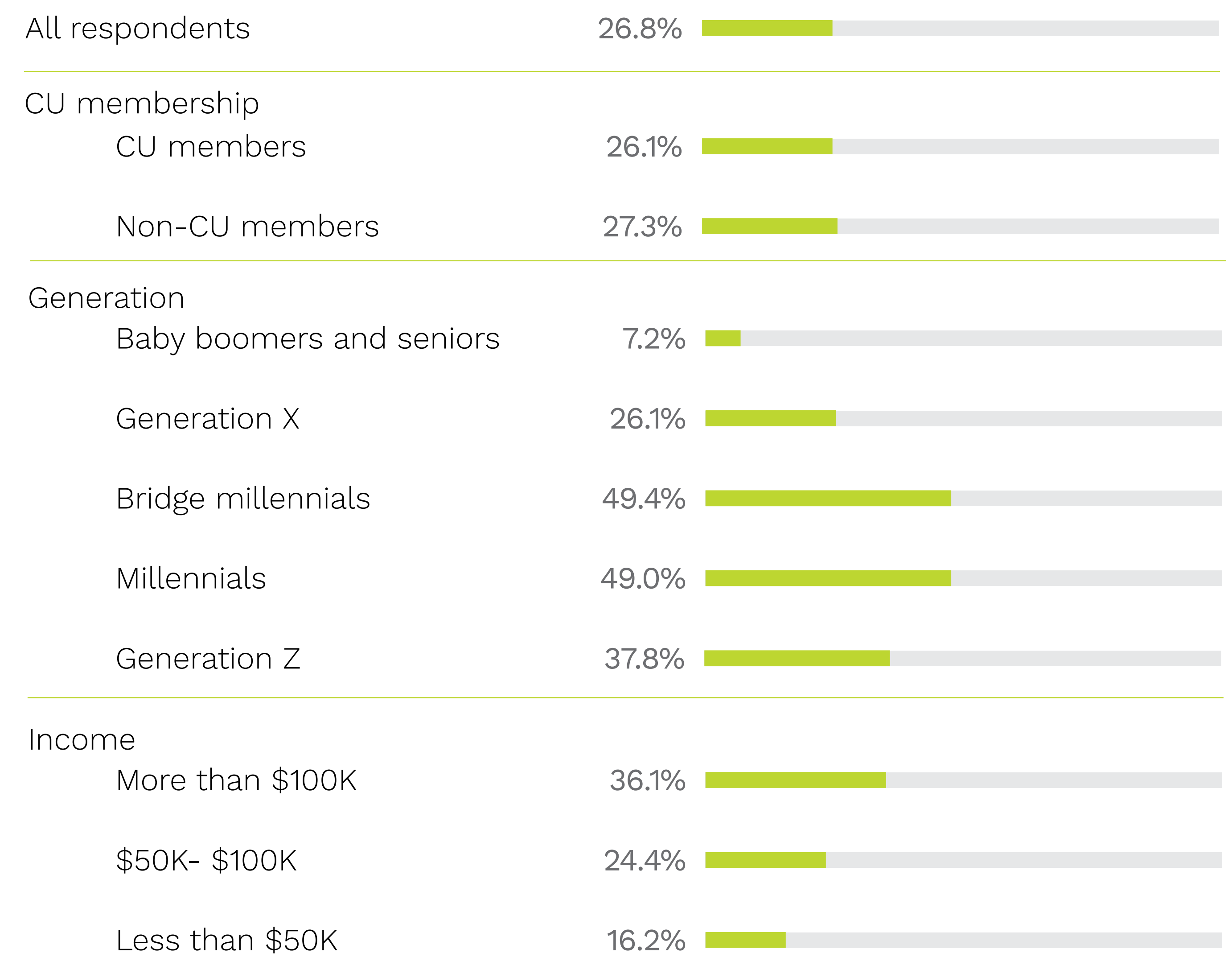
Chart of the Month

Millennials Are the Most Likely to Switch FIs for Better Lending Opportunities

In a recent PYMNTS survey, more than one-quarter of all consumers — 27% — said they are very or extremely likely to switch FIs for more favorable terms on credit products. Younger consumers, however, were far likelier to express such a sentiment. Millennials were the most likely to express this view, at 49%, and Generation Z consumers were the second-most likely, at 38%.

Where consumers will borrow

Share of consumers very or extremely likely to switch FIs for better terms on credit products, by demographic



Source: PYMNTS
Credit Union Innovation: Product Development Slowdown Tests Member Loyalty, January 2023
N = 4,282: Complete responses, fielded Oct. 17, 2022 – Nov. 7, 2022

Insider POV

An Industry Insider on the Importance of Competing for Digital Natives

SCOTT YOUNG
Managing vice president, Emerging Services

PSCU

"We have to attract and retain that younger member, or the credit union movement will just not be sustainable. It's important for a credit union to develop the opportunity to become that trusted partner for our younger generations."

With younger consumers demanding more digital experiences in their financial lives, an industry insider explains why CUs must meet this need — or lose out to those that do.

Credit unions have to get younger. That is according to Scott Young, managing vice president of emerging services at PSCU. In an interview with PYMNTS, Young explained that because younger generations represent the future, CUs need to step up their efforts to attract and retain younger members in the present. In 2022, for example, only 4% of Generation Z were CU members.

A helpful way to frame these efforts is in what Young refers to as "share of mind." Just as CUs vie for a consumer's share of wallet for a particular product, he contends, they should also ask themselves what share of mind they have among younger generations.

Insider POV

"Is a member, especially a younger member, even thinking of me for the products and services [they want,] or are they just going [somewhere else]?" Young said. "Sometimes the younger generations don't understand what's a financial institution and what's not. They're just calling for a solution to make their day better."

Younger consumers, he added, often do not even consider CUs as an option — something that CUs must strive to change.

Expanding share of mind requires CUs to meet members where they are. While some financial needs are similar across generations, others differ in important ways that CUs must take into account when serving Gen Z and millennial members. Younger consumers, he noted, have a strong desire for digital solutions and personalization.

"Different generations have different expectations," said Young, adding that as digital natives, almost all Gen Z or millennial consumers use their phones for nearly everything.

Moreover, he said, Gen Zers not only expect to be able to use mobile channels to handle their financial affairs: Mobile is actually their most preferred. Millennials are also adopting digital banking solutions in droves, with digital wallets among the most popular products. Furthermore, the pandemic caused even baby boomers to migrate more to online channels — meaning that CUs' efforts to bolster their digital capabilities will have a positive knock-on effect for all members.

He noted that many CUs are behind on digitization, with PYMNTS research finding that nearly 40% of CUs self-identify as lagging on efforts to launch new products. To provide the solutions young consumers want, it will be important for these laggards to step up their pace of product development.

Another important area that CUs should focus on involves using social media to help provide financial guidance, Young said. This might require CUs to rethink their outreach strategies and embrace emerging platforms popular among younger people, such as TikTok or Instagram.

"I think now is the time for credit unions to play the role of influencer by promoting financial wellness, offering product education and just advocating the value of the credit union movement — and not just let someone else do this."

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What's Next

Generation Z and Millennials Will Need Additional Help Going Forward

In the near future, younger consumers will likely continue to face a uniquely challenging economic situation. One impending development that CUs should be aware of is the resumption of student loan payments, following a two year-plus pause due to the pandemic. Almost 80% of millennials report that student debt is a problem for young people, and as of Q2 2022, millennials aged between 35 and 49 held, on average, a federal loan balance totaling $43,000. CUs can help these members navigate the difficulties that will arise when payments must be made again at the end of the summer.

"Credit unions have an opportunity to further enhance their position as a trusted partner by helping younger generations as they begin their financial journeys. As economic uncertainty lingers in our country, financial counseling can benefit younger members. Credit unions should leverage predictive analytics to assist in identifying members headed for financial hardship — enabling credit unions to proactively intervene and assist."

DEAN YOUNG
Executive vice president,
chief experience officer

PSCU

About

PYMNTS

PYMNTS 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

PSCU, the nation's premier payments CUSO and an integrated financial technology solutions provider, supports the success of more than 2,400 financial institutions and processes nearly 7.7 billion transactions annually. Committed to service excellence and focused on continuous innovation, PSCU's payment processing, fraud and risk management, data and analytics, digital banking, strategic consulting and real-time payments platforms, along with 24/7/365 member support via its contact centers, help deliver personalized, connected experiences. 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 45 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.

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