

2024 CREDIT UNION INNOVATION READINESS INDEX

January 2024 Report



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The 2024 Credit Union Innovation Readiness Index was produced in collaboration with PSCU, and PYMNTS is grateful for the company's support and insight. PYMNTS Intelligence retains full editorial control over the following findings, methodology and data analysis.

WHAT'S AT STAKE

Credit unions (CUs) provide financial services to a community of members often connected by location, work or education. Although many CUs might not have the national or regional scope of traditional banks, their members expect that they provide digital-first capabilities that can compete with those that for-profit financial institutions (FIs) offer. Research shows that CUs are rising to the challenge, yet some are doing it better than others. This first-of-its-kind Index measures members' satisfaction with CUs' current and future offerings to draw insights about what CUs do well and how they need to improve.

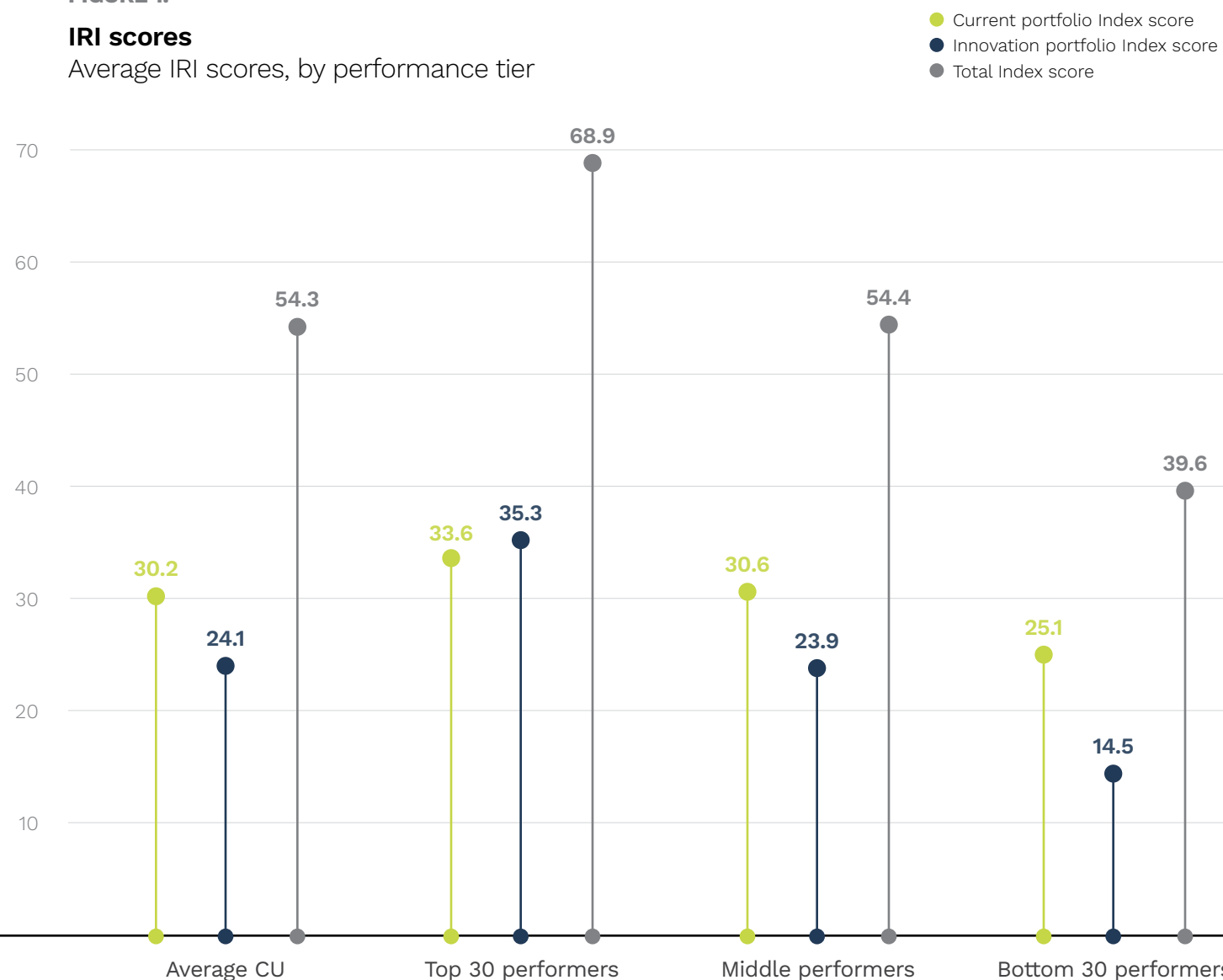
Innovation Readiness Index (IRI) scores indicate the degree to which CUs' current and future portfolio of products and features align with members' preferences. A higher IRI score indicates CUs are offering and plan to offer the products and features that members want and those that are linked to higher levels of

54.3

The average CU's IRI score, indicating that their current and future **portfolio matches their members' preferences only halfway**

satisfaction. On average, CUs achieve an IRI score of 54.3 out of 100 points, an indication that their current and future portfolio matches members' preferences approximately 54% of the time. The most innovative CUs, which we have separated into a group of the top 30 performers, average an Index score of 68.9, while the bottom 30 performers match only about 40% of what CU members want. Top performers invest more in innovation, and they experience less member churn and are better equipped to grow their membership as a result.

FIGURE 1:
IRI scores
Average IRI scores, by performance tier



Source: PYMNTS Intelligence
Credit Union Innovation Readiness Index, January 2024
N = 201: Complete responses for CU executives, fielded Oct. 4, 2023 – Nov. 16, 2023

The 2024 Credit Union Innovation Readiness Index (CU-IRI), a PYMNTS Intelligence and PSCU collaboration, examines how CUs can reap the benefits of digital innovation to gain members and reduce churn. The Index is based on two surveys. First, a survey of 201 CU executives was conducted from Oct. 4, 2023, to Nov. 16, 2023, to learn about CUs' current product and feature offerings as well as their plans for future innovation. The second, a census-balanced survey of 4,525 U.S. consumers, investigated what products and features consumers want and expect from CUs; it was conducted between Nov. 2, 2023, and Dec. 6, 2023.

This is what we learned.



How We Measured Credit Union Innovation Readiness

The Credit Union Innovation Readiness Index (CU-IRI) analyzes more than 50 products and capabilities FIs frequently offer to identify those with the strongest impact on current satisfaction among CU members.

By matching the banking products and features that drive the highest levels of satisfaction and retention among CU members with the products and features CUs either already offer or plan to offer, our data analysts developed an Index that scores CUs based on how close their portfolio is to what their members want most.

The Index has two components:



The current portfolio Index score reflects what CUs offer now and how well that matches with the products and features CU members use that correlate with higher satisfaction.



The innovation portfolio Index score reflects what CUs plan on offering in the next three years and how well that matches with what CU members want their FIs to be offering in that time frame.

The two scores sum and make up the total Index score, and they are weighted to approximate the degree to which offerings satisfy members. Each CU receives a score that ranges from zero to 100, with higher scores indicating greater readiness to offer what members currently value and what they expect in terms of innovation. Earning a hypothetical 100 would suggest that the analyzed CU's current and future portfolio matches all of its members' preferences and correlates with the highest levels of member satisfaction.

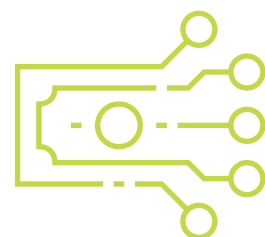
KEY FINDINGS

01

02

MORE INVESTMENT, LESS CHURN

The most innovative CUs invest 13% more of their assets in payments innovation than bottom performers and benefit from 57% lower member churn as a result.



14%

Share of total asset size that top-performing CUs invested in payments innovation in the past year

COMPETITIVE EDGE

Top-performing CUs made more successful investments in innovation: 90% saw positive ROI from their payment innovation investments, but just 63% of bottom performers experienced the same.



93%

Share of the most innovative CUs that increased total investment in payment innovation in the past year; 58% of bottom performers did the same

03

WINNING STRATEGIES

Strategies that set top performers apart include investing in highly personalized user experiences and testing new products with staff and members.



73%

Share of the most innovative CUs that cite a highly personalized user experience as an essential strategy for attracting more members in the next three years

04

INNOVATION CHALLENGES

Bottom performers' innovation plans are hindered by basic, foundational issues — regulation, low budgets and core IT system limitations — whereas top performers largely seem to have mastered the basics.



19%

Share of the least innovative CUs that cite regulation and compliance as their top challenge; only 13% of top performers share this challenge

PYMNTS IN DEPTH

CUs that invest in payments innovation are most likely to retain current members and attract new ones.

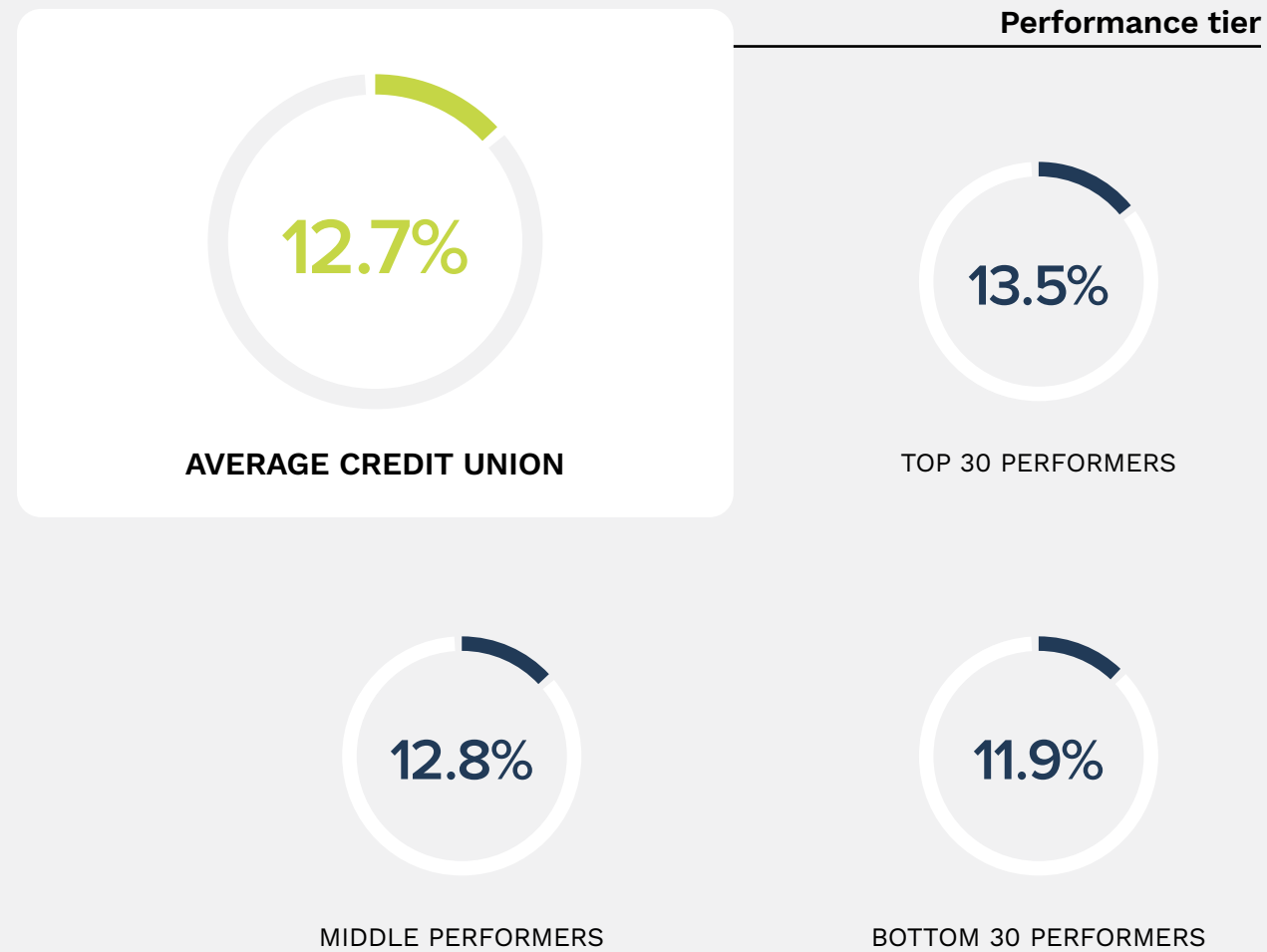
The most innovative CUs invest 13% more of their assets in payments innovation than bottom performers and benefit from 57% lower member churn as a result.

The average CU is about halfway through the process of optimizing its offerings to match its members' preferences — and that reality is reflected in its IRI score: 54.3. The most innovative CUs (and top Index performers) are ahead of the game and average a score of 68.9 — and the least innovative CUs (and bottom Index performers) average an Index score of only 39.6. What is responsible for this difference? Data shows that greater investment in innovation correlates with higher Index scores, for one. In fact, the top 30 Index performers invest 13% more of their total asset size than the bottom 30 performers in payments innovation. Top performers invested 14% of their total asset size (\$583 million), on average, in payments innovation in the past year, whereas bottom performers invested 12% (\$322 million). Proactive investment in innovation in the products and features that digital-savvy members expect seems to provide a competitive edge.

FIGURE 2A:

Credit union investment in innovation

Investment in innovation as a percentage of total asset size, by performance tier



Source: PYMNTS Intelligence

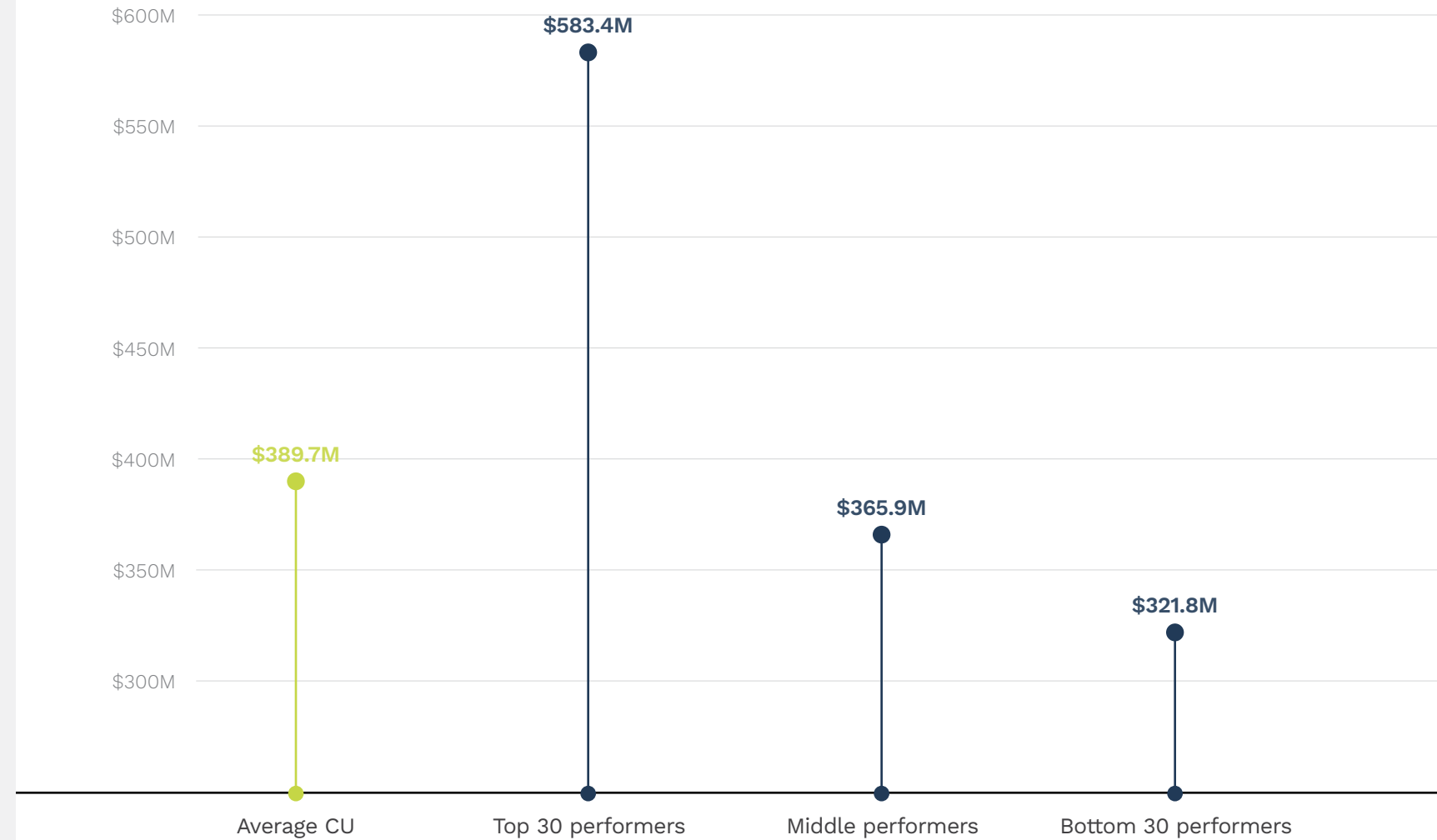
Credit Union Innovation Readiness Index, January 2024

N = 201: Complete responses for CU executives, fielded Oct. 4, 2023 – Nov. 16, 2023

FIGURE 2B:

Credit union investment in innovation

Average investment in innovation, by performance tier



Source: PYMNTS Intelligence

Credit Union Innovation Readiness Index, January 2024

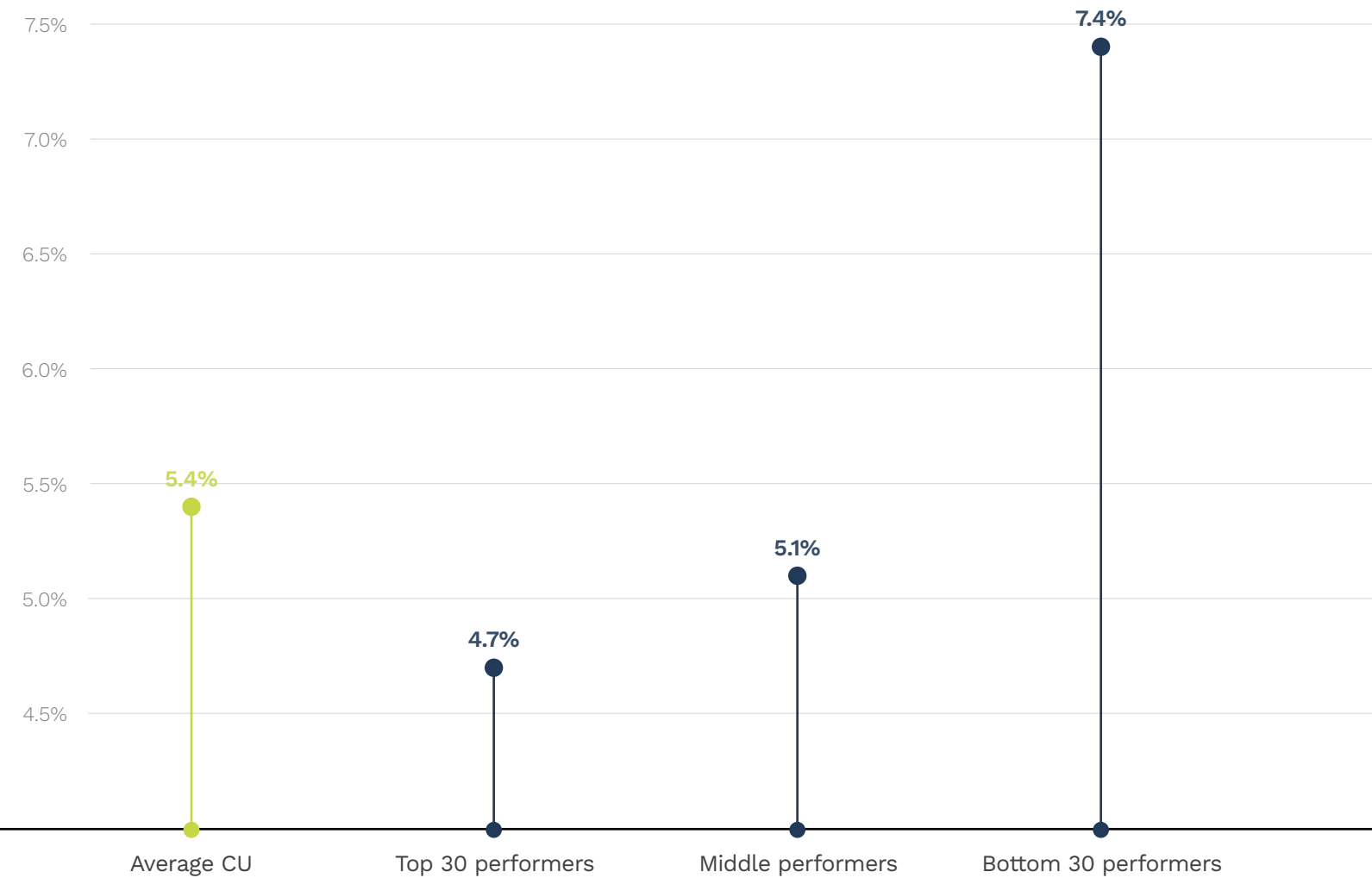
N = 201: Complete responses for CU executives, fielded Oct. 4, 2023 – Nov. 16, 2023

Though it is a bit self-evident that investing more in innovation correlates with higher innovation, it also translates into indirect benefits, such as lower member churn. Data shows that member churn is 57% lower among top performers than among bottom-performing CUs. For top performers, member churn was 4.7% last year, while bottom performers experienced member churn of 7.4%. Lower member churn suggests that the most innovative CUs have fewer dissatisfied members, further highlighting the competitive edge gained by innovation investment.

FIGURE 3:

Credit union churn

Average CU churn rate, by performance tier



Source: PYMNTS Intelligence
 Credit Union Innovation Readiness Index, January 2024
 N = 201: Complete responses for CU executives, fielded Oct. 4, 2023 – Nov. 16, 2023

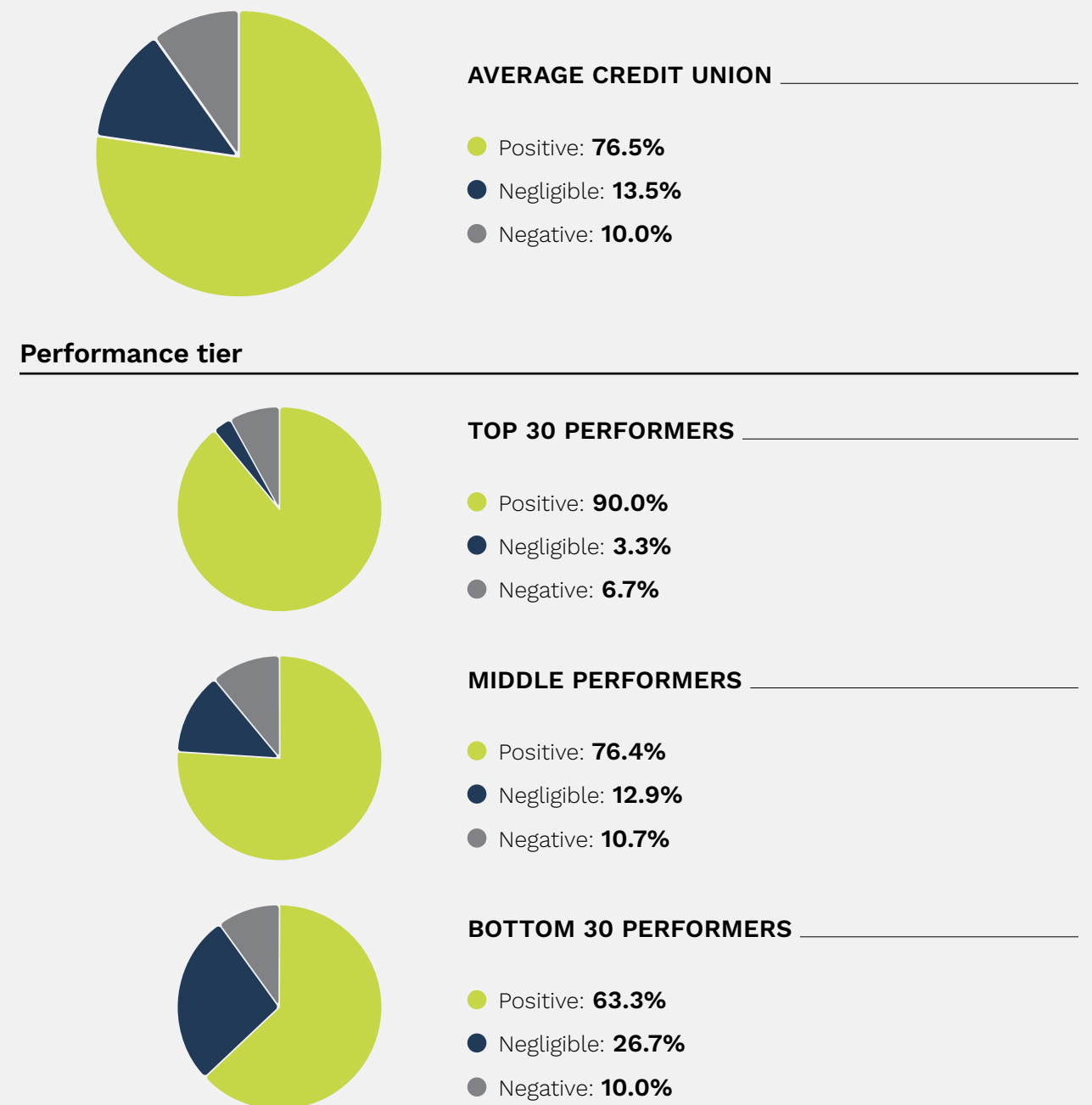
Top-performing CUs made more successful investments in innovation than others: 90% saw positive ROI from their payment innovation investments, compared to just 63% of bottom performers.

Given the correlation between investment in innovation and success, it is meaningful that 93% of top IRI performers have increased total investment in payment innovation in the past year, compared to 58% of bottom performers. If return on investment (ROI) is any indication, the most innovative CUs continue to outperform those that are less innovative. While 77% of all CUs report a positive ROI from payment innovation investment, the share rises to 90% among the top 30 CUs. Only 63% of the bottom 30 CUs report a positive ROI from these investments, while 27% say that their ROI from payments has been negligible, suggesting that investments in payment innovation by these CUs are much more likely to have fallen short in driving member satisfaction.

FIGURE 4:

Credit union innovation ROI

Share of CUs that have experienced select types of ROI from new payment innovations in the past 12 months, by level of innovation readiness



Source: PYMNTS Intelligence
 Credit Union Innovation Readiness Index, January 2024
 N = 201: Complete responses for CU executives, fielded Oct. 4, 2023 – Nov. 16, 2023

In addition to reporting a positive ROI, the most innovative CUs have performed better across other metrics this year. For instance, 87% of top performers increased their number of members in the past year, as did 65% of bottom performers. Also, 77% of top performers increased their average assets per member, but less than half of bottom performers did the same (48%). Nearly one-third of bottom performers saw increased member churn in the last year — more than four times the 6.7% top performers reported.

The most innovative CUs are also more likely to report increases in member engagement and member satisfaction with their online/mobile banking offerings than those that are less innovative. Ninety percent of top performers saw increased member satisfaction with their mobile app in the past year and 83% saw an increased number of mobile app downloads; for bottom performers, the corresponding share for each was 68%. These findings further articulate that the least innovative CUs are paying the price in a number of ways.

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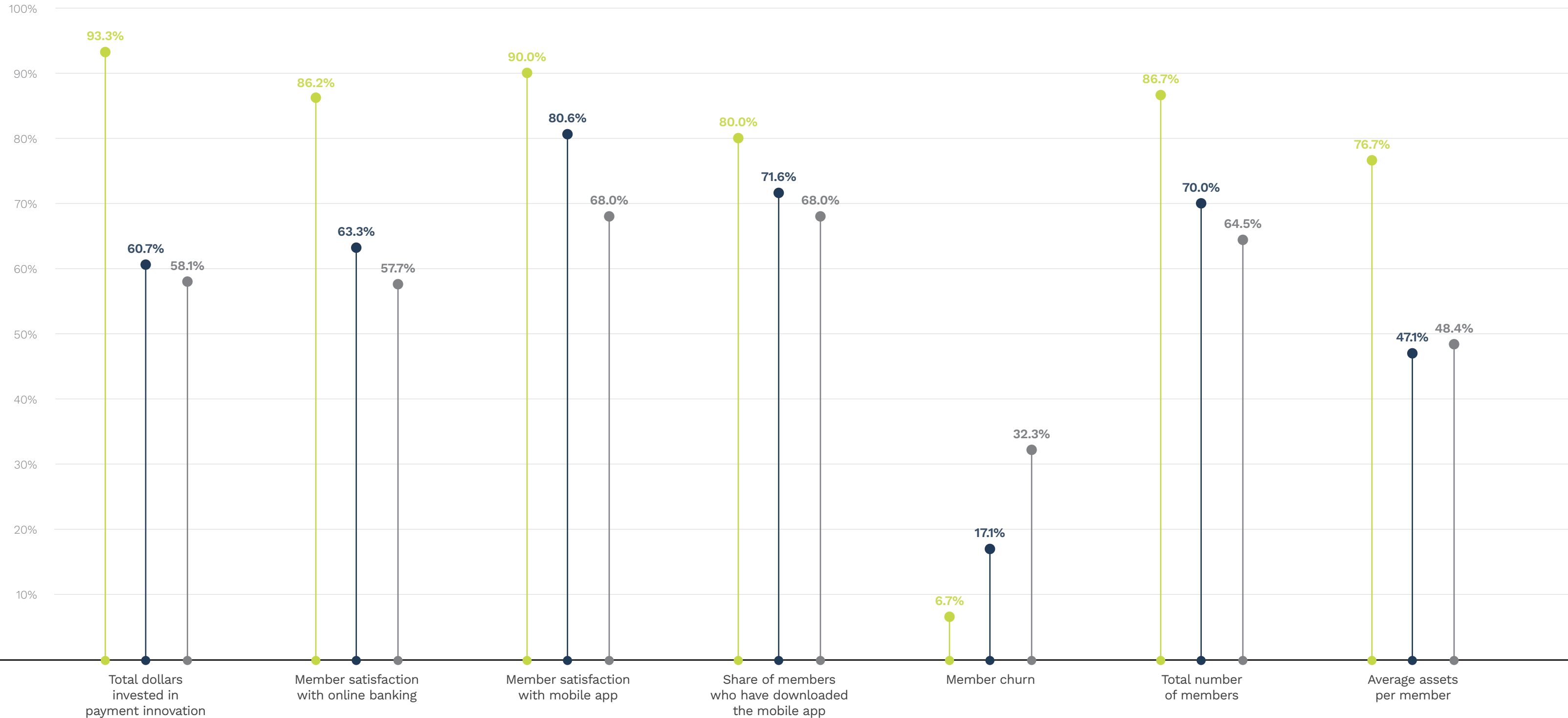
The most innovative CUs are more likely to report increases in member engagement and member satisfaction with their online/mobile banking offerings than those that are less innovative.

”

FIGURE 5:
Credit union metrics on the rise

Share of CUs that increased select metrics since last year, by performance tier

- Top 30 performers
- Middle performers
- Bottom 30 performers



Source: PYMNTS Intelligence
Credit Union Innovation Readiness Index, January 2024
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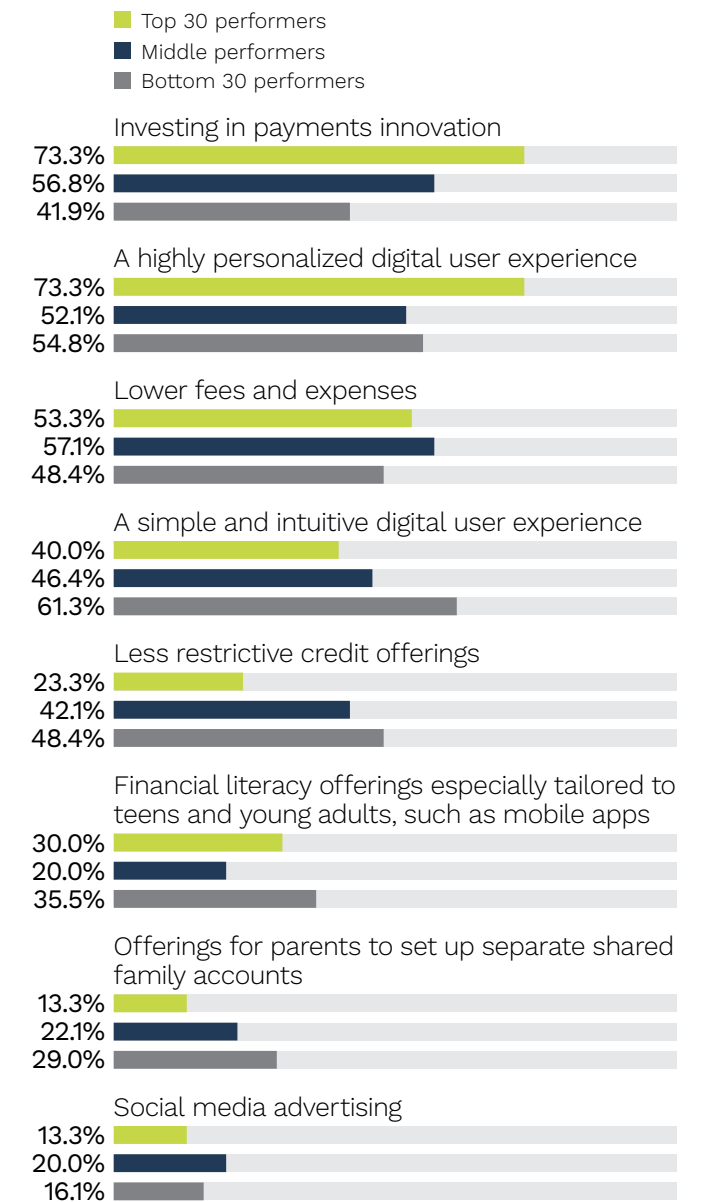
Strategies that set top performers apart include investing in highly personalized user experiences and testing new products with staff and members.

PYMNTS Intelligence’s data finds that digital-savvy consumers increasingly expect a personalized member experience from their service providers, and the most innovative CUs appear to have noticed. While 73% of top-performing CUs say a highly personalized user experience is an essential strategy for attracting more members in the next three years, only 55% of bottom performers say the same. In fact, less innovative CUs tend to prioritize different features, including a simple and intuitive user experience and less restrictive credit offerings. Sixty-one percent of bottom

performers cite a simple and intuitive digital experience as an essential strategy for attracting more members, only 40% of top performers agree. And although 48% of bottom performers say less restrictive credit offerings will help them attract more members in the next three years, only 23% of top performers say the same. This implies that prioritizing products with broad but generic appeal may not lead to the best odds of success for CUs.

FIGURE 6:
CUs’ strategies to attract new members

Share of CUs investing in select strategies to attract new members in the next three years, by performance tier



Source: PYMNTS Intelligence
Credit Union Innovation Readiness Index, January 2024
N = 201: Complete responses for CU executives, fielded Oct. 4, 2023 – Nov. 16, 2023

Refining new products and features by testing them with staff and members helps the most innovative CUs offer a high-quality experience that leads to greater member satisfaction, but less than one-third of bottom performers take this step. In fact, 67% of top performers test new innovations with employees for improvements, compared to just 29% of bottom performers. Sixty percent of top-performing CUs in our Index also test innovations with members, whereas only 32% of bottom performers do the same. Empowering members to make innovation suggestions also sets the most innovative CUs apart. While 60% of top performers have a process where members can share their innovation priorities, only 45% of bottom performers do — and given the general sense throughout our data that the least innovative CUs are less in touch with what their members want and expect, these moves do not appear to be setting bottom performers up for success.

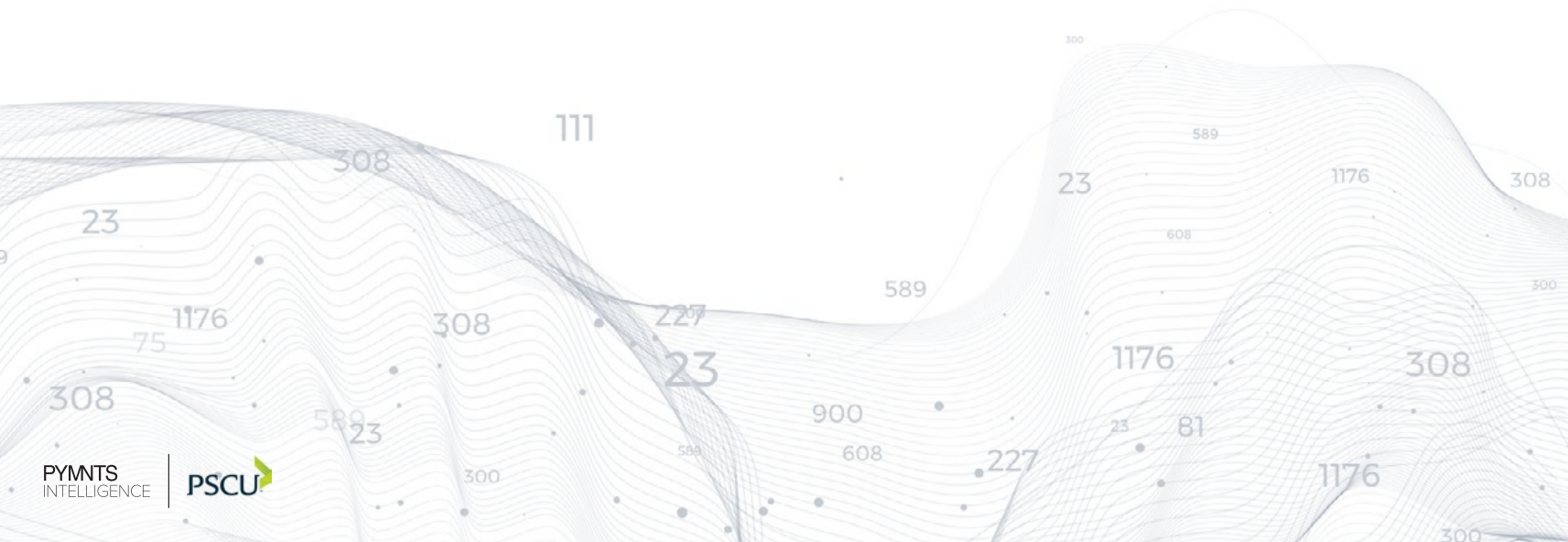
FIGURE 7:

Payment innovation strategies

Share of CUs citing select methods that they use in the payment innovation process

	AVERAGE CREDIT UNION	TOP 30 PERFORMERS	MIDDLE PERFORMERS	BOTTOM 30 PERFORMERS
• Having a process that enables members to make innovation suggestions	50.2%	60.0%	49.3%	45.2%
• Testing new innovations with members to improve innovations	43.8%	60.0%	42.9%	32.3%
• Testing new innovations with employees to improve innovations	42.3%	66.7%	40.0%	29.0%

Source: PYMNTS Intelligence
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Bottom performers’ innovation plans are hindered by basic, foundational issues — regulation, low budgets and core IT system limitations — whereas top performers largely seem to have mastered the basics.

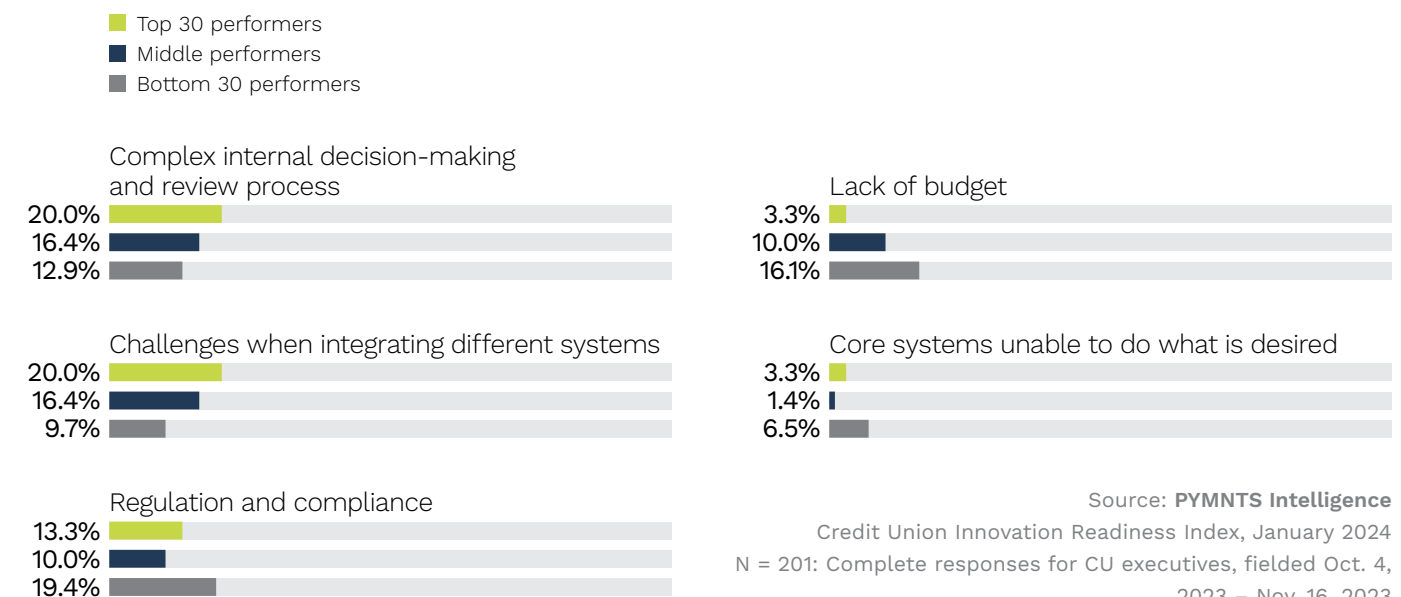
The specific challenges and obstacles to innovation also help tell the story as to why there is a gulf in CUs’ IRI scores. Among top performers, the top two challenges indicate that they have mastered the basics: 20% of top performers say complex decision-making is the top challenge they face, with another 20% citing system integration as their top issue. The top challenges to innovation cited among bottom performers are more basic and suggest that the foundational aspects still need work. Nineteen percent of the least innovative CUs says regulation and compliance is their top challenge, while 16% say budget

is their top challenge and 6.5% cite limitations with their core IT systems. While the least innovative CUs are more likely to encounter fundamental obstacles — and, presumably, dedicate resources to causes that do not impact member satisfaction as directly, the highest-scoring performers are more likely to face and deal with challenges related to the practical implementation of innovative products, perhaps earning member goodwill in the process.

FIGURE 8:

Payments innovation challenges

Share of CUs citing select challenges as most important when bringing payment innovations to market, by performance tier



It may be no surprise, then, that the primary factors top performers see as essential for their innovation to be successful are infrastructural: strategic vision followed by core IT system capabilities. One-third of the most innovative CUs see their management’s strategic vision as an essential component of their ability to successfully innovate in the next three years, while 18% say their core IT systems are the most essential factor to bringing innovations to market. Although a similar share of the least innovative CUs cite management’s strategic vision as an essential component (28%), these low scorers are most likely to cite processes involved in implementing new products as most essential to their innovation success, at 16%. Consider the difference: Core IT systems power a culture of innovation and can underpin a variety of member-pleasing features; “processes involved in implementing new products” might only impact one innovation at a time and force these CUs to start back at square one after implementing each new product. These subtle differences can ultimately separate success from failure.

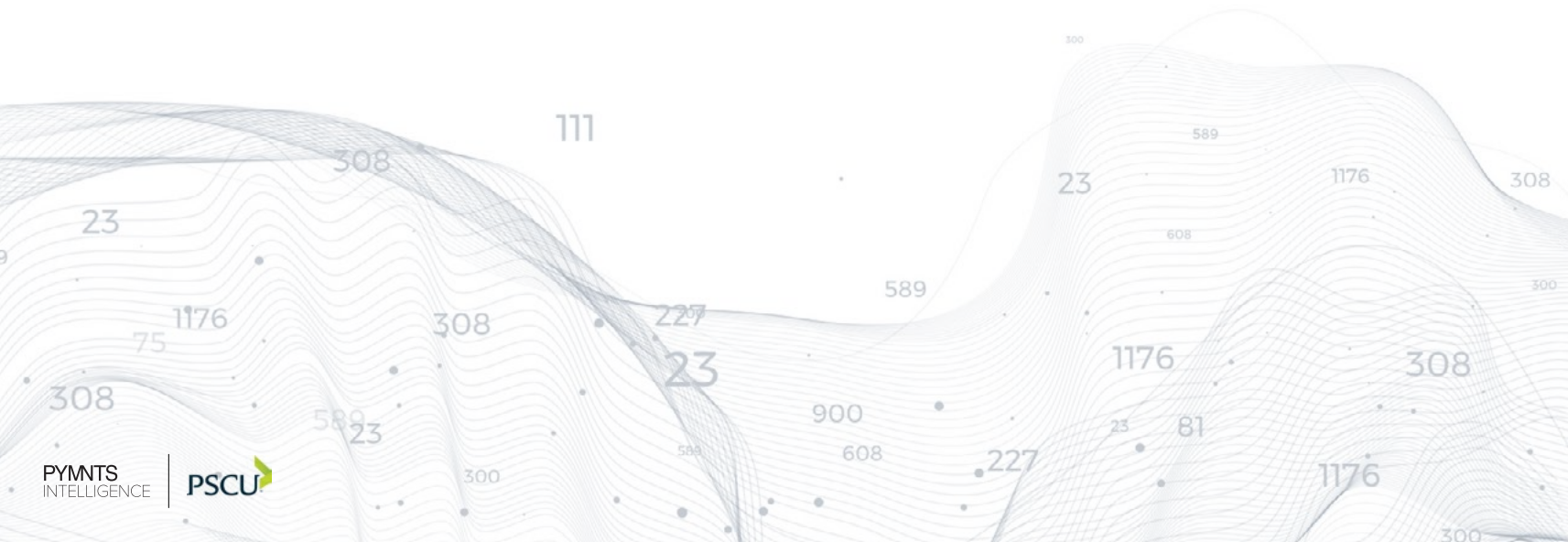
FIGURE 9:

Most essential factors for innovations

Share of CUs citing select factors as most essential when bringing payments innovations to market, by performance tier

	AVERAGE CREDIT UNION	TOP 30 PERFORMERS	MIDDLE PERFORMERS	BOTTOM 30 PERFORMERS
• Management strategic vision	30.0%	33.3%	29.8%	27.6%
• Decision-making structure	18.1%	17.2%	19.7%	11.5%
• Process used to implement new products	6.8%	7.1%	4.9%	16.0%
• Core IT systems	10.8%	17.9%	10.6%	3.8%

Source: PYMNTS Intelligence
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 N = 201: Complete responses for CU executives, fielded Oct. 4, 2023 – Nov. 16, 2023



DATA FOCUS

The most innovative CUs are leading by providing more products and features that today's digital-first consumers increasingly demand, such as contactless cards and loyalty programs.

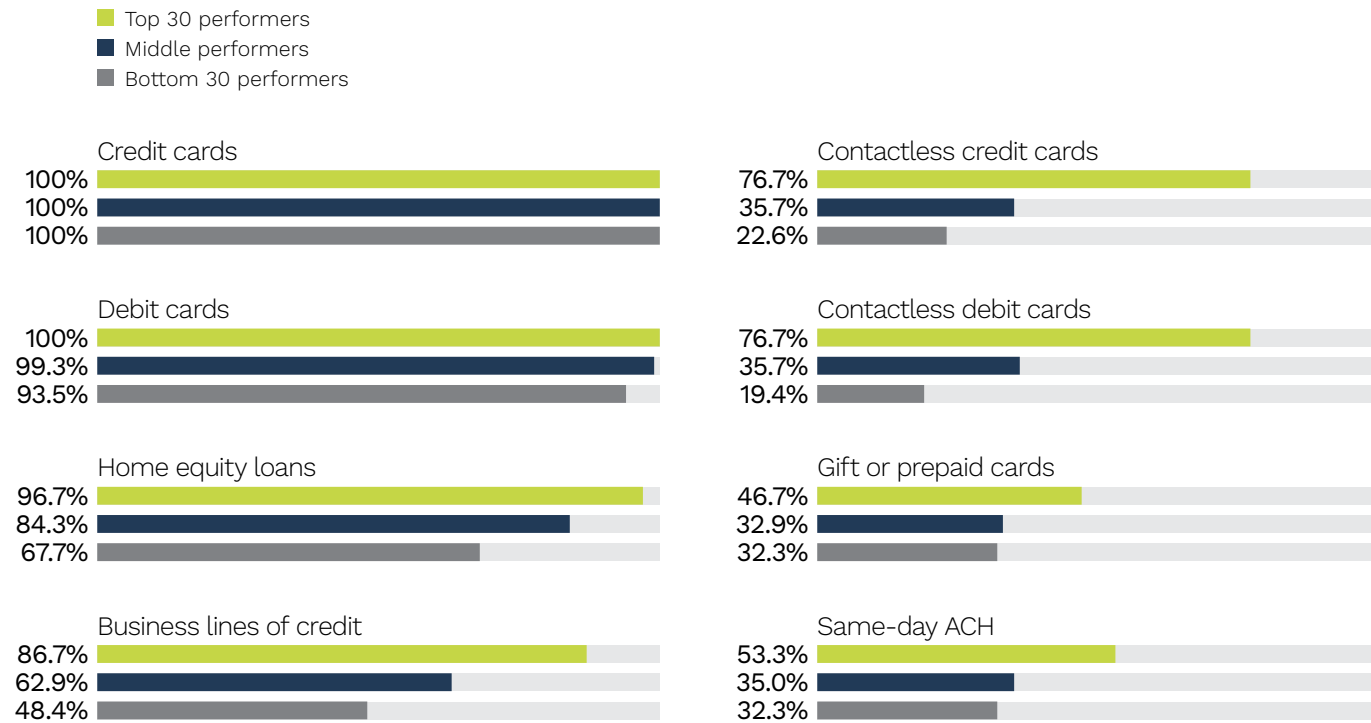
CU pioneers plan to offer, on average, around four more products and two more features than bottom performers in the next three years.

With greater investments in innovation, top-performing CUs show a clear commitment to providing their members with the products they want today and in the future. The most innovative CUs currently offer 15 banking products, on average, and have another three products in the works for the next three years: 18 products in total. Bottom-performing CUs currently offer 11 banking products, on average, and have another three in the works for the next three years for a total of 14 products. These products include same-day ACH, home equity loans and prepaid cards. Business lines of credit, for instance, are offered by 87% of top-performing CUs, but just 48% of bottom performers. The product innovation gap is widest for contactless debit and credit cards, which have gained notable popularity in recent years. While 77% of top performers are offering contactless debit and credit cards already, only 19% and 23% of bottom performers, respectively, do the same.

FIGURE 10:

Products CUs offer

Share of CUs offering select banking products, by performance tier



Source: PYMNTS Intelligence

Credit Union Innovation Readiness Index, January 2024

N = 201: Complete responses for CU executives, fielded Oct. 4, 2023 – Nov. 16, 2023

The most innovative CUs have also taken the lead in offering cutting-edge banking features. Top-performing CUs currently offer 10 banking features and capabilities, with another 2.4 features in the works for the next three years, making for a total of between 12 and 13 features. Bottom-performing CUs currently offer seven features, with another three planned for the near future, adding up to a total of 10. Mobile wallets, QR codes, loyalty and rewards programs, digital onboarding and instant card issuance to a digital wallet stand out as features and capabilities top performers offer and where bottom performers are lagging. For example, 67% of top performers offer QR codes already, compared to 23% of bottom performers. Also, 40% of top innovating CUs offer instant card issuance to a digital wallet while just 3.2% of bottom performers do the same. This highlights areas where these least innovative CUs are falling behind, and as a result, lagging in member satisfaction and Index scores.

ACTIONABLE INSIGHTS



01

CUs depend on their members, and though it is simple that investing more in innovation correlates with higher IRI scores, the end results can be far-reaching. For example, member churn is 57% higher among bottom performers than among top-performing CUs in our Index. This suggests that by underinvesting, the least innovative CUs are missing an opportunity to retain existing members and attract new ones at their current level of investment in payment innovation.



02

The most innovative CUs achieve a better ROI from their payment innovation investments. These top performers are not only more likely to have grown their memberships in the last year but are also more likely to report increases in member engagement and satisfaction with their online/mobile banking offerings than those that are less innovative. This implies that the end goal is not just to innovate but to innovate wisely, and the lowest-scoring CUs would benefit from innovating to provide the personalized payment experiences that digital-first consumers expect from their financial service providers.



03

Top Index performers are more in touch with what current and potential members want and expect from financial service providers than bottom-performing CUs. The most innovative CUs not only are more apt to refine new products and features by testing them with staff and members, but they are also more likely to test innovations with members and enable them to make suggestions. All of this results in higher member satisfaction, suggesting that less innovative CUs could benefit from paying better attention to the needs of their membership.



04

The primary factors that top Index performers see as essential for innovation success are strategic vision and core IT system capabilities. Bottom performers, meanwhile, are most likely to cite implementing new products as most essential to their innovation success. This indicates that the least innovative CUs are committed to rolling out new products and features, but perhaps not the most meaningful or impactful ones, and they should prioritize rolling out the right features in the right way to overcome the challenges that block their success.

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METHODOLOGY

The 2024 Credit Union Innovation Readiness Index, a PYMNTS Intelligence and PSCU collaboration, examines how CUs can reap the benefits of digital innovation to grow their memberships and reduce churn. The Index is based on two surveys. First, a survey of 201 CU executives was conducted from Oct. 4, 2023, to Nov. 16, 2023, to learn about their current product and feature offerings as well as their plans for future innovation. The second, a census-balanced survey of 4,525 U.S. consumers, investigated which products and features consumers want and expect from the CUs with which they transact and was conducted between Nov. 2, 2023, and Dec. 6, 2023. In our sample, 51% of respondents identified as female, the average age was 48 years old, 33% were college-educated and 45% declared incomes of more than \$100,000 per year.

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ABOUT

PYMNTS INTELLIGENCE

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