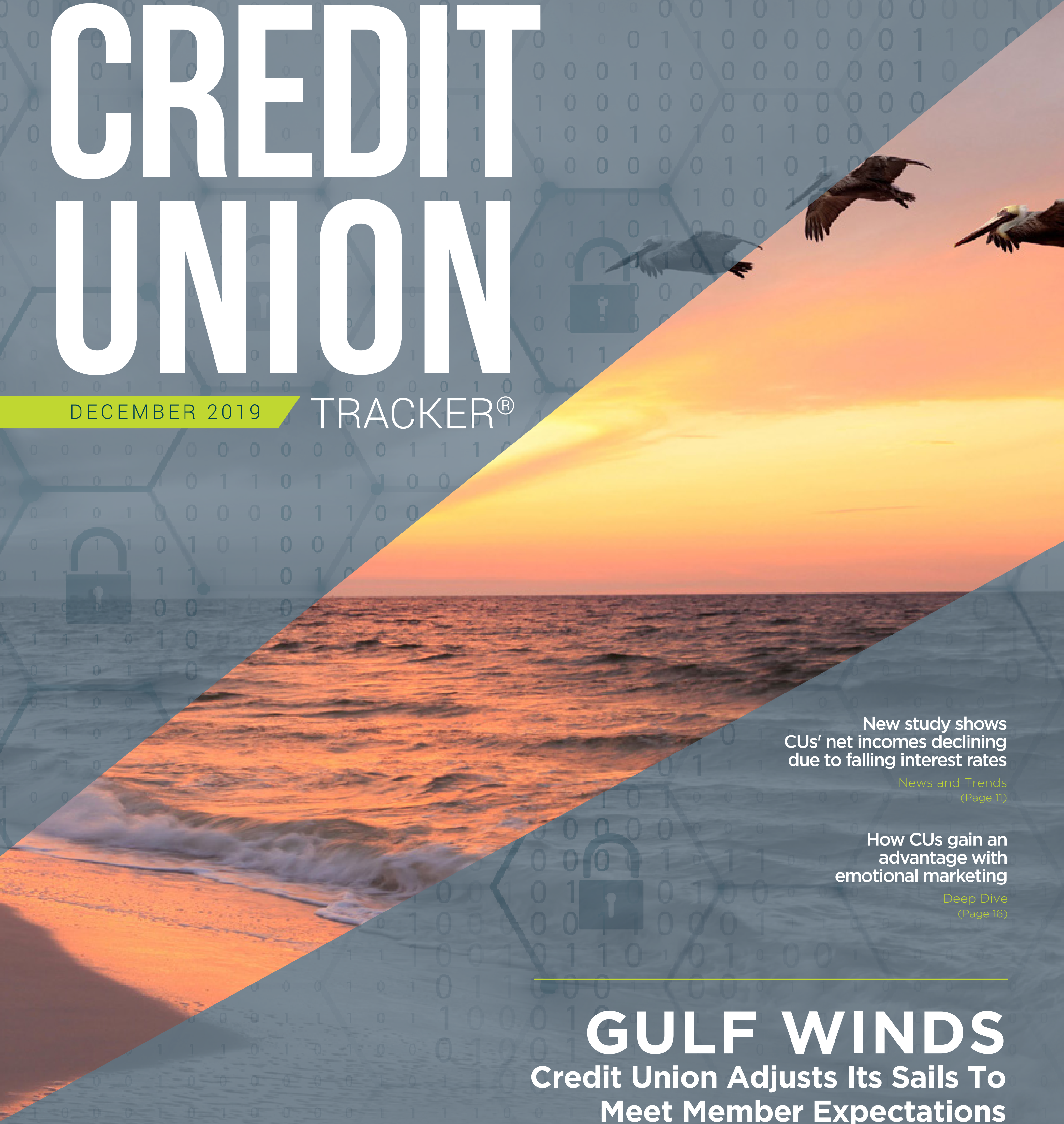
CREDIT UNION

DECEMBER 2019 TRACKER®



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ACKNOWLEDGMENT

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WHAT'S INSIDE

Credit unions (CUs) remain strong despite the many challenges they face. The recently released G-19 Consumer Credit Report found that CUs held $64.4 billion in credit card debt as of September — a 6.9 percent year-over-year increase. CUs also continue to display strong showings in the car loans market, holding $382.9 billion or approximately 31.1 percent of the nationwide total. Those findings represent an increase of 4.1 percent since September 2018 — a slower gain than average that still underscores CUs' impossible-to-ignore presence in the broader financial industry.

That market is changing quickly, however, due to digital banking's dominance. Customers are turning to computers or smartphones more than ever when managing accounts and conducting transactions, and both banks and CUs are working to move services online. Digital banking's omnipresent status is even changing how members want to interact with their CUs, though regulatory and compliance issues often mean that consumers cannot reasonably expect the same lightning-fast interactions they might get from banks and FinTechs.

CUs have a variety of tactics available to help even the playing field with their larger competitors, with many relying on the feeling that makes members select them in the first place: trust. Emotional marketing targets this quality when CUs attempt to attract new members, selling community and impeccable customer service rather than hard numbers. Some CUs have seen improved member engagement and brand awareness through these marketing efforts, and others are just beginning to tap into their potential.

CUs face an uphill battle to top an increasingly digital industry, regardless of the approach they take.

AROUND THE CREDIT UNION WORLD

CUs are working to build community ties, especially during the holiday season. Nine CUs that are members of the Southern Michigan Chapter of Credit Unions each donated $25,000 to a charity that purchases and pays off medical collection debts. The CUs were able to wipe out more than $2.5 million in debt, granting former debtors far more access to loans and other banking services.

An increased emphasis on members' emotions does not mean that CUs are falling behind technologically, though. Credit union service organization (CUSO) CULedger is partnering with digital credential provider Autonomous Lending to offer next-gen digital credentials to its partner CUs. The initiative removes frictions and reduces fraud risk when members apply for loans while also decreasing the potential for human-based errors. This collaboration will help close the innovation gap between CUs and FinTechs, according to a press release.

CUs are also getting help from world governments, as Irish CUs recently experienced regulation changes from the Central Bank of Ireland that ended lending maturity limits in favor of new concentration limits. This shift will allow many CUs to double or triple their lending capabilities. The new regulation was well-received by Ireland's largest CU advocacy organization, which has lobbied for the policy since 2015.

For more on these stories and other credit union developments, read the Tracker's News and Trends section (p. 11).

GULF WINDS CREDIT UNION NAVIGATES CHANGING MEMBER EXPECTATIONS

Digital banking has drastically altered what CU members expect from financial institutions (FIs): faster services,

EXECUTIVE INSIGHT

According to a recent study, 5.8 percent of data breaches occur in the banking, credit and financial sectors. If a CU suffers a data breach, what should be its key priorities to protect member data and restore trust?

"When it comes to protecting your members' most sensitive information and your credit union's assets, you can never be too prepared. The most effective response following a data breach involves credit unions taking immediate and deliberate steps based on an understanding of the forces at work.

First, notify members of the breach and the possible impact to them, [and] share what the credit union is doing to mitigate damage and keep the event from impacting accounts. Utilize channels including email, online banking, mobile apps and social media.

Next, determine if a reissue is necessary. Assess the number of accounts that have been breached and evaluate the demographic information of accountholders to fully understand exposure and determine what percentage of accounts affected by the breach are active. Finding a balance between the cost of reissuance and the gross/net fraud is important when deciding whether to move forward with a reissuance.

Finally, start preparing for the next event as fraudsters are continuing to target the financial services industry. Encourage members to monitor their accounts regularly and sign up for transaction or account activity alerts to help them quickly spot suspicious activity. Document your breach process and ensure staff has been trained on proper procedures. Consider enlisting the help of a dark web monitoring service [that] scans the many online shops set up by fraudsters to find stolen payment information before it can be used, saving your credit union the time and effort required to resolve and protect members from a breach."

Jack Lynch

senior vice president and chief risk officer of PSCU and president of CU Recovery seamless experiences and unparalleled convenience. These expectations can sometimes be unrealistic, but Pensacola, Florida-based Gulf Winds Credit Union is adjusting its engagement and retention efforts in light of the changing landscape. For this month's Feature Story (p. 7), PYMNTS spoke with Gulf Winds' vice president of eServices and payments Haley Murph about how the CU is adapting to address members' demands as well as how heightened expectations will shape the industry's future.

DEEP DIVE: CUs DEPLOY EMOTIONAL MARKETING CAMPAIGNS TO STAY COMPETITIVE

CUs face tough competition in the financial industry, staring down established banks and FinTechs that can often offer more competitive interest rates or larger loans. CUs attracting new members may have to emphasize what makes CUs unique, which can be accomplished through emotional marketing that highlights trust as well as community ties. This month's Deep Dive (p. 16) explores how CUs are uniquely suited to deploy emotional marketing as well as how CUs around the country have leveraged it successfully.

5 FIVE FAST FACTS

$3.8B

Estimated net income CUs generated during Q3 2019

75%

Share of interactions between members and CUs that are conducted digitally

79%

Share of CU members who have expressed interest in switching to FinTechs

$5M

Average CU assets per employee

79%

Portion of CU members who chose their FIs based on trust

FEATURE STORY

Gulf Winds Credit Union Adjusts Its **SAILS TO MEET MEMBER EXPECTATIONS**

DIGITAL BANKING'S GROWING POPULARITY HAS IRREVOCABLY CHANGED THE FINANCIAL INDUSTRY.

Interactions that once took customers the better part of a day and included physical travel to and from branch locations can now be conducted in mere minutes online. This has led to different, greater customer expectations than before, and CUs are working hard to keep up.

"Members' expectations are the biggest disrupter that credit unions face," said Haley Murph, vice president of eServices and payments at Pensacola, Florida-based Gulf Winds Credit Union. "[They] expect that if a service is offered in the marketplace, [whether] by a large international bank or even a non-financial corporation, Gulf Winds should provide that service as well."

PYMNTS recently spoke with Murph about how the onset of digital banking has affected members' interactions with their CUs as well as how Gulf Winds is adapting its engagement efforts to meet members' expectations.

HOW HAS DIGITAL BANKING AFFECTED CU MEMBERS' EXPECTATIONS?

Digital banking's impact cannot be overstated. Studies have found that up to 75 percent of member interactions with CUs are digital and that the remaining quarter consists of ATM transactions, branch visits and call center interactions. Millennials and members of Generation Z prefer digital banking even more than older consumers.

The continuing dominance of digital banking has significantly impacted CUs' anticipated offerings, and their members' expectations often exceed their CUs' actual capabilities, particularly in regards to the seamlessness and ease of transactions. Such trends are often shaped by the speed of CU members' other online experiences. A YouTube account, for example, takes mere minutes to create, including monetization processes. A number of

factors, including regulatory and authentication requirements, make banking processes much more involved, but Gulf Winds is working to bring its digital interactions up to snuff.

"To stay ahead of these trends, we are aligning our resources to become a digitally savvy company by expanding our digital departments and services," Murph said. "We are constantly surveying the market for innovations and seeking partnerships that can quickly help us grow and adapt to new trends."

SOMETIMES THE OLD WAYS WORK BEST

The best way to ascertain members' needs has ultimately not changed, and working to satisfy customers still forms the bedrock of any consumer-focused business. Core strategies have remained the same, but members' feedback channels have dramatically expanded.

"They tell us about their situation and what they want over the phone, in a branch, on social media, in our chat feature, through surveys and in focus groups," Murph said. "Gulf Winds [both responds to] individual needs and looks for larger trends."

Sometimes feedback can signal one of the greatest fears of any CU: that a member is considering leaving for another CU, a FinTech startup or a traditional bank. This is rarely surprising, as a number of warning signs can suggest a member is preparing to depart.

"One signal is when members begin to drop the different services they use from our bank, and we see that they are less interactive with our products," Murph explained. "If we see a member refinance a loan through a payoff request, that's also a big signal [that] they are considering leaving the credit union."

Such relationships are not unsalvageable, however. Gulf Winds employees place personal phone calls to wavering members to gauge their feelings and offer to fix the situation. If the worst-case scenario occurs and the member decides to leave, some value is still gained.

"We have a closing survey to learn more about our member's decision and how we can avoid other members leaving for similar reasons," sh said.

ANTICIPATING THE SHIFTING WINDS

Gulf Winds has some apprehensions about the CU's future despite these engagement and retention efforts. Members are increasingly dropping CUs, banks and other FIs from payment transactions, setting up direct accounts with merchants and paying from there.

"For example, if you put $50 in your coffee app to purchase coffee over the next few months, all those individual transactions are no longer being serviced by Gulf Winds," Murph said. "We are seeking ways to stay in the transaction and incentivize our members to keep their money at Gulf Winds."

CUs must adapt to digital banking innovations affecting their members and remain agile, or they will otherwise be dust in the wind.

NEWS & TRENDS

CREDIT UNIONS FACE DIFFICULT TRENDS

CREDIT UNIONS HAVE LESS EFFICIENT OPERATIONS THAN BANKS, STUDY FINDS

CUs continue to grapple with areas of improvement within the challenging financial ecosystem. A recent study from financial research firm Moebs Services found that CUs are less efficient than banks, which averaged $8.8 million of assets per employee compared to CUs' $5 million average. CUs with assets between $5 billion and $10 billion were the most efficient — $7.1 million per employee — but still fell short of the most efficient banks, which had $25 billion to $50 billion in assets.

Both banks and CUs were less efficient than thrift banks, which averaged $9.7 million in assets per employee. Moebs Services' CEO, Michael Moebs, opined that employee efficiency was one of the most reliable indicators of FI success and that fewer well-paid employees are considered much more desirable than a larger number of less efficient workers.

CU INCOME DECLINES DUE TO FALLING INTEREST RATES

Lower efficiencies are not CUs' only obstacle. American CUs' net income declined slightly during Q3 2019, according to recently released data from the National Credit Union Administration (NCUA). The 5,281 federally insured CUs in the U.S. generated $3.8 billion in net income that quarter, a 1.1 percent decline from the same time period in 2018. Falling interest rates were largely to blame, and net interest income, CUs' largest source of funds, experienced its lowest quarterly gain over the past three years at 6.8 percent. The gain only slightly cleared the 6.6 percent growth in average assets, compressing CU margins and heavily affecting the net income decline.

Not all is grim for CUs, however, as fee income and other operating income increased at 7.2 percent and 7.7 percent, respectively. Total loan originations are also up year over year at $149.7 billion — a 12.4 percent increase from Q3 2018.

CREDIT UNION MERGERS AND ACQUISITIONS

MERRIMACK VALLEY CREDIT UNION AND OCEAN SPRAY EMPLOYEES FEDERAL CREDIT UNION TO MERGE

Two Massachusetts CUs have recently announced merger plans, with Lawrence-based Merrimack Valley Credit Union (MVCU) absorbing Bridgewater-based Ocean Spray Employees Federal Credit Union (OSEFCU). The two CUs have shared a branch location for the past two years, providing MVCU with ample opportunity to acquaint itself with OSEFCU's day-to-day operations and ensure a smooth transition. The financial terms of the deal have not yet been finalized, but no employee positions are expected to be eliminated.

OSEFCU agreed to merge with MVCU to provide its members with more products and services, according to the former's CEO, Annette Yee. OSEFCU is currently dwarfed

by its partner, as it has only 950 members and $11 million in assets to MVCU's 84,000 members and $1.1 billion in assets.

ARIZONA FEDERAL CREDIT UNION PURCHASES PINNACLE BANK

The line separating CUs and banks recently blurred when Arizona Federal Credit Union (AFCU) purchased Pinnacle Bank. The deal was finalized in November, and the combined institution retains the former's name and charter. Customers are not expected to experience any financial operations changes until late 2020, when the two institutions' systems are expected to finally merge. All former Pinnacle Bank employees will become AFCU personnel, and the National Credit Union Administration (NCUA) will insure all deposits.

The merger marks the first time that an Arizona-based CU has acquired a bank from the same state. The new institution will have 16 branches in the Phoenix area — four will have been Pinnacle branches and will specialize in business and home loans.

CUs GET TECHNICAL

CULEDGER PARTNERS WITH AUTONOMOUS LENDING TO PROVIDE DIGITAL CREDENTIALS TO CUs

CUSO CULedger has tapped digital credential provider Autonomous Lending to help provide partner CUs with next-gen technology. The collaboration combines CULedger's myCUID with Autonomous Lending's Persistent Credit Credentials to remove friction and reduce fraud risk when members apply for loans. The alliance will also lower the potential for the human-based errors common in manual loan application processes.

CULedger and Autonomous Lending hope to close the innovation gap between CUs and FinTechs through this partnership. Global FinTech growth is predicted to exceed 22 percent year over year through 2023, and 79 percent of CU members expressed interest in shifting FinTechs for faster experiences.

CULEDGER TRIALS BLOCKCHAIN IDENTITY PLATFORM

CULedger is also exploring blockchain-based solutions to improve CU security. The CUSO recently completed a pilot program alongside three CUs — Desert Financial Credit Union, TruWest Credit Union and Unify Credit Union — to implement a new blockchain identity platform for call centers. The program secures high-risk transactions conducted via phone, which CUs identified as a common fraud channel. CULedger found that the pilot reduced identity verification time from 50 seconds to 10 seconds or less and that the platform could also make administrative and operational processes more efficient.

This program is the latest in CULedger's blockchain experiments. The CUSO partnered with IBM earlier this year to develop a blockchain solution and joined developer R3's blockchain ecosystem last year.

ALASKA USA FEDERAL CREDIT UNION ADOPTS MX MOBILE BANKING PLATFORM

Digital banking is key to any entity in the financial world, and CUs that do not adapt quickly risk falling behind. Anchorage-based Alaska USA Federal Credit Union has partnered with digital banking developer MX for a mobile banking platform that allows its members to bank on the go. The offering consists of MX Pulse for personal financial management, MX Catalyst for data services and MX

Helios for mobile engagement. Alaska USA chose MX specifically for its integrated mobile and online banking platform, according to its president and CEO, Geoff Lundfelt.

Alaska USA is one of the largest CUs in the United States, with $8.3 billion in assets and 660,000 members. The CU operates 74 branches in Alaska, Arizona, California and Washington as well as 55,000 surcharge-free ATMs around the world.

PENFED CREDIT UNION PARTNERS WITH LOANPAL ON CLEAN ENERGY SOLUTIONS FOR HOMES

CUs are also investing in their members outside of the banking space, with Pentagon Federal (PenFed) Credit Union and residential solar loan provider Loanpal collaborating to improve homeowners' access to energy products. The CU will provide funding for Loanpal's technology platform, which will be available to PenFed's members. Loanpal will manage the lending experience, including processes such as loan origination, funding, servicing and installer management, and it will also provide PenFed with performance data and analytics via its investor portal.

Loanpal has secured 14 capital partnerships alongside the PenFed deal. A majority of homeowners express desire for clean energy, but less than 2 percent of homeowners take concrete steps toward it, according to Loanpal CEO Hayes Barnard. The collaboration aims to improve that adoption rate.

INTERNATIONAL CU NEWS

CANADIAN CUs LAUNCH INTERAC DEBIT ON GOOGLE PAY

Seven Canadian CUs — Access Credit Union, Affinity Credit Union, Assiniboine Credit Union, Innovation Credit Union, Prospera Credit Union, Servus Credit Union and Steinbach Credit Union — have partnered with Interac Corp and Google to launch Interac Debit on the Google Pay platform. This partnership allows CU members to make purchases directly from their accounts at participating merchants via their Android mobile devices. Cambrian Credit Union is expected to join this month, followed by an additional wave of CUs in 2020.

This is Google's latest exploration into the space as it recently collaborated with Citigroup to offer Google Pay-compatible checking accounts. The technology giant is also exploring alliances with FIs and FinTechs.

IRELAND ANNOUNCES NEW LENDING RULES FOR CUs

Irish CUs are getting a leg up thanks to the Central Bank of Ireland, which has instituted new regulations for Irish CUs. It replaced the lending maturity limits that capped the percentage of assets that could be lent for longer than five and 10 years with new concentration limits as a percentage of CUs' total assets, enabling many CUs to double or triple their lending capabilities. The new regulations become effective in January.

The Central Bank stated that the regulation shifts aim to improve CUs' flexibility in business and mortgage lending. Ireland's largest CU advocacy organization, the Credit Union Development Association (CUDA), has lobbied for increased lending flexibility since 2015 and praised the move, saying it will allow CUs to more effectively compete with banks for mortgages and business loans.

CUs AND CUSOs INVEST

PSCU PLANS TO INVEST $100 MILLION IN CU SOLUTIONS

Credit union service organization PSCU recently announced plans to invest $100 million in solutions for its 1,500 CU partners over the next three years, enhancing its end-to-end payments platform for more seamless customer experiences as well as modernizing its infrastructure to leverage artificial intelligence (AI), cloud technology and machine learning (ML). A portion of the funds will be earmarked to expand PSCU's proprietary banking platform, Lumin Digital.

The investment will help PSCU's CU partners compete by enhancing member experiences and improving security, according to PSCU board chair Cathie Tierney.

MICHIGAN CUs DONATE TO WIPE OUT MEDICAL DEBT

The holiday season has put nine Michigan-based credit unions in a giving mood, each donating $25,000 to wipe out 3,182 families' medical debts. The CUs — all members of the Southern Michigan Chapter of Credit Unions — donated the funds to New York-based charity RIP Medical Debt, which purchases medical debts at discounted prices and pays them off. This allowed the CUs' donations to punch far above their weight: the collected funds wiped out more than $2.5 million of debt. The Michigan Credit Union Foundation also contributed to the donation.

Medical debt can be detrimental to individuals' banking abilities, according to Martha Fuerstenau, CEO of American 1 Credit Union. Loan rates are based on the credit scores that outstanding medical debt harms, compounding over time to disproportionately damage the financial well-being of CU members.

DEEP
DIVE

CREDIT UNIONS GET EMOTIONAL

CUs face fierce competition to retain their members and captivate new ones. Both social media and mobile internet access have provided FIs of all types, including banks and FinTechs, with a broad field of communication channels to engage with members.

FIs may employ numerous advertising and marketing tools, but few are as effective as appealing to consumers' emotions. Brands lean heavily on this tactic to sell themselves to potential customers, something commonly seen in TV commercials.

"Consumers react [with emotions] as people. Not robots," said Andrea Brimmer, chief marketing and public relations officer for bank holding company Ally Financial at the 2018 Money20/20 conference. "Brands that [customers] want to do business with are still the ones who provide an emotional connection, not those that did the best programmed targeting."

CUs are uniquely suited to leverage emotional marketing to attract new members, drive engagement and prevent churn, giving them a slight edge over large legacy banks and FinTechs. Competition in the financial industry is fiercer than ever, so CUs will need any advantage they can get.

WHAT IS EMOTIONAL MARKETING?

Emotional marketing leans on human feelings rather than hard data to sell goods and services. The banking industry often relies on the latter to attract members and customers, advertising superior interest rates or larger loan availability to competitors. Banks do leverage emotional advertising to attract new customers, but credit unions have an intrinsic advantage: Their members trust them.

PYMNTS' Credit Union Innovation Index found that 65 percent of members said they chose certain CUs as their primary FIs because they trusted them, as opposed to 46.5 percent of non-CU members who said they chose their FIs due to trust. The report also found that 60.8 percent of CU members would not leave their CUs for other FIs even if offered the same financial services. The trust present in the data is due to a variety of reasons, according to PSCU CEO Charles E. Fagan, III.

"The local ties that credit unions have built over the years have built trust [among members] and an 'I can count on you' mentality," he said in an interview with PYMNTS. "[Trust is] what the credit union mission is all about. It goes to the roots of a credit union being member-owned and [the] cooperative and structured [way] that they are governed by the members themselves."

This importance of trust means that CU members choose their FIs for emotional reasons, so emotional marketing is ideal for gaining new members and retaining existing ones.

CUs LEVERAGE CUSTOMER TRUST FOR MORE EFFECTIVE MARKETING

CUs' emotional marketing should aim to reduce members' anxieties and also connect them to the CU through achievements and goals.

One CU exploring this type of emotional marketing is Burton, Michigan-based ELGA Credit Union, which developed a "Christmas Club" program to help members save for the holiday shopping season. Funds can often be tight for families at that time, so the program guides members in incrementally building up an account that becomes available for spending in October. Almost 1,100 ELGA members saved a collective $666,650 over the course of the year, according to CEO Karen Church.

Emotion-led marketing is especially effective on members of Generation Z, who are projected to wield approximately $143 billion in purchasing power as they enter the workforce and begin to affect the world economy. A recent survey found that 75 percent of Gen Z consumers are worried about their student debt, 83 percent expressed more intention to save than spend using credit and approximately 93 percent want to join banks or CUs with strong ethical values. Eighty-six percent of respondents even said that they would support a more ethical company over more economical alternatives. Emotional marketing can position CUs to attract Gen Z customers, securing a loyal member base for decades to come.

EMOTIONAL MARKETING PAYS DIVIDENDS

A multitude of success stories surround CUs' emotional marketing plans, but one that stands out comes from the Boulder, Colorado-based Elevations Credit Union, which has more than 130,000 members, $2 billion in assets and 13 branch locations. The CU embarked on an aggressive emotional campaign when it began to expand into two new counties, launching a website that described the CU's story in detail and positioned itself as a reliable resource in the Fort Collins community.

"We knew building brand awareness and preference was going to be key to gaining credibility as we built branches and hired staff," said the CU's chief marketing officer, Susan Green. "In turn, this would help bring in new members and grow market share."

Both of these goals were accomplished in spades. Elevations grew its unaided brand awareness by 100 percent, its brand preference by 120 percent, and its member count by 41 percent year over year. The feather in its cap: a diamond award for branding from the CUNA Marketing & Business Development Council, identifying the Commitment to Fort Collins campaign as a masterclass in emotional marketing.

Other CUs embarking on emotional marketing campaigns would do well to learn from Elevations, ELGA and others. Thriving in an intensely competitive financial industry requires nothing less.

ABOUT

PYMNTS.com

PYMNTS.com 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 is a CUSO supporting the success of more than 900 owner credit unions representing more than 2 billion annual transactions. Committed to service excellence and focused on innovation, its payment processing, risk management, data and analytics, loyalty programs, digital banking, marketing, strategic consulting and mobile platforms help deliver possibilities and seamless member experiences. Comprehensive, 24/7 year-round member support is provided by contact centers located throughout the United States. 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 40 years. Today, PSCU provides an end-to-end, competitive solution that enables credit unions to securely grow and meet evolving consumer demands. For more information, visit www.pscu.com.

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