



CREDIT UNION INNOVATION

Product Development Slowdown Tests Member Loyalty



Credit Union Innovation: Product Development Slowdown Tests Member Loyalty, a PYMNTS and PSCU collaboration, is based on a census-balanced survey of 4,282 consumers conducted from Oct. 17, 2022, to Nov. 7, 2022. We gathered data on consumers' opinions about product innovation and how those views affected their thoughts about their financial services providers. We also surveyed 100 CU executives from Oct. 7, 2022, to Oct. 31, 2022; these executives' responsibilities include areas such as financial planning and analysis, fraud detection or analysis, operations, product development and research and development. Additionally, we surveyed 50 executives from FinTechs that provide products and services to CUs, individual consumers, commercial banks and community banks; this survey occurred from Oct. 12, 2022, to Oct. 31, 2022.

PYMNTS



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Credit Union Innovation: Product Development Slowdown Tests 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

Businesses from every corner of the financial services sector are competing intensely with one another, putting enormous pressure on all financial institutions (FIs), credit unions (CUs) included, to capture consumers' attention and hold it. For many, this means being aggressive with product innovation. Unfortunately for many CUs, competitive pressures are peaking at a time when resources are limited, and they have a constrained ability to drive growth through new product development.

Nearly half of CU executives say a lack of resources prevents them from bringing innovations to market, which is visible in the data. For example, although 19% of CUs classified themselves as early launchers of new products in Q4 2021, the Q4 2022 figure dropped to just 13%. Many CUs are responding by seeking partners to help them develop products, and more than half are partnering with industry consultants and credit union service organizations (CUSOs) to roll out the products that members say they want.

These are some of the key findings in Credit Union Innovation: Product Development Slow-down Tests Member Loyalty, a PYMNTS and PSCU collaboration based on a survey of 4,282 consumers conducted from Oct. 17, 2022, to Nov. 7, 2022. We gathered data on consumers' opinions about product innovation and how those views affected their thoughts about their financial services providers. We also surveyed 100 CU executives from Oct. 7, 2022, to Oct. 31, 2022; these executives' responsibilities include areas such as financial planning

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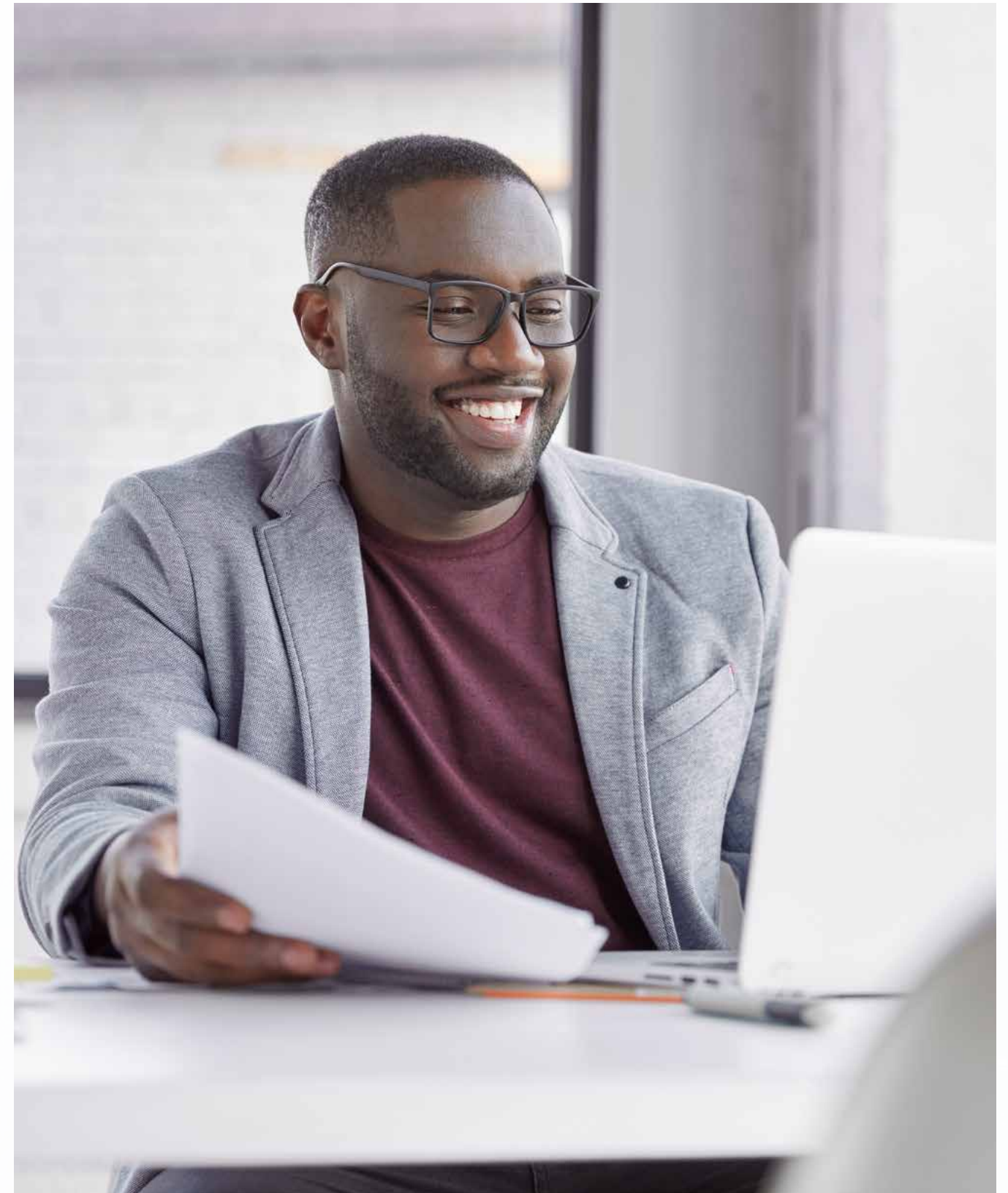
This is what we learned.

1. CREDIT UNIONS ARE SCALING BACK PRODUCT DEVELOPMENT DESPITE MEMBERS' GROWING INTEREST IN INNOVATIVE PRODUCTS.

Budget constraints are forcing CUs to scale back product development plans at the same time that CU members want more innovative products and are willing to take their accounts to other FIs to find that innovation. Twenty-seven percent of CU members say they would switch where they keep their financial accounts to find product innovation, and this figure has been increasing steadily for four years. In 2018, just 17% of CU members were willing to switch FIs to find innovative products.

2. MORE THAN ANY OTHER INNOVATION, CU MEMBERS WANT ADDITIONAL PAYMENT METHODS.

Sixty-four percent of CU members want their primary FIs to offer more payment capabilities, demonstrating their strong influence on consumers. This aligns with non-members, as 65% of all FI account holders are interested in getting innovative payment methods from their FIs. In addition, 79% of the FI account holders who would switch where they bank to obtain more innovative products would like to see more payment products and services from their current FIs.



3. INNOVATIVE AND READILY AVAILABLE CREDIT PRODUCTS CAN HELP CREDIT UNIONS RESPOND TO COMPETITIVE THREATS AND ATTRACT NEW MEMBERS.

Consumers and businesses are aiming to borrow more and employ more types of credit. Seventy-one percent of CUs received more applications for personal loans in the last 12 months, and 74% of the CUs offering credit cards to members say applications have also risen in the past year. Seventy-one percent of the CUs that offer business lines of credit say they have seen an increase in demand for this class of loan. CUs, in turn, are moving aggressively to speed up the loan approval process: 53% of CU executives say they are making very or extremely significant steps to reduce the time to set up a loan for a borrower, and the remaining 47% say they are making slightly significant or somewhat significant steps to speed up the process.

4. CONSUMERS OFTEN SELECT A LENDER BASED ON THE TYPE OF LOAN THEY ARE TAKING OUT.

Consumers and businesses tend to borrow from their primary FIs. Sixty-five percent of those applying for personal loans get these loans from their primary FIs, as do 52% of those applying for home equity loans. But we found exceptions, starting with mortgages and car loans, which consumers apply for at other FIs more frequently. With mortgages, for example, 31% of borrowers stick with their primary FIs, while 52% go elsewhere.

THE PRODUCT INNOVATION HIERARCHY OF CREDIT UNIONS

We asked CU executives about their organizations' stance on innovation and to classify themselves into one of four groups based on their approach to product development:



“EARLY LAUNCHERS”

generally get to the market with new products and services before the competition.



“QUICK FOLLOWERS”

observe emerging trends and quickly introduce solutions that can compete with early launchers' offerings.



“FOLLOWERS”

wait until their more inventive and aggressive rivals demonstrate the market's demand for innovative products and then come up with their own wares that they can market to members.



“LAGGERS”

wait until products have achieved a wide audience among consumers and the financial industry's understanding of them has matured; only then are they ready to unveil their offerings.

THE LIMITS OF LOYALTY

Fifty-six percent of CU members prefer to keep all their loans with one FI, but just 10% say this preference was the most influential factor in deciding where to keep their financial accounts.

Consumers want low interest rates and favorable loan terms, and 27% say a loan’s interest rate and terms are the most important factor they consider when deciding where to borrow. Moreover, consumers who do most of their banking via digital channels are far more likely to prioritize interest rates before deciding where to borrow. Thirty-two percent of the consumers who deal with their CUs or other FIs through mostly digital means say interest rates and loan terms are the factors they consider more than any other.

26%

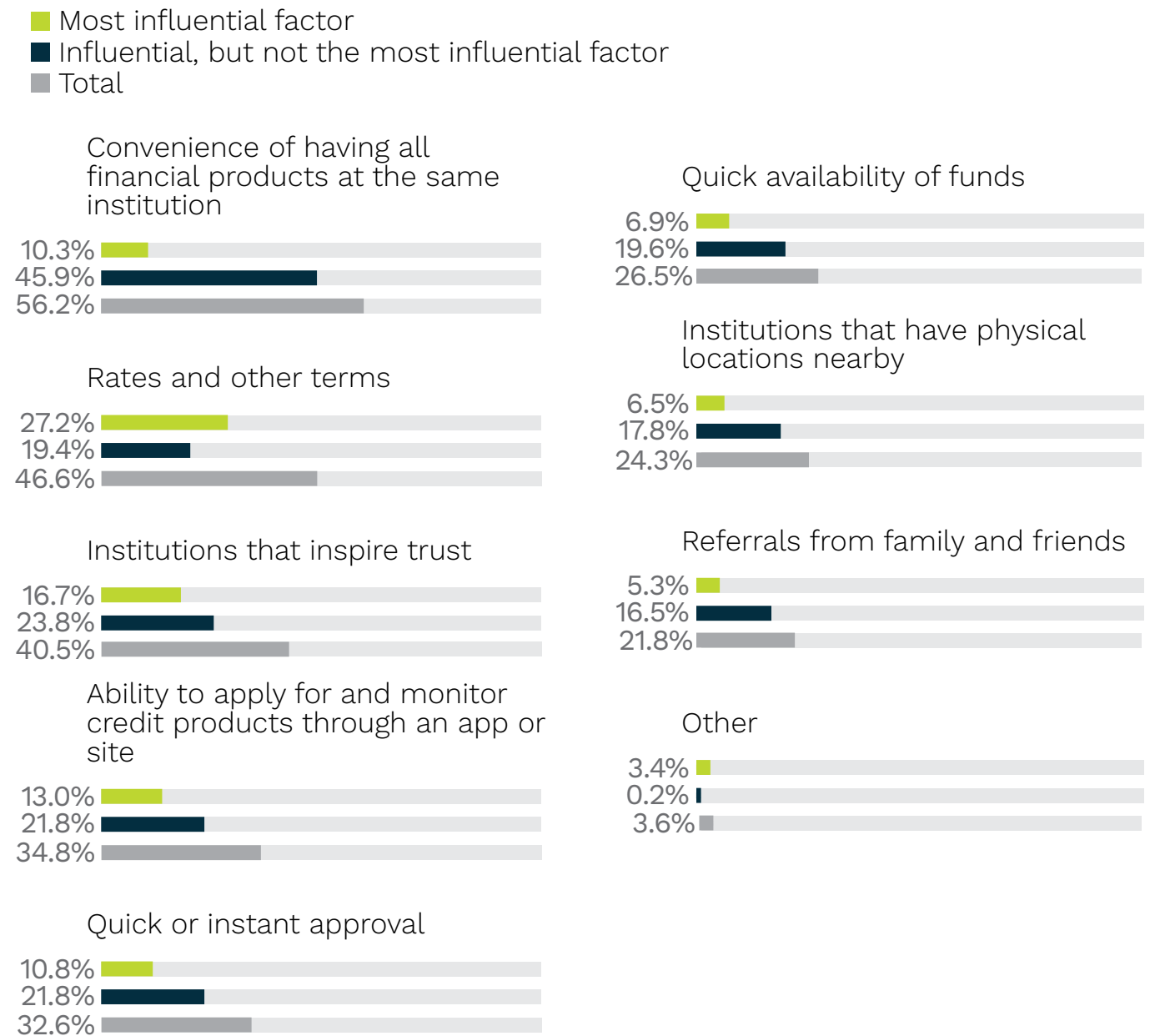
OF CREDIT UNION CUSTOMERS WOULD SWITCH TO ANOTHER CU OR BANK THAT OFFERS BETTER TERMS ON A CREDIT PRODUCT.

A CU’s ability to offer borrowers low, competitive interest rates matters because slightly more than one-fourth of all FI customers are very or extremely likely to move their primary accounts to institutions that offer better credit products. Even among CU members, 26% would switch to another CU or bank that offers better terms.

FIGURE 1A:

What credit product applicants consider

Factors that influence consumers when considering where to apply for credit products

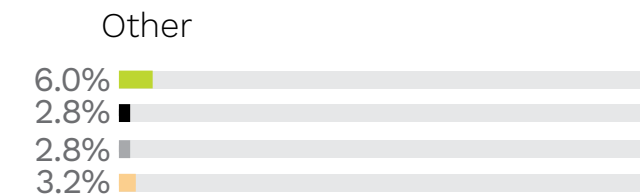
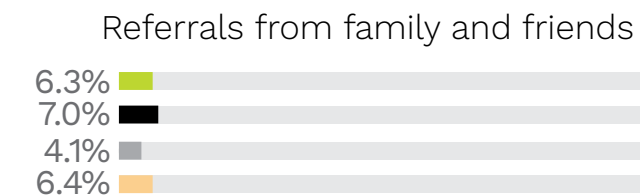
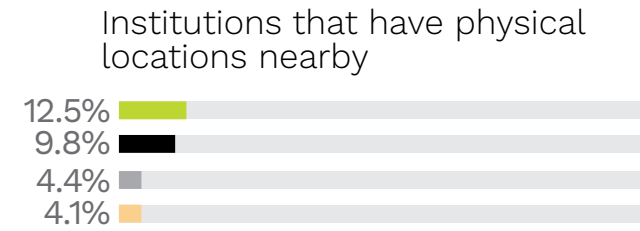
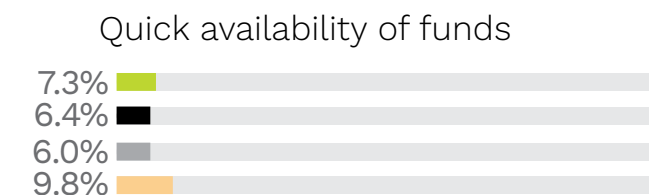
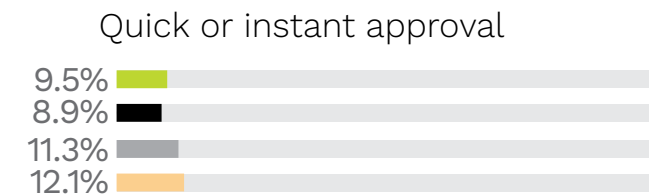
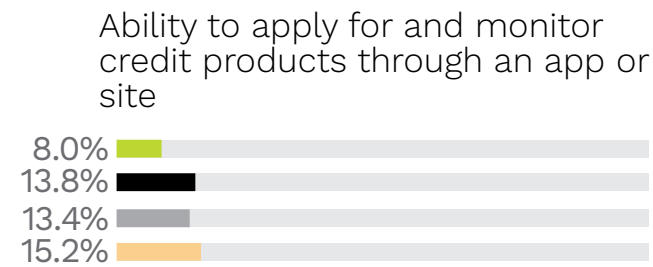
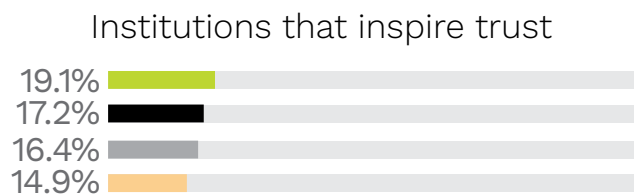
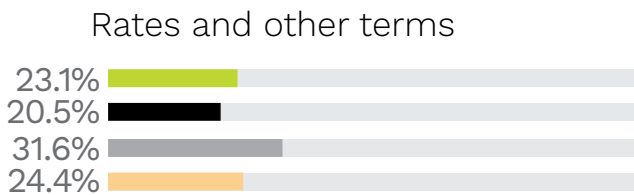


Source: PYMNTS
 Credit Union Innovation: Product Development Slowdown Tests Member Loyalty, January 2023
 N = 4,282: Complete responses, fielded Oct. 17, 2022 – Nov. 7, 2022

FIGURE 1B:
What credit product applicants consider

Factors that most influence consumers when considering where to apply for credit products, by persona group

■ Physical only ■ Mostly digital
■ Mostly physical ■ Digital only



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

26%

OF CREDIT UNIONS NOW CALL THEMSELVES FOLLOWERS IN NEW PRODUCT DEVELOPMENT — DOUBLE THE 13% THAT USED THAT DESIGNATION IN Q4 2020.



CU MEMBERS EXHIBIT A GROWING PROPENSITY TO SWITCH

The share of CU members willing to switch their primary financial institution to find innovative products is at an all-time high. PYMNTS' data finds that CU members are willing to take their business elsewhere if their CU does not give them the innovative products they want, but internal frictions and economic constraints limit CUs' ability to respond through new product developments.

As of Q4 2022, 13% of CUs classify themselves as early launchers of new products, a drop of nearly one-third from the 19% of CUs that called themselves early launchers in Q4 2021.

At the same time, the share of CUs self-identifying as laggards rose to 37% in Q4 2022 from 29% in Q4 2021.

Similarly, 26% of CUs now call themselves followers in new product development — double the 13% that used that designation in Q4 2020.

This increased hesitancy has slashed the number that say they are quick followers with product development; it has fallen since

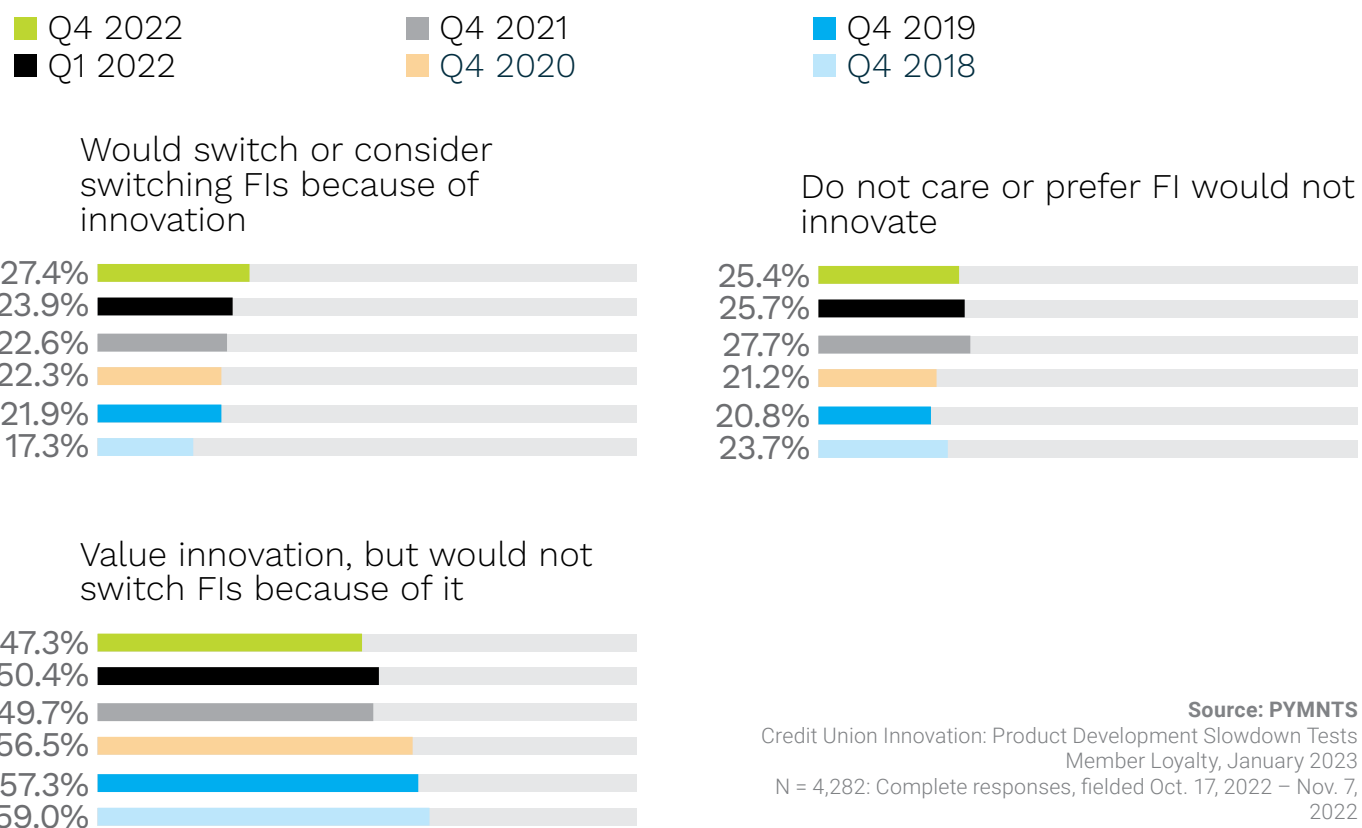
Q4 2020 by nearly half, hitting 24%.

The slowdown in product development may be due to CUs' internal constraints. In Q4 2022, 49% of CU executives said a lack of resources prevented them from bringing innovations to market — a notable jump from the 34% of executives who had the same complaint in Q4 2021.

The difficulty of integrating disparate systems also hampers CUs: 45% of CU executives cited this as a problem in Q4 2022. This figure was 39% in Q4 2021.

FIGURE 2A:
Changing perceptions toward product innovation

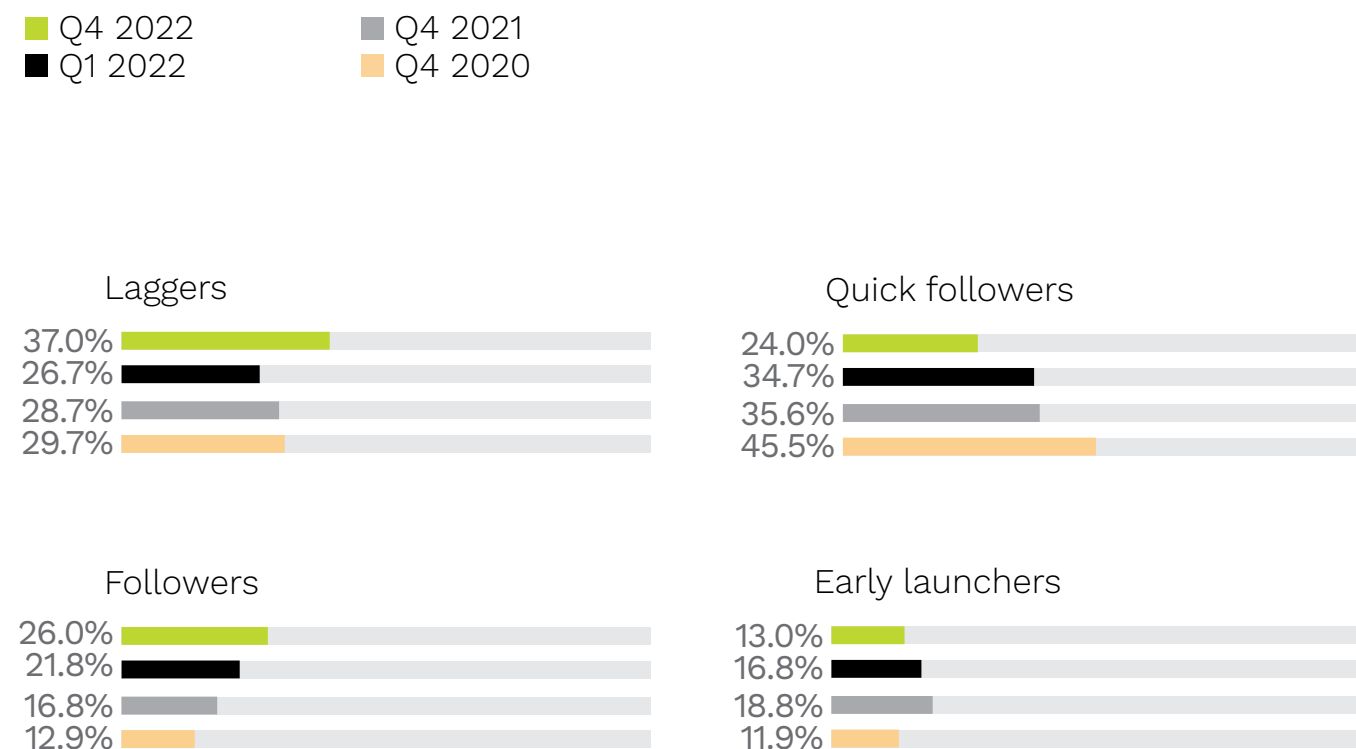
Share of CU members with select attitudes about their primary FIs' innovation, by quarter



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

FIGURE 2B:
Changing perceptions toward product innovation

Share of CU executives self-identifying with select innovation stances, by quarter



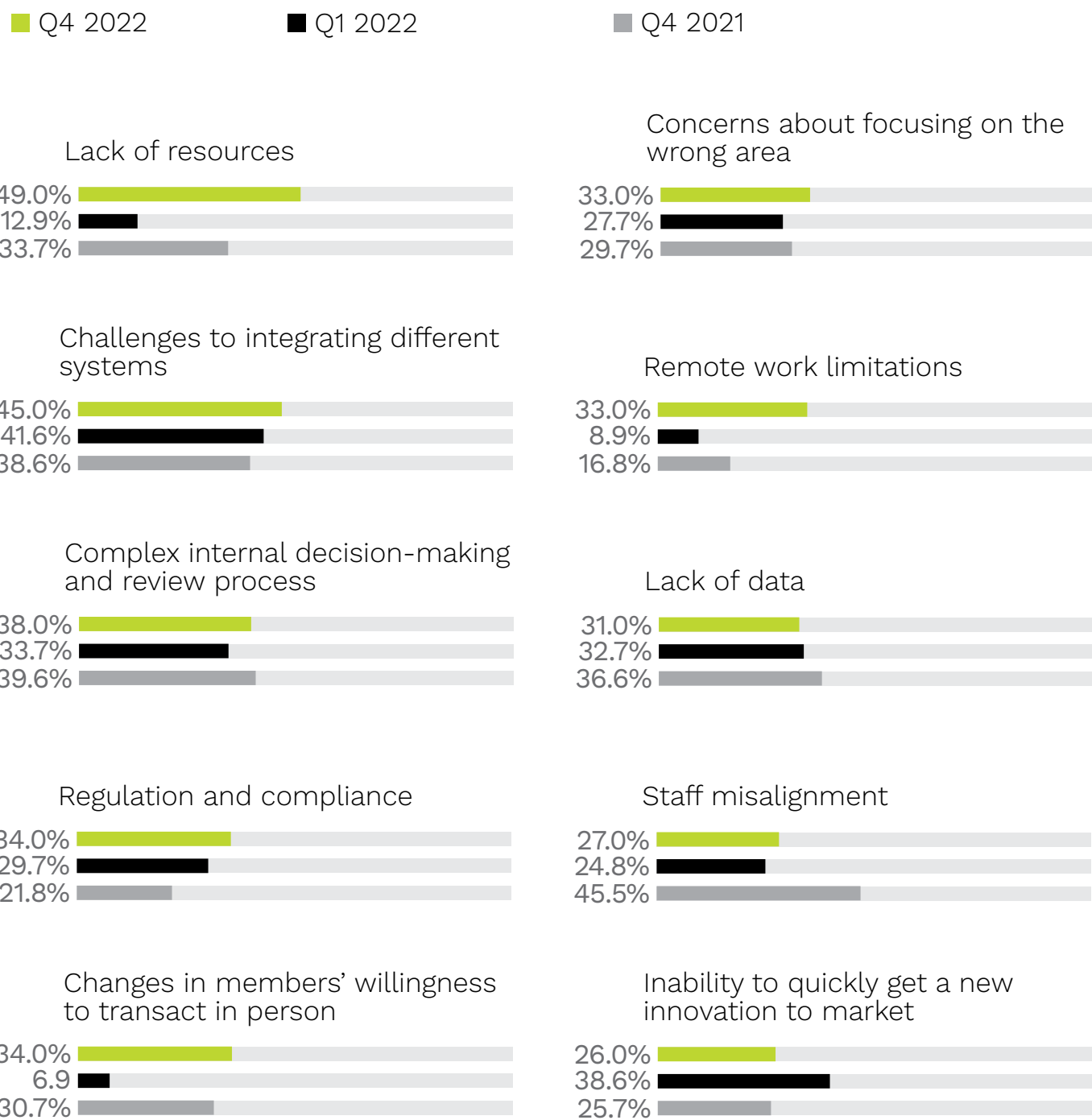
Source: PYMNTS
Credit Union Innovation: Product Development Slowdown Tests Member Loyalty, January 2023
N = 100 CU executives: Complete responses, fielded Oct. 7, 2022 – Oct. 31, 2022

51%

OF CONSUMERS WHO DO ALL THEIR BANKING THROUGH PHYSICAL CHANNELS SAY THEY ARE INTERESTED IN GETTING INNOVATIVE PAYMENT PRODUCTS FROM THEIR PRIMARY FIs.

FIGURE 2C:
Changing perceptions toward product innovation

Share of CUs citing select challenges they face when bringing innovations to market, by quarter



64%

OF CU MEMBERS WANT THEIR PRIMARY FIS TO OFFER MORE PAYMENT CAPABILITIES.



Source: PYMNTS
Credit Union Innovation: Product Development Slowdown Tests
Member Loyalty, January 2023
N = 100 CU executives: Complete responses, fielded Oct. 7, 2022
- Oct. 31, 2022



RISE OF MOBILE BANKING

ADDS TO PAYMENTS INNOVATION APPEAL

The shift toward mobile, real-time banking is making consumers more eager for payment innovations. Seventy-one percent of the FI account holders who bank exclusively via digital means say they want their primary FIs to provide innovative payment products.

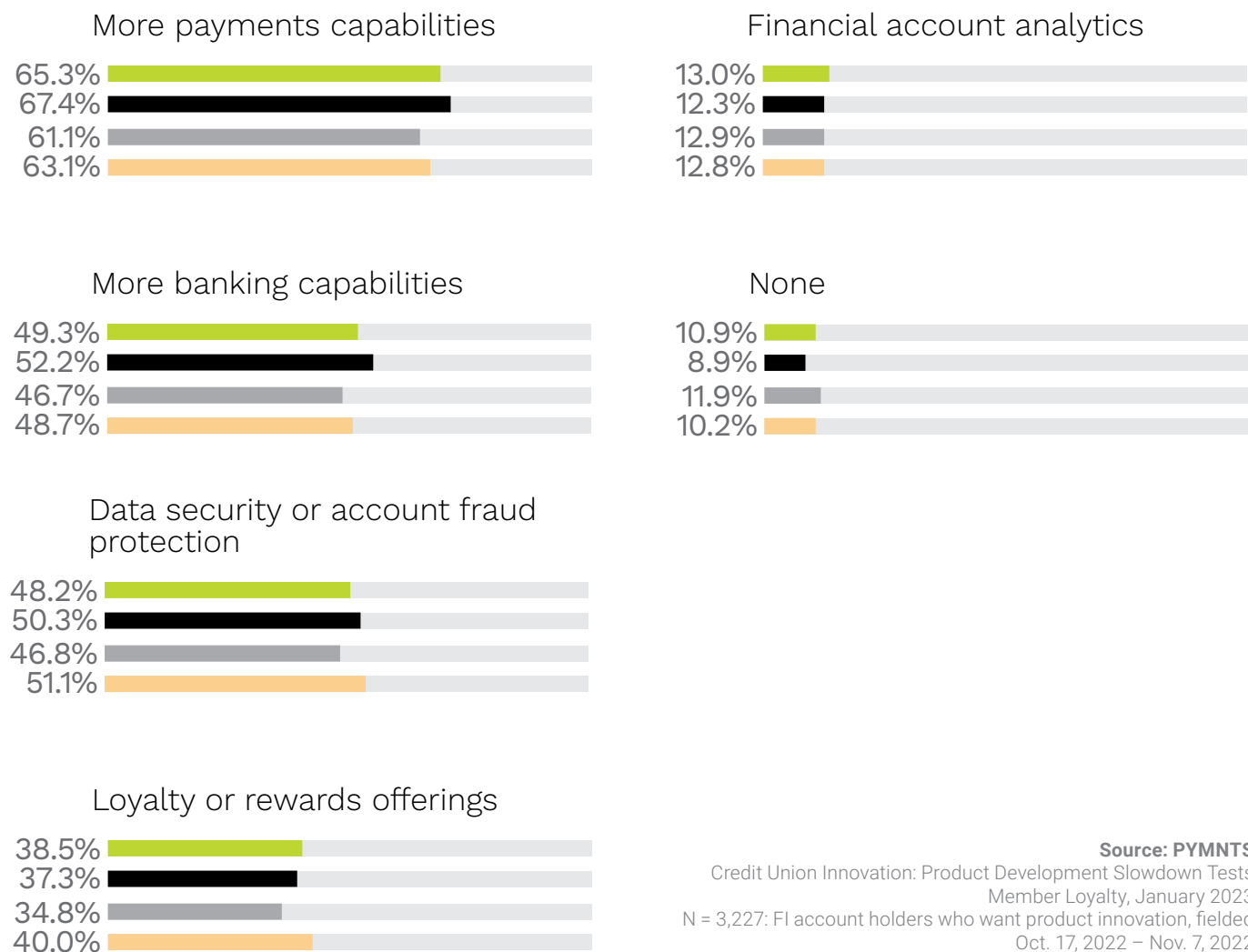
As account holders' level of digital interaction with their primary FIs increases, so does the share who want innovative payment products from their FIs. Sixty-seven percent of account holders who do most of their banking through digital channels want their primary FIs to provide innovative payment products, as do 63% of account holders who bank through mostly physical channels. Just 51% of consumers who do all their banking through physical channels say they are interested in getting innovative payment products from their primary FIs.

While consumers show interest in other banking services, they desire innovations in payment products the most. While 64% of CU members want their primary FIs to offer more payment capabilities, just 48% of CU members want more mobile banking from their primary FIs. We also found that 79% of the FI account holders who would switch where they bank to find innovative products want product innovation, yet just 59% want better mobile banking services.

FIGURE 3A:
The demand for payment innovation

Share of account holders interested in innovation who want their primary FIs to innovate in select areas, by quarter

- Q4 2022
- Q1 2022
- Q4 2021
- Q4 2020

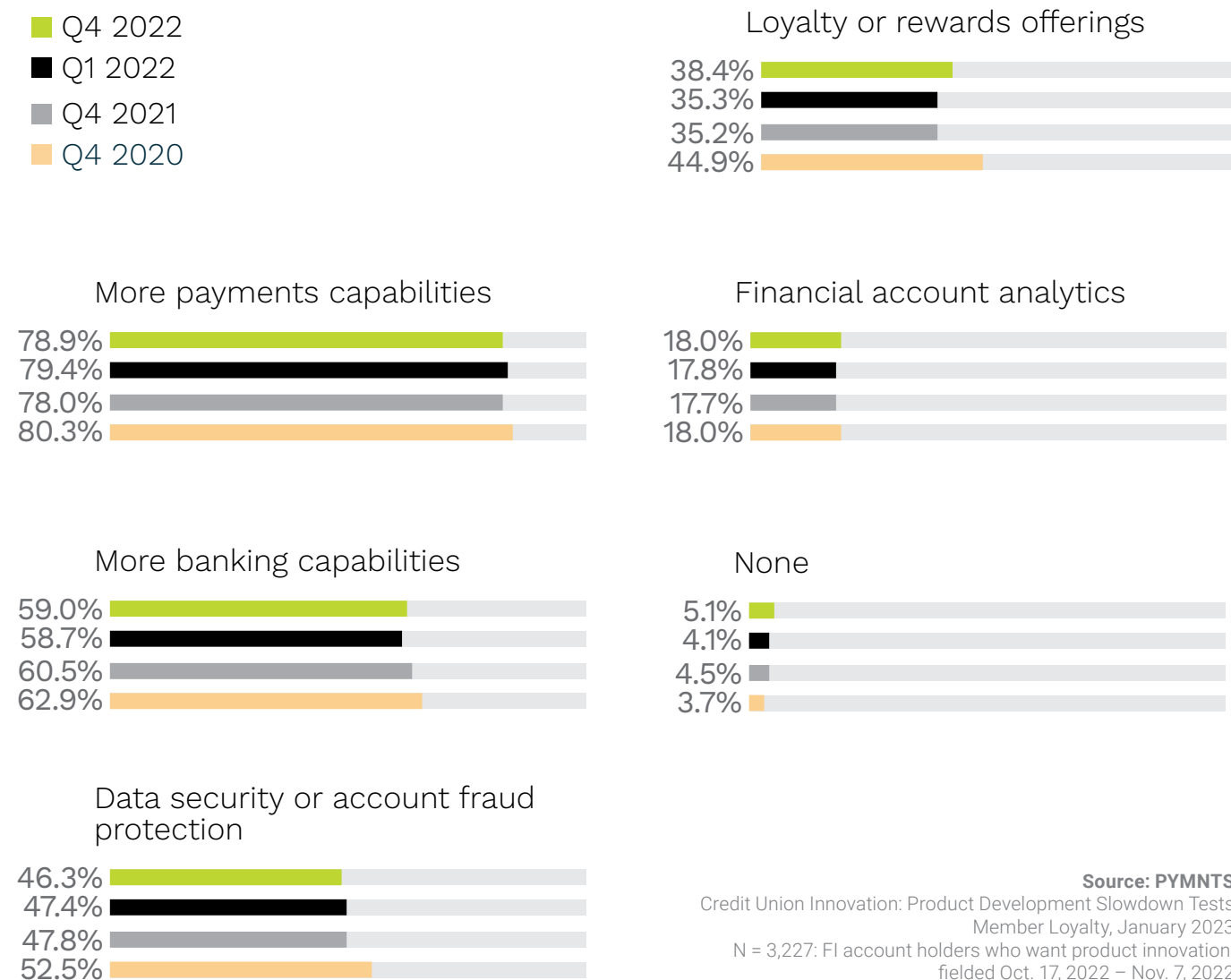


Source: PYMNTS
Credit Union Innovation: Product Development Slowdown Tests
Member Loyalty, January 2023
N = 3,227: FI account holders who want product innovation, fielded Oct. 17, 2022 – Nov. 7, 2022

FIGURE 3B:
The demand for payment innovation

Share of account holders who would switch FIs to find innovative products and want their primary FIs to innovate in select areas, by quarter

- Q4 2022
- Q1 2022
- Q4 2021
- Q4 2020



Source: PYMNTS
Credit Union Innovation: Product Development Slowdown Tests
Member Loyalty, January 2023
N = 3,227: FI account holders who want product innovation, fielded Oct. 17, 2022 – Nov. 7, 2022

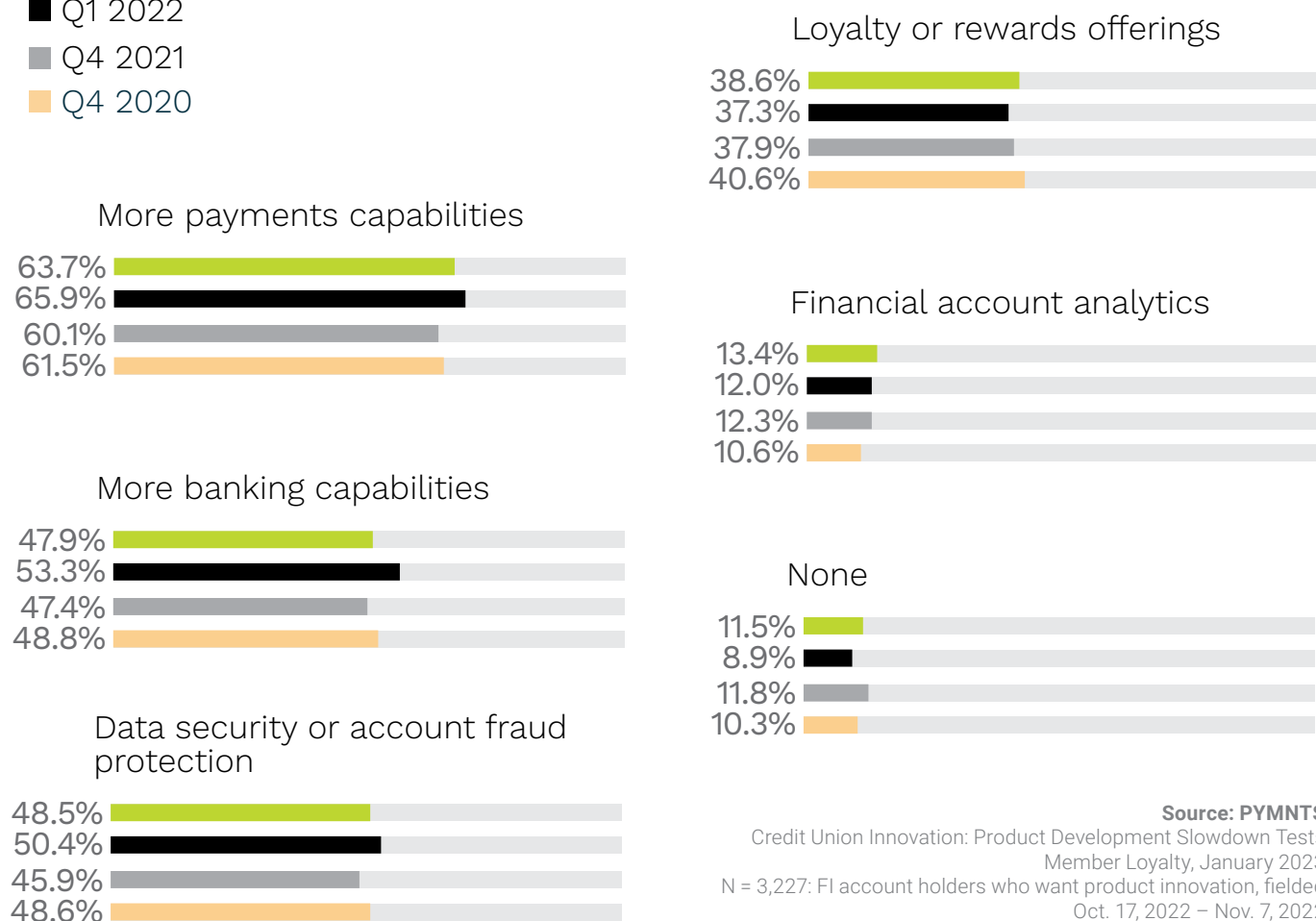
71%

OF THE FI ACCOUNT HOLDERS WHO BANK EXCLUSIVELY VIA DIGITAL MEANS SAY THEY WANT THEIR PRIMARY FIs TO PROVIDE INNOVATIVE PAYMENT PRODUCTS.

FIGURE 3C:
The demand for payment innovation

Share of CU members interested in innovation who want their primary FIs to innovate in select areas, by quarter

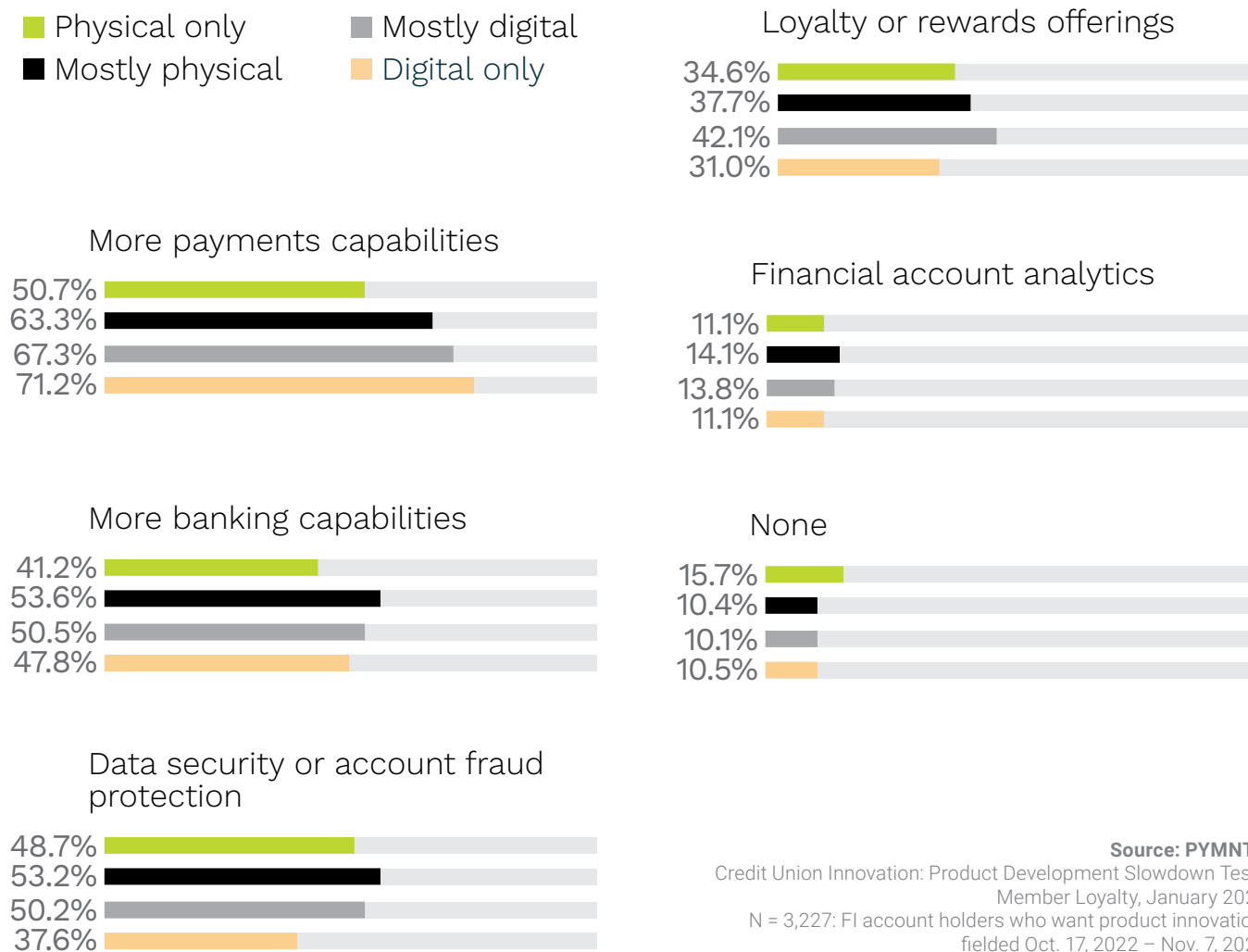
- Q4 2022
- Q1 2022
- Q4 2021
- Q4 2020



Source: PYMNTS
Credit Union Innovation: Product Development Slowdown Tests
Member Loyalty, January 2023
N = 3,227: FI account holders who want product innovation, fielded Oct. 17, 2022 – Nov. 7, 2022

FIGURE 3D:
The demand for payment innovation

Share of account holders interested in innovation who want their primary FIs to innovate in select areas, by persona group



Source: PYMNTS
Credit Union Innovation: Product Development Slowdown Tests
Member Loyalty, January 2023
N = 3,227: FI account holders who want product innovation, fielded Oct. 17, 2022 – Nov. 7, 2022



CONSUMERS HAVE GROWN MORE SAVVY

WHEN SHOPPING FOR LOANS

Credit union executives may be underestimating consumers' savviness when searching for credit offerings. Interest rates and terms are the top factors consumers consider when deciding where to apply for a credit product. Twenty-seven percent of all consumers say better rates and terms are the most important element of their borrowing decision. The appeal of low rates is especially strong among consumers who do most of their banking via digital channels. Thirty-two percent of the consumers who deal with their CUs or other FIs through mostly digital means say interest rates and loan terms are the factors they consider more than any other.

More than half of bank account holders prefer to get all financial products from one FI, although this preference does not cancel out other concerns. Seventeen percent of all consumers say their most important consideration when they need a loan is to borrow from lenders they trust. Another 24% say trust is one of the factors they consider, although it is not necessarily the most important. Thirty-five per-

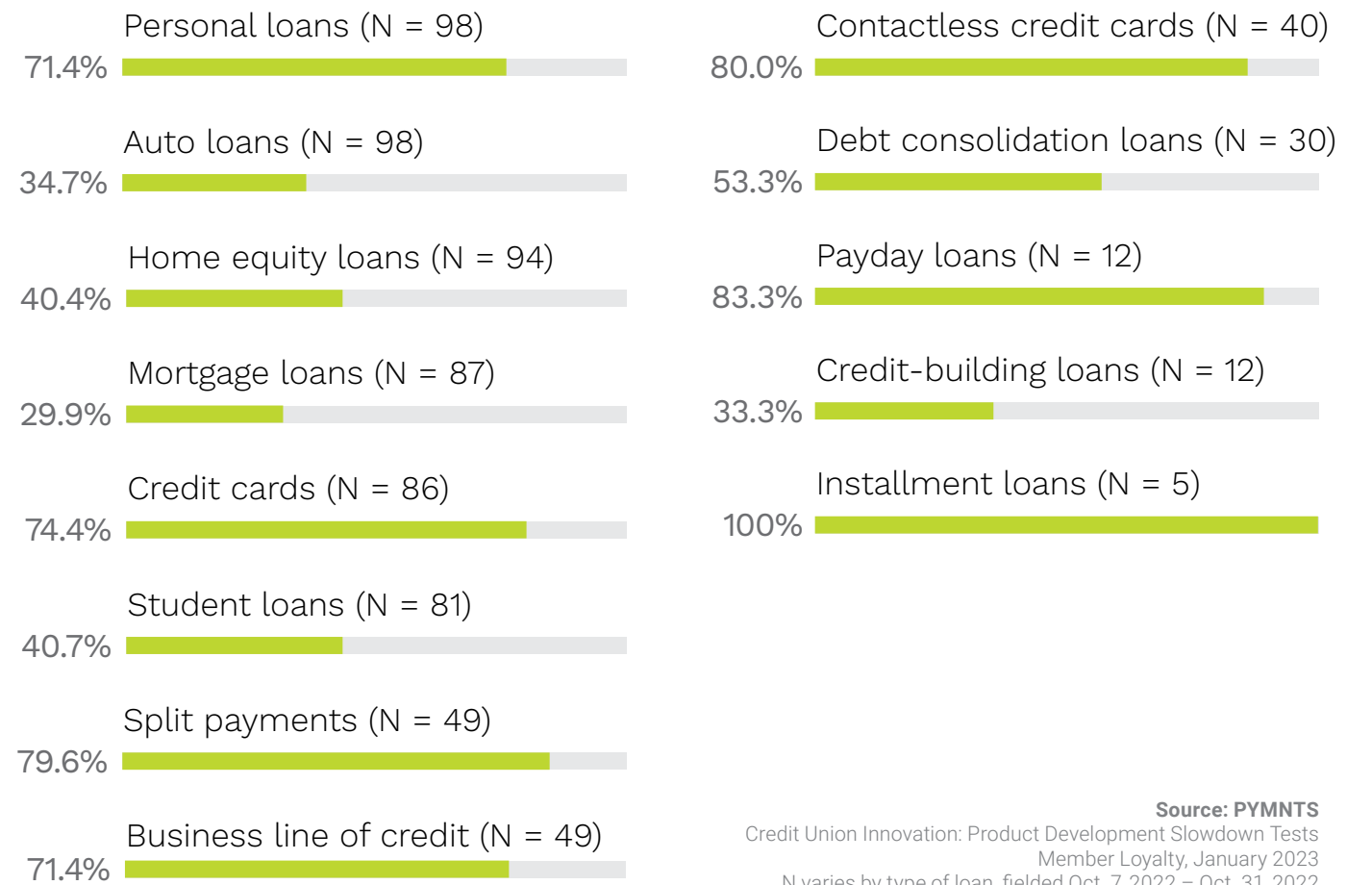
cent of CU executives say that trust matters to borrowers.

Fifty-six percent of CU executives believe convenience also matters. Ten percent of consumers say convenience is the most influential factor when deciding where to borrow, although another 46% of consumers say convenience is one of the factors they consider.



FIGURE 4:
Consumers' requested loans

Share of CUs that saw an increase in applications for select credit products in the last 12 months



Source: PYMNTS
Credit Union Innovation: Product Development Slowdown Tests
Member Loyalty, January 2023
N varies by type of loan, fielded Oct. 7, 2022 – Oct. 31, 2022



YOUNGER, WEALTHIER CONSUMERS ARE MORE LIKELY TO SWITCH LENDERS

Younger, wealthier consumers are somewhat more likely to choose a lender that is not their primary FI. The likelihood that a consumer will borrow from a lender other than their primary FI can have as much to do with the consumer as the lender or the loan's interest rate.

Overall, 27% of consumers are very or extremely likely to switch FIs based on a loan's term. The portion of CU members likely to switch, at 26%, is barely less than the 27% of non-CU members that are highly likely to switch.

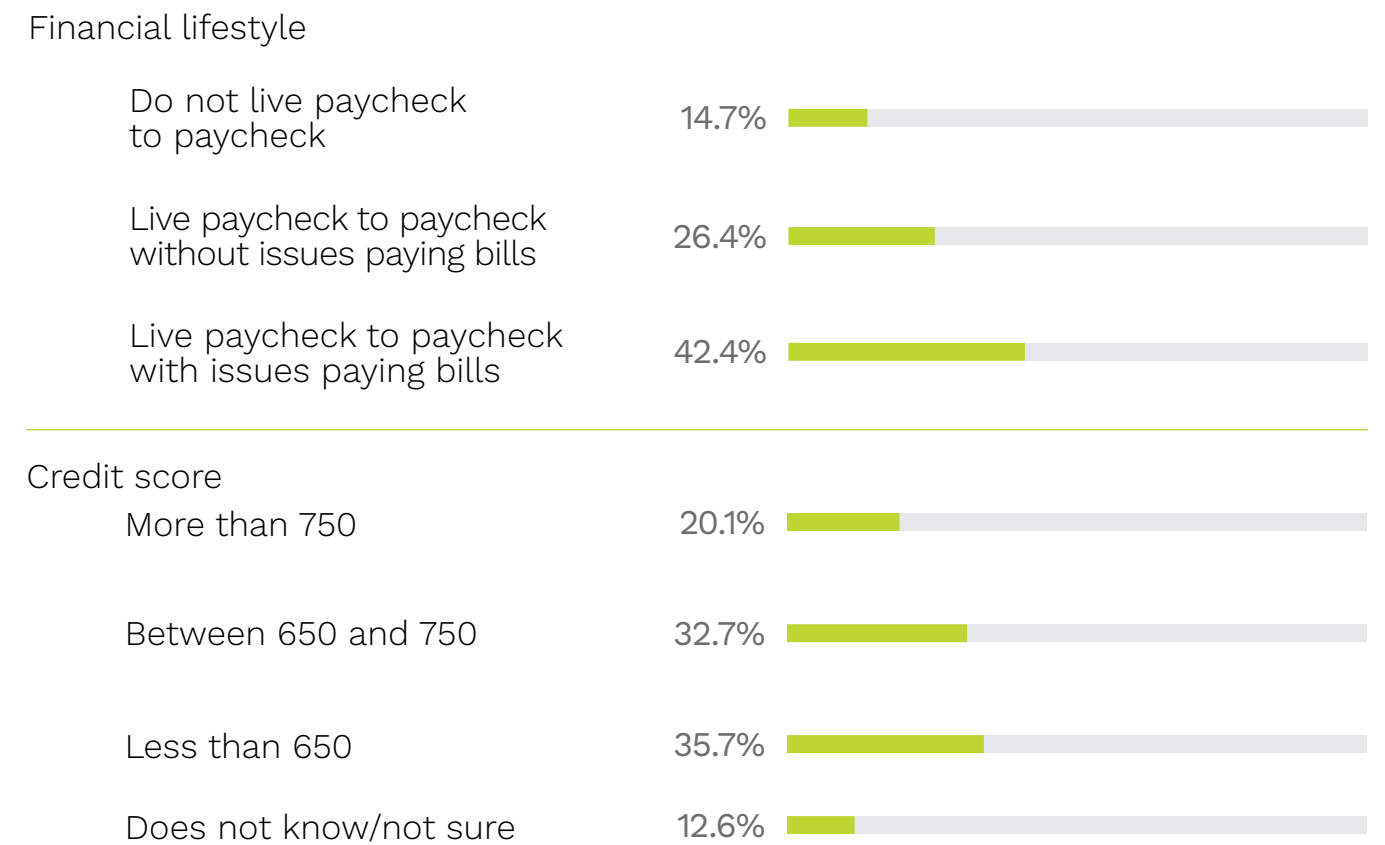
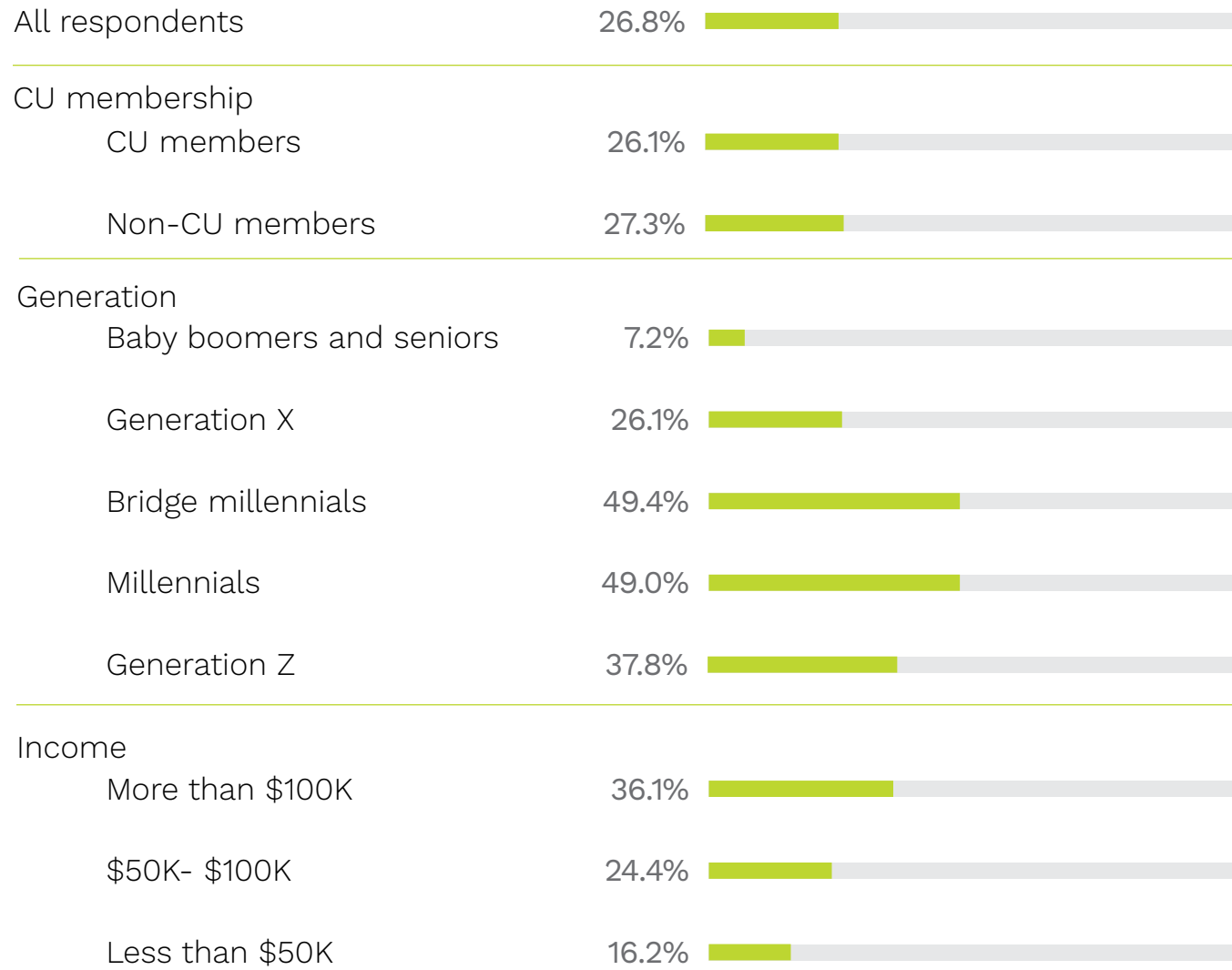
Clear distinctions are apparent when looking at consumers by age group, income level, financial lifestyle or credit score. Forty-nine percent of millennials and bridge millennials say they are very or extremely likely to switch FIs based on a loan's terms, nearly double the 26% of Generation X consumers who say they are highly likely to find a new FI based on the terms of

the loans they borrow. Of Generation Z consumers, 38% are very or extremely likely to switch FIs. Baby boomers and seniors skew the opposite direction, as just 7.2% say they are highly likely to switch FIs because of a loan's terms.

The likelihood that a consumer will switch FIs because of a loan's terms rises with income level. Thirty-six percent of consumers with annual incomes greater than \$100,000 would be very or extremely likely to switch FIs because of a loan's terms, while just 16% of consumers earning less than \$50,000 would also be highly likely to switch.

FIGURE 5:
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



CONCLUSION

Credit union members, long characterized as particularly loyal, have grown to be much more like customers of other FIs in recent years. Like account holders with other FIs, they want innovative products and services based on modern technologies. To keep member ties secure, CUs need to recognize this change in consumer attitudes and effectively respond.

METHODOLOGY

Credit Union Innovation: Product Development Slowdown Tests Member Loyalty, a PYMNTS and PSCU collaboration, is based on a survey of 4,282 consumers conducted from Oct. 17, 2022, to Nov. 7, 2022. We gathered data on consumers' opinions about product innovation and how those views affected their thoughts about their financial services providers. We also surveyed 100 credit union executives from Oct. 7, 2022, to Oct. 31, 2022; these executives' responsibilities include areas such as financial planning and analysis, fraud detection or analysis, operations, product development and research and development. Additionally, we surveyed 50 executives from FinTechs that provide products and services to CUs, individual consumers, commercial banks and community banks; this survey occurred from Oct. 12, 2022, to Oct. 31, 2022.

ABOUT

DISCLAIMER ■

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PSCU, the nation’s premier payments CUSO, supports the success of 1,900 credit unions representing nearly seven billion transactions annually. Committed to service excellence and focused on innovation, PSCU’s 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, 24/7/365 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 advantage that enables credit unions to securely grow and meet evolving consumer demands. For more information, visit pscucorp.com.

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