



CREDIT UNION INNOVATION

CREDIT UNION MEMBERSHIP AND CREDIT PROFILES

Credit Union Innovation: Credit Union Membership and Credit Profiles, a PYMNTS and PSCU collaboration, examines consumers' interest in alternative and innovative payment methods from their financial institutions. Our findings are based on a census-balanced survey of 4,097 U.S. consumers conducted from April 3 to April 24, a survey of 100 credit union executives conducted from April 3 to April 27, and a survey of 54 FinTech executives conducted from April 3 to April 26.



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Credit Union Innovation: Credit Union Membership and Credit Profiles was 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.

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INTRODUCTION

Nearly half of United States retail banking customers choose credit unions (CUs) as their primary financial institutions — but this market position is by no means guaranteed. CUs face the challenge of keeping up with megabanks and FinTechs that push the digital frontier, and many CUs underestimate the importance of staying ahead of the curve.

PYMNTS' research shows that 64% of CUs maintain a reactive, wait-and-see approach toward innovation. CU executives cite budget constraints and data deficiencies as critical hurdles to more proactive digital agendas. The real danger, however, is failing to see that their members view a seamless and leading-edge digital experience as a core offering. Our data reveals that many CU members are willing to consider changing their primary financial institution (FI) to access more innovative features, with many placing data privacy and security at the top of their list.

These are some of the key findings in Credit Union Innovation: Credit Union Membership and Credit Profiles, a PYMNTS and PSCU collaboration based on a survey of 4,097 consumers conducted in April. 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 with responsibilities such as financial planning and analysis, fraud detection or analysis, operations, product development and research and development. Additionally, we surveyed 54 executives from FinTechs that provide products and services to CUs, individual consumers, commercial banks and community banks during the same time period.

This is what we learned.

1 | CUs LEAD AMONG MILLENNIALS AND URBAN CONSUMERS BUT TRAIL FIs IN OTHER KEY SEGMENTS.

Despite serving as the primary FI for 48% of U.S. retail banking customers, CUs perform somewhat unevenly across demographic segments. CUs appeal most strongly to millennials and bridge millennials, with 56% and 57%, respectively, choosing CUs as their primary FIs. Urban consumers also lean slightly toward CUs. However, CUs trail other FIs among older consumers and Generation Z, as well as among consumers in rural areas. Meanwhile, the credit profiles of CU members mirror those of other FIs, reflecting a lack of market differentiation in this regard.

2 | CONVENIENCE AND TRUST ARE THE KEY DRIVERS FOR CONSUMER SATISFACTION IN FIs.

Convenience and trust underpin customer satisfaction in retail banking. Thirty-six percent of consumers attribute their satisfaction to convenience, and this share climbs to 43% among subprime consumers. Trust, however, tops the list for CU members, with 31% pinpointing it as the driver of their satisfaction. Perceptions about trust also correlate with credit persona: Super-prime and prime consumers are more likely to cite trust as a key determinant of their satisfaction, at 29% and 26%, respectively, compared to just 22% among subprime consumers.

3 | CONSUMERS WITH THE STRONGEST CREDIT PROFILES PLACE THE HIGHEST EMPHASIS ON DATA PRIVACY AND ASSET SECURITY.

Consumers consider trust, data privacy and asset security above other criteria when selecting an FI. Data shows that 67% of CU members emphasize trustworthiness, as do the same share of super-prime consumers, while 61% of banking customers across the board insist on data security. Asset protection is not far behind, serving as a deciding factor for 59% of consumers. Subprime consumers, however, prioritize seamless mobile experiences and free ATM usage over others.

4 | CONSUMERS OF ALL CREDIT BACKGROUNDS FAVOR INNOVATION AND SIGNAL READINESS TO SWITCH FIs FOR MORE INNOVATIVE ONES.

Innovation holds a strong influence on consumers' perceptions of their primary FIs. Approximately three-quarters of consumers say they value innovation in their FI. Twenty-seven percent of super-prime consumers would consider switching institutions for greater access to innovative products and services, as would 31% of prime and 32% of subprime consumers. Overall, the share of consumers willing to consider changing FIs for innovative banking experiences rose to 28% in Q1 2023, roughly a 9 percentage point increase since Q4 2018.

5 | CUs WIDELY FAIL TO INNOVATE PROACTIVELY, PREFERRING — AT THEIR OWN PERIL — TO FOLLOW RATHER THAN LEAD.

CUs err on the side of excessive caution: 64% opt to let competitors make the first moves. When asked about this reluctance, 89% of CU executives cited operational difficulties as the main barrier. The primary obstacles for those identifying as followers or laggards were budgetary restrictions and data insufficiencies. Even as these CUs venture into enhancing payments capabilities, their emphasis seems misdirected, targeting market expansion instead of improvements in user experience. Just three in five CU executives view security and compliance as vital in their payments innovation strategies, which shows a disconnect between what CU executives value and what their members want.



CREDIT PERSONAS



SUPER-PRIME CONSUMERS:

Those with credit scores of more than 750



PRIME CONSUMERS:

Those with credit scores ranging from 600 to 750



SUBPRIME CONSUMERS:

Those with credit scores of less than 600



CUs STRUGGLE TO STAND OUT

PYMNTS' latest study shows that 48% of retail banking customers use a CU as their primary FI. CUs perform best with millennials, at 56%, and bridge millennials, at 57%, while Generation Z, Generation X and baby boomers and seniors tend to opt for non-CU banking providers. Meanwhile, residents of urban areas lean slightly toward CUs, at 52%, while those in rural areas trend toward other FIs.

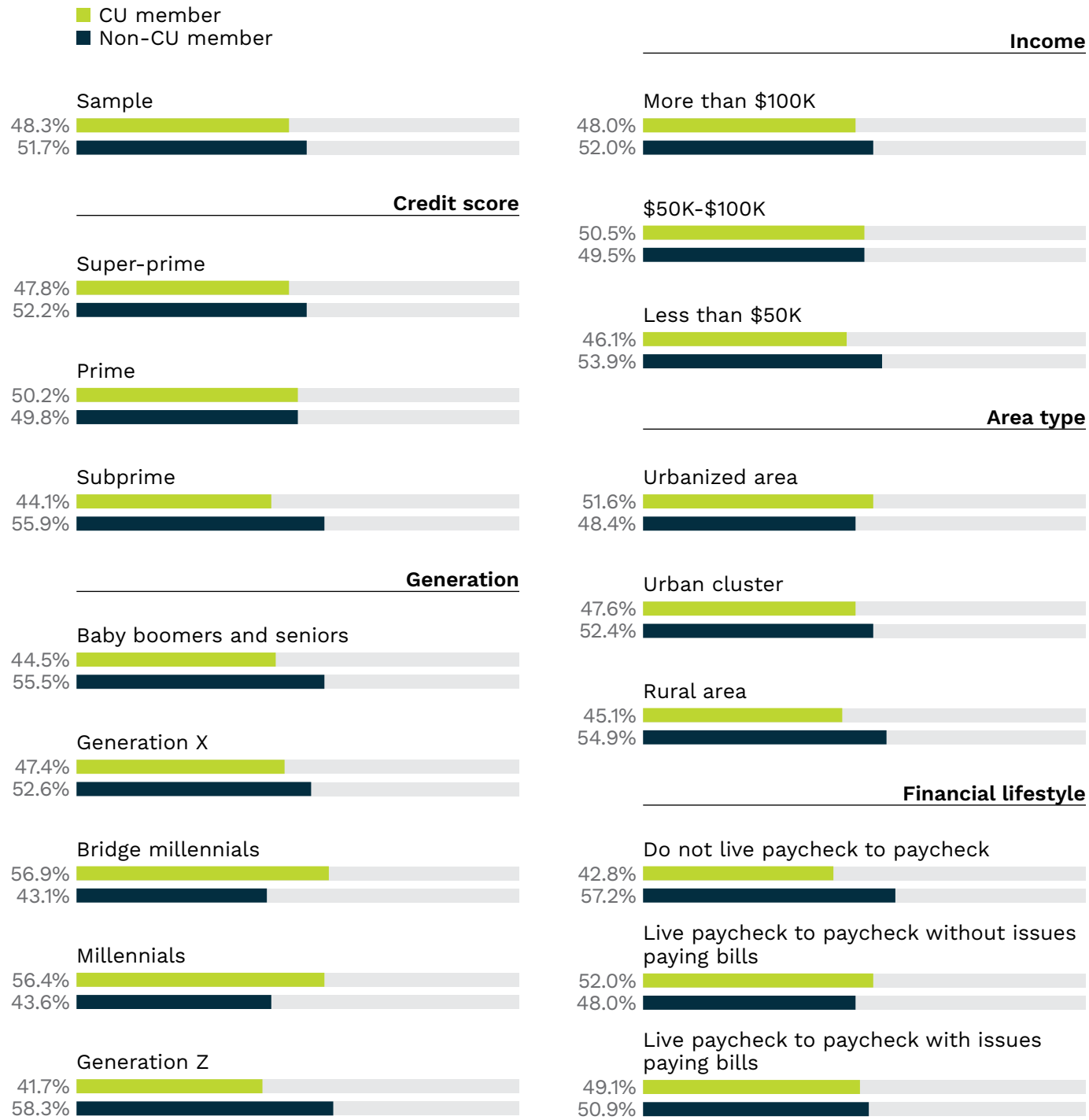
The membership bases of CUs and other FIs vary relatively little in terms of income and financial lifestyle. We find that 51% of respondents earning between \$50,000 and \$100,000 per year choose CUs as their primary FIs, while those in the upper- and lower-income brackets lean toward other FIs. That said, CUs tend to attract members from those living paycheck-to-paycheck more effectively than those on more secure financial footing.

56%

of millennials choose CUs as their primary FI.

FIGURE 1
Credit union membership

Share of consumers using select types of financial institutions, by demographic



Source: PYMNTS

Credit Union Innovation: Credit Union Membership and Credit Profiles, June 2023

N = 4,379: Consumer respondents using a credit union or bank account, fielded April 3, 2023 – April 24, 2023

Our research finds that CU members and those preferring other FIs exhibit strikingly similar credit score distributions. Both groups have the same average credit score of 715, with super-prime customers making up 41% of CU members and 42% of non-CU customers. There is similarly little difference for prime and subprime brackets. That said, CUs overperform slightly with prime consumers while other FIs hold the advantage among their super-prime and subprime peers.



TABLE 1
Credit score distribution

Share of consumers with select credit score personas, by demographic

	SUPER-PRIME	PRIME	SUBPRIME	DO NOT KNOW/ NOT SURE
• Sample	41.6%	36.8%	12.2%	9.4%
Type of user				
• Non-CU member	42.1%	35.5%	13.2%	9.3%
• CU member	41.2%	38.3%	11.1%	9.5%
Generation				
• Baby boomers and seniors	58.3%	27.4%	4.9%	9.4%
• Generation X	37.0%	40.8%	12.1%	10.1%
• Bridge millennials	31.8%	44.8%	18.5%	5.0%
• Millennials	29.8%	45.0%	19.3%	5.9%
• Generation Z	20.8%	40.0%	21.4%	17.8%
Income				
• More than \$100K	51.8%	34.0%	8.8%	5.4%
• \$50K-\$100K	37.9%	40.6%	12.9%	8.6%
• Less than \$100K	29.7%	36.5%	17.0%	16.9%
Area size				
• Urbanized area	42.4%	38.8%	10.1%	8.8%
• Urban cluster	42.8%	35.8%	12.8%	8.6%
• Rural area	40.6%	35.9%	12.8%	10.7%

Source: PYMNTS

Credit Union Innovation: Credit Union Membership and Credit Profiles, June 2023
N = 4,097: Complete responses, fielded April 3, 2023 - April 24, 2023

715

Average credit score of CU members and other consumers alike





CONVENIENCE AND TRUST

In the retail banking space, a satisfactory digital experience centers on two factors: convenience and trust. Among all respondents who are at least moderately satisfied with their primary checking or savings account, 36% cite convenience as the most important factor, versus 27% who cite trust. However, trust narrowly wins out among CU members, at 31% versus 30% for convenience. That said, the share of CU members choosing convenience as the most important factor grew by 4 percentage points over the last year.

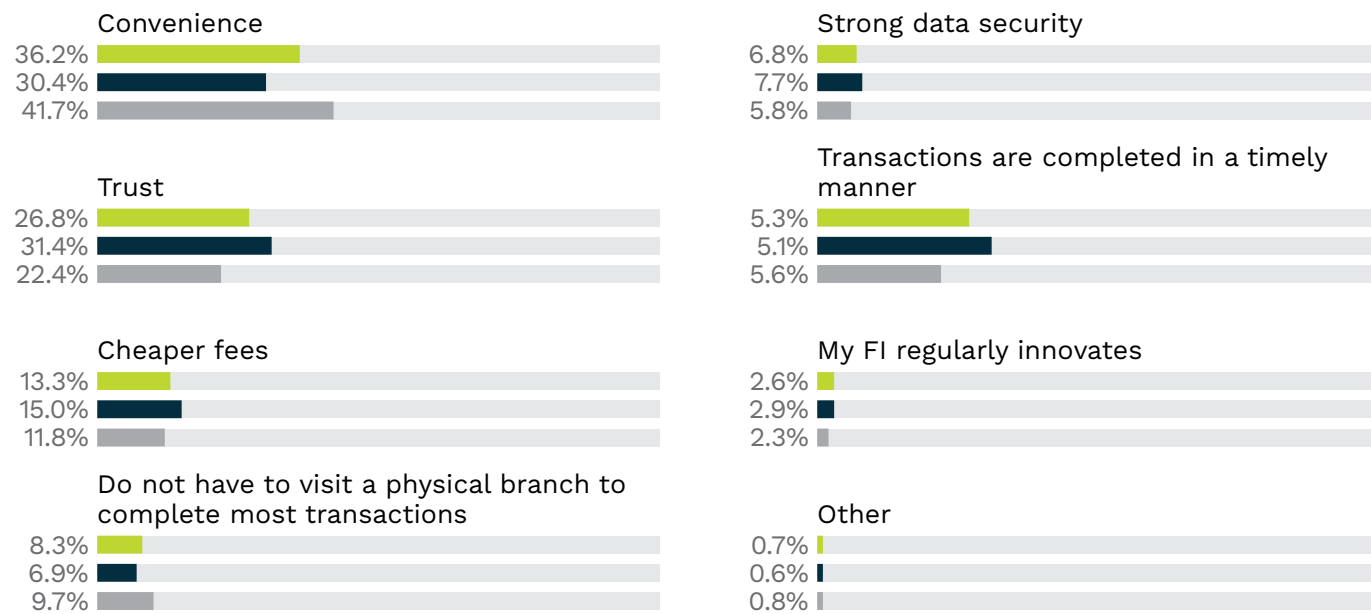
Notably, consumers' credit personas play a significant role in the relative importance of convenience and trust as the number one driver of satisfaction. While 43% of subprime consumers rank convenience foremost, 37% of their prime and 34% of their super-prime peers say the same. Trust follows the opposite pattern, with 29% percent of super-prime consumers citing this as their top feature, followed by 26% for prime and 22% for subprime consumers.

31% of CU members cite trust as the most important reason for satisfaction with their primary FI, among those who are at least moderately satisfied.

FIGURE 2
Drivers of satisfaction

Share of consumers citing the most important reason for being satisfied with their primary FI, by CU membership

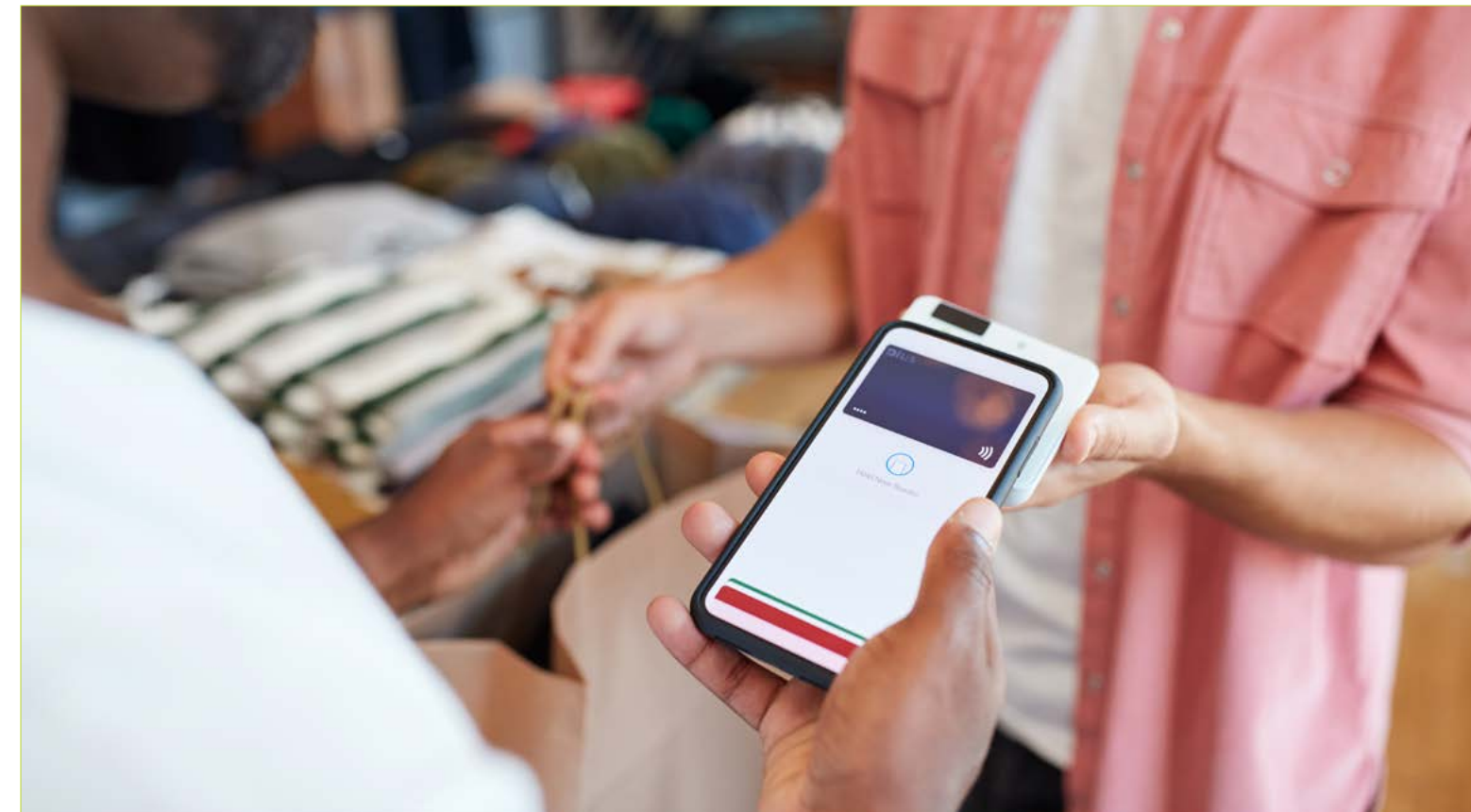
- All respondents
- CU members
- Non-CU members



Source: PYMNTS

Credit Union Innovation: Credit Union Membership and Credit Profiles, June 2023

N = 3,955: Consumers at least somewhat satisfied with their primary checking or savings account provider in Q1 2023, fielded April 3, 2023 – April 24, 2023



7%

of all respondents cite strong data security as the most important reason for satisfaction with their primary FI, among those who are at least somewhat satisfied.



SUPER-PRIME, HIGHER STANDARDS



Trust fuels customer satisfaction and plays a pivotal role in new customer acquisition. Our data shows that the interrelated elements of data privacy, trustworthiness and asset security stand above all other considerations for consumers selecting a bank or credit union.

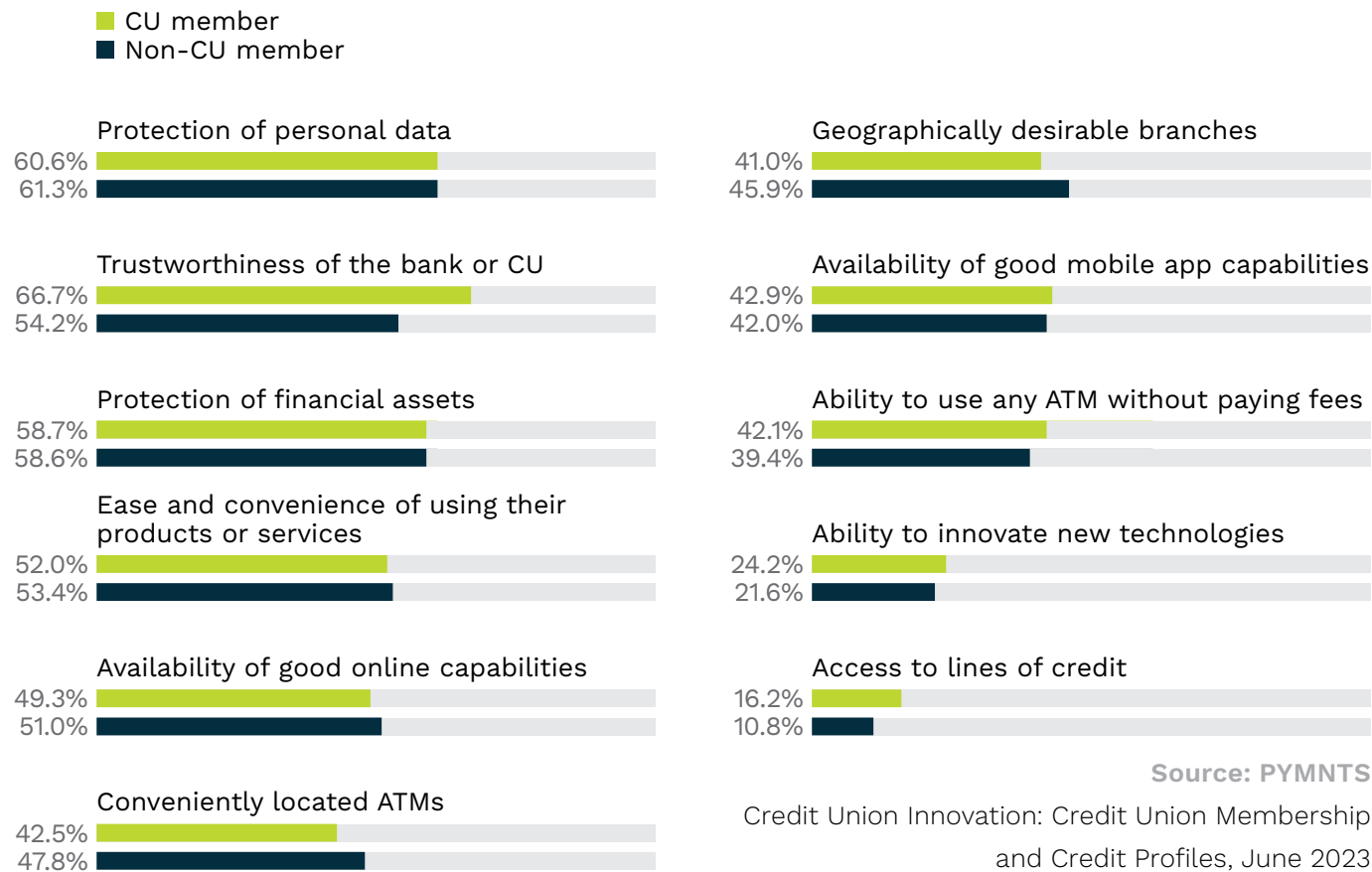
Overall, 61% of CU members and those who mainly bank with other FIs stress the importance of safeguarding sensitive personal and financial data. Fifty-nine percent of consumers in both groups also cited the importance of financial asset protection. However, CU members stand apart from others for the higher value they place on an FI's trustworthiness, with 67% citing this as a decisive factor in their banking decisions.

67%

of CU members cite the trustworthiness of an FI as a decisive factor in their banking decisions.

FIGURE 3
What members look for in an FI

Share of consumers citing select factors as important when selecting a bank or credit union, by CU membership

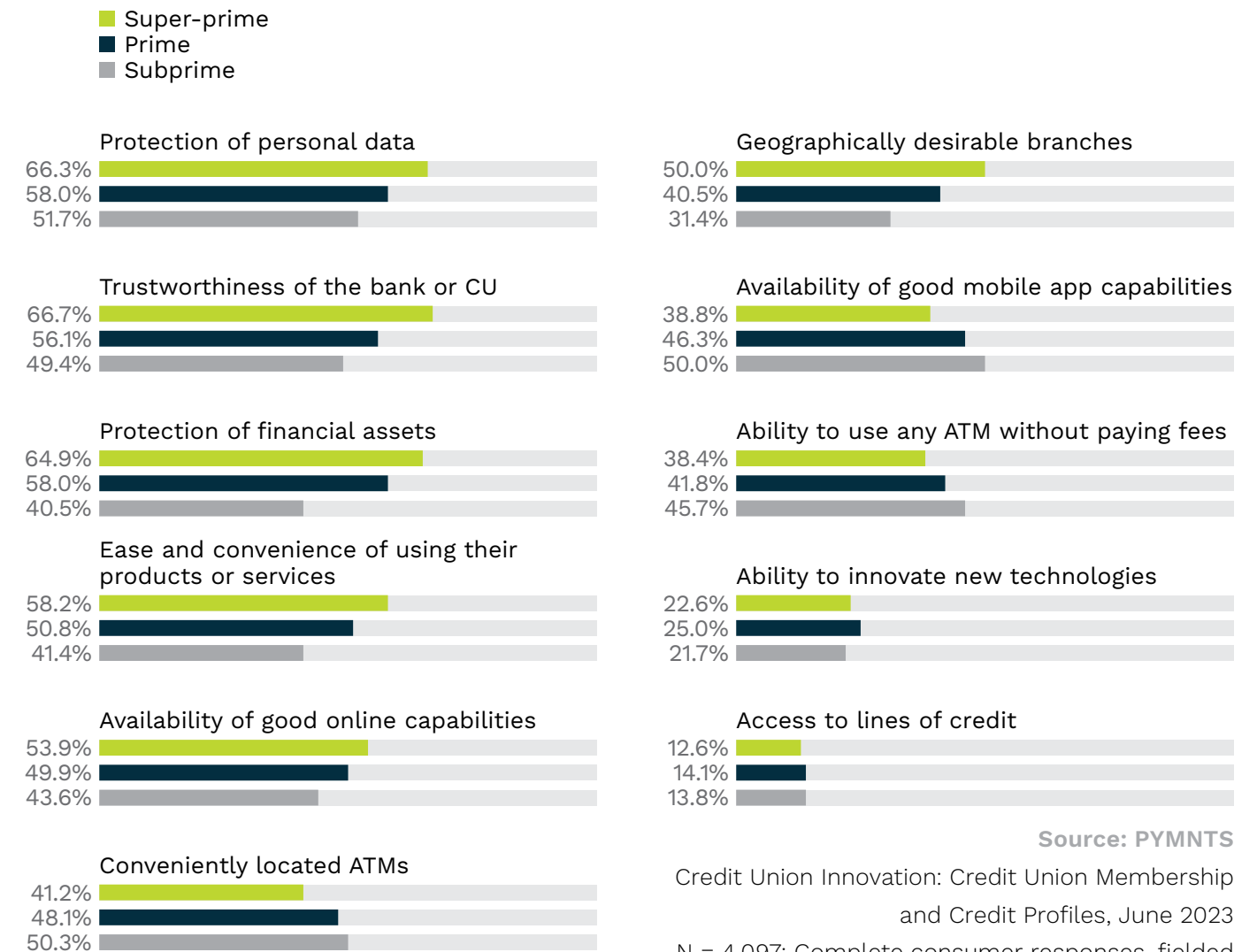


Source: PYMNTS
Credit Union Innovation: Credit Union Membership and Credit Profiles, June 2023
N = 4,097: Complete consumer responses, fielded April 3, 2023 – April 24, 2023

We note that 67% of super-prime consumers point to trust as a key factor in deciding where to keep their accounts. Sixty-six percent of those in the highest credit score bracket also view data security as key, followed closely by 65% who say the same about asset protection. In contrast, subprime consumers are 15 percentage points to 24 percentage points less likely to perceive these factors as crucial to their choice of an FI. Instead, these consumers tend to prioritize seamless mobile experiences and fee-free use of ATMs.

FIGURE 4
What different credit personas look for in an FI

Share of consumers citing factors as important when selecting a bank or credit union, by credit score persona



Source: PYMNTS
Credit Union Innovation: Credit Union Membership and Credit Profiles, June 2023
N = 4,097: Complete consumer responses, fielded April 3, 2023 – April 24, 2023



INNOVATION IN FOCUS

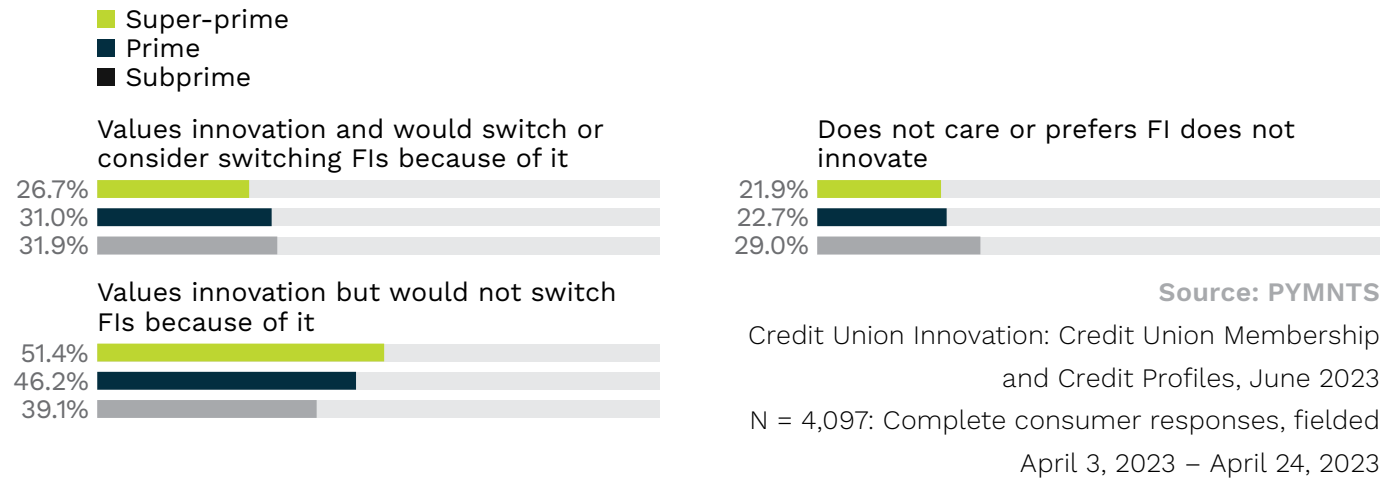
Customer perceptions about the levels of digital innovation offered by their FIs greatly shape their everyday banking experiences and satisfaction. To better understand the dynamics of innovation and churn, we asked retail banking consumers whether innovative practices could lead them to switch FIs. The vast majority of retail banking customers say they care about the innovation their FIs offer, with 78% of super-prime consumers, 77% of prime consumers and 71% of subprime consumers saying they value innovation.

Our data reveals that 28% of respondents overall would either switch institutions to access more innovative products and features or consider doing so, making this a potentially game-changing dynamic. Super-prime account holders, at 27%, are slightly less likely to express this sentiment than those with lower credit scores, but losing even a modest portion of these lucrative customers would severely impact a CU or FI.

Moreover, this willingness to switch is growing. In Q1 2023, 28% of CU members and 29% of non-CU customers were open to switching FIs for more innovative banking experiences — approximately 9 percentage points more than in Q4 2018 when we first started collecting data. The rising tide of consumers prepared to switch to more innovative FIs offers a clear warning to any FIs still on the fence about the centrality of continuous improvements in attracting and retaining customers.

FIGURE 5
Attitudes about innovative FIs

Share of consumers with select attitudes about their primary FI's innovation, by credit score persona



CREDIT UNIONS' PRODUCT INNOVATION PERSONAS

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



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



- Quick followers are those who observe emerging trends and are quick to introduce solutions once evidence supports that they can compete with early launchers' offerings.



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



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

THE RISKS OF WAIT-AND-SEE

A willingness to innovate is central to launching products and services that address customer pain points. Our study reveals that credit unions hold themselves back, with 64% adopting a wait-and-see approach before implementing new offerings. Put differently, nearly two-thirds of CUs shy away from actively innovating, believing instead that they will fare better as followers than leaders.

TABLE 2

How CU executives approach innovation

Share of CU executives self-identifying as innovation personas

	LAGGERS	FOLLOWERS	QUICK FOLLOWERS	EARLY LAUNCHERS
• Q1 2023	37.0%	27.0%	24.0%	12.0%
• Q4 2022	37.0%	26.0%	24.0%	13.0%
• Q1 2022	26.7%	21.8%	34.7%	16.8%
• Q4 2021	28.7%	16.8%	35.6%	18.8%
• Q4 2020	29.7%	12.9%	45.5%	11.9%

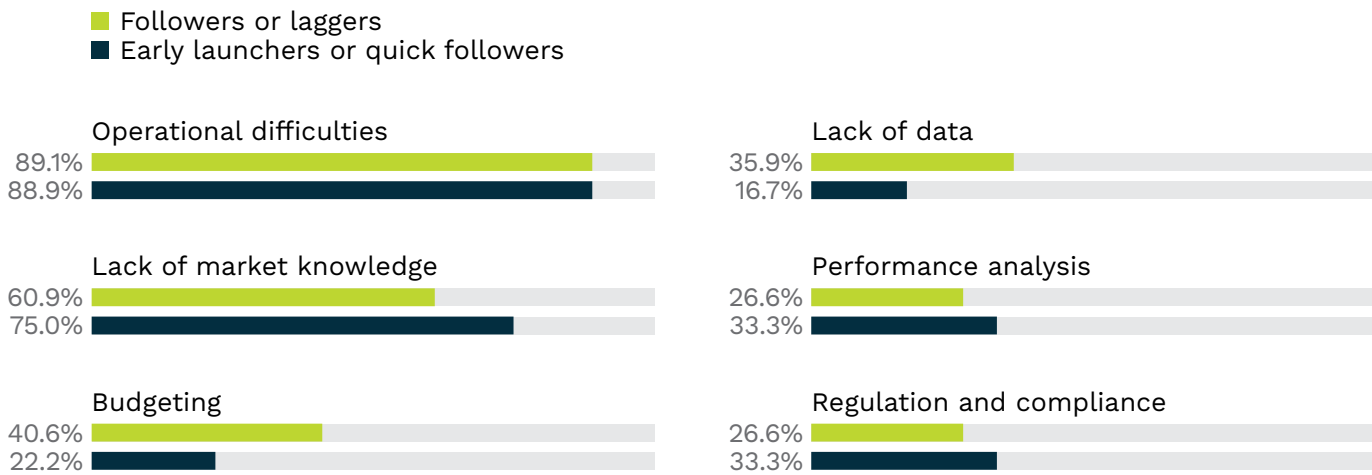
Source: PYMNTS

Credit Union Innovation: Credit Union Membership and Credit Profiles, June 2023
N = 100: Complete responses from CU executives, fielded April 3, 2023 – April 27, 2023

We asked CU executives to name the key challenges putting a damper on their innovation playbooks, and 89% pointed to operational difficulties. Among the CU executives classifying themselves as followers or laggards, 41% cited budget constraints and 36% cited data deficiencies, such as a lack of required analytics, as their primary obstacles — nearly double the shares, on average, of their early launcher and quick follower peers.

FIGURE 6
Challenges CUs face pursuing innovation

Share of CU executives citing select challenges faced when bringing innovations to market, by innovation persona



Source: PYMNTS

Credit Union Innovation: Credit Union Membership and Credit Profiles, June 2023
N = 100: Complete responses from CU executives, fielded April 3, 2023 – Apr. 27, 2023

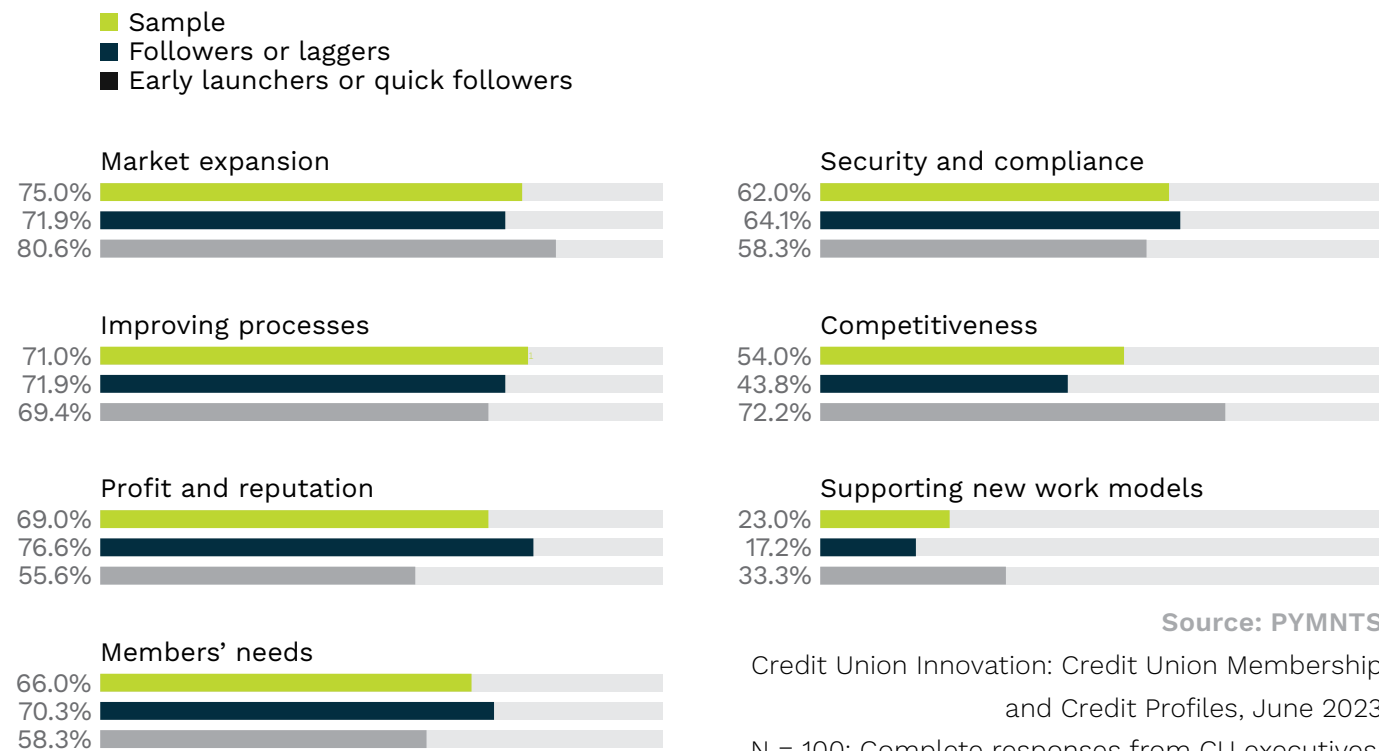
Enhancing payments capabilities is one area that CUs have focused on in recent years. However, they have primarily viewed this as a way to achieve market expansion while overlooking features that enrich the payment experience, including security and compliance. Just 62% of CU executives indicated that these factors are important when building their payments innovation agendas — an outlook that starkly contrasts the importance consumers place on these areas.

37%

of CU executives identify their institutions as innovation “laggers.”

FIGURE 7
Drivers of payments innovation

Share of CU executives citing select factors as important when establishing payment innovation agendas, by innovation persona



Source: PYMNTS

Credit Union Innovation: Credit Union Membership and Credit Profiles, June 2023
N = 100: Complete responses from CU executives, fielded April 3, 2023 – April 27, 2023



CONCLUSION

CUs are deeply embedded in the retail banking space and hold particular appeal to millennials and urban consumers. CU members place a premium on the trustworthiness of their financial institutions even more than the customers of other FIs, along with a strong emphasis on convenience. However, the reluctance of CUs to proactively embrace more robust innovation strategies is holding them back and risks eroding member loyalty. As the banking industry continues to evolve in response to changes in technology and consumer demographics, credit unions must address their operational challenges and more aggressively embrace innovation. Otherwise, they risk gradually losing their loyal members to megabanks and FinTechs that proactively innovate to deliver better digital experiences.

METHODOLOGY

Credit Union Innovation: Credit Union Membership and Credit Profiles, a PYMNTS and PSCU collaboration, is based on a survey of 4,097 U.S. consumers conducted from April 3 to April 24. The sample was balanced to match the U.S. adult population in a set of key demographic variables. 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 during the same period. These executives' responsibilities included areas such as financial planning and analysis, fraud detection or analysis, operations, product development, and research and development. Additionally, we surveyed 54 FinTech executives that provide products and services to credit unions, individual consumers, commercial banks and community banks. The survey of FinTech executives also occurred from April 3 to April 26.

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