CU GROWTH OUTLOOK

Approaching Member Centricity from the Inside Out

A Velera (formerly PSCU/Co-op Solutions) research study in partnership with EY and Filene Research Institute.

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Executive Summary

What credit unions need to know

The market for financial services is increasingly fragmented, commoditized, transactional and competitive.

At a high level, many—if not most—credit unions know how to win in this context. They know they must understand their members in order to earn their trust, deposits and daily transactions. They also understand that competitive pricing and legacy product offerings are no longer enough to break through in a noisy financial marketplace. To achieve a successful member-centric strategy, credit unions must transform their business through clearly defined value propositions, strategic alignment, enhanced digital delivery, data activation, personalized products and tailored experiences, all supported with the right talent, technology, and organizational culture and capabilities.

The challenge for credit unions lies not in the "why"—nor even the "what"—but in the "how" of business transformation. Credit unions' ability to bridge the implementation gap will define their levels of success over the next few years.

The *2024 CU Growth Outlook* research identifies **one big shift** in how thriving credit unions are approaching business transformation and **6 critical areas** that are barriers to transformation, but—with the right focus, prioritization, execution and optimization—can be bridges to a successful future.

This *CU Growth Outlook* white paper is designed to share the insights we learned from consumers and credit union executives and how those insights support business transformation strategies that lead to growth. By better understanding the challenges that come with operationalizing change, credit unions can more efficiently and effectively meet the needs of members now and into the future.

Key takeaways

- Fintechs saw their primary financial relationships (PFR) grow by 505% between 2021 and 2022. However, primacy trends have since shifted back to long-term averages, as the rate of change for most institution types remained flat from 2022 to 2024.
- The top benefits consumers seek in a financial provider include: convenience (65%), customer service (65%) and the ability to help them reach their financial goals (63%). More than 3 out of 4 credit union leaders (77%) say they have identified a strategy and are focused on executing it as successfully as possible.
- As a member progresses through their financial journey, the level of importance their primary relationship has on their next purchase decision increases. Nearly 60% of consumers in the top three financial stages turn to their PFR for their next purchase decision.
- National banks and fintechs are leading the way with consolidating relationships and interactions for consumers. By doing so, these providers have increased the longevity of these relationships as well as enhanced loyalty.
- Growth-oriented credit unions are five times more likely to emphasize "strong internal alignment and culture" as their top priority.
- Digital transformation is still very much top-of-mind for credit union leaders – but the alignment of culture, people and strategy has been a recurring gap that credit unions see as a hurdle to achieving this goal. To win, credit unions must invest internally—in their people, cultural alignment and operations.

Introduction

Since Velera first began conducting intensive consumer research several years ago, key trends that directly impact credit unions and their position in the marketplace have come to light.

Over that time, fintechs have made strong market share gains, due largely to their ability to capture consumers' financial transactions in the moments that matter. Meanwhile, credit union relationships are increasingly fragmented, with credit union members having on average **three times the number of financial relationships** as non-credit union members.

These trends reflect an evolving definition of trust that incorporates not only traditional attributes like safety and security, but also essential capabilities to deliver personalized engagement when and where a member needs it.

Today, successful providers are fueling financial performance through daily engagement and in-the-moment interactions with their customers.

To better understand the current marketplace, Velera partnered with global consulting firm EY to survey how financial consumer and member behaviors, preferences, challenges and activities have evolved. Filene Research Institute gained the perspective of credit union C-suite leaders, with a specific focus on understanding the tactical and operational barriers credit unions face in executing their growth strategies and achieving lasting business transformation.

This year's research revealed that while these key consumer trends have remained unchanged, credit unions' relative primacy has stabilized, and the significant losses of market share to big banks and fintechs of the past few years have now leveled off. It is increasingly clear that credit unions can hold their own in this environment.

It is also clear that credit union leaders now understand what the member expects and what the credit union needs to deliver to maintain healthy, loyal and profitable relationships. Their focus has now shifted to implementing strategies to achieve real, meaningful business transformation. They are learning *how* to set their organizations up for success, by removing the alignment barriers to transformation.

The Voice of the Market:

Consumers are Financially Strapped and Demand Convenience and Service

In 2024, economic challenges are forcing consumers to reevaluate their spending and saving habits. This year, respondents are trending toward financial insecurity, with those indicating they feel "somewhat financially secure" declining by 6% since 2023, while those indicating feeling "not too financially secure" increasing by 11%. Those who report being "not too" or "not at all" financially secure—nearly half (49%) of all surveyed— are primarily living paycheck to paycheck.

Symptomatic of these economic pressures is the growing burden of debt. At the end of 2023 Americans owed a collective $1.13 trillion on their credit cards.[1] Home equity line of credit (HELOC) balances also ballooned by $11 billion according to the New York Fed, the seventh consecutive quarterly increase.[2]

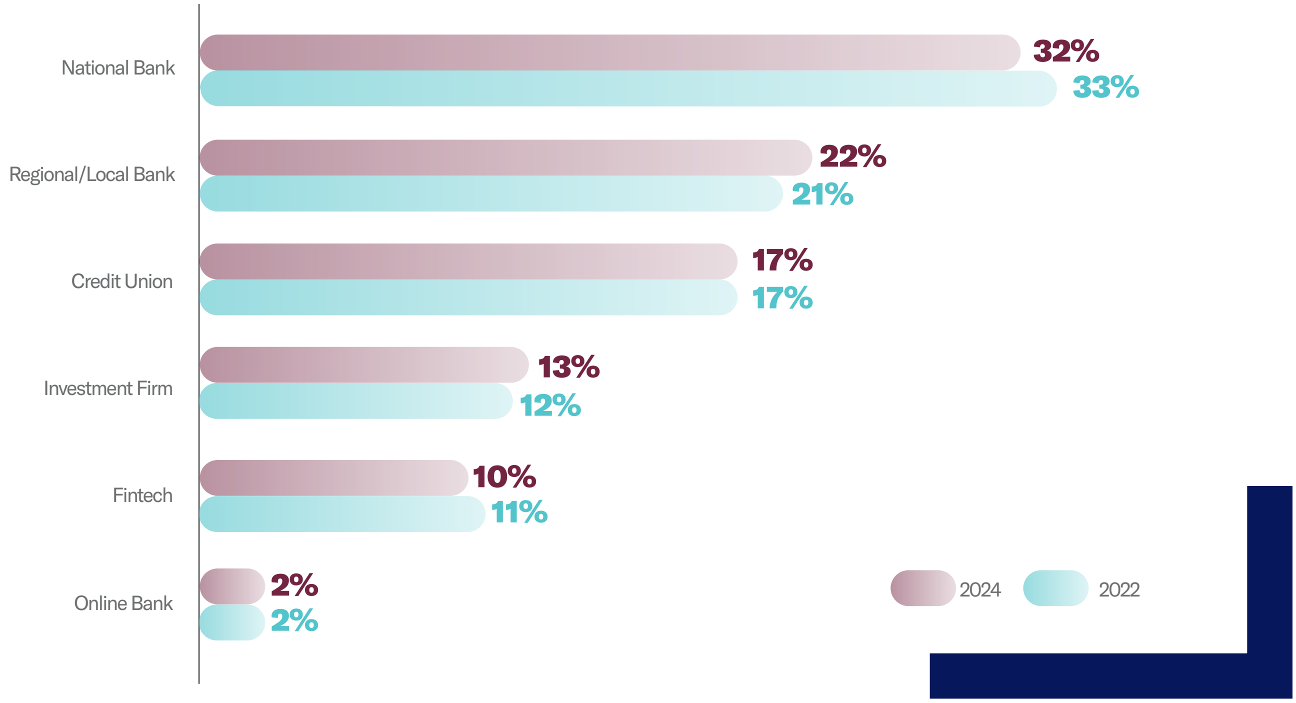
Additionally, financial consumer habits and expectations have permanently changed due to macro factors like the pandemic and the rapid growth of digital adoption.

But this year, we see a correction in the market; fintechs are retrenching, focusing more on business-to-business (B2B) opportunities because their growth in business-to-consumer (B2C) is slowing.

Fintechs saw their primary financial relationships (PFR) grow by 505% between 2021 and 2022. However, **primacy trends have since shifted back to long-term averages, as the rate of change for most institution types remained flat from 2022 to 2024**. The good news is that credit unions have weathered the market upheavals of the past few years well.

Respondent Primary Financial Relationship (PFR): 2022 vs. 2024

% of total respondents indicating their current pfr (2024 N=2,750)



But there is still work to be done.

Although credit unions surpass regional banks on geographical convenience and investment firms on ROI on deposits, they do not consistently outperform their competitors across the most-cited benefits, which include **convenience, customer service and reaching financial goals.**

Among those consumers that expressed dissatisfaction with their current financial provider, the top two reasons cited were customer service (named by 31%) and trust (21%).

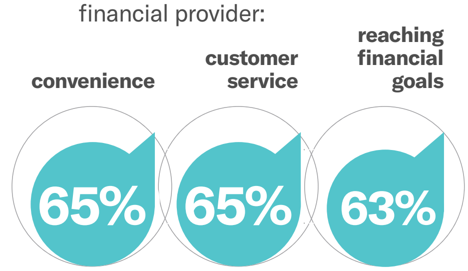
Likewise, service (59%) and trust (66%) both scored at the top of the list of reasons why a consumer was satisfied with their current provider.

For today's consumer, financial trust is built on both trustworthy character and an ability to deliver convenience through digital capabilities.

Customer service and trust consistently rank highly as key benefits across all age groups. But for 18-to-34-year-olds, the provider's website/app was named as the top reason for dissatisfaction with their current financial provider. This indicates that credit unions should prioritize enhancing their digital channel functionality to attract and retain younger members.

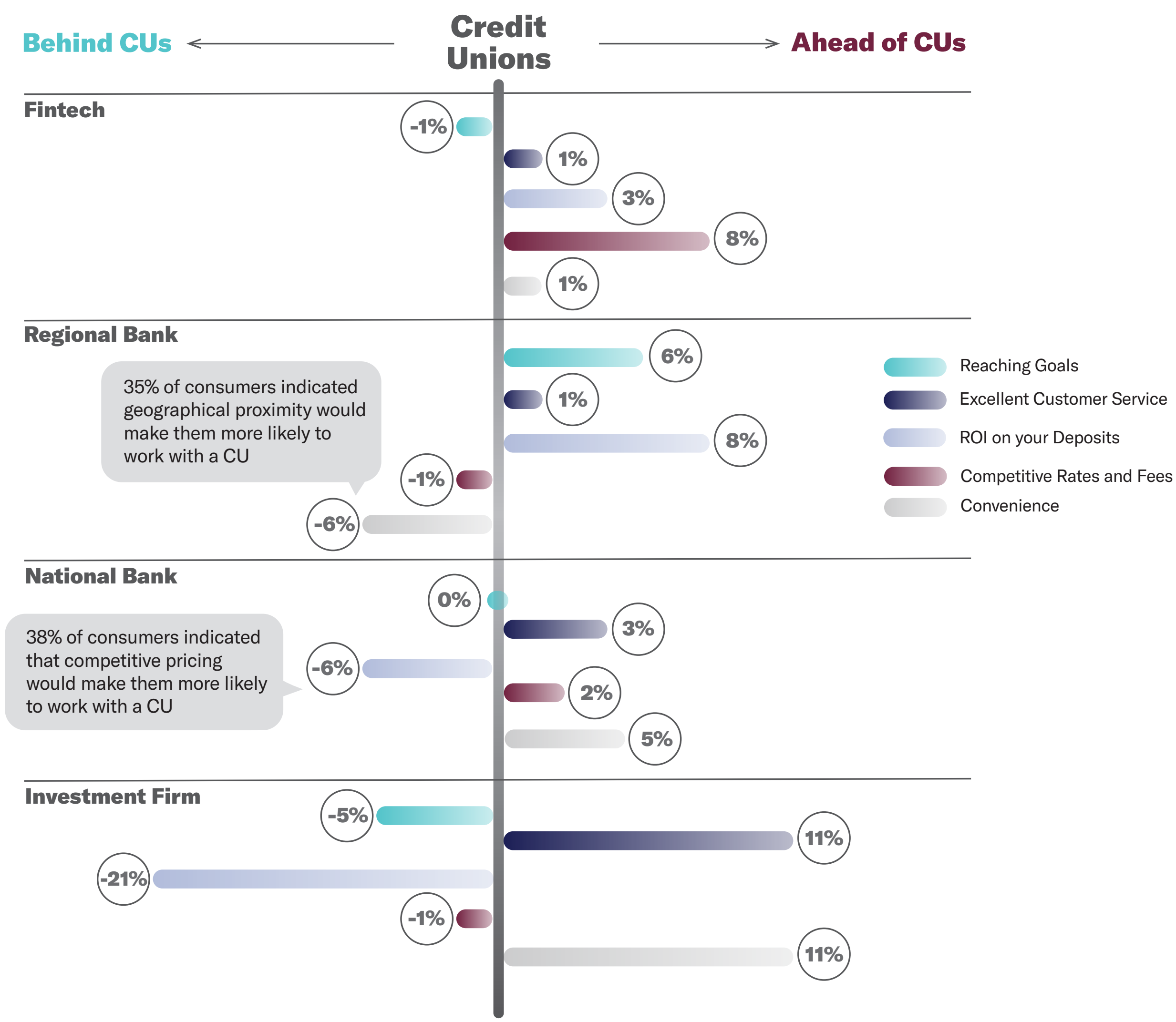
Top benefits

consumers are looking for in a financial provider:



Credit Union Comparison of Top-Consumer Benefits

% of respondents indicating a benefit is in their top 3 (by PFR type)



To Capture Primary Financial Relationships, Win the Moments that Matter

In 2023, **45% of consumers surveyed cited engagement as the top driver of relationship primacy**. For national banks and fintechs, this primacy is earned by offering interactive convenience.

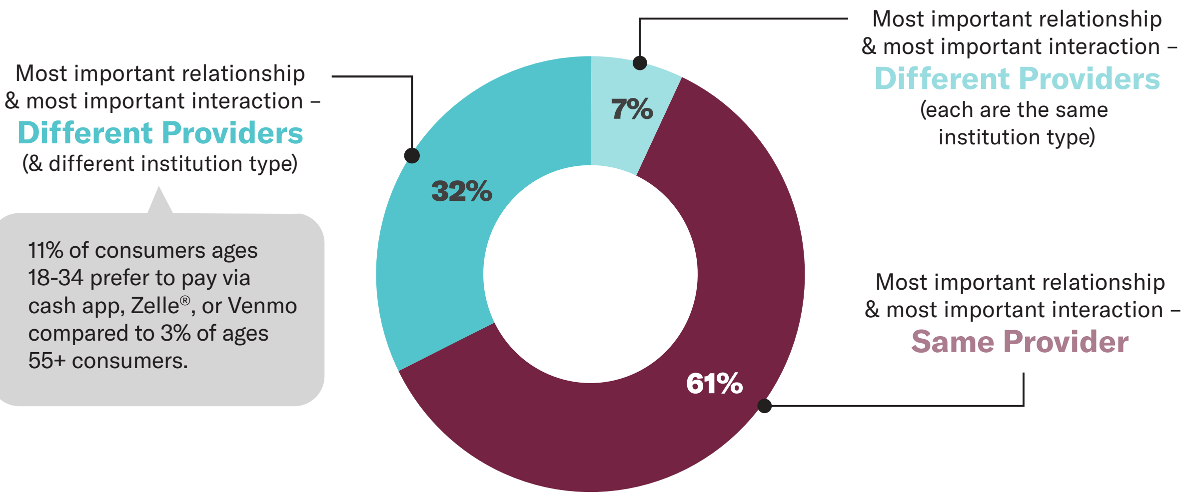
The *2023 CU Growth Outlook* found that those respondents that name a credit union as their PFR have, on average, three times more financial relationships than those that choose another type of provider as their PFR. This shows that credit unions are not currently offering everything their members need to run their daily financial lives, and they are forced to create a patchwork quilt of accounts, apps and services in order to meet their everyday needs.

The relative importance of interactions and relationships are diverging, as consumers conduct different types of financial activities with different institutions.

Relationship primacy is tied to where consumers hold most of their money, but interactions are where they are managing it.

In 2024, nearly a quarter (23%) of respondents cited "it has most of your money" as the top reason for a particular provider being the most important financial relationship. Yet the most important interactions cited were "paying bills" (35%), making purchases (19%), and "managing your money" (15%). Increasingly, consumers are obtaining these disparate services at different providers or institutions.

Most Important Interaction Provider vs. Most Important Relationship Provider



11% of consumers ages 18-34 prefer to pay via cash app, Zelle®, or Venmo compared to 3% of ages 55+ consumers.

5 Financial Stages

Non-existent savings

Minimal savings given income

Balancing needs and goals

Generating wealth

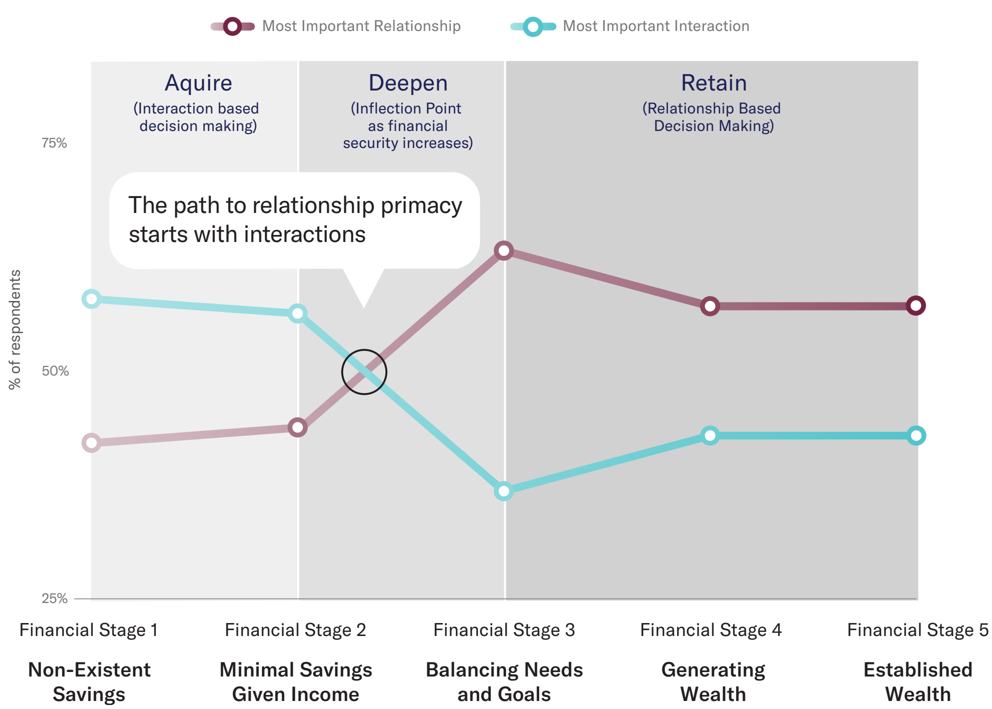
Established wealth

The *2024 CU Growth Outlook* research revealed that financial stages are a key factor in how consumers are choosing their primary financial relationships.

To understand how financial relationships and interactions change over a member's lifecycle, consumers were segmented by financial ratio, defined as the ratio of their current income to financial assets (savings and investments). What emerged were five distinct financial stages, ranging from those households with virtually no savings, to those with substantial financial assets.

As consumers transition from one financial stage to the next over time, their financial security increases, and the **level of importance their primary relationship has on their next purchase decision rises**.

Provider for Next Product Purchase (Relationship vs. Interaction)



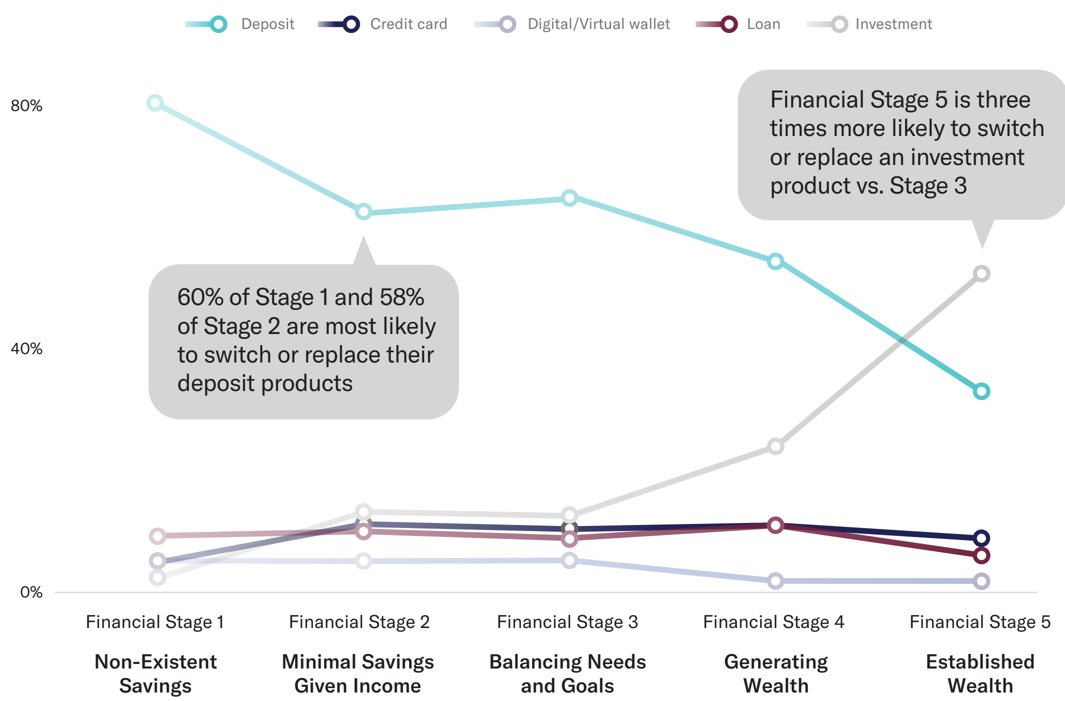
Capturing deposit products becomes increasingly harder as consumers move across financial stages.

The more financially stable a household becomes, the more likely it is to stick with its current financial provider. Therefore, it is **critical to capture these deposit relationships early in a consumer's journey, using highly interactive and intuitive banking experiences**. Credit unions should focus on gaining market share among those who are less financially mature, and deepening relationships with those at higher levels of financial security.

Daily interactions are the most cost-effective away to gain new members, and the most effective way to grow long-term, profitable relationships.

To thrive, credit unions should build a relationship strategy designed to capture primary daily interactions early in the member life cycle, then leverage this engagement to build long-term, sticky relationships through wealth enhancement products and services.

Most Important Product by Financial Stage



The Credit Union Value Proposition:

Challenges and Opportunities

According to Filene's latest research findings, credit union leaders are well aware of where the consumer mindset is today. They also understand the natural strengths that credit unions bring to the table, and what they need to do to compete effectively in a dynamic, highly competitive financial marketplace.

In 2024, credit union leaders aren't looking to reinvent the credit union value proposition, and they have a stronger sense of how to compete effectively. In fact, almost 80% of credit unions describe their current strategic footing as making "strategic gains"—identifying opportunities for growth but being careful about selecting the right strategy and not over-extending their resources.

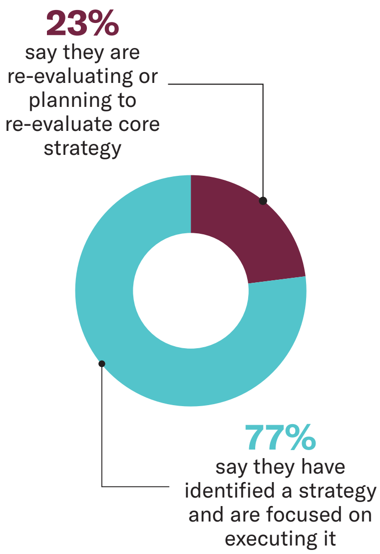
But implementing lasting change continues to be a challenge. More than 3 in 4 credit union leaders surveyed (77%) say they have identified a strategy and have now shifted their focus to executing on it as successfully as possible.

Digital transformation is still very much top-of-mind for credit union leaders – but the alignment of culture, people and strategy has been a recurring gap that credit unions see as a hurdle to achieving this goal. Identifying and employing the right people—both in terms of buy-in and skillset—all rowing in the same direction, contributing to core needs while also embracing a change mindset is a continuing challenge.

And this gap isn't just among more seasoned members of the Board or C-suite. Top credit union leaders know that technology is important — but achieving alignment within the organization, from senior leadership through to the front line remains elusive. **Bridging the implementation gap is recognized as the biggest challenge to sustainable success**, and credit unions are beginning to pivot their line-of-sight inward, with a focus on efficient execution and optimizing strategic gains.

> *"We've spent the past five years focused on the horizon. As a credit union, for the time being, we need to spend some time looking down at our feet."*
>
> *- Credit union CEO, Dec 2023*

Have Credit Union Leaders Set a Strategy?



It's time for credit unions to recognize there is no one product or service that is the "silver bullet" solution for growth and sustainability. No longer can an organization simply implement a service, "set it and forget it," and assume the members will come. This product-centric approach is an old way of thinking, and one that is no longer relevant to today's financial consumer.

"We have made lots of investments and we'll continue to invest," says a credit union chief strategy officer. "But now is the time to activate opportunities and execute as efficiently as possible in an environment of uncertainty."

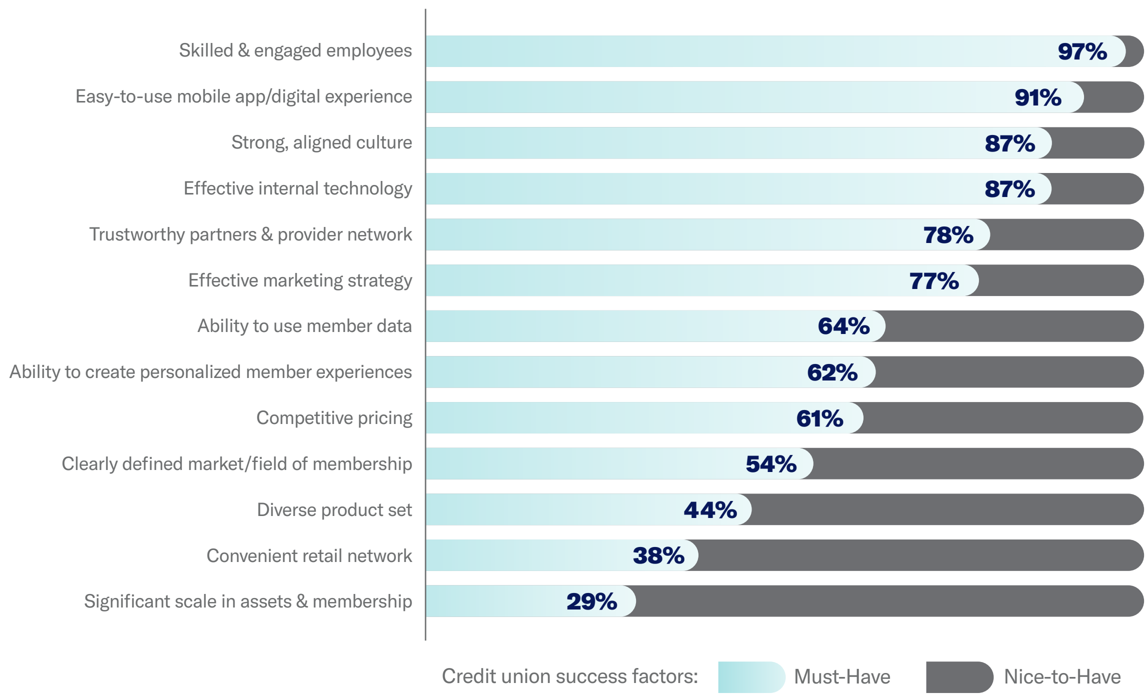
Successful credit unions are those that provide outstanding member service and a convenient experience while maintaining a growth orientation. Financial stability is rarely seen as an end in itself. Instead, it is a tactic to make a member-focused strategy both sustainable and scalable.

Credit union leaders defined the following five areas as the top "must-haves" for success in 2024:

- Skilled and engaged employees
- The ability to provide members with an easy-to-use mobile app/ digital experience
- A vibrant internal culture where everyone is aligned in goals and vision
- Effective internal technology systems
- A strong provider network with trustworthy partners

Above all, thriving credit unions share one critical characteristic: **a focus on members and strategic alignment to that focus**. When asked to select just one "must-have," credit union leaders that say their credit unions are on a strong strategic footing are five times more likely (31% versus 6%) to place "strong internal culture where everyone is aligned in goals and vision" as their single top priority versus those with a worse strategic footing.

Credit Union "Must-Haves" for Success



Barriers and Bridges:

The Keys to Successful Execution and Optimization

Most credit unions have defined their strategy for growth. In 2024, success will be measured by how well a credit union executes on that strategy.

We have identified **six barriers and bridges**—those areas of focus that represent roadblocks to effective strategy execution, but that, when done well, can also serve as bridges to business transformation and growth.

1 Market knowledge

Credit unions place immense value on understanding their members as the foundation of securing and maintaining strong member relationships.

A majority of credit union leaders (74%) say their credit unions strive to be a part of their members' financial lives from day one. To do this, credit unions must understand their members and potential market to offer relevant, personalized experiences that meet their lifestyle needs, as well as guidance that helps them reach their goals. Half of credit unions survey their members to understand their needs, while nearly two-thirds (65%) analyze member account and transactional data for this purpose.

2 Strategic focus

Credit union leaders have internalized the idea that trying to be all things to all people is not a formula for success. Only 44% of surveyed executives say that a diverse product set is a "must-have" for success.

Maintaining strategic focus incorporates several advanced executive skills. It includes the ability to define the "why" on a continuous basis, knowing what to do when, and when to say no. It also requires the ability to access and analyze the right metrics for the things that matter, while ignoring the "noise." Given these diverse demands on their time, it's no wonder that more than 20% cite focus as the top barrier they face.

"If you're not making trade-offs, or if you have everything in your strategy, then that is not an effective strategy."

- Credit union CEO, Jan 2024

3 Culture and alignment

Most organizations recognize the importance of culture in ensuring a productive, happy and motivated workforce. But it is not simply enough to have a "strong" culture; you must also foster the *right* culture to match your strategic vision.

Cultural alignment is strongly associated with above-average performance, an ability to adapt to change and the achievement of strategic goals. Ninety-seven percent of credit union leaders say having skilled and engaged employees is a "must-have" for success, and 87% cite a strong internal culture where everyone is aligned in goals and vision.

If the credit union lacks organizational alignment, it's unlikely to achieve its strategic goals for any new product or service. For example, if a credit union implements a new online loan application, but fails to align it with supporting functions and operational processes such as credit approval, mobile optimization, e-signature and digital document exchange capabilities, it will not attain a positive return on investment.

Despite this, only half of credit union leaders say their organizations are very aligned on goals. The other half say alignment is a moving target.

"[Credit unions need to be] hyper-focused on the member experience. [That means asking] 'what is your specific niche?'"

- *Credit union CEO, Jan 2024*

4 Product experience

Credit unions have long put a heavy focus on the number and types of products they offer their members. Product mix continues to be an important factor in establishing lasting relationships, but credit unions must be wary of the "tail wagging the dog."

Successful product development must be preceded by a deep understanding of your members' needs, behaviors and motivations.

Credit union leaders have begun to transition from a product-centric strategy to a vision focused on experience and relationships. Today only 7% believe that acquiring new members is about attracting them through competitive rates, credit card points or eye-catching products. Instead, almost half of credit unions say that attracting new members is all about giving them an excellent basic banking experience day-in and day-out.

5 Technology stack

Investing in technology is a critical enabler of strategic goals like operational efficiency, personalization, and offering a frictionless experience. Credit union leaders cite marketing tech (64%), payments (59%), and data analytics and business intelligence (58%) as the top three technology investments planned for 2024. In addition, nearly all leaders (90%) say mobile app/digital experience is a *must-have* for success—the only non-culture-related attribute that was cited in the top 10 factors for success.

But it's not simply about having the technology—it's about designing the tech with the member experience in mind that unleashes its full potential.

6 Partnership ecosystem

Credit unions are often dependent on third parties across all aspects of the business. Today, however, many are looking to third parties to do more than simply deliver a product or service and instead be a collaborative partner that offers:

- New or more sophisticated products, services, and technological capabilities
- Implementation and scaling support
- Data, insights, ideas and new perspectives to inform business strategy
- New or complementary talent, expertise and skills

Seventy-eight percent of credit union leaders say that a strong provider network of trustworthy partners is a "must-have" for success. According to members of the Velera Co-Creation Councils, the hallmarks of trustworthy providers include the reliable execution of core services, being easy to do business with, service excellence, consultative relationship management, and transparent, proactive communication.

Leaders also identify a need for more flexible and open infrastructures and integrations, essential components to helping them achieve their strategic goals.

The solutions to challenges like technology transformation, membership growth and increasing deposits are downstream from "human" fixes like improved alignment, strategic focus, effective staffing and enhanced and more efficient operations. Thriving credit unions have identified that this is where they need to start in order to set a solid foundation and vision for the more "technical" challenges.

The most successful credit unions have found ways to turn "barriers" to successful strategic execution into "bridges" that close the implementation gap and allow them to transform their business.

To win, credit unions must invest internally— in their people, cultural alignment and operations. This takes both concentrated resources and a relentless focus, but fortunately, credit unions don't have to go it alone. By leveraging good partnerships for those areas they can't fix on their own—like product and technology—leaders can focus the majority of their efforts on the more difficult, "human" areas.

The Credit Union Path to Success

Start with Approaching Member Centricity from the Inside Out

For years, credit union leaders have been concerned about the long-term relevancy and competitiveness of credit unions as an industry. The threats imposed by fintechs and national banks, along with a sea of change in financial consumer behavior, attitudes and needs has driven executives to closely examine their growth strategies, digital products and markets. Many credit unions have responded by investing in new strategies, markets, technology, partnerships and talent to address these challenges.

But today, credit union leaders are less interested than they had been in trying to wholly reinvent the credit union value proposition. They have a stronger sense of how to compete effectively in the market as credit unions, and so they are focused on implementing the changes needed to accelerate critical business transformations.

Credit unions are not short on strategic vision, ideas for innovation and growth, or data. But to bridge the implementation gap, they need to fixate inward on four critical areas: strategic focus, prioritization, execution and optimization.

"Whatever we're doing today, is it sustainable and is it scalable? Can we bring it to more and more [people] beyond our existing base today? Staying hyper-focused on that member experience and the value we bring them, but it has to be in a way that we can keep doing it today and tomorrow, and we can do it to an audience much larger than our current audience."

- Credit union CEO, Dec 2023

To support this vision, credit unions must commit to a focused investment in people, process and technology, including in data analytics, AI and other new capabilities that will enhance the deep understanding of today's members, and help them execute on their strategic vision as efficiently as possible.

Fortunately, credit unions can work with trusted partners for technology, support, strategy guidance and digital payments ecosystem so they can take this next step in their evolution.

The time has come to deliver on the promise of the credit union value proposition.

How Velera Can Help Your Credit Union Implement Your Strategic Goals

Velera offers the digital payments ecosystem for credit unions, with industry-leading credit and debit processing and a modern payments platform designed to integrate seamlessly with credit union infrastructure.

With digital tools built at scale to provide an enhanced member experience and holistic fraud management capabilities designed to evolve with the latest trends, Velera is here to help credit unions serve all their members' daily financial interactions. We also serve as our clients' strategic and consultative partner, helping credit unions achieve outstanding portfolio growth by delivering well-researched consumer and market insights and unparalleled client collaboration.

Velera is prepared to help your credit union meet your members' needs during the moments that matter.

Survey Methodology

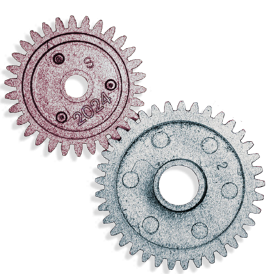
In collaboration with Velera (formerly PSCU/Co-op Solutions), EY conducted a market research survey of 2,008 current credit union members and 1,009 credit union prospects across all regions of the U.S. to determine their preferred banking behaviors.

The survey sample encompassed a diverse mix of demographic groups covering multiple generations, income levels and asset sizes. Only statistically significant measures were used to derive insights; any inadequate responses were removed. EY's framework is based on the importance of a holistic approach towards member and prospect experience through "needs-based segmentation."

In addition, in 2024 Velera engaged Filene to conduct three listening sessions with 12 credit union executives (CEO and C-suite), and 20 one-on-one interviews with credit union executives at the VP level and above. Additionally, Filene surveyed credit union executives from 69 credit unions representing more than $140 billion in industry assets to validate the qualitative research.

[1] CNBC Credit card debt hits a 'staggering' $1.13 trillion. Here's why so many Americans are under pressure (cnbc.com)

[2] Federal Reserve Bank of New York - Q4 2023 Household Debt and Credit Report (newyorkfed.org)



Learn more

To request more information on credit union payments strategies, please contact your Velera representative, call 800.782.9042, or email solutions@coop.org.