Special Report: Payments

Credit Union Management

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What Does *Each Age Want?*

EFFECTIVE PAYMENTS STRATEGY BOILS DOWN TO MEETING THE NEEDS OF INDIVIDUAL MEMBERS AND EACH GROUP.

BY STEPHANIE SCHWENN SEBRING

Payments, done strategically and with members in mind, could make credit unions the primary financial institution for their most valuable members, observes Todd Clark, president/CEO of CUES Supplier member CO-OP Financial Services (*co-opfs.org*), Rancho Cucamonga, California.

"Combining a digitally transformed payments experience with a human-centric commitment to financial services is the recipe for member loyalty," he says.

For optimal success, Libby Calderone, president/COO of CUES Supplier member LSC (*lsc.net*), Naperville, Illinois, believes a CU's payments strategy must encompass the needs of all generations " ... with a focus on membership demographics, tailoring a CU's payments product suite to meet each segment's needs."

Determining what influences a member's payments choices (such as age and life experiences) is key, she adds. "So is providing the desired service associated with the product."

PSCU's 2018 whitepaper, "Eye on Payments" (*pscu.com/eye-on-payments-download*), surveyed more than 1,500 members and non-members, delving into what determines payments choices.

"There are common experiences within a consumer's formative years that affect payment preferences and the perceived value of a chosen method," says Tom Pierce, chief marketing officer for PSCU (*pscu.com*), a CUES Supplier member based in St. Petersburg, Florida. "As the consumer ages, differences begin to take on generational nuances based on life experiences."

Everyone is talking about millennials for good reason, adds Clark. The group is huge and diverse.

"Nearly 75 million of them are in the U.S. and quickly approaching their prime spending years," he says. "For credit unions, millennials represent the future. And their attitudes and preferences toward payments are bringing sweeping change across the industry. Look no farther than the rollout of Apple Card (*tinyurl.com/cardfromapple*) for evidence of that."

CREDIT, P2P, DEBIT AND CASH

Pierce reiterates the whitepaper findings: While preferences vary by age, credit remains the No. 1 payment method for all but "older millennials," aged 31-38, who prefer debit.

According to PYMNTS.com (*tinyurl.com/zellegrowth*), Zelle (*zelle.com*) is expected to grow by 73 percent to 27.4 million U.S. users this year, slightly ahead of Venmo's 22.9 million users (*venmo.com*) and Square Cash's 9.5 million users (*squareup.com*).

"Credit unions can align with these digital P2P payments," says Calderone, "which can add value to their overall payments' choices. ... It's not about making money; it's about keeping your product relevant to members."

P2P usage is currently highest among millennials, about 75 percent, says Calderone, but CUs can't risk categorizing members too tightly. By examining member activity (i.e., data for current P2P payments), a CU can pinpoint who is interested.

Pierce also sees P2P payments gaining momentum, and notes that Gen Z already prefers P2P transactions. "While boomers engage less frequently with P2P apps, don't underestimate their potential," he adds. "They don't lag far behind other age groups in terms of usage."

The demographics of typical debit card users have been changing, Clark reports.

"Debit today holds the greatest appeal among the younger half of the millennial generation and the less affluent across all age groups," he says. "So, credit unions are deploying marketing programs focused on rewards to appeal to these members. In a recent CO-OP Financial Services study, nearly 25 percent of credit unions said they are considering adding debit rewards. Another 22 percent are … considering making changes to their rewards."

Cash endures as a viable payment method for all segments, although this may shift.

Pierce says Gen X has experienced the most card fraud of any generations, which may be why this group still has a stronger preference for cash than people in other age groups.

"Use your members' security concerns as an opportunity," Pierce says. "You can provide members with safe, secure choices and eventually convert primarily cash consumers to a credit or debit card."

Aversion to credit is still a factor in "in Gen Z primarily, but it can overlap to other segments, such as millennials, or any individual that has gone through a rough patch financially," says Calderone. "However, while certain segments may be more averse to debt, they still need a credit card solution. Reach these individuals by offering financial education, responsible credit lines under $2,500 and the use of online financial tools."

While Gen X and boomers are more concerned about security than other groups, consumers of all ages express this worry. In response, credit unions need to emphasize authentication.

"Consumers are motivated by convenience *and* safety," Pierce says. "However, our study found that 75 percent of consumers base payment decisions on their most secure option. Balancing innovation and safety are more important than ever, and credit unions that do this successfully can begin a conversation with their members about safety in the digital payments space."

MEASURING YOUR APPROACH

"Data and analytics tools (such as PSCU's suite, *pscu.com/member-insight-solution*) can help credit unions to deliver the right payments products to consumers at the right time," says Pierce. He suggests reviewing monthly payments metrics.

"Also pay attention to spending behavior patterns, so you know how and when to act," advises Calderone. "Once a credit union is tracking and monitoring the data, it can develop and fine-tune its strategies to increase card usage and introduce other payment options."

Regardless of demographic or generation, understanding a person's life needs is a common denominator. "How you embrace generational and other differences, and the way you interact with members and launch products, will all help you to meet your members' payment needs," Pierce says.

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MORE ON PAYMENTS

Grow Deposits and Have a Strong Payments Strategy (*cumanagement.com/0419grow*)

Payments University Sept. 11-12, San Diego (*cues.org/payments*)

Personalizing *Loyalty Programs by Age*

"An effective loyalty program is a key to keeping members engaged with the credit union, but one size doesn't fit all," says Mansel Guerry, SVP of the credit union community division at FIS (*fisglobal.com*), Jacksonville, Florida.

"These days, a good card (credit or debit) with a good interest rate is not enough. Younger, savvy service users are more demanding and less loyal, and they're not opposed to carrying multiple credit cards and managing transactions based on the cash back or points each one earns in different locations or situations. As millennials surpass baby boomers in earned income, traditional loyalty engagement models are shifting to cater to more technologically savvy consumers."

Cash back is popular for obvious reasons and easily measured. He notes that baby boomers prefer to engage in traditional, predictable loyalty programs that feature consistency, while millennials and Gen Z are more interested in loyalty offerings that have elements of change, surprise or gamification, such as different earnings promotions pushed in real time.

Members of different generations also have different reward and redemption preferences:

- Boomers aren't gamers and understand easily measurable things like cash back. They tend to redeem their points for such options as merchandise, travel and gift cards.
- Millennials and Gen Z are more inclined to redeem loyalty currency or points for digital downloads, real-time point-of-sale discounts and such low point-redemption options as sweepstakes entries, auctions and the ability to play online games. Younger users also like to see their names on the scoreboard that they can then feed to social media sites.

Guerry notes that younger consumers won't do business with a CU just because their parents do. Providers must deliver value—as defined by these young consumers—to win their loyalty. Notably, this loyalty may be short-lived. As the next "great deal" comes along, younger users may move on.

Be Open-Minded *About Payments*

FLEXIBILITY HELPS CUs BUILD LOYALTY PROGRAMS APPEALING TO ALL AGES.

BY FIS

Mansel Guerry, SVP of the credit union community division at FIS (*fisglobal.com*), Jacksonville, Florida, believes all financial institutions should view payments differently today.

That's because the "expectations of coming generations are different," explains Guerry. "Barely 20 years ago, the term 'payments' generally meant a transaction conducted in person, over the phone or by mail and facilitated by a paper check, a debit card or a credit card. The emergence of the internet not only introduced a new means to execute a transaction, but it also introduced a host of up-and-coming payment providers."

Just as few people could have predicted 10 years ago the impact of the iPhone on payments technology and internet commerce, Guerry says it is difficult to predict where the industry will be 10 years from now. A best practice when managing uncertainty is to remain flexible and keep learning.

"Stay open-minded and attentive to the expectations of new generations," he advises. "Dedicate time and resources to studying and understanding their payments expectations. Also, be students of the payments industry and learn to respond accordingly to the changing attitudes of your membership.

"Consumers migrate to new service delivery providers because they're attracted to something their traditional financial institutions aren't providing —but they want," he adds.

Even the traditional checking account should be allowed to evolve.

"First, we probably should stop calling it a checking account and start calling it a debit account," says Guerry. "The term 'checking account' implies the use of checks. We need to think of the account as the broader payments portal it has become. Credit unions should also look to new or enhanced plug-in accessories [such money transfer services as P2P apps and mobile wallets] for the account that today's consumer demands."

LOYALTY PROGRAMS CREATE OPPORTUNITY

Consumers expect rewards of some sort, so loyalty programs should be part of a payments program designed for long-term viability.

"An effective loyalty program is a key to keeping members engaged with the credit union, but one size doesn't fit all," Guerry says. "These days, a good (credit or debit) card with a good interest rate is not enough. Younger, savvy service users are more demanding and less loyal, and they're not opposed to carrying multiple credit cards and managing transactions based on the cash back or points each one earns in different locations or situations. As millennials surpass baby boomers in earned income, traditional loyalty engagement models are shifting to cater to more technologically savvy consumers."

The demand for loyalty rewards doesn't necessarily skew to younger generations. Up and down generational lines, he says, good loyalty programs do what they are expected to do—build user loyalty. For a viable and long-term card program, competitive CUs will offer some loyalty incentive.

Cash back is popular for obvious reasons and easily measured. Guerry notes that baby boomers prefer to engage in traditional, predictable loyalty models that feature consistency, while millennials and members of Gen Z are more interested in loyalty models that have elements of constant change, surprise or gamification (for example different earnings promotions pushed in real time).

Guerry notes that younger consumers won't do business with a CU just because their parents bank there. They're willing to try new providers, and providers must deliver value—as defined by these young consumers—to win their loyalty. This loyalty may be short-lived; as the next "great deal" comes along, younger users may move on.

So how can a CU strengthen its commitment with younger generations?

"Partner with entities (like FIS) ... willing to shoulder the burden of research and development that credit unions themselves cannot afford," he says. "Also strategically assess where you are today and where you need to be in 12, 24 and 36 months. Then, move with a sense of urgency. Change doesn't happen overnight, and when new, competitive services become available, look to adopt those services sooner rather than later."

*Clients choose Jacksonville, Florida-based FIS (*fisglobal.com*) because of its commitment to their progress. The company offers core banking, lending, insurance, risk management, and other products and services.*

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For more information about FIS & Credit Unions, please visit fisglobal.com, email getinfo@fisglobal.com or call us at 877.776.3706.

Imagine the Possibilities:

Debit Is the Key to Owning Your Members' Payments Relationship

By Tom Bennett, Principal, Advisors Plus Consulting, PSCU

At credit unions across the country, debit continues to play an important role as a connected piece in the member wallet. In fact, when coupled with checking, the pair offers members connectivity to most any payment mechanism or merchant through debit, P2P, ACH, bill pay, check and access to cash. As research from PSCU, the nation's premier payments credit union service organization, shows, debit revenue – or interchange and debit courtesy pay – drives half of its Owner credit unions' non-interest income.

While there are many studies that frequently gauge payments usage, some of the most reputable and most comprehensive come from the Federal Reserve and include the Diary of Consumer Payment Choice[1]. Conducted annually, the study is executed with significant controls and little to no bias. For payment junkies, and for credit unions wanting insight into consumer spending, the study is a quick and informative read.

According to the 2018 study, cash remains the most frequently used payment instrument at 30 percent of all transactions. Behind cash, debit is the most used form of payment at 27 percent of transactions, followed by credit at 21 percent, which means cards account for almost 50 percent of all spend. What is important though is that cash usage is declining. And most transactions are smaller dollar amounts – 55 percent of total payments are under $10 and 32 percent range from $10 to $25 – which is where debit is generally the preferred way to pay. Based on these findings, debit is positioned to be the prime benefactor of cash displacement opportunities.

In its 2018 Eye on Payments study, PSCU reported similar findings. Debit cards were the preferred way to pay at routine retail locations due to their convenience and ease of use. This data also indicates that there is an opportunity for consumers who primarily use cash to convert to debit card use, as paying with a debit card is just as quick and convenient as cash for in-store, shorter-term purchases. Furthermore, the CUSO found that credit union members specifically feel more comfortable using a debit card than non-credit union members.

So, what does this mean for credit unions? An effective debit card strategy is critical. By implementing a focused strategy, credit unions can capture this potential cash displacement with debit.

Beyond cash displacement, there are other spending trends that tie directly to debit. In addition to conventional usage in the face-to-face and online environments, debit is more than likely the funding vehicle for P2P (person-to-person) transactions and digital wallets, because of the lower interchange structure for merchants and the lower fee structure for consumers. Additionally, with new "push payment" capabilities from Mastercard and Visa, debit cards are the mechanism for receipt of real-time deposit of funds from P2P, B2C and emerging niche players, such as salary advance companies including Daily Pay and Earnin. Debit (and checking) can and should be at the forefront of the member's payments world.

Debit has the potential to overtake cash as the most used form of payment for members in the coming years if credit unions position it to do so. Not only do smaller ticket sizes lend credence to debit, but the direct association of P2P and certain digital wallets also adds incentive. Given transaction intensity and usage, debit usage is likely the most frequent interaction credit unions have with their members. For many, this is a daily interaction. To ensure success, credit unions need to ensure their debit programs are positioned to capitalize on these opportunities.

Tom Bennett is a Principal Consultant with the Checking and Debit Card practice at Advisors Plus with over 25 years of experience in the financial services industry. Tom advises credit unions on ways to enhance portfolio growth and profitability.

[1]Claire Greene and Joanna Stavins, Federal Reserve Bank of Atlanta, Diary of Consumer Payment Choice (October 4, 2018), https://www.frbatlanta.org/banking-and-payments/consumer-payments

Get Ready *to Grow*

LSC®

THREE WAYS PREPAID DEBIT CAN HELP YOUR CREDIT UNION BETTER SERVE YOUR MEMBERS.

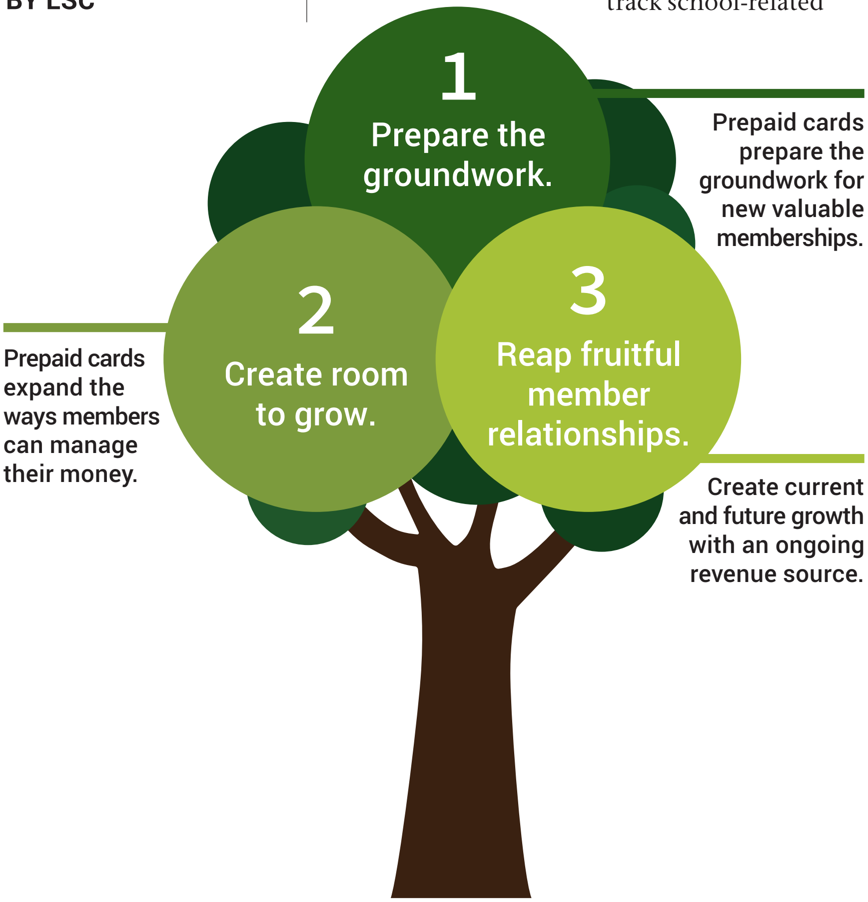
BY LSC

Spring is the season of new growth—a time for planting. Growth for a credit union often means increasing membership and the value of each member account, but this requires planting the right seeds. According to Aite Group (*aitegroup.com*), Boston, prepaid cards have enjoyed a 20-year growth spurt that doesn't show signs of slowing, making them a strategic offering for members. They can help nurture member growth as clearly as 1-2-3.

1. **Prepaid cards lay the groundwork for new valuable memberships.** Millennials and Gen Xers are the primary users of prepaid cards, according to research by The Pew Charitable Trusts (*pewtrusts.org*), Philadelphia. The cards are especially useful for college students and their parents as an easy way to budget and track school-related expenses. This also means prepaid cards can help your credit union build relationships with upcoming generations.

2. **A prepaid program also appeals to current members, giving them room to grow.** By offering these cards, your credit union expands the ways members can manage their money. Members can easily load and reload these cards as they budget for bills or special occasions. They enjoy the convenience of a debit or credit card without concerns about overdraft fees or missed payments hurting their credit scores. Unlike a debit card, a prepaid card isn't connected to an account, giving members less to worry about if their card is lost or stolen. Prepaid cards with consumer protections in place are also safer than cash.

3. **Reap fruitful member relationships and drive growth now and in the future by including prepaid card products among your offerings.** Credit unions gain ongoing revenue as members reload their cards. Prepaid gift cards also give your team an opportunity to show the "credit union difference" and become part of your members' celebrations.



The best growth comes from using the right tools and knowledge. A knowledgeable, supportive partner makes the difference. Be sure to choose a prepaid program with full service—from set-up and processing to marketing assistance. Industry-leading fraud prevention services and quality customer support help your members feel secure, allowing them to better enjoy the benefits of their prepaid cards. Flexible fund loading and a free mobile app add to the overall convenience of these cards.

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Optimizing Your Debit Portfolio *for Growth*

LESSONS LEARNED FROM A SURVEY OF CU LEADERS.

BY CO-OP FINANCIAL SERVICES

As the payments industry undergoes change brought about by technological advancements, debit remains the second most frequently used form of payment behind cash. The U.S. debit card market accounts for approximately 70 billion transactions worth more than $2 trillion. Active debit cardholders use their cards nearly every day for purchases, to get cash from an ATM, to pay bills and for other activities that are critical to their financial lives. Those transactions, in addition to providing valuable non-interest credit union income, serve as a constant reminder of the relationship between the consumer and his or her primary financial institution, which is why credit unions must continue to keep a healthy debit portfolio top of mind.

As changing consumer behavior and competition from fintechs impact debit usage among members, credit unions will need to find ways to better understand and optimize their debit portfolios in order to drive penetration, activation and usage.

Last year, CO-OP Financial Services (*co-opfs.org*) and Mastercard (*mastercard.com*) commissioned a survey of 240 leaders from credit unions of various asset sizes and geographic regions to identify the strategies they are using to optimize their debit portfolio.

Here are a few things we learned:

A HEALTHY DEBIT PORTFOLIO GOES BEYOND ISSUANCE AND ACTIVATION

While credit unions are making great strides to put cards in their members' hands through tactics like instant issuance (63 percent of respondents are currently offering or plan to offer instant debit card issuance), they must also focus on engaging members to incent usage and drive non-interest income.

Debit card rewards programs are becoming an increasingly effective way to do this. More than half (55 percent) of the credit unions surveyed are actively using or considering adding debit loyalty rewards programs, as they not only help to drive continuous engagement and potential cross-sell opportunities but also provide a competitive edge against larger credit card issuers that only focus on credit.

Mobile is also a critical channel for increasing debit usage. More than half (55 percent) of credit unions surveyed reported an increase in the enrollment of debit cards through their mobile wallets, and 53 percent reported an increase in mobile debit transactions within the last 12 months. Encouraging mobile-friendly members to load their debit card information into their phones helps ensure top-of-wallet status for common debit transactions like paying bills or transferring money. Almost two-thirds (61 percent) of respondents said that competition from mobile payment services like Google and PayPal will significantly influence debit card usage, making top-of-wallet status all the more critical.

MARKETING YOUR STRENGTHS

Active marketing across digital and non-digital channels is critical to communicating the benefits of credit union membership and debit product features. Step one is identifying your target audience. For instance, this survey revealed that lower-income earners and younger adults had higher debit card usage and were therefore a prime target for marketing campaigns. From there, you can customize your outreach tactics based on where your audience is most active.

Debit card controls are a great way to market your credit union's strengths in a less intrusive way, by giving members the power to control their spending and monitor for fraudulent activity through the convenience of digital channels. Just over 40 percent of respondents are currently offering card controls to their members.

Actively managing your portfolios starts with data analysis, strategy and tools to create the impacts you desire in consumer behavior.

You can see the full results of our Debit Benchmark survey at: *visit.coop/debitreport.*

CO-OP Financial Services is the nation's largest credit union service organization in terms of number of credit unions, assets and members. The company helps credit unions thrive by providing products and services that make it more convenient for members to do business with them. To learn more, visit co-opfs.org.

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