COMPETING ON FINANCIAL HEALTH:
How Credit Unions Can Win the Gen Y Market

FEBRUARY 2016

In partnership with

Cornerstone Advisors, Inc.
WHERE STRATEGY MEETS EXECUTION

In partnership with

CFSI
Center for Financial Services Innovation
EXECUTIVE SUMMARY

Cornerstone Advisors, in partnership with the Center for Financial Services Innovation (CFSI), produced the following report on strategies for credit unions to attract Gen Y members. The analysis, conducted by Cornerstone Advisors, is based primarily on data from CFSI's Consumer Financial Health Study.

KEY FINDINGS

- Despite strong member satisfaction and negative consumer sentiment towards banks, credit unions’ market share of key profit drivers like mortgages and credit cards is in the single digits.
- Just 27% of the nearly 79.5 million Gen Y-ers in the United States are credit union members, in contrast to nearly half of adults over the age of 36.
- When asked why they aren’t members, many Gen Y-ers admitted to not knowing much about credit unions.
- Gen Y-ers in the market for financial products equally prefer a big bank as they do a community bank or credit union.
- Compared to non-members in the same age range, Gen Y credit union members: 1) make more use of credit cards (not always a positive thing), and 2) are financially healthier.

STRATEGIES FOR ATTRACTING GEN Y

To capitalize on these differences, Cornerstone Advisors believes that credit unions should execute on four strategies to win Gen Y-ers’ business:

- Create a new credit card payments experience;
- Provide life stage mobile apps;
- Deploy member referral programs; and
- Compete on financial health.
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INTRODUCTION

This should be the golden age for credit unions. The number of credit union members in the United States has crossed the 100 million mark. Member satisfaction is high, and consumer sentiment towards big banks is at an all-time low (Figure 1). A new generation of banking consumers, scarred by the recent financial crisis, is emerging. And demand for the services that drive credit union profitability—namely lending products—are on the rise after a long period of stagnation and decline.

Yet credit unions’ market share of key lending products is low, in the single digits for mortgages and credit cards (Figure 2). In addition, deposit growth among credit unions pales in comparison to the large banks’ growth. Between March 2009 and March 2015, the three largest banks in the United States added US$1.27 trillion in deposits, as credit unions added roughly US$260 billion (Figure 3).

**Figure 1: Customer Satisfaction**

![ACSI Customer Satisfaction Scores](image)

*Source: ACSI*

**Figure 2: Credit Union Market Share, 2014**

<table>
<thead>
<tr>
<th>Product</th>
<th>2014 U.S. Credit Union Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auto Loans</td>
<td>16.3%</td>
</tr>
<tr>
<td>Mortgages</td>
<td>8.4%</td>
</tr>
<tr>
<td>Credit Cards</td>
<td>5.3%</td>
</tr>
</tbody>
</table>

*Source: Callahan and Associates*

**Figure 3: Deposit Growth by Type of FI, 2009 to 2015**

<table>
<thead>
<tr>
<th>Deposit Growth, 2009 to 2015 (US$ in billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Unions</td>
</tr>
<tr>
<td>Top 10 Internet Banks</td>
</tr>
<tr>
<td>Top 3 U.S. Retail Banks</td>
</tr>
<tr>
<td>All Other Banks</td>
</tr>
<tr>
<td>$260</td>
</tr>
<tr>
<td>$176</td>
</tr>
<tr>
<td>$1,271</td>
</tr>
<tr>
<td>$1,406</td>
</tr>
</tbody>
</table>

*Source: FDIC, NCUA*

**Bottom line:** Credit unions need new strategies to compete for Gen Y-ers who account for the lion’s share of demand for financial products and services. This report analyzes Gen Y-ers’ financial attitudes and behaviors and presents strategies for credit unions to capture their banking business.
The 103.5 million credit union members reported by the Credit Union National Association (CUNA) represents 43% of all U.S. adults (over the age of 18) and 32% of all Americans of any age. Filene Research found, however, that just 27% of the nearly 79.5 million Gen Y-ers in the United States are credit union members. This means that credit union penetration has reached nearly half of all U.S. adults over the age of 36.

TWO HURDLES TO GEN Y CREDIT UNION ADOPTION

Lower penetration of Gen Y-ers is troublesome for credit unions because younger consumers represent a disproportionately high percentage of demand for banking products and services. Regarding Gen Y-ers, credit unions face challenges including:

- **Education.** When asked why they aren’t credit union members, almost half of 18- to 24-year-old Gen Y-ers said that they don’t know much about them. Disturbingly (to credit unions), a quarter of them said “why bother?” (Figure 4).

- **Preferences.** Gen Y-ers equally prefer a big bank as they do a community bank or credit union. In contrast, Gen X-ers and Boomers prefer a smaller FI by a more than two-to-one ratio, and among Seniors, by nearly five-to-one (Figure 5).
HOW GEN Y CREDIT UNION MEMBERS DIFFER

Plenty has already been written on how important technology is to Gen Y-ers. To increase Gen Y-ers’ awareness of credit unions, and to change their financial provider preferences, however, credit unions need to understand how current Gen Y credit union members differ from other Gen Y-ers. Two of the most important ways are their: 1) use of credit cards, and 2) overall financial health.4

CREDIT CARD USE

Among younger Gen Y credit union members, 80% have a credit card, in contrast to 61% of non-members in the same age range. Among older Gen Y credit union members, nearly nine in 10 have a credit card, compared to 72% of non-members (Figure 6).

Figure 6: Gen Y Credit Card Ownership

<table>
<thead>
<tr>
<th>Age Range</th>
<th>CU Members (n=200)</th>
<th>Non-Members (n=366)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gen Y (21-27)</td>
<td>80%</td>
<td>61%</td>
</tr>
<tr>
<td>Gen Y (28-36)</td>
<td>88%</td>
<td>72%</td>
</tr>
</tbody>
</table>

Source: CFSI Consumer Financial Health Study, 2014

Despite claims that Gen Y-ers shun credit cards, Gen Y credit union members are just as likely as older consumers to make frequent use of them (Figure 7).5

Figure 7: Frequency of Credit Card Use

Source: CFSI Consumer Financial Health Study, 2014

Frequent credit card use may be negatively impacting some Gen Y credit union members, however (Table A). Among credit cardholders:

- Nearly one in five younger Gen Y credit union members occasionally pay a late fee because they forget to pay a bill, in contrast to 12% of non-members.
- Nearly twice as many younger Gen Y credit union members pay a fee because they can’t pay on time or because they exceed their credit limits.
- Three times as many older Gen Y credit union members use their credit card for a cash advance than non-members.
Table A: Credit Card Fees Paid by Gen Y Credit Cardholders

<table>
<thead>
<tr>
<th></th>
<th>Gen Y (21-27)</th>
<th>Gen Y (28-36)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Credit Union</td>
<td>Non-Members (n=230)</td>
</tr>
<tr>
<td>Occasionally charged a late fee</td>
<td>19%</td>
<td>12%</td>
</tr>
<tr>
<td>because forgot to pay bill</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Occasionally charged a late fee</td>
<td>17%</td>
<td>9%</td>
</tr>
<tr>
<td>because didn't have money to pay on</td>
<td></td>
<td></td>
</tr>
<tr>
<td>time</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Occasionally charged an over-the-lim</td>
<td>8%</td>
<td>4%</td>
</tr>
<tr>
<td>it fee for exceeding credit line</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Occasionally used the card for a</td>
<td>8%</td>
<td>7%</td>
</tr>
<tr>
<td>cash advance</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: CFSI Consumer Financial Health Study, 2014

FINANCIAL HEALTH

In its study, Understanding and Improving Consumer Financial Health in America, CFSI measured consumers’ financial health by identifying three tiers of financial well-being:

- **Healthy.** Healthy consumers are able to manage their day-to-day financial lives, have a significant financial cushion for emergencies, and are well-positioned to seize financial opportunities.

- **Coping.** Compared to Healthy consumers, Coping consumers find it harder to manage their day-to-day financial lives, have less of a financial cushion for an emergency, and are less able to take advantage of financial opportunities.

- **Vulnerable.** Vulnerable consumers do the least well across financial health indicators. They struggle with their day-to-day financial lives, have little or no financial cushion for emergencies, and are not prepared to seize financial opportunities for security and mobility.

How do credit union members stack up? Compared to non-members, credit union members have (Figure 8):

- **Higher income.** Credit union members average US$77,400 in household income, nearly US$12,000 more than non-members. Twenty-five percent earn more than US$100,000, versus 19% of non-members. And just 16% of credit union members make less than US$25,000 annually, versus 31% of non-members.

- **Roughly equal liquid funds.** On average, credit union members hold about US$115,300 in liquid funds—deposit/money market accounts, stocks, and bonds—slightly less than the amount non-members have. However, just one in five credit union members have less than US$1,000 in liquid funds, in contrast to a third of non-members.

- **More retirement funds.** Credit union members have saved more than US$261,300, on average, for retirement, 26% more than the almost US$208,000 non-members have put away.
Competing on Financial Health: How Credit Unions Can Win the Gen Y Market

The Financial Health of Gen Y Credit Union Members

The differences in financial health categorization hold true across both subsegments of Gen Y-ers, as well. Thirty-seven percent of younger Gen Y credit union members are financially healthy, in contrast to 22% of non-members. The percentage difference between financially healthy older Gen Y members and non-members isn’t large, but far fewer credit union members in that age range are categorized as vulnerable (Figure 10).

## Figure 9: Financial Health Segmentation

<table>
<thead>
<tr>
<th>Financial Health Segmentation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Union Members (n=2,191)</td>
</tr>
<tr>
<td>Vulnerable</td>
</tr>
<tr>
<td>Coping</td>
</tr>
<tr>
<td>Healthy</td>
</tr>
</tbody>
</table>

Source: CFSI Consumer Financial Health Study, 2014

## Figure 10: Gen Y Financial Health Segmentation

<table>
<thead>
<tr>
<th>Gen Y Financial Health Segmentation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gen Y (21-27)</td>
</tr>
<tr>
<td>Credit Union Members (n=200)</td>
</tr>
<tr>
<td>Healthy</td>
</tr>
<tr>
<td>Coping</td>
</tr>
<tr>
<td>Vulnerable</td>
</tr>
</tbody>
</table>

| Gen Y (28-36) |
| Credit Union Members (n=355) | Non-Members (n=536) |
| Healthy | 24% | 36% |
| Coping | 40% | 36% |
| Vulnerable | 33% | 33% |

Source: CFSI Consumer Financial Health Study, 2014

Considering credit union members’ higher levels of income, liquidity, and retirement funds, it’s not surprising that they’re financially healthier than non-members (Figure 9).

## Figure 8: Mean Household Income, Liquid Funds, and Retirement Funds

<table>
<thead>
<tr>
<th>Household Income, Liquid Funds, and Retirement Funds*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household Income</td>
</tr>
<tr>
<td>Liquid funds</td>
</tr>
<tr>
<td>Retirement funds</td>
</tr>
</tbody>
</table>

* Rounded to nearest hundred dollars

Source: CFSI Consumer Financial Health Study, 2014

$77,400

$115,300

$261,300

$65,600

$118,100

$207,800

$65,600

$118,100

$207,800

51%

34%

37%

32%

38%

22%

30%

28%

36%

17%

24%

33%

30%

40%

33%

51%

33%

42%
Income, liquid funds, and retirement funds don’t explain the superior financial health of Gen Y credit union members, however. Younger Gen Y members’ average income and liquid funds are slightly higher than non-members, but they have less in retirement funds. Older Gen Y members have slightly higher income and retirement funds, but slightly less liquid funds (Table B).

This means that Gen Y credit union members’ financial behaviors and capabilities help explain the differences in health levels. As evidence, a larger percentage of Gen Y credit union members believe they have the skills and knowledge to manage their financial lives, and that they’re good at dealing with day-to-day financial matters (Figure 11).

### Table B: Gen Y Mean Income, Liquid Funds, and Retirement Funds

<table>
<thead>
<tr>
<th></th>
<th>Gen Y (21-27)</th>
<th>Gen Y (28-36)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Credit Union Members</td>
<td>Non-Members</td>
</tr>
<tr>
<td>Household income</td>
<td>$43,100</td>
<td>$38,000</td>
</tr>
<tr>
<td>Liquid funds</td>
<td>$15,500</td>
<td>$12,400</td>
</tr>
<tr>
<td>Retirement funds</td>
<td>$14,900</td>
<td>$15,700</td>
</tr>
</tbody>
</table>

Source: CFSI Consumer Financial Health Study, 2014

### Figure 11: Gen Y Financial Capabilities

**Gen Yers’ Financial Capabilities**

(% of consumers that "agree" or "agree strongly")

- "I have the skills and knowledge to manage my finances well."
  - Gen Y (21-27) Credit Union Members: 64%, Non-Members: 45%
  - Gen Y (28-36) Credit Union Members: 61%, Non-Members: 55%

- "I am good at dealing with day-to-day financial matters."
  - Gen Y (21-27) Credit Union Members: 64%, Non-Members: 53%
  - Gen Y (28-36) Credit Union Members: 67%, Non-Members: 58%

Source: CFSI Consumer Financial Health Study, 2014
CAPTURING THE GEN Y MARKET

Cornerstone Advisors believes that credit unions will gain market share among Gen Y-ers by: 1) creating a new payments experience, 2) providing life stage mobile apps, 3) deploying member referral programs, and 4) competing on financial health.

CREATING A NEW PAYMENTS EXPERIENCE

Gen Y-ers are the first generation to come of age and ask whether or not they need a checking account, and not just what bank they should get one from. Among Gen Y-ers between 21 and 27 years, 13% don’t have a checking account, yet of those that don’t have one, 37% have a credit card.

Meanwhile, the debit card boom of the early 2000s is coming to an end. Between 2008 and 2013, the percentage of younger Gen Y-ers (ages 21 to 26) with a credit card nearly doubled, from 32% to 59% (Figure 12).

However, the average number of cards owned among these younger consumers is below the average among older consumers (and older Gen Y-ers), indicating further adoption potential (Figure 13).

Figure 12: Younger Gen Y Credit Card Adoption, 2008 to 2013

Credit Card Adoption  
(Base= Young Gen Y-ers, Ages 21 to 26)

2008 2010 2013
32% 43% 59%

Source: Aite Group survey of 1,242 U.S. consumers, Q2 2013

Figure 13: Number of Credit Cards Owned

Average Number of Credit Cards Owned

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Average Number of Cards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Younger Gen Y (21-26)</td>
<td>1.84</td>
</tr>
<tr>
<td>Older Gen Y (27-35)</td>
<td>2.39</td>
</tr>
<tr>
<td>Gen X (36-51)</td>
<td>2.38</td>
</tr>
<tr>
<td>Boomer (52-69)</td>
<td>2.28</td>
</tr>
<tr>
<td>Senior (70+)</td>
<td>2.49</td>
</tr>
</tbody>
</table>

Source: Aite Group survey of 1,242 U.S. consumers, Q2 2013

Credit unions have not succeeded at putting credit cards in the hands of their members, however. The median credit union has issued credit cards to just 20.2% of its members, and high-performers have issued cards to 30.4% of members (Figure 14).

Figure 14: Credit Unions’ Credit Card Penetration

Credit Unions’ Credit Card Penetration Rate

<table>
<thead>
<tr>
<th>Percentile</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>25th</td>
<td>15.8%</td>
</tr>
<tr>
<td>Median</td>
<td>20.2%</td>
</tr>
<tr>
<td>75th</td>
<td>30.4%</td>
</tr>
</tbody>
</table>

Source: 2014 Cornerstone Advisors Credit Union Performance Report
A BankRate.com article titled, “Should you get a credit union credit card?” reported:  

“Credit union cards might not be for everyone. Rewards cardholders may prefer the more generous rebates of major bank card issuers, while those with large balances and high interest rates might benefit from a credit union-issued credit card.”

The article quotes Curtis Arnold, the founder of CardRatings.com, who said:

“[Credit union] rewards cards usually aren’t as aggressive in terms of a rebate. You’re going to get 1 percent cash back or 1 point per dollar spent—usually pretty plain-Jane, no-frills kind of rewards programs.”

Credit unions need to change this perception. Half of Gen Y credit cardholders cited rewards as an important factor influencing their choice of credit cards. A low interest rate was important to just one in five Gen Y cardholders (Table C).

Table C: Drivers of Credit Card Selection

<table>
<thead>
<tr>
<th>Q. Which of the following played an important role in choosing your primary credit card? (Base=Credit cardholders)</th>
<th>Gen Y (21-27)</th>
<th>Gen Y (21-27)</th>
<th>Gen Y (28-36)</th>
<th>Gen Y (28-36)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CU Members (n=161)</td>
<td>Non-Members (n=230)</td>
<td>CU Members (n=311)</td>
<td>Non-Members (n=384)</td>
</tr>
<tr>
<td>Attractive rewards program</td>
<td>47%</td>
<td>48%</td>
<td>51%</td>
<td>57%</td>
</tr>
<tr>
<td>No annual fee</td>
<td>46%</td>
<td>43%</td>
<td>47%</td>
<td>52%</td>
</tr>
<tr>
<td>Low interest rate (APR)</td>
<td>20%</td>
<td>17%</td>
<td>22%</td>
<td>18%</td>
</tr>
<tr>
<td>Low interest rate on balance transfers</td>
<td>14%</td>
<td>4%</td>
<td>14%</td>
<td>13%</td>
</tr>
<tr>
<td>Large credit line</td>
<td>12%</td>
<td>21%</td>
<td>14%</td>
<td>11%</td>
</tr>
<tr>
<td>Superior customer service</td>
<td>11%</td>
<td>12%</td>
<td>13%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Source: CFSI Consumer Financial Health Study, 2014
A credit card program designed to provide Gen Y-ers with the best of both credit and debit cards could help attract Gen Y-ers to credit unions’ credit card offerings.

Among Gen Y-ers, roughly three-quarters of frequent credit card users (i.e., they use the card “often/always”), and 83% of frequent debit card users, use the cards because the cards help them track how much they spend. Nearly nine of 10 frequent credit card users use the product because they get rewards. Frequent debit card users, however, point to the debit card’s ability to limit spending as a reason for it, not rewards (Table D).

Considering Gen Y credit union members’ greater propensity to incur credit card-related fees, tools and features that help members avoid fees could be positioned as differentiators by credit unions.

<table>
<thead>
<tr>
<th>Table D: Gen Y-ers’ Reasons for Using Credit/Debit Cards</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gen Y (21-36) Credit Cardholders Who Use Card “Often/Always” (n=726)</strong></td>
</tr>
<tr>
<td>Percentage of all cardholders</td>
</tr>
<tr>
<td>It helps me track how much I spend</td>
</tr>
<tr>
<td>I get rewards (like cash back or points)</td>
</tr>
<tr>
<td>It doesn’t let me spend more than I have</td>
</tr>
</tbody>
</table>

Source: CFSI Consumer Financial Health Study, 2014

**BENCHMARKING CARD OFFERINGS**

Creating a new payments experience for members is important, but credit unions should take into account revenue and expense levers when doing so. Cornerstone Advisors’ Payments Growth Initiative assesses these levers (Table E).

<table>
<thead>
<tr>
<th>Table E: Payments Revenue and Expense Levers</th>
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</thead>
<tbody>
<tr>
<td><strong>Revenue Levers</strong></td>
</tr>
<tr>
<td><strong>Credit cards</strong></td>
</tr>
<tr>
<td></td>
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<td></td>
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<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Debit cards</strong></td>
</tr>
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<td></td>
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<td></td>
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</tbody>
</table>

Source: Cornerstone Advisors
THE NEW MOBILE APPS EXPERIENCE

Credit unions must create a new payments experience that reinforces smart spending to help drive card usage and differentiate their offerings from other card issuers.

Although few consumers frequently make mobile payments today, mobile apps hold the key to providing a new payments experience. The book Smarter Bank describes how the new experience addresses consumers’ questions at the point of sale or transaction:

- **Can I afford the product?** Answering this requires access to a member’s payment account(s), and knowledge of the inflows and outflows (e.g., scheduled bill payments, direct deposits) associated with those accounts. Google, Apple, and MCX can’t do this—only financial institutions can.

- **How should I pay for it?** With multiple payment methods available, should a member put a purchase on her debit card or one of her credit cards? Can she use rewards points towards the purchase?

- **Can I get an offer?** Is there another merchant (maybe one within a certain geographic distance) willing to match or better this price?

- **What did others pay?** Is this a good deal? How does it compare with what other people paid for it?

- **What do others think?** How good are the reviews for the product?

LIFE STAGE MOBILE APPS

Credit unions should capitalize on Gen Y-ers’ use of mobile technologies, their desire for advice, and the life stage changes they’re experiencing by deploying mobile apps to help them make better decisions regarding:

- **Car buying.** Fintech startup vLendRight offers credit unions a platform for members to select a car bundled with personalized financing offers, affordability advice, social inputs, and an ability to schedule dealer appointments. USAA’s Auto Circle app is an example of this type of app (Figure 15).

- **Home shopping.** Thirty-two percent of Gen Y credit union members have a mortgage (versus 23% of Gen Y non-members). Among Gen X credit union members, that percentage is 55% (versus 43% of non-members), suggesting that many Gen Y credit union members will buy homes in the next few years.

- **Wedding planning.** One in four Gen Y credit union members got married in the past five years, so it’s not surprising to learn that 24% of Gen Y credit union members had a baby in the past five years. Fintech vendor Geezeo recently introduced a wedding planning mobile app that can be white-labeled by credit unions to help credit union members and prospects understand the expenses and decisions involved in the wedding process (Figure 16).

- **Baby planning.** One in four Gen Y credit union members got married in the past five years, so it’s not surprising to learn that 24% of Gen Y credit union members had a baby in the past five years.
Life stage apps help credit unions accomplish two important goals:

- **Consumer education.** Life stage mobile apps should be marketed to the general public—not just existing members—to help generate market awareness and support the brand proposition that credit unions are there to improve financial health and help consumers make smart financial decisions.

- **Tender steering.** With each mobile app, credit unions have an opportunity to not just help members and prospects make smarter purchase decisions, but to offer rewards and incentives for using credit union-issued credit and debit cards throughout the processes.
DEPLOYING REFERRAL PROGRAMS

When they last selected a financial product or service, nearly four in 10 younger Gen Y-ers, and one in three older Gen Y-ers turned to family or friends for recommendations. In contrast, just one in five Gen X-ers, 16% of Boomers, and one in 10 Seniors cited referrals as a source (Table F).

According to research conducted by CU Grow, just 9% of credit unions and community banks have adopted some kind of digital referral tool. Of these, only 36% defined digital referral processes. In addition, few provide debit or credit card rewards points for referrals, or base referral rewards on the quality of the reference.

But designing and launching persistent—not just periodic—referral programs is what credit unions need to do to capture the Gen Y market. Two important reasons why referrals are so important: 13

1) Better matching between referred members and the firm. Better matching implies the presence of characteristics common to referrers and their referrals.

2) Churn effect. Referrals exhibit lower churn, but only as long as their referrer has not churned. As a result, churn by the referrer is an early warning signal for churn by the referral.

Table F: Sources of Information

<table>
<thead>
<tr>
<th>Q. Thinking about the last time you opened a checking, savings, or prepaid account for you or a household member, did you use any of these sources of information before deciding which account to open?</th>
<th>Gen Y (21-27) (n=911)</th>
<th>Gen Y (28-36) (n=1,070)</th>
<th>Gen X (n=1,739)</th>
<th>Boomer (n=2,320)</th>
<th>Senior (n=776)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Friends/relatives</td>
<td>38%</td>
<td>29%</td>
<td>19%</td>
<td>16%</td>
<td>10%</td>
</tr>
<tr>
<td>Internet</td>
<td>26%</td>
<td>28%</td>
<td>19%</td>
<td>11%</td>
<td>6%</td>
</tr>
<tr>
<td>Bank branch</td>
<td>21%</td>
<td>22%</td>
<td>25%</td>
<td>24%</td>
<td>21%</td>
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<tr>
<td>Mail</td>
<td>12%</td>
<td>9%</td>
<td>10%</td>
<td>10%</td>
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<tr>
<td>Phone</td>
<td>7%</td>
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<td>9%</td>
</tr>
</tbody>
</table>

Source: CFSI Consumer Financial Health Study, 2014
COMPETING ON FINANCIAL HEALTH

“Credit union members are financially healthier consumers.”

That might not be the slickest advertising slogan ever coined, but it captures the essence of how credit unions can position themselves to compete in the banking market. According to CFSI:

“Because people’s capabilities, habits, and tools differ, financial service providers must better understand the unique characteristics of their customers, and invest in innovative technologies, policies, and practices that help them thrive financially. In an increasingly competitive landscape, the ability to address and increase consumers’ financial health will become the new competitive frontier.”

This will require credit unions to measure the financial health of their members. One approach is to create a score, or set of metrics. A score—based on account balances, rates of return, and trackable behavior—that measures consumers’ overall financial health or performance can change the basis of competition in the banking industry. A financial health score enables credit unions to:

- Quantify the impact of financial behaviors and products on members’ scores. What’s the impact of saving a higher percentage of one’s paycheck? What’s the benefit of reducing the level of student or household debt? Would getting another quarter of a percentage point on the savings account interest rate make a difference? A quantitative financial health score will help quantify the impact of financial behaviors and actions.

- Create engagement strategies around financial health. Mobile apps that employ gamification techniques—i.e., the application of game playing elements like point scoring or competition with others—like Farmville and FourSquare are popular with Gen Y-ers. Credit unions can create a gaming aspect to financial health by establishing incentives for members to reach certain levels of financial health or improve certain financial health metrics.

- Brag about their members’ financial health improvements. With a widely accepted financial health score, credit unions can compete on the basis of how well they help members improve their financial health score. For example, instead of touting rates and fees, credit unions will boast that “Last year, 50% of our members improved their financial health score by more than 50 points!”
FINANCIAL HEALTH METRICS

Credit unions don’t have to invent a financial health score from scratch. Organizations working on measuring financial health or performance include:

- **FlexScore.** San Francisco-based FlexScore has developed a financial health score (of the same name) that factors in consumers’ assets, debt, investments, income, and other aspects of financial health to compute a financial health score. The methodology specifies the change in the overall score someone would achieve by taking specific actions like paying off debt or increasing 401(k) contributions.

- **HelloWallet.** The HelloWallet Financial Wellness Score takes into account consumers’ spending levels, emergency savings, retirement savings, credit card balance, other loan balances, insurance coverage, and home equity. The company announced a partnership with KeyBank in March 2015.

- **USAA.** The USAA Financial Readiness Score looks at consumers’ spending and savings habits, whether or not they have adequate insurance, and if they maintain up-to-date legal documents.

- **CFSI.** In early 2016, CFSI will release its own set of financial health metrics to be used by financial services providers to benchmark and measure the financial health of their customers. The metrics focus on how consumers spend, save, borrow, and plan. These metrics could be used to develop a financial health score. CFSI is partnering with financial services providers to test and refine the application of the metrics, including piloting a score.
CONCLUSION

The prognosis for credit unions shows mixed signs. Strong member satisfaction and consumer sentiment are favorable factors. But challenges regarding Gen Y-ers’ awareness of credit unions, and their preferences for whom to do business with, exist.

The key to success in the old world of banking was luring consumers with great rates, fees, and rewards. Success in the new world is about using technology to provide advice that creates a new payments experience, and improves consumers’ overall financial health. The prescriptions in this report—capitalize on the credit card opportunity, deploy life stage mobile apps, and compete on financial health—are not mutually exclusive.

Gen Y credit union members’ superior financial health—despite relatively equal levels of income, liquid funds, and retirement funds—begs the question: To what extent are the superior health ratings of Gen Y credit union members due to being a credit union member? In other words, are credit unions playing a role in helping their members become more financially healthy?

Either:

- Financially literate and healthy consumers are more likely than others to select a credit union to do business with, or
- Credit unions’ products, service quality, tools, and technologies contribute to and cause the higher levels of financial health.

We can’t prove one or the other. But Cornerstone Advisors believes that credit unions should strive for the latter and make financial health a key component of their strategies to compete for Gen Y-ers’ banking business.
APPENDIX

METHODOLOGY

The preceding analysis was primarily based on a 2014 survey of U.S. consumers conducted by the Center for Financial Services Innovation (CFSI).\(^5\)

To better understand the current state of financial health in America and consumer challenges, CFSI commissioned GfK, a global market and consumer research firm, to deploy the Consumer Financial Health Study’s nationwide survey, leveraging GfK’s KnowledgePanel®. The Consumer Financial Health Study benefited from the engagement and financial support of its funders, which include the Ford Foundation and MetLife Foundation.

The survey was fielded from June to August 2014, yielding 7,152 responses. The sample comprises adults (18 and older) residing in the United States. All data from this survey contained in this report has been weighted back to the total U.S. population to ensure that it is nationally representative.

For the report, Gen Y-ers were defined as consumers 21 to 36 years old, Gen X-ers 37 to 51, Baby Boomers 52 to 69, and Seniors 70+, all as of when the survey was conducted. Gen Y-ers were sub-segmented into two groups: younger Gen Y-ers between 21 and 27, and older Gen Y-ers, ages 28 through 36. Throughout the report, the terms Gen Y-ers and Millennials are used interchangeably. The survey included respondents 18 to 20 years old, but they were excluded from the analysis because we believe they are not the primary target market of credit unions.

Additionally, when comparisons were made between credit union members and non-members, respondents who did not answer that question (for whom membership information was not available) were excluded from the comparison.

Additional data sources were used, and are cited as used.
ABOUT CORNERSTONE ADVISORS

After 14 years in this business, Cornerstone Advisors knows the financial services industry inside and out. We know that when credit unions and banks improve their strategies, technologies and operations, improved financial performance naturally follows.

Cornerstone’s multidisciplinary team is backed by the experience that comes from hundreds of thousands of gritty, in-the-trenches client hours. We live by the philosophy that you can’t improve what you don’t measure. With laser-focus measurement, financial institutions can develop more meaningful business strategies, make smarter technology decisions, and strategically reengineer critical processes.

Our comprehensive advisory services:

- **Performance**: Including Benchmarking, Best Practice Assessment, Process Improvement, Enterprise Content Management, and Workflow Management
- **Strategy**: Including Strategic Planning and Facilitation, Mergers and Acquisitions Advisory, Enterprise Risk Management, Organizational Assessment, and Board Governance Advisory
- **Technology**: Including Technology Assessment, IT Benchmarking, Strategic Technology Planning, RFP Development, System Selection, and Implementation Services
- **Contracts**: Including Negotiation, Opportunity Assessment, and Renewal Advisory Services
- **Payments**: Including Assessment, Scorecard Development, Strategy Roadmap, Branding Agreements, and Revenue Enhancement
- **Channels**: Including Integrated Delivery Channel Planning, and Remote Delivery Planning
- **Insights & Knowledge Sharing**: Including Research Reports, White Papers, GonzoBanker.com (our blog), GonzoBanker Roundtables, Webinars and Podcasts, and Professional Speakers

For more information about Cornerstone Advisors visit [www.crnrstone.com](http://www.crnrstone.com).

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ABOUT CENTER FOR FINANCIAL SERVICES INNOVATION (CFSI)

CFSI is the authority on consumer financial health, leading a network of committed financial services innovators to build better consumer products and practices.

Nearly a decade post-recession, Americans continue walking a financial tightrope. According to CFSI research, 57% of the country—138 million people—struggle with financial health. This goes beyond low-income households: More than one-third of households making more than $100,000 per year lack financial health, too.

Financial health isn’t about wealth—it’s about how financial products and behaviors help consumers prudently spend, save, borrow and plan for the future. Despite advancements in financial services technology, there’s a gap between people’s needs and the products available.

Adopting a financial health focus requires two continuing efforts: measuring the financial health of customers, and developing high-quality products to improve it. For the industry, this can enable expansion into new market segments, increase consumer loyalty and drive long-term revenue. For consumers, improved financial health is a gateway to achieving goals and dreams.

To nurture these efforts, we lead the CFSI Financial Health Network, financial services innovators committed to offering higher-quality products and services. By joining with us, members can be part of the conversation and learn strategies to create new benefits for their organizations and customers. We offer two opportunities to join the CFSI Network:

- **Digital Membership**: a great way to stay engaged on consumer financial health throughout the year. Includes a wealth of members-only research, opportunity for industry exposure, and one pass to CFSI’s annual EMERGE Forum.

- **Core Membership**: a one-of-a-kind, invitation-only platform where members can share data and ideas, showcase best practices and make valuable business connections to foster and accelerate consumer-focused innovation.


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ENDNOTES


3 http://thefinancialbrand.com/47089/what-credit-unions-should-really-be-worried-about/

4 For the report, Gen Y consists of consumers 21 to 36 years old, Gen X-ers are 37 to 51, Baby Boomers 52 to 69, and Seniors are 70+, all as of when the survey was conducted. Gen Y-ers were sub-segmented into two groups, younger Gen Y-ers between 21 and 27, and older Gen Y-ers, ages 28 through 36. Throughout the report, the terms Gen Y-ers and Millennials are used interchangeably. The survey included respondents 18 to 20 years old, but they were excluded from the analysis because we believe they are not credit unions’ target market.

5 For an example of this claim, see http://time.com/money/3274584/millennials-credit-cards/.

6 http://bit.ly/ConsumerFinHealth

7 http://www.equifax.com/assets/USCIS/millennial_infographic.pdf


9 http://www.bankrate.com/finance/credit-cards/should-you-get-a-credit-union-credit-card-1.aspx


11 http://www.costofwedding.com/


