MAY 2019

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CREDIT UNION INNOVATION PLAYBOOK

DATA ANALYTICS EDITION

The Credit Union Innovation Playbook: Data Analytics Edition, a PYMNTS and PSCU collaboration, delves into credit union ecosystem players' innovation agendas. Each edition homes in on a specific focus, exploring the differences in how credit union members and leadership prioritize innovation in four select areas: risk and fraud, digital banking, data and analytics and loyalty strategies.

35%

SHARE OF CUs THAT FOCUSED ON DATA ANALYTICS INVESTMENTS OVER THE PAST THREE YEARS

36%

PORTION OF ANALYTICS-FOCUSED CUs THAT WANT TO IMPROVE THEIR SECURITY AND FRAUD MANAGEMENT EFFORTS

70%

SHARE OF CUs WITH MORE THAN $5 BILLION IN ASSETS THAT ARE INTERESTED IN DATA ANALYTICS-BASED INNOVATIONS

33%

PORTION OF ANALYTICS-FOCUSED CUs THAT BELIEVE IT IS "IMPORTANT" OR "VERY IMPORTANT" TO TEST INNOVATIONS WITH MEMBERS

39%

SHARE OF ANALYTICS-FOCUSED CUs THAT BASE INNOVATIONS' ROIs ON WHETHER THEY REDUCE EXISTING PRODUCTS' OPERATING COSTS

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The Credit Union Innovation Playbook was done in collaboration with PSCU, and PYMNTS is grateful for the company's support and insight. PYMNTS.com retains full editorial control over the following findings, methodology and data analysis.

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INTRODUCTION

Even as traditional banks and FinTechs crowd the financial services landscape, credit unions (CUs) continue to distinguish themselves through their member-first investments and innovation approaches. They require data analytics tools and solutions to continue catering to members' specific needs and deliver the products and services consumers desire, however.

New PYMNTS research reveals that only about one-third of CUs have made data analytics a top innovation priority, though. Most are instead focusing their efforts on anti-money laundering (AML) initiatives, data security, mobile and digital payments and fraud. While pursuing these goals is certainly worthwhile, those that prioritize data analytics can more easily access a range of innovations than those that do not.

Larger CUs with assets ranging from $1 billion to more than $5 billion are more likely than others to make data analytics a top investment goal. They are also likelier than their smaller counterparts to make bigger investments in AML initiatives, data security, mobile and digital payments and fraud innovations. On the other hand, smaller CUs with assets at or below $1 billion invest considerably less in data analytics than larger financial institutions (FIs).

This budgeting gap explains why some CUs are more inclined than others to invest in innovation. Those that emphasize data analytics are more likely to equally prioritize innovating new features and developing new products compared to those that do not, for example. The former also tend to face fewer challenges in pursuing their innovation goals and more quickly bring their offerings to market.

PYMNTS surveyed 102 CU decision-makers for the Credit Union Innovation Playbook: Data Analytics Edition, a PSCU collaboration, to better understand their innovation strategies and determine their top goals. Our findings reveal that those prioritizing data analytics take different innovation approaches than their counterparts, allowing them to pursue new opportunities, release products or services and better compete with financial services rivals. This Playbook also examines the innovation tactics of CUs that do not emphasize data analytics.

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WHY CUs MUST TAP INTO **BIG DATA**

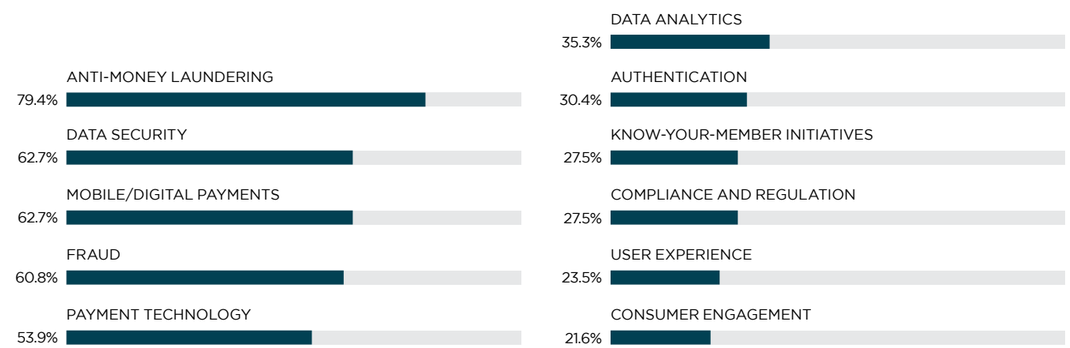
WHY CUs MUST
TAP INTO BIG DATA

Security appears to be a top-of-mind investment for a significant share of CUs, and many focus on innovations that will protect their members' financial assets, help them operate more efficiently, yield higher returns on investment (ROIs) and secure their systems.

Among the CUs surveyed for the Playbook, 79.4 percent reported making AML-based initiatives a primary investment focus over the past three years. This was followed by priorities like data security (62.7 percent), mobile/digital payments (62.7 percent) and fraud prevention (60.8 percent). Just 35.3 percent of them identified data analytics as an investment focus during the same time period.

FOR THE PAST THREE YEARS, **79.4%** OF OUR SAMPLE **CUs HAVE MADE AML-BASED INITIATIVES A PRIMARY FOCUS.**

Figure 1. CUs' investment focuses in the past three years
A breakdown of credit unions' innovation priorities



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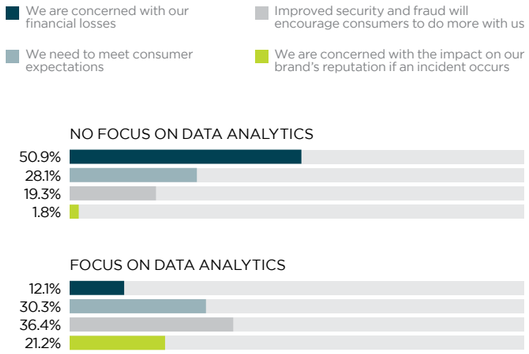
That said, data analytics and security often go hand in hand. Among CUs that focus on the former, 36.4 percent do so to bolster their security and fraud management efforts. It comes down to more than just these two concerns, though, as 30.3 percent of CUs that focus on data analytics say they do so to meet members' expectations.

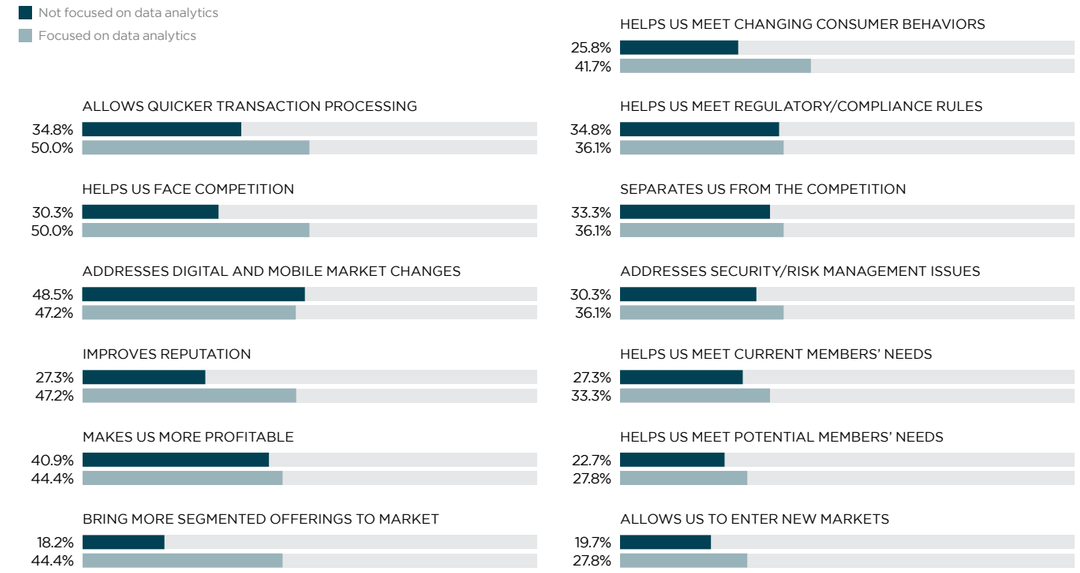
Figure 2. Importance of CUs' investments
Reasons CUs choose certain investments, by focus on data analytics



Different concerns shape the innovation approaches of CUs that do not prioritize data analytics, however, and 50.9 percent of FIs in this group list incurring financial losses as their biggest fear. These CUs do still closely align with their counterparts when it comes to delivering on members' expectations, with 28.1 percent indicating it is an important innovation driver.

Analytics-focused CUs are also more inclined to pursue a broader range of innovation priorities, and 50 percent of them cite offering quicker transaction processing and responding to competition as their top concerns. These rates are considerably higher than the 34.8 percent and 30.3 percent, respectively, cited by the CUs that are not focused on data analytics. Data analytics-driven CUs concentrate considerably more efforts on pursuing innovations that help them quickly bring products to market and improve their reputations.

Figure 3. Important factors credit unions consider
Elements that motivate CUs to innovate, by focus on data analytics



Larger CUs are also more likely to list data analytics as a top investment priority, cited by 70.4 percent of those holding more than $5 billion in assets and 53.6 percent of those in the $1 billion to $5 billion range. On the flip side, fewer than 5 percent of CUs with assets of $1 billion or below say the same.

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THE LARGEST SHARE OF ANALYTICS-FOCUSED CREDIT UNIONS (63.9 PERCENT) HAVE MORE THAN

25 BRANCHES IN THEIR NETWORKS.

There also seems to be a correlation between the number of in-network physical branch locations a CU has and its interest in data analytics. The largest share of analytics-focused credit unions (63.9 percent) have more than 25 branches in their networks — a portion considerably larger than that of CUs that do not focus on analytics (24.2 percent) and the overall sample (38.2 percent) with the same number of physical locations.

All told, a CU's size in terms of both assets and branches appears to affect its interest in data analytics investment. This makes sense, as institutions with higher valuations are more likely to seek out solutions that can provide actionable insights into meeting their members' needs. Additionally, CUs with larger branch networks have more points of interaction with their members and, therefore, more opportunities to collect data that can inform their innovation strategies.

Figure 4. CUs' innovation focuses
Credit unions' interest levels in different innovation priorities, by asset size

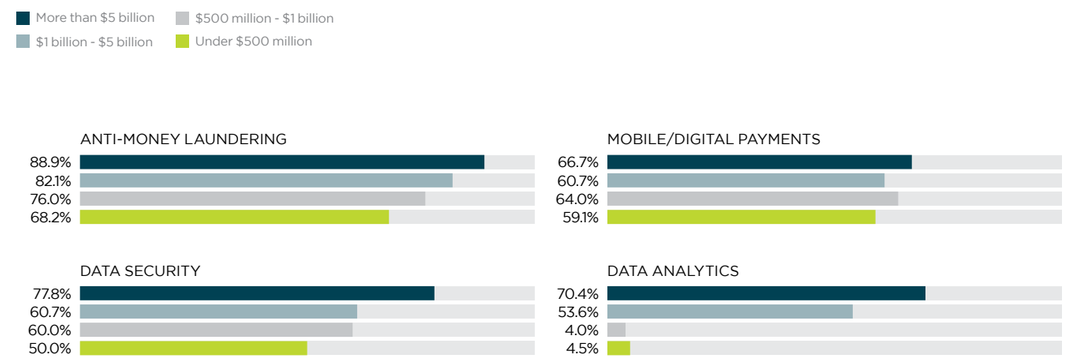
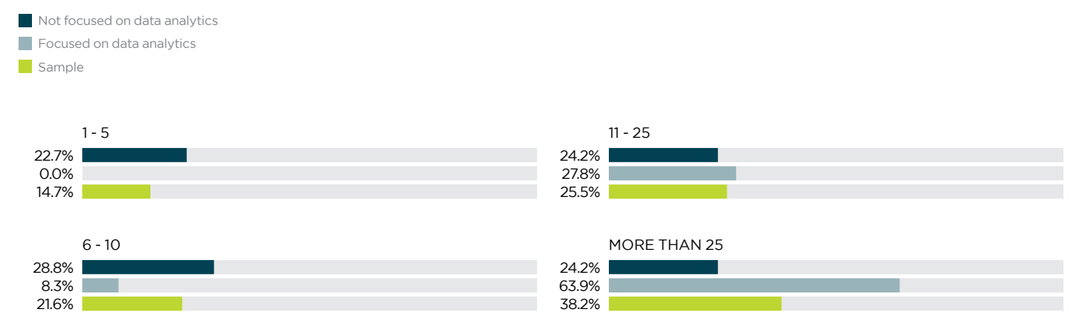


Figure 5. How CUs of varying branch sizes focus on data analytics
Surveyed FIs' focuses on data analytics, by number of branches



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DATA ANALYTICS OPENS

INNOVATION DOORS FOR CUs

DATA ANALYTICS OPENS INNOVATION DOORS FOR CUs

Based on PYMNTS' findings, CUs that focus on data analytics are often more invested in pursuing additional innovations. In fact, 55.6 percent of them say they equally prioritize developing fresh features and new products, compared to the 28.8 percent of those that do not focus on data analytics that say the same. The highest share of FIs in the latter group (42.4 percent) said their focus was on adding new features to existing offerings.

CUs that focus on data analytics also invest heavily in products that mitigate fraud, improve security and encourage members to continue seeking their banking services. Among this group, a significant majority (91.7 percent) have focused on fraud management solutions in the past three years. This share is considerably greater than the 60.6 percent of those that do not invest in data analytics that say the same.

Figure 6. How CUs characterize their payment innovations
Credit unions' investment priorities, by focus on data analytics

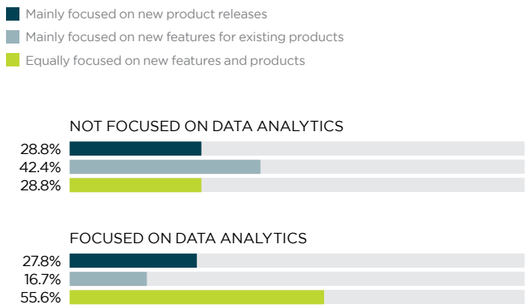
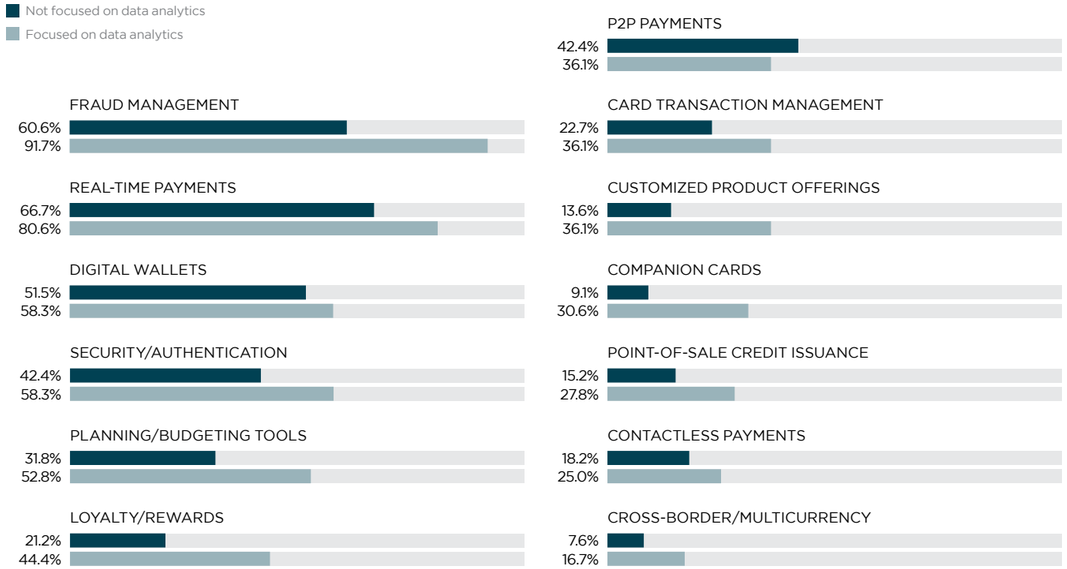


Figure 7: Product types on which CUs have focused in the past three years
Credit unions' innovation priorities within the past three years, by focus on data analytics



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FRAUD MANAGEMENT SOLUTIONS ARE A TOP PRIORITY FOR

100%

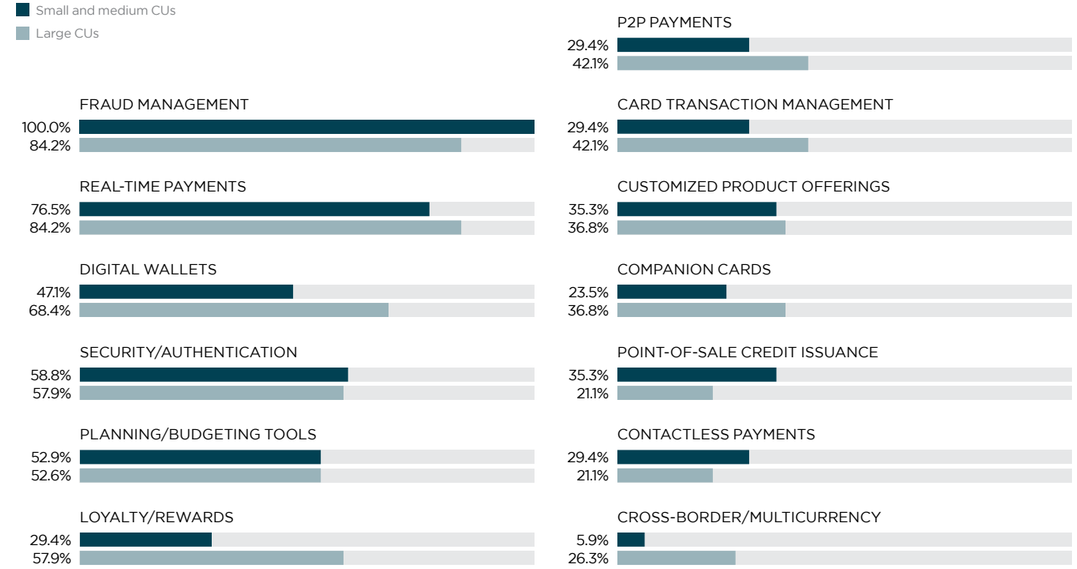
OF SMALL AND MEDIUM-SIZED CUs

THAT FOCUS ON DATA ANALYTICS.

A similar pattern emerges when it comes to innovating financial services products. CUs that keep data analytics top of mind are more likely to invest in real-time payments (80.6 percent) and security and authentication solutions (58.3 percent) than those that do not, cited by 66.7 percent and 42.4 percent, respectively. CUs that do not focus on data analytics are more likely to invest in person-to-person (P2P) payments, though, at 42.4 percent compared to 36.1 percent of those that do.

A CU's asset size can also heavily influence its innovation goals. Fraud management solutions are a top priority for 100 percent of small-to-medium-sized CUs that focus on data analytics, compared to 84.2 percent of larger institutions that do the same. Bigger analytics-focused CUs are more likely to innovate in real-time payments at 84.2 percent, however, compared to 76.5 percent of their smaller counterparts. The results are similar for digital wallets, which are a focus for 68.4 percent of larger analytics-driven CUs compared to just 47.1 percent of smaller ones.

Figure 8. CUs' product innovation focuses
How credit unions prioritized innovation investments in the past three years, by size



Based on these insights, data analytics solutions are informing CUs that fraud management solutions can help them fortify their threat defenses. Larger institutions, in particular, are using this information to determine how best to encourage greater member engagement and create more valuable, revenue-generating products for their customers.

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A ROADMAP TO FASTER INNOVATION

ROLLOUT, STRONGER ROI

A ROADMAP TO FASTER INNOVATION

ROLLOUT, STRONGER ROI

Focusing on data analytics is crucial to helping CUs understand which products their members want and accelerating subsequent launches. Of those that prioritize data analytics, 58.3 percent can develop and implement an innovation in less than six months, while just 30.3 percent of those that do not emphasize analytics say the same. Among those in the latter group, 69.7 percent are likely to take between seven months and two years to develop and release a product.

CUs that focus on data analytics also devote greater portions of their budgets to innovation. Among these institutions, 44.4 percent slate more than one-quarter of their budgets for this purpose, while only 33.3 percent of CUs that do not focus on data analytics do the same.

Figure 9. How long it takes CUs to implement innovations
Credit unions' time frames to release new features or products, by focus on data analytics

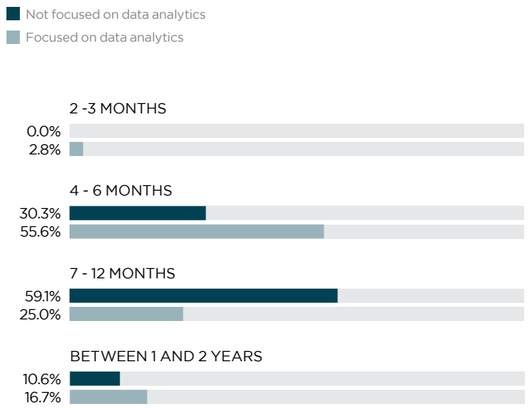
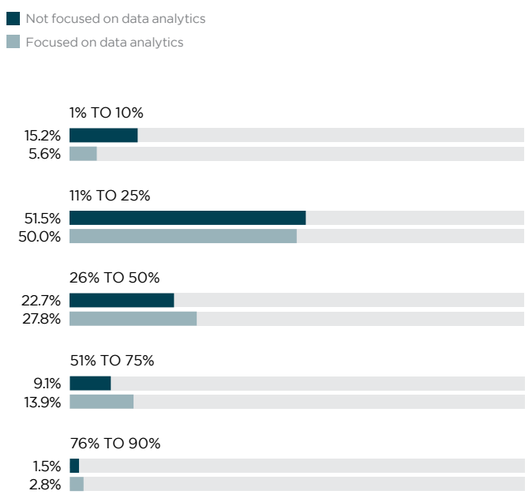


Figure 10. Portion of CUs' budgets devoted to innovations
Share credit unions allotted to innovation, by focus on data analytics



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Data analytics-focused CUs are also more likely to make testing an inherent part of their innovation processes. They are considerably more inclined to trial new offerings with their members, for example, at 33.3 percent compared to 19.7 percent of those that do not focus on analytics. They are also more likely than the latter to pilot implementations with their employees, at 30.6 percent compared to 18.2 percent, respectively. A sizable share of analytics-focused CUs (27.8 percent) also say they build their own tools and products, notably higher than the 7.6 percent of those that do not focus on analytics that say the same.

Our research also reveals that the CUs that do not focus on data analytics often turn to outside innovation assistance. They are considerably more likely to partner with industry consultants, too, at 33.3 percent compared to the 16.7 percent of those that do value analytics. The former are also more likely to allow members to suggest innovations (25.8 percent) and to partner with outside vendors (39.4 percent) compared to the 13.9 percent and 8.3 percent, respectively, of analytics-focused CUs that do so.

This reliance on outside input could explain why CUs that do not prioritize data analytics are more likely to rely on FinTechs as solution provider partners. Among this group, 48.5 percent considered such firms to be their most important solution providers, compared to 27.8 percent of analytics-driven CUs.

Figure 11. Innovation methods CUs considered "important" or "very important"
How CUs decide which innovations to pursue, by focus on data analytics

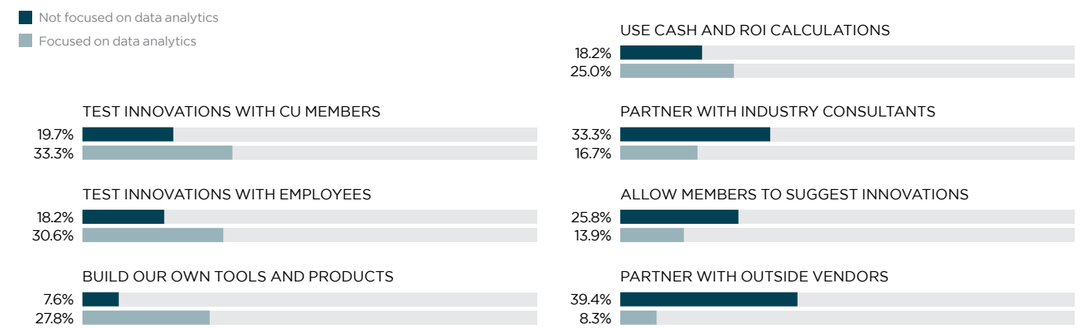

Figure 12. CUs' most important solution providers
Partners credit unions listed as most important, by focus on data analytics

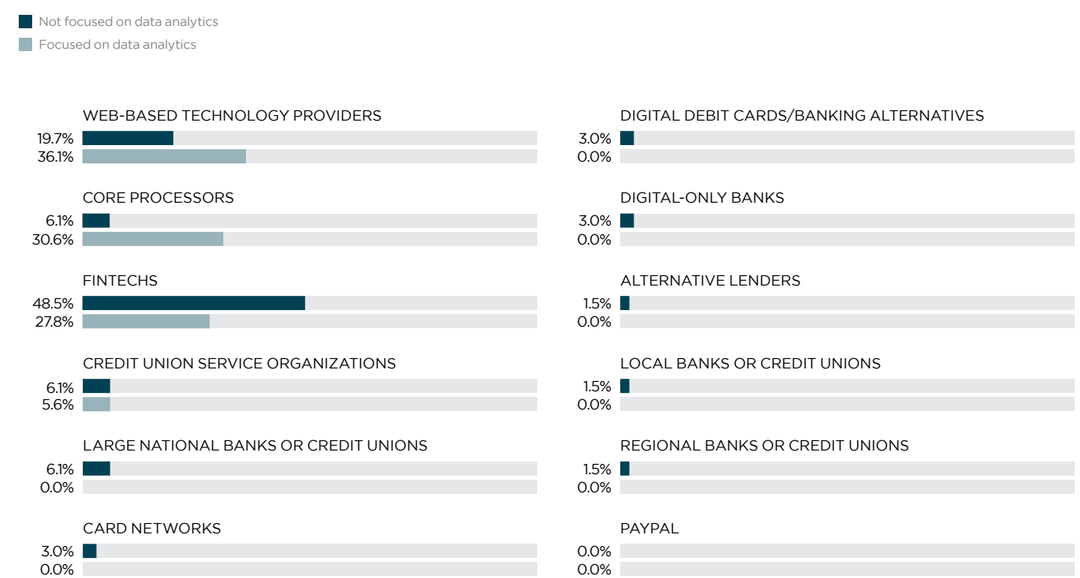

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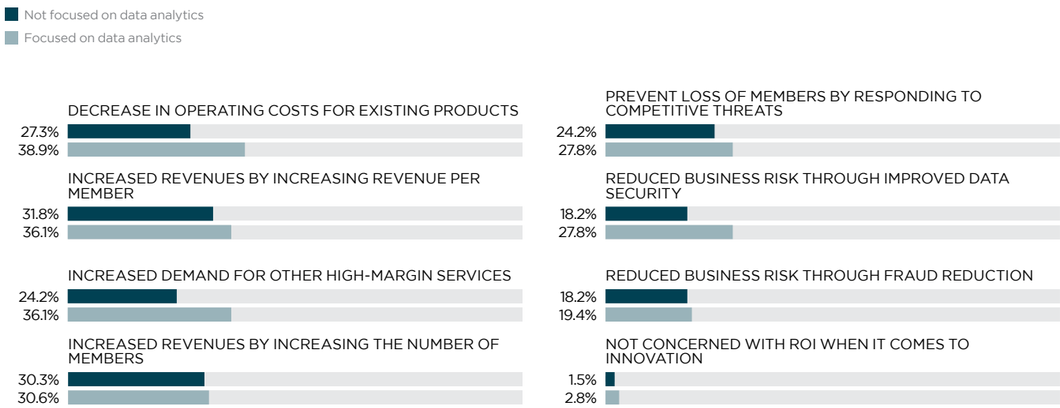
Figure 13. How credit unions measure new payments innovations' ROI
Factors CUs use to determine innovations' success, by focus on data analytics



CUs that highlighted data analytics were considerably more likely than the other group to see cost-saving and revenue-boosting results. The former more often base an innovation's success on decreased operating costs for existing products (38.9 percent), increased revenues per member (36.1 percent) and boosted demand for other high-margin services (36.1 percent).

At the same time, both sides are more closely aligned when measuring ROI in terms of increasing revenues by adding members, addressing competitive threats to prevent membership loss and reducing fraud-related risks.

Focusing on several innovations requires considerably higher shares of FIs' budgets, pressuring them to ensure such investments are worthwhile. Considering the high stakes, it is likely that the CUs that focus on data analytics will evaluate a broader range of metrics to determine whether innovations will deliver worthwhile ROIs.

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CONCLUSION

CUs understand that innovation is key to both staying ahead of their competition and attracting and retaining members. Such investments also ensure these FIs do not fall victim to fraud, and allow members to remain confident that their financial needs will be satisfied.

Data analytics appears to be highly successful in helping CUs meet these goals, whether they are focused on security innovations that bolster fraud management or member-facing solutions like real-time payments. CUs invested in analytics feel empowered to seek a range of developments that will improve their operations and boost revenues. In addition to yielding insights into which innovations are most effective, data analytics are also crucial to speeding product delivery and helping CUs more quickly bring their solutions to market.

Those that focus on data analytics are also more likely to devote one-quarter or more of their budgets to developing innovations. It's little surprise that these CUs base ROI measurements on a range of metrics like decreased operating costs, increased member-generated revenues and boosted demand for high-margin services, however, particularly given the scale of such investments. Analytics-focused CUs appear to perceive how knowledge and insights will shape their innovation priorities, and seem willing to spend sizable portions of their budgets on solutions that keep their operations secure and improve members' experiences.

Knowledge is power, and analytics-driven CUs appear to be on the path to better understanding and enhancing members' financial experiences — and improving the security of their own operations.

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