Special Report: Payments
Credit Union Management

MAY 2018

Know Your Members' Payment Preferences

Competitive disruptors make it essential
to build—and brand—your offerings.

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Know Your *Members' Preferences*

COMPETITIVE DISRUPTORS MAKE IT ESSENTIAL TO BUILD—AND BRAND—YOUR OFFERINGS.

BY STEPHANIE SCHWENN SEBRING

Mobile payments are on the minds of many—and there's certainly no shortage of choices. While adoption rates have lagged expectations so far, *Business Insider* expects U.S. in-store mobile payments to increase steadily at a 40 percent compound annual growth rate to hit $128 billion by 2021—and mobile P2P to rise to $336 billion.

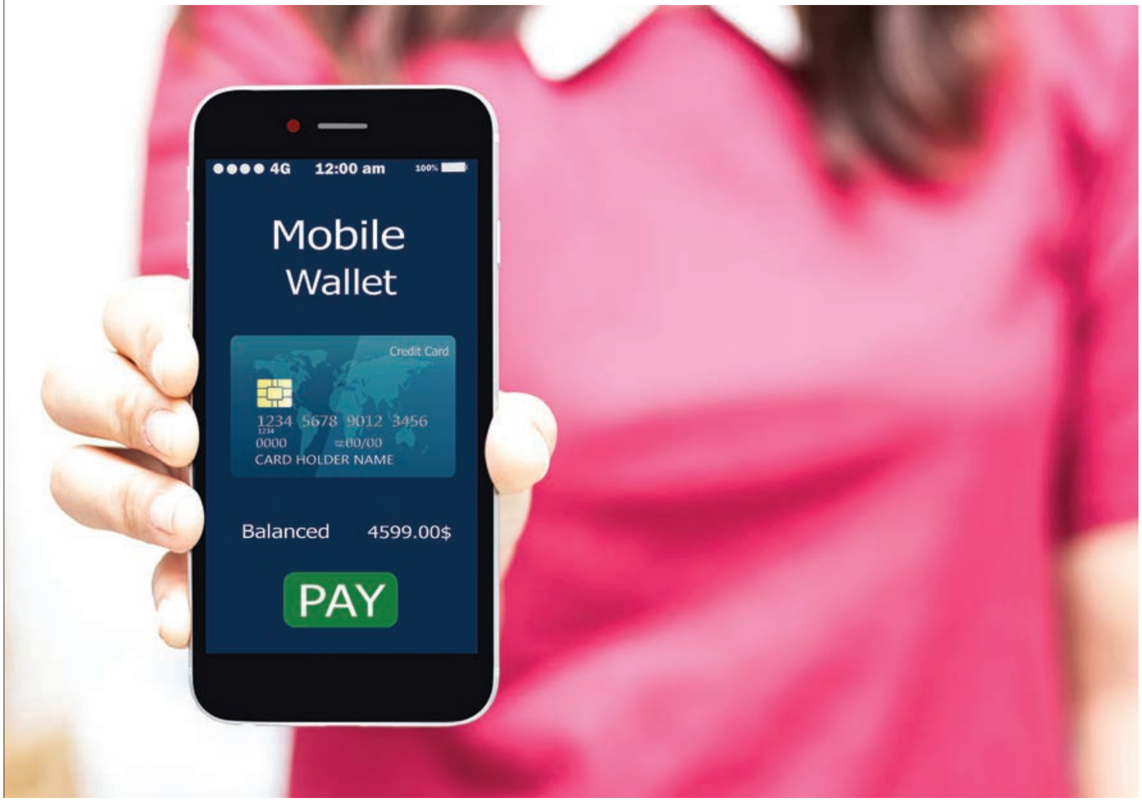
With competitors from virtually every sector, there's no time to waste in evaluating and building value in your mobile payments whether a branded mobile banking app, tokenized card or digital wallet.

THE FOUR PILLARS OF MOBILE PAYMENTS

According to Steve Shaw, VP/strategic marketing/electronic payments for Fiserv (*fiserv.com*), a CUES Supplier member in Brookfield, Wis., understanding how your members think—and their preferences in how they move their money—will help CUs succeed in the mobile payments space. As outlined in the 2018 Fiserv white paper, *Building the Four Pillars of Mobile Payments (tinyurl.com/fiservpillars)*, Shaw sees these trends as most impactful:

1. Paying other people (such as through Venmo, Square Cash, Popmoney and Zelle). P2P options, a cornerstone for mobile payments, offer an easy way to pay friends or family and are a must-have in today's social environment, explains Shaw. The need for fast payments between individuals has also triggered intense competition for CUs. Providers like Venmo (*venmo.com*) are hitting their stride, and Zelle (*zelle.com*), already a major influence, is increasing its sphere with a common network and directory interchangeable across many financial institutions. "The network's goal is to reduce friction for a better user experience, no matter where the consumer banks," he says.

Shaw also notes that Facebook (Messenger, *messenger.com*), Snapchat (Square Cash, *square.com*) and, more recently, Apple Pay Cash



"Your challenge is ensuring your strategy stays relevant in the mobile payments space." — Jeremiah Lotz

(Messages, *apple.com*) are additional ways members are moving their money.

2. Paying merchants or retailers (such as digital wallets, stored cards, prepaid cards, and online transactions). Here, members make point-of-sale mobile payments or pay through retailer websites or mobile apps. Payments can be made via a digital wallet or through connected Apple, Samsung or Google/Android devices. While adoption rates have lagged in comparison to industry expectations, digital wallet usage is on the increase. Fiserv notes an 8 percent adoption rate by mobile banking users in 2014, rising to 15 percent in 2016. Retailer apps, such as Starbucks and Walmart, are showing moderate success.

3. Paying billers (ebills, mobile bill-pay apps). With mobile bill-pay used by 65 percent of mobile bankers, Shaw says it's essential for CUs to offer this product. "It meets the on-the-go convenience craved by today's consumer and offers increased functionality, such as alerts and due date reminders." Members want to use their phones to pay quickly without having to go online.

4. Paying self (moving money between accounts). Perhaps the most neglected pillar, mobile transfers give members control over their cash and a way to manage their money. It includes mobile check deposit, another requisite for a CU's mobile offerings. (Fiserv research shows that 39 percent of mobile banking users have deposited a check via their smartphone.)

"Misperceptions in the mobile payments space often stem from a misplaced focus on competition or the device—rather than understanding what your member wants," reiterates Shaw. "Think of mobile payments holistically; envision your members' needs and how you can make your credit union the hub for their financial life."

BUILDING VALUE IN TODAY'S PAYMENTS SPACE

Jeremiah Lotz, VP/product management for CUES Supplier member PSCU (*pscu.com*), St. Petersburg, Fla., stresses that CUs must stay vigilant when building value in the mobile payments space. "Rival offerings from traditional banks and fintech innovators have made it critical for CUs to leverage their payment options and mobile experiences as a differentiator," says Lotz.

"While point-of-sale payments made with a device haven't shifted dramatically (and have yet to reach 1 percent of the total number transactions PSCU processes), online (card-not-present) transactions have increased across all demographics." For PSCU members, card not present represents approximately 15 percent of debit and 25 percent of credit transactions.

Tokenization (the process of substituting a sensitive data element with a non-sensitive equivalent) has opened the door to a plethora of payment options, such as Apple Pay or Samsung Pay, continues Lotz. "But the real work is making your card the preferred choice. By leveraging programs such as cash back, travel rewards and competitive interest rates, your member will see your card as the most attractive option. Also assist your members so their credit or debit cards are properly supported and eligible for the various digital wallets and promote the use of your cards in the wallets available."

Real-time payments are another must-have as members continue to raise their money movement expectations. For P2P transactions and bill-pay, it will be the new norm—not the usual three days currently offered by services, adds Lotz. "The consumer is smart. They know there are faster ways to move their money. And in today's environment, it's about instant gratification and immediate access to their money."

Taking that idea further, digital issuance will become commonplace. Members will be unwilling to wait seven days for a physical card. Similarly, consumers will look for cash access using their mobile devices at an ATM, rather than their debit cards.

"There will be no waiting for a mailed card after an account is opened," offers Lotz. "Cards will be issued digitally, provisioned immediately via a member's smartphone. As current members' cards expire, replacement cards will also be issued digitally without a lapse in service."

The consumer will drive these changes, concludes Lotz. "Your challenge is ensuring your strategy stays relevant in the mobile payments space. Take the time to understand your consumer demographics, research their expectations and align with partners that can innovate and build your product strategy based on those same consumer demands."

Stephanie Schwenn Sebring *established and managed the marketing departments for three CUs before launching her business, Fab Prose & Professional Writing. Follow her on* Twitter@fabprose.

MORE ON PAYMENTS

Wherever Cards Are Worn (*cues.org/0518wherever*)

Cash in a Flash (*cues.org/0617cash*)

Payments University Aug. 13-14, Denver (*cues.org/payments*)

CUES School of IT Leadership Sept. 12-14, Denver (*cues.org/soitl*)

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Moments *in Payments*

THE DEFINITION OF PAYMENTS IS EVOLVING.

BY JEREMIAH LOTZ

Payments used to refer primarily to bill payments—mortgages, credit cards, loans and utility payments. Not that long ago, online bill payment services were considered progressive. But the definition of payments has evolved quite a bit within the past 10 or even five years.

MODERN-DAY PAYMENTS

Today, payments are often associated with specific moments. For example, I owe you for lunch and want to pay you immediately. Or I might need to make an immediate payment so that utility services are not suspended. A friend or family member might need money for an emergency, or roommates may need to split the rent. A small merchant who sources produce from local farmers needs to do so for that day's menu. Or someone employed to drive passengers around in his or her car might need wages paid today rather than waiting for a paycheck. These are today's payments.

There are efficiencies to be gained through quick and easy pay options for these new "moments in payments." Companies can send invoices and request payment with a simple "pay" button. Providers can reduce collection activities because payment in the moment is becoming more common. The experience becomes even more turnkey by using voice assistants like Alexa. Speed, the user experience, safety and security are now all at the core of enabling new payment solutions.

THE INTERNET OF THINGS

An explosion around the Internet of Things is coming. Connected devices will provide many new opportunities for payments. Payments partners will be extended in ways and areas we have not previously seen, such as car manufacturers introducing payment capabilities in their vehicles. These types of partnerships are already coming into view on the horizon:

- Mastercard has partnered with OnStar Go, enabling drivers to pay for items such as gas while in their cars.
- Ford has partnered with Amazon to use Amazon while in-car, including the opportunity to order food from your vehicle.
- Hyundai has partnered with Google to enable Google Home in their vehicles.
- Jaguar and Shell have partnered to provide in-car capabilities with PayPal, Apple Pay® and Android Pay™.

Public transit will continue to expand with contactless payments as turnstiles become payment devices, enabling users to tap and pay as they go. And smart cities with new payment opportunities will emerge.

CARD NETWORKS AND CREDIT UNIONS

More companies that are not traditional players will be entering the payments ecosystem. Card networks will play a significant role in making these offerings available to cardholders, and credit union accounts will be the foundation for members to access these services.

Traditional bill payment services still exist, but we will continue to see rapid change in payments in the coming years.

Our job as an industry is to ensure the credit union card remains the card of choice by enabling the rich features and functionalities that command top-of-wallet for the member.

This evolution represents an exciting time for credit unions everywhere through increased opportunities for adoption and growth.

Jeremiah Lotz *is VP/product management at CUES Supplier member PSCU* (pscu.com)*, St. Petersburg, Fla. He directs PSCU's initiatives to empower the company's Member-Owner credit unions with innovative and engaging payment solutions. Lotz leads an experienced team dedicated to delivering PSCU's credit, debit, prepaid, fraud, mobile banking and online bill payment services. He also manages the strategic relationships PSCU forges with leading payments technology providers to ensure Member-Owners have access to world-class platforms and solutions that build profitability and loyalty.*


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Pathways to Growth:
How to Structure a Successful Credit Card Rewards Program

Offering a great credit card is one of the best ways a credit union can bring value to its current members and attract new ones. In order to establish a competitive credit card program, it's important to consider a variety of factors, including credit line management, late-fee assessment timing, and bin consolidation. However, when it comes to actually attracting members to your program, we find that few things are more important than your rewards strategy.

Here are a 6 steps you can take to run your best rewards program ever:

1. Establish an annual marketing calendar outlining your plan to promote your credit card program throughout the year; consider traditional marketing methods along with digital platforms like email, social media, and landing pages.

2. Combine APR, usage, and education campaigns to keep your card relevant (i.e. tokenization, Visa Checkout, and CR management).

3. Be sure to set firm end dates for your promotions; we've seen many examples where during a 90 day balance transfer promotion, 50% of the transferred funds came in the last two weeks.

4. Try analyzing the ACH activity of your share drafts to look for card payments to big banks, and then target additional marketing to those members.

5. Offer custom programs focused on market dynamics. Consider: Cash-back redemption options, charitable donation redemption options, advanced scoring on e-commerce (sites like Amazon), promotions tied to new locations accepting Visa (like Costco), and redemption options offered by local merchants that have relationships with your credit union.

6. Continually analyze your card program to determine your areas of need and tailor your promotional campaigns to directly address those needs.

A great credit card program is essential for a credit union to thrive in the ever-growing financial services industry, yet only 60% of credit unions currently offer a credit card to their members. We know that credit card programs can be very expensive to run, especially for smaller credit unions, but there are products available that can help you offer a great credit card to your members with no start-up fees and very little risk to your CU. Unhappy with your current provider or looking to offer a credit card for the first time? Check out EZ Launch from LSC, where members benefit from competitive interest rates and an awesome rewards program.

For more information on how EZ Launch by LSC can help your credit union succeed, please contact (800) 942-7125 or sales@lsc.net

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Sales@LSC.net.

Z: The Largest *Generation*

fiserv.

MEMBERS OF GEN Z ARE SAVING NOW, BUT WILL SPEND MORE AS THEY AGE.

BY FISERV

Gen Z will be one of the largest generations in history, and credit unions should be prepared to win their business, as their spending power increases with age. Large, consumer-focused entities that offer easy, high-touch customer experiences are leading the way with Gen Z.

As these companies expand their offerings, is your CU prepared to be the financial institution of choice for the generation that believes fast, convenient and always-on financial services are table stakes?

Is your credit union prepared to be the financial institution of choice for the generation that believes fast, convenient and always-on financial services are table stakes?

CUES Supplier member Raddon Financial Group (*raddon.com*), Lombard, Ill., recently surveyed a group of Gen Z individuals sufficiently advanced in their age and financial awareness to provide insight into several key trends to consider.

WHO IS GEN Z, AND WHY SHOULD WE CARE?

In the Raddon study, Gen Z refers to individuals born during or after 2000—the oldest members of this group are entering adulthood this year.

The size of Gen Z is reason enough for financial marketers to start paying attention. Spurred by 4.1 million births per year in the U.S., Gen Z will outnumber its predecessors, the millennials. While demographic attitudes change over time, a late start on the road to understanding this generation may make it difficult to compete against those already working to attract Gen Z members.

It may be tempting to assume that Gen Z are the members of tomorrow; however, in many cases, they are already the members of today. Sixty-seven percent have a relationship with a financial institution. They are single-institution individuals, and 24 percent of them are credit union members.

WHAT IS IMPORTANT TO GEN Z?

Forty-nine percent of Gen Zers expect to have a higher standard of living than their parents, compared to only 13 percent who expect to have a lower standard of living.

Your first relationships with Gen Z will be predicated on building savings. Soaring costs for housing, education and health care, paired with stagnant wages, put continued pressure on the young to build their financial futures.

Gen Z is aware of this, and they have done more to further their knowledge of financial matters than any generation to date. Promoting educational offerings can give them confidence in you. This, along with providing savings products, mobile, and smart payments options, can seal the deal.

DIGITAL NATIVES

Gen Zers are information-intensive digital natives. Fifty-seven percent of Gen Zers use their smartphone several times per hour, with 16 percent using it every hour.

This is a critical insight. With how connected they are to their devices, it is important to consider delivery channel strategy on mobile, including notifications and alerts, remote deposit capture and P2P electronic payments. If credit unions can't provide them what they expect, they'll go elsewhere.

For more information on the attitudes of Gen Z and how technology is influencing their behavior, download the full 44-page Raddon study, "Generation Z: The Kids Are All Right" (*raddon.com/GenZ*), using the promo code "CUES18" to receive a limited time discount of 20 percent off the regular report price.


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