RaddonReport

Adapting the Credit Union Model for Generational Relevancy

By Andrew Vahrenkamp

Although the number of credit unions is steadily declining, assets in both loans and deposits are growing at good rates, suggesting that the industry is still viable. However, in the span from December 2001 – June 2019, while assets have grown 203%, member growth has been a mere 49%, highlighting that most of the industry growth has come from existing memberships. While maximizing relationships with existing customers drives household profitability and primary financial institution status, both undoubtedly positives, it does raise a warning flag. Many credit unions are or will be soon approaching the share of wallet ceiling; their existing members have no need for additional products, and may already have the majority of their funds at the credit union. This places the pressure to grow foremost on new households, and specifically Millennial households.

The Millennial

Not only are the needs and expectations of the Millennial consumer unique from previous generations, but Millennials also expect a great deal more of customization and individualization in their financial services experience than previous generations. Growing up with technology has exposed them to rapid change, and they expect their financial institutions to adapt to them as well. There will be no one-size-fits-all solution for them, which should be a strength for credit unions. Millennials are increasingly concerned about debt and require financial advice, and credit unions are poised to adapt their business model to serve these needs. The crucial challenge for credit unions is to learn how to earn the trust of this group, and thereby their business.

Awareness

One of the credit union industry's biggest challenges continues to be national marketing—how to spread the message of the credit union value proposition to a wider audience. As technology continues to improve, targeted advertising does as well. This should be a positive for credit unions, as they can better target their advertising dollars and tailor their advertising to specific consumers. Leveraging current members who know and use the credit union for their financial business into new member growth is key. That trust of a personal recommendation can carry more weight than even well-placed advertisement.

Trust and Competency

A key reason that many Millennials say that they use a major financial institution is because they believe that it is the best in terms of technology capabilities, and hence gains the sought after “competency” label. However, mobile and online platform adaptation has been strong and fast, and most credit unions and banks are now on the same playing field in terms of accessibility. The big differentiator here needs to be on financial advice. Millennials are increasingly more open than other generations to financial advice, and credit unions need to capitalize on the opportunity to differentiate themselves from a bank and use their business model as a proof point to gain trust. Once you have proven competency, the ease of use and continuity of service should prove a sticking point for consumers to move and keep all their financial products at the credit union.

Personalized Service

Along the line of gaining trust and showing competency, credit unions must show that they have individualized products and services to fit each consumer’s needs. Showcasing that there are advisors to guide consumers in making decisions, and products that can be customized based on a personal situation, also leads to trust and competency of the brand, and makes the consumer more likely to not only join, but make the credit union their primary financial institution.

In short, growth continues to be vital to credit union survival. But the type and quality of growth must be examined. Are we bringing in “inactive” memberships or relying on the indirect model to fuel growth, and is this contributing to our bottom line profitability? A better approach is to determine a strategy for growing existing member relationships to that share of wallet ceiling, while also examining your offerings to the Millennial generation. They expect their financial institution to play a different role than other generations, seeking advice and personalization, but this model should work to credit unions’ advantage, if they can effectively market the trust and competency of their brand.

The credit union industry has historically not been as successful at generating deep relationships with Millennials. While catching up with this generation is vital, our sight should be set on the future, and becoming relevant with Gen Z, which is even larger, and set to make a bigger impact on the financial services industry. Raddon has conducted national research on the financial behaviors and attitudes of Gen Z, released in 2017 and again in 2019. We are intrigued to see the ways in which Gen Z will be both similar and different from Millennials as they mature, but either way, credit unions need a plan of attack.

Action steps:

1. Examine your own credit union demographic makeup: who are you successful at serving currently, is their room to deepen relationships with existing members?
2. Differentiate your credit union brand as a) distinct from banks but also b) with all of the convenience and technology to be your primary financial institution.
3. Develop specific programs aimed at millennial needs and centered around financial literacy and advice, and are personal in nature.
4. Engage with current members who are brand promoters and develop a strategy for bringing in new members through word of mouth or referrals.
5. Begin to research and understand Gen Z attitudes towards financial institutions and build your long term strategy with this generation.