Special Report: Payments

Credit Union Management

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HOT PAYMENTS TRENDS

Experts discuss the biggest developments that are changing the marketplace.

PLUS

Bills, Bills, *Bills*

EXPERTS SHARE THE HOT PAYMENT TRENDS THAT ARE CURRENTLY SURGING IN THE MARKET.

BY CELIA SHATZMAN

Though the financial sector will see many trends come and go, people and businesses of all sizes will always have to pay their bills. And though that will never change, the way we make payments certainly has. From a surge in buy now, pay later to real-time payments and digital wallets, how we make purchases, big and small alike, has evolved greatly in recent years. That's why we tapped two experts in the credit union industry to share the biggest payment trends they are seeing in the market right now—and how that effects our money.

PAYMENT PLAN

One way or another, the buy now, pay later model has practically always existed—it's just the marketing and language around it that has changed. Essentially, yesterday's layaway plan is today's Klarna (*klarna.com*)

"A lot of people in the marketplace are talking about it in different ways," says Brian Scott, chief growth officer of CUESolutions provider PSCU (*pscu.com*), noting that even Apple recently announced they're jumping on the BNPL bandwagon. "The question is: Do they have a business model? I think it's super interesting to look at all the reasons why somebody's in that space. Apple's in there, in essence, to sell more stuff and to make it easier for consumers to buy more stuff from them."

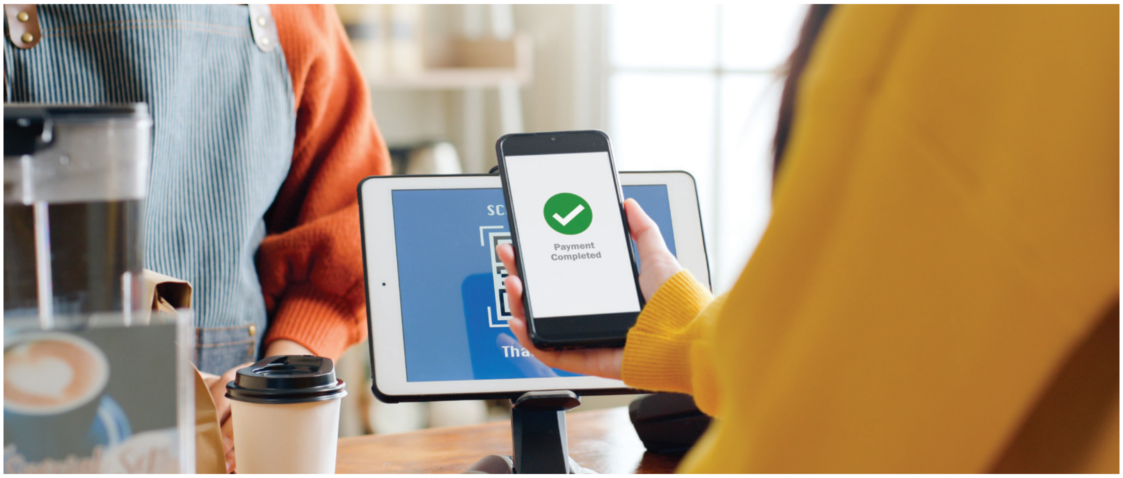
But it's not just the businesses that benefit. "I think from a consumer perspective, and from a credit union perspective too, you can use buy now, pay later as a way to budget and better improve your financial situation, not necessarily just to buy things," Scott says. "Buy now, pay later is a different way to budget, maybe not putting something on a credit card and paying it off over 36 months, but paying it off over six or 12 weeks."

Scott explains that if you suddenly must buy a new refrigerator or washer and dryer, for example, point-of-sale financing has been around for a long time, but you may not necessarily want to open a line of credit or put that on your credit card. By using buy now, pay later, you're not taking out more credit or a credit line—you're just paying it off in a different way. "I think it's important to make those distinctions for financial institutions, banks and credit unions," he says.

This business model doesn't just affect your individual financial situation because it has a broader influence. "It may impact the number of people that take different kinds of loans," Scott says. "Make no mistake, it's still a loan. But you're ultimately helping your members improve their financial journey through life. And I think if you're doing that, that builds trust, so there's a very positive outcome and positive reason why credit unions should be offering buy now, pay later."

Another major payment trend shaking things up is real-time payments. For example, if a handyman comes to your home and does some painting and repair work, you no longer have to wait to receive an invoice and then send them a check in the mail. Thanks to payments apps and other real-time payment options, they can be paid instantly on the spot.

"There are a lot of benefits to be able to reduce transaction errors and fraud and help small businesses," Scott says. "Small businesses are a great use case that a lot of financial institutions—credit



MORE ON PAYMENTS

New Payments Challenges (*cumanagement.com/0223payments*)

What 4 Wildly Optimistic Visions of P2P Tell Us About the Future of Moving Money (*cumanagement.com/0123p2p*)

Seven Ways Debit Card Issuers Can Compete in 2023 (*cumanagement.com/0123debit*)

Research: Zelle Responds to Member and Credit Union Needs (*cumanagement.com/0123zelle*)

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– Brian Scott

unions in particular—that are trying to go after that marketplace miss. If you can enable real-time payments, faster payments for your small businesses, it means your small business can receive payments from their customers in seconds instead of days, weeks or months. It makes a big difference for a small business. It's a huge benefit for financial institutions to implement real-time payments."

A third trend in the payments realm is digital issuance. These days, you simply can't get a new credit card into the hands—and digital wallets—of members fast enough. "It is remarkable to me how consumers are demanding things immediately," Scott says. "If you go to a credit union, you get a new account or you apply for a credit card, you can have that credit card in your wallet through digital issuance ... the second you leave."

This has become table stakes for consumers, and Scott warns that banks and CUs that aren't offering that yet are falling behind. "People expect it; it's a huge thing," he says. "Today, what we see is only about a quarter of CUs are even offering digital issuance." According to digital issuance research, the percentage of members who almost immediately use that card, even the same day, is very high.

"Everybody's fighting for top of wallet, and there's nothing better to get top of wallet than digital issuance," Scott says. "It's one of those areas that we really are pushing on. I wish it was a bigger trend than it is. It's certainly a trend with consumers. We just don't see it as much with credit unions."

DOING DIGITAL DIFFERENTLY

The payments space was forever changed once the iPhone was introduced. "We can thank Steve Jobs for the moment he walked out on stage and showed the first iPhone to the world; it has affected everything downstream from there," says Anthony Mondello, AVP/sales at CUES Supplier member Envisant (*envisant.com*).

The trickle-down effects are still being felt today, which is why Mondello believes the most important trend in the payments space right now is meeting members at their phone. If credit unions aren't doing that, he warns, they're making a mistake.

"I think digital wallet adoption on payments is huge," Mondello says. "It needs to be something that's table stakes now for credit unions." He cites that Gen Z has nearly fully adapted to a digital wallet, and even Gen X is over 50%, according to the ACI Worldwide 2022 Annual Pulse Report (*tinyurl.com/4cmekruj*). "Mobile wallets are replacing web wallets, and I think the tipping point is here for digital wallets," he adds.

At the same time, surprisingly, debit cards are actually gaining in popularly. "I think it's a generational thing," Mondello says. "I'm comfortable with using my credit card and getting points and paying it off every month, but it took years of discipline getting to that point. Somebody who's just coming up, they don't want credit card debt—they're told it's bad, and they use debit, so we're seeing a lot more debit usage these days." He's seen a 3% increase in debit card usage year over year, highlighting how important it is for credit unions to meet consumers there and offer more in the debit card space.

Additionally, Mondello believes that buy now, pay later options will continue to evolve and shift the payment space. As credit unions and the financial world at large are still working to navigate the buy now, pay later space, Mondello thinks BNPL will have a larger effect that no one can precisely predict right now. "The usage on buy now, pay later has increased," he says. "In the short- and medium-term, I think it's going to stay there. But I really do feel that with everything else going on in the world right now with credit losses, there's going to be a change there, but we just don't know yet what it is. The sector is probably going to lose its unregulated status at some point, and then this rapid expansion will probably slow down because it will be regulated. I view it as a short-term gain that may be a long-term game-changer in payments."

Yet another trend in the payments space is new competitors giving traditional banks and credit unions a literal run for their money. Mondello points to Venmo (*venmo.com*) now being accepted by Amazon. "That's also a competitive concern for most traditional banking folks," he says. "I think that could be something that is also a pretty big trend."

Eventually, Mondello wonders whether Gen Z will even need a wallet one day. "I firmly believe there's no way the next generation is going to be carrying cards around," he says. "The question is just when does that happen? And what downstream effect does it have? Who knows, because Apple Pay will be still be there. That's why, as an issuer, you have to make sure your card is in the phone wallet. That's the one thing I will tell all of our credit unions all the time. We need to ... add those to your program and modernize your program."

If a credit or debit card isn't capable of going into a digital wallet, Mondello warns that consumers will go for the next card that does instead.

"Wallet adoption now has become the biggest thing," he says. Mondello notes that the payments industry has changed so incrementally over the last few years that people don't even realize how much things have shifted, citing that something as simple and ubiquitous as receiving paper statements in the mail is on the verge of becoming obsolete.

"There's a big change that's happened over the last few years that we've just not really noticed," Mondello says. "All of a sudden, everything's digital. So, you probably have an app on your phone, and you can pay right on your phone, or you go to your online bank and you pay that way. ... The payments ecosystem [has] changed without us really even paying much mind to it." And credit unions need to keep pace with all of that digital change to stay fresh and relevant.

Celia Shatzman *has penned stories on topics ranging from beauty to fashion, finance, travel, celebrities, health and entertainment.*

Installment Payments: Friend or Foe?

By Cody Banks, MVP, Payments and Fraud Strategy, PSCU

The pandemic's e-commerce boom gave rise to Buy Now, Pay Later (BNPL) point-of-sale installment payment plans. BNPL has become a common sight during the online checkout process, with major players like Affirm, Klarna and Afterpay leading the charge.

This momentum has continued in 2023. Within the first two months of this year, Adobe Analytics reports the share of online purchases using installment payment services grew 10% year over year. Insider Intelligence estimates there will be $680 billion in BNPL transactions by 2025. However, as BNPL transactions continue to surge, so do concerns about the industry's practices and financial outlook.

In recent months, installment payments have received media scrutiny spotlighting how many BNPL providers fail to grant consumers the same rights and protections as credit card companies. Due to higher interest rates, BNPL providers that rely on loans now find they're more expensive. Several big banks are also reporting increased credit card delinquencies, and this trend will likely carry over to BNPL as interest rates rise and borrowers pile debt on top of debt.

Pros and Cons

Considering the convenience and flexibility benefits, it's clear why BNPL became popular. Easy-to-use BNPL offerings allow consumers to play a more active role in managing their finances. Borrowers often try to align installment payments with pay periods. The term of the loans can vary from shorter- to longer-term, and most come with no interest attached.

While installment payments may serve as a healthier form of debt if used correctly, BNPL is not without potential pitfalls. The ease of use makes it easy for consumers to spend beyond their means. When users make multiple BNPL purchases through multiple providers, they may find it difficult to keep track of and make payments. This practice can contribute to delinquency and credit risks, raising concerns as major providers report their loans to credit bureaus.

Credit Union Considerations

Despite uncertainties, point-of-sale installment payment plans remain popular – and a BNPL offering is becoming table stakes for many financial institutions. PSCU's 2022 Eye on Payments study found that BNPL utilization was 60% among consumers who know their provider offers a BNPL solution. This indicates significant consumer interest and engagement with BNPL. For credit unions, the BNPL market is a space worth considering when it comes to growing portfolios, attracting new accountholders and offering more solutions to their members.

To create a BNPL offering, credit unions should first evaluate and choose an installment plan solution through a BNPL vendor. Several options are available, including pre-purchase, at-purchase and post-purchase plans. Pre-purchase plans require consumers to opt in to installments before making a purchase, while at-purchase plans prompt consumers to pay with installments during checkout. Post-purchase plans allow consumers to convert a recent credit card purchase into installments. For a credit union's first BNPL offering, either pre-purchase or post-purchase plans are recommended. They provide card issuers greater flexibility based on cardholder history, existing credit lines and regular interactions.

After selecting a solution, credit unions should strategically promote their credit or debit card as the card of choice for members interested in installment plans. This will drive increased interchange revenue, deposit balances and overall brand visibility.

Member Considerations

Education about BNPL's benefits and risks is key to ensuring members do not overextend themselves. Credit unions can strengthen members' trust by providing guidance on BNPL as another budgeting tool that may benefit their overall financial wellness. Fully informed, financially healthy members are more likely to be satisfied with their credit union as their primary financial institution and rely on their credit union as their trusted financial partner – now and in the future.

To ensure that BNPL is more of a benefit than a risk for members' financial wellness, credit unions should be mindful that not all BNPL providers are created equal. Many well-known providers do very little to pre-qualify consumers and do not conduct credit verification, resulting in high delinquency. Consider partnering with a trusted, credit union-focused BNPL provider – leveraging their analytics to meet members where they are in their financial journeys. PSCU's installment payment offering features customizable options, which allow financial institutions to decide how to offer the product to their cardholders. This includes defining their own qualification criteria and customizing installment plans. As a post-purchase option, PSCU's BNPL offering uses cardholders' pre-approved credit lines, reducing overspending risk. In essence, PSCU's BNPL becomes a budgeting tool for cardholders, empowering users to make purchases with the flexibility to decide how and when they pay.

It remains to be seen how BNPL offerings will evolve and whether the current popularity will endure amid uncertainties. For credit unions looking to attract new members, strengthen trust and expand their offerings, choosing the right BNPL option is essential to providing their members with flexible, manageable payment options.

***Cody Banks** leads PSCU's payments, fraud, loyalty & contact center product teams. In his role, Banks focuses on developing and delivering safe, easy and convenient payments experiences for the company's Owner credit unions. Prior to joining PSCU in 2017, Banks spent nearly 10 years in the credit union industry navigating complex initiatives with a focus on journey mapping of the member experience.*

Trends Impacting *Credit Programs*

HOW CREDIT UNIONS CAN RESPOND

BY PHILLIP SEELY

The year 2022 saw record-setting growth in new credit card accounts and balances. In the fourth quarter alone, new card accounts among Gen Z increased nearly 19% from the previous year, and total population bankcard balances reached a record $931 billion, according to TransUnion's *Q4 2022 Quarterly Credit Industry Insights Report*. The current economic landscape has led to greater interest in credit cards as well as competition in the marketplace. By understanding and addressing these trends, CUs can implement and grow profitable credit programs that meet members' needs.

TREND: INCREASED COST OF LIVING FOR MEMBERS

As consumer expenses expand, card rewards are at the forefront of decisions about payment choices. According to a *Chasing Points* study from Finder, nearly half of cardholders are utilizing their credit cards for the purpose of accruing rewards points.

What does this mean for credit unions? Economic uncertainty and the pandemic have shown issuers the need for flexible rewards that can fit with rapidly changing priorities. Flexible options easily used for everyday expenses like cash-back and gift card rewards are the most popular, but travel rewards are making a strong comeback. Of cardholders who use their rewards, 55% are using them for cash-back and gift card rewards, while 29% are opting for travel-related rewards, according to a recently published survey by *CreditCards.com.*

TREND: RISING COMPETITION FOR A GROWING MARKET

While credit card use is rising, traditional issuers and financial institutions are now competing with other payment and loan options. Buy now, pay later use is on the rise, and online lenders offer competition for personal loans, commonly used by consumers to consolidate their credit card debt

What does this mean for credit unions? Positioning your credit program to stand out in the competitive marketplace is vital and takes more than rewards alone. Marketing messages that speak to people's concerns, reaching consumers where they spend their time and addressing what's most important to them, can help strengthen and grow your credit program. Marketing strategies and messages should include:

- seasonal promotions to encourage card use;
- informative content encompassing financial health tips, how to claim rewards, and answers to credit-related questions;
- cross-platform messaging through digital channels including social, email and mobile devices to help reach a population that spends a growing amount of time online;
- communications on card security features that bring peace of mind as fraud attacks increase;
- reaching out to members who might be struggling with credit card debt to let them know about consolidation loans or other solutions your CU offers.

TREND: RISING INTEREST RATES

To address rising inflation, the Federal Reserve increased the federal funds rate in March 2023 to its highest rate in 16 years, according to *Forbes*.

What does this mean for credit unions? This economic landscape tightens margins for credit unions. To mitigate risk and maintain financial stability, regular portfolio reviews are important. Look at all aspects of your portfolio strategy for ways to address these squeezed margins. If your CU has been offering fixed credit card interest rates, consider updating to a variable rate strategy. Regularly updating your rates so they remain both competitive and sustainable benefits both CUs and cardholders alike. Here are a few reasons to implement a variable APR:

- overcome tighter profit margins as borrowing costs increase;
- compensate for potential losses due to greater delinquency risk;
- sustain strong liquidity and healthy balance sheets; and
- encourage responsible credit card spending.

How will you review and rethink your portfolio strategies to stay on top of these trends?

Phillip Seely *is AVP/customer service & portfolio development at CUES Supplier member Envisant* (envisant.com), *Naperville, Illinois.*

MORE ON CARDS

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