



2019 Eye on Payments:

**Payment Preference Motivated by
Convenience and Ease of Use**



Introduction

The list on the right is just a sampling of the nearly endless payment options consumers are faced with on a daily basis. As the payments landscape continues to evolve at a rapid speed, PSCU set out for the second year in a row to gauge payment preferences among credit union members and other financial institution customers ("non-members") and how they shifted over the past year.

Through this annual research, PSCU aims to gain a better understanding of the factors that influence consumers when it comes to their choice and usage of different payment methods, how these factors may vary among different life stages and how credit unions can better meet these preferences and needs. PSCU's Eye on Payments will share key study findings, along with takeaways credit unions can leverage as the payments landscape continues to evolve.

PSCU surveyed more than 1,750 credit union members and non-members from across the United States. The online survey, which took place in July and August 2019, was taken by participants ages 18 to 65+. Of those surveyed, 50% were male and 50% were female, and demographic characteristics of those surveyed align with consumer data from the Credit Union National Association's 2019 Member Profile.



Real-time payments



In-app digital payments



Cash



Checks



Contactless



Mobile wallets



Debit and credit cards



Gift and prepaid cards

Through research gathered in Eye on Payments, PSCU aims to share the following:

1. The factors that influence consumers when it comes to the choice and usage of different payment methods in multiple payment scenarios
2. Insights that shed light on perceptions surrounding new and emerging payment methods
3. The ways in which today's consumers interact with their credit union or other financial institution
4. How and why payment method preferences differ among generations
5. Recommendations credit unions can implement to better meet member payment preferences and needs

Key Consumer Finding – Convenience Trumps Security

When making purchasing decisions in 2018, consumers were most motivated by two primary needs: convenience and safety. This year, consumers' needs shifted. Convenience and ease of use trumped security in 2019 and were reported as the main drivers behind a consumer's choice in payment method. Sixty percent of respondents reported convenience and ease of use as the main drivers behind their choice in payment method for both credit and debit cards. In 2018, more than 75% of consumers reported making payment decisions primarily based upon which is the most secure.

Key Takeaways:

Consumer preferences, expectations and demands are constantly changing and shifting. It is important for credit unions to keep a pulse on and remain close to their members – engaging with them in their branches and through their digital tools, surveying them regularly and leveraging the payments thought leadership and consumer insights that partners such as PSCU can offer – so they can remain nimble in evolving their payment strategies to drive satisfaction and growth.

Convenience proves to be an important factor in choosing how to make a transaction. Credit unions need to ensure their offerings are convenient for members to access and utilize, as well as personalized in order to drive further engagement.

Credit union members choose debit cards for ease, convenience and comfort of use.

Is easy to use



Is convenient



Is something I am comfortable using



Is safe to use



Helps me budget easily



Helps keep my financial data secure



Safety Still Matters

While convenience and ease of use were ranked as most important, security and safety are still important. Eight percent of credit union members reported being victims of fraud in the last 12 months. Nearly four in 10 credit union members and non-members agree they make decisions about how to pay for something based in part on which is the most secure. Seven out of 10 reported using mobile phone alerts to manage their cards, which increases feelings of security and control among respondents. This speaks to the importance of giving consumers the ability to control their banking experiences and providing a feeling of safety when making purchases and conducting transactions with their credit union or other financial institution.

Since the EMV liability shift, card present fraud at the point-of-sale has decreased due to the prevalence of chip-enabled cards, according to Visa. A decrease in the number of consumers impacted by fraud over the past year may help explain why security and safety are no longer the deciding factors behind how consumers pay, coupled with the advance of mobile card alerts that allow consumers to better manage their transactions.

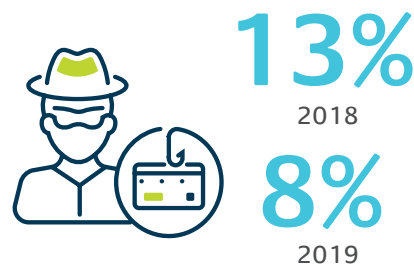
50% of credit union members make payments or do banking via mobile

72% of credit union members use mobile phone alerts

Fewer than 10% of credit union members and non-members have been victims of identity theft and/or card fraud in the last 12 months.

Have you been a victim of card fraud?

Credit union members



Key Takeaways:

Both credit union members and non-members agree they make decisions about how to pay for something based in part on which is the most secure, reinforcing that security and fraud mitigation will continue to be concerns for consumers and credit unions alike.

Exploring different ways to keep members safe – including through authentication, the use of biometrics and artificial intelligence technologies – will ensure consumers are protected, along with a credit union’s own brand and assets. Delivering a robust alerts and controls solution gives members the power to take back control over their own financial freedom and security. This could be especially important if the shift from credit to debit continues, as debit is slightly less secure than credit.

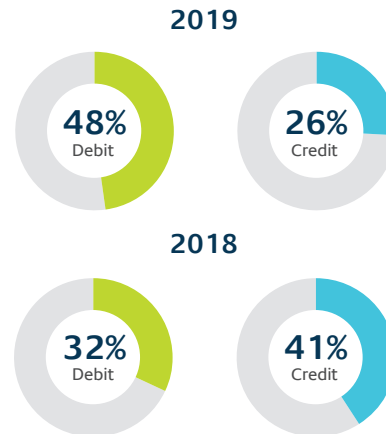
Consumers Choose and Trust Debit for Online Purchases

Consumer preference has gravitated from credit to debit since last year. Survey results in 2018 indicated a slight preference toward credit (44%). In 2019, the preferred tender for both credit union members and non-members was debit (45%), with 48% of credit union members alone preferring debit. Debit cards were preferred across all generations, at the majority of purchase locations and in most retail situations. The top reasons cited by respondents for preferring debit were ease of use (64%), convenience (62%) and comfort of use (51%).

Consumer preference has shifted toward debit cards over the last year and debit usage is preferred across all generations.

Economic uncertainty could also have played a role in the shift from credit to debit. By the end of 2018, credit card debt had reached an all-time high of \$8,811 per U.S. household, according to a study published in the Nilson Report. Additionally, there is a great deal of speculation in the media and among consumers that the current inverted yield curve could be a precursor of an impending recession. Whether or not a recession or economic slowdown is on the horizon, this notion could be impacting consumer behavior and influencing consumers to be more budget-conscious and less eager to run up debt on credit cards. PSCU saw the shift to debit beginning to take shape when analyzing data from popular spending events like the 2018 holiday shopping season and 2019's Amazon Prime Day.

Preferred tender of credit union members



Routine purchases between \$10-\$30



Purchases between \$30-\$200



Monthly payment subscriptions



With more and more types of goods and services now available online, purchasing something on the Internet or through an app has become second-nature to most consumers. Nearly 96% of all survey respondents report making online purchases at least a few times per year, with 57% of credit union members and non-members making an online purchase at least a few times per month.

Additionally, over one-fourth of credit union members report using a mobile app for order-ahead food purchases at least a few times a month, and two-thirds use a streaming service like Netflix or Hulu. Overall, respondents prefer to pay for online purchases, order-ahead food and streaming services with a debit card, further supporting the finding that convenience trumps security.

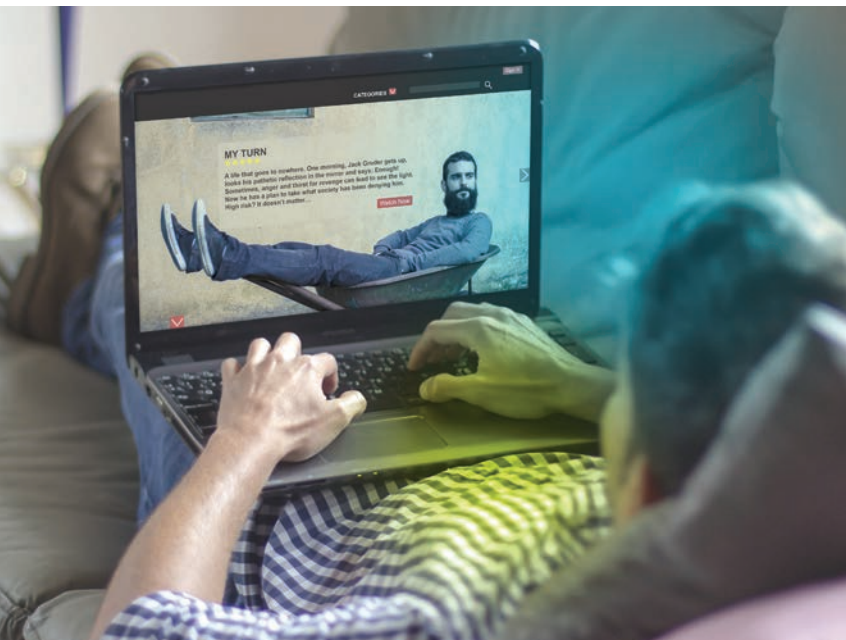
In particular, a majority of Gen Z and Millennials agree they are comfortable using a debit card to make online purchases. This is especially noteworthy given card-not-present fraud has increased and debit is slightly less secure than credit when it comes to liability for unauthorized card use.



70%
of older and younger millennials purchase online at least a few times per month.



45%
of credit union members choose debit for order ahead food purchases



Over half of credit union members use a streaming service like Netflix or Hulu. Debit cards are the most-used payment method for these subscriptions.

Key Takeaways:

Credit unions should be prepared to provide members with access to all different types of payments – from credit and debit cards to ACH options, digital wallets or other alternative forms of payments – and assist their members in utilizing them. While trends like digital currency or real-time payments are important to watch, credit unions should also ensure their legacy programs continue to be optimized and positioned for success. Given credit card penetration among credit union members is 17 – 18%, according to Callahan & Associates, there is a huge opportunity to get credit union cards in the hands of members that might have cards from other issuers.

Historically, credit cards represent among the highest yielding assets in most credit union loan portfolios, and they will remain a critical component for credit unions' strategies. Credit unions should undertake all efforts to protect the confidence that exists in the credit card product and ensure exceptional experiences for consumers using this payment method. Debit, on the other hand, can help members make smart spending

choices. Members struggling with debt find that using debit gives them more control of their finances, as they are more aware of the funds they have available to spend. And, contrary to popular belief, debit card programs can be just as profitable as credit card programs. Ensuring credit and debit card programs are consistently optimized, improved and marketed to members will help your credit union achieve success.

Credit unions should continue to push for earning top-of-card-on-file positions across online and digital channels like Amazon, Netflix, PayPal and various app stores, as well as within mobile wallets. Once a user stores a card as the preferred payment method in these channels, it is highly unlikely he or she will take the time to change it, resulting in interchange income every time a purchase is made through that particular app or mobile wallet. Executing data-driven campaigns as part of an overarching marketing strategy will enable credit unions to maximize results and ultimately secure top-of-wallet status for credit union cards.



Younger Generations Embrace Mobile Wallets

Mobile wallet usage is on the rise, with three out of every 10 survey respondents reporting they use a mobile wallet to make purchases and nearly half using their mobile phones to make payments or do banking. Mobile wallet usage is even higher among the younger generations: Six in 10 Gen Z and Millennials report using a mobile wallet, with almost half of those using the technology at least a few times per month.

The top reason people reported not using a mobile wallet is because they do not know what it is or how to use it. This presents an educational opportunity for credit unions and other financial institutions to drive mobile wallet adoption and usage.



More than six in 10 Gen Z and Millennials use a mobile wallet.

Key Takeaways:

Respondents agree credit unions are good places to get advice and guidance on financial matters, meaning credit unions are well poised to educate existing and potential members about a number of items, including emerging payment methods like mobile wallets. Educating consumers about how to use these methods of payments, emphasizing their convenience and ease of use, as well as what makes them safe and secure, will be key. For example, credit unions should introduce continuing education initiatives for their members to explain how and why the traditional means of authentication are no longer enough to protect account and personal information.

Looking ahead, credit unions should either already have or be well on a path to developing a robust suite of digital tools that enables them to compete and thrive in an increasingly interconnected and digital-first consumer landscape. Whether developing offerings in-house or partnering with companies like PSCU's Lumin Digital, leading-edge digital technologies and methodologies will enable credit unions to better compete with big banks and larger financial institutions.

Contactless Cards are Primed for Rapid Adoption

Despite the early stages of contactless card issuance by financial institutions, about one-fourth of respondents have a contactless card and use it at least a few times per month. Of those that have and use a contactless card, convenience, ease/speed of use and security are the primary motivators for doing so, while the primary reason consumers do not use their contactless card is due to lack of acceptance at stores they frequent. The number of consumers using a contactless payment method is expected to increase as more merchants turn on their Near Field Communication (NFC) technology and begin accepting tap-and-go forms of payments, including cards, wearables and other devices.



61%
of contactless card holders use it
at least a few times per month

Key Takeaways:

Credit unions are going to want to be sure that regardless of where or how their members shop, their credit union-issued card is at the top of members' wallets. A credit union does not want members to experience a situation in which they cannot use their credit union card in the most convenient manner. For example, credit unions need to be prepared to not only offer contactless cards to their members, but also have information readily available to educate members on how to use these cards, and how to ascertain whether a merchant's point-of-sale terminal is contactless-enabled.

Opportunities to educate members exist within a credit union's owned channels such as website, social media, in-branch promotions and ATMs. Additional opportunities for education exist around media outreach, thought-leadership collateral and contributed content.

About one-fourth of consumers say they have a contactless card.



When it Comes to Rewards, Consumers Want Choice

Seventy-five percent of consumers receive rewards or benefits on their credit and/or debit cards. While cash back is the most common reward offering consumers currently have, they want choice.

When asked what type of reward or benefit would encourage them to use their primary card more often, nearly six in 10 wanted something other than cash back – like lower interest rates, waiving of an annual fee or points that can be used for online shopping or travel. This is a common theme across all generations.

Millennials are more motivated by rewards than other generations.

Cash back is the most common reward, but when it comes to rewards, nearly six in 10 people want something other than cash back – they want choice.



Key Takeaways:

Today's consumers expect flexibility – they want what they want, when they want it, how they want it. This holds true when it comes to how they shop and make purchases, whether it is in-store, online or online with in-store pick-up, the newest channel. The most successful rewards programs enable consumers to redeem rewards in all three situations, giving them the power to choose how they shop, and maximizing the flexibility of their rewards. Credit unions should consider how their current rewards programs align with the themes of consumer choice and flexibility, and adjust these programs accordingly.

Payments Across Generations

Baby Boomers:

Baby Boomers are not the check-writing seniors of yesteryear. In fact, only 2% of Baby Boomers report preferring checks as their primary payment method. Plastic is the first choice, with an overwhelming 77% selecting debit or credit cards as their primary preferred payment methods. This generation is the most prone to using credit cards, but the least motivated by rewards, and they prefer not to use contactless cards. While they make slightly fewer online purchases than younger consumers, 50% of Baby Boomers still shop online at least a few times per month. Over the past 12 months, this generation has been a victim of identity theft or card fraud more than any other generation surveyed.



Top two most preferred ways to pay:	Debit card (41%), credit card (36%)
Frequency of online purchases:	Few times per year (48%), few times per month (39%)
Frequency of mobile wallet usage:	Daily (0%), few times per week (1%), few times per month (5%)
Digital payment method most likely to be used within the next six months:	PayPal
Life events experienced within the past 12 months:	Retired or left the job market, been a victim of identity theft, been a victim of card fraud
Statement(s) this group is most agreeable to:	I trust my financial institution
Statement(s) this group is not agreeable to:	I like the idea of using my mobile phone as a form of payment, I prefer to use a contactless credit card
Cash back is a more prominent card rewards feature among Baby Boomers (and Gen X) than with other age groups	
This age group is a target for fraudsters	

Key Takeaways:

Baby Boomers are nearing retirement or already retired. When these highly active credit and debit card users are victims of fraud, they stand to lose more money than other age groups – perhaps a portion of their life savings. A February 2019 report from the Federal Trade Commission explains, “Younger people reported losing money to fraud more often than older people. But when people ages 70+ had a loss, the median loss was much higher.” Credit unions should recognize when it comes to fraud, the stakes are high for this generation. Secure mobile banking, swift fraud detection and mobile alerts and controls, as well as continued education about card fraud, identity theft and how to use mobile card management tools, are crucial for keeping these consumers safe and loyal.

Generation X:

Gen X is the most debit-leaning generation, with one-half of respondents ranking the payment method as their first preference. This age group experienced more life events in the past 12 months than any other generation, and they agree credit unions are good places to get advice and guidance on financial matters. When it comes to rewards, Gen X prefers being rewarded with low interest rates more than other cohorts. These findings could be an indication of the generation’s debt burden: An April 2019 report by Experian notes that Gen X has the highest total debt of any generation.



Top two most preferred ways to pay:	Debit card (54%), credit card (20%)
Frequency of online purchases:	Few times per month (42%), few times per year (34%), few times per week (17%)
Frequency of mobile wallet usage:	Daily (2%), few times per week (9%), few times per month (14%)
Digital payment method most likely to be used within the next six months:	PayPal
Life events experienced within the past 12 months:	Purchased or changed residence, became divorced, had a child go to college, lost job
Statement(s) this group is most agreeable to:	I believe that credit unions are good places to get advice and guidance on financial matters, I trust my financial institution
Cash back is a more prominent card rewards feature among Gen X (and Baby Boomers) than with other age groups	
This age group (more than any other age group) had more life events happen to them in past 12 months	

Key Takeaways:

As Gen X-ers navigate a heavy debt burden and frequent life events, credit unions should look for opportunities to be thought leaders and trusted resources. Budgeting tools, convenient mobile banking and rewards like cash back and low interest rates will build loyalty and help relieve the financial strain on Gen X.

Older Millennials:

The most active online shoppers are Older Millennials, ages 31-38. Seventy-six percent of Older Millennials make an online purchase at least a few times per month. Nearly half of consumers in this generation report preferring debit cards as their primary payment method, and they are also the most likely to use PayPal. Like their slightly younger peers, Older Millennials are more motivated by rewards than other consumers. Their mobile wallet usage aligns with that of Gen Z, with nearly 40% using the payment method at least a few times per month.




Top two most preferred ways to pay:	Debit card (47%), credit card (25%)
Frequency of online purchases:	Few times per month (46%), few times per week (25%), few times per year (21%)
Frequency of mobile wallet usage:	Daily (2%), few times per week (10%), few times per month (25%)
Digital payment method most likely to be used within the next six months:	PayPal, Google Pay
Life events experienced within the past 12 months:	Purchased or changed residence, entered into marriage
Statement(s) this group is most agreeable to:	I am comfortable using my debit or check card for purchases on the internet, receiving alerts on my phone that allow me to see activity on my cards and manage them is important to me, I trust my financial institution
This age group (along with the 'Young Millennials' age group) is the most motivated by card rewards (4.43 on 6-point scale)	

Key Takeaways:

Older Millennials are frequent online shoppers who are comfortable using their debit cards for online purchases. They are also the most frequent victims of fraud and identity theft, according to reports gathered by the Federal Trade Commission. In 2018, 107,367 people age 30-39 reported being victims of identity theft, which is nearly double the number of victims in the 50-69 age range. Credit unions should continue to place a strong focus on safety and ensure these consumers have mobile alerts and other preventive tools at their fingertips.

Younger Millennials:

Younger Millennials, ages 23-30, are mobile-savvy and open to adopting new payments technology. They are the most active users of mobile wallets, with 8% of Younger Millennials using the payment method daily and 16% using their mobile wallets a few times per week. Millennials, as a whole, are active online shoppers and are the generation most motivated by rewards. Choice is key, as their rewards preferences run the gamut.

	Top two most preferred ways to pay:	Debit card (43%), cash (25%)
	Frequency of online purchases:	Few times per month (39%), few times per year (27%), few times per week (24%)
	Frequency of mobile wallet usage:	Daily (8%), few times per week (16%), few times per month (21%)
	Digital payment method most likely to be used within the next six months:	PayPal, Venmo, Google Pay
	Life events experienced within the past 12 months:	Have or adopt a child, graduated from college
	Statement(s) this group is most agreeable to:	I tend to pay more with debit cards than I did a few years ago, I use a greater variety of payment methods than before, I am comfortable using my debit or check card for purchases on the internet, I make decisions about how I will pay for something primarily based on which is the most secure, receiving alerts on my phone that allow me to see activity on my cards and manage them is important to me, I trust my financial institution
	This age group (along with the 'Older Millennials') is the most motivated by card rewards (4.37 on 6-point scale)	

Key Takeaways:

Consumers in the Younger Millennials age group are experiencing many of life's "firsts," like their first job after college, first child, etc. Credit unions should look for opportunities to support them during their journey, particularly through robust rewards programs that offer choice. Like their younger counterparts in Generation Z, Younger Millennials are open to new payments technology, so credit unions should look to them to identify trends and gain insight.

Generation Z:

Gen Z consumers are either in college or just beginning to enter the workforce and have not yet built a strong credit base. Thus, they are less likely to use credit cards than their older counterparts, with only 16% of respondents ranking credit cards as their first preference. Gen Z likely represents the future of mobile wallets, with nearly 40% using the payment method at least a few times per month. This is in line with the preferences of their slightly older and more established peers, the Younger Millennials.



Top two most preferred ways to pay:	Debit card (39%), cash (34%)
Frequency of online purchases:	Few times per month (36%), few times per year (33%), few times per week (19%)
Frequency of mobile wallet usage:	Daily (6%), few times per week (12%), few times per month (22%)
Digital payment method most likely to be used within the next six months:	PayPal, Apple Pay
Life events experienced within the past 12 months:	Purchased or changed residences, graduated from college
Statement(s) this group is most agreeable to:	I tend to pay more with debit cards than I did a few years ago, I am comfortable using my debit or check card for purchases on the internet, receiving alerts on my phone that allow me to see activity on my cards and manage them is important to me

Key Takeaways:

Gen Z is the largest generation in American history, currently representing 27% of the U.S. population. This generation never knew a world without mobile phones or the internet, so they are quick to embrace new technology. This creates an opportunity for credit unions to promote technology such as contactless cards and mobile wallets to a large number of tech-savvy consumers. Mobile phone alerts are important for this generation, and credit unions should look for opportunities to educate this young group of consumers about card fraud risks and precautionary measures, especially since they choose debit as their most preferred payment form.

Final Considerations

As illustrated in these findings, consumer preferences over the last 12 months shifted and changed based on a variety of factors. While convenience and ease of use were reported as the most important factors in determining which payment method was used this year, security and safety still matter to both credit union members and non-members. Consumers are choosing debit over credit and trust it for online purchases, while younger generations are becoming more active users of mobile wallet technology. Contactless cards are primed for rapid adoption in the next 12 months, and consumers want choice when it comes to their rewards.

The rapidly evolving payments landscape and constantly changing consumer preferences make it more important than ever for credit unions to optimize their offerings and portfolios as they look to meet the needs of consumers into 2020 and beyond. There are numerous ways in which credit

unions can achieve this, from reviewing, analyzing and utilizing data in-house, to continuously providing members with the latest payment options and partnering with a third-party vendor or credit union service organization (CUSO) – like PSCU’s Advisors Plus, for example – that can create marketing growth campaigns and portfolio, loyalty, contact center and operations optimizations that help credit unions meet their business challenges and grow.

At their core, credit unions are in the business of helping members achieve their financial goals. These goals will change depending on personal situations and life stages. Credit union offerings need to evolve and align with consumers’ needs throughout all phases of their financial journeys, both to attract new members and continue delivering the experience current members have come to know and expect from their trusted financial partner.

About PSCU

PSCU, the nation’s premier payments CUSO, supports the success of 1,500 credit unions representing more than 3.8 billion transactions annually. Committed to service excellence and focused on innovation, PSCU’s payment processing, risk management, data and analytics, loyalty programs, digital banking, marketing, strategic consulting and mobile platforms help deliver possibilities and seamless member experiences. Comprehensive, 24/7/365 member support is provided by contact centers located throughout the United States. The origin of PSCU’s model is collaboration and scale, and the company has leveraged its influence on behalf of credit unions and their members for more than 40 years. Today, PSCU provides an end-to-end, competitive advantage that enables credit unions to securely grow and meet evolving consumer demands. For more information, visit pscuc.com.