CUNA MUTUAL GROUP

trustage®

RESEARCH REPORT

WHAT MATTERS NOW™

Insights from the Non-Member And Driving Credit Union Engagement

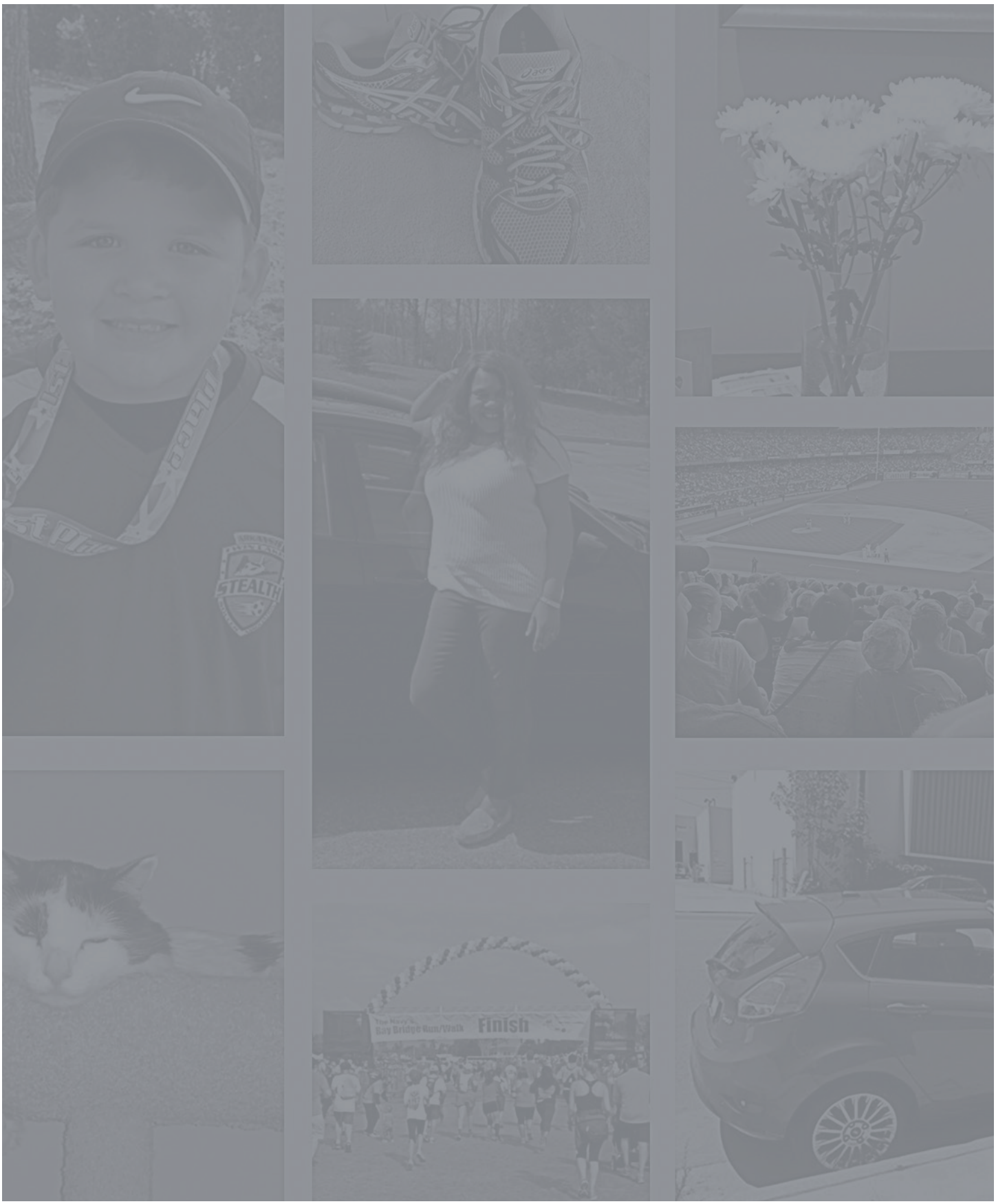
OVERVIEW

For 2017, CUNA Mutual Group and TruStage® are pleased to share the third installment of *What Matters Now*, an annual consumer research study that uses data gleaned from a variety of primary and secondary sources to provide insights on specific market segments. The two previous reports focused on middle-income (2015) and Millennial (2016) consumers. Although the 2017 research targeted true non-member consumers (those with no credit union products or services), it also uncovered key insights from those who fall along the member continuum—fully engaged, partially engaged, and disengaged members. This larger population represents the true opportunity for credit unions as they seek ways to grow their portfolios and better meet member needs.

Some of the most important findings from the research were that the opportunity segment population was more likely to be a Millennial or from a race other than white (vs. the "engaged member" population), that these segments put a high value on brands that reflect their cultural identity, and that they were more likely to choose a financial institution based on a personal recommendation.

The research also showed that consumers continue to harbor misconceptions about credit unions and that, while non-members might not be as happy with their current financial institutions as credit union members, there are barriers to switching. On the plus side, these barriers aren't always insurmountable and many of the items study participants were looking for in an "ideal" financial relationship aligned with core credit union values.

One surprising finding from the study: Almost half of bank-users belong to local or regional banks rather than large national ones. This indicates nearly half of non-members are comfortable working with a regional institution, and might be comfortable switching to another regional institution—i.e. a credit union. Definitely something to keep in mind as credit unions strive to uncover and address consumer needs.


STEALTH
Finish

KEY RESEARCH TAKEAWAYS

THE REAL OPPORTUNITY IS ACTUALLY MUCH GREATER THAN THOSE WITHOUT CREDIT UNION PRODUCTS.

Although it seems logical to delineate between those who do and don't have any products with a credit union when determining which consumers are members, the What Matters Now research showed it isn't that simple. The real opportunity for growth includes any consumer who doesn't have any credit union products or services plus existing members who don't count the credit union as their primary financial institution (PFI).

To uncover this, the research team asked participants if they were a member of a credit union: 37% of survey participants said "yes" and 63% said "no." But of that 63%, 12% actually had at least one product with a credit union.[1] This means credit unions have three windows of opportunity:

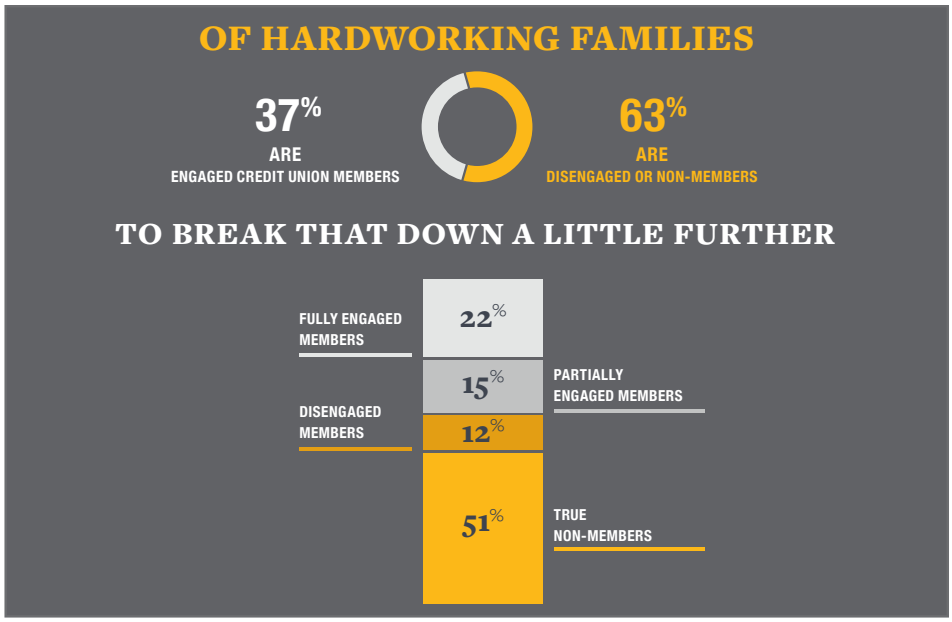
- **Partially engaged members** (15% of hardworking families; recognize they have a relationship but don't see the credit union as their PFI).
- **Disengaged members** (12% of hardworking families are credit union members, but don't perceive themselves as members). In this segment, about one-third had a savings account with the credit union, over half had a credit card and/or checking account, and close to 20% had an auto loan (roughly 11% said their loan was indirect, which would help to explain why they perceived themselves as non-members).
- **True non-members** (51% of hardworking families; no credit union affiliation).

This year's *What Matters Now* research methodology

Research Methodology

Custom research with a focus on hardworking families earning $25,000 - $100,000

- US Yankelovich
- TruStage Consumer Surveys
- TruStage Photo Journals



CONSUMERS SHARE A NUMBER OF MISCONCEPTIONS ABOUT THE CREDIT UNION SYSTEM

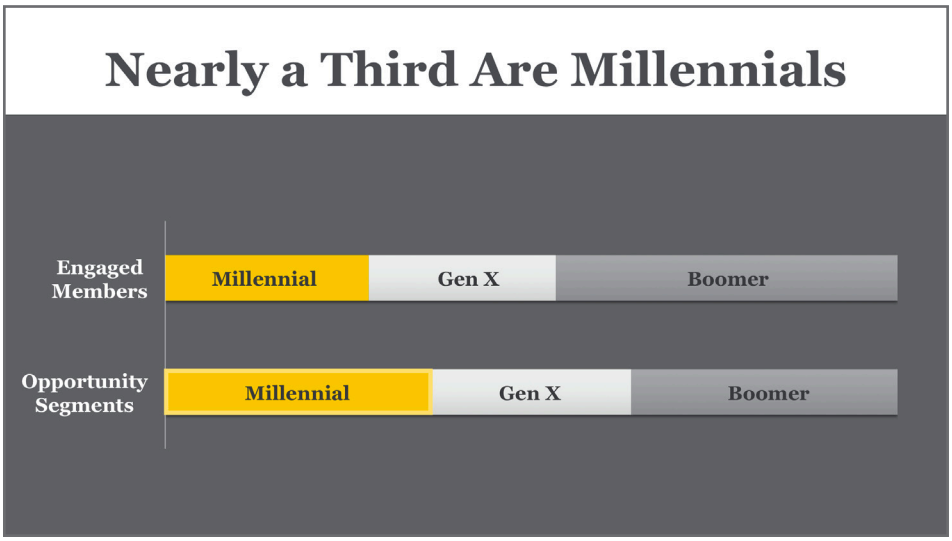
One misconception that refuses to die is the belief that credit unions are only for those affiliated with a specific group or company. This belief was commonly seen with true non members. A second misconception seen most commonly with partially engaged members, is that credit unions are less convenient or lack the products/services of other financial institutions. A third, especially concerning, misperception is that credit unions are less secure than banks and subject to less scrutiny. We heard this most from disengaged members. Although the 2008 recession and bailouts exposed the fragility of many banks, some consumers perceive they're now safer than ever.

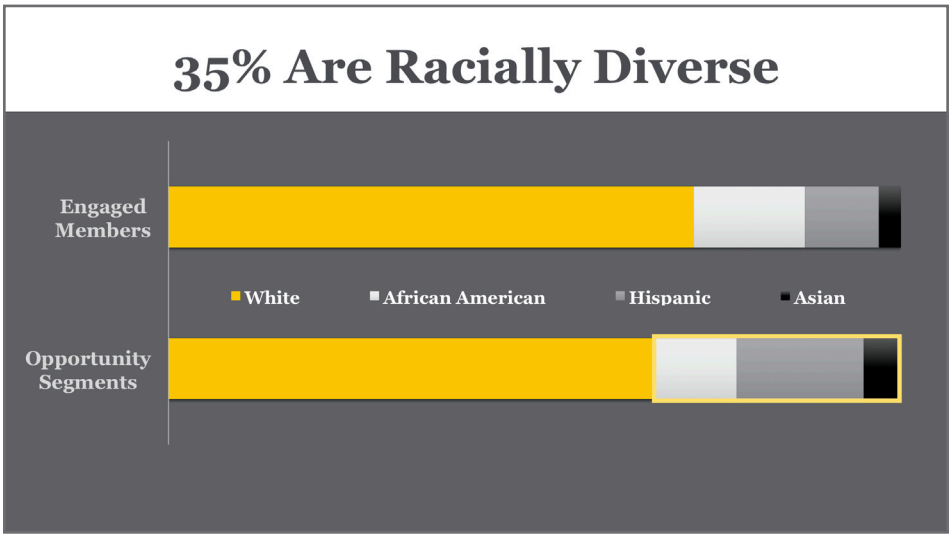
CONSUMERS WITHIN THE OPPORTUNITY SEGMENTS ARE YOUNGER AND MORE RACIALLY DIVERSE THAN ENGAGED MEMBERS—AND SO ARE NEW MEMBERS

Neither of these findings is especially surprising given it's well established that the average member is 48 years old and that younger Americans tend to be more racially diverse than older ones (more than 40% of Millennials are considered part of a racially diverse group).

What's more important to pay attention to are stats by engagement segment. For instance, 60% of disengaged members are under 35. This aligns with last year's What Matters Now research on Millennials, which found that the #1 reason Millennials didn't use credit unions is because they didn't know much about them. There are also higher levels of diversity among disengaged members: 21% of disengaged members are Hispanic vs. 10% of engaged members and 17% are African American vs. 15% of engaged members.

It's also interesting to note that new members share two important attributes with the opportunity segment population: the majority (57%) are under 35 years old and almost half are racially diverse (26% are African American and 20% are of Hispanic/Latino descent). In addition, more than a third of new members rent their homes and almost half (42%) are parents.





THE VAST MAJORITY OF TRUE NON-MEMBERS HAVE SOME KIND OF BANKING RELATIONSHIP AND MOST ARE SATISFIED WITH IT—BUT NOT AS SATISFIED AS CREDIT UNION MEMBERS.

The What Matters Now research showed the majority non-members have a banking relationship of some kind. Just over half (53%) used a large national bank, 20% used a regional bank, 27% used a local one—which indicates nearly half of non-members are comfortable working with a regional institution, and might be comfortable switching to another regional institution—i.e. a credit union. Perhaps even more interesting was that while 81% of bank users were either strongly or somewhat satisfied with their institution, only 45% strongly agreed with that statement vs. 71% of credit union members who said they strongly agreed.

"This is a picture of my son's oldest stuffed animal. It would be best to toss it, but there is some loyalty to it since it has been around so long. I look at my bank the same. **I just stick with it because I have been a customer for so long.**"

Karla, age 38

THERE ARE BARRIERS TO SWITCHING FINANCIAL INSTITUTIONS

Not surprisingly, most consumers are reluctant to switch institutions citing a sense of complacency, the fact that it's a "hassle" to do so and the lingering misconceptions they hold about credit unions. Complacency was the biggest barrier for all three opportunity segments at 73% for partially engaged members, 64% for disengaged members, and 67% for true non-members.

ALTHOUGH IT'S HARD TO BREAK THROUGH BARRIERS, THERE ARE SOME WAYS TO MOTIVATE A SWITCH

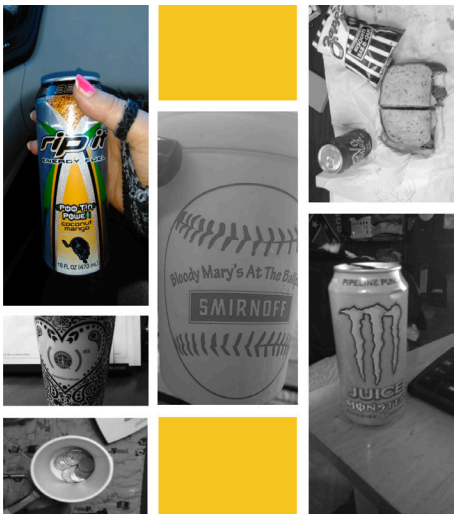
While none of these are guaranteed to move the needle when it comes to convincing consumers to either switch to or upgrade their credit union relationship, the following were all listed as potential reasons why consumers might: better rates (on investments accounts or loans), financial incentives for opening an account, financial education or counseling.

DEFINITIONS OF PERSONAL SUCCESS ARE LARGELY CONSISTENT ACROSS ALL SEGMENTS, BUT THERE WERE EXCEPTIONS

In each of the three years TruStage has conducted the What Matters Now research, participants have been asked to weigh in on their definition of success. This year continued the trend of members prioritizing family—particularly raising good/happy/capable children. This was also true among segments that didn't have a credit union as their PFI except for disengaged members: their top definition of success was good health. A likely explanation for this is age as this segment tends to be younger. And about 25% of disengaged members also included a focus on job satisfaction or having a lot of money as one of their top three definitions of success.

Partially Engaged Members	Disengaged Members	True Non-Members
I'm a member, but it's not my day-to-day bank	*I don't consider myself a CU member, but I do use their products*	*I have no affiliation or products with a credit union*
1. Raising good/happy kids	**1. Staying in good health**	1. Raising good/happy kids
2. Great relationship with spouse	2. Great relationship with spouse	2. Great relationship with spouse
3. Financial stability	3. Feeling happy/content	3. Feeling happy/content
4. Relationship with God	4. Raising good/happy kids	4. Financial stability
5. Feeling happy/content	5. Financial stability	5. TIE: Staying in good health / Relationship with God

Both disengaged and true non-members agreed material goods were a sign of success and valued having the following: latest technology (40%); large/expensive home (32%); and owning an expensive car (26%). An interesting find from the qualitative research: symbols of success didn't have to be big and flashy like a Ferrari—they could be much smaller but were often brand-focused.



"I have to buy the 99 cent energy drink because I'm broke, being financially secure would mean **being able to afford** the $3 Monster Energy"

Ashley, age 32

NON-MEMBERS WERE MORE LIKELY TO ADD A PERHAPS SURPRISING ELEMENT TO THEIR DEFINITION OF SUCCESS: THE ABILITY TO GIVE BACK

These consumers enjoyed being able to share their resources with family and friends, support causes they value and help their parents as they aged.

A possible explanation for this is that the opportunity segment population tends to be younger and to come from racially diverse cultures where a household is more likely to be made up of more than one generation.

"My family lives the coupon life...We are able to **save money and help friends and family in need.**"

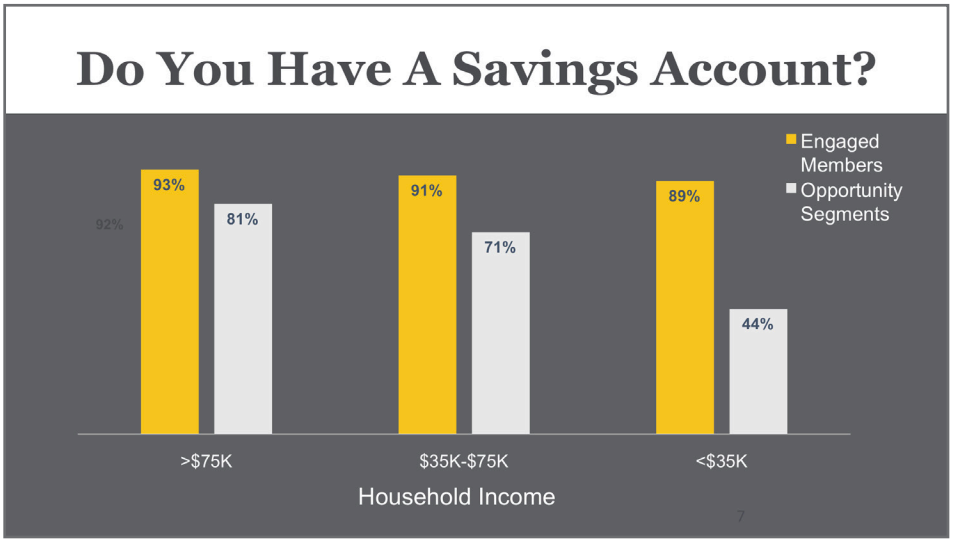
Violet, age 32

"To me, **giving back is an accomplishment** that I enjoy. I'm a huge supporter of cancer research."

Elizabeth, age 34

INCOME AND EDUCATION LEVELS ARE STRONG INDICATORS OF FINANCIAL PRODUCT USE AMONG THE OPPORTUNITY SEGMENT POPULATION

While engaged members show relatively strong, consistent use of basic financial products—in this case savings accounts—regardless of income (93% of those with incomes greater than $75,000 have a savings account vs. 89% of those with incomes less than $35,000), this is not the case for opportunity segments. For consumers in this category the drop is precipitous at 81% of those with income over $75,000, but just 44% of those with income less than $35,000.[2]



There were similar, but less striking, differences when it came to links between education level and membership. Nearly all engaged members (92%) with a bachelor's degree had a savings account vs. 87% of those with a high school diploma or less, while this percentage ranged from 87% vs. 61% for the opportunity segments.

OPPORTUNITY SEGMENTS DO SAVE—BUT TYPICALLY FOR A SPECIFIC REASON, RATHER THAN CREATING A GENERAL RAINY DAY FUND.

While all groups show a willingness to save, the opportunity segments were more likely to save for something specific like a vacation and might be attracted to a product that allowed them to do so, such as a vacation account.

DISENGAGED MEMBERS WORRY MORE ABOUT FINANCIAL STABILITY THAN ANY OTHER GROUP—BUT ALL GROUPS SHOW SOME LEVEL OF OPTIMISM ABOUT THEIR FINANCIAL FUTURE AND ARE LESS WORRIED THAN THEY HAVE BEEN IN THE PAST.

What Matters Now research found that more than half (54%) of disengaged members worry about their financial stability on a daily basis—compared to 45% of members, 41% of partially engaged members, and 43% of true non-members. And this number jumps to 59% of disengaged members whose income is below $25,000.

It's not entirely certain what's driving this anxiety: at some level it might be a feeling that they are "going it alone" when it comes to financial challenges. And even though these consumers have concerns they also feel hopeful about the future.

On a more positive note, the overall level of anxiety has dropped. In 2015, over 60% of respondents worried about their financial stability every day, in 2016 this level was roughly 52% and for the 2017 study it dropped to 44%.

27% of non-members identified with this definition of financial success:

"Knowing I can help my parents and other loved ones financially if needed"

OPPORTUNITY SEGMENTS' PURCHASE DECISIONS ARE MORE LIKELY TO BE INFLUENCED BY THEIR CULTURE AND A SENSE THAT A BRAND REFLECTS THEM.

Half of partially engaged and disengaged members agreed with this statement: "The brands I choose to purchase or interact with are a reflection of my personal identity."

This was especially true for Millennials and the Hispanic population: 53% of opportunity-segment Millennials (vs. 37% of engaged member Millennials) and 57% of opportunity-segment Hispanics (vs. 42% of engaged member Hispanics) sought out brands that acknowledged their cultural traditions.

"My financial future is a **work in progress**. I have goals to reach, but **the steps to get there are not clear** so I will figure it out as I go."

Danielle, age 32

WORD OF MOUTH IS THE MOST IMPORTANT DRIVER OF NEW MEMBERSHIPS

TruStage's research uncovered that 15% of all credit union members have joined within the last two years and that a recommendation was the top reason for doing so. As the chart below captures, the reasons for joining a credit union are evolving.

Top Reasons for Joining a Credit Union

Newer members' (1 - 5 years) motivations

- Recommendations from family or friends
- I was looking for a trustworthy financial institution
- Best savings, interest rates, and customer service when compared to alternatives

Vary from more tenured members (6 – 10+ years)

- I prefer member-owned financial institutions
- I was looking for a trustworthy financial institution
- Best mortgage/loan interest rates
- (>10 year tenure) Affiliation with my employer or another association I belong to

UNBANKED AND UNDERBANKED POPULATIONS PROVIDE STRONG OPPORTUNITIES FOR GROWTH—AND SHOW SOME SURPRISING CHARACTERISTICS

These two populations are both substantial—at 7% of the population for unbanked and 20% for underbanked, together they make up over 30 million underserved households in the U.S.[3]

The most common characteristics of the underserved:

- Young—over half are 15-34 years old
- Live in the South—often in areas of banking deserts, where the closest financial institution is far away
- Racially diverse—54% of African-Americans are unbanked or underbanked, as are 46% of Hispanics/Latinos.
- Often, but not always, from lower income households

RACIALLY DIVERSE CONSUMERS ARE GROWING IN NUMBER AND BUYING POWER

Over the last five years, multicultural consumers have accounted for 92% of US population growth and by 2020 this percentage is predicted to jump to 98%. When divided by age, there's clear indication that younger populations are pushing this trend. While less than 30% of Boomers aged 50-60 are multicultural, 50% of those under the age of nine are. There's clearly a big and growing opportunity here.

Defining unbanked, underbanked, and underserved

For clarity, these terms are defined as follows:

Unbanked:
No checking or savings account

Underbanked:
Have checking and/or savings account but used alternative financial services in the past 12 months

Underserved:
Unbanked + Underbanked

OPPORTUNITY SEGMENTS' VISION OF THEIR IDEAL FINANCIAL RELATIONSHIP LOOKS AN AWFUL LOT LIKE A CREDIT UNION—WITH SOME PROVISOS

When asked about their ideal institution, consumers within the opportunity segments commonly mentioned things like "family" and "excellent customer service," which are right in credit unions' wheelhouse. But they also prioritized transaction speed and the ability to conduct transactions online—and disengaged and partially engaged members might not see these as credit union strengths.

"I'm in the middle of a transition from Wells Fargo to OnPoint. I can tell you about the thinking that led me to switch. Some of it was thinking that it would be better to put my money into an organization owned by its members instead of a multinational who has recently gotten into trouble for exploiting its customers. But then some of it was simply convenience-based."

Johnny D, age 31

15% OF CREDIT UNIONS MEMBERS HAVE JOINED THEIR CREDIT UNION WITHIN THE LAST 1-2 YEARS

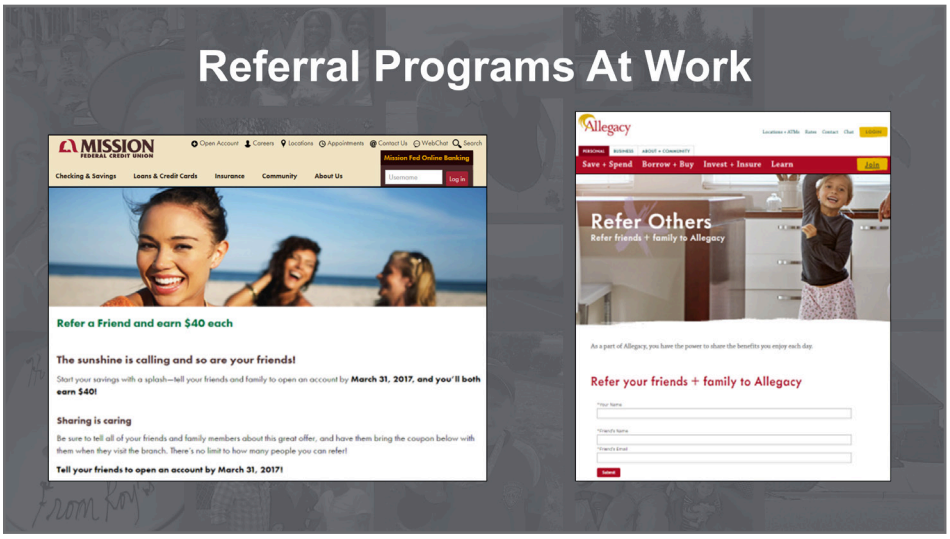
Over the past few years about 15% of existing members came on board. Who are these new members and what is driving that decision? Well, they're younger. Nearly 60% of new members are under the age of 35. A lot of these Millennials are starting to gain awareness, and as we know, it's largely through their friends and family. More than a third of new members rent their home and 42% are parents. And almost half are minorities. This is young, vibrant audience with a lot of big financial decisions ahead of them. First home may be on the horizon, as well as a loan opportunity.

What Should Credit Unions Do Now?

These next steps can help credit unions grow membership along the engagement spectrum:

Segment your markets. Consumers along the engagement spectrum have different needs, behaviors, and perceptions of credit unions. Most credit unions already segment their targeting efforts based on demographic factors; an engagement filter can be a valuable addition. Take a closer look at the disengaged members. The What Matters Now research showed that this was the population with the highest propensity to make the credit union their PFI in the future.

Find ways to connect with Millennials through current members, especially their Boomer parents. Research from a variety of sources supports the fact that Boomer parents tend to have a strong influence over their Millennial children and that Millennials rely on others' recommendations when making decisions about almost anything—including finances. In fact, the What Matters Now research shows nearly half of Millennials who use a credit union joined because a friend or family member recommended it. Boomers already make up the largest percentage of credit union membership (at 42%), which should provide a strong opportunity to connect with their Millennial children. Now is a great time to make this a priority—before the upcoming $40 trillion asset transfer from Boomers to their children.



Impact of the election—were there differences between members and non-members?

Although feelings about the election itself were decidedly mixed and ranged from excitement to dismay, there were no appreciable connections between membership status and opinions about the election.

Offer free financial education and counseling. One surprise from the research was how important this benefit appeared to be when motivating consumers to switch to a credit union or deepen their current relationship. It's not necessary for the education/counseling to be provided by credit union staff—white label partnerships can be a good option for those who lack expertise on staff—but it is vital these sessions are delivered in a non-sales-y manner. Consumers should feel empowered by them, not as if they're being sold a product or service.

Leverage external credibility and don't overpromise. A certain percentage of the opportunity segment population questions credit union stability and reliability. When possible and appropriate, be sure to include impartial verification of both. For instance, TruStage prominently displays that it's received an "A" (Excellent) rating from A.M. Best and that this is an independent rating agency.

Consider adding savings accounts geared to specific purchases. Consumers within the opportunity segments have shown a desire to save up for concrete experiences or items in addition to general savings. Create specialized account products (Christmas, vacation, etc.) and offer auto-deposit options to fund them. Consider doing marketing around these specific goals and purchases too. Over time it might be possible to help members who have used these savings tools expand into new savings areas—like retirement or education funding.

Deliver products and services designed to address the needs of the unbanked and underbanked. These segments represent almost 30% of the marketplace. They're opting out of traditional banking services and choosing alternative solutions, many of which are incredibly expensive (such as payday lenders and prepaid debit cards). There's substantial evidence to show it's possible to deliver programs that meet these segments' financial needs while generating income for the institution. Three examples are shown below. Another way to meet the needs of this audience is by giving them more control over how they pay for something: for instance, TruStage is examining ways to let customers choose their own payment date or to have the option to pay with options other than checks or credit cards.

SOURCES

1 TruStage What Matters Now Consumer Research Dec. 2016

2 The Future Company 2016

3 2015 FDIC National Survey of Unbanked and Underbanked Households https://www.fdic.gov/householdsurvey/2015/2015execsumm.pdf

4 U.S. Census Bureau https://www.census.gov/content/dam/Census/library/publications/2016/demo/acsbr15-02.pdf

5 Latinum Network: Understanding Financial Needs and Habits of Underserved Customers, 2017

6 Bank of America Millennial Primer 2015


STARBUCKS
RED
JONATHAN ADLER

TSIP-1736966.2-0119-0221

CUNA MUTUAL GROUP

truSTAGE®