

Eye on Payments: Safety and Convenience Drive Payment Behaviors





Introduction

The payments landscape is evolving at a rapid pace, as consumers are faced with more purchasing decisions and faster ways to pay every day. Along with an increasing number of decisions comes an even greater number of choices that consumers need to make about how and where they pay. From determining the best way to make purchases efficiently at specific retailers, to evaluating different payment app elements, to tracking spending and budgeting online, payment options are nearly endless. However, this payments evolution has not mitigated a key question people have always asked themselves: “How safe is my financial and personal information when I pay?”

PSCU's *Eye on Payments* highlights the ways consumers apply these needs and desires to their choice in payment methods and gives us key information about the factors that influence consumers on a daily basis. Our goal is for credit unions to leverage these findings to their advantage in a changing payments landscape.

MaritzCX, on behalf of PSCU, surveyed 1,000 credit union members and 500 bank customers geographically dispersed across the United States. The online survey, which was fielded in September 2018, engaged participants ages 18 to 65+. Of those surveyed, 54 percent were female and 46 percent were male, and demographic characteristics of those surveyed closely align with consumer data from CUNA's 2018 Member Profile.

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 the primary users of different payment types**
- 3. How and why payment method preferences differ among varying generations**
- 4. Recommendations for meeting credit union member payment preferences and needs**

Key Consumer Finding – What Drives Choice?

Our desire to avoid negative consequences influences a greater number of our decisions than our desire to achieve positive outcomes. Likewise, doing more in less time is increasingly associated with value. Safety and convenience, as it turns out, are the leading impetus factors for the decisions we make and are drivers for credit union members' payment preferences in the current landscape. The good news is that credit unions are well-positioned to fulfill both needs.

Digital Is All the Rage, So How Do We Build Trust?

The human mind is something of a master at creating cover stories. When it comes to digital payments, most consumers still have questions about their safety when they make payments online. The reason is due in part to negligence in

answering a key consumer question: "How safe is my financial and personal information when I pay?" With improved fraud detection tools now available in the market and appropriate levels of consumer education on how these tools work, financial institutions can help mitigate skepticism consumers face when it comes to digital payments and maximize opportunities related to mobile wallets.

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Consider These Facts



13%

of credit union members surveyed have been a victim of card fraud in the last year



4%

of credit union members surveyed have had their identity stolen in the last year



38%

of those surveyed cited concerns about security as a reason for not using mobile payments



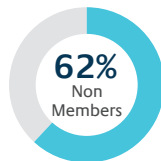
75%

make payment decisions primarily based upon which is the most secure

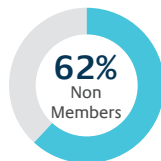
Convenience and Comfort Go Hand-in-Hand

Convenience can mean something different to various groups of people. However, at its core, convenience inspires peace of mind and leads to habits that become second nature. For credit union members and non-members alike, making payments easily and quickly are essential in keeping up with their busy lives. In fact, credit cards ranked as the most convenient, easiest and fastest payment method. Respondents reported the following:

Credit cards are something that I am comfortable using



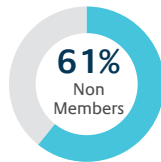
Credit cards are easy to use



Credit cards allow for fast transactions



Credit cards are convenient



"Rooted in the philosophy of 'people helping people,' credit unions have an advantage in helping consumers navigate today's digital landscape and making security education an integral part of the digital adoption process."

Opportunity and Challenge – The Credit Union Imperative

Safety is a basic human need – one that has not changed or diminished over time. A growing imperative for credit unions is how to effectively strike a balance between this need and new innovations. One key finding is that skepticism for new and unproven technology is high among credit union members, with 35.5 percent stating they do not feel it is secure, compared with just 29 percent of bank customers. Forty percent of credit union members are concerned about the security of their data, and nearly 60 percent of credit union members make their decisions on how they will pay for something based upon which option is the most secure.

Rooted in the philosophy of “people helping people,” credit unions have an advantage in helping consumers navigate today’s digital landscape and making security education an integral part of the digital adoption process.



Credit unions can serve as a true partner in preventing further fraud and data hacks from occurring right from the start: Only 4 percent of credit union members expect to be a victim of card fraud over the next year. Still, research has shown the occurrence of this happening is higher than the expectation. This is where credit unions can step in to ensure their members stay safe.

The opportunity to educate consumers about safety and prevention when it comes to digital payments does not end with members: Non-credit union members share similar values. In particular, non-members feel it is important to do business with a financial institution that knows them personally, as well as receiving trustworthy advice on their financial matters from representatives of that institution.

The opportunity rests with how credit unions introduce new payment methods to members and non-members in a way that bolsters security but does not take away from the desired personal relationship. Still, the challenge is that as mobile payments become proven and mainstream, credit unions must be able to offer these options to their members, or else face potential attrition.

Credit, Debit and Mobile Wallets as Key Payment Methods

Consumers have many choices when paying for goods and services. It is important to understand that these choices are driven by the type of retailer, type of purchase, perceptions and attributes of each payment method, among other considerations.

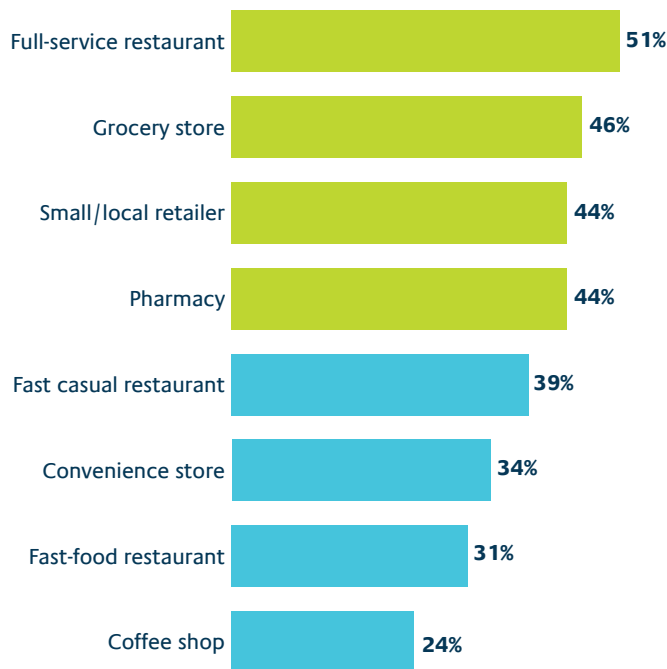
Anytime, anywhere commerce is here thanks in part to the popularization of mobile devices. Subsequently, consumer expectations are changing when it comes to payment choice at retail establishments, dining venues and online. The new path to consumer purchase behavior is paved with three leading payment methods: credit, debit and mobile wallets. Looking specifically at these payment methods yields some very important findings that help us better understand their users. We will now discuss each in detail.

Credit – King of Consumer Choice

Credit cards remain the preferred payment method for both credit union members and non-members.

Given their ease of use and convenience, credit cards represent the most commonly used method of payment across the majority of retail purchase locations. Sixty-one percent of survey respondents report being most comfortable with credit cards as a payment form, and 60 percent claim that credit cards are more convenient to use than other payment options.

Predominantly used for tangible goods, routine purchases such as groceries and large purchases over \$200, including restaurant-venue dining, credit cards retain a steady place in the day-to-day lives of consumers and consequently have strong foundational potential for credit union loyalty programs and incentives.



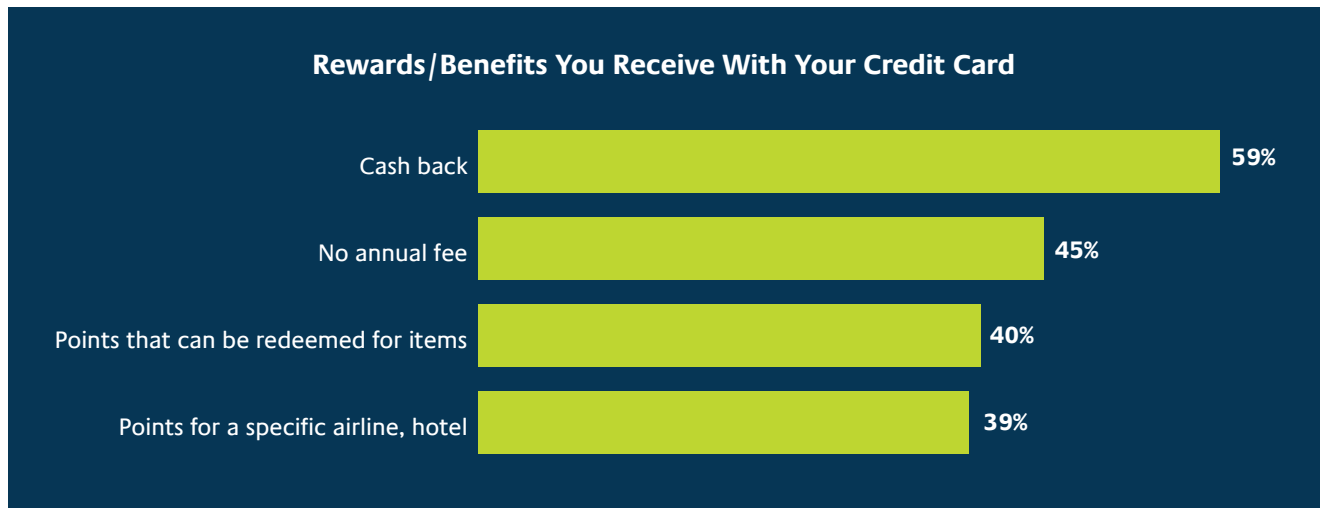
When looking at the survey results for all survey respondents, credit cards were identified as the most used payment method for nearly all types of locations. When asked which payment method respondents use most often, credit cards emerged as the leading payment method at the following locations:

- Full-service restaurant (51 percent)
- Grocery store (46 percent)
- Small/local retailer (44 percent)
- Pharmacy (44 percent)

As anticipated, rewards also play a role in determining payment choice. Looking at credit cards alone, over 93 percent of respondents indicated that they receive a reward or benefit by making purchases with their credit card. The rewards or benefits consumers experience vary from concierge services to points to cash back, with the survey results indicating that cash back is the leading benefit experienced by consumers.



93%
of credit card users get rewards and benefits



Key Takeaways:

It is clear from the research that credit is a mainstay and will remain one of the top payment methods. This will be especially important given the growing adoption of mobile payments, as consumers have the ability to link their credit card directly to mobile wallets.

Debit – A Tool for Budgeting

Despite credit cards being the preferred payment method for those surveyed, debit cards are a close second, particularly at routine retail locations. In fact, there is an opportunity for consumers who primarily use cash to convert over to debit card use; using debit cards as a payment method is just as quick and convenient as cash for in-store, shorter-term purchases.

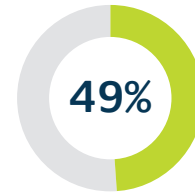
Consumers from the survey indicate that they choose to use a debit card for convenience and ease of use, particularly for in-store purchases. As with credit, people across all age groups feel debit cards are still a safe payment option. When asked the reasoning behind choosing debit cards as a payment method, credit union members in particular responded by saying that debit cards are something they are comfortable using for convenience and maintenance of a budget.

Credit union members specifically feel more comfortable using a debit card than non-members do. Only 34 percent of non-members report feeling comfortable and are more likely to use it for budgeting purposes.

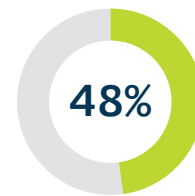
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Top Reasons for Usage Include the Following: (For Credit Union Members)

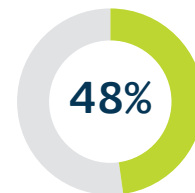
Debit cards are easy to use



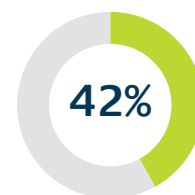
Debit cards are something I am comfortable using



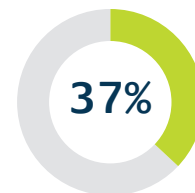
Debit cards are convenient

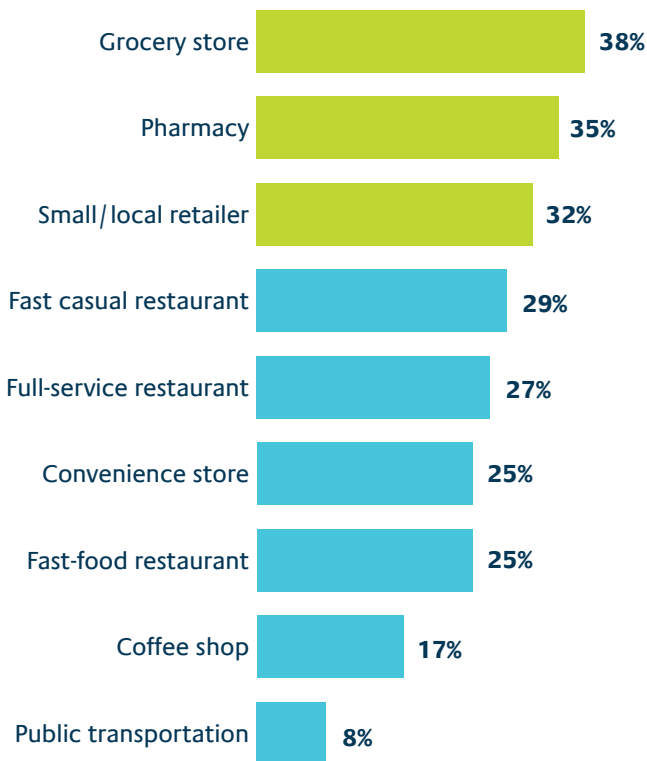


Debit cards allow for fast transactions



Debit cards help me budget easily





When looking at the survey results among credit union members and non-members, debit cards were used most often for purchases at:

- Grocery stores (38 percent)
- Pharmacies (35 percent)
- Small or local retailers (32 percent)



Key Takeaways:

After credit, debit is the next preferred payment method among credit union members when making in-store purchases. Additionally, credit union members use debit significantly more often than bank customers for in-store purchases. There is a significant difference (at a 90 percent confidence level, and on a 4-point rating scale with 4 as the highest rating) for credit union members’ response versus bank customers’ response to the following:

- I make decisions about how I will pay for something primarily based on which is the most secure.
 - 2.79 out of 4.00 (credit union member); 2.70 out of 4.00 (bank customer)
- Debit cards are very important to me.
 - 2.66 out of 4.00 (credit union member); 2.41 out of 4.00 (bank customer)

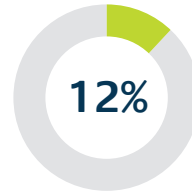
Mobile Wallets – Need for More Education and Awareness

Both credit union members and non-members across all age groups are understanding more about mobile wallets as they start to interact with them in their daily lives. Inertia is one reason consumers are slow to adopt, as they continue to prefer the physical credit or debit card. Once consumers experience the use of a mobile wallet and learn more about the security features that are in place, they have the potential to migrate to this form of payment as an alternative to other methods.

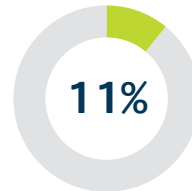
The top places for mobile wallet usage were identified as grocery stores, fast food restaurants and fast casual restaurants, although they were still low in usage compared to other payment forms. Mobile wallets were identified by 5 percent of respondents as being helpful for paying back money to a friend or family member and for receiving money from a friend or family member. Four percent of respondents indicate that mobile wallets are helpful for paying a babysitter.

Top Reasons for Usage Include the Following:

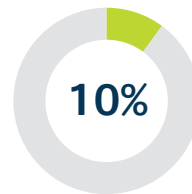
Mobile wallets allow for fast transactions



Mobile wallets are convenient



Mobile wallets are easy to use



Key Takeaways:

As mobile wallet adoption grows and acceptance opportunities at the point-of-sale advance, there will be a chance to shift some of the current transactions to this mobile format, especially for small ticket transactions that are currently heavily cash-based. There is also an opportunity for mobile wallets where cash is most prevalent: purchases under \$ 10, paying babysitters (e.g., using Venmo) and P2P with friends and family.



Payments Through the Generations

Just as each generation is marked by its own specified social and cultural traits, it is also defined by its own unique payment preferences. In looking specifically at each age group, financial institutions can easily understand more about their members and customers in each generation and what drives their usage. In addition, knowing the life events that each generation has experienced or is expected to experience can help financial institutions adjust to the different needs of varying groups of members.

Boomers – The Generation Committed to Credit

The *Eye on Payments* study found that common experiences within consumers’ formative years do affect payment method preferences, as well as the perceived value of those chosen methods. Going by stereotype alone, some might assume that Baby Boomers (ages 55+) are cash-driven consumers, set firmly in older ways. Contrarily, the survey revealed that Boomers prefer to use credit cards more than any other age group. Though this audience engages less frequently with payment apps, they do not lag far behind other age groups in terms of their usage. This lower level of app engagement is simply due to their strong preference for credit.



Most preferred way to pay	Credit card (51%)
Second most preferred way to pay	Cash (42%)
Likelihood to use certain digital payment methods in next 6 months	PayPal
Life events past 12 months	Being a victim of card fraud, retired or left the job market

Generation X – The Proof Seekers in Payments

Generation X (ages 39-54) has historically been marked as one of shared reluctance and skepticism, which could explain their heightened concern around identity theft as it relates to payments. This generation has experienced card fraud the most out of all other age groups, and while this isn't preventing credit (34 percent) and debit (30 percent) from being their first choice in payments, it does indicate why cash (44 percent) is their second-most preferred way to pay for purchases.



Most preferred way to pay	Credit card (34%), Debit card (30%), Cash (29%)
Second most preferred way to pay	Cash (44%)
Likelihood to use certain digital payment methods in next 6 months	PayPal
Life events past 12 months	Being a victim of card fraud

Key Takeaways: Baby Boomers and Generation X

It's time to give the credit where it's due: These age groups are digitally-savvy when it comes to their payment habits. In fact, two-fifths of Boomers shared in the survey that they use a greater variety of payment methods than they have in the past.

Much like the younger generations, Boomers and Gen Xers are expecting to sell their homes and move to a new residence within the next year. However, they are doing so for very different reasons: their children are growing up, and they are looking to downsize their home. Despite entering slightly different life stages, Generation X and Boomers are grouped together due to their mutual desire to have a lifelong financial partner, as they enter stages of life that require a whole new set of decisions. Credit unions can serve as this financial partner in a variety of ways:

- **Prioritize personal relationships:** These groups are slightly more interested than other generations in doing business with a financial partner that knows them personally.
- **Assuage fears around fraud and risk:** Both generations remain concerned about their financial safety. In fact, 13 percent of Gen Xers and 11 percent of Boomers were victims of card fraud during this past year.
- **Highlight that a smaller credit union can provide the same services as a larger institution:** Out of all generational groups, Boomers and Gen X do not necessarily prioritize joining a large, national financial institution. They want to know that they will be well taken care of, for the long-term.

Older Millennials – The Debit Exception

Debit represents the preferred way to pay among Older Millennials (ages 31-38). This is the only generation that does not view credit as the preferred payment method, and they are even comfortable using debit and bank cards for internet-based purchases. Debit cards are very important to this generation of consumers, with 40 percent listing debit as their preferred way to pay. Though they are likely to use PayPal as a form of digital payment in the next six months, cash comes in as their second-most preferred payment method – even over digital wallets.



Most preferred way to pay	Debit card (40%), Credit card (36%)
Second most preferred way to pay	Cash (42%)
Likelihood to use certain digital payment methods in next 6 months	PayPal
Life events past 12 months	Being a victim of card fraud, purchased a home or changed residences

Younger Millennials – The Adopters of Internet-Based Financial Access

Younger Millennials (ages 23-30) want Internet access to their financial information and are comfortable using their debit cards for Internet purchases. However, their preferred way to pay remains credit (41 percent) and debit (29 percent), with cash (34 percent) coming in as their second most preferred way to pay. They are likely to use PayPal and Venmo as digital payment methods in the next six months and since they are undergoing so many life changes, they are expected to use their credit and debit cards more than they have in previous years.



Most preferred way to pay	Credit card (41%), Debit card (29%)
Second most preferred way to pay	Cash (34%)
Likelihood to use certain digital payment methods in next 6 months	PayPal, Venmo
Life events past 12 months	Purchased a home or changed residence, graduated from college/university, got married, had or adopted a child, lost your job as primary breadwinner

Generation Z – The Change-Makers in Digital Payments

In preparation for a fast-moving change in payment methodology, all eyes should look toward Generation Z (ages 18-22). Consumers within this age range are already comfortable conducting online banking and transactions and are paving the way for a future where digital payments, quality and personal assistance will merge. Gift and prepaid cards, however, are their third highest preferred way to pay due to their safety and ease of use.



Most preferred way to pay	Credit card (29%), Debit card (29%)
Second most preferred way to pay	Cash (35%)
Likelihood to use certain digital payment methods in next 6 months	PayPal, Apple Pay
Life events past 12 months	Purchased a home or changed residence

Key Takeaways: Millennials and Generation Z

Generation Z and Millennials are digital experts and are already comfortable with online transactions. Still, big life changes are in the works for these younger generations. Within the past 12 months, they have experienced graduating from college, moving to a new residence or purchasing a home, and some have gotten married. These life changes are only going to become more common over the next years as these young adults grow older and make more big decisions.

Credit unions can help these younger generations face these decisions as a reliable financial partner, using the following tactics to reach them:

- **Serve as an active adviser for all stages of life:** These younger generations, particularly Millennials, believe that credit unions are good places to get advice and guidance on financial matters.
- **Highlight digital innovation and education:** Meet this group where they are: online. Provide stellar customer service, while also creating a seamless online system that protects card information. These generations have reported the highest levels of card fraud over the last year. It is important to educate these younger groups on how they can protect their financial information against fraud when they make payments.
- **Maintain the personal touch that is unique to credit unions:** Millennials and Generation Z want to feel that their financial institution knows them and can address their needs on a personalized level. Credit unions have the unique capability to do so, given they are generally smaller and more localized.

Non-Credit Union Members: The Untapped Market

Non-credit union members and members share the same values and preferences when it comes to choosing a financial partner. The survey results support why it is more important than ever to appeal to non-members' needs and consider them a largely untapped target audience.

Credit unions should show non-members that a credit union can effectively compete with big banks and other well-known financial institutions. A focus on innovation and online payment options is a large draw for non-members. As a whole, this audience is more comfortable using digital payment methods, such as bank and non-bank P2P payments, and mobile wallets.

Non-members also feel it is important to do business with a financial institution that knows them personally, as well as one that will give them the advice and service they wouldn't receive anywhere else. However, they struggle more than their credit union counterparts with feeling completely secure in accessing their financial information online. Though non-members are actively using digital payment methods, this nervousness stands out as a chance for credit unions to reach and acquire new members by highlighting secure online services and trustworthy guidance.



Final Considerations

The *Eye on Payments* study results indicate that consumers (both credit union members and bank customers) rank **security** very highly and want **choice** when it comes to payment methodology. Payment choice is primarily determined by four things:

1. Type of retailer (small or local retailer, grocery store, etc.)
2. Type of purchase (major purchase over \$200+, paying babysitter, etc.)
3. Perceptions and attributes about payment methods (safe to use, convenient, etc.)
4. Loyalty/rewards benefits (cash back, no annual fee, points, etc.)

In recognizing that credit cards, debit cards and cash are important to consumers, it is crucial to be aware that **debit** is used more among credit union members than non-credit union members (or bank customers) at **all types of retailers** and for **all types of purchases**.

With the growing appeal of debit, credit unions need to continue to find ways to promote the usage of debit cards among their members. Although penetration, activation and usage of credit cards is a constant dilemma, debit card usage needs to be a key initiative for credit unions.

Lastly, credit unions should devise a strategy for communicating all measures of security that are being taken to protect members' personal and financial information when it comes to digital and conventional payments. As the *Eye on Payments* study results have illustrated, it is key for these strategies to target each generational audience segment, both to attract new members and to continue fulfilling current members' needs. When comparing credit union members to non-credit union members, it is also clear that the two groups share similar values when it comes to their financial institution: non-members are a market that is ripe with potential. Once security and protection are properly addressed for all, members will then choose payment methods that best suit their particular buying situation, whether it be type of retailer, type of purchase or perceptions and attributions about payment method.

About PSCU

PSCU, the nation's premier payments CUSO, supports the success of over 900 Owner credit unions representing more than 2 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.