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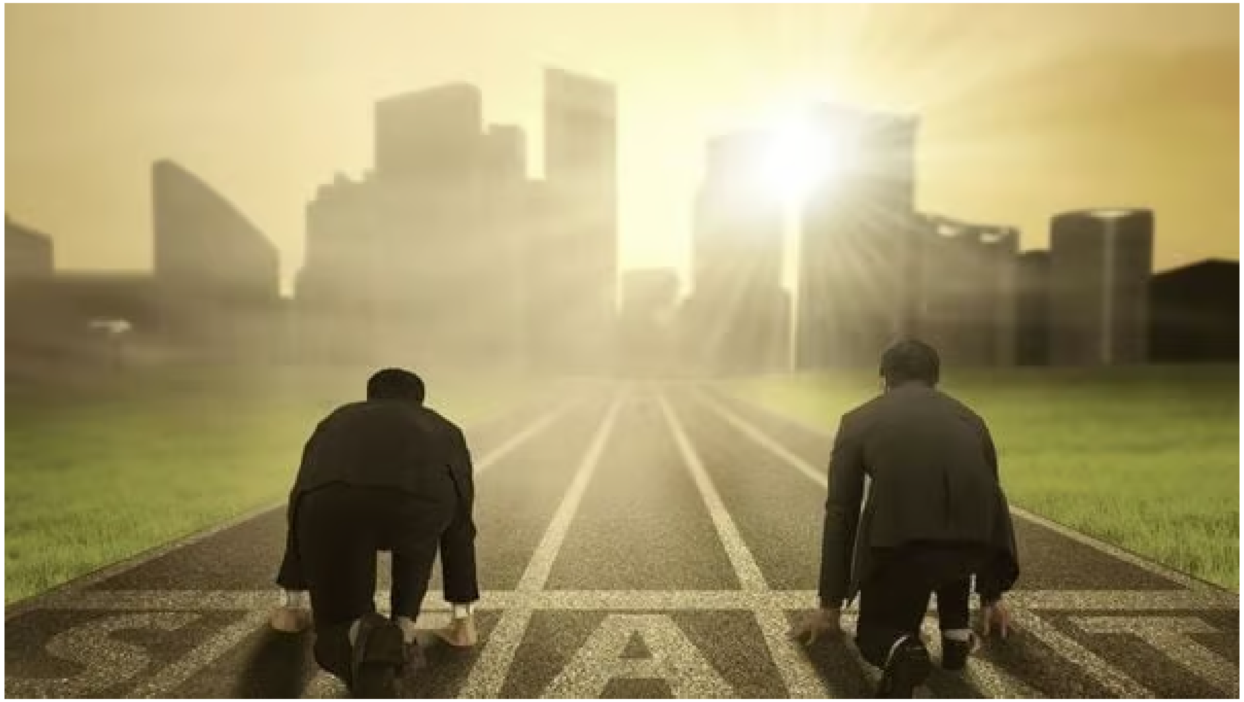
Expert Opinion

3 Strategies for Credit Unions to Compete in the Modern Banking Industry

Leveraging their charter, working with fintech partners and adopting real-time payments can help CUs win over consumers.

By **Nick Chandi** | November 30, 2022 at 09:00 AM



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Technology is changing the banking industry rapidly, and smaller institutions are unprepared. But by leveraging their banking charters, working with fintech partners and adopting real-time payments (RTPs), credit unions can cement their claim in the future of financial services.

Credit unions pride themselves on quality member relationships built on financial products that offer better rates and lower fees. Many credit unions are based in rural counties, providing locals with access to credit, liquidity and investments. But credit unions no longer have the finances or technological firepower to compete. The number of credit unions has dwindled from a high of 23,866 in 1969 to just over 5,500 today, thanks to

business failures, consolidations and mergers. From 1970 to 2011, there were an estimated 13,000 credit union mergers.
The fact is that challengers do it faster and better with next-day loan approvals and automated underwriting processes. Account opening with digital banks takes minutes via mobile apps that consumers can access from the comfort of their homes. Opening an account with a credit union can take over two hours and involve mounds of paperwork, outdated interfaces and disjointed, manual and repetitive processes, none of which is the status quo today.

But the changing banking landscape does not have to be a harbinger of doom for credit unions. Many are well-positioned to adapt and thrive with the help of forward-thinking strategies rooted in relationship-building and technology adoption that won't exhaust their limited resources. Here's how they can do it:

Leverage your banking charter for BaaS partnerships. A credit union's most significant competitive advantage is its banking charter, given how exhaustive and laborious it is to obtain one. Credit unions can leverage their most valuable asset and white label their banking functions by partnering with fintechs and other non-banks seeking sponsor banks. This Banking-as-a-Service function can help credit unions develop a new revenue stream (as much as $25 billion over five years, as indicated in a Cornerstone Advisors report) and gain new members, generating more

loans, encouraging more and larger deposits, and producing non-interest income through credit and debit cards.
A fintech relationship also gives credit unions access to developers and experts who can improve their internal processes, monitor capabilities or technical infrastructure, and digitize member-facing functions like account opening and deposit making.

Seek fintech partnerships. Most small institutions are wary of development costs and don't have the capacity to tweak or overhaul legacy tech stacks or retrofit them with modern fixes. Lucky for them, they don't need to – third-party providers can do the job just as well, if not better and for cheaper.

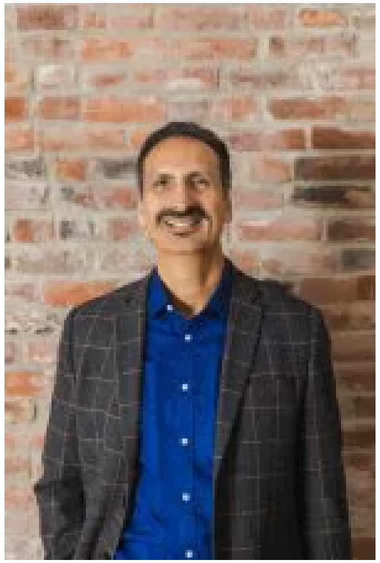
Fintechs use open banking APIs for direct data access to streamline various financial services, like lending. Early in the COVID-19 pandemic, many credit unions worked with fintech partners to digitize the disbursement of Paycheck Protection Program (PPP) loans. Lending platform LoanStreet, for example, helped institutions like the $1.3 billion, Wichita, Kan.-based Credit Union of America (CUA) streamline the PPP application process through its PPP lending platform, which helped institutions originate, service, report and forgive PPP loans. CUA simply licensed LoanStreet's technology and reaped its rewards without having to write a single line of code.

Credit unions struggling with technology adoption should turn to third-party vendors to update their operations and compete on the same footing as legacy institutions and upstarts.

Adopt real-time payments. Faster payments could solve most cash flow problems for small businesses by stabilizing cash flow, eliminating the potential for late or missed payments and improving cash flow forecasting. Businesses see the opportunity–according to PYMTS.com, nearly half are interested in adopting real-time payments; right now, only about 8% of small businesses have access to immediate settlement, but most say it would influence their decision to switch banks.

Credit unions must get ahead of the trend and adopt real-time payments before the status quo changes. Most institutions use core banking providers like Fiserv, FIS or Jack Henry, so enabling real-time payments via The Clearing House's RTP network is a simple add-on service that won't require a big up-front investment.

Consumers believe community institutions have the most positive impact on their neighborhoods over national, regional and digital banks–proving that these institutions serve a great purpose in the lives of ordinary Americans. The next natural step would be to invest in tech-enabled solutions. Financial institutions that were able to do that saw larger loan and deposit growth increases in 2020, disbursing 40% of Paycheck Protection Program (PPP) loans during COVID-19, according to the FDIC. Credit unions are in the eye of the storm now, but strong consumer relationships – the backbone of their business – and strategic technology investments will ensure these institutions remain responsive, competitive and essential in times of great change and competition.



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