State of the credit union industry report

Research and outlook for 2023

WIPFLI

At Wipfli, we are always impressed by the way that credit unions partner with neighbors, friends and local businesses to make their communities extraordinary.

Credit unions are uniquely positioned to reinvest their earnings back into the communities and members they serve and go out of their way to partner with other credit unions to look for ways to better serve their members. When credit unions are healthy, members and their communities benefit.

To learn how they're handling the current market uncertainty, Wipfli surveyed nearly 70 credit unions from across the country. In this report, our research shows how credit unions are navigating the economy, the continued rise of digital member expectations and the national labor shortage.

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Executive summary

When a credit union does well, more money goes back to members — not stockholders. And right now, families and businesses need all the help they can get. Inflation has taken a toll on the economy and many believe a full recession is on the horizon.

Families, businesses and entrepreneurs will need quality and trusted financial institutions and services to pull them through. Luckily, credit unions are ready to lend a hand — and they feel confident in the future, according to our research.

Nearly every credit union we surveyed expects to grow in the next 12 months. In fact, 81% think they'll grow 5% or more in the next year. In comparison, only two-thirds of credit unions we researched projected growth that strong last year.

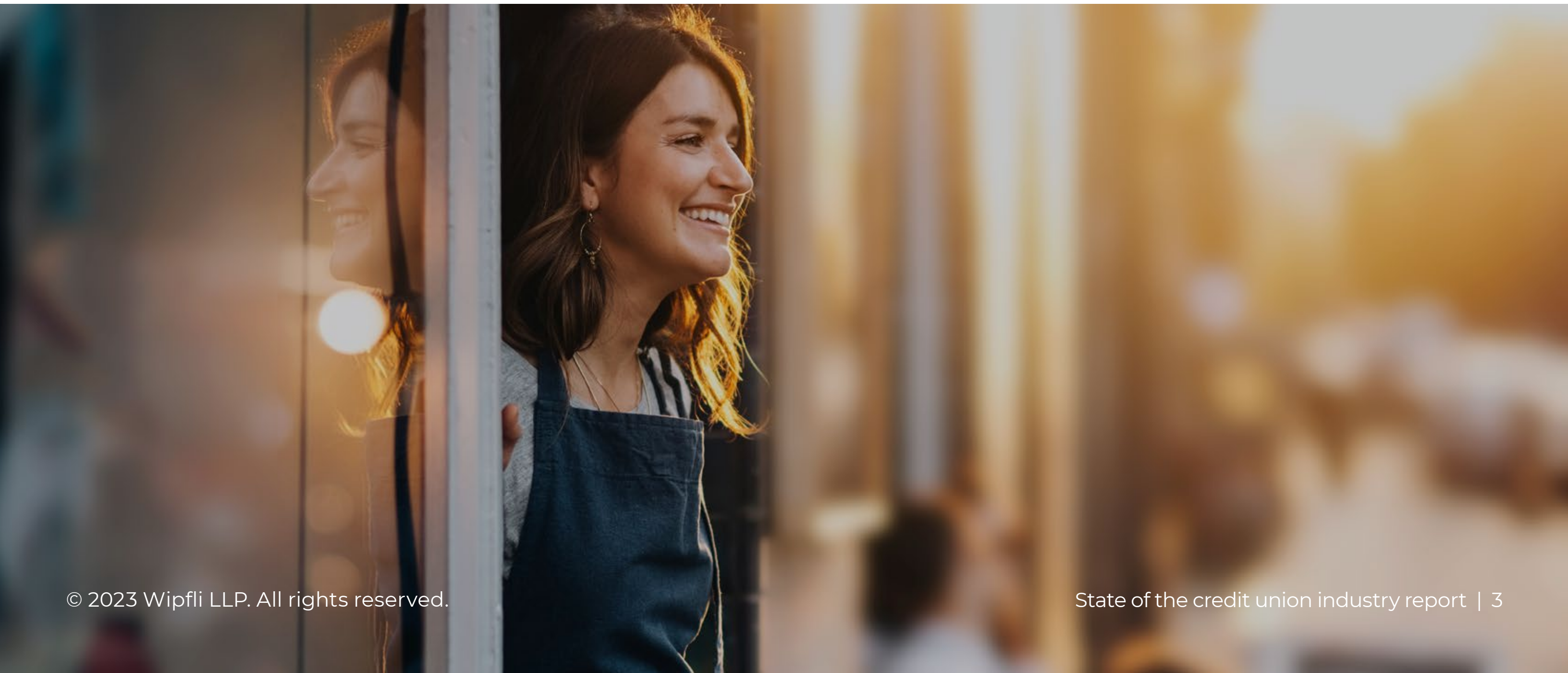
Almost all the credit unions we surveyed — 95% — are planning to acquire another institution. That's up from 80% a year ago.

69
Credit unions surveyed

Across **27** states

How will they do it? How will credit unions grow and thrive in 2023?

Talent management is their top strategic priority in the new year, followed by improving digital engagement, creating new revenue streams and pursuing digital efficiencies. They know this will come with challenges. They said the economy poses the biggest threat to their goals. They also expect liquidity and net interest margin compression to cause challenges.

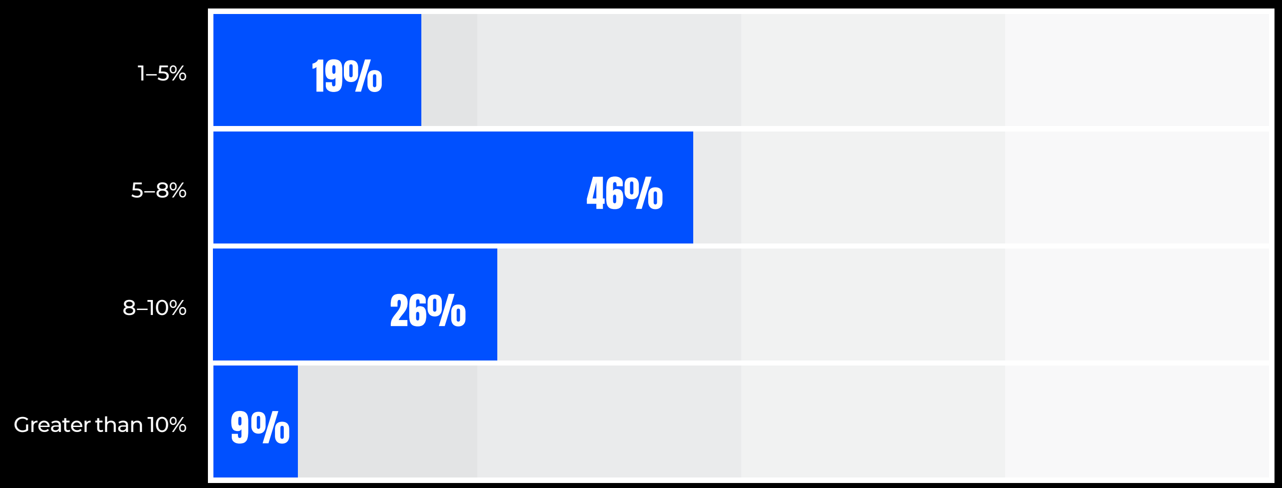


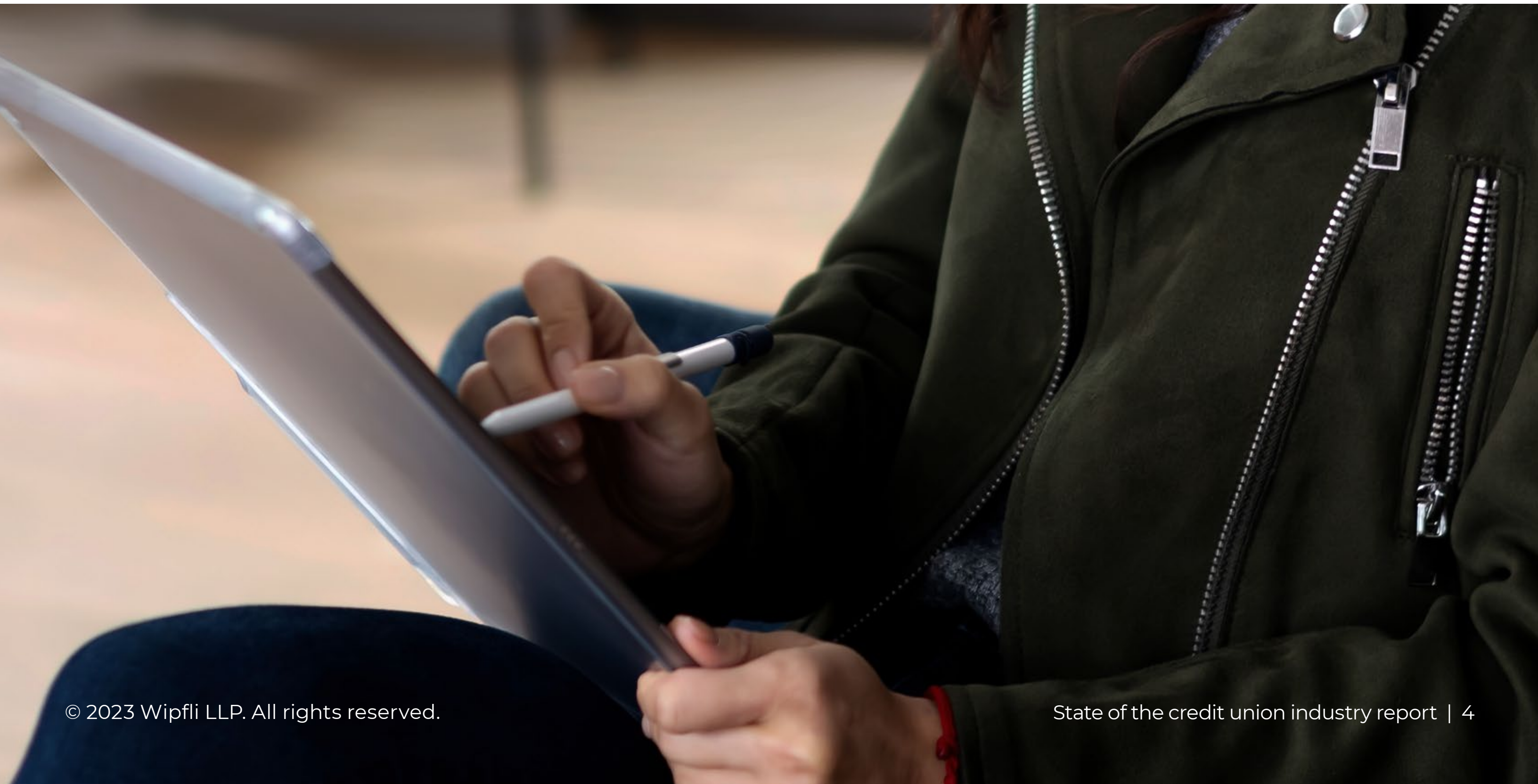
Meeting member needs, cybersecurity and retaining market share are credit unions' biggest concerns.

Credit unions have always had stiff competition from banks and other providers. As financial services become more digital, they must fend off a wider range of threats.

In this report, we dive deeper into credit unions' priorities, challenges and concerns. We also add the perspective and advice of our advisors and consultants to help everyone build a stronger, more prosperous future.

Which best describes your growth projection for the next 12 months?





2023 priorities for credit unions

Most important strategies:

1. Improving digital member engagement
2. Talent management
3. Accepting instant payments
4. New revenue streams and cloud adoption (tie)

Top challenges:

1. Economic/regulatory environment
2. Liquidity management
3. Net interest margin compression

Top concerns:

1. Meeting member needs
2. Cybersecurity
3. Retaining market share
4. Fintech competition

How credit unions will overcome challenges — and pursue opportunities

Heading into 2023, credit unions are addressing several priorities and obstacles — with confidence.

Improving digital member engagement

Credit unions pride themselves on member service and knowing members by name. But they need a strong digital toolkit to reach members when and where they want to bank to enable the best-in-class member experience that differentiates credit unions from other institutions.

How important is improving digital member engagement to your credit union?

78% Very/extremely important

22% Somewhat important

Eighty percent of credit unions said digital transformation is how they're addressing digital member engagement. Digital transformation also means adding payments capabilities and speeding up loan approval and account-opening processes.

These capabilities aren't just "nice to have" — especially if credit unions want to grow and retain younger demographics as members. The average credit union member is between 47 and 55, according to the Credit Union National Association. But the greatest opportunity lies with Gen Z (those born between 1997 and 2012).

Within the next four years, Gen Z will become the largest consumer group in the country. It already has $44 billion in spending power — and it's significantly underbanked. Less than half of Gen Z has an account with a traditional financial institution. Some believe this is an education gap, not just a digital gap.

Credit unions need seamless and simple digital experiences — along with competitive financial services — to serve younger members.

Managing talent

Talent management is a top priority for credit unions heading into 2023. They need recruitment and retention strategies to help them overcome the national labor shortage.

Why is there a talent shortage? There are only 73 workers available for every 100 open jobs, according to the [U.S. Chamber of Commerce](#).

According to our research, credit unions are having the hardest time filling front-line and retail positions. That's also consistent with Chamber of Commerce data, which suggests lower-wage, in-person roles are hardest to fill.

How important is talent management to your credit union?

68%
Very/extremely important

32%
Somewhat important

To close the gap, credit unions are proactively recruiting for future vacancies, developing career paths for current employees and allowing more flexible work locations.

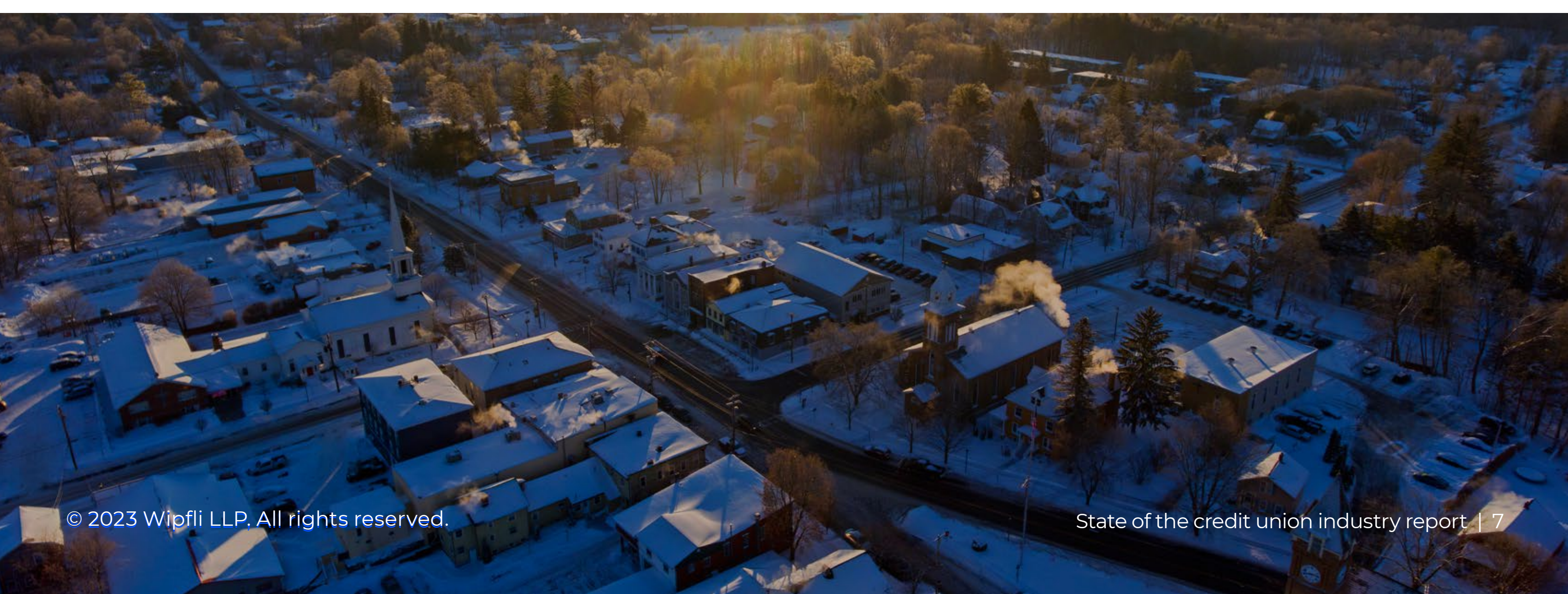
Flexibility is becoming a bigger issue — and requires both creative and technical solutions. About 90% of workers hoped to keep at-home work privileges after the pandemic, according to [Gallup](#). Nearly a third of remote workers said they were extremely likely to look for new employment if remote work options expired.

Today's employees are motivated by values, which is manifested in their demand to see [environmental, social and governance](#) (ESG) data during the recruiting process. Credit union executives recognize that, with 56% citing ESG as extremely important.

In addition, today's workers expect mentorship and coaching, collaborative cultures and flexible work schedules. They want to be recognized for their efforts — but not with more work.

Employees also want to understand where they fit into the organization's longer-term plans. Today's workers don't understand their opportunities for advancement or how to get there.

Assess the roles you have, along with the skills needed to thrive in each position. Make sure there's a path for staff to gain the experiences they need to fill future roles. Then, put the right people in the right seats — and the right support systems around them.



How are credit unions addressing **employee recruitment and retention?**

1. **More proactive recruiting of candidates**
2. **Career development pathing**
3. **Flexibility in work location (e.g., working from home)**

Creating new revenue streams

Credit unions added new services to generate revenue. And they will continue to do so.

Over two-thirds of credit unions added wealth advisory services over the past three years. Nearly 60% of respondents added trusts to their portfolios and 42% started offering insurance.

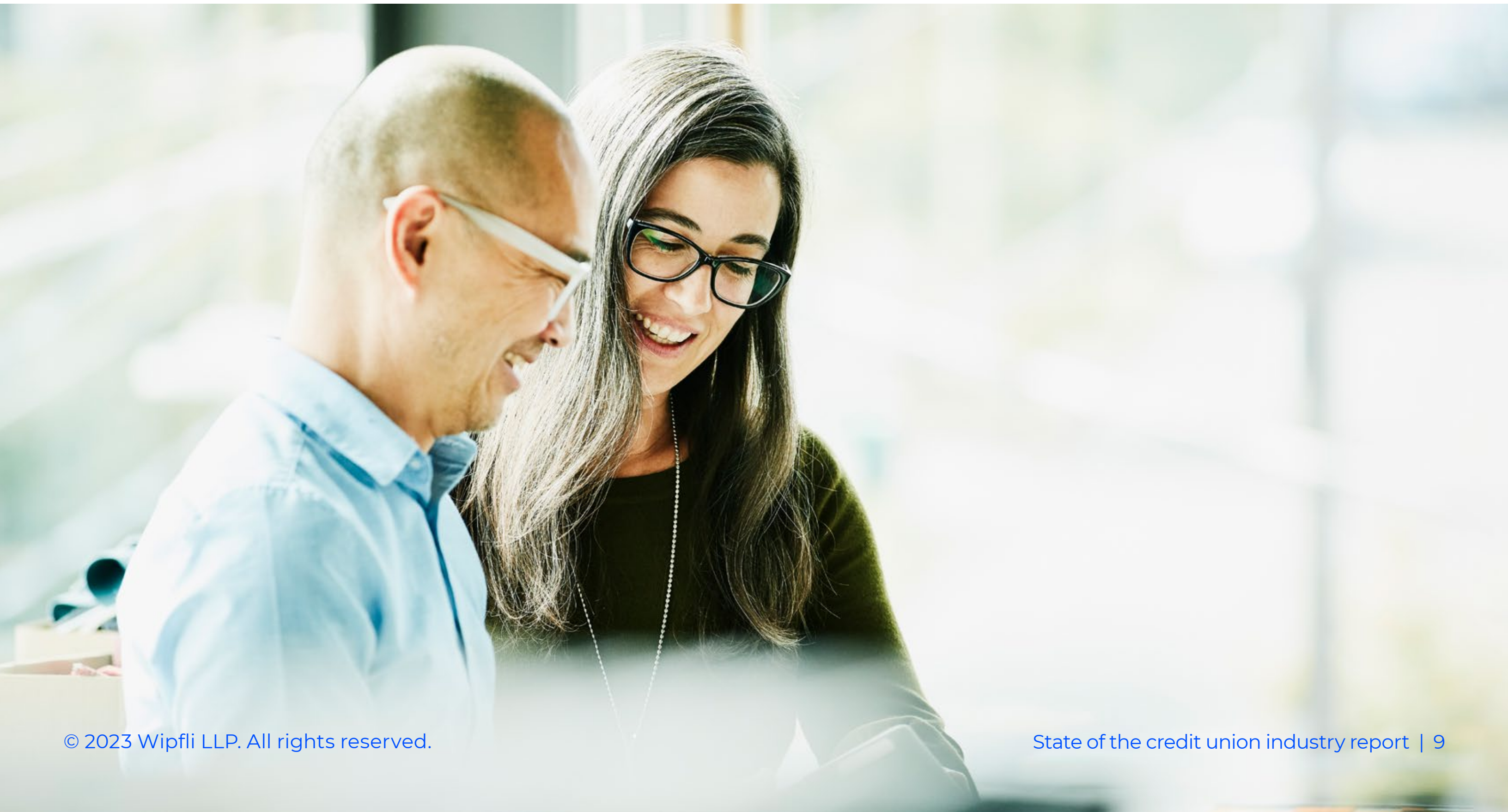
To compete with fintechs and banks, 52% of credit unions added instant payments capabilities. Half of credit unions started offering automated investing capabilities, such as robo-advisors.

Instant payments may become table stakes next year as the Federal Reserve operationalizes the FedNow Service, its real-time payments network. FedNow will make it easier for financial institutions of all sizes to offer instant payments capabilities at all times.

Despite recent market events, cryptocurrency is another potential revenue stream. According to our survey, a quarter of credit unions added cryptocurrency services over the last three years — ahead of what was projected. When surveyed last year, only 20% of credit unions were planning to offer digital assets.

How important is exploring new revenue streams to your credit union?

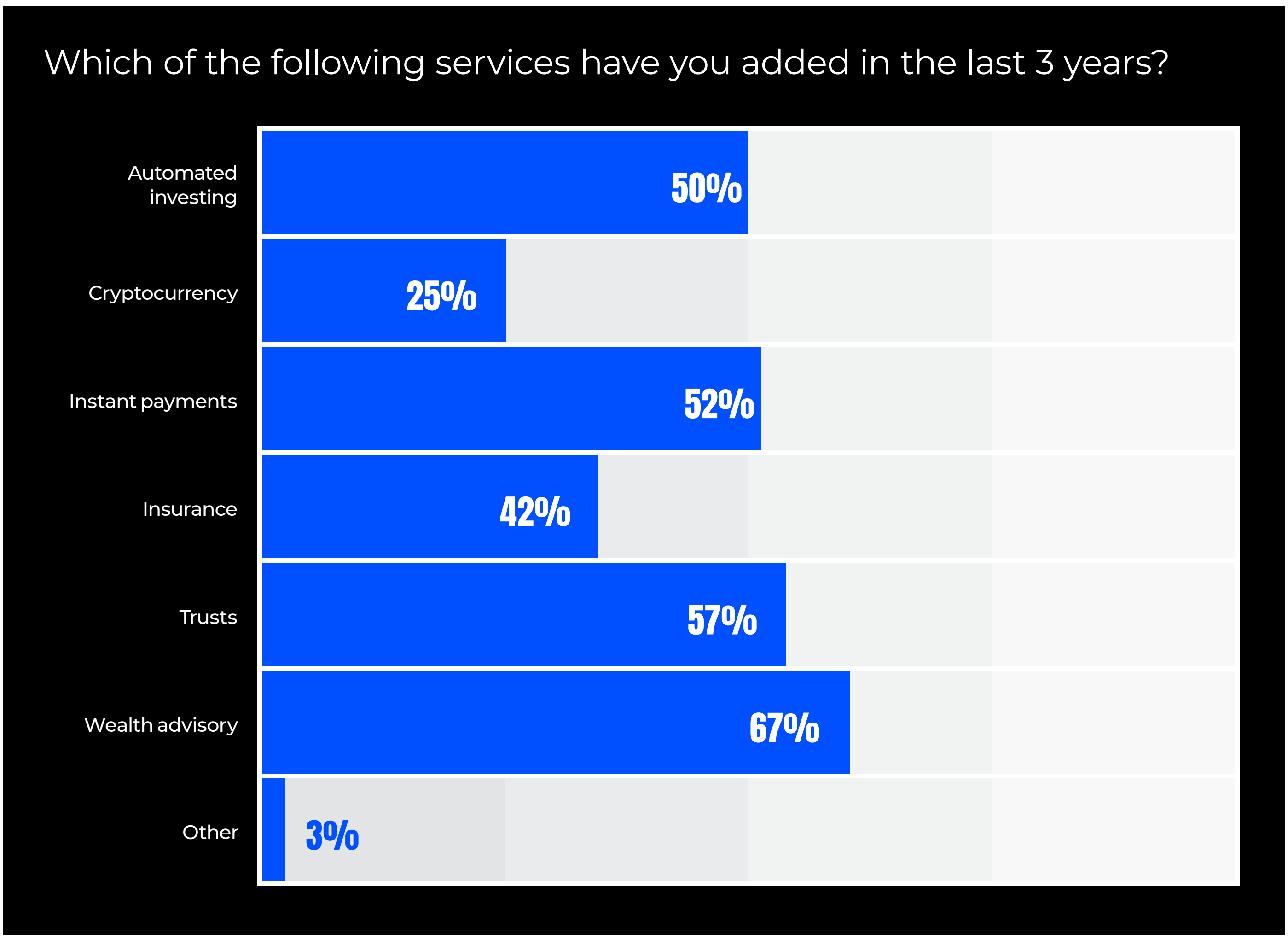
60%	38%	2%
Very/extremely important	Somewhat important	Not important



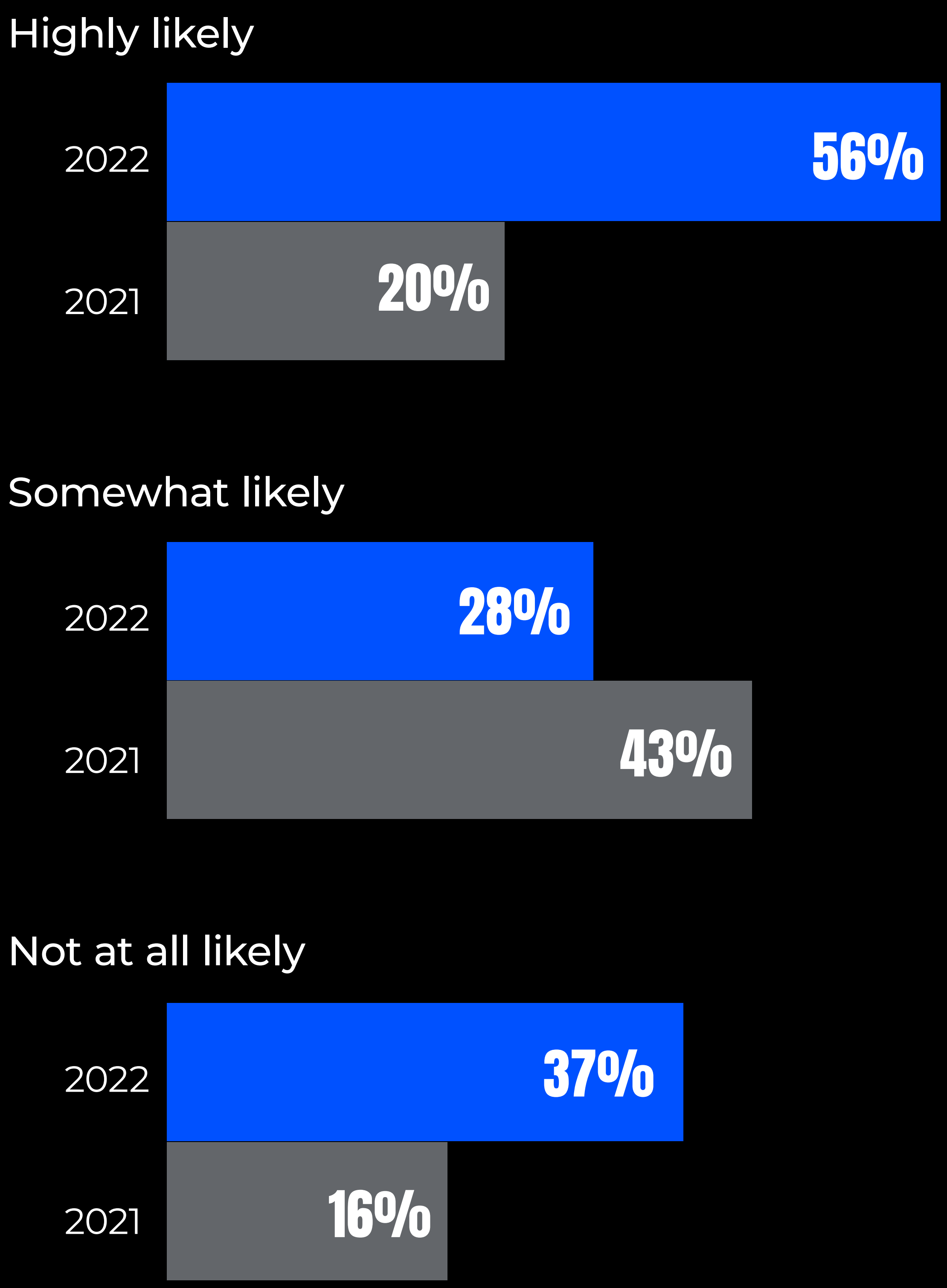
And more credit unions are exploring cryptocurrency. In this year's survey, 56% of credit unions said they're extremely likely to add digital assets in the next 12 to 18 months.

Credit unions that have little or no interest in cryptocurrency said they simply aren't ready. It isn't part of their current strategy or they don't have the knowledge, resources or time to safely and effectively go to market. Some also worry that there isn't a strong enough demand to stand up the infrastructure, staff and expertise that's required.

Whether they pursue cryptocurrency or not, credit unions need new ways to bring in money. For a long time, interest rates squeezed margins. And now inflation is shrinking revenue. They cannot count on "business as usual" to keep them afloat.



How likely are you to start offering **digital assets, such as cryptocurrency?**



Thoughts on the future

To achieve their growth ambitions, credit unions need to aggressively address the talent gap and pursue digital transformation. They also need to address ESG, which has labor and digital transformation implications.

Talent

The labor issue will not resolve itself. In fact, it could get worse in coming years as more workers retire. When that happens, critical institutional knowledge could be walking out the door.

Create a plan to build and protect people skills and capabilities, as you would any other business asset. Make sure the right people are in the right roles and cultivate high-performing teams (not one or two high-performing individuals). Invest in coaching and culture now, before it's too late.

Digital transformation

Accelerate your digital transformation efforts with an emphasis on emerging experience-focused technologies that create meaningful impact in your members' daily lives.

Does that mean you need a virtual branch? Or tellers should be donning virtual reality headsets? No. Digital transformation should transform the way you operate, not just digitize paper processes.

Credit unions can't let cybercriminals become savvier than their security team. They can't let nonbanks issue loans faster and easier.

Every credit union is different, which is why there's more than one digital transformation path. Pick a transformation plan that delivers the most benefits to members and is aligned to your strategic goals for growth.

ESG

ESG is not a fad, and you can't fake it. Members, employees and stakeholders see right through greenwashing.

Here's our advice: Embrace it — including the social components, which credit unions say are the toughest to quantify.

Of course, there's a moral imperative to do the right thing. But ESG also plays into due diligence and fiduciary responsibility. Leaders need to understand all the risks associated with an investment, including environmental and social factors. Investments and strategies that aren't in sync with the market won't perform well. ESG can steer credit unions toward better, long-term decisions.

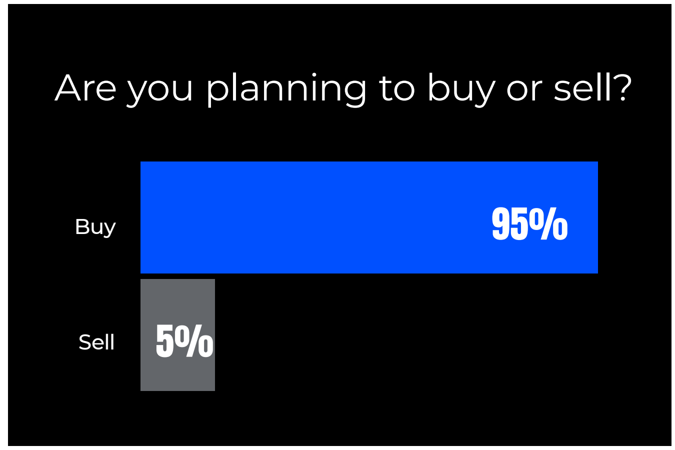
Every major decision should be reviewed through an ESG lens. Once you get into the habit, you might be surprised how quickly your impact adds up.

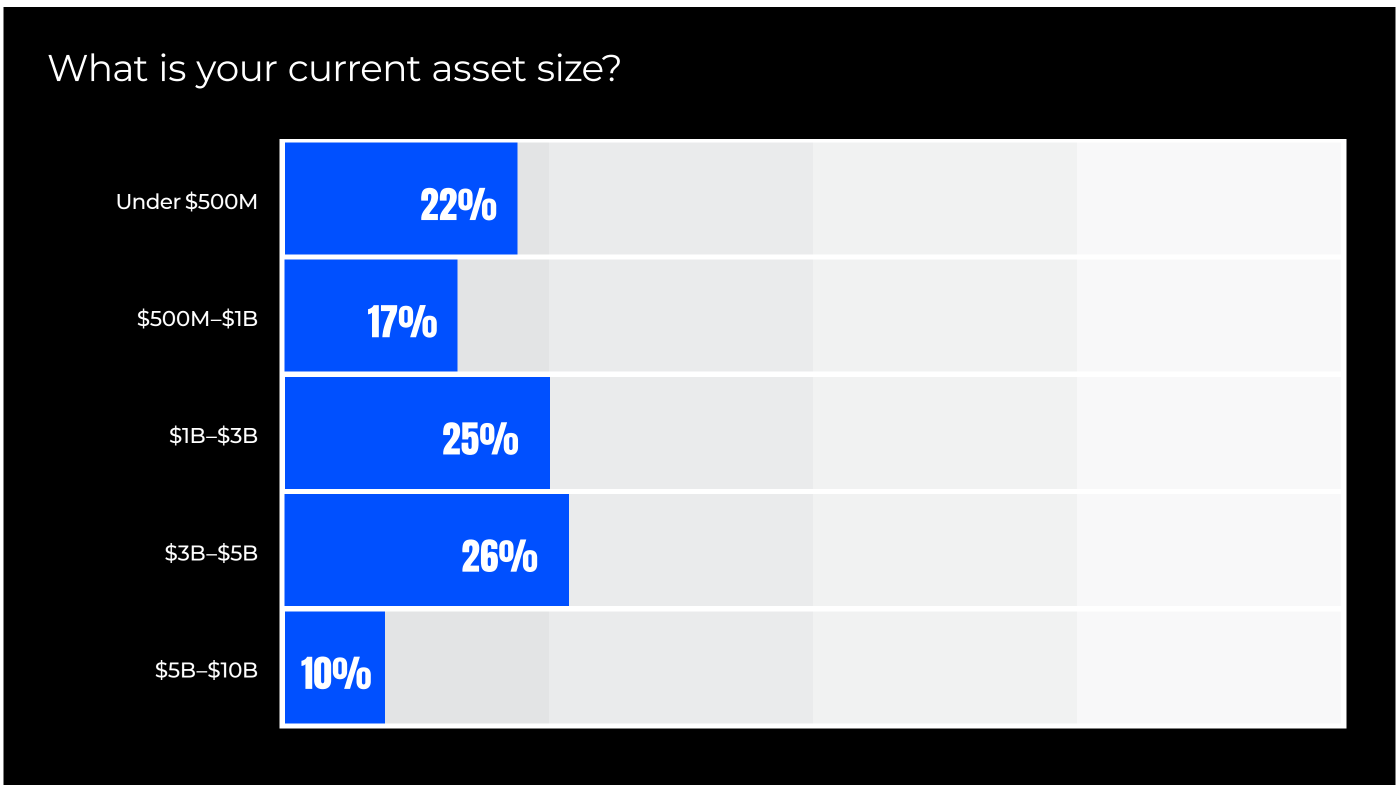
In many ways, ESG has always been part of banking. Your financial services have positive, widespread effects across the entire community. ESG recognizes that, documents that and encourages expansion into more impact areas.

Appendix: The raw data

Wipfli received survey responses from 69 credit union leaders in 27 states.

The survey was emailed and answers were collected in November 2022. All responses were confidential and anonymous.





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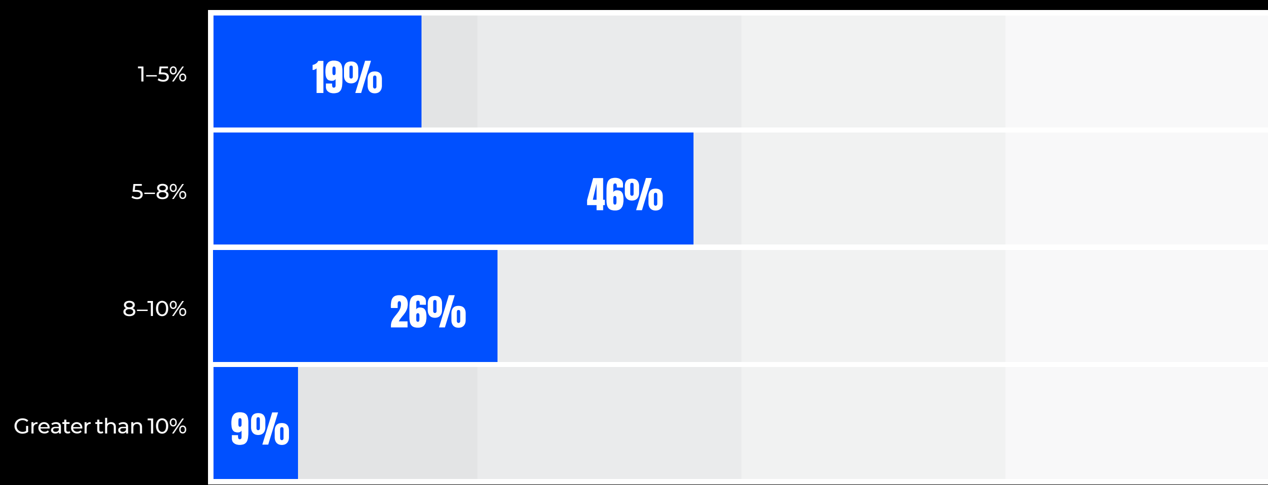
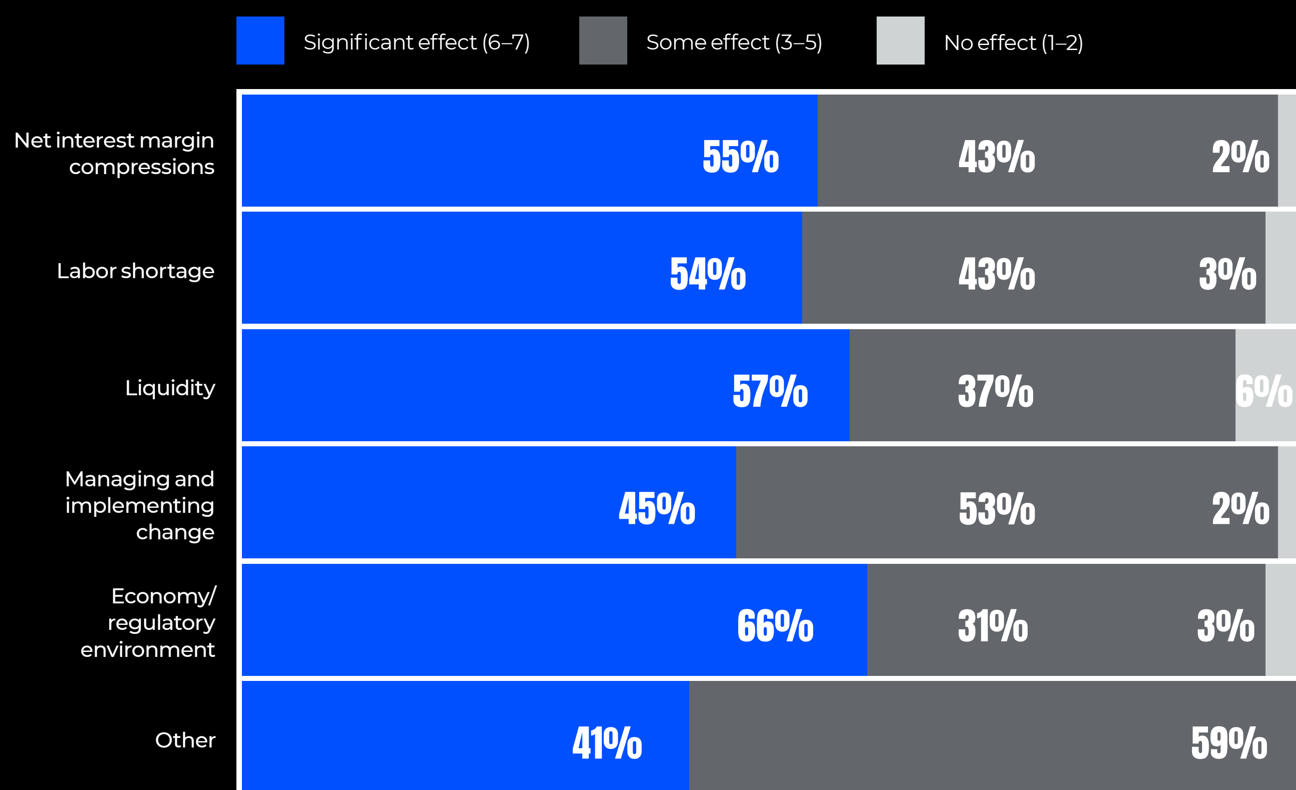


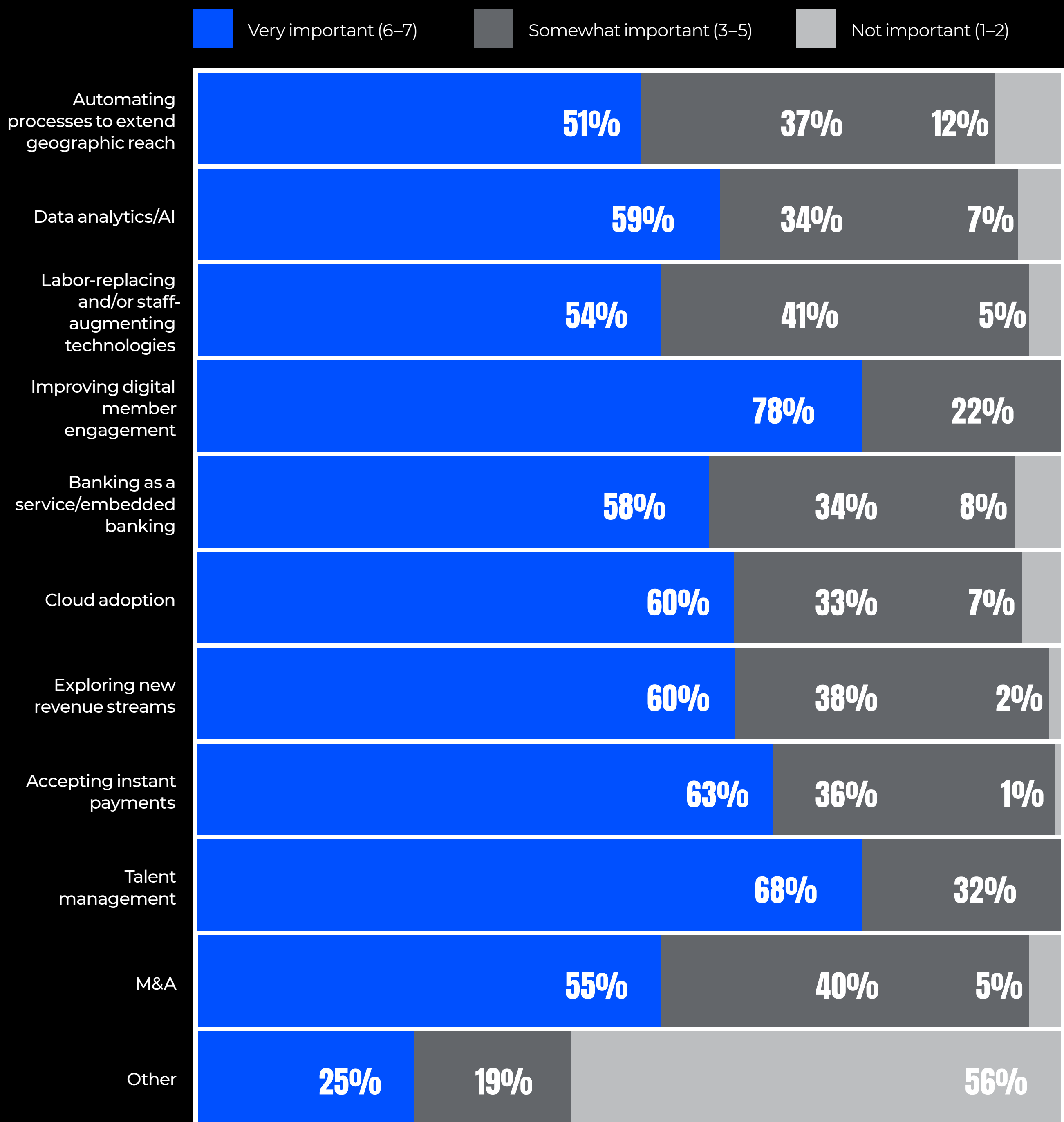
What effect do the following factors have on achieving your goals?

Rated on a scale of 1–7, with 1 being "no effect at all" and 7 being a "significant effect."



Of the following strategies, which are the most important for your credit union in 2023?

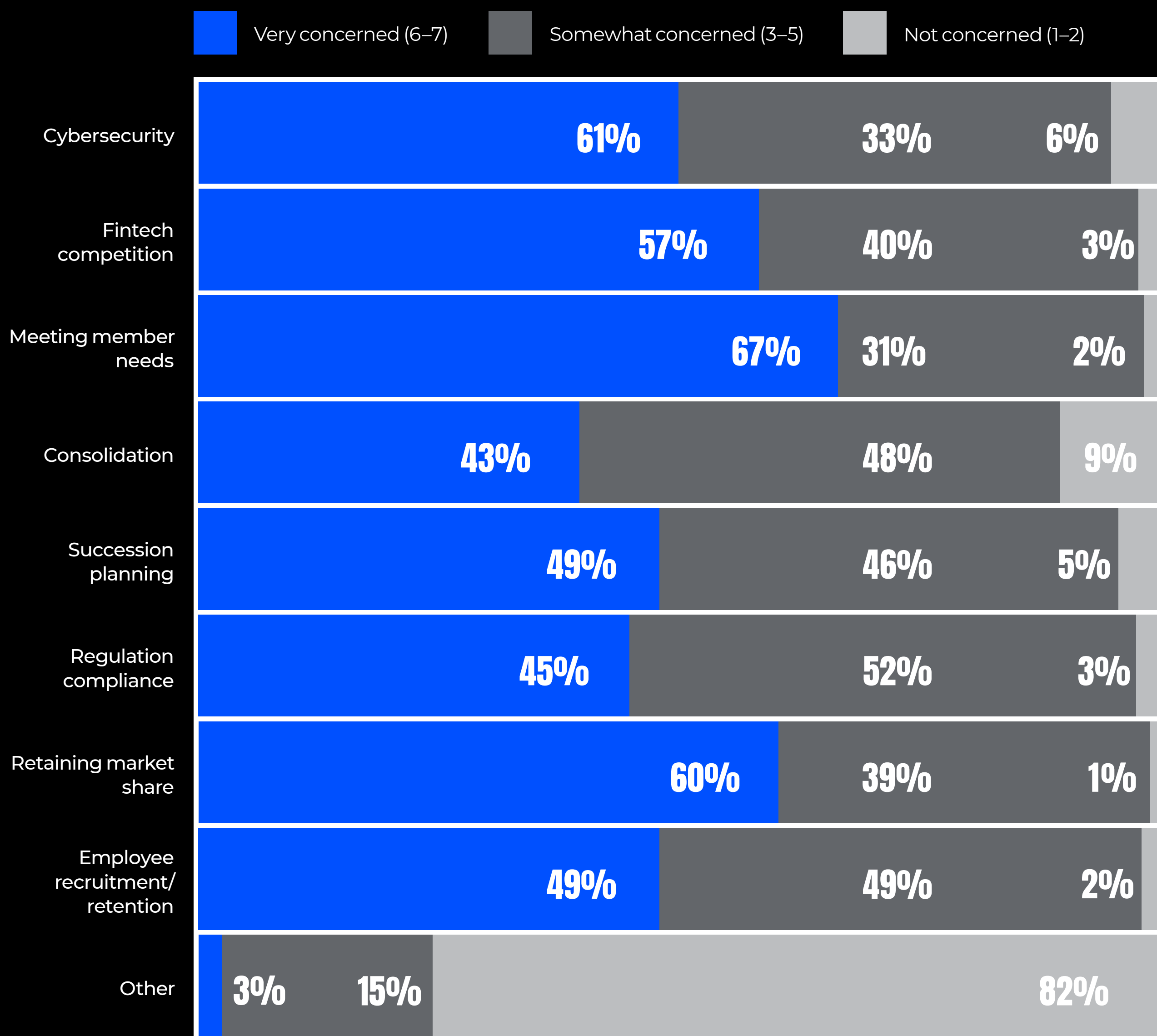
Rated on a scale of 1–7, with 1 being "not important at all" and 7 being "very important."



Other responses included business lending and liquidity.

How concerned are you about the following?

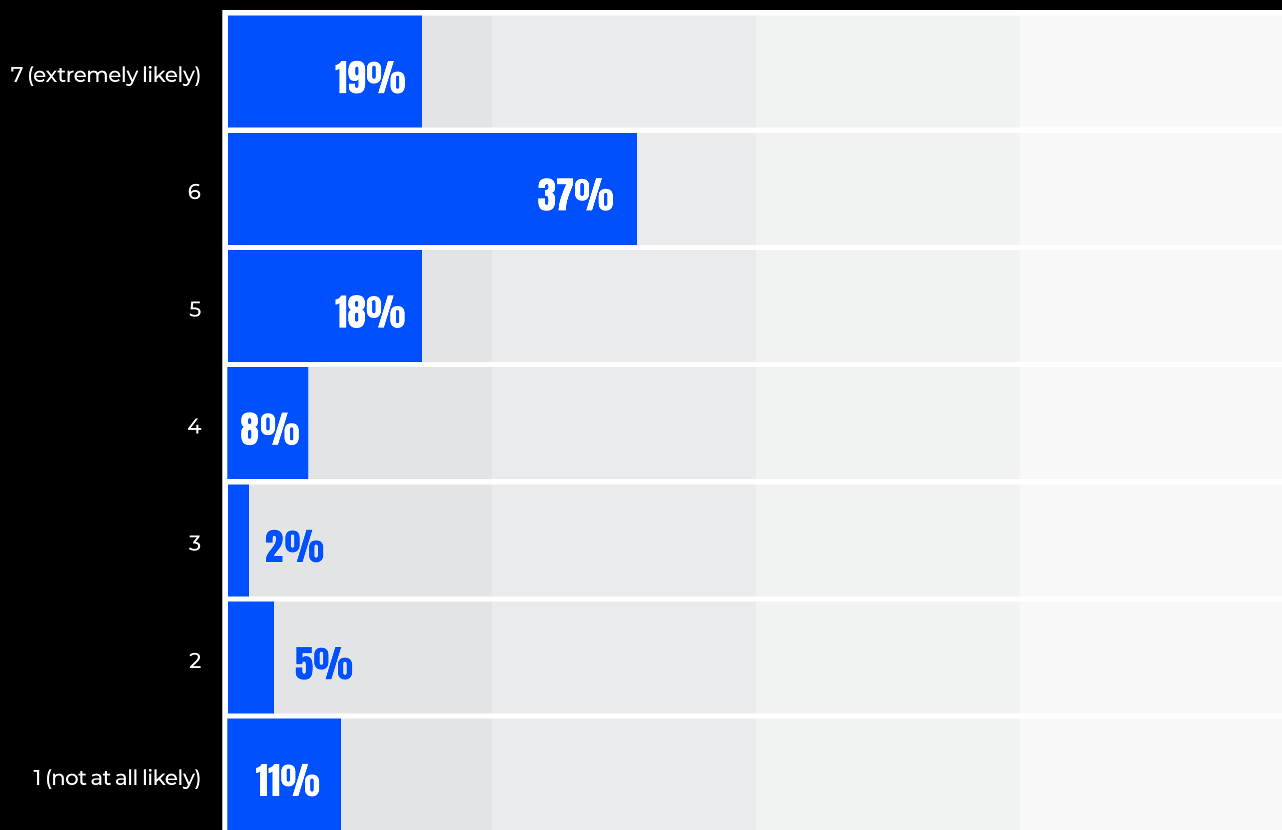
Rated on a scale of 1–7, with 1 being "not at all concerned" and 7 being "extremely concerned."



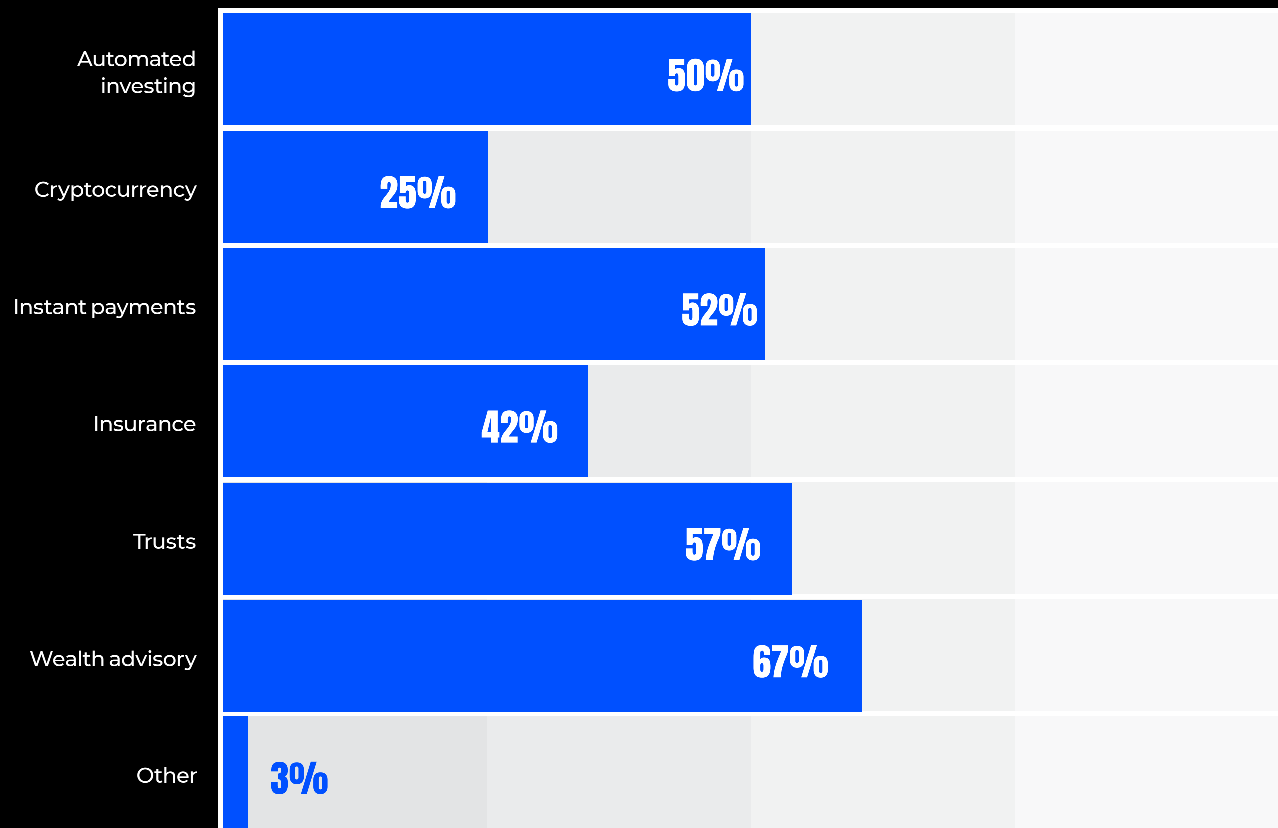
Other responses include inflation and fraud.

What is the likelihood that you will be offering digital assets (e.g., cryptocurrency, bitcoin, etc.) or related services (e.g., credit, custody or conversion) to your members in the next 12 to 18 months?

Rated on a scale of 1–7, with 7 being "extremely likely" and 1 being "not at all likely."



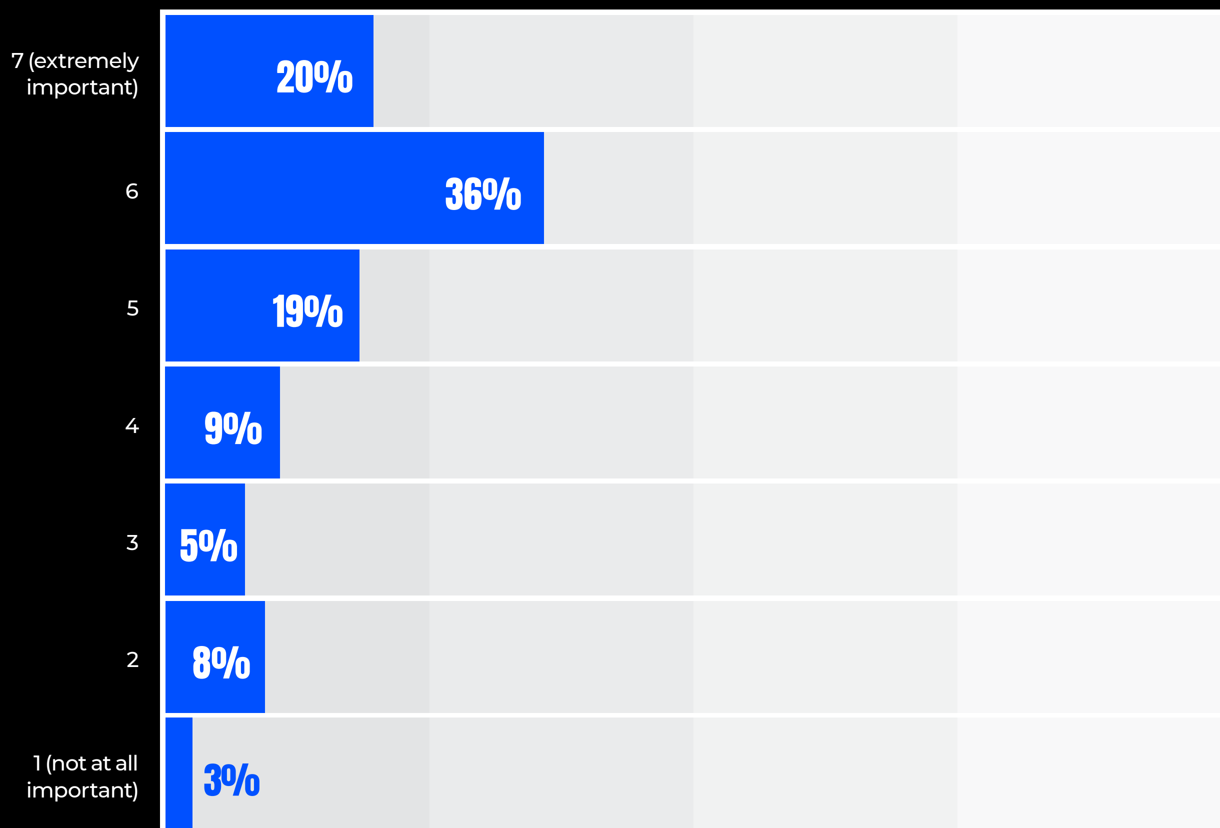
Which of the following services have you added in the last 3 years?

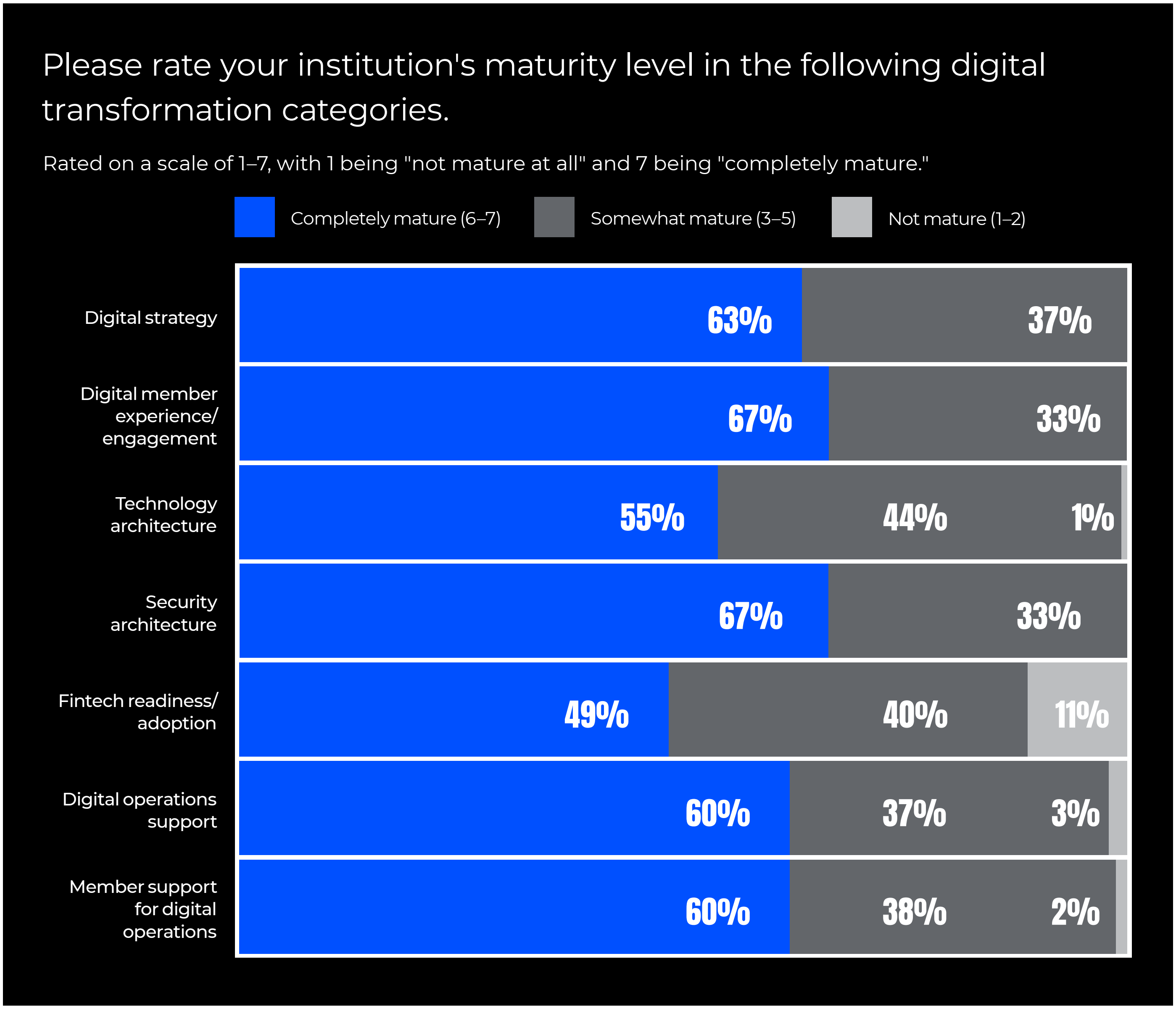


Other responses included rewards.

How important is ESG reporting to your credit union?

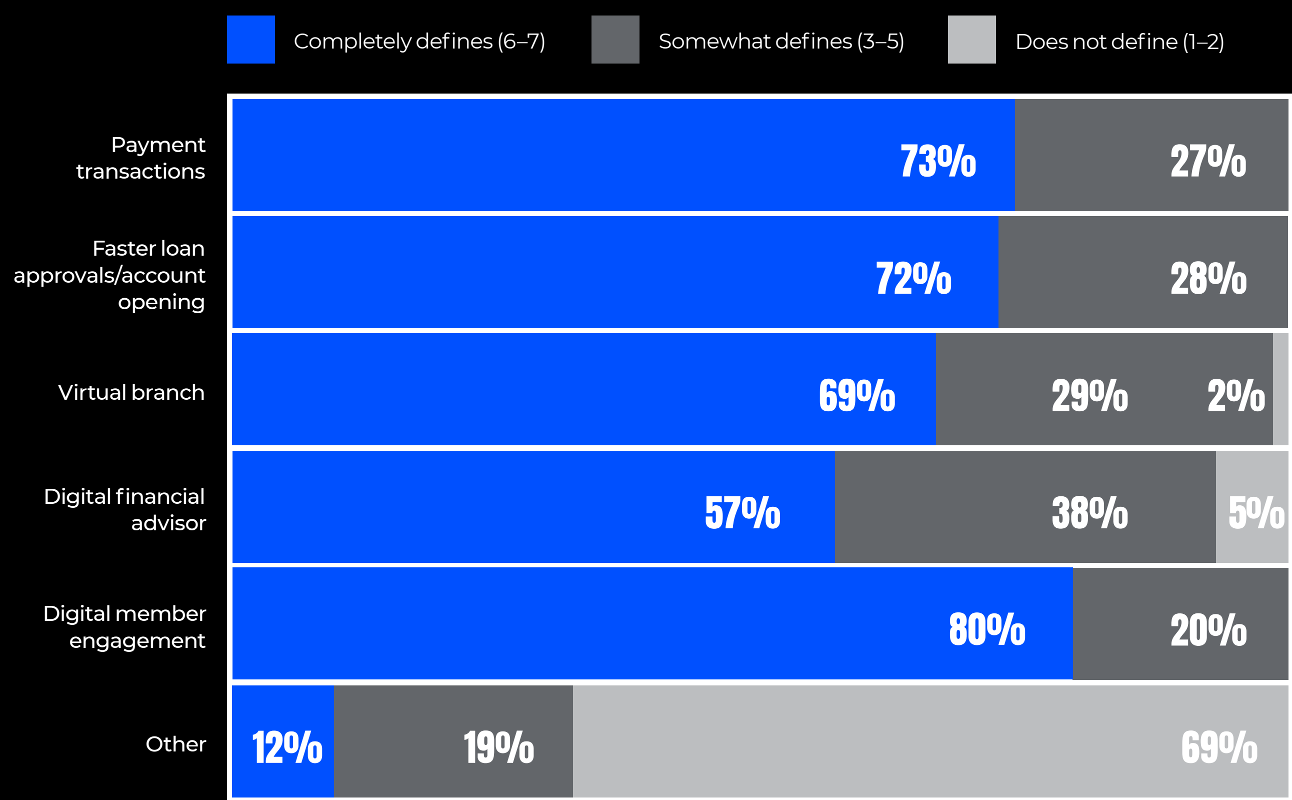
Rated on a scale of 1–7, with 1 being "not at all important" and 7 being "extremely important."



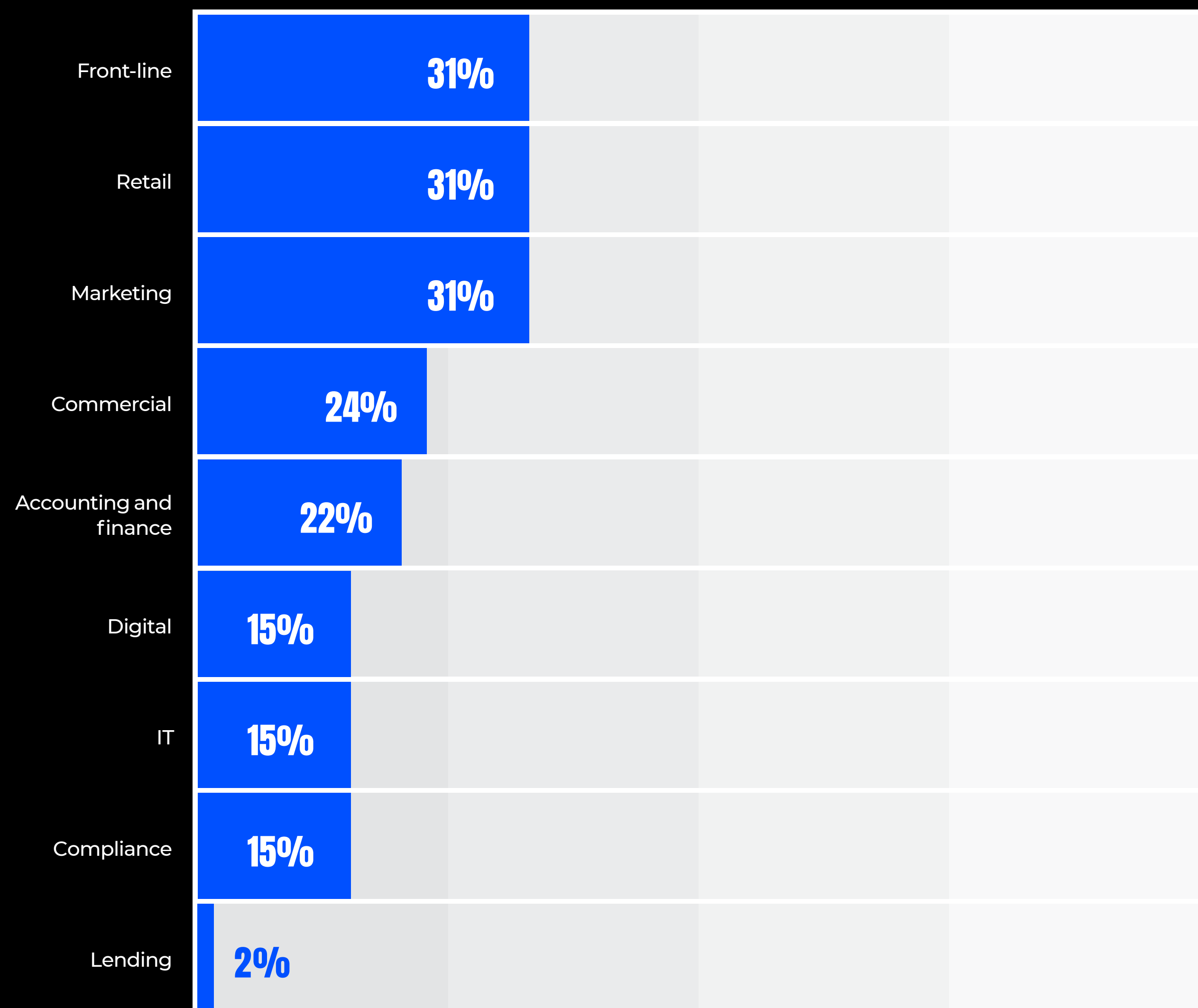

Please rate your institution's maturity level in the following digital transformation categories.
Rated on a scale of 1–7, with 1 being "not mature at all" and 7 being "completely mature."
Completely mature (6–7)
Somewhat mature (3–5)
Not mature (1–2)
Digital strategy
63%
37%
Digital member experience/ engagement
67%
33%
Technology architecture
55%
44%
1%
Security architecture
67%
33%
Fintech readiness/ adoption
49%
40%
11%
Digital operations support
60%
37%
3%
Member support for digital operations
60%
38%
2%

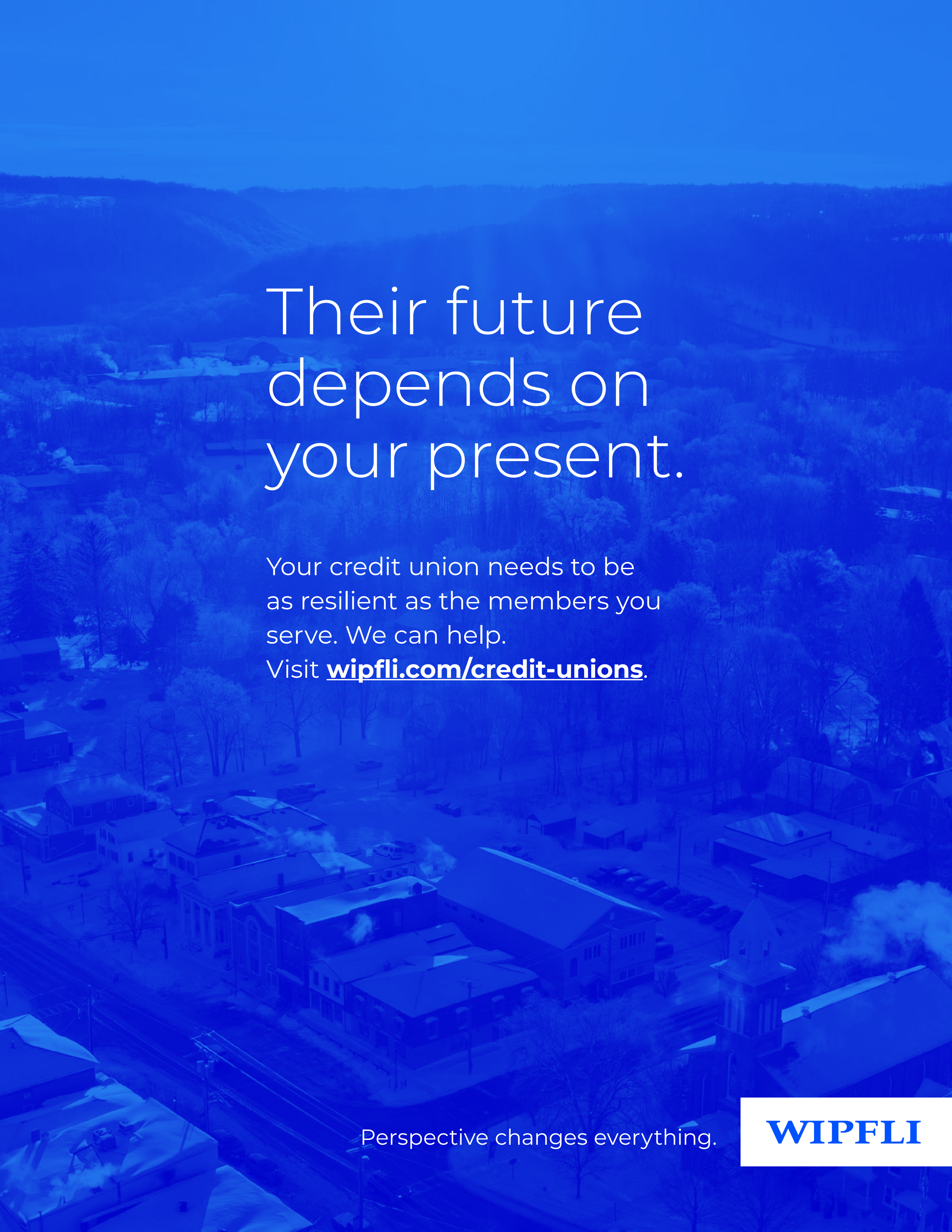
An uncertain economy, fintech competition and growing member needs require credit unions to be more and more nimble and forward thinking. Of the following, which most closely defines digital transformation to you?

Rated on a scale of 1–7, with 1 being "does not define at all" and 7 being "completely defines."



For which positions are you experiencing a labor shortage?




Their future depends on your present.
Your credit union needs to be as resilient as the members you serve. We can help.
Visit wipfli.com/credit-unions.
Perspective changes everything.
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