

# Why Choose a Credit Union?

A JOINT REPORT

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Why do consumers choose credit unions? If you ask your members why, you are likely to hear one of a variety of responses:

- **Price:** "I got a great deal on my car loan."
- **Convenience:** "The branch is right next to my work."
- **Service:** "The teller is so friendly and fast."
- **Trust:** "My money is safe here."

These responses are not surprising. Your credit union, and the rest of the financial services industry, has been training consumers to parrot these responses through intensive marketing over the past several decades. Harvard Business School professor Michael Porter confirmed the commoditized nature of financial services during a recent address to the Bank Administration Institute (BAI). "The banking industry is basically riddled with 'me-too competition.' He goes on to assert, "Increasingly, financial institutions will have to be able to deliver something distinctive to their customers. Very few financial institutions have the courage to have a distinctive value proposition from their competitors. You must have clarity of purpose."


Below the surface of consumer's articulated (or obvious) wants, they carry extremely complex preferences and needs. How, then, do we delve into their unfulfilled, unarticulated and non-obvious needs? This research study is a key preliminary step.

Behavioral patterns are extremely difficult to measure using quantitative methods such as mail, telephone and online surveys. To probe more deeply into the psychological, social and cultural patterns of member financial behaviors, researchers use qualitative methods as a foundation upon which to base subsequent quantitative measurement. This research project gives participating credit unions insights into the prospects and perceptions of their members, and a base for further research opportunities. In-depth interviews with credit union members and employees reveal a number of key consumer needs credit unions can address in their quest to differentiate themselves from other financial institutions.

**Below are several general observations and ideas culled from the research process:**

- **I can't control myself:** Members interviewed for this study developed serviceable but sometimes counter-productive systems for managing their money. Many interviewees used somewhat bizarre and strange financial controls to limit their financial behaviors. Rather than trying to change these consumer behaviors, credit unions have the opportunity to understand and leverage these financial management activities. For example, forced savings accounts and spending controls are services which consumers would likely adopt based on their current behaviors.

- **I don't want to know:** Many interviewees made rather pessimistic assumptions about their financial life, whether the assumptions were accurate or not. For instance, people generally assumed they had a bad credit score, but had never actually seen their score nor did they understand how the score was calculated. Consumers could benefit from a proactively designed and anonymous service to educate people about finances in a just-in-time manner.
- **A thin veneer:** People tend to lead a financial balancing act which if altered in any way can throw everything out of balance. Dramatic life events, particularly divorce, illness and job loss, were the most damaging situations cited by our interviewees. During these times of crisis, credit unions have the opportunity to engender member trust and long-term confidence by acting as a financial concierge to help transition the consumers from confusion to stability in the financial dealings.
- **Just-in-time communication:** Members suffer from an acute lack of knowledge of the scope of products and services available to them at their credit union. Many confess, for example, that they did not know real estate loans were offered by their credit union, or that investment advice was part of the credit union's service package. However, in communicating the breadth of available credit union products and services, timing is critical. A consumer's awareness of specific products may be chronically low until it is time to buy a house or car. Therefore, communication needs to be tailored to these decision points.
- **Sophisticated financial products and services for "super users":** While many members confess a lack of financial literacy, others conduct relatively complex financial lives. For this segment of membership, credit unions need to offer a full range of products and services. However, this research reveals that even members with more complicated needs may exhibit behaviors that suggest a reluctance to take advantage of new products and services, and may need reassurance that the credit union has the sophistication and expertise to help them make the most of their wealth-building opportunities.
- **What the heck is a credit union and why should I care?:** Interviewees struggled to distinguish the reason for joining a credit union. Most parroted the price, convenience, trust and service factors for using their credit union, yet when pushed beyond these elements individuals grasped for what they were looking for in an ideal financial institution. Harking back to Porter's admonishment, credit unions, both individually and collectively, need to discover "clarity of purpose." Today, interviewees did not feel as if they were "members" of the credit union. They told us membership generally confers some tangible benefit which was lacking as a credit union member. So, how are you different and what does it really mean to be a credit union member? What is the tangible membership benefit?



Overall, this research seeks opportunities to differentiate credit unions from their competitors and make the difference apparent to members. In order to accomplish that goal, credit unions need to respect their historical roots and find new avenues through which the credit union experience can be made more relevant to the lives of members, today. We believe this research project is the first of many steps towards understanding the latent opportunities that exist for your institution and the industry.

This document first provides an introduction to the research process, then examines common elements discovered during the course of the research process. Next, we provide an overview of the in-home interviews, and we conclude with several promising opportunity areas for credit unions based on the research process.



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