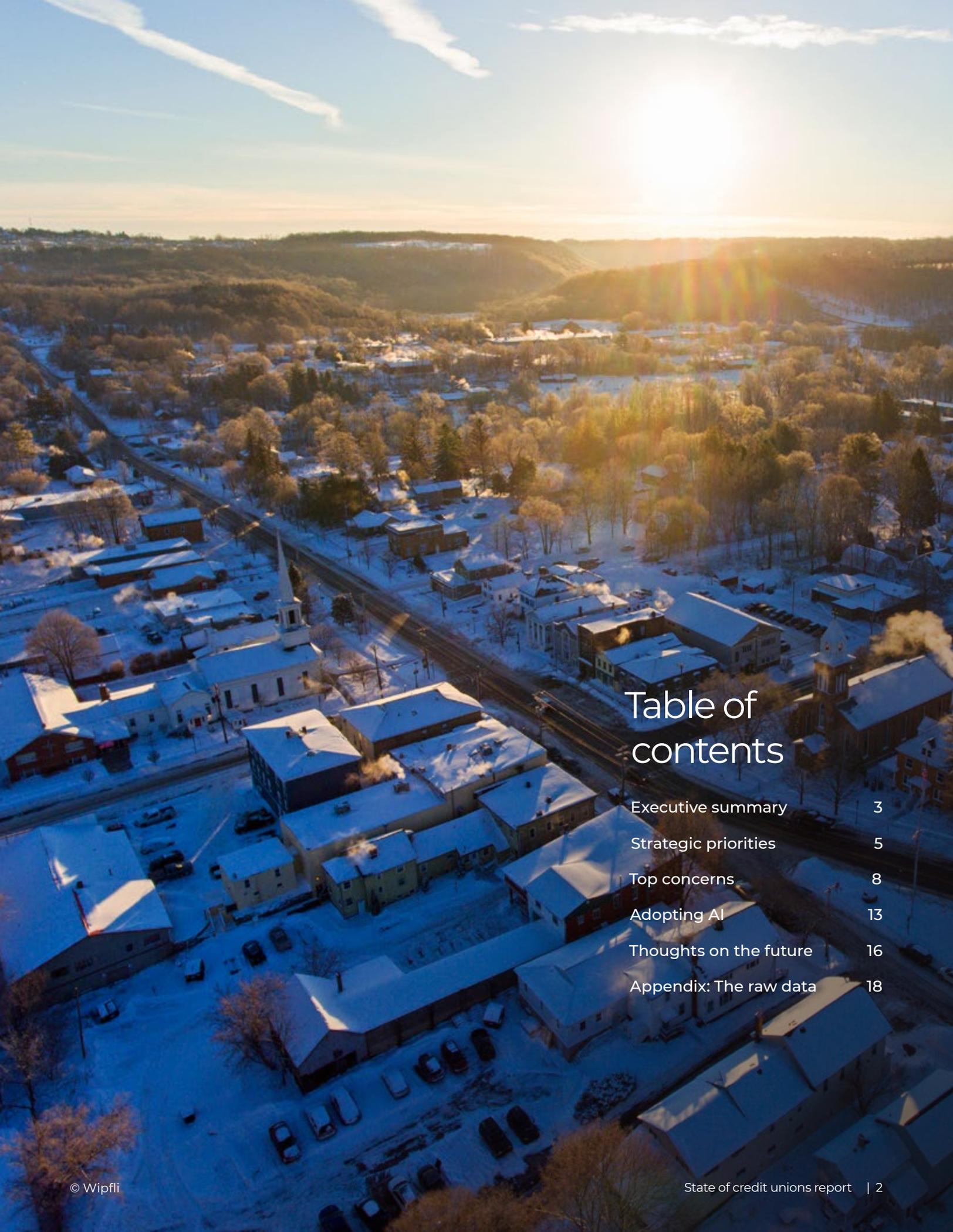


# STATE OF CREDIT UNIONS REPORT

Research and outlook for 2024



**WIPFLI**

An aerial photograph of a small town in winter, covered in snow. The sun is low in the sky, creating a warm, golden glow and long shadows. The town features a mix of residential and commercial buildings, with a prominent church steeple. A road and a railway line run through the center of the town. The surrounding landscape is hilly and forested, also covered in snow.

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# Executive summary

Credit unions are expecting slow growth, and the pendulum has swung from buying to selling.

Credit unions are on the front lines of the banking industry and historically have been a leader in customer and member service. But banks are catching up, adding services for clients in an effort to drive growth or protect their market share.

Credit unions can no longer rely on their reputation for in-person customer service or being the only brick-and-mortar financial institution in underbanked areas.

They need to maintain their market share and grow by staying ahead of the technology curve.

# 83

 financial institutions

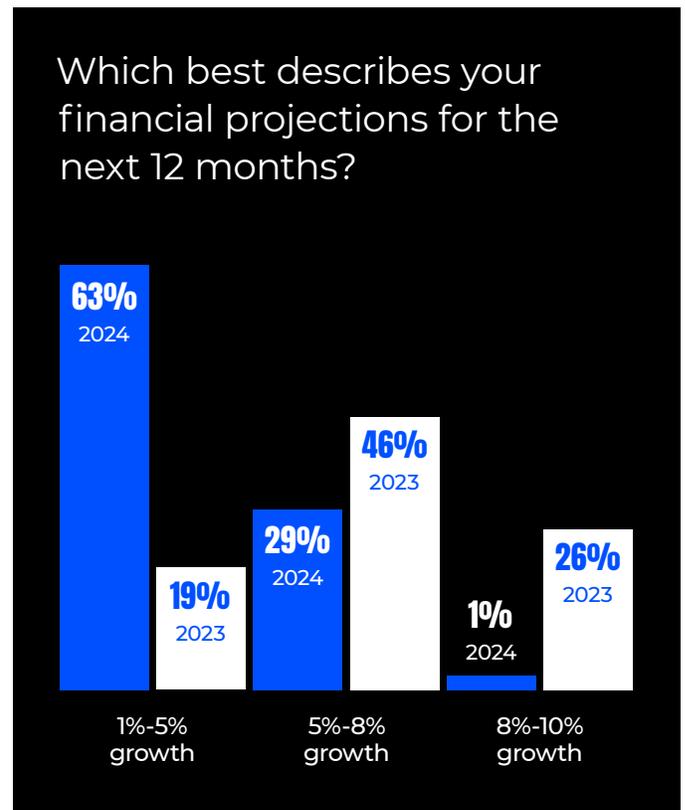
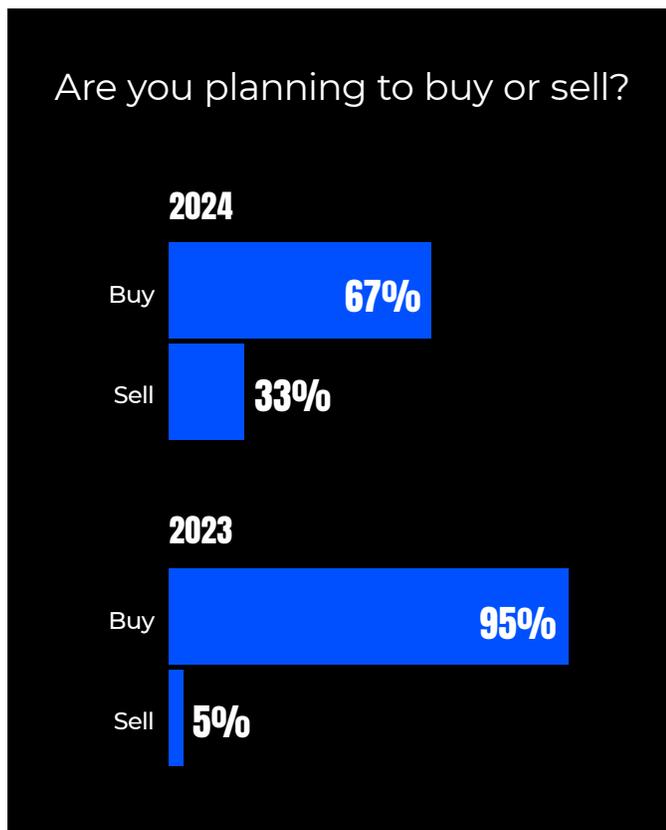
surveyed across 

# 20

 states

Wipfli surveyed 83 credit unions in 20 states to gain insight into these institutions and learn about their priorities and top concerns going into 2024. The results show credit unions are less bullish on their market position heading into the next 12 months than they were the previous year.

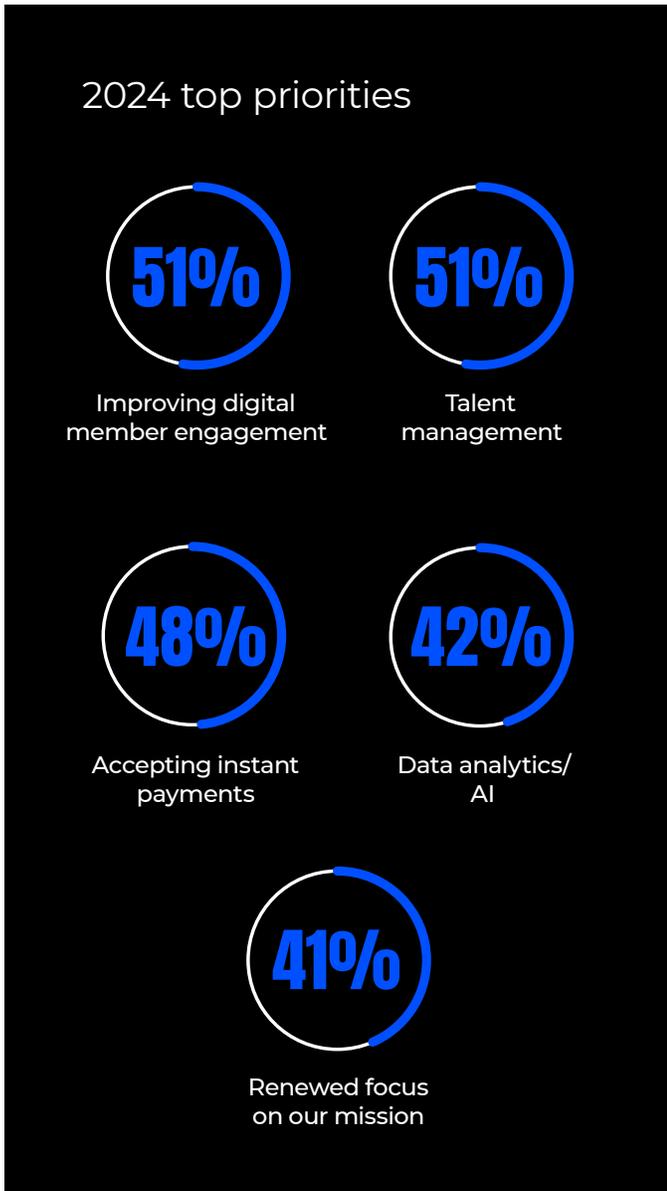
Another significant shift can be seen in their M&A plans for the coming year. Last year, 55% listed M&A as a strategic priority, while this year, only 19% did. And far fewer report planning to buy. Conversely, plans to sell jumped.



To show their members they are in tune with their needs, credit unions are going all in on technology.

Three of their top four priorities in 2024 are improving digital member engagement, accepting instant payments and data analytics/artificial intelligence.

Top concerns included employee recruitment/retention, cybersecurity and retaining market share.



### Key findings

**63%** of credit unions expect growth of only 1%-5%

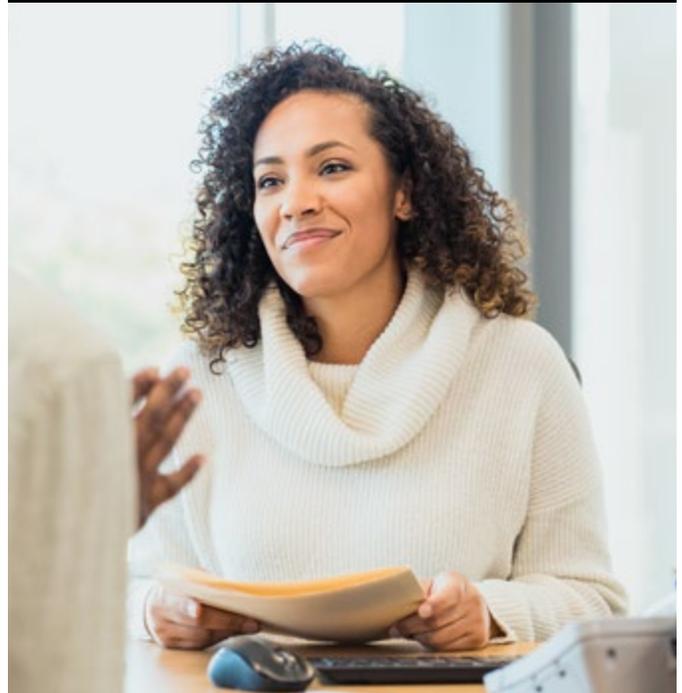
**33%** of credit unions plan to sell, up from 5%

**66%** plan to leverage AI for credit decisioning

**64%** cite core deposit growth as a barrier to goals

**67%** of credit unions report at least one identified instance of unauthorized access to data or networks

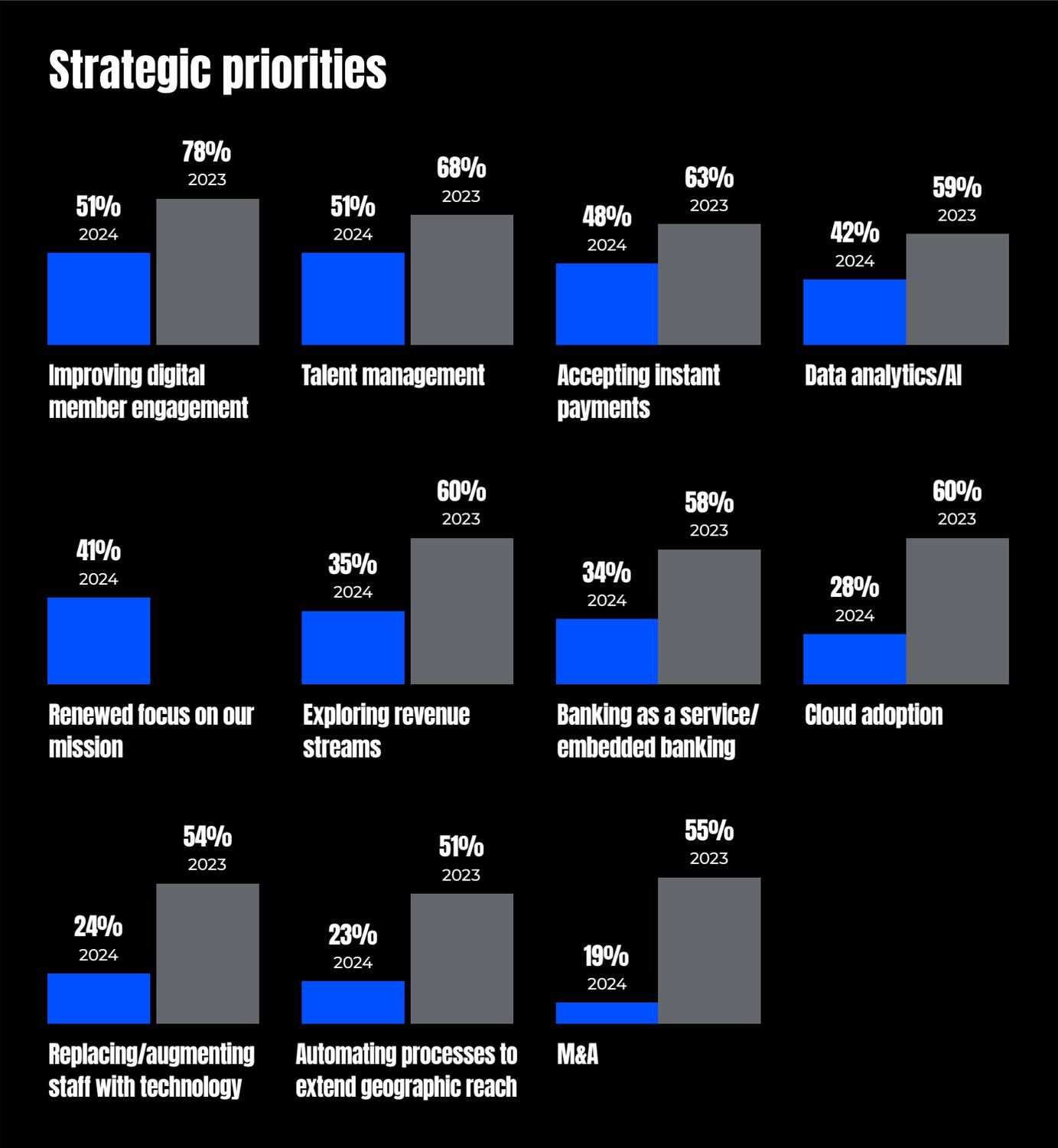
**66%** of credit unions have a strategy to serve unbanked or underbanked populations (56% of banks do not)



# Strategic priorities

Credit unions need to focus on driving down infrastructure costs and finding efficiencies to maintain their edge.

They traditionally have high-volume and low-value loans compared to traditional banks. Their margins are slimmer, too, which may explain why the majority of their strategic priorities for 2024 are tech related.



Compared to last year, the results indicate that credit unions made strides in 2023 on technology. Successful adoption of tech initiatives like cloud adoption and accepting instant payments are making those less of a strategic priority in the coming year.

They also ranked their security and technology architectures as mature.

But with the breathtaking speed at which technology is evolving and members' digital expectations are growing, keeping digital operations mature will take constant strategic focus, investment and innovation, which credit union leaders acknowledge. More than 60% said high costs and more than 40% said technical expertise are barriers to increasing their digital maturity.

### Renewed focus on mission

A new priority emerged this year involving a renewed focus on the mission of credit unions.

Fintech competition, M&A, hiring challenges, COVID-19 — there have been a lot of external pressures weighing on credit unions, which may have depleted some time and energy from their top mission: serving the underserved in their communities.

Nowhere is that more evident than in their renewed focus on serving unbanked and underbanked consumers in the coming year.

### Digital categories rated as becoming mature

**60%** Security architecture

**55%** Technology architecture

**55%** Digital member experience/engagement

**48%** Digital operations support

**46%** Digital strategy



## Talent management

Engaging, upskilling and retaining top talent is a strategic priority for credit unions — tying with digital member engagement as No. 1.

Between the great resignation, the great reevaluation and aging boomers, turnover and retirements are adding pressure to credit unions. More than 46% have lost 1%-5% of their frontline workers, and the numbers only go up for leadership.

Credit unions also reported the average tenure for most of their executive team is six to 10 years, and only 12% with more than 21 years of experience — which is why we see 20% of credit unions citing succession planning as an area of concern.

The combined revolving door of leadership and frontline employees is another reason why credit unions are focusing more on culture and training in the coming year as a retention strategy. Culture has always been a key differentiator for credit unions in the war over top talent.

Of those that cited succession planning as a concern, 71% report that they provide executive training.

Outsourcing is another option for covering talent gaps, and the data gathered from credit unions reveals some interesting trends.

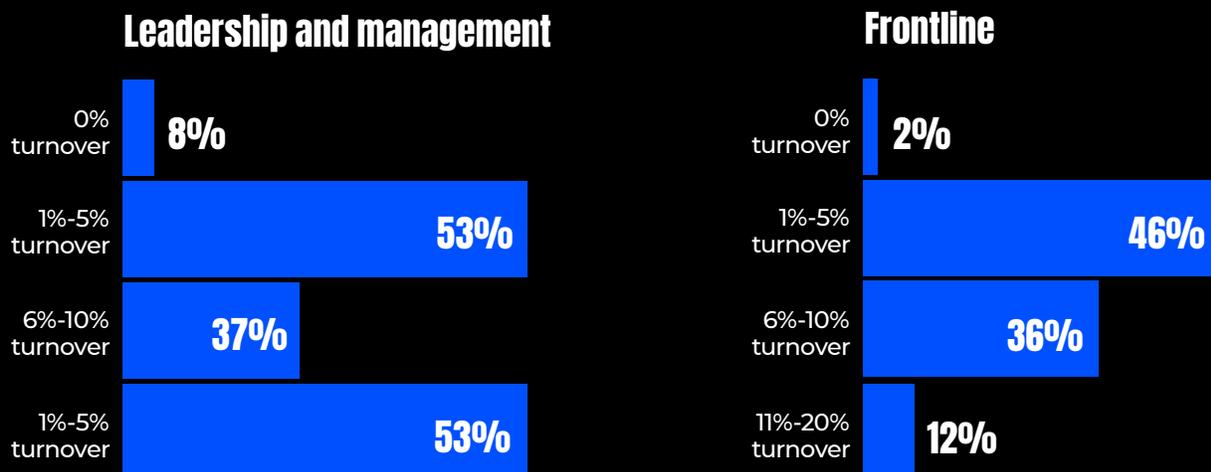
While 67% say they've considered outsourcing IT and 41% both operations and information security, credit unions also aren't eager to replace or augment staff with technology.

- 23% cite replacing labor or augmenting staff as a priority in 2024
- 32% reported outsourcing or augmenting staff as a tactic in 2023
- 44% report insufficient tech expertise as a barrier to goals

Those numbers confirm the unfortunate reality credit unions are facing to draw available talent and expertise needed to drive success. Yet, always known for their strong focus on people and culture, credit unions are not eager to replace people with technology.

Outsourcing and technology are strong, viable options that don't necessarily mean replacing staff. Many tools just expand and enhance the service employees can provide. And outsourcing expertise opens new doors with tools, like AI, that can help reduce the burden on employees even more.

## Annual turnover rates



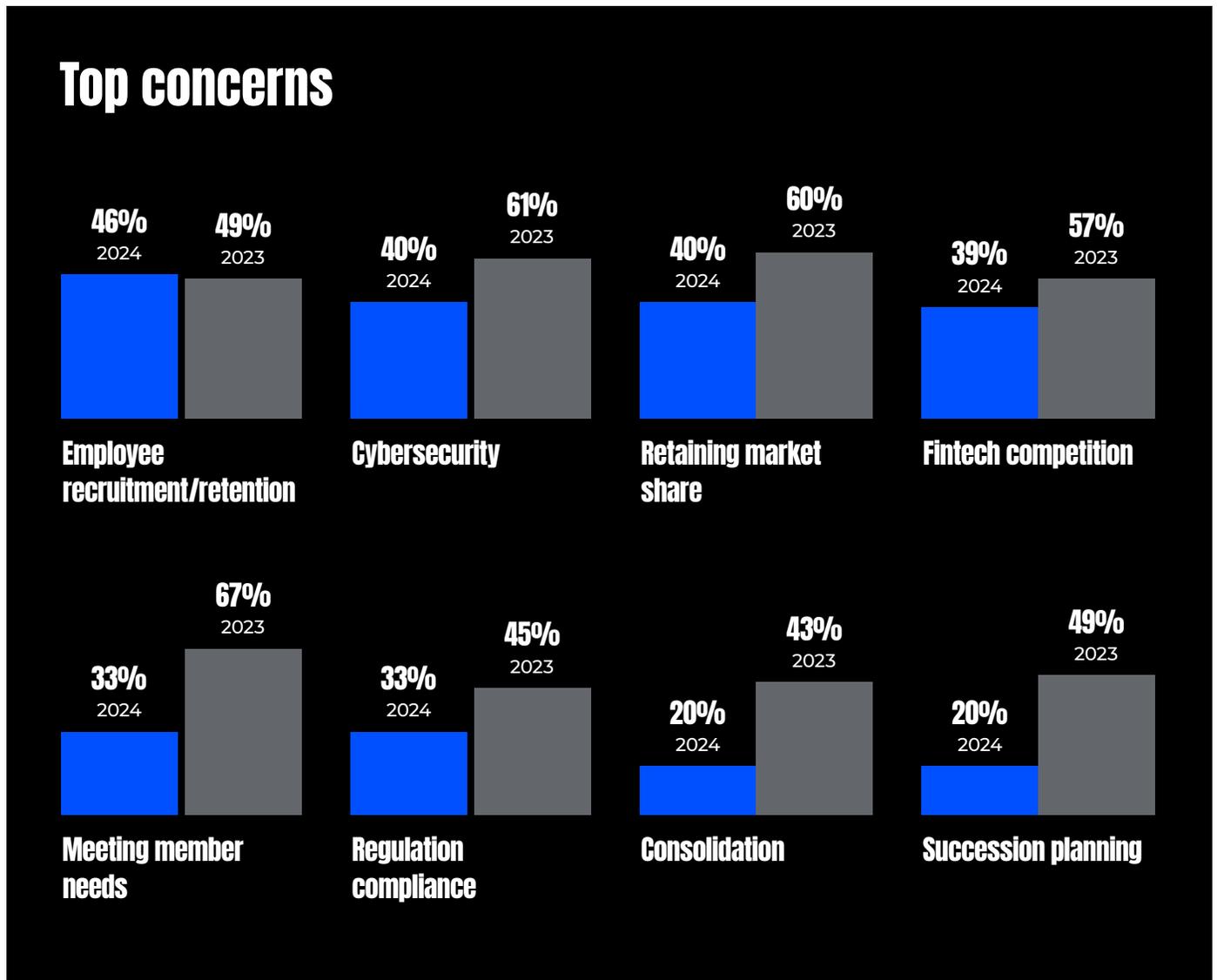
# Top concerns

Employee retention/recruitment, cybersecurity and retaining market share are the top concerns again this year, though credit unions are switching up the emphasis on each.

## Employee retention/recruitment

Credit unions have been particularly hard hit by the rapid rate of retirements, the impact of remote work flexibility and the high salaries commanded for specialized skills.

Hiring a team that keeps up on the latest threats and platforms is costly, not to mention evolving compliance requirements for credit unions to have a chief information security officer (CISO) and new cybersecurity regulations coming down from Washington. And the challenge of hiring experienced employees is compounded by the fact that bigger banks are often snagging talent with higher salaries.



Here's a snapshot of all staffing data provided by credit unions in our survey:

- 67% report considering outsourcing IT
- 41% report considering outsourcing information security
- 65% report the talent gap and shortage as having a negative impact on achieving goals
- 44% report insufficient technical expertise as a barrier to digital maturity
- 19% report hiring cybersecurity expertise and adding a CISO in the past year
- 12% of their executive team has a tenure of more than 21 years

Credit unions are also evolving how they're addressing the challenges. Last year, the focus was on recruiting, career development and flexibility. This year, credit unions are seeing efforts to enhance the associate experience paying off.

Credit unions often can't afford to pay the high salaries to build an in-house team with the expertise to deal with AI, cybersecurity or data. The best option is to develop their talent pool from within, outsource to experts or implement technology to free up employee time.

## How are you addressing recruitment/retention challenges?

**63%** Focusing on workplace culture

**45%** Leadership development

**37%** Increased wages

**32%** Increased benefits, perks

**32%** Outsourcing/staff augmentation

**29%** More proactive recruiting of candidates

**29%** Career development pathing

**21%** Flexibility in work location

**11%** DEI strategies



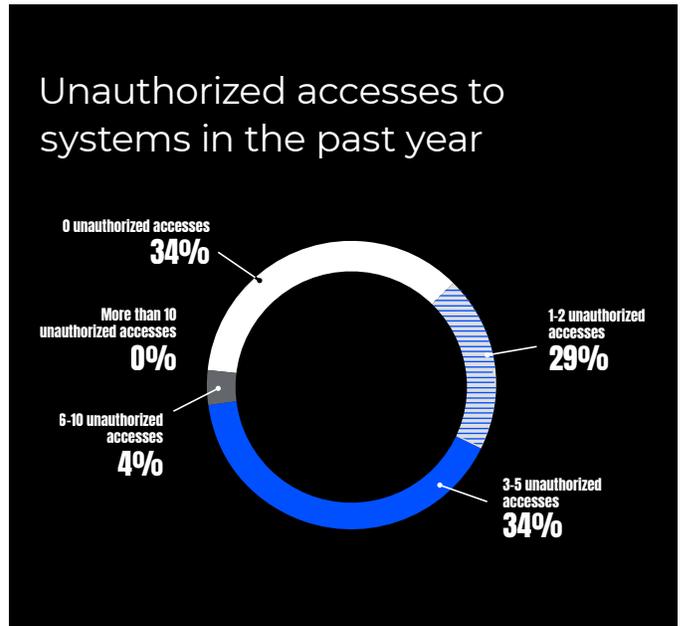
## Cybersecurity

Cybersecurity is also top of mind, and 67% of credit unions reported identifying incidents of unauthorized access to their systems.

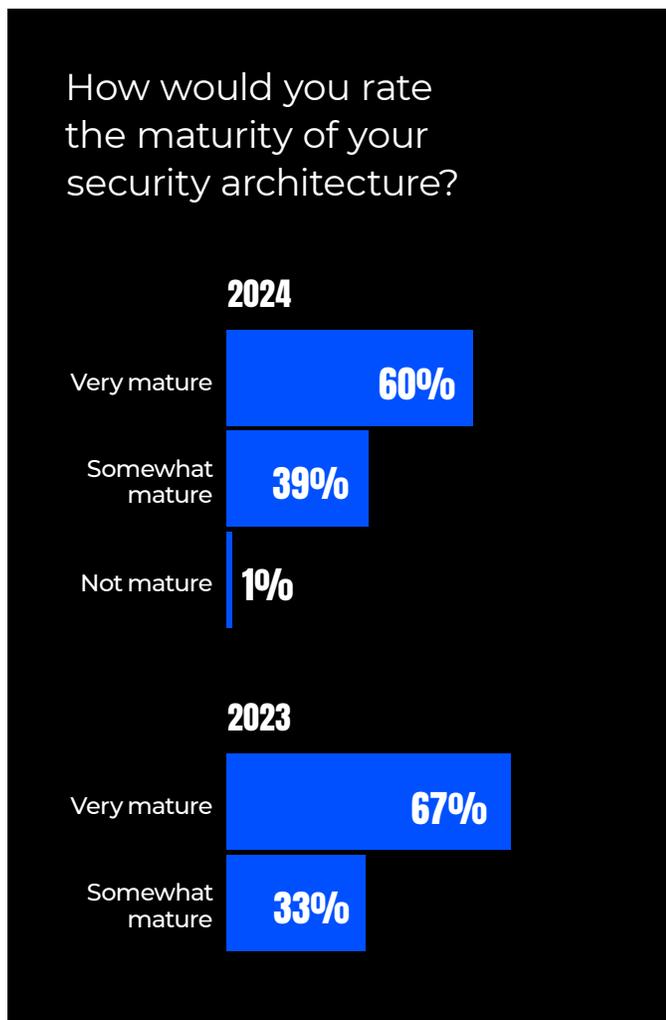
Those results seem in conflict with how mature credit unions ranked the maturity of their cybersecurity architecture. When we look at last year's numbers, we do see that confidence has slipped.

That confidence is likely being bolstered by the number of cybersecurity initiatives credit unions reported taking in 2023.

While some think credit unions are less attractive to cybercriminals because of smaller holdings, the National Credit Union Administration has warned repeatedly that credit unions are increasingly attractive because they often invest less in cybersecurity, making them easier to breach.



The fact that credit unions are heading that threat by implementing more security measures is encouraging, but it's also concerning that the numbers of credit unions deploying measures are still overall pretty low. Only one measure (penetration tests) ranked higher than 50% – and 19% of credit unions reported taking no measures.





## What cybersecurity measures have you implemented in the past 12 months?

**52%** Conducted penetration tests

**48%** New safeguards to protect networks and data

**43%** Improved detection systems

**43%** Adopted industry-standard cyber framework

**42%** Conducted cyber risk assessment

**40%** Increased investment

**36%** Developed/revised cyber risk policy and communication

**35%** Increased member fraud education

**19%** Hired cybersecurity expertise or added vCISO

**19%** No steps taken

## Maintaining market share

Maintaining market share is another primary concern, and new digital products are one way to address that.

Another is reaching out to the unbanked and underbanked. Nearly every credit union surveyed said they are at least somewhat familiar with the challenges of unbanked and underbanked populations – and 66% reported having a strategy to tap that market.

The U.S. government estimates show the customer base is there for those who are willing to go after it:

- 5.9 million people in the U.S. are unbanked because they do not have an FDIC-insured checking or savings account.
- 18.8 million householders in the U.S. are underbanked because, although they have an FDIC-insured account, they regularly use alternative financial services, such as payday loans or money transfer services.

Credit union strategies include:

- 40% report banking accessibility and inclusion initiatives, such as financial literacy or low-cost or no-fee accounts
- 30% report loan and credit options to help build credit, secure mortgages and obtain emergency loans
- 20% report community engagement and partnership initiatives that involve community outreach or neighborhood business programs
- 10% use digital banking or technology, such as apps and mobile payments, to enhance accessibility or improve data to enhance services.

It's surprising to see only 10% of those strategies involve digital banking and technology because almost every household has a cellphone, which would help credit unions reach those in rural areas who don't have easy access to brick-and-mortar facilities.



# Adopting AI

Like the rest of the financial institutions industry, credit unions are wary of AI. But compared to their counterparts, they are forging ahead with exploring uses of generative AI, such as with credit decisioning. Other institutions are looking at more traditional uses for AI, such as sales and growth and financial reporting.

Those results are heartening to see because the rise of generative AI is giving credit unions the opportunity to revolutionize their operations, automate tasks and enhance member experiences.

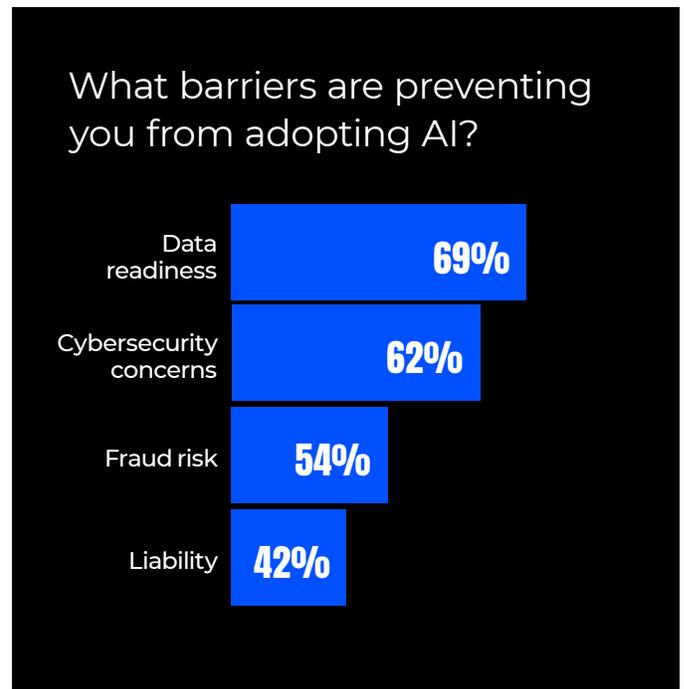
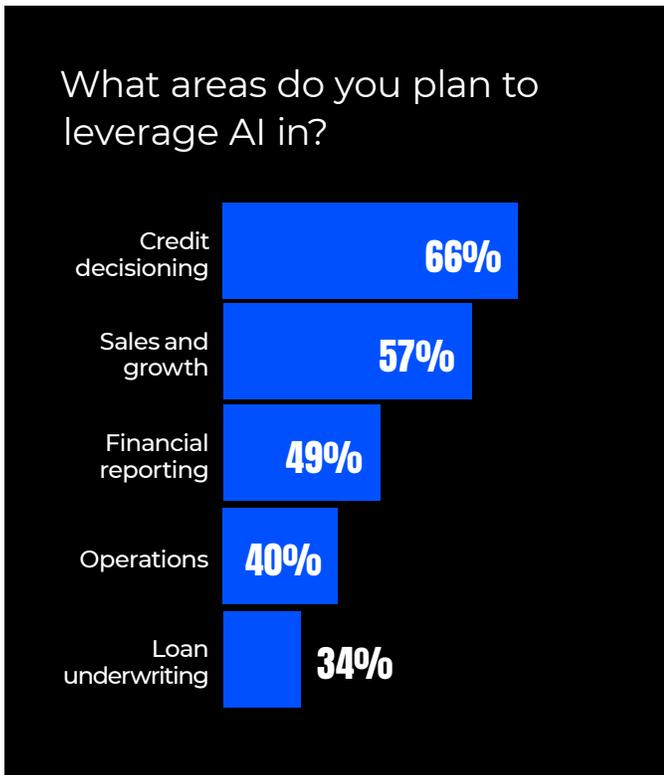
Credit unions are realistic about the challenges they face when it comes to AI, citing data readiness, cybersecurity concerns and fraud risk as barriers to adoption.

## Data readiness

AI is only as good as the data that goes into it, so to fully utilize generative AI, credit unions need to make their data assets readily available and well organized.

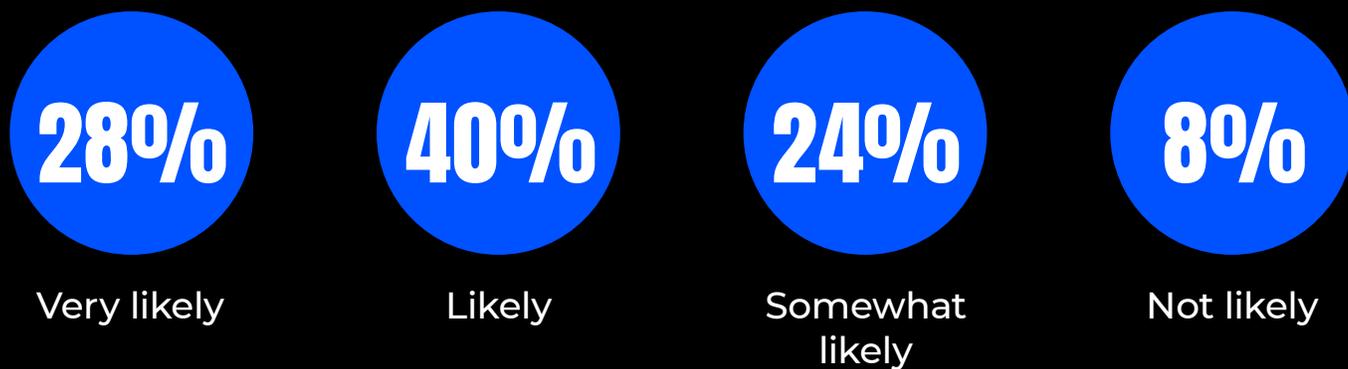
This includes uncovering “dark data” – information or content that is often forgotten or stored in offline archives.

It is crucial to make diverse data sources – such as emails, contracts, member transaction records, text documents, images and legal documents – accessible for generative AI applications to identify patterns and synergies.





## What is the likelihood that you'll leverage AI in the next 12-18 months?



## Cybersecurity

Credit unions can mitigate their cyber concerns to embrace the power of generative AI with a layered, modern cybersecurity strategy.

Credit unions should be aware of the terms and conditions of AI models, such as OpenAI's ChatGPT. They can also mitigate risk with encryption, access controls and regular data.

At the same time, data should be stored in a centralized location that facilitates easy accessibility. Cloud-based storage and data management tools can provide additional flexibility and scalability for managing data in the context of generative AI.

It's also time to fight fire with fire by investing in AI-enabled security monitoring that can analyze traffic patterns and identify suspicious activities, such as large data transfers or atypical login attempts.

## Fraud risk

Implementation processes, ongoing governance, privacy policies and employee training are also crucial elements to lowering that risk – not to mention meeting compliance and regulatory reporting standards.

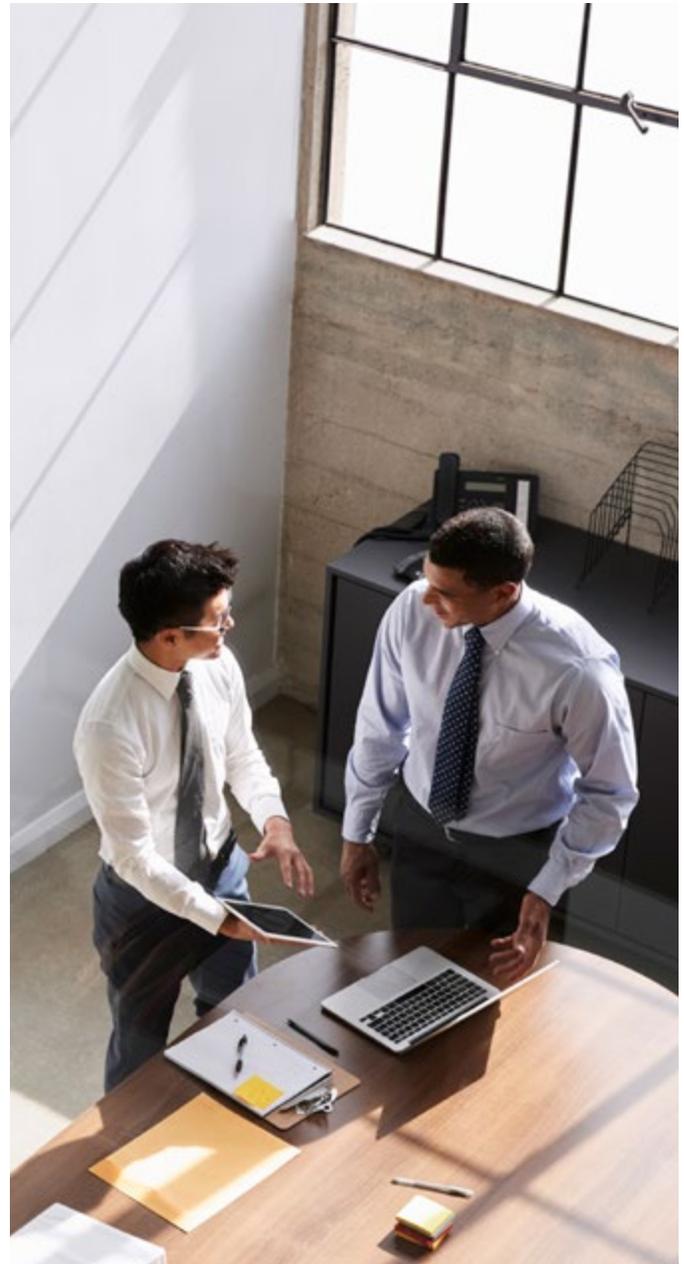
For example, generative AI can analyze market data, member behaviors and credit histories to provide insights into investment opportunities, risk management strategies and portfolio optimization. But credit unions need to ensure data governance and information controls are established so no sensitive data is exposed.

Data governance is also crucial to help ensure incomplete or biased data doesn't cause unfair lending practices or poor product recommendations.

Credit unions that are dipping their toes into AI are smart to have developed policies for employees and vendors for using AI. While less than half reported doing that so far, we expect that number to continue to climb as more innovative uses of generative AI are adopted.

Like with cybersecurity, the flip side of generative AI is that it's also a powerful tool in fraud prevention and detection.

Credit unions can use generative AI to analyze vast amounts of data and identify patterns that indicate potential fraud or noncompliance. But it will only be effective if those tools have access to relevant transactional data, compliance guidelines and industry regulations.



# Thoughts on the future

Liquidity is tightening, and so are core deposits. Inflation has caused some people to spend down the savings they accrued during the COVID-19 pandemic. All of these add pressure to credit unions' ability to thrive.

They must find and maximize every opportunity to find efficiencies and operations. Outsource cyber operations? Maybe. Invest in AI products to give members reliable, fast services? Absolutely.

For years, the lifeblood of credit unions has been their close ties to people and communities. When they do well, their members and communities do well. That connection often requires talented, reliable employees — ones members learn to trust.

To retain those employees, credit unions will need to double down on company culture, including training and growth opportunities; diversity, equity and inclusion initiatives; and prioritizing ESG.

It's also essential for credit unions to offer updated digital services, the kind found at larger banks. While credit unions continue to offer more personalized service, the days of stopping by the credit union once a week to deposit a paycheck are disappearing, if not already gone. No one is saying those personal, one-on-one interactions are over, but there needs to be both reasons for members to come in for those touchpoints and also the ability for them to do their banking digitally. That means not just the basics, but a full suite of digital services.

These are keys for credit unions to maintain market share and differentiate themselves from the larger, traditional financial institutions.



## Open banking will bring new challenges and responsibilities.

Open banking is focused on empowering consumers and businesses with better financial services and experiences, all of which start with trust.

Open banking is designed to make our lives easier by allowing consumers and businesses to enable third-party apps to access financial data instantly and securely.

- Want to open a new account and transfer your funds into it? Easy.
- Want to use a fintech partner for a specialized service? Done.
- Want to change your bank due to convenience and better service? [Click here](#).

In all of these cases and many more, open banking allows credit union members to access innovative digital banking and financial services through the web or any smart device.

The Consumer Financial Protection Bureau's march toward the shift to open banking is not something credit unions can ignore. It's already prevalent in Europe and likely to get clearance in the U.S. in 2024.

That means credit unions will feel the pressure to adopt technologies to support open banking – and will increase the competition they face from other institutions.

But credit unions have an advantage because members trust them to deliver safe and secure connections. And they can reinforce that trust through transparent consent management practices that give consumers the power to authorize an app's access to their financial data and rescind that access at any time.

Credit unions that are ready can take advantage of customers who want to switch from other banks or institutions because of bad service or lack of trust. With open banking, switching will evolve to be seamless and easy.

Likewise, credit unions can give their members better insights and more convenient services through open banking platforms, while fintechs continue to innovate, design and build better consumer and business solutions and experiences through open banking technology.

It will also cause more pressure on credit unions to provide stronger security, higher member engagement and better service (due to the ease of switching and more transparency on how member data is being used).

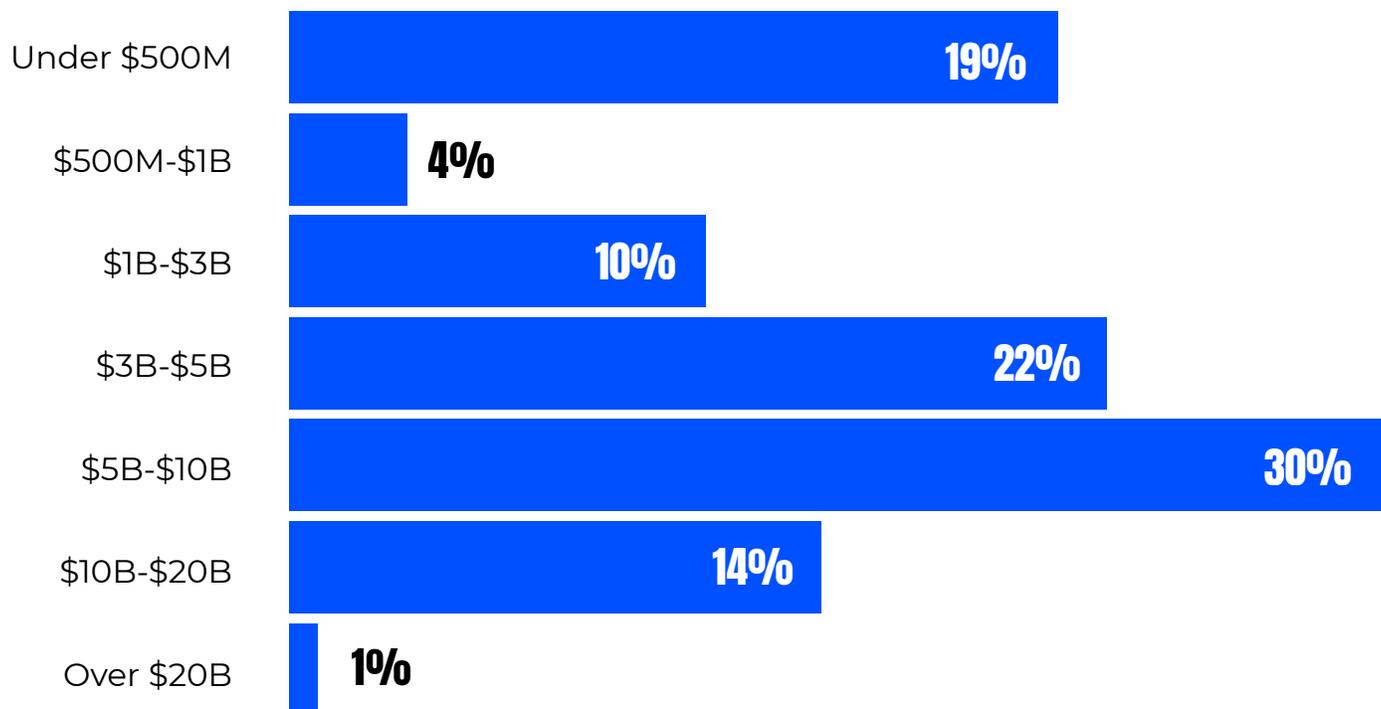


# Appendix: The raw data

Due to rounding, data may not add up to 100% in every instance.

Wipfli received survey responses from 83 credit union leaders in 20 states during October 2023. All responses were confidential and anonymous.

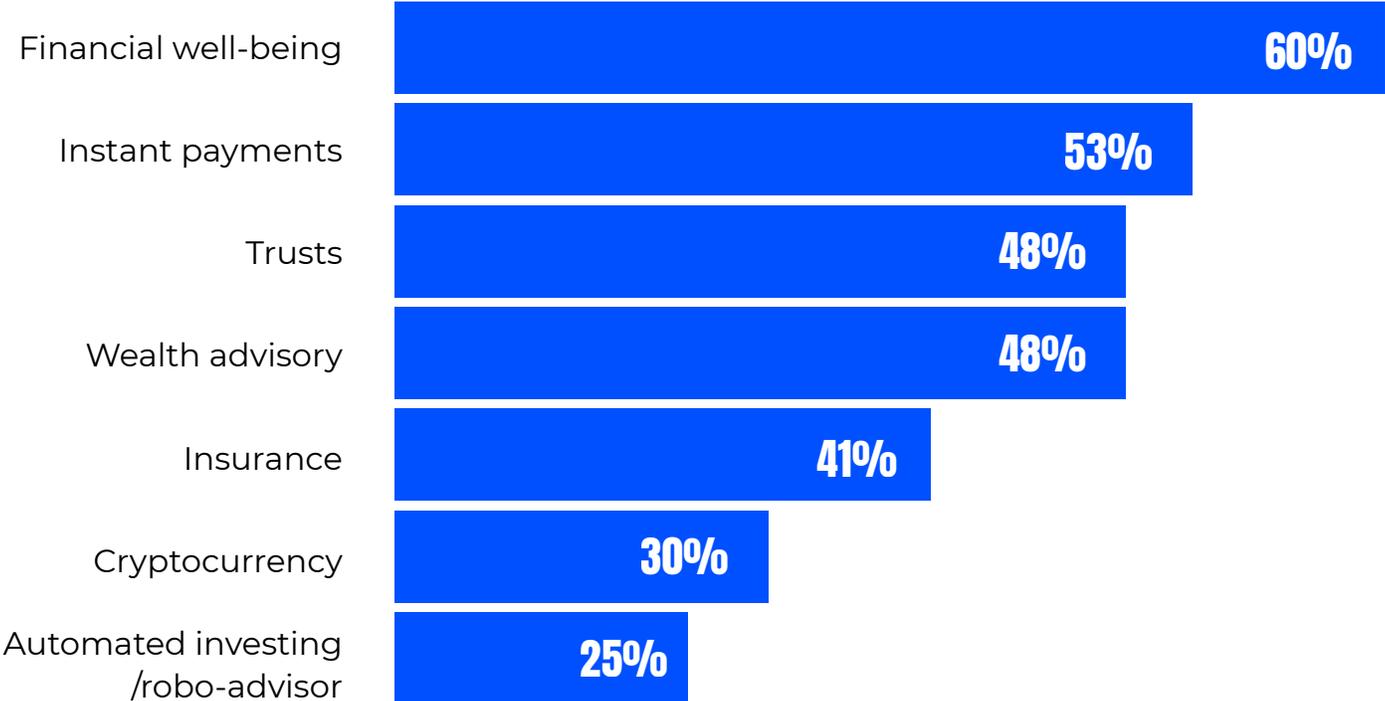
## What is your current asset size?



# Which best describes your financial projections for the next 12 months?

	<b>2024</b>	<b>2023</b>
>10% growth	<b>1%</b>	<b>9%</b>
8-10% growth	<b>1%</b>	<b>26%</b>
5-8% growth	<b>29%</b>	<b>46%</b>
1-5% growth	<b>63%</b>	<b>19%</b>
0% growth	<b>1%</b>	<b>NA</b>
Contracting	<b>5%</b>	<b>NA</b>

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



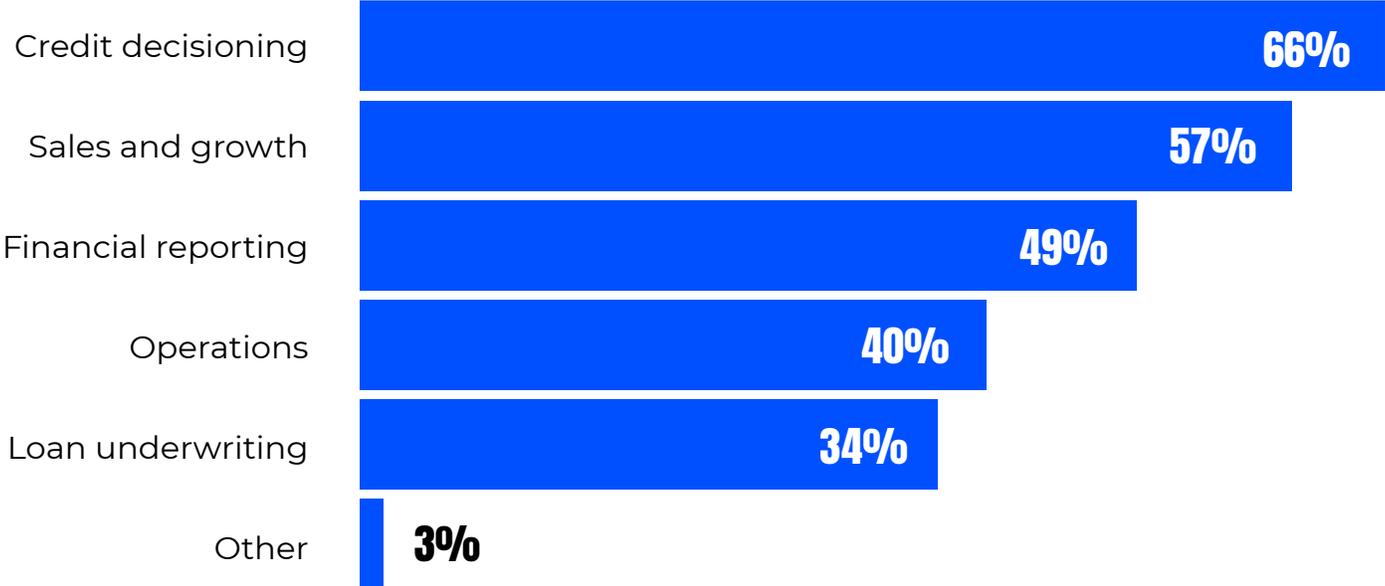
**Of the following, please select the top five strategies most important to your credit union in 2024.**

	<b>2024</b>	<b>2023</b>
Improving digital member engagement	<b>51%</b>	<b>78%</b>
Talent management	<b>51%</b>	<b>68%</b>
Accepting instant payments	<b>48%</b>	<b>63%</b>
Data analytics/AI	<b>42%</b>	<b>59%</b>
Renewed focus on our mission	<b>41%</b>	<b>NA</b>
Exploring new revenue streams	<b>36%</b>	<b>60%</b>
Banking as a service/embedded banking	<b>34%</b>	<b>58%</b>
Cloud adoption	<b>28%</b>	<b>60%</b>
Labor replacing and/or staff augmenting technologies	<b>24%</b>	<b>54%</b>
Automating processes to extend geographic reach	<b>23%</b>	<b>51%</b>
M&A	<b>19%</b>	<b>55%</b>

# Are you planning to buy or sell in 2024?

	2024	2023
Buy	67%	95%
Sell	33%	5%

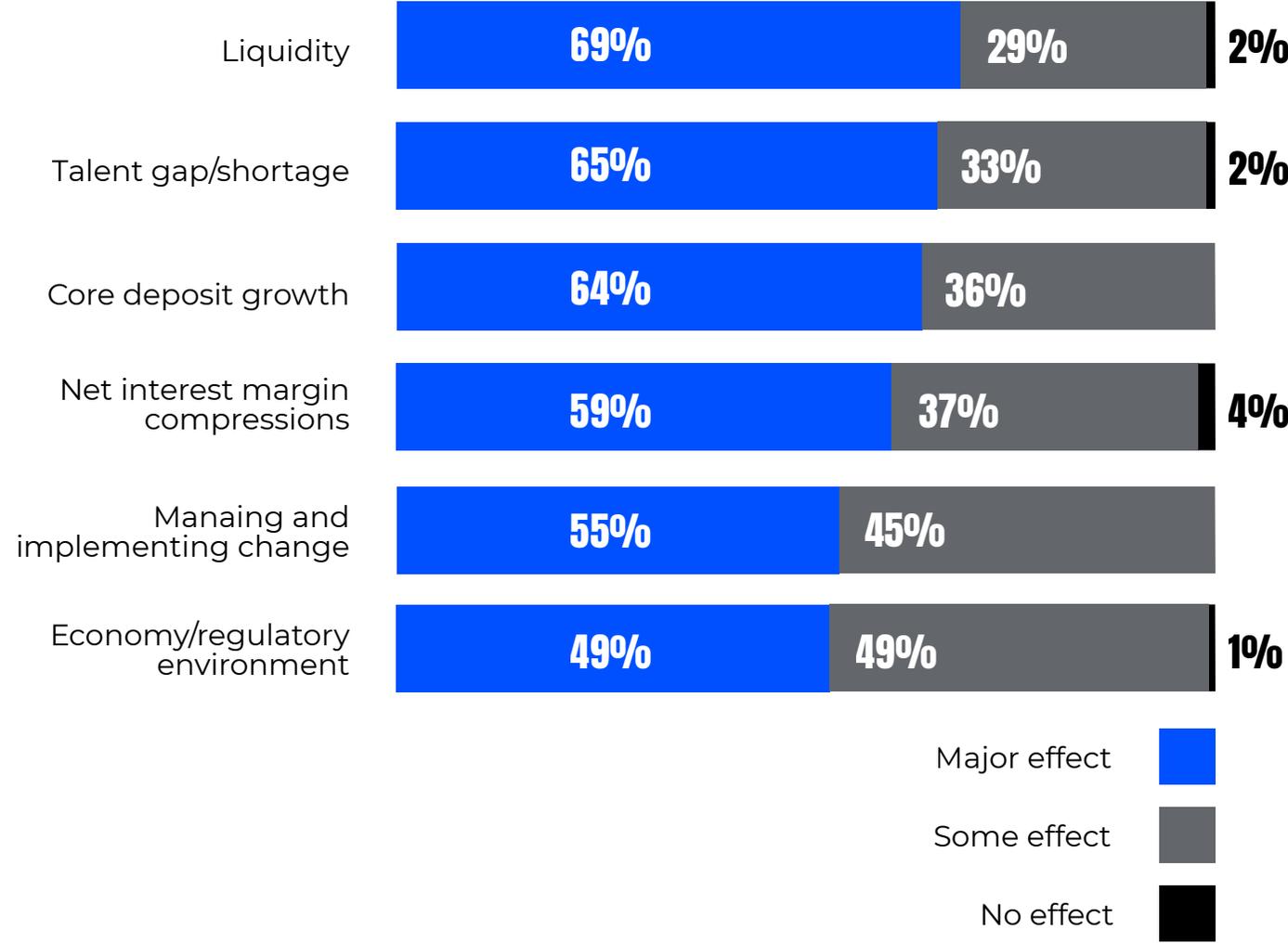
# For which of the following areas does your institution plan to leverage AI in the next year?



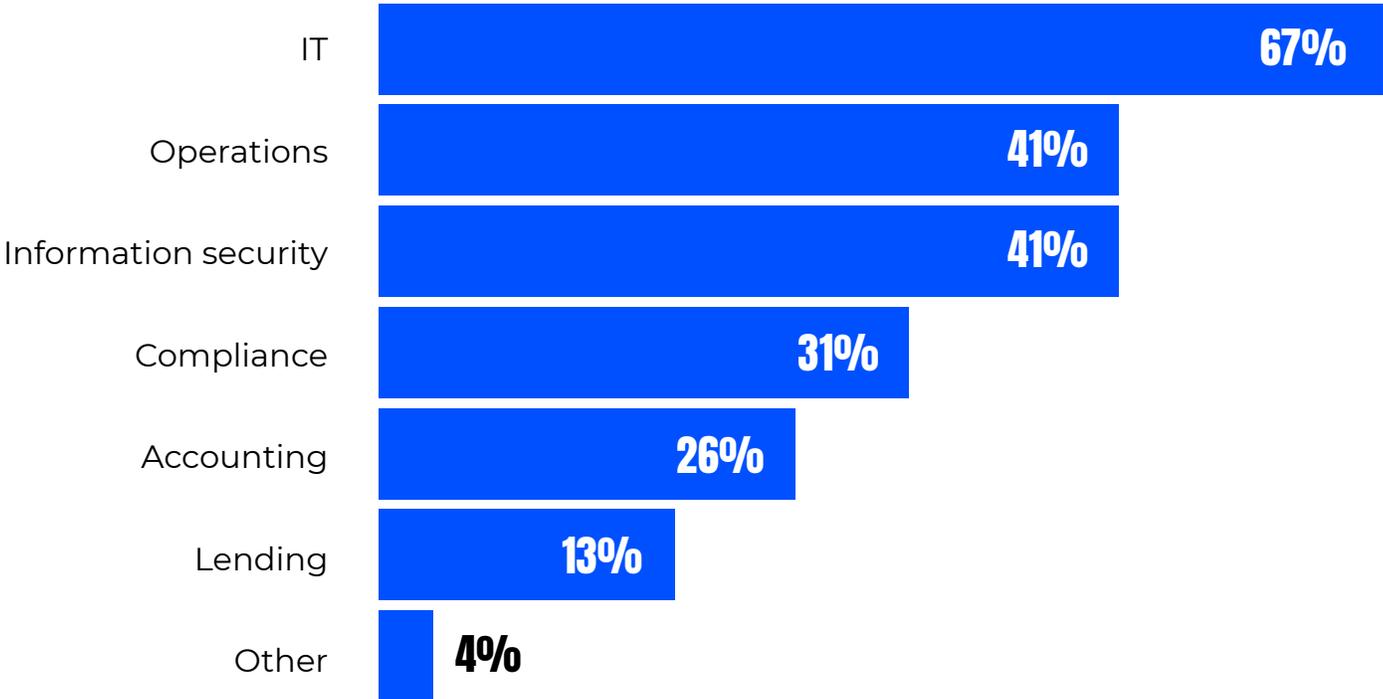
# Overall, does your institution tend to embrace risk?



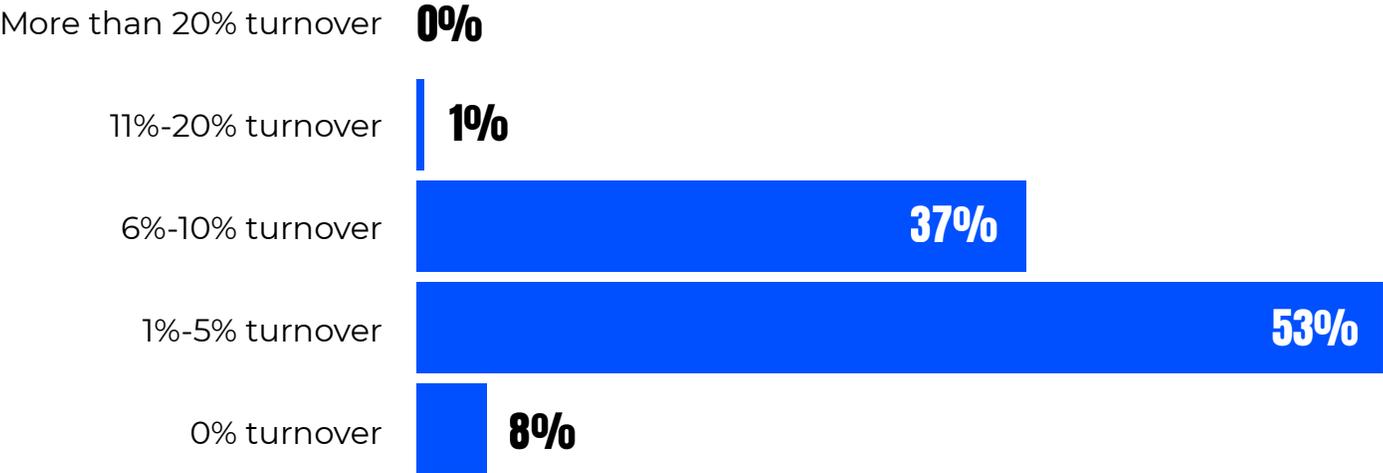
# What effect do the following factors have on achieving your goals?



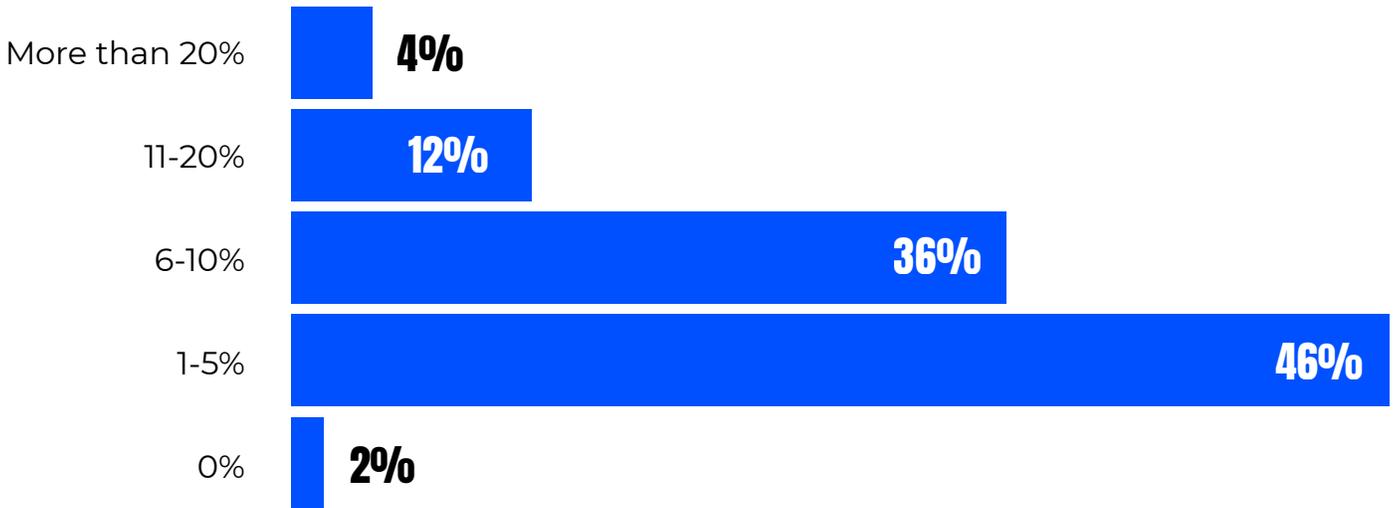
# Which of the following departments have you considered outsourcing?



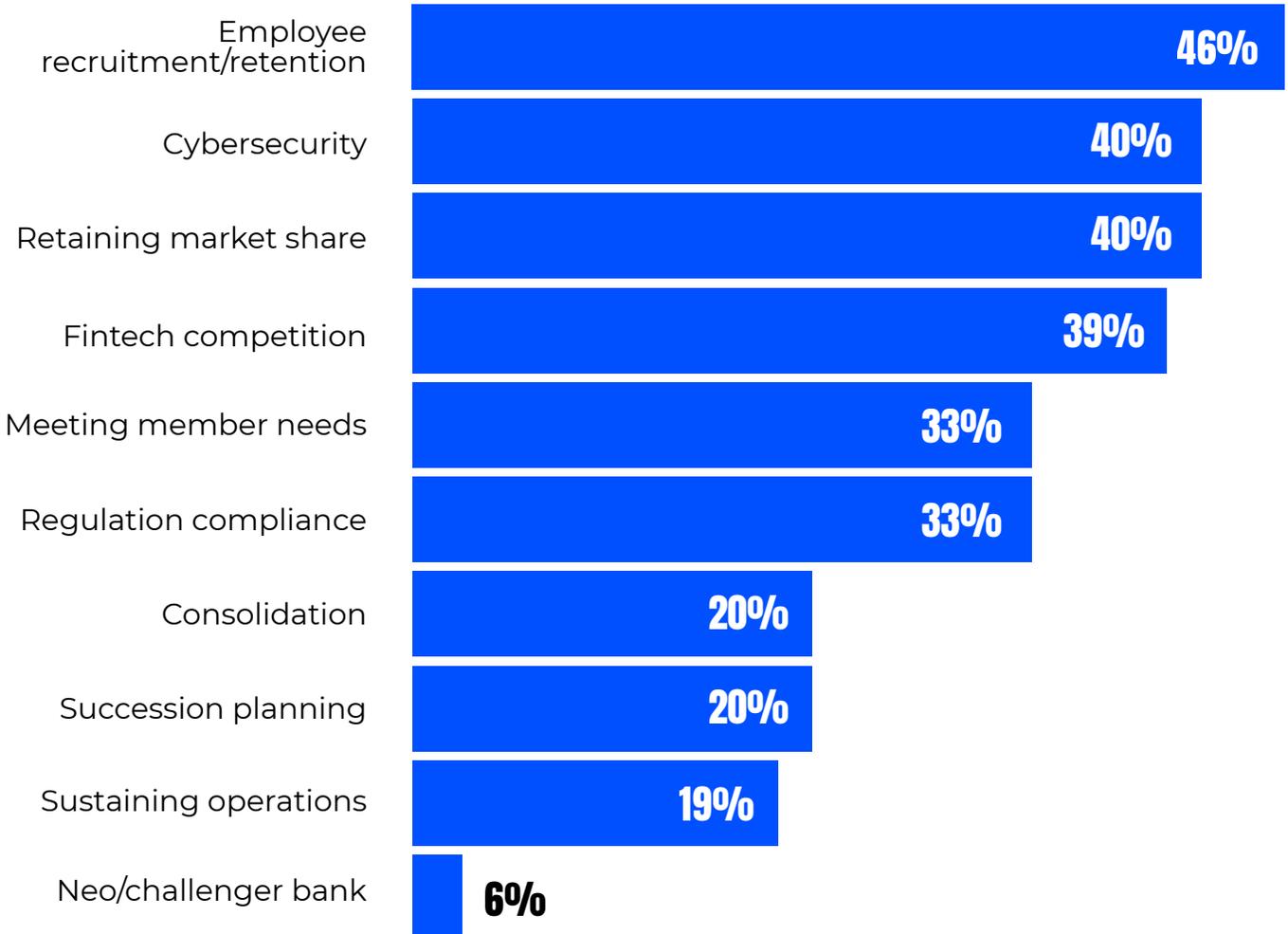
# What is the annual labor turnover for leadership and management employees?



# What is the annual labor turnover for frontline employees?

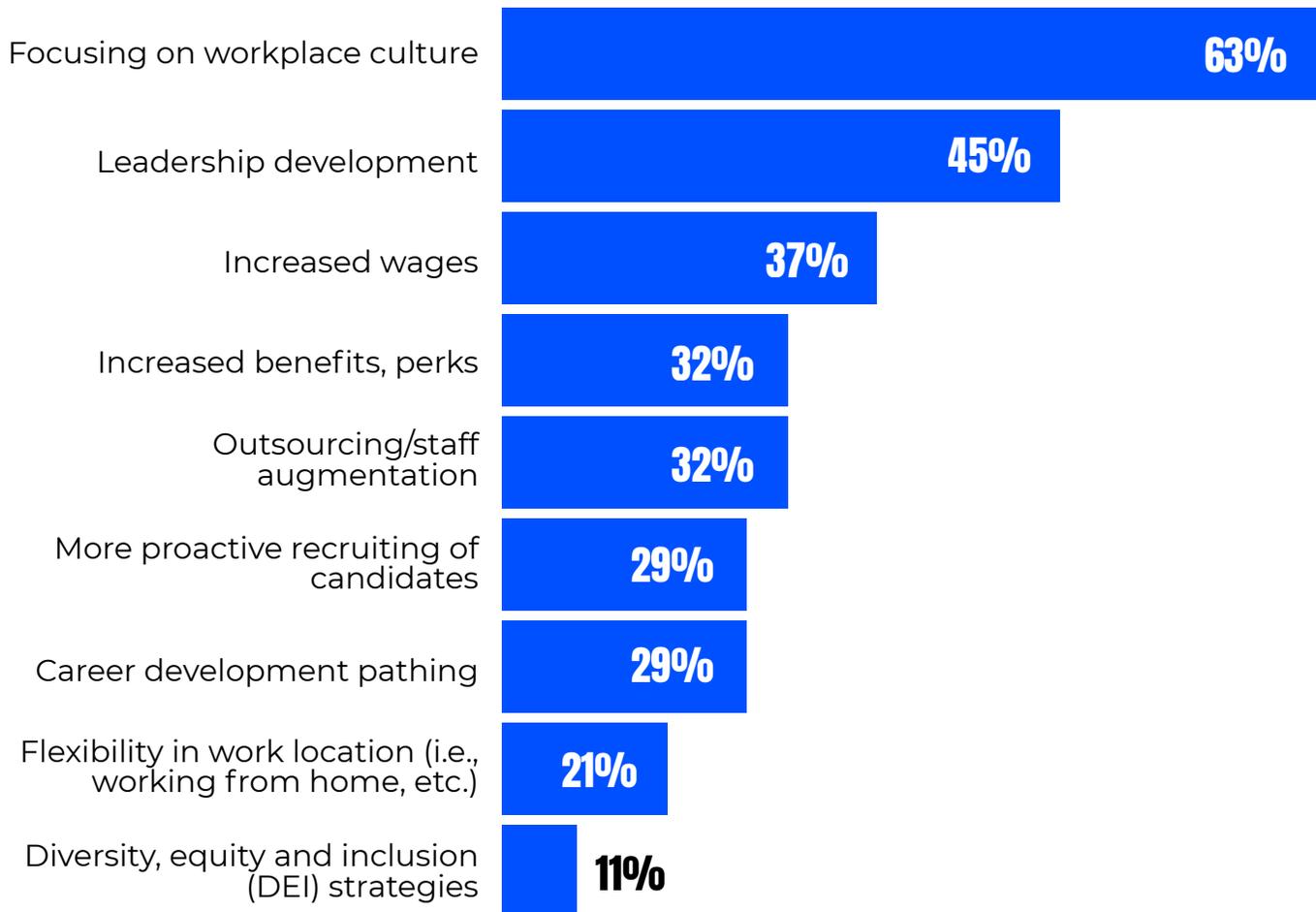


# Of the following, please select your top three concerns.



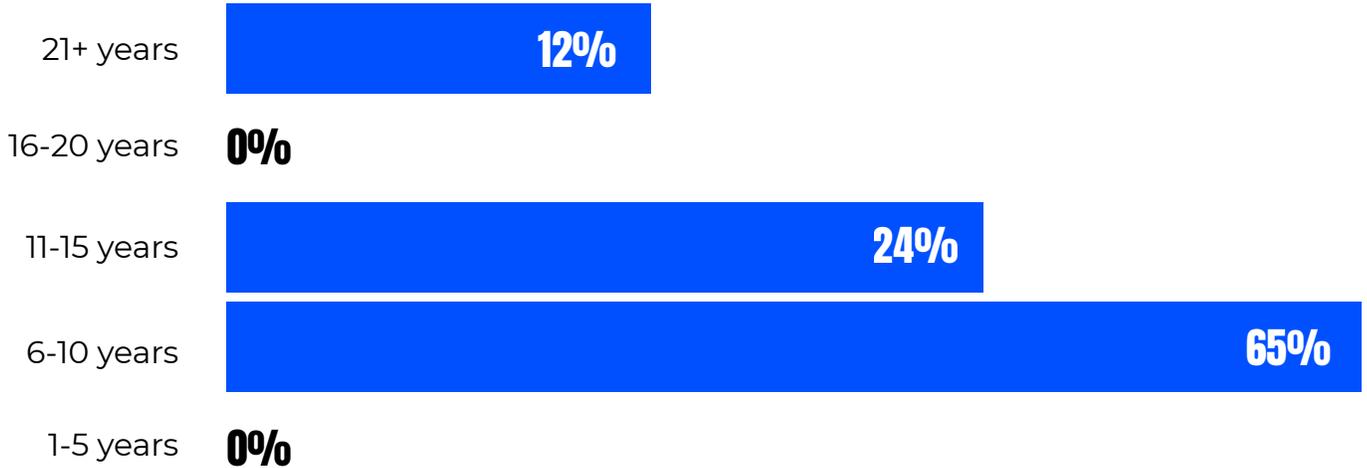
# In the last 12 months, which of the following three actions have been most successful in addressing your recruitment/retention efforts?

Only asked of those selecting “employee recruitment/retention” in above question.



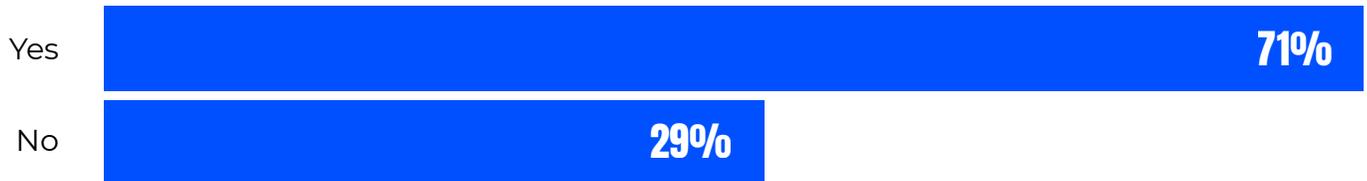
## What are the average years of tenure of your executive team?

(Only asked of those selecting “succession planning” in prior question.)

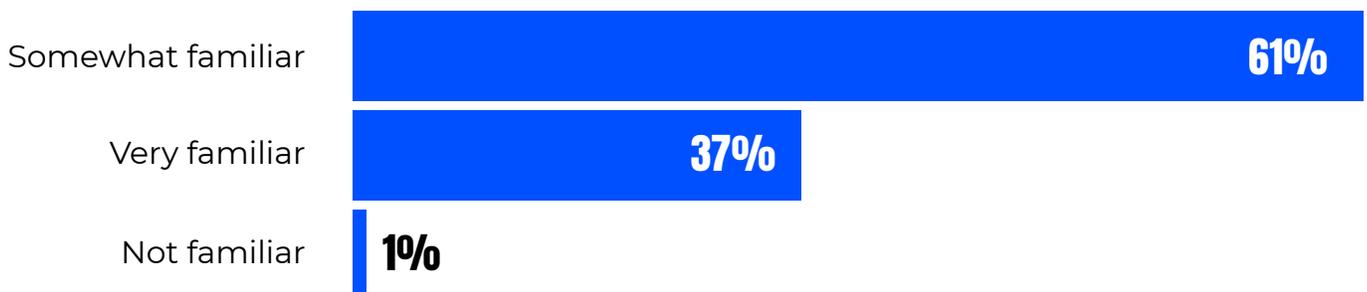


## Does your credit union provide leadership/executive training?

(Only asked of those selecting “succession planning” in prior question.)



## How familiar are you with the challenges faced by unbanked and underbanked populations in accessing financial services?



# Does your credit union have strategies in place to serve these individuals?



If yes, please describe these strategies (summary):

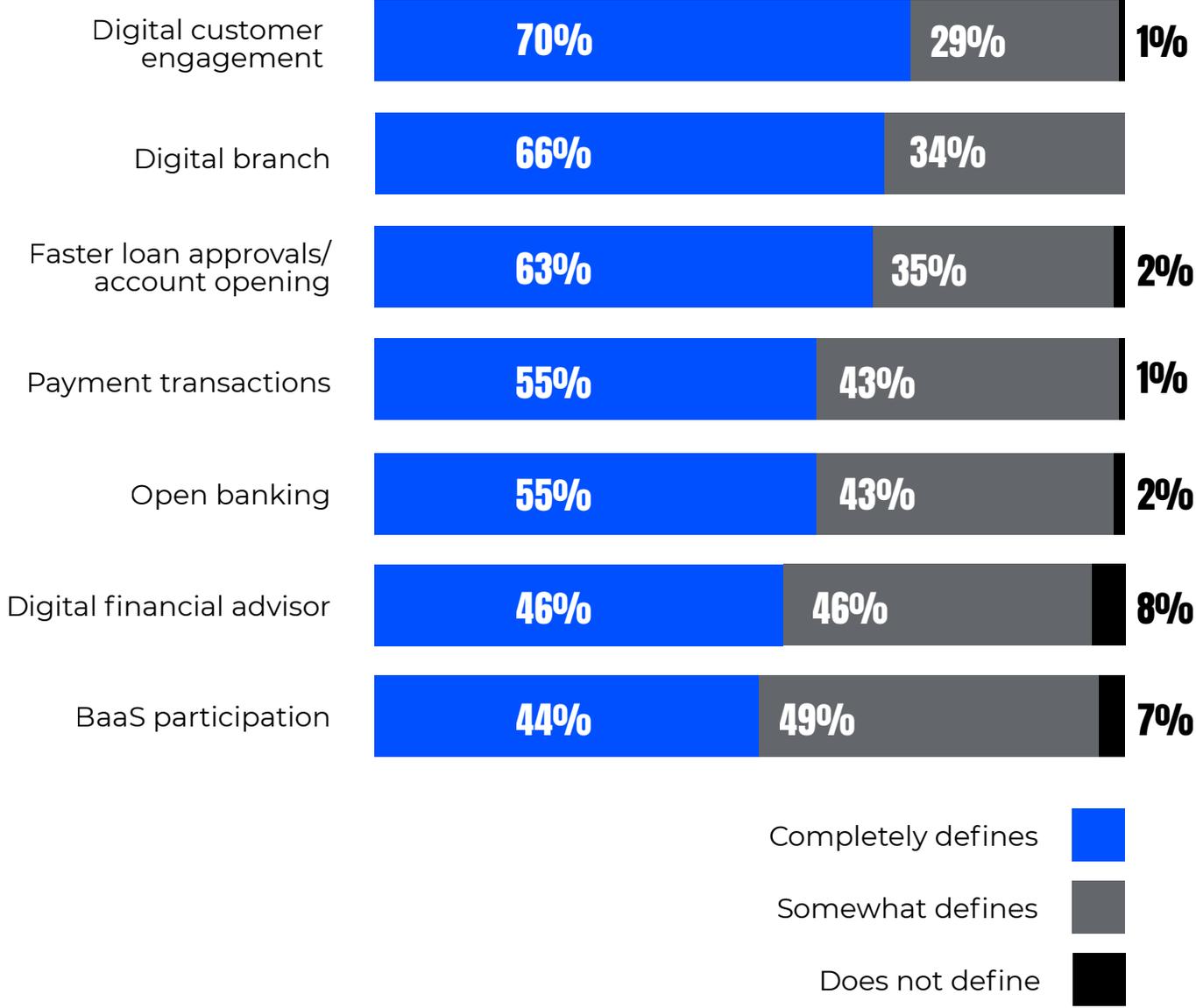
**40%** Banking accessibility and inclusion

**30%** Loan and credit options

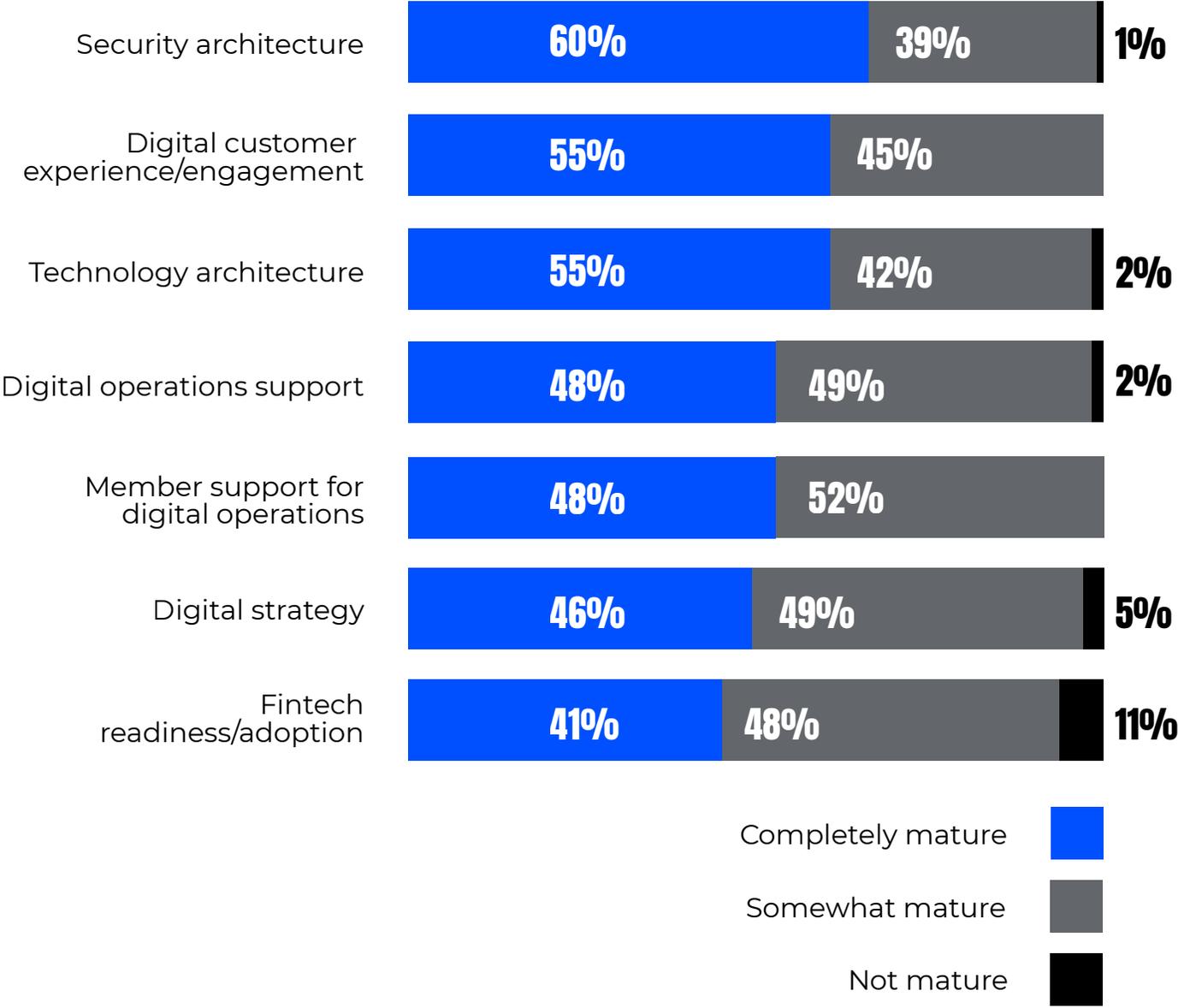
**20%** Community engagement and partnerships

**10%** Digital banking and technology

# Of the following, which most closely defines digital transformation to you?

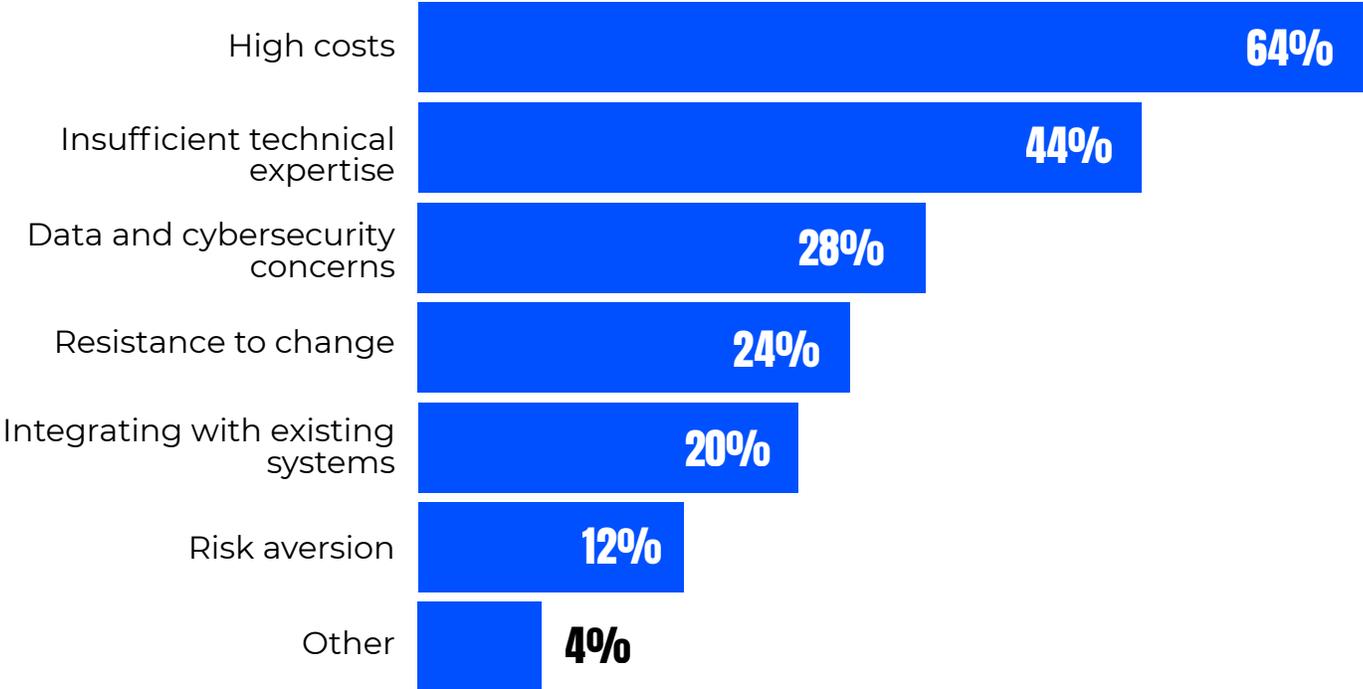


# Please rate your institution's maturity level in the following digital transformation categories.

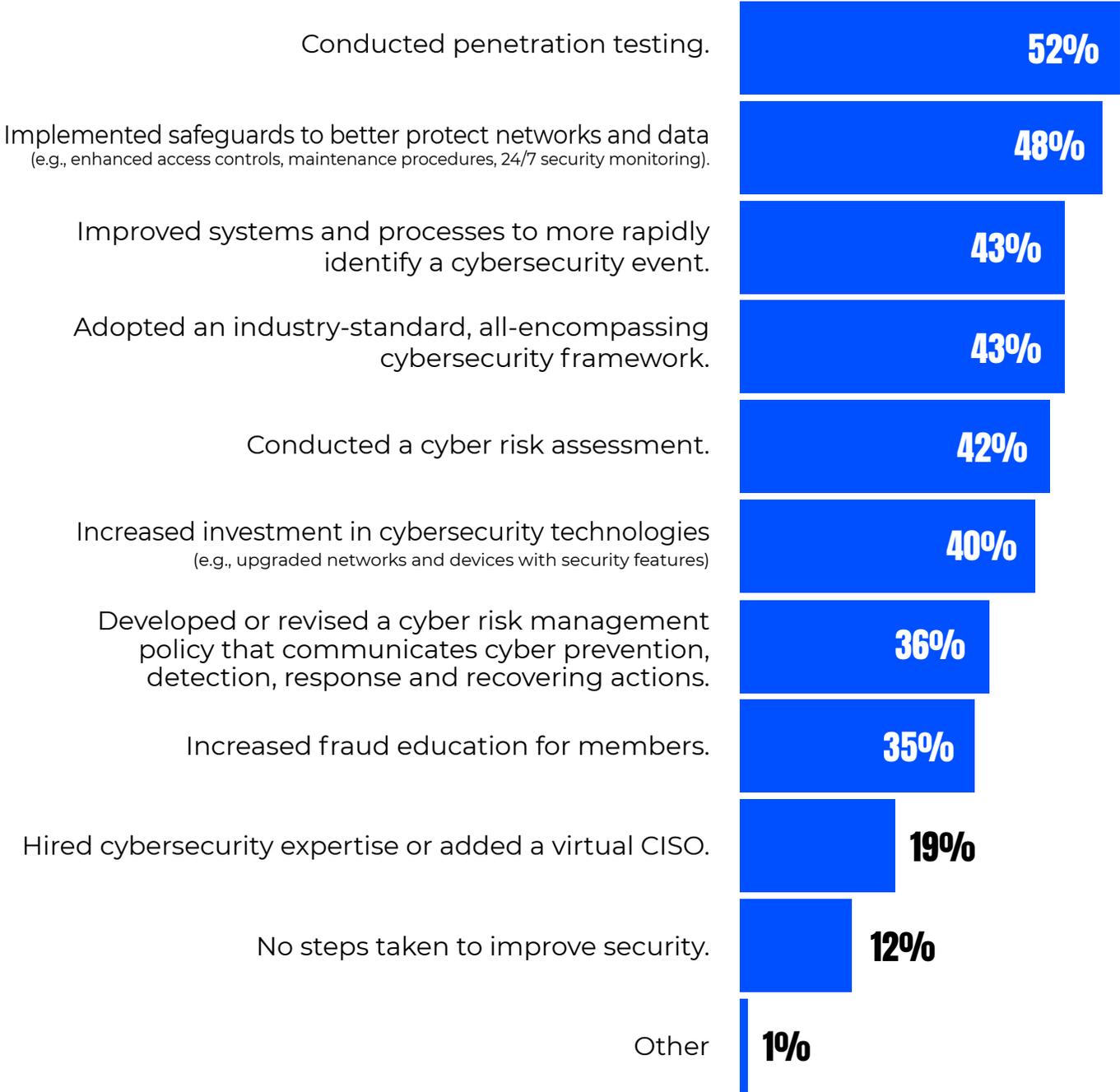


# Of the following, what are the top two barriers to implementing the categories you rated as less mature?

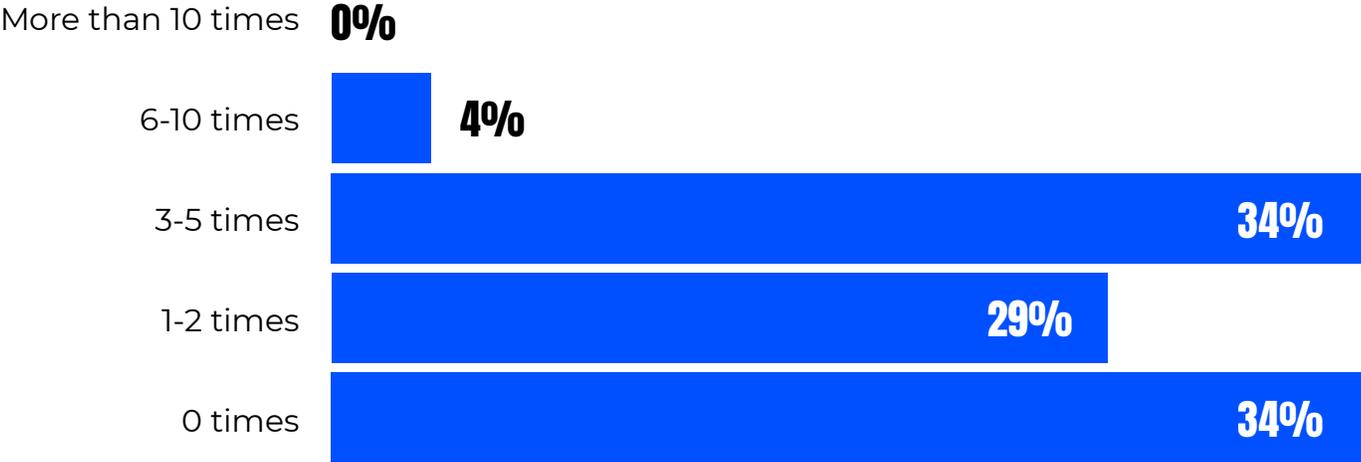
Only asked of those rating one or more items in the question above a three or less.



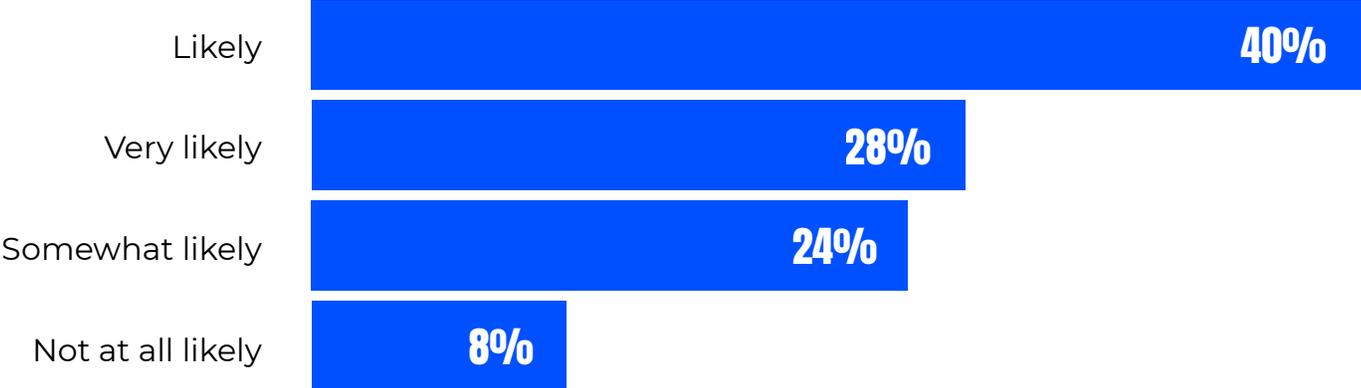
**Cyberattacks continue to evolve at a record pace, compromising member data and your institution’s bottom line. What actions has your credit union taken in the past 12 months to ensure the security of its network and data?**



# How many times in the past year has your credit union identified unauthorized access to networks and data?



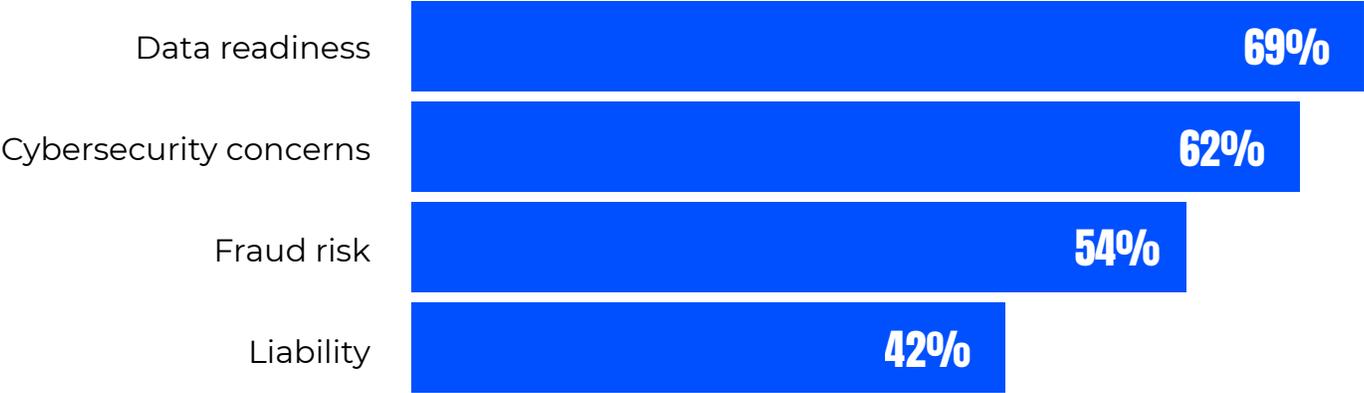
# What is the likelihood that your institution will leverage or implement AI-based tools in the next 12-18 months?



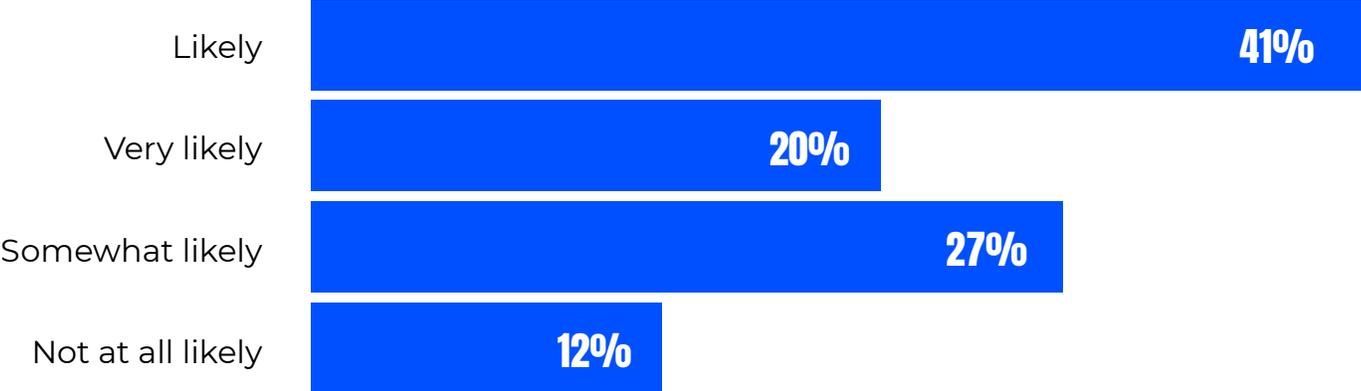
# Has your credit union developed policies on using AI-based tools (ChatGPT, etc.) for your employees and vendors?



# What are the main barriers preventing your credit union from implementing AI-based tools?



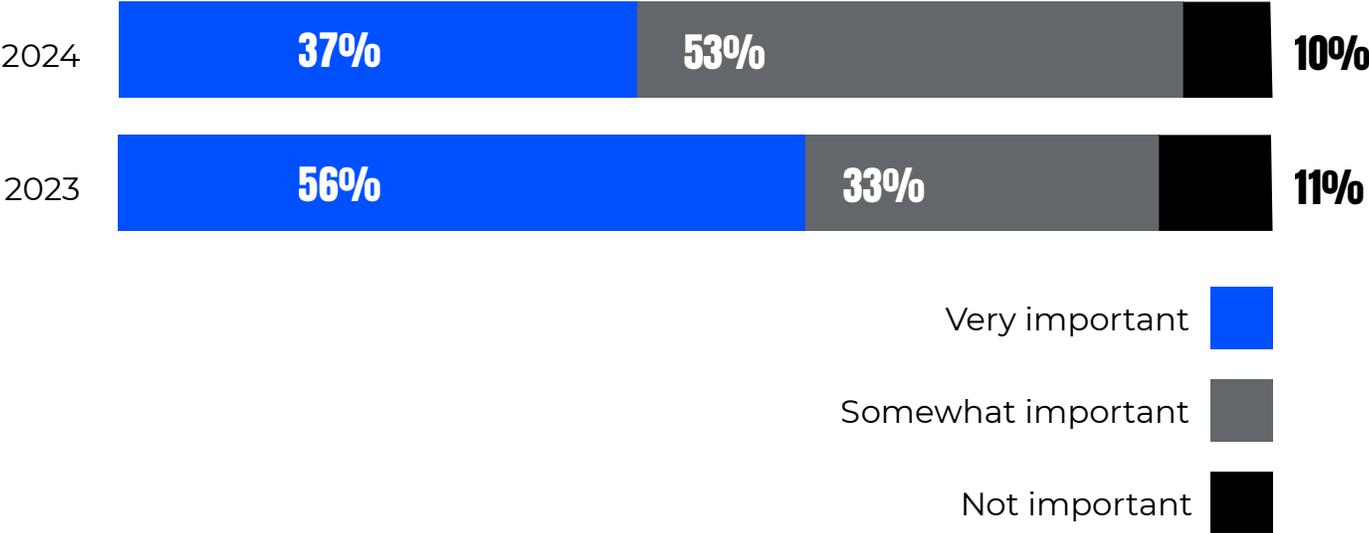
# What is the likelihood that your institution will participate in BaaS or open AI services in the next 12-18 months?



# What are the main barriers preventing your institution from participating in BaaS or open AI services?



# How important is ESG (environmental, social and corporate governance) reporting to your credit union?



# Are you having difficulty quantifying any of the following ESG components at your credit union?

Only asked of those rating the question above as important.

	YES	NO
Environmental	47%	53%
Social	45%	55%
Governance	48%	52%

# 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](https://wipfli.com/credit-unions) to learn more.



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