NUDGE
40 Franklin Street, 4th Floor
Rochester, NY 14604
hello@nudge.solutions
nudgemoney.com

Sam:
I feel like it wasn't too long ago that every credit union in the nation was focused on the millennial market, ensuring that everything we were doing was going to attract and engage millennials.

And now, all of a sudden, there's this brand new generational cohort entering the workforce and reaching financial maturity. Gen Z is bringing 360 billion dollars in spending power with them. They are also the most diverse generational cohort we have seen in this nation to date.

Culturally, ethnically, racially, in terms of gender and sexuality, this is not the member of yesteryear. This is absolutely the member of tomorrow. So, there's an incredible opportunity for credit unions to partner, grow, and thrive with Gen Z. But right now, only about 4 percent of Gen Z are credit union members.

So, I want to start the conversation right there, Reagan, and maybe push that to you and ask, **why are credit unions struggling to engage this cohort?**

Reagan:
That's a great question, and I'm happy to answer it. I'll share how Nudge views Gen Z. For those unfamiliar, Nudge is a financial wellness data engine and virtual money coach designed to deliver hyper-personalized financial guidance to your members through your existing marketing channels and digital interfaces. We segment Gen Z into two groups: younger Gen Z, aged 11 to 18, and zillennials, aged 19 to 30, which is older Gen Z bleeding into millennials.

In preparing for this conversation, I wanted to delve deeply. I read research papers, attended conferences (highly recommend The Underground for great conversations about Gen Z), and spoke with many Gen Zers. I spent long nights and weekends online, talking to and surveying about 150 Gen Zers.

My findings were interesting. A small group, but over 70 percent didn't understand credit unions. When asked why they don’t bank at a credit union or what led them to choose their first bank account, many asked, "What is a credit union?" More than half were guided to their first financial institution and checking account by their parents.

For younger Gen Z, this raises questions like, are we engaging them at the right time? Are we reaching them through their parents? Nudge starts providing financial literacy and education content to parents for children aged 4 and up. This way, by the time they open their first checking account, they're not just choosing the nearest bank.

As younger Gen Z transitions into zillennials around age 18, currently first-time college freshmen, we see opportunities for engagement. Our friends at Arbol, a financial wellness application for colleges, show that 66 percent of first-time freshmen have a checking account. Interestingly, their data revealed a spike in students using Venmo as their primary checking account, highlighting the rise of digital banks.

Now, considering millennials, aged roughly from college freshmen to 30, their needs are more complex. They're primarily asking for three things, as recently highlighted by Financial Brand: guidance on how much to save to meet goals, advice on the type and amount of insurance needed, and strategies to maximize retirement savings, including 401k plans. Addressing these requires digital innovation, personalized data, and alignment of mission and brand to demonstrate that credit unions can answer these questions.

I hope we reach a point where all these elements converge, allowing us to showcase the unique value of credit unions to Gen Z. I believe credit unions have the potential to be champions for their cohort and future generations.

Sam:
Brian, I want to pick up on something Reagan just mentioned. He talked about creating understanding, personalization, and ensuring the data supports that. Data infrastructure and management are daunting for many credit unions. **Is this an opportunity for FinTech to kickstart and amplify their programs to reach and engage these new potential members?**

Brian:
Absolutely. And I want to draw a straight line between the idea of diversity, as Sam mentioned, not just in terms of race, ethnicity, or age, but in consumption habits. This is evident in the streaming of media online and the acquisition of physical goods. We're talking about the actual mechanisms by which people engage with what they like. Going back to Reagan's point, if the connection to a credit union is familial, it indicates a threshold of trust. Parents suggest a credit union, but friends are using Venmo and other FinTech tools, presenting a lower barrier to entry.

To tie it all together, the 'boogeyman' of data comes into play when considering younger people who don't share the privacy concerns of older generations. They're not engaging in traditional ways but are more exposed to direct access to their finances, like with Venmo. Many FinTech organizations are leading the charge in this area. The focus should be on the individual, creating a protective environment while ensuring mutual trust in transactions. Traditional financial institutions and credit unions might not have the capability to do this on their own and need to collaborate with FinTech companies that can provide these safeguards.

Sam:
As Reagan and then you, Brian, spoke, it struck me that this requires a new playbook. It's not just about how business is conducted or operated, but also about outreach methods. Reagan, coming back to you, **how can FinTech help credit unions move beyond the traditional playbook and catalyze innovation?**

Reagan:
Fintechs assist credit unions in various forms. I'll share my macro perspective, which echoes my takeaways from Money 2020. There's a concerted effort to focus on wealth building and wealth management tools, especially since Gen Z and millennials are burdened with an astronomical amount of debt compared to previous generations.

There's a trend towards simplifying financial planning, which often feels overwhelming to many. My career in finance has shown me that at its core, financial planning is about improving well-being and achieving goals. We believe the evolution of personalization in connecting with members lies in simple communications that offer subtle recommendations. Gen Z craves this level of personalization, as do credit unions and banks. A Financial Brand survey of 150 institutions found that 84 percent consider personalized proactive guidance a top priority, yet less than 20 percent feel they're doing a good job at it. Most lack confidence in their institution's ability to deliver this.

The success seen by peers is in marketing conversion. Personalization leads to growth and retention of members. For example, MX reported a threefold increase in conversion through personalization, Credit Union of Texas saw a 300 percent increase in mortgage applications, and a large bank in Europe had a ninefold increase in conversion, according to McKinsey.

Many credit unions still rely on 'spray and pray' marketing, sending the same message to everyone. For instance, a team member receives a 'kitchen sink' newsletter from his credit union, having to sift through every product to find something relevant. My advice is to first examine your financial wellness content. If you have some in-house, great. If you have a partner, also great. Ensure it addresses key concerns like insurance, retirement savings, debt paydown, emergency funds, and more.

Then, look at your marketing copy. If you're in lending, collaborate with your marketing team. Does the copy explain what a 1 percent savings on an auto loan means in terms of the member's goals? Combining financial wellness with effective marketing can have a significant impact. Our team of behavioral scientists and marketers writes copy for credit unions, and we've seen the engagement and conversion it brings.

In simple terms, institutions that saw a spike in conversion evolved from saying things like "try this 0 percent introductory offer" to "here's how to make the holidays stress-free." The next step in personalization is connecting these offers to members' goals, like "make the holidays stress-free and achieve your goal of buying a home one year earlier by refinancing your auto loan, saving $8,000 in interest over the next few years." We believe that connecting to goals and providing clarity will be the key to winning the hearts and minds of Gen Zers.

Sam:
I often discuss with our credit union system partners at Mission Brands Consulting the issue of commoditization in the financial services industry. This approach doesn't create a level playing field, especially for smaller credit unions, and it's not innovative, intentional, or personalized. Commoditization of services won't win brand equity, affinity, loyalty, or foster sticky relationships. It's about understanding and addressing individualized, personalized needs and articulating your unique value.

Having a savings account isn't a true differentiator, but the ability, aptitude, and genuine strategic ambition to meet individual needs like Reagan's and Brian's, providing predictive, anticipatory services – that's a real differentiator.

Brian, I'd like to hear your thoughts on the price of entry in this context. I know you've had several discussions with large national and global organizations about this. I recall a LendKey podcast where Matt Harris from Bain mentioned that there shouldn't really be a term like 'fintech' anymore. It's akin to how digital media just became media. Financial institutions have digitized, and there isn't one that isn't integrating some form of fintech.

So, what are the barriers or prices of entry for smaller, more agile, and exciting organizations like ours? What are you hearing? And what's your counterpoint or value proposition in this scenario?

Brian:
Yeah, and if we establish fintech as the automation and proactive achievement of banking goals and outcomes, contrasting it with traditional finance, which has been practiced for over 150 years, we see a clear distinction. I often use the term 'antibodies' to describe the reluctance to change from comfortable, long-standing practices, especially in finance where there's a heightened sense of risk.

Companies that have developed software and are considered fintech have essentially decoupled themselves from this risk. However, I don't believe fintech companies are any less risk-conscious than traditional financial institutions like credit unions. They recognize opportunities and believe that by mitigating certain risks, they can achieve a return on investment, paving the way for credit unions to adopt new technologies more comfortably.

But let's circle back to the concepts of intention and personalization. A financial institution, especially one you've been with for a while, knows your spending habits and interests. This knowledge presents opportunities to not only align offerings with your long-term goals but also to educate you on possibilities you weren't aware of. Imagine, 25 years ago, if my bank had proactively and intentionally guided me, showing me a snapshot of my financial future at different stages. That would have made me more receptive to their services and technology.

The pushback against differentiating traditional finance from fintech is essentially about removing the gatekeepers in institutions who fear innovation might render their roles obsolete. Financial institutions will always be necessary, but they need to be more collaborative and view fintech as just another tool in their toolbox. This mindset will lead to broader adoption, but it must be done in steps.

Reagan:
Brian, I have a question for you. You are seen as the missing link between fintechs and financial institutions. **Referring back to Sam's question about barriers to entry, what can credit unions do today to reduce that barrier and friction between themselves and fintechs? And how does Allison assist with this?**

Brian:
That's a great question. Philosophically and from an application standpoint, Allison positions itself as a source of truth. We aim to simplify the relationship between the individual, their credit union, and the credit union's various relationships. We boil it down to first principles. For instance, Allison ensures I, as an individual, have done everything necessary to remain a 'good actor,' not involved in financial crimes or activities detrimental to financial health. Once we establish this trust, we create a digital stamp that follows the individual. As they engage in positive financial behaviors, financial institutions (FIs) they sign up with can leverage this information to offer them suitable financial products.

Conversely, we ensure that individuals involved in negative activities stay out of the system, handling things like anti-money laundering and sanctions list violations. One of our key functions is connecting publicly accessible financial information back to the FI, so they know the type of customer they're dealing with. Our software automates this process, allowing FIs to decide programmatically whether to work with a customer.

Allison also serves as an aggregate hub for various FinTech services that FIs might want to offer. We streamline integration, so FIs don’t have to worry about technicalities like reporting to regulators. We integrate directly into their existing core systems, so there's no need for them to change their business practices. The only new step is deciding whether to accept and keep new deposits.

However, the challenge is more mental than technological. It's about overcoming the mindset of 'we've never done this before.' Once that barrier is crossed, everything else becomes easier.

Sam:
Brian, your discussion about the digital stamp is fascinating. Raiden, tying back to your earlier point about Nudge's early interventions from as young as age four, and considering that the oldest Gen Z members are only in their early to mid-twenties, many don't have

long-standing banking relationships. This early engagement could be a solution to the issue of graduate attrition that some credit unions face. It presents an opportunity for credit unions to form longer-lasting relationships with members beyond their college years.

Regarding the vast number of FinTechs compared to credit unions, the question arises: **are we seeing a market of FinTechs looking to profit from credit unions, or is there a real opportunity for mission alignment and strategic partnership? This is crucial for credit unions to consider in their approach to partnering with FinTechs.**

Reagan:
It's a great and important question, as I believe the relationship between financial institutions (FIs), credit unions, and fintechs will likely change in the next few years, and I hope it does. Echoing Brian Cass from TrueStage, he mentioned in an article that credit unions are attractive to many fintechs due to their large, loyal membership. Often, a fintech has great technology but lacks market share or trust in the financial services space. Combining powerful technology with credit unions can be effective. However, among the 8,000 to 10,000 fintechs, some are in it for the money, while others are truly mission-aligned. This should be a barrier to entry. Why not focus on mission alignment?

For us at Nudge, it's definitely about mission alignment. Growing up, I helped underprivileged individuals in India and worked with various nonprofits, which led me to banking. I realized the best way I could help was through delivering financial wellness at scale. So, my advice is to ask your fintech vendors about their mission. Why are they doing what they're doing? Why do they see themselves as true partners? This can provide insight into their motivations and whether they will be true partners. If they can't articulate this easily, they might not have thought about their mission, and their focus might be elsewhere.

Sam:
Well, gentlemen, our time has flown by, and I want to be conscious of everyone who's tuned in. We will ensure that a recording of this conversation goes out to all of you, and we'll also answer the questions that have come in. Reagan, Brian, thank you so much for this informative conversation. I've learned a lot, and I think the key takeaway is the opportunity that lies ahead. With only 4 percent of Gen Z as members, there's 96 percent of potential growth, and there's an ecosystem of fintech ready to simplify and streamline that growth.