velera

The Psychology of Payments

Understanding Your Member's Mindset to Achieve Long-term Growth

A *CU Growth Outlook* special report in partnership with Mastercard

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Executive Summary

When it comes to serving your members, it's helpful to view the full picture of their financial lives. This includes understanding the challenges they face and even the psychological factors that influence their purchasing and financial decisions so that you can personalize their member experience. To that end, as part of our *CU Growth Outlook* research in partnership with Mastercard, Velera (formerly PSCU/Co-op Solutions) sought to understand when, where and why consumers use credit or debit when paying for goods, services and experiences.

Each member has a unique mindset and relationship with money and their finances. To effectively support members in the moments that matter, credit unions must fully understand their individual mindsets—their financial goals, aspirations, motivations and concerns—and then offer added value that resonates with their specific needs in that moment. This is critical to successfully capturing their daily interactions and building a relationship for the long term.

In this special report, we use a behavioral science approach to understand the reasons—conscious and unconscious—that influence payment choice, and helps us identify the best ways to guide members' behavior. This is the first step to capturing your members' primary financial interactions.

Exploring the Budgeter and Non-budgeter Mindsets

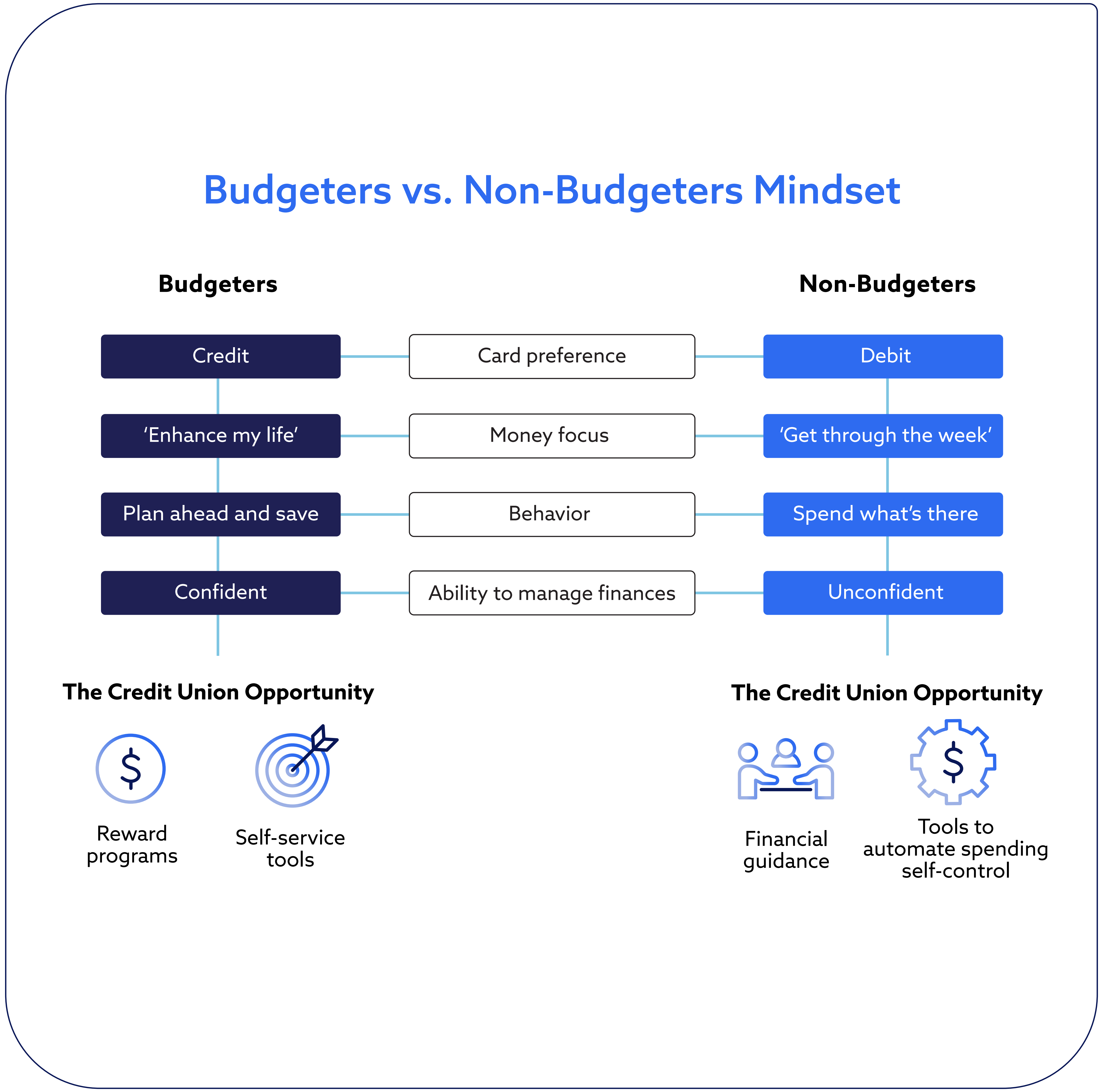
Every member has unique goals that drive their financial decisions and influence their payment preferences. In 2023, Velera worked with Mastercard to identify and categorize these behaviors into three unique frameworks: **mental accounting, pain of payment and temporal focus**.

1. Mental accounting
Do consumers view money as a single pool, or within separate categories of spending? We found that members who prefer credit exhibit strong mental accounting behavior, while those who prefer debit have a lower awareness of their financial standing.

2. Pain of payment
To what extent do consumers find it enjoyable or painful to spend money? Members who deal with credit are less likely to make unplanned purchases. However, those who use debit cards are less likely to stick to a budget, so they tend to avoid credit cards.

3. Temporal focus
How concerned is the individual with their future versus present needs? Credit card users are more concerned with prioritizing future outcomes, while debit users focus more on purchases for immediate needs and happiness.

Based on these frameworks, key differences between buyer types were identified, which we then classified into two distinct mindsets: the “budgeter” and “non-budgeter.”[1]



[1] Note: although the research found a range of card preferences among those who fall into the budgeters and non-budgeters groups, for the purposes of this report, since (on average) budgeters primarily use credit cards and non-budgeters primarily use debit cards, we’re going to refer to them in these terms.

Credit vs. Debit: The Psychology of Occasion

When do consumers prefer to use credit over debit? It comes down to occasion. In general, most consumers prefer to use credit for higher-ticket purchases, while choosing debit most often for recurring bill pay expenses and lower-priced items. But these preferences vary significantly between those consumers with budgeter and non-budgeter mindsets.

Occasion	Budgeters		Non-Budgeters	
	Credit	Debit	Credit	Debit
Travel	**63%**	27%	**51%**	34%
An unexpected $250 repair bill	**54%**	29%	**50%**	33%
New electronics online	**58%**	31%	**48%**	38%
New electronics at the store	**56%**	31%	**48%**	39%
An unexpected $250 discount on a $500 household item you need	**55%**	31%	**45%**	37%
Tickets for a show/concert next year	**52%**	31%	44%	37%
Wedding gift	**41%**	31%	32%	**40%**
Celebratory dinner	**45%**	37%	39%	42%
A small kitchen appliance online	45%	41%	37%	42%
Babysitter	11%	9%	14%	16%
School fees	33%	34%	34%	36%
Clothing or other apparel	41%	40%	33%	**48%**
A small kitchen appliance at the store	40%	41%	33%	**46%**
Movie tickets for today's show	34%	35%	28%	**44%**
Coffee at a coffee shop	25%	29%	25%	**36%**
Day care/childcare	28%	32%	27%	**36%**
Streaming service	38%	43%	34%	**46%**
Birthday gift	31%	36%	26%	**42%**
Weekly groceries	34%	**45%**	33%	**47%**
Rent/mortgage	20%	**31%**	22%	**35%**
Stock-up trip on toiletries	33%	**45%**	29%	**49%**
Utilities	27%	**40%**	26%	**46%**

Note: bold indicates significant difference

The idea of using credit for day-to-day has not been embedded in non-budgeters.

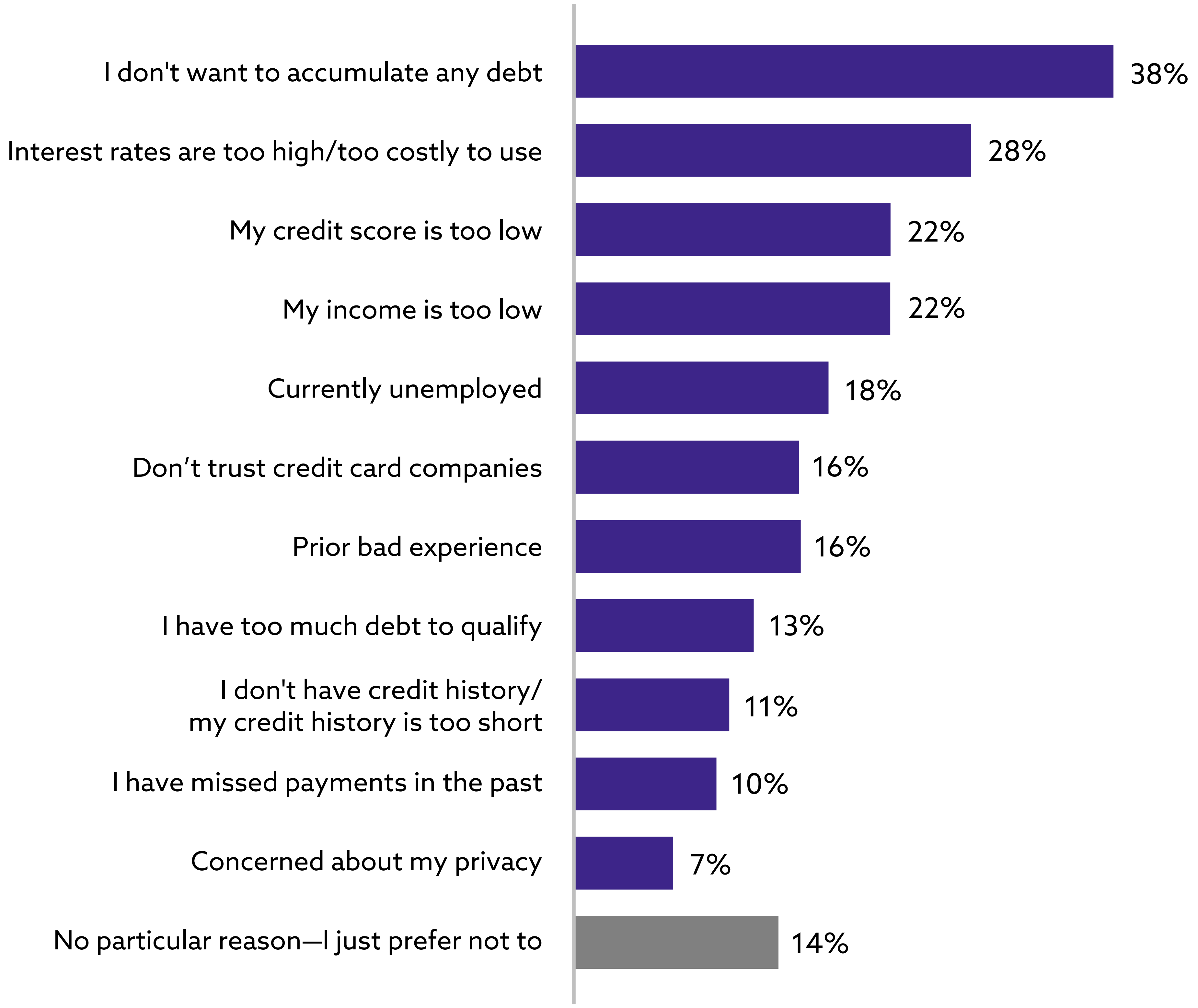
Non-budgeters avoid using credit for day-to-day purchases like clothing, school fees, groceries, daycare and utilities. In contrast, budgeters make less of a distinction, and are generally more amenable to using credit for regular, recurring purchases, even though they still prefer debit for such recurring transactions like rent, weekly groceries and utilities.

There are many reasons why non-budgeters avoid using credit for their daily transactions. For one, the daily credit habit has not been embedded in them—it's not part of their routine. But it also reflects a deep wariness of over-borrowing and a fear of losing control over their financial picture.

When we asked non-credit owners as to why they didn't have a credit card, the number one reason cited was "I don't want to accumulate any debt." This indicates that non-budgeters (a group that includes those who don't own a credit card) have a high degree of self-awareness regarding their spending habits and financial challenges. They purposefully try to avoid the temptation of "easy credit," in fear of letting their debt burden balloon out of control.

Credit Card Barriers

Non-credit card users are primarily nervous about accruing debt, but rising interest rates pose a problem as well.



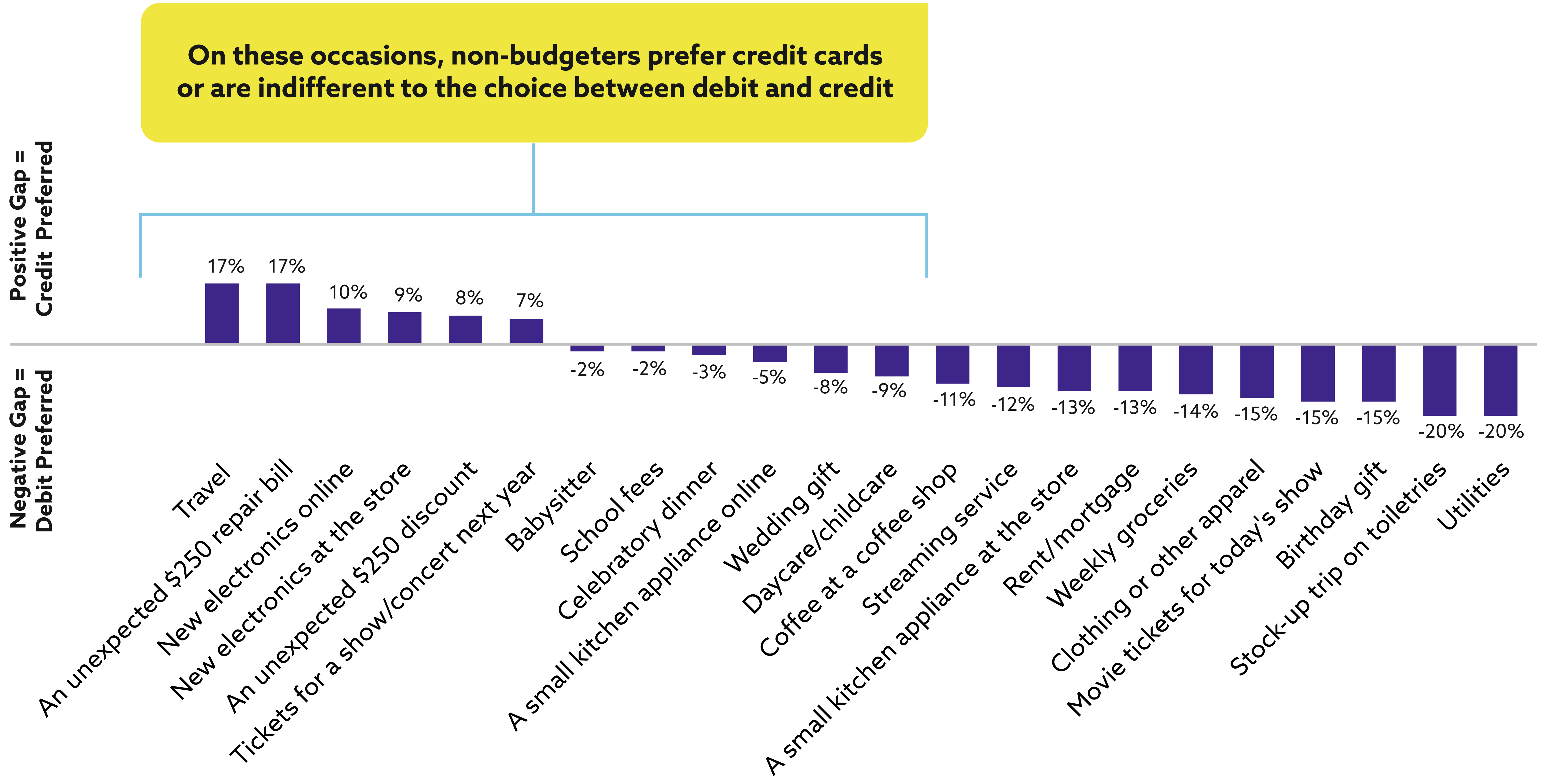
Budgeters are very strategic in their payments usage. They try to get the most bang for the buck out of each payment method. For this reason, they typically reserve specific credit cards for different types of purchases but rely on one card as their top-of-wallet, go-to payment method of choice.

How do credit unions best address these different mindsets and meet their members where they are? By thinking of **payments as engagement tools in the daily lives of their members**. Credit unions must stop thinking of credit as simply a lending service. Budgeters don't think of it that way; they use credit strategically as a budgeting, payments and rewards vehicle—a convenient and useful tool for daily financial management.

With some coaching, non-budgeters can come around to the idea of using credit regularly and begin using this convenient method of payment as a prudent way to manage their daily household budgets. But credit unions must proactively provide them with common-sense, fail-safe controls to support their financial wellness and help them maintain a healthy personal balance sheet.

Gap between Credit vs. Debit Usage by Occasion for Non-Budgeters

Credit-adverse non-budgeters may react better on credit-promoting campaigns focused on the occasions without any or with less stickiness to the use of debit (e.g., travel, high-ticket spend)



Beyond the Buzz: Personalization is the Key to Engagement

It seems that everyone in financial services talks about "personalization" these days. But it can be a hard term to define.

For credit unions, personalization refers to the ability to customize your offers, incentives, messaging, technology and solutions to meet the individual needs of your members. The goal of personalization is to increase your members' daily interactions and engagement while also helping them improve their financial wellness and achieve their hopes and dreams. In other words, personalization holds the key to relevancy.

To achieve personalization, embed convenience and create relevant offers, your credit union needs to understand your members' behaviors, mindsets and preferences. Only then will you be able to figure out how to make that experience and journey better for them. A great place to start is by analyzing your member base through the lens of a budgeter versus non-budgeter mindset.

For example, budgeters have more confidence in their financial acumen and position, and thus are more swayed by gamification and rewards than non-budgeters. They enjoy a challenge, and are motivated by the "game" of finding the best deals and receiving positive reinforcement for their behaviors. Conversely, this group is not incented by low APR and balance transfer offers, because they typically don't carry a credit balance from month to month.

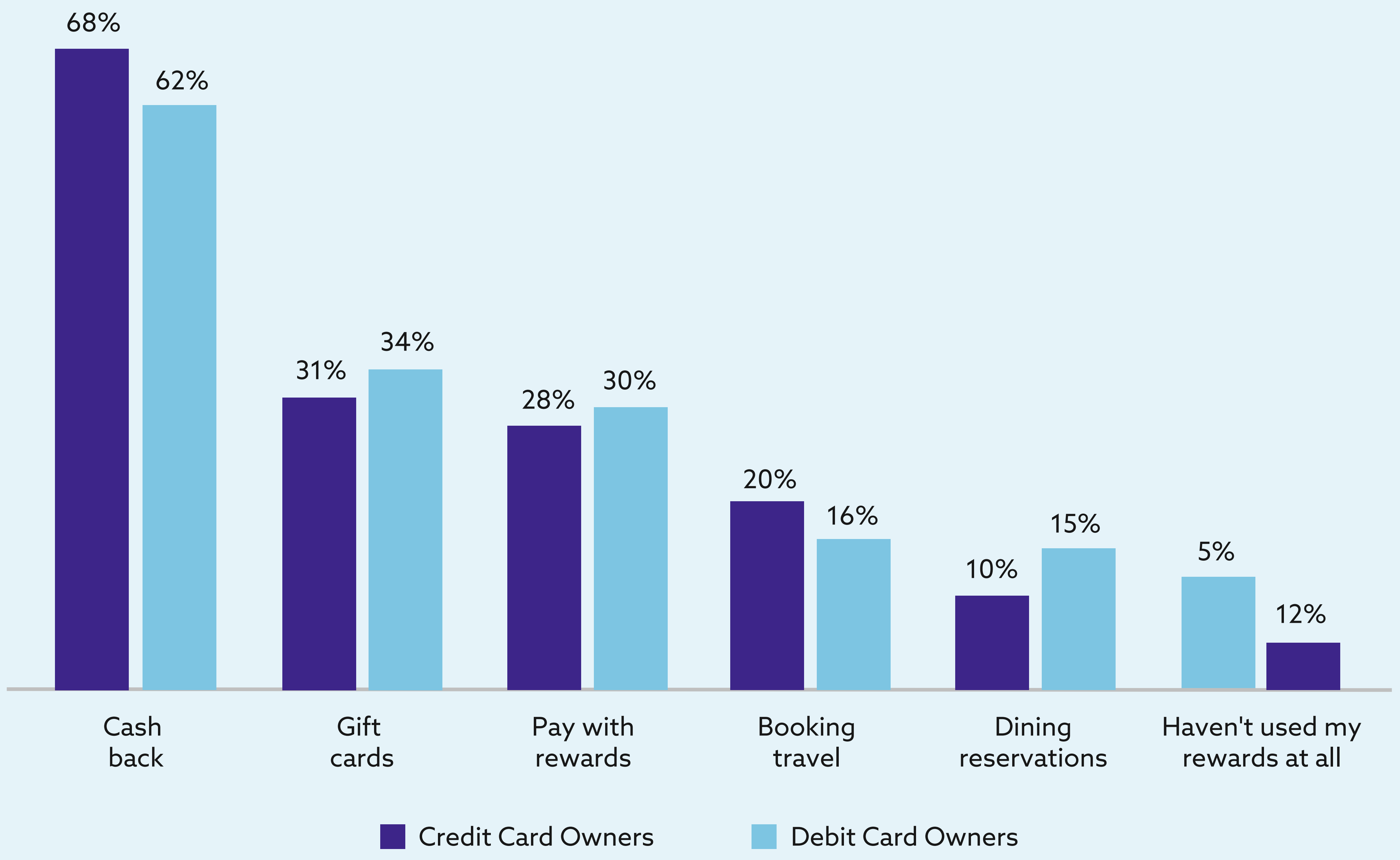
In contrast, non-budgeters are primarily motivated by the ability to save and manage their budgets. Cash back has more value to them than rewards, as it means more money in their pockets. They look for the lowest APRs and can be swayed by low-rate balance transfer offers, which they view as tools to help them manage their finances and limit the damage caused by carrying high debt loads.

Among those consumers that own cards with rewards programs, just 5% of credit card owners haven't used their rewards, whereas 12% of debit card owners haven't redeemed their rewards at all. This indicates that non-budgeters, who have a higher propensity toward using debit for most of their purchasing needs, may require more education on the value of their rewards program.

For these non-budgeters, it's important for credit unions to help them automate self-control, through tools and proactive triggers that allow them to limit spending in certain scenarios, or receive notifications. Also, credit unions should look for opportunities to reach out to these members to offer advice and personalized product offers when certain triggers, such as overspending in certain categories, occur.

Using Credit/Debit Card Rewards

Among credit and debit card owners with cards offering rewards



Putting Your Member's Mindset to Work for Your Credit Union

To begin moving toward a member-centric model and to capture your members' daily interactions, credit unions must first address their unconscious concerns, in order to create value that aligns with their unique needs.

This entails different approaches for members that fall within the budgeter and non-budgeter mindsets. For example, for budgeters, credit unions should offer targeted, feature-rich rewards programs and self-service tools that allow them to quickly and easily manage their day-to-day spending and budgeting. They value greater choice in products and features than non-budgeters, and are comfortable in taking the wheel in navigating their financial lives.

Non-budgeters require higher levels of handholding and guidance, through personal attention, proactive communication, and tools to automate spending and encourage self-control. For this group, credit unions should focus on providing more support, less choice, more safety and security, and less "adventure." This group values predictability, protection, and encouraging responsibility. Credit unions should give non-budgeters less choice—and a clear path to achieving their goals.

Addressing Mindset Throughout the Member Lifecycle

Once you've identified which of your members fall within the budgeter and non-budgeter mindsets based on their purchasing and borrowing behaviors, you can begin implementing a relationship development strategy that addresses each group's unique needs through the five stages of the member journey: promotion, onboarding, spending, redeeming and relationship building.

Credit/Debit Member Journey

	Promotion	Onboarding	Spending	Redeeming	Building Relationship
Budgeter	Emphasize access to new options, opportunities and excitement coming out of today's spending or future's savings	Provide tools (e.g., calculators) and future-oriented information about a product to stimulate activations	Summarize and display benefits and cash back accumulated (i.e., quarterly/annual summaries)	Provide options and choice in redeeming cash back and bonuses	Promote new products demonstrating long-term benefits/savings Introduce loyalty program benefitting long-term customers with tangible rewards
Non-Budgeter	Communicate more (great) options, but also the security, guidance and knowledge of how to use these tools responsibly	Guide new onboardings step by step Provide timely assistance and access to financial advisors or training, improving confidence	Highlight services that help control spend Show immediate next best action (e.g., 'spend just $90 more this month to qualify for…')	Ensure a clear path to redeem cash back and bonuses and availability of redemption guidance	Promote security and controls via app / web functionality Shift debit spend to credit on tender neutral occasions Focus less on the quantity of possible options but more on navigation through challenges

The Five Stages of the Member Journey

1. Promotion

During the acquisition stage, it's important to differentiate your messaging for those prospects that fall within the budgeter or non-budgeter mindset. For **budgeters**, focus on offerings that provide long-term, value-added benefits, and emphasize new opportunities to trigger the member's excitement about the future.

For the **non-budgeter** it's important to emphasize security, financial guidance and overcoming obstacles in your marketing messaging. Focus on the member's financial wellness, and talk about how your offerings will help them use their funds wisely and responsibly.

When promoting credit cards, remember that non-budgeters are leery. To help them make the leap to credit, credit unions may show how they will be supported throughout their journey.

2. Onboarding

As you welcome your new member into the credit union, offer **budgeters** self-service tools like financial calculators, along with future-oriented information about products to stimulate activation and usage.

For the **non-budgeter** this is the stage when providing step-by-step guidance, hands-on assistance and access to experts is most critical, as it will set the tone for the relationship and help the member gain confidence in their ability to manage their financial picture.

3. Spending

As the member activates the relationship and begins using your credit union's products and services, focus on embedding your credit union in their daily financial lives through micro-transactions. Keep your **budgeters** engaged by providing quarterly summaries of their spending patterns, offering cash back and other rewards to incent regular usage, and stimulating their engagement through gamification strategies.

Non-budgeters will benefit most from services and tools that help them control their spending and stay within their weekly budgets. Card controls and alerts that empower members to decide when, where and how their preferred payment methods are used will help them stay on track with their financial goals.

4. Redeeming

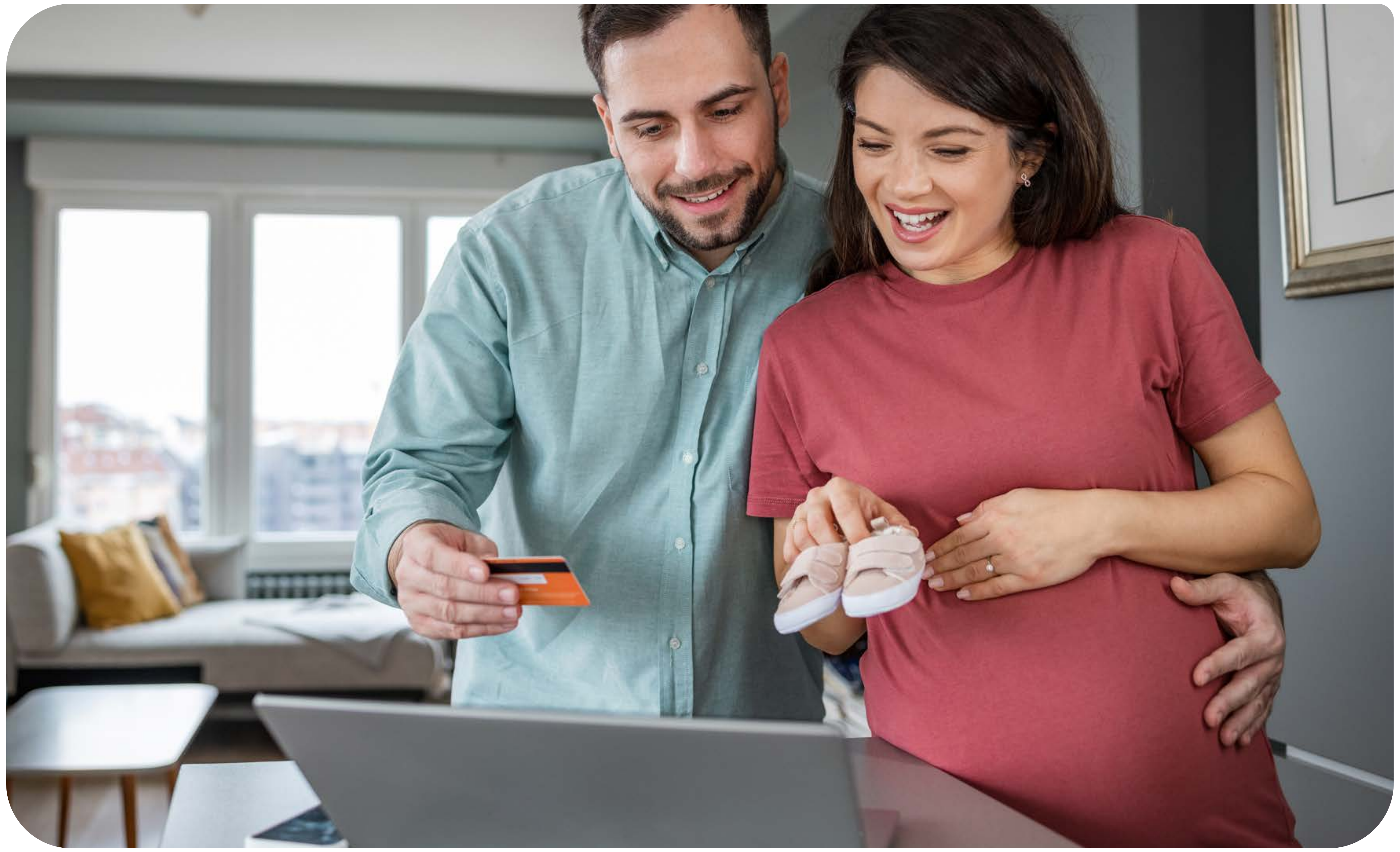
Loyalty programs are a critical component of activating relationships with all member types, but different approaches work with different payment mindsets. For **budgeters**, offer them a choice in redeeming for cash back or tangible rewards.

Non-budgeters, on the other hand, value cash back above all other reward options. Make sure to provide them with a clear path and guidance for redemption to ensure they don't miss out on bonuses.

5. Building Relationship

The keys to growing long-term, sticky relationships are convenience, and being there for your members as they go through life's stages. For **budgeters**, promote new products demonstrating long-term outcomes and savings. Introduce a rich loyalty program benefiting long-time members with tangible rewards.

For the **non-budgeter**, promote security and controls via app and web functionality. Help the member navigate their financial challenges by offering fewer options and providing a clear path to achieving their goals.



Conclusions

Understanding your members' psychology of payments—their emotional drivers of payment behavior—will help your credit union engage every day, give good guidance and earn your members' balance sheet.

There's an opportunity to be the go-to partner for your members by demonstrating that you understand their needs, and that you're best positioned to help them achieve their financial goals and lifelong dreams.

About the Research

Velera and Mastercard conducted an online survey in January 2023 of 1,005 U.S. consumers to understand factors influencing payment choices. The panel consisted of 61% non-credit union members and 39% credit union members, and was demographically and geographically diverse, with participants ranging in age from 18 to 65 years and split among 52% male and 48% female respondents.

Products and services may be designed to keep in mind one of the behavior types – or both – to address members' unconscious concerns

Budgeter

Self-Serve
These members are more financially confident, so self-guided services are likely to be more useful than ones reliant on other people

Open Doors
Rewards that offer memberships, new experiences, or exclusive access are likely to be more appealing as this group uses their credit cards to experience new things

Future Focused
Lean into this group's planning tendencies by offering them new ways to improve their financial future, such as cash back that goes directly to savings

Non-Budgeter

Hands-On Support
These members need more active support. Provide access to financial advisors or training that make it easy to improve financial confidence

Automate Self-Control
Allow users to limit credit spending or set up notifications when they have reached a spending threshold to help them effortlessly control their spending

Tie Present Rewards to Future Ones
Help them improve their financial future by tying immediate rewards (such as cash back or extra points) to financial milestones (such as meeting a savings goal)

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