JUL 22
Sherry Fairchok

Smaller FIs are struggling to win over younger consumers as their older customer base dwindles

Article

Smaller FIs serve an aging customer base. That's creating what one VC has called "the largest existential threat facing community banks that no one is talking about," per BankTech

Ventures. As of 2020 (the most recently available data), the average age of a credit union member in North America was 53, while the median age of a US consumer was 38.9, according to the World Council of Credit Unions. The inevitable shrinking of smaller FIs' customer base poses a long-term sustainability challenge.

And that customer base is a tempting and lucrative target for scammers. Older adults lose more than $36 billion to financial fraud every year, per data from the Better Business Bureau. That makes smaller FIs vulnerable: Fraud was second only to interest rates among community banks' top concerns, per a November 2023 CSI survey. Check and card fraud, wire transfer fraud, and phishing scams are of particular concern. Fraud not only hurts banks financially—it also erodes trust among customers who feel the bank didn't have their back in a crisis.

Younger generations could offset these problems, but they're less drawn to a community-based value proposition. Traditionally, community banks and credit unions have been defined by geography, and they've differentiated their brands by promoting their ties to and investment in their community. But the internet has weakened this value proposition. It's both nowhere and everywhere, dissolving geographically based ties and remaking them into online communities based on affinities and interests.

What smaller FIs should do

- **Train customer-facing staff and automated systems to look out for older customers.** Smaller FIs' close ties with customers mean their frontline staff can observe changes in seniors' behavior, banking patterns, or personal interactions that suggest a diminished ability to manage their money and make financial decisions. This uniquely positions them to detect and prevent financial losses due to fraud or exploitation—and can also help build trusting relationships with their families.
- **Lean on innovation to attract young, digitally savvy generations.** Gen Z credit union members are 2.5 times more likely than baby boomers and seniors to say they'll switch FIs if their credit union doesn't innovate, per a December 2023 PYMNTS Intelligence study. Innovation road maps should center on what Gen Z wants, such as Zelle and young adult debit cards. They're also looking for innovation in credit card apps, budgeting tools, and QR codes.
- **Promote the history and purpose of credit unions and community banks.** Gen Zers want more than banking services—they want an FI that mirrors their values, with a strong focus on sustainability, inclusivity, and social causes. This attraction to purpose-driven institutions plays

to smaller FIs' community ties. Promote your local support and investments via social media posts and videos to show that you've remained true to your community-based, service-first claims. Credit unions should highlight the history, vision, and mission of the credit union movement.

- **To future-proof your customer base, diversify beyond consumers by offering business-related services to local companies.** Small businesses need more than just lending and banking services. They're looking for capabilities designed around their specific needs that can help them manage their businesses. Smaller FIs can become more appealing to small-business owners by leveraging fintech partnerships. This lets them offer money management tools, including alerts about potential cash shortfalls as well as digital tools for cash flow management, forecasting, and budgeting.