

Financial Services Practice

# Six imperatives for credit unions to secure their future

Credit union members are aging, and young people tend to see these institutions less favorably than their elders do. Here are six strategies for bringing in younger members to weather the years ahead.

*This article is a collaborative effort by Atanas Stoyanov, Darius Imregun, Peter Noteboom, and Pradip Patiath, with Jeff Brown, Michael Kirchner, and Suhas Gudhe, representing views from McKinsey's Financial Services Practice.*



**Credit unions in the United States** are at a crossroads. Their membership ranks are aging, and young people don't always see credit unions' offerings as a good value. That means credit unions need to work harder to attract younger members, or risk fading into irrelevance. (For more details on credit unions—what are they exactly and who can join one—see sidebar, “A brief history of credit unions.”)

US credit unions have had a strong run in recent years. Since 2018, loans at credit unions have grown 8.8 percent a year, on average,<sup>1</sup> compared with 8.0 percent a year for bank loans,<sup>2</sup> while deposits at credit unions have risen 9.0 percent, compared with 8.9 percent for bank deposits. Despite these positive trends, 2023 was a difficult year for US credit unions, as ROA for the sector fell 23.5 percent<sup>3</sup> amid higher operating expenses, flat fees, and increased provisions for bad loans.

Credit unions' strong performance has been driven in large part by their biggest segment of members, baby boomers, many of whom are retired or preparing to retire. To uncover what's in store for credit unions in the years ahead, we examined findings from McKinsey's 2023 Consumer Financial Life Survey of roughly 5,800 people and identified five insights with important implications for the sector, such as: credit unions' share of new account openings has declined, credit unions are losing ground with younger generations and have opportunities to better connect with them, and, in a positive signal, members of credit unions perceive the relationship more positively than bank customers do.

In this article, we explore these five trends in detail. We then lay out six strategies that credit union CEOs can use to attract younger consumers:

## A brief history of credit unions

**The first credit union** in the United States was founded in 1908,<sup>1</sup> after the model found success in Europe and Canada. Unlike banks, credit unions are not-for-profit entities owned by their members. That means they can offer lower fees than traditional banks, as well as higher interest rates on savings and lower rates on loans. On the other hand, credit unions typically have fewer branches than traditional banks do, and smaller credit unions might

not offer as many products and services as big credit unions and banks.

Credit unions were originally set up to be used by people who share a common bond, such as working for the same employer or living in the same area. Today, many credit unions still have membership requirements limiting who can join. Others make it possible for anyone to join, often by making a small donation to a charity.

At the end of 2023, federally insured credit unions in the United States had roughly 139 million members, up 3 percent from the previous year and 45 percent from a decade earlier.<sup>2</sup> The average age of credit union members in North America is 53 years old,<sup>3</sup> compared with 39 for the US population.<sup>4</sup>

<sup>1</sup> “Birth of America's credit union movement,” America's Credit Union Museum, accessed June 2024.

<sup>2</sup> “Quarterly credit union data summary: 2023,” National Credit Union Administration, June 2024.

<sup>3</sup> “Global credit union membership surpasses 375 million,” World Council of Credit Unions, October 13, 2021.

<sup>4</sup> “America is getting older: New population estimates highlight increase in national median age,” US Census bureau press release, June 22, 2023.

<sup>1</sup> 2023 Annual Report, National Credit Union Administration, February 2024.

<sup>2</sup> Based on S&P Global data.

<sup>3</sup> 2023 Annual Report, National Credit Union Administration, February 2024.

- Point to credit unions' history of commitment to social impact, a principle that appeals to many Gen Zers and millennials.
- Meet younger consumers where they are—namely, digital channels.
- Invest in digital banking and personalization.
- Upgrade technology to enable digital strategies.
- Use AI to improve the member experience.
- Future-proof the business model through M&A and partnerships.

With these six moves, credit union executives may help secure their institutions' futures in the years to come. Here, in greater detail, are the main demographic trends uncovered by our 2023 consumer survey and what they mean for credit unions.

## Five trends for credit unions to monitor

Our survey points to five trends for credit union executives to watch. Some are positive signals, while others are not, but all of them can help inform the decisions that need to be made to help credit unions stay relevant.

### 1. Credit unions have kept a stable market share overall, but their share of new account openings is falling

About 15 percent of respondents to our 2023 survey said a credit union is their primary financial institution, a share that has stayed relatively stable since 2015, even as the four biggest US banks by revenue have increased their market share (Exhibit 1).

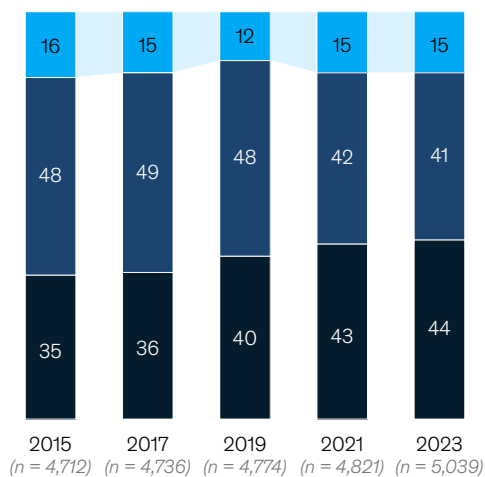
However, credit unions are falling behind in new account openings. In our 2023 survey, about 10 percent of respondents who said they had recently opened a deposit account did so with credit unions, down from 16 percent in 2015. The share of

Exhibit 1

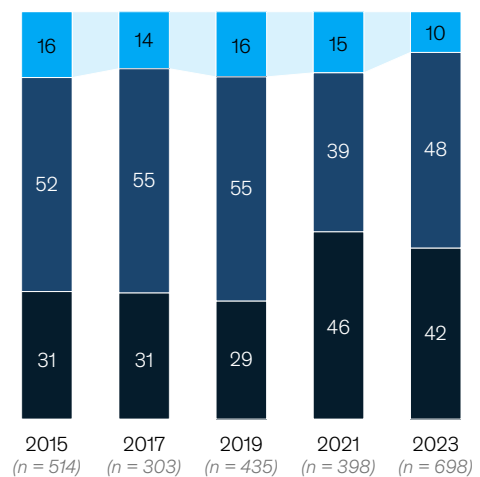
## Credit unions' proportion of US primary banking relationships has held steady, but their share of new account openings has declined.

Use of financial institutions, by type, % of respondents ■ Big bank<sup>1</sup> ■ Smaller/regional bank ■ Credit union

Primary financial institution type



Recently opened deposit account



Note: Figures may not sum to 100%, because of rounding.  
<sup>1</sup>Four largest US banks by revenue.  
 Source: McKinsey Consumer Financial Life Survey

account openings lost by credit unions has been gained by the biggest banks, which now represent more than 40 percent of account openings as they use digital capabilities to reach consumers online, where many are opening accounts. Research from McKinsey's Finalta shows that last year, 30 to 40 percent of all accounts were opened through digital channels, almost double the share of accounts opened digitally in 2019.

## 2. Credit unions are losing ground with younger generations

Baby boomers represent the biggest share of credit union members: this generation accounted for 39 percent of them in 2023, up from 28 percent in 2015 (Exhibit 2). Meanwhile, credit unions face challenges in attracting younger people, with millennials' share of credit union members falling

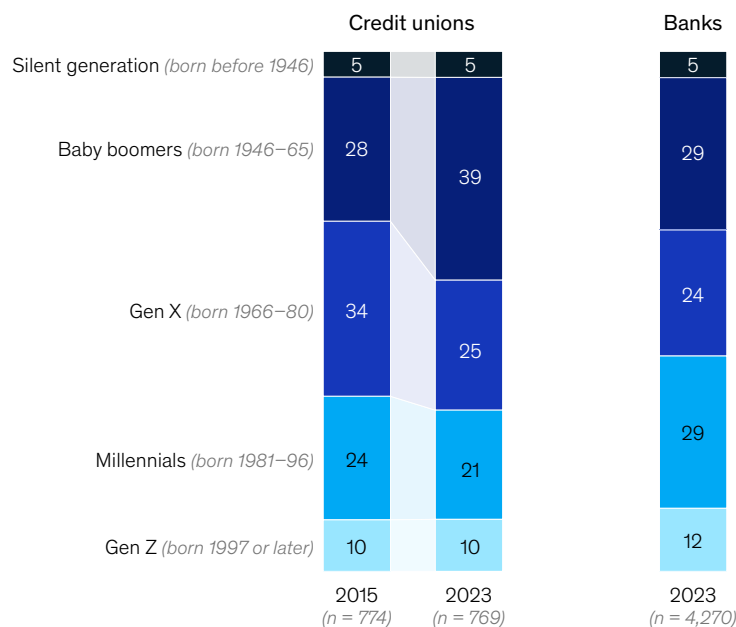
three percentage points, although Gen Z's share has remained steady at 10 percent.

Interestingly, the share of Gen X customers has declined for both credit unions and banks, though banks are faring better with this generation. Because Gen X is relatively small, Gen Xers now represent a narrower share of customers at financial-services institutions than they did roughly a decade ago, as more millennials and Gen Zers open accounts. But Gen X's share of credit unions' total membership shrank by nine percentage points between 2015 and 2023, while the decline for banks was only two points. This is a potentially troubling sign for credit unions, with Gen X consumers entering their prime earning years just as baby boomers reach retirement age.

Exhibit 2

## Banks are performing better with younger generations than credit unions are.

Banked households, by generation and primary financial institution type, % of respondents



Note: Figures may not sum to 100%, because of rounding.  
Source: McKinsey Consumer Financial Life Survey

**3. Members of credit unions see a lot of value in them**

Among survey respondents whose primary financial institution is a credit union, 57 percent said they perceive credit unions as providing extremely good value, compared with 46 percent for customers of the biggest banks and 44 percent for customers of smaller banks (Exhibit 3). What's more, while all three types of consumers said they see their primary financial institution as providing more value than the broader financial-services sector, credit union members perceived the biggest advantage.

Respondents who said they switched to a credit union from another financial institution cited these as the top factors for why they perceived value from the new relationship: they liked the fact that their credit union charges lower fees or no fees, that it doesn't hit them with fees at every opportunity, and that it has better customer service. Meanwhile,

customers who had switched to a big bank cited the same factors as the ninth-, 16th-, and fifth-most-important, respectively.

**4. Gen Z consumers are not big fans of credit unions, preferring big banks instead**

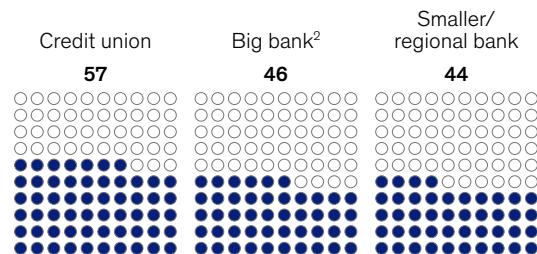
Among [Gen Z consumers](#), only 49 percent of those who have a credit union as their primary financial institution said it offers extremely good value, while 60 percent of those at the biggest banks gave the same assessment. Most of the other generations said they perceive credit unions as a better value than banks (Exhibit 4).

Meanwhile, millennials' perception of credit unions has gotten a bit worse. The proportion of millennials who said that credit unions offer extremely good value shrank from 51 to 48 percent over the past ten years, but the share of this generation saying that banks offer extremely good value has increased

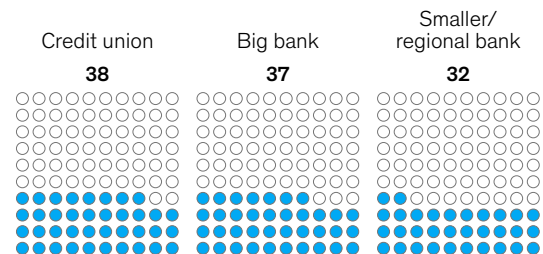
Exhibit 3

**Credit union members get more value out of the relationship with their primary financial institution than bank customers do.**

**Respondents reporting that their primary financial institution offers extremely good value, by primary financial institution type,<sup>1</sup> %**



**Respondents reporting that the financial sector offers extremely good value, by primary financial institution type,<sup>1</sup> %**

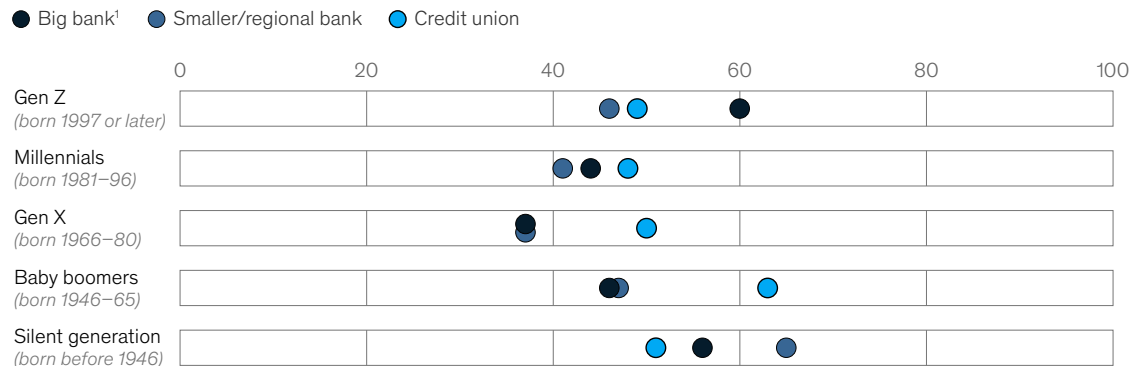


<sup>1</sup>Credit unions, n = 211; big banks, n = 684; smaller/regional banks, n = 631.  
<sup>2</sup>Four largest US banks by revenue.  
 Source: McKinsey Consumer Financial Life Survey 2023

Exhibit 4

## Gen Z consumers perceive more value from the largest banks than from credit unions.

Respondents reporting that their primary financial institution provides good value, by generation and primary financial institution type, %



<sup>1</sup>Four largest US banks by revenue.  
Source: McKinsey Consumer Financial Life Survey 2023 (n = 5,039)

McKinsey & Company

15 percentage points for the biggest banks and seven points for smaller banks. This is a sign that millennials find less value in credit unions as they get older and acquire more assets, which may require more complex financial services, and as their expectations concerning digital capabilities shift.

### 5. Credit unions have a significant opportunity to attract younger members, including Gen Z consumers

Gen Zers who have switched financial institutions cited better customer service, better interest rates, and support for their community as some of their top reasons for doing so (Exhibit 5). This presents a major opportunity for credit unions to connect with Gen Z by demonstrating their commitment to service, favorable rates, and a sense of community.

Conversely, the top reasons millennials gave for switching financial institutions were a superior mobile banking app and a superior online banking

website. These are areas where the biggest banks excel and credit unions could improve. The survey data bears that out: a great website and app were the first and sixth reasons, respectively, why consumers overall switched to the biggest banks. For respondents who switched to credit unions, these factors didn't make the top ten list of reasons. This is a warning sign that credit unions might lose ground with Gen Z as these consumers age and seek a more sophisticated digital experience to meet their increasingly complex banking needs.

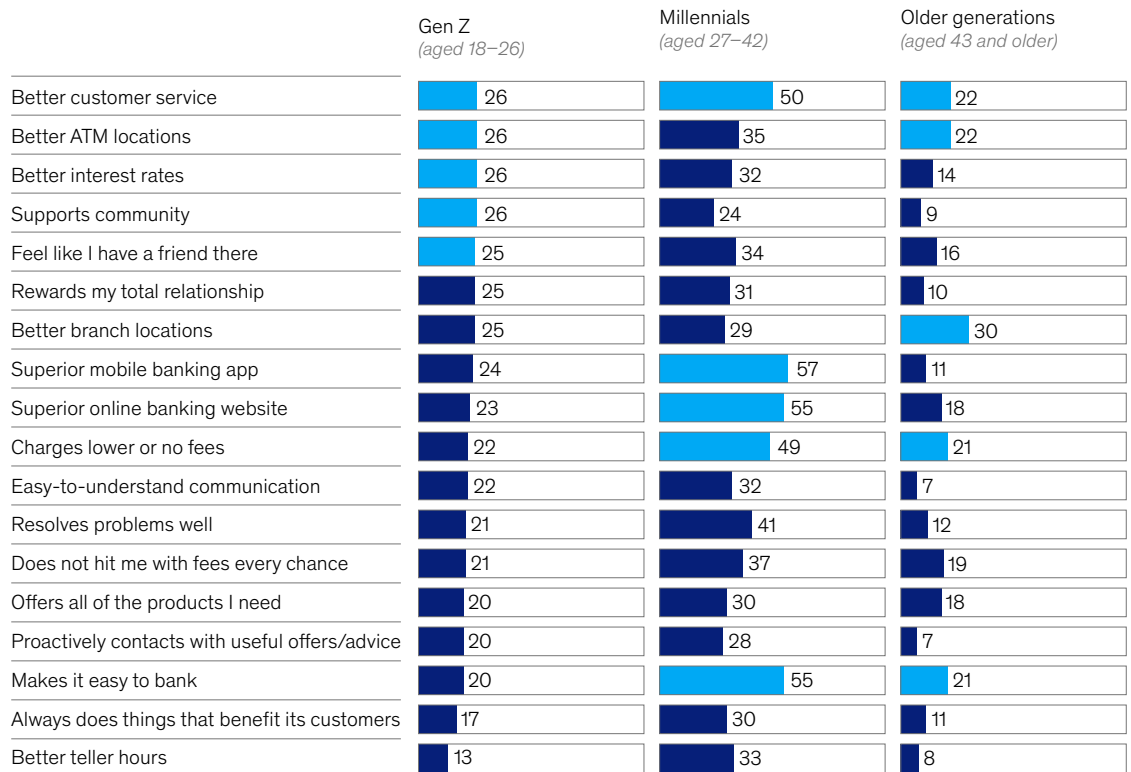
Insights from our surveys suggest that credit unions' recent run of strong growth may have been driven in part by the financial success of their biggest cohort, baby boomers, amassing peak assets and liquidity during their prime earning years. As more baby boomers retire and begin spending their savings and reducing their borrowing needs, credit unions' performance may be at risk over the next decade if they are unable to increase their relevance to millennials and Gen Zers.

Exhibit 5

**Gen Zers value things credit unions are known for, such as customer service and community support, while millennials value a great user experience.**

**Drivers of choice in switching financial institution, by age, 2023,<sup>1</sup>**  
 % of respondents who have recently switched financial institutions

■ Top 5 driver



<sup>1</sup>Question: If you recently switched financial institutions, how is your new one superior to the one you left? Respondents were able to choose as many answers as applicable.  
 Source: McKinsey Consumer Financial Life Survey 2023 (n = 5,039)

McKinsey & Company

**Six moves to attract millennial and Gen Z consumers**

To build a new cohort of lifelong members, credit unions will need to pursue strategies that appeal to younger generations. While credit unions' generally highly perceived value, customer service, and low fees provide a strong foundation for succeeding with all generations, younger consumers might need a more targeted approach. Moreover, credit unions

will need to consider how to make the best use of their resources to compete most effectively with the biggest banks, which are increasingly investing in technology to attract and retain younger consumers.

In our view, credit union CEOs should focus on the following six strategies to win with younger consumers and secure their continued growth and relevance in the years ahead.

## 1. Point to credit unions' history of commitment to social impact, a principle that appeals to many Gen Zers and millennials

Credit unions operate on the ethos of “people helping people,” a message that’s particularly salient for younger generations. In our Consumer Financial Life Survey, Gen Z and millennial respondents were 17 and 15 percentage points more likely, respectively, than older generations to say they switched their primary financial institution because it “supports my community.” Another McKinsey study found that Gen Zers and millennials were more likely to purchase goods or services from businesses that prioritize social and [environmental responsibility](#). Younger generations may be more drawn to credit unions’ record of commitment to strengthening communities, protecting consumers, and ensuring financial inclusion.<sup>4</sup> Authenticity is key in presenting this message.

Beyond their commitment to social impact, credit unions can also attract Gen Zers and millennials through targeted messaging that focuses on specific points that are important to these consumer segments. Our survey found that Gen Zers and millennials are more value-conscious about interest rates than older generations are. The member-owned, not-for-profit nature of credit unions naturally predisposes them to offering better rates than for-profit competitors.

Through offering a mobile financial platform with a full range of financial offerings, transparent and easy-to-understand products, and attractive rates, credit unions can improve their appeal to younger generations. One challenge is spreading the message to people who might not have credit unions on their radar. Younger consumers might not even realize they are eligible to join many credit unions without meeting any special membership requirements, and in general might not have an accurate understanding of credit unions’ value proposition.

## 2. Meet younger consumers where they are—namely, digital channels

It’s well-known that younger consumers pay close attention to digital channels such as social media, online reviews, blogs, and websites when deciding what goods and services to purchase. One McKinsey survey found that 65 percent of adult Gen Zers and 57 percent of millennials [rely on these digital channels for such decisions](#), compared with only 36 percent of baby boomers, who tend to rely more on friends, family, and traditional media for recommendations than younger generations do. Financial institutions looking to attract younger consumers should consider engaging with them in digital channels using a strategy that feels authentic and stands out among the numerous other influencers competing for Gen Z and millennial eyeballs.

Numerous digital creators have established social media accounts dedicated to providing financial tips and helping younger consumers learn how to manage their money. The hashtag FinTok, representing the personal-finance community on TikTok, has amassed nearly five billion views.<sup>5</sup> Millions of people follow “finfluencers,” digital creators who specialize in giving advice on all things personal finance. Studies have shown that influencer campaigns produce positive ROI, with the biggest impact coming from the influencer’s number of followers, the originality of the content, and whether the post is linked to a particular brand.<sup>6</sup>

Credit unions, given their reputation for promoting financial inclusion, have the wherewithal to create *trusted* personal-finance content that stands out from posts penned by the multitude of finfluencers. Leading credit unions have developed financial-education courses posted on their websites. These can be repurposed into content on social media and elsewhere, helping to burnish credit unions’ credibility as stewards of financial well-being. Generative AI (gen AI) can enable such marketing at a level of personalization and pace not possible before.

<sup>4</sup> Mission and values, National Credit Union Administration, accessed May 2024.

<sup>5</sup> Jessica Dickler, “From loud budgeting to girl math, here’s what you should know before taking financial advice from TikTok,” CNBC, January 30, 2024.

<sup>6</sup> Fine F. Leung et al., “Does influencer marketing really pay off?,” *Harvard Business Review*, November 24, 2022.

### 3. Invest in personalization and digital banking

Customization is becoming the norm for younger consumers, making it imperative for credit unions to offer personalized digital services that cater to their preferences. [Real-time personalization has become commonplace in financial services](#) as the amount of consumer data available has increased rapidly in recent years.

Credit unions will need an agile, iterative digital marketing model to be able to use such data to send highly relevant offers, personalized using gen AI, to members at just the right moment. For example, credit card companies have long been able to offer discounts on specific spending categories or with specific retailers. Today, however, financial institutions can improve loyalty and wallet share by providing location-specific offers at the point of sale or even at the moment a consumer enters a fast-casual restaurant, clothing retailer, or car dealership. Developing distinctive, targeted loyalty and rewards programs, rooted in consumer research and informed by best practices from other industries such as retailers and airlines, could enable credit unions to connect with members in new ways. Credit unions must be able to quickly test targeted campaigns and double down on those that succeed, while halting those that fail to produce ROI.

Credit unions also need to enhance their digital capabilities. Our survey showed that for Gen Zers and millennials, an excellent mobile app is the most important factor in choosing a credit card. The share of Gen Z and millennial consumers who cited this as a factor was 28 and 22 percentage points higher, respectively, than it was for older generations. At the same time, credit union members were less likely than customers of the largest banks to cite an excellent mobile app as a key factor. That may partially explain why credit unions trail the biggest banks on credit card cross-selling, with only 38 percent of credit card users with a primary banking relationship at a credit union holding a credit card from that institution, compared with 46 percent for customers of large banks.

### 4. Upgrade core technology to enable digital strategies

In terms of the digital strategies and efficiencies they can achieve, many credit unions are hampered by legacy core technology platforms. Meanwhile, the biggest banks have made significant investments to modernize their platforms.

When it comes to technology investments, the largest US banks, on average, invest more than nine times the amount spent by the top five US regional banks and nearly 100 times the amount spent by credit unions with more than \$500 million in assets. Given those differences, credit unions must carefully consider where to focus their limited investments and where to harness fintech partnerships that can help them to better compete with larger peers in specific areas.

Many smaller financial institutions have balanced these trade-offs and begun modernizing their core platforms. These improvements enable capabilities such as using modular product architecture and hyper-configurability to create new products faster, tapping real-time client data to personalize member experiences, and carrying out various steps concurrently to speed up decisions on loan applications. Another important strategy is to team up with fintech partners and use API-first architecture to enable [embedded banking](#), or integrating financial products into third-party platforms to allow for services such as buy now, pay later. Such strategies are key to delivering the personalized service that younger consumers expect and that smaller credit unions might not be able to provide on their own.

Platform modernization takes years, and when it's not done correctly, spending can quickly outpace initial estimates. To get it right and avoid escalating costs, credit unions need a platform strategy that is tied to specific business cases, such as revenue generation or user experience, and is not a tech-only play. Careful design planning that radically simplifies and rationalizes existing products and features prior to migration should be coupled with a focus on improving user experiences.

## 5. Use AI to improve the member experience

Our survey shows that Gen Zers' and millennials' expectations for customer service are just as high as those of older generations, if not higher. Amid rising costs, AI could be the differentiator that enables credit unions to maintain their reputation for excellent service while containing expenditures.

Scale has long been the key to achieving this dual mandate. The largest credit unions have experienced better efficiency ratios and faster membership growth. In 2023, the 438 US credit unions with more than \$1 billion in assets had an efficiency ratio that was four percentage points lower than the sector as a whole. Membership for the largest credit unions grew 4.4 percent, on average, compared with 1.1 percent for the sector.

With advancements in AI, however, scale doesn't have to be the sole enabler of efficiency and growth. By reimagining all parts of the business and using AI, credit unions can leapfrog ahead to meet younger consumers' needs.

McKinsey estimates that AI could deliver as much as \$1 trillion<sup>7</sup> in additional value for the global banking market annually, and roughly three-quarters of that total stems from [the "four Cs"](#): customer engagement; coding; concision, or synthesizing insights from large amounts of data; and creation, or content generation. Leading financial institutions that are gaining a competitive advantage from AI are adopting a [domain-led, transformative approach](#), rather than launching isolated initiatives.

The call center is a particularly relevant domain. One McKinsey study found that among Gen Z consumers, despite their preference for digital channels when making purchases, [71 percent prefer a phone call with a human](#) to get to the bottom of complex customer service issues. As a result, innovative businesses are tapping AI to handle run-of-the-mill inquiries to free up human agents so they can focus on thornier problems.

## 6. Future-proof the business model through M&A and partnerships

The number of credit unions in the United States has decreased by more than 3 percent a year since 2018, but their total assets have risen over that period as the biggest credit unions got even bigger, partly thanks to acquisitions. The recent wave of consolidation is expected to continue, as the country still has more than 4,600 credit unions, including nearly 4,000 with assets of less than \$500 million.

While acquiring scale through M&A can bring advantages in terms of cost efficiencies and market presence, it requires a highly disciplined [integration infrastructure](#)—including a playbook for the front line, operations, IT, and [change management](#)—to quickly capture the benefits and avoid occupying management attention longer than necessary. Realizing the promise of scale-driven M&A also requires a laser focus on managing costs and could require difficult decisions regarding branches and head count—moves that might not always align with the community-oriented mission of credit unions.

Another consideration is for credit unions to improve their offerings through capability-driven M&A and partnerships. Joining forces with fintechs—via M&A, joint ventures, or other partnership structures—can be a key driver of inorganic growth. By acquiring fintech companies, credit unions can gain access to innovative technologies, digital capabilities, and talent, as well as new, younger member segments.

Credit unions often work with a credit union service organization (CUSO), a corporate entity that is owned wholly or partly by the credit union and that provides specialized services to the institution to help fill gaps in its operations. CUSOs, often owned jointly by several credit unions to share common services and create economies of scale, provide ways to share risk, manage costs, and innovate to meet members' needs. M&A and CUSOs can help credit unions as they square off against deeper-pocketed financial institutions for market share.

<sup>7</sup> ["The executive's AI playbook,"](#) QuantumBlack, AI by McKinsey, accessed May 2024.

Find more content like this on the  
**McKinsey Insights App**



Scan • Download • Personalize



Finally, while credit unions typically have limited sources of capital to fund innovation, they may seed such investments through venture-capital-like partnerships or subsidiaries. These partnerships or subsidiaries can allow credit unions to reinvest more earnings in emerging technologies, deploy their limited capital over a longer period, and cash in on their investments at the right time to maximize value.

---

Credit unions' recent growth has been impressive, but in the face of a difficult 2023 and an aging membership, they must take stock of their standing in the eyes of tomorrow's financial-services

consumers: Gen Zers and millennials. Although their mission-oriented nature may appeal to younger generations, credit unions will need to do more to earn these consumers' attention. To help build a foundation for sustainable growth, credit unions will need to double down on consumer engagement, digital enablement, modernization of legacy platforms, and redefined operating models while continuing to acquire new scale and capabilities through M&A and partnerships. The industry has been successful since the launch of the first US credit union more than 100 years ago. By gaining younger members, and providing them with excellent service, credit unions can position themselves to prosper for the next 100 years.

**Atanas Stoyanov** is a partner in McKinsey's Miami office, where **Pradip Patiath** is a senior partner and **Suhas Gudhe** is an associate partner; **Darius Imregun** is a partner in the Boston office; **Peter Noteboom** is a senior partner in the Seattle office; **Jeff Brown** is a consultant in the Chicago office; and **Michael Kirchner** is a consultant in the New York office.

The authors wish to thank Amit Gandhi, Cristina Gomez, and Hamza Arshad for their contributions to this article.

Designed by McKinsey Global Publishing  
Copyright © 2024 McKinsey & Company. All rights reserved.