



This Quarter in Digital

Q4 2022

DIGITAL EXPERIENCE INSIGHTS
FROM ADVISORS PLUS



Introduction

In this issue of **This Quarter in Digital**, we look at embedded finance – and, specifically, the rise of buy now, pay later (BNPL). Payments and lending are transforming, and we explore some of the factors that are driving both the market and consumers’ digital journeys.

Also in this issue, we look at digital assistance and the rise of virtual assistants. The technology behind bank chatbots is becoming increasingly powerful and good data management is equipping institutions with near-fully automated customer assistance capabilities, and developments are moving fast. We present some leading examples and discuss what credit unions can learn.

Aspiration is our featured fintech and we look at the busy year American Express has had.

Stay tuned for the next **This Quarter in Digital**.



In This Quarter

Embedded finance

Embedded finance incorporates new value chains in which bank-like services are made available on non-banking platforms. It has quickly become so ingrained that today's digital-savvy consumers expect to find these new payments experiences embedded into a merchant's website, app or physical store. An increasing array of business types – from restaurants to taxi providers, airlines to art dealers and, of course, fashion brands – have integrated payments into their digital ecosystems. This is thanks to the sophistication of API solutions and other means of easily integrating banking services into the wider consumer world.

Financial service providers have moved to offer innovative services and product lines, and the most successful have been within embedded lending – specifically BNPL, which is predicted to grow to \$1.2 trillion by 2024. More than 50% of Americans have used BNPL, according to reports, with the finance mechanism defined by flexibility and convenience presented at a growing list of points of sale (POS).

Buy now – places where customers want to purchase a product or service

Retailer sites

Physical stores

BNPL apps

Search/Marketplace

Ads/Social

Pay later – how users can defer or split paying for the purchase

Pay in X days/months

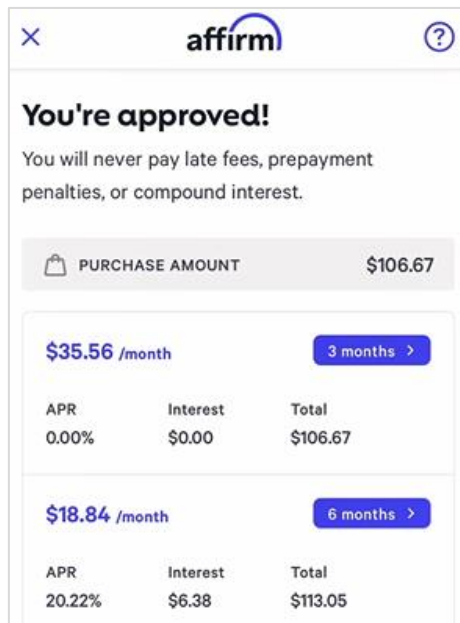
Split it in 3,4,5...

Installment plans

BNPL is already a mixture of products, payment rails, technology, sites and apps. What really matters is that it makes sense to consumers as it helps solve a need they have in the moment, at the POS. With more providers looking to capitalize in the market, the POS battleground has become increasingly competitive. Digitally, shoppers looking to fulfill transactions on merchant and marketplace channels have an increasing list of options (through the likes of Bread, Uplift, Splitit, FuturePay, Fly Now Pay Later), through BNPL apps (PayPal, Affirm, Klarna, Quadpay, Sezzle, Zip), and other emerging sources of engagement such as browser plug-ins.

BNPL is often presented in a way that suggests a package can be tailored to suit anyone's needs and providers often look to offer flexible options depending on the size of the transaction, self-reported income/assets, credit history, initial payment and relationship with that provider. The types of plans vary, too: Clearpay, Laybuy and Zip offer split pay, while Fly Now Pay Later and DivideBuy offer installment loans.

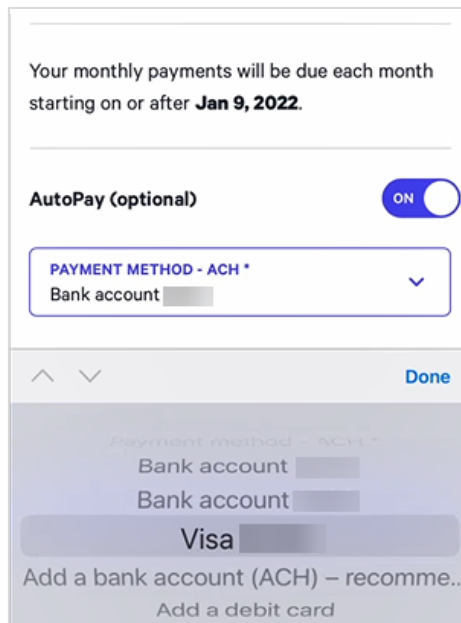
AFFIRM IS FLEXIBLE WITH PAYMENT PLANS AND REPAYMENT TERMS



The image shows a mobile app interface for Affirm. At the top, there's a close button (X), the Affirm logo, and a help icon (?). The main heading is "You're approved!". Below it, a message states: "You will never pay late fees, prepayment penalties, or compound interest." A section titled "PURCHASE AMOUNT" shows a value of "\$106.67". Below this, there are two payment plan options. The first option is for 3 months with a monthly payment of "\$35.56 /month". The second option is for 6 months with a monthly payment of "\$18.84 /month". Each option includes a table with columns for APR, Interest, and Total.

APR	Interest	Total
0.00%	\$0.00	\$106.67

APR	Interest	Total
20.22%	\$6.38	\$113.05



The image shows a mobile app interface for selecting a payment method. At the top, it says "Your monthly payments will be due each month starting on or after Jan 9, 2022." Below this, there's a toggle for "AutoPay (optional)" which is currently turned "ON". A section titled "PAYMENT METHOD - ACH" shows a dropdown menu with "Bank account" selected. Below this, there's a "Done" button. At the bottom, there's a section for "Payment method - ACH" with a "Bank account" dropdown, a "Bank account" dropdown, and a "Visa" dropdown. Below these, it says "Add a bank account (ACH) - recomme.." and "Add a debit card".

Competing with BNPL: Creating installment plans

Card issuers face pressure to compete with BNPL products, prompting a number of providers to offer in-house installment plans. Standout providers offer minimal fees and interest plans, transparent timeframes and individual monthly payment amounts – a clear presentation of the availability of the function and contextual help. Chase, for instance, provides links to the My Chase Plan on the transaction details slide-out. When customers navigate to the My Chase Plan screen, they encounter three payment plan options based on their creditworthiness. Many options incur no interest and carry minimal fees to set up. The provider links to dedicated, expandable FAQs to assist customers in understanding the plan, and Chase explains how automatic payment settings affect signing up before the customer submits. However, in most instances where banks offer installment plans, they are presented after the purchase.

CHASE'S MY CHASE PLAN

The screenshot displays the 'CHASE'S MY CHASE PLAN' interface. At the top, a 'CREDIT CARD (...)' header is visible. Below it, a transaction list shows 'UBER EATS' for \$9.15 and 'PRESTIGE AUTOWASH AUTOMO' for \$110.05. The 'PRESTIGE AUTOWASH AUTOMO' transaction is highlighted with a 'Pay with My Chase Plan®' button. Below the transaction list, the 'My Chase Plan®' section shows 'Payment plan options' with three choices: 3 payments for \$36.98/month, 6 payments for \$18.70/month (highlighted), and 9 payments for \$12.63/month. Each option includes a note: 'This amount includes a monthly fee of \$0.29 with no interest.' Below the payment plan options, the 'Selected purchase' section shows the transaction details: 'Date: Jan 10, 2022', 'Description: PRESTIGE AUTOWASH AUTOMO', and 'Amount: \$110.05'. To the right, the 'Payment plan options' section shows the 'Purchase amount' as \$110.05, 'Total fees' as +\$2.10, and 'Total cost' as \$112.15. A 'Next' button is located at the bottom right of the 'Payment plan options' section.

Payment plan options		
\$36.98 /month 3 payments This amount includes a monthly fee of \$0.29 with no interest.	\$18.70 /month 6 payments This amount includes a monthly fee of \$0.35 with no interest.	\$12.63 /month 9 payments This amount includes a monthly fee of \$0.40 with no interest.

Plan details	
Purchase amount	\$110.05
Total fees	+\$2.10
Total cost	\$112.15

WHAT DOES THIS MEAN FOR CREDIT UNIONS?

As consumers look at ways to stretch their budgets further, BNPL programs offer the opportunity to make purchases while maintaining financial flexibility. Earlier this year, PYMNTS.com examined the role trust plays for the consumer in selecting a credit provider. The study found that consumers cited trust as the most important factor in their provider decision. After years of offering loans to consumers, credit unions have established consumer trust. They also offer an advantage of leveraging an existing product (the credit card) and not asking the consumer to open a new account. By adding BNPL to an existing credit card offering, FIs defend against losing transactions to other providers.

Monzo helps pay later

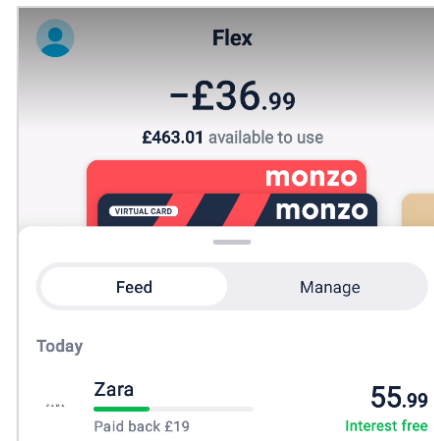
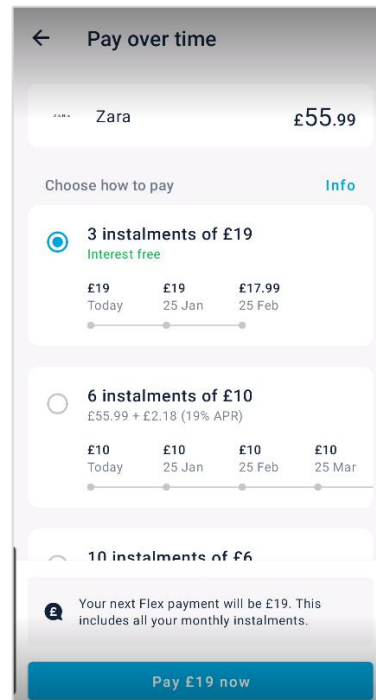
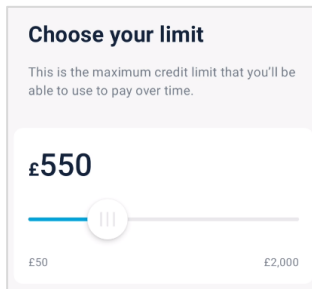
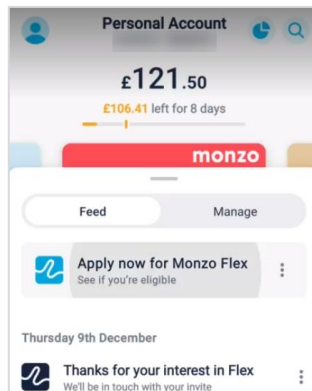
Lenders are looking for ways to edge into earlier stages of transactions and provide users the ability to think more broadly about their finances while taking advantage of installment plan scenarios.

An archetype is U.K.-headquartered Monzo's Flex product, which the provider has looked to position as a transparent and flexible way of borrowing. Users sign up to Flex and set their preferred purchase limit up to £3,000, generating a virtual card that can be used online or within digital wallets. Once they have made a purchase, a push notification prompts them to select a repayment plan.

WHAT DOES THIS MEAN FOR CREDIT UNIONS?

As BNPL offerings continue to grow, card issuers, financial technology companies and retailers are all examining how to make the process more seamless. As consumers evaluate what offerings to use for purchases, simplicity and benefit will win out. Continually examining how to deliver what the consumer is seeking (purchase flexibility) and removing friction will ensure a valuable offering that is increasingly adopted by consumers.

MONZO'S FLEX



In This Quarter

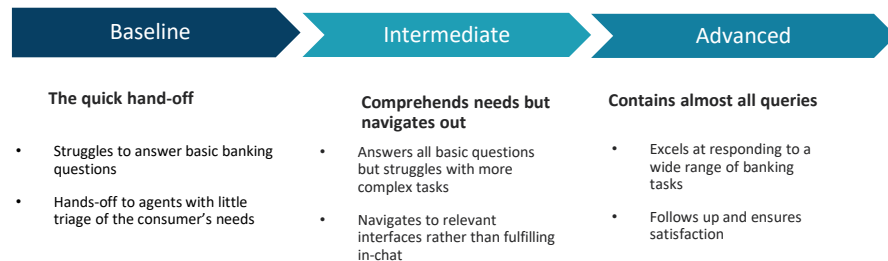
Digital assistance: Rise of the bots

Increasingly, digital assistance is being provided by chatbots, but only the real innovators have integrated them: just 23% of the U.S. retail checking providers tracked by the Digital Banking Hub utilize an in-app virtual assistant, led by nationals (60% of those tracked) and fintechs (57%). Just 16% of credit unions tracked offer a chatbot in-app.

It is clear that the market is at different stages of maturity. Basic but well-constructed chatbots are complementary, designed to support consumer self-services and act as a point of escalation. They offer guidance as an alternate way to surface FAQ content, supporting and managing the flow of consumers to live agents and asynchronous chat. However, leading brands have evolved their offering to fully replace live agents, phone, branch visits and digital self-service to assist users in completing journeys within the interface, including authenticating the consumer and making payments, and offering intelligent responses based on the user's actual information.

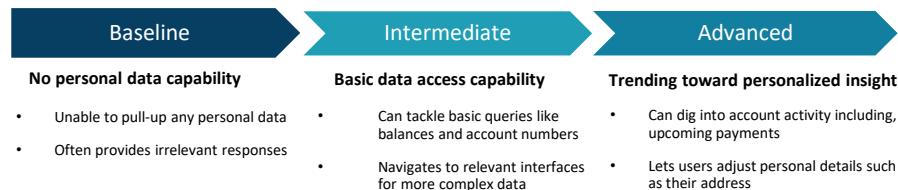
INFORM

Getting the basics right



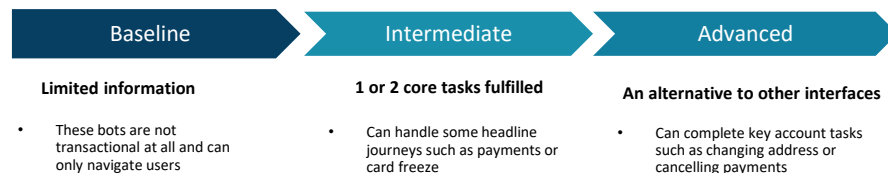
INQUIRE

Handling customer data



TRANSACTION

Completing tasks



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Leading the virtual assistant field is Bank of America (BoFA) and U.S. Bank, each of which bring money management capabilities into the chat interface. U.S. Bank's Smart Assistant provides transaction history with visuals, while BoFA's Erica displays monthly spending analysis with categorical breakdowns via both graph and table, and can respond to complex and specific questions. More broadly, providers have investigated different tones of voice and delivery mechanisms to reaffirm branding and the appeal of engaging with a chatbot. Many incumbents have integrated professional conversational tones. Fintechs and other emerging brands have tailored their chatbots' tones to appeal to specific demographics with emojis and colorful dialogue.

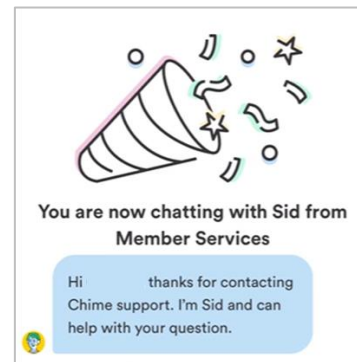
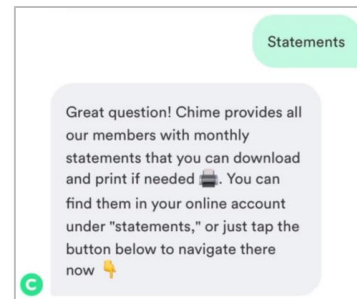
WHAT DOES THIS MEAN FOR CREDIT UNIONS?

The key to a successful chatbot offering is time. Through repetitive interaction, a chatbot can be refined to streamline communication and interpret ways of asking the same question. Less than a quarter of issuers tracked by the DBH offer chatbots, so community FIs are well positioned to begin offering solutions. Partnering with a company that offers the appropriate expertise is a good way to accelerate the time from initial rollout to offering advanced capabilities.

ERICA CONTINUES TO TAKE ON MORE CAPABILITIES



CHIME'S EMOJIS AND APPROACHABLE TONE

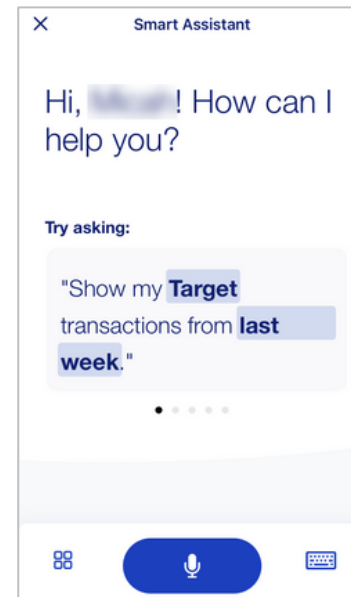
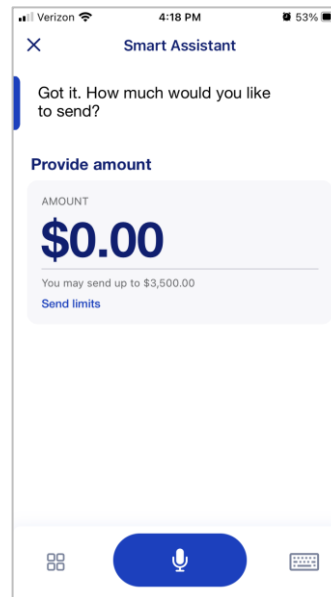
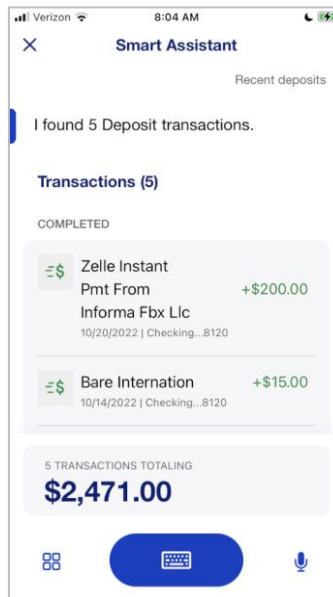


The next evolution of intelligent engagement is voice, with U.S. Bank, BoFA and Ally leading the way in terms of audio language capabilities. As more institutions look to integrate multilingual capabilities into their digital channels, natural language processing allows chatbots to understand colloquialisms with greater accuracy, and voice-activated virtual assistance is likely to become the norm.

With U.S. Bank's Smart Assistant, users can choose to activate text or audio responses to engage with the bot as they please. It integrates the entire Zelle platform into its interface, including the ability to add a recipient, view limits and review details, all through voice activation.

As things stand, differentiation among the elite virtual assistants is found in distinct characterization – through voice or tone – and the ability to complete journeys and tasks within the chat interface alone. However, as early adopters move fast, we are likely to reach a point at which the entire digital experience is conducted over voice with an AI-enhanced virtual assistant. This may not be too far away, and will put extreme pressure on digital laggards and those yet to embrace chatbots.

U.S. BANK PROVIDES ENGAGEMENT, NAVIGATION AND ACTIVATION THROUGH VOICE



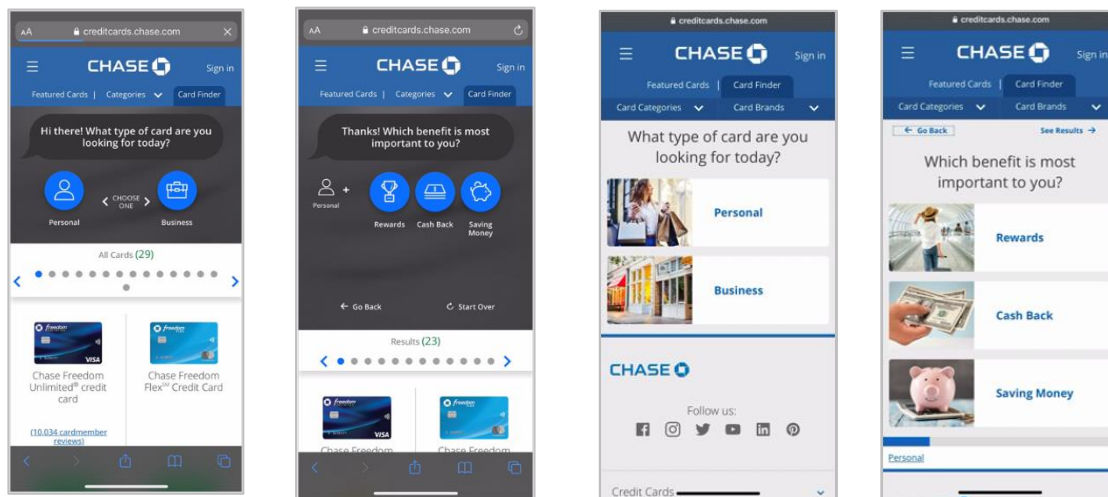
In This Quarter Product discovery

Across the landscape of digital banking, self-service has become the overarching paradigm, and nowhere does this ring truer than in product discovery, particularly among credit card providers. Brands have introduced a range of tools to enable applicants to self-identify preferred products, which resonates distinctly with providers that offer a range of cards.

Card issuers offering pre-qualification forms enable customers to check their eligibility before starting an application, which can be an incredibly powerful way to filter the selection process. Applicants also benefit from product selection tools designed to provide direct comparisons of similar benefits or card types. Adding third-party cards in these tools can also help keep applicants in the journey.

Chase, for example, provides a decision tree, which is brought to life with an accessible design and large images alongside answers and a progress meter.

CHASE BRINGS ITS CARD DECISION TREE TO LIFE WITH IMAGERY



WHAT DOES THIS MEAN FOR CREDIT UNIONS?

As a financial cooperative, looking out for the member's best interest is the DNA of a credit union. Demonstrating member centricity during the product recommendation process is the perfect way to begin a relationship. For members that don't qualify for their desired card, the potential exists to demonstrate where the member can start – and create a plan to get them to their desired product offering.

A number of providers have integrated filter systems to inform applicants of the ideal credit cards for them, providing a personalized, self-service journey. Even better experiences integrate APIs to pull in existing customer data.

Leaders in the field integrate a number of tools to help the applicant select the best card for them, guiding the user through the journey using engaging interactive visuals. U.S. Bank provides feature filters with tick boxes, a side-by-side card comparison tool that enables users to compare two cards simultaneously as they narrow down their selection, and a robust rewards calculator.

As the credit card market becomes increasingly competitive, providers continue to add services to entice new business. By building out self-service product discovery journeys lenders can offer personalized guidance while highlighting the specific benefits of each of their card offerings.

U.S. BANK'S REWARDS CALCULATOR

REWARDS CALCULATOR

See how fast your points add up.

Enter your estimated monthly spend below and your potential points will be calculated automatically.

Dining, takeout and restaurant delivery
Earn 4X points.

Enter what you spend monthly on dining, takeout and restaurant delivery.

- \$ 0 +

Grocery stores, grocery delivery, streaming services, gas stations and EV charging stations
Earn 2X points.

Enter what you spend monthly on groceries, grocery delivery, streaming services, gas stations and EV charging stations.

- \$ 0 +

All other purchases
Earn 1X point.

Enter what you spend monthly on all other expenses.

- \$ 0 +

Calculate

Give Feedback

usbank.com

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Calculate

Give Feedback

usbank.com

Dining, takeout and restaurant delivery
Earn 4X points.

Enter what you spend monthly on dining, takeout and restaurant delivery.

- \$ 150 +

Grocery stores, grocery delivery, streaming services, gas stations and EV charging stations
Earn 2X points.

Enter what you spend monthly on groceries, grocery delivery, streaming services, gas stations and EV charging stations.

- \$ 400 +

All other purchases
Earn 1X point.

Enter what you spend monthly on all other expenses.

- \$ 500 +

Calculate

Give Feedback

usbank.com

Calculate

Your potential points:

Yearly points:
22,800
points

First year bonus*
+ 20,000
points

First year point potential
= 42,800
points

*Earn 20,000 points if you spend \$1,000 in the first 90 days.
1 point = \$31

Apply Now

Give Feedback

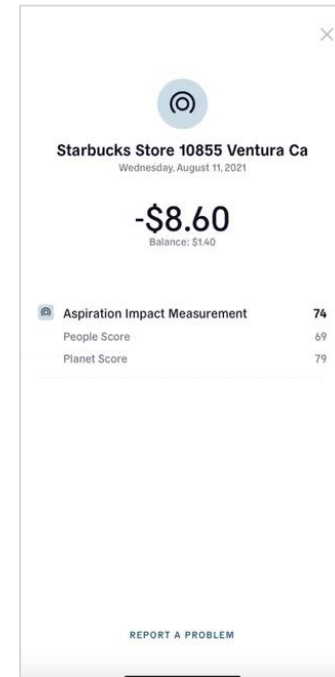
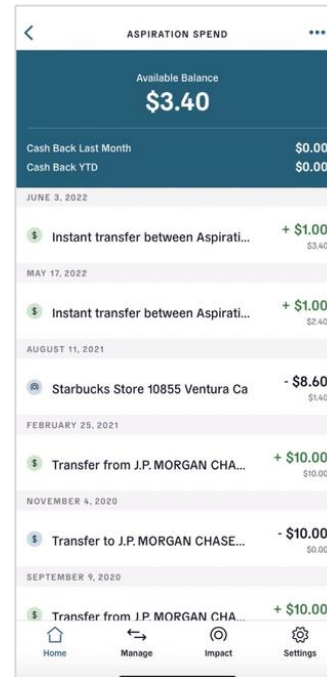
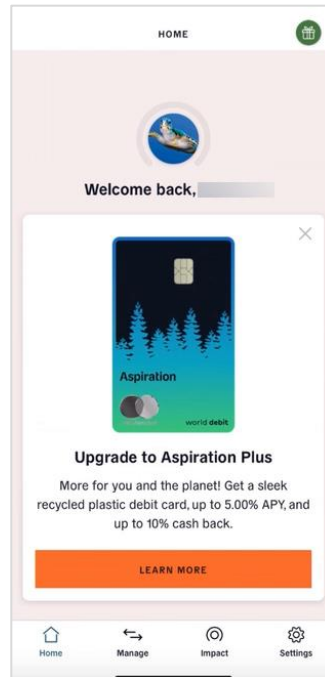
usbank.com

Featured Fintech

Aspiration

Neobank Aspiration's tiered subscription model is not dissimilar to that offered by other challengers, with the most affordable tier allowing users to pay what they choose on a basic checking account. Savings APYs have historically been solid, but Aspiration's real strength is in its sustainability offerings. Checking and savings account users can plant a tree with every card purchase and set up automatic offsets for negative climate impact. Cards are made from recycled paper and deposits won't fund fossil fuel exploration or production. Each debit or credit card transaction is assigned an Aspiration Impact Measurement to highlight its impacts on the planet and communities. Monthly scores are totalled and compared, challenging the user to reduce their impact and engage more with the app.

ASPIRATION'S IMPACT MEASUREMENT IS APPLIED TO ALL TRANSACTIONS



WHAT DOES THIS MEAN FOR CREDIT UNIONS?

In the same way that Aspiration places sustainability at the center of its card product, credit unions can highlight what ties the membership base together: the local community. Credit unions can blend multiple community improvement initiatives into their member relationship, such as donating to a local charity based on member spend, creating rewards incentives around local spend or funding programs around local financial education. Additionally, credit unions can offer the opportunity for the member to choose how their spend will benefit the community. As a community institution, credit unions can focus locally while larger competitors are looking nationally.

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In This Quarter American Express

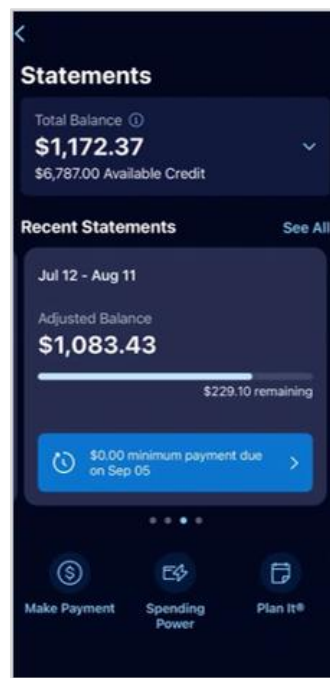
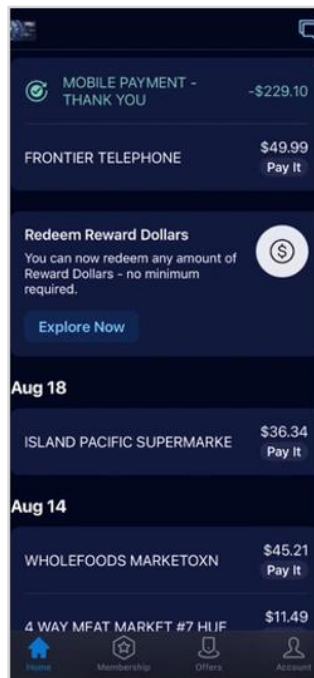
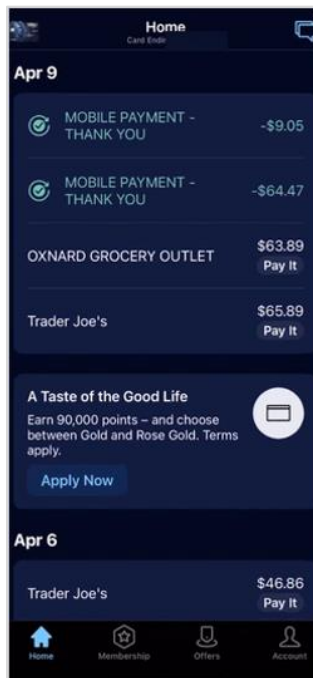
American Express (Amex) is going through a period of adjustment in which the oldest credit card provider in the U.S. modernizes in a rapidly changing and ultra-competitive market.

Over the past few years, the firm has invested heavily in expansion, doubling the number of providers that accept Amex. Indeed, as of the third quarter, the number of companies accepting Amex in the U.S. is close to parity with Visa and Mastercard. The firm is also integrating newer market developments, having signed strategic partnerships with fintechs while opening the doors to cryptocurrency engagement. Another interesting initiative is the recent announcement of Amex Send, which has seen the provider partner with PayPal and Venmo to allow users to split purchases and send or receive money through their Amex account.

The in-app user experience has evolved, with many journeys now based on the tile layout that has been adapted by other leading providers.

Amex places product or promotion tiles into view as users scroll through transaction tiles, giving the provider greater flexibility and adaptability compared to an anchored container. Recent statements are also displayed in tiles, and users can click through to access individual statements.

AMEX'S TILE LAYOUT ALLOWS FOR FLEXIBLE SALES PLACEMENTS IN THE TRANSACTION VIEW, AND STATEMENTS ARE EASILY ACCESSED



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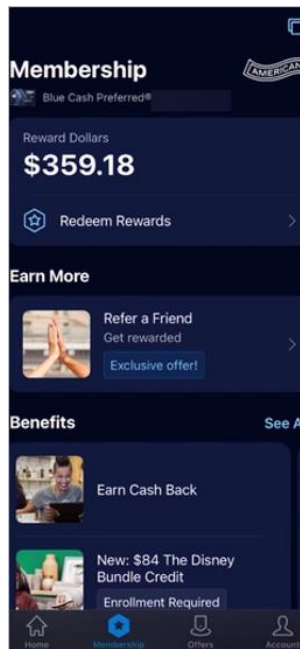
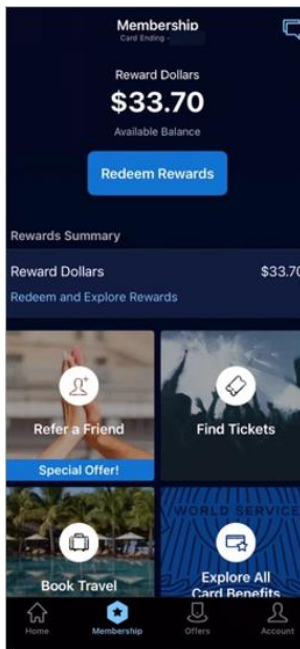
The provider enables its cardholders to manage rewards within the app without pushing them to an external site. Iterating from its previous interface, the card issuer's tiles encourage the user to scroll down for more content as well as tap further to access rewards features such as redemption and refer-a-friend.

A key change in employing the scrolling tile format is the ability to highlight selected benefits the provider wants to showcase, which the user can view on the same page.

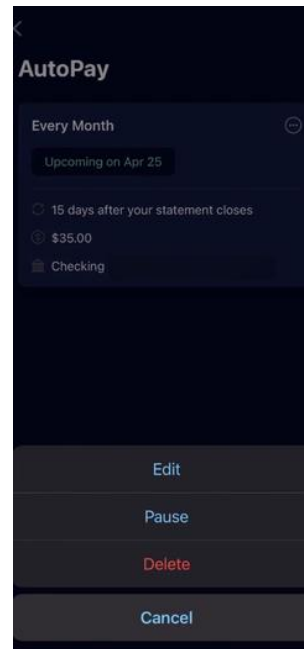
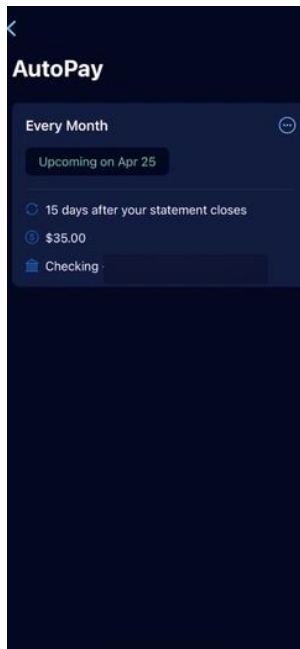
Along with updating the app's account, transaction and statement views, the provider has changed the way users add, alter and freeze autopayments, revised the way they order cards and made tweaks to its spend analysis interface. It looks like Amex will continue to be proactive in the products and services it offers cardholders.

As many segments of the economy prepare for recession, it's safe to say that this period of change is expected to continue. Credit card providers must prioritize agility in terms of payments, benefits and user experience.

AMEX'S FLEXIBLE REWARD TILES



AUTOPAY HAS BEEN MADE MORE USER-FRIENDLY



Conclusion

Consumers and businesses face an increasing array of financial products and services offered by dynamic and agile providers, whose technological capabilities are catching up with their banking competencies. As the competition advances in these areas, market participants must be keenly aware of key developments, such as the impact embedded finance is having on market infrastructure. BNPL presents both systematic risks and opportunities, and market participants should know the impact these have whether they provide BNPL or not.

Consumers and businesses have come to expect both high-tech and high-touch, and virtual assistants fall into both categories. Artificial intelligence and higher data management standards have meant that banking chatbots have quickly evolved over the past few years. With the likes of audio and multilingual capabilities being rolled out, providers will need to benchmark their own capabilities against those in the market.

We hope that the insights from This Quarter in Digital will help your credit union continue to digitally innovate while maintaining a focus on the financial wellbeing of your members.

LOOKING AHEAD...

- Business banking tools
- Moving away from passwords
- Digital cards

ABOUT THIS QUARTER IN DIGITAL

The newsletter is produced by PSCU's digital banking advisory service within its [Advisors Plus consulting practice](#) in partnership with Curinos, a global data intelligence business serving financial institutions across lending, deposits and digital banking solutions. Images, platform and app screenshots, and analysis within this document are obtained from Curinos' Digital Banking Hub, a centralized platform of digital banking journeys that allows financial institutions to review digital banking capabilities in the market, and Curinos' services to help credit unions inspire their roadmaps and innovate digitally.

ABOUT PSCU

PSCU, the nation's premier payments CUSO and an integrated financial technology solutions provider, supports the success of more than 2,400 financial institutions and processes nearly 7.7 billion transactions annually. Committed to service excellence and focused on continuous innovation, PSCU's payment processing, fraud and risk management, data and analytics, digital banking, strategic consulting and real-time payments platforms, along with 24/7/365 member support via its contact centers, help deliver personalized, connected experiences. The origin of PSCU's model is collaboration and scale, and the company has leveraged its influence on behalf of credit unions and their members for more than 45 years. Today, PSCU provides an end-to-end, competitive advantage that enables credit unions to securely grow and meet evolving consumer demands. For more information, visit pscucorp.com.

