

Finding Solutions to the New Overdraft Rules

In November, the Federal Reserve Board issued final rules — Regulation E — that prohibit financial institutions from charging consumers fees for paying overdrafts on ATM and one-time debit card transactions unless a consumer consents, or opts in, to be charged a fee for those types of transactions. The ruling, which becomes effective July 1, 2010, also requires an opt-in form that contains specific information on the institution's overdraft practices and policies, including the fees associated with the services, and the consumer's options.

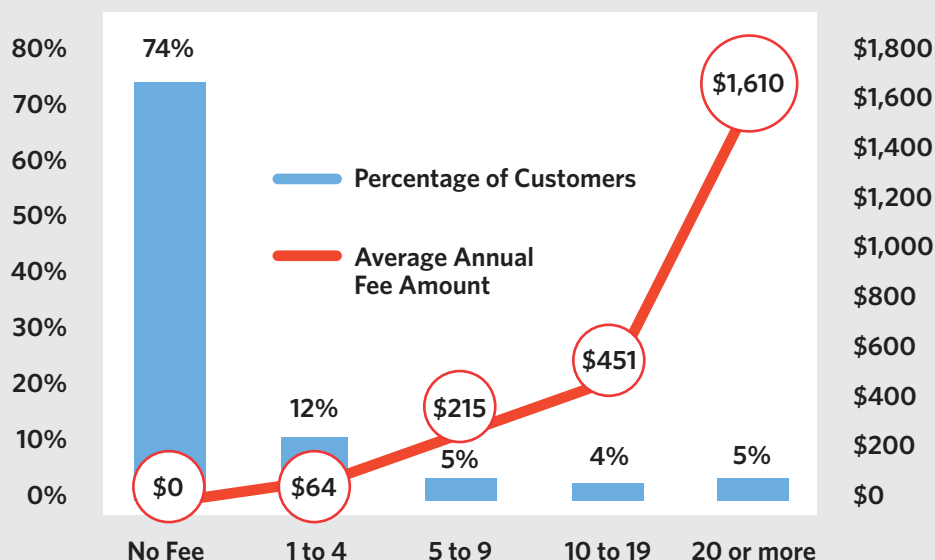
Additional legislation is pending in the form of two proposed bills currently winding their way through Congress that could further restrict how overdraft protection services are offered. These regulatory developments have the potential to significantly impact institutional revenue from overdraft fees, thereby creating both immediate tactical requirements for financial institutions to consider and broader strategic issues to address.

Opportunity

The pressing need your financial institution faces is to communicate clearly and concisely with your customers or members about the new rules. This is necessary to remain in compliance, to do what is right for consumers, and to increase retention by helping alleviate their confusion and frustration. Also critical is providing the right message to the right audience, because consumers will be impacted by the ruling differently based on their banking behaviors.

For example, research shows that 74 percent of consumers do not incur overdraft fees, while 12 percent of consumers are considered infrequent overdraft users, 9 percent are considered light to moderate overdraft users and 5 percent are considered heavy overdraft users (see chart). These differences can be addressed with communications segmented by behavioral history and delivered with an appropriate level of repetition through multiple channels.

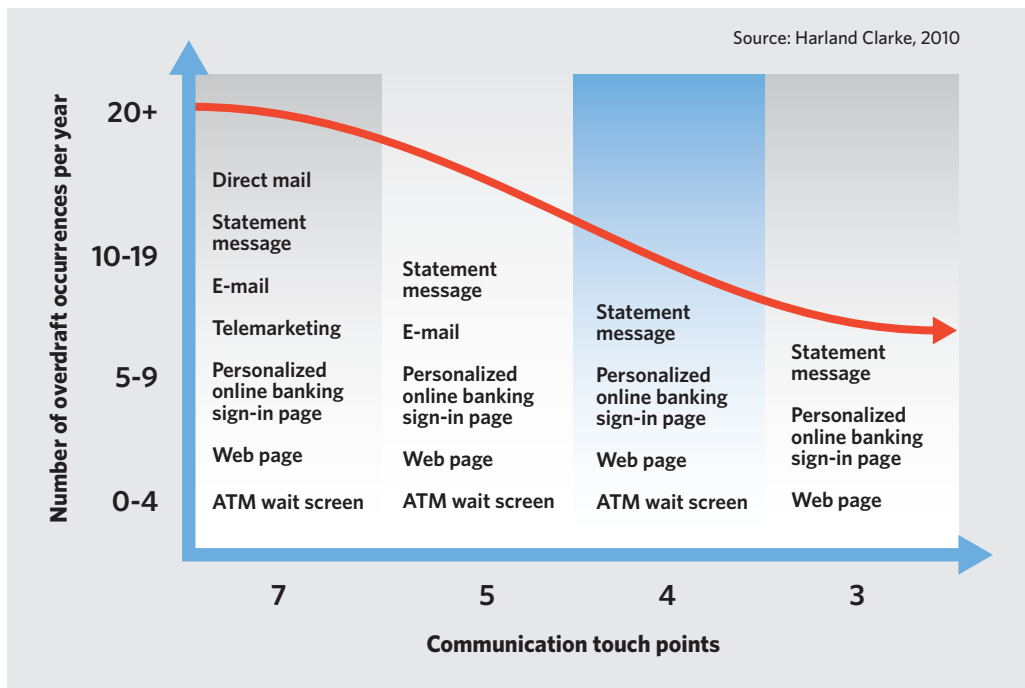
Percentage of U.S. Checking Account Customers and Amount of NSF Fees by NSF Transaction Frequency (2008)



Source: FDIC Study of Bank Overdraft Programs, November 2008

Recommendations

When communicating with consumers, keep in mind that they may be unfamiliar with the terminology and rules associated with Regulation E. We recommend over-communicating in clear, concise language so consumers understand the impact of their decisions. (A sample communication matrix is provided here for illustrative purposes only.)



In addition, it is critical to include all employees who have contact with consumers in your communication strategy. The more informed and educated your employees are about Regulation E, the better they will be at helping consumers make informed decisions.

Communicating with your customers or members and your employees about Regulation E is just the first step. We also recommend taking a back-to-basics approach with consumers to reassess and strengthen relationships, and to rebuild their trust.

As the overdraft regulatory changes unfold, Harland Clarke is prepared to work collaboratively with you to help your institution develop additional revenue streams that replace lost fee income.

For information about how Harland Clarke can help with your Regulation E communication and solution strategy, contact your Harland Clarke account executive.