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*Banks can substantially mitigate Reg E's potential impact on customers and fee revenues.*

# Reg E: Turning the Tide on Opt-in Requirements

BY HANK ISRAEL AND SHERIEF MELEIS

Ever since the Federal Reserve finalized new rules on how checking account overdrafts must be handled, the banking industry has been reacting to worst-case scenarios, and no wonder. An estimated $18 billion to $23 billion in annual fee revenues could be lost if all overdraft transactions affected by Regulation E come to a halt.

But the larger picture is still about meeting customer needs, and the situation is actually much more encouraging when viewed from this perspective. Often overlooked in the debate about overdraft coverage is the fact that many customers expect ongoing access to this service, and their finances will be disrupted if it is suspended.

People will continue to encounter situations where, for example, an emergency payment overtakes the current checking balance, or there's a lack of coordination between householders using debit cards attached to the same account, or the timing gets off in paying a bill before the monthly paycheck deposit is cleared.

Working with customers to meet such contingencies – whether it is opt-in to courtesy overdraft, or overdraft protection programs that provide peace of mind at low cost – may not be the impossible task that many fear.

Indeed, a recent national survey by Novantas and Informa Research Services indicates that the potential damage from Reg E possibly can be cut in half, based on the express desire for continued overdraft coverage among certain customer groups. Successful opt-in campaigns will provide most of this relief, with the remainder achieved through new products that provide improved account information and control.

In following through, there will be a critical need for testing and continuous improvement of the customer outreach, including assessing core needs and attitudes and methodically refining responses. The customer point of view is central.

Although it is widely known that a small minority of account-holders incur the overwhelming majority of overdraft fees, for example, there has been a misperception that these customers aren't really aware of what they are doing and would eschew overdrafts if properly alerted to the consequences.

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However, more than 90% of the self-identified heavy over-drafters in the Novantas-Informa survey said they are aware of their overdraft behavior and acknowledge their personal responsibility.

Many, for example, said they use overdraft coverage to avoid late payment penalties on other bills. More than half said the primary cause of overdrafts is that they simply overspend their accounts, and this is seen among accountholders at all household income levels.

A realistic initial goal for many banks, based on survey findings, is to maintain coverage with at least a third of the overdraft-prone customer pool. This can be done by eliciting opt-in participation, and by developing new products that will help over-drafters to either avoid or manage balance shortfalls when making debit purchases at the point of sale, and when making payments via the automated teller machine.

Success on these terms could be worth $8 billion to $13 billion in fee revenues annually for the entire banking industry. To realize their individual share of this upside, however, banks will need to address a series of critical questions.

**Targeting**. Different approaches will be needed for different groups of checking customers. Customers who seldom overdraft but absolutely want to avoid that possibility, for example, may be receptive to overdraft protection programs that provide contingency coverage for a small monthly fee. By contrast, many heavy over-drafters can be successfully encouraged to opt for courtesy overdraft, the traditional service that bridges account overdrafts for a per-incident charge.

**Pricing.** The Novantas-Informa survey freshly confirmed that checking customers are receptive to innovative ways of paying for services. For example, high-balance customers may be interested in "earning" overdraft protection by using other account arrangements and services. Other credit-worthy customers may be receptive to fee-based arrangements that attach a line of credit to their debit cards.

**Contact.** Thought must be given to the times and places where overdraft-related conversations can best be initiated with customers. Although a third to a half of monthly call center volume can revolve around overdrafts, for example, the very instance when a customer is feeling discomfort may not be the best time to talk about workarounds.

**Dialogue.** In deciding how to broach customer conversations and portray the value of what will be offered, the institution first needs a solid grasp of the customer's situation; the value of overdraft coverage to that individual; and an offer's potential impact on account usage patterns.

**Protocol**. Items such as overdraft decision logic, account opening logic, waiver/refund policies and banker incentives will need to be reevaluated so as to balance cost and risk with expectations for new revenue. Decisions will need to be reviewed frequently based on the changing reality of overdraft for the organization.

In following through, banks need to actively test different communications strategies, with the goal of continuous evaluation and improvement.

The phone channel will be particularly effective for rapid-cycle testing of different communications to maximize opt-in. Not only can methodical testing potentially double the productivity of phone campaigns, but findings also can be used to guide conversations in the branches and to improve customer interactions online.

To be sure, Congress is considering further legislation that will impact the terms and price of overdraft coverage and banks ultimately will have to concern themselves with more than successful responses to Regulation E. However, most of the efforts entailed in coping with Reg E will be useful long term.

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