Novantas Study Reveals Most Overdrafts are the Result of Informed Consumer Choice
October 8, 2015

Novantas announces the release of its 2015 Consumer Overdraft Study — ***Understanding Consumer Choice: A Review of Consumer Overdraft Behaviors*** to shed light on the burning question — why do consumers use overdraft. The research supports the conclusion that most overdrafts come from consumers who are making informed choices — trading off the cost of short-term overdraft funding against benefits such as payment timing and certainty.

Novantas surveyed over 1,700 consumers across the U.S., distinguishing regular overdraft users — who generate most of today's overdrafts — from occasional overdrafters and non-overdrafters. Regarding their most recent overdraft, two-thirds chose to make a payment knowing their account balance was low — with 36% saying they used overdraft to make sure the payment went through and another 30% saying they hoped a deposit would clear first. Another 26% were unaware their account was low or did not coordinate with a joint account holder — which account monitoring tools could readily reveal. Hence, 92% of these overdrafts were by choice or avoidable through more frequent monitoring, and only 8% involved bank error or other reasons. The survey also found that consumers overwhelmingly chose to opt into debit card overdraft as opposed to being pushed into it, and that most overdrafts come from account holders who have access to, and frequently use, account monitoring tools.

While some are asking for additional overdraft regulation despite a decline of up to 45% in debit card fees, Novantas sees a more productive regulatory agenda focused on: providing more, not fewer, options for short-term credit, better informing consumers by streamlining complex checking account disclosures, and encouraging electronic account monitoring usage, thus maintaining a consumer's ability to make informed choices for short-term credit.

"Regulatory implications aside, the results all point to short term funding as a high priority in the consumer agenda, and banks need to think about convenient low-cost credit alternatives to stay top of mind," says Hank Israel, Managing Director at Novantas. "This area is ripe for competition, and financial institutions need to continue to innovate to maintain relevance with consumers as new entrants introduce lower cost and increasingly convenient alternatives."

Study Impetus

This study was initiated at the request of the Consumer Bankers Association, to better understand consumer sentiment and fill a gap in current research. CBA provided funding for the market research survey. Novantas independently designed, analyzed and documented the research results.

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Executive Summary

Since the introduction of new regulatory requirements in 2010, consumer overdraft fees have fallen by as much as 45% depending on peak estimates. Nevertheless, some overdraft critics are calling for, and some regulators are considering, new prescriptive controls on the use of overdraft — e.g., additional disclosure, further process controls, and pricing restrictions. Many proponents of new controls argue that overdraft usage is a result of consumers making ill-informed choices.

Despite all of the concern about overdraft, commentators have provided limited direct consumer research to date on why consumers use overdraft as opposed to their behaviors. To fill the gap, Novantas executed a survey to understand whether and why consumers choose to opt-in and use overdraft. The survey found that most current overdrafts come from an informed choice of consumers.

Many of the proposed prescriptive controls would run counter to consumer choice revealed in the survey research, and would likely reduce the availability of overdraft options for consumers who want and rely on them most, causing many to turn increasingly to less regulated alternatives. A more productive regulatory agenda should begin by recognizing the right of consumers to make informed short-term credit choices, and then work with banks to provide consumers with effective information and more, not fewer, options to meet their payment and liquidity needs. Specifically:

- Supporting consumer choice, by maintaining current overdraft requirements of affirmative consent ("opt-in") for debit card overdraft, and negative consent ("opt-out") for transactions where consumer would otherwise pay NSF and/or return transaction fees;
- Improving information for consumer choice, by simplifying and streamlining checking account disclosure — which is the most direct and timely way of informing consumers; and
- Supporting consumer choice, by encouraging new product development, and not restricting or homogenizing current overdraft options by way of prescriptive pricing and controls.

By supporting informed consumer choice as the basis of competition, banks will serve their consumers better and ensure a healthier and more competitive financial services industry.