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Automation is key to managing overdraft program risk

By: Jeff Harper, President, BSG Financial Group

Despite negative publicity about 'evil' banks preying on the poor and the ever-present Consumer Financial Protection Bureau (CFPB) seeking some type of reform, there are still significant financial and customer service rewards to offering a responsible overdraft privilege program.

Recent studies by Novantas and others have shown that the majority of 'overdrafters' willingly use the service as a result of informed choice. Even the CFPB Director Richard Cordray has said on multiple occasions that the CFPB is not looking to do away with overdraft services. Instead, it appears the agency is leaning toward only minor changes, including new, 'more transparent' disclosures and changes to posting order (see this June 2015 Bloomberg news article). The CFPB, in fact, failed to mention overdraft reform in its most recent list of regulatory priorities for 2016.

Overdraft privilege is but one alternative Americans use to satisfy their short-term liquidity needs. But, if even a handful of consumers need this service, shouldn't financial institutions strive to offer a solution that honors their overdraft items as long as they have the ability to repay?

The answer is 'yes,' and the solution requires a new level of data analysis and automation.

Automated Risk Scoring

Regulators expect financial institutions to monitor "the individual credit worthiness of accountholders" and customize the service to meet their ability to repay.

In order to do so, institutions must rely on more advanced algorithms and accountholder data to guide them in setting individualized limits. Overdraft programs that assign all accountholders of a particular account type the same overdraft limit are a thing of the past.

Today, advanced overdraft management software should possess automated scoring capabilities that actively manage risk and keep your overdraft program compliant. Automated and dynamic scoring creates a risk profile on a daily basis for each individual accountholder and assigns an overdraft limit based on that accountholder's ability to repay. Dynamic limits are calculated automatically based on a multitude of accountholder data points, including specific deposit and overdraft activity, as well as related balances and more.

Dynamic overdraft limits allow institutions to maximize service by paying/authorizing more items for those accountholders who can afford it and want to use it, while pulling back on overdraft limits for those accountholders who do not have the ability to repay. Your financial institution is able to approve more overdrafts to maximize service; incur less risk with fewer charge-offs; and save time making fewer pay/return decisions.

As long as there are institutions, checking accounts and humans, there are going to be overdrafts. Automate your overdraft system to help reap the monetary rewards of providing this much-appreciated customer service, while minimizing charge-offs and regulatory scrutiny.

To learn more about the benefits of implementing a compliant overdraft program, please visit www.bsgfinancial.com, or email Jeff Harper at jharper@bsgfinancial.com.

Jeffrey Harper brings more than 25 years of industry experience to his position as president of BSG Financial Group, where he heads up the Sales and Marketing divisions of the company. Jeff plays a pivotal role in growing the company through innovation, marketing, compliance and customer support.