



BSG Financial Group™

# The five Ds of an optimized overdraft protection program



Overdraft protection programs may be the source of trepidation for some financial institutions, but the fact is, overdrafts are not going away and consumers have spoken: they want short-term liquidity options, including overdraft protection.

If your financial institution strives to provide (or already provides) overdraft protection for those consumers who choose to access it, make sure the program includes these 'five Ds' of a compliant, customer-focused service:

## Dynamic Overdraft Limits

Assigning fixed overdraft limits—where all accountholders of a particular account type receive the same limit—is a thing of the past. Or at least they should be, if you listen to regulators who want financial institutions to: monitor “the individual credit worthiness of accountholders” to identify risks and detect “potential changes to repayment capacity with respect to the overdraft product.”

Using dynamic overdraft limits addresses these directives by establishing limits based on an accountholder’s ability to repay a potential overdraft. As the potential ability changes on a daily basis, so does the limit.

Automatically calculating and customizing overdraft limits allows the financial institution to:

- Approve/pay more overdrafts for those who can afford it (while pulling back for those who cannot)
- Incur less risk with fewer charge-offs
- Save time making fewer pay/return decisions
- Guard against disparate or unfair ad hoc decisioning

## Debit Denial Tracking

The use of paper checks continues to decline, while payments by debit card are on a steep upward trajectory. It is no surprise then that a significant amount of overdrafts today are the result of debit card and ATM transactions. Of course, in order to provide overdraft services and charge an overdraft fee for these types of transactions, your institution must have obtained an affirmative Reg. E opt-in decision from the accountholder. Unfortunately, when the Reg E opt-in rule was implemented in 2010, most institutions relied on a one-time communication to existing accountholders. If an accountholder did not contact the institution to opt in, then very likely the institution performed no follow-up to receive decision (either an opt out or opt in).

Your overdraft program must be able to track these ATM/debit card transactions denied for reasons of NSF and match them to specific accountholders. With this data in hand, you can communicate to these individuals about the 'debit denial' event as well as their options for overdraft coverage. However, this type of dynamic communication—that is triggered by a specific event—can only happen if your overdraft software accommodates it.

### **Dynamic Communication**

Dynamic communication allows your institution to customize the timing and message to accountholders (by phone call, email or letter) to achieve optimal results. For instance, contacting a person has not made a Reg E decision, but who has just experienced a debit denial can increase Reg E opt-ins and, therefore, income opportunities. Likewise, sending a 10-day collection letter to an accountholder who historically repays his overdrafts within a 15-day period is impersonal. Tailoring collection communications based on dynamic factors can reduce communication expenses anywhere from 20% to 40%.

### **Dynamic Detailed Reports**

Optimizing your overdraft program is reliant on the data it produces. And there is no better way to analyze the data than thorough the use of automated reports designed for various levels in your organization. In fact, regulators state clearly that management “should exercise appropriate oversight through receipt and review of regular reports.”

Your overdraft system should produce reports that monitor overall program performance, overdraft limits and excessive overdrafts, among others, in order to make appropriate plan adjustments. The overdraft software should include capabilities to create ad hoc queries to meet custom information needs, and an executive desktop summary for overall monitoring.

## Dedication to Compliance

It goes without saying that providing overdraft protection is one of the most highly scrutinized business practices in the financial industry. As a result, your overdraft program must be, first and foremost, compliance-driven.

Overdraft providers/programs that place a premium on compliance, provide:

- Expertise with regard to regulations and the ever-changing landscape.
- An established set of best practices that adhere to all overdraft regulations.
- Compliance updates
- Annual review of program performance including recommendations for enhanced performance and compliance

Choose an overdraft protection program that can successfully help you manage overdrafts to manage risk and provide world-class service to your accountholders.

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*To learn more about compliant overdraft programs, please contact BSG Financial Group at (866) 274-8900 or go to <http://www.BSGFinancial.com/CourtesyConnect>.*

