

The Income and Service Opportunity of NSF Debit Denials

By Hank Thompson

The erosion of OD/NSF fee revenue at financial institutions (FI) is often traced to the decline in the use of checks as a form of payment. Fewer checks mean fewer overdrafts, right? Not necessarily. Because even though check usage has steadily declined, the use of debit cards has skyrocketed; and today, a significant and growing number of overdrafts result from debit card transactions.

Institutions that honor overdrafts at this channel can find opportunity in “NSF Debit Denials,” which are debit card transactions attempted but denied at point-of-sale or ATM due to “reasons of NSF.” The attempted transactions are typically denied because the customer has not opted into Reg E, which covers one-time point-of-sale and ATM transactions, or because the customer’s overdraft limit was exceeded (we’ll focus on the first reason in this article).

NSF debit denials do not post to the core system, do not create an NSF fee, and disappoint (or even embarrass) customers simply trying to use their debit card. NSF debit denials not only impact interchange income, but can jeopardize customer loyalty. How many customers, upon suffering an NSF debit Denial, will stop trying to use their (your institution’s) debit card and opt instead for alternative cards? How many even understand, or take the time to figure out, why they were denied in the first place, rather than just blaming it on the bank?

Financial institutions can recapture these debit denials and not only replace vanishing fee revenue, but also gain appreciation from customers. To do so, your overdraft solution must be able to:

- Track debit transactions that are denied at POS or ATM;
- Identify customers who have not opted in to Reg E; and

- Communicate to customers about the debit denial and obtain opt in.

Getting More Opt-Ins

When the amendment to Reg E became effective in July 2010, many FIs approached customers for their decision to opt in or opt out of extending overdraft service for one-time POS and ATM transactions. Since 2010, many FIs have tried to place emphasis on Reg E during account opening. Results have varied widely, but each account falls into one of three ‘buckets’: Opted In / Opted Out / No Decision (No Response).

At many FIs, the third bucket exceeds 50 percent of the accounts! And this No Decision bucket represents huge opportunity for increased fee revenue, but as important, for better customer service.

The media would have us all believe that allowing debit card overdraft charges results in nothing but lattes costing \$40 — \$5 for the coffee and \$35 for the NSF fee. The majority of overdraft transactions, however, fall not into the coffee shop or gas station merchant category, but into the grocery store category. Americans use short-term liquidity to help pay for essentials in their daily lives. When they opt in to Reg E, they are indicating that they know what they are doing and are willing to pay for the service. It is your financial institution’s responsibility to make sure they know they have the option.

A good overdraft management system will match NSF Debit Denials to the account, isolate the No Decision accounts, apply customized qualifying criteria and create a list of customers for contact to explain what happened with their debit denial, while also asking for a decision on Reg E — all automatically.

Does your financial institution’s overdraft management program give you the capacity to capitalize on NSF debit denials? Today’s ‘next-generation’ overdraft management systems can do so in an automated and compliant way to recapture lost NSF/OD revenue and improve customer loyalty. **IB**

About the author: Hank Thompson is executive vice president of BSG Financial Group, an IBA Associate Member. For more information, please visit www.BSGFinancial.com.