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Overdraft Innovations Speed Disruption of Checking

On December 1, 2021, Curinos released its comprehensive study on the state of overdraft, identifying the competitive threat to new customer acquisition and the increased focus by regulators and legislators on transparency and cost of short-term liquidity coverage.

Since the release of the report, seven more major institutions have overhauled their overdraft policies or eliminated them altogether. In a matter of months, the traditional business model of overdraft has been upended. Among these institutions are:

- Bank of America
- Capital One
- Chase
- Regions Bank
- Truist
- US Bank
- Wells Fargo

The overdraft innovations vary by financial institution, ranging from reducing or eliminating overdraft fees, increasing de minimis limits, offering a low-cost line of credit or offering a grace period. The moves come as new entrants shake up the market for short-term liquidity products and regulators keep close tabs on the practices of traditional players.

The vastly different approaches to addressing the competitive and regulatory threat reflect the market dynamics that customers experience in their day-to-day banking.

What Should Other Financials Do Now?

Financial institutions of varying sizes and with different strategies should consider three questions to define their response strategy, with actions falling along the continuum of:

- What do I have to do to avoid regulatory and consumer advocacy scrutiny?
- What should I do to solve my customers' liquidity needs within the context of the new checking market as I also seek to retain customers?
- What can I do to leverage the disruption to improve my value proposition and to capture or retain acquisition share?

Action Levers to Create Innovative Overdraft Solutions

Curinos sees successful financial institutions developing their solutions along five levers:

1 Define Overdraft Program

Over the last year, a growing number of financial institutions has introduced a variety of consumer-friendly overdraft innovations. No matter what solution a financial institution chooses, the overall definition of overdraft programs has changed dramatically and, arguably, for the better of the customer.

2 Reimagine Mass Market Strategy for Smaller Institutions

Smaller institutions might face two challenges in this new environment—they generally rely more on overdraft

fee income than larger players and they need to find a way to position their products, especially when considering the competitive headwind coming from fintechs. Should they let the likes of Chime win or should they refocus their efforts in different areas? Strategies to help them find their footing and maintain profitability in the fast-changing industry include focusing efforts on modernizing the checking suite to ensure mitigation of revenue loss that will undoubtedly come from competitive pressures.

3 Engage Customers with Money Management Programs

Beyond changing overdraft fees and policies, financial institutions have a huge opportunity to reshape their offerings and include financial wellness tools and education in their core offerings. Better money management can pave the road to financial wellness, allowing consumers to make sound financial decisions, spend within their means and save adequately for future emergencies. Institutions that offer financial wellness solutions can engage their customers, gain their trust and loyalty and turn them into profitable long-term customers.

4 Find Sustainable, Lower-Cost Alternatives to Overdraft

Some financial institutions offer innovative short-term liquidity solutions through unique product design. For example, Huntington Bank, Bank of America and Truist each offer straightforward, low-cost lines of credit that customers can access to cover an overdraft.

5 Innovate Day-to-Day Banking Value Proposition Around Checking

With so many overdraft innovations coming on the market, it is becoming increasingly difficult for financial institutions to stand out when launching a new solution. Many features that were unique six months ago (grace periods, elimination of overdraft fees, early access to direct deposit) aren't getting the same attention anymore.

Going forward, we are likely to see more product differentiation in the market. The question is no longer if you should innovate, but what will you do and how unique will you be?



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About Curinos

Curinos is the leading provider of data, technologies and insights that enable financial institutions to make better, and more profitable, data-driven decisions faster. Born out of the combination of two familiar industry powerhouses, Novantas and Informa's FBX business, Curinos brings to market a new level of industry expertise across deposits, lending and digital experience solutions and technologies.

Through access to comprehensive datasets and analytics, intelligent technologies and connected behavioral insights, Curinos is the partner of choice to help you attract, retain and grow more profitable customer relationships.

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. Curinos independently designed, analyzed and documented research results.