Sound New Year's Principles are Beneficial All Year Long

Fairness, Convenience and Compliance are the Benchmarks of Overdraft Protection

By Cheryl Lawson, Executive Vice President

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If your bank's 2017 goals include increasing revenues *and* customer satisfaction, a fully-disclosed overdraft protection plan may be the solution. A proven plan could fill not only both needs, but also provides fairness, convenience and compliance to the account holder and the financial institution.

Overdraft protection exists primarily to solve a common problem: a cash shortfall when a consumer faces a have or have-not purchase decision. By utilizing the service, consumers can answer a pressing situation in exchange for a manageable expense – one that's often remedied within days - and your bank can increase income from a non-interest category. If you're considering adding or adapting an overdraft protection service, let the attributes of fairness, convenience and compliance guide you to a win-win decision.

Fairness

Fairness is rooted in value, and as it applies to overdraft protection, begins with *how* the service is initially presented. Consumers should expect a fair program to be one that:

- is available to all customers, and does not discriminate
- has uniform charges, with known limits, that do not fluctuate with the transaction amount
- is transparent at every touchpoint, from sign-up to opt-out, so that the customer can make a fully-informed decision about their level of participation
- includes consistent messaging throughout the process
- has the customer's best interests in mind, and excludes compensation-based incentives
- keeps the customer up-to-date from the inception of an overdraft through reimbursement

Convenience

The convenience of overdraft protection applies to both the consumer and the financial institution. For the consumer, that can mean the ease of a standard transaction; the confidence of not needing additional arrangements or alternate, sometimes prohibitively-priced resources; and the discretion between only themselves and their bank.

Convenience for the institution can be:

- a turnkey system that doesn't require an upfront investment or create new burdens on staff
- expenses contingent on income growth
- a technology platform independent of core systems for monitoring overdraft usage
- a source of customer retention, loyalty and goodwill; something that uncovers new or unsatisfied needs that can expand the relationship to other services including borrowing or a line of credit

<u>Compliance</u>

Given the nature of the industry, **compliance is non-negotiable**. For financial institutions that implement an internal overdraft protection program, compliance can become lax due to turnover or not keeping pace with industry changes.

Compliance is an ongoing process resulting from:

- a strong emphasis on training prior to launch and throughout the implementation phases
- a third-party provider who's constantly learning from multi-client engagements and has external legal expertise that closely follows the industry
- systems that monitor constantly or on-demand, and that can readily provide answers to inquiries by bank examiners or authorities

Given the pace of everyday life and the growing prevalence of electronic banking - studies have shown debit cards represent the largest volume of non-cash payments – an effective overdraft protection service can benefit consumers and financial institutions alike. **Consumers can more easily and discreetly resolve unforeseen situations, and banks can both earn - and learn - more from their customers.** For such a program to benefit both parties, consider how a program can meet the thresholds of consumer fairness, institutional convenience and industry compliance.

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Cheryl has more than 30 years of experience in financial operations, consulting, communications, training and project management. She joined JMFA in 2001 and currently serves as the compliance liaison for the company. She formerly served as EVP-Implementation for JMFA, leading and directing the consulting team. Cheryl has previously held positions with IBM and Chase Manhattan. Prior to joining JMFA, she was Managing Consultant for DACG, Inc. and is credited with saving approximately $10 million with the introduction of high efficiency technology strategies. Cheryl earned a BA in English from Carnegie-Mellon University, and an MBA from Rice University.

About John M. Floyd & Associates (JMFA)
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