



BLF MARKETING

White Paper Marketing Considerations in Response to Reg E Changes

I. Situation

While banks are well aware of the compliance issues associated with Reg E changes, federal regulations are not addressing the marketing and customer services issues that are sure to surface. The fact is ... the general population is relatively unaware of the new regulations. It is also true that if regulatory letters are the bank's sole method of customer communications, banks are bound to experience a negative reaction from both debit card customers who rely heavily on an Overdraft Protection service, and merchants who are accustomed to a majority of debit card transactions being authorized.

II. Purpose of White Paper

BLF encourages banks to take a more customer-focused approach to Reg-E by proactively addressing marketing considerations, including:

- Identifying Customers Who Value Complementary Overdraft Protection Benefits
- Effectively Communicating with Them Regarding the Benefits of Opting-In
- Providing Customers a Variety of Easy Opt-In Channels
- Training Issues Revolving Around Reactions to Declined Transactions

This paper clearly outlines BLF Marketing's **solutions** to help banks reach out to customers who are heavy users of Overdraft products, improve customer relationships, and reduce the impact of lost fee income.

III. Key Changes to Reg E

Whether or not a bank offers Overdraft Protection / Privilege benefits with its checking accounts, all banks occasionally authorize *one-time debit card or ATM transaction* that can overdraw a customer's account. Any fees charged by the bank for overdrawing the account that are caused by these transactions are subject to the Reg E changes as follows:

- All Deposit Customers** — When new Reg E changes go into effect, some banks may choose to decline all *one-time debit card and ATM transactions* that overdraw an account. If such transactions are authorized by the bank, no fee can be charged, unless the customer requests or Opt-In to the service.
- New Retail Customers** — As of **July 1, 2010**, banks can no longer charge any fee caused by a *one-time debit card or ATM transaction* that results in an overdraft situation *unless* the customer specifically Opt-In to the service.
- Existing Retail Customers** — Banks have until **August 15, 2010** to Opt-In existing personal banking customers (accounts opened prior to July 1). For all



customers who do not Opt-In, the bank must stop charging overdraft fees caused by *one-time debit card and ATM transactions* on all accounts.

- D. **Overdrafts Not Included in Reg E Changes** — Banks may continue to charge fees for the following types of overdraft incidents or products:
1. Overdrafts Caused by Check or e-Check (e.g., an Online Bill Payment or Third-Party Service such as Pay Pal)
 2. Overdrafts Caused by ACH
 3. Overdrafts Caused by Recurring Debit Card Transactions (e.g., a monthly electric bill that is paid automatically each month via debit card)
 4. Overdraft on a Business Account Caused by ATM and *One-time Debit Card Transactions*. **Note:** Small businesses who have been directed into Personal Checking Accounts may unintentionally fall under new Reg E guidelines not intended for business account holders, thus depriving bank of potential fee income.
 5. Overdraft Lines of Credit
 6. Linked Products (overdraft covered by available balances in Savings or HELOC)

IV. **Effects of Reg E Changes Not Addressed by Federal Regulations**

- A. **Customer Reaction to Declined Transactions** — Those who routinely overdraft their account at the ATM or by use of a debit card will now experience **declined transactions**, as banks will likely not authorize funds allowing customers to overdraw their account. **Note:** While consumer research shows that customers would, in theory, prefer a bank to reject any electronic transaction that would put their account in an overdraft status, it is unclear what the embarrassment / inconvenience factor will be when such transactions are actually declined.
- B. **Bank Liability** — Since banks can not “return” debit transactions as they might an overdrawn check, they may be liable for certain preauthorized transactions (e.g., pay at the pump, hotel check-in). **Note:** Banks who do not authorize *one-time debit card and ATM transactions* in Real Time will likely incur a greater liability.
- C. **Business Customers / Merchant Liability** — Business customers that utilize merchant services are likely to face an increased number of declined transactions. If they do not process card authorizations in real time, they could also face a financial impact of the bank rejecting a transaction after the customer has left their place of business.

V. **Mandated Notification of Bank Customers**

- A. **Written Notice** — Banks that assess a fee for overdrawn balances caused by *one time debit card or ATM transactions* must notify clients that they must now Opt-In if they wish to continue this benefit. At this time, customers should be provided with an Opt-In form and return envelope.



- B. **Methods of Opt-In** — A customer’s signature is not required. While banks must be concerned about security issues related to transmitting sensitive account information, customers may Opt-In on any approved channel including:
1. Mail - form supplied by bank and returned in pre-addressed envelope
 2. Web Site – online secured form
 3. Phone – bank will need to train personnel on procedural issues
 4. In Person at the Bank – CSRs should be provided extra signature forms
 5. Email is *not* recommended for security reasons

Note: *Either customer on a joint account can Opt-In.* If both parties notify the bank with conflicting requests, the latest action is binding.

- C. **Opt-In Confirmation** — Customers who Opt-In by any of the above means must receive an Opt-In status confirmation after communicating their desire for the service to the bank. Customers may change their Opt-In status at any time.
- D. **Third Party Providers** — The bank may choose to work with a trusted third-party provider (e.g., **Core Processors, Overdraft Protection / Privilege Processors**, etc.) to handle the mandatory regulatory communications and subsequent Opt-In channels (direct mail, call centers, etc.) being offered.

VI. National Banking Statistics Related to Overdrafts

- 52.8% of the bank’s retail overdraft revenue comes from overdrafts caused by *one time debit card or ATM transactions*.
- As much 30-47% of a bank’s overall overdraft revenue is at risk if no customers Opt-In to the program.
- Approximately 70% of all banking customers have never had an overdraft incident.
- The most frequent overdraft users (averaging one or more overdrafts a month) represent only 9% of banking customers, but drive 54% of all monthly overdraft revenue.

Annual Overdraft Incidents	Percentage of Customer Base	Percentage of Monthly OD Income
0	70%	0%
1-3	12%	23%
4-11	9%	23%
12-23	5%	19%
24+	4%	35%



VII. **BLF Marketing's Opt-In Solution for Your Bank**

To effectively communicate the new Opt-In requirements to your customers who value the benefits of Overdraft Privilege for their *one-time debit card and ATM transactions*, it is imperative that your bank's marketing strategy go beyond sending out the required regulatory letters — hoping for the best. A concerted effort targeting customers who want Overdraft Protection can minimize the impact new regulatory changes will have on bank revenue.

- A. **Evaluate Potential Fee Loss** — Some community banks may have a higher percentage of customers who use checks vs. debit cards and ATMs, resulting in a slightly reduced financial impact from the loss of overdraft fees. It's important, however, for a bank to evaluate the source of its NSF fees to determine potential income loss.
- B. **Segment and Identify Overdraft Users** — BLF Marketing can help you perform an analysis on your existing customers to ensure that your bank properly targets those customers who drive the majority of your overdraft revenues.
- C. **Overdraft Training** — Because changes to overdraft coverage are complex, employees must be prepared to address customer questions. **BLF offers a customized suite of four training modules** to educate your staff:
 1. **Reg E Overview**
Audience: All Staff
Objective: Provide basic understanding of Reg E
 2. **Marketing and Implementation**
Audience: Majority of Staff
Objective: Communicate your bank's marketing and implementation to staff
 3. **Opting-In New Customers**
Audience: Retail Branch Managers / CSRs
Objective: Present keys to Opting-In new checking/debit card customers
 4. **Converting Customers to Opt-in After August 15**
Audience: Branch Managers / CSRs
Objective: Discuss the process to communicate with dissatisfied customer, explain Reg E impact and obtain an Opt-In from the customer
- D. **Marketing Resources** — Before the regulatory letters are sent out, the bank should have the infrastructure in place to **accept in-person Opt-Ins** and **explain regulatory changes** to customers who contact the bank with questions and/or wish to make their Opt-In decision in person. Materials to help with that process include:
 1. Tent Card
 2. CSR Sheet
 3. Flier / Take One
 4. Web Site Page



E. Customer Communications / Direct Mail

1. **Postcards to Targeted Customers** — BLF Marketing will assist you in communicating with targeted groups of customers who value and use Overdraft Services through a two-part postcard series:
 - a. Postcard Prior to Regulatory Letter
 - b. Follow-up Postcard

Note: If your bank has already sent your mandatory letters, BLF Marketing recommends sending a reminder postcard after August 15 to remind customers they may Opt-In at any time.

2. **Regulatory Letters and Other Opt-In Channels** — The form letters as mandated by the Federal Reserve must be delivered to customers to collect Opt-In responses. The bank may also explore other Opt-In channels including secure web sites and call centers to maximize customer choices for Opting-In. BLF Marketing can help the bank coordinate with a trusted third-party provider where necessary to deliver and collect responses to the mandatory compliance letters.

F. Follow-up with Target Groups — The bank should provide follow-up communication to customers identified as frequent overdraft users. Follow-up communication to this group could include:

1. Follow-up Postcard (see above)
2. HTML Email Communications

G. Customer Concerns After August 15 — Since most consumers don't bother reading regulatory disclosures from bank — and because many frequent debit card users might also be the type of customer who doesn't make frequent bank visits — banks should be prepared to handle customer complaints after August 15 as debit cards transactions that would have overdrawn their account are declined. These incidents present an excellent opportunity to Opt-In customers who missed all previous communications.

H. PR Considerations — BLF Marketing will draft a press release that you can distribute to local newspapers and other media outlets informing their audience of the impending changes to their overdraft coverage.

I. Communicating with Business Customers —BLF Marketing can help you prepare a communication to your business banking customers informing them of the impending changes to Reg E and how they will affect their business.



VIII. Sample Reg E Timetable

May 15	Customer Segmentation Completed
June 1	CSR Training
June 6-24	Marketing Resources Completed Educational Postcards Delivered
July 1	Regulatory Letters Sent to Existing Customers New Customers Given Opt-In Notice at Account Signup New Customers No Longer Charged on Debit / ATM Items
July 15	Follow-up Phase with Priority to Target Groups
July 18	Reminder Postcard to Non-Responders
August 1	Regulatory Letter Sent to Non-Responders in Target Group
August 15	Existing Customers No Longer Charged on Debit / ATM Items Begin Post Opt-In Phase to Convert Dissatisfied Customers

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