

Financial Service Providers Designing Their Regulation E Opt-In Program without Considering the “Voice of The Customer” Will Miss Revenue Opportunities

Regulation E will go into effect this July, representing a significant threat to bank revenue. Given the importance of the overdraft revenue stream to banks, Morpace studied consumer attitudes toward the changes and their likelihood of opting-in. This research suggests that financial services providers can find ways to design a program for existing customers to help at least offset, or possibly replace, potential lost revenue.

Conclusions

Consumers are confused about what Reg E is and what it means for consumers. The result is an opportunity for banks to engage in a high-level customer contact campaign given that many consumers want an in-person explanation at a branch (at a time when branch visits are declining). And with a significant income stream being at risk, it is in the best interest of banks to make sure their customers are fully educated on what it means to opt-in or to opt-out.

Relatively few consumers intend to opt-in

With Reg E approaching, it would appear that the “opt-in” rate will likely be low. (See Figure 1) However, the research shows that those experiencing an overdraft are significantly more interested in signing up in comparison to consumers who had not experienced an overdraft.

It is important to note that consumers who decide not to opt-in will not reduce debit card usage as a result.

Consumers with overdraft experience are:

- Likely to be a married person with children, somewhat younger and middle income.
- Consumers who need a bridge between paychecks or deposits.
- Consumers who do not want to be embarrassed at the point-of-sale.
- Consumers who want to avoid “bouncing checks” for important payments.

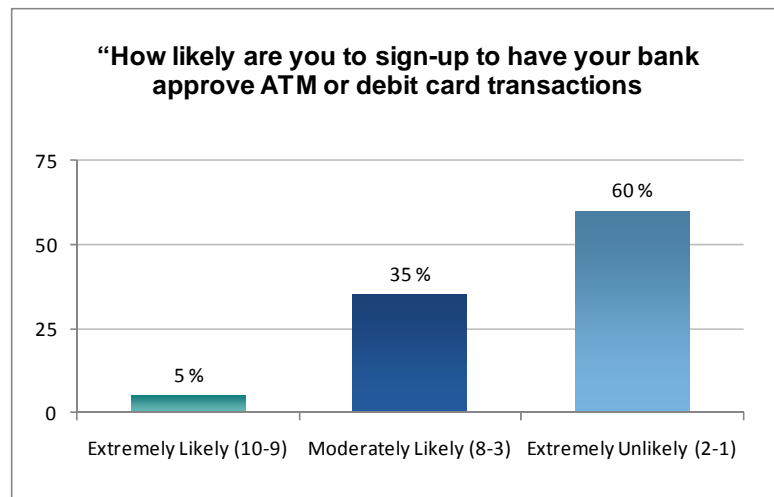


Figure 1

What is Regulation E?

Regulation E requires banks to ask customers if they want the bank to continue to cover debit card and ATM overdrafts (for a fee) as they have in the past. If consumers don't opt-in, ATM and debit card transactions will be declined when there are insufficient funds and no fee will be charged.

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Embarrassment at the point of sale

Morpace has conducted Reg E research as part of this Omnibus Report and elsewhere. We found that consumers who had experienced a declined transaction in the past are more likely to opt-in and be covered by their bank. These consumers want to avoid being embarrassed at a point-of-sale which is their motivation.

In addition, consumers who had experienced an overdraft were more likely to “opt-in”. Our research uncovered the mindset that views overdrafts as a form of bridge loan between paydays (particularly among younger, lower paid individuals). Banks may want to incorporate “fear of embarrassment” due to an unexpected declined transaction among the message points used.

While there has been much focus on the upcoming July implementation deadline, banks should view the opt-in process as ongoing rather than a one-time event. Specifically, banks should reach out to those encountering debit card/ATM declines on an ongoing basis. This should be used as an opportunity to re-present overdraft options over time.

A sizeable percentage of consumers would prefer to “opt-in” at a branch. This could be an opportunity for banks to engage consumers in a broader financial services dialogue.

It is noteworthy that nearly 30 percent of consumers would prefer to opt-in within the branch – despite the consistent movement away from in-branch banking. (See Figure 2)

This suggests that some consumers feel the need to talk with a live person to better understand Reg E and its impact. This finding was born out in the confusion that was apparent in the respondents’ comments.

“New” customers tend to overdraft more often

Given the finding that new customers tend to overdraft more often, it suggests that banks will need to incorporate an effective “opt-in” program with the banks new account opening process. Based on this research we recommend a message promoting an overdraft protection product be shared with new consumers during the account opening process.

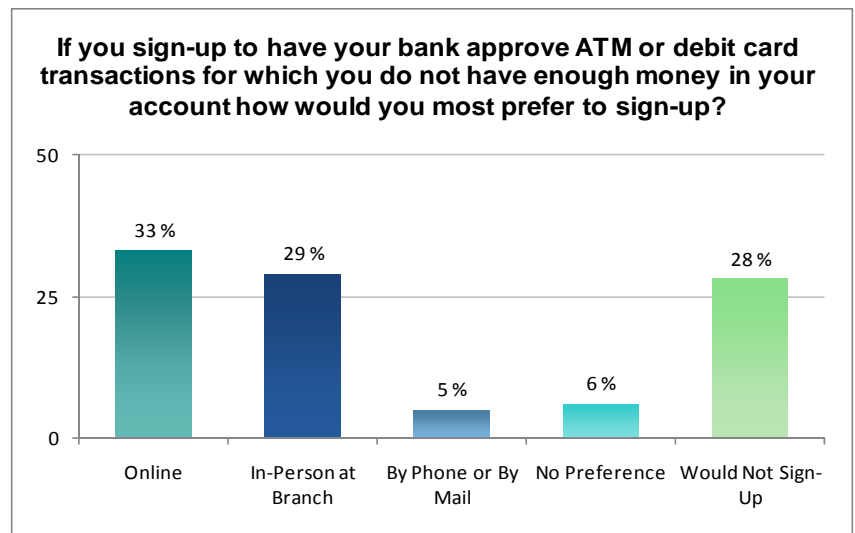


Figure 2

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Get your message to customers with a propensity to overdraft

The data also show that 68 percent of overdrafts occur due to ATM or debit card transactions. (see Figure 3) Messages from the institution about an opt-in program should be targeted at such users, with marketing messages located at ATM machines or at the bank's website, where consumers are likely to conduct online transactions. The focus should be on younger customers and active debit card users.

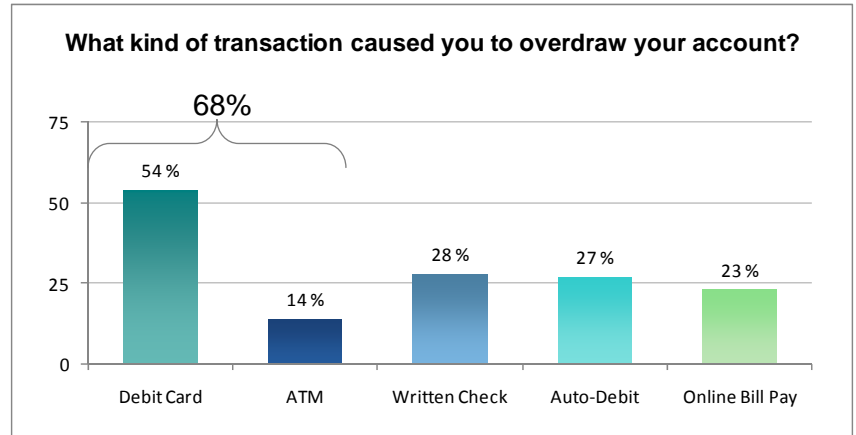


Figure 3

Little interest in overdraft protection

There was little interest in overdraft protection among the target audience. This might be due to concerns about qualifying for credit based overdraft protection. This is a key message prompting opt-in behavior among the less credit worthy.

Avoiding fees drives opt-out

The main reason that consumers opt-out would be to avoid fees. In many cases it may not be the amount of the fee itself, but a general sense that paying such fees is wasteful or unnecessary. Consumers that are more likely to opt-out tend to have had few, if any, overdraft situations in recent years.

A total of 1,000 respondents were surveyed May 7-13 as part of the May 2010 online panel.

For further insights, or to learn more about our Omnibus Studies, please contact:

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