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Overdraft Protection via ASP?

Since federal regulators earlier this year issued new guidelines on overdraft protection that didn't hinder such programs as much as bankers had once feared, solutions providers have been rolling out new products to facilitate those programs.

BSG Financial, for example, recently introduced a Web-based service that handles the data processing behind overdraft protection – comparing checks written on overdrawn accounts to a bank's criteria for paying or not paying. In addition, the program generates reports on the actions taken.

Most overdraft protection programs come in a software format, which requires banks to operate the system on their own computers, says BSG president Barrett Nichols. The value of a Web-based, or application service provider, version is that it enables banks to get into the overdraft protection business without the IT responsibility.

"It's an intriguing idea for small community banks that don't want to install another piece of software because they don't have the IT staff to do it," says Dave Furnace, chief executive officer of Boston, Tex.-based Habersfeld Partners, which consults on bank revenue initiatives. "To be able to outsource in an ASP model gives banks some options to consider."

Core processing vendors such as Jack Henry & Associates and Fidelity Information Services say they also offer overdraft protection programs on an outsourced basis, but only as a part of their core processing packages.

Roughly half of all banks run software on their own computers and half outsource their technology, Furnace estimates. A standalone overdraft protection program could appeal to banks that operate their core processing software, but don't want to do more than that, he says.

Hoosier Hills Credit Union in Bedford, Ind., fits that description pretty well, according to Mark Fetter, senior vice president of planning and project management. "Our core systems are in house. That's about as much as we want to handle."

A test site for BSG, Hoosier Hills had been paying many checks written on overdrawn accounts for about five years, but has not monitored its own pay/return decisions sufficiently and has not been consistent in its collections efforts. Fetter says the BSG system will address both weaknesses and help some members avoid using costly payday loans.

While overdraft protection has long been a source of fee income for banks, consumer advocates have argued that it encourages sloppy management of personal finances. BSG's program and others address that concern, to a degree, with reporting features that help banks identify frequent users of the protection, enabling banks to communicate with those customers about other ways to manage their affairs.

Most beneficial of all, Nichols says, the program automates the pay/return decision by determining whether accountholders meet a bank's eligibility criteria.

About 4,000 banks, thrifts and credit unions have formal overdraft protection programs that they tell their customers about, according to John M. Floyd & Associates in Houston. Many other banks, however, simply pay overdrawn checks without drawing any attention to the fact.

For more about overdraft protection, see "Sizing NSF-Related Fees" in the January/February 2005 issue of *Banking Strategies* available online at www.bai.org/bankingstrategies.

