

TD Bank plans no-overdraft account, co-opting a major neobank feature

Article

The news: TD Bank plans to roll out an overdraft fee-free checking account, **TD Essential Banking**, in August, Banking Dive [reports](#). The account, which will carry a monthly fee of **\$4.95**

(except for account holders aged 13 to 17), will have no minimum balance requirement and won't allow clients to overdraft. The bank claims that the new account will meet standards laid out by the Cities for Financial Empowerment Fund.

The announcement accompanies a broader change to TD's overdraft policy: The bank is 1) changing the overdraft threshold after which customers are charged a fee, ranging from \$5 to \$10; and 2) is lowering the number of times a client can be charged per day from five to three.

More on this: Overdraft policy is rapidly becoming a flashpoint for banks. Some financial institutions (FIs) have slashed fees to drive customer satisfaction.

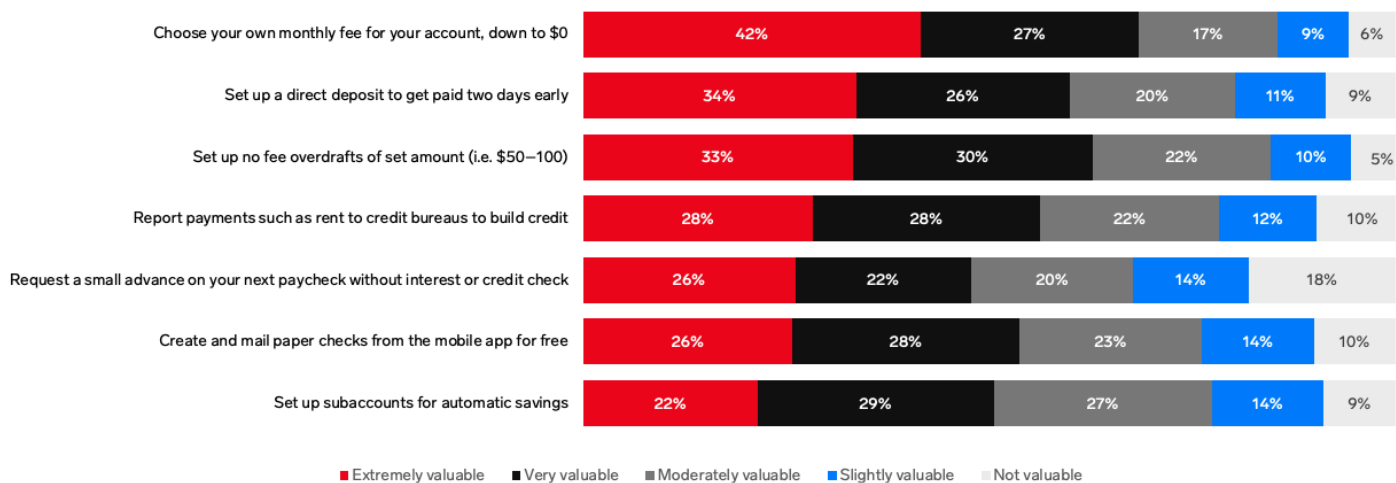
- **PNC** rolled out a new checking account similar to TD's in March—it costs \$5 per month and doesn't charge account holders for overdrafts or insufficient funds. A product that PNC [unveiled](#) in April, called **Low Cash Mode**, offers customers finer control over how debits to their accounts are processed as well as a 24-hour overdraft grace period to help them avoid fees.
- **Ally Bank** [announced](#) earlier this month that it would no longer charge its customers overdraft fees, making permanent its temporary, pandemic-prompted suspension of the practice.

Trendspotting: The widespread reckoning on overdraft fees by large incumbents is part of a trend of big banks eroding some of neobanks' most critical advantages.

Neobanks like [Chime](#), [Varo](#), and [Current](#) have promoted their overdraft protection as a key differentiator between them and legacy banks. If incumbents also adopt more lenient overdraft policies, the challengers lose a competitive advantage.

Another special feature closely associated with [neobanks](#)—early direct deposit—has also started popping up among incumbents, including [Capital One](#) and [Fifth Third](#). If a critical mass of major incumbents launches their own versions of neobanks' marquee features, the challengers could face an uphill battle in their attempts to gain primary account status with existing customers and to differentiate their offerings enough to appeal to new customers.

Respondents' Demand for Neobank-Specific Features



Source: Insider Intelligence US Mobile Banking Competitive Edge Study, August–September 2020

Methodology: The data is based on an online survey of 2,324 US mobile banking users and a study of 4 US neobanks. Respondents to the online survey were sourced from a third-party sample provider to closely resemble US demographics on the criteria of gender, age, and income.

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