


Ally still has further to travel on its post-overdraft-fee path

Article



The news: Ally revealed two steps that it's taking to provide customers with short-term assistance if they incur overdrafts

- It rolled out CoverDraft, a new tool that gives people up to \$100 to cover overdraft on certain transactions from their checking accounts, with 14 days for customers to offset their amounts.
- 

- In an email to depository customers outlining product changes, the bank said it's **dropping long delays for certain deposited checks**, which were previously applied to “anyone with a history of repeated overdrafts.

More on this: Customers will typically qualify for CoverDraft 30 days after they deposit an aggregate amount of at least \$100 into their checking accounts. Ally points out that the tool doesn't have hidden fees, direct-deposit requirements, balance minimums, or interest.

CoverDraft can be used for overdrafts incurred from charges like automatic payments, debit-card purchases, transfers or checks initiated prior to overdrafting occurrences, and transfers instituted at outside banks.

Ally said that the product also has limits:

- CoverDraft can't be used to cover ATM overdrafts.
- It doesn't cover sending money to others via wiring or Zelle.
- The bank can drop the service or suspend customers' usage.
- Overdraft repayment is at the company's discretion.

The bigger picture: CoverDraft and axing of long check delays are part of Ally's broader push to give customers liquidity alternatives to overdraft fees:

- It **completely eliminated** the fees in June 2021, after temporarily suspending them due to the coronavirus pandemic.
- The new tool is designed to provide a second layer of protection by complementing the bank's existing Overdraft Transfer Service, which dips into linked Ally savings accounts.
- Ally plans to give customers additional assistance later this year.

Why these moves are vital: These changes are essential for Ally to move beyond axing overdraft fees, as that only solves part of consumers' liquidity problems—they still risk being late on certain bills.

- Trade groups including the American Bankers Association (ABA) recently **pointed out this trade-off** in a letter to the Consumer Financial Protection Bureau (CFPB) where they called for the regulator to pause an impending crackdown on the fees. The associations asked the bureau to collect data on the needs that usually drive people toward overdrafts.

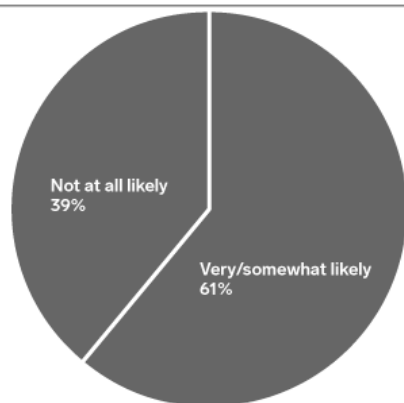
- Offering options to cash-strapped consumers is nearly a competitive norm among incumbent US banks. For example, early paycheck access is **becoming common** and small-dollar loans are **gaining traction**.
- This is also consistent with consumers' sentiments. A J.D. Power survey **shows** that people are **over twice as likely to switch banks if they were charged with a fee of any type during the last three years compared to those who weren't**. However, 81% of customers replied that they strongly feel that banks are in positions to help improve their financial health.

Ally could continue its overdraft-alternatives push **by investing in real-time payments (RTP)** technology, which can **improve** people's short-term cash flows:

- A November 2021 Javelin study found that **54% of consumer respondents felt RTP could help with late-fee avoidance**.
- Thirty-seven percent said the technology could let them wait to pay until the last minute, giving them time to have enough funds on hand.
- Ten percent replied that RTP means they **won't have to take on loans or credit-card debt in order to pay their bills**.
- RTP adoption has been slower than anticipated among US banks, per American Banker, citing most of a two-dozen-bank group falling behind with plans in 2021. The slow pace gives Ally and others added time to invest in the space.

Likelihood of US Adults Changing Their Primary Bank to Avoid Monthly Service, Overdraft, or Other Related Fees, Aug 2021

% of respondents



Note: n=3,072

Source: CivicScience as cited in company blog, Aug 17, 2021

268710

eMarketer | InsiderIntelligence.com

