

PNC takes on overdraft fees and neobanks with Low Cash Mode

Article

The bank is expected to launch Low Cash Mode, a digital [solution](#) that helps customers avoid overdraft charges, to its Virtual Wallet users nationwide later this summer, [per](#) PNC. The service will allow customers to control when certain debits from their account are processed; in contrast, when a bank controls this process, it can [drive](#) overdrafts. Users will also receive account alerts if their balance is low, and if it's negative, they'll be allowed a 24-hour grace

period to rectify the issue. PNC's new offering went through a robust pilot program of over 20,000 participants, who collectively saw a 60% reduction in overdraft fees. The bank expects this to translate to between \$125 million to \$150 million in customer savings annually.

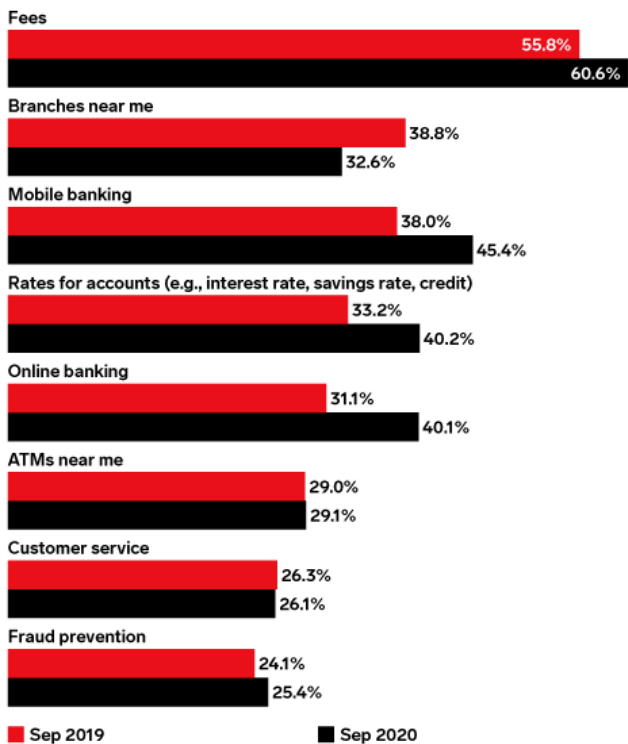
Larger incumbents have become less dependent on overdraft charges and are shifting to solutions that help, rather than hurt, consumers through cash-strapped periods. PNC isn't the first legacy bank **transitioning** away from the practice, and it certainly won't be the last. U.S. Bank was one of the first to enter the fray when it **introduced** its small-dollar loan product in 2018, and Bank of America recently **started** offering emergency cash to customers for a small fee. The change in approach by larger banks could engender increased loyalty and engagement as overdraft charges move from being a crippling consequence to a rare mistake.

Products like PNC's could weaken US neobanks' position as fee-free alternatives to incumbents, but they shouldn't just stop at overdraft solutions.

- **Broader movement away from service charges could undercut challengers' competitive advantage.** Some of the most **popular** neobanks in the US are targeting customers typically underserved by incumbents. In fact, New York-based Current has gone as far as **offering** a \$100 overdraft cushion to its base at the expense of what's likely over \$100 million in potential revenues. No fee is an enticing alternative to the \$35 banks usually charge, but if more incumbents decide to eschew overdraft fees, neobanks could lose one of their most potent weapons in the battle for new customers.
- **And offering additional features aimed at growing and protecting wealth could ultimately create more lucrative customers for incumbents.** PNC's Low Cash Mode already benefits a customer's financial standing by enabling them to more easily avoid damaging overdraft fees, but integrating its service into a broader personal finance management (PFM) platform could go a step further. Digital money management **features** focused on account balance predictions or personalized financial insights not only strengthen a customer's ability to sidestep an overdraft, but could also help improve their financial health. And that can ultimately prove beneficial for a bank, as a customer in higher financial standing could be an eligible candidate for more profitable products, like loans.

Leading Factors that US Mobile Banking Users Would Consider Before Choosing a New Bank, Sep 2019 & Sep 2020

% of respondents



Note: ages 18+; respondents selected their top 3 factors; responses of "other" not shown, <1% in each year

Source: Insider Intelligence, "US Mobile Banking Competitive Edge Survey," Dec 2020

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