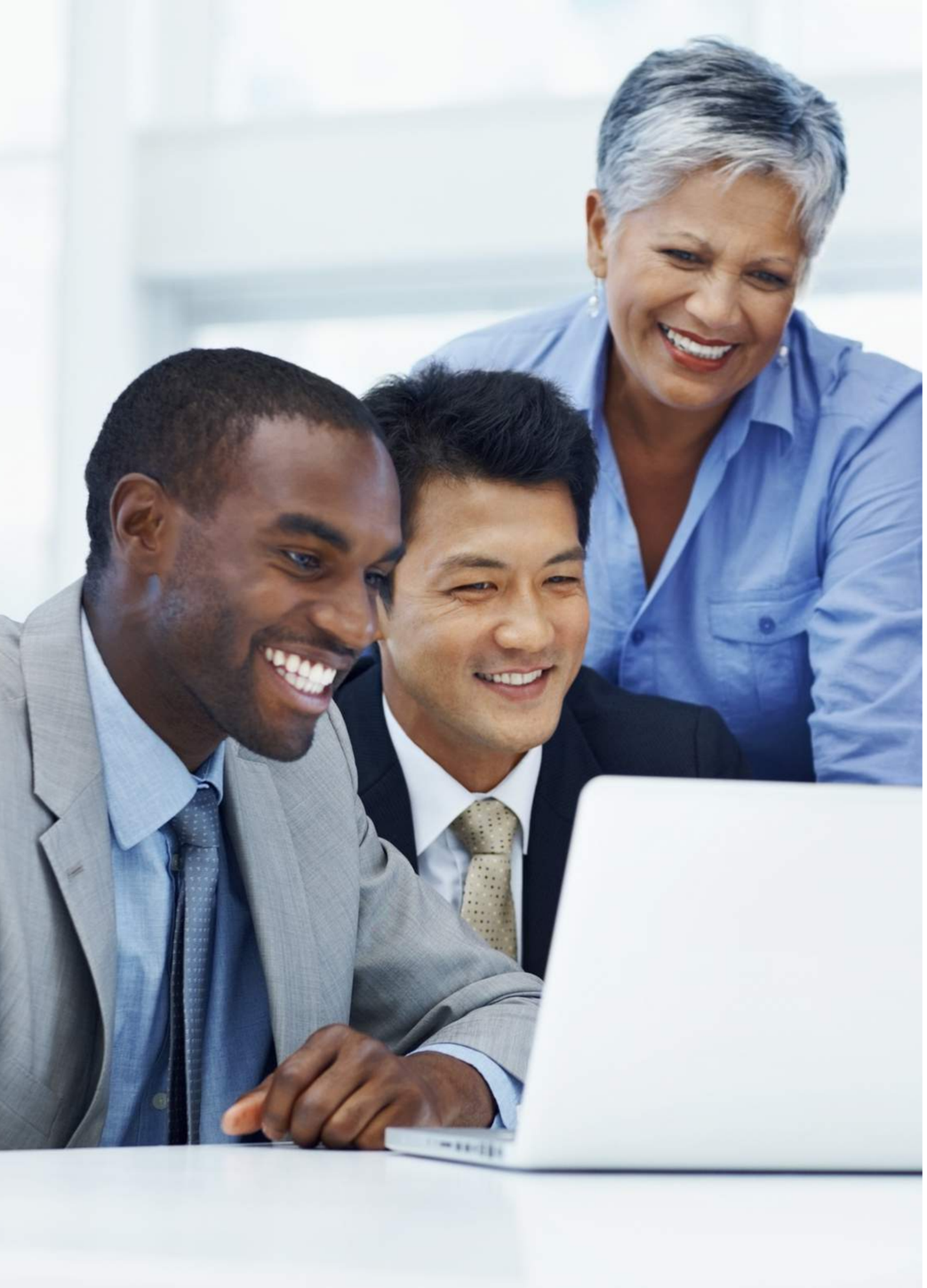

WHAT YOU SHOULD KNOW ABOUT EARNED WAGE ACCESS

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CONTENTS

INTRODUCTION

Millions of workers around the world live under constant financial stress.

For workers in Brazil, the UK, India, or the Philippines, money worries remain top of mind every single day.

Yes, the problem is not new.

But the new economy has made it more difficult to address. The pandemic, too, has forced millions around the world to make difficult choices about staying safe amid coronavirus outbreaks versus working to buy food and pay bills.

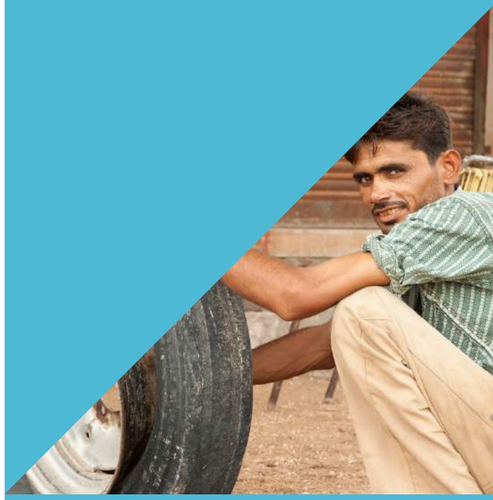
More than 630 million workers — or one in five of all global workers — earn less than US$3.20 each day, according to the International Labour Organization (ILO).

Alongside this, fair and timely pay for hourly workers is a global challenge that political leaders and major companies have so far failed to tackle.

How much workers get paid is not the only problem.

How often they are paid matters just as much.

That's why this e-Book will take a closer look at a rising trend that may offer a solution: Earned Wage Access (EWA).



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WHY EARNED WAGE ACCESS MATTERS

Millions of workers around the world rely on short-term credit because of low wages and slow payment cycles.

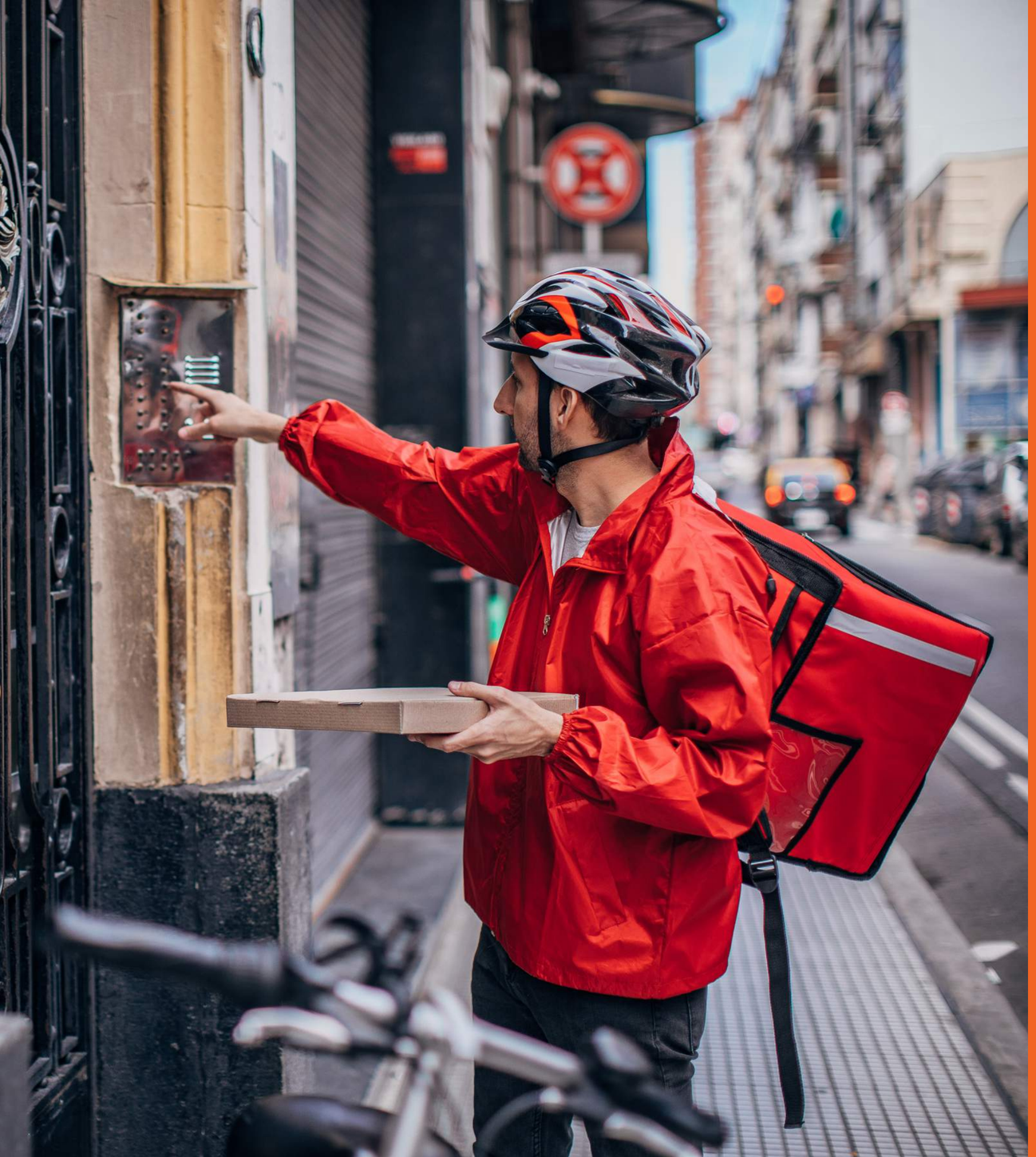
For example, India was recently ranked 72nd on a global ladder of average wages per month.

Elsewhere, the Philippines' average salary was ranked by a think tank survey as among the lowest in 110 countries.

When average wages remain this low, paycheques don't go very far. It's why Earned Wages Access products, like Refyne in India, are positioning themselves as a solution to workers' cash flow worries.

But EWA products have also attracted attention from policymakers and consumer advocates who have asked questions about the risks of this space.

There's an ongoing debate about whether these products should fall under lending laws or their own specific regulation.



2020 STUDY BY EVEREE

ON CUSTOMER'S EMPLOYERS

- Almost 60 percent of gig workers work for more than one company
- Nine out of 10 want to get paid more often than every fortnight
- 40 percent will work with companies that pay faster instead of slow payers

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CUSTOMERS' EMPLOYEES VS CUSTOMERS' HIRING EFFORTS

Customers' Employees:
Those debates aside, it remains true that many employees crave better ways to get paid.

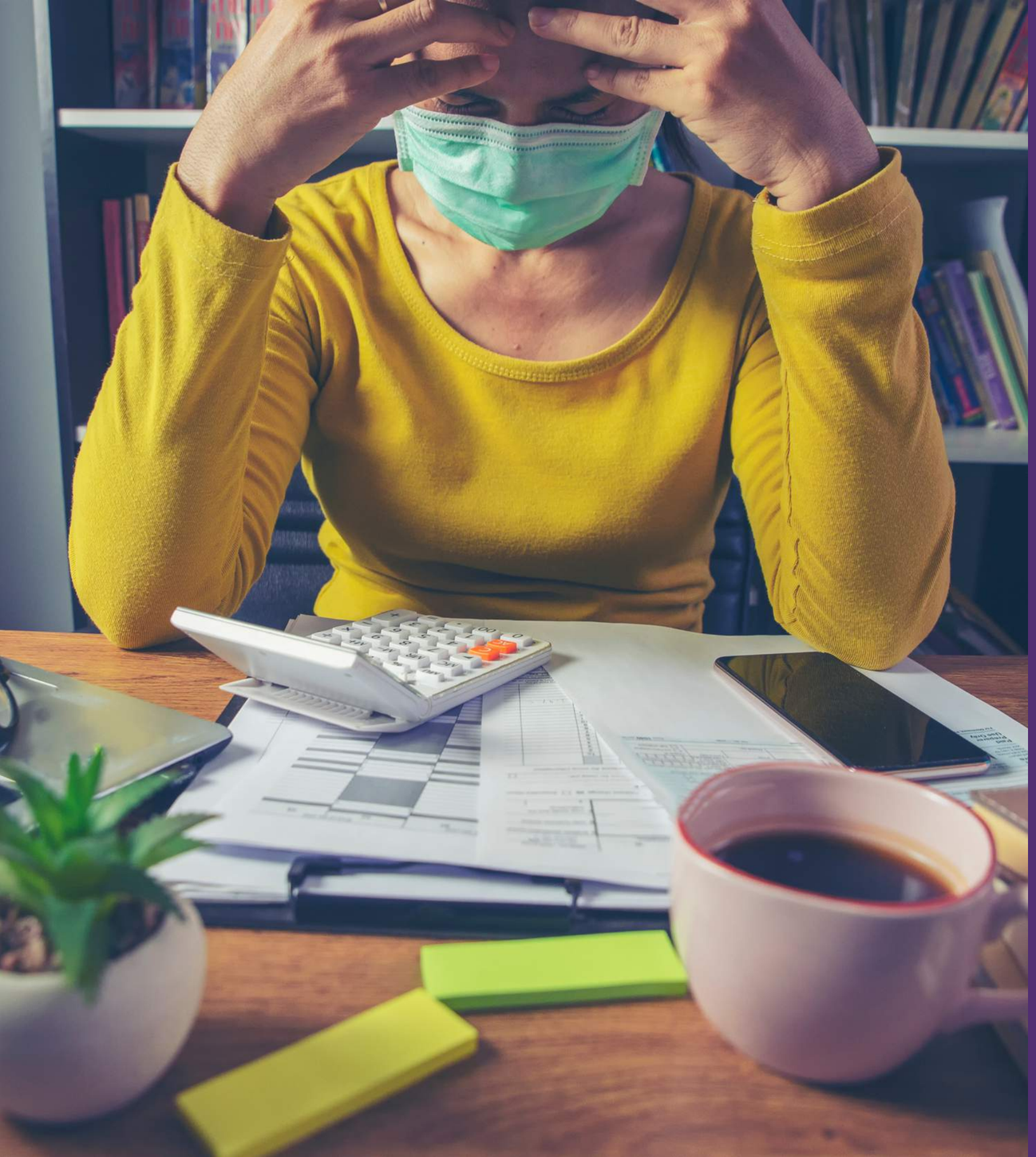
The old era of rigid pay cycles is not as appealing to employees, gig economy professionals, and independent contractors.

For example, gig workers want flexibility in how they get paid, according to a PYMNTS analysis which showed 85 out of 100 workers would work more often if they could get their hands on their income more quickly.

And it's not like companies don't have the cash. EY estimates there is $1 trillion of accrued salaries in employers' treasuries across OECD countries. As EY puts it, that is money that's 'otherwise out of reach for individuals until their contracted pay day'.

Customers' Hiring Efforts:
EWA could also be a powerful recruitment tool.

According to research from ADP, almost 30 per cent of Americans say that they would look for EWA when assessing a job offer. And more than a quarter would even look for same-day wage access when weighing up a job offer.



Financial stress made worse by the pandemic has become the leading cause of lost productivity, unplanned absences, and lower job performance among employees.

Society for Human Resource Management (SHRM)

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THE PROS AND CONS OF EWA

Just as EWA may help with recruitment, it could be a useful employee retention tool too. In other words, it can help companies keep great staff.

Ceridian's Pulse of Talent Report showed that employees stay with an employer for several reasons. The top ones are benefits (30%), pay (29%), and job security (27%).

Similarly, Ceridian's 2019 Pay Experience Report shows that 33% of employees received inaccurate pay at least once each year, while 29% said they were paid wages late.

Gartner research from 2019 estimates that a fifth of companies that employ mostly hourly workforces will offer on-demand pay — another term for EWA — by the end of 2022.

EWA demand exists among employers and employees alike.

PAYDAY LOANS IN DISGUISE?

Seasoned digital lenders might be forgiven for viewing EWA with suspicion. For some, it might harken back to the days when unscrupulous payday lenders sought to take advantage of desperate workers by 'floating' them advances on their wages ahead of payday — often for astronomical fees.

EWA lets employees draw on their accrued wages before payday. Usually, employers work with an EWA fintech company like Refyne, Clair or PayActiv to disburse the wages into employees' accounts. The business then has to settle this amount with the provider and pay employees the rest of payday.

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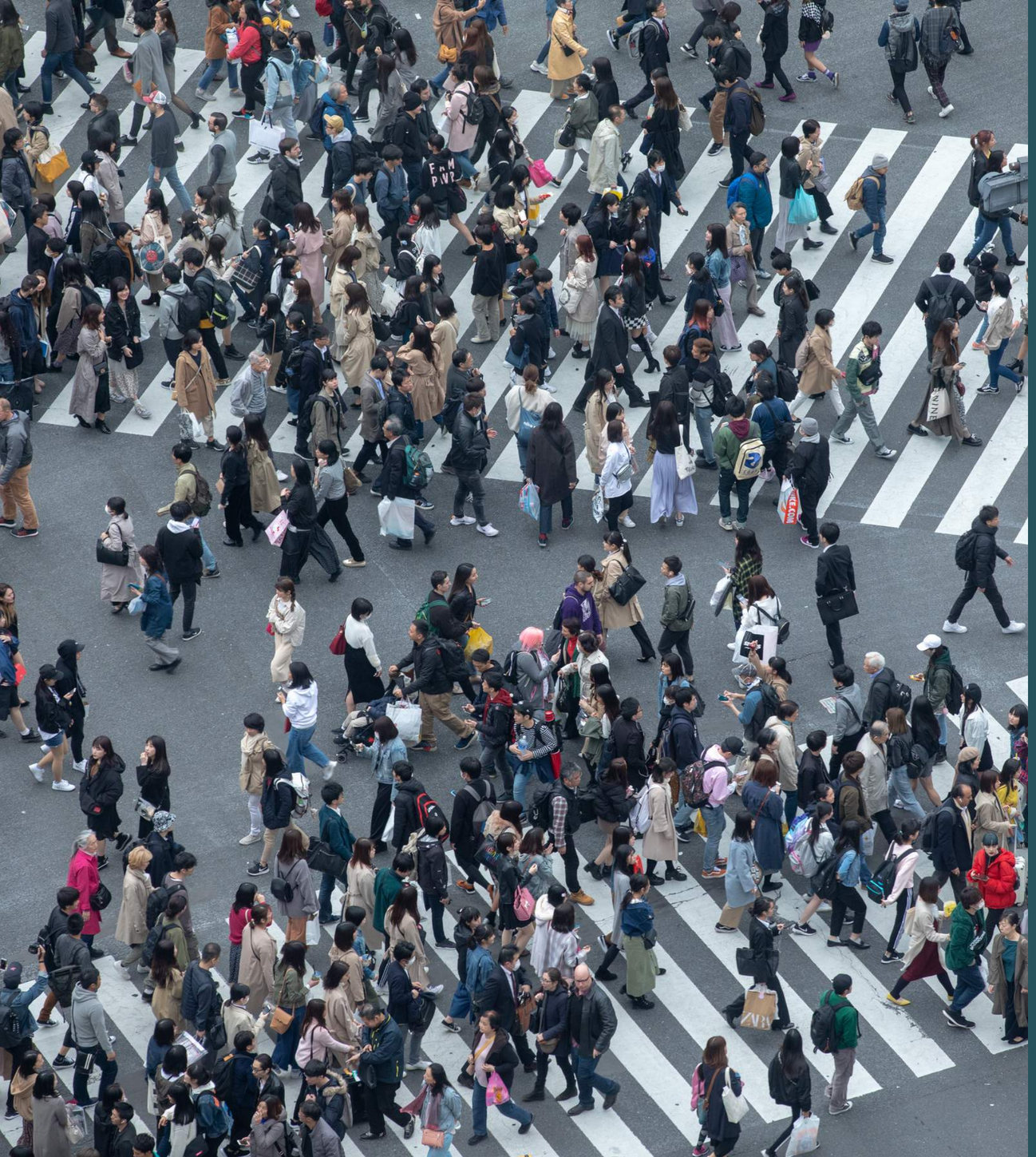

ARE EWA PRODUCTS REALLY FAIR?

The typical employee who uses EWA may be in a situation where their expenses often go above their income. As a result, they may use EWA programs instead of predatory payday loans or costly overdraft facilities.

Some organisations offer financial tools like EWA as a benefit to assist employees with money management, but not all of these benefits are created equally. For example, some EWA providers charge fees to the worker.

In the United States, fees can be as little as $6 per month to as much as $2.50 a day. In addition, some providers do not charge employees to access accrued wages before payday.

But those who do raise a key question:
why should workers have to pay to get paid?

For some EWA products, neither employers nor employees pay any fees. Instead, funds are delivered onto a debit card or prepaid card so that the EWA provider can monetise the product off the interchange fees.

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MAKING SURE EWA IS FAIR

Responsible EWA products are an opportunity for digital lenders who can step up to address the problems of workers' financial stress through genuine and fair salary products.

Embedded scoring makes it possible for forward-thinking digital lenders to provide earned wage access to employees who would value it.

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OFFERING EWA PRODUCTS

Not that long ago, digital lenders had to engage in costly development projects to create these products.

But now, embedded financial services make it possible to provide EWA products through affordable and fast APIs and integrations.

Through alternative credit scoring, credolab can support digital lenders to quickly assess the viability of providing EWA to specific companies in certain industries, such as retail, hospitality, and manufacturing.

With financial technology that delivers embedded scoring, companies can pay employees when they need money instead of sticking to outdated and rigid fortnightly or monthly pay cycles.

Digital lenders can pair these steps with existing know-your-customer (KYC) processes to enable swifter onboarding of companies or their employees.

This removes the need for employees to seek sources of credit that may only add to their financial worries and further deepen their problems with credit scores.

Employers should think carefully before embracing services that charge workers or effectively result in repeated balloon-payment loans.

United States National Consumer Law Center

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CONCLUSION

Earned Wage Access is an interesting sector for digital lenders to watch because it effectively disrupts the payday lending model.

When EWA is delivered fairly and responsibly, it holds great promise to address the emerging needs of hourly workers and gig economy workers.

Still, many questions remain for digital lenders who seek to provide EWA products in the future.

Should it be positioned by lenders to employers as an optional workplace benefit or a core feature of payroll?

How will regulations in key markets like India impact the future of EWA globally?

Is it a good idea for cash-strapped employees?

The lenders who can understand these questions — and find a fair and responsible way to offer EWA products — could be on the cusp of a fascinating new financial services segment driven by the future of work.

About credolab

We believe loans improve lives. However, we also believe traditional banking processes leave many people out of the process. That's why credolab is changing the way the world looks at credit. Our pioneering technology calculates credit scores based on people's mobile and web-behavioural data— so lenders can make decisions based on the way people live and work in the modern world. Making loans more accessible to more people benefits everyone.

Talk to us today.

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