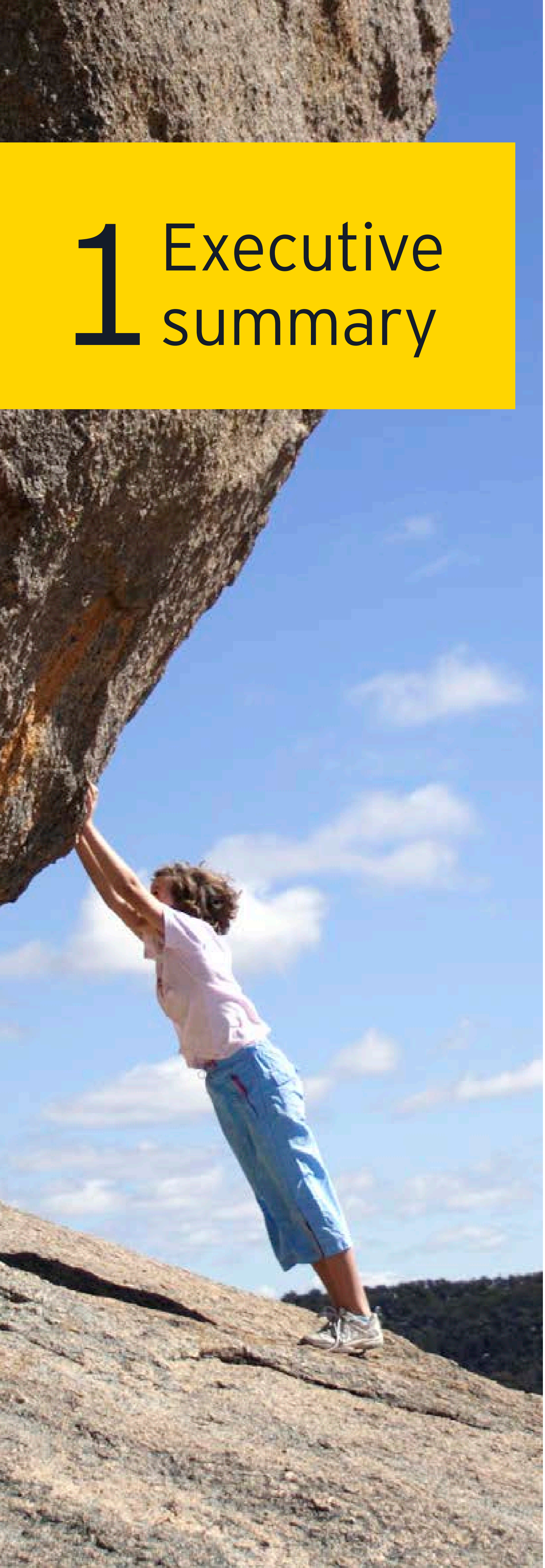
On-Demand Pay: payroll that works for all

Releasing liquidity through
On-Demand Pay: the $1tn opportunity

September 2020

EY
Building a better working world

Contents



1 Executive summary

This report offers a perspective on the On-Demand Pay market, the broad range of needs it can address for consumers and the benefits it can generate for employers.

On-Demand Pay offerings enable employees to better align income and expenses by accessing a portion of their accrued wages, in advance of pay day, with the remaining portion paid at the end of the pay period. Unlike salary-based lending or payday loans, On-Demand Pay does not involve borrowing on the part of the employee, and usually carries little to no cost.

- Across OECD countries, we estimate that a total of approximately $1 trillion is accrued in employer payroll accounts on any given day. This gives a prominent role for employers, and On-Demand Pay providers, to provide employees access to this liquidity and, in so doing, create meaningful societal utility at limited frictional cost.
- The main use case for On-Demand Pay is that of everyday financial pressures, which we have found to be widespread: 70% of individuals in the UK and US experience financial stress regularly. Half of these individuals have faced a financial shortfall between pay periods and encounter this issue approximately every four months.
- The negative impacts for individuals are considerable: nearly 75% of those who have experienced financial difficulties have reported material deterioration in their health and wellbeing.
- When this stress is carried into the work environment it manifests as distraction, absenteeism, reduced performance and ultimately employee turnover. 20% of employee turnover is attributable to financial stress and we estimate the combined effect of this to cost employers in the US and the UK c.$300bn annually.
- Our research points to three main causes of financial shortfalls, which ultimately translate into diminished financial wellbeing: emergencies, limited savings, and timing mismatches between income and expenses.

- With emergencies being unforeseeable by definition and savings being a function of income (which has stagnated in real terms), the importance of the timing of salary payments as a means of coping with financial shortfalls cannot be understated.
- It is important to note, however, that On-Demand Pay solutions can offer utility not just to lower earners or individuals of lesser financial means. Access to earned income can give all employees far greater control over their finances by enabling them to more effectively align income with expenses, allowing better budgeting and supporting their financial wellbeing.
- We are beginning to see evidence of consumer appetite: 80% of individuals in our research have indicated they would use a form of On-Demand Pay. Moreover, the range of reasons why consumers would like to access their pay is wide, spanning emergencies, budgeting and savings.

Whether the full potential of On-Demand Pay is realised will depend on several factors, such as an accommodating regulatory environment, alignment with employer priorities and consumer adoption. What is clear is that it offers a compelling economic case for employers and materially better financial outcomes for employees when compared to the many alternative financing options.

Scope of the report and research approach

- Our report looks at a specific sub-segment of the wider salary linked[1] solutions market – On-Demand Pay; it does not include any salary-linked lending, payday lending or direct lending to consumers.
- The geographic scope of the report is global, though with a specific focus on UK and US as key On-Demand Pay markets.
- Our global approach covers primarily OECD countries. Occasionally it includes comparable ex-OECD country data in order to provide more context.
- We have commissioned proprietary primary research to understand in detail the financial situation of consumers in the UK and the US markets.
- The primary research was conducted among 4,000 working-age individuals, on a basis of nationally representative coverage of key demographic factors.
- The research was conducted in April-June 2020, during the COVID-19 pandemic. Our sampling methodology was adjusted to include proportional representation of short-term unemployed individuals to reflect the unemployment effects of the crisis.
- More details on the sources of our data and details of key terms can be found in the glossary and the appendix of the report.

Our research, conducted among around 4,000 individuals across UK and US, shows an unexpected prevalence of financial pressures affecting lives of employed individuals

72% of individuals experience financial stress at least once a year[2]

35% of individuals fall short on an expense between pay periods[3]

3
the average number of times per year individuals struggle to meet a financial obligation[4]

75% of individuals report major impacts on life and wellbeing as a result of financial shortfalls[5]

29% of individuals earning >$100k experience difficulties meeting payments[6]

$1tn
of accrued pay retained in employers' treasuries at any given point in time in OECD countries[7]

20% of employee turnover attributable to financial stress[8]

$300bn
the annual cost to employers in lost productivity as a result of employee financial stress[9]

2 Global context

Review of the financial realities faced by the global employed population and the role On-Demand Pay can play in enabling a greater degree of financial freedom

At any given point in time, there is approximately $1 trillion of payroll accrued in employers' treasuries across OECD countries, before it is paid to employees. This paper takes the view that access to this liquidity could enable employees to take control of their finances and improve their financial wellbeing by aligning more closely their income and expenses.

The scale of the opportunity is considerable. We have conducted research which shows that over 70% of employed individuals have faced financial stress over the previous 12 months and would benefit from better access to liquidity.

More than 28% of the global working population is employed on a part-time or temporary basis,[10] without the security and benefits that are typically available to permanent staff. More than 40% of workers today are low earners – or in the bottom quartile of the wage scale.

Furthermore, workers have seen little increase in earnings in recent history, with real wages growing on average 0.9% per year[11].

At the same time, household finances appear to have taken a turn for the worse. Consumer debt has seen double-digit growth since the 1990s across all developed economies, while gross savings rates have increased by 2%,[12] before the recent spike driven by lockdown in key markets.

By giving individuals flexible access to their wages, On-Demand Pay can play a key role in helping households caught in the nexus of these trends. As one of the cheapest, most transparent and flexible ways of accessing liquidity, On-Demand Pay can help financially vulnerable people reduce reliance on short-term, high cost credit. Beyond this, it has promising applications which can enable individuals to achieve greater financial freedom by active budgeting and making better saving and spending decisions.

The $1 trillion opportunity

Almost 70% of workers globally are paid either monthly, or fortnightly (with two week pay cycles being most commonplace in the US).

On the basis of this, and taking into account average wages, we estimate that across OECD countries there is approximately $1 trillion of accrued salaries earmarked in employers' treasuries[13].

This is liquidity that is otherwise out of reach for individuals until their contracted pay day.

This report explores how increasing pay frequency, as facilitated by On-Demand Pay solutions, could help employees gain greater control over their financial wellbeing.

On one hand, we see potential for On-Demand Pay to help individuals cope in situations of financial distress, caused by mismatches in the timing of income and expenses. On the other, we see it as a source of financial liquidity that creates opportunities for individuals to save, consume or invest, as they earn their pay, supporting broader financial wellness.

On-Demand Pay

On-Demand Pay is the term used to describe a category of financial products that give employees the ability to draw on their accrued wages before pay day.

Typically offered by a third party provider through employers, On-Demand Pay solutions work by calculating an employee's accrued pay at a specific point in time, and making a proportion of these earnings available for employees to withdraw in near-real time.

The On-Demand pay provider typically disburses the funds directly to employees. Employers settle the amount with the provider, and pay employees the remainder of their wages when due. On most occasions employees incur a cost for the service, although services that are free to employees also exist.

While it is part of a wider category of similar salary-linked propositions, encompassing salary-linked loans, On-Demand Pay does not involve borrowing on the part of the employee.

Exhibit 2.1: Pay frequency per income type (UK and US)

(% of respondents, n=4,086)

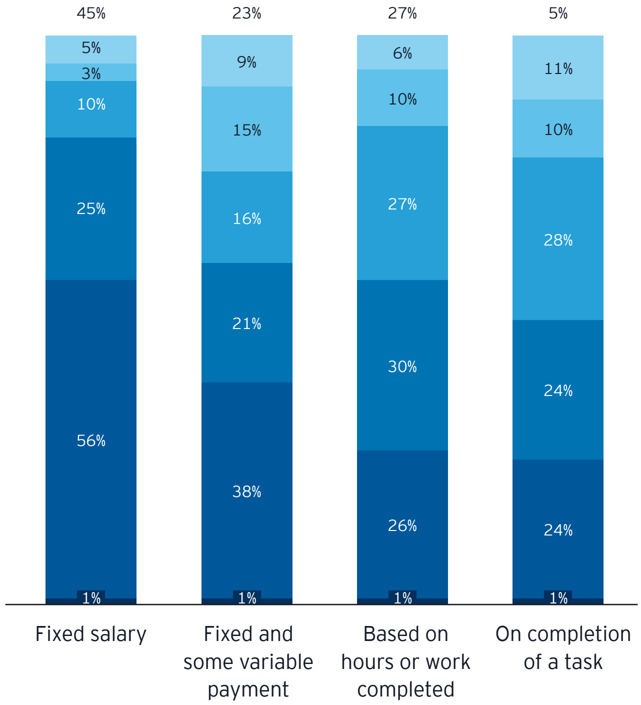
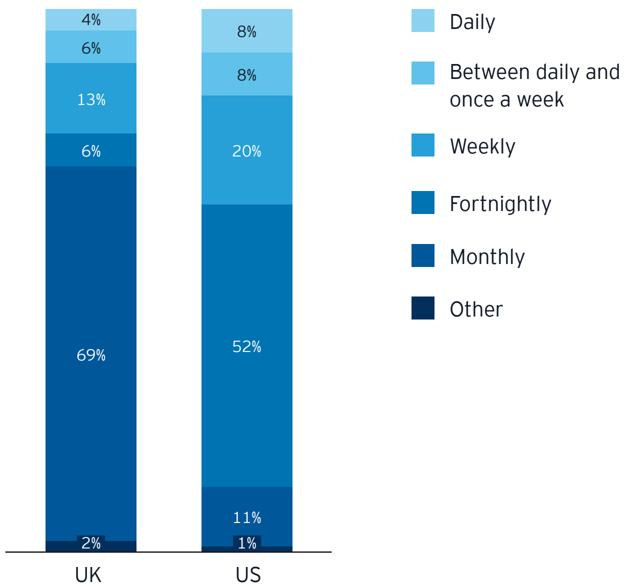


Exhibit 2.1b: Pay cycle prevalence by country



Source: EY Employee Financial Wellbeing Survey, June 2020

Global context

Our report examines the potential of the On-Demand Pay market at a unique point in time.

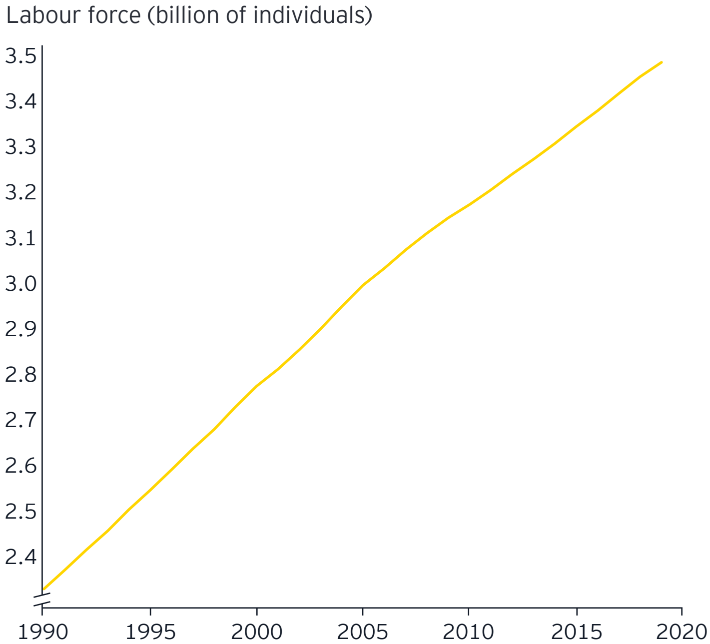
At the time of our research (April–June 2020), almost all economies are reporting record-breaking unemployment benefits registrations, triggered by lay-offs in response to the economic fallout from COVID-19.

Prior to the unprecedented human and economic impacts of the COVID-19 pandemic, the employed population of the world stood at 3.3bn individuals globally. This is a 65% increase on total employment over the last 30 years, with much of this growth coming from increases in employment across China and India.

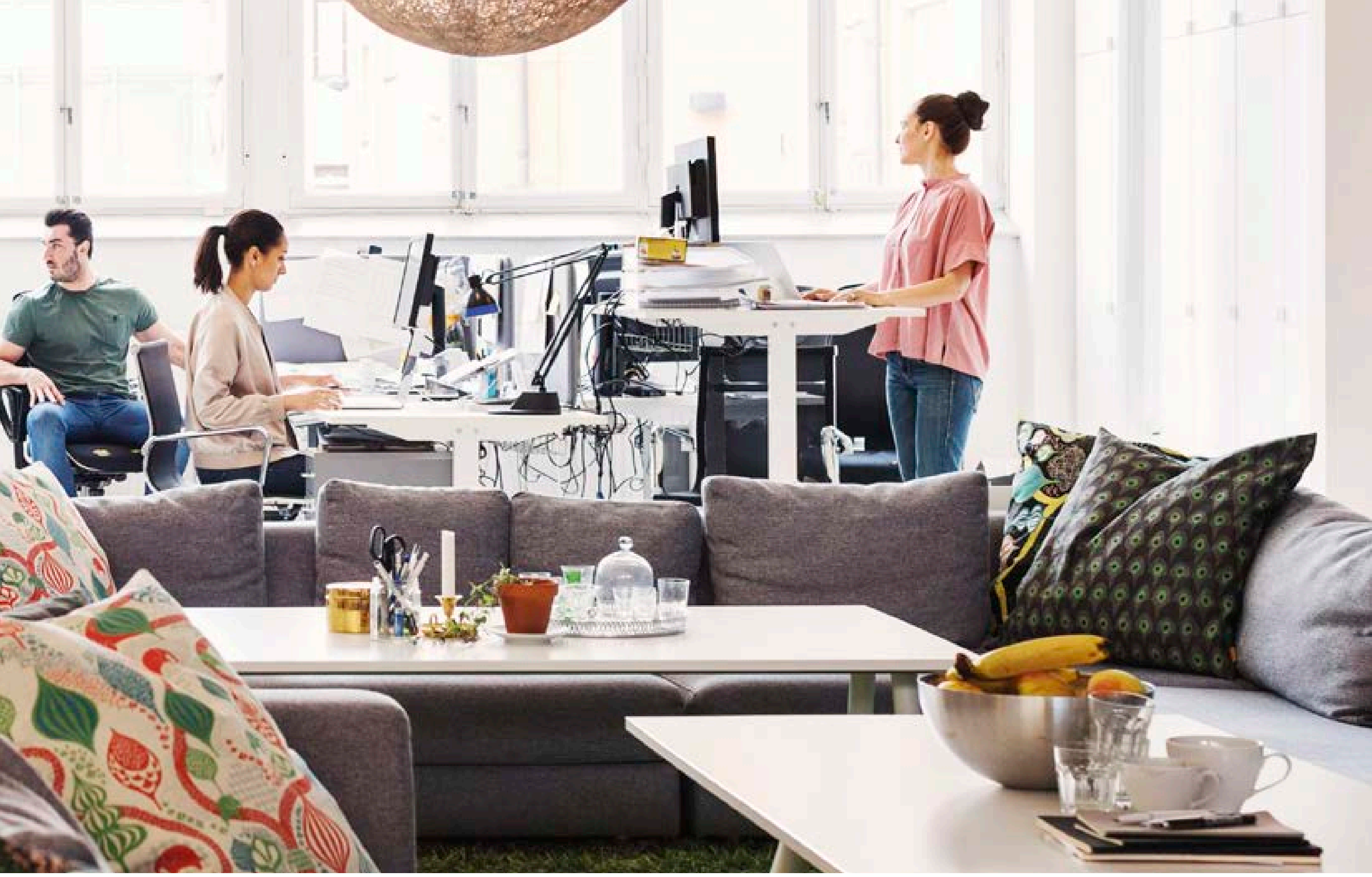
Even before the historic challenges posed by the COVID-19 pandemic, much of the employed workforce was already in a precarious financial position.

We see four major trends which are likely to have an impact on the financial resilience of employees globally: 1) increasing part-time employment, 2) diminishing real wage growth, 3) stagnating savings rates and 4) increase in household debt.

Exhibit 2.2: Global employment



Source: World Development Indicators, EY analysis



01 Growth of part-time and temporary employment

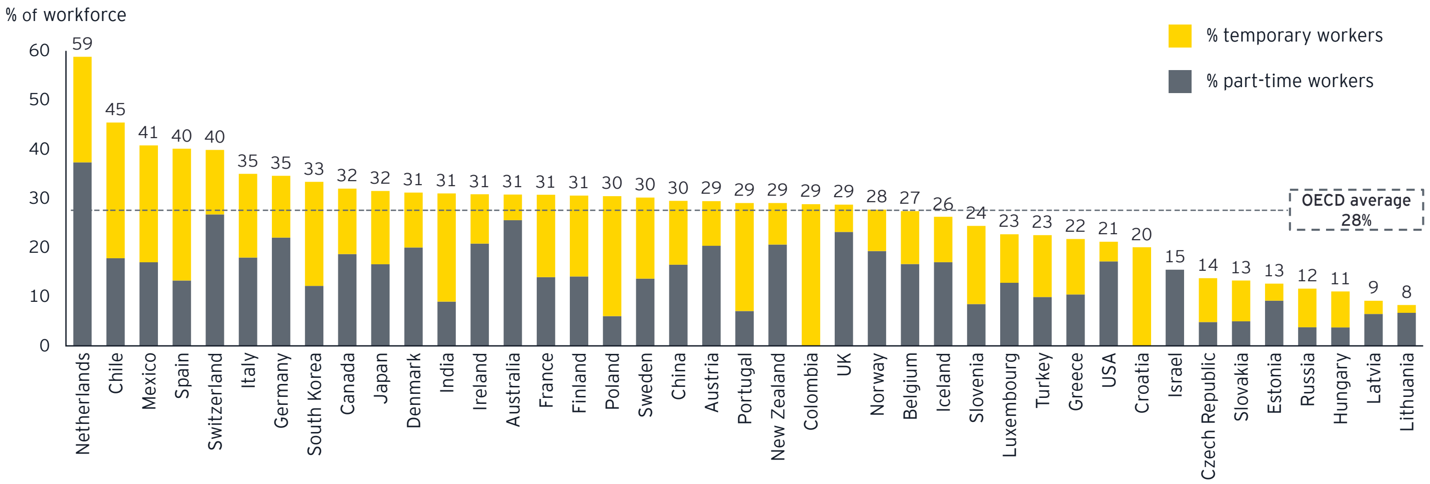
An increasing proportion of the global workforce is in part-time or temporary employment, despite headline employment numbers being on a steady upward trajectory.

Deemed as "non-standard" employment by the OECD, this is the form of employment that is least likely to give individuals access to collective bargaining. Moreover, individuals in non-standard employment are 40-50% less likely to receive income or other forms of workplace support[14].

The post-COVID-19 world could precipitate an acceleration of this trend. It is normal for recessionary cycles to leave a legacy of increased part-time and temporary employment, and 28% of employees today are already in part-time or temporary roles (compared to just 7% in 1977)[15].

Exhibit 2.3: Temporary and part-time workers

Percentage of temporary and part-time workers, by country



Source: OECD, International Labour Organisation, EY analysis

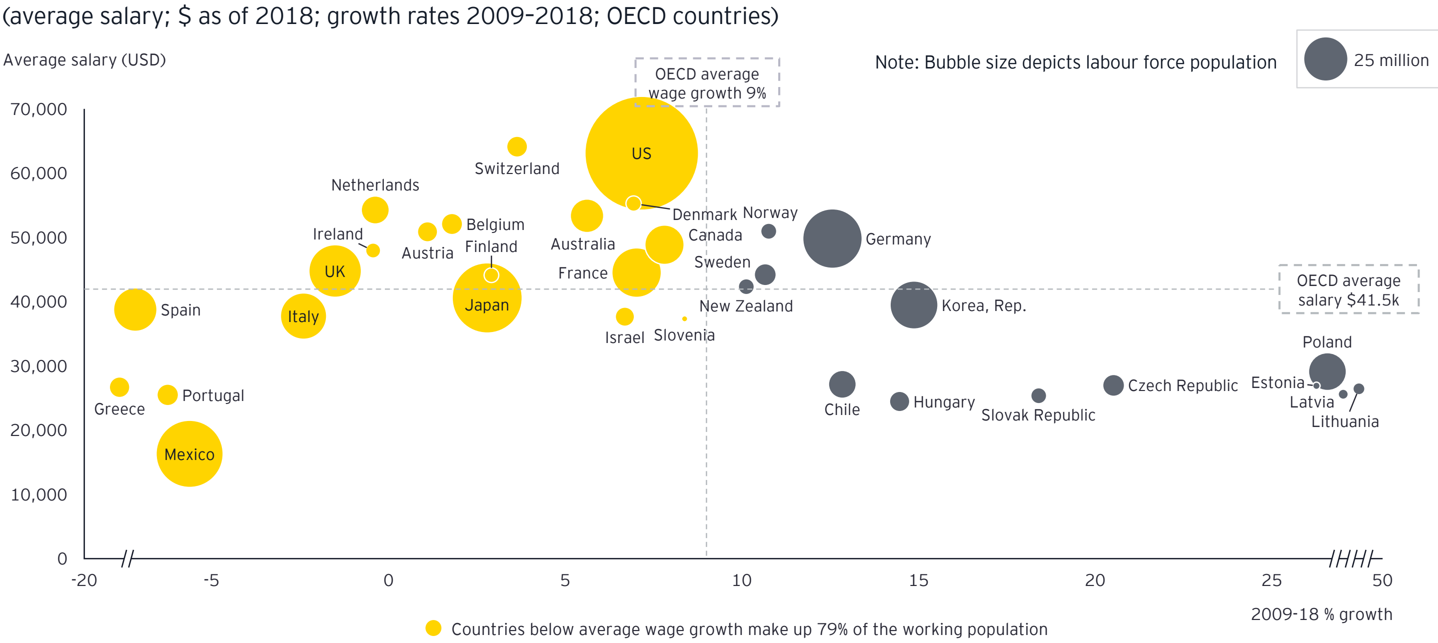
02 Diminishing wage growth

We have seen real wages (wages discounted for the effects of inflation) across much of the developed world plateau or decline, implying that the purchasing power for many is muted.

In the developing world, wages have grown strongly (albeit from a relatively low base), whereas in developed economies, such as the US and the UK, real wages have grown by less than 1% per year over the last 10 years[16].

Exhibit 2.4:Average salary compared to real wages growth

(average salary; $ as of 2018; growth rates 2009–2018; OECD countries)

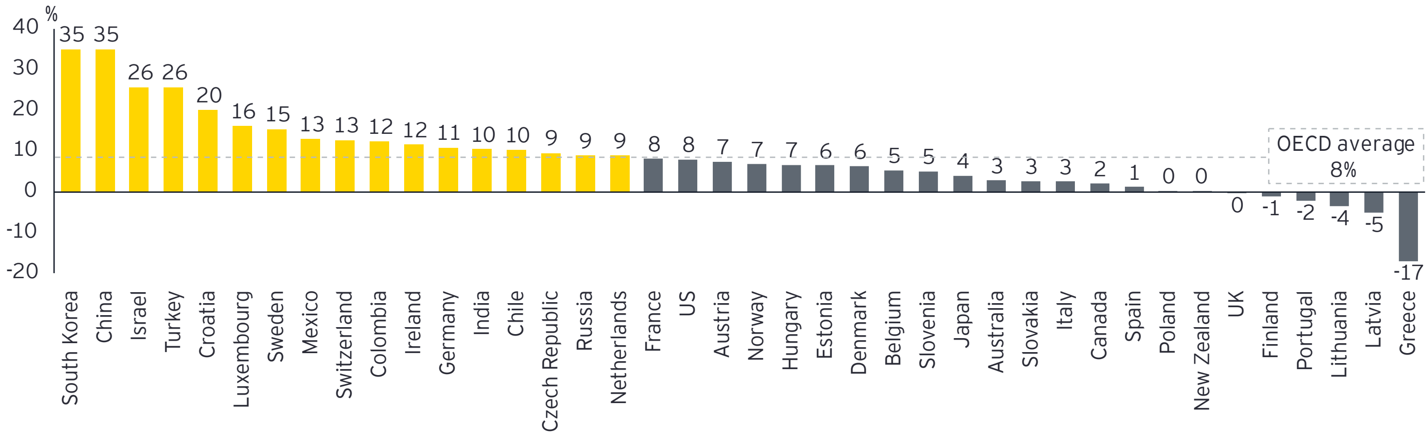


Source: OECD 2109, EY analysis

03 Stagnating savings rates

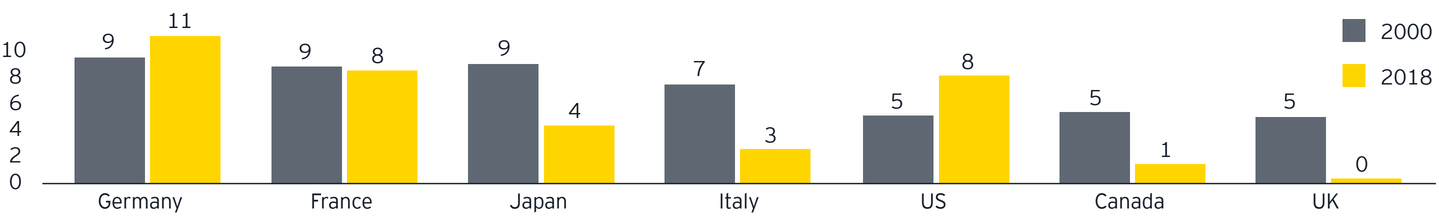
Across OECD countries, 60% of households save less than 10% of their monthly income, don't save at all, or are net debtors. Although there is a range of factors at play such as monetary and macro prudential policy at the national level, the basic capacity of having access to savings to meet both long- and short-term financial needs appears to be available to a shrinking minority of working households. While we note that across many developed economies, savings rates have significantly increased during the COVID-19 pandemic, our view is that this longer-term trend of stagnating savings rates is likely to persist.

Exhibit 2.5a: Household savings as a percentage of disposable income (2018)



Source: OECD 2019; Chinese National Bureau of Statistics; Government of India Ministry of Statistics, EY analysis

Exhibit 2.5b: Household savings rate as a percentage of disposable income (2000–2018)



Source: World Bank 2018, EY analysis

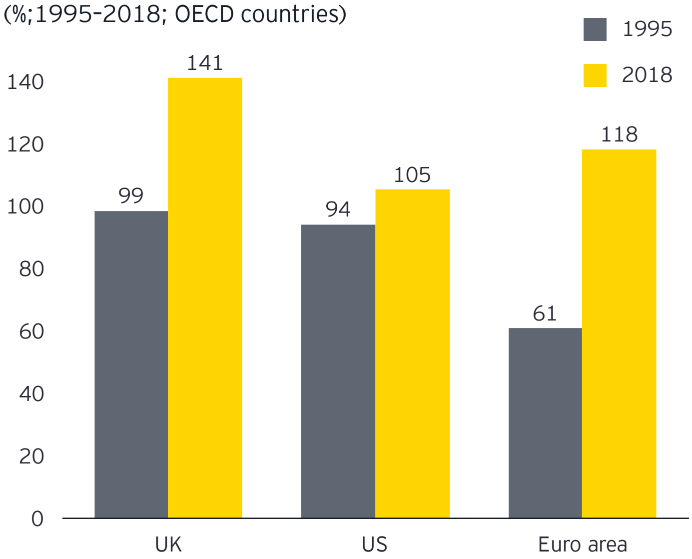
04 Increasing debt

Consumer debt-to-income ratios (a measure of credit utilisation) have been steadily increasing. Whilst this trend reversed during the 2008 financial crisis, they are now trending up once more.

The average debt-to-income ratio in OECD countries is 122%[17], and 65% of the working age population reside in countries with ratios above 100%. Debt plays a crucial role in consumption-driven economic growth and has been the largest driver of GDP growth for countries such as the UK and the US, yet the growing debt-to-income ratios suggest that even minor fluctuations in the household income of certain cohorts may result in financial strain.

Exhibit 2.6a: Household debt-to-income ratios

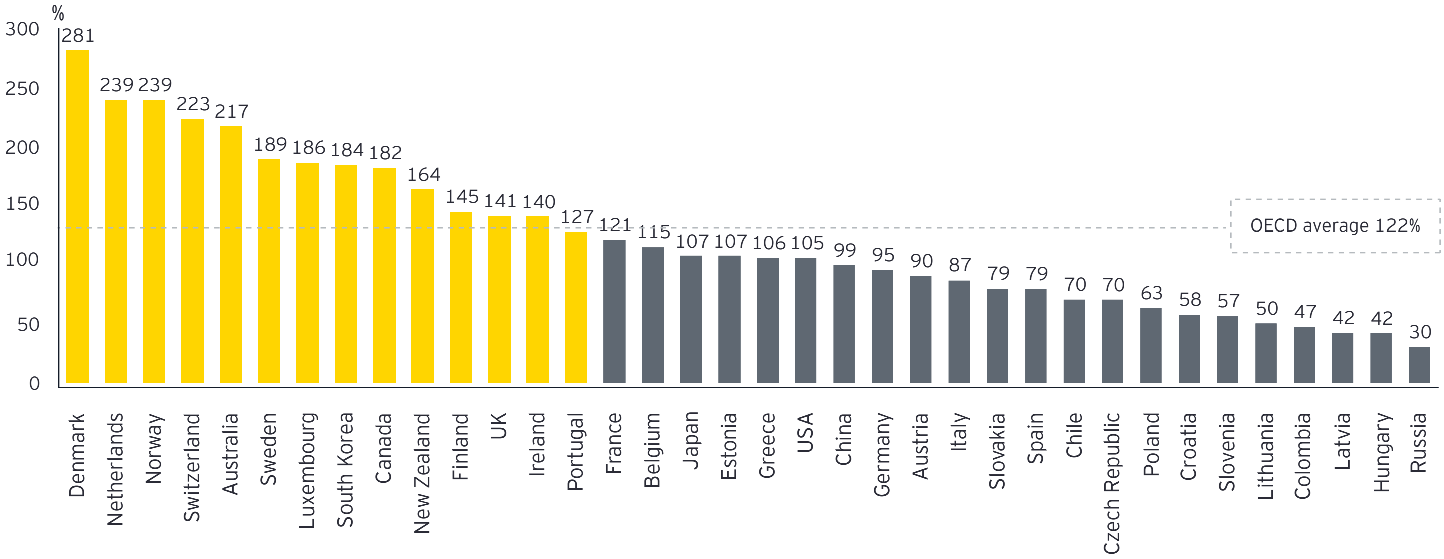
(%;1995-2018; OECD countries)



Source: OECD 2019, EY analysis

Exhibit 2.6b: Household debt to income ratios

(%; 2018; OECD countries)



Source: OECD; Chinese National Bureau of Statistics; Government of India Ministry of Statistics , 2018 EY analysis

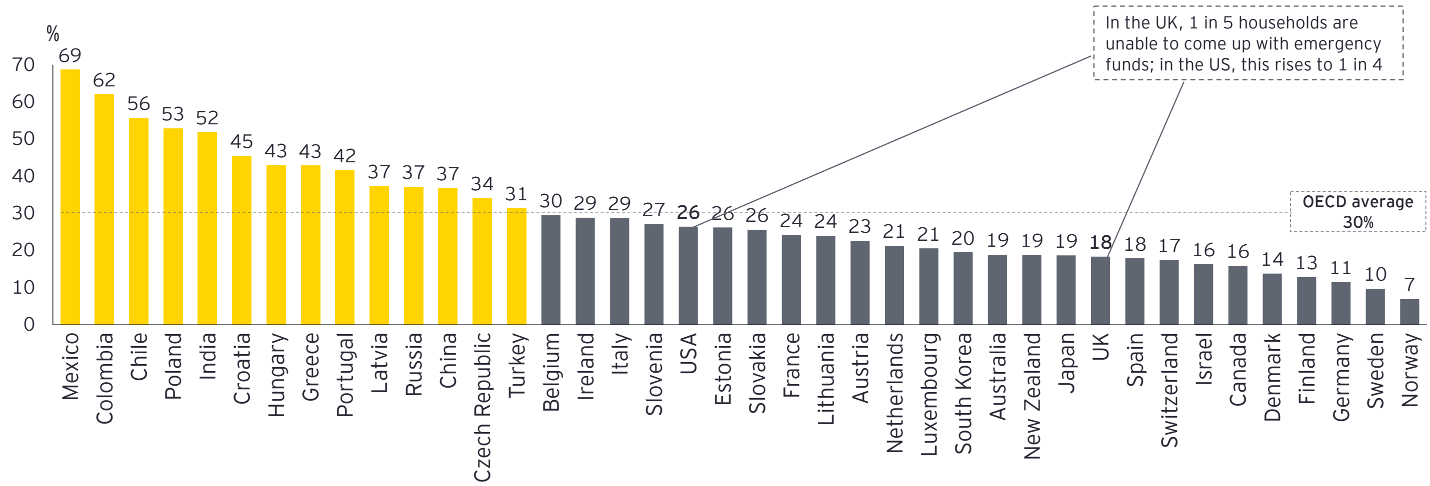
Finances under pressure

If the above statistics described a single household it would be easy to see how factors such as debt in excess of income, low savings, and low real growth in earnings could precipitate financial hardship.

There is a substantial body of evidence suggesting that this is an issue affecting millions today. Faced with an emergency, 30% of all households would struggle to come up with 5% of their annual income within the next month (for example to meet unexpected medical expense): a sign of financial strain manifesting on a striking scale[18].

For example, in the UK alone, there are a reported 8.3 million adults who find meeting monthly bills a "heavy burden" and miss more than two bill payments within a six-month period[19]. A further 3 million adults in the UK are in what is commonly referred to as "persistent debt," or situations where individuals have paid more in interest than repaid in terms of borrowing[20].

Exhibit 2.7: Individuals unable to fund an emergency, by country (%)



Source: Wolrld Bank 2018, EY analysis

Wider employment context and the increasing responsibilities of employers

Outside the above four major trends, it is worth considering the wider employment context. The nature of work itself, and what it means to earn a wage, is changing considerably, compounding the financial challenges that employees face. This introduces new complexities to which employees and employers need to adapt.

Individuals are retiring later in life and tend to have more jobs throughout their career. By our estimates, an employee holds on average 8-10 jobs between the ages of 18 and 56[21]. This can translate into income shocks and diminished job security for employees, as well as higher rates of turnover for employers.

Automation and the growth of the gig economy pose another set of challenges. Over the next 15 years, 14% of existing jobs are expected to disappear as a result of automation, with a further 32% undergoing radical change[22].

Typified by companies such as Uber, Airbnb, Deliveroo and Instacart, the gig economy is giving rise to new business models which augment permanent personnel with large networks of self-employed contractors. Although these individuals are viewed as suppliers, from a societal standpoint they are wage-earning workforce participants.

As these shifts materialise, more and more individuals could find themselves without the job security, employment benefits, or regular pay that many enjoy today.

Providing employees with improved liquidity, in the form of flexible access to their earnings can give them better control of their finances, improve retention and stem the financial stress that costs employers billions in lost productivity.

On-Demand Pay also offers employers the means to adapt to a world where flexible work — and flexible pay — may soon be the norm.

Exhibit 2.8: Employment ratios in the gig economy

	Uber	Deliveroo	Airbnb	Instacart
Employees	22,000	5,000	12,750	12,000
Drivers/Riders/ Hosts	3,000,000	60,000	650,000	500,000
Employee ratio	1%	8%	2%	2%

Source: Company websites; Crunchbase; EY research and analysis

3 Employee perspectives

Insights from EY's Employee Financial Wellbeing research, based on a survey of c.4,000 working individuals in the US and UK

We have conducted primary research with c.4,000 working age employed individuals across the UK and the US to better understand their financial position and pressures they face.

Our findings point to financial challenges on a large scale. In the previous 12 months, over 70% of our survey respondents have experienced financial difficulties, or a financial worry of some form. Half of these individuals struggle substantially with their finances – they have been unable to meet a financial obligation and tend to face this issue on average every four months. These struggles vary from everyday expenses and utility bills, to recurring difficulty with credit card bills, rent and mortgage payments.

Although it would be intuitive to assume that this problem is exclusively the concern of lower earners, financial stress appears to present a problem across the income spectrum. We have found that higher earners face challenges in common with individuals of lesser financial means. Nearly 1/3 of the top quartile earners struggle to meet an expense when it falls due, though we hypothesise that these challenges faced by higher earners are markedly different.

Nonetheless, the impacts of financial hardship are felt most acutely by lower earners. The impact of lower income means that this segment of society tends to be 50% more likely to postpone another expense in order to settle a financial obligation. They also tend to experience the emotional and health effects of financial pressure more acutely than those of greater financial means (see Exhibit 3.9).

Beyond the support it can provide to lower earners, we see early evidence of the wider applications of On-Demand Pay solutions. Some of these include enabling individuals to take real-time budgeting actions, and to earn interest on funds they would otherwise be unable to access until payday.

Perspectives from the UK and US

The primary research we conducted focused on obtaining a more detailed understanding of the state of financial wellbeing of employees.

We surveyed individuals in (or seeking) employment from across the income, wealth and socio-demographic spectrum.

Overview of individuals' financial position

One of our key findings is that everyday financial hardship is remarkably common.

Overall, more than 70% of working individuals across the US and the UK have experienced some kind of financial stress between pay periods.

The issue takes on many forms:

- 35% of individuals we surveyed were unable to pay a critical expense or have had to seek other means to be able to do so
- A further 37% of individuals have either come close to being in this position before or frequently worry about this, highlighting a build-up of financial anxiety for a large number of individuals

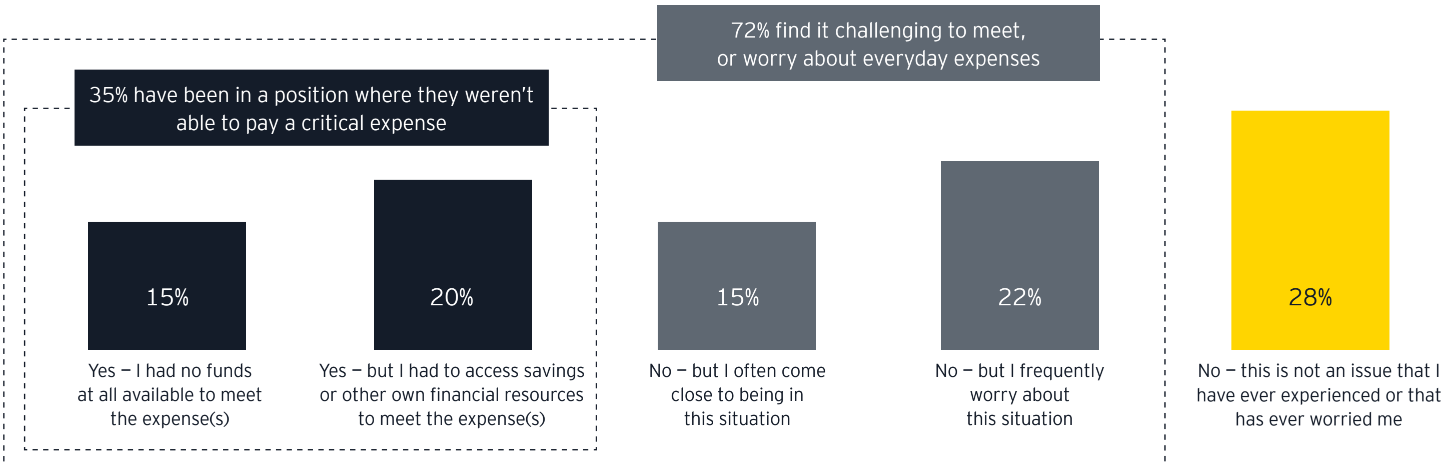
Although liquidity challenges (issues manifesting as a missed payment) are common for individuals with lower incomes, they are nearly as common among higher earners. 40% of those earning $10,000 encounter financial shortfalls, whereas the figure is 30% for those earning 10 times more (more than $100,000).

Our findings also show that individuals with higher levels of debt experience higher incidence of financial shortfalls.

This suggests debt is one of the key contributors to financial stress. It also explains the prevalence of liquidity challenges faced by higher earners, who tend to have higher borrowing capacity and hold nearly three times as much debt as the average respondent in our sample.

Exhibit 3.1: Share of individuals experiencing financial stress

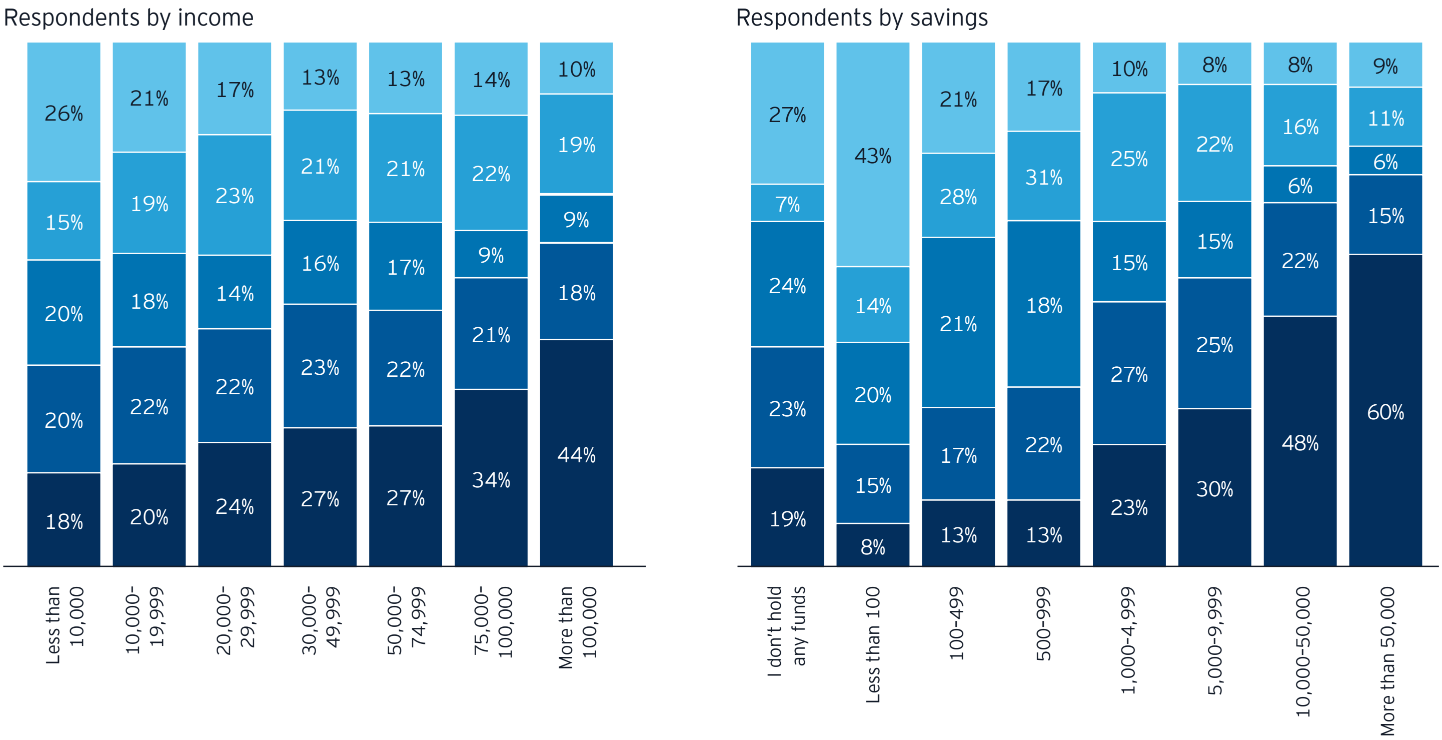
Q: Over the past year, have you ever been in a position where you weren't able to pay a bill or to meet a critical expense between pay periods? (% respondents, n=4,086)



Source: EY Employee Financial Wellbeing Survey, June 2020

Exhibit 3.2: Prevalence of financial difficulty by income and savings

Q: Over the past year, have you ever been in a position where you weren't able to pay a bill or to meet a critical expense between pay periods? (% respondents by income and savings brackets; $/£; n=4,086)

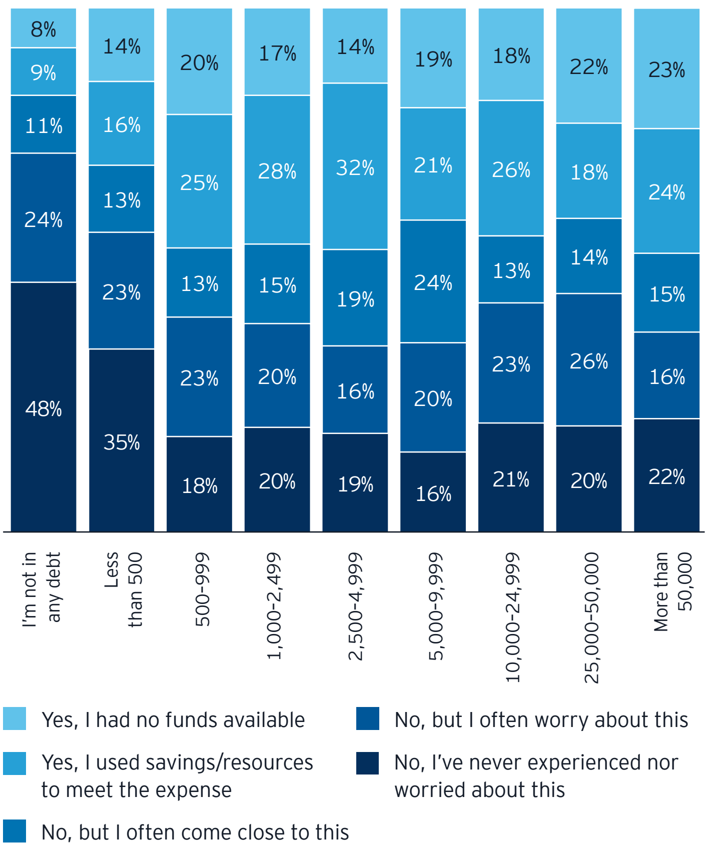


- Yes – I had no funds at all available to meet the expense(s)
- Yes – I had to access savings or other own financial resources to meet the expense(s)
- No – but I often come close to being in this situation
- No – but I frequently worry about this situation
- No – this is not an issue that I have ever experienced or that has ever worried me

Source: EY Employee Financial Wellbeing Survey, June 2020

Exhibit 3.3a: Prevalence of financial difficulty by unsecured debt

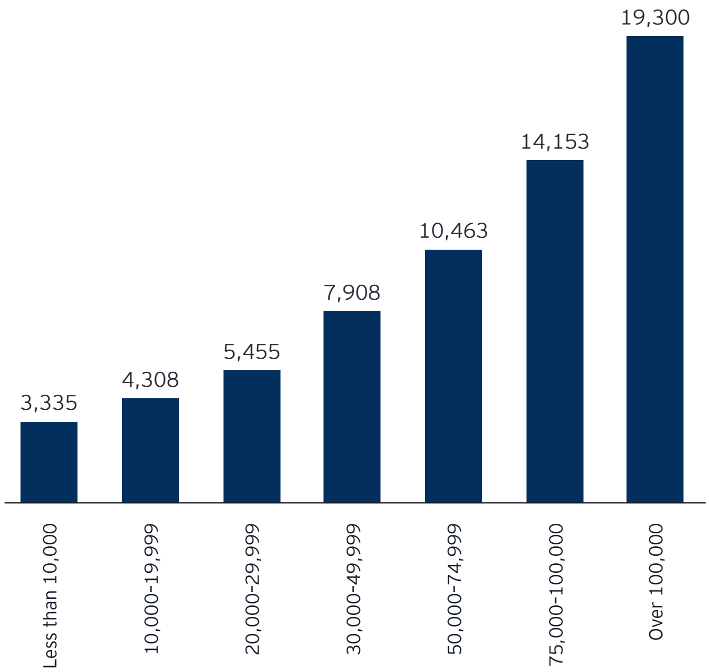
Q: Over the past year, have you ever been in a position where you weren't able to pay a bill or to meet a critical expense between pay periods? (% respondents; $/£; n=4,086)



Source: EY Employee Financial Wellbeing Survey, June 2020

Exhibit 3.3b: Amount of unsecured debt held by income bracket

Q: What is the estimated amount of your total household debt, excluding mortgage?
(for individuals facing financial difficulty; $/£; n=2,160)



Source: Averages estimated from EY Employee Financial Wellbeing Survey, June 2020

Types of financial problems and their frequency

Falling short on financial commitments is a frequent occurrence.

On average, those who struggle to meet a financial commitment tend to do so approximately every four months, with only 24% of individuals surveyed reporting a shortfall less than once per year.

When financial shortfalls do take place, the average amount is £295 in the UK and $320 in the US, or approximately 10-15% of the median monthly net wage in both countries.

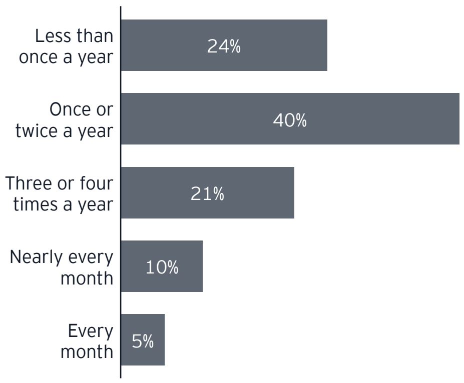
This implies that many individuals' monthly budgets are managed tightly, making them susceptible to financial shocks, with the individuals most vulnerable to this being those with limited savings (15% of the population of our survey).

The types of commitments that trigger shortfalls are varied. Nearly 30% of our respondents stated they have struggled with meeting credit card payments, making them the most common type of liquidity challenge faced by individuals.

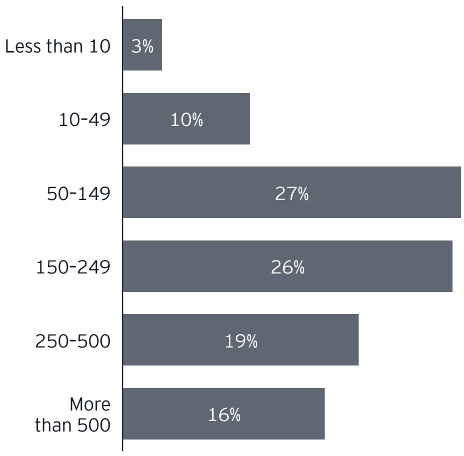
Lower earners, however, most often struggle with obligations of a far more critical importance: nearly 20-25% of bottom quartile earners struggle to pay for daily necessities, rent and utility payments.

Exhibit 3.4: Financial shortfalls: frequency, average amount and types of expenses

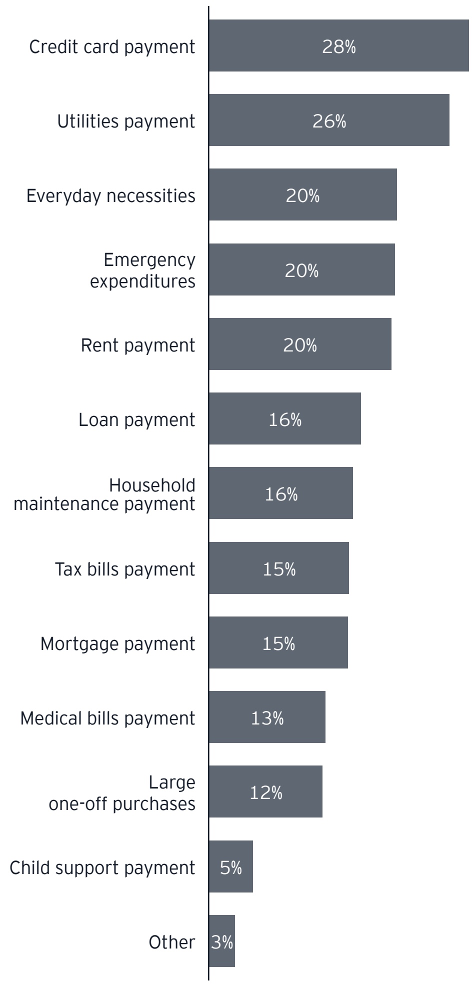
Q: How many times a year do you tend to have issues with meeting an expense? (% respondents)



Q: What was the approximate amount of the expense you struggled to pay? (% respondents; $/£)



Q: What is the type of expense or bill that you struggled to pay? (% respondents; more than one response allowed)



Source: EY Employee Financial Wellbeing Survey, June 2020

Causes and consequences of financial pressures

The causes associated with short-term financial hardship are complex and interrelated. When asked about the triggers behind financial challenges, our respondents point to three primary reasons:

1. Emergencies
2. Insufficient savings
3. Mismatches between income and expenses

The actions that individuals take to cope in these situations are varied, yet few are without cost. Of the respondents who encountered a shortfall, but managed to settle it, nearly 70% had to pay interest for an extended period of time, and a similar proportion had to pay late fees or charges.

There is a sizeable population of individuals who, by circumstance or choice, opt to delay (57%) or altogether avoid/ignore (20%) payment as part of their coping strategy for situations where they face a liability they are unable to fund. The consequences of such decisions can lead to adverse credit, potentially making a bad situation worse. Although 63% of individuals managed their financial difficulty by taking money out of a savings/stocks & shares account, we expect this to be populated by higher earners (for example those who might pay school fees).

Exhibit 3.5: Triggers behind financial difficulties

Q: What do you think was the reason why it was difficult to pay a bill or meet a critical expense between pay periods?
(% respondents; more than one option allowed)

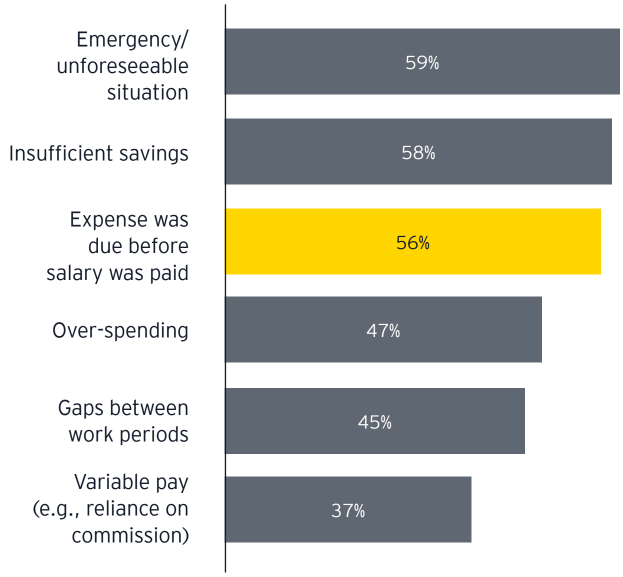
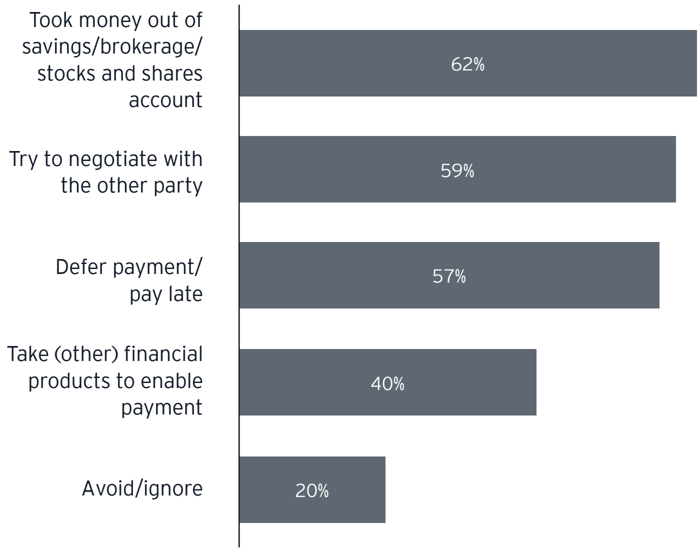


Exhibit 3.6: Approaches to managing in situations of financial difficulty

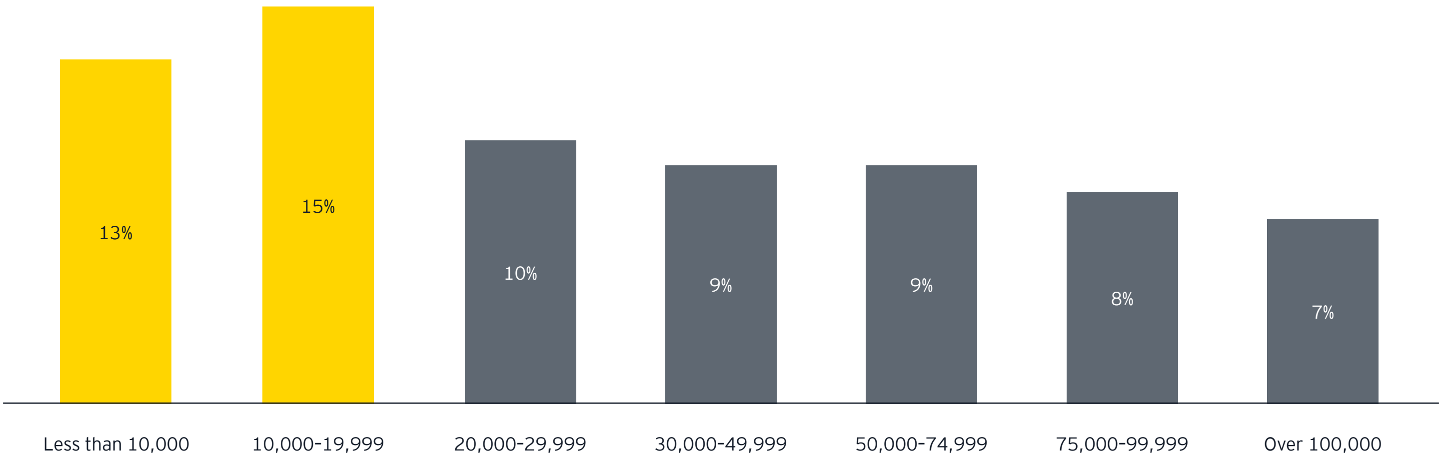
Q: What action did you take to manage the issue?
(% respondents; more than one response allowed)



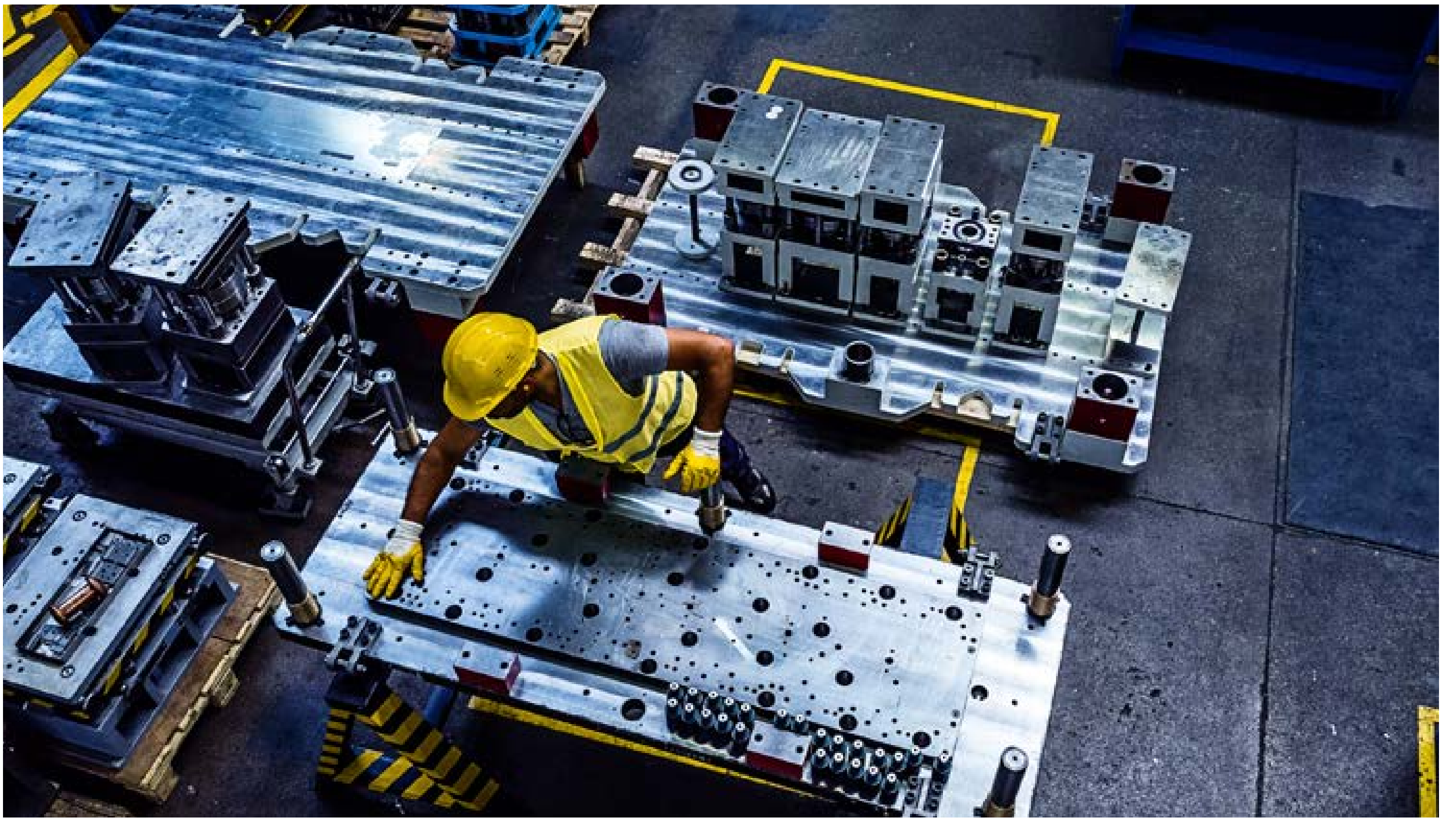
Source: EY Employee Financial Wellbeing Survey, June 2020

Exhibit 3.7: Share of individuals who have not paid a bill or expense to settle another one, by income

(% respondents; $/£; n=343)



Source: EY Employee Financial Wellbeing Survey, June 2020

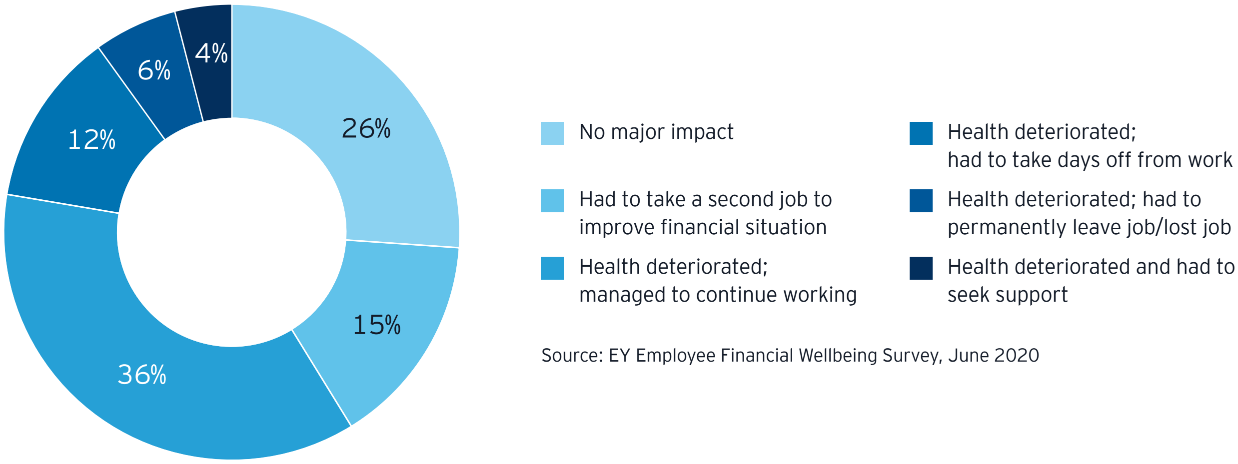


The impact of financial difficulty on individuals' wellbeing can be profound. Nearly 75% of individuals reported considerable negative implications on their work or life situation: 6% had to leave their job, and another 12% took time off work to cope with health, or other wellbeing issues.

While individuals from across the wealth/income spectrum experience negative consequences from financial hardship, the lowest paid suffer the greatest impact on their health, and the wellbeing of those around them.

Exhibit 3.8: Consequences of financial difficulty

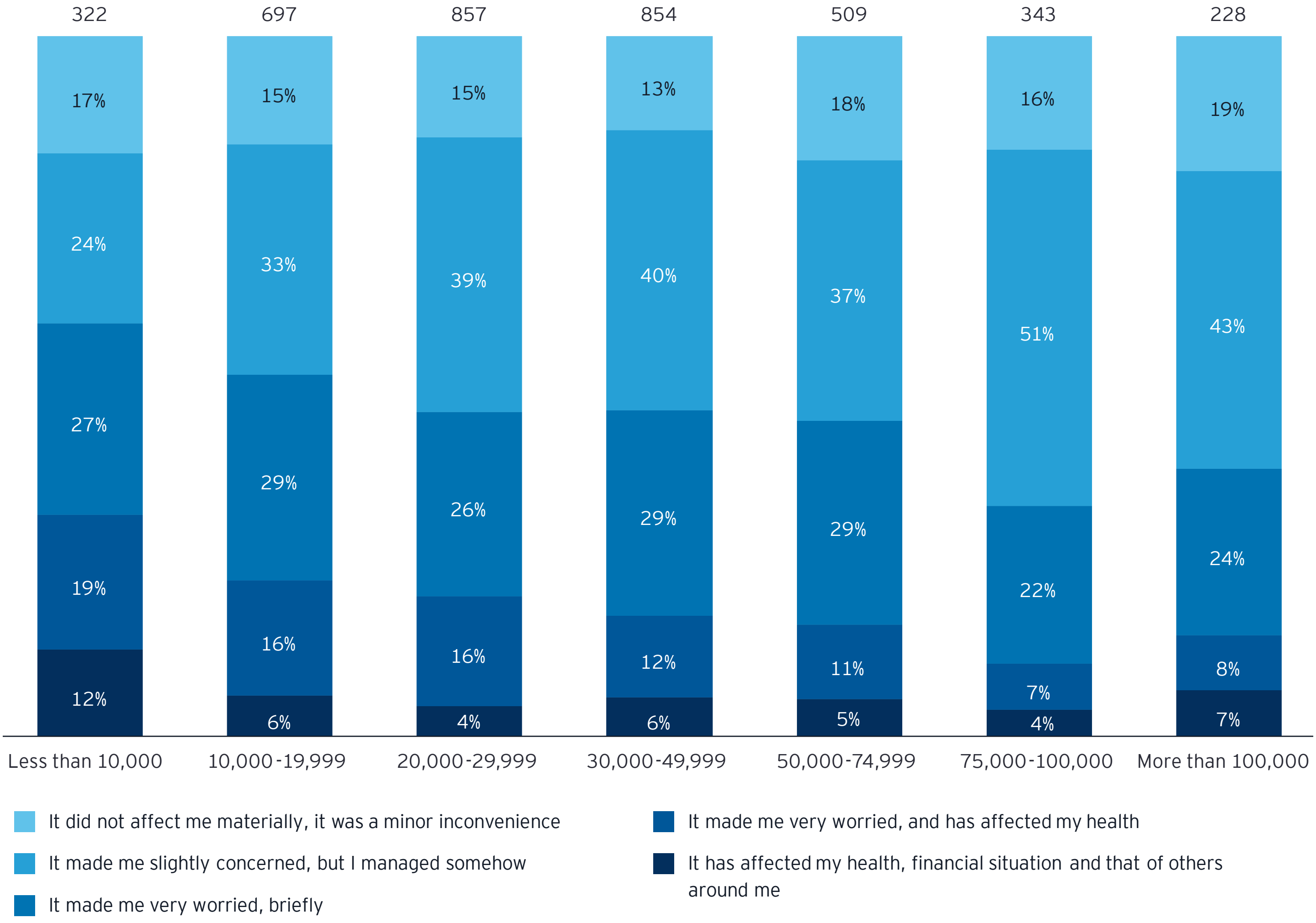
Q: What were the implications on your life and work when you last faced issues with a critical payment?
(% respondents who have experienced difficulty in the past, n=2,160)



Source: EY Employee Financial Wellbeing Survey, June 2020

Exhibit 3.9: Consequences of financial difficulty by income bracket

Q: How would you say the recent experience of not meeting the critical payment impacted you and those closest to you?
(% respondents who have experienced difficulty in the past; $/£; n=2,160)



Source: EY Employee Financial Wellbeing Survey, June 2020

4 The On-Demand Pay market

Overview of how On-Demand Pay works in practice, the benefits it offers to employees and employers, and the provider landscape across the UK and US

Our research points to three main causes of regular financial stress: emergencies, insufficient savings and mismatches in the timing of income and expenses.

With emergencies being unforeseeable and savings being a function of wages (with real wages stagnating), flexible access to income, as facilitated by On-Demand Pay, can offer vital support in situations of financial stress.

There is a large population of working individuals who stand to benefit from this. The majority of employees in the UK and US are paid either every month (UK) or every two weeks (US): offering On-Demand Pay providers an opportunity to bridge the timing gap between financial commitments and pay day for many.

On-Demand Pay provides an alternative to payday lending, overdrafts, and credit cards that is simple and usually comes at a fraction of the cost of these offerings. By enabling flexible access to earned income, On-Demand Pay can also help many to make the most of their finances by earning extra interest on saved income, taking immediate advantage of discounts, or budgeting more effectively.

The benefits extend to employers as well. On-Demand Pay gives employers a powerful tool to support employee financial wellbeing, which in turn helps to improve productivity. Based on the costs of hiring and diminished productivity resulting from employee financial stress, we estimate the economic cost for employers in the UK and US to be approximately $300bn a year[23]. Beyond this, On-Demand Pay gives employers the means to create differentiation in their employee benefits packages that makes them a more attractive destination for talent.

Wider context of financial offerings

Our research shows that regular financial challenges are one of the most pervasive obstacles to financial wellness. Faced with these financial pressures, individuals have a range of choices to manage a short-term financial need that spans formal and informal options.

Exhibit 4.1: Indicative range of short-term financial options

Indicative average cost: Most expensive → Least expensive

Solution	Payday loan	Guarantor loan	Credit card	Store credit	Overdraft	Salary-linked loan	Savings	On-Demand Pay (ODP)	Borrow from friends/ family
Prevalence*	Medium	Low	High	Medium	High	Medium	Medium	Low	High
Cost	70-1500% APR	25-70% APR	12-40% APR	0-30% APR	5-20% APR	4%-10% APR	Opportunity cost (interest), fees	Free or per transaction	Zero/limited financial cost; potential social cost
Typical amount	UK: £5k (up to) US: $5k (up to)	UK: £15k (up to) US: $35k (up to)	UK: £2-10k US: $2-10k	UK: £25k (up to) US: $60k (up to)	UK: £5k (up to) US: $1k (up to)	UK: £50k (up to) US: $40k (up to)	Varies by income bands	Income/timing dependent (% of salary)	N/A
Typical term	Fixed (vs. short term)	Fixed (med/short term)	Revolving	Fixed (med/short term)	Revolving	Fixed/flexible (med/long-term)	Flexible	Flexible	Flexible/informal
Key requirements	‣ Proof of regular income	‣ Suitable guarantor	‣ Clear credit record ‣ Perm. address ‣ Contractual arrangement with employer	‣ Credit record ‣ In store purchase ‣ Perm. address	‣ Clear credit record ‣ Current account ‣ Perm. address ‣ Contractual arrangement with employer	‣ Clear credit record ‣ Perm. address ‣ Contractual arrangement with employer	‣ Ability to save (and settled debt)	‣ Contractual arrangement/ agreement with employer	‣ Contacts willing and able to provide sufficient funds

*By choice of respondents: Low <10%; Medium 10-15%; High >15%;

Source: EY Employee Financial Wellbeing Survey 2020; EY market research and analysis

However, the full spectrum of short-term financial options (see Exhibit 4.1.) is not available to all. Our research shows that the time-sensitive nature of short-term financial pressures creates urgency, which in turn gives priority to the most convenient product.

Convenience takes on different meanings for different segments.

For higher earners, convenience appears to take the form of widely available options such as credit cards and overdrafts. These products (and their best terms) are only available to individuals with a certain level of income and credit history.

The growing use of credit cards as a long-term borrowing instrument is evident in the growth of balances that remain outstanding year-on-year.

Over the last five years, the average outstanding credit card balance has increased 32% and 18% in the US and UK respectively, suggesting that a growing proportion of individuals are only making the minimum credit card repayments[24,25]. With APRs in the region of 10% to 30%, this represents a relatively expensive form of borrowing.

For lower earners, convenience takes on another form. Struggling from a credit history and affordability standpoint, lower earners are more likely to access high-cost credit such as payday loans, which may have less stringent borrowing requirements and allow timely (almost instant) disbursement which, in case of emergencies, is a key factor.

Our own research indicates that lower earners are also more likely to forego a daily necessity, or the payment of a bill in order to manage an existing financial shortfall.

On-Demand Pay solutions are configured to deliver liquidity to individuals in a manner that requires no credit record, minimum income, or any lending terms.

This makes On-Demand Pay well suited to reach segments of the population who, driven by the urgency of everyday financial pressures can sometimes make expensive choices.

Origins of On-Demand Pay providers

The value proposition of On-Demand Pay for employees is that it allows them to access a proportion of their accrued earnings in advance of payday. For employers, On-Demand Pay provides the benefit of a potentially better-off, more motivated workforce through improved financial wellness and less financial stress.

Provider landscape

We have reviewed the On-Demand Pay industry in the UK and the US. This consists of ~15 providers, some of which also have presence in other jurisdictions. In general, the market is relatively nascent, with the oldest provider launched less than 10 years ago.

Many providers are VC-funded start-ups; Earnd (backed by global working capital lender Greensill) is one of the few offerings funded by a significant amount of third-party capital, enabling the business to provide On-Demand Pay free of charge.

There are also providers such as DailyPay, who are pursuing routes to market through partnerships with large corporate HR software providers and payroll systems.

The prevailing revenue model for the majority of providers relies on charging employees directly, making the solution free, or nearly free, for employers. However, at the time of writing, provider such as InstaPay and Flexwage have a dual revenue model where fees can be levied on both employer and employees, while Earnd is the only solution that is free to employees (see exhibit 4.3).

On-Demand Pay is emerging as a permanent feature in employee benefit packages, among a wider range of financial wellbeing solutions adopted by employers.

A particularly attractive sector for the On-Demand Pay industry is the public sector, with Wagestream, Salary Finance, PayActiv and Earnd targeting healthcare and education in particular.

As some of the largest employers in many developed economies, local authorities, governmental agencies, national healthcare and educational services have become a key access point to millions of employees. In the UK and the US alone, the public sector accounts for ~25m employees in total.

There is evidence of growing competition in the public sector, with providers differentiating their propositions and shifting towards an "employer pays" model or, in some instances, pivoting towards freemium models, in the hope that they can access a wide pool of customers which can, in the future, be monetised with supplementary services.

How it works

The On-Demand Pay model works by providers contracting directly with employers who in turn offer the solution to their employees, typically as part of their workplace benefits package. Under this arrangement, employees can get access to their accrued income and draw down part of it flexibly.

There are two main ways in which providers facilitate access to accrued wages:

- By providing only the technology to allow the income advance, with the employer funding it, or
- By directly funding the income advance when demanded by the employee, with no cash flow impacts for the employer

Usually, providers charge both employees and employers for these services but a variety of models and approaches are present, including solutions which are offered for free.

Typically, employees are charged each time they draw down their earned income to date, or in some instances on a flat monthly basis. Employer charging models vary considerably. They may include initial implementation fees, in addition to ongoing charges and installed user base charges.

Operationally, this is done by On-Demand Pay providers integrating into employer HR systems, thereby "reading" payroll as a feed into On-Demand Pay salary calculations.

In simple, fixed-term salary cases, the pay is easily pro-rated, based on the number of days in the pay cycle.

In other, more complex scenarios (such as shift-based employment), On-Demand Pay providers also integrate into rostering and time keeping systems, which enables them to understand what proportion of contracted hours have been worked as a basis of estimate. Some providers also use location data to estimate time at work in addition to deep integration with employer records.

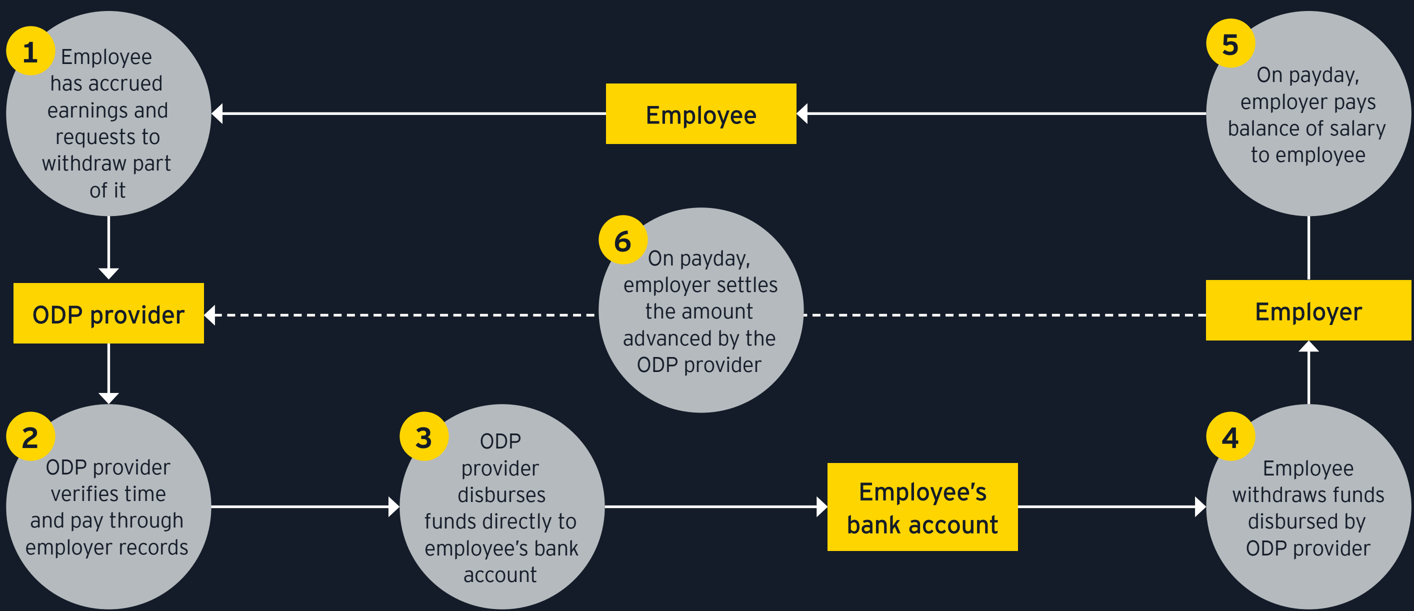
For the most part, the process is invisible to employees. They can request a withdrawal of their earned income via a mobile app or website at any point in the pay cycle. Many providers give employers the ability to monitor and calibrate limits; this is key to ensuring employees do not 'over-extend' and run into the type of shortfalls On-Demand Pay is meant to help them overcome.

Providers are also incorporating tools to support employee "financial wellness" in a bid to create access points to other consumer needs and to create a more compelling employee benefits pitch to buyers. This includes liquidity planning tools, such as matching income with expenses, financial diagnostic tools, budgeting and bill tracking.

Importantly, many providers are increasingly under a "duty of care" obligation where they assume part of the responsibility for any hardship arising as a result of employees withdrawing too much of their income and being unable to cope as a result.

Exhibit 4.2: On-Demand Pay flows and mechanics

On Demand Pay – the flow of finance



Notes: 1. For most providers, attendance systems will inform the amount the employee is eligible to access

Source: EY research and analysis

Exhibit 4.3a: Overview of On-Demand Pay providers – UK

	Presence	Founded	Cost		Funds accessible	Drawdown frequency	Disbursement speed	Accessibility[1]	Value-added tools
			Employer	Employee					
Access EarlyPay		2019[2]	Free	$2.15/TRX	0%-50% of salary	No limit	Instant	Bank account	Budgeting, financial guides
Earnd		2018	Free to public sector/varies for private sector	Free	50% of accrued income	No limit	Instant	Bank account	Expense management, saving tools, financial guides
Hastee Pay		2017	Free	2.5%/TRX	50% of salary	No limit	Instant-2 hours	Bank account	"Financial wellbeing hub" of tools and planners
Salary Finance		2015	Free	$3.75/TRX	50% of accrued income	Up to 3 times/ month	Instant	Bank account	Loans, savings account
Wagestream		2018	$1.55-$3.40/ employee per month	$2.20/TRX	30-50% accrued income	Up to 15 times/ month	Instant	Bank account	Budgeting tracker, earnings tracker, savings tools

Notes: 1. All companies accessible through mobile apps; 2. Founding year of parent

Source: Company websites; Crunchbase

Exhibit 4.3b: Overview of On-Demand Pay providers – US

	Presence	Founded	Cost		Funds accessible	Drawdown frequency	Disbursement speed	Accessibility[1]	Value-added tools
			Employer	Employee					
Branch Pay		2018	Free	$0-4.99/ TRX	$150-$500	No limit	Instant-3 days	Bank account	Budgeting, earning, bill tracking
Dailypay		2015	Free	$1.99-2.99/ TRX	100% of accrued income	No limit	Instant-1 day	Bank account & prepaid debit card	Budgeting, financial wellness guides, saving tools
Earnin		2012	Free	$0-14/ TRX	$100-$500	Limited by capped funds	Instant-2 business days	Bank account	P2P lending via other members, health bill assistance, cashback rewards
Even Instapay		2014[2]	Varies based on package	$6-8/ month	50% of salary	Determined by employer	1 day/ available for collection	Bank account or cash pick up	Savings, planning and budgeting tools
Flexwage		2009	Varies based on package	$3-5/TRX	Determined by company	Determined by employer	Instant	Bank account or Flexwage Card	Savings, expenditure tracking too
Nowpay		2018	Free	TBD	Determined by company	Undisclosed	Undisclosed	Bank account	Manage and track savings & expenses, financial advice
PayActiv		2011	Employee service only	$0-5/TRX	$0-$500	No limit	Instant	Bank account	Savings, planning and budgeting tools, prepaid card
Zayzoon		2014	Free	$5/TRX	$65-320	Undisclosed	Instant-48 hours	Bank account	Budget tracker, overdraft predictor, low balance notifications, spending insights

Notes: 1. All companies accessible through mobile apps; 2. Founding year of parent

Source: Company websites; Crunchbase

Consumer attitudes towards On-Demand Pay and adoption considerations

Our research indicates that consumers appear willing to consider using On-Demand Pay offerings. Among our respondents, 30% consider themselves likely, or very likely to use an On-Demand Pay offering were it to be offered by their employer.

Yet there are nuances in how individuals perceive the relative benefits of such offerings that are related to prior experience with financial stress, their financial position and specific use case.

Those who have experienced a financial shortfall in the past are twice as likely to consider an On-Demand Pay solution, when compared to those who haven't. Experience of past liquidity challenges also drives a preference for higher frequency of salary drawdowns, maximum amount available, and speed of access.

We have found that On-Demand Pay appears to lend itself to a wide range of use cases. However, emergencies lead the way in terms of reasons why individuals would consider accessing liquidity through an On-Demand Pay solution.

Among the properties that consumers would value most in accessing liquidity through an On-Demand Pay solution, cost, ease of application and speed of disbursement ranked the highest.

The importance of cost to consumers is significant in the context of available short-term credit alternatives – many of which carry a significant borrowing cost that makes On-Demand Pay an attractive substitute.

Ease of application and speed of disbursement appear nearly as important as each other in terms of value drivers for consumers. Both solve for the importance of convenience in time-sensitive financial situations and cater to the shift of consumer preference for "on-demand" services.

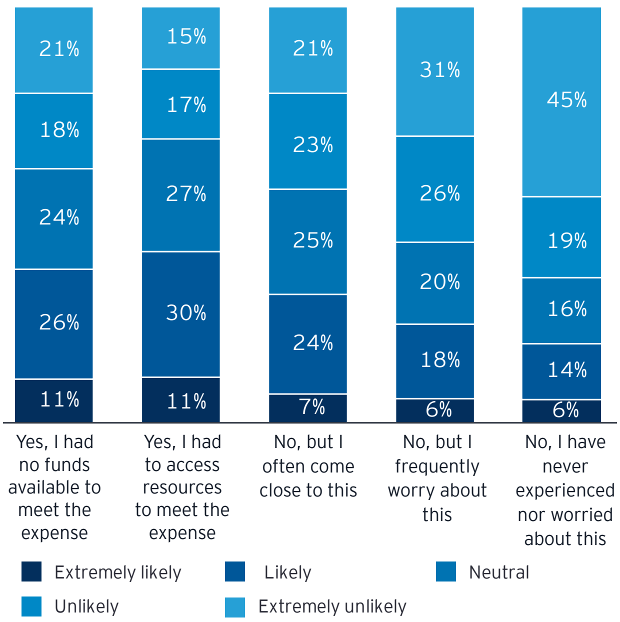
This is a dimension to which all On-Demand Pay offerings cater. Many providers have done away with the usual sources of friction associated with traditional borrowing: none of these offerings require credit referencing or a minimum income.

In some cases, even a bank account can be optional as some On-Demand Pay providers issue their own payment cards or integrate with payroll card providers, such as NetSpend, Wisely and Visa in the US.

Although the only hard requirement is for some form of paid employment, the industry is evolving to also serve gig-workers. As an example, Uber uses an in-house On-Demand Pay offering called InstantPay to disburse payment to their "gig-employee" workforce up to 5 times a day[25].

Exhibit 4.4: Likelihood to use On-Demand Pay by previous difficulties

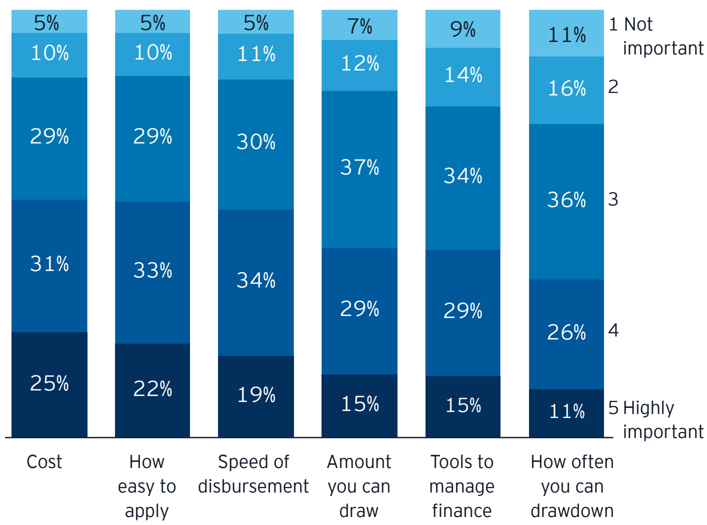
Q: If you had the option, how likely are you to draw (part of) your earned income before scheduled payday for certain obligations? (% respondents; n=4,086)



Source: EY Employee Financial Wellbeing Survey, June 2020

Exhibit 4.5: Adoption factors by importance

Q: What aspects would be most important for you to consider using a solution which allows you to regularly access part of your earned income? (% respondents; n=4,086)

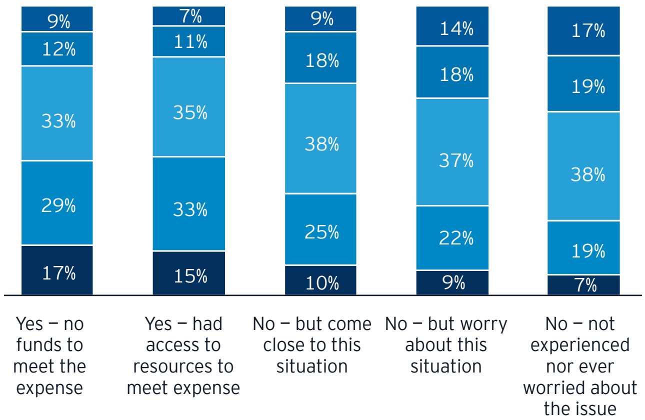


Source: EY Employee Financial Wellbeing Survey, June 2020

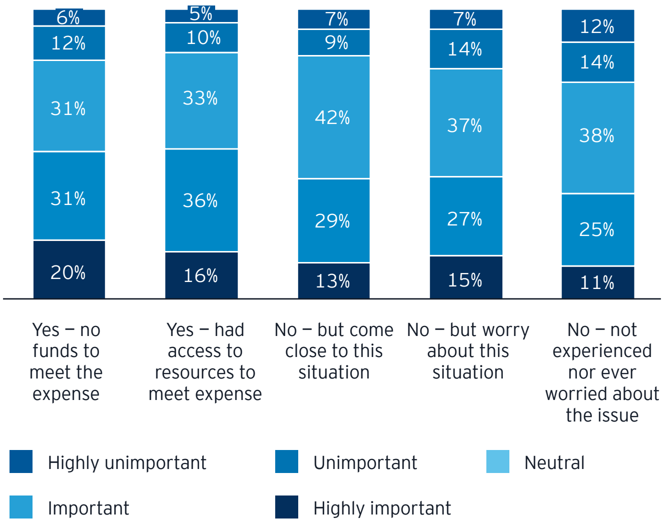
Exhibit 4.6: Factors of importance for using On-Demand Pay, by previous difficulty

Q: What aspects would be most important for you to consider using a solution which allows you to regularly access part of your earned income?
(% respondents, by previous difficulty; n=4,086)

Frequency of drawdowns available



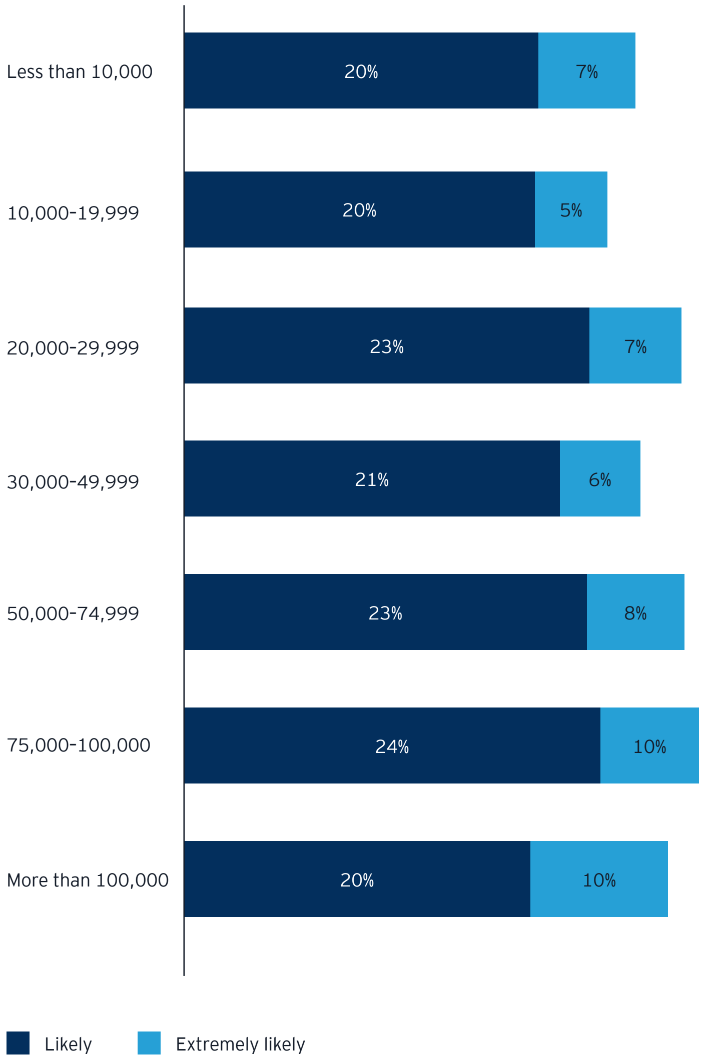
Maximum amount per withdrawal



Source: EY Employee Financial Wellbeing Survey, June 2020

Exhibit 4.7: Likelihood to use On-Demand Pay, by income

Q: If you had the option, how likely are you to draw (part of) your earned income before the scheduled payday for financial obligations?
(% respondents, by income bracket, $/£; n=4,086)



Source: EY Employee Financial Wellbeing Survey, June 2020

We set out the benefits of On-Demand Pay across three example consumer personas and financial use cases.

01

Alan, who lives in UK, earns approximately £1,000 per month. He has no savings and a poor credit history as a result of a redundancy a few years ago which meant he couldn't pay off his credit card debt or access an overdraft. The car he uses to go to work every day broke down on the 15th of the month; he faces a £250 repair bill. Alan is paid monthly, at the end of the month. His only option is to take out a pay day loan to pay for the emergency.

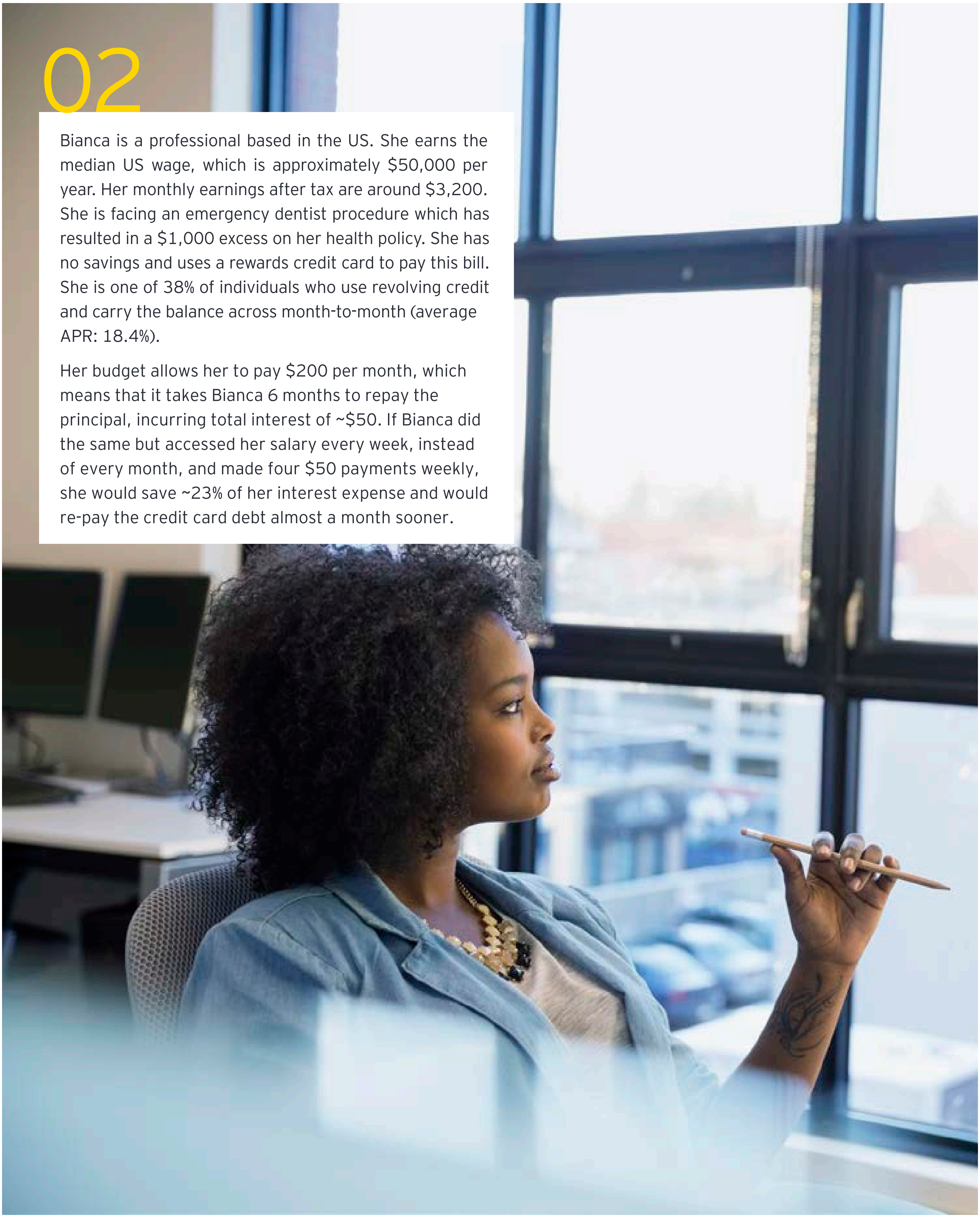
Faced with an APR of between 400% and 1500% due to his limited credit history, Alan can expect to pay between £38 and £144 in borrowing costs (interest) were he to pay the loan off in two weeks' time, once he is paid his salary. This is an increase in the overall cost of the car's breakdown between 15% and 58%.

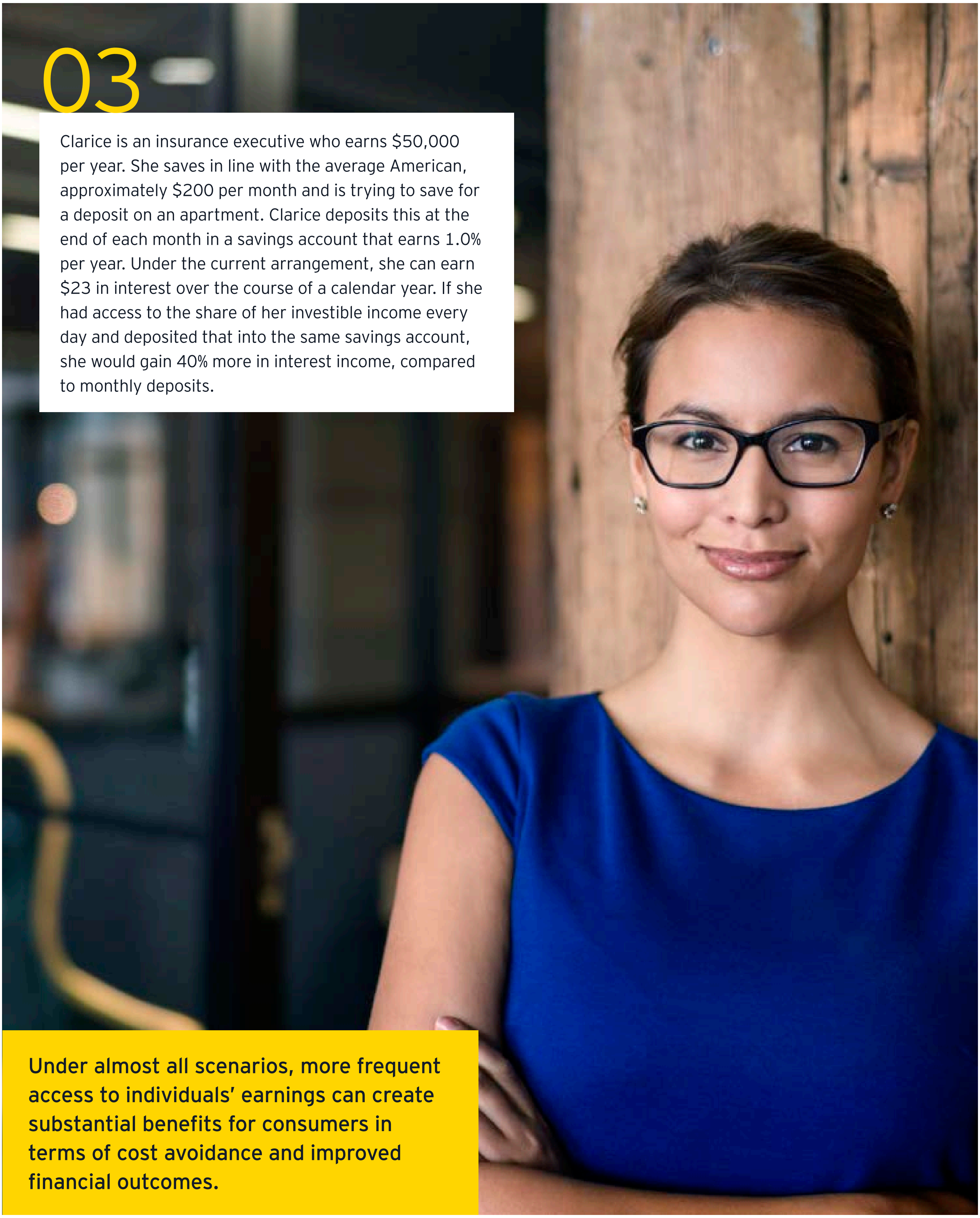
Accessing a portion of his accrued salary to date could enable Alan to altogether eliminate the need for a payday loan or to considerably reduce the costs of borrowing, by either borrowing less, or for a shorter period of time.

02

Bianca is a professional based in the US. She earns the median US wage, which is approximately $50,000 per year. Her monthly earnings after tax are around $3,200. She is facing an emergency dentist procedure which has resulted in a $1,000 excess on her health policy. She has no savings and uses a rewards credit card to pay this bill. She is one of 38% of individuals who use revolving credit and carry the balance across month-to-month (average APR: 18.4%).

Her budget allows her to pay $200 per month, which means that it takes Bianca 6 months to repay the principal, incurring total interest of ~$50. If Bianca did the same but accessed her salary every week, instead of every month, and made four $50 payments weekly, she would save ~23% of her interest expense and would re-pay the credit card debt almost a month sooner.





03

Clarice is an insurance executive who earns $50,000 per year. She saves in line with the average American, approximately $200 per month and is trying to save for a deposit on an apartment. Clarice deposits this at the end of each month in a savings account that earns 1.0% per year. Under the current arrangement, she can earn $23 in interest over the course of a calendar year. If she had access to the share of her investible income every day and deposited that into the same savings account, she would gain 40% more in interest income, compared to monthly deposits.

Under almost all scenarios, more frequent access to individuals' earnings can create substantial benefits for consumers in terms of cost avoidance and improved financial outcomes.

Employee and employer benefits, quantified

Our findings suggest that when it comes to short-term financial needs, there is often a positive correlation between convenience and expense.

We see considerable willingness among employed individuals to use On-Demand Pay across a variety of use cases, and a growing range of offerings which cater to these needs.

This makes On-Demand Pay an attractive challenger to the status quo. To put this to the test, we have explored the economic benefits of On-Demand Pay for employees and employers across a range of representative scenarios.

a) Employee benefits

For consumers, mismatches between the timing of income and expenses are one of the main triggers of financial distress. Our findings indicate that the average amount of these expenses is approximately $/£250, with three most common examples given by our respondents being credit card payments, utilities payments and everyday necessities. The benefits are most apparent when comparing the cost of On-Demand Pay solutions to that of the prevailing formal borrowing alternatives – credit cards, overdrafts, and short-term loans.

b) Employer benefits

There are real benefits to employers from the positive impact on employee personal wellbeing. This is supported by an increasing amount of research pointing to the detrimental impacts of financial stress on employee productivity, happiness and retention.

Typically, these impacts take the form of:

- Reduced employee productivity due to mental stress and distraction at work
- Employee absenteeism
- Employee turnover driving increase in direct hiring costs (such as agency fees and central HR functions) and indirect hiring costs (reduced productivity of new employees)

Our research substantiates this. Of the individuals experiencing negative consequences as a result of financial hardship, 60% have stated that their health had deteriorated as a result.

This translates to approximately a quarter of the workforce in the countries we have studied. Other studies[27] indicate that employees take off anywhere between 1.5 to 2.5 days each year as a result of financial struggles, with an additional ~3 days of unproductive time at work for the same reason.

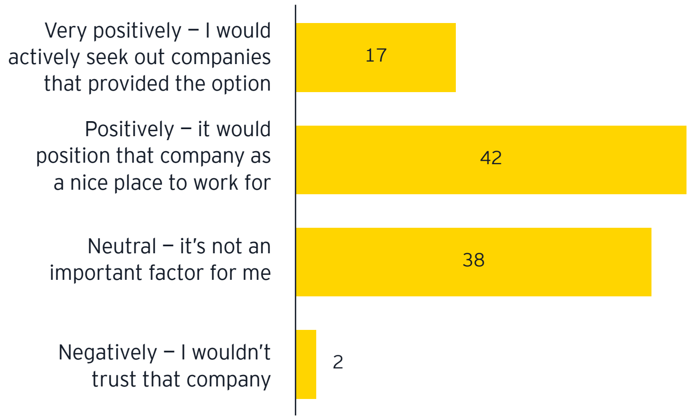
Furthermore, 6% of our respondents have stated that these financial difficulties have driven them to permanently leave their job, which, in the context of 14% average annual turnover, points to a materially significant share of headline employee turnover.

We have estimated that the cumulative effects of this translates to an overall annual cost of ~$265bn for US employers and ~£30bn for those in the UK. Companies with more than 1,000 employees face, on average, annual costs related to financial distress of c.$8.5mn in the US and c. £3.5mn in the UK.

On-Demand Pay solutions can enable employees to manage one of the leading causes of financial pressures – problems caused by the mismatches in the timing of income and expenses. By providing more frequent access to pay, employers can help address the root cause of approximately 20% of all voluntary departures. Taking this action will enable employers to address the main driver of lost productivity: employee turnover. By our estimate, employee turnover linked to financial stress costs employers approximately $122bn per year, or $0.7m for every thousand employees.

Exhibit 4.8: View of prospective employers offering On-Demand Pay

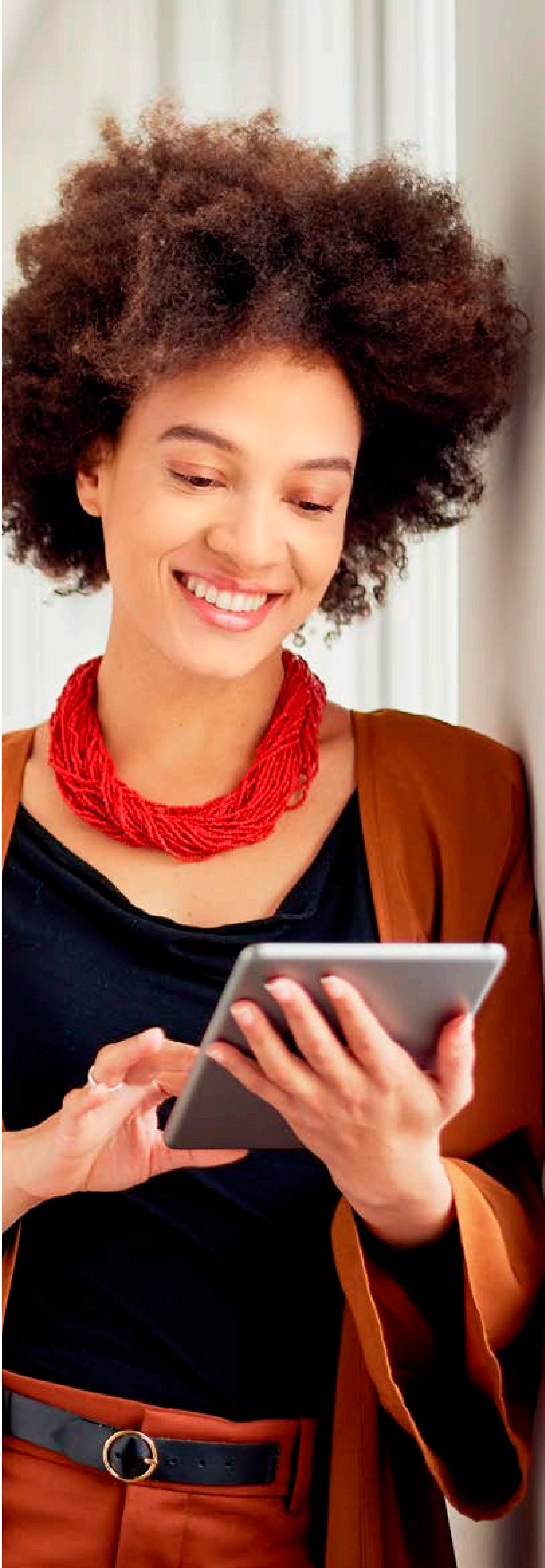
Q: When considering a new job, how would your opinion of the potential employer change if it offered flexible income access as part of its benefits package? (% respondents; n=4,086)



Source: EY Employee Financial Wellbeing Survey, June 2020

A reduction in financial pressures also means improved health and wellbeing for the current workforce. Our analysis points to approximately $124bn lost to employees facing distraction at work or becoming unwell as a result of financial stress, accounting for approximately $0.9mn for every thousand employees.

Beyond this, On-Demand Pay can offer differentiation for employers in sectors with near-wage parity, where finding other ways to enhance the employer/employee relationship is paramount to attracting and retaining staff. Our findings show that nearly 60% of employees would view a prospective employer more favourably if this was part of a new job offer.



5 Harnessing the $1tn opportunity

Views on the factors that will define the next growth wave for On-Demand Pay

What next for On-Demand Pay?

The growing availability of On-Demand Pay offerings and the accelerating innovation in the sector point to a proposition on the verge of becoming a viable alternative to financial products which are often limited in availability, costly, or hampered by friction.

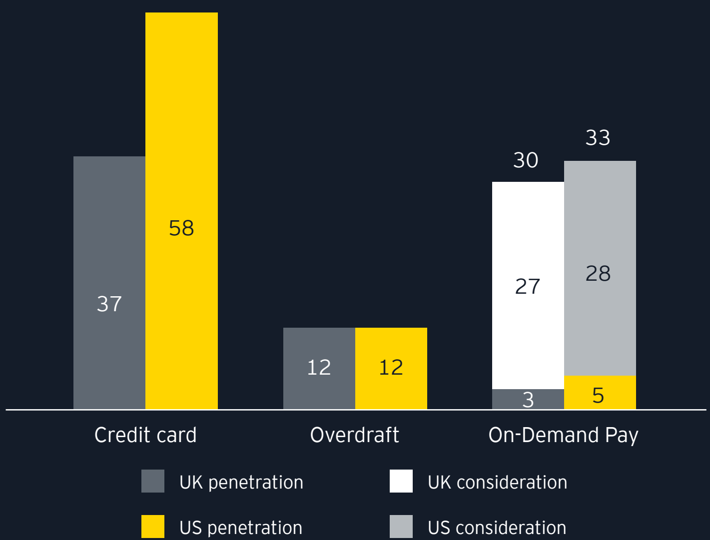
When considering the next wave of growth for the On-Demand Pay sector, we see opportunities presented on both the demand and the supply side.

Our research suggests a considerable degree of latent demand.

Among the 4,000 individuals we surveyed, just between 3% and 5% had used an On-Demand Pay offering in the past, with a further 27%, willing to consider it across a range of essential use cases.

If its potential is fully realised, On-Demand Pay can approach levels of adoption comparable to that of credit-cards (37% and 58% in the UK and US respectively)[28] and in excess of overdrafts (12% in both the UK and US)[29].

Exhibit 5.1: Penetration rates for select financial products and On-Demand Pay (%)



Source: EY Employee Financial Wellbeing Survey, June 2020; Credit Card and Overdraft data based on ONS, Pew Research and Credit Cards, EY analysis

On the supply side, although On-Demand Pay is fundamentally a consumer offering, its path to mainstream adoption relies on a number of factors:

1. Digitalisation of employer scheduling, payroll and treasury systems

Most On-Demand Pay solutions require integration with a host of employer systems in order to operate accurately and effectively.

Today just 11% of companies operate completely manual payroll processes[30] meaning that more employers have the technical ability to embed On-Demand Pay. Yet for small, and medium sized enterprises (who tend to employ more than 80% of the working population in both the UK and US) this is not yet the case. In the US nearly 25% of businesses still use paper-based payroll record keeping.

Continued digitalisation of HR, rostering and payroll systems should make it more economical for employers to implementing On-Demand Pay solutions, and to do so on a smaller scale.

2. Coordinated investment in category awareness

Raising awareness and targeted employer and consumer education will be essential in promoting further adoption.

By highlighting the incremental benefits of the solution relative to the prevailing options On-Demand Pay providers (and employers) have an opportunity to materially increase consideration among potential users. One of the conclusions of our research is that although 30% of consumers would be willing to use an On-Demand Pay offering, there are a further 23% who consider themselves neither likely nor unlikely to do so. Highlighting the distinct advantages of income access in terms of cost, speed and flexibility to this audience can help further increase penetration.

3. Regulatory interventions aimed at restricting short term borrowing options that disadvantage consumers

In the UK, the FCA has brought short term, high cost borrowing into sharp focus with its review of overdraft fees and the introduction of pricing caps for short-term high-cost credit products.

Similarly, in the US, the Consumer Financial Protection Bureau (CFPB) has imposed stricter affordability requirements for payday loans, and the maximum amount of interest has been capped through the Uniform Small Loans Laws (USLL) which were passed in 2014.

Overall, On-Demand Pay has many of the characteristics of a breakthrough innovation. It offers a solution for a widespread need, a compelling pricing model, and vast reach though participating, and prospective employers.

Our findings support the view that On-Demand pay has the potential to enter the financial services mainstream on the strength of the demand signals from consumers and the compelling benefits it offers to both employers and employees.

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7. Glossary

Term/Abbreviation	Definition
Absenteeism	Unplanned employee absence from work for lengths of time beyond what is considered an acceptable time span. Absenteeism excludes paid leave and other occasions where an employee has been granted time off.
Accrued wage, salary or income	The income that has been earned by employees at a certain point in time, but not yet paid. This can be based on the amount of their work they have completed for the period, or the time elapsed at work.
Consumer Financial Protection Bureau (CFPB)	An agency of the United States government responsible for consumer protection in the financial sector. Its purpose is to promote fairness and transparency for mortgages, credit cards, and other consumer financial products and services.
Debt-to-income ratio (DTI)	A ratio that measures how much of a household's income goes towards paying their debts. It measures all liabilities of a household that require interest payments or principal at a fixed date, as a percentage of the household's income after deducting taxes.
Employee turnover	The number of employees who leave an organisation and are replaced by new employees, presented as a percentage.
Financial Conduct Authority (FCA)	A financial regulatory body in the UK, operating independently from the UK Government, that regulates financial firms providing services to consumers and maintains the integrity of the UK's financial markets.
Financial wellness	Where an individual obtains financial security and satisfaction that prevents stress related to financial struggles. It is a common indicator of an individual's control over their finances and ability to handle a financial pressure.
Gig economy	A labour market characterised by the prevalence of short-term contracts or freelance work as opposed to permanent jobs.
High-cost credit	Financial products that charge a high rate of interest, such as payday loans, home-collected credit, rent-to-own, buy now pay later, overdrafts, guarantor and logbook loans.
Liquidity	A term used broadly to refer to cash on hand or assets that individuals can convert to cash at short notice.
Near-wage parity	Where the pay of one group of employees is adjusted to align with another comparable group.
On-Demand Pay (ODP)	On-Demand Pay is the term we use in this paper for a number of offerings that give workers the ability to draw on their accrued earnings before pay day. While it exists in a wider category of similar salary-linked offerings, encompassing salary-linked loans, On-Demand Pay is a standalone use case that doesn't involve borrowing.
The Organisation for Economic Co-operation and Development (OECD)	An intergovernmental economic organisation with 37 member countries, founded to stimulate economic progress and world trade.
Payday loans	A small amount of money lent at a high rate of interest, on the agreement that it will be repaid when the borrower receives their next payslip. Payday loans are typically unsecured and designed for emergency needs.
Persistent debt (PD)	When individuals who have borrowed money pay more in interest and charges than they have repaid of the amount borrowed over a period of time.
Purchasing power (PP)	The value of a currency expressed in terms of the amount of goods or services that one unit of money can buy. All else being equal, purchasing power is decreased by inflation, which reduces the amount of goods or services an individual can purchase.
Real wages	Income adjusted for inflation to convey purchasing power, as opposed to actual money received. Real wages depict the actual amount of goods and services that can be purchased.
S&P index	A stock market index that measures the performance of the 500 largest companies listed on stock exchanges in the United States.
Short-term borrowing	Where the amount borrowed and interest charged is typically paid back in less than a year, through products such as credit cards, overdrafts or flexible loans.
Uniform Small Loans Laws (USLL)	Legislation passed in 2014 that aimed to protect borrowers against exorbitant fees charged by loan vehicles.

8. EY Employee Financial Wellbeing Survey, June 2020 Methodology

The Employee Financial Wellbeing Survey is proprietary quantitative consumer research, carried out by EY in the period April – June 2020. The purpose of the research was to understand in detail the personal financial situation and attitudes of employees across the UK and the US.

The survey was designed to elicit key insights on the relationship between individuals' financial position, previous financial difficulties, their causes, coping strategies and consequences.

The sample of respondents was based on working age adults of all backgrounds, who are employed or recently unemployed.

We instituted quotas for the total number of individuals across these categories that aimed to deliver a nationally representative proportion of respondents.

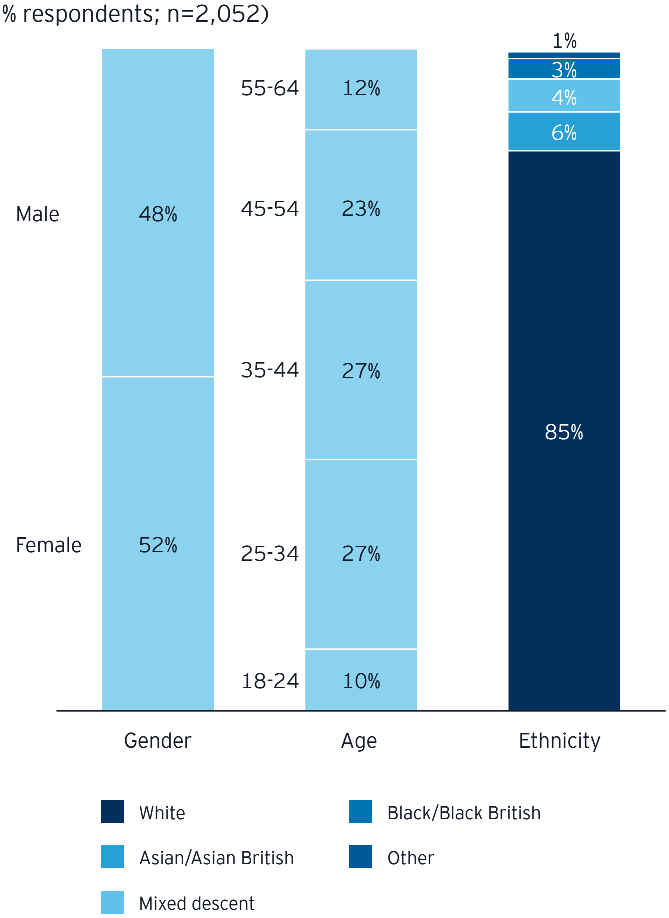
The fieldwork was carried out in two stages:

- The first stage was designed to help understand the broad prevalence of particular financial situations
- The second stage focused on individuals with experience in particular financial situations. It meant that we sourced more individuals who have experienced financial difficulty in order to obtain a number of responses that is large enough to make our findings statistically significant

The profile of our respondents is summarised below:

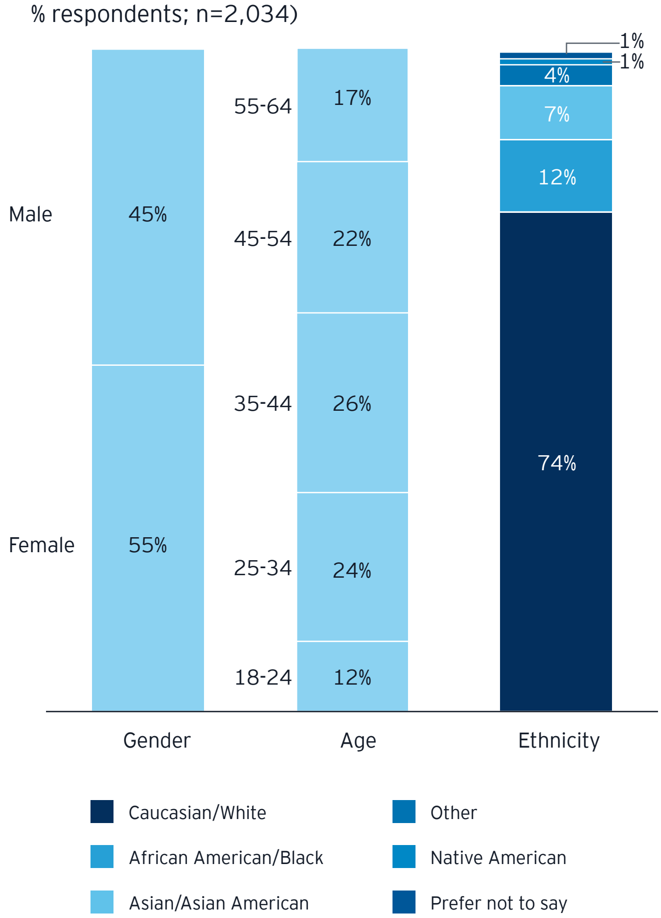
Demographic (UK)

% respondents; n=2,052)



Demographic (US)

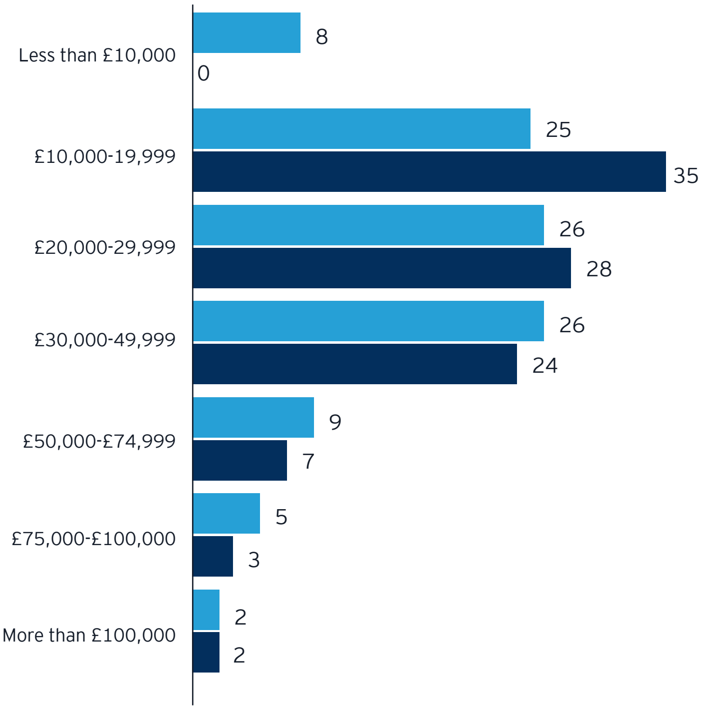
% respondents; n=2,034)



The incomes profile of respondents is broadly in line with the wider population; US higher earners (>100k) are slightly on the higher side

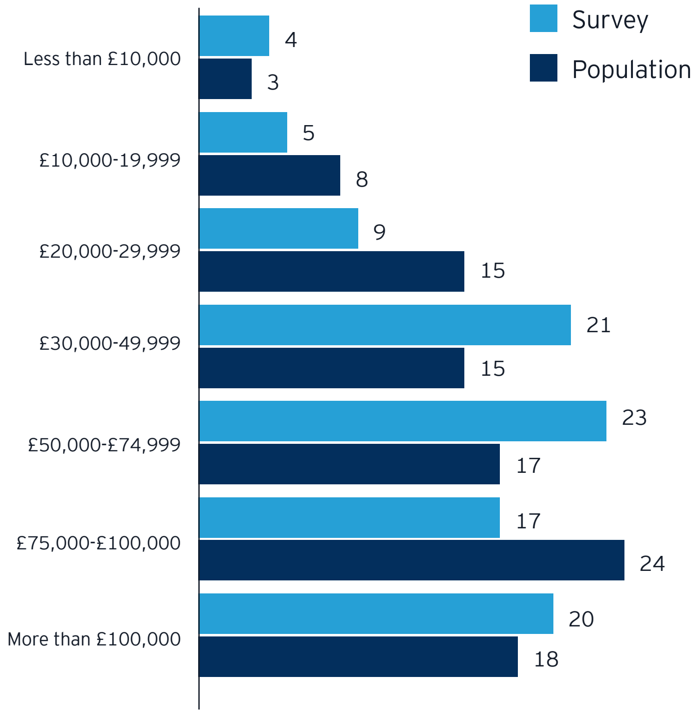
Wage bracket (UK)

(% respondents; n=2,052)



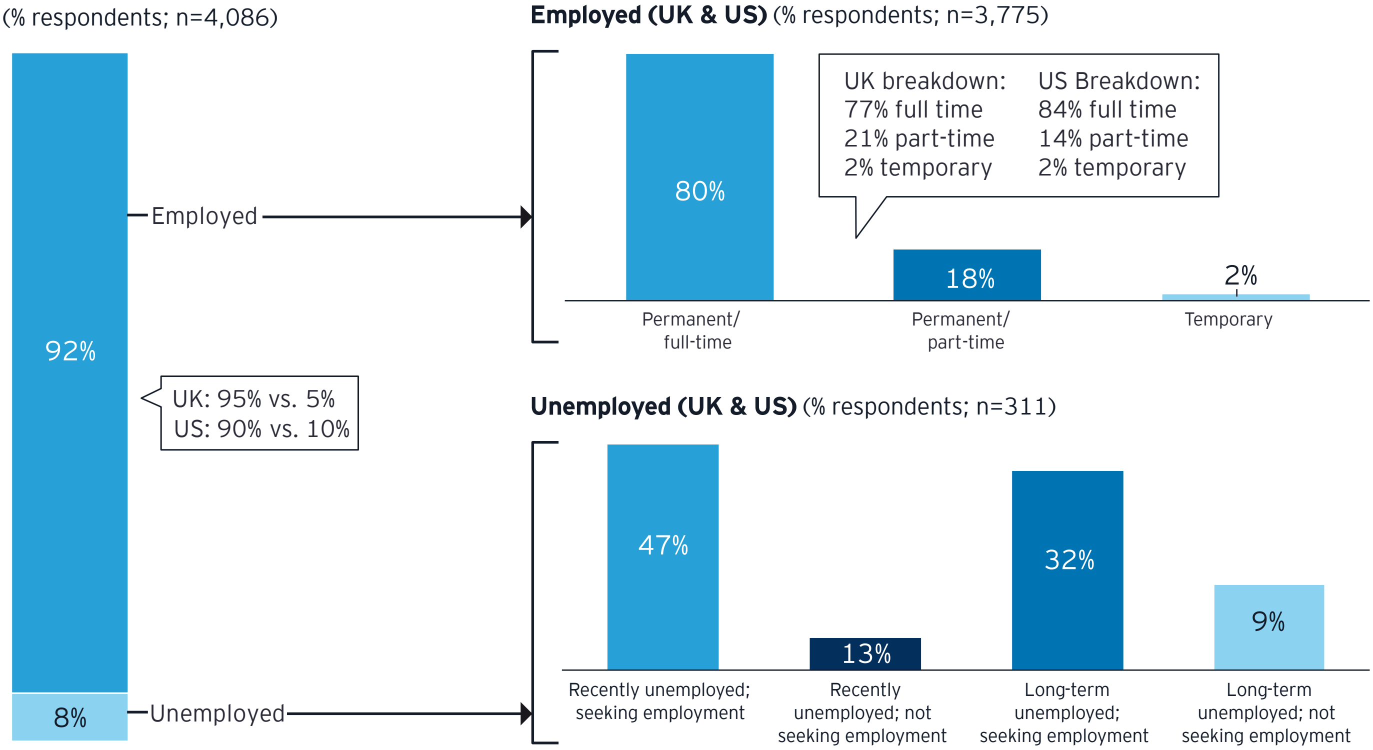
Wage bracket (US)

(% respondents; n=2,034)



Employment status (UK & US)

(% respondents; n=4,086)



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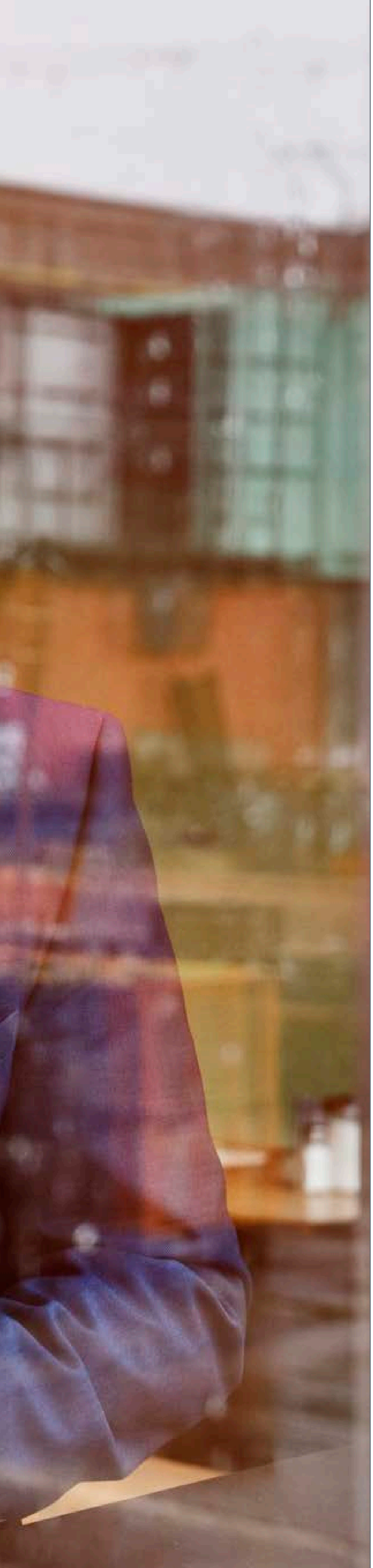

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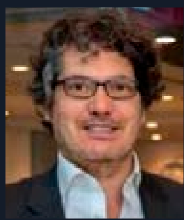

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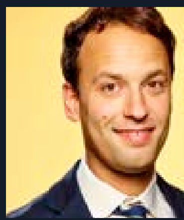

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