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ON-DEMAND EARNED WAGE ACCESS: U.S. VENDOR COMPARISON

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Executive Summary

Providing employees with access to wages that they have already earned but have not yet received through the traditional employer payroll cycle is growing rapidly because of benefits for both workers and employers. By offering the option of getting paid more frequently, employers can both attract new employees and retain current employees, which saves the expense of recruiting, onboarding, and training new workers. Workers can access earned wages to pay expenses in a timely fashion and avoid overdraft fees or other expensive forms of financing.

There are two primary models for earned wage access. One is an employer-based model whereby the employer contracts with a vendor, likely one reviewed in this report, and offers earned wage access as an employee benefit. In the other model, "pay advance," employees enroll directly with a provider and receive an advance on the wages they expect in their next paycheck. This Mercator Advisory Group research report focuses on the employer-based model and compares it with the pay advance model. Below are some of the key findings discussed in the report.

- Low-income workers and those whose wages are volatile are more likely to need assistance in the event of an unexpected expense. Mercator calculates the addressable market in the United States to be greater than 45 million workers.
- The evolution of payments in the "gig economy," in which workers receive payment immediately after completing a task, is putting pressure on more traditional employers to provide a similar pay option.
- The providers of earned wage access profiled in this report offer a variety of business models. These include programs that fund wages for the employer, programs that are free of charge to both employer and employee, and some that offer a payroll card to facilitate the payment.
- The primary concern employers have about earned wage access is a lack of clarity of the regulatory environment that could find them out of compliance if they choose the wrong provider or product construct.
- As the market matures, regulatory parameters become known, and more workers have access to earned wage access, this practice is expected to find its way to the middle class and to higher-income workers and fundamentally change payroll payments.

Introduction

A new category of payment solution has ignited recently that seeks to upend the status quo ways of paying employees as well as non-employee workers like those in the gig economy. On-demand earned wage access and wage advance solutions that are the focus of this report address the difficulty many workers have in meeting day-to-day expenses that come due between traditional paydays. As the executives representing the vendors interviewed for this report point out, paying employees every two weeks, twice a month, or monthly is a decision that an employer makes based on long-established practice that considers the employer's costs to process payroll and the impact to the company's cash flow, not the needs of employees. An employer could choose to run its employee payroll process every day if desired, but the cost of processing, the tax implications, the funding needs, and the support needed to implement daily payroll would be burdensome. From the employees' perspective, they have fulfilled their work obligations and are owed the wages they have accrued but these funds are out of reach until payday.

Four factors are driving employers to consider more frequent access to pay:

- The near ubiquitous ownership of smartphones by working age adults that makes the communication of accrued wages and the opportunity for wage access feasible[i]
- The growth of pay-by-the-task work, or gig economy employment, where workers are paid at the conclusion of an activity rather than on a predetermined date, is pressuring other employers to provide more frequent access to earned income too
- The benefits that employees derive from earned wage access including less worry over financial stresses and the avoidance of penalty fees and fines associated with late payments, account overdraft fees, credit card interest charges, payday loan charges, and other financing expenses
- The need for employers to offer a unique employee benefit to attract and retain employees, particularly in tight labor markets

The number of wage access and wage advance providers is growing and the number of employers offering the benefit is also expanding, particularly in the general retail sector, call centers, quick service restaurants (QSRs), health care facilities, and transportation. It is easy to envision these products extending beyond low-income workers into the solidly middle class, who also face occasional cash flow shortfalls when unexpected expenses arise.

Mercator believes that the emergence of earned wage access will materially affect payroll payments and employees' expectations that their employers will offer these wage payment options. The availability of these solutions will have consequences for the current solutions that people turn to when money is tight—namely credit cards, account overdraft services, pawn shops, and payday lending. These new solutions are already having an impact on the launch of real-time payments in the United States. The Clearing House notes that one of the RTP network's most frequent uses is immediate payroll transactions, including earned wage access.

Methodology

Several providers of earned wage access and wage advance solutions have emerged in the last 10 years giving companies that are potential buyers a choice. This report looks at seven providers. They were chosen based on having a viable marketable product with at least two years of experience, verifiable client activity, and a solution that meets the minimum market demands. Most of the providers included in this study responded to a questionnaire regarding their business and their product and then discussed their responses and provided additional background in follow-up conversations. Information on the products of those who did not engage was pulled from websites, press releases, and other public data. A matrix comparison of the features and functionality of each participant (Figure 4) provides a fact-based overview of capabilities but does not seek to declare a product winner, per se. Instead, readers are encouraged to consider which combination of capabilities are important to them.

Market Overview

Defining the market first requires a definition of the two prevailing on-demand earned wage access products. One solution is provided through an employer as an employee benefit option and offers access to earned pay before payroll. The second type is a direct-to-consumer wage advance product offering small amounts of pay to workers with confirmed employment without the involvement of the employer. ***Figure 1*** provides a definition of both forms of on-demand pay.

Figure 1: Key differences between earned wage access and earned wage advance.

Earned Wage Access (Employer Provided)

- Offered to employees **through their employer** as a work benefit.
- Providers of early wage access solutions collect work hours and earnings rates from employers.
- Employees are notified through a digital app when and how much of their earned wages are available for early access.
- Employees can request the amount they wish to receive.
- Providers, using their own capital, fund the employees' deposits OR providers facilitate the payment funded by the employer.
- Providers are reimbursed by the employer.
- Employees receive the remainder of their pay on payday.

Earned Wage Advance (Direct to Consumer)

- Workers select to engage with an earned wage advance provider, **without participation by their employer.**
- Workers download a wage advance provider's app.
- Workers provide data regarding their hours worked and pay amount.
- Provider confirms the data provided and the timing of the employers' scheduled payroll.
- Employees are notified through a digital app how much of an advance they may access based upon anticipated earnings.
- Worker requests how much they wish to receive.
- Options are available for instant funds delivery.
- On payday, provider will debit the worker's account for the amount advanced.

Source: Mercator Advisory Group

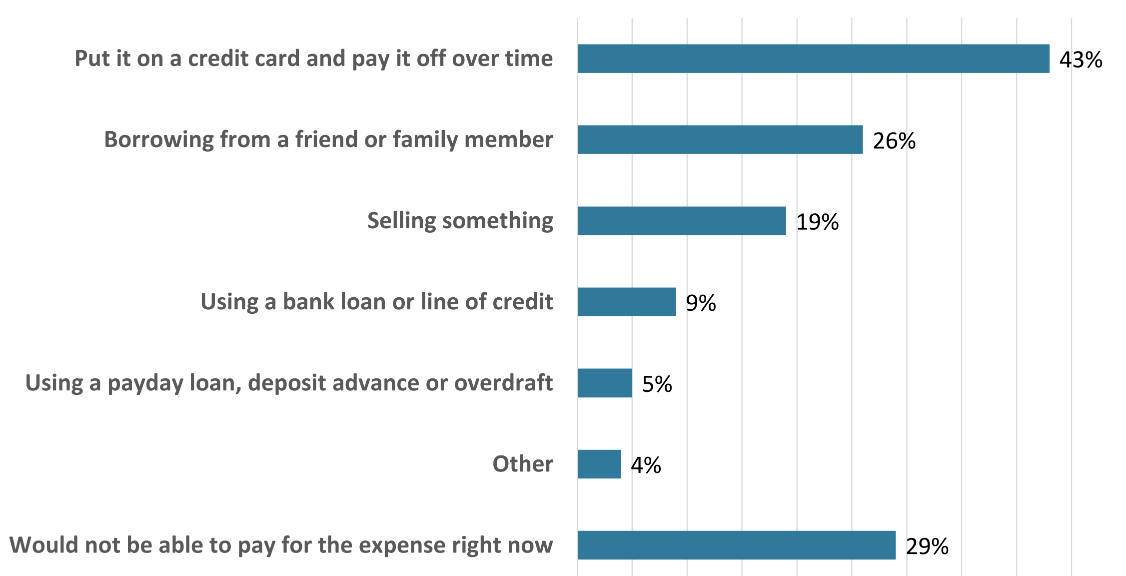
The direct-to-consumer model might be misconstrued as just another form of payday lending. The product construct differs, however. The solutions discussed here restrict the available deposit to just a percentage of wages that the worker has already earned. The amounts made available are often modest, $100 or less, and the fees charged to facilitate the deposit are a one-time expense and do not precipitate an ever-growing interest debt.

What Is Driving Market Growth?

The rise of gig economy workers, meaning those who are paid at the completion of a job or a distinct task, has played a role in the emergence of on-demand pay. A portion of this market, particularly those that are paid through a jobs platform, might be paid multiple times a day for short engagements. The most publicized example is ride share drivers, who can get paid every day or after every ride. Earned wage access offers a similar option to hourly and salaried workers. For more on gig employment and payments, see the Mercator Advisory Group research report titled *Payments for Work in the U.S. Gig Economy*, released in August 2019 (see References at the end of the present report for hyperlinks to cited documents on the Mercator website).

Millions participating in the U.S. workforce had difficulty meeting their basic obligations for rent or mortgage, utilities, food, and healthcare—particularly healthcare even before the current pandemic. Fully one-fifth of adults in the U.S. had significant, unexpected medical bills to pay in 2018.[ii] They live in a precarious situation where a single surprise expense can send a worker into debt that the person may struggle to repay. An often cited report from the Board of Governors of the Federal Reserve found that 40% of U.S. adults experiencing an unexpected expense of $400 would not be able to pay that expense without selling an asset or borrowing. ***Figure 2***, extracted from that Fed study, illustrates that when faced with such a shortfall, individuals are likely to pay for that expense on a credit card and pay it off over time or simply not pay the expense and incur late fees and other consequences.

Figure 2: Individuals reach out to a variety of sources to pay for an unexpected expense.



Source: Board of Governors of the Federal Reserve, *Report on the Economic Well-Being of U.S. Households in 2018*, May 2019

Benefits

The benefits to employees of on-demand earned wage access are transparent. They get to receive a percentage of their payroll, when they need or want it, for work that they have already completed. This service is offered for free by some employers, or on a per transaction basis or a monthly subscription fee. Fees for early access or early advance are often more economical than other methods and have the advantage of putting workers in greater control of their personal cash flow and alleviating financial stresses.

Most employer-offered on-demand wage access programs either allow access to the net payroll amount (meaning the provider has deep integration to the employer's payroll solution and is aware of all taxes, garnishments, and other withholding amounts), or they allow access to up to a defined percentage of gross wages. Providers are aware they need to avoid extending more money to the employee than the total payroll amount to avoid causing a shortfall in tax deductions and other deductions[iii] that come due on payday.

Wage *advance* providers, which engage directly with the worker, don't have direct knowledge through the employer of what the individual has earned. Instead, they use techniques such as:

- Downloading pictures of time sheets showing hours worked and hourly rates
- Screen scraping of data from employee's digital payroll sites when the employees provides log-in credentials
- In the case of one provider, Earnin, geolocation capabilities in the mobile app track the employee's time spent at the place of work.

Based on the information provided, an amount is offered for early access to earned wages. On payday, the provider will deduct the amount advanced plus any fees from the worker's account or prepaid account. Unlike more aggressive payday loans that sometimes create an ongoing cycle of indebtedness, these advances and fees are collected each pay period to help prevent the employee from becoming overextended.

Many of the apps that orchestrate the early payroll payments also have built-in budgeting and savings help. Some offer creative solutions that project cash flow, alert users to upcoming bills, and in the case of FlexWage, offer access by phone to financial planners. Others provide simple access to money management tips and suggestions. While adoption and use of these financial planning apps is unknown, the benefits are available for workers who are interested in taking control of their financial footing. More on the market for budgeting, savings, and investing apps is available in the Mercator Advisory Group research report *Fintech and Debit Cards: Battling for Customers' Attention*, released in December 2019.

Employers are using earned wage access programs both as a means to appeal to new employees and as a means to motivate existing employees to stay with their current employer due to the immediacy of working and then getting paid. Case studies provided by employers using earned wage access solutions report some workers are also more inclined to show up for work more frequently or take on additional shifts knowing that they will get paid right away. Retention of workers means that employers are reducing turnover and the associated expenses of onboarding new employees. This approach results in substantial saving for large employers in high-turnover industries like general retail and fast food restaurants. A study completed by Harvard University's Kennedy School looked at the turnover of employees using a wage access product from fintech firm PayActiv and found that employees who were active users of the earned pay solution had a 19% lower turnover rate than inactive users.[iv]

Sizing the Market for Earned Wage Access

The number of low-income workers who may find a benefit from wage advance solutions is quite large. Workers making less than $50,000 annually through either hourly or salaried work in the United States number greater than 100 million. The distribution by wage range is shown in ***Table 1.***

Table 1: Two-thirds of U.S. workers are paid less than $50,000 annually

Compensation Range	Number of Workers (millions)	Percentage of Total Workers
$0.01 to $19,999	56.4	34%
$20,000 to $29,999	21.6	13%
$30,000 to 39,999	19.4	12%
$40,000 to $49,999	15.5	9%
Total: $.01 to $49,999	**112.9**	**67%**

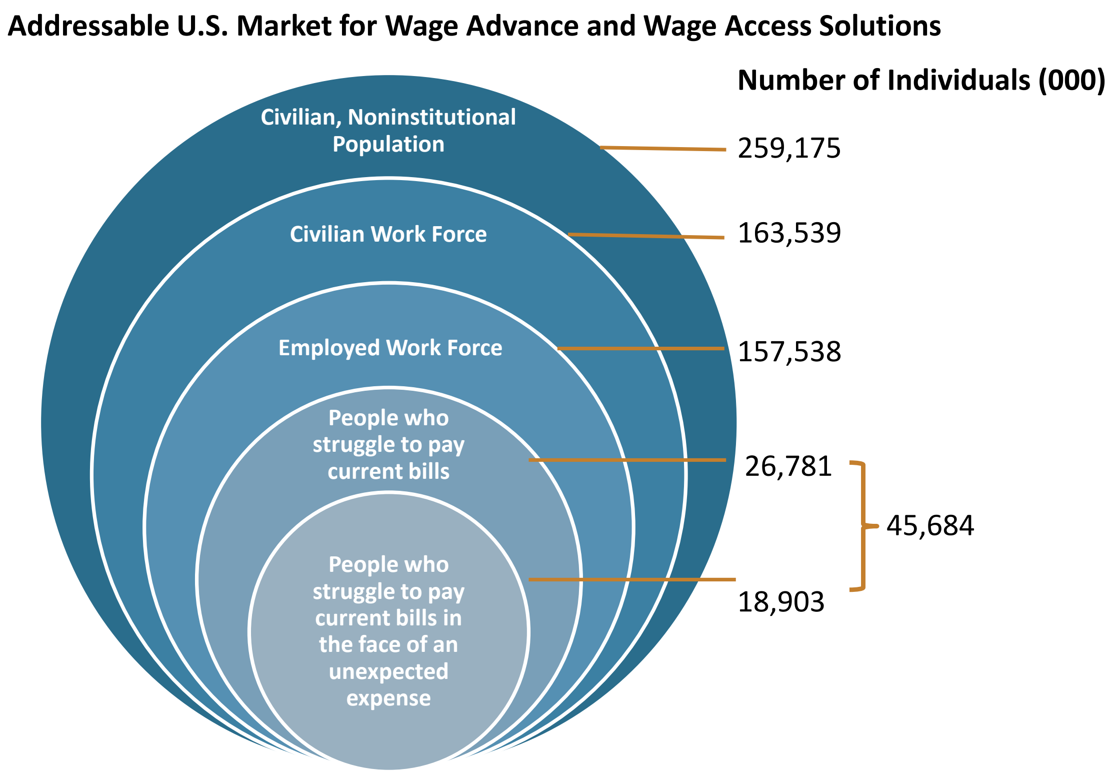
Source: Social Security Online Wage Statistics for 2018

Other sobering statistics from the U.S. Bureau of Labor Statistics regarding the low-wage market include:

- 1.8 million U.S. individual workers earn at or below the federal minimum wage amount ($7.25).[v]
- 6.9 million **i**ndividuals in the U.S. are categorized as the "working poor," which means they are employed yet earn at or below the defined poverty level.[vi]
- 12 million Americans use a payday loan at least once annually.[vii]

To pinpoint the addressable market for earned wage access and wage advance, household income should be a consideration since the earnings of one member of a household may not be significant but, in combination with earning of another household member or members, will provide a better picture of financial stability along with income from other sources beyond work, including benefits. Estimating the market for regular or frequent use of on-demand pay may be best determined by data from the Federal Reserve report referenced above, which estimates 17% of the U.S. population is unable to pay their current bills in full and an additional 12% would be unable to pay their bills if confronted with an unexpected $400 expense, a finding that indicates financial instability. If we consider the total employed civilian labor force and apply these percentages, this represents a market of over 45 million individuals in the U.S.,[viii] as illustrated in ***Figure 3***.

Figure 3: Most likely to benefit from access to wages between paydays are those who struggle to pay bills.



Source: Bureau of Labor Statistics. 2019 Household Data Annual Averages

Regulation

Any new payment option is bound to be scrutinized for compliance with existing regulations and inclusion in new regulation. Earned wage access is no exception. State lawmakers in California and New Jersey and other states are creating legislation to define earned wage access, the way fees are disclosed, the amount of fees that can be charged, and whether earned wage access constitutes an extension of credit and is subject to payday lending rules. The following text highlights some of the issues being discussed for regulatory clarity regarding how earned wage access functions.

Fees. A product that aims to help consumers to achieve financial wellness should be provided at low or no fees. Questions arise as to whether a fee charged to access wages already earned is a form of interest and should be disclosed to users and potential users as an annual percentage rate (APR) so that the fee can be compared with those charged by payday and other alternative lenders. Providers that charge fees are quick to point out that the fixed per transaction fee or monthly subscription fee is an access fee charged regardless of the amount requested, similar to an out-of-network ATM fee, and is often a less expensive option than alternatives like high-interest credit cards, personal loans, and alike.

Funding Earned Access. The entity that funds wages provided in advance of payday is both a product consideration and a potential area of scrutiny as it relates to the concept of "constructive receipt." If an employer provides an employee access to pay, and if that action is legally interpreted as constructive receipt, then other obligations such as taxes are due at the same time. Employers are not interested in having to calculate and submit taxes on a more frequent basis. In some of the earned wage access models, the providers will fund the payments, providing a degree of separation between the employer and funds provided. This is also a compelling sales strategy that lets an employer offer earned wage access while preserving its cash flow. Providers that do not fund earned access contend that their method of having the employer fund a bank account that they can access when needed is a preferable methodology. Fronting funds for an employer may be construed as a loan and align earned wage access more closely with payday lending. These providers also contend that when consideration is made in the earned wage offer to take into account payroll taxes, constructive receipt is not an issue.

Disclosure. Providers reviewed here either do not charge fees or they very clearly disclose up front the fees that a worker may incur for using their service. Where disclosure may present an issue is in the line-item explanations on a pay stub. U.S. Department of Labor rules require recording of all additions to or deductions from the employee's wages.[ix] Some observers contend that subscription or transaction fees for earned wage access and the amount of any funds already distributed need to be noted on a wage statement. The net pay amount recorded should also be equal to the amount that is deposited to an employee's account. If this is a correct interpretation of the requirements, then providers need to have deep integration with the employers' payroll systems to ensure these amounts are itemized on pay stubs.

Payroll Card Requirement. Some providers, in order to offer a fee-free solution and also be able to provide instant access to funds, support their solution through a payroll card. The payroll card supports not just the distribution of earned access deposits but also the remaining payroll amount. Interchange income earned from card transactions generates revenue for the provider. Some observers believe that the prepaid card rules that ban mandatory use of payroll cards by employees may present an obstacle to this approach.[x] Vendors providing the service in this manner contend that earned wage access is voluntary and the use of the payroll card is disclosed up front to workers so it is a matter of choice.

The Consumer Financial Protection Bureau (CFPB) is allowing the earned wage access market to evolve without new rules at this stage of development. The CFPB has signaled that these solutions do not fall under the payday lending rules and do not constitute lending as long as certain requirements are met. Below is an excerpt from the CFPB's Payday Lending Rule (not yet implemented) referencing earned wage access. As the CFPB notes, the Bureau reserves the right to revisit the market for earned wage access as it matures. It is likely watching how state legislatures are viewing these products:

> …where advances of wages constitute credit, the Bureau is adopting § 1041.3(d)(7) to exclude them from part 1041 if the advances are made by an employer, as defined in the Fair Labor Standards Act, 29 U.S.C. 203(d), or by the employer's business partner, to the employer's employees, provided that the following conditions apply:
>
> • The employee is not required to pay any charges or fees in connection with such an advance from the employer or the employer's business partner, other than a charge for participating in the program; and
> • The entity advancing the funds warrants that it has no legal or contractual claim or remedy against the employee based on the employee's failure to repay in the event the amount advanced is not repaid in full; will not engage in any debt collection activities if the advance is not deducted directly from wages or otherwise repaid on the scheduled date; will not place the amount advanced as a debt with or sell the debt to a third party; and will not report the debt to a consumer reporting agency concerning the amount advanced.
>
> *–Consumer Financial Protection Bureau*[xi]

Features and Functions Summary

Mercator Advisory Group attempted to gain direct input from all the vendors included within the report regarding earned wage access and wage advance solutions. For vendors that chose not to respond, a summary of their solution was completed based on publicly available materials and knowledge of the market. ***Figure 4*** provides a graphic summary of results of the review of key features and functions by vendor. Note that these functions are the primary differentiators. Others that are supported by the providers are discussed in the overview of each company. For clarity and a consistent understanding, we define the features and functions as follows:

Account Options. Consumers receiving earned wage access may be offered an option regarding where their deposit can be made. If they have a bank account, funds can be forwarded to this account. Alternatively, some providers offer as a part of their solution a free payroll card or a bank account where funds can be sent. The greater the number of account options, the higher our rating of the provider.

Speed of Funding. For many workers, the option of getting their funds quickly is critical. Providers that offer instant or near instant options receive higher ratings.

Percentage of Available Pay. This refers to the percentage of earned wages that is allowed to be forwarded to the worker. Flexibility in establishing the percentage that will be made available is rated more highly.

Digital Support. Digital apps are a critical component for wage access. The apps alert workers when pay can be accessed, how much is available, and when funding has been deposited. Some also help workers to budget their money and encourage savings. The more features that are included in the app, the higher the score.

Worker Costs. The relative costs for the individual worker to receive earned wage access are compared. The lower the fees, the higher the score. It should be noted that some programs offer free services to break into the market and acquire a client base, but this is suspected to be a temporary, non-sustainable business model.

Employer Costs. Some programs charge fees to the employer for administering the benefit and to cover the cost of funds advanced or have a more complex integration process. The lower the employer resources required, the better the score. Note that wage advance programs do not involve employers directly so employer costs is not a relevant measurement for those programs.

Integrations. Integrations refers to the partnerships that the provider has created to form a more complete solution. They may include integrations with payroll providers, time and attendance providers, payment networks, and others. The more integrations and the more compete they are, the higher the score.

Customer Base. This refers to the number of users and clients, an indicator of the provider's success and the longevity of the solution. The more users, the greater the score.

Figure 4: Summary assessment of features and functions by vendor.

	Account Options	Speed of Funding	% Available Pay	Digital Support	Relative Cost (consumer)	Relative Cost (Employer)	Integrations	Customer Base
Branch	Adequate	Exemplary	Good		Exemplary		Adequate	Adequate
DailyPay	Exemplary	Exemplary	Exemplary	Adequate	Adequate	Exemplary	Exemplary	Exemplary
FlexWage	Exemplary	Exemplary	Exemplary	Exemplary	Good	Good	Exemplary	Good
Instant Pay	Adequate	Exemplary	Good	Adequate	Exemplary	Exemplary	Adequate	Adequate
PayActiv	Exemplary	Exemplary	Good	Exemplary	Good	Exemplary	Good	

	Account Options	Speed of Payment	Available Pay	Digital Support	Relative Cost (consumer)	Integrations	Customer Base
Earnin	Adequate	Exemplary	Adequate	Exemplary	Good	Good	Exemplary
Dave	Exemplary	Exemplary	Adequate	Good	Good		Exemplary

Legend:	**Exemplary**	**Good**	**Adequate**	**Inadequate**	**Poor**

Sources: Vendor inputs, vendor websites, and marketing collateral

Individual Vendor Reviews: Earned Wage Access

This section includes a discussion of each vendor covered. In cases where we received direct input, the product and company descriptions are more complete.

Branch

Company Overview

Branch initially offered a pay advance, direct-to-consumer solution but has since developed an employer-based earned wage access benefit program. Both solutions are available, the employer-based program being the focus of this review. The wage advance solution is a leading source for employers who may want to make the solution available as an employee benefit. The company was founded in 2015, is headquartered in Minneapolis, Minnesota, and has raised over $10 million investment to date.

Key Products and Services

This vendor's earned wage access solution is a digital app through which employees whose employer offers the program request access to their earned wages. Funding is provided by Branch. Branch receives payment of the advanced funds from the employer during the regular payroll run, and the employee receives what remains of the employee's pay after any advances are deducted.

A differentiating feature of the Branch solution is that funds are available to employees immediately in a free checking account through Evolve Bank and Trust. A Mastercard debit card for purchases and free ATM access is included through the Allpoint Network. The user has the opportunity to transfer those funds to another bank account outside the Branch Wallet if the user so desires. A fee is charged if that transfer from the Branch account to another banking account is needed instantly (the fee is up to $4.99 depending on the amount transferred); otherwise the transfer can be made through ACH for free.

Highlights and Roadmap

With some employers, Branch also integrates its mobile app with the firm's employee scheduling software, so an employee not only can request earned pay but also view and schedule to work additional shifts if interested. Knowing that they can get paid right away can make working additional shifts a more attractive proposition for workers. Client testimonials report coverage of work shifts increases by 20% with implementation of Branch.

In late 2019, Branch announced a new partnership with a restaurant software firm, Delaget. The objective of the partnership is to provide business intelligence to restaurants to improve their overall business performance. This is a new sales channel for Branch and a new service for Delaget to help restaurants retain and acquire workers. Branch's partner network also includes companies like Kronos, Blue Yonder, and Acrisure.

The Branch app is highly rated though several app stores. The app not only communicates and manages the earned wage process but also provides budgeting help. Since the solution is providing a full banking product, it has the opportunity to predict upcoming bills, indicate the user's spending trend, and help users to avoid overdrafts.

Opportunities and Challenges

The integrations with software vendors will help to provide greater functionality and drive new business. The fact that its offering is virtually free of charge to consumers and zero cost to employers makes Branch attractive while steering clear of pending legislation that takes aim at fees charged to consumers.

Branch makes money on the interchange it earns on transactions made with the debit card. Since both the earned access pay and the remaining payroll are deposited to the account that Branch offers, Branch is able to earn interchange on the full payroll amount that remains in the account. This makes profitability on an otherwise fee-free product possible. Note that the estimated interchange income earned on a consumer primary financial institution account with a debit card is $120.00 annually for exempt issuers.[xii]

Buyer Considerations

Employers that want to offer not just a wage advance product but also see value in providing a checking account will want to consider the Branch solution. Those with an employee base of shift workers may also see real benefit in combining the wage advance app with the shift availability tools to enhance coverage. The fees are some of the lowest available.

DailyPay

Company Overview

DailyPay, which launched in 2015, has a significant client base of employers from the hospitality, call center, health care, QSR, and retail markets. The product offering reflects this vendor's relative maturity in the on-demand wage access market and boasts a high level of integrations with payroll processors and time management systems. The solutions are tailored to the needs and capabilities of clients, regardless of size. Small businesses may be most comfortable with DailyPay's web-based solution, while larger clients may want to take advantage of an application programming interface (API)-driven option, and enterprise clients can work with DailyPay on a custom installation. DailyPay has approximately 500,000 active end users. The company is headquartered in New York City and holds three patents.

Key Products and Services

The DailyPay solution informs workers of available wages that can be accessed earned through a digital app. DailyPay funds the requested deposits and recoups the money from employers on payday. A user may choose to have requested funds sent to any account the user may have, whether a traditional checking account or a payroll card or other prepaid solution. The company's solution is highly integrated into all major payroll software solutions, which gives it visibility into workers' available net pay. DailyPay has client testimonials that associate its product with meaningful declines in worker attrition.

Highlights and Roadmap

DailyPay's pricing is conspicuous and simple. The cost of a next-day deposit is $1.99 through ACH and an instant transaction is $2.99, utilizing the card networks' debit push payments. The fee is paid by the worker on a per transaction basis, but employers can pay the fee or part of the fee for their employees. For employers, reporting and benchmarking data are available, which helps to define the value or effectiveness of on-demand pay to their organization for attracting new employees, retaining existing staff, and creating a more engaged workforce.

Opportunities and Challenges

The solution does not require that the employee have a DailyPay account or payroll card in order to receive funds. This provides greater flexibility to workers to direct their payroll where they want it and also steers clear of some of the regulatory concerns about the use of payroll cards. This approach to account options does, however, reduce the revenue channels for this vendor, which likely is the reason for the per transaction fee.

Buyer Considerations

DailyPay is an established player in the on-demand wage access market and actively advocates for the market. Its solutions seek to solve employee payroll timing issues for workers at employers of all sizes. However, larger employers may be particularly attracted to the integrated technology options and white label solution options DailyPay offers.

FlexWage

Company Overview

FlexWage is a pioneer in the on-demand earned wage access market, having launched its solution in 2010. The solution is less prescriptive than others in the market, providing employers with administrative controls to establish policies around their earned wage access programs, including establishing the percentage of wages available and the frequency of access to these funds, with some built-in guardrails to guide decision making. FlexWage targets employers directly, primarily in healthcare, QSR, casual dining, staffing, service centers, and retail. The vendor also offers its solution through partnerships and licensing agreement. FlexWage actively advocates on behalf of the earned wage access market and is engaged with legislators and regulators at the state and federal levels and with consumer advocates.

Key Products and Services

FlexWage’s earned wage access platform has at its core deep integrations with employers’ payroll processing software and human capital management systems to calculate accurately how much net pay has been earned by a worker and how much can reasonably be provided before the next payday. Employers are supported through access to administrative tools and dashboard reporting to provide transparency and monitor the success of their earned wage access programs.

Communication with workers is managed through online and mobile apps. The mobile app is the primary channel used and includes money management tools the vendor acquired through the purchase of Sum180 in 2019. Employees can receive earned wage access instantly on a prepaid payroll card offered by FlexWage, or deposits can be made to other payroll cards or checking accounts. Regardless of the account where pay is received, funds are always provided instantly.

Highlights and Roadmap

FlexWage positions its solution as more than wage access, as a holistic financial wellness platform. The company offers a digital app that assists workers to budget, plan, and save money. It promotes the opportunity to pull in details from other accounts to get a more complete picture of the user's finances. Access to financial professionals is included in this service.

The company also points to its focus on and knowledge of compliance issues as a point of distinctiveness, emphasizing that its solutions are compliant with payroll and labor laws, prepaid rules, and related regulation at the state and federal levels. FlexWage also has earned patents on aspects of its solution, including one describing the solution as "A system for providing instantaneous knowledge regarding and access to an on-demand, intracycle payment of accrued employee wages without impacting payroll periodic accounting and employer control of cash flow."[xiii] As with most patents, it is difficult to evaluate the value of this solution given that the contents seem to be a straightforward method for tracking and disbursing earned wages; furthermore, there is at least one piece of prior art that seems similar. For this reason, we did not treat the patent as a significant factor in our assessment.

Opportunities and Challenges

The FlexWage solution allows employers to have control over key elements of the wage access program. Since employers fund earned wage access in this solution, a distinction in how the product works, it makes sense that employers have oversight of the percentage and amount of wages to be advanced, with some "guiderails" provided by FlexWage to prevent employees from becoming overextended or not receiving enough pay when the remaining funds are received on the traditional payday. The solution is available in all 50 states.

Buyer Considerations

Larger employers, particularly those paying a broad spectrum of wages, may be interested in the flexibility that offered by the FlexWage solution, which currently serves a broad wage range of employees, from those making $10 hourly to those with salary greater than $100,000. Additionally, employers with a focus on helping their employees better manage their finances may have an interest in the financial wellness tools. As a participant in the evolving regulatory environment for earned wage access, FlexWage will be aware of any changes that may result.

Instant Financial

Company Overview

Instant Financial provides employers the opportunity to offer a financial wellness platform to their employees that includes a free earned wage access solution with a payroll card. Instant has been in business for over four years and many of its clients are in the fast food industry. The target is employers with over 1,000 employees. Instant operates in all 50 states and Canada.

Key Products and Services

The Instant Pay app proactively notifies its users after each shift they work how much they can claim as an earned wage deposit. This offer is available for a specified number of hours, after which workers will need to wait until they work another shift. This unique approach lets workers access funds if needed but at the same time avoid forming a habit of accessing funds that tempt them to go spend. Focusing workers on using earned wage access for just the necessities has resulted in an average amount of just $28 per deposit. Instant points out that this amount is coincidentally, but interestingly, the same amount of the average consumer account overdraft amount that incurs banking fees.[xiv]

Once a worker has requested funds, the amount is immediately available through the provided Visa payroll debit card. Instant Financial is the source of the funding. This card can be used for purchases, ATM withdrawals, and bill payment. Those employees who have opted-in for earned wage access will receive all of their pay on the card, not just funds requested in advance. Workers may transfer funds from the card to a banking account through ACH for free or instantly through a debit push payment for a convenience fee if they prefer. The payroll card solution provides two key capabilities: (1) the opportunity for Instant to earn interchange on the full amount of the payroll, generating revenue that supports the fee-free product, and (2) payroll cards are the most expeditious and economical route to providing real-time funds access.

The consumer app also provides help with budgeting, money management, and establishing good savings habits.

Highlights and Roadmap

Instant Financial has been launched successfully with hospitality, healthcare, delivery, staffing, warehousing, hospitality, call centers, and retail industries. The solution is integrated with systems of a significant number of providers of payroll and time and attendance. Besides access to regular hourly and salaried wages, this vendor also provides access to other earnings, including tips, commissions, incentives, bonuses, and mileage payments. The company has over 100,000 active users monthly, and 160 employers have rolled out the Instant earned income access program, including Carnival Cruise Line, Bloomin' Brands, and Church's Chicken. Client testimonials, such as the following comment, attest to the ability of Instant Pay to dramatically reduce employee turnover:

> We measured our turnover pre and post Instant Pay pilot and found stores on Instant had a 6% reduction in turnover and stores not on Instant went up 8%. That is a 14% swing in a few short months. *–Aaron Humphrey, CFO Sundance, Inc./Old West Properties*

Opportunities and Challenges

Instant Financial's free solution for both businesses and consumers will certainly attract both user groups. The "limited time offer" approach the vendor has deployed uniquely keeps workers from overextending themselves and fits in well with its stated goal of being first and foremost a financial wellness platform. The low deposit that results per earned wage access means that Instant is utilizing less of its own funds to support these transactions. This helps to keep internal costs in check. The greatest challenges for Instant are likely to be its reliance on interchange income. If interchange income were to decline substantially, or if a large number of users were to become unemployed as is currently being experienced through the massive unemployment experienced due to the COVID-19 pandemic, users won't be receiving new deposits, they won't be spending with their payroll cards, and Instant Financial will suffer an impact on its source of revenue.

Buyer Considerations

The pricing strategy for Instant Pay—free to employer and free to worker—is an attractive offer and is likely contributing to the company's success. The business model that relies on interchange income from purchases on the payroll card, where all enrolled workers' pay is directed. While not all employees will want or need a payroll card, it is free and users can still gain access to wages earned even if they transfer funds to their checking accounts. This vendor's compliance with regulations in all U.S. states and Canada is important to employers with an employee base in both countries.

PayActiv

Company Overview

PayActiv has offered employer-centric earned wage access services since 2012 and counts nearly 1,000 businesses as clients. The company offers over 1 million employees access to their earned but unpaid wages. The firm is headquartered in San Jose, California and has raised approximately $17.2 million to date.

Key Products and Services

In addition to its on-demand earned wage access solution, PayActiv also offers key features like electronic bill pay, budgeting and savings tools, financial literacy and counseling, as well as purchase discounts. The company can transfer earned wage funds to a wide array of account types including other providers' payroll cards. A unique function offered integrates the PayActiv solution into Uber and Amazon. This allows a consumer to pay for a ride or a product on Amazon with earned but not yet paid wages.

Highlights and Roadmap

The solution has been particularly well received by employees in retail, senior and assisted living facilities, QSRs, and logistics and transportation. As an early entrant to the market, PayActiv is well established and knowledgeable of the market and of employer and employee needs. The company's investment in this space led it to sponsor the pending California Senate Bill SB-472, which seeks to define the product and fees allowed for an on-demand earned wage access product.[xv]

An interesting savings option is available to PayActiv users that allows them to set aside funds from their pay. The savings option is presented in terms of hours, rather in terms of dollar value increments. As an example, a worker can have the app set aside 5 hours of work into a savings account. This unique way to establish savings may make saving more tangible for some employees and encourage use of this option.

Opportunities and Challenges

Being an industry leader has advantages including a stable client base, case studies based on existing implementations, and name recognition to support new sales. It also means that in a still developing market, PayActiv will also be subject to a changing compliance and regulatory environment as regulators begin to catch up with to industry changes. This may require changes to the company's product and business model.

Buyer Considerations

PayActiv takes its objective to improve workers' financial well-being as the company's mission and operates as a Public Benefit Corporation. An employer looking for an established partner with a tested product, referenceable client base, and a provider that is active in the market and policy making will want to consider PayActiv.

Comparing Earned Wage Access Company and Product Attributes

The following table compares some key company and product attributes for the earned wage access suppliers reviewed above:

- **Company founding or launch date** is helpful for gauging the maturity of the company and its product and as an indicator of the firm's industry knowledge.
- **Supplier-funded or employer-funded** indicates which entity needs to come up with the balance for the earned wage access amounts requested by workers.
- **Estimated company funding** provides insight into the strength and size of the company as well as its ability to scale. Note that providers that fund earned wage access (all except FlexWage) require much more funding than those that do not.
- The **fees** column compares fees charged to workers. All providers reviewed offer employers the opportunity to pay the fees on behalf of their employees.
- **Account options** refers to whether the provider offers a checking account, a prepaid payroll card, or offers to direct payments to the workers' existing account. Employers with a high percentage of workers who are unbanked will want flexibility of account options.

Table 2: Summary of key company details.

	Founded	Supplier Funded or Employer Funded	Estimated Company Funding ($ millions)	Fees	Funds Deposited to Supplier-Provided or Worker-Provided Account
Branch	2015	Supplier funded	$10.4	Free earned wage deposits. Instant transfers to an external account: $2.99 to $4.99 depending on amount	Supplier-provided account
DailyPay	2015	Supplier funded	$75.8	$1.99 per earned wage deposit $2.99 for an instant deposit	Worker-provided account
FlexWage	2009	Employer funded	$3.5	Varies by employer	Supplier-provided or Worker-provided account
Instant Pay	2015	Supplier funded	$15.3	Free earned wage deposits	Supplier-provided account
PayActiv	2011	Supplier funded	$17.2	$5.00 bi-weekly for unlimited number of earned wage deposits	Supplier-provided or Worker-provided account

Sources: Company interviews, company websites, company press releases, Crunchbase, PitchBook

Key Considerations for Employers and the Providers Recommended

Employers will want to consider which features are most important to their earned wage access strategy and align with the company that best mirrors their approach and needs. The following table lists five criteria and the provider(s) that best meet each need.

Table 3: Key employer needs and the providers that best fit the requirements.

Employer Need	Providers Recommended
Provider-funded earned wage access	Branch, DailyPay, Instant Pay, and PayActiv fund early wage access amounts on behalf of employers, preserving the employer's cash flow.
Deep integrations with payroll systems	DailyPay and FlexWage integrate with payroll processing streams and reflect the earned wage access deposits and related fees on workers' pay advice statement.
Light integration/quick implementation	Branch and Instant Pay offer quick employer installations with minimal support required from employers.
Business longevity	FlexWage and PayActiv have the longest experience providing wage access solutions. Both actively participate in the evolving regulatory environment by working with legislators and consumer advocates.
Financial wellness services	FlexWage places an emphasis on its financial wellness app including personal advice. PayActiv's approach to helping workers to save is innovative.

Source: Mercator Advisory Group

Individual Vendor Reviews: Wage Advance

The companies reviewed in this section offer a pay advance service. Although they provide a different type of service than employer-based programs, they are important in the earned wage access market because they fill the gap for those workers without earned wage access through their employer.

Dave

Company Overview

Dave is a banking app that helps consumers to budget, save, and avoid overdraft fees. Users can link a checking account to the app, which allows the app to gain insight into recurring payroll and other deposits. Based on this data, consumers who use the app can access up to $75.00 for free, which they receive in their bank account. The app has attracted over 5 million users, although not all are necessarily requesting advances. The company is very involved in philanthropic organizations to help provide food to those in need and to plant trees.

Key Products and Services

A banking app that ties into consumers' checking account is the primary Dave product. The pay advance feature is one of several in the financial wellness tool. Advances are deposited to a checking account for free via ACH, or for an express fee, the user can receive funds within a day. The amount of the advance is collected from the linked account when the next payroll or other deposit is made. The app costs $1.00 per month and is not tied to the number or amount of earned wage access transactions. The amount of advances permitted is low (up to $75) and repayment occurs automatically on payday or through manual payments which keeps users from overextending to a point where reimbursement would be difficult.

Highlights and Roadmap

The Dave mobile app includes other features such as helping users to find gig work. A no-overdraft checking account with a Visa debit card was introduced in 2019. This helps to better track the user's financial activity, which in turn can provide more accurate and informed advice through the app. The debit card can also be a source of revenue for Dave through the associated interchange income and helps to keep fees low. Other revenues are generated through voluntary "tips" that users give to the company. Tips are subtracted from the linked checking account when the advance is collected.

Opportunities and Challenges

This vendor's approach of promoting the Dave solution directly to consumers provides an option for workers who may need assistance but whose employer is not currently offering earned wage access as an employee benefit. The challenge for any direct-to-consumer solution is successfully marketing to key targets to generate new business on a one-to-one basis. This vendor's focus on financial wellness and its offer of a free checking account provides services that its target market may appreciate and aligns Dave more closely with other challenger banks than with payday lenders, which come under frequent scrutiny from regulators. The voluntary "tip" approach as opposed to mandatory transaction fees should provide some protection from the payday lender label and the associated regulatory disclosures as well.

Earnin

Company Overview

Earnin offers an app that gives users ("the Earnin Community") access to their earnings prior to payday. In operation since 2012, the San Francisco based fintech has raised nearly $200 million to date.

Key Products and Services

Users of the Earnin app can choose to receive up to $100 per day and $500 per pay period through the app. The company debits the amount received from the user's next paycheck. The app verifies that wages have been earned by asking users to upload timesheets to the Earnin app or, with the user's permission, track their time at work using GPS on their mobile phone.

Earnin does not charge fees, but users can leave a tip to cover the cost of their transaction if they wish. Users can also consider using the Pay It Forward, leaving a little extra in their tip to cover the cost of the next person's transaction. Users whose tip has been covered by another Earnin Community member can send an anonymous thank you to the person who paid it forward for them. The average tip amount is less than the cost of a typical ATM surcharge.

Highlights and Roadmap

In addition to the earned wage advance, which can help consumers avoid overdraft fees and expensive forms of borrowing, the Earnin app helps users manage medical bills, a frequent source of unexpected household expenses that consumers can struggle to pay. Through a feature called Health Aid, Earnin helps users negotiate lower healthcare bills or create a plan for outstanding payments.

Earnin recently launched a Zero-Integration employer-based program that enables companies to offer employees access to their earned wages through the Earnin app with no integration with IT or HR systems.

Opportunities and Challenges

The opportunities and challenges for Earnin are similar to those for Dave, since the two vendors' business models are similar and based on wage advances. The categorization as a wage advance provider certainly presents regulatory challenges. The unique Health Aid feature that Earnin offers may appeal to the large target group of individuals who struggle to pay off medical debt. It also may position this vendor for fruitful partnerships with hospitals, insurance companies, and others focused on helping individuals with healthcare debt.

Conclusions

Employers in the United States with hourly or low-wage earners, particularly those in the healthcare, call center support, general retail, hospitality, QSR, and transportation sectors, will likely feel pressure to offer earned wage access to payroll funds in order to remain a competitive workplace. Earned wage access solutions are available without direct fees to employers, and many vendors also offer fee-free products for employees. It is well documented that employee retention rates and new employee hiring improve when workers have flexibility in when they get paid. For large employers, the reduction in the cost of recruiting, onboarding, and training new workers could save millions of dollars annually. Few employee benefits provide as many positives, both in terms of the potential to improve employees' financial outlook and in terms of the employer's financial outcomes.

While the benefits are clear, the regulatory environment is unsettled and is likely a material factor holding back many employers from implementing an earned wage access program. Employers don't want to find their chosen provider offers a solution that is subsequently determined to be out of compliance or becomes obsolete as new legislation is drafted. The possibility that different states will be adopting different regulations and requirements for earned wage access also creates the potential that employers operating in multiple states would have to support variations in their program parameters. Once the regulatory environment is more stable, we predict that earned wage access programs will become more commonplace and extend beyond low-wage earners to employees with higher incomes who nonetheless face the occasional short-term financial shortfall.

Advice for Buyers

Mercator recommends buyers consider the following when reviewing options for earned wage access:

Flexibility. While earned wage access has been available for many years, the regulatory requirement is likely to change first at the state level and potentially federally. Providers should be aware of the potential issues around employee fees, disclosures for earned wage access, and clarity of the definition of constructive receipt. Employers need inquire how potential providers will be ready to make changes should new regulations require their respective models to pivot.

Financial Wellness Strategy. Employers may want to consider if they are seeking just an earned wage access solution or a more holistic financial wellness product that includes digital help with budgeting and savings. Those looking for the latter will be more interested in solutions that feature interactive financial planning and support.

Scalability. Earned wage access is a rapidly growing market segment. Many of the providers of earned wage access solutions are relatively new companies. Understanding how their systems, operations, and support staff can scale with rapid growth is important to large employers that may want to onboard thousands of employees as well as to smaller employers that want to make sure their employees are not forgotten in a high-growth environment.

Integrations. The level of an earned wage access solution's integration to payroll, time and attendance, and other HR systems should be understood by employers. While some employers want tight integrations to ensure that the amount of wages made available for earned access is as well informed as possible, other employers may be comfortable offering an estimated level of funding that requires less technical integration effort.

Funding. Clients will want to ensure that a solution provider can meet their funding requirements. Some employers will want the provider to fund wages to help preserve the employer's cash flow, while other employers may be concerned that this model will be viewed as a lending relationship and trigger laws governing lending and disclosures.

Advice for Earned Wage Access Providers

To compete successfully in this market, vendors will need to consider the following:

Funding. Providers should consider how they can support both funding models should market or regulation require either an employer-funded or a provider-funded solution.

Flexibility in Revenue Model. Flexibility in the way fees are assessed is important should certain fee types be regulated in the future such as fees charged direct to employees, requiring providers to change their business model. Those providers that rely heavily on interchange income form debit cards or prepaid payroll cards need to have a solution in waiting should card interchange margins narrow.

Integrations. Providers should consider including in their roadmap for integration into the payroll processing flow net pay calculations as well as representation of earned wage access amounts and fees on employee pay advice statements.

Financial Wellness. Consider providing a financial wellness solution that goes beyond earned wage access to include help with budgeting and savings and also ties into employer programs like participation in a Healthcare Savings Account or 401K. Such programs carry increasing importance.

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Related Research by Mercator Advisory Group

Fintech and Debit Cards: Battling for Consumers' Attention (December 2019)

Payments for Work in the U.S. Gig Economy (August 2019)

The Evolution of U.S. Payroll Cards in the 21st Century (August 2019)

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