

# Payroll FinTech and the Growing Market for On- Demand Pay

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## PAYROLL FINTECH AND THE GROWING MARKET FOR ON-DEMAND PAY

The on-demand pay market, also referred to as earned wage access (EWA), instant pay or a daily pay benefit, provides employees same- or next-day pay. It has been around for nearly a decade and continues to gain traction. Now more than ever, employers are trying to respond to the needs of younger employees entering the workforce, establish themselves as an employer of choice and help keep their employees financially healthy.



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### Employee Financial Wellness

Many studies show that employees struggle with financial wellness. **The most recent PwC Employee Financial Wellness Survey** shows that employees are financially stressed and that this impacts businesses' bottom line. Employees who are financially stressed are twice as likely to have used a payday loan or advance in the past year, borrowed from retirement accounts and consider postponing retirement. Employees are four times as likely to have a decrease in household income and have difficulty meeting household expenses on time.

**A BlackRock report** shows that money is one of Americans' top worries. It's not surprising as the most recent Bureau of Labor Statistics data shows **the median earnings for all U.S. workers is just over \$50,000**, and **nearly three in 10 adults are unable to pay their monthly bills** or are one financial setback away from paying monthly bills in full. The financial worries are not just for hourly workers making minimum wage. Nearly **two-thirds of Americans say they have been living paycheck to paycheck** since the pandemic hit in 2020.

### A Younger Generation of Workers

Millennials account for more than a third of the U.S. labor force. Generation Z, with 67 million individuals, makes up the latest wave of workers entering the workforce. Gen Z and younger millennials have never known life without technology and are more likely to participate in the gig economy as freelancers. In fact, **50% of millennial workers and nearly half (46%) of Gen Z** use a gig or "side hustle" to help pay down debt or make extra cash. The expectations of how and when they get paid are changing. Employers are continually adapting traditional views on employment to meet the needs of younger generations.

## Meeting Employee Needs

So how are employers addressing these issues? Along with educational assistance and guidance on financial decisions, many employers in the Healthcare, Manufacturing, Retail and Hospitality industries, which employ large numbers of hourly workers, have begun racing to implement same-day or next-day pay programs for their workers. Why? To attract and retain workers, reduce employee stress and ultimately improve their bottom line. And, as the on-demand pay market matures, employers in those industries will need to consider these types of programs to compete. When will that be? To date, according to [data from the American Payroll Association](#), 28% of respondents already have or would like access to some or all of their wages on-demand as they earn them instead of waiting for payday.



There is a case for implementing same or next-day pay for all organizations looking to meet the needs and desires of their employees.

The on-demand pay benefit is not just for hourly workers. Survey after survey for years has shown that most people in the U.S. live paycheck to paycheck, whether hourly or salaried. If these trends continue, it seems there would be a case for implementing same or next-day pay for all organizations looking to meet the needs and desires of their employees.

## The On-Demand Pay Market

The on-demand pay provider market has been growing consistently with many new entrants over the past several years. While many started out as add-ons to payroll, mainstream payroll providers like Ceridian, ADP and Paylocity are now offering their own on-demand pay solutions.

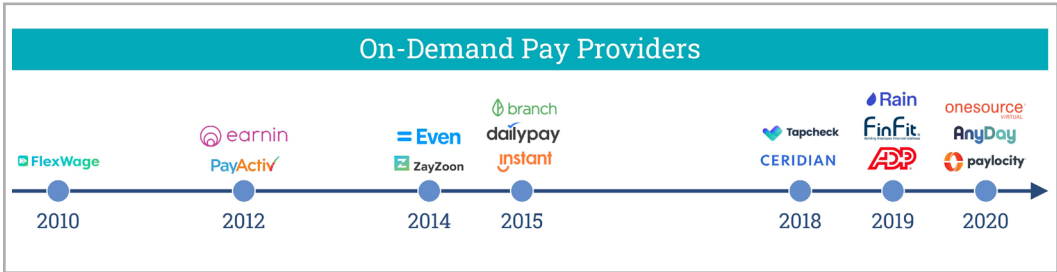


Figure 1: Timeline of On-demand Pay Provider Market



### **What are the employer benefits of on-demand pay?**

- Increased retention.
- Reduced workload for the payroll team, if working with an on-demand pay provider that does not use a deductions model.
- Increased application volume.
- Automated manual processes.
- Increased efficiency.

### **What are the employee benefits of on-demand pay?**

- Quicker payments; no waiting for the next payday.
- Avoidance of overdraft fees, credit card debt, overdraft charges and other punitive alternative financial services.
- Access to free financial tools and literacy material that help employees become savers and decrease their financial stress.

### **How On-demand Pay Works with a Third-party Provider**

When a company uses a third-party provider for an on-demand pay solution, it determines the provider that meets its employees' needs and workplace culture. On-demand pay offerings vary depending on provider, including percentage of available pay for the employee, fee structure, membership criteria and pay card benefits. Some offer financial wellness tools, employer portals and analytics.

Once an employer selects a provider and rolls out the program to employees, the employee enrolls in the on-demand program and decides how often they want to get paid. Depending on the provider, the employee can choose between all or a portion of their earned pay and how the funds are transferred to the employee. Some providers offer direct deposit to an employee's bank, a prepaid debit card, transfer to a Venmo account or pick up as cash from a money center.

## How On-demand Pay Works without a Third-party

On-demand pay can be managed internally by running a daily payroll process, but this is more time consuming, complicated and expensive than some employers want to take on. The graphic below shows all the moving parts involved in running traditional in-house payroll.

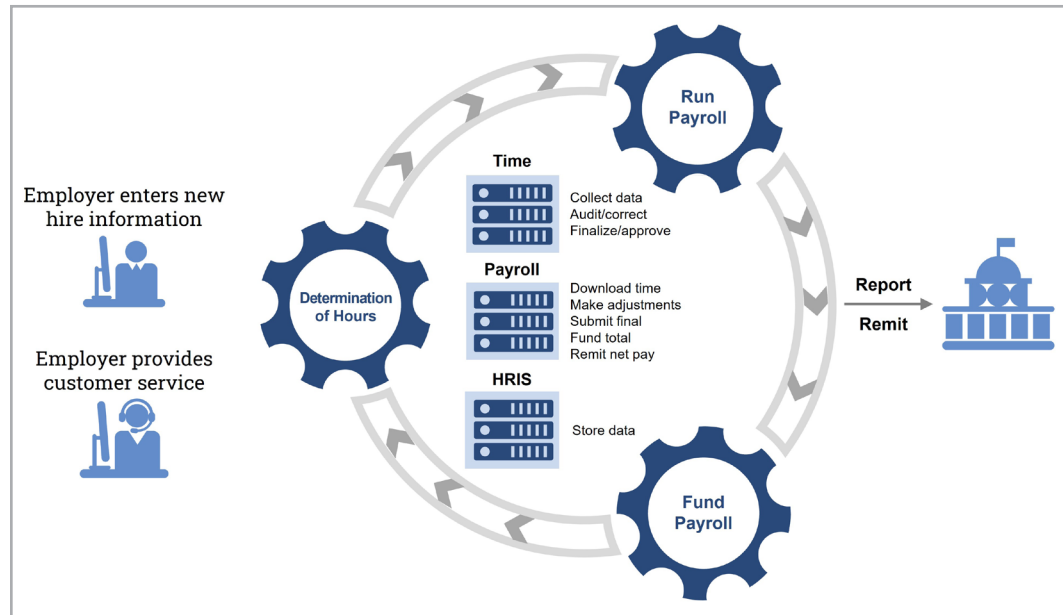


Figure 2: Components Needed to Run Traditional In-house Payroll

## Provider Feature Comparison

With so many providers in the market and more entering, it's easy for employers to get overwhelmed. Here is an overview of some of the differentiators in the on-demand market.

Features	CERIDIAN	dailypay.	payactiv
Since	2018	2015	2012
System compatibility	Ceridian payroll only	All payroll systems	All payroll systems
Destination account flexibility	Dayforce Wallet account	Bank account, debit card or payroll card the employee chooses	Bank account, prepaid card, or pick as cash from Walmart Money Center
% of pay available	Configurable to 100%	100% of earned pay	50% of earned pay



Increased interest and adoption by a growing number of large blue-chip clients is a sign that the on-demand pay market is here to stay.

Features	CERIDIAN	daily <sup>pay</sup> .	pay <sup>activ</sup>
Tools included	Savings and financial wellness tools to be rolled out later this year	Established tools including autoSAVE, directSAVE and roundup SAVE, financial counseling	Established tools including bill pay, prescription discounts, savings tool and financial counseling Amazon and Uber services
Program funding	Interchange revenue model; Ceridian funds the advances to the employer from balance sheet; uses current, real-time data	Dedicated line of financing to fund early pay transfers	Payactiv fronts the money
Fee structure (membership, transaction or pay card)	No fees to employee or employer due to pay card requirement	ATM-like fees based on timing (instant or next day); majority of employees eligible for platform have access to a free next day option	Employee pays membership fee that does not exceed \$5 per pay period (users pay extra fees for instant transactions and other fees). No membership fees charged to cardholders
Implementation timing	2 weeks	2 weeks	48 hours
Security and Compliance	Fully compliant pay-run on demand	Level 1 PCI DSS, multi-factor authentication Q3 roadmap includes ISO 27112 certification	Indemnifies the employer against financial loss associated with service
Sample clients	Buehler's Fresh Foods, Crescent Bank, Nipro PharmaPackaging	Kroger, Adecco, Vera Bradley, Dollar Tree, Target, Berkshire Hathaway	Walmart, Ibex Global, Wayfair

The paradigm of work is shifting in North America. With the rise of the gig economy, employees are able to work wherever and whenever with more flexible schedules. In turn, flexible payment structures are becoming more and more important. There are a multitude of options for employers from existing payroll platforms like Ceridian that run continuous payroll real time to organizations such as on-demand pay provider DailyPay that can plug and play with any payroll provider. Increased interest and adoption by a growing number of large blue-chip clients is a sign that the on-demand pay market is here to stay.

## ABOUT THE AUTHOR

### **Payroll FinTech and the Growing Market for On-Demand Pay**

#### **HEIDI LUMBREZER**



As a Director, Heidi brings 20 years of experience in solution design and delivery for benefits administration, HR and payroll. She brings first-hand experience from working within many of the leading benefits and HR/payroll administration providers in the industry, sharing her insider knowledge to help clients evaluate potential partners and market options.



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