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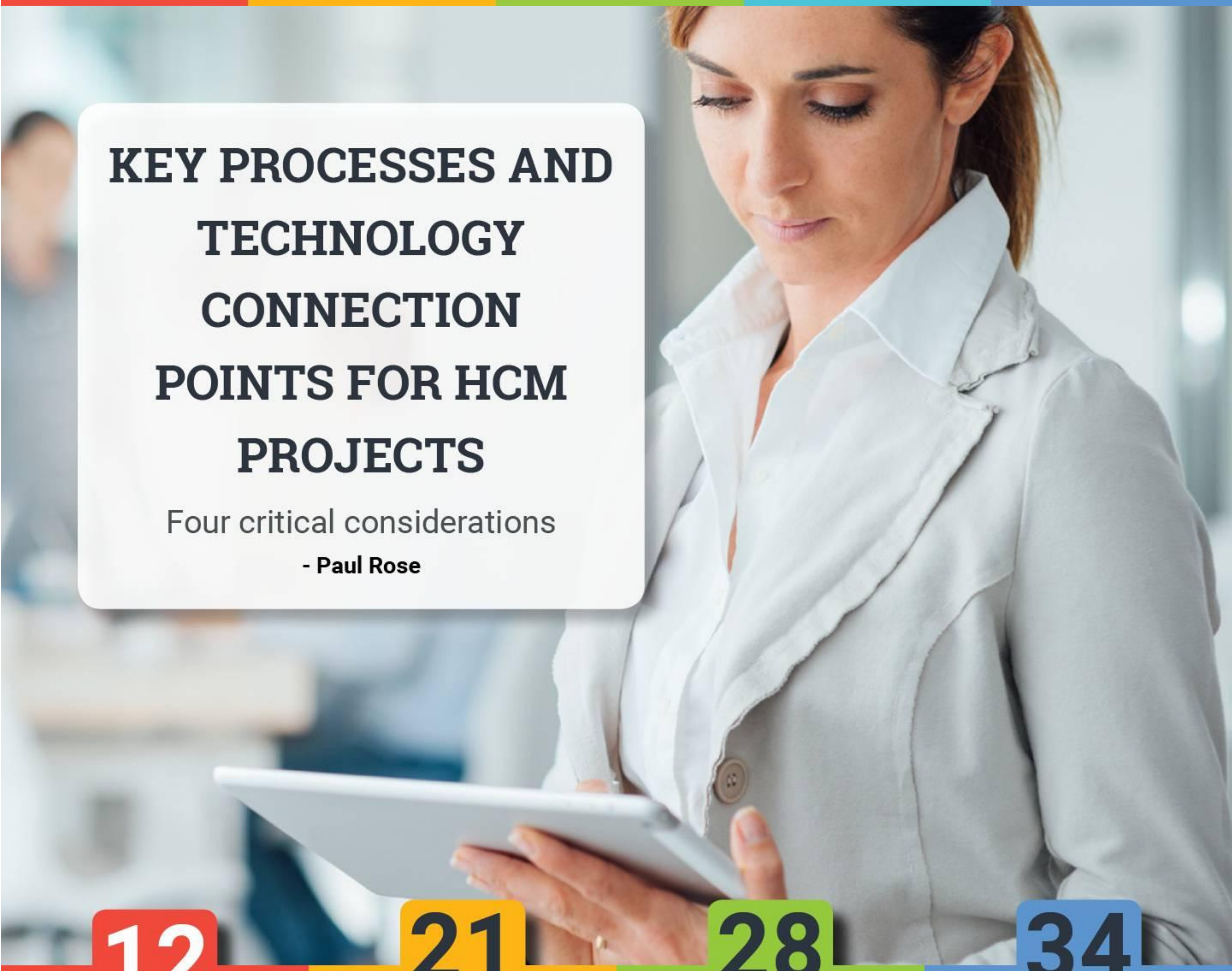

KEY PROCESSES AND TECHNOLOGY CONNECTION POINTS FOR HCM PROJECTS

Four critical considerations

- Paul Rose

5 Myths About Instant Pay Technology

Are you ready to roll out instant pay benefits?

By Rob Law

Since co-founding DailyPay, I've worked with a lot of companies who have either just started researching instant pay benefits or on-demand payments, or are getting ready to roll out a benefit like this to their workforce.

The HR or payroll managers who champion these programs have lots of questions, and with good reason. Any time you're thinking about making a change to payroll that could affect thousands of employees—even if it's going to be an optional benefit— you want to get it right the first time.

As such, I've encountered a lot of misconceptions about how the technology works. At its core, instant pay allows your employees to access their pay as it's earned, which can help when bills don't coincide with payday, or when an unexpected expense arises.

Instant pay means that your employees can access their wages when they need them rather than waiting for a bi-weekly paycheck.

Once we agree on the basic functionality, many employers want to understand what they can expect from instant pay apps, and what their employees can expect. So these are some of the common expectations—"myths"— that are incorrect, and why they're incorrect.

1. Myth: Instant payment is just like a payday loan

It's understandably challenging to look at payroll from a different angle. Payroll has been operating as is for decades, and when new technology disrupts a process, there is bound to be confusion.

Consider Uber, a company that came in and completely disrupted traditional cab services. They offer a virtually identical service, but one is far more convenient than the other, thanks to technology.

Cab services have failed to adapt to the changing technological component of their industry. As a result, they are struggling to compete. From 2013 to 2016, pre-arranged taxi trips in LA dropped by 42%, and the total number of trips dropped nearly 30%. And the New York Times reports that in 2017, New York

Uber averaged about 289,000 rides per day, whereas yellow cabs averaged only 277,000. Instant payments are often compared to payday loans, but make no mistake: they are very different.

Instant payments are more like an Uber for your employee's paycheck. When they need access to earned unpaid wages they submit a withdrawal request through an app. For each withdraw they pay a small fee - some platforms charge a flat fee while others charge a percentage of the withdrawal.

The fees will vary depending on how quickly the employee needs access to funds.

2. Myth: My employees are fine with weekly pay

On average, lower-income earners pay $1,000 per year in late fees. Between checking account fees, credit card interest, and other unanticipated fees, the cost of missing a bill is disproportionately expensive; suddenly a $50 loan turns into a $200 loan. This "it's expensive to be poor" example is one that commonly adds financial stress to your employee's lives.

Often, these fines can be avoided if a payroll schedule catered to an individual's bill cycles or could predict when the next unexpected emergency would occur. Of course, payroll is too rigid for that.

Which is why offering an on-demand pay service can allow your employees to adjust the timing of their pay and access their money when they need it the most. Instant payments allow your employees to take control of their own finances.

3. Myth: Access to instant payments encourages poor spending habits

Giving your employees control of their wages doesn't mean they will be irresponsible. Most employees who have access to an instant pay benefit aren›t drawing on their pay every day, and they aren't drawing all of their earned wages when they do make a transaction. From our data we see that most users are taking out small amounts; an average user withdraws 1.2 times a week for $66 per transfer or about 48% of their paycheck.

Often times users withdraw to improve their financial situation rather than worsen it with impulsive spending. In fact, 94% of our users self-report that they use withdrawals between pay days to pay bills on time and avoid late fees. Our data corroborates this as the frequency of withdrawals tends to be higher at the end of the month when rent and other bills are commonly due.

4. Myth: HR is the best department to drive this initiative

An instant payment solution will cross multiple departments, and as such HR would certainly also get involved, but the initiative can be driven by other teams as well.

We often see is that one department—be it HR, payroll or workforce management— recognizes this benefit as a powerful and valuable tool for a number of workplace problems that span all departments like:

- Recruiting new talent
- Reducing attrition
- Keeping existing employees happy

Our numbers show that the most common reasons for offering an instant pay benefit are:

- Fill open positions 52% faster than organizations who don't offer instant payment
- Experience an average of 41% reduction in attrition
- Have more productive employees, 66.50% say they are motivated to work longer hours after being offered instant payment

5. Myth: Instant payment is a short-term fix, not a wellness option

A number of recent studies show that at least three out of four employees feel financial wellness should be part of an overall benefits program. And, two-thirds of employees (66%) agree employers should express that empathy, through benefit packages. These data points tie together because 90% of employees believe that financial well-being packages are crucial if an employer wants to consider itself «empathetic.»

Oftentimes an instant pay provider makes a wide range of financial wellness resources available to help HR providers educate their workforce. After all, the HR manager looks best when the benefits they've recommended succeed.

Users can access financial wellness tools, such as educational resources and savings plans to help kickstart their education. The ability for your employees to access their earned but unpaid wages also provides them with an opportunity to practice their education:

- 70% report that instant pay helps them control finances better
- 72% report that instant pay has helped them feel more in control of finances

While we understand a payment app isn't a replacement for financial literacy, we also argue financial literacy isn't a replacement for money either.

Conclusion

As with any emerging technology, the benefits sound almost too good to be true. Improved employee recruiting and retention through a financial wellness is absolutely a reality, and the data and results we've seen prove that.

Hopefully, as we see these benefits adopted by more companies, the myths above will all be replaced by knowledge. As the G.I. Joe's say, "Knowing is half the battle."

Rob Law is CTO and Co-Founder of DailyPay.