



Earned Wage Access Impact Assessment H1, 2021

Benchmarking the impact of earned wage access on financial inclusion, in-work financial stress and day-to-day money management.

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Foreword

Humanforce Thrive was formed to tackle in-work financial stress by making money simple, not stressful.

Financial stress affects the majority of the working population. It can be caused by outdated pay processes and contributes to wider social issues like financial exclusion and the 'in-work poverty premium'.

It's also a problem we have the power to solve.

Our lives are built around our incomes. Yet, we work for weeks or months without being paid what we're owed. The fact we're disconnected from our earnings can lead to us avoiding engaging with our finances and spending before we save. The misalignment between income and expenses can mean we end up with too little money at the end of the pay cycle, exposed to unexpected bills and high-interest credit.

At Humanforce Thrive, we believe in establishing a clear link between work and reward, with flexible and accessible pay that puts people in control – instead of locked pay cycles that keep them in limbo. We believe in nurturing better choices by embedding financial education and coaching at the point of receiving income. We believe in replacing reactive money management and financial stress with proactive money management and financial confidence.

By giving employees power over pay and resetting these rules we can build a better working world – underpinned by financially empowered workers and productive, thriving employers. This is Humanforce Thrive's mission. At the core of this mission is staying true to our social charter and investors, which include leading financial charities and social impact funds.

Our robust analysis of data helps ensure we're building fair financial services that give rather than take. We also believe that by sharing this data we support our wider industry, encouraging a focus on positive impact.

Every six months we'll publish our findings to share how our approach to pay is impacting people's lives. We'll actively seek feedback on the findings and implications. We have an opportunity to transform the lives of working adults – so let's embrace transparency, clarity and collective accountability.

Working together we can make a simpler financial world a reality.

Context & methodology

This report tracks the impact of earned wage access on individual users. Earned wage access is the way we all used to be paid before changes in payroll technology led to the fortnightly or monthly pay cheque. It means workers can access their already-earned income throughout the month, instead of waiting for the end of an extended and locked pay cycle.

Invented in the 1960s as banking infrastructure evolved and processing fees became costly for employers and banking providers, research suggests that extended, locked pay cycles drive irregular spending patterns and create a 'liquidity trap' for working adults. With a large majority (89%) of workers now saying they would prefer a return to earned wage access, employers are responding by removing the locked pay cycle – typically offering earned wage access as part of a broader financial wellbeing program.

This report tracks the impact of this shift through data provided by 60 Decibels, a leading impact measurement firm, and our parent company Humanforce Thrive UK, a financial wellbeing service offered by employers which includes:

- Financial education
- Coaching
- Savings
- Budgeting
- Earned wage access

As Europe's most widely used provider, Humanforce Thrive offers the most complete dataset currently available

on usage and impact of removing the locked pay cycle, at an individual employee level.

Specifically, this report builds on:

- Perception data – collected through anonymised surveys of 2,200 users
- Usage data – based on a sample of 1,000,000 transactions
- Social impact data – based on the 60 Decibels global impact measurement framework

We will use these datasets collected between June–November 2020 to explore how earned wage access is used by workers, how usage changes over time and what overall impact this earned wage access has on users.

While there are areas requiring more analysis and discussion, the findings are encouraging. They serve as a helpful first step in understanding what it means to return to flexible pay cycles and give us clear direction on questions future assessments should address.

Thank you to the experts at 60 Decibels, Big Society Capital and Fair By Design. They supported in gathering independent data, provided input on this report's methodology and analysis and also gave guidance on how to meaningfully measure the impact of earned wage access and broader financial wellbeing services like Humanforce Thrive.

Key findings

DEMOGRAPHICS

30

is the average age of an earned wage access user

53%

of earned wage access users identify as female

USAGE

\$106

is the average amount transferred

TIMING

1-3

transfers a month, replicating weekly pay

STRESS

77%

feel less stressed

CONFIDENCE

72%

feel more in control of their money

PLANNING

55%

found planning easier
2% struggled to adjust

SAVING

33%

found saving easier
4% struggled to adjust

SOCIAL IMPACT

88%

reduced reliance on high-cost credit

9/10

prefer earned wage access to any alternative

72%

report improved quality of life

37%

60 Decibels global benchmark for financial inclusion services

56

Net Promoter Score

42

60 Decibels global benchmark for financial inclusion services

WHAT PEOPLE ARE SAYING

“There’s a real comfort in knowing you can access your own money anytime, if you need it”

“It’s especially good knowing you’re not going to be owing anyone anything or paying interest”

TOP OUTCOMES CITED BY USERS

22%

financially secure in times of need

20%

released from the locked pay liquidity trap

Understanding earned wage access usage

To better understand the impact of removing extended, locked pay cycles, we need to answer a set of fundamental questions about how workers interact with a more flexible pay cycle through earned wage access.

This section will focus on transaction data aggregated by Humanforce Thrive UK – a service which employers offer to employees as a holistic financial wellbeing benefit. Humanforce Thrive integrates with payroll to provide earned wage access.

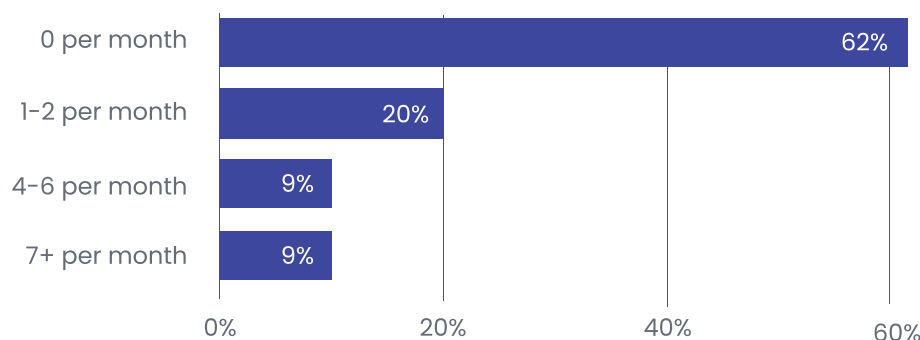
The earned wage access feature currently offers users a semi-locked pay cycle. Throughout the month, up to 50% of an employee’s accrued earnings are available to access. Transfers are instant and processing fees are subsidised by the employer or charged at a capped fee to the employee.

1. How do people interact with a flexible pay cycle?

a. How often do people make earned wage access transfers?

Transfers per month

% of total people, June 2020 – November 2020



This report does not cover the app’s broader feature set in detail, but it is important to note that a significant proportion (62%) of users do not make any earned wage access transfers. Instead, they choose to use the app exclusively for other features – most notably Track.

Track helps with budgeting by showing accrued earnings in real-time, throughout the month. Our research

found Track usage is driven by a desire to have more control over managing finances, which is a key component of financial wellbeing. Users regularly said simply knowing their earnings were available to them gave them peace of mind.

On average, 20% of enrolled users are choosing to transfer one to three times each month, allowing them to roughly replicate the cadence of weekly pay. Meanwhile, 9% of enrolled users make more frequent transfers, resulting in roughly seven or more transfers in a given pay period (roughly two transfers per week).

The average transfer amount of those making seven or more transfers per month is \$66. It is \$120 for those making between 4-6 transfers and \$192 for those making between 1-3 transfers.

During the Covid-19 pandemic, the subset of users transferring more than seven times a month grew as people chose to transfer smaller amounts more often. This change was a likely symptom of the uncertain macro environment created by the pandemic and resulting inconsistency in work patterns for some of the labour market.

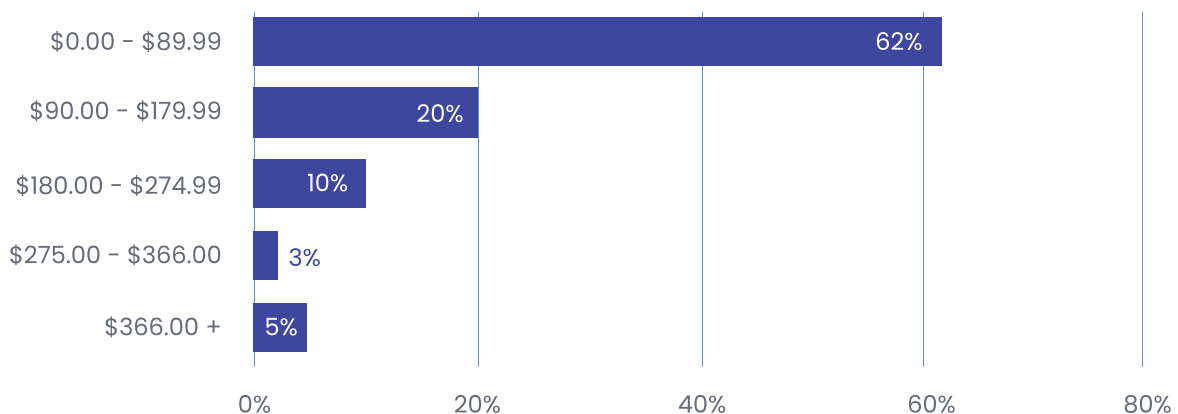
While the vast majority seem to be using earned wage access in a moderate and controlled way, most apps – including Humanforce Thrive – apply additional safeguards, allowing companies and users to set usage controls. Humanforce Thrive also provides targeted in-app reminders of fees associated with transfers at the time of withdrawal.

b. How much do people transfer?

Employees are able to transfer up to 50% of their accrued wages. Available balance increases as work is completed and it reduces whenever a transfer is made.

Transfer amount

% of transfers, June 2020 – November 2020



The average transfer is \$106 – as set out earlier, we should expect to see a higher average after the pandemic. During the pandemic many people have chosen to transfer smaller amounts, more often.

The amount someone chooses to transfer is largely driven by two factors:

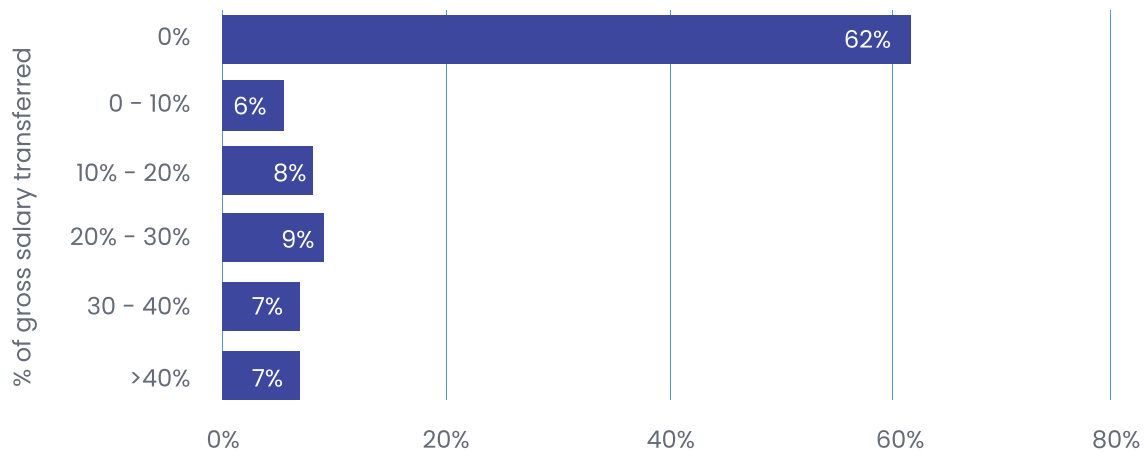
1. The amount they wish to transfer to their bank account (e.g. to cover a specific expense)
2. The amount they have available to transfer at that time

The second of these points is instructive, since the amount available to transfer decreases each time a transfer is made. Assuming overall earnings are similar, those who transfer larger amounts are unable to transfer as frequently as those who transfer smaller amounts. This skews the previous graph to the lower amounts and provides useful context to the 62% of transfers that are for less than \$91.

To remove this nuance, we can consider the total amount that an employee transfers each month as a percentage of their salary.

Share of salary transferred

% of total users, June 2020 – November 2020



Again, we see that 62% of enrolled users are opting not to transfer within a given month.

Those who do make a transfer are accessing 26% of their salary on average, which represents roughly half of what they could have transferred in that pay period.

2. How does earned wage access use evolve over time?

It can be insightful to look at these high-level metrics concerning usage over the short-term. But to more comprehensively understand the impact earned wage access is having on financial resilience, we need to chart how behaviours develop from one month to the next. If earned wage access is to tackle the ‘liquidity trap’ created by extended, locked pay cycles, we need to understand whether employees use earned wage access more or less over time.

To do this, we map distinct points in the customer journey:

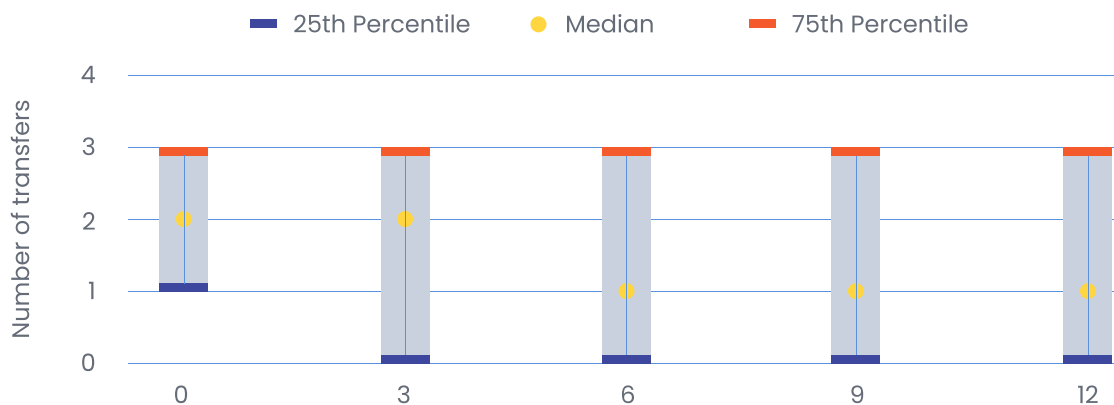
- The month someone makes their first transfer
- Regular three-month intervals after the first transfer

We examine how often people make transfers, how much they are transferring and when in the pay cycle they are making these transfers.

a. Do people transfer more often, over time?

Transfers per month

October 2018 - November 2020



In the month of their first transfer, the median user makes a total of two transfers. Six months later, the median has decreased to one transfer per month.

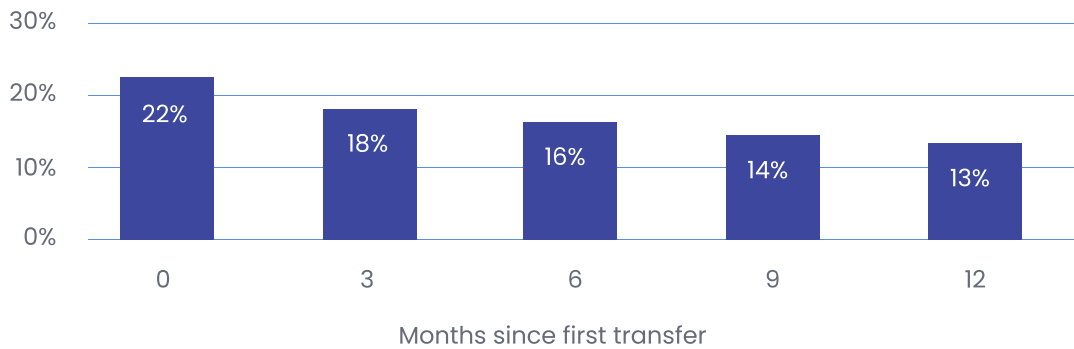
In other words, after six months 50% of people are making at most one transfer per month, where previously they were making two. This suggests that monthly transfers begin to reduce for a majority of people by the end of their first year.

b. Over time, do people transfer larger amounts?

As with analysing transfer volumes, it’s possible to bring more context by considering amounts transferred in a given month as a percentage of salary.

Share of salary transferred

Average % of gross salary transferred, October 2018 – November 2020



This trend towards transferring lower amounts over time indicates people may be improving their financial situation through access to earned wages.

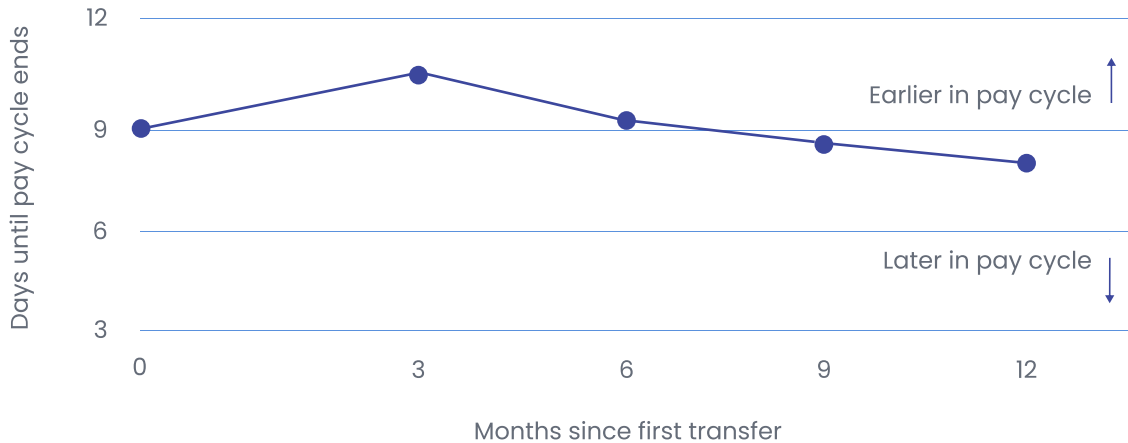
c. Do people transfer earlier in the pay cycle, over time?

The pattern of earned wage access use becomes clearer if we assess when people are choosing to access their earnings.

We can do this by starting with the first transfer someone makes in a given pay cycle and recording how many days before the end of the pay cycle that transfer occurred. This allows us to gauge whether they’re accessing their income earlier or later from one month to the next – in this case, over the period of a year.

Timing of first transfer in pay cycle

Days until the end of the pay cycle, October 2018 - November 2020



In month 0, the average first transfer occurs nine days before payday. By the end of the first year this has reduced to 8 days before payday, meaning employees are waiting slightly longer each month before choosing to access their earned wages.

One concern with the return to flexible pay cycles had been that people may begin accessing their earnings at increasingly earlier points in the month – weakening their financial position as a result as they may then fall short in later pay cycles. Encouragingly, the usage data collected shows that this is not the case.

Within a year of making their first transfer, the average person is transferring lower amounts, less often and at later stages in the pay cycle than they were originally.

This means that at the height of a global pandemic, when the labour market experienced less job security and greater financial strain than any moment in recent history, earned wage access was still used in moderation. Most importantly, employees appear to have gradually built financial resilience as a result of their employers returning to a flexible pay cycle.

Evaluating the impact of earned wage access

To start understanding the broader social impact of reverting to flexible pay cycles, we need to listen to the people using Humanforce Thrive. We need to invest time in understanding how workers feel about their finances, once locked pay cycles are removed and they are given choice over when and how they are paid.

It's important to note this research was conducted within the context of 'responsible earned wage access' – an earned wage access feature offered as part of a financial wellbeing service (in this case, Humanforce Thrive) which encourages better financial behaviours and decisions, through education, coaching, budgeting and savings tools.

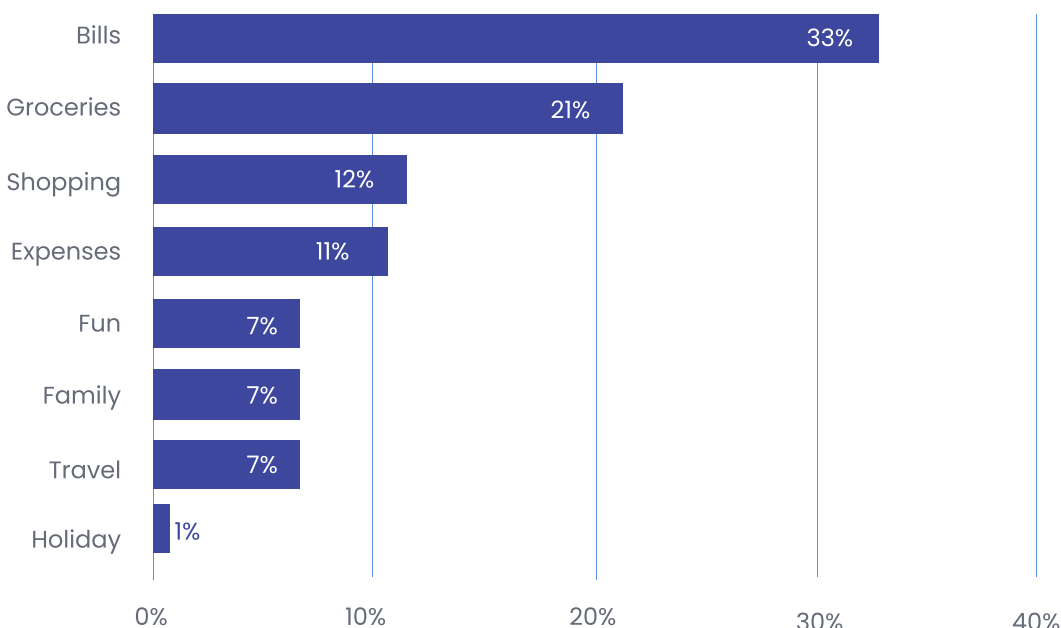
1. How do people categorise their own spending?

Firstly, we evaluate how people think about their transfers. This step is important because the way people categorise their transfers links to the broader ways in which they manage income and think about their personal finances.

Following each transfer, people are asked to pick a category to identify why they made that transfer:

Reasons for transfer

% of transfers, June 2020 - November 2020



Over half (54%) of transfers are for bills and groceries. Fun and holidays make up less than 10%.

People were consistent in how they categorised their transfers from one month to the next, although the early phase of the Covid-19 pandemic saw a notable increase in groceries and decreases in expenses, travel, holidays and fun.

2. How does earned wage access impact personal finances?

We can now delve more meaningfully into how personal finance behaviours and perceptions change once someone is accessing pay flexibly. This is the ultimate question our industry should aim to answer. In particular, we'll turn our attention to two specific areas of impact:

1. The financial products which currently benefit most from the locked pay cycle 'liquidity trap'
2. Key inputs and outputs of financial resilience

a. Does earned wage access impact the use of credit products?

When we think about the impact of a flexible pay cycle, it's important to correct one common misconception. Earned wage access has often been incorrectly referred to as replacing forms of lending – most notably payday loans, a form of high-cost credit which creates profit at the detriment of financially vulnerable segments of the population.

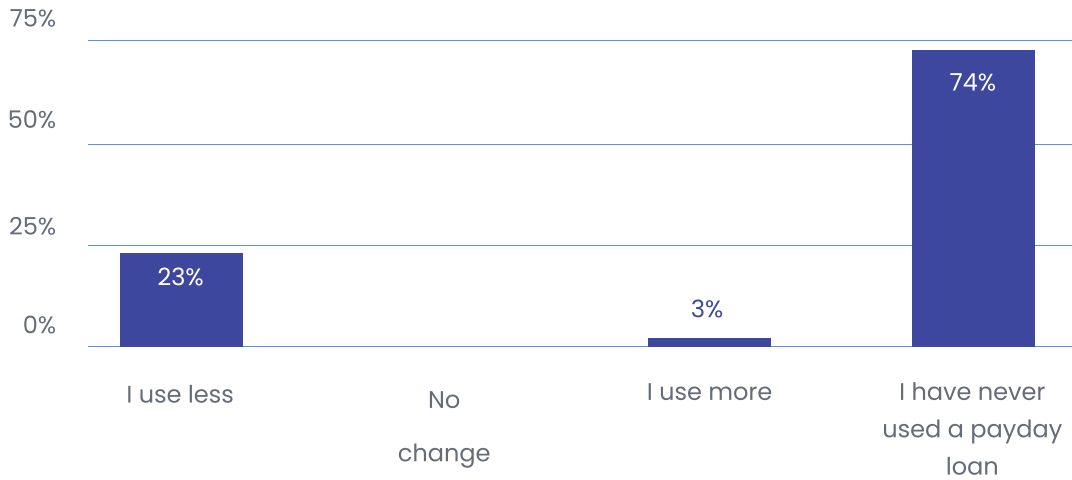
Instead, earned wage access replaces the locked (often fortnightly or monthly) pay cycle. It is also unproductive to equate these two, as research suggests individuals treat credit and their own income in fundamentally different ways. Regulators in the United Kingdom and United States now state that flexible pay should be viewed as income and not lending.

This move to a more flexible pay cycle can however lead to changes in financial behaviour. It has been commonly expected that flexible pay would reduce the use of last-resort credit, since adoption for this has been inflated by those experiencing a lack of liquidity towards the end of a pay cycle and a lack of access to affordable credit.

To test this, before people started using earned wage access we asked them about the sources of liquidity they most commonly used towards the end of a pay cycle. After borrowing from friends and family (30%), the most commonly used options they cited were overdrafts, credit cards and payday loans. They were then asked to reflect on any change in their use of these products, after having flexible access to income for three months.

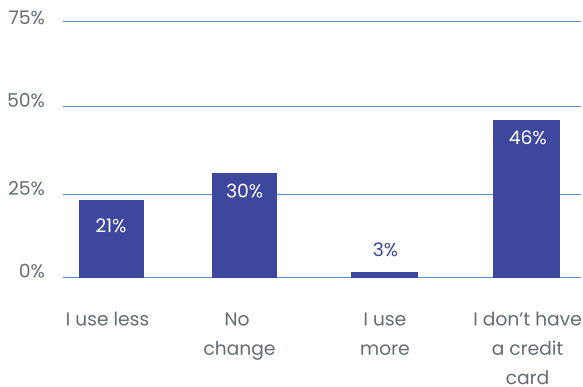
Have you used payday loans more or less?

% of respondents



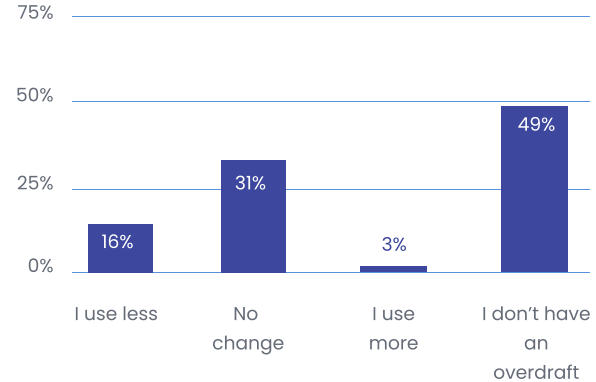
Have you used credit cards more or less?

% of respondents



Have you used an overdraft more or less?

% of respondents



Again, the results indicate a positive overall impact:

- 21% of respondents are using their credit card less often
- 16% are resorting to an overdraft less often

This equates to a 39% and 31% decrease in use for those that previously relied on credit cards and overdrafts, respectively.

While the results are positive, this is just the start. We'll continue to measure the impact on credit usage. Further research should also track whether this trend is maintained over the long-term. It would also be beneficial to carry out more qualitative analysis to better understand why a very small subset (3%) see increased credit usage – at least initially – after three months of adjusting to a flexible pay cycle.

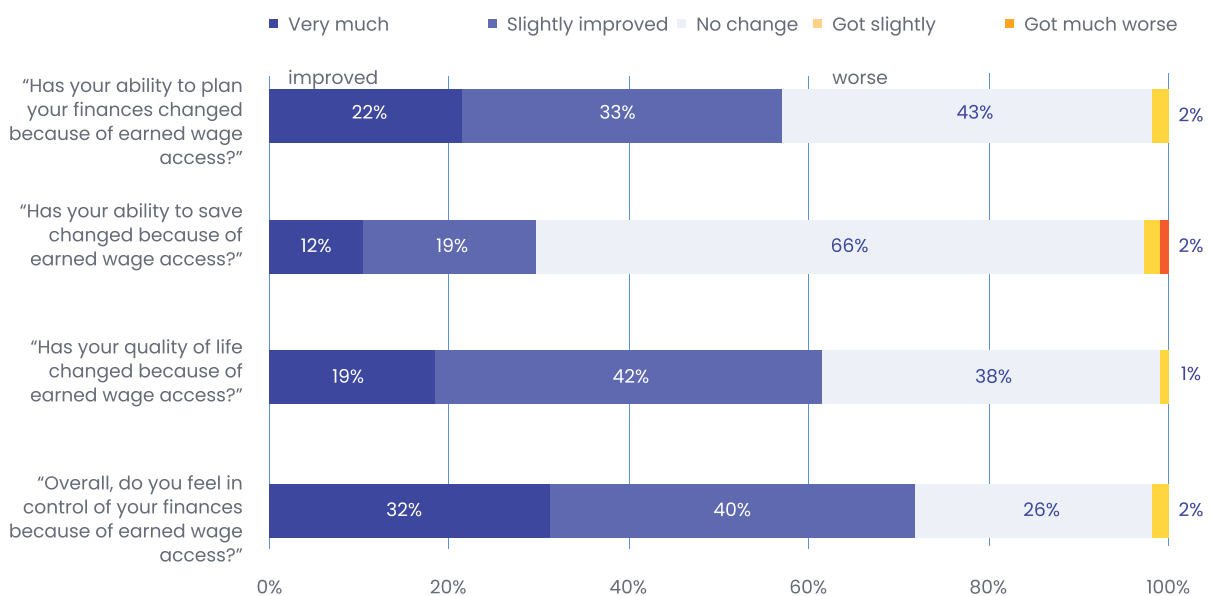
b. Do people become more financially resilient with earned wage access?

Through this assessment, we also set out to test which other financial behaviours change when earned wage access is introduced, beyond improvement in liquidity. To do so, we asked people to consider any change in behaviours that we consider to be core inputs and outputs of long-term financial resilience:

- Budgeting
- Saving
- A sense of control
- A sense of improved quality of life

Has earned wage access changed your financial situation?

% of respondents



Survey responses suggest that users feel overwhelmingly positive about the impact that earned wage access has had on their lives across a range of financial resilience indicators.

This survey looked at both earned wage access users and those using the app for other purposes – such as tracking their pay. Those using earned wage access reported more positive impact than those only using other features. For example, a majority (55%) of respondents reported improvements to their ability to plan their finances and almost a third (31%) felt it had become easier to save. However, these figures rose to 60% and 33% respectively, among those using earned wage access.

Similarly, significant majorities felt more in control (72%) and a sense of improved quality of life (61%) – which rose to 78% and 72% specifically among those using earned wage access. These are relatively small increments and may be explained by the moment of relief people often describe when using earned wage access for the first time. However, future studies could benchmark these differences and use qualitative methods to explore the underlying reasons in more detail.

Earned Wage Access Impact Assessment roadmap

The early Impact Assessments have been instrumental in helping answer two of our industry's most urgent questions:

- When provided as part of a responsible financial wellbeing program, how do workers use earned wage access?
- How does this usage impact their financial wellbeing?

We now know that within one year of making a first transfer the average person is:

- Making fewer transfers each month
- Transferring a smaller percentage of their pay
- Transferring at a later stage in the pay cycle.

In other words, people withdraw less money less often and later in the pay cycle as they gain more control over their finances and are freed up to plan ahead.

We understand that people who were previously reliant on short-term credit products report a significant reduction in the use of these products and cite being released from the liquidity trap of locked pay cycles as the reason for this.

We also know that people feel positive about the return to more flexible pay cycles and the perceived impact it has on their financial health. The majority feel less stressed, more in control of their money and have a sense of improved quality of life.

When provided within a holistic financial wellbeing program, earned wage access outperforms global benchmarks on financial inclusion and tackling in-work financial stress.

There is still more work to be done. This report is a first step in understanding the impact of pay on financial wellbeing and the importance of how pay is delivered to those who earn it.

This report can and should be further developed with wider input and the most robust critique possible. Now that the power of pay is clear, it is our collective responsibility – as earned wage access providers, workers in financial technology and as employers – to harness that power and build a fairer financial playing field for the working world.

EARNED WAGE ACCESS RESEARCH ROADMAP

Use

Future studies should continue to benchmark use, eventually across multiple earned wage access providers.

Perceived impact

Perceived impact is one component of financial wellbeing and measuring this is useful due to the close links between financial, mental and physical health. But there is scope for more detailed qualitative analysis over time, particularly where objective measures can be used.

Behavioural impact

Opt-in data could be used to compare perceived impacts with behavioural impact, especially as other products and features are connected to earned wage access products and depending on how people adjust to flexible pay cycles.

Social impact

Tracking against these metrics will ensure the industry continues to put the end-user first.