APU INSIGHTS
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The rise of payroll cards in a digital era

RESEARCH SPOTLIGHT

SMART PAPERS

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Introduction

Financial institutions ranging from **Visa** and **MasterCard** *to Bank of America,* have all began to creep out a ***cheap option*** to collect payroll checks at a **low cost.**

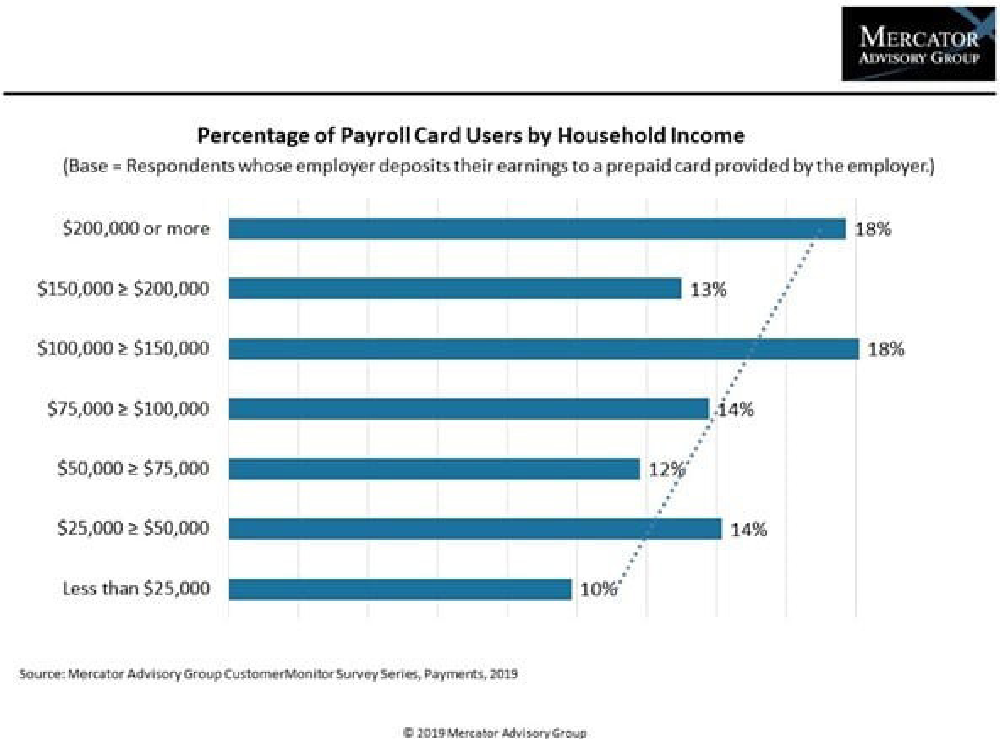
As a new substitute for direct deposit and paper checks, prepaid payroll cards, not only cover a broader variety of workers, but can save substantial amounts of money for companies and banks. Companies, particularly those hiring hourly employees, prefer entirely to use prepaid payroll cards. They are the perfect resource for workers who are not able to benefit from direct deposits, including temporary, part-time, contracted, and unbanked staff. In order to obtain and use a prepaid payroll card, no stellar credit score or any credit history is required, allowing almost all workers eligible. Also, there is no credit available for such cards and, therefore, no account overdrafts. This payroll method's popularity has risen significantly. [1]

More than 1.7 billion adults, worldwide, were observed not to have access to a bank account in 2018. A 2017 survey, in the US, reported that 25% of households were found unbanked or underbanked -7.7% unbanked and 17.9% underbanked. Individuals who either do not have or have a bank account, still use financial resources outside the banking system to make ends meet, such as payday loans. There are more than one million individuals without bank accounts in the UK. There are also implications of not having any experience in banking. It may result in trouble getting loans or buying a home in certain instances; it also poses particular difficulties for employers. [2]

1. ADP. (2020). Employer pay card guide.

2. O' Sullivan, T., (2020, November). Are On-Demand Paychecks the Way of the Future? Immedis.

Figure 1. Profits breakout of payroll card consumers in the US, by Mercator Advisory Group (Customer Monitory Survey Series, Payments, 2019). O' Sullivan, T., (2020 November). Are on Demand Paychecks the Way of the Future? Immedis.

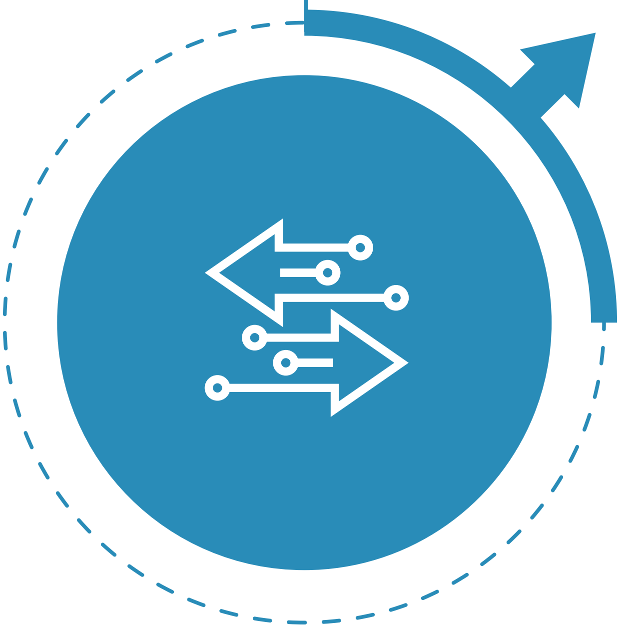


SECTION 1

Implementation challenges in using payroll cards and five megatrends

Employers are increasingly searching for alternative ways, especially for hourly-paid employees, to process payroll. Some utilize pay cards, that are electronically loaded each time an employee is paid. Such pay cards, operate the way a debit card does, enabling holders to withdraw cash or shop online. It is clear that on-demand compensation is something that will be part of the conversation of financial wellbeing for some time. [3] Below there are some implementation challenges for businesses to take into serious consideration.

1. Regulation of payroll cards



As an alternative to paper checks and direct deposits for paying salaries, payroll cards have arisen, and legislators are trying to encourage their use, while protecting workers from hidden fees and lack of accountability. Payroll cards operate much like prepaid debit cards. An employer can directly load the salaries of an employee onto a card, issued by and often branded with American Express, Discover, MasterCard, or Visa. Payroll cards can be used in ATM withdrawals, by bank tellers or through convenience checks, in order to make purchases in stores or online, pay bills, and access cash.

Consumer advocates like the convenience and protection of payroll cards, but express their concerns not only about the fees for card-related operations, but also about whether the terms, conditions, and options available are explicitly and adequately disclosed to workers.

3. O' Sullivan, T., (2020, November). Are On-Demand Paychecks the Way of the Future? Immedis.

While payroll cards exclude check-cashing fees, fees for ATM purchases, point-of-sale and customer support, overdrafts, and access to account balances, are paid by certain card providers. There have been concerns about whether payroll card systems and employers provide explicit and sufficient notice of such fees and how to prevent them, as well as whether workers have a choice between obtaining a paper check, direct deposit, or a payroll card. [4]

In the US, the Federal Electronic Fund Transfer Act (EFTA) and particularly the Regulation E, is considered to be the protective and compliant framework that officially regulates payroll cards accounts, while it imposes certain legal regiments on both the financial institution that holds the account and employers who offer the cards to employees. Initial notification of any fees levied by a financial institution, is provided by Regulation E, as well as specifics of liability limits and the types of electronic funds and transfers that may be made with the card. Revelations must be simple, easily interpreted and in written form. Issuers of payroll cards should provide periodic statements or make available, electronically or upon request, a history of account transactions.

State laws, related to electronic fund transactions, are pre-empted by the EFTA and Regulation E, but only to the extent of avoiding any contradictions between state and federal laws. However, state laws offer greater security than those of the EFTA and Regulation E, which are considered to be inconsistent. Twenty-one states of the USA and Puerto Rico have approved legislation to allow the use of payroll cards. Several of the laws also introduce extra protection for workers, who collect payroll cards. [5]

4. Morton, H., (2015, July). Regulating Payroll Cards. National Conference of State Legislatures.

5. American Payroll Association, (2018, February). Regulation of Payroll Card Accounts: A Guide for Policymakers.

2. Fees

The greatest drawback of payroll cards is that it is possible to pass on charging fees to employees. For low-income earners who do not have bank accounts or who work in temporary jobs, which do not allow direct deposit, payroll cards are provided as an alternative. Employees can be charged with fees at the point of purchase, for accessing their salaries at the ATM or for checking their card's balance. Some states have enacted legislation, limiting the fees that employees can be charged with for using payroll cards, in order to fight these problems. In Pennsylvania, for example, as long as certain requirements are met, employers can pay employees by payroll cards.

Workers are entitled, among other benefits, to one free withdrawal from their total amount, per pay period and are able to check their card's balance free of charge. Almost 50% of the states in the USA have payroll card regulations, and many of those permit workers to have at least one free withdrawal per pay period, or a minimum number of free transactions per month. [7]

7. Gelzinis, G., Madland, D. (2019 January). How workers getpaid is changing: Consumer protections need to catch up.

The Fintech industry has always been distressed by fragmented processes and data, but payroll platforms help to fix these issues. They make seamless integration a reality and combine characteristics in a single platform. A fully integrated system provides a single data set and a flow that decreases complexity, encourages alterations and maintains consistency across all components of the system. Businesses like Ultimate Software provide fully integrated systems for the management of human resources, including components such as payroll, benefits and talent management.

There are barriers to increase popularity, as with any emerging technology. Pay-cards, AI, payroll incorporation and a daily pay advantage are no different. All these emerging technologies will face hesitation as to whether they can address their claims. In some cases, these innovations will have to win over decision-makers who are unwilling to change their beliefs. In addition, some of these inventions will need to ease concerns as to whether a computer can do the job better.

Therefore, these emerging technologies will have to determine social stigmas on how or when salaries are “best” distributed, in a case of payment technology. There will always be reasons to postpone trying something different, but corporations do it anyway at their own risk. It is not a simple task to keep pace with the needs and demands of today’s workforce, but businesses can adapt effectively with innovation and iteration. [44]

44. Lee, J., (2019, May). New pay trends: How today's workforce is reshaping payroll. Forbes.

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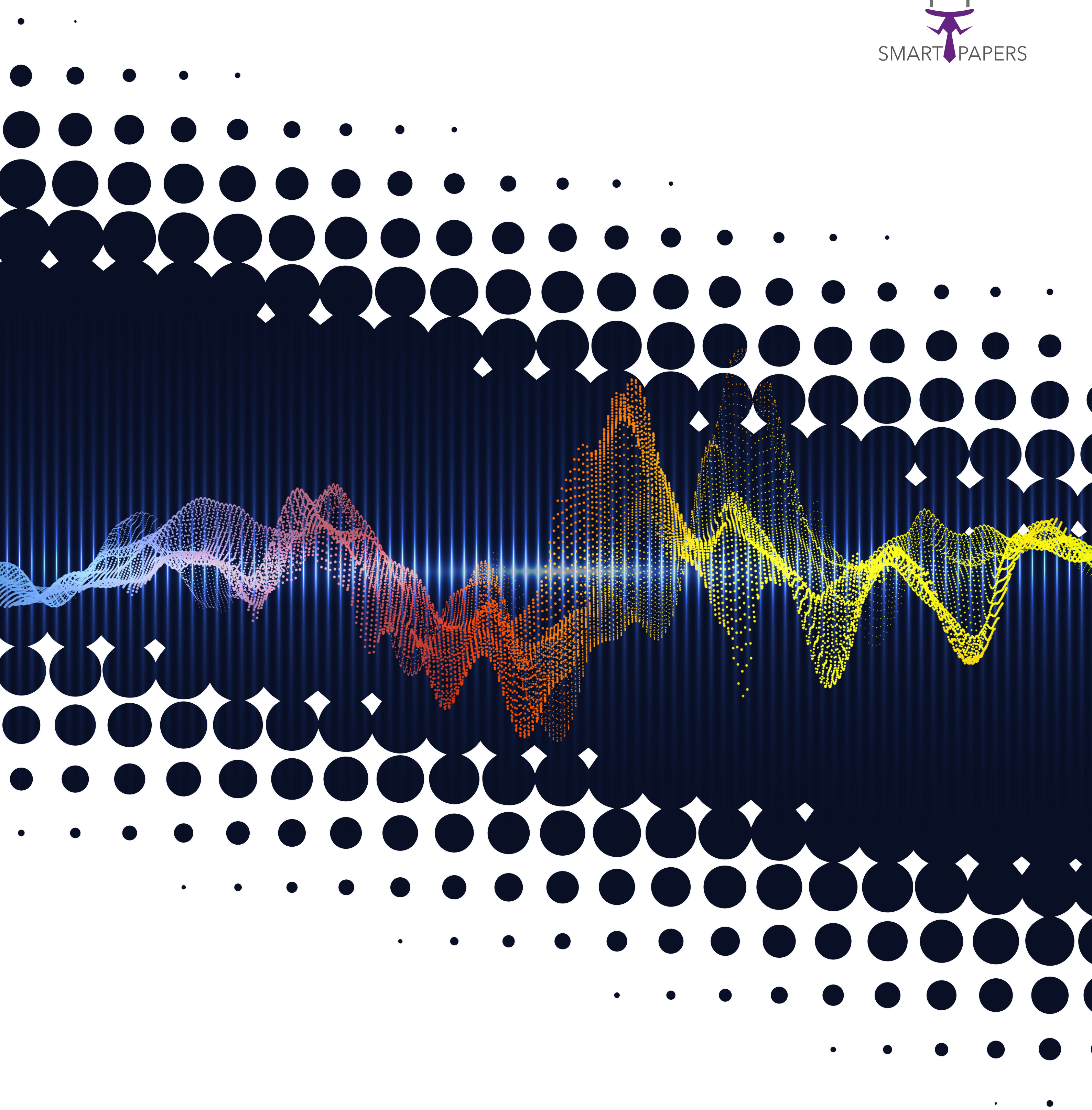

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