Aite Novarica

SEPTEMBER 2021

EARNED WAGE ACCESS USE AND OUTCOMES

FINDINGS FROM A SURVEY OF DAILYPAY CUSTOMERS

LESLIE PARRISH

IMPACT REPORT

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- This report provides insights on how an earned wage access (EWA) offering from DailyPay is used and the outcomes reported by its users. EWA companies such as DailyPay partner with employers to provide their employees the option to access any portion of their accumulated net wages at any point during the pay period rather than waiting until the scheduled payday.
- The EWA market has grown quickly over the past few years; Aite-Novarica Group estimates that about US$9.5 billion of wages were accessed in this manner in 2020. EWA companies note that consumers often use this service to solve timing issues between bill due dates and paydays or unexpected expenses that crop up during a pay period. The revenue model for EWAs varies by company, with many charging a flat fee per access to the employee, employer, or a combination thereof.
- Aite-Novarica Group surveyed over 1,000 DailyPay users in May 2021 to better understand the strategies undertaken by respondents before DailyPay, the extent to which DailyPay use impacted the use of those prior strategies, and any changes respondents perceive related to their financial condition.
- Before using DailyPay, most respondents used one or more expensive strategies to deal with financial shortfalls, difficulty paying bills or loan payments, and timing issues between paydays, including payday loans and overdrafts to a bank account. A significant share also asked friends or family for money, which—while potentially free—may come with an emotional burden. Notably, respondents were much more likely to have used payday loans or incurred overdraft fees than the general population.
- Once respondents began using DailyPay, the vast majority were able to curb their use of (arguably) inferior or expensive alternatives. A majority of respondents believe that DailyPay has allowed them to worry about money less, budget and plan better, and reduce debt.

Introduction

Many consumers face timing mismatches between the day they are paid and their bill due dates. Others lack even a modest amount of savings that they can quickly tap into if an unexpected expense pops up. When these issues arise, these consumers may turn to costly strategies to make ends meet. Over the last decade, a growing number of companies have started to offer EWAs in partnership with employers to help solve these issues.

This report examines the user experience for customers of a leading EWA provider, DailyPay. After a brief overview of the company's offering, Aite-Novarica Group reports on the strategies consumers used before using this EWA service, their reasons for using DailyPay, and the changes in their financial circumstances that users attribute to this product.

Methodology

The insights in this report are informed by an Aite-Novarica Group online survey of 1,114 DailyPay users in May 2021, sponsored by DailyPay. Survey participation was promoted via an email sent by DailyPay to its customers, and those who completed the survey were entered to win one of several US$100 Amazon gift cards. Survey results have a 95% confidence interval with a 3-point margin of error. As survey respondents are all DailyPay users, the results reflect only this product rather than the entire earned wage access market. Additional details on the demographic profile of survey respondents, which are generally consistent with DailyPay's overall customer base, are outlined in the Appendix.

THE MARKET

The EWA market has experienced exponential growth in recent years, as a growing number of companies have begun to offer varied versions of this solution. Employers are increasingly interested in offering such an option as they witness the strain financial insecurity can cause their employees and as these solutions become more mainstream. Aite-Novarica Group estimates the EWA industry now provides an estimated US$9.5 billion annually in wages before employees' scheduled paydays. As this industry matures, a variety of stakeholders have become interested in understanding how consumers are using accesses, the impact of their use on those consumers' behavior and overall financial condition, and what regulatory context is most appropriate for this novel product (Table A).

TABLE A: THE MARKET

MARKET TRENDS	MARKET IMPLICATIONS
Many consumers have trouble budgeting and making ends meet.	A significant share of consumers run out of money before payday, experience timing issues between when their bills come due and when they are paid, or don't have adequate savings to deal with an unexpected expense.
A growing number of technology companies are offering EWAs in partnership with employers.	Most EWA companies were founded over the last decade. They gained momentum in recent years as they convinced employers of how they could help solve for the precarious nature of employees' finances.
EWAs have proven popular among employees as their employers increasingly partner with EWA providers that facilitate access to wages.	In 2020, Aite-Novarica Group estimates that employees accessed US$9.5 billion in earnings through EWAs. This represents a nearly 200% increase since 2018.
As the number of EWA companies and users has grown, stakeholder groups and regulators alike seek to understand EWA's impact.	EWA is a new type of product; thus, it has been debated whether an existing regulatory framework should apply or a new one should be created. The effect of its use and whether consumers are using it to substitute away from more costly alternatives or layering it on was unclear.

Source: Aite-Novarica Group

DAILYPAY'S OFFERING

DailyPay is one of several leading companies offering earned wage access through partnerships with employers. Founded in 2015, DailyPay provides up to 100% of net wages earned at any point during a pay period for a fee ranging from US$1.99 to US$2.00 per access; the fee depends on how quickly the consumer wants access to the funds. Employers that elect to provide this service to their employees can set rules for the share of total net earnings that can be accessed and can opt to subsidize the cost of access for their employees. Table B outlines further details of the DailyPay product.

TABLE B: DAILYPAY EARLY WAGE ACCESS SOLUTION

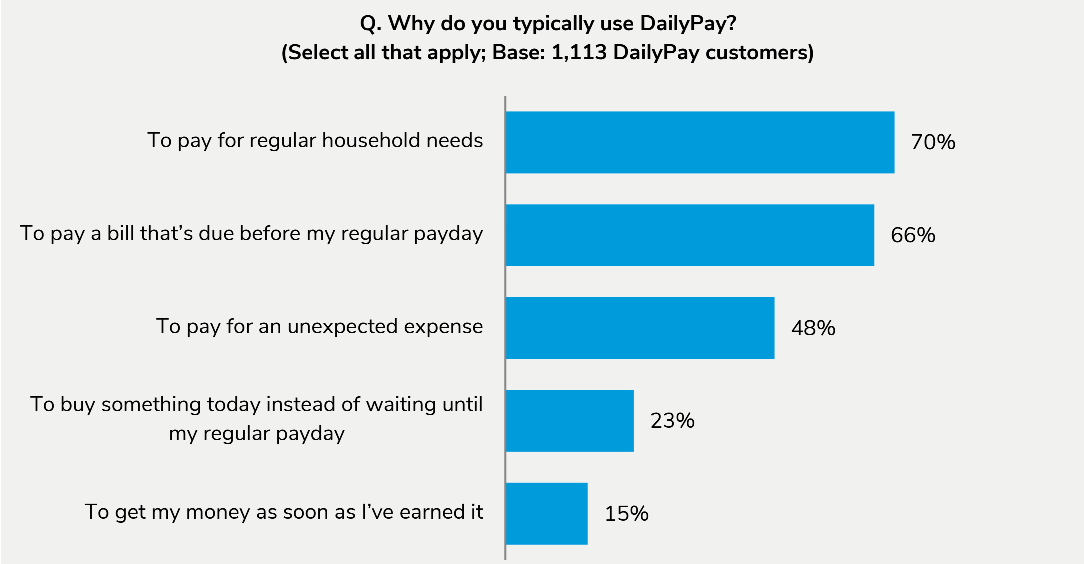
ACCESS AMOUNT	FEE	ACCESS DEPOSIT OPTIONS	OTHER SERVICES
Up to 100% of accumulated net wages; average access is US$100	US$1.99 (next day) or US$2.99 (instant) fee, paid by employer, employee, or in combination	Can be deposited into any bank account or onto a prepaid card	Features that facilitate saving, disbursements of off-cycle payroll payments, and instant bonus payments

Source: DailyPay

A SHIFT IN FINANCIAL COPING STRATEGIES

DailyPay users most commonly use EWA to deal with everyday expenses. Two-thirds of survey respondents noted that they use DailyPay to pay a bill that is due before their payday, and 70% use DailyPay to pay for regular household needs throughout the month (Figure 1). Fewer consumers use DailyPay for expenses that were unexpected or to make purchases early rather than waiting until their traditional paycheck arrives. Only about one in six users cited the desire to just generally receive funds as they were earned as a reason for using DailyPay.

FIGURE 1: REASONS FOR DAILYPAY USE



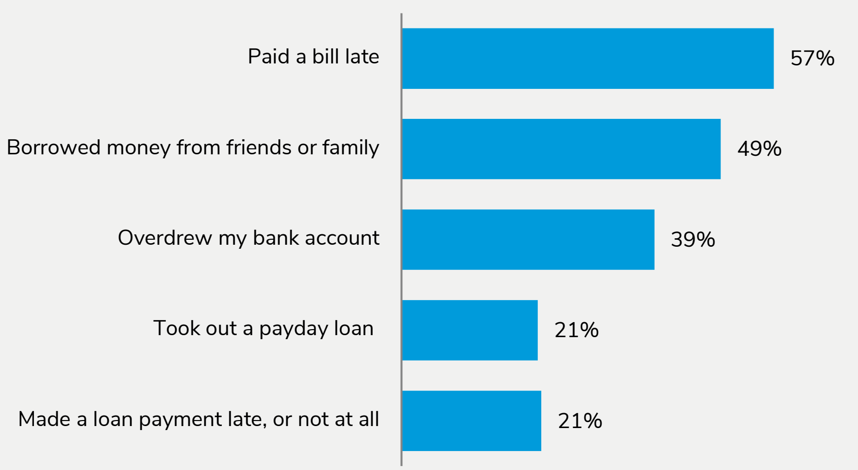
Source: Aite Group survey of 1,114 DailyPay customers, May 2021

Before using DailyPay, survey respondents used a variety of strategies to deal with expenses between paydays (Figure 2). Over half (57%) of respondents paid bills late, and about half (49%) borrowed funds from friends or family. While fewer note overdrawing a bank account or using payday loans before DailyPay, the share that did report these strategies is well above the share of U.S. adults. For example, an estimated 30% of all U.S. consumers overdraw a bank account at least once annually (with just 8%

overdrawing more than 10 times over the course of a year),[1] and an estimated 6% of U.S. consumers use payday loans.[2] The strategies asked about in the survey are considered to be inferior alternatives to DailyPay, either because they are more expensive or—in the case of asking friends or family for help—may carry an emotional burden.[3]

FIGURE 2: STRATEGIES BEFORE USING DAILYPAY

Q. Did you do any of the following before you used DailyPay?
(Select all that apply; Base: 1,113 DailyPay customers)



Source: Aite Group survey of 1,114 DailyPay customers, May 2021

As is evident from Figure 2, many survey respondents report that they used more than one of these strategies. For example, about one in seven respondents note that they were taking out payday loans and overdrawing their bank account before using

1 For more information on the share of consumers who incur overdraft fees, see "A Closer Look: Overdraft and the Impact of Opting-In," Consumer Financial Protection Bureau, January 19, 2017, accessed July 29, 2021, https://files.consumerfinance.gov/f/documents/201701_cfpb_Overdraft-and-Impact-of-Opting-In.pdf.

2 According to the Consumer Financial Protection Bureau's Making Ends Meet survey, 5.7% of consumers took a payday loan in the 12 months prior to June 2020. See Figure 2 in "Consumer Use of Payday, Auto Title, and Pawn Loans," Consumer Financial Protection Bureau, May 5, 2021, accessed July 29, 2021, https://www.consumerfinance.gov/data-research/research-reports/consumer-use-of-payday-auto-title-and-pawn-loans-insights-making-ends-meet-survey/.

3 In terms of cost, a US$300 payday loan typically has a US$45 fee. If due in two weeks, this equates to an APR of 391%. Similarly, overdraft fees are typically around US$34 per incident. Being late on a credit card or other loan may not only cause a consumer to be charged an additional fee but can also lower their credit score.

DailyPay. The financial and emotional toll may have been further magnified for these consumers, placing them in an even more precarious position.

SUBSTITUTION AWAY FROM INFERIOR ALTERNATIVES

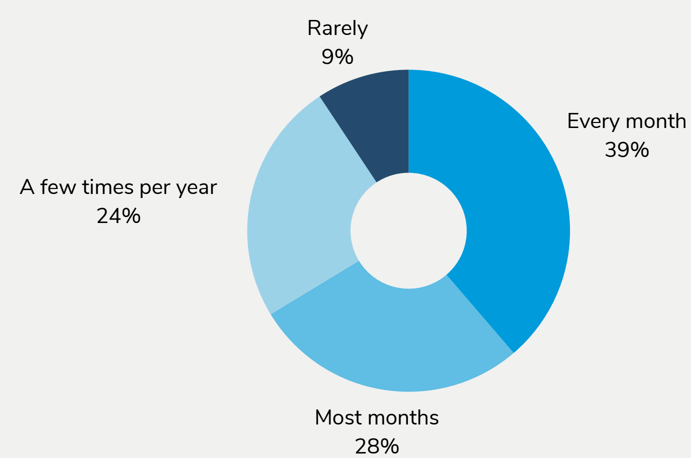
For each of these strategies noted in the survey, respondents were asked how frequently they used it before using DailyPay. Then, respondents were asked whether they added on DailyPay while continuing to use the strategy or were able to substitute DailyPay for it. Overall, respondents consistently reported a reduction or end to the use of these arguably more costly alternatives with the availability of DailyPay.

Frequency of Previous Strategies

Those respondents who used one of the strategies prior to using DailyPay tended to use it quite frequently to deal with their financial situation. Two-thirds of respondents who reported that they either had trouble paying bills or making on-time loan payments had this issue every month (39%) or most months (28%) before they used DailyPay (Figure 3). Similarly, over half of respondents (56%) who previously asked friends or family for money did so at least once per month (Figure 4).

FIGURE 3: PREVIOUS FREQUENCY OF BILL AND LOAN PAYMENT DIFFICULTY

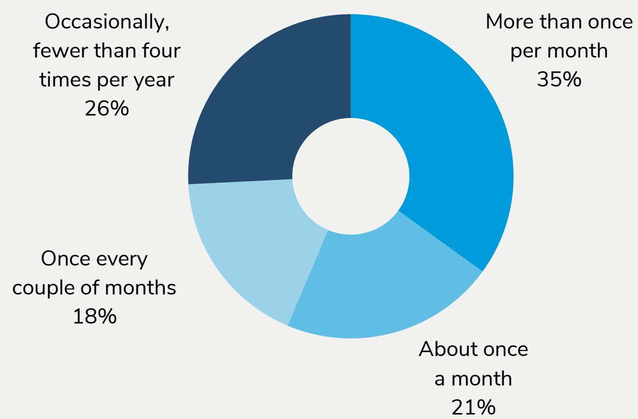
Q. Before you began using DailyPay, about how often did you have trouble paying bills or making on-time loan payments?
(Base: 656 DailyPay customers whose bill/loan payment(s) were late or missed before using DailyPay)



Source: Aite Group survey of 1,114 DailyPay customers, May 2021

FIGURE 4: PREVIOUS FREQUENCY OF REQUESTS FOR FRIENDS OR FAMILY HELP

Q. Before you began using DailyPay, about how often did you ask friends or family for money?
(Base: 543 DailyPay customers who asked friends or family for money before using DailyPay)

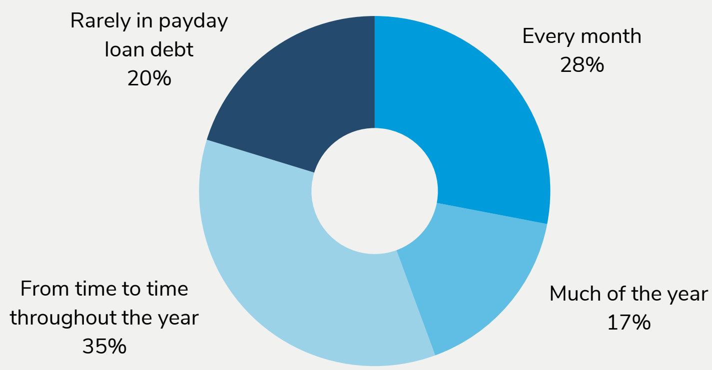


Source: Aite Group survey of 1,114 DailyPay customers, May 2021

Payday loan borrowing and overdraft fees were also regular occurrences for respondents who previously used these strategies. For example, over a quarter (28%) of respondents who used payday loans were indebted every month, and an additional 17% were in payday loan debt much of the year (Figure 5). The frequency of overdrafts was perhaps the most pronounced among these strategies, with 38% of respondents who overdrawing their account more than once a month, and another 21% experiencing an overdraft monthly (Figure 6).

FIGURE 5: PREVIOUS FREQUENCY OF PAYDAY LOAN USE

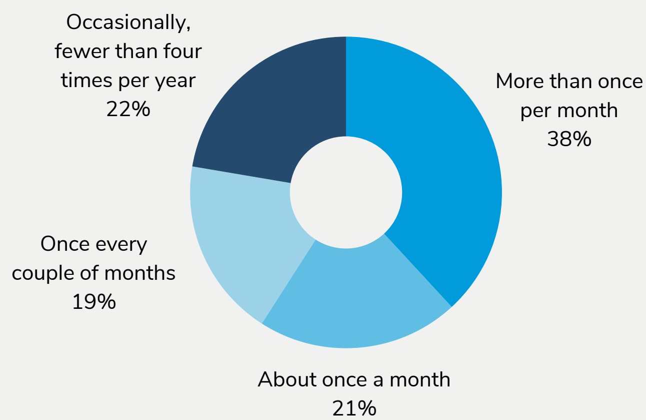
Q. Before you began using DailyPay, what best describes how frequently you were in payday loan debt?
(Base: 232 DailyPay customers who used payday loans before using DailyPay)



Source: Aite Group survey of 1,114 DailyPay customers, May 2021

FIGURE 6: PREVIOUS FREQUENCY OF OVERDRAWN BANK ACCOUNT

Q. Before you began using DailyPay, about how often did you overdraw your bank account?
(Base: 430 DailyPay customers who overdrew their bank account before using DailyPay)

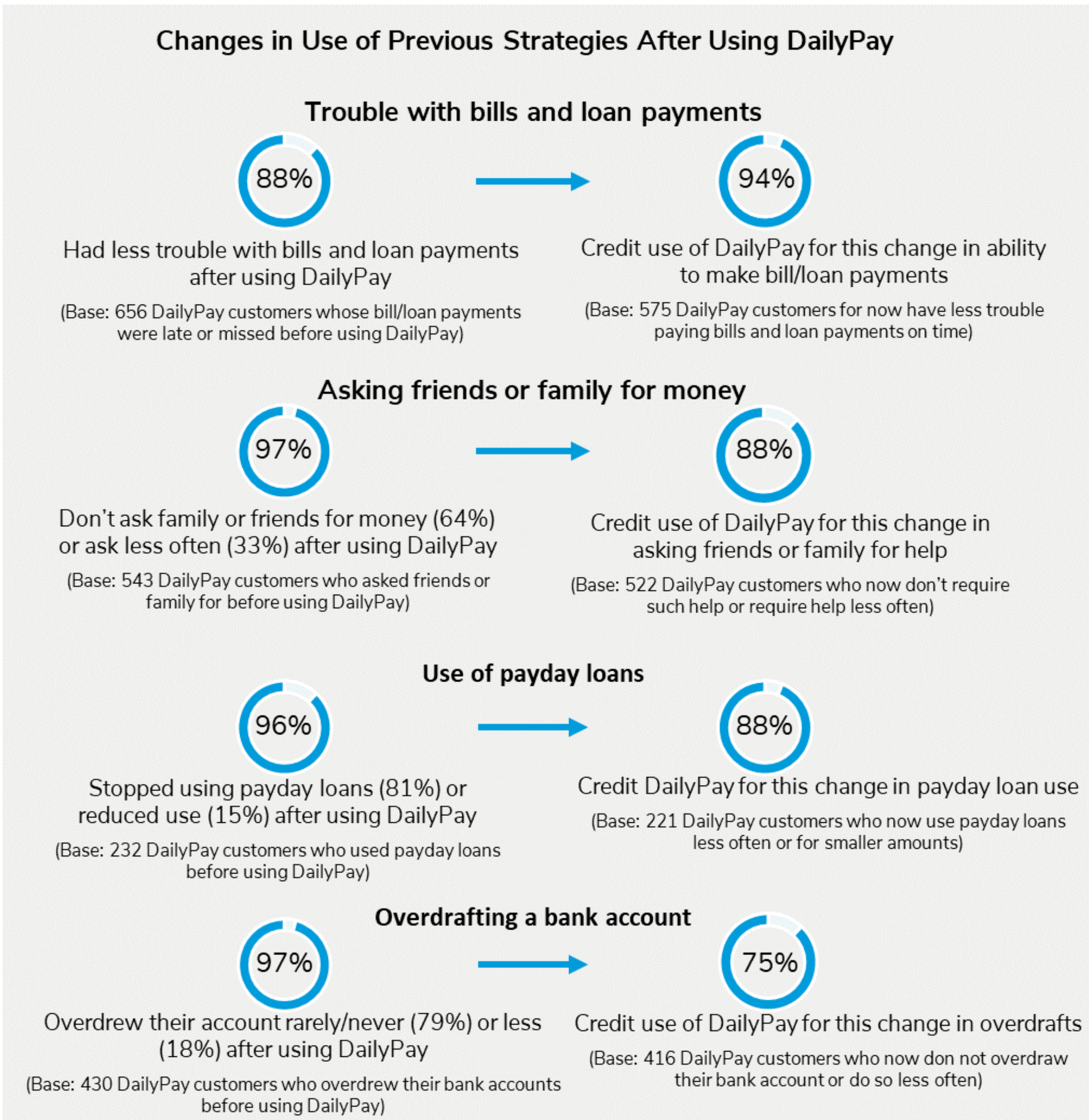


Source: Aite Group survey of 1,114 DailyPay customers, May 2021

Changes After DailyPay

Once respondents started using DailyPay, a large majority changed their use of those previous strategies, either reducing their use or stopping it entirely (Figure 7). When asked whether DailyPay was the catalyst for this changed behavior, most respondents attributed the change to DailyPay rather than another factor, such as a change in income or expenses.

FIGURE 7: CHANGES IN USE OF PREVIOUS STRATEGIES AFTER USING DAILYPAY



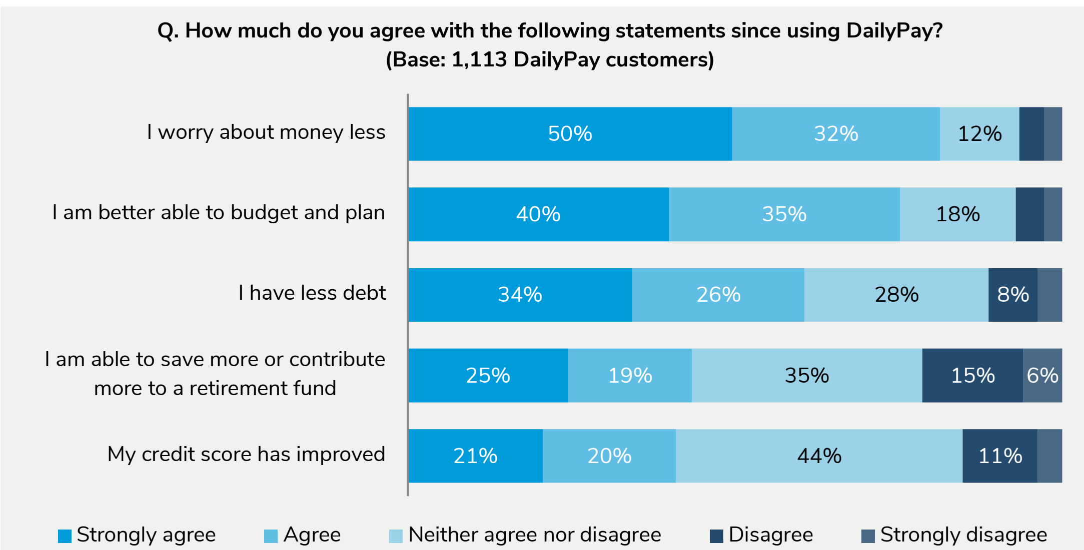
Source: Aite Group survey of 1,114 DailyPay customers, May 2021

PERCEIVED CHANGES TO FINANCIAL CONDITION

Given the substitution that many survey respondents made away from costlier alternatives when DailyPay became an option, users were asked to what extent they agreed or disagreed with statements related to their financial well-being. A large majority of users note that they worry about money less and are better able to budget a plan, and over 60% agreed with the statement that they were able to reduce their debt (Figure 8).

Somewhat fewer respondents believed that they were able to save more (either for short-term needs or retirement) or that their credit score improved as a result of using DailyPay. This is likely due to the fact that these changes would be secondary effects of DailyPay use: for example, if a consumer incurred fewer late or overdraft fees and—after becoming more financially stable—was then able to start saving or slowly rebuild their credit through on-time loan payments. Aite-Novarica Group hypothesizes that many consumers switching from costly alternatives to DailyPay first need to stop the immediate financial crisis and then gradually make longer-term investments in their financial well-being.

FIGURE 8: CHANGES IN FINANCIAL OUTLOOK SINCE USING DAILYPAY



Source: Aite Group survey of 1,114 DailyPay customers, May 2021

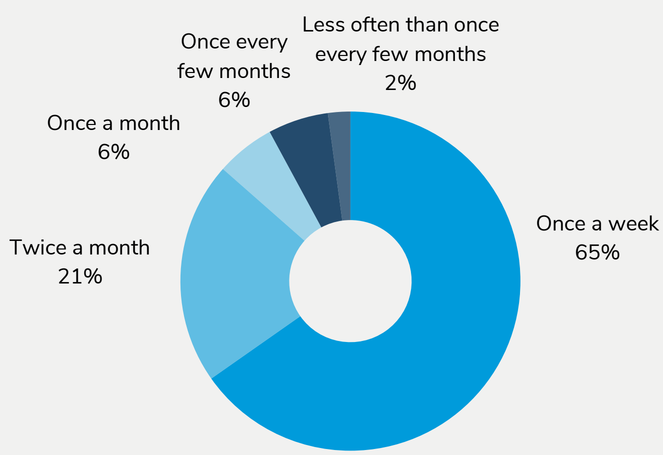
PERCEPTIONS OF FREQUENT AND INTENSE DAILYPAY USERS

DailyPay customers can use an EWA at any time during their pay period, so long as they have accumulated earned wages. The survey asked respondents about their frequency of use and the intensity of that use, in terms of the share of total net pay they typically access in a given pay period when DailyPay was used.

About two-thirds (65%) of DailyPay users report that they use EWAs weekly, while another 27% note that they use it once or twice per month (Figure 9).

FIGURE 9: FREQUENCY OF DAILYPAY USE

Q. About how often do you typically use DailyPay?
(Base: 800 DailyPay customers who used DailyPay for the first time at least one month ago)

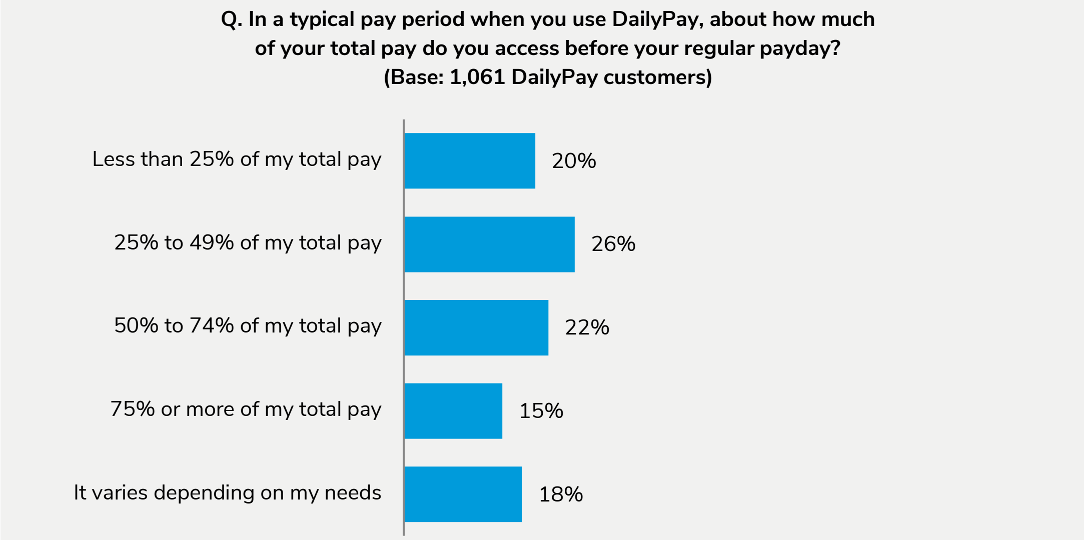


Source: Aite Group survey of 1,114 DailyPay customers, May 2021

Results were more varied in terms of the total share of net wages accessed, with 46% of respondents stating that they typically access less than half of their total earnings in a given pay period and 37% accessing 50% or more (Figure 10).[4] The remainder of users noted that the intensity of their use varied across pay periods. These users were somewhat more likely to also report that their household income varied each month, which may be one driver of this usage pattern.

[4] While DailyPay allows users to access of up 100% of their accumulated net wages, some employers have imposed restrictions on the percentage of wages that can be accessed early. Thus, some respondents may not have the option to select the higher intensity categories.

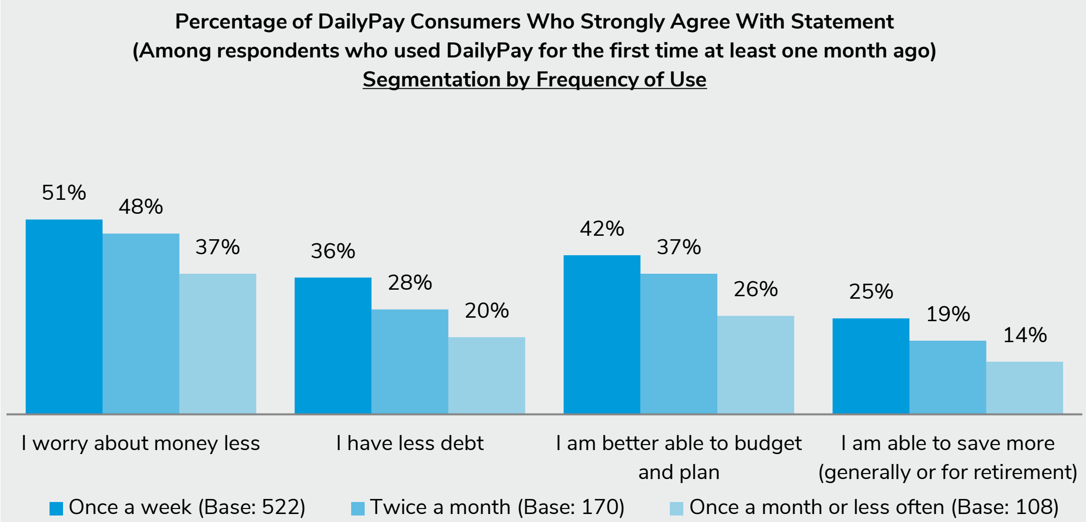
FIGURE 10: INTENSITY OF DAILYPAY USE



Source: Aite Group survey of 1,114 DailyPay customers, May 2021

Aite-Novarica Group compared the most frequent and intense users of DailyPay to their peers to see if the financial outcomes they report after using DailyPay differed in a statistically significant way. As shown in Figure 11, those who use DailyPay once per week were more likely to strongly agree with several statements regarding their changed financial condition relative to those who use the product no more than once per month. Thus, we do not see evidence that more frequent use is linked to worse outcomes as it relates to user sentiment of their financial condition.

FIGURE 11: FINANCIAL OUTCOMES REPORTED BY FREQUENT USERS, RELATIVE TO LESS FREQUENT USERS



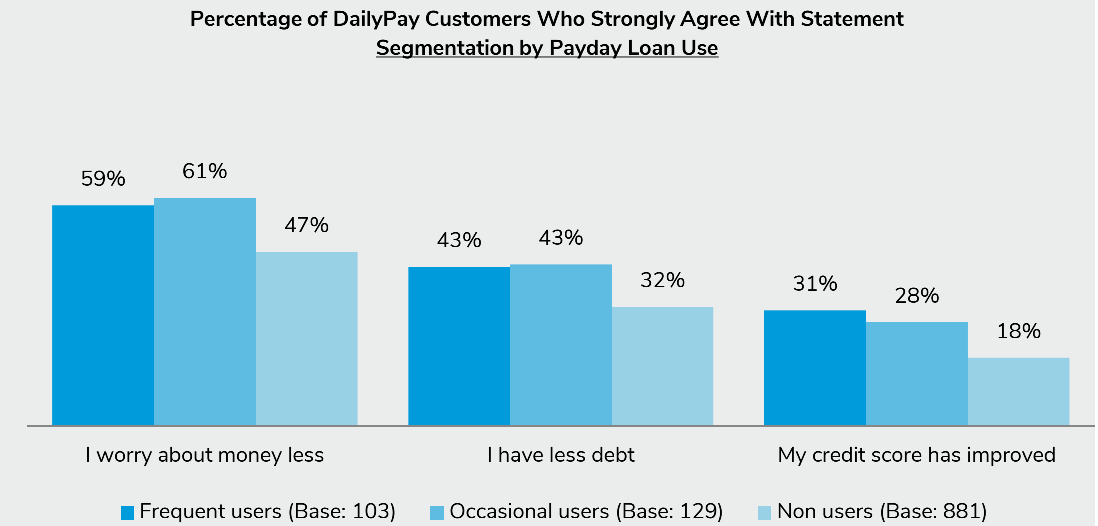
Source: Aite Group survey of 1,114 DailyPay customers, May 2021

IMPACT OF DAILYPAY ON PRIOR PAYDAY LOAN BORROWERS AND OVERDRAFTERS

As those consumers who were the most frequent users of payday loans and those who repeatedly overdrew their accounts are arguably among the most financially fragile, Aite-Novarica Group looked at these subsets of respondents to understand their perceived outcomes relative to others who did not use these products as extensively or at all.

As noted earlier, those consumers who were in payday loan debt either every month or most of the year made up nearly half (45%) of all respondents who noted that they used payday loans before turning to DailyPay. These frequent payday loan users were significantly more likely to strongly agree with statements that they now worry about money less, have less debt, and have an improved credit score than their peers who did not take out payday loans prior to using DailyPay (Figure 12).

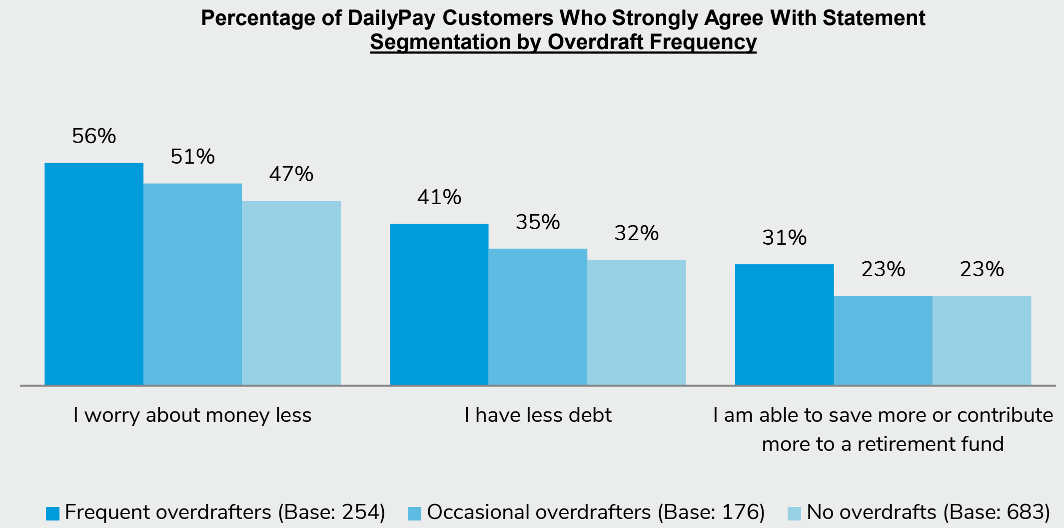
FIGURE 12: FINANCIAL OUTCOMES BY PRIOR PAYDAY LOAN BORROWING FREQUENCY



Source: Aite Group survey of 1,114 DailyPay customers, May 2021. Frequent payday loan users are defined as those who are in payday loan debt every month or most of the year.

Similarly, Aite-Novarica Group compared those consumers who previously overdrew their bank account at least once per month to those who either overdrew less frequently or did not experience overdrafts. Similar to the experiences of those with prior frequent payday use, the most frequent overdrafters were more likely to strongly agree with statements about improved financial outcomes than those who overdrew less frequently or not at all. (Figure 13).

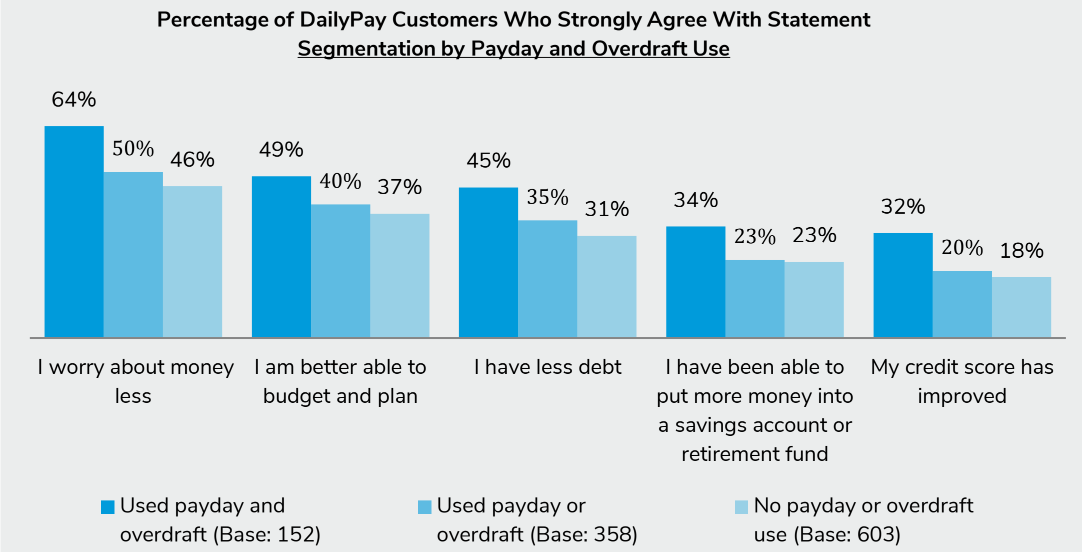
FIGURE 13: FINANCIAL OUTCOMES BY PRIOR OVERDRAFT FREQUENCY



Source: Aite Group survey of 1,114 DailyPay customers, May 2021. Frequent overdrafters are those consumers who have incur one or more overdrafts every month.

As noted earlier, 14% of survey respondents used payday loans and also incurred overdraft fees before starting to use DailyPay. These consumers expressed similar sentiments about their improved financial condition, with significantly higher levels of agreement on several dimensions of financial well-being compared to respondents who only used payday loans or incurred overdraft fees (but not both) and those who did not have a prior history of payday loan borrowing or overdraft fees (Figure 14).

FIGURE 14: FINANCIAL OUTCOMES FOR PRIOR USERS OF PAYDAY LOANS AND OVERDRAFT



Source: Aite Group survey of 1,114 DailyPay customers, May 2021

The findings in Figure 12, Figure 13, and Figure 14 suggest that DailyPay customers who are more financially vulnerable before using EWA perceive the greatest benefits of switching from their previous strategies to DailyPay.

CONCLUSION

EWA providers:

- **First, stop the bleeding.** Many employees face precarious financial conditions due to timing mismatches between their income and expenses or a lack of savings. Alternatives to high-cost credit or penalty fees can help them regain control of their finances. EWAs that are structured and priced appropriately can serve as one such alternative.
- **Once stabilized, facilitate customers' continued path toward financial stability.** Once these employees are on a more stable financial footing, they may be receptive to other tools and services from their EWA provider that allow them to save and improve their credit.
- **Continue efforts to understand usage and outcomes.** While the EWA market has grown considerably in recent years, it is still in its early stages. Employers, regulators, consumer advocates, and other stakeholders (in addition to EWA providers themselves) still need to better understand who makes up the EWA customer base, how these products are used, and the impacts on myriad customer segments.

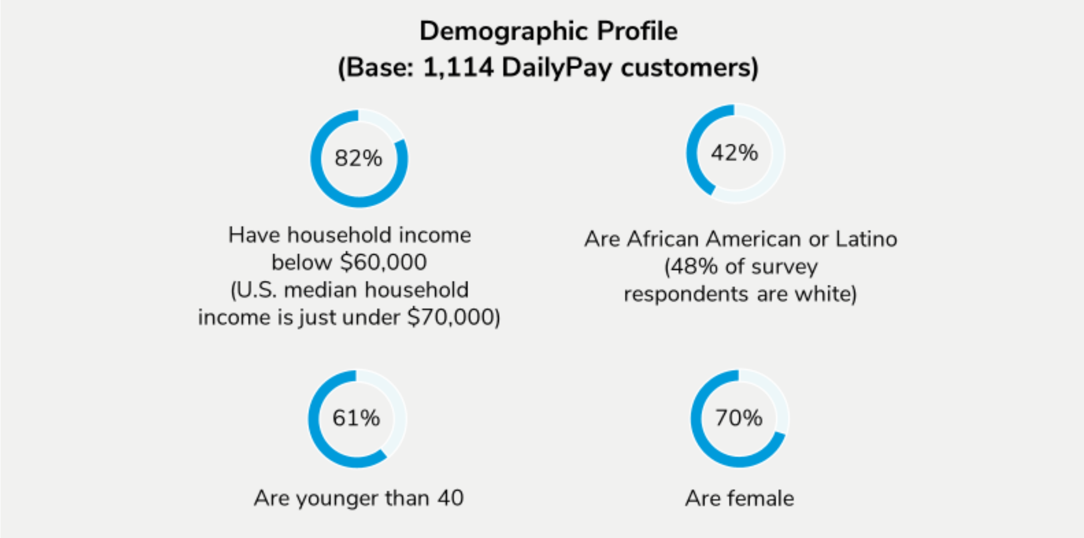
Other EWA stakeholders:

- **Engage with EWA providers to assist with users' financial wellness journeys.** EWA providers are interested in helping their customers save and build credit. Organizations with expertise in these areas should consider partnerships with EWA providers to distribute these tools to a captive audience.
- **Develop data-driven recommendations for the future of the market.** Since this is still a relatively new product offering, much remains to be learned about customers' needs and outcomes. More research can help inform policy discussions, allowing EWA providers to refine their offerings intelligently.

APPENDIX: SURVEY RESPONDENT PROFILE

Relative to the general U.S. adult population, DailyPay users who participated in this survey are more likely to be younger, female, non-white, and lower-income (Figure 15). DailyPay notes that this demographic profile is consistent with its overall customer base.

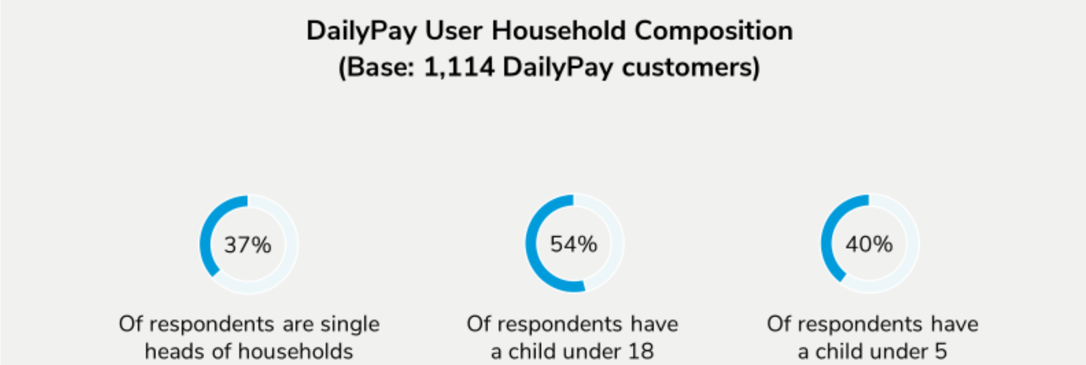
FIGURE 15: DEMOGRAPHIC PROFILE



Source: Aite Group survey of 1,114 DailyPay customers, May 2021

Over half of survey respondents have a child, and at least one child in the household is relatively young. About four in 10 respondents are single heads of households (Figure 16).

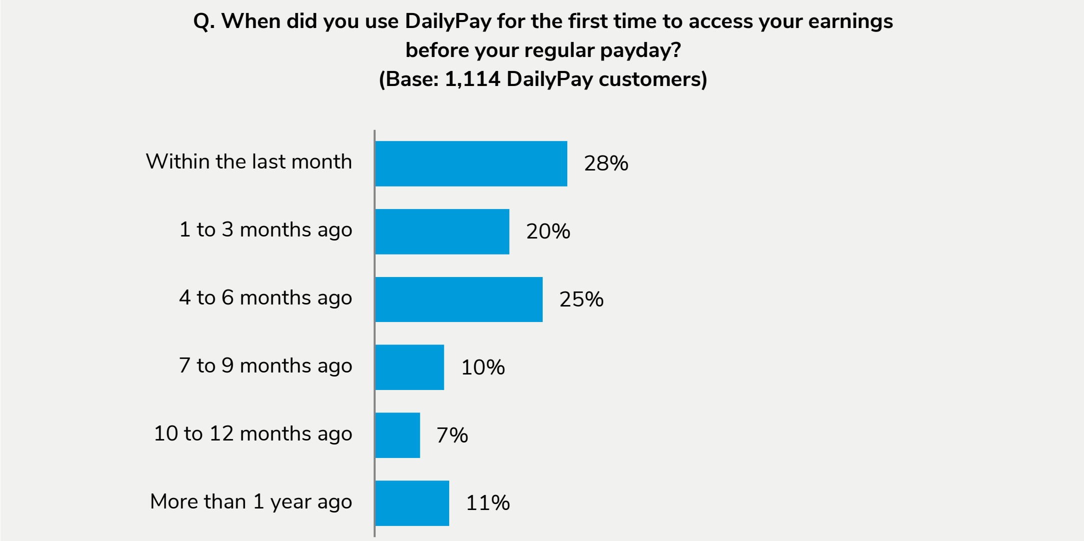
FIGURE 16: DAILYPAY USER HOUSEHOLD COMPOSITION



Source: Aite Group survey of 1,114 DailyPay customers, May 2021

Most of the survey respondents only had access to DailyPay through their employer for a relatively short period of time. For example, nearly half (48%) had used DailyPay for the first time within the last three months (Figure 17). This is likely driven by the fact that employers offering DailyPay generally experience higher employee turnover rates, especially among those employees who are more junior and paid hourly, which seems to align with the respondent base.

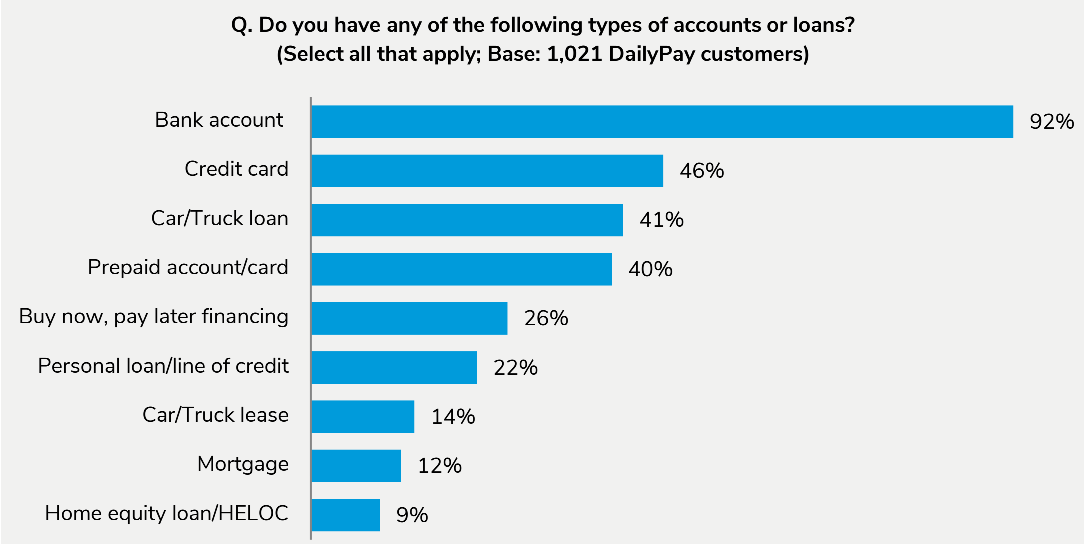
FIGURE 17: DISTRIBUTION OF DAILYPAY TENURE



Source: Aite Group survey of 1,114 DailyPay customers, May 2021

Likely driven by factors such as their income and age, DailyPay survey respondents were less likely to have certain types of financial products, such as mortgages, and more likely to have a prepaid card (Figure 18).

FIGURE 18: TYPES OF FINANCIAL ACCOUNTS AND SERVICES



Source: Aite Group survey of 1,114 DailyPay customers, May 2021

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CONTACT

Research and consulting services:
Aite-Novarica Group Sales
+1.617.338.6050
sales@aite-novarica.com

Press and conference inquiries:
Aite-Novarica Group PR
+1.617.398.5048
pr@aite-novarica.com

For all other inquiries, contact:
info@aite-novarica.com

Global headquarters:
280 Summer Street, 6th Floor
Boston, MA 02210
www.aite-novarica.com

AUTHOR INFORMATION

Leslie Parrish
+1.617.398.5098
lparrish@aite-novarica.com

Research Design & Data:
Judy Fishman
jfishman@aite-novarica.com