

Role of earned wage access in talent retention strategies - JP Morgan report

Earned wage access (EWA) is rising in prominence as a powerful HR tool for employers to retain and attract talent. This statement is supported by a new report issued by JP Morgan titled *Financial Inclusion Through Payments*. South African EWA fintech, Paymenow, was a contributing author to the report.



Image source: Tirma Mroshnichenko from [Pexels](#)

In line with research conducted by JP Morgan, 5,000 consumers were surveyed across the UK, France, Germany, Spain and the US concerning their spending plans as the cost-of-living crisis takes hold. An analysis of the South African market was conducted and researched by Paymenow.

Coming out of the global pandemic, the financial wellness of employees has been brought into the spotlight as they try to navigate the uncertainties of the new normal. While businesses shift to recovery mode, employees continue to struggle to balance financial priorities and keep pace with soaring inflation and rising interest rates as well as the impact of the Ukraine-Russia war on energy prices. EWA provides employees with an alternative liquidity solution to access their net earned pay before their next payday.

Employee incentives

Deon Nobrega, CEO of Paymenow says: "In today's war for talent and skills, base pay is only one out of several considerations for employees when looking at employment opportunities. There has been a clear shift to focus on other employee incentives such as flexible working arrangements and mobile opportunities, as well as health and wellness benefits. It is notable that within the wellness arena, EWA has emerged as a powerful tool to retain and attract talent in key segments of the workforce.

"When compared to other alternative liquidity options, EWA can be a compelling economic case for employers while offering employees better financial outcomes. EWA access has the potential not only to define the future of pay but also to pave the way for financial inclusion in emerging economies."



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Sumanth Sunkari, trend and advisory at JP Morgan says: “As financial unease continues to spread, employers are turning to earned wage access as an option to alleviate financial stress for their employees. This reaffirms our view that payments can serve as a source of social value when combined with financial literacy tools.”

According to the survey results, 33% of consumers plan to use pandemic savings to support discretionary spending; but a willingness to borrow seems low, with only 25% willing to take on debt to support living standards.

Another key finding from the report is that 40% of respondents do not expect their salaries to increase this year, and even taking into account those who do expect an increase, only 32% expect it to be enough to offset/more than offset the higher cost of living.

Nearly half (45%) of Europeans say their bills are rising at a faster rate than their income, with a similar number (43%) saying this is negatively affecting their well-being.

In South Africa, there are currently 25 million active credit customers and more than 10 million of them are behind on their payments. Kenya is proof of the shift to digital alternative payment systems, where mobile money networks are increasingly being used by underbanked communities.

Key nuances of the South African market

Nobrega says that according to Paymenow data, the company has observed that the average cash-out from users on the Paymenow platform is R350 (c.\$16), twice a month. Paymenow conducted a study through 60 Decibels, where they assessed impact performance and the drivers for utilisation of EWA across a variety of industries.

Of the funds made available through EWA, the majority is being spent on necessity items such as food, transportation, medical support, and utility bills. The largest portion of this spending is centred around transportation costs, while food is the next biggest spend item.

Although EWA users are given access to a percentage of their salary through the platform, only 12-14% of funds are being utilised on average. This highlights the recognition by users that this is their “own, earned” money and, therefore we see more conservatism in how much is actually being accessed.

A unique aspect of the South African market is that the informal transportation sector is largely cash-based, meaning that many individuals who wish to travel to work and subsequently earn money, require cash upfront. This is where we have

observed clear use cases for EWA to support the continuity of business for employees who take a taxi from their towns into the city.



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Trends

The report focuses on the trends, viewpoints, and key considerations that drive the need for financial inclusion and how payments play a role in pushing this forward in the EMEA region.

“Cash is king” has been the guiding principle for many traditional companies over the years. In the current economic environment, *cash flow* is now king and one of the emerging trends driving growth in the earned wage access market. Other key trends, covered in the report, include the momentum in alternative finance, solving for the point of need, and notably EWA as a talent retention and attraction tool.

Internationally and more recently in South Africa, there is a rise in the use of gamification services on EWA platforms to promote responsible financial behaviour and encourage saving. Users are incentivised to receive points and unlock additional features. This element of financial literacy is a subtle, but critical step to shifting active users from a spending culture to a savings mindset.

EWA is now being adopted by workers across multiple regions and segments that are seeking an alternative to pay-day lending, with use cases emerging across various industries including fast-moving consumer goods, hospitality, logistics, construction, and transport.

Nobrega concludes: “Although EWA is not a perfect solution to the macro-economic challenges that many consumers face today, it can provide underserved communities with a lifeline to try and weather the storm in the short-term. Many more segments of the workforce will continue to consider and explore alternative sources of finance to shore up their cash position in response to rising expenses. The EWA market may be seen as transitioning towards an employer-funded model, where EWA is offered as an additional corporate benefit aligned to sustainability strategies that identify material risks and opportunities in their social pillar.”

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