J.P.Morgan

Earned Wage Access I Europe, Middle East and Africa

Empowering financial inclusion through payments

"Climate change and inequality are two of the critical issues of our time, and these new efforts will help create sustainable economic development that leads to a greener planet and critical investments in underserved communities. Business, government and policy leaders must work together to support long-term solutions that advance economic inclusion, bolster sustainable development and further the transition to a low-carbon economy. We are committed to doing our part."

Jamie Dimon
Chairman and CEO, J.P. Morgan Chase & Co.

Paymenow as a Contributing Author

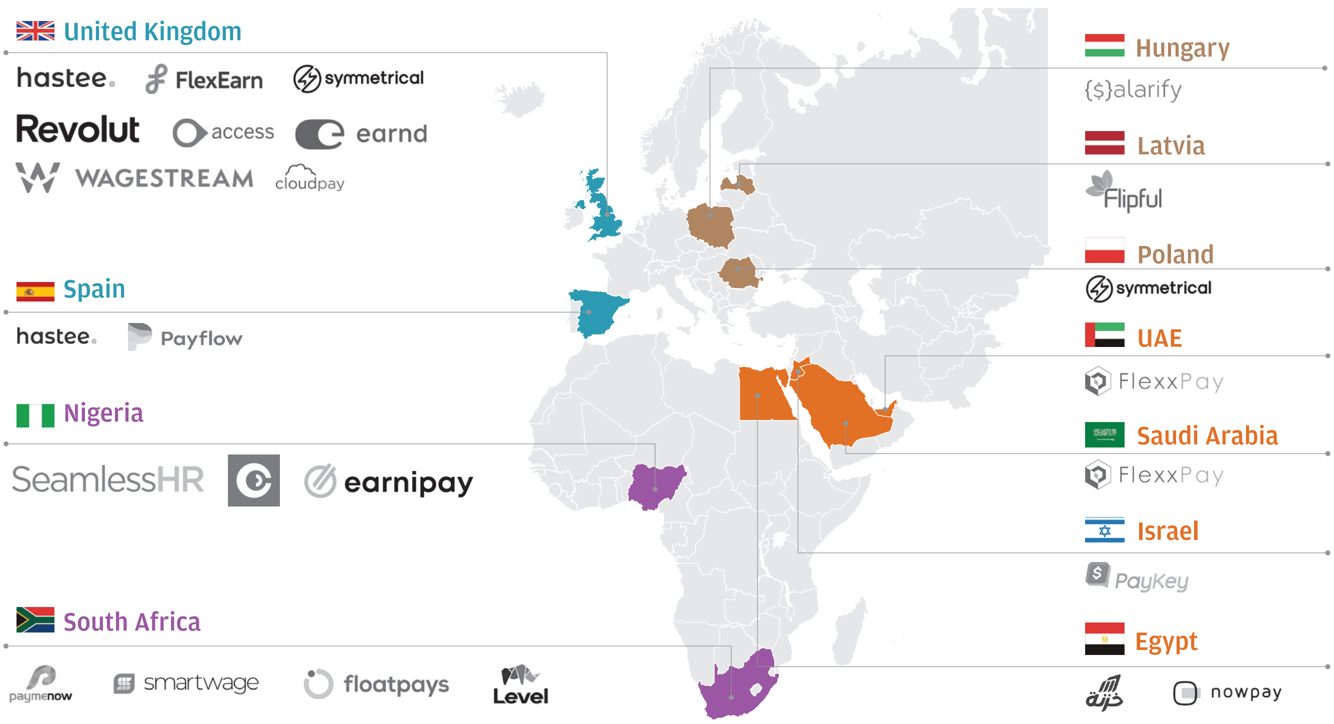
We would like to sincerely thank Paymenow for their contribution to the development of this report. Paymenow is a fintech platform based in South Africa that integrates with the employer's payroll system and provides an earned wage access solution to employees allowing them access to a predetermined (by employer) percentage of their salary before payday. Their mission is to restore the dignity and quality of life for people faced with economic stress by changing financial behavior responsibly, providing early access to wages, and empowering employees and employers. The company's vision is to initially ease the burden inflicted by payday and microlenders through affordable, real-time access to a portion of their salary and to then educate and assist in reaching financial goals.

1. Executive summary

In today's world, the consumption of goods and services is fundamentally mismatched with how people are paid their income. **A real-time, on-demand, connected commerce ecosystem has emerged across multiple industries, while many consumers are still compensated in deferred, fixed-payroll cycles.** For segments of the population that do not have substantial savings, this is leading to intra-month cash flow challenges at a time when the cost of living is rising faster than real wages.

With an increase in social consciousness of employers globally, **we are now seeing a transition to more ethics-based corporate strategies, business models and embedded payment features.** One particular area in alternative finance that has grown in relevance is **earned wage access (EWA)** or on-demand pay, as it is commonly known in North America. This has become a mainstream tool for employees in the U.S., in particular, due to the wage culture and employer-led benefits; but this trend is starting to proliferate across Europe, the Middle East and Africa (EMEA) in particular, with EWA now incorporated in the United Kingdom, Spain, United Arab Emirates, South Africa and Nigeria to name a few (see figure below for a regional snapshot).

Earned Wage Access providers in EMEA



Sources: WhiteSight, Crunchbase, J.P. Morgan Research | Note: This may not be an exhaustive list of EWA providers in the region

In line with research conducted by J.P. Morgan[1], we recently surveyed 5,000 consumers across the United Kingdom, France, Germany, Spain and the U.S. with regards to their spending plans as the cost of living crisis takes hold. Thirty-three percent of consumers plan to use pandemic savings to support discretionary spending; but willingness to borrow seems low, with **only 25% willing to take on debt to support living standards.** Interestingly, **40% of respondents to the survey 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.

As corporations look to get back on their feet after the pandemic, **the financial wellness of their employees has been brought into the spotlight as we navigate the uncertainties of the new normal.** High inflation, rising interest rates and lagging economic growth are now starting to challenge employees as they review at their expenses and identify ways to minimize or maintain their lifestyles.

For individuals who are looking to take control of their cash flow position, **earned wage access becomes an alternative working capital solution by smoothing out the income cycle** and creating more alignment of their pay-outs to on-demand consumption and recurring expenses.

Our analysis of the South African market, based on Paymenow research[2], also showcased some positive outcomes where EWA, used in conjunction with financial literacy tools, offered a case that **money earned can be spent more rationally than money loaned.** Furthermore, the data highlights that in emerging markets, **payments serve as a key enabler for social impact** for not only the users of EWA services, but the broader communities that they support, as the use of proceeds is typically for family members.

In line with rising inflation and interest rates[3], the barriers to entry to access cost-effective financing are higher for lower income households, while faced with the same structural challenges gripping our society today. Throughout this report, we'll dive into the trends, viewpoints and key considerations that drive the need for financial inclusion and how payments play a role in pushing this forward.

40%

of respondents do not expect their salaries to increase this year

32%

Only 32% expect a salary increase to be enough to offset the higher cost of living

2. Earned wage access trends to watch

Momentum in alternative finance

To have a society where individuals do not actually need to draw on their earnings and have sufficient savings to be able to fulfill their day-to-day obligations is the true north when it comes to financial wellness. However, this is clearly not the case in emerging markets in particular, and has led to the prominence of stop-gap solutions such as pay-day lenders that charge double-digit interest rates for micro-loans. In response to these costly financial solutions, there has been a growth in the alternative finance market where payment-specific innovations, such as earned wage access and buy-now pay-later, have been deployed.

There has been a growth in the alternative finance market where payment-specific innovations have been deployed.

Solving for the point of need

As the world shifts to on-demand consumption patterns accelerated by technology and platform companies, payments are also transitioning to real-time applications, where finance is provided at the point of need rather than at a point in time. In many cases, that point of need is typically decoupled from when funds are actually received, thus creating a mismatch in the pay-in and pay-out process. This is where EWA is looking to find a home by plugging into traditional pay cycles of individuals to settle urgent and sometimes unforeseen outflows, such as transportation costs, food bills and medical expenses.

Payments are also transitioning to real-time applications where finance is provided at the point of need.

Cash flow is now king

Cash is king has been the guiding principle for many traditional companies over the years in response to navigating through uncertain times. As the current world order shifts, an argument could be made that "cash flow is now king" as cheap capital and economic cycles start to reset. These are sentiments that are not only applicable to platform businesses, but individuals alike as they look to review how they can meet their financial obligations in the short-term.

Cash flow is now king as cheap capital and economic cycles start to reset.

EWA as a talent retention and attraction tool

In the current war on talent and search for skills in an increasingly competitive labor market, base pay is only one of multiple considerations when making the final decision now. There has been a clear shift to focus on other areas, such as flexible working arrangements and mobility opportunities, as well as health and wellness benefits. Within the wellness area, EWA has risen to prominence as a tool to retain and attract talent in key segments of the workforce.

EWA as a pseudo current account

In rural areas across many emerging markets, key segments of the population are typically underbanked, as they do not have easy access to traditional banks and credit unions. Some EWA providers are therefore enabling users to push their earned wages directly to a digital wallet instead of a physical bank account and facilitating all their activities through mobile money ecosystems. As a result, we see EWA platforms evolving into a pseudo "current account," with embedded value-added services and financial tools built into the user experience.

Gamification to create positive learning outcomes

Technology is the enabler for reaching end consumers in this digital age, but what we're seeing now is a hyper-personalization of services to maintain engagement on platforms. This has manifested in the form of gamification on EWA platforms, where users are incentivized to keep interacting with various educational modules on the platform in order to receive points and unlock additional features, functionality and financial benefits by progressing through various tiers. This element of financial literacy is a subtle, but critical, step to shifting active users from a spending culture to a savings mindset—which is disproportionately more important when an individual's earnings increase.

Shifting commercial models

Historically, EWA providers have focused on pricing models, where the employee pays a transaction fee each time users want to access their earned wages in advance. This remains the modus operandi across many providers and markets today; however, the pandemic has started to shift the interest in EWA from employee-led demand to an employer-driven benefit. This is resulting in a change of the commercial model for providers who are exploring the model of charging the employer a subscription fee per user per month or where the employer funds a certain number of advances during the pay cycle.

The unit economics of such a model are predicated on the ability of providers to scale monthly active users (MAU), ramp-up conversion rates from registered users to active participants and minimize churn in active users through in-app features that keep individuals engaged. While the application of this recurring revenue model is still not mainstream in the current market, it is plausible that this can become a new operating model that employers consider in order to help their employees address basic needs in the short-term.

Shifting active users from a spending culture to a savings mindset.

The pandemic has started to shift the interest in EWA from employee-led demand to an employer-driven benefit.

3. Regional drivers in EMEA

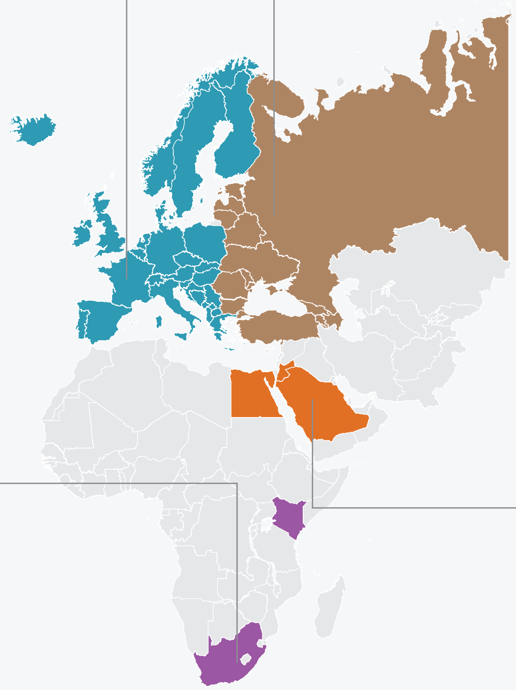
Nearly half (45%) of **Europeans** say their bills are rising at a faster rate than their income, with a similar number (43%) saying this is negatively affecting their wellbeing[4]. The Russian invasion of Ukraine earlier this year, together with supply shortages across key commodities, has only exacerbated the pain for European consumers as they have seen double-digit increases in energy bills and food prices this year. In **Spain and France,** by law, monthly salaried workers can request an advance on their wages in case of emergencies[5]. In light of recent events, household debt in Sweden is seen as the biggest risk to the economy according to Swedish central bank[6].

UK and Western Europe

- 45% of Europeans say their bills are rising at a faster rate than their income[1]
- In Spain and France, by law, monthly salaried workers can request an advance on their wages in case of emergencies[5]
- Household debt in Sweden is the biggest risk to the economy according to Swedish Central Bank[6]

Sub-Saharan Africa

- South Africa currently has 25 million active credit customers and more than 10 million of them are behind on their payments[9]
- Nearly 1 in every 6 South Africans are now behind on their debt repayments[9]



Central and Eastern Europe

- Real disposable incomes in Russia have slumped to the lowest since 2009, according to calculations by the Bank of Finland Institute for Emerging Economies[7]

Middle East and North Africa

- In Egypt, only 10-15% of Egyptians have bank accounts, with many paying most bills in cash or taking out high-interest loans[11]
- There is smartphone penetration of 96% as of Q2 2021 in Egypt[12]

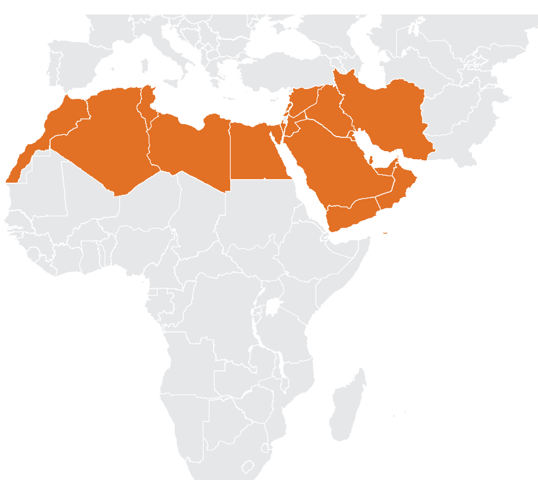
Central and Eastern Europe

In **Central and Eastern Europe,** real disposable incomes in Russia have slumped to the lowest since 2009[7]. Across the board, we are seeing a squeeze on consumer affordability as the rise in expenses starts to outweigh the rise in real income levels. According to the global HR law alliance Ius Laboris[8], the standard weekly work time in Russia is 40 hours and any hours worked beyond these are considered overtime—where this is expected to rise as a way for these employees to insulate themselves from increasing expenses. In Hungary, the minimum monthly wage is HUF 138,000[8] (c.$492) for unskilled employees or HUF 180,500 (c.$643) for those with a secondary education—reiterating the fact that a cost-of-living crisis will affect the lower income segments of Eastern Europe the most in the short- and long-term.

Sub-Saharan Africa

In **Sub-Saharan Africa,** we are seeing a similar dynamic play out signalling the need for alternative forms of financial inclusion. South Africa currently has 25 million active credit customers and more than 10 million of whom are behind on their payments[9]. Therefore, nearly 1 in every 6 South Africans are now behind on their debt repayments, and the debt cycle could increase further as variable rate repayments become more expensive to service. Trailblazing markets such as Kenya are proof of this digital shift, where mobile money networks such as M-Pesa rose to prominence as the desired method of payment for many segments of the population.

Middle East and North Africa



These pressures are also being felt across the **Middle East and North Africa,** with shortages of key commodities driving up input costs. In Turkey, consumer prices have increased by 69.97% annually according to Turkish Statistical Institute,[10] with transportation, household goods and food driving the highest increase in inflation in two decades. In Egypt, the World Bank estimates that only 10-15% of Egyptians have bank accounts, with many paying most bills in cash or taking out high-interest loans[11]. When compared with smartphone penetration of 96% as of Q2 2021[12], the shift towards digital payments solutions and alternative finance is clear.

For a period of time, EWA solutions have typically been viewed as a standalone payment product for hourly workers to access a percentage of their earned income prior to regular payment cycles. But what has been missing in this flow is the educational element of fundamental tools related to savings, credit, fees and interest. In the emerging market context, these foundational pieces can be just as important as the earned wages themselves in order for individuals to understand the implications that their consumer behavior has on their credit score, affordability and overall financial stability—and move towards that "true north," where individuals do not actually need to draw on their earnings and have sufficient savings to be able to fulfill their day-to-day obligations.

What we are now seeing is an increasing focus on **micro-financing together with financial literacy tools** embedded within the user experience. Typically, employers have provided their employees with access to between 25-30%[2] of their total earned wages, but this can vary depending on the industry, market and employer preference. For money earned to be spent more wisely than money borrowed, a financial literacy control needs to be built into the model as users start getting access to a higher percentage of their earned income—otherwise this can create the opposite problem of individuals consuming well above their means between pay cycles and having a smaller proportion of funds available to them on the traditional pay day.

This financial control needs to be in the form of educational modules that can be completed as a pre-requisite to unlocking a bigger proportion of earned income. Once individuals are educated and assessed through quizzes on key learning outcomes related to basic financial health, this should allow for more informed decision making on their spending patterns and, ultimately, equip users with a long-term saving mindset.

25-30%[2]

the percentage of earned wages that employees typically have access to as a function of their total wages

> *"Payments can serve as a key source of social value to not only the individuals using earned wage access, but the wider communities they support."*

JP Jolly,
Managing Director,
Global Co-Head of Corporate & eCommerce Sales

4. Industry views

Building on the findings from the KPMG[13] report, EWA is now being adopted by blue-collar workers seeking an alternative to pay-day lending, with use cases emerging across a variety of industries that include fast-moving consumer goods, hospitality, logistics, construction and transport.

Consumer and retail

The consumer and retail sector has traditionally been a large exponent of EWA, as a significant proportion of their workforce tends to be based in manufacturing facilities and shop floors. Wage-based staff in fast-moving consumer goods companies have long been tapping on HR's door seeking financial support to no avail, as employers didn't have the cash flow, risk appetite or financial tools to support their employees with personal obligations. This has now transformed through the use of on-demand pay tools, where warehouse staff, truck drivers, floor staff and sales reps are looking to access their own earned wages between pay cycles, as opposed to external credit lines.

Diversified industrials and automotives

Auto parts manufacturers have felt the supply shocks throughout the course of the pandemic, with factories having to shut down and production grinding to a halt and creating backlogs in value chains. Unlike many blue-collar roles, many factory workers in these industrial companies do not have the luxury of working remotely and thus have to commute to their sites to earn a living. Ironically, the rising cost of transportation to and from work has served as a barrier to entry for individuals seeking employment itself.

Healthcare

In North America, in particular, healthcare is one of the main industries where EWA adoption has increased over time. While this may be a function of the local healthcare system, the mainstream use case for EWA in this industry has been with nurses at hospitals being offered a financial tool by their employers. Against the backdrop of the pandemic, where medical professionals have been on the frontlines consistently, EWA has been introduced into this environment as a talent retention tool[13] for practitioners, technicians and other hospital staff to ensure that the operational efficiency of these critical facilities can be maintained.

Logistics

The logistics industry is another area where EWA has been adopted for truck drivers who are consistently engaged in long-haul travel and spend a large portion of their time commuting overnight. Typically, cash advances have been provided to these long-haul drivers, but this raises consumption and reconciliation challenges. EWA has proved a useful digital alternative, so that employees can still meet their day-to-day requirements by drawing on their earnings and being paid directly into their bank account. According to a report by 60 Decibels[14], many of these workers also need to support their families financially while they are away and, therefore, leverage EWA to send funds back home for household bills and emergencies.

Technology, media and communications

This increasingly platform-led sector has largely redefined how individuals are compensated for their expertise through the lure of shared incentives for executives, as well as project-based pay for contractors. What this has encouraged is decoupling the payment cycle from the performance cycle, where a portion of income is offered in advance instead of paid in lieu of output. This has, in part, contributed to the shift in talent over the last decade towards "Big Tech," in particular, but highlights the changing demand for front-loading a portion of pay as a key attraction/retention tool. The rise of the gig economy has further advanced the calls for real-time payment methods upon service delivery rather than waiting for arbitrary periods within a particular month.

Energy, power and renewables

A similar dynamic is observed across the mining industry, where workers need to travel to sites that are located hundreds of miles away from towns and cities making transportation costs a significant portion of their recurring expense. On top of this, in many emerging markets, the transportation industry is still a very cash-reliant economy and, therefore, requires a certain amount of cash on hand, making credit-based solutions less viable.

5. Spotlight on EWA in South Africa

South Africa has historically been viewed as the gateway to Africa based on their liberal financial market, independent central bank and skilled labor force. However, the narrative has changed over the years, with the Organisation for Economic Co-operation and Development (OECD)[15] sighting policy uncertainty, increased income inequality, ongoing electricity shortages and a volatile local currency. We have seen these shocks filter through to all segments of the population, with South Africa now lagging behind some of its African peers such as Kenya, Nigeria and Egypt when it comes to economic growth forecasts.

According to the OECD[16], South Africa's GDP is expected to grow by 1.8% in 2022 and 1.3% in 2023 respectively. This data will be tested by increasing inflation that continues to sit at the upper bounds of the South Africa Reserve Bank's 3-6% inflation targeting framework. In line with OECD[16] data, the impact this could have on the repo rate (5.5% as of July 2022[17]), and subsequently the prime lending rate over the next 12-18 months, will be instrumental in the ability for individuals to not only service their variable-rate debt obligations, but for access to affordable capital going forward.

According to Stats SA[18], the latest household debt-to-income ratio in South Africa is 72%. While this figure in isolation might not be a cause for concern, when you factor in that unsecured debt has increased by 54%[19] for those taking home more than R20,000 (around $1100) per month, this highlights the difficult debt spiral that many working-class individuals find themselves in today.

To understand the credit dynamics that exist in South Africa, we analyzed the credit scores provided by the **Consumer Profile Bureau (CPB)** of 10 000 individuals currently using the Paymenow (PMN) platform (a local market leader in EWA services) in comparison to c.30,000 users not utilizing earned wage access services in South Africa currently. The data was split into various parameters to evaluate how the credit scores changed between Q1 2019 and Q2 2022.

54%

the increase in unsecured debt for those taking home more than R20,000 per month

> *"With the confluence of profits and purpose, technology is paramount in unlocking sustainable financial solutions to those previously excluded and underserved. It should be every employee's right to access their hard-earned wages whenever they need it."*

Deon Nobrega,
CEO of Paymenow

Credit score by age[22]

	Paymenow Data							
	20-29	30-39	40-49	50-59	60-69	70-79	80+	Grand Total
2019-Q1	506	513	510	510	466	549	176	510
2019-Q2	526	519	512	514	492	547	458	519
2019-Q3	550	527	517	517	507	513	604	530
2019-Q4	537	520	514	518	501	506	620	524
2020-Q2	525	511	506	508	512	468	636	514
2020-Q3	517	507	503	506	515	486	619	509
2020-Q4	515	502	499	506	511	520	607	505
2021-Q1	511	498	497	502	505	460	590	502
2021-Q2	510	499	499	505	514	457	572	502
2021-Q3	508	499	498	505	513	425	583	502
2021-Q4	508	497	491	500	491	413	579	499
2022-Q1	506	495	487	495	492	406	570	497
2022-Q2	509	499	490	497	528	402	532	500
Grand Total	516	505	501	506	505	469	570	507
Delta Q2-22 to Q1-19	3	(14)	(20)	(13)	62	(147)	356	
Percentage movement	0.6%	-2.8%	-3.8%	-2.6%	13.4%	-26.8%	202.6%	

	CPB Data							
	20-29	30-39	40-49	50-59	60-69	70-79	80+	Grand Total
2019-Q1	521	560	569	585	603	619	628	568
2019-Q2	551	567	575	590	608	623	631	577
2019-Q3	582	576	581	593	611	623	626	588
2019-Q4	567	565	573	587	605	615	618	578
2020-Q2	553	550	560	573	582	591	575	562
2020-Q3	546	545	556	569	577	583	566	557
2020-Q4	537	539	549	561	568	563	545	549
2021-Q1	529	535	544	555	568	562	540	544
2021-Q2	522	531	541	552	563	559	535	540
2021-Q3	520	529	539	548	556	553	519	537
2021-Q4	515	527	539	547	553	542	507	534
2022-Q1	510	525	536	545	548	533	498	531
2022-Q2	506	524	536	543	546	527	488	529
Grand Total	533	541	552	563	573	572	553	551
Delta Q2-22 to Q1-19	(16)	(35)	(33)	(43)	(57)	(92)	(140)	
Percentage movement	-3.0%	-6.3%	-5.9%	-7.3%	-9.5%	-14.9%	-22.3%	

When comparing the two data sets according to **age** (all income brackets included):

20 to 29 years old

3.0% ↓

The credit scores of the CPB Data decreased from **521 to 506**

0.6% ↑

The credit scores of the PMN-Data increased from **506 to 509**

30 to 39 years old

6.3% ↓

The credit scores of the CPB Data decreased from **521 to 506**

2.8% ↑

The credit scores of the PMN-Data increased from **506 to 509**

60 to 69 years old

9.5% ↓

The credit scores of the CPB Data decreased from **603 to 546**

13.4% ↑

The credit scores of the PMN-Data increased from **466 to 528**

Key takeaway

From the above data, it can be seen that having access to an earned wage access service can lead to a net improvement in an individual's credit scores overall, albeit still negative, when compared to those who do not have access to this service. In contrast, the older the individuals were, the more deteriorating the credit score over the same period, with the 60+ age groups recording a double-digit drop in credit scores over this period.

Credit score by income bracket[22]

Paymenow Data

	R0 - R5 000	R5 000 - R7 500	R7 500 - R10 000	R10 000 - R15 000	R15 000 - R20 000	R20 000 - R30 000	R30 000 - R50 000	R50 000 +	Grand Total
2019-Q1	508	512	509	515	508	536	543	591	510
2019-Q2	519	519	515	518	516	531	543	580	519
2019-Q3	533	527	523	515	515	532	546	575	530
2019-Q4	525	521	522	512	519	530	538	587	524
2020-Q2	514	511	511	512	520	525	530	577	514
2020-Q3	508	507	507	508	522	524	532	585	509
2020-Q4	503	507	503	505	525	520	536	581	505
2021-Q1	499	501	504	504	525	519	523	577	502
2021-Q2	499	502	505	506	526	524	518	577	502
2021-Q3	498	503	504	504	529	527	519	570	502
2021-Q4	497	500	499	499	517	523	514	548	499
2022-Q1	496	498	494	496	502	516	520	546	497
2022-Q2	500	501	495	499	504	516	520	543	500
Grand Total	506	507	506	506	519	524	528	571	507
Delta Q2-22 to Q1-19	(8)	(11)	(13)	(16)	(4)	(21)	(22)	(49)	
Percentage movement	-1.7%	-2.2%	-2.6%	-3.1%	-0.7%	-3.9%	-4.1%	-8.3%	

CPB Data

	R0 - R5 000	R5 000 - R7 500	R7 500 - R10 000	R10 000 - R15 000	R15 000 - R20 000	R20 000 - R30 000	R30 000 - R50 000	R50 000 +	Grand Total
2019-Q1	548	557	553	548	573	600	604	653	568
2019-Q2	561	568	561	554	578	602	609	655	577
2019-Q3	575	582	566	556	583	607	612	657	588
2019-Q4	557	571	562	551	581	607	616	659	578
2020-Q2	534	555	541	549	571	599	610	651	562
2020-Q3	526	549	537	546	566	599	610	649	557
2020-Q4	516	540	532	541	560	595	607	646	549
2021-Q1	511	534	534	537	554	591	606	648	544
2021-Q2	504	530	533	540	551	591	607	647	540
2021-Q3	499	526	534	543	549	592	612	646	537
2021-Q4	494	524	532	549	546	589	618	646	534
2022-Q1	491	520	533	551	544	586	620	645	531
2022-Q2	488	517	536	552	542	587	620	642	529
Grand Total	519	542	541	546	560	595	611	649	551
Delta Q2-22 to Q1-19	(60)	(40)	(16)	4	(31)	(13)	16	(10)	
Percentage movement	-10.9%	-7.2%	-2.9%	0.7%	-5.3%	-2.2%	2.7%	-1.6%	

When comparing the two data sets according to **income brackets** (all age groups included):

R0 to R5,000

10.9% ↓

The credit scores of the CPB Data decreased from **548 to 488**

1.7% ↓

The credit scores of the PMN-Data decreased from **508 to 500**

R5,000 to R7,500

7.2% ↓

The credit scores of the CPB Data decreased from **557 to 517**

2.2% ↓

The credit scores of the PMN-Data decreased from **512 to 501**

R15,000 - R20,000

5.3% ↓

The credit scores of the CPB Data decreased from **573 to 542**

0.7% ↓

The credit scores of the PMN-Data decreased from **508 to 504**

Key takeaway

Based on credit scores by income brackets, it can be seen that lower income brackets experienced a relatively larger drop in their credit scores than higher income brackets, with or without an earned wage access service. This highlights the disproportionate impact that the increased living costs has on these lower LSMs (living standards measurements) compared to other segments. This underscores the need for a cheaper financial alternative for this subsection of individuals in particular.

6. Key nuances of the South African market

To put utilization into context, based on Paymenow data[2], we have observed that the average cash-out from users on **the Paymenow platform is ZAR350 (c.$16), twice a month.** Paymenow conducted a study through 60 Decibels,[14] where they assessed impact performance and the drivers for utilization across a variety of industries. In the figure below, we observed a range of 2.5-7.5% of total earned wages being spent on necessity items such as food, transportation, medical support and utility bills. The largest portion of this spend is clearly centered around transportation costs, particularly for those operating in the cleaning/agricultural industry, while food is the next biggest spend item. This further emphasizes the use of earned wage access services in this market as a means to fulfill day-to-day obligations.

Typically, EWA users are given access to 25% of their salary through the platform, but data shows that only 12-14% of funds are actually utilized on average. This highlights the recognition by users that this is their "own, earned" money and, therefore, we see more conservatism locally in how much is being accessed and how these funds are being utilized. This is a positive outcome based on the financial literacy tools, which can offer a case for the notion that **money earned can be spent more rationally than money loaned.**

One unique element 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, actually require cash upfront to fulfill their duties. This is where we have observed clear use cases for earned wage access to support that continuity of business for employees that typically take a taxi from their towns into the city. This can have a marked impact on improving productivity and reducing absenteeism as well, particularly as we see more employees returning to their work locations.

Payday lenders (or "Mashonisas" as referred to locally) have penetrated the informal sector in South Africa, with over 40,000 "loan sharks" operating in the country according to a Wonga[20] report. While the size of the loans they disburse is typically between ZAR500-1000 (c.$30-$60) at double-digit interest rates, this unregulated market has become commonplace as a source of cash in the townships across the country. Due to the relatively small size of the micro-loans that are provided, the market has become flush with these informal payday lenders who are targeting those who cannot access formal lending channels. When we draw a parallel with overall debt levels, the South African Reserve Bank (SARB) indicated that household debt to nominal disposable income was at 65%[21] as of the first quarter in 2022. This has increased from less than 60% pre-1994 and is above the long-term average of around 70%. With a very material portion of disposable income being spent on servicing debt, there is a key risk-reward balance that needs to be struck if we are going to sustain these levels through the current interest rate cycle.

ZAR350 ($16)

average cash-out from users on the Paymenow platform, twice a month

> *"Typically, EWA users are given access to 25% of their salary through the platform, but data shows that only 12-14% of funds are actually utilized on average."*

William Small-Smith
Head of Commercial Partnerships, Paymenow

7. Conclusion

Corporates and individuals were challenged in 2021 as they dealt with the Covid-19 pandemic and global supply chain disruptions. Gradually, many businesses have now shifted to recovery mode, supported by the fiscal stimulus and monetary policies of central banks. However, over the past few months, employees have not been as insulated from the shocks of high inflation, rising interest rates and the impact of the Ukraine-Russia war on energy prices, as well as a squeeze on cheap capital.

This is why we see the relevance of earned wage access increasing with time, initially as a tactical solution in response to the current cost-of-living crisis, but now as a strategic tool for employers and employees alike in the long-term. It is plausible that in the near future we will see **social impact** become a key metric for differentiation among companies in their efforts to not only increase shareholder value, but also in their ability to attract top talent.

Earned wage access is by no means a perfect solution to the macro-economic challenges that many consumers face today, but it can give underserved communities a lifeline to try and weather the storm in the short-term at the very least. While we still expect to see opportunistic pay-day lenders looking to serve specific niches that the formal economy doesn't currently cover, the presence of an ethical substitute can only be a net positive for employees and employers alike.

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.

This is testament to the idea that EWA might be utilized as a necessity by some, while providing optionality for others; but what is consistent across the board is that **payments can serve as a key source of social value to not only the individuals, but the wider communities** they support when embedded within the broader ecosystem.

> *"Earned wage access is a win-win for employees and employers. For employers it offers a competitive benefit to help retain employees amid a tight labor market, while employees receive access to a flexible and sustainable tool to managing their finances."*

Yousif Mohammed
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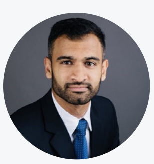

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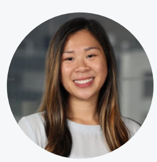

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