The role of fintech companies in helping organisations better meet the needs of low income employees

Andy Davis, Salary Finance, November 2018

Background

Financial services are an example of how the poverty premium can create a regressive system that punishes those with the greatest need. The less you earn the harder it is to access services and the more expensive they become.

New Fintech companies are using technology to provide financial services in new ways, that eliminate marketing costs, and reduce risk, to provide lower priced products. These alternative approaches open up new opportunities for employers to help lower income workers.

One example is the growth of salary-linked benefits that offer similar services to more traditional financial products, such as loans and savings. These benefits utilise online-first approaches and salary deduction to come up with new ways of doing things that are simple for consumers to access and manage, are more inclusive, and offer better value.

The potential impact of new approaches

According to The Money Charity, the average unsecured consumer debt stands at £4,113 in November 2018. Inevitably, because of the poverty premium, the most expensive debt is likely to be concentrated among those with lower incomes.

In a 2018 report ResPublica found that providing access to alternative sources of credit could have a positive impact[i]. Shifting 5% of the total consumer debt, around £10 billion of lending, from other forms of credit to salary-deducted loans would reduce debt service costs by around £2 billion. Crucially, these savings would go into the pockets of the people borrowing, not the companies lending.

Practical tools for budgeting

There is a growing body of evidence that many people find budgeting throughout the month to be a challenge. This may be felt most acutely in lower income households where there is simply less money to spread throughout the month.

However, it is not just about salary levels - there are common behaviours that make budgeting more difficult. Research by Arna Olafsson and Michaela Pagel found that both poor and rich households increase their levels of spending around the time they get paid[ii]. The poorest households spend 70 percent more than they would on an average day and the richest households spend 40 percent more.

The Money Advice Service found similar results in research from 2016[iii]: “It’s normal for a third of our wages to be spent within one week. Part of the problem is the payday spending spree. One fifth of people we surveyed said they spend straight away on things like clothes, nights out and takeaways.”

This can lead to an increased reliance on debt to make it through the month. Research by Brian Baugh and Jialan Wang found that falling back on expensive credit like payday loans and bank overdrafts increases by 18% when there was less alignment between the timing of someone’s income and the bills they owe[iv].

New technologies allow employees to withdraw a proportion of the salary they have earned so far during a given pay period so they get their money when they need it, not according to an internal business process. Using these tools to create more frequent pay periods can help improve budget management and avoid overdrafts, credit cards or payday loans.

A place based approach

In addition to the potential impact on individuals, ResPublica[v], also found that taking a place-based approach to improving financial wellbeing could have a positive impact on the entire locality as well as the individuals that live there.

Upgrading the aggregate credit scores in a local area from the bottom 10% to the middle of the credit score distribution, would equate to improving median weekly earnings by £36, an improved employment rate of around 3%, and an increase in home ownership of 6%.

This makes a strong case for public and private employers to work collaboratively to provide employee benefits and other services that can help improve the financial lives of their employees.

Written by Andy Davis for Greater Manchester Poverty Action.

About Salary Finance

Salary Finance partner with employers to offer financial wellbeing benefits that help employees live happier healthier lives. We do this by offering affordable loans and simple savings paid direct from salary and providing access to pay as it is earned - all underpinned by accessible, engaging financial education.

[i] Credit Emancipation: How salary-linked lending can help turn around disadvantaged places, 2018

[ii] The Liquid Hand-to-Mouth: Evidence from Personal Finance Management Software, 2016

[iii] Money Advice Service for BBC One's Right on the Money, 2016

[iv] When Is It Hard to Make Ends Meet? 2017

[v] Credit Emancipation: How salary-linked lending can help turn around disadvantaged places, 2018