

Earned Wage Access  
Market in Pakistan  
2022

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## Table of contents

1.	Preface.....	2
2.	A Global Perspective.....	3
2.1	Definition.....	3
2.2	Origin and Rise of EWA.....	3
2.3	The EWA Market Globally.....	3
3.	Earned Wage Access (EWA) Operating Model.....	6
3.1	How it works?.....	6
3.2	Advantages of EWA for employees.....	6
3.3	Advantages of EWA for employers.....	7
4.	Country Case Studies.....	8
4.1	Pakistan.....	8
4.2	Mexico.....	8
4.3	UK.....	9
4.4	Brazil.....	9
4.5	USA.....	10
4.6	Egypt.....	10
4.7	India.....	11
4.8	Indonesia.....	11
4.9	Philippines.....	12
5.	Why EWA in Pakistan.....	13
6.	Employees' Perspective.....	15
6.1	Financial Literacy and Saving Ability.....	16
6.2	Borrowing from Banks or Financial Institutions.....	17
6.3	Special Incentives by Employers.....	18
6.4	Expenses: The Unavoidable Factor.....	19
6.5	About EWA.....	22
7.	Employer's Perspective.....	25
7.1	Salary Advance Facility.....	26
7.2	EWA is a better alternative.....	28
7.3	Awareness and Misconceptions regarding EWA.....	29
8.	Potential Reasons for the Success of EWA in Pakistan.....	30
9.	Current Users of EWA in Pakistan.....	31
10.	Considerations for EWA.....	32
10.1	Risks for employees and employers.....	32
10.2	Busting myths around EWA adoption.....	32
11.	References.....	34

# 1. Preface

The objective of this Earned Wage Access (EWA) Market in Pakistan Report is to examine and assess the market readiness of EWA in Pakistan. The report provides in depth analysis on the global perspective and rise of EWA, country case study on EWA, EWA model and its benefits for employers and employees, potential reasons for success of EWA in Pakistan, employers and employee perspective on EWA, feedback from current users of EWA in Pakistan and key considerations for EWA.

This report has drawn widely from existing research and literature, as well as from primary information collected via surveys from more than 500 employees working across 27 companies of Pakistan. These companies operate in a range of industries and include small, medium and large sized entities. The participating employees in the survey comprised of individuals from all the grades i.e. junior employees to senior employees.

The report starts with a global overview of EWA market and how the EWA model generally works for the employers, employees and the EWA service providers. Second, it presents the current state of the EWA markets across the different developed and developing countries such as US, UK, India, Egypt and Pakistan. Then the report discusses how EWA could be beneficial for Pakistan followed by an in depth analysis on the employees and employers perspective on EWA. Last, the report summarizes the key takeaways from the current users of EWA facility in Pakistan and some common myths about EWA.



## 2. A Global Perspective

### 2.1 Definition

Earned wage access (EWA), also popularly known as on-demand pay, is the term used to describe a category of financial products that give employees the ability to draw on their accrued wages before pay day. Typically offered to employees by a third-party provider (an EWA service provider) through employers, this solution works by calculating an employee's accrued pay at a specific point in time and making a proportion of these earnings available for employees to withdraw in near-real-time. While it is part of a wider category of similar salary-linked propositions, this facility does not involve borrowing on the part of the employee.<sup>[1]</sup>

The official term for EWA used by the UK government is "Employer Salary Advance Scheme (ESAS)" <sup>[2]</sup>, and Financial Conduct Authority explains it as "ESAS allow employees to access, usually for a fee, some of their salaries before their regular payday".<sup>[3]</sup> Similarly, the American Payroll Association (AMA) says, "Recent advances in technology have made possible the ability of employees to access their earned wages prior to their regular payday. These new alternatives are known as earned wage access, early wage access, accrued wage access, on-demand pay, same-day pay, and instant pay (collectively EWA)".<sup>[4]</sup>

### 2.2 Origin and Rise of EWA

Earned wage access program concept began to reach the market in the 2010s. Flexwage in the US was the first to bring EWA and since then, the EWA pay provider market has been growing consistently with many new companies entering the market. While many started as add-ons to payroll, mainstream payroll providers like Ceridian, ADP and Paylocity are now offering their own on-demand pay solutions.<sup>[5]</sup>

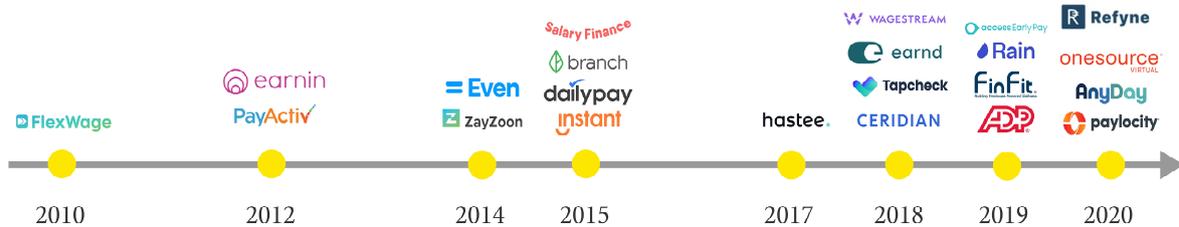


Figure 1: Timeline of EWA Provider Market. Sources: [5]

Big names like Uber pioneered EWA in a partnership with Green Dot in August 2016 by allowing drivers to request their earnings after each drive in exchange for a small payment.<sup>[6]</sup> Moving on, in August 2018, Walmart started offering earned wage access in the US via cash at Walmart stores to Walmart associates through PayActive.<sup>[7]</sup>

There are three common benefits that EWA provides compared to the traditional short-term financing options such as payday loans, overdrafts, and credit cards. Firstly, it is cost-effective because the per-transaction fees are inexpensive compared to high interest rates. Secondly, it provides faster access to funds while the other alternatives are time-consuming as they require formal requests to be processed. Lastly, EWA services are convenient to use as they require only a few clicks on the smartphone (*this being the generally seen customer journey*). For these reasons, the number of EWA service providers is growing globally and similarly, the number of employers offering the EWA benefit is also expanding, particularly in the general retail sector, call centers, quick-service restaurants (QSRs), health care facilities, and transportation.<sup>[8]</sup> It is easy to envision these products extending beyond low-income workers into the lower and upper-middle-class, who also face occasional cash flow shortfalls when unexpected expenses arise.

### 2.3 The EWA Market Globally

A global study conducted by EY (*On-Demand Pay: payroll that works for all*) reveals that at any given point in time, there is approximately \$1 trillion of payroll accrued in employers' treasuries across OECD countries before it is paid to employees. The global payday loans market size was valued at

\$32.48 billion in 2020, and is projected to reach \$48.68 billion by 2030, growing at a CAGR of 4.2% from 2021 to 2030.<sup>[9]</sup> The key players profiled in the global payday loans industry analysis (*Payday Loans Market By Type: Global Opportunity Analysis and Industry Forecast, 2021-2030*) are Cashfloat, CashNetUSA, Creditstar, Lending Stream, Myjar, Silver Cloud Financial, Inc., Speedy Cash, THL Direct, Titlemax, and TMG Loan Processing. Since, EWA is considered an alternative to payday loans and many companies rightly advertise this to capture the existing market share gained by payday loans providers. EWA service providers compete with these active players for building demand for their EWA facilities. Therefore, the scale of the opportunity for EWA market players is considerable.

Well-known market players from fintech companies, established banks, and payment giants are offering the EWA facility. Some of these key companies from different geographical regions are listed in the table below:

Company	Industry	Location	Market Value (2021)
Daily Pay	Fintech	USA	\$ 1 Billion
Wagestream	Fintech	UK	\$ 150 Million
Minu	Fintech	Mexico	\$ 60 Million
FlexxPay	Fintech	UAE	\$ 15 Million
Instant Financi	Fintech	Canada	\$ 80 Million
Nano Technologi	Fintech	Vietnam	\$ 15 Million
Access	Software	UK	\$ 1.3 Billion
Xerpa	Fintech	Brazil	\$ 70 Million
Paypal	Payments	USA	\$ 194 Billion
Khazna	Fintech	Egypt	\$ 250 Thousand
Paytime	Fintech	Australia	Not disclosed
Refyne	Fintech	India	\$ 450 Million
ABN AMRO Bank	Banking	Netherland	\$ 15 Billion
Gaji Gesa	Fintech	Indonesia	\$ 35 Million
Abhi	Fintech	Pakistan	\$ 90 Million
EC Salary	Fintech	China	Not disclosed

Table 1: EWA Service Providers Around the World. Sources: [10],[14]

Please note that the table above is a non-exhaustive list of companies offering EWA facilities.

### 2.3.1 Business Models

EWA service providers that work with employers to advance earned wages have adopted a variety of business models. These business models can be broadly categorized in the following two:

1. *Direct-to-Business Model/Wage-Deduction Models:* This model involves earned wage access companies working directly with the employer to offer wage access to employees. The employer signs a contract with the EWA company, hiring the company to facilitate employee wage access.<sup>[11]</sup> The provider is then given direct access to the employer's payroll system, enabling the provider to automatically access the data from payroll and time-entry systems to calculate wages accrued to date. In some models, however, the provider is sent copies of time-sheet records by employers rather than having direct access to payroll systems.<sup>[12]</sup> The two main ways through which providers facilitate this access are:
  - By directly funding the earned salary when demanded by the employee, which ensures that the employer's cash flow remains unaffected.
  - By providing only the technology to allow the earned salary access, with the employer funding the advance.
2. *Direct-to-Consumer Model/Bank-Account-Deduction Models:* In this model, the EWA provider pays the advance to the employee and then deducts the advance after payday from the employee's bank account. This model works as third-party operated and does not involve partnering with employers; instead, the providers rely on users to provide access to bank accounts and employment information. They collect records from the employee, such records include bank data, pay stubs, and - from salaried workers- mobile location tracking data to confirm daily work commutes.<sup>[11]</sup>

The Direct-to-Business Model is more popular and widely used, globally. EWA service providers that deduct money from employees' bank accounts have a less effective collection mechanism than those that collect directly from employees' paychecks. This is because between the time when the employee is paid and when the EWA service provider attempts to withdraw funds, the employee can theoretically withdraw the money, preventing collection.<sup>[11]</sup>

### 2.3.2 Fee Structures and Transfer Amounts

EWA providers in general charge fees in a variety of ways, these fee structures are mentioned below:

- *Per transaction fee:* per-transaction fees range from \$2 to \$3 or in some cases 1-2% of the total amount of funds availed, which can vary based on the desired speed of the transfer.
- *Fixed charge:* The fixed charge is a per-pay-period fee requiring a single fixed charge of around \$5 and allows multiple transfers within one pay period.
- *Voluntary tip:* This is a voluntary payment model which does not compel a payment for services but encourages users to tip. In this structure, the EWA provider will provide tip suggestions to the employees, for example, a \$5 tip for a \$100 withdrawal.

Apart from the fees associated with the employees, employers may also be charged by the EWA providers. However, most of the EWA providers across the globe are free for employers.

EWA providers set different transfer limits for employees. Some providers allow employees to transfer the full amount of their accrued wage or salary, while other providers set caps to avoid zero-dollar paychecks at the end of a scheduled pay period. Caps may be a percentage of earned wages or a flat per-transaction or pay period cap. <sup>[11]</sup>

### 3. Earned Wage Access (EWA) Operating Model

#### 3.1 How it works?

Most commonly, EWA providers partner directly with employers to extend the solution to their employees, typically as a workplace benefit. Under this arrangement, employees can track and withdraw a portion of their earned pay on demand, any time before their payday.

In the direct-to-business model, the EWA provider integrates its core system with the employer's HR software (payroll system) or attendance management system to "read" the payroll as a feed to process employees' earned salary details.

In simple, fixed-term salary cases, the pay is prorated for EWA, based on the number of days in the pay cycle and is adjusted for any monthly deductions. In other more complex scenarios (such as shift-based employment), EWA providers integrate with the employer's rostering and time-keeping systems to process the proportion of contracted working hours. Some providers also use location data to estimate the time spent at work in addition to deep integration with employer records. This process is invisible to employees.<sup>[1]</sup> The figure below describes the process of obtaining the funds via a mobile app or web app at any time during the month:

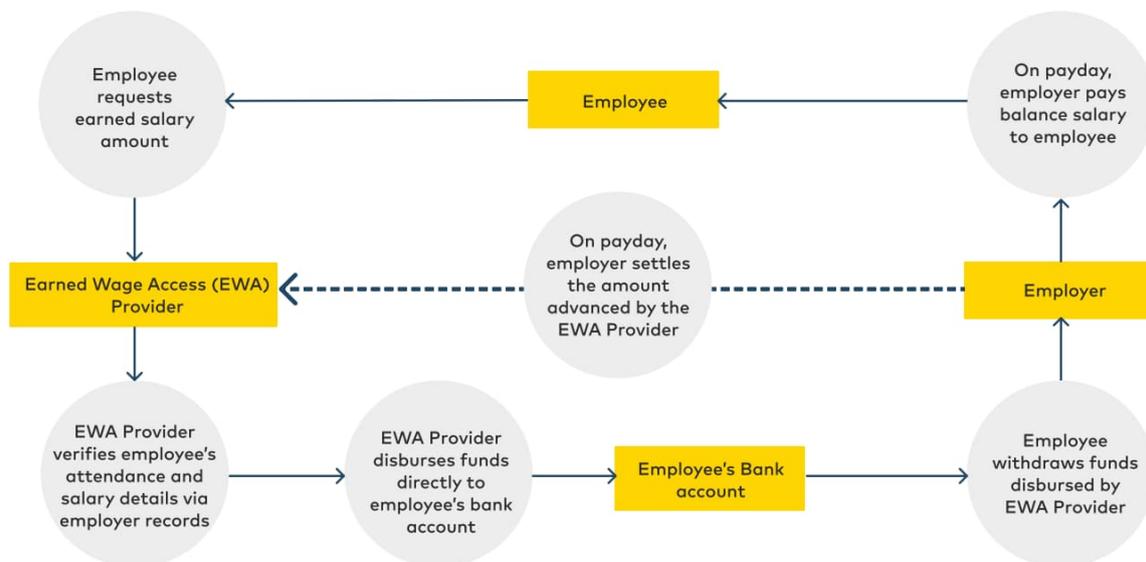


Figure 2: EWA Flow and Mechanics. Source: [1]

In direct-to-business model the limits on withdrawal of earned salary are entirely controlled by the employer, which can be revised at any time by the management. This is key to ensuring that employees do not overextend and face shortfalls that EWA is meant to overcome. Providers are increasingly incorporating tools to support employee financial wellness in a bid to address other consumer needs and develop a more compelling employee benefits pitch. This includes tools for liquidity planning, financial diagnostics, budgeting, and expense tracking. In most jurisdictions, EWA providers are also under a 'duty of care obligation', whereby they assume partial responsibility for any risk arising due to employees misusing the product and being unable to cope with the result.<sup>[13]</sup>

#### 3.2 Advantages of EWA for employees

- **Flexibility:** When salary is only paid once a month, it becomes harder to save after covering rent, mortgage, and other bills. With EWA, employees can build a habit of accessing a part of their earned salary to regulate spending and grow their savings.
- **Low-cost finance option:** Most employees who run out of cash before payday look for different financing options to meet their day-to-day expenses, taking on costly credit schemes such as credit card loans or borrowing from informal sources at unfavorable terms and inching toward a debt cycle. With EWA, employees can access their earned salary throughout the month on-demand, to cover almost any kind of expense without jeopardizing their financial stability.

- *No heavy-duty paperwork:* Generally, signing up for EWA does not require heavy documentation. Most EWA providers have a paperless process that is completed in a matter of minutes, allowing employees to access their pay immediately. EWA does not require users to disclose their credit scores, making the financial environment accessible to every employed individual.
- *Reinforced financial discipline:* EWA has been designed to save employees from falling into debt traps. Since the control lies with the employer, they can make strategic decisions on withdrawal limits for individuals who are new to credit or belong to low-income groups, to encourage them to be financially disciplined.<sup>[13]</sup>

### 3.3 Advantages of EWA for employers

- *Increased productivity and retention:* Employees are not at their productive best when they are financially stressed. EWA makes employees feel valued by their employer by showing that the employer is invested in their financial wellness. The employer's participation in the employees' financial well-being shows intent, builds trust, and results in better employee retention and experience.
- *Employer branding:* Employers who offer EWA develop a reputation for being progressive, employee-centric workplaces. They are able to attract top talent and strengthen their employer brand.
- *Free for organizations:* EWA is a zero-cost and zero-risk solution that does not impact the employer's cash flows or the bottom line.
- *Reduced operational effort:* Implementing a high-impact, automated technology-based employee benefit frees up HR leaders and managers from repetitive tasks, such as approving salary advance and short-term loan requests. Companies can save hundreds of man-hours that would have been spent processing EWA by outsourcing the entire operation to providers, without any risk or obligation.
- *Reduced attrition and absenteeism:* Companies reported lower attrition rates among employees who actively used EWA compared with those who did not. This was seen across different organizations, including those operating in industries such as process management players, where attrition rates are ordinarily high.<sup>[13]</sup>



## 4. Country Case Studies

### 4.1 Pakistan

In Pakistan, the concept of EWA is fairly new and currently there is only a single EWA service provider. The EWA service provider, Abhi was founded in July 2021 with a mission to be Pakistan's first financial wellness platform and expand financial access in one of the world's most underserved areas.<sup>[14]</sup>

Less than 2 million people have access to formal credit in Pakistan. Many employees live paycheck to paycheck, and by the end of the month, most have exhausted their salaries on bill payments, household expenses and emergencies. Majority of the population have traditionally resorted to informal channels of lending i.e. friends, family or employer in case of an emergency. Lack of financial literacy also hampers the employees from exploring formal credit channels.<sup>[15]</sup>

Among the majority of the employees working in Pakistan, their employers are willing to financially support them in case of an unplanned expense. However, at times the employers are reluctant to extend the financial support or are unable to meet the demand of the employees which results in great financial distress for the employees. Luckily, the average amount of unexpected expenses typically born by the employees is within their monthly income, hence having early access to their own salary would resolve issues for the majority of the employees and add to greater financial security.

EWA service providers like Abhi are supporting the employees by providing them with early access to their earned salaries in exchange for a fixed transaction cost of 2% (of the value). The employees can use Abhi's website or mobile phone application to access the funds instantly. The facility also benefits the employers as their balance sheets will be unaffected because advances will be funded by Abhi, and will not disrupt their cash flows or company processes and add no cost to HR or Accounts.<sup>[16]</sup>

Abhi has started to gain popularity in Pakistan, its services are used by a wide range of industry sectors, with the manufacturing and financial sectors being the most active. In addition to corporate employees, Abhi also plans to serve blue-collar workers and it will look to expand its services to markets in MENA region in upcoming years.<sup>[14]</sup>

The average salary growth over the years has been around 13.7% as compared to the inflation of around 11.5% in the past years.<sup>[17]</sup> This indicates that despite the double-digit salary growth, the buying power of the population is not growing substantially due to high inflation in the country. Hence, the need of general public to rely on facilities like EWA could be expected to increase in Pakistan and chances are that more EWA service providers would try to enter the market.<sup>[18]</sup>

### 4.2 Mexico

In Mexican society, there is a significant liquidity gap. 75% of workers live paycheck to paycheck on an average monthly wage of \$550 and have no savings. Stuck in this vicious cycle, 71% are constantly stressed about their finances, eagerly awaiting payday. Around 33% take out loans regularly to cover recurring basic expenses, and only 12% have a savings account. Further, 73% have requested a loan from banks or relatives, which entails uncertainty regarding response time and deficiencies, creating a vicious circle due to an eternal debt burdened by high bank rates. This is because unsecured loans typically have an annual percentage rate (APR) of 400% or more.<sup>[19]</sup>

According to the World Bank, Mexico's average inflation rate (consumer prices) has been around 4.2% over the last few years, while average salary growth rates across various industry sectors have been around 5%.

Six market players were identified in Mexico as offering the EWA facility, with many more expected to enter the market in response to growing demand. Minu, Castor, Monto, Bontu, Paynom, and Sendmi are among these companies. Minu was founded in 2019 and has grown to become the market leader with over 100 large enterprise clients, as well as public sector clients, including the State of Mexico's Electoral Institute. Its solution provides employees with instant access to their earned wages 24 hours a day, seven days a week, for a flat withdrawal fee of \$2.

According to the article (*Businesswire: Minu, the Largest Pay On Demand Player in Latin America*), employees' income level affects how they spend their money. Adults with a high income primarily used the EWA service to manage their cash flow, pay bills in advance of payday, and make general purchases. Middle-income users used these funds primarily to pay unexpected bills, followed by bills due before payday and general purchases. Low-income users first pay rent, then balance their cash flow and pay unexpected bills. Hispanics typically use EWA funds primarily for daily expenses such as food and groceries, followed by rent payments. According to a US survey, Hispanic adults made the most instant, on-demand wage requests, indicating a greater need for funds.<sup>[20]</sup>

## 4.3 UK

EWA is a rapidly growing market in the United Kingdom, with over ten EWA service providers operating in the country. SalaryFinance, Wagestream, Hastee, Earnd, and Access EarlyPay are just a few of the major EWA service providers. Wagestream is the market leader in terms of market share and is attempting to expand the product's market reach in Europe. It serves the National Health Service (NHS) and major healthcare insurer Bupa.

According to the Centre for Labour and Social Studies UK, 20% of British workers face a monthly wage shortfall of more than \$130, and more than 10 million people struggle to pay household bills. These figures only increased with the advent of Covid-19. Employees became more aware of the dangers associated with alternatives to Earned Wage, such as payday loans and credit cards. According to the article (*theHRDIRECTOR: The rise and fall of the monthly salary*) around 40% of young people rely on payday loans and pawnshops to supplement their income. However, payday loans can be costly, with interest rates as high as 500%. At that price, it's all too easy to get trapped in a debt cycle. Earned Wage Access programs are an excellent substitute. Paying \$2-3 to receive a portion of your monthly wage early is unquestionably a better option than taking out a payday loan.<sup>[21]</sup>

Wagestream and Earnd recently conducted an impact assessment to better understand their EWA users' spending habits. The average monthly withdrawal totaled 26% of gross salary. Additionally, the majority of users' transfers were for bills and groceries, with an average transfer value of \$89.<sup>[22]</sup> This demonstrates that in the UK, the EWA facility is primarily used to cover daily expenses rather than as a means of treating emergencies.

The Office for National Statistics reported that while average total earnings increased at an annual rate of 3.5% in November-21, the impact of soaring inflation meant that workers saw their pay packets shrink in real terms. In November 2021, the official rate of inflation reached a 10-year high of 5.1%, effectively implying a 1.6% pay cut.<sup>[23]</sup> Due to this, EWA service providers reported an increase in their customer base especially among hospitality, retail, and restaurant workers during the post-covid era. New players are expected to enter the EWA market, and demand for EWA is expected to continue growing in the UK in the coming years.

## 4.4 Brazil

In Brazil, which has long struggled with exorbitant interest rates and a lack of financial inclusion, 60% of workers struggle to make their monthly paychecks and 70% report being unable to withstand a financial shock. As a result, it's unsurprising that 24 million Brazilians use overdraft services each year, paying an average of \$30 in interest on a \$230 (equivalent) draw lasting 16 days (325% APR). Utilizing an overdraft is only the beginning of a debt cycle; in December 2018, more than 15% of the \$5.3 billion in outstanding overdrafts were in default, resulting in additional fees and penalties for borrowers. Overdraft, which is the only credit product available to a large proportion of Brazilians, is an inadequate solution for workers' and their families' needs.<sup>[24]</sup>

In recent years, Brazil's average inflation rate has hovered around 4.5%, while average salary growth rates across various industry sectors have been around 5.5%. This reflects a nominal increase in salaries for the majority of workers and a trend toward continued demand for EWA facilities in the coming years.

Three market participants were identified in Brazil as offering the EWA service, with a few additional companies actively exploring the EWA market and its growing demand in the country. Salary Fits, Creditas, and Xerpa are the three companies. Xerpa is the market leader in the country,

and its salary-on-demand product, Xerpay, which launched in 2019, enables Brazilian employees to access their accrued salary in real-time while they work. Xerpay provides a much-needed alternative to overdrafts and other short-term credit products with potentially high markup rates that impair employee financial wellness and were most frequently the only liquidity solutions available to Brazilian workers.<sup>[25]</sup>

With EWA products, employees gain instant financial security, avoiding the cumulative spiral of debt, defaults and penalties caused by overdraft and credit card revolvers that happen when workers cannot access their earnings between pay cycles. By a recent study, 25% of Brazilians who used overdraft did so to cover medical expenses, 23% to cover bills due during a pay period, 18% to cover unexpected auto repairs, and 16% to cover unexpected home repairs. Workers often struggle to make ends meet and having access to their salary on-demand enables them to live more comfortable, stress-free lives.<sup>[26]</sup>

## 4.5 USA

The United States has the largest market share in the global EWA industry, with more than 15 EWA providers operating on a national scale. PayActiv, DailyPay, Earnin, Branch, and Instant Financial are the top five companies. PayActiv is the market leader in terms of market share, serving over four million employees at over 1,000 businesses in retail, business processing services, food services, and senior living and healthcare. Among its clients are Walmart, Ibex Global, and Wayfair.<sup>[27]</sup>

Almost two-thirds of Americans (63%), report living paycheck to paycheck since the Covid-19 pandemic struck the United States. However, it is not entirely attributable to Covid-19, around 44% of respondents admit to living above their means prior to the pandemic's outbreak, and two-thirds regret not having more emergency savings. And for many Americans, the financial squeeze is less about personal choices and more about the rising cost of living, which includes food, housing, education, and medical expenses. Many Americans are incurring debt to meet their financial obligations. Around 42% report taking on more debt than they normally would, and more than a quarter report accruing new debt totaling more than \$10,000 since the pandemic began.<sup>[28]</sup>

Earnin's research 2021, concluded that breaking the traditional pay cycle empowers workers to manage their finances, estimating that without EWA, 44% of employees would consider skipping certain bills and more than a third would purposefully overdraft or use a payday loan. The majority believe that access to their wages earned is critical to their financial well-being. Additionally, research indicates that EWA users earn an average annual household income of \$50,700, withdraw money every two weeks, and access an average of \$100-\$149 to pay for groceries, fuel, and utility bills. In the United States, the largest industry segments that provide EWA facilities to their employees are hospital & health care, restaurants, and retail.<sup>[29]</sup>

The United States, as one of the world's strongest economies, is suffering from high inflation as a result of the Covid-19 pandemic. The Consumer Price Index, a key inflation indicator, increased by 7% year over year in December 2021, and average pay increased by a similar amount – to more than \$31 an hour, a 4.7% annual increase.<sup>[24]</sup> Despite the pay increase, household budgets are squeezed by rising consumer prices. According to Labor Department data, the average worker received a 2.4% pay cut last year. This demonstrates the growing demand for EWA in America, as employees actively seek cost-effective ways to fulfil their obligations.

## 4.6 Egypt

Only two market players were identified in Egypt offering the EWA facility, despite an increasing number of investors looking to invest in Fintech companies offering EWA services. The two companies are Khazna and Nowpay. Khazna is the market leader in Egypt and was founded in April 2019 with the mission of improving the financial well-being of Egypt's 20 million+ unbanked citizens by providing convenient, effective, and secure smartphone-based financial services. Khazna users have instant access to their wages 24 hours a day, seven days a week, in exchange for a small transaction fee.<sup>[30]</sup>

Credit penetration is low in Egypt, with only 6% of adults having borrowed from a formal institution. EWAs enable low- and middle-income employees with little to no credit history to obtain

funds to assist with day-to-day expenses and emergencies. At times, employees' paychecks are insufficient to cover all of their expenses; therefore, having access to credit via income streaming for bills, family expenses, and medical emergencies enables them to avoid incurring costly debt, going into collections, and paying late fees. Additionally, it provides them with increased financial flexibility, which results in increased workplace productivity.<sup>[31]</sup>

The Egyptian labour force is accustomed to informal short-term loans to employees and gig workers. To bridge the liquidity gap between paychecks, EWA facilities provide employees and gig workers with instant access to their earned wages via a user-centric, mobile-only experience at a low cost or for free if the transaction costs are subsidized by the employer. EWA facilities improve employee convenience, increase employee loyalty, streamline wages and payments, and are capable of conveniently replacing expensive short-term loans.<sup>[32]</sup>

Fintech startups are well-positioned to address Egypt's financial inclusion challenges. Apart from being one of the region's most populous countries, it is also one of the youngest, with an average age of 24 years. According to the World Bank, only 10-15% of Egyptians have bank accounts, one of the lowest penetration rates in the world. Simultaneously, Egypt has one of Africa's most digitally savvy and active consumer bases. This presents an opportunity for providers of EWA facilities, as the population possesses smartphones and internet access, as well as experience with digital platforms. Given these market dynamics, investors believe Egypt is an ideal environment for the growth of digital financial services, such as EWA.<sup>[33]</sup>

## 4.7 India

Refyne is India's first and only standalone earned wage access platform. Since its February 2021 launch, it has demonstrated market fit in India, the world's second-most populous country. Today, over 150 companies are collaborating with Refyne to enable the service for their combined workforce of over 700,000 employees.

According to a recent EY-Refyne survey, 80% of employees deplete their salary before the end of the month, 34% run out of money in the middle of the month, and only 13% can save a reasonable amount from their paycheques.<sup>[13]</sup> The rising cost of living, fear of missing out on lifestyle purchases, poor financial planning, and debt cycles are making it increasingly difficult for employees to maintain cash flow with their salaries during the month.

According to the EY-Refyne survey, only 38% of respondents feel in control of their financial well-being. Financial stress, it turns out, is not confined to low-income groups. Around 60% of respondents earning more than \$1300/month reported that their monthly salary is insufficient to cover all their expenses. Additionally, the report noted that employees earning less than \$200 per month are six times more likely to fall into debt than employees earning more than Rs \$200 per month. Nearly 75% reported that they are unable to meet all of their expenses on their salary, forcing many to look for alternative financing in times of crisis or to cover unplanned expenses.<sup>[34]</sup>

According to Statista and Trading Economics, the average inflation rate (consumer prices) in India has been around 4.98% over the last five years, while the average salary growth rate across all industry sectors has been around 8.6%.<sup>[35]</sup> This indicates that the majority of salaries are increasing at a healthy rate and that the EWA facility's trend is likely to remain stable in the coming years.

## 4.8 Indonesia

Three market participants were identified in Indonesia as offering the EWA facility. Wagely, GajiGesa, and Gajiku are among these companies. Wagely was founded in 2020 and has since grown to over 50 large companies, including state-owned enterprises and multinational conglomerates. It has recently formed partnerships with several of Indonesia's largest companies, including Adaro Energy, Medco Energi, British American Tobacco, Ranch Market, and Century Pharma.<sup>[36]</sup> The company reports that its workforce increased by 517% in Q3 2021 and is on track to reach over 250,000 employees by mid-next year.<sup>[37]</sup>

Wagely has a unique offering in Indonesian market. For instance, the company's decision to charge its users a flat fee rather than a percentage of the wages they cash out is an example of this. Wagely made this decision to comply with sharia law – a significant move in Indonesia, which has the world's largest Muslim population.<sup>[38]</sup> GajiGesa, another key player, is aimed at Indonesian Small

and Medium-Sized Businesses (SMBs) with between five and one hundred employees. Among the app's features is the ability for employees to access earned wages before payday. Indonesia has a sizable small-medium business market, with 60 million businesses. According to a recent survey, more than 75% of employees at companies that use GajiGesa's EWA feature have ceased using informal lenders for short-term needs.<sup>[39]</sup>

In Indonesia, 75% of the lower and middle-income workers live paycheck to paycheck every single month. With less than \$35 in savings, the majority of households are just one missed paycheck away from falling into a cycle of debt as unexpected expenses force them to turn to friends and family for assistance, or to payday loans, short term credit, or overdraft. These alternative financing methods charge exorbitant fees that frequently exceed 400% annual percentage rates and impose an intolerable financial burden on those who can least afford them. Rather than assisting those in need of financial assistance, they drive dependency and cost the local economy millions in lost productivity and high turnover.<sup>[40]</sup>

The average salary growth in Indonesia over the last five years has been around 5.89%, while inflation has hovered around 2.6%. As a result of the economy's rapid wage growth, the Indonesian market has a stable outlook for the growth of EWA facilities. Existing EWA service providers are still scouting the market and experimenting with new strategies to transition employees away from costly short-term financing options and toward a more convenient and cost-effective EWA facility.

## 4.9 Philippines

In the Philippines, only two market participants were identified as offering the EWA service, with many more expected to enter the market in response to growing demand. Advance and Links International are the two companies.<sup>[41]</sup> Advance is the market leader in the country. Since its launch in 2019, the 24/7 salary-on-demand platform has been used by some of the country's largest companies to provide employees with early access to their wages, thereby promoting financial wellbeing within their organizations. In 2021, the Manila-based fintech startup distributed nearly \$3 million to thousands of Filipinos across the country in exchange for a small transaction fee.<sup>[42]</sup>

Around 80% of Filipinos live paycheck to paycheck, while an estimated 36 million continue to borrow money for daily necessities. Without access to assistance from employers or banks, many turn to fast-cash lenders, exposing them to unreasonably high interest rates and predatory collection practices.<sup>[43]</sup> More than a band-aid solution, early salary access enables employees to pursue a broader range of opportunities without being inhibited by financial constraints. Employers can use the salary on-demand platform to supplement their cash flow. Employers can now grant financial assistance to their employees without having to tap into company resources.<sup>[44]</sup>

The generation in the Philippines is getting younger. With the emergence of digital native generations such as millennials and Generation Z, employees have come to expect everything to happen quickly and with a few clicks.<sup>[45]</sup> The Philippines' gig economy is "very advanced," with the country ranking sixth in terms of freelancer growth. Integrating EWA is an excellent way for businesses to ensure their continued success now and in the future. The primary purpose of EWA has been reported to be to cover emergencies and other unforeseen expenses that previously required people to borrow money from friends and family.<sup>[46]</sup>

The average inflation rate in the Philippines over the last couple of years has been around 2.9%, while the average salary growth rate across various industry sectors has been around 5%. This reflects a nominal increase in salaries for the majority of workers and a trend toward continued demand for EWA facilities in the coming years.<sup>[47]</sup> Numerous investors believe that the Philippines is a growing market for EWA due to the country's growing pay-by-task workforce segment. PayKey, one of Israel's leading EWA service providers, plans to offer its services to Filipinos in 2022, while Paywatch, a South Korean EWA service provider, plans to use the new funds to expand in existing markets and enter new Southeast Asian markets, including the Philippines.<sup>[48]</sup>

## 5. Why EWA in Pakistan

In Pakistan, most salaried employees are generally paid once a month (except those working on a daily wage model) and with a population of more than 200 million (FY 2021), Pakistan is the fifth most populous country in the world. According to a survey conducted by the Pakistan Bureau of Statistics in August-October FY2021, the population employed was estimated to be 52.56 million. It shows that around 25% of the population in Pakistan is employed and earning wages/salary.<sup>[49]</sup>

As of 2021, the distribution of average salaries across different income groups shows the following results:

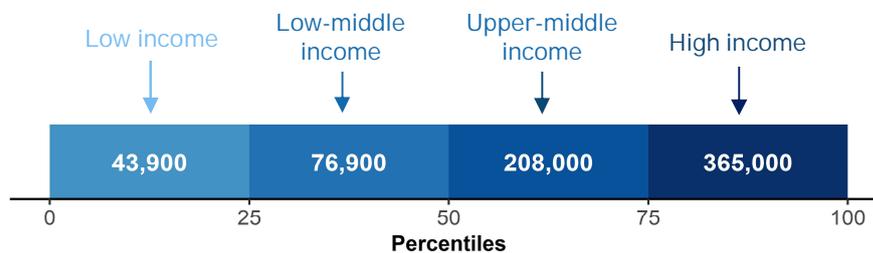


Figure 3: Source: salaryexplorer.com

Note: Each class corresponds to the 25% of the salaried population, lowest 25% (low-income class) earning around 44000 PKR/month on average and highest 25% (high-income class) earning 365000 PKR/month. The actual salaries within each class may vary.

According to the above graph, median 50% of the population falls under the low-middle groups with average salary of less than equal to 76,900 PKR/month.

In Pakistan good quality healthcare and education is still limited to private hospitals and schools which low-middle income can't easily afford as they have to manage through their limited personal finances or savings. Furthermore, Pakistan has also very low insurance penetration levels, gross premiums are at 0.94% of GDP according to a recent Insurance Association of Pakistan (IAP) report. Which means a major proportion of the population doesn't have any insurance to cover emergencies. Despite being the 5<sup>th</sup> most populous country in the world, penetration in the financial sector is extremely low, with only 2.4% of the population having access to credit from formal financial sources. Out of the total adult population of Pakistan, the financially excluded population make up 53%. One of the major reasons for why large portion of population is unbanked is the lack of awareness of financial products and their usage. A large portion of population also lacks basic financial management skill. The concepts of budgeting, investing savings etc. are novel for them.<sup>[50]</sup>

Besides having limited financial literacy in Pakistan, people encounter unplanned expenses on a daily basis, which are primarily related to medical emergencies, major auto repairs, unplanned travel and other social/religious expenses. All of these factors have the potential to increase the financial needs of common people.

All the issues and challenges defined above are further complicated by the cumbersome processes and documentation related to traditional financing services available in Pakistan due to which people are discouraged to borrow from formal financial institutions. In terms of formal borrowing, consumer financing products are divided into two categories; secured consumer loans are backed by collateral (assets that are used to cover the loan in the event that the borrower defaults), which allows the borrower to obtain greater amounts of financing, a longer repayment period, and a lower charged interest rate compared to the unsecured consumer loans which are not backed by collateral.

In terms of previous economic development, GDP increased by 5.37% in FY2021, while secured loans increased by 28%. Unsecured loans, on the other hand, grew by just 15%. Furthermore, according to a study conducted by Karaandaz, 95% of loans are obtained through informal means (such as borrowing from friends or family).<sup>[51]</sup> According to these figures, the slower rise in unsecured lending, along with the overreliance on informal loan channels, implies that financial institutions are unable to satisfy the expanding needs of the locals.

Pakistan's banking industry as well as emerging fintech industry has embraced the need for better and cost-effective short-term lending and borrowing options. Some banks in Pakistan offer advance salary schemes, which can be compared to EWA facility. These schemes allow borrowing money as low as PKR 20,000 and up to PKR 3 million for salaried individuals depending upon their monthly/gross salary. They're special type of personal loans with less requirements and considerably lower interest rates. Moreover, a fintech company has introduced salary on-demand facility through which a salaried individual can borrow up to 40% of their salary in installments of 1 to 12 months at 3% per month.

As an alternate to traditional financing options and informal credit, Abhi (an EWA company) has recently started business in Pakistan. Further details of Abhi can be found in the casestudy on Pakistan as mentioned section 3 above.

It is important to understand the need of Earned Wage Access in Pakistan. The table below evaluates a range of options used for managing the financial need of an individual's:

Table 3: Indicative range of short-term financial options				
Facilities	Cost	Limit	Typical Term	Requirements
Credit Cards by Banks	- Annual Fees: 0 - 30,000 - APR: 0 - 45%	20,000 - 3 Million	Revolving	- Age Limit: 18 - 60 years - Minimum Salary Requirements depending upon the card - Documents required: CNIC, Salary slips, Bank statement, Letter from employer
Personal Loans by Banks	- Processing Fee: 4,000 - 15000 (or 1.3% of loan) - Mark-up: Fixed up to 35.99% and variable can be more depending upon the kibor	25,000 - 3 Million	12 - 60 Months	- Age Limit: 21 - 60 years - Minimum Salary requirement (various for different banks) - Documents Required: Signed application form, Loan declaration form duly signed, Copy of CNIC, Salary Slip/Certificate, Employment letter, 6 months' bank statement reflecting consistent salary credit.
Salary Advance / Instant Loan offered by Banks	APR: Fixed 30% (varies for different banks)	20,000 - 1 Million	12 - 60 Months	- Clean credit history - Bank account - Banking relationship of at least 1 year - Minimum Salary Requirements
Salary on-Demand	3% interest rate per month	Up to 40% of the Salary	1 - 12 Months	Contractual arrangement/ agreement with employer - Finja Card to access funds
*Earned Wage Access (Abhi)	2% per transaction	50% of accrued income	N/A	Contractual arrangement/ agreement with employer
Borrow from friends/family	Zero/limited financial cost, potential social cost	N/A	Flexible / Informal	Contacts willing and able to provide sufficient funds

Sources: [1],[52] and EYFR Research Analysis

\*Based on a general understanding of the market, it is understood that at the time of writing of this report there is only one EWA provider in Pakistan i.e. Abhi Pvt Limited.

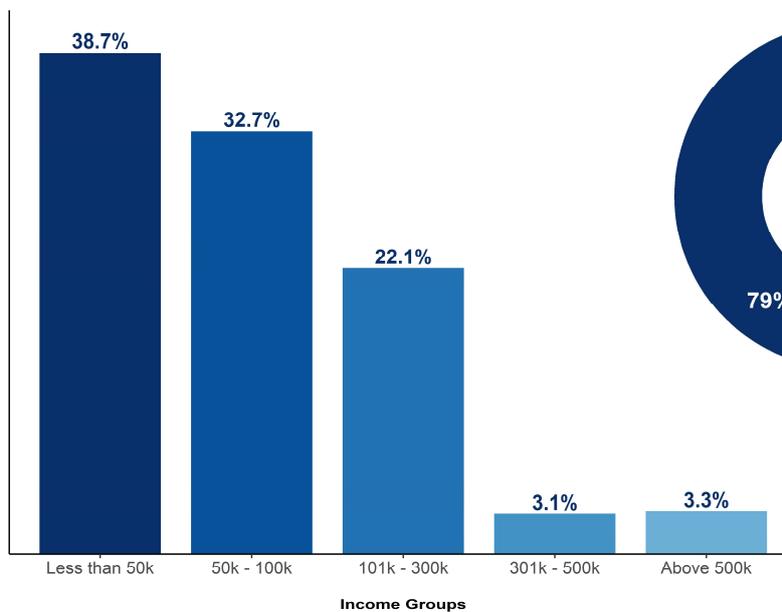
## 6. Employees' Perspective

This section of the report, highlights the key findings from the survey that was conducted on 500 salaried individuals working across various small, medium and large sized companies mostly operating in Karachi and Lahore. The purpose of the survey and the findings pertains to the following topics:

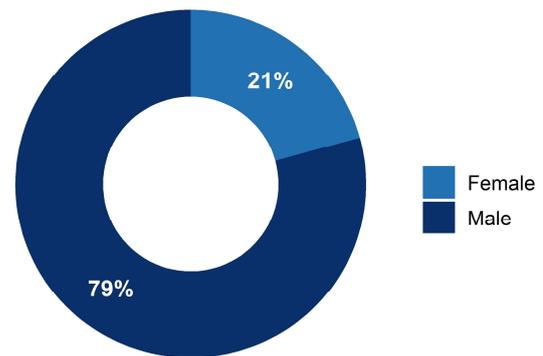
- Financial literacy and their savings / investing habits;
- Use of commonly available financial products/services to meet financial needs between pay periods;
- Challenges in addressing the financial shortfalls due to unexpected expenses;
- EWA and its potential to contribute to employees' financial wellness.

The sample of respondents was based on different income and age groups. The profile of our respondents is summarised below:

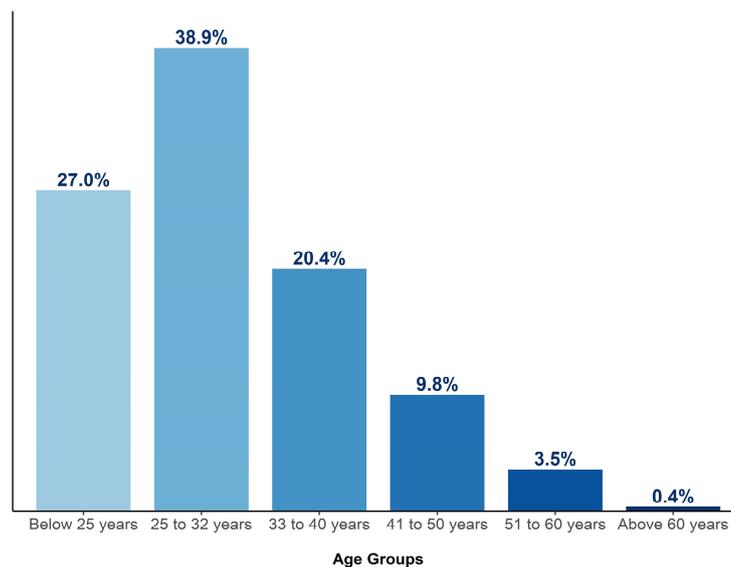
Participants by Income Level



Participants by Gender



Participants by Age Group



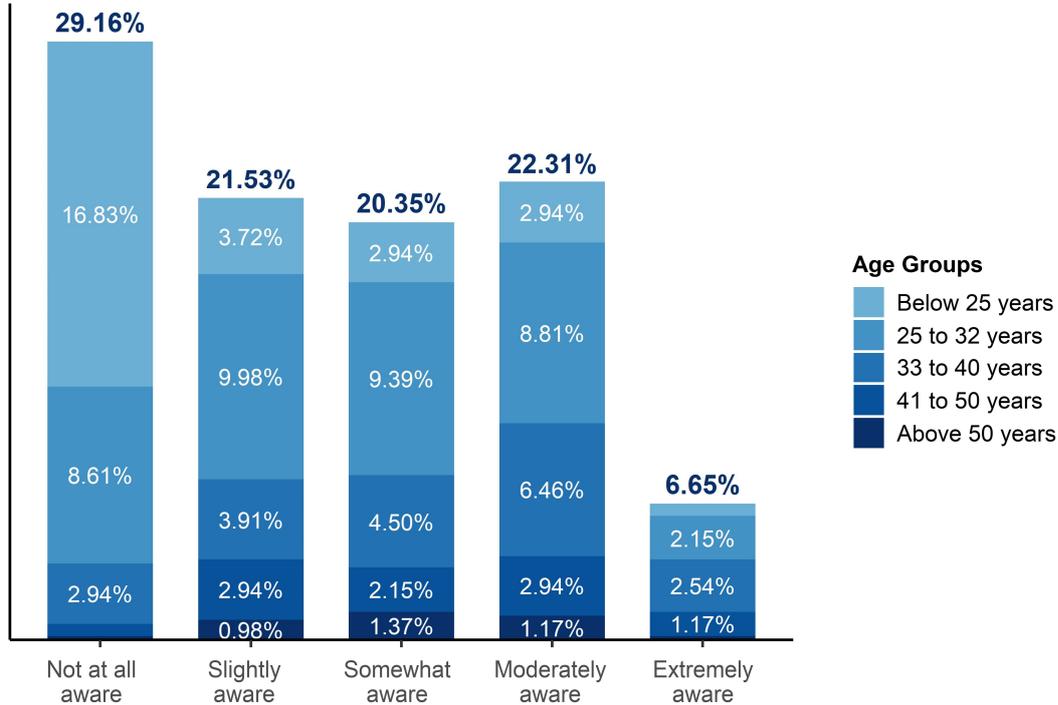
## 6.1 Financial Literacy and Saving Ability

### Majority have low financial literacy

Nearly 51% (Not at all aware & slightly aware) of the respondents have little to no knowledge of saving and investment products available in Pakistan and among them the majority belong to the age groups of 20 - 32 years (Exhibit 5.1.1).

Exhibit 5.1.1: Knowledge of savings and investments products

Q: How would you rate your understanding and knowledge of the savings and investment products available in Pakistan?

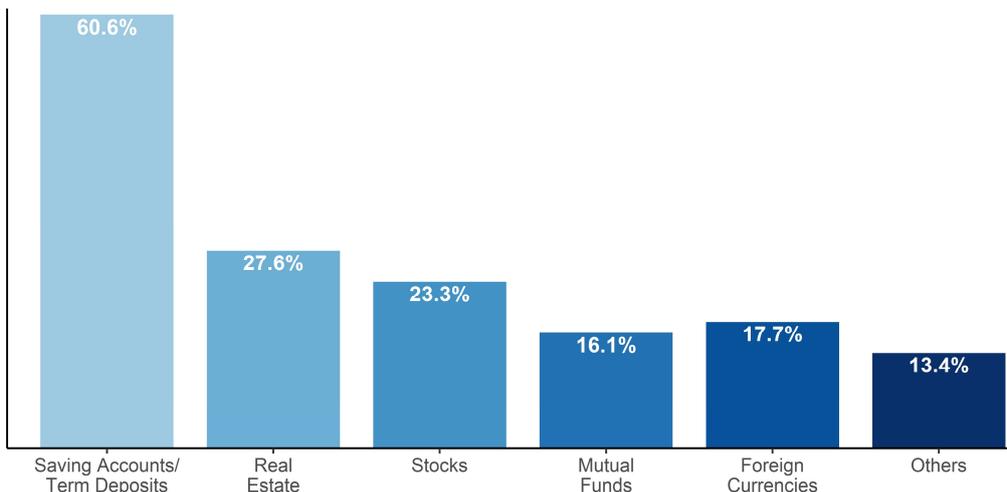


### The most popular option to save or invest is Term Deposits

The saving accounts/term deposits is the most popular option for saving/investment products as indicated by more than 60% of the participants (Exhibit 5.1.2).

Exhibit 5.1.2: Preferred avenues to save / invest

Q: Which of the following avenues, do you actively use to save / invest part of your income on a regular basis?

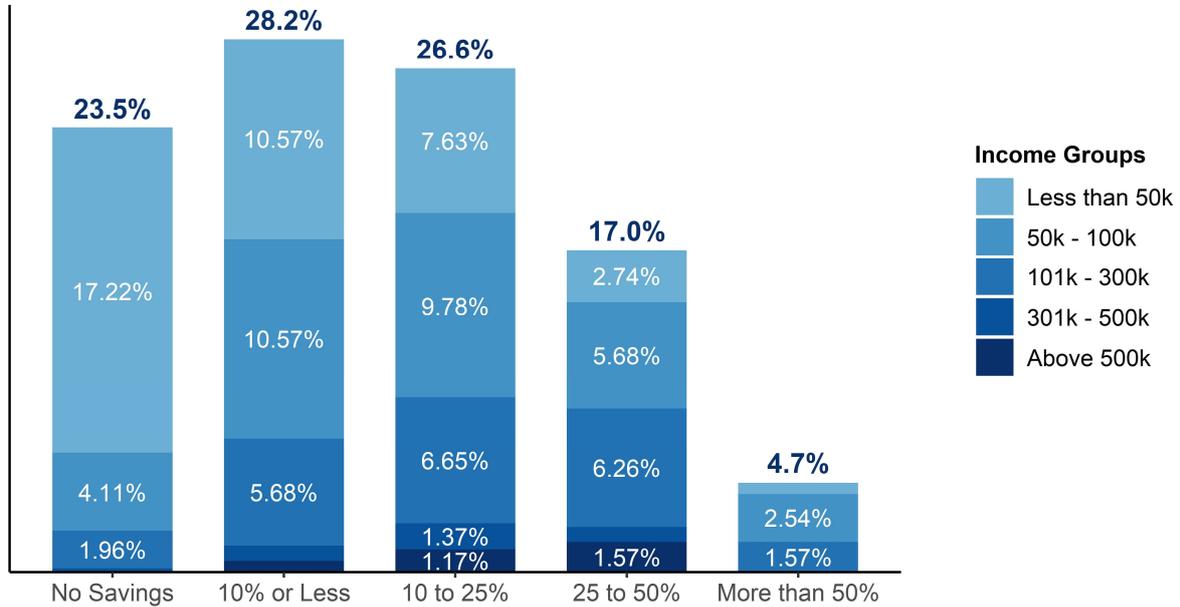


Low salary class individuals are unable to save money

Nearly 52% of the respondents stated that they can only save up to 10% of their monthly salary or they can't save at all. The majority of these respondents earn less than 50,000 PKR per month, which is considered a low-salary band in Pakistan and are usually those that live paycheck to paycheck.

Exhibit 5.1.3: Average savings (% of monthly salary)

Q: What percentage of your monthly income do you save or invest?



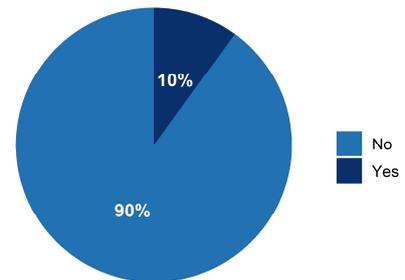
## 6.2 Borrowing from Banks or Financial Institutions

Majority have not availed the bank loan facility

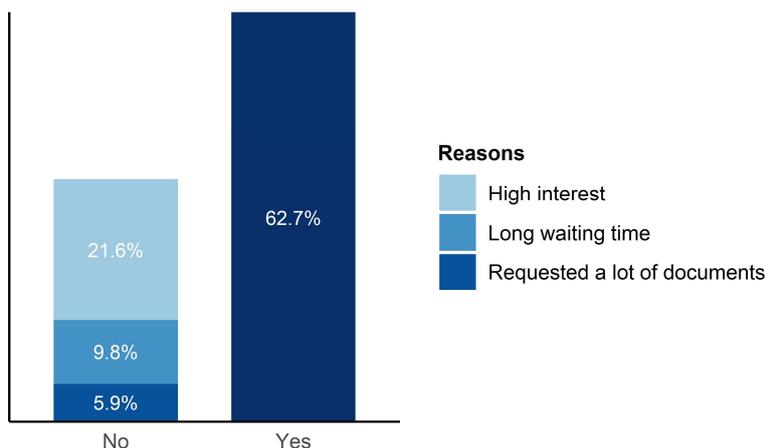
According to the survey findings, 90% of the respondents did not borrow any loans from the financial institutions in the previous year.

Exhibit 5.2.1: Borrow frequency

Q: In the past 1 year, have you ever borrowed from a bank or a financial institution?



Loan process was convenient for the majority



Around 62% of the respondents who took the loan from the banks, found the loan process convenient. However, the remaining 38% felt otherwise, pointing interest rates to be the most bothersome aspect of the entire loan process.

Exhibit 5.2.2: Convenience of loan process

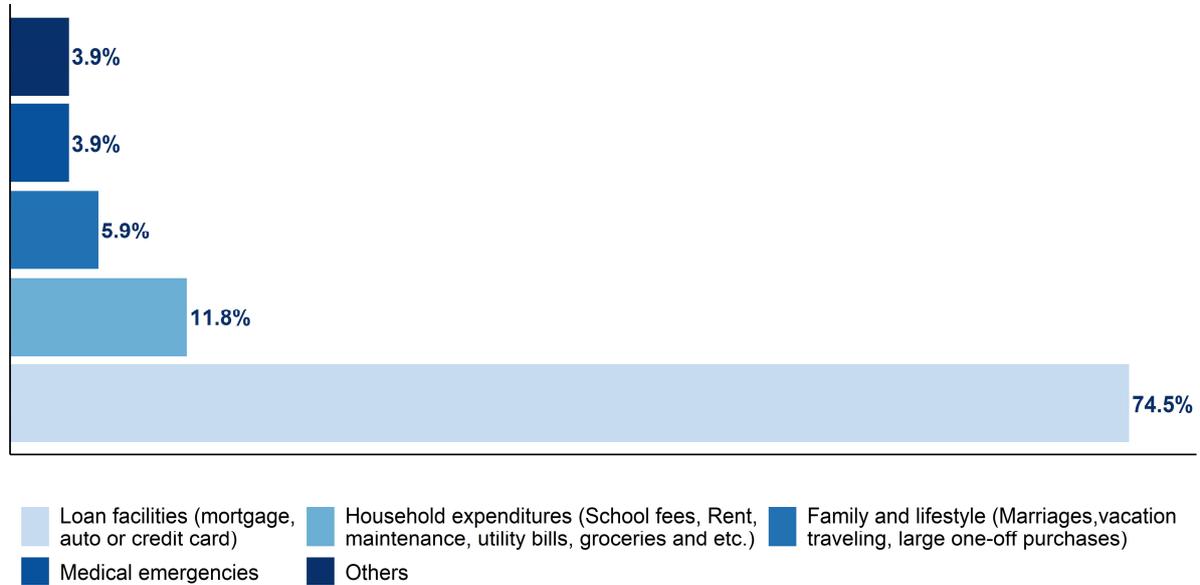
Q: Was the process of obtaining the loan convenient and did it meet your requirements? If No, what was the reason?

Majority used bank loans for auto finance, mortgage and credit card

As mentioned in the part 5.2a above, among the 10% of the respondents who took the bank loan, the majority (74.5%) did so for the purpose of auto loans, mortgage or credit cards.

Exhibit 5.2.3: Reasons from borrowing loans from financial institutions

Q: What was the purpose of the loan or borrowing?



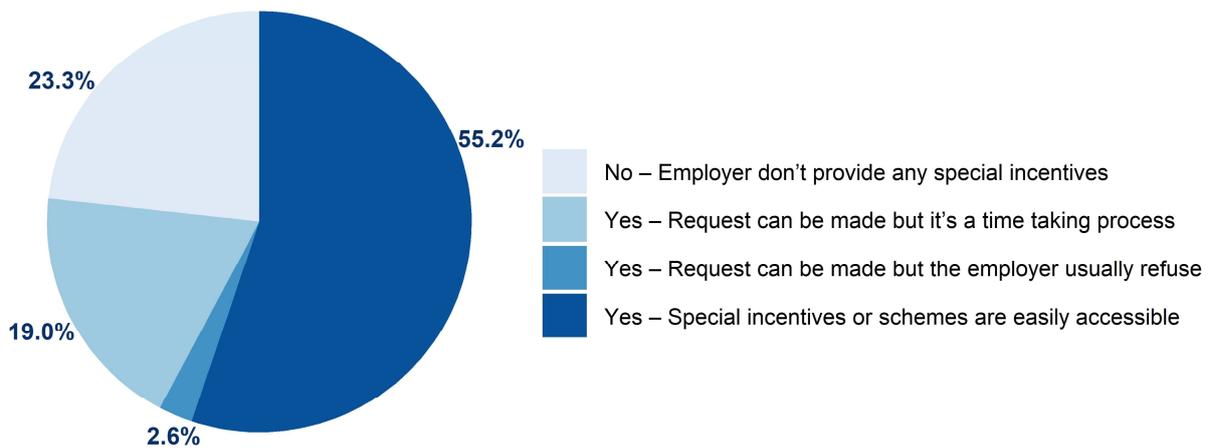
### 6.3 Special Incentives by Employers

Majority have access to salary advance facilities

Nearly 77% of respondents stated their company offers special incentives to employees who require cash in case of an emergency to meet unanticipated or crucial expenses. It is easily accessible, according to the majority, demonstrating that employers care about their employees' financial well-being. However, among 19% of the respondents, time is a common problem while seeking salary advancements from their employers. Further, around 23% of the employers are not providing any type of salary advance facilities to their employees.

Exhibit 5.3.1: Accessibility of salary advance facility

Q: Does your company have any special incentives for employees requiring cash in case of emergency to cover unplanned/critical expenses, like a loan facility or salary advancement?

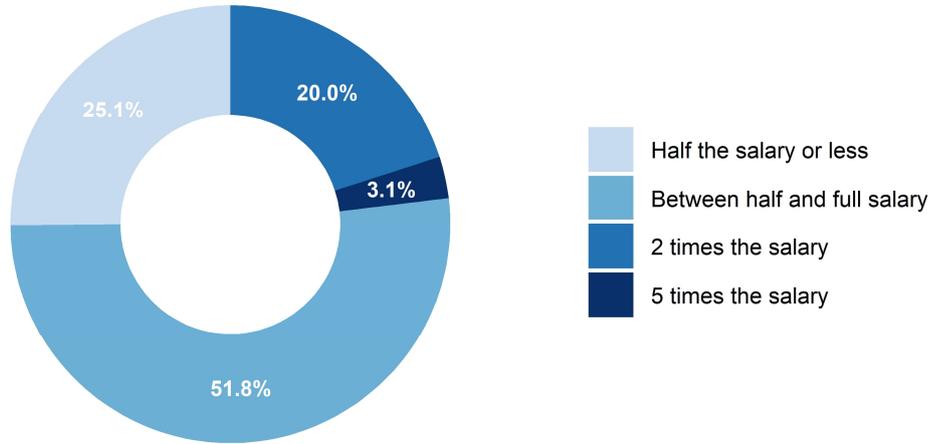


Salary advances are mostly offered at equal to or less than 1 multiple of the salary.

Nearly 77% of respondents said that their companies only grant them wage advancements that were less than or equal to their full salary.

Exhibit 5.3.2: Size of salary advances offered

Q: What proportion of your monthly salary does your employer provide a salary advance/loan facility?



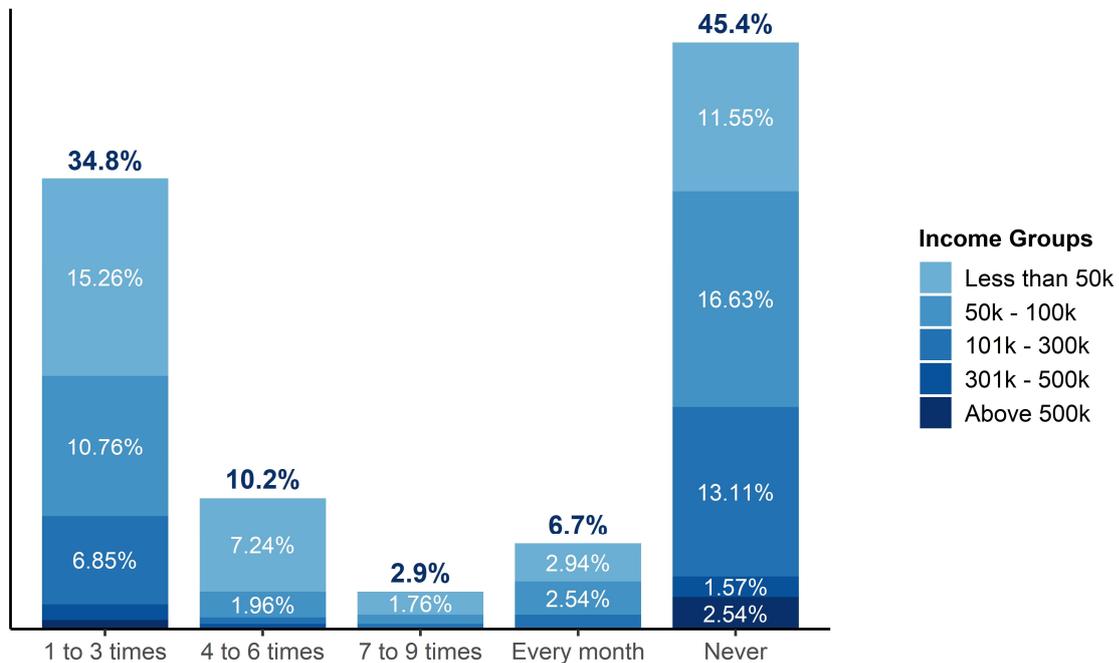
## 6.4 Expenses: The Unavoidable Factor

Unexpected expenses inescapable for the majority

Nearly 55% of the respondents faced unexpected expenses which they couldn't pay through their monthly salary at least once in a year, among these majority earn less than 100k PKR/month. However, 45% of the remaining respondents stated they've never struggled to pay critical expenses from their monthly salary.

Exhibit 5.4.1: Frequency of financial shortfalls

Q: Over the past 1 year, how many times have you been in a position where you weren't able to meet a critical expense between the two salary periods?

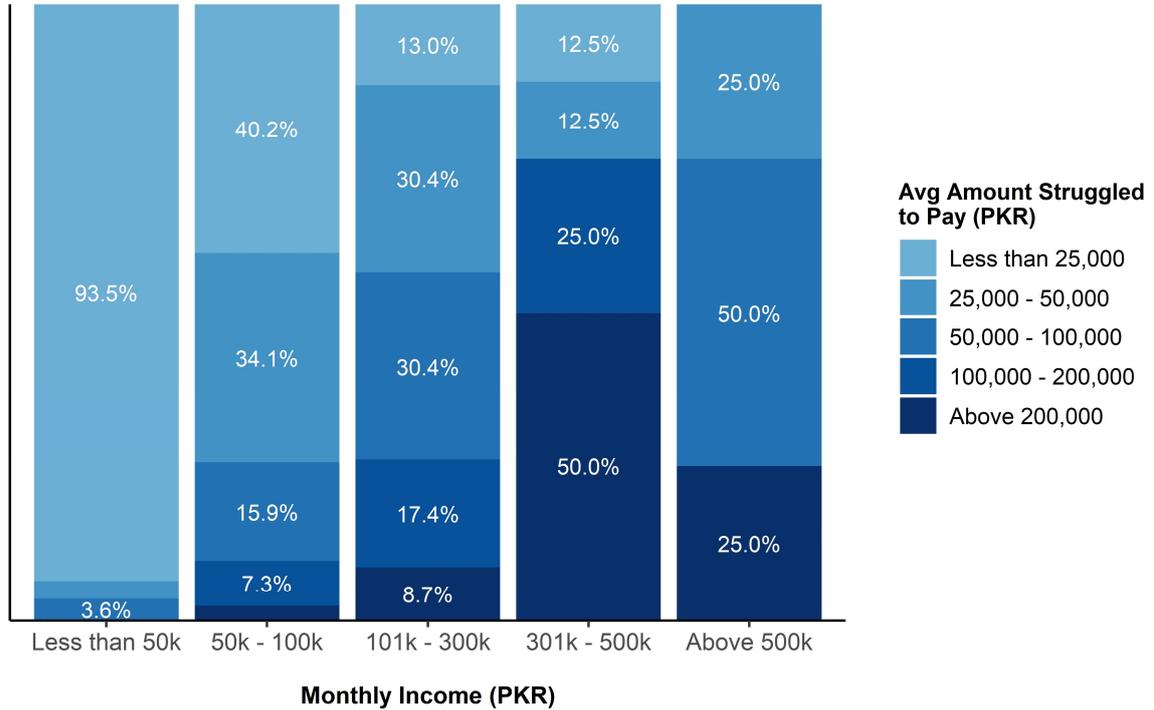


Average unexpected expense is around half their monthly salary

For the majority of respondents, the average amount they struggled to pay was not larger than their monthly income. For instance, 94% of respondents earning less than 50,000 PKR per month said they struggled to pay less than 25 thousand (PKR) on average.

Exhibit 5.4.2: Average amount of expenses

Q: What would be an approximate average amount of the critical expense you struggled to pay (PKR)?



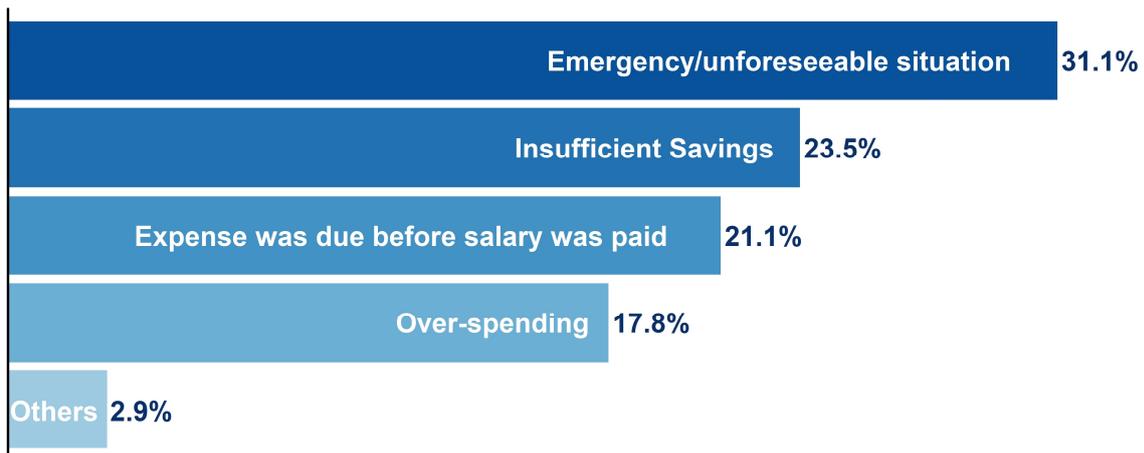
Emergencies being the main reason behind financial shortfalls

The causes associated with short-term financial hardship are complex and interrelated. When asked about the triggers behind financial challenges, our respondents point to three primary reasons:

1. Emergencies
2. Insufficient savings
3. Mismatches between income and expenses

Exhibit 5.4.3: Triggers behind financial difficulties

Q: Why it was difficult to meet a critical expense between pay periods?

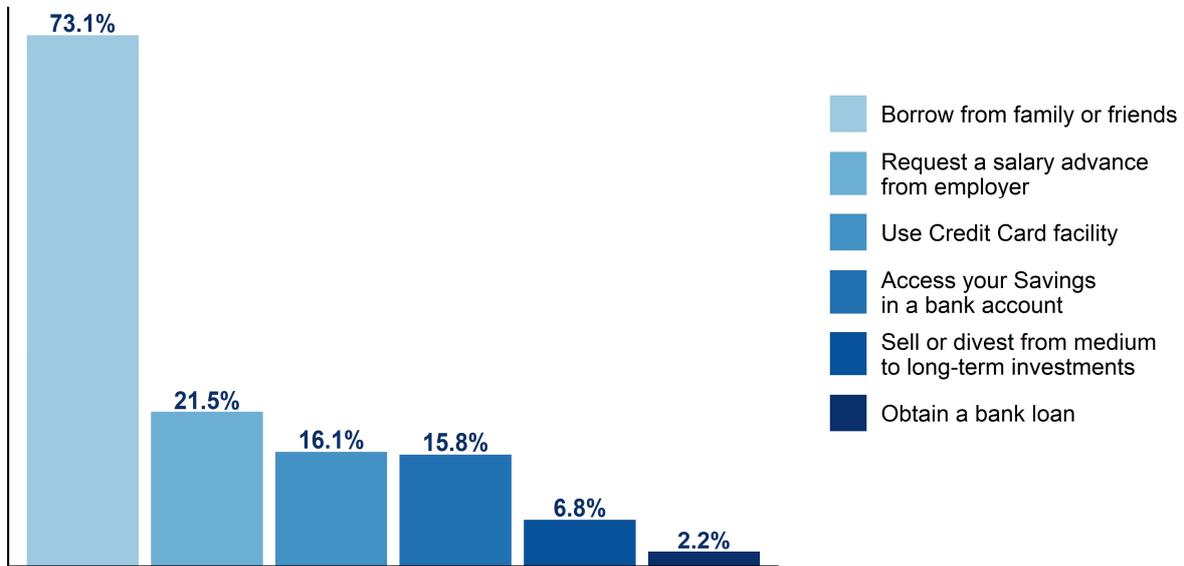


### Borrowing from informal sources is the most preferred option

Financial stability can also be defined by an individual's ease of accessing different finance options during a crisis. Individuals with lower financial stability may end up settling for high-interest finance options that could risk and aggravate their financial strain. Our research highlighted that 'borrowing from friends and family' is the most common way of accessing funds to meet an unexpected expense among the respondents, followed by requesting salary advance from employer, and using credit cards.

Exhibit 5.4.4: Coping mechanisms amongst respondents who faced unexpected expenses

Q: What was your preferred option for meeting critical expenses or financial shortfalls?

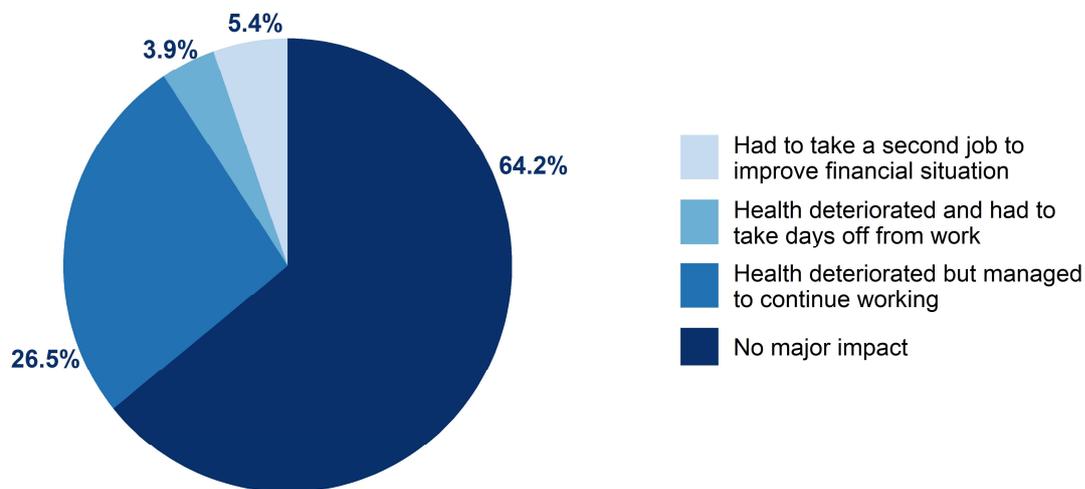


### Financial difficulty seems to affect the employees' health

The impact of financial difficulty on individuals' wellbeing can be profound. The survey results show that 31% employees took a hit on their health and more than 5% had to opt for a second job to improve their financial situation. However, this wasn't the case for the majority (64%) as they had already learned to cope up with financial difficulties faced over the years, hence the financial difficulties does not seem to have any major impact on them anymore.

Exhibit 5.4.5: Consequences of financial difficulty

Q: What were the implications on your work/job when you last faced issues with a critical expense?



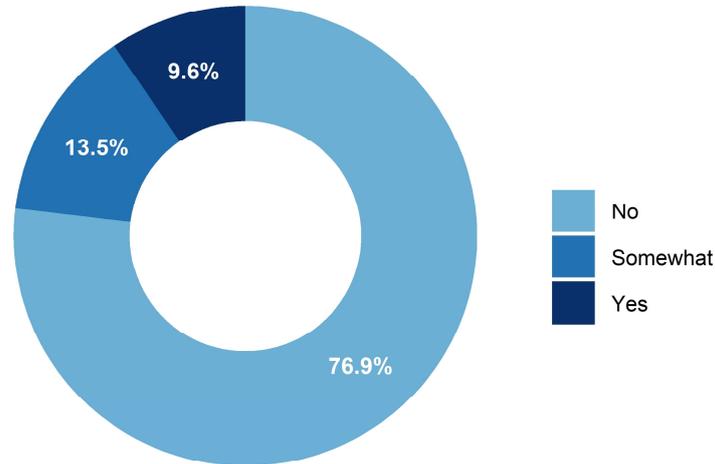
## 6.5 About EWA

### Majority are unaware of earned wage access facility

Despite, EWA being a global solution and popular in large economies like US and UK, around 77% of the respondents are unaware of the existence of such facilities.

Exhibit 5.5.1: EWA Awareness

Q: Have you ever heard about earned wage access or payday loans or a financial product that allows you to access your earned salary during the pay periods?

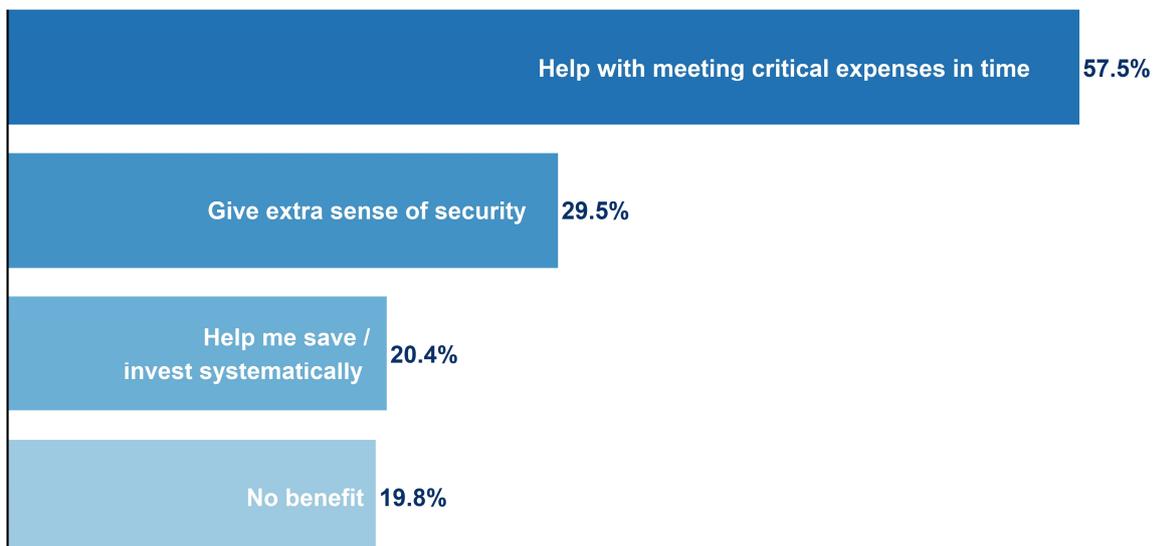


### Majority feel positive about EWA facility

According to the survey results, respondents believe that if their employer provides EWA, it will boost their financial well-being, with the biggest benefit being that it will assist them in meeting critical expenses on time. This aligns with the main objective of EWA facility.

Exhibit 5.5.2: Employee's opinion on how EWA can benefit them

Q: If you had the option to access your pay at any time during a month, in what ways would it benefit you?



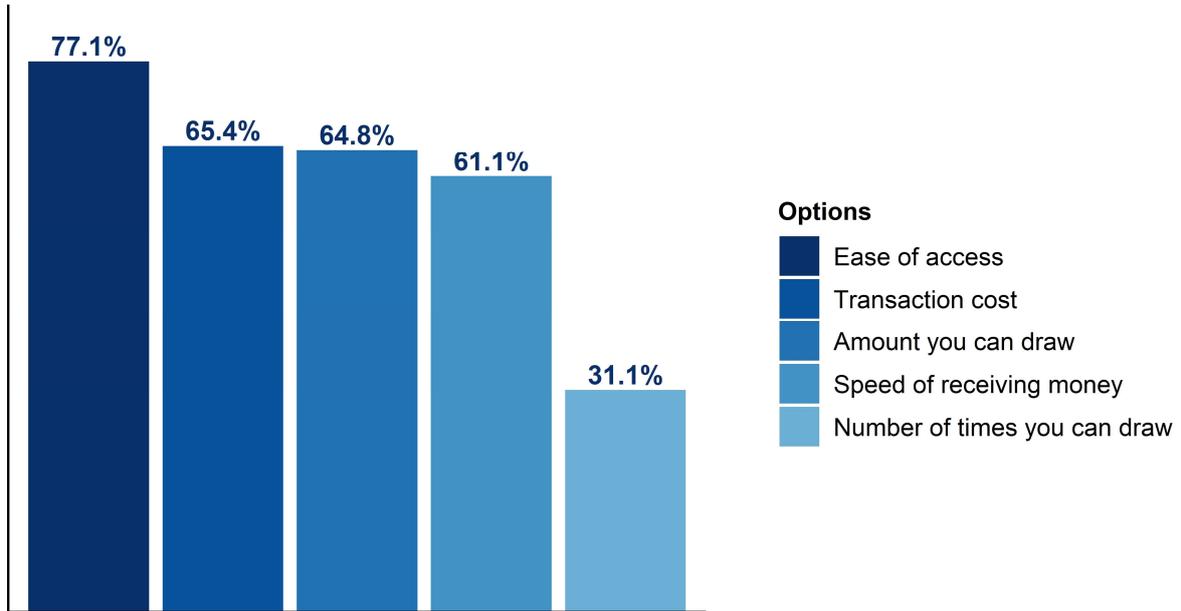
### Key considerations for the EWA facility

According to the survey results, respondents identified three key factors that are most significant to them when considering using the EWA facility:

1. Ease of access
2. Transaction cost
3. Amount you can draw

Exhibit 5.5.3: Factors for considering EWA service

Q: Which of the following (choose any 3) factors will be the most important to you when considering using a facility that allows you to access your salary any time during a month?

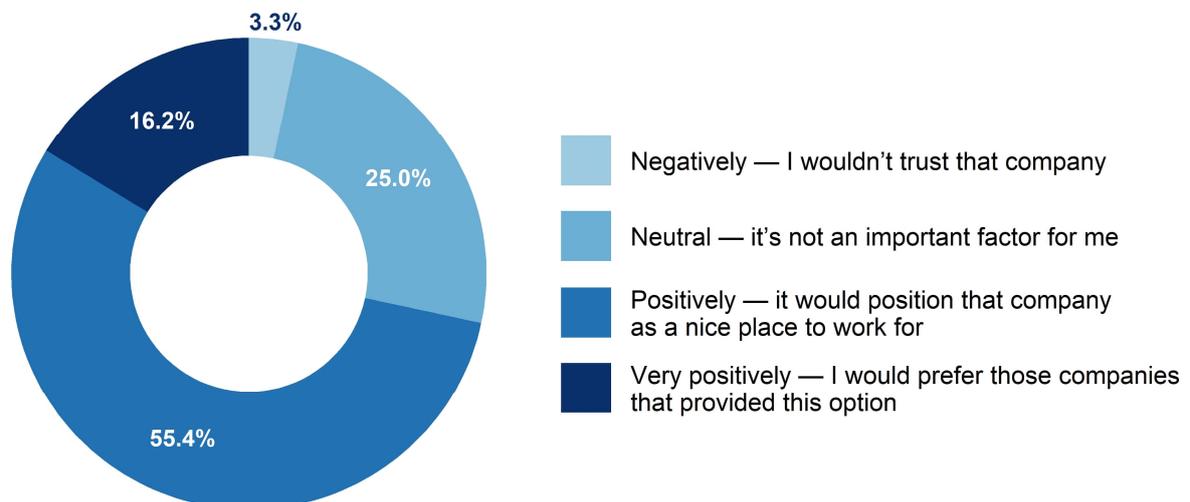


### Majority will feel positive about an employer offering the EWA facility

Around 71% of the respondents would feel positive about the companies who offer EWA facility as an additional employee benefit. This shows EWA is a potential benefit which an employer can introduce to attract new talent.

Exhibit 5.5.4: Opinion on employer offering EWA

Q: How would your perception of the current or a potential employer change if it offered a flexible income access like EWA as part of its benefits package?

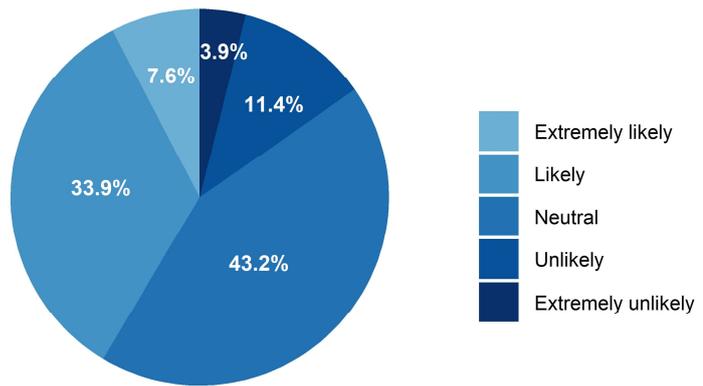


EWA facility will be used by the majority

According to the survey results, 85% of the respondents showed interest in using the EWA service, which means EWA can be a good addition to the conventional employee benefits provided by the companies in Pakistan.

Exhibit 5.5.5: Employees' proclivity to use the EWA

Q: How likely would you avail the option which will allow you to draw part of your earned income before scheduled payday for certain obligations or for meeting critical expenses?



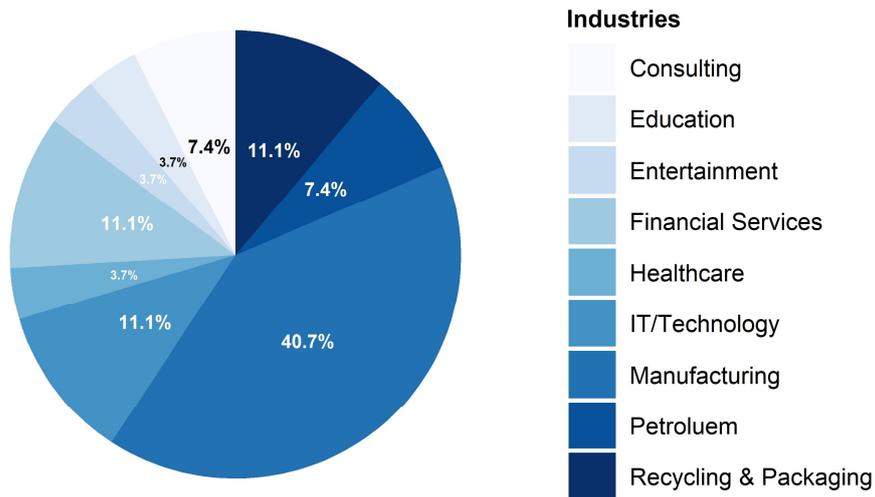
## 7. Employer's Perspective

This section of the report, highlights the key findings from the survey that we conducted on 27 companies across Pakistan covering different industry sectors. The purpose of the survey and the findings pertains to the following topics:

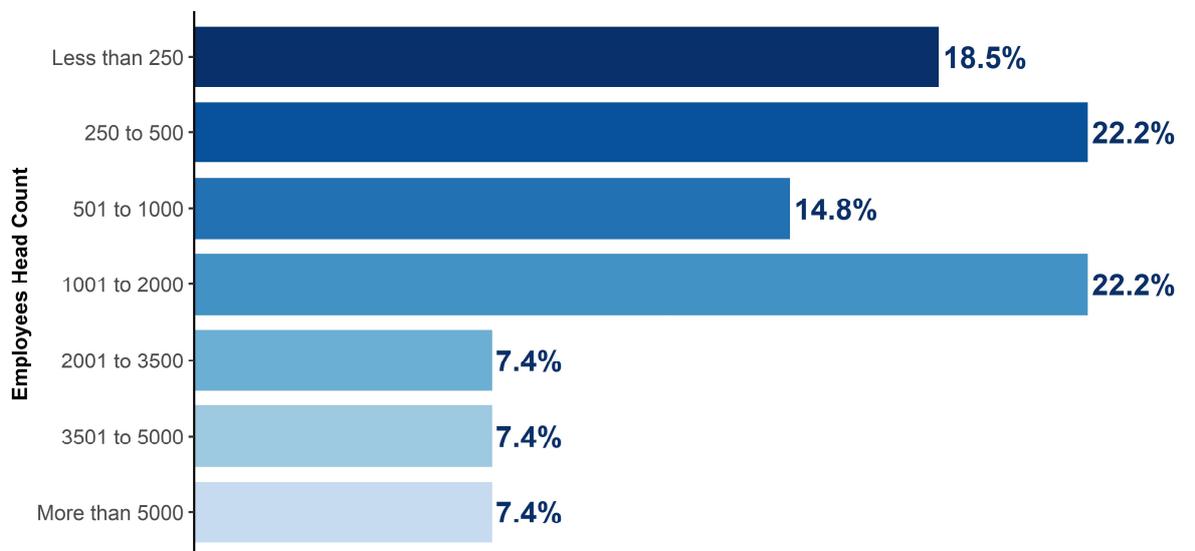
- Existing facilities allowing employee to access funds in case of an emergency
- The impact of financial burden on employees
- How potential facilities like EWA can be more effectively utilized by employers to better contribute to employees' financial well-being

The profile of our companies is summarised below:

Employers by Type of Industry



Employers by Head Count



## 7.1 Salary Advance Facility

### Salary advance facility is a common employee' benefit

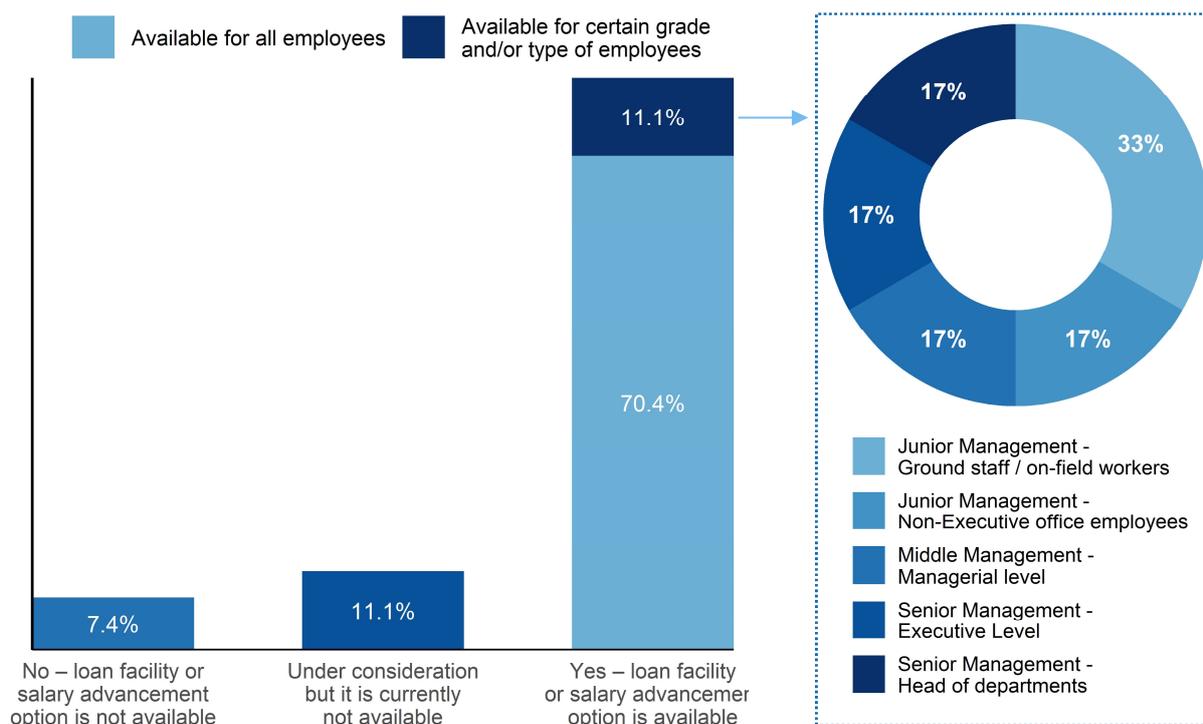
Around 81% of the employers offers to pay advances to their employees in the event of any personal emergency, and the majority of employers extend this facility to all their employees. Only 11% of the employers were providing this facility to particular grades and/or types of employment, with junior and middle management personnel receiving most of the attention.

Exhibit 6.1.1: Salary advance offered by employer

Q: Does the company offer any special incentives for employees requiring cash in case of emergency to cover unplanned/critical expenses, like a loan facility or salary advancement?

Qi: If yes, are all grades and types of employees eligible for it?

Qi.a: If, No, specify the grade and/or type of employees who can avail it?

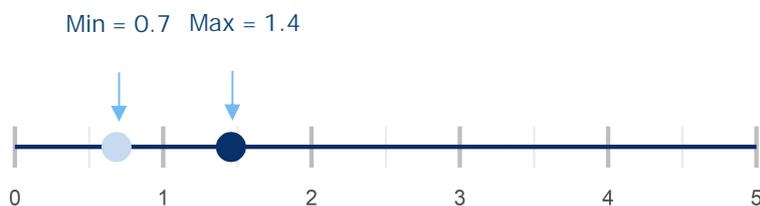


### On average the maximum advance is 1.4 times the salary

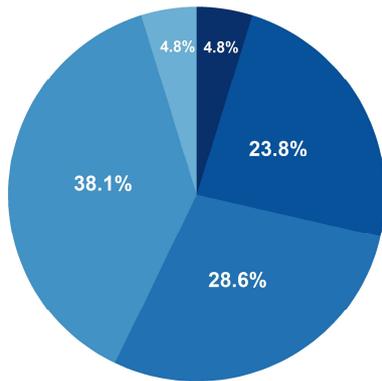
According to the survey results, the minimum and maximum salary advance being offered is 0.7 and 1.4 times the salary respectively.

Exhibit 6.1.2: Size of the advance

Q: What is the minimum and maximum salary advance employees can get in terms of multiples of their monthly salary?



The majority require more than two days to process pay advances



According to 57% of the companies, providing salary advances to employees takes three days or more from the time the request is made.

Exhibit 6.1.3: Turnaround time

Q: In terms of turnaround time, how long does the process take from requesting a salary advance to the employee receiving it?

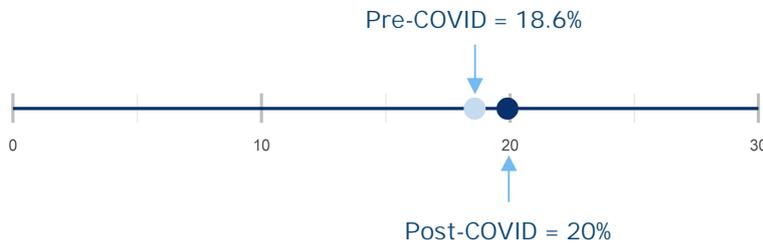


No major impact of COVID-19 on the salary advance facility

The survey results show that there was no major difference in the average proportion of the employees' salary advances due to the COVID-19. In the pre-COVID19 era, around 18.6% of the employees availed the salary advance facility as compared to the 20% in the post-COVID19.

Exhibit 6.1.4: Salary advances during COVID-19

Q: Of the eligible employees, what (estimated) percentage typically availed this option during pre and post-Covid era i.e. during year 2020/2021?



## 7.2 EWA is a better alternative

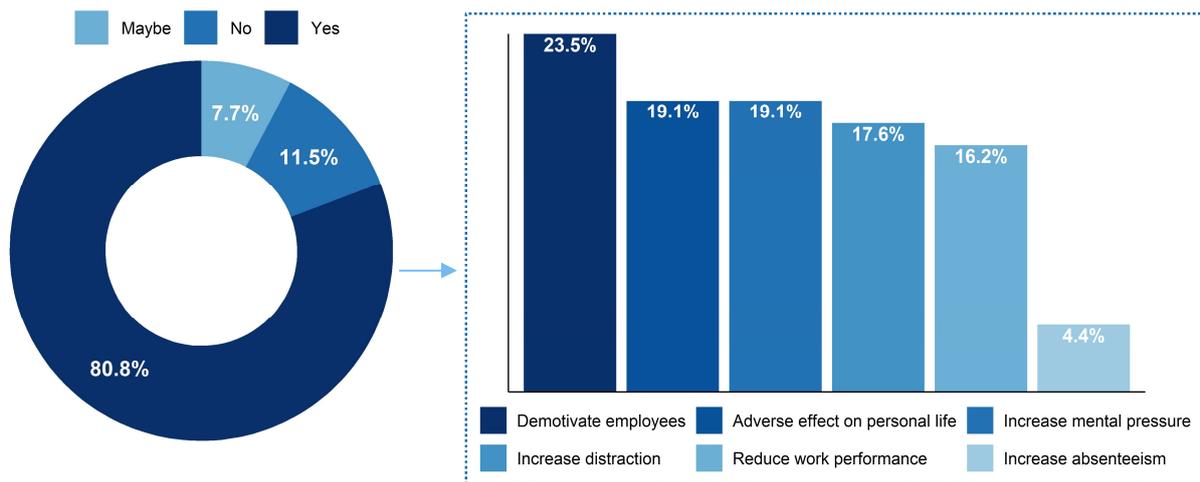
Majority believe employees to suffer when they're are unable to obtain funds on time

Around 81% stated that employees' moral / performance and well-being is affected when they're unable to get timely access to funds in the event of an emergency. Employers pointed out three primary ways in which employees are affected:

- Demotivation
- Adverse effect on personal life
- Increase mental pressure

Exhibit 6.2.1: Factors that can affect employees' well-being

Q: Do you think the inability to get timely access to funds in a time of need can affect employees' moral / performance and well-being? If Yes, in what ways do you think it could affect the employees?

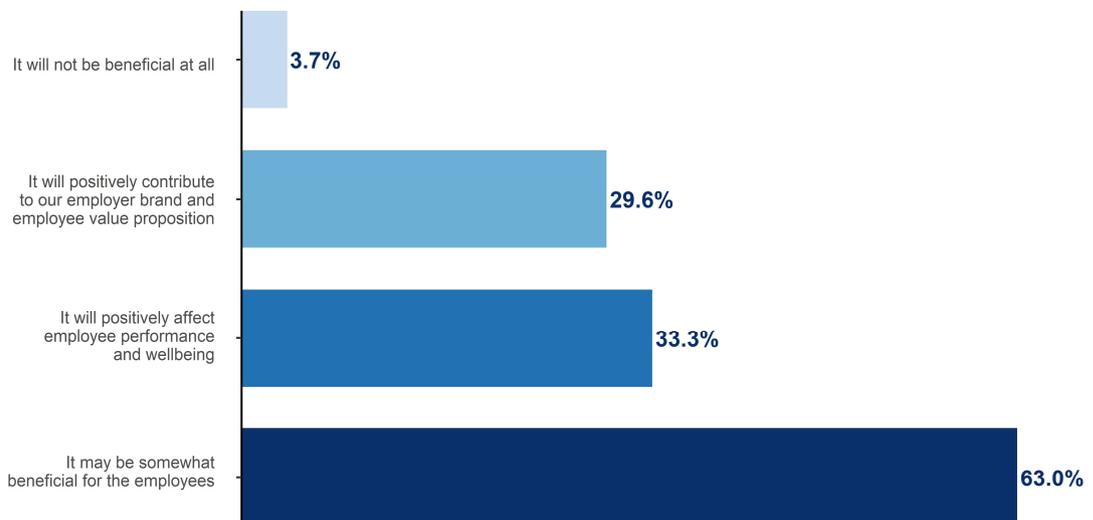


### EWA will be beneficial for employees

According to survey results, most of the employers stated that EWA can be beneficial for employees and will positively affect their performance and wellbeing. Some of them also believed that EWA may contribute to enhancing their company's brand and employee's value proposition.

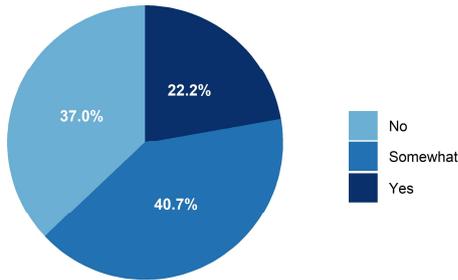
Exhibit 6.2.2: Impact of EWA

Q: In what ways do you think having an EWA facility for your employees will be beneficial for the company?



## 7.3 Awareness and Misconceptions regarding EWA

### Majority are not fully aware of the EWA facility



Nearly 78% of employers have never heard of the EWA or are just vaguely aware of it.

Exhibit 6.3.1: Awareness of EWA

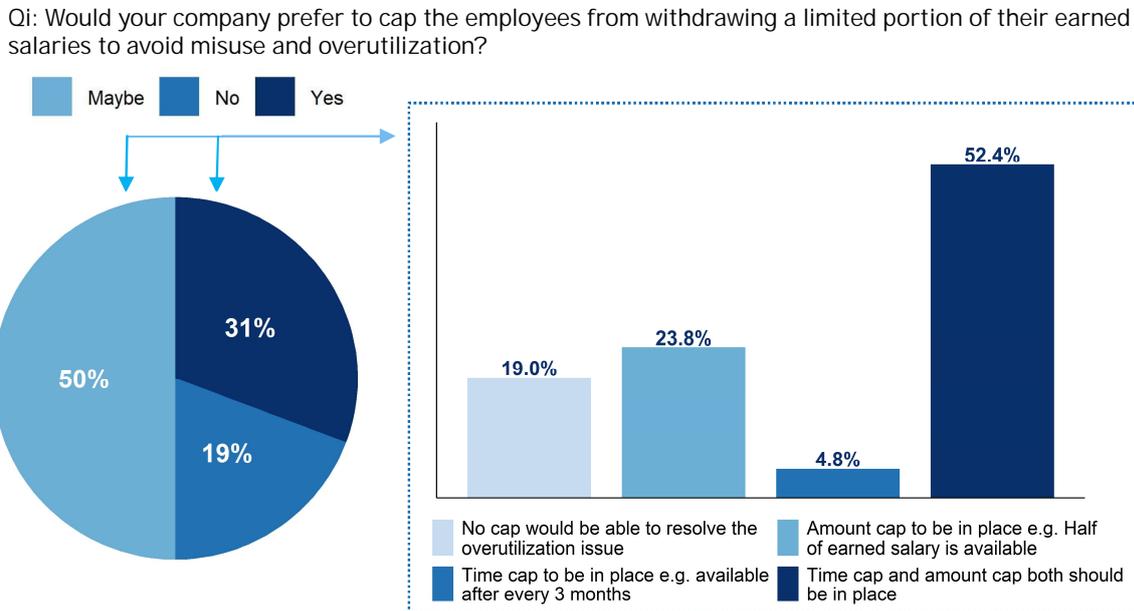
Q: Have you ever heard about earned wage access or payday loans or a financial product that allows you to access your earned salary during the pay periods?

### Majority believes the EWA to disrupt the financial discipline of employees

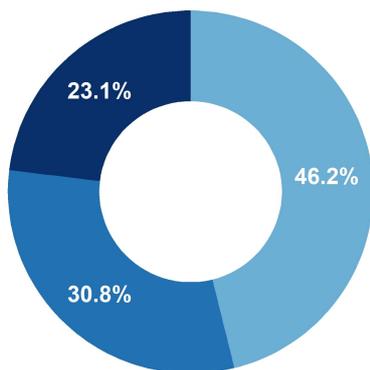
According to survey results, 81% of the employers stated that EWA facility might result in disrupting employees' financial discipline. Among which the majority believed that time cap as well as amount cap should be in place to avoid the overutilization of funds.

Exhibit 6.2.2: Impact of EWA

Q: Do you think salary advancements or EWA facility results in disrupting employees' financial discipline by overutilization of funds during the month?



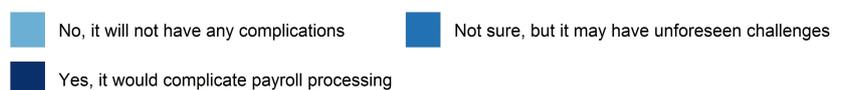
### Majority believe it won't complicate tax structures



According to the survey results, 54% of the employers believed that the EWA facility should not complicate the compensation and tax structures, hence won't have any major impact on the payroll processing.

Exhibit 6.2.2: Impact on Tax Structures

Q: Do you think salary advancements or EWA facilities can complicate compensation and tax structures or lead to complications in payroll processing?



## 8. Potential Reasons for the Success of EWA in Pakistan

EWA is capable of addressing some of the key issues and challenges faced by the majority of the population borrowing money through formal and informal channels, as mentioned below:

1. *Unequal accessibility*: The employed population of Pakistan population belongs to lower and middle-income classes. For these salaried individuals and especially daily wagers, access to formal credit is difficult due to lack of formal credit history, scores or bank accounts. This forces individuals to pursue financing options with excessively high interest rates, putting them at greater danger and reducing their chances of improving their financial situation. EWA, on the other hand, does not involve borrowing on the part of the user because they are only accessing what they have already earned with a small fee.
2. *Difficult to control expenditure*: High-cost credit financing options involve less documentation and do not adequately assess the financial state of an individual. While they provide ready access to liquidity for everyone, individuals with limited to no knowledge of financial planning fall prey to exploitative tactics and end up spending more than they need. On the other hand, EWA service only allows some percentage of the earned income with a per-transaction fee, which limits a user from overspending.
3. *Embarrassment in approaching friends/family*: Borrowing from friends or family members inevitably complicates relationships. Numerous studies demonstrate that when we deal with someone to whom we owe money, a variety of emotions are in action. However, the EWA service is reassuring because the person is just using his or her own funds. <sup>[13]</sup>
4. *Prefer to abstain from interest payment due to religious beliefs*: In Pakistan, people have struggled with Riba (concept in Islamic banking that refers to charged interest) for quite some time, religiously, morally, and legally, and eventually, economic pressures prevent individuals from paying/earning interest on loans. EWA products could be structured in shariah compliant way as done by EWA service provider in Indonesia (Wagely).
5. *Limited financial literacy and inability to save*: According to the survey results, people are less financial literate and are not actively using different avenues to save or invest due to which they're largely dependent on their basic salary and therefore are more likely to face financial shortfalls in the case of an emergency. EWA service providers claim that due to timely access to funds, individuals are able to save better. Furthermore, most EWA providers also offer budgeting/saving tools for their users.
6. *Impractical to obtain a loan from financial institutions*: According to our survey results, the average critical expense faced by an individual is around half of the monthly income for the majority of employees. Therefore, it would be impractical to apply for a bank loan and going through a tedious process knowing that the loan amount isn't extraordinary and can be funded through their upcoming paycheck.

## 9. Current Users of EWA in Pakistan

Employers currently offering EWA facility to their employees using Abhi were interviewed and the following points noted:

- Employee satisfaction level increased significantly by 30% by having access to the EWA facility. This is because the employees felt more financially secured by having access to a 24/7 EWA facility.
- Staff turnover level had no impact by offering EWA facility to the employees. This is because the majority of employees who leave are usually offered a better package which outweighs the benefits received from EWA facility.
- HR workload reduced moderately by offering the EWA facility. This is because the HR no longer needs to process the salary advances manually for each individual and does not have to get physical approvals on forms.
- Motivational level of employees has increased by offering the EWA facility. This is due to reduced mental burden from failure to meet the critical expenses as the EWA facility could now be accessed in case of any emergency.
- Absenteeism rate had no impact by offering the EWA facility. This is because majority of the employees have serious reasons for not showing up to the office and having access to EWA facility does not impact those reasons.
- EWA facility is typically used once a month by junior employees/ground staff and the average amount requested is around PKR 10,000. The middle management and senior management were observed to only use the EWA facility in case of an emergency.
- Majority of the corporate clients prefer EWA service provider to directly funding the income advance when demanded by their employees, which results in no cash flow impacts for the employer as opposed to only using the technology offered by EWA service provider and funding the request by themselves.
- Employers are generally satisfied with the EWA service providers charging 2% transaction cost for using the facility. Some employers were observed to pay the transaction cost on behalf on their employees whereas other employers passed on this 2% transaction to their employees as well.
- Employers expect the EWA facility providers to enhance their offering by providing more flexible repayment options to their employees, where employees would be allowed to repay over a course of few months instead of at the end of the month. Employees can be charged higher transaction fee e.g., 3% in that case.

## 10. Considerations for EWA

### 10.1 Risks for employees and employers

While the EWA product has benefits, it is important that employees and employers are aware that there may be some risks as well. These risks are mentioned below:

- *Lack of credit regulation:* The regulatory and statutory rights and protections, from which borrowers under consumer credit agreements benefit, do not apply, as EWA usually operates outside of credit regulation. For example in Pakistan, currently financing products are either offered by SBP regulated entities which operate under elaborate prudential regulations or SECP regulated non-bank finance companies which also have comparable prudential standards that regulate them for credit limits, maximum exposures, collateral requirements, basic borrower due diligence criteria and the like.
- *Lack of transparency about cost:* The amount of the transaction fee might be a modest sum. However, there is a risk that employees might not appreciate the true cost and how this compares with credit products such as loans. Employees may find it difficult to compare the fixed transaction fee charged for each drawdown to an interest rate/APR. In some cases (depending on the amount of the advance and when it is used in the pay cycle) this may result in it is equivalent to an interest rate that is higher than the price cap for the type of loans offered by the banks. This can become particularly expensive if an employee uses the product repeatedly.
- *Dependency and repeat use:* If an employee takes their salary early, it is more likely they will run short towards the end of the next payday, potentially leading to a cycle of repeat advances and escalating fees.
- *Lack of visibility for credit reference agencies:* Credit reference agencies will not record the use of the product, so creditors who subsequently carry out credit searches won't necessarily be aware that the customer is using EWA. This may in some cases be relevant to creditors' assessment of credit or affordability risk and might result in unaffordable loans being made.<sup>[3]</sup>

### 10.2 Busting myths around EWA adoption

Myth #1: EWA may disrupt employees' financial discipline

Employers can strategically set the earned salary withdrawal limits for different employees, especially those who are new to credit or belong to low-income groups. Employees' existing loans are also considered while determining access caps and the number of withdrawals per pay-period, ensuring that they are not over-leveraged.

Myth #2: EWA may not be useful in attracting new employees

About 71% of the respondents in our research said that they would consider EWA as a deciding factor while choosing their next job. This can be a trigger for employers to offer EWA as a financial benefit in order to attract new talent.

Myth #3: EWA may be misused by employees

There is limited scope for employees to misuse EWA as they have access to only part of their salary that they have earned. The transaction cost may also prevent the employees from misusing the EWA facility.

Myth #4: EWA vendors may be inflexible while recovering the amount from employers

Most EWA service providers have incentives to cooperate with the employers for providing ongoing services. For this reason, the EWA service providers ensure that employers and their finances are not hampered. They may even provide employers flexible repayment schedules.

Myth #5: EWA may complicate compensation and tax structures

In most jurisdictions, EWA has no impact on employees' pay structure and taxes and will reflect as a standard non-government recovery in their pay slips. It means that there is no added tax deduction at source (TDS) or Goods and Services Tax (GST) implications on the employer when they deduct the withdrawn earned salary sum to repay the EWA provider.

Myth # 6: EWA vendor may not safely handle employee data

The employers mostly demand the EWA service providers to ensure confidentiality of data. Many EWA vendors have security-certified systems, such as ISO 27001, and appropriate data security measures in place. EWA provider would typically secure sensitive employee data behind a firewall, which is accessible only to those with explicit permission from the employer.<sup>[13]</sup>



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