



## Self-Driving Payroll - A New Trend For Banks?

payments business customers

**Summary:** "Self-driving" payroll, which is on-demand access to one's pay, is gaining steam, particularly with gig workers, and banks are taking notice.

Lots of digital technologies can enhance the customer experience, but where is the line? Well, Celent research finds 60% of customers are ok with bank personnel using tablets to greet them by name with a customized experience, and 50% like the idea of using a mobile app to compare branch wait times.

People have adapted to all things digital it seems. For instance, look at "self-driving" (on demand) payroll. It gives employees access to their pay on the fly whenever they want.

As you consider whether your bank should offer this too, know that fintechs such as DailyPay and PayActive are offering employers add-ons to existing payroll systems. We are not endorsing these companies per se, but only point out that the technology reportedly enables employees to gain early access to the pay they have earned up to that date for a flat fee, so they are seeing some activity and fueling instant customer gratification.

The way it works is that the fintech funds the money to workers upfront and then the system automatically transfers the funds back to the fintech on the workers' scheduled payday. This payday advance system calculates and deducts taxes on early pay, and may leave payroll processes unchanged.

A number of banks are working to provide on-demand wage delivery capabilities to corporate clients and small business customers. Some are exploring same-day access to earned pay via the Zelle system, while others are working with fintechs. These companies provide APIs enabling workers to cash checks via apps and get money transferred to a debit card.

Workers can also get on-demand for earned pay, but with this method, employers are the ones making back-end adjustments to their payroll processes to enable the capability. Banks are currently in the process of developing use cases for business customers that use same-day ACH for payroll processing too.

Then there are the fintechs like DailyPay that are now actively courting banks to outsource on-demand wage delivery to the fintech for a fee. This option could suit banks that may not have or want to devote significant resources to develop such capabilities in-house, but still want to provide on-demand wage delivery services to their small business customers. Of course, do your diligence and homework before jumping in.

There is another reason to think about this and that is business customers offering such services to their workers could see employee attrition costs, according to a study by Harvard University. The study found that workers who actively used certain services offered by their employer had a 19% lower turnover rate than workers who had enrolled in the program but had not used it. The researchers then calculated that if a retail giant like Target would use the program, the company would save around \$110mm in attrition costs each year.

Knowing the potential cost savings, it has become an interesting topic for companies of all sorts. Providing such services to your business customers could also be a good way to boost loyalty, which may be worth exploring.

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