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# Early wage access provider PayActiv's pandemic response leads to new business model

By Michael Moeser

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When PayActiv ended its coronavirus-related fee holiday this month, it didn't just go back to the way things were before; it adopted a modified business model that could bring it new markets and partnerships.

PayActiv, a provider of [earned wage access \(EWA\)](#) payments, aims to distinguish between users who want instant, on-demand access to payroll and users who are willing to use a PayActiv debit card for banking services. This is departure from its original per-transaction fee model, in favor of attracting consumers who would use its card as a bank account.

"During the early days of the coronavirus pandemic we decided to take a [fee holiday](#) to help out struggling workers," said Safwan Shah, founder and CEO of PayActiv. "We suspended all fees from March 26 through May 31. Then we watched and learned something about consumer

behavior that was unexpected. Before, when we charged a per transaction fee, people took out larger sums of money in just a few transactions. Then when there was no fee, they made more transactions for smaller amounts, just enough to cover their purchases."

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## Why it's time for a new approach to wire processing

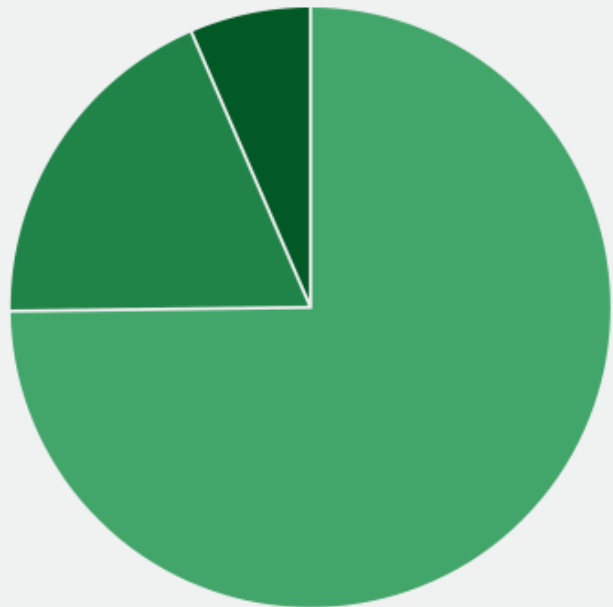
A healthy wire processing operation is the heart of any financial institution's commercial payments business.

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The PayActiv team noticed the bifurcation of its user base and how customer needs could be best addressed by offering two different products. So when it resumed charging fees on June 1, it also rolled out two programs to cover its entire customer base. Under the old model, consumers typically paid a \$5 fee for a bi-weekly period that allowed them to withdraw up to \$500 of earned, but not yet paid wages at any point during the pay cycle.

## A quarter of households are unbanked or underbanked

- Unbanked households, 6.5%
- Underbanked households, 18.7%
- Full banked households, 74.8%



Source: FDIC National Survey of Unbanked and Underbanked Households 2018. Note: Unbanked households have no checking or savings accounts. Underbanked households have a checking or savings account, but have also used an alternative financial services provider such as a payday lender, check casher or pawn shop in the last 12 months.

The new business model has two programs called ACCESS Freedom and ACCESS Choice, which are meant to differentiate between people who want banking services and those who need on-demand EWA access.

ACCESS Freedom provides free use of PayActiv's benefit program, including earned wage access, for users who direct deposit at least \$250 of their wages per pay period onto a PayActiv prepaid Visa card. The card is issued by the Central Bank of Kansas City, and PayActiv is the program manager. This product relies on generating debit interchange fee income. It is more likely to be viewed as an alternative banking service by unbanked and underbanked consumers.

ACCESS Choice provides the same services for a fee of \$1 per day of use, which includes use of earned wage access on that day. The customer links a bank account to which PayActiv would send the funds via ACH, arriving within one day (same day or next). For users needing an instant payment, the funds can be sent for an on-demand request from the app, leveraging Visa Direct for transfers, for an additional cost of \$1.99. The income generated from this product is fee-based and has no debit interchange involved, since the user is using a separate bank account and debit card.

"PayActiv's debit interchange-only product is a way to rapidly acquire new DDA customers," said Richard Crone, principal at Crone Consulting LLC. "The fully loaded cost to acquire a new DDA is \$300 and it typically generates between \$150 and \$230 per year, half from debit interchange and half from overdraft fees. By giving up the overdraft fees it pushes out the ROI date. I don't think it's a sustainable business model. I believe they are doing this to attract another round of funding or the attention of a potential acquirer."

Currently PayActiv is backed by VC funding from investors such as SoftBank Capital. PayActiv has raised over \$33 million in four funding rounds since 2014 according to [Crunchbase](#), a

website that tracks investments in private companies. PayActiv's latest round was its Series B in 2018, raising \$20 million.

"Including Walmart, we have almost one million active users and over four million on the platform," added Shah. PayActiv offers savings, bill pay, Uber and Amazon in the app. For instance, if someone wants to take Uber, they click on Uber and get a ride for work.

Additionally, Shah claimed that PayActiv has over 1,000 business clients. Its products are sold to consumers as employer-sponsored plans, which is common in the industry. For example, when [Branch](#) partnered with Dominos this year to help the pizza giant provide its workers with faster access to pay and tips as a recruitment tool to hire 10,000 new workers, it was as an employer-sponsored plan.

The PayActiv app appears to be a bank-like product, tailored to unbanked and underbanked consumers who represent about 25% of U.S. households, according to the [FDIC](#). According to Crone, having EWA and banking features could be attractive in generating new DDAs among an unlikely group of people who have long stayed away from traditional banking services — something that could get noticed by large financial institutions seeking to meet society's increased demands for social justice given the [racial disparity in financial services](#).

"PayActiv stands above the rest given how long they've been in market and their size," noted Crone. "He's gotten a million customers and that's the magic number to be able to sell a fintech to a bank, payments processor or paycheck company. Their partnership in the ADP marketplace is an example of a 'partnership to purchase' strategy where ADP gets to see how PayActiv performs in its marketplace. If PayActiv does well, then it's very easy for them to approach with an acquisition offer."

There is also a sense of opportunity in banking the unbanked and taking a bite out of the

payday lending industry.

HCM software provider [Ceridian](#) launched its own earned wage access tool called the Dayforce Wallet in May to capitalize on the more than 4 million workers it covers under its Dayforce time and attendance tool.

Recently, PayPal and Salesforce CEO Marc Benioff invested in the startup [Even](#), which delivers faster wage access to workers. Even is notable from its [partnership](#) with [PayActiv](#) in late 2017 to deliver earned wage access to over 500,000 Walmart associates out of an associate population of 1.5 million.

PayActiv's Shah takes pride in his company being a "Certified B Corp and Public Benefit Company," as it highlights his firm's mission to help struggling workers trying to make ends meet and lead more rewarding lives.

However, at the end of the day, Shah's passion to bring in consumers who live on the fringes of mainstream financial services may be what traditional banks need to drive future growth given the current social and financial unrest.

"Since he's leveraging the employers' pre-authentication and KYC efforts, PayActiv has tapped into an easy way to onboard the unbanked. And that could be something very attractive to a bank, payments processors or mobile banking provider," said Crone.

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