Publication: City Press (Western Cape), Business and Tenders

Date: Sunday, July 14, 2024

Page: 17

PERSONAL FINANCE

Edited by Maya Fisher-French

personalfinance@citypress.co.za

your money your lifestyle

BORROWING FROM YOUR SALARY

Does accessing a portion of your salary before payday make financial sense, asks **Maya Fisher-French**

What do you do if you have an unexpected expense during the month or find yourself a bit squeezed? In a perfect world, one would have an emergency or contingency fund to draw on, yet most white-collar workers tap into their credit lines - whether that is their credit card or overdraft.

However, for lower income earners, flexible credit facilities are not easily available and often come at a very high cost.

For someone earning less than R10 000, their only access to immediate short-term credit would be expensive microloans.

Under the National Credit Act a credit provider issuing a loan of less than six months can charge an interest rate of up to 5% per month, which equates to 60% per annum. There are also initiation fees and service fees which can be added to the loan.

For a low-income earner, an unexpected expense or a tight month becomes extremely expensive.

But what if instead of accessing expensive credit, an employee could be paid for days worked? This concept started in the US when Walmart allowed workers to access a portion of their already-earned salary before month end. In South Africa this has taken off with several earned wage access (EWA) companies emerging like Level Finance and Paymenow.

When I first wrote about the concept in 2020, I received criticism for suggesting that people should have any credit at all. They raised the concern that if a worker has used up a portion of their salary before pay day, they would start the next month with less money and would soon be trapped in a debt cycle.

These observations were mostly made by white-collar workers who have access to all kinds of credit, including low-interest access bonds. They often make ends meet by utilising these products.

The reality is that, unfortunately, most households manage cashflow through credit - the only difference is that low-income earners pay substantially more for it.

If for example, if an employee needed just R100 to pay the taxi to get to work near month end, no registered credit provider would offer a loan of such low value. The minimum would be R500 and the employee would pay a fee of around R150 based on regulated fees for initiation fees, service fee and interest. The employee could borrow the R100 from the local loan shark, but the payback the next month would be R150.

However, if the employee was able to take the R100 from days already worked, they would pay only around R3 in fees.

Four years later, the experience of salary advances has been largely positive and Paymenow, one of the fastest growing EWA companies, now processes more than half a million transactions per month.

According to their 2023 Impact Performance Report, 92% of customers would have had to borrow money if they had not received a salary advance through Paymenow and 94% of customers say their quality of life has improved.

The money is largely used for transport costs, food and airtime. Without access to funds, many employees would miss work as they would be unable to catch transport to work.

As Bryan Habana, co-founder of Paymenow explains, "they are living daily but only paid monthly".

The Paymenow experience has found that, typically, customers are only using around half of the funds that are available to them. The average salary of customers is around R6 500 and they typically draw R650 a month. This is typically done as two cash withdrawals or as vouchers for airtime for retail stores like Boxer. The vouchers are popular as they have half the fees compared to drawing cash.

The employer sets the maximum amount an employee can draw of their pre-earned salary.

Most employers set this at 25%, however some employers increase this level to 30% to 35% in January to avoid their staff accessing expensive payday loans to pay school fees etc.

If, for example, the employee earns R10 000 a month, that works out at R333 per day. Halfway through the month they accumulated R5 000 in earnings for the month. The employee would have access to 25%, which is R1 250.

In order to develop financial literacy skills in employees, they do not immediately have access to the full 25%. Employees are encouraged to participate in the in-app financial education programme. This includes knowing their credit score and using the budgeting tool.

They are limited to a lower withdrawal amount initially and only if they engage with the programme will they move up a level to access a higher percentage of their salary. They are also rewarded for reaching the gold tier by receiving vouchers at no transactional cost.

EWA company Level Finance has built a savings option into their product that allows an employee to save before they get paid.

"It's part of the controls we have put in place for repeat users, so they have to commit to getting out of debt through our debt counselling partner Meerkat, or start using a portion towards savings", explains Raeesa Gabriels, the founder of Level Finance.

If properly managed and combined with financial literacy education, earned wage access can be a very cost effective solution in helping employees better manage cashflow and provide for emergencies.