

GROWING BUSINESS BY CLOSING THE PAYROLL CARD “EDUCATION GAP”

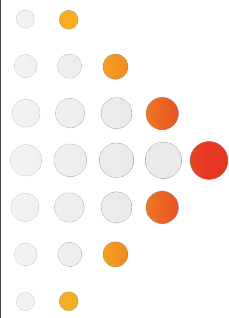
Executive Highlights

MasterCard research shows that employers today have misconceptions about payroll card programs and do not understand how they work and how they can reduce the cost of payroll distribution. This creates a significant opportunity for payroll card program providers to grow their businesses by closing this payroll card “education gap.”

When compared to traditional paper paychecks, payroll cards represent an opportunity for employers to reduce the cost of payroll disbursement by as much as \$223 per employee per year¹, while delivering a new benefit that enables employees to keep more of the money they earn. Payroll cards are especially valuable to the more-than 60 million people in the U.S. who have no relationship with a bank (unbanked), or a limited one (underbanked)², for the following reasons:

- Payroll cards can save users more than \$1,000 per year when compared to the fee-based money-management tools typically used by the un- and underbanked population.³

\$223 USING PAYROLL CARDS INSTEAD OF PAYCHECKS REDUCES THE TYPICAL EMPLOYER’S PAYROLL COSTS BY AS MUCH AS \$223 PER EMPLOYEE PER YEAR.

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- They are also more convenient than checks — payroll cards can provide instant access to cash through ATMs, participating merchants and MasterCard-issuing banks, and eliminate the need to stand in a check-cashing line.
 - They are more secure than cashed checks. Lost or stolen payroll cards are easily replaced with all of the remaining value assigned to them.⁴ Lost cash is gone forever.
 - They are an effective money-management tool: employees can track usage, check balances, and always know how much money they have.
 - They are widely accepted. Any location that accepts MasterCard debit cards can accept a MasterCard payroll card — and unlike cash, they can be used for online and telephone purchases and bill payments.⁵

Payroll card program providers should encourage employers to take a fresh look at payroll cards, because modern programs impose less cost, risk and administrative overhead than traditional paycheck disbursement. Equally important, payroll cards enable employers to deliver a valuable new benefit to employees — one that lets them keep more of their hard-earned money while improving their quality of life.

EXECUTIVE SUMMARY

Employee benefits that also reduce costs for employers are uncommon. Payroll cards are that kind of benefit. They reduce the cost of payroll disbursement for employers and deliver significant cost, convenience and security benefits to employees when compared to traditional paper-based payment.

Payroll cards have been available since the late 1990s, but employers have been slow to adopt them as a result of a lack of understanding of available products, features and functions, and the assumption that employees prefer to be paid by check. Today, however, they are a proven mechanism for streamlining pay disbursement by bringing direct deposit capabilities to the un- and underbanked employee population. In fact, payroll cards were a key component of Walmart's 2009 initiative to move to a more sustainable payroll system.

In addition to saving employers as much as \$223 per employee per year in payroll disbursement costs, payroll cards can save even more money for employees.⁶ When paid by paper check, unbanked employees must often use fee-based check-cashing services to access their cash. This process of converting paychecks into cash is both costly and not secure (after all, a payroll card can be replaced,⁷ lost or stolen cash is gone forever). They also must often resort to "alternative" financial services to pay their bills, such as money orders and fee-based bill-paying services. In total, fees for these services can add up to more than \$1,000 per year per employee.⁸

MasterCard recently commissioned primary research to understand employer and employee attitudes toward payroll cards. This research indicates that employers do not have an accurate understanding of payroll cards and the benefits they deliver. This white paper explores those attitudes and defines the messages program providers need to communicate to employers to close this "education gap," as well as the messages employers need to communicate to employees to implement a successful payroll card program.

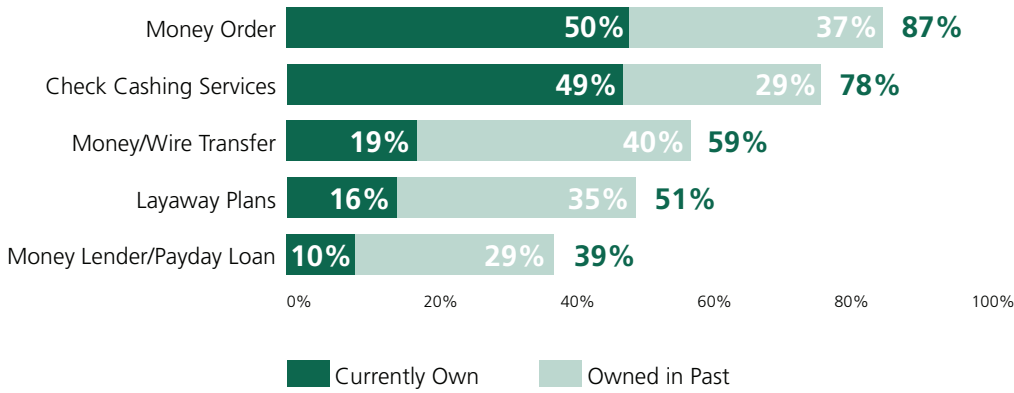
Why Payroll Cards? Why Now?

It is useful to begin the payroll card education process by examining money-management habits of the end-users of payroll cards. These end-users are critical to the overall success of a program rollout, because they are a major part of the value proposition to employers: "Payroll cards save money for you and your employees."

According to the FDIC, 60 million people in the U.S. are unbanked or underbanked.⁹ People become unbanked or underbanked by choice or by necessity. In the former case, they typically have had a poor experience with bank overdraft and other account fees, and simply choose not to be bank customers. In the latter case, they cannot access bank services due to poor credit history, language barriers or financial barriers such as minimum balance requirements.

As a result, they must often rely on alternative financial services, such as check-cashing and bill-paying services, to manage their money. Figure 1 shows the breakdown of these services and how they are used, based on a survey MasterCard conducted of unbanked and underbanked people.¹⁰

FIGURE 1: USAGE OF ALTERNATIVE FINANCIAL PRODUCTS IN TOTAL



Source: Towers Watson, "MasterCard Pre-Paid Payroll Card Business Case," May 2010

The key driver of this money-management behavior is the paper-based paycheck. When paid by check, unbanked employees often have no choice but to use these services. Unfortunately, many do not fully understand how much these services are costing them every year.

Likewise, many employers do not have a full grasp on what paper-based checks are costing their businesses every year when compared to payroll cards. Most employers continue to pay employees by check simply because the system has worked reasonably well for them for a long time. But a cost analysis, as seen in Figure 2, shows that employers spend between \$4 and \$5 to distribute every live check, which means they are missing a significant opportunity for cost savings by moving to a payroll card model.¹¹

FIGURE 2: BUSINESS CASE: COST TO EMPLOYER

	Paper Paycheck		Direct Deposit to Bank Account		Direct Deposit to MasterCard Payroll Card	
	Large Company	Small Company	Large Company	Small Company	Large Company	Small Company
Cost per payment ^{a,b}	\$3.90	\$4.90	\$0.50	\$0.60	\$0.50	\$0.60
Annual cost ^c	\$202.80	\$254.80	\$26.00	\$31.20	\$26.00 ^d	\$31.20 ^d
Savings vs. check			\$176.80	\$223.60	\$176.80	\$223.60

^a Representative of averages based on industry averages, specific costs for a specific company will vary.

^b Calculated using Electronicpayments.org Direct Deposit Calculator accessed and downloaded on May 3, 2010. Inputs for DDC were customized using Towers Watson assumptions, derived from past client engagements for target company size. DDC outputs were validated for reasonability against Towers Watson's experience with its clients and publicly available literature.


^c Assumed 52 pay periods per year.

^d Initial set-up fee of \$0 to \$2,500 may apply * Large company assumed to be 10,000 employees, small company assumed to be 100 employees

Source: Towers Watson, "MasterCard Pre-Paid Payroll Card Business Case," May 2010

In addition to saving employers money, payroll cards can save employees money. Figure 3 shows how much the typical employee saves when using a payroll card, rather than fee-based alternative financial services, for money management.¹²

FIGURE 3: BUSINESS CASE: COST TO EMPLOYEES



ALEX

Works full-time for a hospitality company

Makes \$450 per week

Doesn't have a bank account because of minimum balance requirements and other fees

She can't sign up for direct deposit!

PAPER PAY CHECK <small>(Estimated monthly cost)</small>	MASTERCARD PAYROLL CARD <small>(Estimated monthly cost)</small>
ACCESS HER MONEY	ACCESS HER MONEY
Check Cashing \$29 - \$78	Check Cashing No Cost
1.5% x \$450/wk = \$6.75	
52 pay prds x \$6.75 = \$351; \$351 / 12 mos = \$29	
4% x \$450/wk = \$18	
52 pay prds x \$18 = \$936; \$936 / 12 mos = \$78	
ATM Withdrawal N/A	ATM Withdrawals \$0 - \$18
No access	4 times/month: \$1 - \$4.50/withdrawal, 1 free ATM access/pay period
PAY HER BILLS	PAY HER BILLS
Rent, Car Insurance & Car payment \$3 - \$12	Rent, Car Insurance & Car Payment \$0 - \$3
3 bills via Money Orders at \$1 - \$4/bill	3 bills via Bill Pay or check at \$0 - \$1/bill
Phone, Cable, Electricity bills \$3 - \$6	Phone, Cable, Electricity bills \$0 - \$3
3 bills via Bill Pay at \$1 - \$2/bill	3 bills via Bill Pay at \$0 - \$1/bill
TOTAL ESTIMATED MONTHLY COST \$35 - \$96	TOTAL ESTIMATED MONTHLY COST \$0 - \$24

Source: Towers Watson, "MasterCard Pre-Paid Payroll Card Business Case," May 2010

Payroll cards can also save employees a significant amount of time each month. While the estimates in Figure 3 were based on a combined six bills per month, research from AITE Group shows that, on average, unbanked and underbanked consumers pay 16 bills per month and spend up to 10 hours paying them. 77 percent of them pay at least some of their bills in person, while mail and in-person payments account for more than 85 percent of all of their bill payments.¹³ Payroll cards can significantly reduce the amount of time required to pay bills because they enable automatic, online and phone-based payment. Each of these eliminates the time and effort required to pay bills by procuring money orders for mail payments, or by paying in person in cash.

Employers will need to educate employees on these benefits to ensure the smooth rollout of a payroll card program, and to receive full “morale credit” for providing a new benefit. MasterCard can help program providers with turnkey educational materials that they in turn can provide as a value-added service to employers.

Correcting Employer Perception

MasterCard research shows that employer perceptions of payroll cards are not aligned with reality. Figure 4 incorporates data from a study that identified the main reasons why employers do not adopt payroll cards.¹⁴ The study found that almost all resistance to adoption is based either on misperception, or a lack of knowledge of modern payroll card programs.

FIGURE 4: A KEY REASON CITED FOR NOT CONSIDERING PAYROLL CARDS

2008 APA/MasterCard Survey <i>Will Not/Not Considering</i>	Total (1420)	Counter Argument
Insufficient number of employees	33%	Payroll cards are suitable for any size organization.
Senior management not sold on idea	32%	Senior management needs to understand the cost-savings and benefits to make an informed decision.
Concerned about employee misuse/liability	28%	Employees actually own the cards and hold the relationship with the provider, so employers are not liable.
Don't understand costs/benefits for employer or employees	24%	There are an abundance of educational materials that define the benefits and cost-savings of payroll cards.
Legal concerns	15%	Employees actually own the cards and hold the relationship with the provider, so employers are not liable.
Insufficient resources to implement	14%	Payroll card providers offer turnkey programs that require minimal administrative overhead for employers.
Don't understand how the card works	13%	There are an abundance of educational materials that explain how payroll cards work.
All/most employees on direct deposit	6%	If you have any un- or underbanked employees, there likely is a segment of your workforce that could benefit from payroll cards.

Source: MasterCard/APA Survey, November 2008

Figure 4 indicates that many traditional employer negative perceptions toward payroll cards are largely unfounded. Payroll cards effectively support reductions in payroll disbursement costs, as Walmart's paperless payroll system exemplifies. The removal of paystub printing and distribution is a necessary component that requires a solution to provide cost savings with payroll disbursements.

This opens a significant opportunity for payroll card program providers to expand their client bases by educating employers on the benefits of payroll cards. MasterCard can provide a full set of tools and materials to help with payroll card program promotion. MasterCard commissioned research to identify employer attitudes toward payroll cards. Figure 5 provides a summary of some of the key findings from that research and messages that program providers can use when reaching out to employers.

FIGURE 5: EMPLOYER KEY FINDINGS AND MESSAGES

Employer Findings	Key Message
Those who haven't deployed payroll cards are aware of them but don't view them an important part of an electronic payment initiative	Proven results
Those who haven't adopted payroll cards may not have a full grasp of the number and characteristics of their un and under banked employees	Increase enrollment in any electronic payment program
The process of evaluating payroll cards is perceived as time consuming and complex	MasterCard makes choosing the best payroll card program easy
Those who looked at payroll cards in the past have considerably less favorable perceptions than those who have evaluated or implemented them more recently	Can you afford not to take another look at a payroll card?
Those who offer a payroll card report the primary benefit is the ability to pay employees in an event of an emergency	Worry-free payment disbursement

Source: Towers Watson, "MasterCard Payroll Card, Research and Messages," June 2010

By implementing a marketing campaign that effectively educates employers in these points, program providers can attract new clients and expand engagements with existing clients.

Conclusion

Payroll card programs represent a superior way to distribute pay for both employers and employees. Perception is the single largest barrier to adoption of payroll cards. Most employers simply are not familiar with current payroll card offerings, and how they can deliver significant cost savings over traditional paper-based paychecks.

All of this presents a significant opportunity for payroll card providers to expand their businesses by effectively marketing the benefits of payroll cards to employers. The messaging recommendations in Figure 5 can provide a framework for structuring an effective marketing program, and MasterCard can provide a variety of supporting materials for such a campaign. For more information, visit http://www.mastercard.com/us/business/en/corporate/commercial_prepaid.html.

- ¹ Towers Watson, "MasterCard Pre-Paid Payroll Card Business Case," May 2010
- ² FDIC, "National Survey of Unbanked and Underbanked Households," December 2009
- ³ Towers Watson, "MasterCard Pre-Paid Payroll Card Business Case," May 2010
- ⁴ Certain limitations apply
- ⁵ Via participating issuers' online bill-paying systems
- ⁶ Towers Watson, "MasterCard Pre-Paid Payroll Card Business Case," May 2010
- ⁷ Certain limitations apply
- ⁸ Towers Watson, "MasterCard Pre-Paid Payroll Card Business Case," May 2010
- ⁹ FDIC, "National Survey of Unbanked and Underbanked Households," December 2009
- ¹⁰ MasterCard, "Re-Loadable Prepaid Card Market Assessment," September 2010
- ¹¹ Towers Watson, "MasterCard Pre-Paid Payroll Card Business Case," May 2010
- ¹² Towers Watson, "MasterCard Pre-Paid Payroll Card Business Case," May 2010
- ¹³ AITE Group, "Bill Payment Practices of the Unbanked," February 2010
- ¹⁴ MasterCard/APA Survey, November 2008

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