

## Helping Workers Get By



*A financial-services company gives workers an advance on their salaries. Employers approve*

The monthly pay cycle is something that professionals quickly get used to. But for employees with low-paid, or irregular, jobs it can involve real hardship. All too often, the bills arrive before the wages do.

The temptation for workers is to turn to payday lenders. But the costs are high. In Britain, even after the Financial Conduct Authority imposed a cap in 2015, the annualised interest rates for such loans average 1,250%.

Now there is an alternative. Wagestream is a British financial-services company which will advance part of a worker's salary in return for a flat £1.75 (\$2.30) fee. The money is then deducted from the final pay packet. This has a number of advantages for workers. They can deal with a cash shortfall while avoiding the vicious spiral of escalating charges and ever-bigger debts.

An app tells each worker how much they have earned so far this month, and allows them to borrow up to 40% of it. The average advance is £83 and is typically tapped twice a month.

Clients include Rentokil Initial, a pest control company, and Stonegate Pubs, which operates nearly 700 establishments in Britain.

The scheme works for Wagestream because it is exposed to the credit risk of the employer, not the workers. As well as the charge on employees, Wagestream also earns a fee from the companies involved. Why would employers accept this? In part, it is because they recognise workers face cashflow problems, and they are more likely to retain their services if those issues can be dealt with.

But the evidence also suggests that employees work harder when they have quicker access to their money. Wagestream says clients that hire workers on an hourly basis find that they work 22% more hours after advances are made available. One client, a security firm, was struggling to fill its overtime rotas. By allowing employees to tap the extra cash immediately after a shift through Wagestream, the company found many more overtime volunteers. In effect, these cash advances are a way to bridge the desire of workers to be paid on a weekly basis with the preference of employers to pay them monthly.

Wagestream's innovative approach has attracted investors with a social focus. One of its backers is the Fair By Design fund, run by Emma Steele of Ascension Ventures, a venture-capital firm. The fund has £10m of assets and a ten-year investment horizon that, Ms Steele says, Wagestream fitted neatly into. Among the other companies in the portfolio are Credit Kudos, which aims to measure creditworthiness in a way that is fairer to low earners, and We Are Digital, which gives consumers financial training and helps the poor get access to the internet.

Fair By Design is also the name of a campaign that aims to eradicate the "poverty premium" which results from poor people paying more for many goods and services. Research by Bristol University suggests that the poverty premium in Britain averages £490 a year, of which around £55 reflects the use of higher-cost credit. However, this average disguises a deep split: most families do not use expensive credit but those who do can pay £540 a year for it.

The Joseph Rowntree Foundation (jrf), a long-standing anti-poverty group, backs the campaign and has invested in the fund. Tanya Seeley of jrf says that tackling in-work poverty is one of the campaign's most important aims. The charity estimates that 72% of children who live in poverty in Britain have one or more parents in work. That compares with just 50% in the late 1990s.

Of course, allowing workers to get a salary advance is not a panacea. If their wages are not high enough to cover their living expenses, they will still struggle. But many workers can run into trouble when they face an unexpected bill, for instance to replace a domestic appliance. Eliminating the need to depend on pricey payday lenders is an important advance. Although the service is confined to Britain at present, there is no reason why other companies cannot offer something similar in other countries.

Wagestream's example is also a useful antidote for those who are overly cynical about either capitalism or socially conscious investing. Sometimes financial innovation can tackle social problems, as well as hopefully make a return for ethical investors—who are not, after all,

charities. Asset managers seeking at once to do good and do well might back ideas shunned by rivals obsessed with finding the next Facebook.

***Clarification (April 5th 2019):*** *An earlier version of this article referred to Wagestream's service as offering loans. It would be better described as an advance. The text has been amended to reflect this.*

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