

Banking Unbanked Employees (Into Direct Deposit) Creates a Winning Scenario for Franchise Businesses

By Michael R. Meredith

In recent years, there has been more use of the term “unbanked” to describe individuals and families who, for various reasons, do not have a traditional banking relationship. The U.S. General Accounting Office has estimated that there are almost 60 million unbanked individuals in the U.S., including approximately 24.2 million U.S. households that do not have a checking account. More than 30 percent of these households have an annual family income of \$25,000 or less. Typically the unbanked workforce is comprised of lower paid individuals, including temporary and part-time workers in hourly and entry-level positions.

Unbanked workers can be found in all industry segments. The greatest concentration of such employees can be found in industries such as construction, staffing, hospitality, and franchise businesses.

In a sector like franchising, which employs more than eight million people domestically while generating retail sales in excess of \$1 trillion annually, it is important to recognize that banking the unbanked into direct deposit can have a significant impact on the bottom line. This is true for franchise businesses and their unbanked employees.

To appreciate the dynamics of this process, it is necessary to understand the positive impact of direct deposit on these businesses.

The Direct Deposit Experiment

Over a period of more than two decades, direct deposit has become an important element in the financial infrastructure that connects companies, their employees, and the financial service institutions that serve both. Simply put, direct deposit is the electronic transfer of payment from a company into the checking or savings accounts of its employees.

Each year, the ACH (Automated Clearing House) Network, the proprietary system for electronic funds transactions, processes billions of transactions worth trillions of dollars. The Direct Deposit Coalition, whose members include the Federal Reserve Bank, provides telling facts on the growing acceptance of direct deposit:

- More than half of all workers in the U.S. use direct deposit in one form or another.
- 97 percent of employees who sign up for direct deposit are very satisfied with it and more than 70 percent of employees who have access, use it.
- The chance of having a problem with a check is 20 times greater than with a direct-deposit transaction.

How Direct Deposit Works

Typically, direct deposit involves several simple steps and the process can usually be completed within one pay period. These steps include:

- Completion of an enrollment form by the employee authorizing the employer to direct deposit the payroll check of the employee into his or her checking or savings account.
- The employer then completes Prenote (test) by sending the employee’s account information to their financial institution via the ACH Network.
- As the next payroll period approaches, the employer payroll department or company prepares an ACH file and submits that to the employee’s financial institution. The financial institution then processes the information, and at the appropriate time, posts the payment to the employee’s account.
- The cycle ends with the company providing the employee with a paper record (check stub) of the transaction.

Banking the Unbanked into Direct Deposit

In past years, unbanked employees were unable to participate in direct deposit (whether they wanted to or not) due to the lack of a banking relationship. In other words, there was no account into which payroll could be deposited. This was a negative for both the companies and the unbanked employees.

For example, industry research by Celent Communications (*Payroll Cards: A Direct Deposit Solution for the Unbanked*) shows that it costs companies approximately \$1.90 to print an in-house paycheck, which includes the costs for administration, materials, printing, and distribution. Compare this to the average cost of a direct deposit transaction at only \$0.15 and the disadvantage of not having direct deposit is obvious.

Unbanked employees who are paid by paper check often resort to “check cashers” or check-cashing services. These services charge as much as 8 percent of the face value of the check as a cashing fee. This is an expensive transaction, especially for those who can least afford it.

As a result of Federal government mandates in the 1990’s and growing national concerns for the unbanked population, the so-called payroll card provider industry began to develop.

One of the initial third-party financial service providers was Skylight Financial, Inc., founded in February 1998. Skylight, through its strategic partnership with U.S. Bank, one of the 10 largest banking institutions in the U.S., has created a unique package of services for the unbanked population. The company’s Skylight “bank account in a card” provides a range of financial services that benefit corporations and their unbanked employees. The Skylight account allows unbanked employees and their employers to participate in and share the benefits of direct deposit.

For companies, the key benefits of direct deposit include:

- Reducing the high cost, inefficiencies, and paperwork involved in managing payday.
- Elimination of paper checks and significant cost savings per transaction.
- Cost savings in mailing and overnight delivery fees.
- More efficient management of exception pay, such as reimbursement, commission, termination, bonus, and vacation pay.

For unbanked employees, primary benefits are:

- Access to account-based service, which is FDIC-insured, and which can be used as a reference for mortgage and other loan transactions.
- Elimination of the need for high-cost check cashing services.
- The convenience and security associated with an individual bank account, such as availability of services wherever PIN-based debit transactions are accepted.
- Automatic bill payment capability.
- Personal, portable financial service account that stays with the employee even after he or she moves to a different employer.
- Cost savings for money transfers, compared to the cost of stand-alone wire services.

When viewed from this perspective, it is clear that banking unbanked employees into direct deposit provides lasting benefits for franchise businesses and their unbanked employees.