Operationalising Non-Bank Lending

MYOB and Flare Joint Submission on Consumer Data Right (Open Finance)
April 2022

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14 April 2022

Dear Treasury

MYOB AND Flare welcome the opportunity to contribute to the Consumer Data Right (CDR) Open Finance (Non-Bank Lending) Submission process.

At MYOB and Flare we are committed to helping SMEs start, survive and succeed, including through access to advanced business technology offerings. We believe enabling innovation while protecting privacy is one of the most effective levers Government has to enable the country's secure economic growth.

To this end, the economy would benefit from a streamlined, easy-to-use Consumer Data Right regime that takes a SME-first approach to understanding businesses compliance capabilities.

By ensuring that expanding CDR rules are designed with usability in mind the Government has the opportunity to create a scheme that positively engages businesses of all sizes, and that sets the country's threshold for privacy obligations.

If you require more information or have any questions, please contact Liv Monaghan at liv.monaghan@myob.com or Harry Godber at harry.godber@flarehr.com.

Yours sincerely,

Helen Lea
Chief Employee Experience Officer
MYOB

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Head of Strategy
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MYOB AND FLARE CDR OPEN FINANCE SUBMISSION: OPERATIONALISING NON-BANK LENDING

BACKGROUND

MYOB has been a trusted Australian business management platform for over 30 years, providing local solutions to 1.3 million Australian and New Zealand small and medium-sized businesses. With a core purpose of helping more businesses in Australia and New Zealand start, survive and succeed, MYOB provides richly connected and adaptable cloud-based business management solutions which fit the ambitions of businesses with 0-1000 FTEs.

Sydney-based fintech Flare is a leading provider of a pay and benefits technology to Australian businesses. Serving over a million employees – including a quarter of Australian workers starting jobs each year – Flare is integrated into leading HRIS, time-and-attendance and payroll software suites. Flare enables businesses of all sizes to offer their employees a full suite of benefits, including access to salary packaging services, engagement with superannuation, the option to access earned wages on demand at no cost, and access to discounts and wellness resources.

In partnership since November 2020, MYOB's customers are able to experience Flare's digital onboarding solutions and end-to-end superannuation engagement offerings. We deeply understand and recognise the unique needs of SMEs and are committed to providing products that change with the Australian workforce, providing financial solutions that make employment and onboarding easier for Australian business owners as they keep the economy moving. Our integrated solutions allow business to spend less time manually taking care of their finances and business processes, and more time operating and innovating.

MYOB and Flare welcome Treasury's commitment to embedding and expanding the CDR in a way that can work with rather than constrain existing business practices.

As Prime Minister Morrison stated, "we must keep the foot on the digital accelerator to secure our economic recovery from COVID-19"[1].

With the understanding that Government is undertaking a review of the possible scope and operation of the remaining Open Finance sectors, our submission outlines ways the Open Finance (Non-Bank Lending) processes proposed in the Consultation Paper could be streamlined to ease the compliance burden on industry and SMEs. It also makes recommendations with respect to the scope of designated non-bank lending products – noting the opportunities for price transparency and competition that would accompany vehicle leasing, salary packaging and earned-wage access data falling within the scope of the CDR.

We understand Treasury is looking to scope the remaining sectors in Open Finance (merchant acquiring services, general insurance, and superannuation). To help inform this process, we also outline some future considerations across all elements of Open Finance.

[1] Prime Minister, Treasurer, Minister for Superannuation, Financial Services and the Digital Economy, *Media Release: A Modern Digital Economy to Secure Australia's Future*, 6 May 2021.

POLICY POSITION

MYOB and Flare welcome the Government's commitment to expanding the CDR in a way that reflects the natural evolution of the Australian business ecosystem, while working to ensure consumers have control over their data. We believe it is important that consumers – individuals and businesses alike – are empowered to make informed decisions about non-bank lending products.

The ability for non-banks and non-ADIs to share information, with consent, is central to the ability to provide a full view of the customer and to provide services that fulfil consumer needs.

We note from the Consultation Paper that Treasury is seeking to understand where it is best to draw the line on CDR Non-Bank Lending data – what should fall within the scope, who should be designated as a dataholder, and how should this sector under CDR interact with existing sectors and other regulatory instruments.

To make the CDR regime usable and readily navigable, we call for as much consistency and digital streamlining between the CDR sectors – and with existing regulation - as possible. Maintaining a high standard of privacy and data control is a central pillar of the CDR, and a key part of achieving this outcome is ensuring consumers can easily navigate their data. Having regulatory consistency will enable businesses building the required technology solutions to provide a seamless experience for the consumer that can easily adapt to any future CDR changes.

CURRENT CONSIDERATIONS: NON-BANK LENDING

Salary Packaging

Salary packaging arrangements or employment-based 'leases' are typically excluded from provisions regulating other credit products. However, there is a strong policy basis for their inclusion as a designated 'Open Finance' category under the CDR.

A number of categories of consumer goods – most commonly, motor vehicles, telecommunications plans and mobile devices – can be purchased through salary packaging services at a considerably lower net cost to the consumer than purchasing directly through a consumer finance provider or retailer.

Recent research conducted by Flare, in collaboration with leading professional services firm Ernst & Young (EY) (Appendix A), has found that the Australian workforce is severely 'underpackaged' – with low levels of access to workplace benefits including salary packaging: two thirds of Australian employees report that they do not currently have access to these services through their workplace[2]. However, this same study revealed that 76 per cent of employees would take up salary packaging if offered by their employer[3].

This research indicates a significant missed opportunity to leverage existing tax measures to decrease cost of living pressures for Australians. Moreover, it indicates that salary packaging tax measures are not having their full intended impact – with a large proportion of those targeted by the measures either failing to access them, or claiming retrospective lump-sum personal deductions on

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[2] Flare and EY, *Pay in the New Economy: White Paper*, 2022, p.19.
[3] Flare and EY, *Pay in the New Economy: White Paper*, 2022, p.20.

an annual basis and foregoing access to funds to which they are entitled for extended periods of time.

Where a salary packaging facility is available to an employee, it is challenging for that employee to compare packaged and non-packaged products on a like-for-like basis. Quotes available from packaging providers do not always accurately reflect the full amount of available tax deductions; nor do they necessarily compare packaged offers against best-in-market prices for the underlying assets or services. Packaged products and services are also unique in the dependence of their pricing on the consumer's salary – making personalised pricing information important for ensuring reliable quotes and comparisons.

Furthermore, the sector suffers from limited price transparency. It is uncommon for one employer to make available more than a single salary packaging provider to its employees. In the absence of standardised pricing data, employees are limited in their ability to identify cheaper options, and have little reliable information on the basis of which to request that alternative providers be made available in their workplace. While the sector is often regarded as being dependent on business-to-business sales channels, employees in fact have considerable agency: employer-driven demand ('B2C2B') is a leading business acquisition channel for salary packaging providers.

Case Study: Vehicle leasing and CDR consistency

While a large proportion of vehicles in Australia are purchased under finance, just two per cent of vehicles are subject to a novated lease – meaning that close to all working vehicle owners in Australia are missing out on the substantial tax benefits to which they are entitled, and that many are using finance options that leave them worse off than a novated alternative.

The savings available to working families through a novated lease are substantial. Not only are significant GST and income tax savings available on the base asset price, but also on running costs including fuel, maintenance and insurance.

The average driver in the Flare Cars network saves a total of over $20,000 on their vehicle purchase and running costs over the course of ownership – including $5,500 per year in tax savings. On fuel alone, the median tax discount is 48 per cent off advertised prices, accounting for an average of $1,970 per vehicle per year. This represents approximately five times the impact of the recent temporary cut to fuel excise; and in many cases extends further, to a maximum discount of 57 per cent off every litre of fuel consumed – before accounting for any additional savings from excise cuts or loyalty schemes.

For all drivers in the Flare network, novated leases carry a negative net cost: the savings available under the structure outweigh the cost of asset finance. This means it is unlikely that any eligible Australian vehicle owner would be better off under a conventional vehicle finance arrangement compared to a novated lease.

In spite of this, take-up of novated leases remains immensely lower than that of conventional vehicle finance – pointing to vast 'information asymmetries' that remains a fundamental object of the CDR[4]. Flare modelling indicates the aggregate tax savings foregone by Australian vehicle owners each year amount to tens of billions of dollars.

A key contributing factor to the low take-up rate of novated leasing is lack of awareness

[4] CDR Review into Open Banking, p.41.

– a common issue pertaining to financial products in general, compounded by the additional complexity of being a tax-related product.

As noted in the Review into Open Banking[5], a core aim of the CDR is to encourage consumers to conduct accurate price comparisons of complex financial products rather than resorting to 'rules of thumb' or shortcuts' – immediately available options that often 'have a substantial, detrimental impact on individuals' long-term financial outcomes'.

Critically, a novated lease rarely presents itself as an immediately available option at the point of vehicle purchase – in part because vehicle dealerships are often affiliated with and incentivised to make available non-novated arrangements for finance or associated products, some of which are exempt from the ordinary regulatory requirements pertaining to conflicted remuneration. The association of a novated lease with the workplace rather than any conventional point of vehicle sale hampers its visibility in comparison to other finance options.

On this basis, Flare and MYOB **recommend that both novated and conventional vehicle finance products should also be designated as 'Open Finance' products for the purposes of the CDR, ensuring an open and level playing field for all vehicle owners**.

In addition, the fundamentally bundled nature of novated lease savings means they carry a level of complexity that renders comparison with other available products challenging.

As reflected in Recommendation 3.1 of the Report into the Future Directions for the CDR, the availability and portability of standard novated lease data under the regime would improve a consumer's capacity to make an informed decision as to the total price impact of discounts available across the relevant bundle of goods and services.

This greater level of data symmetry available under the CDR would benefit consumers by increasing price transparency and competition among novated leasing providers – a sector equally if not more concentrated than banking, dominated by a small number of providers.

The lack of prevailing standards across providers with respect to the quoting or reporting of costs and savings make accurate comparisons difficult. For example, under some novated lease arrangements, tax savings are withheld from employees such that they do not enjoy the full available benefit; however, it is often not immediately obvious that a greater benefit may be available, or that other providers are available (such as Flare Cars) that always pass it on in full. There is also significant variance in interest rates, management fees and other 'hidden costs', as contemplated with respect to other products designated under the CDR[6].

It would also assist in overcoming common misconceptions pertaining to the product, including that it is only available to high-income employees or for high-value vehicles. Data from the Flare Cars network demonstrates that the median income of a novated leaseholder is not far from the Australian average full-time salary, at $120,000; and there is no significant variance in the rate of savings available to employees that correlates with their income. One in three novated vehicles in the Flare Cars network is a used car, with an average age of five years at the point of novation.

As an employer-associated product, the benefits described above would extend not only to consumers, but also to businesses across the country. This is of particular importance to SMEs,

[5] CDR Review of Open Banking, p.6.
[6] Report into the Future Directions of the CDR, p.23.

whose behaviour is substantially impacted by information asymmetries[7], and whose employees face limited availability of novated leasing options.

Greater price transparency in this sector would help ensure that businesses of all sizes can compete for talent on a more equal footing, and make available the best possible remuneration options for their employees - optimising SME productivity and the net incomes of those they employ.

Earned-Wage Access

CDR has the potential to be a powerful tool to address consumer cashflow pressures that have become even more pronounced following COVID-19 lockdowns. Flare and EY's research revealed that 68 per cent of surveyed employees are currently living paycheck-to-paycheck, with less than $5,000 in savings[8].

This same study found that Australian employees are, on aggregate, the largest creditors in the economy to their employers, with widespread intermittent, late or under-payment of wages leading to extended periods where employees are left without wages they have earned[9].

The study also found that three quarters of Australians would never ask for a pay advance to meet important expenses between payruns – instead choosing to go into debt. Two in three employees have turned to credit cards in such circumstances, and are on average $3000 in debt; one fifth have used a personal loan or drawn down on a mortgage to make a vital purchase[10].

The emergence of alternative credit or credit-like facilities, such as earned wage access products which allow employees to be paid a portion of their earned wages prior to pay date, present a significant opportunity to alleviate reliance on often costly debt products in such scenarios. However, it also presents significant consumer risks if made available without sufficient price transparency or scrutiny.

Flare and EY's study noted that 55 per cent of surveyed employees would use an earned-wage access product if it was made available to them in the workplace[11]. However, it also noted that its availability as a standalone product 'carries heightened risk for employees, prompting them to focus on immediate liquidity rather than the full range of options available to make their pay go further.' In cases where such products are made available at a cost to users, as with any other credit product, they have the potential 'to place people in a debt spiral that they will struggle to escape from without additional debt vehicles'[12].

To mitigate these risks, it is vital that consumers have access to accurate and personalised data that clearly represents the full range of costs involved in the use of such products – such as interest, fees and other charges – and that information is readily accessible, without any cost.

As earned-wage access products are used in a manner similar to products already encompassed by the CDR, like bank-issued credit cards, it is important that their data is governed by the same

[7] CDR Review into Open Banking, p.41.
[8] Flare and EY, *Pay in the New Economy: White Paper*, 2022, p.16.
[9] Flare and EY, *Pay in the New Economy: White Paper*, 2022, p.13.
[10] Flare and EY, *Pay in the New Economy: White Paper*, 2022, p.16.
[11] Flare and EY, *Pay in the New Economy: White Paper*, 2022, p.19.
[12] Flare and EY, *Pay in the New Economy: White Paper*, 2022, p.18.

standards and made easily comparable with these products, such that consumers have a fuller picture of their available options.

It is also vital to the principle of data reciprocity (a core tenet of the CDR) that earned-wage access providers be required to share data with other credit market participants to ensure accountability for the way they use CDR data to represent the positioning of their own products, and so they do not 'unduly extend the scope of the [CDR] system by stealth'[13].

The same principle, in our submission, applies to the full spectrum of consumer credit products available for similar purposes, including 'payday loans' and other small-amount credit facilities. The designation of all such credit and credit-like products under the CDR would further its aim of creating a comprehensive 'data ecosystem', in which the transparent sharing of data across participants and across sectors 'enables better services to be offered, and a more precise product design to meet customer needs'[14].

The mandatory regime of standardised data transparency available through the CDR, in effect, would serve as an important safeguard against the risk of consumer exploitation by making available full, accurate and personalised information for scrutiny in the open market. This would empower consumers to make choices that best serve their own financial needs, removing the information asymmetries that make consumers more vulnerable.

Imposing transparency, accountability and competition between novel products, such as earned-wage access, through the CDR will help complement existing regulatory frameworks. In the case of unregulated products (such as buy-now-pay-later facilities), this could go so far as to negate the need for a more onerous regulatory framework governing them.

Recommendation: Maintain regulatory consistency when expanding CDR

We note many businesses operate across multiple sectors – data holders within Open Banking may also fall within the scope of Open Finance. To ensure business innovation and growth is not inhibited by overlapping regulation, we encourage consistency within CDR definitions and rules.

Further, with a number of regulations and rules currently being reviewed across Government that risk overlapping with the scope or application of the CDR – including the Privacy Act Review and Digital Identity Bill – we are concerned about an emerging spaghetti bowl of privacy obligations. To minimise regulatory overlap, we encourage Government to pursue definitional and regulatory consistency.

Should TSY seek to ensure the rolling-expansion of the CDR is met with success, **we recommend aligning definitions with those already in place** to generate definitional consistency among the Government's digital and privacy regulatory landscape.

Recommendation: Adopt a SME-first approach to rule design

We know from our discussions with Treasury that usability is a key goal for the CDR. To ensure the rules are usable and easy-to-understand, we encourage Government to re-frame the way it thinks about businesses and business capabilities.

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[13] CDR Review into Open Banking, p.44.
[14] CDR Review into Open Banking, p.111.

MYOB's January 2022 Business Monitor survey of 1000 SME owners and operators found 75% have no or low levels of digital engagement, with 38% of these having either only a business webpage or social media page[15].

Crucial to the CDR's success is the ability for businesses of all sizes to be able to navigate the regime and understand their rights and obligations. With low levels of digital fluency and often low resources, for SMEs to be able to fully participate in the CDR **we recommend the rules consider how to make the interface with CDR as easy to use, and an accredited businesses' obligations as easy to understand, as possible**.

FUTURE CONSIDERATIONS:

While noting the focus of this consultation on non-bank lending, Flare and MYOB also wish to comment on the prospective application of Open Finance to the superannuation sector, and a consideration on how CDR can be used to lead the Government's digital identity reviews.

Superannuation

Flare's 2022 study revealed that the majority of respondents do not view superannuation as part of their pay package. This result supports the considerable body of literature describing the culture of disengagement that pervades the sector, to the detriment of Australians' retirement outcomes.

Superannuation represents the largest employment-based benefit compulsorily taken up by employees in Australia. It is vital that industry and policymakers take all practicable steps to help boost engagement. The Federal Government has taken laudable steps to improve availability and accessibility of both fund-level and account-level data in the superannuation sector, including through the SuperMatch facility and the reporting requirements introduced through the *Your Future, Your Super* legislation.

It is important, however, that these dataflows are not sequestered from the broader consumer data ecosystem created by the CDR. As the CDR evolves into an integrated, reciprocal, economy-wide ecosystem, the exclusion of superannuation account data from the range of CDR data points representing an individual's financial life risks perpetuating the sector's culture of disengagement, and risks reinforcing the prevailing view that superannuation is less tangible than the remainder of an individual's pay package or assets.

As a promoter of a superannuation product, Flare has invested heavily in helping its members engage with their superannuation through technology as well as simple, easy-to-understand information. We therefore see the value firsthand of positive outcomes of member engagement, such as ensuring that members have insurance that suits their needs, and the ability to take their chosen fund from one job to the next.

We submit this should extend to the obligation to participate in the same data ecosystem – making available the equivalent sets of portable account and product data for competitive scrutiny across providers and sectors.

To do so would bring superannuation data in line with the principle of data reciprocity that underpins the CDR and drives its wide range of consumer outcomes: developing more

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[15] MYOB, *Business Monitor*, January 2022.

customer-focused products, and encouraging innovation, competition, efficiency and fairness[16]. This is not achieved under current regulatory settings.

We encourage the Government to make this data portable through future Open Finance APIs.

CDR and Identity Thresholding

As the consumer is at the heart of the CDR, and they both identify and control their data, we believe there is an opportunity for CDR to be the leading identity threshold for digital identity regulation.

Under the CDR, an individual consents to a suite of their data being transferred between providers. Underpinning this transfer is a confirmation of the consumer's identity – in transferring their data they, in effect, confirm they are who the data says they are.

We see an opportunity here for the CDR to lead a process of digitally streamlining proof of identity requirements, and avoid the consumer having to submit duplicate forms when transferring accounts. For example, under the Government's *Know Your Customer* (KYC) requirements, a reporting entity must apply customer identification procedures to all its customers. This entity must confirm a customer's (both individual and business) identity by collecting and verifying information before providing any designated services to them. There is some overlap between these designated services and Open Finance and Open Banking, with KYC designated services including a range of business activities in the financial services sectors.

In drafting future rules and in considering the regulatory role of the CDR, **we recommend the Government consider the way CDR can act as a threshold for identity confirmation**. In doing so, consumers remain in control of all their data – including personal identity data – while upholding regulatory standards.

SUMMARY

MYOB and Flare thank Treasury for the opportunity to submit views on the CDR's sectoral expansion to Open Finance (Non-Bank Lending). We welcome the Government's ongoing commitment to improving this regime, and understanding the Open Finance ecosystem, so it can fully reflect the current ways of doing business whilst encouraging ongoing innovation in the sector

Central to the success of the CDR will be usability. As such, we encourage regulatory consistency where possible to ensure businesses and consumers alike can access their data, as well as necessary platforms and offerings, with ease, and to facilitate compliance obligations.

We are enthused by the Government's dedication to ensuring the CDR is fit-for-purpose and will enhance rather than hinder business operations. We would welcome the opportunity to continue to work with Government to advance the CDR's operability.

[16] CDR Review into Open Banking, Chapter 1.

Pay in the new economy

Whitepaper

EY

Building a better working world

flare

Contents

List of Abbreviations

ADI	:	authorised deposit-taking institution
AI	:	artificial intelligence
BNPL	:	buy now pay later
COVID-19	:	coronavirus disease 2019
CDR	:	consumer data right
CPI	:	consumer price index
ESOP	:	employee share options plan
NPP	:	new payments platform
RBA	:	reserve bank of Australia

Abstract

This paper is a collaboration between Ernst & Young Australia (EY) and Sydney-based Fintech Flare HR Pty Ltd (Flare). Flare is a leading benefits platform and pay technology provider, serving over a million employees – including a quarter of Australian workers starting jobs each year. The EY Technology and Consulting practices supports organisations as they initiate or undergo major transformations. Capabilities span broad implementation support services from consulting, strategy and architecture, to production deployment.

Scope of Research

- This whitepaper looks at the way in which workers are paid in Australia, and the considerations of On-Demand Pay and financial stress. It does not include any specific considerations for salary-led, payday or direct to consumer lending.
- The geographic scope of the report is limited to Australia.
- Time Primary research was conducted through a survey of 7,000 working-age employed individuals.
- The research was conducted by Flare in January to March 2022.

Introduction

This paper offers a perspective on the changing landscape and the needs of the Australian workforce, and how businesses are adapting to both attract and retain talent in a highly competitive market.

There are many micro and macro factors that have impacted both the way employers look at their workforce and the skills market, as well as the expectations and needs of employees. Previously, it was expected that an employee would make an average of 3 major career changes in their professional lifetime, compared with now, when they are expected to have up to 17 different jobs and 5 careers.[1]

With the impact of the COVID-19 pandemic – including a shortage of talent due to border restrictions and minimal movement as employees bunker down – the competition for talent has intensified. A highly competitive labour market is now emerging. As a result, there is a renewed set of needs and expectations from talent.

Expectations about new ways of working have increased as many businesses proved they could operate remotely during the pandemic. This has forced businesses to rethink about how they materially operate, using more tools, and creating new ways for teams to interact and grow.

The evolution of the skills market raises several key questions. For employers, how do they both attract and more importantly, retain staff? For potential employees, how will their needs be met?

Many employees spent time during the pandemic reflecting upon their careers, development and personal circumstances, and are ready for a change. That change is expected to translate into mass resignations, as employees look for career changes, better flexibility or a shift in their work-life balance.

Deemed the Great Resignation, this is both a threat and an opportunity for employers. The winners will be those that recognise the shift in needs of the skills market and understand that pay alone is no longer enough to attract and retain talent. There is an increasing focus from the skills market to look beyond pay when making employment decisions – whether that is through aligning with an organisational culture and mission that resonates with their own, required or considering the wider range of benefits and perks on offer.

Employers are now offering workplace perks, such as corporate health plans, discounts, flexible working arrangements, generous parental leave policies and even the abandonment of offices, amongst other incentives. If you are a start-up not offering ESOP or a corporate without a flexible working arrangement, talent will likely go somewhere else.

1. 2015 Future Leaders Index," Issuu website,https://issuu.com/bdoonline/docs/future-leaders-index_paper_ 3 accessed 15 February 2022

However, perks do not necessarily translate to productivity or ultimately, retention. Employers often neglect the wellbeing of their employees, particularly when it comes to financial wellbeing and financial stress. Financial stress can have a significant impact on employees' productivity and effectiveness and can lead to complex mental health considerations for employers. Employers often forget that they are – in most cases – in control of the financial security of their employees and overlook the detrimental impact that late, incorrect or underpayments can have on someone's life.

Alongside, a general lack of employee financial literacy and education on tax efficiency leaves employers with a financially vulnerable portion of their workforce. Some employees may be prone to poor financial planning and decision-making, with a dependence on debt vehicles, such as credit cards or other short-term credit-like products.

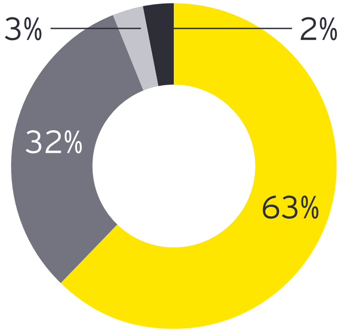
This has led to an increase in employees' ability to access their wages on demand, through new market entrants that are directly going to the customer. These solutions offer short-term fixes for those that may be going pay-check to pay-check, but often come with unfavourable terms over time.

In a rapidly changing ecosystem, employers need to not only attract and retain talent, but also protect and support their workforce's financial wellbeing, while offering the benefits, products and flexibility they demand.

Flare conducted a survey of 7,000 workers in Australia, which demonstrated significant financial stress and an "under-packaged" workforce, with limited access to benefits or products that support financial literacy and wellbeing.

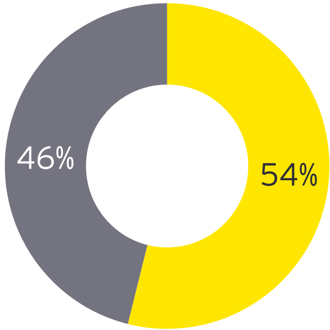
Are you a permanent employee, a casual or a contractor?

- Casual employee
- Permanent employee
- Contractor
- Other



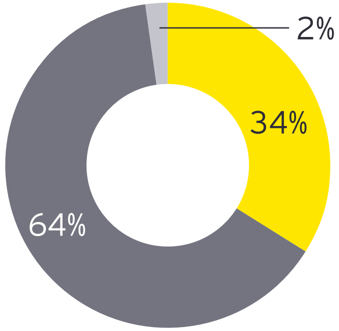
Would getting paid on your schedule reduce the amount of stress you feel about your finances?

- Yes
- No



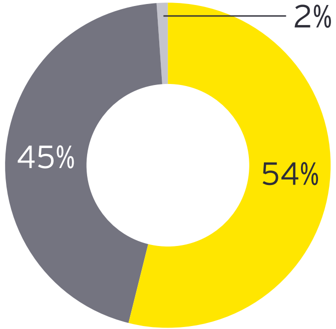
Did your previous employer have a perks or benefits programme, like offering discounted products or services?

- Yes
- No
- Did not answer



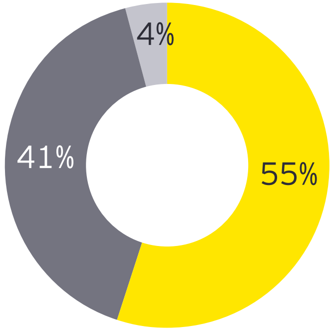
Do you ever feel stressed about your finances?

- Yes
- No
- Did not answer



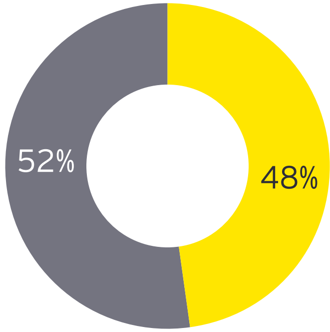
If you had the option to get paid on your schedule instead of waiting for payday, would you take it up?

- Yes
- No
- Did not answer



Have you ever left a job because you feel the amount you were being paid did not meet your financial needs?

- Yes
- No



Section 1

COVID-19 and the Great Resignation in Australia

To say that COVID-19 and Australia's approach to managing the pandemic has dramatically impacted the way we work, and the expectations of employees and employers would be an understatement.

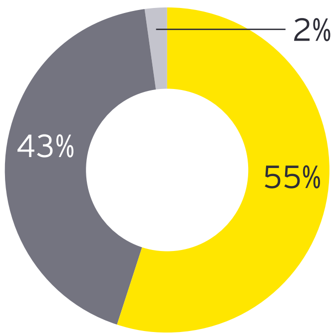
Overnight, office-based companies moved to fully remote working and many service-based businesses faced significant reductions in revenue or lengthy forced closures. However, the economic strain faded in significance to the health and wellbeing impacts on individuals.

For many companies, the time spent in lockdown away from the usual office environment has made maintaining culture challenging, with many organisations struggling to keep staff engaged. Employees no longer want to complete a day of work and then go onto another video conference to make cupcakes, paint a picture or create a terrarium as a virtual team. Employers are facing a real challenge of staff fatigue and a workforce that now has differing expectations from a pre-COVID-19 world.

For casual workers, the pandemic had a fundamental impact on their earnings, and forced many to look for new and innovative ways to earn. Emerging from this, we have also seen an increase in consumers' use of alternative finance solutions, such as BNPL or on-demand pay products, servicing either a health, retail (purchase) or payday problem.

Have the COVID-19 lockdowns changed what you look for in a job, or what you expect from an employer?

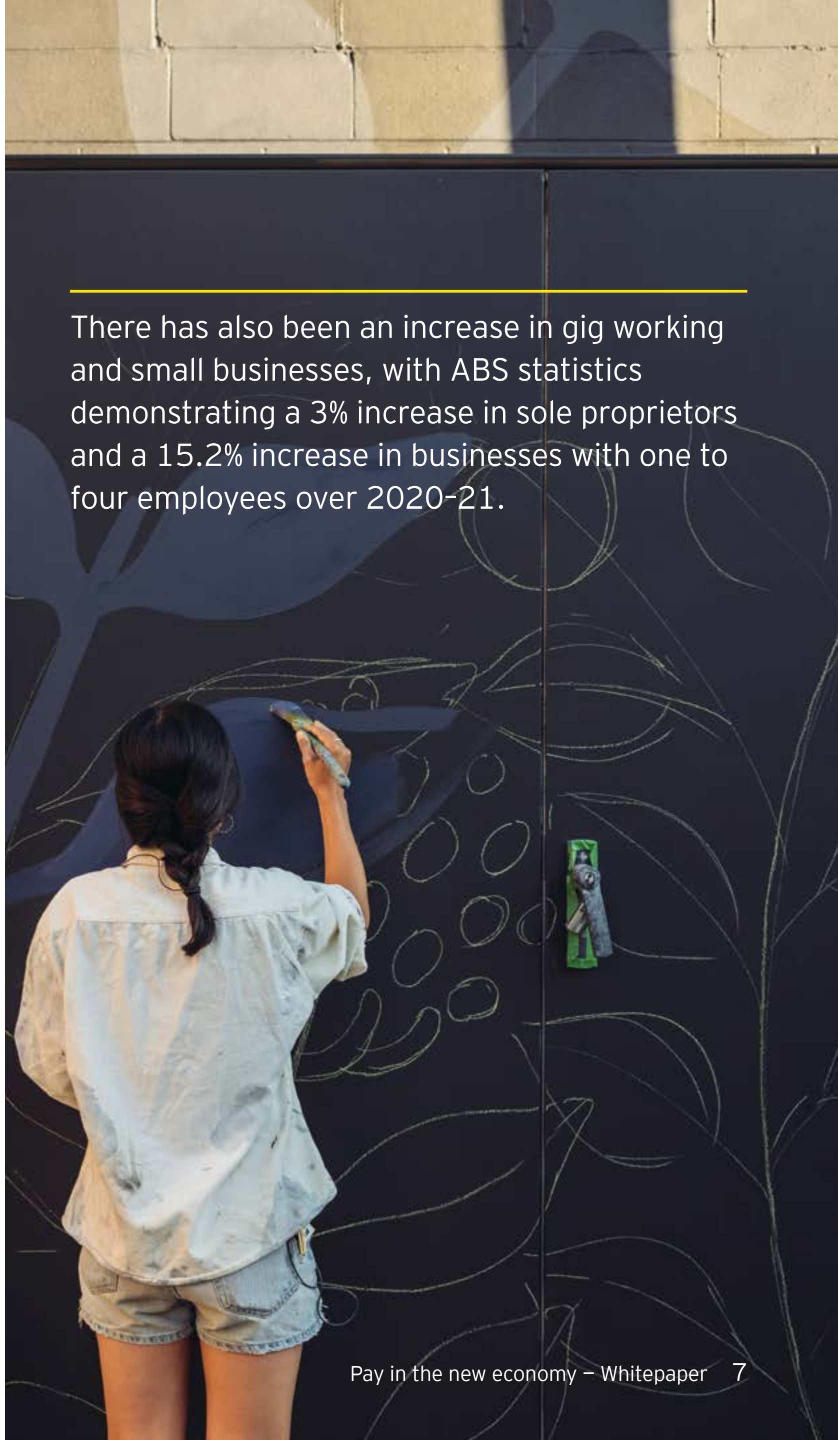
- Yes
- No
- Did not answer

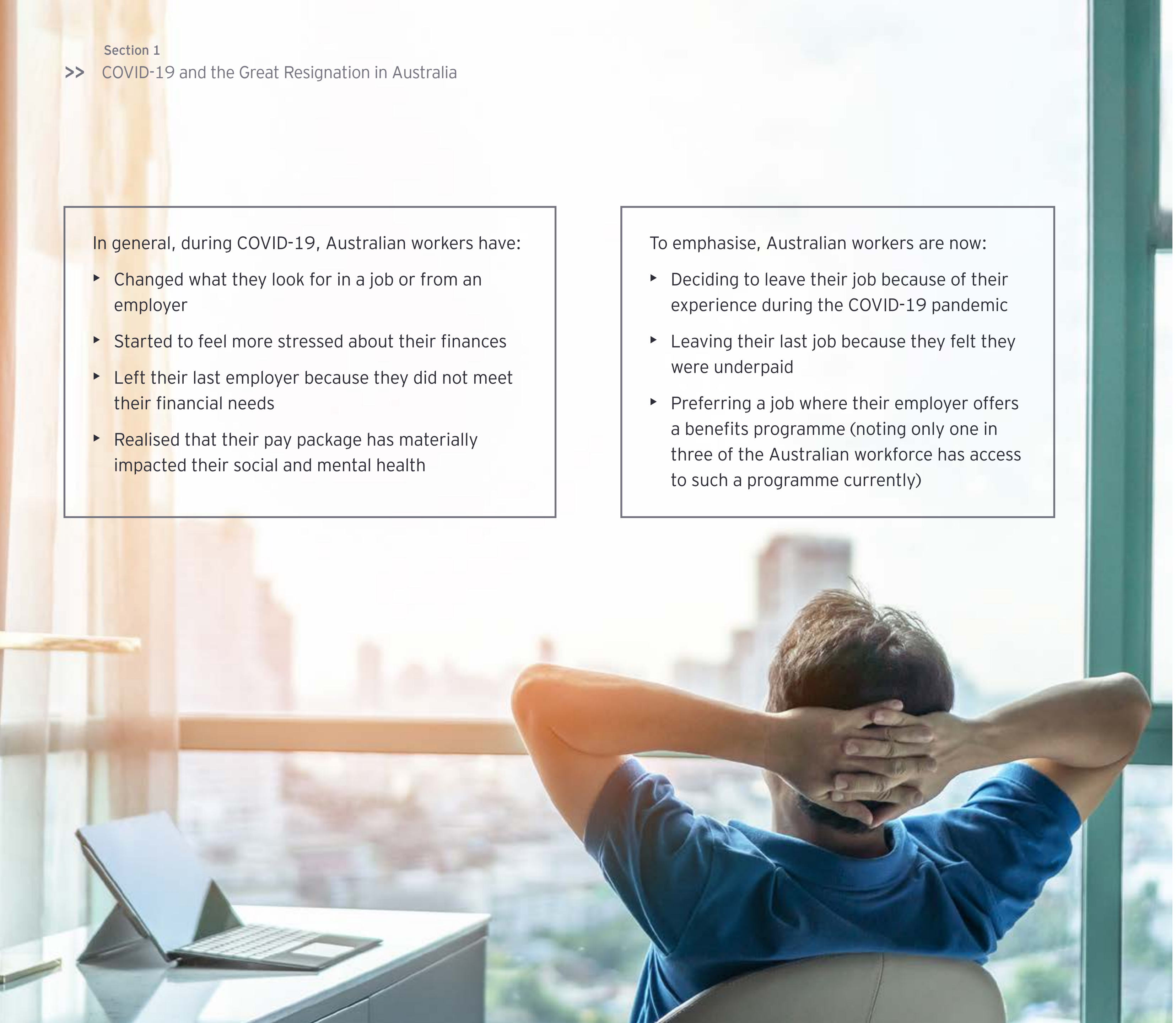


These factors have created a fundamental shift in mindset, as workers reassess their values, priorities and lifestyles, seeking alternative opportunities and ways of working. In addition to the ongoing Great Resignation, there has also been an increase in gig working and small businesses, with ABS statistics demonstrating a 3% increase in sole proprietors and a 15.2% increase in businesses with one to four employees over 2020–21.[2]

The acceleration of side hustles and the gig economy comes with both drawbacks and advantages, with many workers accepting limitations around sick leave, superannuation and job security for the benefits of flexibility, working on their own terms, and being paid daily for services.

2. Counts of Australian Businesses, including Entries and Exits, Australian Bureau of Statistics website, https://www.abs.gov.au/statistics/economy/business-indicators/counts-australian-businesses-including-entries-and-exits/latest-release accessed 14 February 2022


There has also been an increase in gig working and small businesses, with ABS statistics demonstrating a 3% increase in sole proprietors and a 15.2% increase in businesses with one to four employees over 2020–21.



In general, during COVID-19, Australian workers have:

- Changed what they look for in a job or from an employer
- Started to feel more stressed about their finances
- Left their last employer because they did not meet their financial needs
- Realised that their pay package has materially impacted their social and mental health

To emphasise, Australian workers are now:

- Deciding to leave their job because of their experience during the COVID-19 pandemic
- Leaving their last job because they felt they were underpaid
- Preferring a job where their employer offers a benefits programme (noting only one in three of the Australian workforce has access to such a programme currently)

It is too early to analyse the full extent of how the Great Resignation trend is being felt in Australia and its impact on employers and the workforce. One thing that is clear though is that the competition for talent is high and – with a shortage in Australia, particularly in services and technology sectors – the broader impact on how quickly businesses can grow, scale and innovate will be felt in the long term.

The clear message for companies is that to attract and retain talent, they need to think beyond traditional foundations and frameworks. Companies must look at the shifting needs of the workforce, to be able to stand out of the crowd in a dissonant ecosystem.

Section 2

Financial stress and the labour market

Despite the growth in workplace perks and wellbeing initiatives, a high proportion of employees who experience stress regarding their personal finances still exists. This issue has been brought forward due to the introduction of added daily expenses (CPI rose by 3.5% in 2021), unexpected loss of income and a dependency on Government aid during the COVID-19 pandemic.

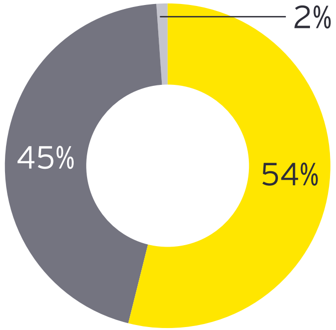
Wage stagnation has long been a concern for the workforce, with annual wage growth at its lowest in both the public and private sectors. When you combine an underemployment rate of 6.7%[3] (amounting to around 1 million workers) with the number of unemployed workers, that's 10.7% of the Australian workforce either underutilised or not working.

The increased pressure from macro and micro factors means that trying to adequately budget to meet these changing demands is causing significant financial stress for many individuals.

For employers, there are tangible implications to stress in the workplace – directly or indirectly related to work. It is estimated that stress-related issues cost the Australian economy as much as AU$15b per year, with direct costs to employers worth approximately AU$10b through absenteeism or presenteeism. It is also well documented that an individual's productivity and effectiveness in the workplace is often impacted by mental health, and stress. Ongoing stress can also have a detrimental impact on an individual's physical health.

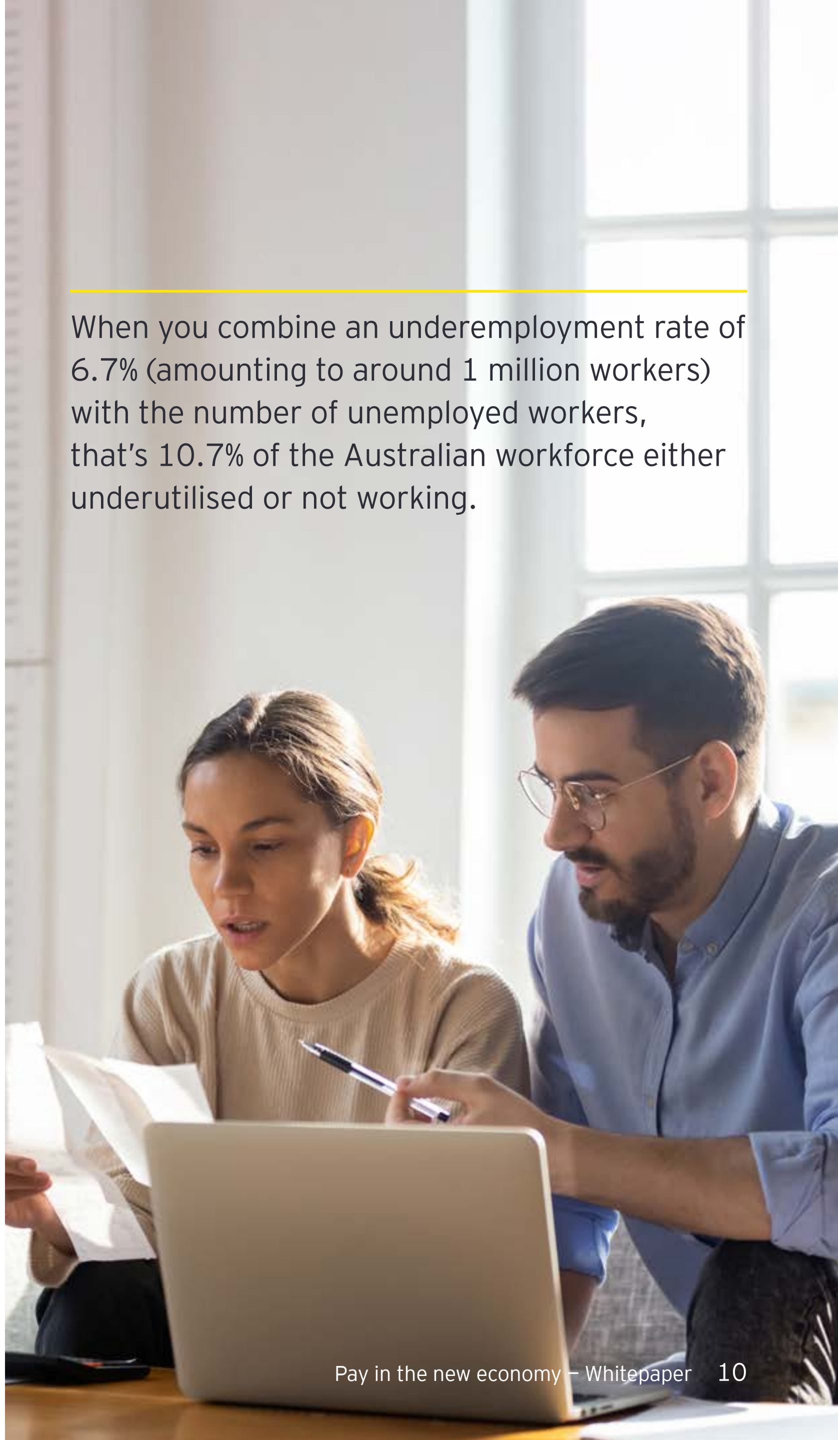
Do you ever feel stressed about your finances?

- Yes
- No
- Did not answer



To cope with financial stress, our survey showed 1 in 10 Australian employees have chosen to take time off from work. Moreover, these employees have taken an average of 8 days off per year to deal with issues regarding financial stress, with some (2% of those surveyed) taking as many as 30 or even over 100 days away from a work environment.

When you combine an underemployment rate of 6.7% (amounting to around 1 million workers) with the number of unemployed workers, that's 10.7% of the Australian workforce either underutilised or not working.

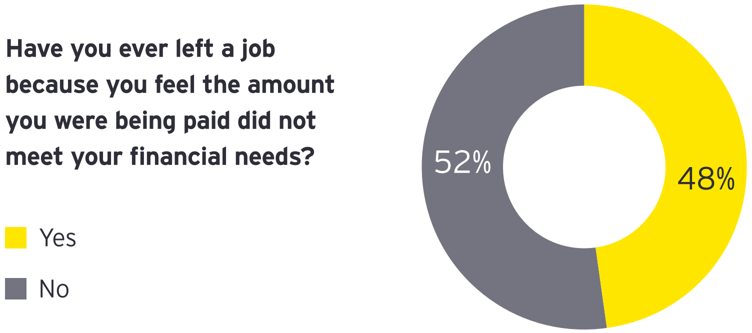


3. Labour Force Australia, Australian Bureau of Statistics website, https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia/latest-release accessed 12 February 2022

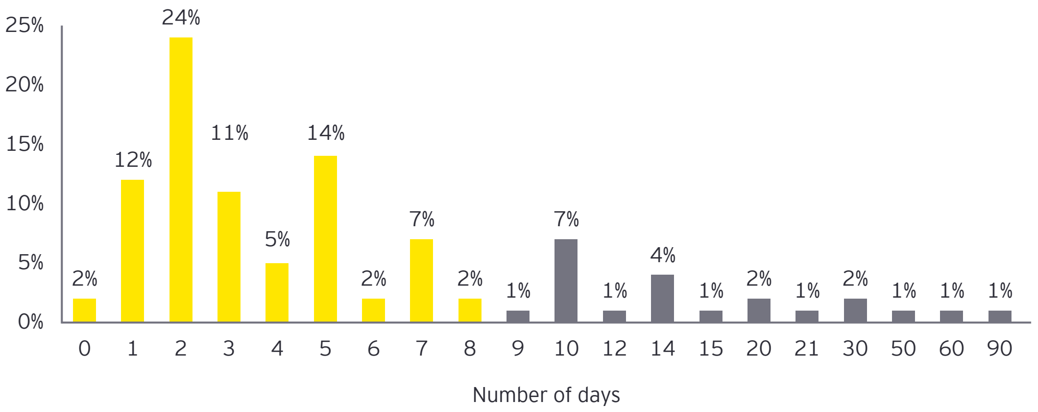
In addition, employees are also undertaking job changes to meet their current financial needs and reduce or resolve immediate financial stresses. This has led to almost half of labour market churn being due – in whole or in part – to financial stress factors. Without adequate financial literacy and planning, employees are prioritising increased paychecks that cater to short-term expenses, instead of resolving the core issue at hand, causing a recurring cycle. Moreover, the high levels of market churn directly impact business productivity, performance and growth, through the implicit and explicit costs associated with recruiting, hiring, and training new employees.

Although financial stress affects individuals differently, employers – in most cases – are responsible and in control of their employees' financial security and have the ability to offer support to reduce or prevent such types of situations from occurring. This could take the form of structured financial wellbeing programmes, ensuring that the company's benefits package remains competitive and improving management practices.

Have you ever left a job because you feel the amount you were being paid did not meet your financial needs?



How many days do you estimate you took off due to financial stress (In percentage)



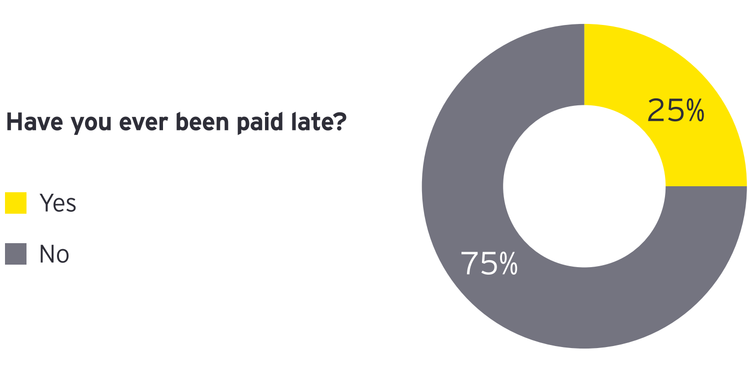
Section 3

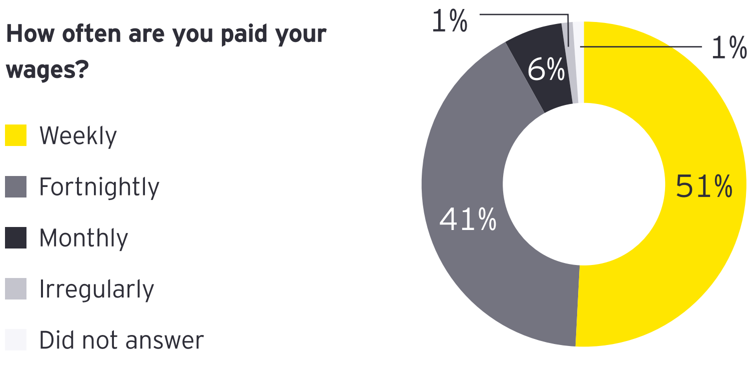
Australia's largest creditor

Australian employees are also faced with intermittent, late, and underpayment of wages and superannuation. This has led to Australian employees being described as the largest creditors in the economy, with one in four reporting having been paid late. This issue is exacerbated when considering that just half of workers are paid weekly, resulting in extended periods where employees are without their entitled pay.

In addition, one in four Australian employees report underpayment or non-payment of wages and superannuation. This is worsened by issues with cash flow and invoice payments, where up to a third of company invoices are paid late, with average payment times in some sectors stretching to more than 90 days. Government regulation in Australia, such as Payment Times Reporting, is designed to help businesses make informed decisions on their institutional partners, though we are yet to see early results from the first reporting cycle.

Cash-flow issues for small to medium businesses, which have been disturbed by the pandemic, suggest that there is no easy solution. With business owners needing to make decisions on deploying cash flow from labour to goods and services to run their business, labour may not always be the priority.



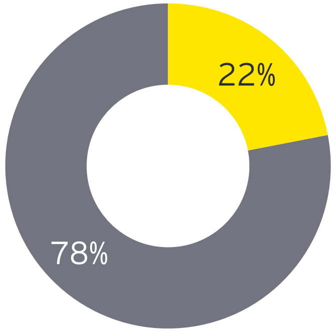


Employees are also poorly equipped with knowledge of salary packaging and opportunities for tax efficiency. There is evidence suggesting that this poor financial literacy has led to an increased dependency on the use of credit and credit-like products for immediate access to retail products and services. Overall, one in five Australian employees have used a BNPL scheme and one in five Australian employees have used a personal loan or drawn down on a mortgage to meet an expense or make an important purchase.

Have you ever used a BNPL service?

Yes

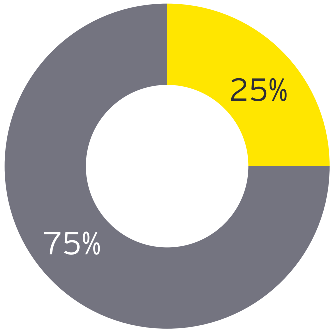
No



Have you ever been underpaid?

Yes

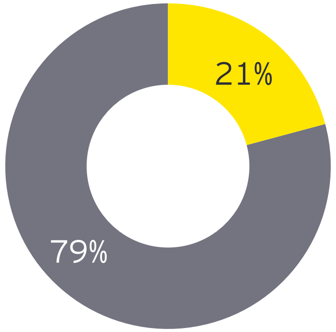
No



Have you ever used a personal loan or drawn down on a mortgage to meet an expense or make an important purchase?

Yes

No



Section 4

Difficult daily decisions

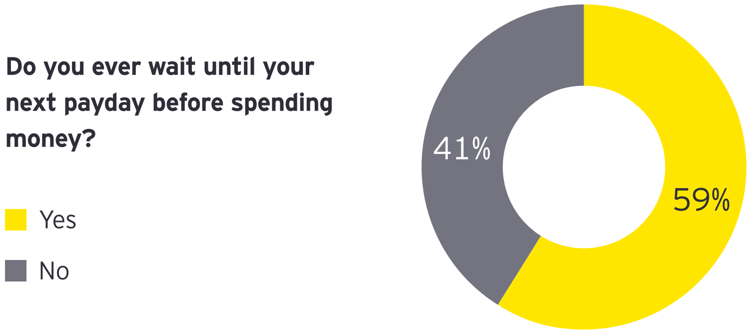
Many Australian employees are forced to live by their bootstraps, with 7 in 10 living pay-check to pay-check and having less than AU$5,000 in savings on average. These employees are unable to adequately manage short-term expenses and would not have enough money saved to meet their needs in an emergency. Yet, 7 in 10 have never asked for a pay advance as it would be too difficult or awkward to have that conversation with their employer.

Instead of asking for a pay advance:

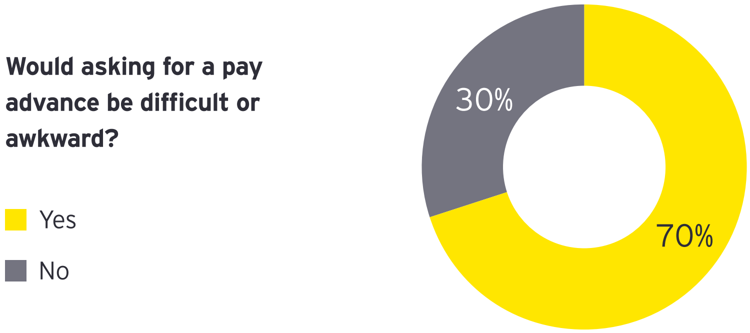
- Two in three wait until payday to make important purchases.
- Two in three have turned to credit cards to meet their spending needs and desires, on average, Australians are now nearly AU$3,000 in debt.
- One in five has used a personal loan or mortgage draw down to make a vital purchase.

These trends are further bolstered by the Consumer Payment Behaviour Statistics and Retail Payments Review conducted by the RBA, which revealed that there is an increasing number of Australians turning to credit products to gain immediate access to products that would otherwise be currently unattainable. As a result, there has been a proliferation of credit-like products that are luring vulnerable consumers who are seeking to bridge the gap. This issue is compounded through the lock in nature of many credit products, with just 20% of Australians switching mortgages or credit cards.

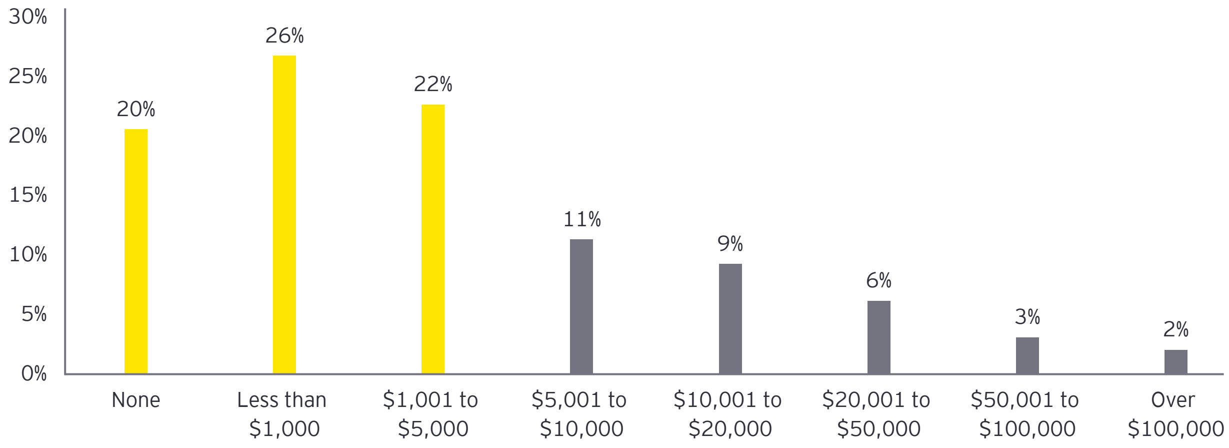
Do you ever wait until your next payday before spending money?



Would asking for a pay advance be difficult or awkward?



How much do you currently have in savings? (In percentage)



Section 5

Beating the Great Resignation with benefits

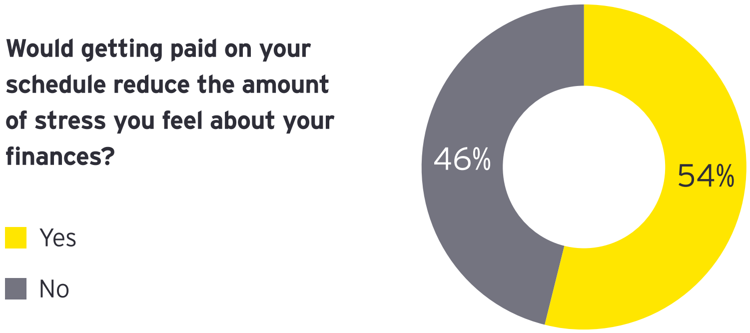
Although companies are shifting towards implementing more employee-reward schemes, just one in three Australian employees currently has access to a benefits programme. Those who do have access believe that it meaningfully improves their pay package. When asked whether they would take up benefits if offered by their employer, there was significant demand by respondents for a range of benefits that would help make their package go further.

Nearly 55% of the respondents would take up on-demand pay if their employer offered it, as they feel it would reduce their financial stress and make them less likely to leave their job.

Employers are certainly not short of choices when it comes to technology platforms that can help provide wellbeing, benefits, and even financial education and management (or advice) to their workforce. That said, picking the right partner can be challenging and many solutions can prove superfluous for what is required (with employee take-up sometimes as low as 10%), particularly for early-stage or small businesses.

The combination of factors described in this paper has seen an emergence of direct-to-consumer products during the pandemic. This is particularly evident in the on-demand pay arena, where platforms are looking to take the pain away from employers and offer speed to "wallet", with simplicity of sign-up and access to funds being a core value proposition. On-demand pay can offer vital support in times of financial stress, whether it is an emergency where savings are insufficient to help, or a mismatch in the timing of income and expenses. However, it also has the potential to place people in a debt spiral that they will struggle to escape from without additional debt vehicles.

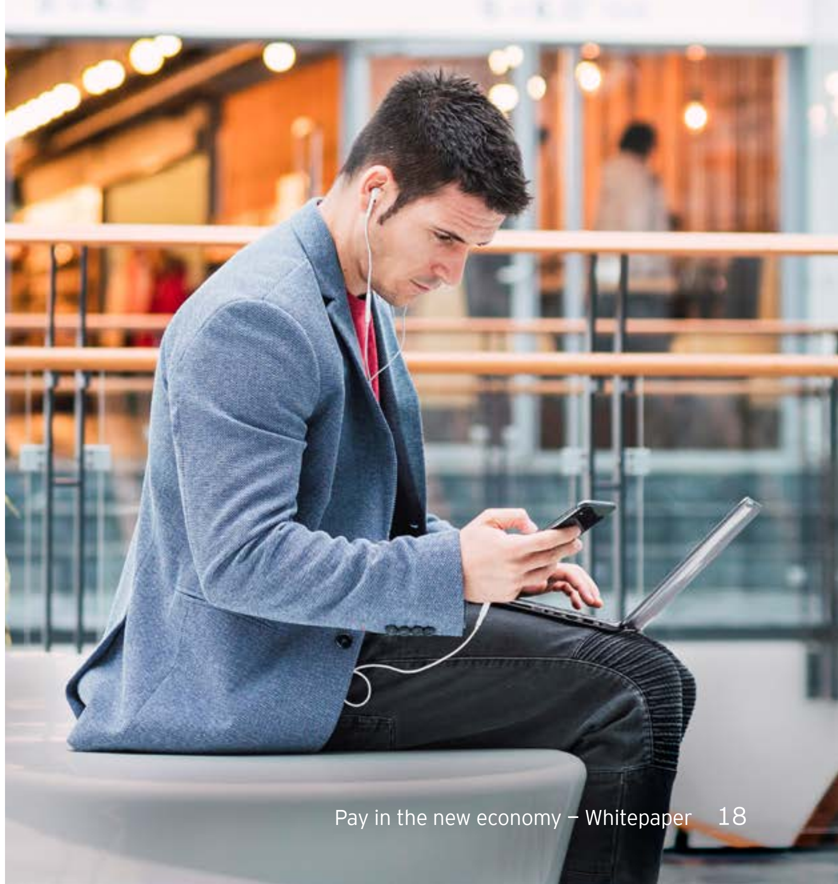
Would getting paid on your schedule reduce the amount of stress you feel about your finances?



There is significant merit in a model which gives employees the option to access pay on-demand without charging interest or fees, as a part of a broader value proposition – one where value is driven from other parts of the value chain, whether through affiliate partnerships or offering broader financial products. Given the trends and emergence of options for employers to access on-demand pay, it is likely that there will be an expectation over time that this is offered as a standard benefit. As with many innovations, this is likely to be driven by behavioural change – in this case, from employees.

However, offering on-demand pay as a stand alone benefit carries heightened risk for employees, prompting them to focus on immediate liquidity rather than the full range of options available to make their pay go further. To maximise the positive impact of on-demand pay on employees, it should be delivered to them as

55% of the respondents would take up on-demand pay if their employer offered it, as they feel it would reduce their financial stress and make them less likely to leave their job.



one part of a comprehensive suite of benefits provided to them by their employer – an approach more likely to lead to long term financial wellness.

With technology innovations and the evolution of open banking, fast payments (via NPP) and action initiation, there is a substantial opportunity to use AI, data and insights, to predict when an employee may be facing financial trouble and offer them help where they need it – perhaps before they have even recognised it themselves. Providing this type of value could help to create trust and loyalty between employers and employees, leading to increased retention.

Another consideration from a technology standpoint is accessibility and how your workforce engages with their benefits. The conventional approach of providing a static intranet page focussed on self-service misses significant opportunities for employee empowerment and engagement. This approach also does not meet the needs of a mobile, frontline or manual workforce, who are not in an office-based environment and for whom a computer may not be their primary business tool. In short, it is not enough to simply put up an internal web page.

Today's workforce is notoriously overworked. Employees need to be given the space, time and support to identify, sign up, and onboard with the benefits and tools that they need, in the way that they choose. This is where there is a significant opportunity for employers to facilitate a concierge-style approach to providing benefits. With new technology, the opportunities are endless.

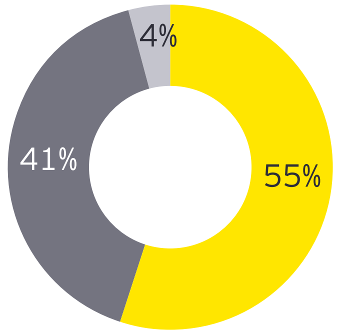
Is there any reason an employee could not meet a concierge in the metaverse, and be guided to build a wellness journey for themselves to execute benefits, offers and discounts, using smart contracts to construct their package?

The balance of helping customers gain financial freedom, flexibility and empowerment versus operating a viable business model needs careful consideration. Access to on-demand pay needs to be considered as a part of a broader value proposition – one which allows other financial products and services to be presented to a workforce through partnerships or directly through embedded finance, encompassing education and services that support financial inclusion, and wellbeing.

As employers begin to consider the implications of returning to office and what that means, they should be asking their workforce about their expectations. Rather than aimlessly providing new and shiny benefits, listen to what motivates your workforce and tailor offerings accordingly.

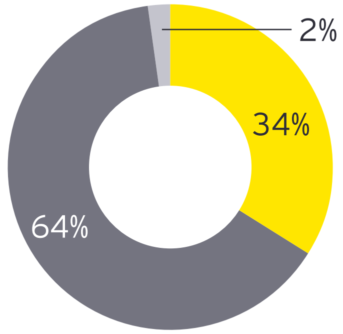
Of those surveyed, only 34% of the employees had previously had access to a benefits programme. This means that there is a large underserved market in the Australian workforce that is under-packaged. This is particularly prevalent in service and labour-based industries, where there is a large casual workforce and where we have seen several platforms emerge by providing access to offerings such as insurance and benefits, even if you are a sole trader or freelancer.

If you had the option to get paid on your schedule instead of waiting for payday, would you take it up?



Yes
No
Unknown

Did your previous employer have a perks or benefits programme, like offering discounted products or services?



Yes
No
Unknown

Employers of all sizes have an imperative to review the financial and personal benefits that they are offering their employees, or risk being left behind.

Of the options presented, salary packaging was clearly something that workers were interested in, with 76% answering that they would take it up. There are significant tax benefits to this for employees, yet many either do not understand or cannot access them. This is one area where employers can look to help increase their employees' financial literacy and provide access through supportive benefits programmes.

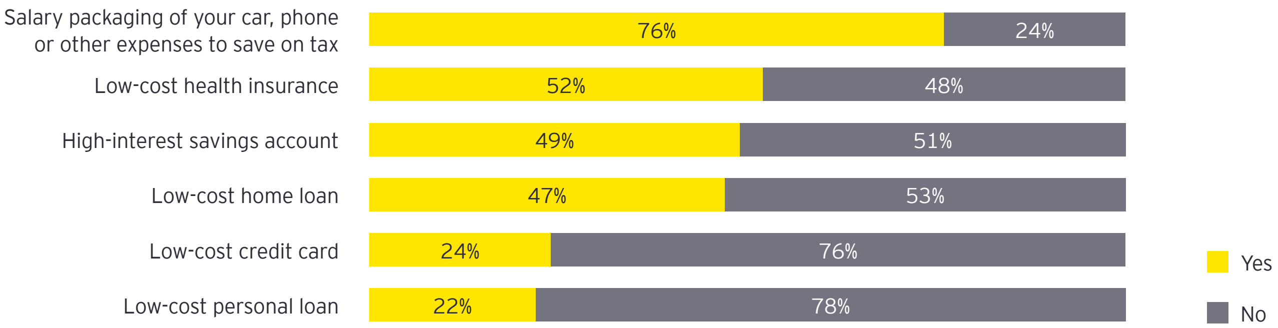
Alongside this, there was a willingness to consider other financial products or benefits if offered, such as loans or savings accounts. This emphasises that there is a need or want to roll up salary or benefits with day-to-day finances, through partnerships or embedded finance. Would a world where the day you join your employer, they issue you a debit card to your mobile wallet that allows you to spend your wages or pay a bill whenever you want throughout the month, be too much of a stretch? What role does a bank or traditional financial service provider play in the future of the workforce?

One thing we do know is that it is critical for employers to look beyond their workforce as a commodity, particularly as employees begin to think differently, new generations enter or leave the workforce and technology evolves – shifting the power to employees.

Employers of all sizes have an imperative to review the financial and personal benefits that they are offering their employees, or risk being left behind, as larger players deploy immense resources to adapt to this new workforce shift.

An on-demand workforce necessitates on-demand solutions.

Access to other benefit programmes



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