How the Gig Economy is Transforming Banking

Whitepaper

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The Gig Economy Worker

In an increasingly connected world, job assignments and tasks can be distributed over teams of people located remotely. More and more people are turning to the resulting freelance or gig jobs for extra money or as their main source of income. This gig economy encompasses workers being paid for completing short-term freelance assignments, with pay based on task completion rather than hours worked. This work style has created a tremendous increase in flexibility for both workers and employers. Workers can better choose when and how they work, while employers can choose to employ workers on an as-needed basis with the capability to meet surge requirements with an extended workforce.

Exactly how prevalent are gig workers in today's economy?

Driven by companies such as Uber, Lyft, and Airbnb, the gig economy now employs between 25% and 35% of the U.S. workforce[1] whether as their only job or in addition to other employment.

These workers are typically Gen YZ, not highly paid, extremely plugged in, and live in large cities. Multiple studies have shown that within the past decade, the majority of jobs created have been gig jobs[2,3], with a concentration in urban environments. Another poll by the Freelancers Union[4] revealed that over 80% of workers would accept gig work in addition to their current jobs.

Generation Y-Z

Tech Dependent

Urban Lifestyle

Moderate Income

[1] The Basel Committee on Banking Supervision released updates to its regulatory framework, Basel III, on December 7, 2017. Known as Basel IV, this round of updates lays out stricter guidelines for the use of credit and risk models, and has a five-year phase-in period beginning in 2022 and with full implementation in 2027.

[2] Global banking outlook 2018: Pivoting toward an innovation-led strategy. EY, p. 12.

[3] The Global State of Information Security® Survey 2018: Strengthening digital society against cyber shocks. PwC, 2017, p.4.

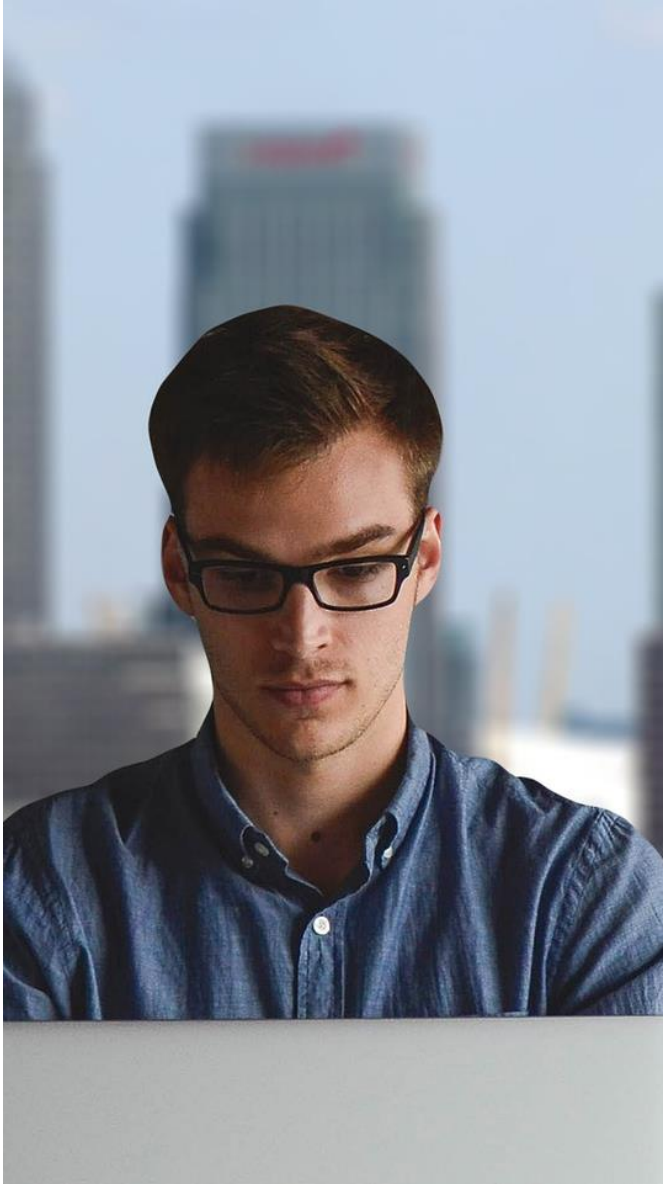
[4] Global banking outlook 2018: Pivoting toward an innovation-led strategy. EY, p. 5.

Gig Economy Problems

Despite the benefits of the gig workstyle, the explosively growing trend comes with its share of problems for its workers. While traditional employment can be tied to steady schedules, paychecks, insurance, and retirement benefits, gig workers often have periods of high and low activity with irregular income. Benefits such as paid time off, insurance, and retirement are entirely absent. Workers must weigh this lack of benefits with the extreme flexibility offered by gig jobs. The following difficulties, faced by a large percentage of the current workforce, have created difficulties for the banking industry to provide them with traditional services:

- Unpredictable pay / need for fast access to earnings
- Low pay
- Inability to borrow money
- Desire for new methods to accept and transfer money
- Lack of job benefits

Freelance workers face the combined problems of an unpredictable pay schedule and low earnings. They need lines of credit or loans on occasion but lack a solid earnings history with which to establish good credit. Because of this, they typically have difficulty obtaining loans. When they do qualify for one, the length of time to obtain it may not suit their needs for short-term finance. Additionally, they may want to be paid more quickly as they complete assignments. To reach this segment of the population, both banks and employers are adapting to meet their needs.



Banking Adaptation: Faster Payments

Gig economy employers are finding ways to help their workers for whom the traditional model of receiving a paycheck every other week does not suffice. In doing so, they are finding ways to expedite payments to workers to provide them with fast access to earnings.

- Some companies make instant payments to workers as assignments are completed.
- For hourly workers, some companies have begun allowing employees to access their pay as they earn it instead of waiting for an entire pay period to elapse.

These semi-instant payments can provide gig workers with better access to funding in times when their earnings are low and bills are due to be paid. Similarly, some banks are beginning to grant customers early access to their direct-deposited funds. These institutions release the funds once the employer or federal agency has notified them of an incoming deposit, rather than withholding funds until the deposit's scheduled date.

Banking Adaptation: Loan Qualification

The gig economy has impacted the models that banks use to lend money as well as the sources from which money is lent. Traditionally, banks use both earnings histories and credit reports to assess the risk of lending to individuals. Many gig workers lack the traditional income statements required to create such credit reporting and wouldn't qualify for traditional loans. Banks must either adapt their risk assessment methods to account for this growing segment of the workforce or miss out on potentially healthy customers. Some have started to develop alternate means for assessing the creditworthiness of this alternative customer base:

- Alternate credit reports are now available based on payment of rent, utilities, and cell-phone bills; bankruptcy records; property ownership; etc.
- Some banks have started to base lending on future earnings for gigs which have been scheduled but not earned. Payments are then deducted as the money is earned.

By finding non-traditional ways to serve gig workers, banks are developing methods to accommodate this swelling portion of the workforce. But what alternative elements are hindering the ability of banks to retain these customers?

First, gig workers have turned to alternative sources to obtain loans. Some innovative gig economy employers have even begun providing banking and lending services to their workers. This competition with traditional banking institutions has benefitted both gig employers and workers.

For example, in the ride-sharing industry, one company provides loans to prospective workers to purchase cars. This helps the company attract workers, and workers are provided with the capital needed to enter the workforce. Although this type of lending scenario is uncommon, it creates a synergy between the worker and employer that benefits both.

Second, peer-to-peer lending has become commonplace in the gig economy. This type of lending, facilitated by a platform, matches those with money to lend with those who are seeking to borrow. While the platform sets the lending rate and coordinates the transaction, all risk is assumed by the lender. This has proven to be a much easier and more affordable method for those with no or poor credit history to obtain a loan.

The Rise of New Banking Services

With the rise of employer-sponsored banking/lending and peer-to-peer lending, banks are developing new services to compete for the business of gig economy workers. Because gig workers may have unpredictable pay but fixed monthly costs such as rent or car payments, they may be at risk of overdrawing their accounts. Many banks now offer accounts with overdraft protection—that is to say, no overdraft fees—in an effort to accommodate these non-traditional earners.

Banks are also creating ways for their customers to deposit cash more easily. Gig workers are paid in cash more often than traditional earners, and they need more convenient ways to deposit their money. One such bank has partnered with Walmart to allow deposits to be made through their cash registers rather than at a brick-and-mortar banking branch.

Gig economy workers need new methods to both send and receive money due to the unique circumstances of their employment. A gig worker may live abroad without easy access to the U.S. banking system. Because of scenarios like this one, services now exist which can bypass banks altogether to send payments directly to a debit or credit card. Quick and simple transactions like this are becoming more and more prevalent.

Just as gig workers need easier ways to receive money, gig employers need easier ways to send money. New fully-integrated services are becoming increasingly available to cater to the needs of gig employers. These payout services have developed their technology to reach across the globe with methods that are scalable for both large and small employers. They have streamlined the process to add new payees and provide real-time visibility into transactions for those payees.

Most importantly, these services can provide payment in whatever form is most convenient for the gig worker: bank account deposit; mailed check; prepaid, debit, or credit card; or money transfer service. As our economy evolves towards gig employment, the financial sector will change accordingly to ensure small payments can be quickly made to anyone worldwide.

In this same vein, gig workers must have the means to accurately track their task completion and receipt of payments. Globally-enabled billing systems have been developed which are tailored to the needs of these workers. These needs—the ability to send payment requests, simple ways for customers to pay, and the ability to track payments in real time—can now be satisfied by a single platform. The main benefits of using such a service are simple: workers can track and ensure they receive payments while employers can easily pay invoices.

Making It Work: Alternative Benefits

Another drawback of gig employment is the lack of human resource functions found at traditional jobs. Besides the obvious missed benefits such as paid vacation, sick days, and holidays, gig workers also miss out on income tracking, tax documentation, and retirement benefit services which are typically administered by HR. These workers need these benefits to be made available in a portable manner that can be applied to several employers.

Keeping track of 1099 tax forms and deductible expenses can be overwhelming for gig workers who have worked for several different companies over the course of a year. They are solely responsible for ensuring compliance for tax tracking. This is made all the more difficult since most gig workers work several jobs simultaneously, such as doing freelance work while renting out rooms in their home and selling goods online.

To help gig workers track all taxable earnings and deductions, major gig employers have begun to partner with tax and software providers to create necessary online tools. Apps with easy export to tax software have been created to help freelance workers keep track of earnings and expenses.

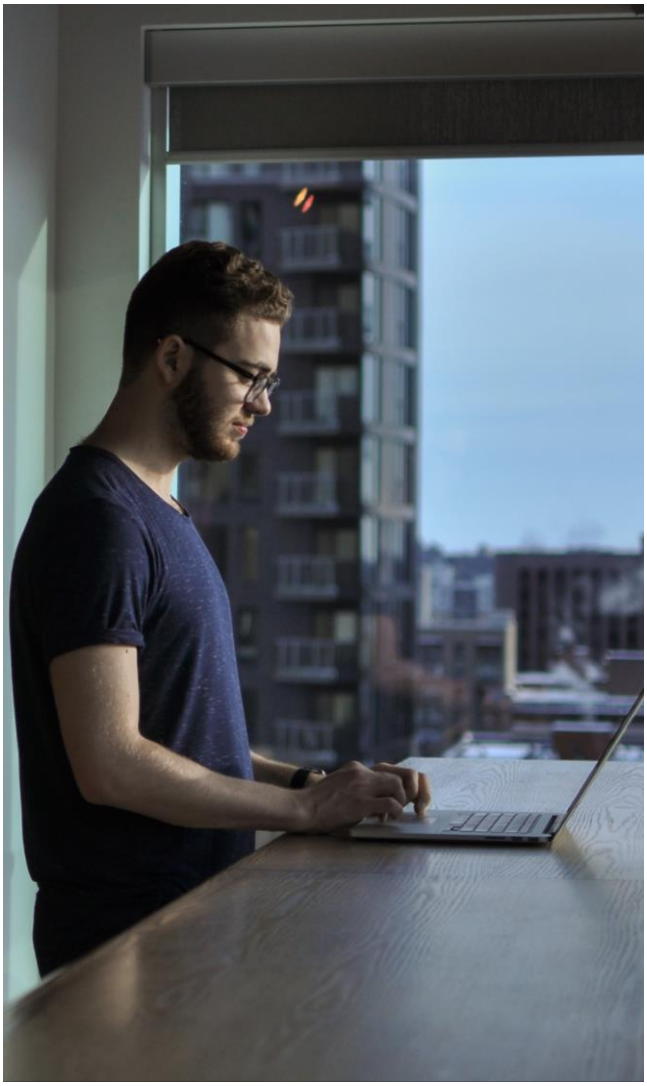
In the financial planning market, retirement planning for gig workers has become a fast-growing opportunity. Financial planners have partnered with major gig employers and gained many customers. They provide services including planning and IRAs. The key for gig workers is that these services are transferrable and not tied to any single employer.

Summary

There are many aspects of the gig economy changing the way people bank. The banking industry is rapidly responding by transforming to serve the needs of gig workers:

- They require faster access to earnings because of their unpredictable pay schedules
- All earnings are not captured on income statements and thus new models for assessing the risks of loaning money are required
- The methods through which gig workers accept and transfer money must be both rapid and flexible
- They require portable tax planning and retirement benefits from third-party companies that stay with them wherever they go

The banking industry needs to understand and meet the market trend towards the gig economy and fintech innovations. Modernized banks should capitalize on this opportunity to provide efficient services to gig workers and build their customer base by serving this fast-growing segment of the economy.



Recommendations: Top Ways to Retain Gig Worker Customers

The banking industry already has the expertise and infrastructure to tailor their services to better serve gig economy workers and not lose them as customers. Early adopters who are able to meet their needs may experience significant growth and improved profits. The following strategic services and technologies can assist with better serving and thus retaining gig workers as customers:

- Integrate services specific to gig workers, such as invoicing, facilitating payment receipt for invoices, and simplified peer to peer payments, within banking apps
- Integrate expense tracking / categorizing tools within banking apps
- Consider other mobile technology, such as text- or widget-based, for more efficient transactions, such as for check deposits or payments
- Employ loan specialist teams with the authority to work specifically with gig workers to develop alternate loan documentation specific to their individual needs. Target and market this service to workers of major gig employers, such as Lyft or Uber, with more favorable rates than their employers provide.
- Partner with large employers to develop methodologies to allow workers to access earnings prior to traditional pay-days

Get Ready For the Gig.

Speak to a member of our team for free consultation on getting ahead of the gig economy, or continue reading more online.

- Schedule an introductory call
- Schedule a product demo
- Learn more about our products