BEYOND SIMPLE AND SAFE: OPPORTUNITIES TO EXPAND THE USE OF DIRECT DEPOSIT VIA ACH FOR PAYROLL

April 2016
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FOREWORD

With the goal of gaining a closer understanding of the actions and attitudes of consumers toward Direct Deposit of payroll, NACHA commissioned JAVELIN to conduct market research looking at all segments of the U.S. population, as they relate to Gen Y — the group of consumers aged 18 to 34. NACHA, along with input from America Saves, a campaign managed by the nonprofit Consumer Federation of America, worked with JAVELIN to field a comprehensive online survey of 2,002 consumers in August 2015. The resulting sample was weighted to reflect the age and gender distribution of employed consumers in the general population.

JAVELIN independently produced the whitepaper and maintains independence in its data collection, findings, and analysis.
EXECUTIVE SUMMARY

This study of employed consumers — commissioned by NACHA and America Saves, and conducted by JAVELIN — finds Direct Deposit of payroll to be widely used and well-entrenched in the nation’s consciousness. A full 82% of U.S. workers — crossing age, income, and other demographic categories — receive their regular pay using Direct Deposit via ACH. Awareness is also strong, with 79% of consumers who do not use Direct Deposit reporting familiarity with the service. This group, as well as the smaller number of nonusers less familiar with Direct Deposit, presents an opportunity for continued expansion of the service, enabling adoption to build toward the 100% mark and yielding important benefits to both Direct Deposit recipients and their employers.

Key Findings

- Employer mandates and encouragement are the central factors affecting the use and growth of Direct Deposit. Nearly two-thirds of Direct Deposit users and more than half of all employed consumers say that employer practices influence their choice to use Direct Deposit of payroll. Close to 2 in 5 Direct Deposit users work for an employer that requires use of Direct Deposit, and 32% have an employer that encourages its use.

- Direct Deposit users cite an array of benefits:
  - More than 4 in 5 consumers (83%) paid by Direct Deposit believe that Direct Deposit is safe and secure. This compares to just 52% of employees paid by checks — a spread of more than 30 percentage points.
  - More than 7 of 10 Direct Deposit users say they feel in control of their finances, significantly higher than the 53% of consumers paid by check stating the same.
  - More than half (53%) say the key benefit of Direct Deposit is fast access to their pay, and 47% like that Direct Deposit does not have an associated cost.
  - Direct Deposit users like the ability to split deposits. Nearly 1 in 4 (24%) split their payroll deposits, typically placing their deposit in a checking account and also designating a portion of funds to go to a
savings account, 401(k), business account, money market or a prepaid card.

- **Users of Direct Deposit are actively engaged with financial services, having an average of more than seven traditional financial services products and higher usage of these services than is typical among individuals paid by check.** Consumers paid by Direct Deposit also are often users of other types of ACH deposit or transfer services such as those offered for bill payments or for receiving tax refunds.

  - Direct Deposit use can be reinforced to establish goodwill with customers and build a positive perception of their financial institution. Focusing on Direct Deposit as part of an integrated financial services product strategy can increase the use of the ACH across applications such as payroll, Social Security, and bill or tax payments.

- **The 18% of employed U.S. consumers who are not paid by Direct Deposit can be readily identified within three key population segments: Gen Y.1 (the portion of Gen Y aged 18 to 24), lower-income consumers (with household income under $50,000 per year), and part-time workers.**

  - More than a quarter (29%) of the Gen Y.1 population do not use Direct Deposit, even though awareness among this segment is strong at 81% of nonusers. **Key justifications for not using Direct Deposit center on the perception that it is more convenient to deposit or cash paper checks:** 43% of Direct Deposit holdouts in Gen Y.1 entertain this belief.

  - Use of Direct Deposit is at 73% among lower-income consumers with annual household incomes below $50,000 (vs. 82% of the overall consumer market). This group is slightly more likely than other segments to use financial services and providers commonly used by the “underbanked,” yet **95% of households earning below $50,000 a year have a checking account.** Lower income consumers are more likely than average to work for a small company or an individual and to say their employer does not offer Direct Deposit.

  - **Close to a third of part-time employees (31%) do not use Direct Deposit of payroll, even though 81% are aware of the service.** Their reasons closely follow those of the nonuser population as a whole: 38% of holdouts who work part time say their employer does not offer

1 “Holdouts” are defined as consumers who are familiar with direct deposit of payroll but do not currently use the service.
Direct Deposit, and 33% say they prefer paper checks for record-keeping purposes.

- Although awareness of Direct Deposit among nonusers is at almost 80%, close to a fifth (21%) of nonusers are unfamiliar with the service. Continuing outreach that builds awareness of Direct Deposit should therefore remain a core component of addressing Direct Deposit adoption.

- The small group of nonusers of Direct Deposit of payroll also demonstrates some inaccurate or uninformed opinions about the service. Increases in Direct Deposit adoption will be based on a combination of addressing specific barriers and misconceptions and highlighting the service’s array of definitive and proven benefits.

  - One of the biggest myths among those not using Direct Deposit is that depositing or cashing a check is more convenient than receiving their pay via Direct Deposit. Overall, 34% of consumers who are familiar with Direct Deposit but do not use it believe that depositing or cashing checks is more convenient. This misconception is particularly acute among Gen Y.1 who prefer depositing checks at a branch or ATM or using mobile deposit.

  - Direct Deposit is commonly perceived and marketed as a simple, safe employee benefit; however some prospective users are uncertain about setup requirements and safety, including sharing their account information with their employer. This indicates an opportunity to reinforce the baseline benefits of Direct Deposit of payroll with users and nonusers alike.

- Employers play a key role in Direct Deposit use and adoption, but they can constrain use if they are poorly informed or do not offer Direct Deposit. Among the 18% of U.S. workers who do not currently use Direct Deposit, 37% say their employer does not offer the service.

- Financial institutions have a vested interest: 55% of employed consumers have a positive perception about a financial institution in part because they receive regular Direct Deposits from their employer into their bank account. Employees paid by Direct Deposit also report their satisfaction with the primary bank or credit union they use for Direct Deposit services rates a high average of 9 points on a 10-point scale.
Recommendations: Expansion Strategies for Direct Deposit via ACH

Critical stakeholder groups — including financial institutions, employers, and consumer-facing organizations — can build the use of Direct Deposit of payroll by addressing the needs of nonusers, eliminating misconceptions, and highlighting targeted value messaging about Direct Deposit. Recommendations for these important stakeholders include the following:2

Financial Institutions:

- **Reinforce the “simple and safe” value proposition of Direct Deposit** by ensuring that sign-up and payroll processes are straightforward and that they protect employers’ and employees’ confidential information; and secondarily, by educating employers and consumers to clearly understand these attributes’ alignment with the Direct Deposit service.

- **Enumerate the value proposition of other proven benefits of Direct Deposit** — such as faster access to payroll funds, control of finances, and the ability to save when using Direct Deposit — to prospective users.

- **Expand the concept of a Direct Deposit “account”** to incorporate relevant card products; provide education to consumers and employers to encompass cards and to expand the concept of card reload as incorporating Direct Deposit.

- **Establish programs to educate employers and recruit companies less likely to offer Direct Deposit**, including smaller businesses, retailers, or the hospitality sector. Evaluate tools to ensure consistency in messaging and that the misconceptions of nonusers are addressed.

Employers:

- **Proactively promote Direct Deposit of payroll among all employees.** Evaluate Direct Deposit tools and resources, updating as necessary to highlight the benefits of Direct Deposit and the key attributes of the service that address nonuser needs.

- **Ensure that notification of deposits and content supporting payroll are provided to Direct Deposit recipients in a timely, thorough and standard manner.**

- **Add or enhance digital channel options** for recipients to access and manage Direct Deposit information.

2 Note that additional recommendations for each identified stakeholder group can be found in the body of this report in the section, “Recommendations for Key Stakeholder Groups” beginning on page 24.
Consumer-facing Organizations:

- **Establish Direct Deposit as part of an integrated strategy**, designed to build on consumer use of the ACH in specific applications (such as Social Security or tax payments) as a means of driving sound money management practices and generating use of Direct Deposit of payroll or other Direct Deposit options.
DIRECT DEPOSIT VIA ACH: STRONG ADOPTION AND AWARENESS

From its roots as the first electronic payment format offered by the ACH Network, Direct Deposit of payroll via ACH has emerged as a widely used, simple and safe payment option for 82% of employed consumers in the U.S. market. Awareness of the service is also strong: 79% of consumers who do not use Direct Deposit are familiar with the option. Users cross age, income, and other demographic groups and comprise both full- and part-time workers, with the greatest rates of adoption among those 35 to 44 years of age (88%) and among individuals with personal incomes of at least $75,000 per year (90%). Consumers who use Direct Deposit are expansive and active users of financial services with an average of more than seven traditional financial services products (See Figure 1), higher utilization of these services than is seen among individuals who are paid by check, and an average of 2.4 financial servicing relationships.

Direct Deposit via ACH Users Are Active Consumers of Other Financial Services

Figure 1: Financial Service Use
(Among Consumers Paid by Direct Deposit via ACH or by Check)

<table>
<thead>
<tr>
<th>Service</th>
<th>Paid by DD (%)</th>
<th>Paid by Check (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Checking account</td>
<td>94%</td>
<td>86%</td>
</tr>
<tr>
<td>Savings account</td>
<td>86%</td>
<td>84%</td>
</tr>
<tr>
<td>Major credit card</td>
<td>72%</td>
<td>65%</td>
</tr>
<tr>
<td>Major debit card</td>
<td>72%</td>
<td>65%</td>
</tr>
<tr>
<td>401(k)</td>
<td>48%</td>
<td>36%</td>
</tr>
<tr>
<td>Mortgage</td>
<td>34%</td>
<td>37%</td>
</tr>
<tr>
<td>Auto loan</td>
<td>37%</td>
<td>34%</td>
</tr>
<tr>
<td>IRA or Roth IRA</td>
<td>37%</td>
<td>34%</td>
</tr>
<tr>
<td>Brokerage account</td>
<td>26%</td>
<td>26%</td>
</tr>
<tr>
<td>Student loan</td>
<td>19%</td>
<td>18%</td>
</tr>
<tr>
<td>Money market</td>
<td>25%</td>
<td>21%</td>
</tr>
<tr>
<td>CD</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>Home equity loan or…</td>
<td>14%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Q9. Which of the following financial banking accounts or products do you currently personally have or use?

August 2015; n = 1,636. 341
Base: All employed consumers paid by DD, all employed consumers paid by check
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Initial ACH rules were approved in 1974 making Prearranged Payment and Deposit (PPD), or Direct Deposit, the first ACH transaction type. https://www.nacha.org/ach-network/timeline, accessed November 9, 2015.
Consumers paid by Direct Deposit are often also users of other types of ACH deposit or transfer services such as those offered for bill payments or for receiving tax refunds (See Figure 2). In addition, consumers paid by Direct Deposit are also active users of less traditional financial services and products. More than two-thirds (71%) use an alternative payment service like PayPal, Google Wallet or Apple Pay. Close to half (47%) use non-bank providers for services that include money orders (25%), remittances (21%), and check cashing (17%). They also are more inclined to try new technology than are consumers who are paid by check: 71% of Direct Deposit users say they are first adopters or fast followers while just 62% of those paid by check categorize themselves in the same manner. Together, these factors indicate that Direct Deposit of payroll users have an open attitude toward financial servicing and technology, a receptivity that can be reinforced to leverage engagement and build retention.

**Consumers Paid by Direct Deposit via ACH Are More Likely to Use Other ACH Payment and Transfer Options**

![Figure 2: Use of Other ACH Services](image)

(Q26. Have you personally directly transferred funds from or to your bank/credit union account by (...)?)

August 2015; n = 1,636, 341

Base: All employed consumers paid by DD, all employed consumers paid by check

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Direct Deposit users also express strong levels of satisfaction that could motivate financial institutions and employers to expand use of the service. When asked to rate their satisfaction, users give Direct Deposit services at their primary financial institution a high rating of 9 on a 10-point scale. Similarly, employees paid by Direct Deposit assign a rating of 9 out of 10 points for their employers’ support of Direct Deposit. In comparison, consumers paid by check, cash or other means have somewhat less satisfaction with their employers’ payroll options, giving them an average rating of 6 out of 10 points.

**The Benefits of Direct Deposit of Payroll**

In fact, employer mandates and encouragements are the key driver in the use and growth of Direct Deposit of payroll: 64% of Direct Deposit users (See Figure 3) and more than half of all employed consumers (52%) say that their employer’s practices have influenced their choice to use Direct Deposit. In addition, nearly three quarters of Direct Deposit users (73%) say their employer first made them aware of the Direct Deposit option. Employers have good reasons to promote Direct Deposit of payroll, as use of the service can enable a company to improve its expense control and cash flow management, reduce its need for check-related services such as account reconciliation or positive pay, and improve employee satisfaction. Notably, as shown in Figure 3, although employers are the single most important influence on the adoption of Direct Deposit of payroll, other factors such as the financial control benefits offered by Direct Deposit, behavioral influences, security features, and the service’s environmental value can also drive interest in and use of Direct Deposit.

The financial control benefits of using Direct Deposit are a crucial attribute for many users. Among employees who use Direct Deposit of payroll, 53% say the service’s key benefit is fast access to their pay as the need to deposit or cash a payroll check is eliminated. Using Direct Deposit, funds are required by the NACHA Operating Rules to be available in an employee’s account at the beginning of the day on the payroll date, while employees paid by other methods may need to wait for the distribution of checks or other payment options and often do not receive immediate access to their funds.
Consumers Are Primarily Influenced to Use Direct Deposit via ACH by Their Employers and Secondarily Influenced by Personal Financial Factors

Figure 3: Key Reasons Consumers Use Direct Deposit via ACH

Nearly half (47%) of those paid by Direct Deposit like the fact that Direct Deposit does not have an associated cost, and more than a quarter (28%) report that Direct Deposit helps them to set aside money for bills, savings, or other financial goals. In this latter area, Direct Deposit provides a tool to help consumers budget by enabling payroll to be deposited to more than one account. For example, a user can designate a percentage or dollar amount to go toward a loan payoff, while the remainder can be deposited to the individual's checking account. Today, nearly 1 in 4 employees (24%) splits deposits among two or more accounts, with individuals typically placing their deposit in a checking account and also designating a portion of funds to be deposited into a savings account, 401(k), business account, money market account or to a prepaid card.

Behavioral factors also drive some consumers to use Direct Deposit of payroll. Nearly two fifths (37%) of consumers find that using Direct Deposit is more convenient than depositing a paper check and another quarter (25%) say that the use of Direct Deposit eliminates the risk of forgetting to deposit a check. More
than a quarter (28%) say checks create or contribute to clutter, a problem readily solved by the use of Direct Deposit. Security is another critical factor affecting consumer use of Direct Deposit: Close to 2 of 5 (37%) say that a key reason they use the option for receiving their pay is because Direct Deposit is safe. Consumers also report they use Direct Deposit because it eliminates the risk of losing a paper check (38%). Another quarter (26%) of consumers cite environmental benefits as influencing their use of Direct Deposit.

Relative Advantages: Direct Deposit of Payroll vs. Payment by Check

Comparing the attitudes of individuals paid by Direct Deposit with those of consumers paid by check clarifies key values associated with Direct Deposit. Notably, the security of Direct Deposit is both its most widely cited and profoundly differentiating benefit. Four of 5 consumers (83%) paid by Direct Deposit believe that Direct Deposit is safe and secure vs. just 52% of employees paid by checks saying that checks are safe — a spread of more than 30 percentage points! (Refer to Figure 4.)

Consumers Paid by Direct Deposit via ACH Feel More in Control of and Secure About Their Money

Figure 4: Employees Agreeing With Statements Related to How They Receive Their Pay (Among Consumers Paid by Direct Deposit via ACH or by Check) (Ratings of 8-10 on a 10-Point Scale)

<table>
<thead>
<tr>
<th>Statement</th>
<th>Paid by Direct Deposit via ACH</th>
<th>Paid by Check</th>
</tr>
</thead>
<tbody>
<tr>
<td>It is a safe and secure method to receive my pay</td>
<td>83%</td>
<td>52%</td>
</tr>
<tr>
<td>It helps me pay my bills or loans on time</td>
<td>73%</td>
<td>46%</td>
</tr>
<tr>
<td>I feel I’m in control of my finances</td>
<td>73%</td>
<td>53%</td>
</tr>
<tr>
<td>It helps me manage my finances efficiently</td>
<td>72%</td>
<td>47%</td>
</tr>
<tr>
<td>It makes it easy to save or invest my money</td>
<td>61%</td>
<td>47%</td>
</tr>
<tr>
<td>It enables me to save when I get raises, work overtime or I earn a bonus</td>
<td>61%</td>
<td>33%</td>
</tr>
<tr>
<td>It helps me avoid getting caught off-guard by periodic bills such as tax payments or insurance premiums</td>
<td>61%</td>
<td>40%</td>
</tr>
</tbody>
</table>

Q30. On a scale of 1 to 10, where 1 means ‘Do not agree at all’ and 10 means ‘Totally agree’, please rate your agreement with the each statement. (8+9+10 shown).

More than 4 of 5 consumers (83%) paid by Direct Deposit believe that Direct Deposit is safe and secure while just 52% of employees paid by checks think checks are safe.
Financial control factors are also comparatively cited much more frequently in association with Direct Deposit of payroll than they are in relation to checks. Respectively, more than 7 in 10 Direct Deposit users say Direct Deposit helps them pay their bills on time (73% vs. just 46% of those paid by check), feel in control of their finances (73% vs. 53% of those paid by check), and manage their finances efficiently (72% in comparison with just 47% of those paid by check). Similarly, employees paid by Direct Deposit are much more likely than those paid by check to highlight their ability to save and budget. Six of 10 consumers (61%) paid by Direct Deposit, vs. just a third (33%) of those paid by check, say the option makes it easy to save or invest their money. As well, 61% of Direct Deposit of payroll users vs. 40% of employees paid by check indicate, respectively, that they are less likely to be caught off-guard by bills and that they are better able to save when they receive raises, bonuses or overtime pay.
WHO AND WHY: OBSTACLES TO THE USE OF DIRECT DEPOSIT VIA ACH

Despite strong usage and awareness of Direct Deposit, approximately 18% of U.S. workers do not use it to receive their pay. Direct Deposit volume has continued to grow, but it has decelerated as adoption reached the 80% mark and expansion in the U.S. workforce has slowed. The remaining nonusers of Direct Deposit rank among the more difficult to convert, but there are compelling reasons for workers, employers and financial institutions alike to support their transition. These nonusers — nearly a fifth of the employed population — can be readily identified within three key population segments: Gen Y.1 (the portion of Gen Y aged 18 to 24), low-income consumers, and part-time workers. Developing effective strategies for these segments requires first understanding and addressing the obstacles that exist for each of these population groups in the areas of awareness, availability, paystub information, and perceptions relative to Direct Deposit of payroll.

Awareness

Although market awareness of Direct Deposit of payroll is generally very strong, a fundamental barrier among the small share of consumers who do not currently use Direct Deposit of payroll is that more than a fifth (21%) are unfamiliar with Direct Deposit. These individuals report that they are unaware that they have the ability to authorize their employer to deposit pay directly into a designated financial institution or prepaid/payroll card account. Interestingly, the lack of awareness of Direct Deposit among nonusers is not significantly greater across various population segments, with the exception of among Hispanics, a group in which 27% of nonusers claim they are not familiar with Direct Deposit. This indicates that a combination of employer sign-up and education strategies not only could improve awareness, but also boost adoption rates. (Note: Additional information on strategies to drive awareness and adoption is provided in the next section, “Driving Use of Direct Deposit: Building the Value Proposition” beginning on page 17).

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Availability

While 79% of nonusers are aware of Direct Deposit, they may be stymied by their employers: 37% of individuals who are familiar with Direct Deposit of payroll, but do not currently use the service report that their employer does not offer Direct Deposit. Certain industries — such as hospitality and retail — are more likely to fall into this category and are also more likely than other industries to employ workers in leading user gap categories: Gen Y.1, lower income, and/or part-time workers. Employees of smaller companies with fewer than 100 workers are also likely to say that their employer does not offer Direct Deposit services. As well, some employers are less likely to encourage use of Direct Deposit: 7% of Direct Deposit users and 17% of those in Gen Y.1 report that they had to ask their employer about Direct Deposit to enroll. The most mentions of employer shortcomings are made by those in lower personal and household income categories where between 41% and 53% of employees indicate that their employer does not offer Direct Deposit of payroll. Again, a combination of employer sign-up and education campaigns that highlight the employer benefits of offering Direct Deposit will help to address this area of shortfall in adoption rates.

Paystub Information

Nearly 1 in 3 holdouts from Direct Deposit of payroll (29%) say that paper checks make it easier for them to keep records. This concern has several possible roots and related solutions. First is the type of access and detail that the employer provides to payroll records. Employees paid by check are familiar with receiving a paystub attached to their check that provides details about the payment. Some employers deliver paper paystubs even when employees are paid via Direct Deposit, although the optimal method is to provide electronic paystubs that can be accessed by employees on the pay date. These can be delivered by secure email or made available on a secured website, but ease of access, timeliness and clarity of the information are critical. Currently, there are no specific requirements related to either the content or timeliness of reporting paystub information to employees paid by Direct Deposit. Financial institutions and consumer
organizations have opportunities to encourage the development of standard business practices in this area to encourage greater adoption of the Direct Deposit service.

In addition, employees paid by check are used to having the ability to control the timing of the deposit or cashing of their checks. The mere lack of direct involvement in the depositing or cashing process can be a deterrent to some prospective users of Direct Deposit. Other potential users may be uncertain about deposit practices, such as when the Direct Deposit will be made to their account and when funds will be available for withdrawal. These are issues for education and for improved communication between employers and their employees.

**Perceptions**

Consumers also have a variety of perceptions about Direct Deposit of payroll or alternative methods of receiving their pay that are either inaccurate or uninformed. One of the biggest myths among those not using Direct Deposit is that depositing or cashing a check is more convenient than receiving a Direct Deposit. Overall, 34% of consumers who are familiar with Direct Deposit, but do not use it believe that depositing or cashing checks is more convenient (see Figure 5). This problem is particularly acute among Gen Y.1, with large numbers saying it is more convenient to deposit checks at a branch (23%), at an ATM (19%), or by mobile deposit (15%) than to use Direct Deposit.

In the lowest household income category, 21% think that it is more convenient to cash their payroll check at a supermarket, check-cashier or convenience store. Part-time employees also tend to be in line with other nonusers of Direct Deposit, with 32% thinking that depositing or cashing checks is more convenient. These beliefs highlight a lack of clarity regarding the timing and availability of funds received via Direct Deposit for withdrawal or to make payments.
The setup process also is confusing to many nonusers of Direct Deposit of payroll. Among holdouts who are familiar with Direct Deposit, 9% do not want to provide their account information to their employer, 8% say the process is a hassle, 6% are not sure how to set up Direct Deposit, and 3% think they cannot provide routing and account information because they do not have paper checks that would provide that information. These are fundamentals that are readily able to be addressed with thorough educational information for all parties involved in setting up the Direct Deposit option.

Two additional objections posed by nonusers of Direct Deposit confront the concept of intrinsic value often associated with Direct Deposit. Nearly a tenth (9%) of holdouts say they do not see the value of setting up Direct Deposit, and another 9% report that “Direct Deposit does not feel safe to me.” Direct Deposit — proven to be a simple, safe employee benefit — is not perceived in that way by some prospective users. This value must be recognized: it is the baseline foundational element of the Direct Deposit service that can be built upon to create enhanced appeal for individual users.

[Diagram showing consumer reasons for not using Direct Deposit via ACH]

Q24. Please indicate your reasons for not receiving your pay by direct deposit.

August 2015; n = 289, 33, 131, 96
Base: All employed consumers familiar with but do not use DD:
Gen Y.1, Household income < $50k, Employed part-time
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BUILDING THE VALUE PROPOSITION OF DIRECT DEPOSIT VIA ACH

Increases in Direct Deposit adoption will be based on a combination of addressing specific barriers and misconceptions and highlighting the service’s array of definitive and proven benefits. Stakeholders interested in driving adoption of the service should build on existing high levels of awareness, promoting the additional advantages of the service beyond it being “simple and safe.” Some nonusers have misconceptions about Direct Deposit’s simplicity, believing it is difficult to set up and not as easy to use from a convenience standpoint as are checks. As well, despite the large portion of Direct Deposit users who value the safety of the service, the message that Direct Deposit of payroll is safe also is not resonating as clearly with younger users. Even among current Direct Deposit users, the share of consumers saying safety is an important reason they use Direct Deposit declines with age. Fully 57% of those age 65+ who are paid by Direct Deposit mention the service’s safety as a key attribute, while just 30% of Gen Y.1 users report the same. Process issues, as well as communications associated with these perceptions, should be explored and addressed, while the value proposition of other benefits such as faster access to pay, control of finances, and the ability to save through split deposit should be enumerated in messaging.

There are a number of other factors that will have widespread implications on awareness and adoption. These can be identified by first looking at the needs and value propositions for each of the gap populations — the key groups not currently using Direct Deposit: Gen Y.1, low-income consumers, and part-time workers.

Gap Segment: Gen Y.1

While Gen Y.1 tends to be perceived as being technologically savvy, this know-how does not equate to electronic payment adoption. Use of and interest in technology is an indicator of readiness to adopt electronic payment options such as Direct Deposit, but there are additional steps that are key for this group: educating and informing potential users about Direct Deposit, and making the option more accessible to them by increasing the use of Direct Deposit by
employers in sectors that do not traditionally offer the service. Many Gen Y.1 consumers, for example, are employed in the retailing and hospitality industries, two employer groups less likely to pay by Direct Deposit.

In the Gen Y.1 segment, the 71% of workers who use Direct Deposit of payroll indicate that they enrolled in the service because it gives them faster access to their pay (60%), their employer encouraged it (38%), or because Direct Deposit helps them avoid forgetting to deposit their paycheck (33%). The share of Gen Y.1 individuals citing each of these factors is significantly higher than for individuals in other population segments. Gen Y.1 users are also more likely than other population segments to mention that Direct Deposit helps them to save or budget to pay bills.

Notably, just 49% of Gen Y.1 — as opposed to 62% of the overall employed population — report they first heard about Direct Deposit from their employer. Instead, and associated with the social orientation of this segment, 23% of Gen Y.1 consumers say they first learned of Direct Deposit from a friend (vs. 10% of all employees). As well, even though Gen Y.1’s awareness of Direct Deposit is reasonably strong at 81% of nonusers, the fact remains that more than a quarter of Gen Y.1 (29%) do not use the service. A leading justification for consumers in this segment to not use Direct Deposit centers on the perception that checks are more convenient to deposit or cash: 43% of Direct Deposit holdouts in Gen Y.1 entertain this belief. Consumers in Gen Y also tend to have a higher use of non-bank check cashing services than average. In addition, about a third (34%) of Gen Y.1 say they prefer paper for record-keeping purposes, and another third (32%) say their employer does not offer Direct Deposit.

Gen Y.1 thus profiles as consumers who should be educated about Direct Deposit through less traditional channels, including social media, while still relying upon engaged employers to encourage and drive utilization. A focus on the use of digital options such as smartphones, tablets, and desktop devices to view and manage Direct Deposits, to pay bills, to access payroll information and to manage record-keeping will help Gen Y.1 users understand how Direct Deposit of payroll offers them value and utility.
Gap Segment: Low-income Consumers

The low-income population segment in the U.S. overlaps significantly with Gen Y: individuals aged 18 to 34 comprise 59% of households earning less than $25,000 per year, 52% of households earning below $35,000 per year, and 43% of households with under $50,000 in annual income. Many lower-income workers are also single: More than half (53%) of those earning below $35,000 and 42% of those with incomes under $50,000 a year are unmarried. As well, the low-income segment uses a variety of financial services options and providers, and is receptive to alternatives that are commonly used to typify the “underbanked”: More than a quarter (28%) of households earning $50,000 or less have bought or cashed a money order issued at a place other than a bank, and 19% have used a nonbank check cashing service. Nevertheless, 95% of households earning below $50,000 a year have a checking account and therefore have access to traditional — as well as to alternative — financial services.

Overall, 70% of individuals with incomes below $35,000 a year, and 73% of those with annual household incomes up to $50,000 per year currently use Direct Deposit services. For this group, major incentives for using Direct Deposit include faster access to funds delivered using Direct Deposit — 3 in 5 households (60%) earning below $50,000 annually say this is desirable — and that the service is free (49%).

Despite these benefits, up to 30% of low-income individuals do not use Direct Deposit. A primary reason cited by this group is the lack of availability of Direct Deposit through their employer: up to 53% of low-income nonusers who are familiar with Direct Deposit say their employer does not offer it. Lower income consumers are more likely than average to work for a small company or an individual: As many as 52% do so vs. 39% of all employed consumers. This group is also more likely than others to be employed in the hospitality or retail sectors. Secondarily, low-income consumers indicate a preference for paper checks for record-keeping purposes: 34% of those with household incomes below $50,000 per year mention this factor as a primary reason for not using Direct Deposit.
While some of the strategies used to market Direct Deposit of payroll to Gen Y.1 may appeal to low-income consumers, the low-income segment has its own unique characteristics suggesting that diversification will be valuable. Lack of access to Direct Deposit through the low-income segment’s employers indicates that outreach to key industry groups, as well as smaller employers, will be essential. Options such as depositing to prepaid cards or splitting deposits will provide flexibility to a segment that is receptive to alternatives and also likely to be interested in improved management of its money. Education on the value of faster access to pay and on ways to track deposits and manage payroll and other records will also be essential to driving use of Direct Deposit among consumers in this group.

**Gap Segment: Part-time Employees**

Part-time workers are uniquely challenging because 31% of this group do not use Direct Deposit, even though 81% are aware of it. Part-timers are primarily female (64%) and two-thirds (66%) are age 35 or older. More than half (51%) personally earn less than $25,000 per year, and 74% earn below $50,000 annually. They less likely than full-time workers to be the financial decision makers in their households: 59% of part-time vs. 70% of full-time workers are primarily responsible for managing their household’s finances. Part-time workers are also more likely to work in small firms or in the hospitality and retailing industries.

Part-time workers who are paid by Direct Deposit are generally motivated by the same factors as other users. These include faster access to pay (51%), that the service is free (48%), that it is an employer requirement (39%), that Direct Deposit minimizes the risk of losing a paper check (39%), and that Direct Deposit is safe (36%). Comparatively, 38% of part-timers who are familiar with Direct Deposit but do not use it say that their employer does not offer the option, and 33% say they prefer paper checks for record-keeping purposes. These and other reasons for not using Direct Deposit closely follow general market perceptions of other employed nonusers of the service.
To engage part-time workers in using Direct Deposit of payroll, an essential need is the creation of tools and strategies to help small-business, hospitality, and retail employers participate in offering Direct Deposit options. Functional challenges associated with tracking and paying part-time wages by Direct Deposit should also be evaluated and addressed. Opportunities, such as same-day payroll, to tackle the challenges of paying part-time workers should be emphasized, and options to deposit to prepaid and payroll cards should be incorporated into employer-focused campaigns. Outreach to individuals should include education about splitting deposits into multiple accounts, depositing to prepaid or payroll cards, and clarifying ways to use digital channels to access and manage funds.
RECOMMENDATIONS FOR KEY STAKEHOLDER GROUPS

Critical stakeholder groups — including financial institutions, employers and consumer-facing organizations — can build use of Direct Deposit of payroll by addressing the needs of the key gap population groups, eliminating misconceptions, and highlighting targeted value messaging about Direct Deposit.

Financial Institutions

Financial institutions have an important role to play in both attracting and retaining users of Direct Deposit. Just over a fifth (21%) of consumers that use or are aware of Direct Deposit indicate that they first learned of the option from their bank or credit union. Direct Deposit is often a baseline service associated with checking account products that enables a waiver of fees if the account receives regular Direct Deposits. Ultimately, encouraging this practice benefits not only the consumer but also the financial institution: 55% of employed consumers will stay with a financial institution in part because they receive Direct Deposits from their employer into their bank account (See Figure 6). Likewise, employees paid by Direct Deposit report their satisfaction with the primary financial institution they use for Direct Deposit services rates an average of 9 points on a 10-point scale.

Direct Deposit of Payroll Encourages Longer Customer Relationships With Financial Institutions

Figure 6: Consumers Who Are Satisfied With Their Current Financial Institution Cite Direct Deposit via ACH as a Factor

Q27B. Which of the following factors motivate you most to continue your relationship with your current bank(s) or credit union(s)? "My Direct Deposit is set up with my employer’s payroll” shown.

Base: All employed consumers by age group

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August 2015; n varies: 116-2,002
Other benefits also can be shown to accrue to financial institutions that sponsor Direct Deposit. Engaged Direct Deposit users are four times more likely to cite the receiving depository bank as their primary financial institution, and they hold an average of 2.7 times more financial accounts or services with that financial institution than does the average account holder. Issuers with active prepaid card or payroll card programs can expect to yield similar benefits by driving Direct Deposit to cards as an alternative to checking accounts.

Recommendations: Banks and credit unions can continue to engage customers with their institution by encouraging the use of Direct Deposit for new and existing account holders. In addition, financial institutions should:

- Reinforce the “simple and safe” value proposition by ensuring that Direct Deposit processes are clear, straightforward, and timely and that they protect the consumer’s confidential information.

- Communicate concrete examples of consumers realizing “simple and safe” outcomes using Direct Deposit.

- Enumerate other benefits such as fast access to pay, control of finances, and the ability to save when using Direct Deposit.

- Establish programs to educate and recruit employer categories less likely to offer Direct Deposit, including firms in the hospitality and retailing industries, businesses with part-time employees, and small companies with fewer than 100 employees.

- Examine educational and setup processes for small businesses and for firms in key industry groups — such as hospitality and retail — to identify opportunities to streamline practices, improve information and highlight direct benefits for the business such as same-day payroll, faster stop payment or reversal processing, filing corrections, and improved financial management.

- Highlight benefits to employers offering Direct Deposit — such as improved expense control and cash flow management, a reduced need for check-related services, and improved employee satisfaction.

- Encourage or guide the development of business practices for employers to standardize the delivery, timeliness, and clarity of the payroll/paystub information that is provided to employees who are paid by Direct Deposit.
• Enhance both business-focused and employee-focused information for employers. Strategies should be designed to dispel misinformation.

• Improve tools and training for employee sign-up to eliminate misunderstanding and provide clarity and consistency of communication with potential Direct Deposit recipients.

• Expand the concept of a Direct Deposit “account” to incorporate relevant card products; provide education to consumers and employers to encompass cards and to expand the concept of card reload to incorporate Direct Deposit.

• Standardize options such as split deposit and card reload so they can be offered as common, rather than exception, practices.

• Incorporate content about using Direct Deposit — and other types of direct payment, including bill payment — into web and mobile channels as well as into employer-focused materials.

Employers

Employers are the central positive influence on the use of Direct Deposit of payroll services. Nearly 3 in 4 Direct Deposit users (73%) say their employer first made them aware of the Direct Deposit option, and 64% say their employer’s practices influenced their choice to use Direct Deposit. Close to 2 in 5 Direct Deposit users work for an employer that mandates Direct Deposit, and an additional 32% have an employer that encourages the use of Direct Deposit of payroll.

The flip side of this paradigm is that employers can deter usage if they are uninformed or do not offer Direct Deposit. Among the 18% of U.S. workers who do not currently use Direct Deposit, 21% are unaware of the option, and 37% of those who are informed about Direct Deposit say their employer does not offer the service. As well, misperceptions about sign-up practices and convenience indicate that additional education could benefit both employers and potential consumer recipients of Direct Deposit.

Recommendations: To increase the use of Direct Deposit, employers should focus on the following:

• Incorporate messaging that is focused on the speed and ease of Direct Deposit, the immediacy of access to funds, the ability to use online or...
mobile services or to split deposits to improve money management, and the ease of using digital tools for record keeping.

- Improve tools and training for employee sign-up to eliminate misunderstanding and build clarity and consistency in communication with potential Direct Deposit recipients. This information should include education on how employees can access their account and routing numbers through their financial institutions’ websites, as an alternative to using a physical check for sign-up purposes.

- Review and improve practices that may restrict employees’ timely access to payroll information. Add or enhance digital channel options — for smartphone, tablet, and desktop devices — to access and manage this information.

- Provide education on managing payment, payroll, and tax records in an electronic environment.

- Work with financial institution partners to ensure Direct Deposit updates and related data are provided to employees in a clear and timely manner.

- Standardize options such as split deposit and card reload so they can be offered as common, rather than the exception, practices.

- Reinforce the “simple and safe” value proposition by ensuring that sign-up and payroll records processes are straightforward and that they protect employees’ confidential information.

- Establish a social media strategy aimed at Gen Y.1 and designed to build awareness while dismantling misconceptions the group holds about Direct Deposit.

**Consumer-facing Organizations**

Consumer-facing organizations that focus on or address the financial services needs of consumers through research, education, legislation/regulatory guidance or advocacy — such as the Consumer Federation of America, the Consumer Bankers Association, or the Consumer Financial Protection Bureau, and those focused on financial inclusion — also can support the expansion of Direct Deposit in a variety of ways.
**Recommendations:** Consumer-facing organizations can help to build the use of Direct Deposit by focusing on the following:

- Evaluating various communication points (websites, brochures, etc.) and seeking to streamline and augment these to drive targeted and effective consumer use of Direct Deposit.

- Providing educational information to help eliminate misconceptions about Direct Deposit and increase the adoption of electronic payment options.

- Educating consumers on the financial benefits of receiving their pay via Direct Deposit, including the availability of funds the morning of payday for withdrawal or to pay bills and the cost savings of being paid via Direct Deposit (free) vs. charges incurred for cashing paper checks.

- Focusing on Direct Deposit as an integrated strategy, to build on consumer use of Direct Deposit in specific applications (such as Social Security or tax payments) as a means of driving sound money management practices and generating use of Direct Deposit of payroll or other payment types.

- Driving effective incorporation of Direct Deposit into digital financial management tools and practices.

- Adding communication outreach, such as a defined social media strategy to address Gen Y.1 recruiting, education focused on Direct Deposit’s benefits and lack of cost to low-income consumers, or outreach on using checking account alternatives for Direct Deposit such as prepaid or payroll cards.

- Encouraging the use of best practices by employers and financial institutions to engage consumer users in Direct Deposit, protect individuals’ confidential information, provide timely and accurate deposit information, and enable efficient access to payroll and tax records.
METHODOLOGY

Javelin Strategy & Research, a Greenwich Associates LLC company, conducted a 15-minute online survey in August 2015 among a sample of over 2,000 consumers specifically targeted to represent the Gen Y (aged 18 to 34) population and the segment of consumers aged 35 and older. Gen Y groups were substantively oversampled to provide rich insight into the segment and its subgroups. Overall, the sample has a margin of sampling error of ±2.2 percentage points at the 95% confidence level. Survey participants were required to be employed on either a full-time or part-time basis, providing them an opportunity to receive Direct Deposit of payroll from their employers. The resulting sample was weighted to reflect the age and gender distribution of employed consumers in the general population.

Survey Sample Composition

<table>
<thead>
<tr>
<th>Segment</th>
<th>Sample Size</th>
<th>Weighted Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>By Age</td>
<td></td>
<td></td>
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<tr>
<td>Gen Y - Aged 18 to 34</td>
<td>1,002</td>
<td>611*</td>
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<tr>
<td>18 to 24 - Gen Y.1</td>
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<td>142</td>
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<tr>
<td>25 to 34 - Gen Y.2</td>
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<td>35 and Older</td>
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<td>116</td>
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<tr>
<td>Female</td>
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</tbody>
</table>

* Numbers do not add exactly due to rounding of weighted data.
ABOUT JAVELIN

JAVELIN, a Greenwich Associates LLC company, provides strategic insights into customer transactions, increasing sustainable profits and creating efficiencies for financial institutions, government agencies, payments companies, merchants, and other technology providers. JAVELIN’s independent insights result from a uniquely rigorous three-dimensional research process that assesses customers, providers, and the transactions ecosystem.

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ABOUT NACHA

Since 1974, NACHA — The Electronic Payments Association — has served as trustee of the ACH Network, managing the development, administration, and rules for the payment network that universally connects all 12,000 financial institutions in the U.S. The Network, which moves money and information directly from one bank account to another, supports more than 90% of the total value of all retail electronic payments in the U.S. Through its collaborative, self-governing model, education, and inclusive engagement of ACH Network participants, NACHA facilitates the expansion and diversification of electronic payments, supporting Direct Deposit and Direct payment via ACH transactions, including ACH credit and debit payments; recurring and one-time payments; government, consumer, and business transactions; international payments, and payments plus payment-related information. Through NACHA’s expertise and leadership, the ACH Network is now one of the largest, safest, and most reliable systems in the world, creating value and enabling innovation for all participants. Visit nacha.org for more information.

ABOUT AMERICA SAVES

America Saves, a campaign managed by the nonprofit Consumer Federation of America, uses the principles of behavioral economics and social marketing to motivate, encourage, and support low- to moderate-income households to save money, reduce debt, and build wealth. America Saves encourages individuals and families to take the America Saves pledge and organizations to promote savings year-round and during America Saves Week. Learn more at americasaves.org and americasavesweek.org. The Consumer Federation of America is a nonprofit association of more than 270 consumer groups that was established in 1968 to advance the consumer interest through research, advocacy, and education.