



A startup's ambitious goal: Put check cashers out of business

By Kevin Wack

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For millions of American workers, cashing a paper paycheck is still an ingrained biweekly ritual.

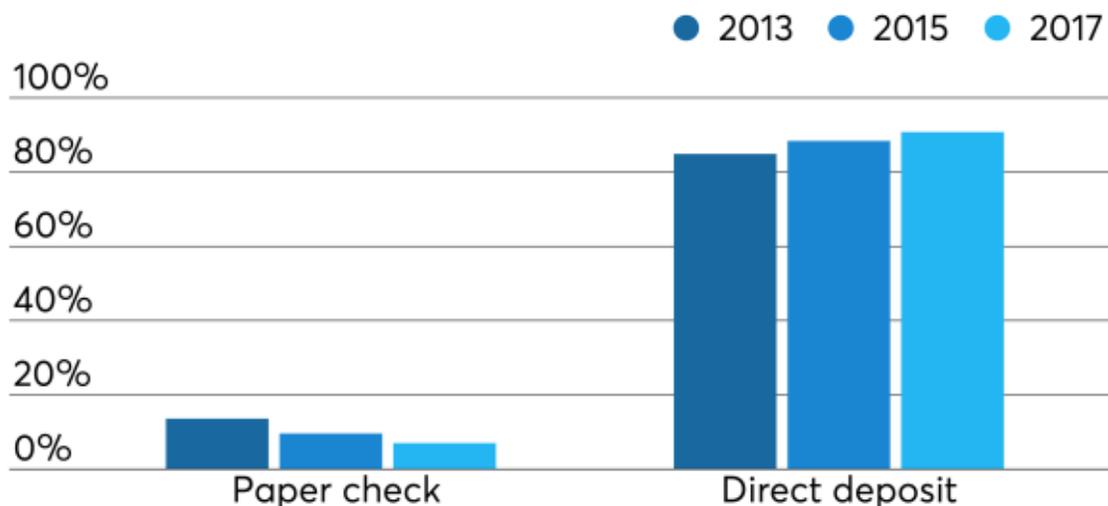
But this old-fashioned habit can be costly — both for employees who regularly pay check-cashing fees and for their employers, which incur substantial additional payroll costs. The problem is particularly acute in low-wage industries such as farming and fast food, where many employees have trouble maintaining bank accounts.

WiseWage, a newly launched nonprofit organization based in North Carolina, is seeking to hasten the demise of the paycheck. Its premise is that employers can be part of the solution for the estimated 9 million U.S. households that lack access to the banking system.

The firm recently opened an online portal that serves as a clearinghouse for employers on how to bring direct deposit to more of their workers. That might involve establishing a payroll card program, or it could entail referring employees to the WiseWage website, where they can apply for low-cost debit cards from Regions Bank, the mobile banking startup Varo Money and other companies.

The problem with paper

Few U.S. businesses issue paper checks, but they are typically in low-wage industries in which workers lack bank accounts and are often subject to check-cashing fees



Source: American Payroll Association

In other words, WiseWage.org is an aggregation site in the vein of Credit Karma or LendingTree, but with an emphasis on deposit products for the unbanked.

"We want to keep employed workers out of check cashers, and save them time and money," said Patrice Peyret, an adviser to WiseWage. "And we want to give them a card that is going to be a good solution for them."

The challenge for this nonprofit startup is knottier than it might seem to those of us who barely remember life before direct deposit.

Many Americans have left the banking system after growing disillusioned with unpredictable account fees. Check cashers may be expensive, but at least consumers know what they will be paying.

"The primary barrier to more traditional banking for these consumers is access to affordable products," Colin Walsh, Varo Money's CEO, said in an email.

The debit cards offered on WiseWage do not have overdraft fees, and they are designed

to be affordable to folks in low-wage jobs. For example, the Regions Now prepaid card carries a \$5 monthly fee, but the charge is waived when the customer makes direct deposits of at least \$500 per month.

“So the card is a popular option for people who perhaps have been using check-cashing services or other alternative financial providers,” Jody Wigley, a senior vice president at Regions, said in an email.

WiseWage collects referral fees from the financial institutions whose products it advertises.

But unlike other comparison-shopping sites, WiseWage does not get paid unless the customer activates the card and starts using it. The goal is to align the nonprofit’s mission with the interests of its partner financial institutions.

“It’s an experiment,” said Adam Rust, the managing director of WiseWage. “The problem of the unbanked has been around for a long time.”

Before founding WiseWage, Rust worked as a consumer advocate at Reinvestment Partners in Durham, N.C. He was also the author of the [BankTalk blog](#), which was often critical of the providers of high-cost financial products.

Becoming an entrepreneur, even though he is still in the nonprofit realm, has been a transition. “I’m seeing things from a little bit of a different angle. I’m enjoying it,” Rust said.

Achieving scale in the business will be a challenge. WiseWage is targeting small employers, and it will need to find lots of them in order to make a substantial impact.

Small businesses traditionally have been reluctant to embrace electronic payments — in spite of the savings they might achieve over time — because of the cost and complexity of setting up a program.

Payroll card programs, in which employers distribute wages on plastic cards that they distribute to their workforce, require employers to comply with various legal requirements. They can also entail a substantial amount of paperwork.

"A traditional payroll program, if you've got to stand it up, has some overhead to it," said John Thompson, senior vice president at the Center for Financial Services Innovation.

By encouraging employers to nudge their workers to sign up for prepaid cards, WiseWage is selling simplicity. Once companies refer their unbanked workers to the portal, it is up to the employee to open an account and enroll in direct deposit.

Nevertheless, Bill Dunn, director of government relations at the American Payroll Association, urged businesses to exercise caution.

"If the employer is encouraging the employee to use a certain payment method, then there's a question about whether that might bring that card under the rules of a payroll card," he said. "I think it's really something that they want to talk to their corporate counsel about."

Rust acknowledged that if employers do not offer a choice of accounts, they could run afoul of the law in certain states.

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"WiseWage solves that problem by offering a choice of accounts and by offering accounts with more than one way to load funds," he said in an email. "Because we think this is important, we have language on the site that instructs employers not to mandate the choice of an account."

Last year, 7% of American workers received their pay on a paper check, according to a survey by American Payroll Association. While that percentage is down from 13.6% in 2013, it still represents a significant cost for employers and their workers.

"I think a lot of people don't realize how expensive it is to be unbanked," Rust said.



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