

CAXTON

APRIL 2023, REPORT FROM CAXTON

Payroll On Demand:

Pressures, Challenges and the Path to Dynamic Service

How payroll professionals can usher
their clients into the ‘instant era’



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FOREWORD

Payroll professionals are increasingly demanding faster and smarter ways to work – to **excel at the job** they love and **support those employees** worst hit by an escalating cost-of-living crisis.

It's sometimes difficult to believe that just a year has passed since the UK emerged from its last COVID lockdown. It was a challenging time for many businesses – but also one in which payroll finally stepped out of the shadows and took centre stage, with vital work to support complex furlough payments.

Now the industry stands at a crossroads. The shift to hybrid working has arguably narrowed the boundaries between corporate and consumer worlds, and therefore increased the expectations of workers for more seamless and immediate payment experiences. If home working staff can access software on-demand, why can't they access earned pay at any point of the month? With unemployment at near-record lows,^[1] employers unwilling or unable to provide these capabilities may find talent acquisition increasingly challenging.

At the same time, payroll professionals themselves are increasingly demanding faster and smarter ways to work – to excel at the job they love and support those employees worst hit by an escalating cost-of-living crisis. Their bargaining power is also increasing, as demand for payroll workers remains high.

At such a volatile and momentous time for the sector, we decided to take a closer look. This study delivers insight from both payroll professionals and the employees they serve, to diagnose the challenges facing the industry today, and the role technology should play in its future.



Rupert Lee-Browne
CEO and Founder - Caxton

FOREWORD

continued

For many, BACS is still synonymous with payroll. But increasingly it's an out-dated, time-consuming and error-prone way for businesses to pay their workers. Employers should take note of the negative impact, not only on payroll staff but also the wider business. On average, the former estimate that two-fifths (41%) of their time at work is spent fixing payroll issues rather than doing their day-to-day work. And one in 10 workers say they are regularly paid late or incorrectly. It's perhaps unsurprising, therefore, that nearly three-quarters (72%) of payroll professionals argue that BACS on its own is no longer suitable for a modern business.

The bottom line is that the more companies invest in their people, the more likely they are to succeed.^[2] By arming payroll staff with the right technologies, they could take a massive step forward – not only in optimising the function's productivity, but also attracting and retaining the brightest talent. We found that a massive 91% of payroll professionals now regularly receive requests for advance payment of wages, for example.

A dynamic, digitally transformed payroll function should sit at the heart of any successful business. It's time to open the door to a new instant era.

Enjoy the read.

Rupert Lee-Browne
CEO and Founder - Caxton

“

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THE REPORT IN NUMBERS

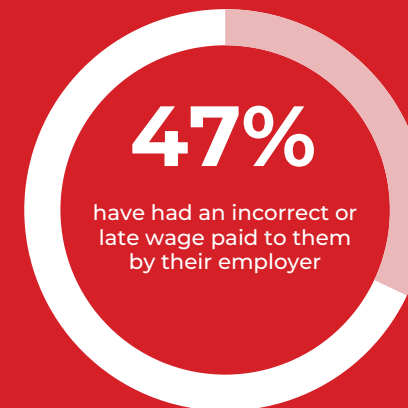
This report was designed to deliver industry insight into the payroll sector in 2023 – from two perspectives, the payroll professionals themselves, alongside employees across a split of sectors

To inform the insights shared in the document, Caxton conducted two separate research studies. The first polled 260 finance professionals responsible for payroll – both in an in-house and bureau setting. The second survey was conducted amongst 2,020 consumers in full or part-time employment.



1/3

of BACS users say they have to do a follow-up payment run almost every time



The online surveys were conducted by Walr. The research fieldwork took place between February 27 – March 2, 2023.

CHAPTER ONE

The problem with payroll today



CHAPTER ONE INTRODUCTION

Evolution of Payroll Processing: From BACS to Faster Payments and CHAPS

Payroll as we know it today can arguably be traced back to the turn of the 19th century, when the introduction of an income tax in the UK forced businesses to enhance their payment documentation and processes. While the industry has matured somewhat since then, for much of the past half century there was only one game in town for processing employee or client payments. The bank-to-bank transfer system known as BACS (Bankers' Automated Clearing System) was revolutionary when it was introduced back in the late 1960s. It offered a simple, electronic way to pay salaries, benefits and pensions – helping it to corner a lion's share of the market.

But times change, and what was once state of the art has more recently begun to look distinctly outdated. In-house payroll, accounting firms and payroll bureaus are increasingly looking to alternatives like Faster Payments for a speedier, more flexible option. And although relatively expensive, CHAPS (Clearing House Automated Payment System) is sometimes also favoured for one-off, time-sensitive payments.

1960s

BACS revolutionized payroll processing in the late 1960s and cornered a lion's share of the market.

CHAPS

is sometimes preferred for one-off, time-sensitive payments, despite being relatively expensive.

Beyond BACS

The payroll processing industry has evolved over time, and BACS is no longer the only option available



CHAPTER ONE

The challenges of an instant world

Increasingly, BACS is not fit for purpose in a 21st century payroll environment.

In fact, 72% of BACS users we polled agree that, on its own, the system is not suitable for modern payroll. A fifth (19%) strongly agree. BACS payments are not just slow – taking three working days to process versus a couple of hours for Faster Payments – but they are inflexible, with strict cut-off times. This can ramp up the stress levels for payroll staff. Three-quarters (76%) of respondents told us they find the period around payroll each month to be stressful – including 13% who find it very stressful. A third of BACS users say they have to do a follow-up payment run almost every time.

This simply isn't aligned with the expectations of payroll staff and the workers they're paying. Today's employees are also consumers, who increasingly live their lives in a digital world of Apple and Google Pay, omnichannel e-commerce, on-demand streaming and gaming, and slick social media and messaging apps. They demand seamless user experiences in their personal and professional lives. And with much of the corporate world switching to cloud-based SaaS applications, payroll is increasingly in danger of being an outlier.

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Just paying employees 'accurately and on time' is no longer good enough. Businesses need to convert the mundane event of getting paid into a modern, on-brand, flexible and helpful experience.

Simon Bocca
CEO - PayCaptain



CHAPTER ONE

The challenges of an instant world continued

BACS is slow. While a plurality (49%) of users say it takes three days for a payroll run from start to finish, a quarter (24%) claim they allow as many as 4-7 days. But speed aside, it can also be prone to errors – which add time and cost, and impact payroll productivity:



Payroll professionals estimate that, on average, almost half (41%) of their time at work is spent fixing payroll issues rather than doing their typical job



Over two-fifths (42%) work overtime or additional hours to ensure they can finish their work



86% claim they've suffered a BACS-related failure

It's concerning in this context that a third (33%) of survey respondents say they don't have a back-up to their BACS system,

Just 12% use Faster Payments exclusively. This could be inviting unnecessary extra risk, and the ire of payroll professionals and workers, in the event something goes wrong.

CHAPTER ONE

The Great Payroll Resignation?

Payroll failures can impact more than just payments: they can drive away top talent.

The cumulative impact of the above is not just to frustrate payroll professionals and company employees, and add time and cost to the payment process. It could also impact the ability of businesses and bureaus to attract and retain payroll talent. Of those we interviewed about the consequences of payroll failures:

27%

say they regularly tell their manager about the negative impact this has on their workload

1 in 20

say it makes them want to leave their job

This would be worrying at the best of times, but particularly so at a time when industry professionals are in extremely high demand, as many re-evaluate their careers as part of a "Great Resignation". According to one study, payroll salaries surged by up to 15% in 2022 as companies vied to attract the best talent.^[3]

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Knowledge companies are competing to attract and retain the most talented employees in the current climate. With demand so high to secure new people, unreliable processes and attitudes around pay could mean losing out in a competitive job market. Offering a more holistic payroll experience and flexible options from the outset not only demonstrates a forward thinking and supportive approach to pay but also gives reassurance to employees and prospective hires that you offer an inclusive, innovative culture."

Jane-Emma Peerless
Director of People - Caxton



CHAPTER TWO

How outdated payroll processes are impacting employees



CHAPTER TWO

Speaking in abstractions about the payroll industry can belie the importance of pay day to most employees.

It has become only more so as the cost-of-living surges. Inflation remained persistently high at the start of 2023, with double-digit figures driven by surging energy prices and supply chain issues.^[4] Rising interest rates are adding to the economic gloom for both employers and their staff. After the combined healthcare and financial crisis of the pandemic, many employees continue to be buffeted by forces out of their control, with potentially life-changing consequences.

In this context, failing to get payroll right could have a major negative impact on corporate reputation, the morale of payroll staff, and the job satisfaction and health of the wider employee base.

“

Financial worries have a well-known link to mental health. Being stressed about money impacts self-esteem and work performance. Brand image and corporate reputation go hand in hand and employees are at the heart of that.”

Lauren Smith
Chief Marketing Officer
- Caxton



CHAPTER TWO

Could a better approach to pay help to avoid a financial and mental health crisis?

How bad have things become? Our poll of 2,020 adults in full- or part-time employment found that nearly half (47%) have been paid late or incorrectly by their employer – with over one in 10 (14%) saying it happens regularly. Many have to wait some considerable time to have the issue resolved: 11% claim this happens within a month, while 13% have to wait until their next pay cheque.

In this context, payroll isn't just an important cog in the machinery of business – it plays a critical role in the wellbeing of staff.

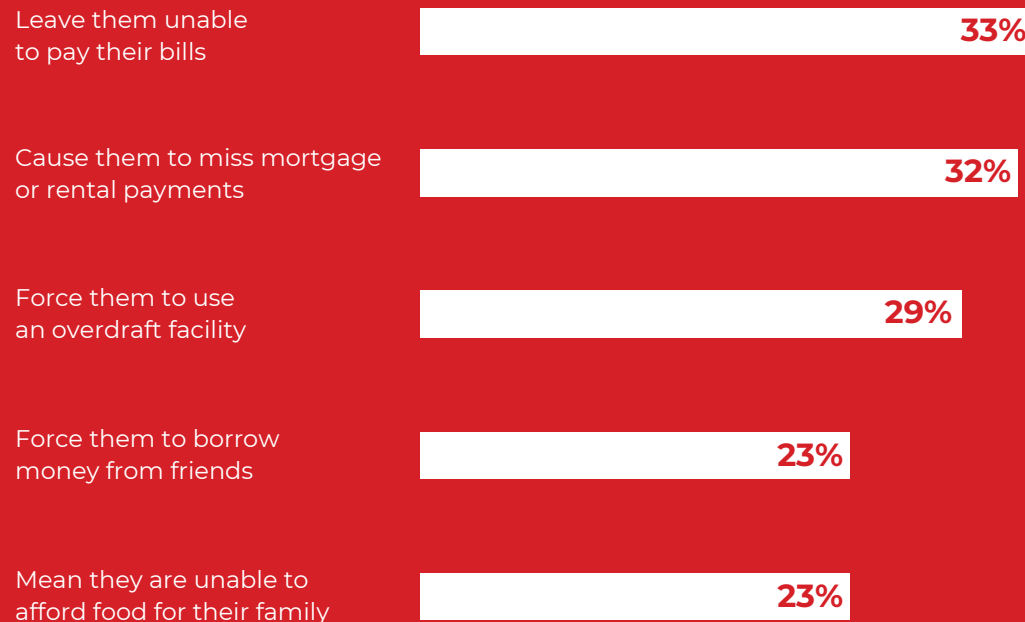
47%

of adults in full- or part-time employment have been paid late or incorrectly by their employer

79%

of workers expect their employer to help with their financial wellbeing.^[5]

The impact of these late payments and errors can't be underestimated. Respondents say that if a situation like this arose it could:



32% of workers could be unable to pay their mortgage on time due to late pay.

CHAPTER TWO

The bigger picture

In this way, payroll is not just vital to employee morale but also business growth. With over two-fifths of workers aged 18-34 seeking new jobs in 2023, the race for talent is on.^[6] Prospective employees arguably have more bargaining power than at any time in recent memory. And they don't just want payroll that pays accurately and on time. They're also looking for more progressive features, like earned wage access (EWA) which allows them to access their earned pay at any point in a given month, rather than have to wait until pay day.

In fact, over half (57%) of those we polled say that when considering a new employer, they'd choose one that offers EWA over one that does not. A further three-quarters (75%) claim they'd find the feature beneficial, with 6% saying it would be invaluable. Yet just 11% of organisations we surveyed have begun offering EWA to support their employees since the start of the cost-of-living crisis. There's a clear opportunity for businesses to differentiate in the jobs market on the quality of their payroll services.

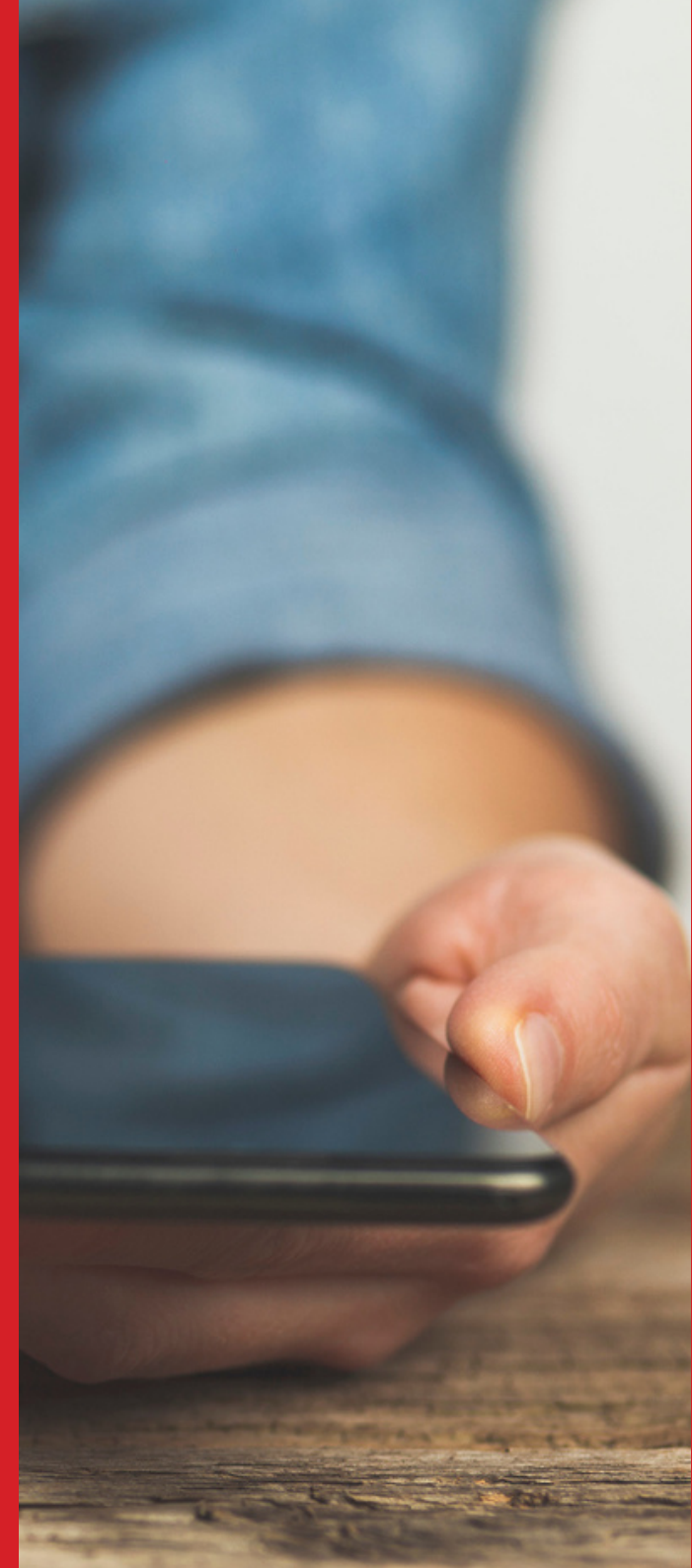
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CONCLUSION

A new 'instant' era for payroll



CONCLUSION

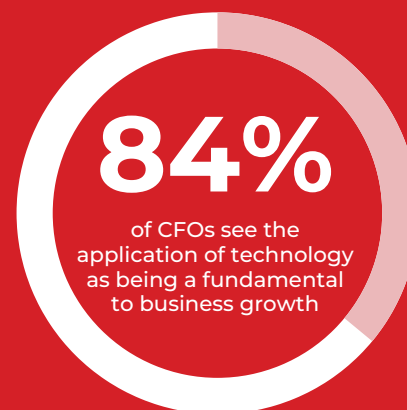
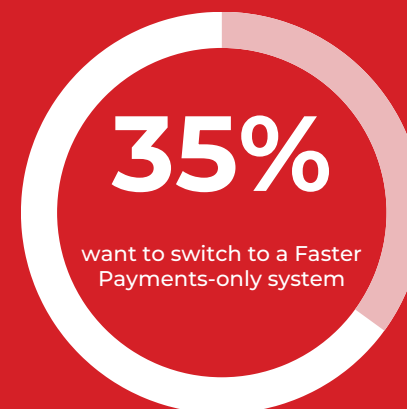
The Failures of BACS and the Need for Change in Payroll Systems

Payroll is an indispensable part of any organisation. But too often it's failing the people who need it most, letting down the businesses who rely on it, and causing a tremendous amount of frustration for payroll professionals. It's clear that BACS is no longer the force it once was.

But technology innovation can take payroll even further. By enhancing their payroll software with next-gen fintech offerings, in-house teams, accounting firms and bureaus can enhance speed, security and visibility – while delivering frictionless payments 24/7/365. The more sophisticated solutions in this space will also support global payments, and link to expanded offerings such as expense management, FOREX and embedded finance. There's no need to worry about integration: many solutions will integrate with any cloud payroll provider, and even allow customers to use their current BACS files to access the Faster Payments network.

The vast majority (84%) of CFOs see the application of technology as being a fundamental to business growth.^[7] When done right, it can meet the heightened digital demands of today's payroll professionals, and empower them to support employees at a time of growing financial strain. It can help to build a happier more productive workforce,^[8] and burnish a corporate reputation for putting employees first.

Now is the time to transform payroll into modern, dynamic function.



It's clear that BACS is no longer the force it once was.

SOURCES

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CAXTON - AN OVERVIEW

Every payment. One platform

Caxton is a multi-award winning fintech payments company which processes tens of millions of international and domestic transactions each year.

A founding pioneer in the payments industry, Caxton is regulated by the Financial Conduct Authority and upholds stringent cybersecurity standards to create easier, faster, and more client focused payment technology.

Caxton's API-driven platform delivers the global payment needs of businesses and individuals alike, across a range of sectors. Underpinned by 20 years of experience helping UK SMEs. We help businesses of all sizes make high-volume payments easily – so that everyone is paid on time, every time. Today hundreds of thousands of people trust Caxton to deliver their financial transactions – both domestically and internationally.

Helping clients combine their payment needs, we work with businesses to find tailor-made solutions to their business needs, including payroll payments, expense management, FX, bulk payments, international supplier payments and more.

“

The Caxton Payroll Payment Solution was born from customers telling us there was a need for less friction and more flexibility for payroll payments.

Our state of the art API taps into your existing processes to deliver payroll 24/7/365.

Ahmed Dekmak
Chief Technology Officer
- Caxton

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