

PayPal and the Financial Wellness Initiative

Zeynep Ton and Sarah Kalloch

Employees are our most important stakeholder group and most critical competitive advantage. With happy employees, we can serve customers better, and when we serve customers better, regulators are happy, and if customers are happy and regulators are happy, then obviously shareholders over the medium term are happy as well.

- Dan Schulman, President and CEO, PayPal

In 2015, when Dan Schulman became CEO of PayPal, a digital payments company, many people thought of it as the button they clicked when paying for online purchases.¹ In 2015, PayPal embarked on a new mission: using technology to democratize financial services. In Schulman's words, it would "turn the paradigm that it's expensive to be poor upside down by using technology." Universal financial health would come to define the mission, vision, and values of PayPal's new era.

But in May 2019, Schulman was surprised to find that a significant number of PayPal's own employees were financially insecure. An assessment of entry-level and hourly employees showed that 65% of respondents reported that they ran out of money between paychecks. Schulman noted, "Our mission is to help people gain financial health. But inside our company, we didn't have financial health. Those two things are fully at odds with each other." Over the next six months, PayPal created a comprehensive program to improve employees' financial health, which included reducing healthcare costs, granting stock awards to all employees regardless of level or tenure, raising wages where appropriate, and providing access to personal financial education.

Ensuring employees' financial health was part of PayPal's approach to multistakeholder capitalism. "Corporations don't exist in a bubble," Schulman explained. "We are part of our overall community.

This case was written by Professor Zeynep Ton and Research Affiliate Sarah Kalloch. MIT Sloan cases are written in the past tense. This case is set at the end of 2021.

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We're part of our overall economy. We're a part of our political system. And the stronger all of these things are, the stronger our company will be over the medium and long term." Schulman wanted more CEOs to adopt the concept of stakeholder capitalism, with an emphasis on employees.

The Digital Payments Industry

Digital payments referred to transactions made online or in-store on consumer mobile apps like ApplePay and digital devices such as card readers. Transactions included point-of-sale (POS) purchases, peer-to-peer payments, international remittances, and lending.² Payments could be funded by a bank account, with a debit or credit card, a prepaid cash card, or even cryptocurrencies. Aside from their convenience and efficiency, digital payments enabled secure and auditable financial transactions.³

As of January 2021, the \$6.7 trillion (by transaction value) global digital payments industry was expected to grow at a CAGR of 14% between 2020 and 2025, reaching over \$10.5 trillion. China and United States were the two largest markets, accounting for 46% and 19% of 2020 transaction value, respectively.⁴

The Covid-19 pandemic that arrived in the U.S. in early 2020 accelerated adoption of digital retail payments. More retailers opened e-commerce sites. Restaurants quickly adopted take-out options that relied on digital payments. Supermarkets adopted contactless and autonomous payment; by scanning a QR code on a smartphone, customers could skip the checkout line. Stuck at home, millions of people shopped through their electronic devices. The percent of U.S. consumers using mobile proximity paymentsⁱ grew 32%, with volume growing 19%. McKinsey's 2020 annual Digital Payments Consumer Survey found that 78% of U.S. consumers used some form of digital payment, up from 72% in 2016. The number using two or more types of digital payment grew from 45% to 58%. As of January 2021, e-commerce in the U.S. was predicted to account for 19% of total retail sales by 2024, up from 9% in 2018.⁵

For POS purchases, retailers including Alibaba, Amazon, Walmart, and Target had their own payment systems. Customers could also use digital wallets, such as Apple Pay, Google Pay, and Samsung Pay, developed by cell phone manufacturers. Traditional financial services companies created new click-to-pay options. Fintech companies, including Shopify and Block (formerly Square), created payment platforms for small and medium-sized businesses.

The peer-to-peer payment companies included Zelle (owned by several large banks, including Bank of America and JPMorgan Chase), Square Cash, and PayPal's Venmo. Between 2018 and 2021, the number of peer-to-peer users in the United States grew 34% to over 90 million. (See **Exhibit 1**.)

ⁱ Mobile proximity payments are mobile payments in which the payer and the payee are in the same location and their devices communicate through a proximity technology such as Near Field Communication (NFC), Quick Response (QR) codes, or Bluetooth.

In 2020, the international remittance market—money transfers sent to friends or relatives in other countries—was over \$700 billion,⁶ 75% of which went to low-income countries.⁷ Digital remittances, as a percent of total remittances, were expected to grow at a healthy rate.⁸ Western Union, a global leader in remittances, saw its digital money transfer revenue grow 38% in 2020 to over \$850 million, even though total revenues fell by 9% that year.

In 2020, POS lending to consumers (“buy now, pay later”) accounted for \$97 billion of global ecommerce transactions, a figure that was expected to double by 2024.⁹ Consumers could take an item home and pay for it in installments, at interest rates much lower than those of credit cards. Merchants received 100% of the payment upfront. Startup companies like Affirm, Afterpay, and Sezzle offered installment payment options for hundreds of retail sites. They made money from the interest rates and late fees they charged consumers and a processing fee charged to merchants.¹⁰ Larger players like PayPal, Amazon, and Apple were also entering the consumer lending space.

Small business lending also drove the digital payment industry’s growth, partly because in 2019 big banks rejected 80% of small-business loan applications.¹¹ Digital lenders including Kabbage Lending, Divvy, BlueVine, and PayPal could approve loans in days or even minutes in the case of PayPal, unlike the weeks or months it took traditional banks. They used machine learning and artificial intelligence to determine creditworthiness and expedite application processing.¹² In Spring 2020, these lenders, including PayPal, helped to facilitate loans to small businesses under the U.S. Small Business Administration Paycheck Protection Program (PPP).

PayPal’s History

In 1998, investors Peter Thiel and Max Levchin founded PayPal (originally known as Confinity) as an online, person-to-person, money transfer service. The founding team became a triumvirate when PayPal merged with Elon Musk’s online payment company X.com in 2000.

PayPal soon found its niche providing the means to securely and efficiently process financial transactions between buyers and sellers on the online auction site eBay. PayPal charged sellers a 3% fee on every transaction. Buyers had been sending sellers personal checks and money orders; now they could link their checking account, debit card, or credit card to their PayPal account – removing friction and making it easier for buyers and sellers to transact in a safe and seamless way.

In February 2002, PayPal went public at a valuation of \$777 million. Eight months later, eBay bought it for \$1.5 billion. PayPal then developed a merchant services division for non-eBay transactions. eBay’s \$800 million acquisition in 2013 of the global digital payment platform Braintree and its peer-to-peer payment subsidiary Venmo accelerated that division’s move into the fast-growing mobile commerce market.¹³ Venmo would eventually become one of PayPal’s most popular products.

By 2013, PayPal was responsible for moving \$180 billion in 26 currencies across 193 countries and markets, earning \$6.6 billion in revenues from nearly 143 million active consumer and merchant

accounts.¹⁴ Nearly one-third of these transactions took place on eBay, down from 51% in 2008.¹⁵ PayPal accounted for 41% of eBay's revenues and 36% of its profits.¹⁶

Beginning in 2014, activist investor and eBay shareholder Carl Icahn argued that eBay and PayPal should be independent companies. In September 2014, eBay announced that PayPal would be spun off as an independent company, led by Dan Schulman. Ten months after Schulman's arrival, PayPal went public at a valuation of \$47 billion.

Dan Schulman

Schulman's father was a scientist and his mother an associate dean at Rutgers University. Schulman said he was born with social activism in his DNA: "My mom and dad cared deeply about equality. My grandfather was a union organizer in the garment district in New York City. My mom would push me in my baby carriage in Civil Rights marches."

After graduating in economics from Middlebury College, Schulman was hired by AT&T, where he eventually headed the consumer markets business, reporting directly to the CEO. He soon became disillusioned with the telecom business model: "You'd either have overage charges or end up paying a lot more than you needed per minute. It wasn't a great customer experience, but the industry was profiting from this inefficiency."¹⁷ Schulman went to Priceline.com and then, in 2001, to Virgin to launch a prepaid mobile phone service. While at Virgin, he and CEO Richard Branson discussed companies' social responsibility and thought about larger issues than just making money.

In 2010, Schulman joined American Express as head of enterprise growth. To serve the unbanked and underserved¹⁸ Schulman's division, in partnership with Walmart, introduced Bluebird, a prepaid card with no monthly or overdraft fees. The card, still available in 2021, was sold online and at thousands of Walmart stores for five dollars. Customers could use it to shop (online or in-store), pay bills, make deposits and withdraw cash at over 22,000 MoneyPass ATMs across the U.S. or at Walmart cashiers, and more. In its first three months, Bluebird gained 575,000 account holders and \$275 million in prepaid funds.¹⁹ After four years at American Express, Schulman, who eschewed suits and often wore jeans and flip-flops, was named PayPal's President and CEO.

PayPal's New Mission

When Schulman arrived at PayPal in 2014, user growth had slowed, its technology was considered antiquated, and the company was having trouble attracting and retaining talent. "I felt like it was a huge opportunity to redefine a brand, set its mission, set its values, and leverage a lot of the work I had started to explore at American Express," Schulman said. PayPal's platform and two-sided network presented an opportunity to profitably serve financially underserved consumers and small businesses at scale.

As of 2021, nearly two billion adults worldwide didn't have a bank account,²⁰ but most of those had smartphones.²¹ In the U.S. in 2017, 6.5% of households were unbanked and 18.7% were underserved,

relying on costly financial services such as payday loans.²² Interest on payday loans averaged 391% annually.²³ “You want to cash a check, send money, get credit, even pay bills. . . . You stand in line for 30 to 45 minutes . . . On average, an underserved consumer spends 10% of their disposable income on unnecessary fees and interest rates,” Schulman said.²⁴

PayPal’s new mission would be to “democratize financial services to ensure that everyone, regardless of background or economic standing, had access to affordable, convenient, and secure products and services to take control of their financial lives.” Franz Paasche, senior vice president of corporate affairs, explained: “We weren’t going to do social impact from over here in a foundation; we were going to do it from the core of our business.”

But access wasn’t enough; PayPal wanted to help consumers and small businesses have financial health, which would then create ripples of progress across communities and economies. As Schulman wrote in PayPal’s 2017 annual report:

Financially healthy individuals and families spend money at local businesses and start companies of their own. They invest in education for themselves and their children. They support each other and give back to their communities. Financially healthy businesses of every size create good jobs, offer solid benefits, and support the economic and cultural life of their communities. Financially healthy communities invest in transportation, education, health care, and public safety.

PayPal’s New Strategy

PayPal differentiated itself from other payments companies through its two-sided network that brought together consumers and merchants, providing each with a wide array of financial products and services. (See **Exhibit 2**.) Data from both sides of the transactions and analytics capabilities helped protect both consumers and merchants from financial loss and fraud (e.g., account takeover, counterparty malicious activities) and reduced risk of lending for PayPal. In 2021, John Rainey, PayPal’s then CFO and executive vice president of global customer operations noted, “If you’ve been a PayPal customer for five years, we can see that you’ve always been a good customer, there’s been no fraud on your account, things like that. So we can underwrite you and not really bear any additional risk around that.” As of July 2021, this enabled PayPal to offer global seller protection and fraud prevention at no additional cost.²⁵

PayPal wanted to become an integral part of a consumer’s financial life,²⁶ used not two or three times a month, but several times a week. It did not share or sell consumers’ financial information. For merchants, PayPal wanted to be a full-service partner, particularly in markets where traditional financial institutions didn’t operate. From 2015 to 2020, active consumer and merchants accounts grew from 181 million to 377 millionⁱⁱ and transactions per account grew from 28 to 43. (See **Exhibits 3** and **4**.) In

ⁱⁱ An active account is any account that is registered directly with PayPal or one of its platform access partners and that has completed at least one transaction on PayPal’s Payments Platform or through Honey Platform.

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2020, PayPal had \$21.5 billion in revenue from processing 15.4 billion payment transactions that amounted to \$936 billion. (See **Exhibit 5** for standard rates for commercial transactions and **Exhibit 6** for select financials.) This growth resulted from innovations, strategic partnerships, and acquisitions.

A big driver of growth at Schulman's initiative was the decision to collaborate with credit card networks and banks to allow consumers to choose their preferred method of payment. Many consumers preferred using a debit or credit card instead of paying from a bank account, but because that involved higher transaction costs for PayPal, the company had previously tried to steer consumers to pay from their bank accounts. "Rather than forcing our customers into paying in a way that is the most economical for PayPal, we said we're going to allow our customers to pay in whatever way they want," Rainey said. In 2016, PayPal announced its first partnership—with Visa—and soon it had partnered with Mastercard, Discover Financial, JPMorgan Chase, Citigroup, and more.²⁷ As part of their partnership agreements, PayPal would stop promoting payments from users' bank accounts or existing balances over debit or credit cards. In exchange, PayPal got lower processing fees.

Acquisitions included digital remittance company Xoom in 2015, POS payments system Zettle in 2018, and Honey in 2020. Honey was an app and browser extension that would search for coupon codes at more than 30,000 online retailers and apply whatever it found to the shopper's cart.

PayPal continued to improve its digital wallet and introduced new services and related products. In 2021, shortly after adding cryptocurrency to its list of payment options with its *Checkout with Crypto* feature, the company launched its SuperApp. The all-in-one app included a number of PayPal's financial tools including Direct Deposit, bill pay, PayPal Savings, a digital wallet, peer-to-peer payments, shopping tools, crypto and more. PayPal was a financial technology company and not a bank. Banking services were provided by banking organizations with which PayPal partners.

PayPal's Employees and Values

In 2020, PayPal employed 26,500 people in 30 countries; 46% were in the U.S.²⁸ The company had a number of global customer service centers. To help employees see the reality of financially underserved customers, PayPal held financial exclusion workshops where employees had to complete a list of tasks such as cashing a check without a bank account or paying rent using a money order.

Among PayPal's stakeholders—customers (consumers and merchants), employees, regulators, investors, and communities—employees were considered most important. Schulman noted that "the single biggest competitive advantage that any company has is the strength of its employee base. And employees want to work at a company that aligns with their values and is making some kind of impact in the world." To ensure that inclusion, collaboration, innovation, and wellness would be driving values for PayPal, the leadership took a stand on causes consistent with those values. (See **Exhibit 7**.)

Soon after becoming CEO, Schulman asked whether PayPal was paying equally across gender and ethnicity: "The first thing the team responded with is, 'You don't want to ask that question.' And then

when you go, ‘Yes I do,’ they come back and say, ‘It’s very difficult to measure. There’s experience levels, location, performance.’” Schulman persisted and committed to examining where pay equity might be found. “And then the question becomes, ‘Over what time frame do you want to fix it? Three years?’ And I was like, ‘How about next week?’” Schulman understood that pay inequities made it hard to attract talent: “If you’re not paying women or people of color equally, then all you’re fishing from is this small white male pool, when there’s so much talent across the country and the world you could be recruiting from.” In 2016²⁹, PayPal achieved gender pay equity globally and ethnic pay equity in the U.S. and began publicly sharing diversity and inclusion metrics in its Global Impact Report.

In April 2016, PayPal demonstrated its value of inclusion very publicly. Just days after announcing it would open a 400-employee operations center in Charlotte, North Carolina, that state’s governor signed into law what became known as the “Bathroom Bill,” which prohibited transgender people from using the bathroom aligned with their gender identity. Schulman told his team: “We’re out.”³⁰

Starting at the end of 2018 and into early 2019, thousands of federal employees were furloughed during the longest shutdown (35 days) of the U.S. federal government in history. PayPal committed up to \$25 million in interest-free cash advances to furloughed employees who struggled to pay for necessities. In 2020, PayPal committed \$535 million to help close the racial wealth gap, with grants and investments to build short-, medium-, and long-term financial health within communities of color. All funds were allocated by the end of 2021. (See **Exhibit 8**.) Also in 2021, PayPal committed over \$100 million to advance the financial inclusion and economic empowerment of women and girls.

Customer Service Operations

Customer service operations had always played a key role in building relations with consumers and merchants, safeguarding and growing PayPal’s customer base. With the company’s growing list of products and services, the types of issues customer service agents helped customers navigate had become more complex. Callers tended to be sensitive about their finances, so the ability to empathize and calmly de-escalate a situation was important. It took nine months to become fully proficient in that role.

Entry-level customer service agents, known internally as teammates, resolved questions such as “How do I set up my account?” and “How do I integrate PayPal into my website?” They had four weeks of classroom training, then two weeks on the phone and messaging (chatting) asynchronously with a mentor or coach by their side. More experienced teammates received training in solving disputes between merchants and consumers. Some specialized in “limitations” such as activities picked up by PayPal’s fraud-detection system.

A veteran teammate who had mastered all these skills could become an internal consultant, helping agents solve customer issues or helping customers who asked to speak to a manager. They could also become mentors, supporting efforts to upskill and train new hires, or could become site coaches—experts who observed team leaders and their teammates during their coaching sessions.

Empowerment was a big part of PayPal's customer service ethos. Steve Wallace, senior director of customer service for North America, said, "There's rules and guidance for how to process a claim or a chargeback or how to process a limitation, but we ask our teammates to really think about what would you want if you were in the customer's shoes. And we empower them to make decisions—sometimes that are actually outside our typical guidance—in order to make it right for the customer."

Despite the advancement opportunities and empowerment, many teammates left for jobs that paid more. Some went to companies that paid less but paid weekly (as opposed to biweekly at PayPal). One such departing employee explained that a smoother income stream was the only way she could keep her babysitter. Absenteeism driven by financial problems was also a problem; for example, "I couldn't afford the gas to get to work today" or "I couldn't afford the bus to get to work today."

Financial Health of PayPal Employees

In 2017, a U.S.-based PayPal employee's house burned down in the wildfires. In support, company leaders offered financial assistance to the employee and other employees affected by other natural disasters. Senior leaders decided to undertake a rigorous process to understand the needs of PayPal employees and soon discovered that there were times when employees might need additional assistance to make it through unforeseen, life-altering events. They proceeded to set up a \$5 million emergency relief fund: employees filled out an intake form, describing their emergency. The only person who would know their identity was the member of the Employee Advocacy team who received the request. A committee made up of a small group of vice presidents from all parts of the company reviewed requests on an anonymous and deidentified basis weekly, or on an ad hoc basis as needed due to the nature of the emergency. The company made hundreds of grants over subsequent years. (See **Exhibit 9** for percentage breakdown of approved requests.)

But the volume of requests soon began to alarm PayPal leadership. "We found that urgent requests for help were increasingly the result of everyday events," Schulman recalled, "like an unexpectedly steep medical bill, a student-loan payment, or a car breaking down."³¹ In fact, the U.S. Federal Reserve had recently announced its finding that 40% of Americans had trouble coming up with \$400 to handle an emergency.³² Many of the requests at PayPal were for medical expenses that employees could not pay because they couldn't afford the company's own health insurance plan.

The ultimate red flag came when senior leaders volunteered at a soup kitchen in Chandler, Arizona—home of a PayPal customer service center. The director of the soup kitchen took one aside and said, "I just need you to know that many of the people [here] are actually your employees."

Understanding Employees' Financial Wellness

In 2018, PayPal launched two projects to better understand employees' financial health. One, led by human resources' global rewards team, benchmarked the paychecks of entry-level and hourly

employees at 30 locations against the local cost of living generated by a model built by Mercer, an HR consulting firm. Mercer created an iterative model that included the local cost of goods and services across more than 10 categories, including housing, food, personal care, household goods, medical care, transportation, and dependents. PayPal then created its own metric of financial health, estimated net disposable income, or eNDI, which captured the disposable income remaining after payment of taxes and typical living costs.

At roughly the same time, the global customer service organization conducted a wellness survey of all its employees, from entry to director level. Survey questions fell into five buckets:

- *Physical wellness.* Do you have adequate time to invest in your physical wellness during the day? Do you have nutritious food when you're at work?
- *Cultural wellness.* Do you feel like you belong at PayPal? Do you feel attached to the mission?
- *Mental wellness.* Do you have time to take mental breaks during the day? Do you have the resources you need to ask for help if you're in mental distress?
- *Career wellness.* Do you have a clear career path? Do you want to stay at PayPal for your career?
- *Financial wellness.* Do you run out of money between paydays? Do you have enough money to cover an unexpected expense? Do you feel good about your financial wellness?

Results

In July 2018, the global rewards team presented its findings to the executive leadership team. Half of the global customer service employees had just four to six percent of their paychecks left over each month after paying basic living expenses; this was about \$600 for an employee in the U.S. The amount was even less once you factored in dependents; for some, their estimated NDI was negative.

In March 2019, the global customer service organization presented its results from 2,700 survey respondents. Nearly two-thirds ran out—or nearly ran out—of money between paychecks and nearly one-third did not have enough to cover an unexpected yet reasonable expense. Thirty percent did not feel good about their financial wellness all or most of the time. Yet respondents also claimed to love working at PayPal, scoring high on loyalty and engagement.

PayPal leadership was surprised by the findings. “It probably should not have been a surprise,” Paasche recalled, “but it was a surprise that that many people felt a sense of financial insecurity and that they were part of our community.” PayPal’s compensation team had been adjusting employees’ pay to the market—but market pay did not reflect the cost of living. As Schulman explained:

We pay at or above market rates. And you think because the market is guiding you, that, therefore, works for everybody... The market forces are not working for them. . . . I had known that 185

million adults in the U.S. struggle to make ends meet at the end of the month. But I felt like at a place like PayPal, where we were paying well compared to the market, that wouldn't be the same.

A Four-point Financial Wellness Plan

The leadership team agreed unanimously that it had to act. At Schulman's direction, a 15-person, cross-functional financial wellness steering committee came together, including representatives from global customer operations, legal, HR, communications, and finance. Each led a team of 10 or so from their own area. The committee met several times a month. It partnered with the Financial Health Network, which worked with industries and businesses to improve the financial health of workers by helping companies think through the multidimensionality of financial wellness.

All ideas were open for discussion. As committee member Lauren Giammona, a VP in HR operations, explained, "We started with a broad opportunity statement. PayPal's mission is to democratize financial services and empower people, regardless of background or economic standing. This mission should extend equally to both our customers and our employees. How can we materially improve the financial security of employees inside PayPal who are struggling to make ends meet?"

The committee's work, which culminated in September 2019, resulted in a four-point financial plan to benefit hourly and entry-level employees (grades 15-19), which included executive assistants, people in operations and facilities, event managers, and teammates:

1. A raise in wages where appropriate starting December 1.
2. A 60% reduction in health care premium costs for U.S. employees (grades 15-19) starting January 1, 2020—an average savings of \$30 with each paycheck for a single employee, \$95 for an employee with children, \$112 for an employee and spouse, and \$158 for an employee with a spouse and children. (In the U.S., all PayPal employees in grades 15-19 were offered the same health care plan options with the same premium. In other words, for many in pay grades 15–19, the reduction in health care premium costs increased their net disposable income.) In addition, PayPal introduced a health reimbursement account funded by the company to help offset out-of-pocket medical expenses—\$300 for a single employee, and \$900 for an employee covering dependents.
3. A one-time equity grant, averaging \$3,100, to approximately 8,600 employees who had not been granted equity before. A second grant was given to over 12,000 employees at the end of 2020. The equity awards wouldn't begin vesting into shares of PayPal stock until January 2021 and would be fully vested in 2023. Stock was seen as a way for employees to build and accumulate wealth. (See **Exhibit 10** for stock performance.) (In 2018, PayPal had given equity to about 300 top-performing teammates, and had seen lower attrition amongst the equity grant recipients.)
4. A complementary financial wellness coaching program designed to educate employees on their compensation and benefits, and to provide unlimited access to resources (including digital tools

and confidential one-on-one coaching) on how to improve their long-term financial wellbeing (e.g., budgeting, retirement planning).

Finding the right financial balance—one that addressed employees’ financial needs without stressing the company—was difficult. Was the cut to health care costs enough? Was the stock grant the right amount? They also had to consider certain employees who would not be eligible. As Giammona noted, “We wanted to target our efforts to those who needed it most, while ensuring we balanced both immediate impact – improving cash flow, making healthcare more affordable - with longer term opportunities for building and accumulating wealth, like equity grants. At the same time, we didn’t want to create a cliff – where as someone advanced up the career ladder beyond the targeted population, they suddenly took an economic hit.” The company adjusted compensation packages for employees who had recently been or were in the process of being promoted to include the value of the benefits they would have received had they remained in job grades 15–19.

Giammona recalled that when the committee presented the plan to the senior team, including its costs and what it would mean for employees, “there were tears. It was, in my almost 16 years with the company, one of the most memorable meetings I’ve ever sat in.” Schulman’s leadership was important. Martha Cass, VP of business operations, finance, and global customer operations, said, “This isn’t easy. And it’s not inexpensive. You need your CEO to really compel everybody forward.”

Announcement

On October 29, 2019, Dan Schulman led a global town hall during which he announced the Employee Financial Wellness initiative to the entire company. One rep remembered the loud cheering when employees in her call center learned about it. As Schulman recalled, “It was a very emotional day inside a lot of our call centers and the whole company. The announcement was sort of shocking to people.” Days later, he sent a letter to all employees putting what he had announced in writing. (See **Exhibit 11.**) Soon after, Schulman visited the Omaha customer service center to help familiarize the initiative with employees.

In communicating the initiative, Schulman emphasized that it was company-sponsored: no one was paying more for health care to subsidize others. As Paasche recalled, “We educated people so that they understood the true spirit of this. It was intended to address financial insecurity and to give people a sense of belonging and a sense of stability....We didn’t want it to feel that people were being singled out for being in a different financial state than others.” There was no press release; the first time it became publicly known was in mid-December 2019, when Schulman was interviewed by the *Omaha World-Herald*.

Taking a Leap of Faith

PayPal’s investment in the employee financial health program was tens of millions of dollars in the first year alone.³³ The leadership team was aligned on the levers the investment would impact. For every

one-percent reduction in attrition, the company would save \$500,000 a year from reduced recruiting, onboarding, and training costs and through higher productivity. A stable and engaged workforce would be more focused on the job, which would help PayPal create a differentiated customer experience. As Giammona explained, “The agents are the face of PayPal to all who interact with us. . . . The longer they’re here, the better they know our products, the better they’re able to support our customers. And the more encouraged they are by PayPal as a company, the more that’s going to come through in how they support our customers.”

PayPal’s board fully supported this significant investment, agreeing that it was the right thing given PayPal’s mission and made business sense. Still, Schulman felt that no amount of financial modeling could guarantee the payoff. “We knew what we were going to measure, but then we took a leap of faith that those things would be impacted by the actions we were taking. So I think people can put together business cases, but until you have actuals, it’s all supposition.” Rainey agreed: “It’s a little bit like trying to quantify the NPV of buying a laptop, right? It’s hard to do, but you know it’s positive.”

Rainey had worked at Continental Airlines and recalled the CEO, Gordon Bethune, talking about how quickly a happy mechanic could fix a plane versus one who was mad. Prior to Covid, Rainey used to spend time at the customer service centers listening to the calls and talking to teammates. He knew the importance of their work. “So, I think it is pennywise and pound foolish to focus just on what you’re paying employees and try to make that bare minimum to kind of get by. I think if employees are proud to work for a company that’s mission-driven and they’re paid appropriately, then they’re going to stay a lot longer and it becomes more of a career versus just a job.”

Covid-19

A few months after the Employee Financial Wellness Initiative launched, the Covid pandemic struck and all PayPal employees began working from home. The company decided to weather the pandemic as a community. There were no layoffs connected to the pandemic. Customer service agents were given laptops, monitors, and stipends for home office equipment and Internet expenses. The company created a crisis program allowing employees to take time off and not worry about losing their jobs. As Giammona pointed out, “Crisis leave gave employees the flexibility, without reliance on accrued PTO or sick leave, to take the necessary time off to take care of themselves or their family members. They didn’t have to make the choice of ‘I’ve got a sick family member at home, my child’s daycare has temporarily closed, I need to be home, but I can’t afford to take an unpaid leave.’”

But with millions of people at home, online shopping—and use of PayPal—skyrocketed. Thousands of small brick-and-mortar businesses needed PayPal’s financial products and services to pivot to e-commerce.

PayPal in 2021

After two years of record growth, partly due to the accelerated adoption of digital payments during the pandemic, PayPal emerged as a stronger company in 2021. At the end of 2021, PayPal had 426 million active accounts, including 34 million merchant accounts. Non-GAAP operating margins went from 21.7% in 2018 to ~25% in 2021.

There were indications that the Employee Financial Wellness Initiative was working. In early 2020, just a few months after the initiative was announced, PayPal sent out another total wellness survey to its customer service centers. (See **Exhibit 12**.) The 2,800 responses indicated improvement in financial wellness. More respondents felt good about their financial wellness, while fewer ran out of money between paydays. More said they would use an app that helped them improve their financial health. Seventy-six percent of respondents said they intended to stay at PayPal for at least five years, compared to 51% in 2018.

The global average turnover at customer service centers at PayPal fell from 19.4% in 2019 to 7.3% in 2020. An equal number of men and women left the company; whereas women had previously accounted for the majority of attrition. Productivity and net promoter score, a measure of customer loyalty, both improved. Overall engagement scores were up four points to 84, putting PayPal in the top five percent of benchmark technology companies. Customer service operations had even higher engagement scores. As of January 2021, nearly half of hourly and entry-level employees were choosing to participate in the Employee Stock Purchase Plan and over two-thirds had enrolled in the PayPal 401(k) plan. In the U.S., the minimum estimated NDI for hourly and entry-level employees had reached 11%.³⁴ The company's goal was to raise the group's minimum estimated NDI to 20%, globally.³⁵

Dozens of employee anecdotes concurred with the numbers. One employee told Schulman that now, staying at PayPal would let her to send her kids to college. People paid down debt, bought a car to get to work, and sent their kids to daycare. There was the customer service rep who now had health insurance and no longer needed to worry, "Do I take my child to the hospital now? How bad is it?"

Financial wellness at PayPal was not a one-and-done initiative. The company continued to add tools and services for its employees. In late 2020, the company introduced Even, a third-party on-demand pay platform that employees could access on their phones. With Even, U.S. employees could withdraw earned wages before the official pay period, without added fees or interest charges. In the United Kingdom and Ireland, the company introduced a similar app called Hastee. As Schulman noted, "Most people don't have more expenses than they have income coming in. They're just not matched."

In August 2021, as COVID-19 continued to impact workplaces worldwide, Schulman sent the employee community an email announcing the company would be issuing a third "wellness grant" of equity awards to eligible employees in the fourth quarter. In addition, employees in grades 24 and below

would be eligible for three stipends of \$250 each in September 2020, November 2020 and February 2021 to offset costs resulting from working from home for an extended period of time.

Influencing the Business Community

Since embarking on its mission to democratize financial services in 2015, PayPal demonstrated that profit and purpose went together. PayPal's leaders, including Schulman, publicly advocated for multi-stakeholder capitalism. At the Museum of American Finance's annual gala in 2020, Schulman said, "If you look at the state of our country today, it's clear that capitalism needs an upgrade.... For democracy to flourish, you need to rise above your own self-interest. But how can you rise above your own self-interest if you are struggling to make ends meet every day?" He asked other leaders in the room to "stand for more than just making money... Take a moral stance."³⁶

Business leaders were already talking more about stakeholder capitalism, although few were putting it into practice. In August 2019, the Business Roundtable released a statement, signed by 181 CEOs, that a corporation's purpose was to benefit all stakeholders, not just shareholders. Business leaders were also becoming increasingly vocal about social issues. PayPal was one of three companies that founded Time to Vote, a nonpartisan, business-led initiative that gave employees paid time off to vote. By the end of 2021, nearly 2,000 corporations had joined the initiative.

Encouraged, Schulman wondered whether PayPal could help create a movement for employee financial wellness in the business community. Paasche saw the potential:

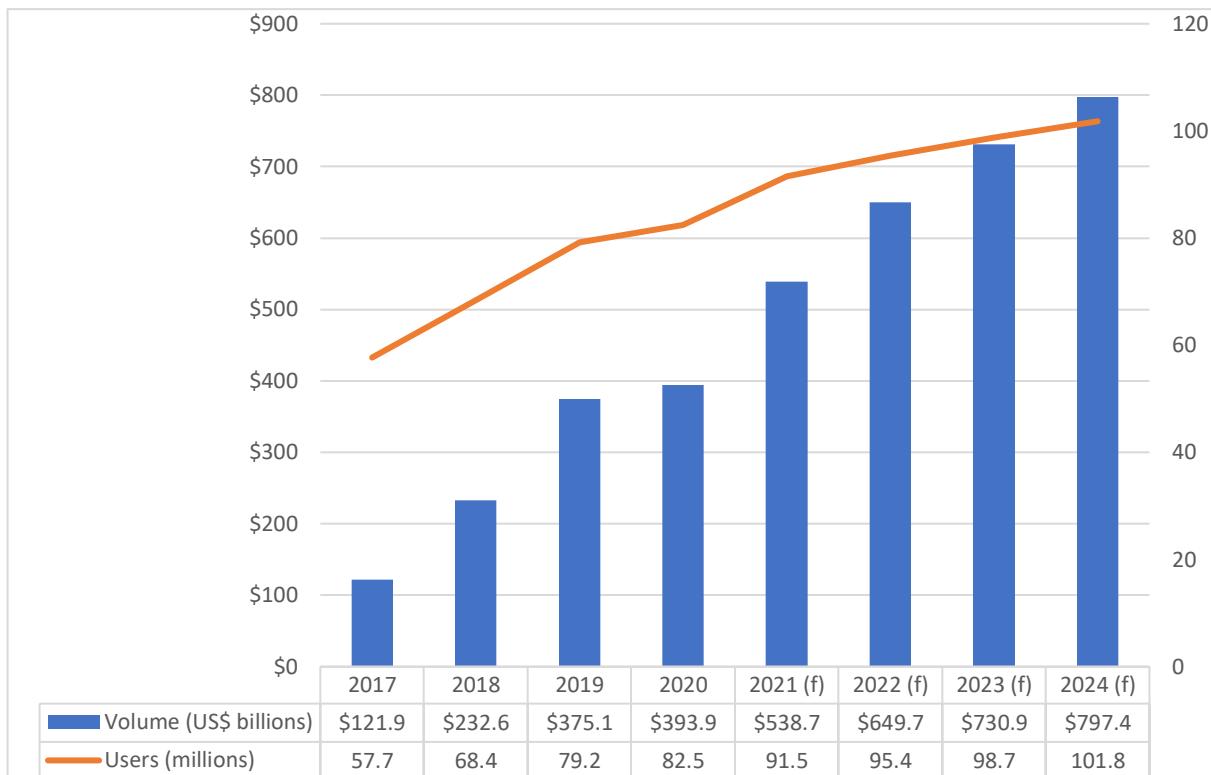
We realized that there are lots of ways you can make a difference in society as a company. But a very interesting first principle way is to take care of your employees. Invest in them. Give them financial wellness... If every major company did that, we are talking millions of families that are then able to have more economic empowerment in their own communities. Think of the emanation if you've got a hundred million employees suddenly now financially stable in a way they hadn't been. What does that mean for their kids? What does it mean for their local communities?

Following the launch of the Worker Financial Wellness Initiative in 2020, PayPal has partnered with Financial Health Network, Good Jobs Instituteⁱⁱⁱ, and Just Capital, a nonprofit promoting stakeholder capitalism, to broaden the coalition with new corporate members. To sign on, companies would need to commit to conducting a financial wellness assessment of their workers. PayPal's leaders spent time with interested companies to explain their NDI analysis and four-point plan. By the end of 2021, 11 companies had signed on, including Chobani, Prudential Financial, Verizon and Chipotle. Schulman knew he needed to be patient. "Things take time. . . . We should just keep fighting the good fight." What would it take to get more companies to sign on and build a movement? And was it PayPal's role to advocate for workers' financial wellness?

ⁱⁱⁱ Nonprofit Good Jobs Institute (GJI) was co-founded by Zeynep Ton with a mission to help companies thrive by creating good jobs. This case was written when Zeynep Ton was GJI's President and Sarah Kalloch was its Executive Director.

PAYPAL AND THE FINANCIAL WELLNESS INITIATIVE
Zeynep Ton and Sarah Kalloch

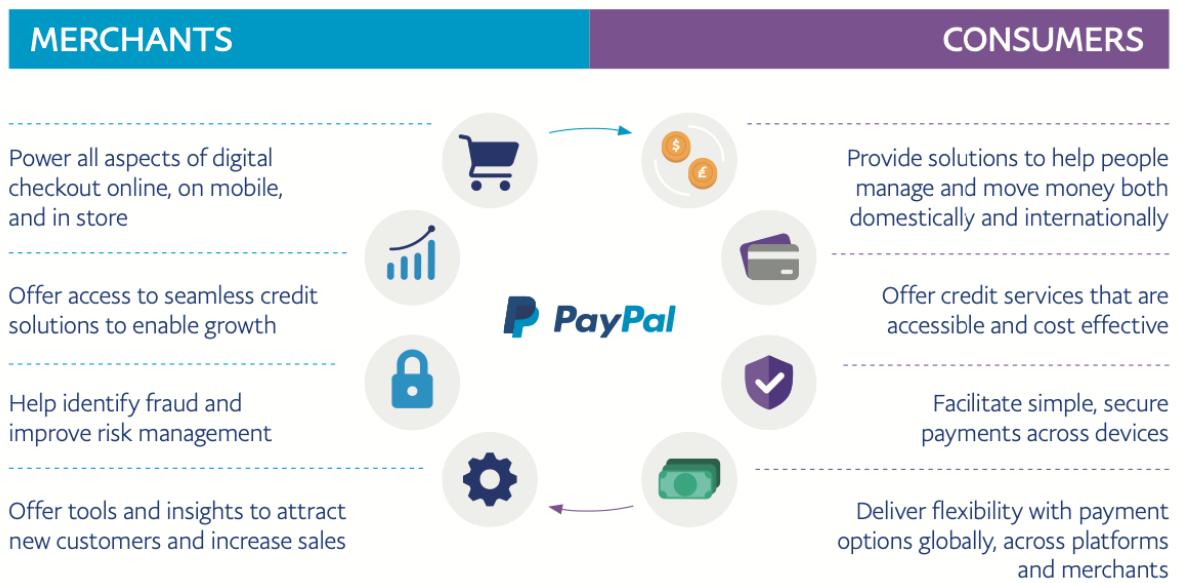
Exhibit 1 U.S. Mobile Peer-to-peer Usage, 2017–2024



Source: Jamie Toplin, "The Payments Ecosystem," Insider Intelligence, January 2021.

Exhibit 2 PayPal Two-sided Platform

Our Two-sided Platform Serves Merchants and Consumers



Source: PayPal Annual Report 2020.

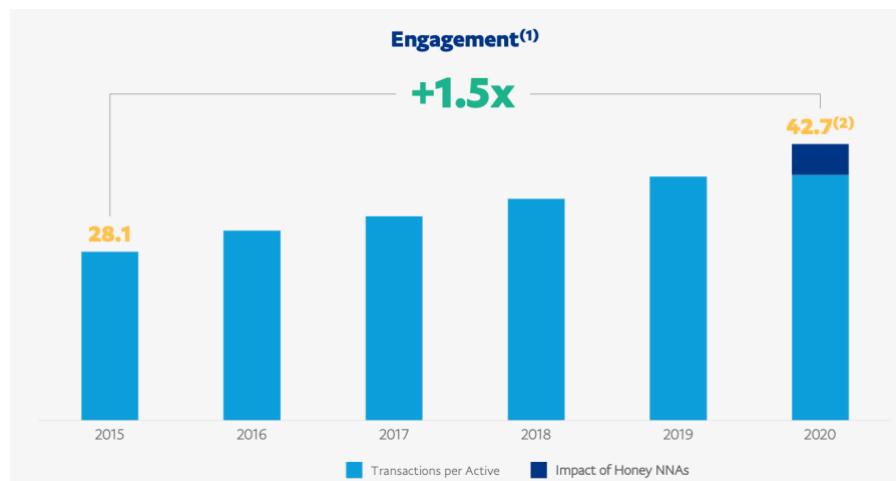
Exhibit 3 *PayPal's Total Active Accounts*



An active customer account is a registered account that successfully sent or received at least one payment or payment reversal through our Payments Platform, excluding transactions processed through our gateway and Paydiant products, in the past 12 months.

Source: *PayPal Investor Day 2021*, February 11, 2021.

Exhibit 4 *PayPal Customer Engagement*



(1) “Customer engagement” or “engagement” is defined as number of payment transactions per active account.

(2) Excludes impact of Honey NNAs. Honey is dilutive to engagement as Honey’s actives are included within active accounts (denominator), but its transactions are not included within payment transactions (numerator). TPA including the impact of Honey NNAs was 40.9.

Source: *PayPal Investor Day 2021*, February 11, 2021.

Exhibit 5 PayPal Standard Rates for Receiving Domestic Transactions (U.S. Commercial)

Payment type	Rate
Alternative payment method (APM)*	2.59% + fixed fee
Invoicing	3.49% + fixed fee
PayPal checkout	3.49% + fixed fee
PayPal guest checkout	3.49% + fixed fee
PayPal guest checkout: American Express payments	3.50%
QR code transactions: 10.01 USD and above	1.90% + fixed fee
QR code transactions: 10.00 USD and below	2.40% + fixed fee
Pay with Venmo	3.49% + fixed fee
Send/receive money for goods and services	2.99%
Standard credit and debit card payments	2.99% + fixed fee
All other commercial transactions	3.49% + fixed fee
All other commercial transactions: American Express payments	3.49%

* Standard rate for receiving domestic payments. An example of an alternative payment method is Apple Pay.

Note: Fixed fees were \$0.49 in the United States for all payment types except QR code transactions. QR code transactions of \$10.01 and above had a \$.10 fixed fee and those \$10.00 and below had a \$.05 fixed fee.

Source: *PayPal*, June 23, 2022.

Exhibit 6a Consolidated Statements of Income

	As of December 31,			
	2021	2020	2019	2018
(in millions, except for per share amounts)				
Net Revenues	\$ 25,371	\$ 21,454	\$ 17,772	\$ 15,451
Operating expenses				
Transaction expense	10,315	7,934	6,790	5,581
Transaction and credit losses	1,060	1,741	1,380	1,274
Customer support and operations	2,075	1,778	1,615	1,407
Sales and marketing	2,445	1,861	1,401	1,314
Technology and development	3,038	2,642	2,085	1,831
General and administrative	2,114	2,070	1,711	1,541
Restructuring and other charges	62	139	71	309
Total operating expenses	21,109	18,165	15,053	13,257
Operating income	4,262	3,289	2,719	2,194
Other income (expense), net	(163)	1,776	279	182
Income before income taxes	4,099	5,065	2,998	2,376
Income tax expense	(70)	863	539	319
Net income	\$ 4,169	\$ 4,202	\$ 2,459	\$ 2,057
Net income per share:				
Basic	\$ 3.55	\$ 3.58	\$ 2.09	\$ 1.74
Diluted	\$ 3.52	\$ 3.54	\$ 2.07	\$ 1.71
Weighted average shares:				
Basic	1,174	1,173	1,174	1,184
Diluted	1,186	1,187	1,188	1,203

Source: PayPal 2020 and 2021 10K.

Exhibit 6b Consolidated Balance Sheets

	As of December 31,				(In millions, except par value)
	2021	2020	2019	2018	
ASSETS					
Cash and cash equivalents	\$ 5,197	\$ 4,794	\$ 7,349	\$ 7,575	
Short-term investments	4,303	8,289	3,412	1,534	
Accounts receivable, net	800	577	435	313	
Loans and interest receivable, net of allowances of \$491, \$838, \$258, and \$172 as of December 31, 2021, 2020, 2019, and 2018, respectively.	4,846	2,769	3,972	2,532	
Funds receivable and customer accounts	36,141	33,418	22,527	20,062	
Prepaid expenses and other current assets	1,287	1,148	800	947	
Total current assets	52,574	50,995	38,495	32,963	
Long-term investments	6,797	6,089	2,863	971	
Property and equipment, net	1,909	1,807	1,693	1,724	
Goodwill	11,454	9,135	6,212	6,284	
Intangible assets, net	1,332	1,048	778	825	
Other assets	1,737	1,305	1,292	565	
Total assets	\$ 75,803	\$ 70,379	\$ 51,333	\$ 43,332	

Exhibit 6b Consolidated Balance Sheets (con't)

	As of December 31,			
	2021	2020	2019	2018
	(In millions, except par value)			
LIABILITIES AND EQUITY				
Accounts payable	\$ 197	\$ 252	\$ 232	\$ 281
Short-term debt	-	-	-	1,998
Funds payable and amounts due to customers	38,841	35,418	24,527	21,562
Accrued expenses and other current liabilities	3,755	2,648	2,087	2,002
Income taxes payable	236	129	73	61
Total current liabilities	<u>43,029</u>	<u>38,447</u>	<u>26,919</u>	<u>25,904</u>
Deferred tax liability and other long-term liabilities	2,998	2,930	2,520	2,042
Long-term debt	8,049	8,939	4,965	-
Total liabilities	<u>54,076</u>	<u>50,316</u>	<u>34,404</u>	<u>27,946</u>
Common stock, \$0.0001 par value; 4,000 shares authorized; 1,168, 1,172, 1,173, and 1,174 shares outstanding as of December 31, 2021, 2020, 2019, and 2018, respectively	-	-	-	-
Preferred stock, \$0.0001 par value; 100 shares authorized, unissued	-	-	-	-
Treasury stock at cost, 132, 117, and 105 shares as of December 31, 2021, 2020, and 2019, respectively	(11,880)	(8,507)	(6,872)	(5,511)
Additional paid-in-capital	17,208	16,644	15,588	14,939
Retained earnings	16,535	12,366	8,342	5,880
Accumulated other comprehensive income (loss)	(136)	(484)	(173)	78
Total PayPal Stockholders' equity	<u>21,727</u>	<u>20,019</u>	<u>16,885</u>	<u>15,386</u>
Noncontrolling interest	0	44	44	-
Total equity	<u>21,727</u>	<u>20,063</u>	<u>16,929</u>	<u>15,386</u>
Total liabilities and equity	<u>\$ 75,803</u>	<u>\$ 70,379</u>	<u>\$ 51,333</u>	<u>\$ 43,332</u>

Source: PayPal 2020 and 2021 10K.

Exhibit 7 *PayPal Values*

- Collaboration** Work as a team, drive ownership and accountability, make decisions, and get results. Foster trust, have integrity, champion each other, and have each other's backs. Eradicate silos and win as a team.
- Innovation** Create amazing experiences for our customers, whether merchant, consumer, or the PayPal community. Think differently, look end-to-end, and practice empathy by putting yourself in our customers' shoes.
- Wellness** Care for and actively support each other's well-being. Create a super-energizing workplace that brings out the best in our employees by nourishing our mental, physical, and emotional balance.
- Inclusion** Respect and value the uniqueness and diversity of thought. We're talking everyone, everywhere, at all times, regardless of background, level, or circumstance. Ideas are richer and execution is stronger when everyone feels included.

Source: PayPal.

Exhibit 8 *PayPal's \$535 million Commitment to Racial and Social Justice*

\$15M Empowerment Grants	In partnership with the Association for Enterprise Opportunity (AEO), distributed \$15 million in grants to close to 1,400 Black-owned small businesses in 2020 and 2021 to support them as they navigated the unprecedented challenges of the COVID pandemic.
\$5M Nonprofit Partner Grants	Committed \$5 million in grants to 20 leading nonprofits across the U.S. – both national and local in scope – that strengthen and empower Black-owned businesses and help provide on-the-ground support.
\$500M Economic Opportunity Fund	Established a \$500 million Economic Opportunity Fund for Black and Latinx-led high-growth start-ups, venture investing and depository holdings in minority-owned banks and credit unions.
\$15M PayPal DIE&B Commitment	Committed \$15M to enhance diversity, inclusion, equity and belonging (DIE&B) programming at company and fund research and advocacy on issues related to racial equity.

Source: PayPal.

Exhibit 9 *Emergency Relief Fund Approved Requests*

Type	Percentage of Total Approved Requests			
	H1 2021	H2 2020	H1 2021	H2 2021
Family Expenses*	64%	51%	54%	63%
Medical Expenses	27%	29%	33%	29%
Other	9%	20%	13%	8%
Total	100%	100%	100%	100%

* Family expenses may include funeral expenses, car issue, etc.

Source: PayPal.

Exhibit 10 PayPal Share Price Performance vs. NASDAQ Composite Index Value



Source: CapIQ, accessed January 5, 2022.

Exhibit 11 *Email from Dan Schulman about Financial Wellness Initiative*



The Financial Wellness of our PayPal Community

We just concluded our quarterly All Hands from our global headquarters in San Jose, and I hope that all of you across our time zones will view the broadcast in the coming days. Today is a significant day for PayPal, and I wanted to personally share the important commitments we made at today's All Hands. As a company and as a community, we are taking significant steps to live our mission and our values by supporting the financial wellness of all our employees. The measures I'm announcing today are integral to our journey to move from a good company to a great company.

Our ability to fulfill our mission starts with each and every one of you. We are a diverse global community of nearly 25,000 people who are dedicated to keeping our customers at the center of everything we do, committed to our mission, and working hard to live our values.

For me, there is no more important constituency than our employees. We must take care of ourselves and each other. PayPal's impact and relevance around the world is increasingly critical, but we must never lose sight of the fact that it is your efforts that enable our growth and success. If we are to succeed in fulfilling our goals and aspirations, each of us needs to feel inspired and passionate about being a part of PayPal.

I believe that we can only fully live our mission – providing access to affordable financial services and improving the financial health of our customers – if we are realizing those same objectives within PayPal. With this in mind, we spent the last six months focused on understanding the issues that impact the financial wellness of our employees. We undertook surveys of our global employee community to help us better understand how our employees are feeling about their overall financial wellness. The results were difficult for us to hear. Many of our colleagues do not feel financially secure and many are struggling every month to meet their financial obligations.

Exhibit 11 (con't) *Email from Dan Schulman about Financial Wellness Initiative*

Even though we pay competitively versus the market, it is just not enough. We have employees who feel this sense of financial anxiety, and this is unacceptable. I want every single person who works here to have financial security, to feel deeply connected to PayPal, and to share in our success as a company.

Starting this year, PayPal will make significant investments to strengthen the financial wellness of our employees. We are introducing a comprehensive set of programs designed to help our employees build financial security and improve their financial health. While there is no single solution that can address the individual complexities and unique financial needs of each person or family, these investments (taking into account geographic differences) address the most pressing pain points revealed in our survey results*.

So, what are we going to do to make this commitment to each other come alive? We are going to invest significant resources and dollars into four specific employee benefit areas:

1. Paying a wage that supports financial wellness

We have spent the past year reviewing wages for PayPal colleagues who are paid hourly or who work in our call centers. We have closely reviewed base wages by facility, assessing the cost of living in specific geographies. Our analysis found that a majority of our employees are already earning base wages that support financial wellness, but there are others who need adjustments to their base wages. As a result, we will be raising wages at affected work locations on a targeted basis. We want to create a path to assure employees can move beyond living paycheck to paycheck. While we already pay competitive wages, we need to do more to help our community move towards financial health.

2. Lowering the cost and enhancing our benefits

In many ways, our U.S. healthcare benefits are like a regressive tax: they basically cost every employee the same amount. That means that for those who earn less, the percentage of disposable income spent on benefits is significantly more. We will be lowering premiums and modifying our plans to help pay for deductibles and co-pays for our U.S. employees in job grades 15–19. We will be lowering the cost of healthcare benefits for these job grades by an average of almost 60%. This will significantly increase net income for this significant population of employees.

We are also taking steps to ensure our leave and retirement policies are aligned with our values. We will enhance parental leave and paid time off in EMEA, improve our short-term disability benefit in the U.S., and bolster our retirement benefits in Japan and Singapore. And of course, we will maintain our Employee Relief Fund for colleagues who face urgent financial hardship situations.

Exhibit 11 (con't) Email from Dan Schulman about Financial Wellness Initiative

3. Making everyone a shareholder and owner of PayPal

We will make every PayPal employee an owner of the company by granting PayPal stock to employees who have not yet been granted equity, irrespective of level. I fundamentally believe that mutual ownership of our company through our stock is foundational to our success. It puts every employee on the path toward building financial security and gives us all the opportunity to benefit from PayPal's performance.

I hope and believe that ownership can make a real difference and assure that all of us are on this journey together. Every single thing we do for each other and for our customers makes a difference in our future. Being an owner allows each member of the PayPal team to join in that success. Our success can drive significant financial outcomes for all of us.

Beyond this one-time equity grant, everyone, regardless of level, will now be eligible to earn annual equity awards. These awards, based on performance, will give everyone the chance to receive ongoing stock grants.

4. Driving financial wellness through planning and learning

Building and maintaining financial health is not easy. It requires continual learning (for instance, how does equity work?). We will be rolling out financial planning skillset training for all employees globally. Our goal is to help each of you by providing personalized tools and resources needed to build your financial health, and to get the support you need when you face big decisions or other financial challenges.

Today is a historic one in PayPal's history. It is a day where we demonstrate our commitment to each other. Today we declare that PayPal has an obligation to stand up for its values and serve a greater purpose. We stand behind our commitment to change the lives of millions of people around the world by democratizing access to financial services and the digital economy, to help small businesses compete and win, and to promote financial health for all. These values are more necessary than ever before.

But we cannot do that fully without stepping up aggressively and fulfilling that same mission for all of us. Because I know that when each of us feels fully included and secure at PayPal, then we can clearly connect to what we aspire to achieve in the world.

Exhibit 11 (con't) Email from Dan Schulman about Financial Wellness Initiative

Over the coming weeks, employees will receive more targeted communications about what this means for them. In the meantime, for more information, please visit the [resource page](#) on the Bridge.

I'm very proud to lead a company that puts its employees first and knows that is the key to its success. Let's go out and make a difference in the world!

Go PYPL.

Dan

Sent to: All PayPal Employees

**Certain initiatives may be first subject to consultations where appropriate in some of our locations.*

Source: PayPal, October 29, 2019.

Exhibit 12 Global Wellness Survey 2020: Financial Wellness Questions

Respondents were asked to rate how much they agreed with the following statement:

1. I feel good about my financial wellness.
2. I feel like I have a good understanding of how to achieve and maintain financial wellness.
3. I have the help I need to plan for and file my taxes.
4. I have the tools I need to manage my budget and avoid late fees and penalties.
5. I run out of money between paydays.
6. I would be willing to test a PayPal product that was designed to support people in improving their financial health.
7. I would use an app that helped me improve my financial health; i.e., plan a budget, save for a goal, be aware of upcoming bills.
8. If I needed to, I could cover reasonable unexpected expenses.

Source: PayPal.

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