



Loyalty Is Not a Marketing Tool.

It's a Financial Instrument.

By Brad Harvey, Founder & Chairman, Project Loyalty

For most of its existence, loyalty has lived comfortably inside the marketing department.

GLOBAL FINANCIAL OUTLOOK

It's been measured in engagement rates, optimized for purchase frequency, and debated in terms of retention curves and brand affinity. That framing made sense when loyalty programs were small—when points were little more than incentives designed to nudge behavior.

But scale changes category.

When you zoom out and look at how loyalty actually functions inside a corporation—not how we talk about it in marketing meetings, but how it is recorded, forecasted, and modeled—something much more structural becomes obvious.

Loyalty is not just a promotional tool. **It is a structured issuance of economic value.**

And once you understand that, you can't unsee it.

Scale doesn't just change the math. It changes the category.



The Accounting Tells the Truth

Inside a company, when a customer earns points, miles, or rewards, those rewards are not treated as a marketing 'gift.' They are recorded as deferred revenue — a liability on the balance sheet. The company is acknowledging a future obligation. The value sits on the books, not in a campaign brief.

Revenue is not recognized until redemption — or breakage. That's financial architecture, not marketing language.

Now multiply that across airlines, hotels, credit card issuers, grocery chains, retail brands, QSR systems, and e-commerce platforms around the world. Annual loyalty issuance exceeds \$1 trillion globally. Outstanding liabilities sit in the multiple trillions.

We are not talking about coupons. We are talking about one of the largest structured deferred-value systems in the global economy.

The language of loyalty has always been consumer-facing. But the language of the back office tells a different story. Actuaries model it. Auditors scrutinize it. CFOs forecast it. Closing that gap requires an honest look at what the numbers already say.

What Actually Defines a Financial Instrument?

Forget the word "loyalty" for a moment.

A financial instrument is a structured claim on future value. It is issued under defined terms, recorded on a balance sheet, recognized as an economic obligation, and redeemable or transferable under rules.

Now consider loyalty points. They are issued based on transactions, governed by contractual terms, recorded as deferred revenue, and represent a future claim on goods or services. They are modeled, forecasted, and adjusted for breakage.

Structurally, that is the definition of a financial instrument.

The only meaningful difference between loyalty and more traditional instruments is infrastructure.

Loyalty has historically lacked shared settlement rails, interoperability, and transparent pricing mechanisms. But economically, it behaves like money with restrictions. That distinction matters.



The Gift Card Comparison We Avoid

Consider a \$100 gift card. The company books \$100 in cash, records a \$100 liability, and recognizes revenue upon redemption. Everyone understands that dynamic. We call it stored value.

Now consider \$100 worth of loyalty rewards. The accounting mechanics are nearly identical. The liability sits on the books. Revenue is recognized when redeemed. Breakage is estimated and modeled.

Yet culturally, we treat one as finance and the other as marketing.

That framing error has shaped how trillions of dollars in structured consumer value are managed. When something is labeled “marketing,” it is optimized for engagement metrics. When something is labeled “finance,” it is optimized for capital efficiency and risk management.

Loyalty has been living in the wrong department.

The gift card got the right framework. Loyalty deserves the same.

Breakage: The Quiet Financial Lever

One of the clearest indicators that loyalty is a financial instrument — not just a promotional tactic — is breakage.

Roughly 40 to 50 percent of loyalty value is never redeemed across industries. If loyalty were purely a marketing expense, that number would be considered a catastrophic failure of engagement. Instead, it functions as a financial offset. Unredeemed value improves projected margins. In effect, it behaves like yield on unused liabilities.

Breakage assumptions are built into earnings models. Future payout obligations are reduced accordingly. That's not a branding conversation. That's treasury modeling.

Roughly 40–50% of loyalty value is never redeemed. That's not a marketing failure. That's yield.

From a consumer standpoint, expiration erodes trust. The financial optimization and the consumer experience are often misaligned. That tension is not a marketing problem. It's a structural one.

DATA ARCHIVE - UNUSED VALUE TRACKING



The Float Most People Don't See

There's another dynamic that rarely gets discussed: **float.**

Between issuance and redemption, there is time. During that time, companies carry outstanding loyalty liabilities. That lag behaves similarly to insurance float — premiums collected before claims are paid, capital held in the interim. It mirrors gift card float, where cash is received before redemption. It parallels stored value wallet float, where digital balances sit before spending.

The difference is fragmentation. Loyalty float is trapped inside thousands of siloed systems, each operating independently. No shared rails. No settlement layer. No interoperability.

Structurally, loyalty float behaves like a single economic layer. And markets of that size eventually demand infrastructure.

Warren Buffett built a significant portion of Berkshire Hathaway's investment capacity on insurance float. Loyalty float operates on the same principle, at comparable scale, with far less sophistication. Insurance built that infrastructure over a century. Payments built it over decades. Loyalty is overdue.

When Scale Forces Reclassification

Loyalty began as a marketing innovation. That origin story still influences how executives talk about it. But when a system reaches trillion-dollar scale, is recorded as deferred revenue across global balance sheets, and behaves like structured stored value, it stops being "just marketing." It becomes infrastructure.

This is not unprecedented. Credit cards moved from gimmick to network infrastructure. Insurance moved from informal pooling to regulated capital markets. Payments moved from bilateral systems to global rails. Each of these categories went through the same reclassification — not because someone decided to rebrand them, but because scale forced the question.

Loyalty is at the same inflection point. Infrastructure is the next step.

What loyalty lacks is modern, shared rails. For the first time, blockchain provides the ability to create compliance-aware settlement layers capable of supporting that evolution. Not as speculation. Not as hype. But as infrastructure. This isn't about inventing a new economy. It's about modernizing an existing one.

Why This Reframe Matters

When loyalty is viewed correctly, the conversation changes — for everyone.

For consumers, portability and transparency increase confidence. Expiration without clarity erodes trust. The relationship between a brand and its most loyal customers deserves better architecture.

For CMOs, loyalty has reached functional saturation. Issuing more points does not automatically create more value. Increasing utility — without increasing cost — is the smarter lever.

For CFOs, deferred revenue transparency becomes strategic. Reduced reliance on breakage improves integrity. Capital efficiency improves when liabilities are structured properly.

For regulators, auditability matters. Settlement clarity matters. Structured transparency protects consumers.

The moment loyalty is recognized as a financial instrument, optimization shifts from engagement tactics to balance-sheet architecture. That shift is structural, not cosmetic.

The Structural Conclusion

Loyalty is already a market.

If it looks like a market, walks like a market, and talks like a market — it's a market.

Markets require infrastructure. At trillion-dollar scale, siloed systems cannot sustain the weight of the economic layer they represent. Shared rails, settlement clarity, and interoperability unlock the latent value trapped in fragmented systems. When value can move, value grows.

Loyalty is not a marketing tool hiding in plain sight. It is a financial instrument embedded inside everyday consumer behavior.

And financial instruments, at scale, inevitably evolve toward financial-grade infrastructure. That evolution is not speculative. It is already underway.

By Brad Harvey, Founder & Chairman, Project Loyalty

PROJECT LOYALTY

FINANCIAL INFRASTRUCTURE

LOYALTY ECONOMICS