

The Loyalty Liquidity Gap



**Expiration, Breakage, and the
Cost of Friction**

By Brad Harvey, Founder & Chairman, Project Loyalty



The Phrase That Frustrates Everyone

“Your points have expired.”

From an accounting standpoint, expiration is procedural. From a consumer standpoint, it feels like something was taken. That tension isn't just emotional — it's structural. And it sits at the center of what we call the **Loyalty Liquidity Gap**.

Loyalty at Global Scale

More than **\$1 trillion** in value is issued annually through points, miles, and rewards. Trillions more sit on balance sheets as deferred liabilities.

The Core Problem

If it looks like a market, walks like a market, and talks like a market — it's a market. And markets require infrastructure. Loyalty never truly received it.



The Accounting Reality — and Why It Developed

A meaningful percentage of loyalty value goes unredeemed every year. When that happens, companies recognize **breakage revenue**. Expiration rules, inactivity thresholds, and redemption curves are not accidents — they are modeled, forecasted, and built into financial planning.

Limits Liability

Reduces long-tail liability exposure on the balance sheet.

Creates Predictability

Enables predictable deferred revenue recognition over time.

Protects Balance Sheet

Provides protection in siloed, brand-isolated environments.

Reduces Complexity

Lowers operational reconciliation complexity across partners.

⚠ In early loyalty systems, expiration made structural sense. But we must distinguish between something that was **structurally necessary** — and something that is **structurally optimal**. They are not the same thing.

How Consumers Experience It

Consumers don't experience loyalty through the lens of accounting treatment. They experience it through **effort**.



They flew the miles.



They used the credit card.



They made the purchases.



They earned the rewards.

"You took my money."

Legally, that framing may be imperfect. Psychologically, it is precise. And perception drives behavior. Repeated expiration events create subtle but measurable effects on engagement, trust, and long-term participation.

Reduced Engagement

Members track rewards less actively

Lower Wallet Share

Spending concentration shifts away

Emotional Detachment

Attachment to programs quietly erodes

Eroded Trust

Gradual, measurable loss of confidence

📌 Breakage may improve quarterly optics. But suppressed engagement quietly caps long-term participation. That tradeoff rarely shows up on the same spreadsheet.

The Structural Tradeoff: Breakage vs. Velocity

Here's the real strategic question at the heart of loyalty economics.

Breakage / Static Yield

Generates revenue from inactivity. Closed, predictable, and finite. Relies on dormant balances and expiration as a control mechanism. Dormant balances accumulate. Liability opacity increases. Expiration becomes the safety valve.



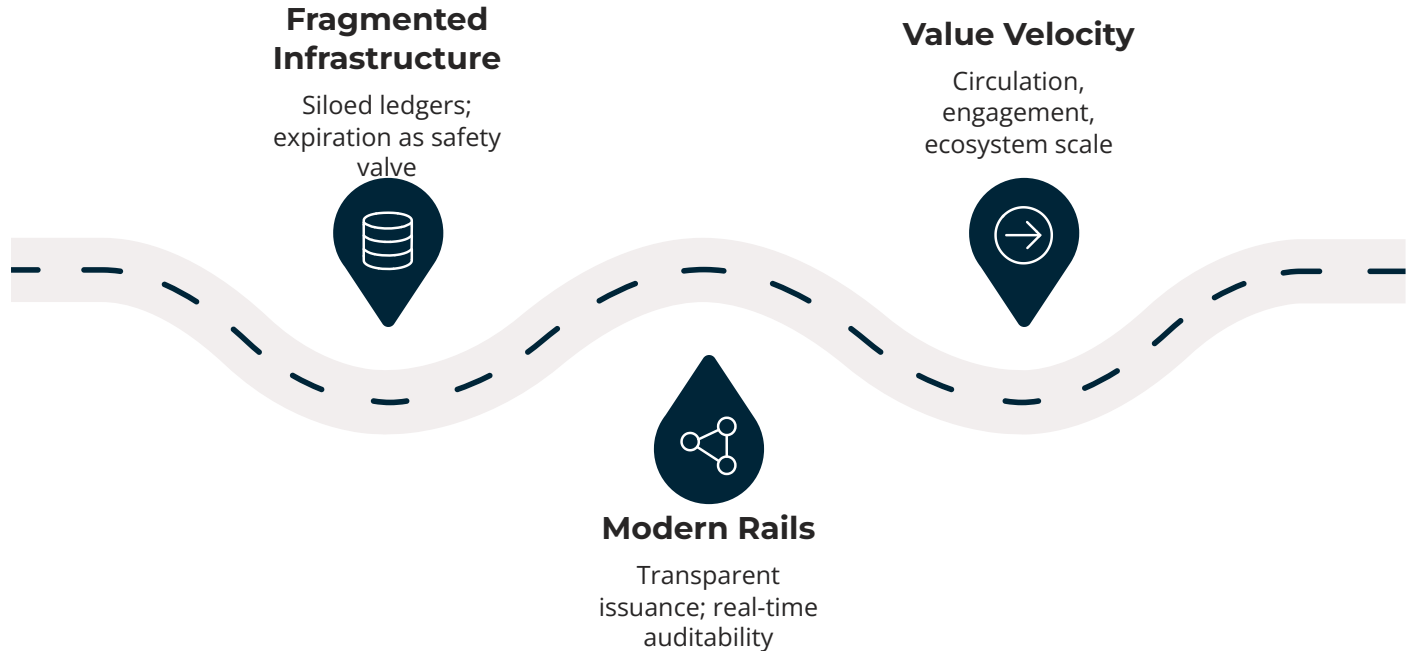
Liquidity / Dynamic Growth

Generates revenue from participation. Circulating, scalable, and compounding. Relies on interoperability and value velocity. Engagement frequency rises. Issuance confidence grows. Ecosystem scale expands.

Closed ecosystems already demonstrate this principle. Airline alliances increase route utility. Credit cards expand redemption across categories. Unified hotel portfolios increase retention and share of wallet. In each case, limited interoperability increases total system value.

- ⓘ Breakage is not the strategy. It is the **symptom**. Fragmentation is the underlying cause.

What Changes When Infrastructure Changes



When loyalty value can be transparently issued, auditable in real time, and settled across programs, liability management shifts from expiration to velocity. Circulating value behaves fundamentally differently than expiring value.

Engagement Frequency

Value that circulates creates more touchpoints, more interactions, and more reasons to participate actively in the ecosystem.

Issuance Confidence

When brands trust that issued value will circulate rather than accumulate as liability, they issue more generously and strategically.

Ecosystem Scale

Interoperable value compounds across partners, categories, and consumer segments — growing the total addressable market.

This is how every mature financial system evolves. Infrastructure precedes expansion. Settlement rails precede liquidity. Once rails exist, fragmentation compresses. Loyalty is simply late to that evolution.



STAKEHOLDER IMPLICATIONS

Stakeholder Implications

Translating the Loyalty Liquidity Gap structurally reveals distinct implications for every stakeholder in the ecosystem.

For Consumers

- Expiration erodes trust over time
- Portability increases perceived ownership
- Utility increases engagement confidence

For CMOs

- Loyalty has reached functional saturation
- Increasing issuance alone does not increase value
- Utility can increase engagement without proportionally increasing cost

For CFOs

- Transparent infrastructure improves deferred liability visibility
- Reduced reliance on breakage increases long-term predictability
- Velocity improves capital efficiency within incentive structures

For Regulators

- Auditability replaces opacity
- Settlement clarity reduces ambiguity
- Compliance-aligned ledgers improve systemic oversight

i This is not a moral argument against breakage. It is an **infrastructure argument for modernization.**

The Loyalty Liquidity Gap Defined

The Loyalty Liquidity Gap is not merely the hundreds of billions that go unredeemed each year. It is the structural gap between what loyalty is economically capable of — and what fragmented infrastructure currently allows.

Today, expiration is the visible friction. Breakage is the accounting expression of that friction. But the underlying constraint is infrastructure.



Real-time payments are normal



Cross-platform value transfer is normal



Wallet interoperability is normal



Instant balance visibility is expected

Loyalty infrastructure, by contrast, remains largely analog — brand-isolated ledgers, opaque liability tracking, and expiration used as a balancing mechanism.

\$1T+

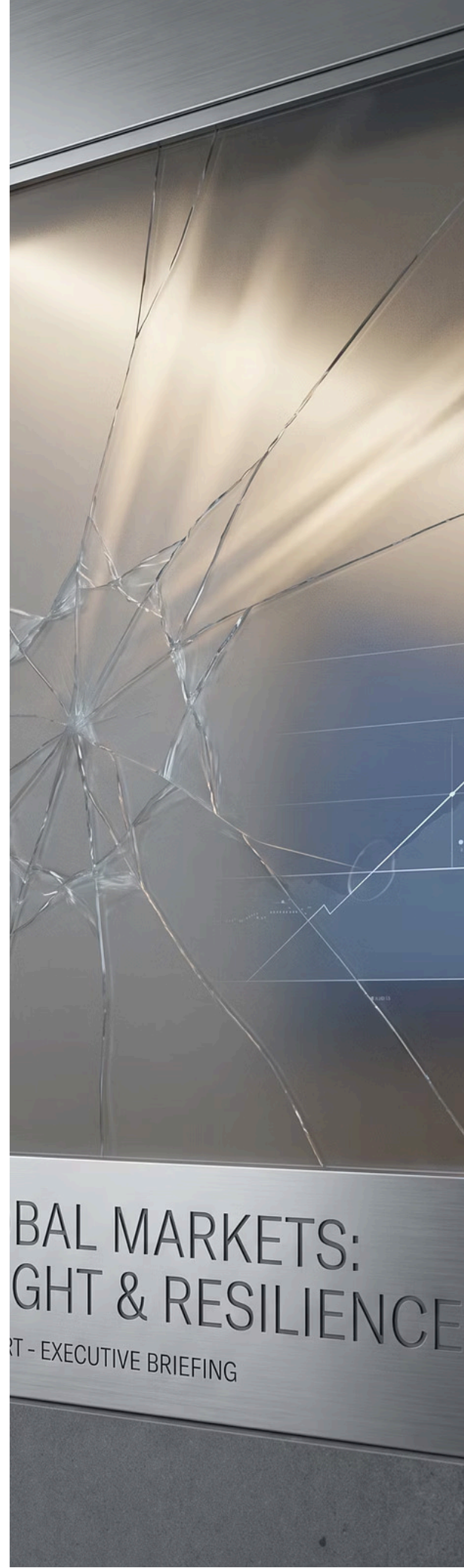
Issued Annually

In points, miles, and rewards globally each year

100S B

Unredeemed

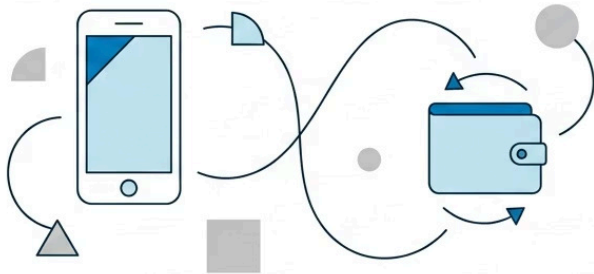
Hundreds of billions go dormant — not by choice, but by design



When Infrastructure Lags, Friction Accumulates

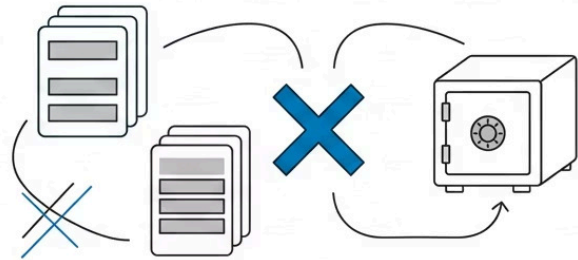
The pattern is clear when you step back. Digital consumer behavior has already modernized across every adjacent category. Loyalty infrastructure has not kept pace.

MODERN DIGITAL BEHAVIOR



Real-time payments
Cross-platform value transfer
Wallet interoperability
Instant balance visibility

LEGACY LOYALTY INFRASTRUCTURE



Brand-isolated ledgers
Opaque liability tracking
Expiration as balancing mechanism
Siloed reconciliation

When infrastructure lags behind behavior, friction accumulates. When infrastructure catches up, markets reorganize.

That reorganization is not speculative — it is how every large financial system matures. At trillion-dollar scale, fragmentation does not remain permanent once modern rails exist. Value consolidates. Standards emerge. Settlement becomes normalized.

The Only Strategic Question Is Timing

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The Loyalty Liquidity Gap will close. The only strategic question is timing.

Proactive Modernization

Brands modernize proactively and **participate in the expansion of value velocity** — capturing first-mover advantage as infrastructure evolves and consumer expectations shift.

Reactive Defense

Brands defend breakage economics until **consumer expectations force structural change** — ceding ground to more agile competitors and facing disruption on others' terms.

Loyalty is already too large to remain under-architected.

At \$1 trillion in annual issuance, the scale demands modern infrastructure — not legacy workarounds.

Infrastructure evolution is not optional at this scale.

Every mature financial system has followed this path. Loyalty is not exempt from that trajectory.

It is inevitable.

The question for every brand, CFO, and CMO is not *whether* this happens — but *when* they choose to lead it.