Whitepaper

Understanding the Costs of Missed Payments

How to prevent and recover aging debt to improve business resilience.

Sponsored by:

spendebt

Foreword

Committed to humanizing finance and developing inclusive, sustainable payment solutions that anticipate customer needs, SpenDebt, part of the award-winning Mastercard Start Path program is on a mission to transform the way businesses recover missed payments and the way customers pay their bills.

This whitepaper explores the growing need for such a unique, automated payment solution that brings brands closer to their customers and takes the burden of missed payments away from both the customer and business.

Approximately a 15-minute read, at the end of this whitepaper you'll have a deeper understanding of:

- The impact bad debt and missed payments have on consumers and their wider communities
- The rising costs and lost revenue businesses suffer as a result
- Which businesses are most affected
- How businesses are currently set-up to support their customers in their time of need
- How new solutions can help break the bad debt cycle

spendebt

Can you afford a 7% revenue loss every year?

Businesses need to find **new ways** to prevent and manage bad debt to stay competitive.

In an ideal world, customers would never miss a payment, and businesses would never have to recover past-due balances.

But the reality is less than ideal. With **1 in 10** Americans having at least one account in collections, the cost of falling behind – multiplied by every delinquent customer account a business serves – **is hugely costly**. Not only for the customer who owes and the business who's owed, but the wider community too.

Falling behind on payments can cause a vicious cycle of borrowing to stay afloat, defaulting on that balance and falling even further behind leading to poor credit ratings and low credit confidence.

The problem is wide-reaching, and to help become part of the solution, businesses need to fully understand the cost of missed payments and the wider impact it has.

The purpose of this guide is to explore the problem of being underwater from the customer and business viewpoints, and to offer an intervention solution that unites the two and works better for **everyone.**

Understanding the customer: how much do they owe?

Credit card balances, utility bills, mortgages, student and auto loans, medical bills – regardless of the type and reason, a tremendous amount of money – **$15.24 trillion**[1] – is collectively owed by American consumers to companies and organizations – and it's only getting worse.

Owing money in and of itself isn't bad, of course. It's when owing money becomes unmanageable and unaffordable when consumers *and* businesses begin to suffer.

Consider the following:

$15.24 trillion owed

The total amount owed in 2021 stood at **$15.24 trillion** – and that figure has grown by **31%** since 2013[2]

67.2% debt growth

Generation Z, the youngest generation, saw its collective balance grow by **67.2%** from 2019 to 2020[3]

11.5% debt growth

Millennials saw their total amount owed increase by **11.5%** during the same timeframe[4]

1 out of every **10**

30 million Americans – roughly **one out of every 10** people – have at least one account in collections[5]

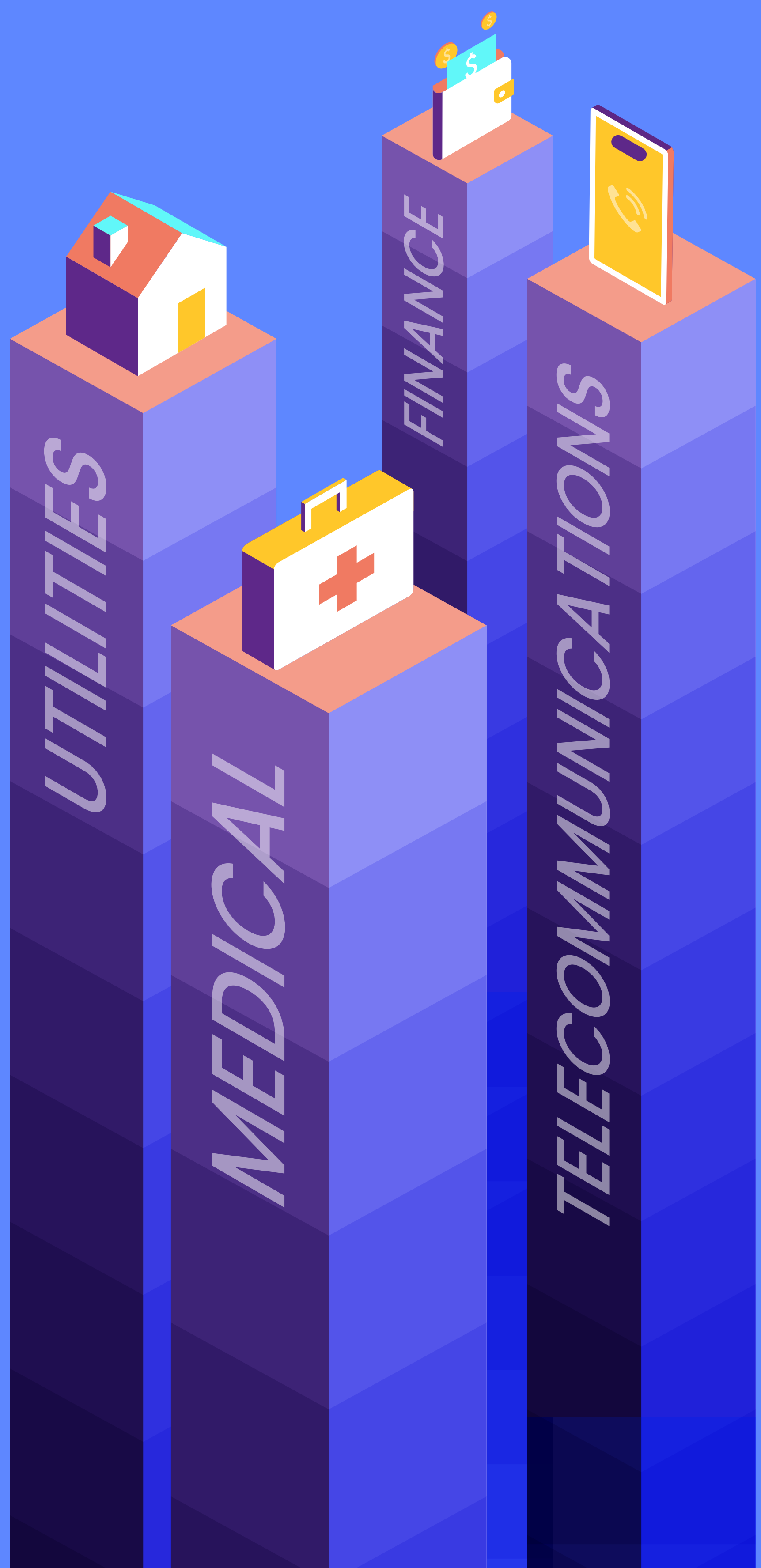
15% of POS finance

Point-of-sale (POS) financing is expected to be the source of **15%** of all unsecured balances owed in 2023, which could cause **higher missed payment rates** and amounts[6]

[1] https://www.newyorkfed.org/microeconomics/hhdc
[2] Quarterly Report on Household Debt and Credit, Fed. Reserve Bank of N.Y., Aug 2021
[3] https://www.experian.com/blogs/ask-experian/research/consumer-debt-study/
[4] Ibid
[5] Quarterly Report on Household Debt and Credit, Fed. Reserve Bank of N.Y., Aug 2021
[6] https://www.mckinsey.com/industries/financial-services/our-insights/buy-now-pay-later-five-business-models-to-compete

Most essential sectors for day-to-day living

There are four particular areas that are most critical for Americans and their day-to-day lives – areas that they rely on most and that are conversely most affected by missed payments: **Finance, Utilities, Telecommunications and Medical.**



Finance

Americans rely on credit extensively, and they pay a hefty premium to do so.

The percentage of household income dedicated to meeting financial obligations peaked in 2007 at **18%[7].** Even though it declined to a record low of **12.65%** at the beginning of 2021 – due to a combination of pandemic stimulus payments and low interest rates – a considerable chunk of disposable income goes toward paying what is owed.

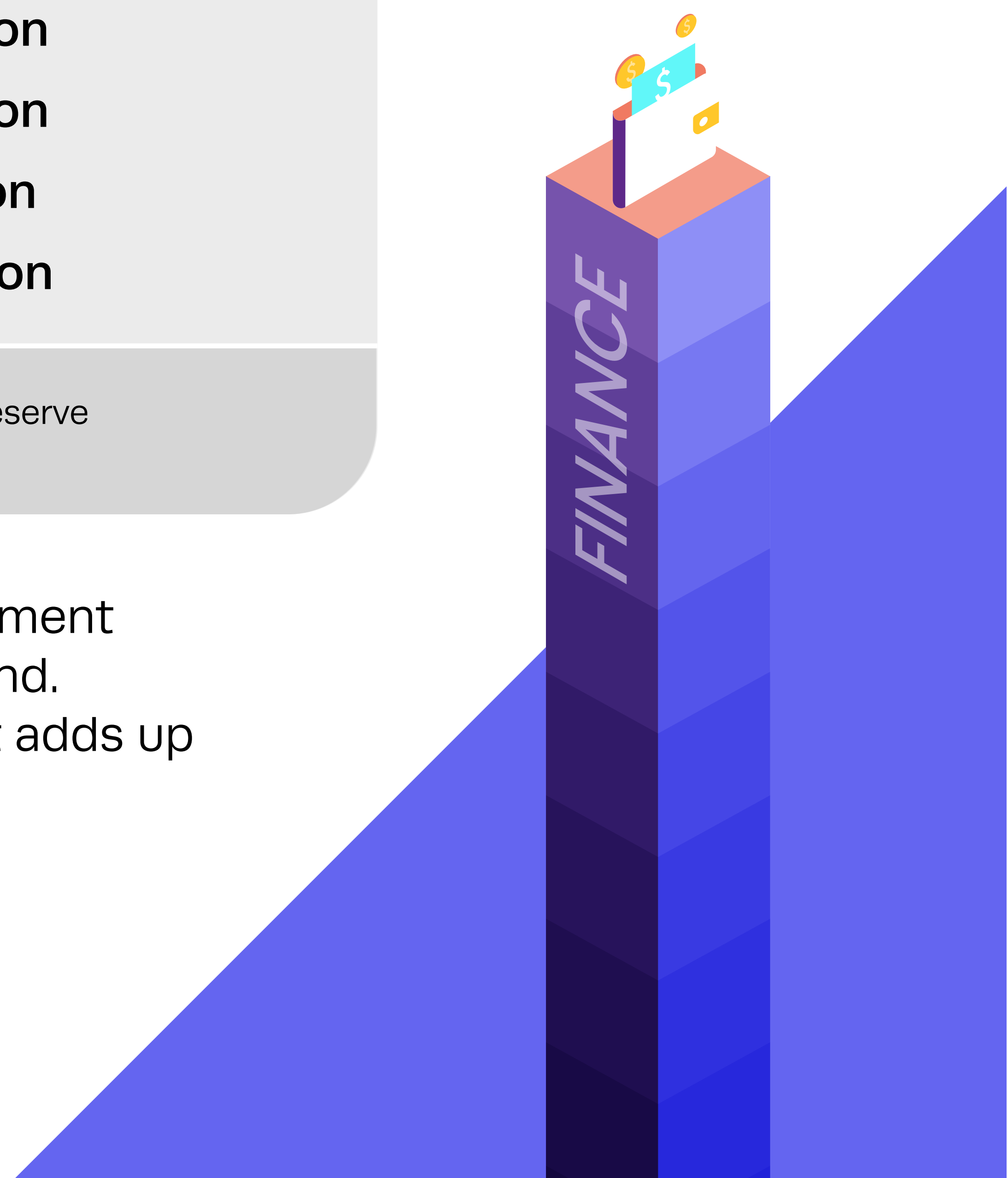
What do these financial obligations look like? They come in the form of mortgage loans, student loans, credit card balances, auto loans, and personal loans.

Outstanding Consumer Loans By Category (As of October 2021)

Category	Amount
Mortgage loans	**$17.5 trillion**
Student loans	**$1.75 trillion**
Credit card balances	**$806 billion**
Auto loans	**$1.3 trillion**
Personal loans	**$9.39 billion**

All statistics taken from Federal Reserve System's Consumer Credit report and Federal Reserve Economic Data (FRED) from the Federal Reserve Bank of St. Louis[8]

Financial institutions are having difficulties not just recovering payment on delinquent accounts, but also keeping customers who fall behind. Every customer who leaves represents a loss of lifetime value that adds up quickly for any given institution.



[7] https://www.federalreserve.gov/releases/housedebt/default.html
[8] https://fred.stlouisfed.org/release/tables?rid=52&eid=1192326

Utilities

For the typical American household, utilities (electricity, water, gas, sewerage, trash, and others) are necessary expenses that can't be easily reduced or eliminated – and any delinquency can result in cutting off crucial services no one can really live without.

The unfortunate reality is this:

54 million

A staggering **54 million** Americans will fall **90+ days** behind in payments

$19 billion

Collectively, Americans owe over **$19 billion** in past-due payments

1 out of every 5

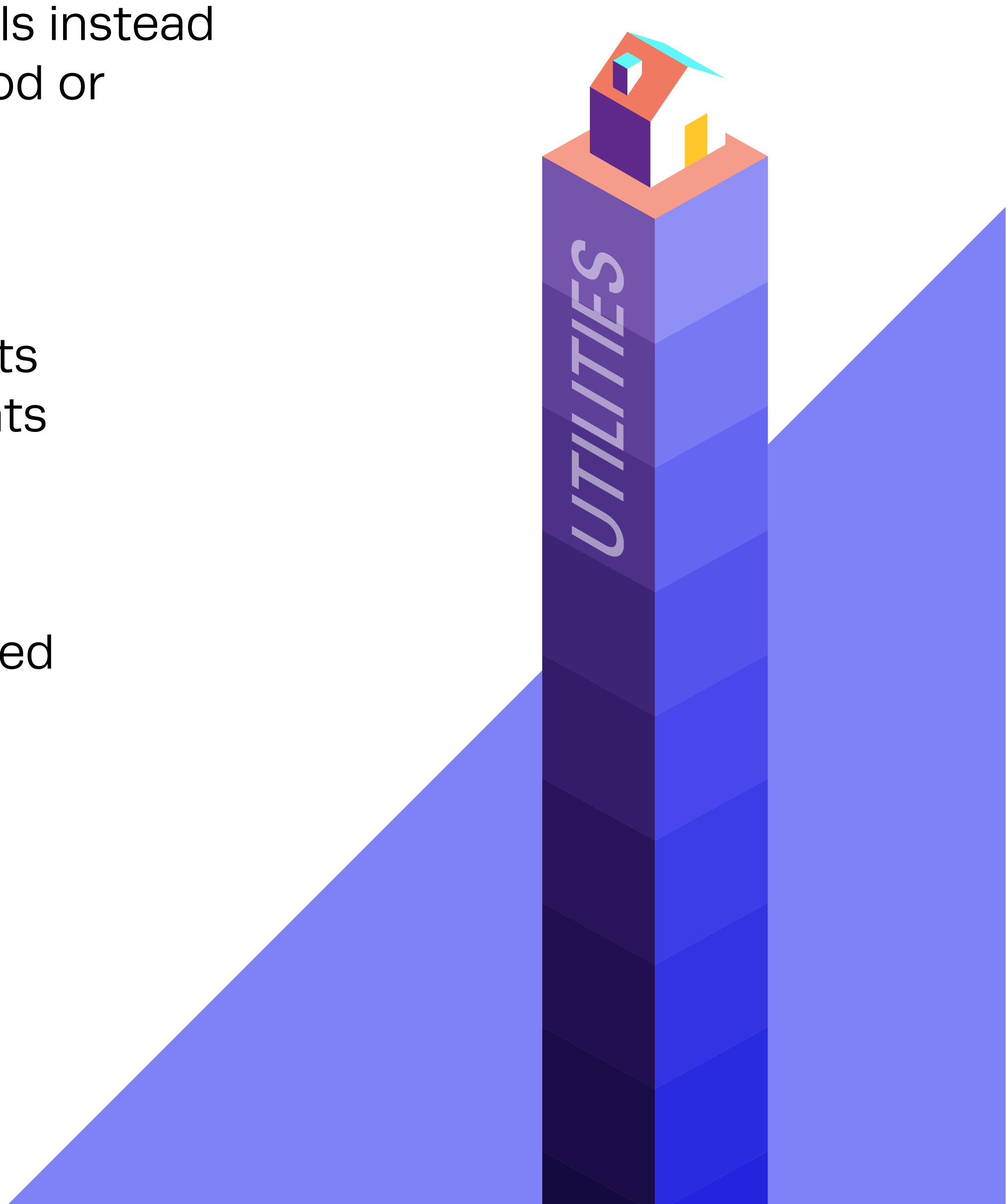
1 out of every 5 households earning up to twice the federal poverty level reported having to pay utility bills instead of buying food or medicine

1 out of every 8

1 out of every 8 of these households didn't pay last month's power bill[9]

Utility companies want to help, but they also need to keep the lights on (literally and figuratively). **Over 40%** of companies have accounts in collections, which can end up costing more than they're worth.

The federal government has not footed the bill, either; Congress has allocated **just 25%** of the total amount the states have reported they need to assist utilities and their customers[10].



[9] https://www.ewg.org/news-insights/news/pandemic-triggered-economic-crisis-millions-americans-struggle-pay-utility-bills
[10] https://neada.org/utilityshutoffsuspensions/

Telecommunications

There's no doubt that telecoms are vital for individuals to function in today's hyper-connected society.

It has become increasingly difficult to live, work, and learn without a phone and Internet access. But when customers can't pay these bills, they not only miss out on opportunities and fall behind the rest of society; they also represent lost revenue that a telco provider can't ever get back.

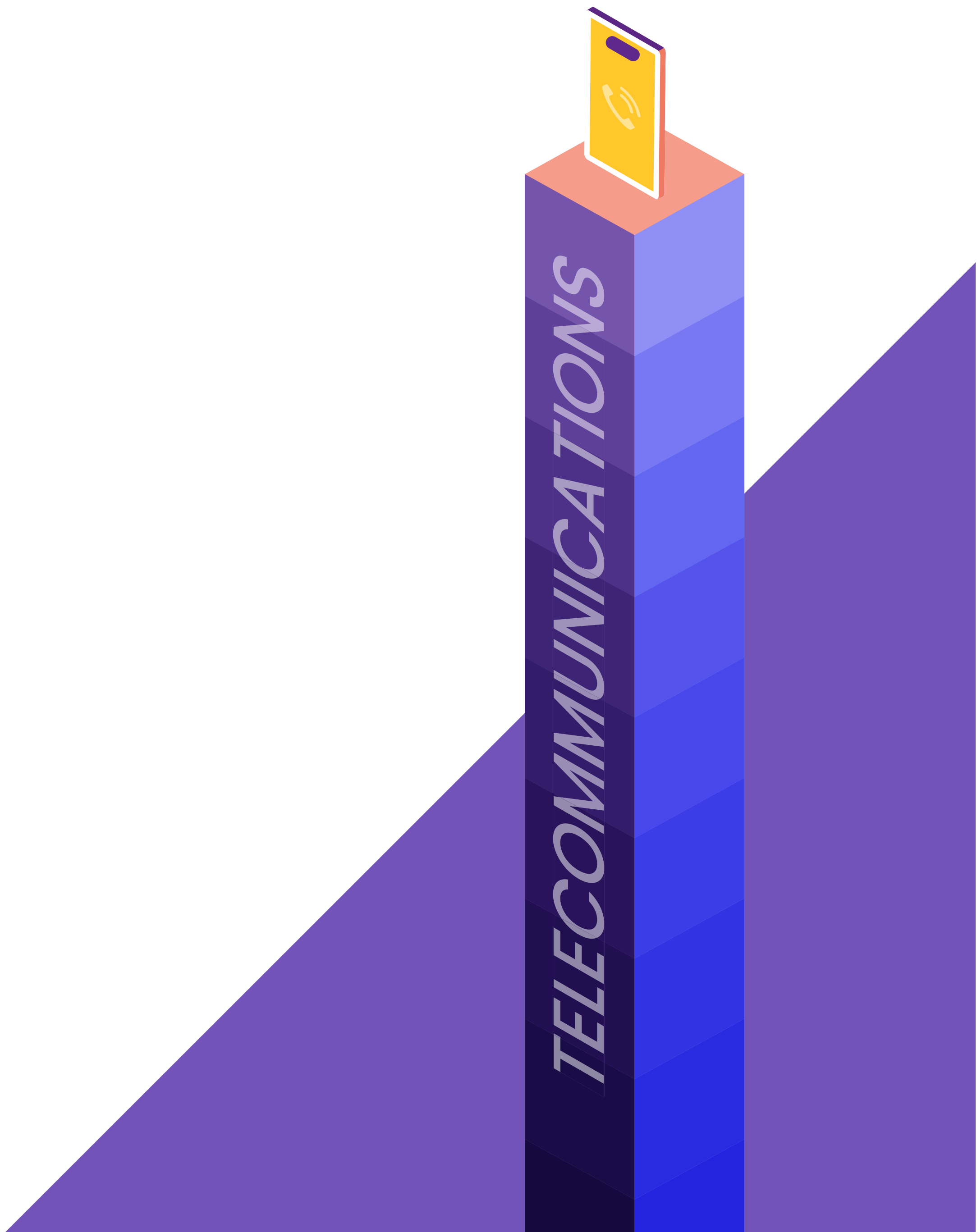
For example, some wireless carriers report losing **3% of their customer base each month[11].** Some of this is due to regular industry churn, but a growing percentage represents customers who can no longer pay their bills.

After just six months into the COVID-19 pandemic, **over 600,000** Americans could no longer afford to have an active phone service[12]. At the end of 2020, mostly due to the pandemic, the telecom industry reported a **3.4% decline in revenue[13].**

At the end of 2020 the telecom industry reported a 3.4% decline in revenue.

What compounds this issue is that lower-income Americans are increasingly reliant on smartphones for Internet access – meaning not being able to pay their phone bill also cuts them off from the World Wide Web that has become the primary way to find everything from jobs to housing for rent, government assistance, affordable healthcare, and more[14].

For telco providers, the implications are clear and direct: falling behind on payments results in customers often dropping out altogether, which has profound impacts not just on revenue, but on society as a whole.



[11] https://hbr.org/2016/03/winning-back-lost-customers
[12] https://blog.textnow.com/blog/2020/07/24/over-half-a-million-americans-cant-afford-their-phone-bill/
[13] https://www.analysysmason.com/research/content/short-reports/covid-19-operator-revenue-impact/
[14] https://www.pewresearch.org/internet/2015/04/01/chapter-two-usage-and-attitudes-toward-smartphones/#job%20seeking

Medical

The global COVID-19 pandemic has highlighted the importance of medical care, but for most Americans, paying for healthcare has been a problem since well before anyone ever heard of the word "coronavirus."

The truth is, while the U.S. spends more than anyone else on healthcare – **$3.6 trillion in 2018, or $11,000 per person** – the typical American household has struggled with rising costs, insurance premiums that continue to grow, and fewer overall benefits.

Even though the Affordable Care Act, introduced in 2010, reduced the number of uninsured and dampened the growth of healthcare costs, the situation today is still problematic.

Consider the following:

66%

66% of Americans who have declared bankruptcy named medical expenses as the number one reason[15]

29%

29% of Americans reported skipping medication` because it was` too expensive[16]

32%

32% of working Americans have medical debt, and **9% owe more than $10,000**

54%

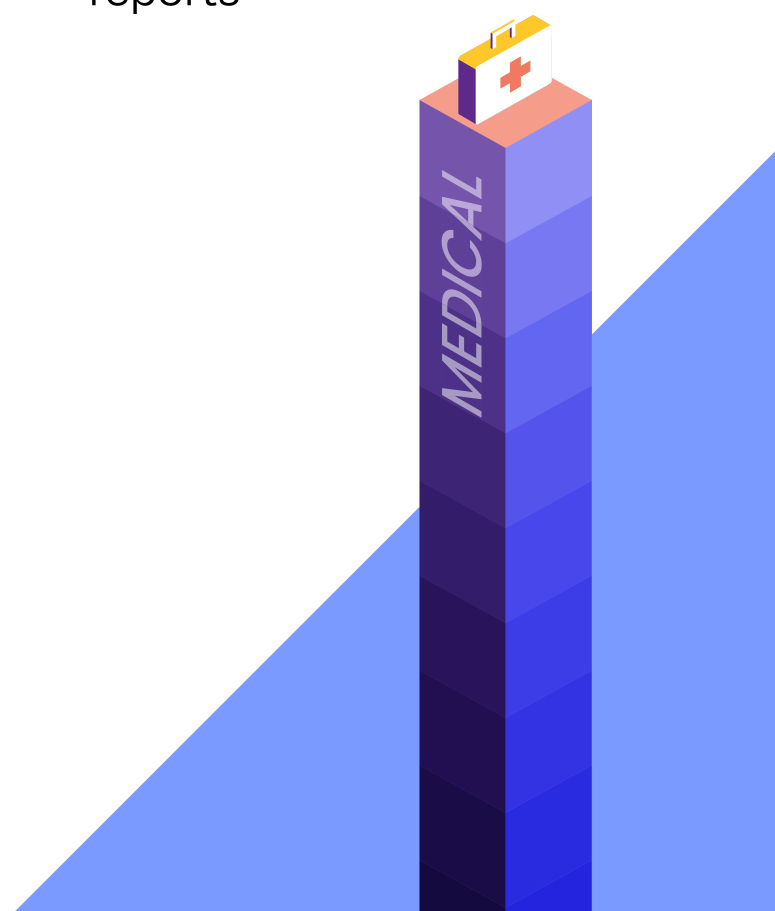
54% of those with medical debt have defaulted at least once on what they owe[17]

$140bn

Debt collectors hold **$140 billion in medical debt**, not including credit card balances and unpaid medical bills that haven't hit consumers' credit reports[18]

Healthcare providers aren't immune from these issues. The more Americans can't pay their medical bills (or get care in the first place), the more of a hit healthcare providers will take to their bottom lines.

Overall, across all verticals, this growing situation isn't just untenable for businesses' customers and the communities they serve; it's also problematic for **themselves.**



[16] https://www.cnbc.com/2019/02/11/this-is-the-real-reason-most-americans-file-for-bankruptcy.html
[17] https://www.kff.org/health-costs/issue-brief/americans-challenges-with-health-care-costs/
[18] https://www.cnbc.com/2020/02/13/one-third-of-american-workers-have-medical-debt-and-most-default.html
[19] https://siepr.stanford.edu/news/americas-medical-debt-much-worse-we-think

How much effort can and should we dedicate to this particular account?

The cost of collection: how current options aren't good enough

The cost of missed payments is one that every organization has to factor into their finances.

Every dollar that is owed to a business but isn't paid has a larger long-term impact to the bottom line beyond its face value.

To recoup lost payments, an organization has a few limited options:

1. Dedicate internal resources to communicating with delinquent customers
2. Hire a collection agency to interact with customers
3. Take legal action against the customer
4. Write off the owed balance either partially or totally

None of the above options are good – and each comes with real costs to the business.

1 Pursuing Collections Internally

The first option an organization takes when customers fall behind on their first payment is to contact the customer via an automated system (typically via email, phone, or text).

When this initial contact fails, though, the business has a tough decision to make: **"How much effort can and should we dedicate to this particular account?"**

The truth is, many organizations (especially small businesses) don't have any personnel or processes dedicated to collections. Even larger companies who do have these departments can only handle so much activity before they become overwhelmed.

2 Hiring a Collection Agency

Third-party collection agencies can devote more resources on a day-to-day basis to recouping what's owed than a typical organization can (or is willing to).

However, the typical agency only **recovers 20%** of the total balance on average – and they charge anywhere from **15% to 50%** of that balance[19].

Collection agencies can also rub customers the wrong way, which makes the customer less likely to do business with the organization in the future.

Some may say that losing a customer who falls behind isn't much of a loss. The truth is, many customers who fall behind on payments do so due to **temporary difficulties**. Once they get back above water, many remain loyal, long-term customers... *if* they're treated with compassion and fairness by the business.

[19] https://callminer.com/blog/state-debt-collection-2018- industry-statistics-trends-collection-practices

3 Taking Legal Action

No organization wants to file suit against a customer. Sometimes, though, it seems like the legal option is the only recourse. The problem is, this path is expensive and time-consuming, not to mention impractical for most customers whose outstanding balances may be far too small to justify the expense.

Considering the timeline – the court process could take up to two years or longer[20] – pursuing a legal option may come too late for the organization even if it is successfully resolved.

4 Writing Off the Balance

The last option is the most costly: writing off the owed balance either partially or entirely.

In fact, 10% of all payments owed to a small or medium-sized business are either never made or written off **completely** as a loss[21].

The longer the balance is owed, the less valuable it becomes to the business, and the lower the chances are that it'll be paid. For example, accounts receivable that are at least 90 days overdue lose 51.9% of their value[22].

Additionally, not being able to collect causes a domino effect on the business when their delinquent accounts receivable balance gets too high. This effect can lead to anything from higher operating and lending costs to employee layoffs and more.

[20] International Debt Collections Handbook: United States, Atradius Collections, 2021
[21] The Domino Effect: The Impact of Late Payments, Sage, 2019
[22] Ibid

Mitigating the cost of missed payments: how micropayments are a solution

Given the true cost of missed payments, it's in an organization's best interests to find a better, more sustainable solution.

Helping customers stay above water, particularly for services they rely on the most, unlocks benefits not only for businesses and customers, but their communities.

The best way to avoid the cost of missed payments is to help customers avoid missing payments in the first place.

Enter the micropayment solution: a small, predetermined amount that's added every time a customer swipes their debit card or has a banking transaction. These micropayments are aggregated over the course of the month and paid directly to the customer's balance with the business.

For example, a customer may decide to define their micropayment to $2. Then, every time the customer refuels, or buys groceries, with every swipe of their debit card or online banking transaction, that $2 micropayment is deducted and accumulated to pay down the customer's owed balance at the end of every month.

The benefits to this, for both the business and the customer, are numerous.

The business can:

- Recover a higher percentage of their outstanding accounts receivables
- Reduce operational expenses and collection costs
- Get paid back regardless of circumstances
- Improve customer experience and extend their lifetime value

The customer can:

- Build financial stability and reliability by gradually reducing debt
- Feel more in control and less overwhelmed by their burden
- Avoid costly alternatives – like short-term lending and bankruptcy – that neither the customer nor the business want
- Feel good building credit confidence and healthy credit scores

With micropayments, the aspiration of **"no more missed payments"** is possible. The traditional ways of handling aging debt or past due account balances are being replaced by newer, more innovative ways of recovering what's owed, and SpenDebt's micropayment solution is at the forefront of this movement.

Conclusion: prevention is better than cure

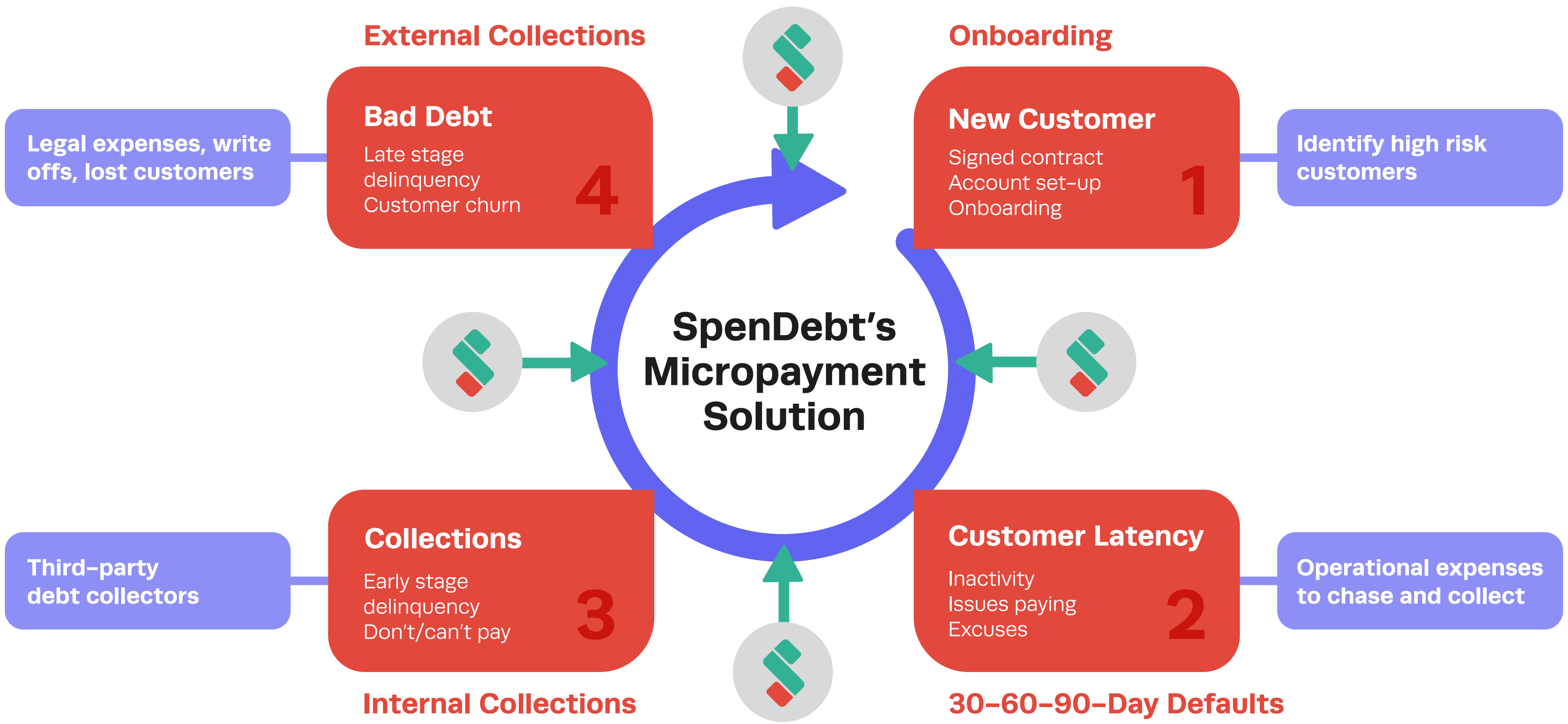
Uncollected, delinquent balances exact a high toll on the U.S. economy – a toll that is felt not just in aggregate, but at the individual level.

Better to use an intervention step that avoids costly debt collection – and even better prevents missed payments altogether – than let it get to the vicious cycle stage, where it gets more and more difficult to solve.

By helping consumers pay down what's owed using SpenDebt's micropayment solution, businesses show customers they care and cut their own losses at the same time. This builds more long-term business value through healthier customer relationships and healthier finances for all.

SpenDebt's micropayment solution meets customers where they are, helping businesses stay close to their customers.

Customer's Debt Cycle: SpenDebt can be added at any time to prevent stages 2, 3, and 4.



Part of the Mastercard Start Path program, which supports start-ups that represent the future of financial services – SpenDebt is accelerating the way they change the world by helping consumers become debt-free, while helping businesses to prevent and recover missed payments.

SpenDebt is not a debt collection agency and does not operate accordingly.

“We are pleased to welcome SpenDebt to the award-winning Mastercard Start Path program”

Amy Neale, Senior Vice President, Fintech & Enablers at Mastercard.

“We embrace the opportunity to partner with fintech companies like SpenDebt to help drive inclusion at scale and deliver solutions focused on doing well by doing good.”

To learn more about how SpenDebt's micropayment solution can help unlock long-term, win-win benefits for business *and* customers, **contact the SpenDebt team today.**

spendebt

info@spendebt.com · www.spendebt.com/business