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MEASURING FINANCIAL STRESS: NEW EVIDENCE FROM PAYMENT FAILURES

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Rising cost-of-living pressures continue to strain household budgets across Australia. To respond, policymakers require timely and reliable measures of financial hardship. This research note introduces a new high-frequency indicator of financial stress derived from failed direct debit payments in bank transaction data.

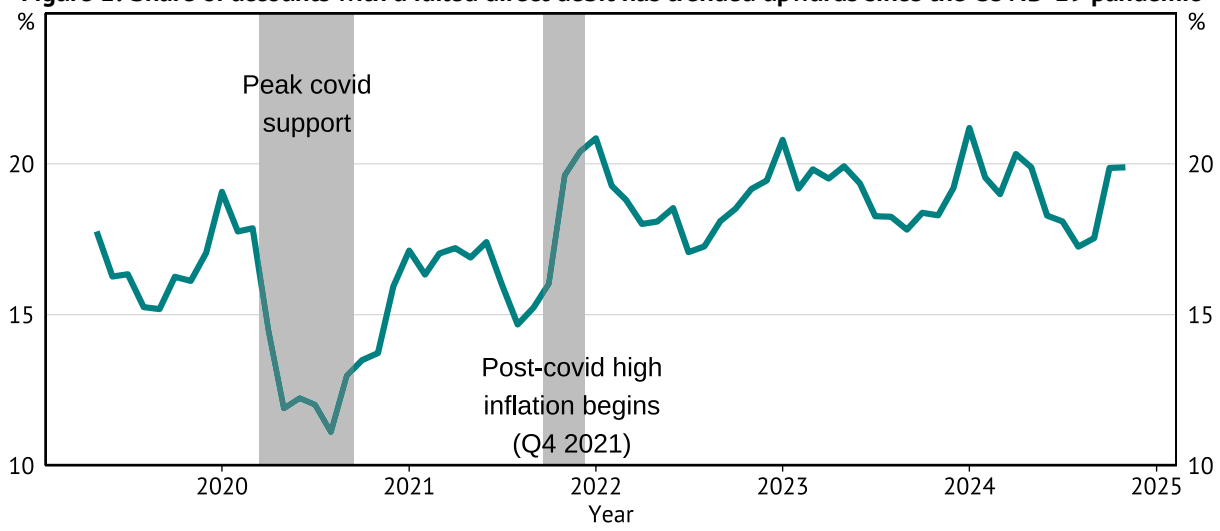
- Our analysis shows that failed payments have gradually increased since the phase-out of the large-scale income support measures introduced during the COVID-19 pandemic.
- The trend has been particularly pronounced among mortgage holders, coinciding with the Reserve Bank of Australia's interest rate increases since mid-2022. However, payment failures remain persistently higher among renters.
- Survey data confirms the validity of the indicator, with individuals experiencing payment failures much more likely to report broader financial difficulties.

This high frequency indicator could offer policymakers an early warning indicator of financial stress and inform targeted policy responses.

Australian households are feeling the pinch of rising prices. To respond, policymakers need to gauge the extent of financial hardship. While aggregate data on wages and inflation is helpful, it doesn't show the full picture of how households are coping. Some households might tap into savings, work extra hours, or cut back on spending. To study cost-of-living pressures, we need additional data sources.

Failed direct debits—automated payments that bounce due to insufficient funds—reveal when households cannot maintain their intended consumption patterns. These payment failures provide an unambiguous signal: a household was unable to meet a pre-committed payment, such as a loan repayment or a gym membership. Failed direct debits can provide a window into the extent of cost-of-living pressures.

Figure 1: Share of accounts with a failed direct debit has trended upwards since the COVID-19 pandemic



* Series calculated from aggregated and de-identified bank transaction data, sourced from more than 350 000 accounts in every month. Calculated as the share of accounts with one or more failed direct debit or dishonoured payment per month. Series has been weighted by area and income to match the distribution of area and income in the 2021 Census, but may remain unrepresentative of the Australian population in other dimensions. The panel is unbalanced since we only observe bank transactions for each account for some of the months.

We use millions of bank transactions to construct a monthly time series of failed direct debits. The series reveals an increasing trend in these payment failures since 2020, suggesting growing financial pressure on Australian households. Our transaction-based indicator measures the share of accounts with at least one failed direct debit in any given month (Figure 1).

If we focus on how the series has evolved over time, we can see large changes during the COVID-19 pandemic. Upon the onset of the pandemic, the share dropped 6 percentage points and remained low for around six to eight months, which roughly aligns with the timing of pandemic support policies. JobKeeper and the JobSeeker supplement were both wound back in late September 2020 (where the first bar of grey shading in Figure 1 ends), and the early super withdrawals were available until the end of December (see Khattar and La Cava, 2024 for more detail). The series shows a sharp increase in the fourth quarter of 2021. This coincides with the beginning of post-pandemic inflation, though the suddenness of the rise and the continued high inflation in later quarters suggest other factors may have contributed as well.[1]

Figure 2: Comparison between renters and mortgagers

* Series calculated from aggregated and de-identified bank transaction data, sourced from more than 130 000 accounts in every month for which we observe only a rental payment or only a mortgage payment in the month (between 30% and 40% of the full sample in all months). Calculated as the share of accounts with one or more failed direct debit or dishonoured payment per month. No weighting has been applied to the series so the sample may not be representative of the Australian population. The panel is unbalanced since we only observe bank transactions for each account for some of the months.

Since 2022, interest rates have increased sharply to temper rising inflation. Increasing interest rates can impact homeowners due to higher mortgage costs. Have we seen different trends in failed direct debits between mortgagors and renters? In Figure 2, we plot the series of failed direct debits for accounts which show a mortgage payment during the month and for accounts which show a rent payment during the month. Renter payment failures has been above mortgagor payment failures throughout the sample, which may reflect that renters on average have lower incomes. Movements in the difference appear to relate to both the cash rate, which puts financial pressure on mortgagors, and rent inflation, which puts financial pressure on renters. In late 2019, after RBA cut the cash rate three times, renter payment failures rose relative to mortgagor payment failures. In late 2021, when rent inflation picked up with the cash rate close to zero, renter payment failures again rose

1 From Q3 to Q4 2021, quarterly inflation jumped from 0.8% to 1.3%, and throughout 2022 remained at or above 1.8% per quarter. In the year to Q3 2021, quarterly inflation sat between 0.6% to 0.9%.

relative to mortgagor payment failures, but shortly after, once the cash rate began rising, the gap narrowed again.[2] Although we see a relationship between the cash rate, rent inflation, and failed direct debits, we cannot determine exactly what causes this connection.

The relationship between interest rates and failed direct debits could operate through other channels besides the impact of larger mortgage repayments. For example, as interest rates rise, households face stronger incentives to minimise balances in low-interest transaction accounts (often paying zero or minimal interest) and instead shift funds to higher-yielding accounts such as savings, offset, or redraw facilities. This portfolio reallocation may inadvertently increase the likelihood of insufficient funds being available when scheduled direct debits are processed. Understanding the behaviour associated with failed direct debits raises a more general question of whether these payment failures do measure financial stress.

Do payment failures really capture the financial stress associated with rising of cost-of-living? To validate our series, we ran a purpose-built survey to gauge the link between failed direct debits and financial stress. The survey covered 113 Australian residents and assessed how direct debit failures associate with experiences like feelings of stress, having difficulties meeting regular expenses, and being unable to access funds for emergencies.

The rates of failed direct debits match closely between the survey and the bank transaction data. In the survey, conducted in October 2024, 20.35% of the respondents reported that they had a failed direct debit in the past month. The bank transaction data shows that 19.87% of accounts had at least one failed direct debit in October 2024.

Direct debit failures were associated with all other indicators of financial stress. Someone who experienced a direct debit failure was more likely to answer affirmatively on every other stress-related question than someone who did not (Table 1, demonstrated by the positive values in the difference column).[3] The strongest associations were with experiences related to being short on funds, such as having low bank balances, being unable to raise emergency funds, and having difficulty meeting living expenses. There were weaker but still positive associations with more extreme experiences such as skipping meals, selling items to meet expenses, and missing rent or mortgage payments. These respondents may have been less likely to have ongoing direct debits in place. Interestingly, the vast majority of respondents had experienced feelings of financial stress (91 of 113 responses), so that question did not correlate highly with other responses.

Table 1: Selected survey results on direct debit failures and other indicators of financial stress

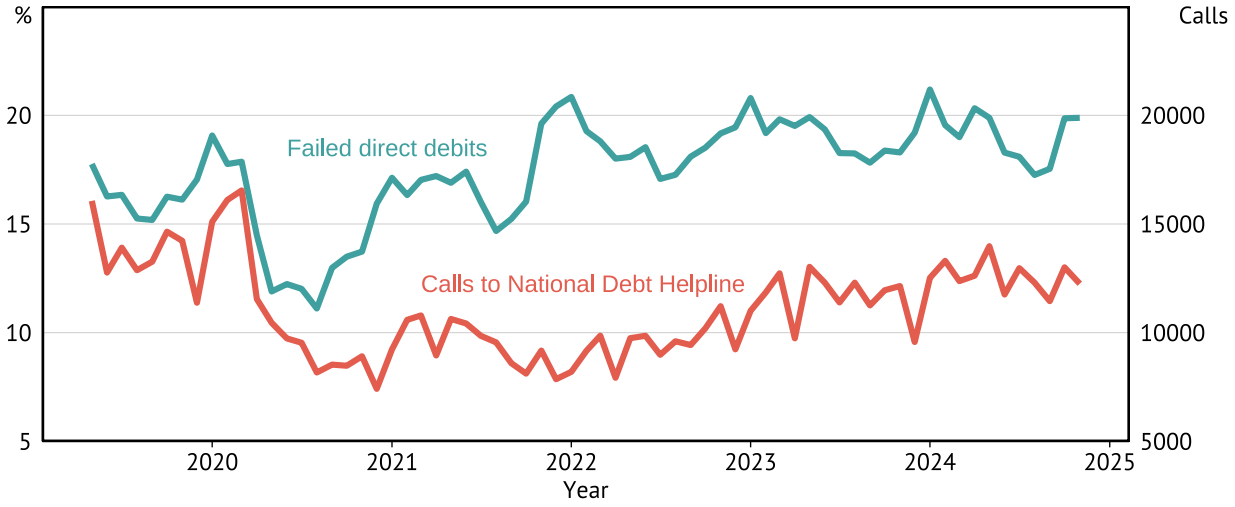
	Failed a direct debit in the past month		
	Yes	No	Difference (p.p.)
Answered yes (or an affirmative response) to	(23 respondents)	(90 respondents)	
Less than $100 in bank	83%	26%	57
Could not raise $4000 for emergency	87%	32%	55
Had difficulty meeting necessary living expenses	70%	21%	49
Late utilities payments (in past year)	52%	9%	43
Asked family/friends for financial help (in past year)	61%	24%	37
Pawned or sold something (in past year)	57%	22%	35
Late mortgage or rent payments (in past year)	43%	11%	32
Went without meals (in past year)	48%	23%	25
Have felt stressed by financial situation	100%	76%	24

Associations between failed direct debits and financial stress have also been shown in other research. For example, a study using bank transaction data from a large Australian bank, combined with a custom survey matched to the transaction data, shows a link between payment problems and financial well-being (Comerton-Forde et al., 2018, 2022).[4] Together, the existing literature and our survey results suggest that failed direct debits can serve as a useful proxy to identify individuals who are struggling financially.

2 The renter payment failures gap appears to slightly lead rent inflation. It may be that these movements in the renter gap are capturing the subset of the renter population that is changing homes at a given point in time. Rent inflation changes tend to happen earlier for them than for overall rent inflation. That is, owners tend to move rents to the market rate upon a change of tenancy, while rent changes for existing tenants tend to happen more slowly.
3 See Appendix A.2 for further details on the data in Table 1.
4 The researchers developed two distinct measures of financial well-being: a measure based on survey responses, and a measure derived from bank transactions, which combined several indicators including the presence of payday loans, measures of low bank balances, and the frequency of failed direct debits (which the authors call payment dishonours). The study found that financial well-being measured from bank transactions was strongly correlated with financial well-being measured from the survey.

How does the series of failed direct debits compare to other high frequency measures of financial stress? The National Debt Helpline, a not-for-profit service that helps people tackle their debt problems, releases data on the number of calls they receive per month. These data have been monitored by the RBA as an indicator for household financial stress (e.g. Section 5.3 of RBA, 2023). In Figure 3, we compare the series of failed direct debits to the National Debt Helpline call data. The trend in calls behaved similarly during the onset of the COVID-19 pandemic and since 2021, but there was less pickup in calls in late 2020 around the time that the pandemic support policies were phased out.

Figure 3: Comparison to National Debt Helpline Calls



* The failed direct debit series is calculated from aggregated and de-identified bank transaction data, sourced from more than 350 000 accounts in every month. Calculated as the share of accounts with one or more failed direct debit or dishonoured payment per month. Series has been weighted by area and income to match the distribution of area and income in the 2021 Census, but may remain unrepresentative of the Australian population in other dimensions. The panel is unbalanced since we only observe bank transactions for each account for some of the months. The National Debt Helpline series shows the number of calls recevied per month by the National Debt Helpline, which is publically available at the National Debt Helpline data portal.

A limitation of this analysis is that the bank transactions are only available for accounts that have opted into a credit check. Credit checks are most commonly used for loan applications, but are also conducted for buy-now pay-later products, personal financial management applications, and other financial products. We do not observe accounts that have not recently had a credit check, which could bias trends in the series.

Future research could benefit from analysing similar data from banks and other financial institutions, where data is available both for accounts that have and have not recently had a credit check. This would give us a more complete view of financial stress across the whole population. Please get in touch if you would like to discuss these possibilities further.

Failed direct debits are one of many indicators of financial stress. Our survey showed that having a low bank balance, applying for high interest or payday loans, and being late on mortgage or rent payments also trigger worry and anxiety. In future research, we will explore these and other dimensions to provide further insight on cost-of-living pressures.

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APPENDIX: MEASURING FINANCIAL STRESS: NEW EVIDENCE FROM PAYMENT FAILURES

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A.1. Constructing measures

We use bank transaction data to construct a measure of financial stress from the occurrence of failed direct debits. In this section, we describe the source of the bank transaction data and how we construct our measure.

A.1.1 bank transaction data

We use consented and de-identified bank transaction data collected by a large credit agency. Individuals submit their bank statements to the credit agency for credit checks and other related services when they apply to financial services, such as personal loans, buy-now pay-later services, and personal financial management applications.

For each month from April 2019 until November 2024, we select a sample of Australian residents according to two main criteria. Firstly, the individual must have at least five outgoing transactions across their bank statement in the month. Secondly, each transaction is linked to a credit check event, and we only use transactions where the first transaction in the credit check event occurs before the beginning of the month and the final transaction occurs after the end of the month.

The sample is an unbalanced panel. The sample of individuals will differ in each month, although we may observe some individuals in multiple months. The sample is large. In any given month, we observe more than 350 000 accounts.

Failed direct debits

Companies can use direct debits (automated payments) to collect money from an individual's bank account. If there is insufficient funds in the individual's bank account or some other error, the direct debit can fail. The bank statement shows two transactions for each failed direct debit: the initial payment the company attempted to collect and then an inflow for the same amount to show that the payment failed.

We create an indicator for whether an individual had at least one failed direct debit in a given month. Often the direct debits are from loan providers so the failed direct debit could correspond to a missed loan repayment. Of the top 20 issuers of direct debits in our data, 15 were loan providers. Other common sources of failed direct debits include gym memberships and payments to third party merchants, such as PayPal.

Weighting

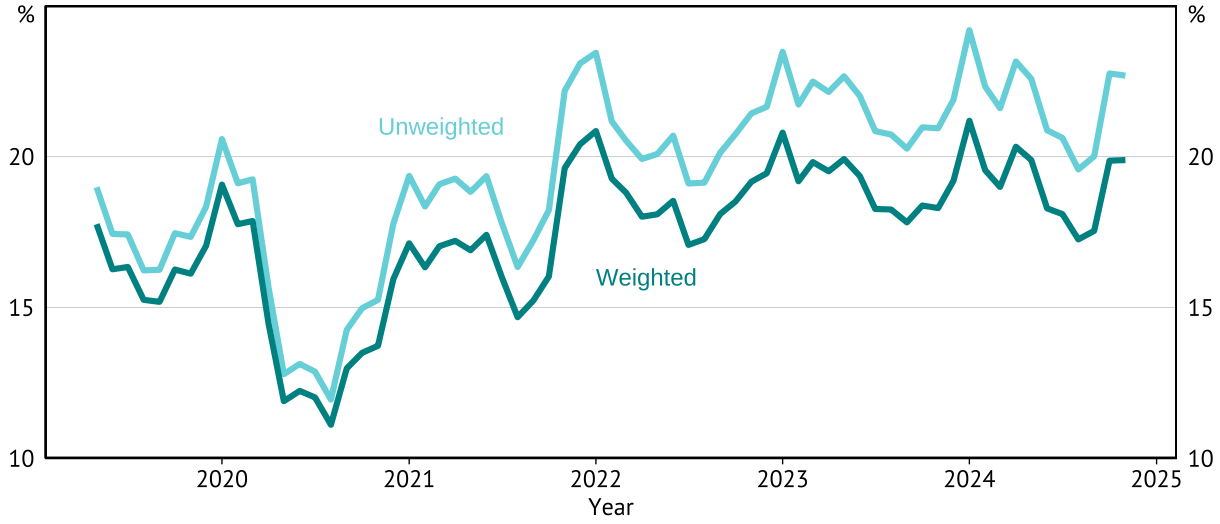
Since we only observe bank statements when the individual goes through a credit check, our sample is unrepresentative of the Australian population. Since the most common source of a credit check is when an individual applies for a loan, the sample is biased toward individuals with low income.

To improve the similarity between our sample and the Australian population, we use post-stratification weighting by income and geographic location. Figure A.1 shows a comparison between the weighted and unweighted series. The trends are the similar, but the weighted series is always lower than the unweighted series because our sample oversamples accounts with low incomes who are more likely to have failed direct debits.

We use discrete income buckets and locations at the ABS Statistical Area 4 (SA4) level. Data is compared to the most recent available census data from 2021. Post-tax income is estimated from bank transaction data by summing all positive inflows classified as a salary, wage, or other income by the financial institution's classification system, which is then used to estimate pre-tax income. Pre-tax income is grouped into four weekly-income buckets of: $0-$399, $400-$999, $1000-$1749, $1750+.

We create strata as the Cartesian product of the 89 SA4s and the four income buckets with at least one observation in both bank transaction data and the census, leading to 356 total strata. Individuals from the bank transaction data are classified into a stratum, and estimates of each indicator are produced at the strata level. We take the weighted average of strata-level

Figure A.1: Comparison between the weighted and unweighted series



* Series calculated from aggregated and de-identified bank transaction data, sourced from more than 350 000 accounts in every month. Calculated as the share of accounts with one or more failed direct debit or dishonoured payment per month. The weighted series has been weighted by area and income to match the distribution of area and income in the 2021 Census, but may remain unrepresentative of the Australian population in other dimensions. The panel is unbalanced since we only observe bank transactions for each account for some of the months.

indicators as the weighted indicator, with weights taken from the probabilities of observing a unit in each strata from 2021 census data.

Geographic location data is collected when the address is captured successfully from the individuals bank statement, but this location measure is missing for about 13% of individuals. To assign the individuals with a missing location to an SA4, we use the location revealed in transaction descriptions. The transaction description often contains suburb names than can then be mapped to an SA4. We use the internal classification system to derive the suburb name from the transaction description and match it to a set of possible postcode matches. We then map the postcodes to the larger SA4 level. If the individual's transactions cover multiple SA4s, we use the most common SA4. When there is uncertainty in the suburb match, in the case of multiple SA4s matching to a suburb, each potential postcode is attributed a proportion of the transaction based on the number of potential SA4s. Transactions without a suburb name are not considered.

A.2. Survey questions, responses and administration

Questions

Below are the survey questions asked of participants. For each of the categorical-response questions, we have also included in bold parentheses the number of respondents that selected that response. The response numbers differ from those in Table 1 because these counts include those that gave an incorrect response for the attention-check question (question 9), while Table 1 removes those responses. Differences between the number of responses and total respondents can arise if participants selected an invalid or blank answer.

For the open-ended survey responses, we asked Claude, a Generative AI model to summarise the responses. The number in bold parentheses is the number of responses that were summarised and the paragraph in italics is the summary Claude produced. We used the following prompt to the generate the summaries: "You are an economist specialising in open-ended survey responses. Please summarise the attached survey responses into one paragraph. The responses were to a question: [survey question]".

1. In the past month, have you felt stressed by your financial situation?
    - Yes **(103)**
    - No **(25)**

2. (If answered "Yes" to question 1)
   What caused you to feel stressed about your financial situation? **(100)**

   The predominant financial stressors revolve around housing affordability and the broader cost of living crisis. Many respondents expressed anxiety about their inability to enter the housing market or maintain mortgage payments amid rising interest rates, while renters reported stress from escalating rental costs. A recurring theme was the widening gap between stagnant incomes and rapidly increasing prices for essential goods and services, particularly groceries and utilities. Job insecurity and irregular income emerged as significant concerns, especially among students, casual workers, and independent contractors. Many respondents highlighted their lack of financial safety nets, whether due to minimal savings, absence of family support, or single-income households, which heightened their anxiety about unexpected expenses. The responses paint a picture of people living paycheck to paycheck, struggling to balance basic necessities with any form of lifestyle spending, and feeling trapped or powerless in their financial situations.

3. Are there specific types of expenses that you find particularly stressful? **(123)**

   Housing costs emerge as the predominant financial stressor, with rent and mortgage payments frequently cited as major concerns. Utilities and food expenses share the second position as significant sources of stress, with many respondents specifically mentioning rising electricity bills and increasing grocery costs due to inflation. Transportation-related expenses, particularly car maintenance and fuel costs, also feature prominently in the responses. Unexpected or emergency expenses represent another important category of financial stress, with respondents expressing anxiety about their ability to handle unplanned costs. Medical expenses, while mentioned less frequently, are noted as particularly stressful due to their often substantial nature. A notable pattern in the responses is the interconnected nature of these stressors, with many respondents indicating that it's the combination of regular essential expenses (housing, utilities, food) alongside unexpected costs that creates the most financial pressure.

4. How do your spending patterns change when you feel stressed by financial situation? **(125)**

   Respondents predominantly respond to financial stress by significantly reducing their discretionary spending and adopting more frugal behaviours. Many respondents report cutting back on social activities, entertainment, and eating out, while focusing only on essential purchases. A common theme is increased attention to budgeting and price comparison, with many people actively seeking cheaper alternatives for groceries and household items. Some respondents mentioned compromising on food quality, often choosing less healthy but more affordable options, while others reported stretching their groceries through careful meal planning. Interestingly, a small subset of respondents indicated that financial stress leads to comfort spending or impulsive purchases, particularly on food, alcohol, or shopping, while another small group reported no changes in their spending patterns, either because they already maintain strict budgets or feel unaffected by financial pressure. Several respondents described emotional responses to spending during financial stress, including anxiety about even small purchases and guilt about buying essential items, leading to behaviours like delaying payments or completely avoiding certain necessary expenses.

5. Imagine that you are looking at your bank statement. Which transactions on your bank statement do you associate with a stressful financial situation? **(125)**

   The most frequently mentioned stressors are housing costs (rent and mortgage payments), followed by utility bills (electricity, water, gas) and essential expenses like groceries. Many respondents highlighted large, one-time payments such as medical bills, car expenses, and insurance payments as particularly stressful. Unexpected or emergency expenses were consistently cited as anxiety-inducing, especially when they exceeded $ 100-200. Several respondents mentioned the cumulative stress of smaller recurring charges like subscriptions and everyday expenses that "add up quickly." A few respondents specifically noted bank fees, credit card interest, and late payment penalties as stress-inducing. Interestingly, a small number of respondents indicated they experienced no financial stress from transactions, usually attributing this

to careful financial management or regular monitoring of their accounts.

6. Which of the following situations would cause you the most worry or anxiety?
    - Applying for a high interest or payday loan. **(14)**
    - Being late on mortgage or rent payments. **(37)**
    - A direct debit (regular automatic payment) does not go through due to insufficient funds. **(20)**
    - Having a low bank balance (less than $100) **(51)**
    - Other **(0)**
7. Suppose you had only one week to raise $4000 for an emergency. Which of the following best describes how hard it would be for you to get that money?
    - I could easily raise the money **(30)**
    - I could raise the money, but it would involve some sacrifices (e.g., reduced spending, selling a possession) **(42)**
    - I would have to do something drastic to raise the money (e.g., selling an important possession) **(32)**
    - I don't think I could raise the money **(24)**
8. (Skip if answered "I don't think I could raise the money")
   How would you obtain the $4000 for the emergency?
    - Use savings **(61)**
    - Borrow from a relative who lives with you **(6)**
    - Borrow from a relative who lives elsewhere **(18)**
    - Borrow from a friend **(1)**
    - Borrow from a financial institution or use credit **(3)**
    - Sell an asset **(11)**
    - Use some other method to find the money **(1)**

   The next question is about the following problem. In questionnaires like ours, sometimes there are participants who do not carefully read the questions and just quickly click through the survey. This means that there are a lot of random answers which compromise the results of research studies. To show that you read our questions carefully, please enter turquoise as your answer to the next question.

9. What is your favourite colour? **(113 answered correctly)**
10. In the past month, how difficult was it for you to meet your necessary cost of living expenses like housing, electricity, water, health care, food, clothing, or transport?
    - Very difficult **(11)**
    - Difficult **(29)**
    - Neither difficult nor easy **(44)**
    - Easy **(24)**
    - Very easy **(14)**
11. In the past month, how often did you have a balance of less than $100 in your bank account?
    - Always **(11)**
    - Very often **(20)**
    - Sometimes **(15)**
    - Rarely **(19)**
    - Never **(60)**
12. In the past month, did you apply for any high interest or payday loans?
    - Yes **(4)**
    - No **(121)**

13. In the past month, were you late on any mortgage or rent payments?
    - Yes **(15)**
    - No **(109)**
14. In the past month, did any of your direct debits (regular automatic payments) fail to go through due to insufficient funds in your bank account?
    - Yes **(27)**
    - No **(98)**
15. Since January 2024, did any of the following happen to you because of a shortage of money?
    - Could not pay electricity, gas or telephone bills on time **(25 yes; 101 no)**
    - Could not pay the mortgage or rent on time **(22 yes; 104 no)**
    - Pawned or sold something **(37 yes; 90 no)**
    - Went without meals **(35 yes; 91 no)**
    - Was unable to heat home **(16 yes; 109 no)**
    - Asked for financial help from friends or family **(42 yes; 83 no)**
    - Asked for help from welfare / community organisations **(8 yes; 117 no)**

Survey administration

We conducted our survey using the Prolific survey platform between 1 and 3 October 2024. We collected 129 responses, of which 14 were excluded that were either incomplete, did not pass the attention check question, or did not answer at least one of the open-ended questions. Our final sample had 113 respondents.

Respondents took on average 4 minutes and 49 seconds to complete the survey and were paid 4.2 AUD, which equates to an hourly rate of 52 AUD per hour.

Below is the information presented to participants prior to beginning the survey questions.

Welcome screen

Thank you for your interest in our survey.

It should take 5-10 minutes to complete.

Participant information sheet

This survey is part of a project to investigate patterns of financial stress among people living in Australia. We define financial stress as any anxiety or worry you feel related to your financial situation.

We value your input. There are no right or wrong answers. Please share your views openly.

The survey is anonymous. We do not collect any personal data.

Participation is voluntary. If you do not want to take part, you do not have to. You may exit the survey at any time. Responses on an incomplete survey will not be recorded. Once you have submitted the survey, however, we will not be able to withdraw your responses as the survey is anonymous and we cannot determine which response was yours.

If you decide to take part in the research study, we will ask you questions about your experiences of financial stress. It should take approximately 10 minutes to complete.

We hope to use information we get from this research study to improve understanding of the causes and consequences of financial stress.

Submission of this online survey is an indication of your consent. By clicking the 'I agree to participate' button you are providing your permission for the research team to collect and use information about you for the research study.

The research team will store the data collected in this survey for a minimum of five years after the publication of the research results. The survey responses will be stored on a secure cloud server managed by the e61 Institute. In line with open data practices, a public version of the survey responses may be posted on an open data repository. All free text survey responses will be removed from this public version.

The research team intends to publish the results of the research. All information will be published in a way that will not identify you. If you would like a copy of the research results, please follow publication releases on the e61 Institute website.

If you require further information regarding this study or if you have any problems which may be related to your involvement in the study, you can contact the following member of the research team:

Name: Nick Garvin
Position: Research Manager
Email:

By checking the "I agree, start survey" option below:

- I understand I am being asked to provide consent to participate in this research study;
- I have read the Participant Information provided above;
- I provide my consent for my survey responses to be used for the purpose of this research study only;
- I understand that if necessary, I can ask questions and the research team will respond to my questions;
- I freely agree to participate in this research study as described and understand that I am free to withdraw at any time during the study and withdrawal will not affect my relationship with any of the named organisations and/or research team members.

I agree, start survey.
I do not agree, leave survey.

Data used for Table 1

The data in Table 1 is filtered down to only respondents that responded with 'turquoise' in Question 9.

Table 1 converts some categorical question responses into a binary variable of affirmative or not. The conversions are:

- For 'Less than $100 in bank", affirmative means either "Sometimes", "Very often" or "Always".
- For "Could not raise $4000 for an emergency", affirmative means either "would have to do something drastic" or "I don't think I could".
- For "Had difficulty meeting living expenses", affirmative means either "Difficult" or "Very difficult".

Some survey responses are omitted from the table but, as mentioned in the text, all had positive relationships with direct debit failures.

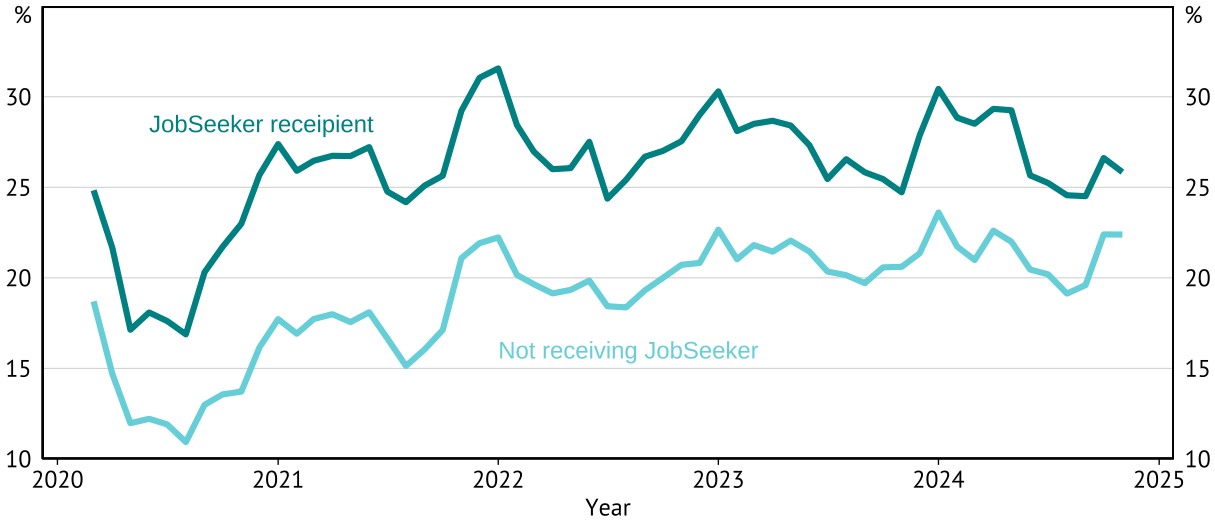
A.3. Additional results

Jobseeker comparison

Figure A.2 provides a comparison of the incidence of failed direct debits for accounts which show receipt of a JobSeeker payment (unemployment benefits) and accounts that do not. In any given month, JobSeeker recipients make up between 8.5% and 21% of the sample.

The graph highlights a persistent disparity in payment failures between JobSeeker recipients and non-recipients. JobSeeker recipients consistently experience a higher rate of payment failures, fluctuating around 25-30%, compared to non-recipients, whose failure rate remains lower but has risen gradually over time. Notably, there is a sharp decline in failed payments among JobSeeker recipients in mid-2020, likely reflecting the temporary increase in government support during the COVID-19 pandemic.

Figure A.2: Jobseekers show higher incidence of failed payments



* Series calculated from aggregated and de-identified bank transaction data, sourced from more than 350 000 accounts in every month. Calculated as the share of accounts with one or more failed direct debit or dishonoured payment per month. The series is split into two groups: accounts for which we observe receipt of a JobSeeker payment and those for which we do not. No weighting has been applied to the series so the sample may not be representative of the Australian population. The panel is unbalanced since we only observe bank transactions for each account for some of the months.