

UK Card Payments Summary 2016

This is a summary of The UK Cards Association's UK Card Payments 2016 publication, which sets out information on who uses cards, how and where they use them and how this is likely to change over the next ten years.

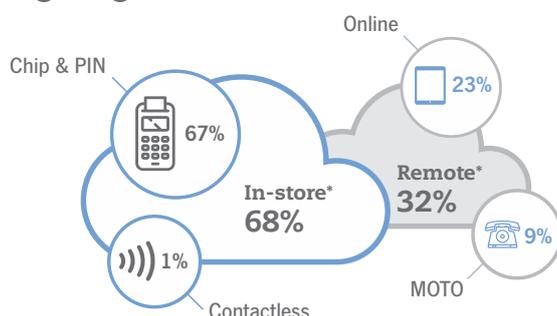
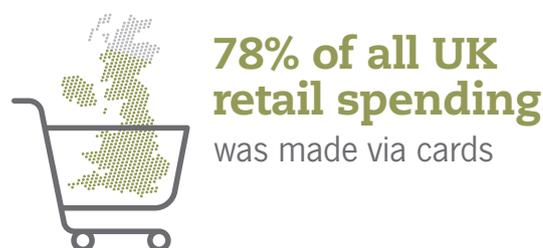
A full copy of UK Card Payments 2016 can be purchased for £750 from: press@ukcards-ffauk.org.uk

Card payments play a crucial role in everyday life

Card spending continued to increase in 2015. Spending was up by 9.6% compared with 2014 and amounted to £660 billion across 15 billion transactions. This equates to 35% of UK GDP in 2015. While the number of cards in use has increased during 2015, this growth (2.3%) is less than the significant growth in the number and value of card transactions. This shows that consumers are using their cards more frequently; across different channels (in-store or remotely) and in various forms (wearables, mobile, in-app etc.).

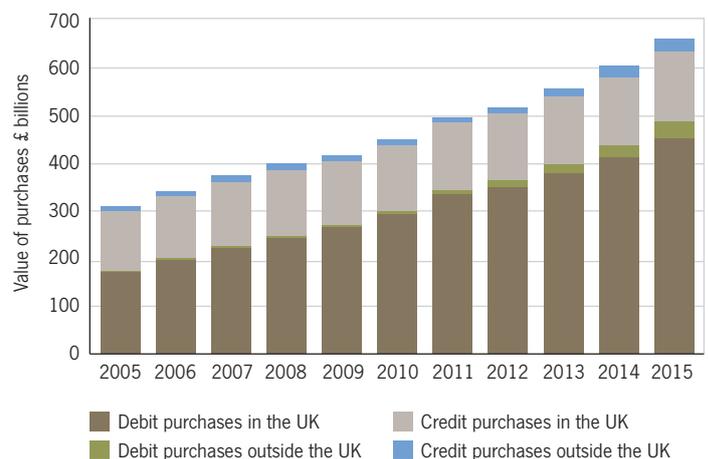
In 2015 a key driver of more frequent card use was the substantial growth in contactless payments; the total number made in 2015 was more than double the preceding seven years combined. Contactless technology makes life more convenient for consumers, providing an alternative to cash for lower value transactions. Contactless now represents more than 12% of all card payments in the UK, and the corresponding average transaction value (ATV) across all cards has declined by £2.06 to £45.24.

E-commerce also performed strongly in 2015, aided by emerging technology and changing consumer habits. 23% of card spending at UK retailers is now online, with shoppers benefiting from convenience and protection.



*spending

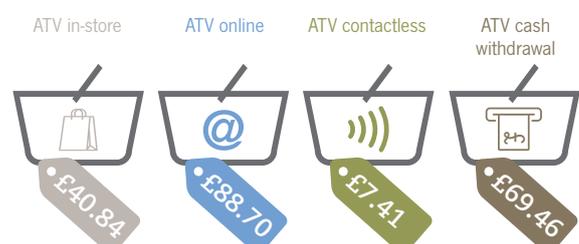
Value of credit and debit card purchases



Cardholders



Card average transaction values at UK businesses in 2015:



Contactless cards

The popularity of contactless payments is continuing to grow across the UK. Total contactless spending in 2015 was more than double the preceding seven years combined, reaching £7.75bn. By the end of the year, one in every eight card payments was contactless.

1 out of 8 card payments is contactless



Contactless technology comes in several forms, including cards, smartphones and wearables such as wristbands (which host a re-loadable prepaid card chip).

Since the introduction of contactless in 2007, the number of contactless cards has grown exponentially, with the number of new cards issued in 2015 growing by 37% to 79 million, accounting for 49% of debit, credit and charge cards. The number of contactless debit cards rose to 55 million, accounting for 56% of the total number of debit cards. Contactless credit and charge cards amounted to 24 million, accounting for 38% of the total number of credit and charge cards.

Significant events driving this momentum included strong growth in usage on the Transport for London (TfL) network, consistently representing 11% of all contactless payments throughout the year.



11% of contactless transactions in the UK are made on TfL network (tube, trains and buses)

Retailer acceptance also continued to widen, with the number of contactless POS terminals in the UK growing by 44% to 300,000 at the end of 2015, representing around 43% of all acquirer owned POS terminals.

In September 2015, The UK Cards Association facilitated the fourth change to the contactless limit. The limit change, from £20 to £30, brought more everyday payments into scope. From grocery shopping, fuel purchases, daily commuting and entertainment, the vast majority of everyday payments can now be made using contactless payments.

The contactless card limit increases:



What we spend on and where

Most transactions are on debit cards.

During 2015 the number of transactions using cards increased by 9.2% to 17 billion, with corresponding values up by 6.6% to £856 billion. Debit cards accounted for the majority of transactions, given their higher numbers relative to credit and charge cards. The number of debit card transactions increased by 9.4% to 14 billion, with values up by 8.0% to £670 billion. Of this total, 11 billion were purchases (up 12%), both domestic and overseas, amounting to £486 billion, up by 11% during the year. On average, during the year each debit card was used 144 times with the total amount spent per card amounting to £6,785.

In 2015 on average cardholders made:



5 credit card purchases per month



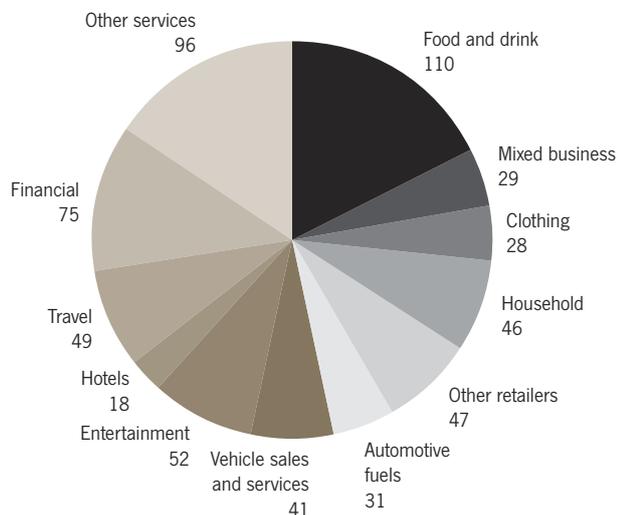
10 debit card purchases per month

The growth in credit card transactions is driven by those who pay off in full.

There was an increase in spending on credit cards during 2015 aligned to the economic recovery. The total number of credit card purchases increased by 9.6% to 3.1 billion. The combined value of these transactions grew more slowly, increasing by 4.4% to £178 billion. Around 80% of all credit card spending is attributable to full payers, who in turn account for around 60% of the credit card holding population. While credit card spending increased by £7.9 billion during the year, borrowings increased by £2.3 billion. This gap highlights the fact that most spending was driven by full payers using their cards as a means of payment rather than for borrowing.

Spending on payment cards (£ billions) by merchant sector 2015

Total £622 billion



The majority of card payments still take place in-store, but e-commerce is growing.

As card acceptance has proven to provide significant benefits to businesses, the number of retailers accepting cards continued to increase and reached 1 million, while the number of outlets amounted to 1.2 million. The total number of point-of-sale (POS) terminals in the UK rose by 10% to almost 2 million. Data collected from UK merchant acquirers showed the total number of card purchases in 2015 rose by over 11% to reach 13 billion, while the value spent increased by 8.3% to £622 billion.

Cardholders spent the most on food and drink (£110 billion), followed by financial services (£75 billion), entertainment (£52 billion), travel (£49 billion) and on household goods (£46 billion). 34% of all card purchases in 2015 were made at supermarkets.

While the majority of card payments (68%, down from 71% in 2014) still take place in the face-to-face environment, the industry is witnessing a continued growth in e-commerce and m-commerce as more people choose to shop online and on the go. In 2015 card spending online amounted to £145 billion accounting for 23% of total card expenditure, up from 21% a year ago. The ATV online was £88.70, down from £103.81 in 2014, but still more than double the ATV for in-store purchases of £40.84. During the year on average, 51% of online spending was initiated via tablets and smartphones, up from 37% in 2014.

Cards and cardholders

There are around 176 million cards in issue in the UK. Over the past decade there has been a very large rise in the number of debit cards in the UK.

In 2015 the total number of payment cards in issue increased by 2.3% to 163 million, of which 99 million were debit cards (+2.5%); 59 million credit cards (+2.8%) and 6 million charge cards (-4.8%). Over the last ten years debit card holding has increased by 44% while the number of credit and charge cards has declined by 13%. In contrast, the ATM-only card portfolio has shrunk by 43% to 12 million, mainly driven by the consolidation and closure of dormant accounts and upgrades to debit cards.

The past decade has seen increased debit card holding whilst credit card holding has been largely stable. Around 94% of the adult population – or 49 million people – have a debit card. Around 60% – or 32 million adults – have a credit card. Full-time employees are much more likely to hold both debit and credit cards than other groups. This is also true for those in higher income brackets compared to lower income brackets. Future cardholding growth is expected to be largely driven by population growth.

Credit card borrowing

Credit cards continue to provide an important, safe and convenient tool for borrowing. Credit card lending has increased as the economy has improved.

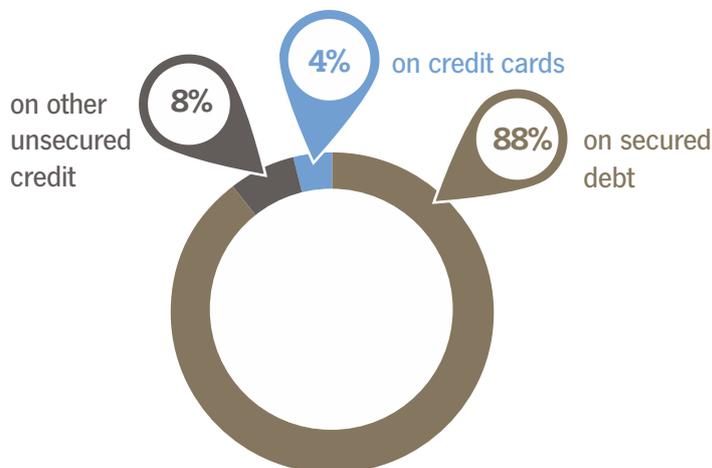
Gross lending on credit cards, which is effectively spending, increased by 4.7% during the year, as the reduction in the level of economic uncertainty and easing credit conditions contributed to improved consumer confidence and consumption. At the same time net lending also increased, partly driven by the improving economic backdrop.

UK credit card debt declined from a peak of £69.1 billion in February 2006 to £63.3 billion in December 2015; accounting for just 4.4% of total consumer debt (£1,455 billion). Credit card borrowings also account for a small part of household disposable incomes. This proportion stood at 5.5% in 2015, broadly in line with the average of the past decade.

Around 80% of all credit and charge card spending in 2015 was repaid in full every month. The proportion of balances that bear 0% interest or are repaid in full before the end of the interest free period increased from around 19% in 2002 to 42% by the end of 2015.

In 2015 the majority (56%) of accounts had balances of up to £1,000; 13% between £1,000 and £1,750; and 21% between £1,750 and £5,000. The remaining 9% of accounts had a balance over £5,000, well below the 47% of accounts that have a credit limit above this level.

Total consumer borrowings (£1.46 trillion)



Future developments

The fast pace of evolution in digital payments means that the card industry is finding new ways to facilitate payments – allowing retailers to offer their customers a convenient and secure shopping experience across different channels.

In the last 12 months there have been significant developments in the delivery of digital services to consumers. Major UK retailers are evolving their strategies towards serving customers through online and mobile channels with an increasing shift both in the volume of online spending and the growing phenomenon of in-app purchasing.

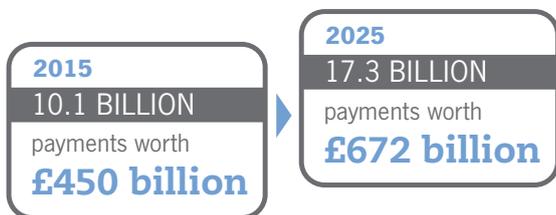
Apple Pay launched in July 2015, with a proximity payment application to allow it to be used with contactless terminals. This was backed up with an online wallet option, allowing in-app purchases. Apple Pay has led the way for a succession of new 'Pay' options that are likely to be introduced in 2016. Google (Android), Samsung (Samsung Pay) and many of the leading digital content providers (e.g. Pinterest / Facebook) have or will follow suit with their own solutions, offering integrated and proprietary 'Buy' buttons.

These are all designed for the connected customer and powered by a new breed of payment service providers (PSPs); whose business models are aligned to the role that the internet and the use of application programming interfaces (APIs) will play in facilitating commerce in the 21st century.

Over the next decade the volume of card payments, in particular debit card payments, is forecast to substantially increase.

A major source of growth in debit card holding will come from the next generation of current account holders. Younger people are much more familiar with debit cards and use them with a higher frequency. These new consumers are also likely to embrace new card technologies such as contactless and mobile payments, increasing overall debit card payment volumes.

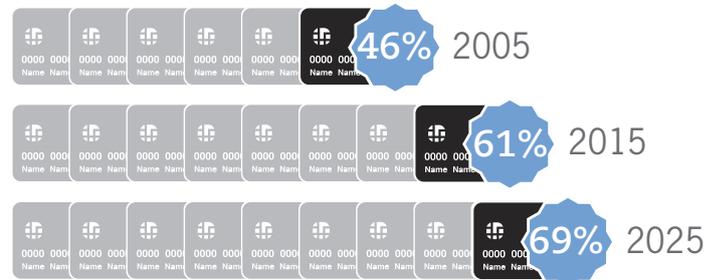
Debit card payments in the UK



The volume of debit card purchases made in the UK is forecast to grow to over 17 billion transactions in 2025. This represents a 70% increase compared to the number of transactions in 2015, and is more than four times the number of payments made in 2005. The total value of debit card purchases in 2025 is expected to reach £718 billion.

Contactless payment volumes will also rise as a result of migration of low value transactions that are currently made using cash or Chip & PIN. The UK Cards Association is continuing work with transit operators and charities to enable wider contactless payments in both these environments. By 2025 contactless debit card payments are forecast to account for 47% of all debit card payments.

Share of non-cash payments in the UK made using cards:



Credit card payment volumes are forecast to increase steadily over the next decade. In 2025 credit and charge card purchases are forecast to increase to 3.6 billion transactions, up from 2.5 billion in 2015. Values are projected to rise from £146 billion in 2015 to £183 billion in 2025.

Card payments in the UK per day:

