

UK Card Payments Summary 2015

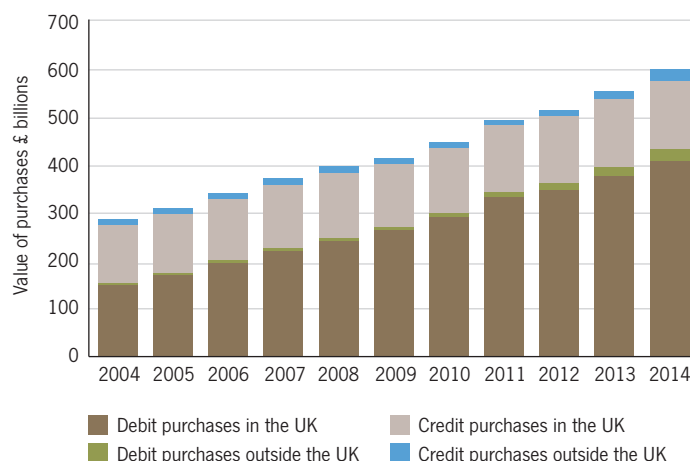
This is a summary of The UK Cards Association's UK Card Payments 2015 publication, which sets out information on who uses cards, how and where they use them and how this is likely to change over the next ten years.

A full copy of UK Card Payments 2015 can be purchased at £750 from: press@ukcards-ffauk.org.uk

Card Payments Play a Crucial Role in Everyday Life

Card spending accounted for 32% of UK GDP in 2014 or £600 billion across 13 billion transactions. Spending was up by 8.1% on 2013 figures. While the number of cards in use has increased slightly during 2014, there has been much more significant growth in the number and value of card transactions. This underlines that consumers are more frequently using cards for lower value payments, are using them as an alternative to cash and are increasingly using cards for online purchases. In 2014 a key driver of this trend was the significant growth in contactless card use, with a greater number of transactions taking place over the first nine months of 2014 than over the previous six years combined. This now represents more than 3% of all card spending in the UK. Contactless technology is now playing an important role in making life more convenient for consumers. Contactless cards are now being used for ticketing across the London transport network, reducing the costs for Transport for London (TfL) and improving customer convenience. On 'Cyber Monday' in December 2014 over 25 million consumers shopped online. 21% of all retail spending is now online and card payments have played a major role in facilitating that growth, with online shoppers benefiting from significant protection in the event that there is a problem with their purchase.

Value of credit and debit card purchases



Cardholders



75% of all UK retail sales
were made by cards



Online spending
represented **£21 of every £100**
spent on cards at UK merchants in 2014

Cards and cardholders

There are almost 180 million cards in issue in the UK. There has been a very large rise in the number of debit cards in the UK over the past decade.

In 2014 there were 178.9 million cards in issue: 95.7 million debit cards; 56.9 million credit cards; 19.9 million ATM-only cards; and 6.4 million charge cards. Over the last ten years debit card holding has increased by 64% while the number of credit and charge cards has remained largely static. Around 91% of the population – or 48.5 million people – have a debit card. Young people are more likely to have debit cards, with 94% of 16-24 year olds holding at least one card. Around 60% – or 31.3 million adults – have a credit card. Credit card holding is highly correlated to income – 70% of those people who earn above £50,000 have a credit card, which contrasts with just 25% of those earning less than £10,000. This reflects the fact that the industry is committed to responsible lending, carefully assessing whether credit advances are affordable. Older people are more likely to have a credit card, with around 60% of credit card holders being over 45 years old. The number of cards per cardholder fell slightly to 1.94 per person in 2014.

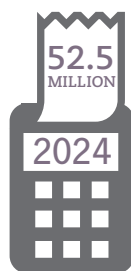


Debit cards were used 106 times a year for £4,500 purchases (Average Transaction Value (ATV) £42, while credit is 69 times ATV £56).



On average, credit cardholders made just under 6 purchases per month.

Card payments made daily in the UK



What we spend on and where

Most transactions are on debit cards

During 2014 the number of transactions using cards increased by 9.1% to 16 billion, with corresponding values up by 5.4% to £802 billion. Debit cards accounted for the majority of transactions, given their greater numbers relative to credit and charge cards. The number of debit card transactions increased by 9.7% to 13 billion, with values up by 5.9% to £619 billion. Of this total, £434 billion was for purchases, both domestic and overseas, which were up by 9.6% during the year.

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 2014 aligned to the economic recovery. The total number of credit card purchases increased by 8.4% to 2.8 billion. The combined value of these transactions grew more slowly, increasing by 4.6% to £166 billion. Those customers who pay off their balances in full each month continued to drive this growth in spending. Figures reported by the Bank of England show gross credit card lending (spending) averaged £13.2 billion per month, up from £12.5 billion in 2013. In comparison, levels of net credit card lending (gross credit card lending less repayments) was unchanged at £0.2 billion per month. More than 80% of credit card spending is paid off in full without incurring interest each month.

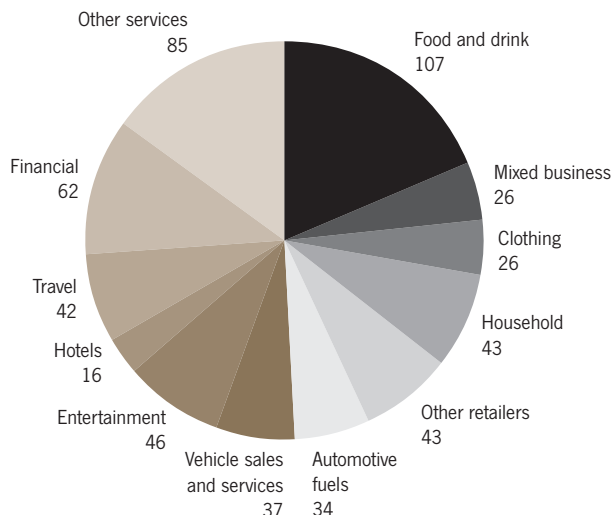
The majority of card payments still take place in store, but a growing number are taking place online.

The majority of card payments are instore (71%), with the total number of terminals accepting cards increasing by 2.9% to 1.7 million in 2014. 29% of card payments are now online. Of the £175 billion spent online, 21% was made using credit cards and 79% on debit cards. The ATV online was £68.02, however more detailed analysis shows the ATV at UK e-retailers is much higher (£98.85) than those outside the UK (£25.17). This can be attributed to the higher levels of domestic spending, driven by multichannel domestic retailers, offering 'big ticket' items such as electric goods, furniture, holidays and travel. Meanwhile, the lower ATV for overseas spending is driven by high volume, smaller value purchases within the entertainment sector, such as downloading music, films, books and games. Some notable merchants in this space include Amazon, Apple, Netflix and Sony. IMRG research estimates almost half (48%) of UK online shoppers have made an online purchase with a retailer based outside the UK. On average, 37% of online spending was initiated via tablets and smartphones during the year, up from 26% in 2013.

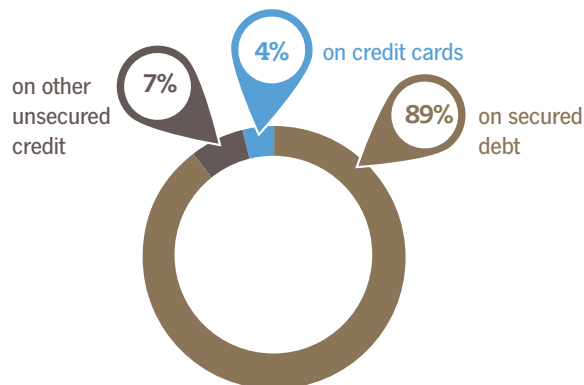
Cardholders spend the most on food and drink (£107 billion), followed by financial services (£62 billion), entertainment (£46 billion), household (£43 billion) and travel (£42 billion).

Spending on cards (£ billions) by merchant sector 2014

Total £567 billion



Borrowings (£1.47 trillion)



Credit card borrowing

Credit cards continue to provide an important, safe and convenient tool for borrowing. Credit card lending has increased as the economy improved, but has reduced by 11% since 2006, while credit card spending has grown by 11.6% over the same period.

Gross lending on credit cards increased by 4.6% during the year, as the reduction in the level of economic uncertainty and easing credit conditions contributed to improved consumer confidence and consumption growth. Net lending also increased during the year, partly driven by this improving economic backdrop. Outstanding borrowing on credit cards has fallen from a peak of £69.1 billion in 2006 to £61.1 billion at the end of 2014, accounting for just 4.0% of the UK's total personal borrowing of £1.47 trillion.

Around 80% of all credit and charge card spending in 2014 was repaid in full every month. Around 43% of outstanding credit card balances bear 0% interest or are repaid in full before the end of the interest free period.

As at the end of Q3 2014 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. This left only 9% of accounts with a balance over £5,000, well below the 46% of accounts that have a credit limit above this level.

Consumer research shows 97% of cardholders feel they are managing their credit commitments well, regardless of whether they are borrowing on their credit cards.

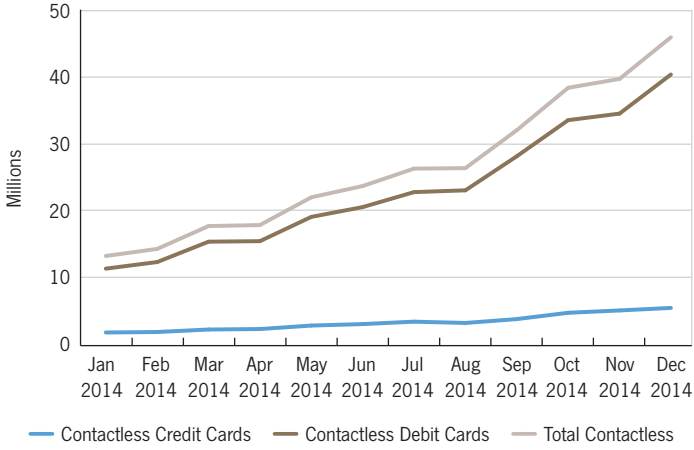
Contactless cards

2014 has seen rapid growth in contactless card use. A greater number of transactions took place over the first nine months of 2014 than over the previous six years combined. Significant events driving this momentum included major retailers beginning to accept contactless in stores, as well as the introduction of contactless ticketing across the Transport for London (TfL) network.

Contactless technology comes in several form factors - a standard contactless card, Near Field Communications (NFC) enabled mobile phones, and 'wearables' such as a wristbands which host a re-loadable prepaid card chip. 36% of all cards in issue were contactless by the end of 2014 (58 million cards). Usage of contactless has increased markedly, more than trebling over the year to reach a record value of £2.3 billion in 2014, spread over 319 million payments. Deployment on the TfL network was a key driver, accounting for 11% of all contactless payments in December 2014. Owing to a current limit of £20, the displacement of cash transactions, and use for low value fares on TfL, the average transaction value of a contactless card is low at £6.37.

Contactless transactions are predicted to continue to grow over the coming years. In September 2015, the limit will increase from £20 to £30, opening up new retail sectors to contactless payments. In addition, The UK Cards Association is continuing work to bring the benefits of contactless payments to other transit operators around the UK.

Contactless card transactions



Apple Pay along with other emerging innovative payment offerings works through an embedded secure element model combined with tokenisation – enabling users to substitute the traditional card account number with a single-use or limited-use ‘token’. This key security initiative is designed to address the increasing use of compromised card account data for fraud, but will also address consumer concerns about entering card account data on insecure devices such as mobile phones. Users will have an easy and secure means to disguise their card account numbers for specific shopping channels. Tokenisation is being supported through industry standards.

Huge innovation is occurring in the back-end systems in the retailing environment where acquirers face increased competition from agile payment service providers (PSPs). These PSPs are offering a ‘one-stop-shop-service’ as part of a sophisticated platform offering, allowing retailers and developers to integrate payment processing into their own IT systems.

Debit card payments are expected to continue to grow over the next ten years, while credit card payments remain steady.

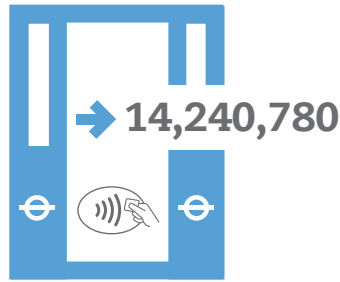
A major source of debit card growth will come from the next generation of current account holders. Younger people are much more familiar with debit cards and use them with a higher frequency. These new consumers are also likely to embrace new card technologies such as contactless and mobile payments,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

The volume of debit card purchases made in the UK is forecast to grow to over 16 billion transactions in 2024. This represents a 74% increase compared to the number of transactions in 2014, and is more than four times the number of payments made in 2004. The total value of debit card purchases in 2024 is expected to reach £718 billion. In 2024 credit and charge card purchases are forecast to increase to 3.2 billion transactions, up from 2.3 billion in 2014. Values are projected to rise from £142 billion in 2014 to £183 billion in 2024.

IN 2014...



**CONTACTLESS
BUS JOURNEYS**



**CONTACTLESS
RAIL JOURNEYS**

Future Developments

The fast pace of evolution in digital payments means that the card industry is having to find new ways to facilitate payments – allowing retailers to offer their customers a convenient, consistent and secure shopping experience in store, online and via mobile.

The imminent launch of Apple Pay will likely bring the world of NFC mobile contactless payments on a mass scale to iPhone users in the UK. The inbuilt fingerprint scanner on the iPhone can be used to verify the transaction by the consumer, rather than by entering a PIN or signing a receipt. Apple Pay can also be used online using an Apple Pay button at the online checkout. Retailers may also integrate Apple Pay as part of their own proprietary app offerings.

Debit card payments

