UK Card Payments 2015
THE UK CARDS ASSOCIATION

Cards are the most popular payment method in the UK by value. They allow cardholders to pay for goods and services easily, conveniently and securely. Card spending accounted for 32% of GDP in 2014 and is critical for economy. Card spending is expected to continue to grow over the next decade and to overtake cash as the predominant way to pay.

Cards are issued by a variety of organisations such as banks, building societies and other financial services companies. The types of cards issued and their level of functionality vary from card issuer to card issuer and between the different card schemes. The major card schemes include American Express, Diners Club, JCB International, MasterCard and Visa. These schemes are the operators of the card systems that set the rules under which transactions occur, process transactions and provide a settlement function. This report looks in detail at how cards are held and used, and includes summary tables on cards in issue, the number and value of transactions, and point-of-sale terminals.

Publications are available by contacting: press@ukcards-fbauk.org.uk

For more information please visit our website: www.theukcardsassociation.org.uk

UK Card Payments 2015 provides a comprehensive summary of how and where cards were used in 2014. This includes data on how many cards consumers held and what they bought with them, both in the high street and online. It also includes details of personal card spending habits, and forecasts how our use of cards is expected to change over the next ten years.

The UK Cards Association will be happy to help if you have any queries regarding this publication.

For queries about the data in this publication please contact Information Management:

David Obuwa/Nigel Burt/Silvija Krupena
Tel 020 3217 8421/8244/8460
Email camis@ukpayments.org.uk

For member enquiries relating to users and holders of cards, and forecasts, please contact Policy and Markets:

Email pmr@paymentscouncil.org.uk

For membership information or further details about The UK Cards Association please contact:

Tel 020 3217 8200
Email support@ukcards.org.uk
www.theukcardsassociation.org.uk

A glossary of terms used in this publication can be found at:
www.theukcardsassociation.org.uk

For more information please visit our website: www.theukcardsassociation.org.uk
The UK Cards Association is the trade body for the card payments industry in the UK, representing financial institutions which act as card issuers and acquirers. Members of the Association account for the vast majority of debit and credit cards issued in the UK – issuing in excess of 56 million credit cards and 95 million debit cards – and cover the whole of the card acquiring market.

The Association promotes co-operation between industry participants in order to progress non-competitive matters of mutual interest; informs and engages with stakeholders to shape legal and regulatory developments; develops industry best practice; safeguards the integrity of the card payments industry by tackling card fraud; develops industry standards; and co-ordinates other industry-wide initiatives such as those aiming to deliver innovation. As an Association we are committed to delivering a card payments industry that is constantly focused on improved outcomes for the customer.

More information about The UK Cards Association is available at: www.theukcardsassociation.org.uk
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1. Overview of the UK Card Payments Market

1.1 Economic background

The year 2014 marked the post recession turning point, with economic growth returning to its pre-recession level, despite some indications of a slowdown in the final quarter. The Office for National Statistics estimates the economy grew by 2.8% during the year. The improving economy was evident across a number of economic indicators, with unemployment declining and the manufacturing and service sectors expanding. There was also a surge in the housing market, with house prices increasing by about 7.0% during the year. However, there were some signs of slowdown towards the end of the year.

Inflation continued to decline in 2014. The Consumer Price Index stood at 0.5% at the end of 2014, which was 1.5 percentage points below the level recorded a year earlier. Factors contributing to this decline include falling commodity prices, supermarket price wars and discounting within the retail sector.

In spite of the improvement in the labour market, wage growth inflation remained subdued. However, with an improving economy and rising consumer confidence household spending remained strong, in part funded by a reduction in savings and supplemented by increased usage of unsecured credit. This was evident in retail sales, which averaged a monthly growth rate of 3.1% during the year. Subdued wage inflation was also a key factor behind the decision by the Bank of England to keep the headline interest rate unchanged at the historical low of 0.5%.

1.2 Number of cards in issue and holdings

Cards continue to play a crucial role in everyday life. This is evident in their growth over the past decade – a trend that continued into 2014. The total number of cards in issue increased slightly by 1.1% to 159 million. Cards are defined as debit, credit and charge cards and can be used to make payments and withdraw cash. ATM-only cards can only be used to withdraw cash, and only from cash machines.

The main drivers for growth within the card market were credit and charge cards which, when combined rose by 2.8% to 63 million. The rationalisation of the premium end of the market continued with the streamlining of portfolios by some issuers, consolidating marginal differences in the reward proposition between some gold and platinum products. The number of gold cards decreased 28% to 3.6 million. This was offset by a rise in the number of platinum cards, which increased by 23% to 18 million. Meanwhile, the number of affinity credit cards fell to 1.3 million, down 41% during the year. In contrast to this trend, the number of co-branded credit cards increased by 19% to 6.2 million.

The number of debit cards was unchanged at 96 million, perhaps indicating that the high penetration level reduces the scope for further significant growth. There were however some offsetting movements between the products. Electron cards were down by 28% to just under 1 million cards, in contrast to Debit MasterCard cards, which registered growth of 17% to 3.4 million. The growing prominence of Visa Debit and Debit MasterCard products in the UK is due to the greater flexibility compared to purely online electronic cards. Products such as Visa Electron and Maestro require that all the funds are available at the time of the payment, in contrast to other card products where online authorisation is not always required. Additionally, Visa Debit and Debit MasterCard products are more widely accepted.

Cards with contactless functionality were first rolled out in 2007 and have continued to grow in number. Around 20 million contactless cards were issued in 2014 to leave a year-end total of 58 million – 36% of all cards in issue. Awareness and confidence in the technology picked up during the year with an increasing number of businesses accepting contactless payments. The technology also received a big boost with the roll out of acceptance across the entire Transport for London (TfL) network, which has extended to increased use in other sectors of the economy.

Over the last ten years debit card holding (the number of people with cards) has increased whilst credit card holding has been largely stable. There were 48.5 million debit card holders in the UK in 2014. This was an increase of 1.2 million from 2013, a rise in year-on-year growth observed since 2008. More than nine in ten adults have debit cards in their wallets and purses. The increase in debit card holders can be partly attributed to population growth. In recent years the proliferation of bank accounts with a debit card issued to the account holder as standard has also driven much of this growth.

More details at: http://www.nationwide.co.uk/~media/MainSite/documents/about/house-price-index/Dec_2014.pdf
Cardholding is not distributed uniformly across society, with some groups being more likely to hold cards than others. For example, full-time employees are more likely to hold cards than those seeking employment. This is also true for those in the higher income brackets who are more likely to have debit cards than those on lower incomes. This trend also holds when looking at how people use the cards. On average, those with higher incomes and in full-time employment make more payments using their cards than those with lower incomes or who are unemployed. Younger people are also more likely to hold and use debit cards than older people.

Population growth is expected to be one of the main drivers of future growth in the number of debit card holders. Furthermore, adults who open new bank accounts will expect debit cards to be issued as standard; this is particularly true for young account holders, who will also expect payments to be made by debit card.

In 2014 the number of people with a credit and charge card in the UK was 31.3 million. This number continues to be in line with the long term trend over the past five years, with just over six in ten adults aged over 18 years holding a credit or charge card. Income is one of the strongest determinants of credit and charge cardholding. Over 70% of people in households with annual incomes over £50,000 have a credit card compared to less than a quarter of people in households where the annual income is less than £10,000.

The typical credit card holder has also become older in recent years, perhaps reflecting stronger preference for debit cards among younger generations. In 2014 over a third of credit card holders were aged 55 and over.

The number of credit cards per cardholder fell slightly to 1.94 per person in 2014. This is likely to be the result of people reducing the total number of cards that they hold and consolidating to one primary credit card, since the number of people with at least one credit card increased slightly. Just over 53% of all cardholders had only one credit or charge card in their wallet in 2014. This was an increase on 2013, where 49% had only one card. Only 8% of cardholders had four or more cards in 2014.

1.3 Card transactions in 2014

Card transactions comprise of purchases completed at the point-of-sale, in-store, online or via a mobile device. Also included are cash withdrawals from cash machines as well as bank and post office counters. During 2014 the number of transactions using all 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.

It is estimated that of this £434 billion, £175 billion were e-commerce. A proportion of e-commerce spending was with retailers who, while they are predominantly UK-based, process their card payments outside the UK. These transactions are sometimes termed as overseas sterling transactions (OSTs), and in 2014 amounted to £15 billion using debit cards.
The average transaction value (ATV) for debit cards continued to decline in 2014, falling by £1.70 to £48.25. This continues a downward trend since peaking at £52.75 in 2010, and has been driven by a number of factors. Chief amongst these has been the increase in lower value transactions, previously made with cash; a trend reinforced by the rising acceptance and use of contactless cards, in particular following their introduction on the Transport for London (TfL) network. Record low inflation and falling fuel prices were added factors during the year.

In contrast to purchases, total cash acquisition from cash machines and bank and post office counters using debit cards declined for the second consecutive year, a fall that was registered both within and outside the UK. Both volumes and values were down by around 2.0%, with £185 billion withdrawn from 2.6 billion withdrawals. The average withdrawal value was £69, with the average withdrawal from counters amounting to £266.

The number of credit and charge card transactions increased by 8.3% to 2.8 billion, with values up by 4.6% to £171 billion. Of this total, £166 billion was for purchases, both domestic and overseas, which increased by 4.6% during the year. An estimated £38 billion of this spending was e-commerce, with overseas sterling transactions amounting to £8.5 billion. The ATV for credit and charge cards has also been trending downwards in recent years, since peaking at £72.98 in 2008. This continued into 2014 with the ATV falling by £2.13 to £60.62.

Cash acquisition using credit and charge cards increased for the first time since 2005, rising by 5.6% to £4.1 billion. This total includes transactions both inside and outside the UK and was spread over 33 million withdrawals. The average withdrawal value increased slightly by £3.08 to £124.08. Putting this into a broader context, the volume of cash advances accounted for only 1.2% of all credit and charge card transactions during 2014, which equated to 2.4% of the total value of transactions.

1.4 Card acceptance in 2014

The number of merchants accepting cards continued to increase in 2014. The total number of terminals in the UK accepting cards in the face-to-face environment, increased by 2.9% to 1.7 million. The number of outlets accepting cards increased by 4.2% to reach 1.1 million. These figures do not include increased acceptance of cards on transit networks, in particular the roll out of contactless acceptance across the TfL transportation network.

While the majority of transactions take place at point-of-sale terminals the industry is witnessing a continued growth in online payments. An increasing number of merchants are offering their goods and services via the internet. An increasing proportion of these transactions are made using smartphones and tablets.

A growing number of consumers are going online for shopping and entertainment as online services tend to be more convenient and often cheaper. Shopping on the move using mobile devices is also becoming increasingly common. The number of card purchases made via the internet as reported by merchant acquirers amounted to 1.3 billion representing 11% of the total card purchases in 2014 made in the UK. Corresponding online spending amounted to £119 billion accounting for 21% of total card expenditure. This growth in e-commerce and the enmeshing of the off and online retail experience will affect the future growth in the number of terminals and face-to-face outlets.

For card spending at UK merchants, some long-standing trends continued in 2014: higher growth in debit card spending as opposed to credit cards, faster increasing spending in services relative to retail sales and a consistent decline in ATVs. Data collected from merchant acquirers showed the total number of card purchases rose by almost 10% to reach 12 billion, while the value spent rose by 6.4% to reach £567 billion.

Chart 1.4
Value of credit and debit card purchases

In spite of an increase in number, transactional activity using ATM-only cards was generally down. Within the UK withdrawals using these cards fell by 10% to £12 billion.
1.5 Credit card borrowings

Credit cards continue to provide an important, flexible and convenient tool for household borrowing. 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. Net lending also increased during the year partly driven by this improving economic backdrop.

By the end of 2014 households owed a total of £1.47 trillion in secured and unsecured borrowings. Of this, 89% was secured debt (mostly on property), 7% was owed on other unsecured credit such as loans, with 4% owed on credit cards.

1.6 The future

For both debit and credit cards, the volume and value of payments excluding cash withdrawals within the UK are forecast to increase substantially over the next 10 years. The combined total volume of payments is expected to increase from 11.5 billion payments in 2014 to 19.2 billion payments in 2024. The total value of card payments in 2014 was £550 billion and is forecast to increase to around £900 billion by 2024.

UK credit card debt has declined from a peak of £69.1 billion (February 2006) to £61.1 billion in December 2014. Only 43% of this incurred interest. This is attributable to balances being paid off before the end of the interest free period, as well as balances on 0% promotional rates.

Repayment levels were strong in 2014, continuing the trend evident in 2013. This dynamic principally stems from cardholders who use their credit cards mainly as a means to transact, rather than borrow, in many cases looking to benefit from rewards on offer.

1.6.1 Debit cards

Consumers’ use of debit cards is expected to contribute a significant portion of this increase. Young adults will have grown up familiar with debit cards and will likely use them as soon as they qualify to receive them on their account.

Increasingly, consumers are also expected to increasingly make low-value payments using debit cards. This will be driven by a number of factors, including:

- the rise in awareness of contactless payments
- the ongoing roll out of contactless-enabled cards being issued as standard to account holders
- an increase in the proportion of retailers able to accept contactless payments.

It is predicted that more businesses accept debit card payments as it becomes more cost-effective, and as consumers increasingly expect to be able to pay this way. This will increase the opportunities available to consumers to use their debit cards, where previously they may have used alternative payment methods such as cash.

Technological change may lead to a large number of debit card transactions without a physical card, e.g. a mobile phone with Near Field Communication (NFC) capabilities. There are already a number of services available that offer this functionality. However, the anticipated introduction of services such as Apple Pay and Samsung Pay to the market may see an increase in the use of this type of form factor to initiate card payments. This is expected to appeal in particular to younger consumers and early adopters of technology, and is forecast to grow in popularity over the coming decade.
Small businesses are also likely to increase their use of debit cards, a continuation of the trend observed in recent years. The number of cards issued to small businesses is expected to increase, and those businesses are expected to use their cards for an increasing number of transactions. As the number of businesses that accept card payments continues to increase, there will be an ever-greater number of opportunities for businesses to use debit cards to pay their suppliers, as an alternative to paying using other methods such as cheques or Bacs.

Credit card acceptance in small and medium size enterprises (SME) is also expected to increase. Merchant acquirers have introduced a number of card acceptance business models and associated technology aimed at the SME market. This in turn has broadened the range of businesses that find it cost-effective to accept credit card transactions. The increase in SME acceptance of credit card payments may also have an effect on business-to-business payments. Of course, it remains to be seen how this may be affected by the European Commission regulation of interchange fees.

1.6.2 Credit cards

Credit card transaction volumes are also forecast to increase steadily over the next decade. There has been a trend in recent years away from credit cards being used primarily for borrowing purposes, to credit cards being used more for purchases. A growing number of transactors predominantly use their credit card for everyday purchases, perhaps in order to accrue points with the card issuer’s loyalty rewards programme. This type of purchasing behaviour has driven growth in credit card payment volumes and is forecast to continue. It should be noted however that the recent European Commission regulation of interchange fees may affect this market segment in the future, as card issuers might react to regulation by limiting their reward programmes, making them less attractive to consumers. Should these incentives offered by card issuers to consumers be reduced, credit card payment volumes may be adversely affected.

Credit card borrowing has been subdued in recent years due to uncertainty in the state of the UK economy; however there have recently been signs of improvement in the economy. Consumers are often more willing to use credit cards as sources of short- or medium-term finance when they are confident about their financial futures. If the economy continues to improve, credit card borrowing would be expected to increase, as consumers make purchases they may have deferred during the period of economic uncertainty. Such purchases are likely to include items such as household goods and foreign travel.

Increasing awareness and acceptance of contactless payments is expected to further boost credit card volumes. In particular this will increase the number of low value transactions that consumers make and will particularly appeal to the consumer market for making everyday purchases. Growth in mobile contactless payments is also likely, especially among early adopters and those in younger age groups. Nevertheless, it should be noted that mobile payments are likely to have more significant impacts among debit card holders due to the demographic difference between the groups – credit card holders are more likely to be older.

Credit card acceptance by small and medium size enterprises (SME) is also expected to increase. Merchant acquirers have introduced a number of card acceptance business models and associated technology aimed at the SME market. This in turn has broadened the range of businesses that find it cost-effective to accept credit card transactions. The increase in SME acceptance of credit card payments may also have an effect on business-to-business payments. Of course, it remains to be seen how this may be affected by the European Commission regulation of interchange fees.

A strengthening economy will also increase the market for corporate credit cards, which are often used to pay for employee travel and expenses. Whilst this sector has been falling in recent years as the economy stalled, it is likely to increase as the economy recovers. Increased credit card holding by large organisations and the public sector will also increase growth.

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.

Credit card and debit card payment volume forecasts

![Chart 1.5](chart.png)

**UK CARD PAYMENTS 2015**
Key Statistics 2014

All cards
There were 178.9 million cards in issue: 56.9 million credit cards; 6.4 million charge cards; 95.7 million debit cards and 19.9 million ATM-only cards.

36% of all cards in issue were contactless by the end of the year, amounting to 58 million cards.

In 2014 cards were used to make 15.8 billion transactions (+9.1%) totalling £802 billion (+5.4%).

Spending on contactless cards increased by 331% during 2014

Debit cards accounted for just over 51% of the value of UK retail sales in 2014.

The number of debit card payments made by UK cardholders in the UK is forecast to reach 16 billion payments in 2024, amounting to £718 billion.

Credit and charge cards
Credit and charge cards were used to make 2.3 billion purchases in the UK to a value of £142 billion.

Cash advances on credit and charge cards continue to be at historically low levels, and amounted to £4.1 billion in 2014.

On average, credit card holders made 69 purchases in the year, spending £4,000.

£4 out of £5 of all credit card spending in 2014 was made by card holders who repaid the balance in full.

Around 43% of outstanding credit card balances bear 0% interest or are repaid in full before the end of the interest free period.

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.

UK credit and charge card purchase volumes are expected to grow to 3.2 billion in 2024, with a total spend of £183 billion.

Debit cards were used to make 9.2 billion purchases in the UK to a value of £408 billion.

There were 2.6 billion debit card transactions to acquire £180 billion of cash in the UK.

The number of debit card holders increased by around 1.2 million to 48.5 million.

Around 91% of the UK adult population had a debit card in 2014. Those in employment are more likely to have one than those looking for work.

Credit card holding

Approximately 37% of all online card purchases were completed via a smartphone or tablet.

The average transaction value of a contactless card was £8.26.

The average transaction value of an online transaction was £68.

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Debit cards
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There were 2.6 billion debit card transactions to acquire £180 billion of cash in the UK.

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Around 91% of the UK adult population had a debit card in 2014. Those in employment are more likely to have one than those looking for work.

More than 82% of all card transactions were purchases

Card issuers reported that £175 billion was online, representing 29% of total card spending by consumers, businesses and government.

Approximately 37% of all online card purchases were completed via a smartphone or tablet.

82%

Approximately 82% of all card transactions were purchases

60% of the adult population have a credit card

Credit card holding

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Card acceptance

UK merchants, retailers and service providers accepted 12 billion payments totalling £567 billion from customers using cards (including foreign-issued cards used in the UK).

Within the merchant sectors, retail sales accounted for 69% of all card purchases, however, spending in retail fell to 49% of total card expenditure. The food and drink sector (which includes supermarkets) remained the most popular category for card usage representing 35% of all card purchases.

Merchant acquirers reported £119 billion was spent online, representing 21% of all spending by consumers, businesses, government and overseas visitors.

The number of card purchases reached a milestone of 1 billion within a single month.

In 2014 almost nine in ten adults used the internet, with 58% who did so using a mobile device. 74% of users bought something online.

The average transaction value fell by £1.46 to £47.26, the lowest level in more than a decade.

Card fraud

Fraud losses on UK-issued cards increased by 6% to £479 million between 2013 and 2014. This represented an increase of £28.6 million; of which 69% was fraud via remote purchase (online, telephone and mail order) channels.

In 2014 for every £100 spent 7.5p was fraudulent.