

UK Card Payments 2016



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 35% of GDP in 2015 and is critical for the economy. Card spending is expected to continue to grow over the next decade and to overtake cash as the predominant way to pay in volume as it already is in value.

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.

Other publications from The UK Cards Association are available by contacting: press@ukcards.org.uk

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

UK Card Payments 2016 provides a comprehensive summary of how and where cards were used in 2015. This includes data on how many cards consumers hold 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.

Sources of data

The data in this report, unless otherwise stated, are compiled from information gathered from The UK Cards Association members: UK-based issuers and institutions which process payment card transactions on behalf of UK-based merchants, retailers and other service providers.

All data, unless otherwise stated, cover annual figures as at 31 December 2015.

A glossary of terms used in this publication can be found at:

www.theukcardsassociation.org.uk

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UK Card Payments 2016

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 58 million credit cards and 98 million debit cards – and cover the whole of the payment 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

Card spending has increased consistently since payment cards were first introduced as a payment mechanism. The growth has been mainly the result of a long term shift away from other types of payment (typically cash and cheques) to payment cards. This well established trend is probably the main reason why payment card spending continues to be buoyant, while some parts of the economy might be experiencing somewhat different trends.

This growth has been consistent regardless of what else might be happening in the wider economy, such as consumer booms, recessions or changes of economic policy, although in periods where consumers have benefitted from the benign performance of some economic indicators, this may also have contributed to the underlying growth of spending on payment cards.

Having said this, in many ways, in 2015 the economic environment in the UK was broadly favourable for consumers. Some of the highlights¹ are as follows:

- Gross domestic product has grown in each of the last three years, and the country has been out of recession since 2009;
- Inflation is low;
- Employment is higher than it has ever been;
- Unemployment has been declining for more than four years;
- The cost of borrowing continues to be very low.

Conversely:

- Average earnings growth, although it recovered a little in 2015, is still lower than pre 'credit crunch' levels;
- House price inflation has risen sharply, especially in London and the South East;
- Rising house prices and tighter mortgage lending criteria since the recession are the main factors behind falling home ownership, rising rentals and fewer younger home owners.

With this somewhat mixed picture it is not surprising that products like payment cards, which offer convenience to consumers, should continue to see growth at the expense of cash and cheques. And this convenience is often at no cost. Looking into the future, as mobile internet browsing becomes ever more prevalent, the likelihood is that these trends will continue for a considerable number of years.

Meanwhile, interest rates have operated at their current level of 0.5% since March 2009². This is a historically low level and such is the post-financial crash environment that it is unclear when interest rates will rise to more conventional levels. Low interest rates are generally good for the economy if they encourage the cycle of bank lending, investment, jobs, employment and growth; but the persistent low level of the interest rate indicates that the level of economic activity is not yet at an optimum level. However, low interest rates have coincided with low mortgage and consumer credit rates, although much of this owes to competition in these markets, driving lending in both.

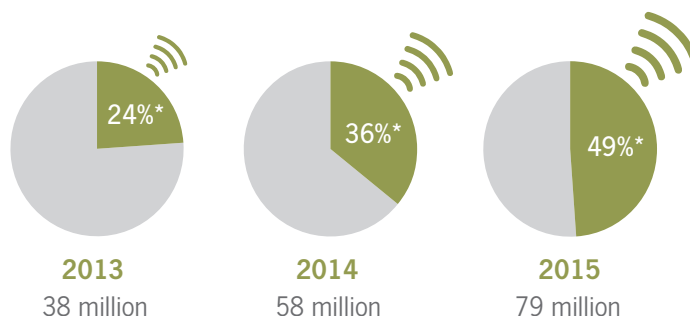
1.2 Number of cards in issue and holdings

Cards continue to play a crucial role in everyday life. This is evident in their holdings, which have increased consistently over the past decade. Additionally, cards have been instrumental in the ongoing transition to a digital economy. There is also some evidence³ that shows card payments help stimulate economic growth, by boosting consumption, production and employment. In 2015 the total number of payment cards in issue increased by 2.3% to 163 million. Payment cards are defined as debit, credit and charge cards and can be used to make payments and withdraw cash.

The highlight of the year was the exceptional growth in the circulation and use of contactless payment cards. Contactless cards have the same level of protection as traditional Chip & PIN cards, and contain multiple layers of security. There were 79 million of these cards in circulation at the end of 2015, representing an increase of 37% during the year. Most of this growth was from the debit card product, which grew by 49% to 55 million cards in circulation.

With ATM-only cards included, the total number of cards in circulation at the end of the year totalled 176 million. ATM-only cards can only be used to withdraw cash, and only from cash machines. The number of these cards decreased significantly during the year, driven by the consolidation and closure of dormant cards and upgrades to debit cards.

Number of contactless cards:



*of all cards

Within the payment card market, credit and charge cards rose by 2.1% to 65 million. There was some consolidation of portfolios in 2015 which resulted in a rise in the number of gold cards. The number of platinum cards was also up modestly (1.2%), totalling 18 million at the end of the year. Meanwhile, the number of affinity credit cards amounted to 1.3 million, following a decrease of 1.3% during the year, with the number of co-branded credit cards (cards typically offered by an issuer and a retail merchant) down by 45% to 3.3 million.

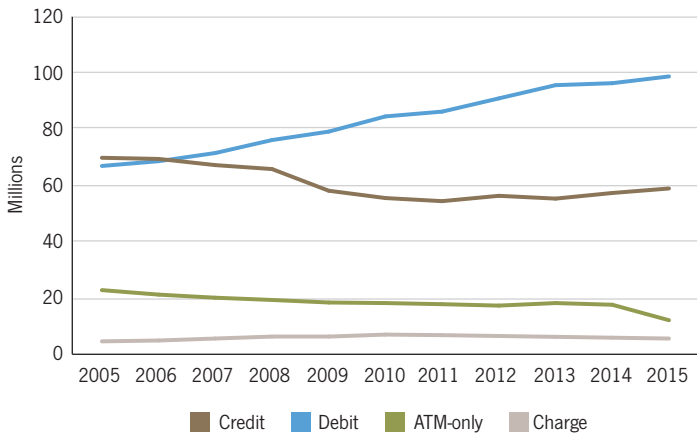
¹ Source: Office for National Statistics

² Source: Bank of England

³ More details at: <https://usa.visa.com/visa-everywhere/global-impact/moodys-analytics-study-the-global-impact-of-electronic-payments.html>

Chart 1.1

Number of cards at year-end



Source: The UK Cards Association

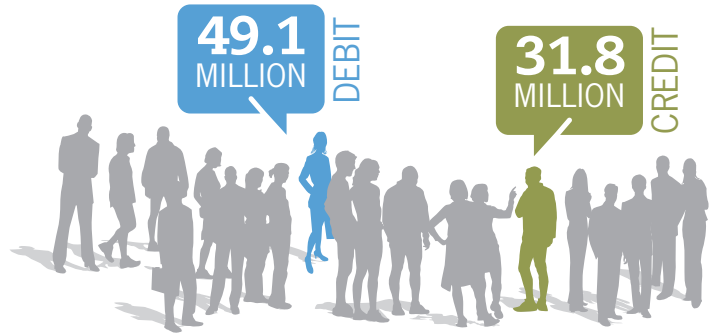
The number of debit cards increased by 2.5% to 99 million; some of which was driven by organic growth in the number of current accounts. Visa Debit cards accounted for 96% of all debit cards and grew by 2.8% to reach 94.7 million. The number of Debit MasterCard cards fell by 5.4% to 3.2 million.

The last decade has seen increased debit card holding whilst credit card holding has been largely stable. In 2015 there were 49.1 million debit card holders, an increase of 0.3 million from 2014. More than nine in ten UK adults have debit cards in their wallets and purses. Increasing debit card holding over the past few years is attributed to both population growth, as well as the proliferation of bank accounts issuing a debit card as standard to the account holder.

Cardholding is not distributed uniformly amongst all parts of society with some groups much more likely to hold either debit or credit cards compared to other groups. Full-time employees are much more likely to hold both debit and credit cards than other groups. This is also true for those in the higher income brackets compared to lower income brackets. Card use also follows similar trends with those with higher incomes and in full-time employment, on average making more payments using their cards than those who may be unemployed and/or with lower levels of income. Debit card holding and usage is also more common among younger people than older.

Future debit card holding growth is expected to be largely driven by population growth. Adults expect debit cards to be issued as standard when opening new bank accounts. Young account holders in particular will expect debit cards with new accounts as they grow up using this payment method.

Cardholders



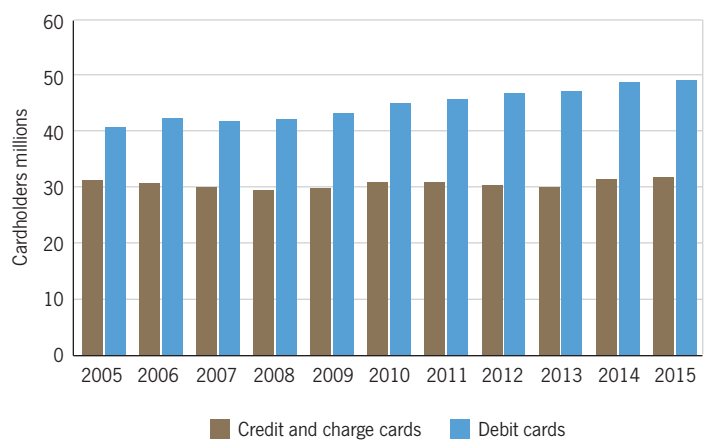
There were 31.8 million people in the UK with a credit or charge card in 2015. This equates to around six in ten adults aged over 18 years holding a credit or charge card. The total for 2015 was a slight increase on the previous year's figures and in line with the trend from the past couple of years. Income is one of the strongest determinants of credit and charge cardholding. Over three quarters 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.

Age is another indicator which affects the propensity to hold credit cards with less than a fifth of those in the youngest age bracket holding a credit card in 2015. This compares to at least half of those in all other age groups holding a credit card.

The number of credit cards per holder in 2015 was similar to the previous year, at 1.94 credit cards per holder. Just over half of all cardholders had only one credit or charge card in their wallet in 2015 which was similar to the previous year. Only 10% of cardholders had four or more cards in 2015.

Chart 1.2

Number of credit and charge card and debit card holders



Source: Payments UK

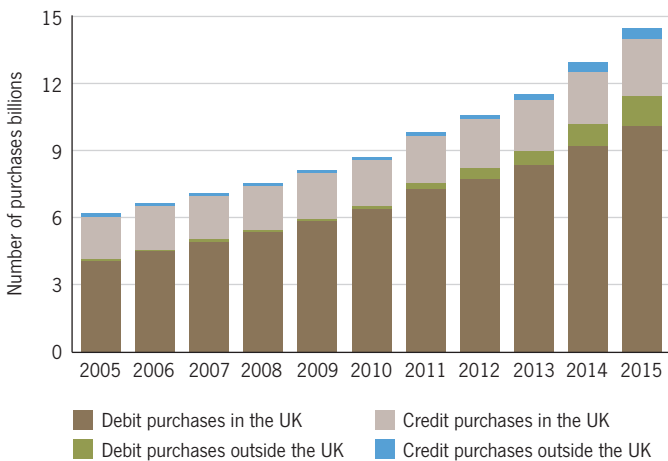
1.3 Card transactions in 2015

Card transactions comprise purchases completed at the point-of-sale, in-store, by telephone, online or via a mobile device. Also included are cash withdrawals from cash machines as well as at bank and post office counters. During the year, the number of transactions using all payment 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, the number of purchases amounted to 11 billion (up 12%), corresponding to a total spend of £486 billion (up 11%).

A growing proportion of these purchases are made online and to a lesser extent via mail order/telephone order (MOTO). The total number of online purchases made with debit cards stood at 2.7 billion, with £160 billion spent on these cards, with an average transaction value (ATV) of £60.11. This meant that in 2015 online spending accounted for 23% of debit card purchases by volume and 33% by value. Meanwhile, the number of debit card MOTO purchases amounted to 430 million with £43 billion spent, accounting for 3.7% of total debit card purchases by volume and 8.9% by value.

Chart 1.3

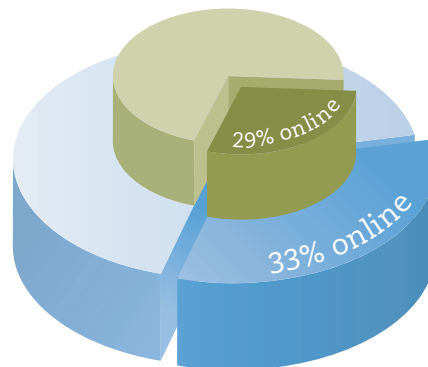
Number of credit and debit card purchases



Source: The UK Cards Association

The ATV for debit card purchases continued to decline, falling by 30 pence to £42.30 during the year. Falling ATVs have been evident for many years with deflationary pressure from factors such as ongoing supermarket price wars, the growing market share of discount retailers and declining fuel prices. The growing adoption of contactless technology has also applied downward pressure to ATVs.

In contrast to purchases at the point-of-sale, cash acquisition using debit cards decreased slightly by 0.2% to £184 billion – the third consecutive annual decline, driven by respective annual decreases in domestic and international withdrawals of 0.1% and 3.9% to £178 million and £5.9 billion respectively.



Credit card spending
£174 billion

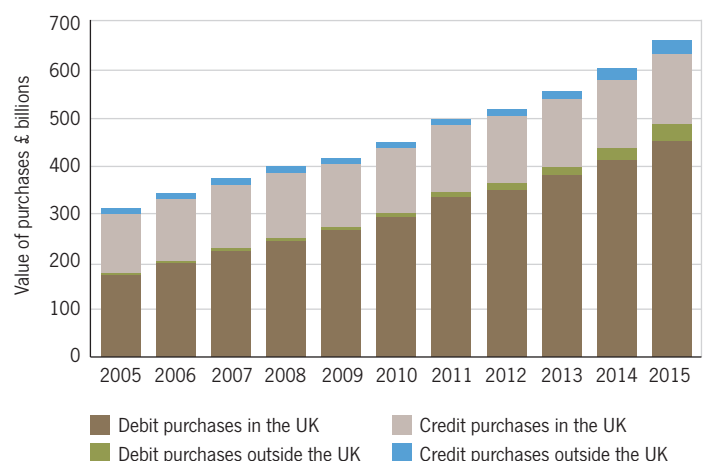
Debit card spending
£486 billion

In relation to credit and charge cards the number of transactions increased by 9.6% to 3.1 billion, with values up by 4.4% to £178 billion. Purchases accounted for almost all transactions, following an increase of 10% in volumes, with the corresponding spend amounting to £174 billion (up 4.7%). The total number of online purchases made with credit cards stood at 0.7 billion and corresponded to £50 billion spent with an ATV of £68.83. Online credit card spending made up 24% of purchases by volume and 29% by value. Meanwhile MOTO credit card transactions made up 4.1% of purchases by volume and 8.7% by value.

Cash acquisition using credit and charge cards decreased, falling by 7.8% to £3.8 billion. This decline was recorded both within and outside the UK and was a reversal of the increase registered in 2014. The average withdrawal value decreased by £8 to £116.56. Putting this into a broader context, the volume of cash advances accounted for only 1.1% of all credit and charge card transactions during 2015, which equated to 2.1% of the total value of transactions.

Chart 1.4

Value of credit and debit card purchases



Source: The UK Cards Association

The strong adoption of contactless technology during 2015 was evident with significant increases in transactions and values. The number of transactions and the total amount spent both tripled, with just over one billion contactless transactions recorded last year. This equated to £7.75 billion in spending, of which £6.78 billion was on contactless debit cards with an ATV of £7.44.

1.4 Card acceptance in 2015

The merchant acquiring industry has undergone a great deal of change in 2015, developing different propositions and competing across an increasing range of business models from multi-channel sales formats through to discount retailers and online businesses. As card acceptance has proven to provide significant benefits to businesses, the number of merchants accepting cards continued to increase and reached 1.0 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. The number of acquirer owned terminals increased by 3.8% to just above 0.7 million, while the number of retailer owned terminals grew by 14% to 1.2 million. The continuing roll out of contactless acceptance may have contributed to this growth and by the end of the year 43% of all acquirer owned terminals were contactless. Also, the adoption of mobile POS (mPOS) terminals increased among sole traders and small businesses.

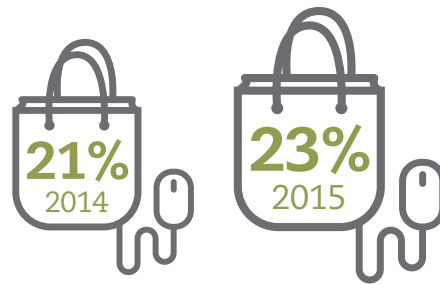


1 million
merchants



2 million
POS terminals

Data collected from UK merchant acquirers showed the total number of card purchases rose by over 11% to reach 13 billion, while the value spent increased by 8.3% to £622 billion. It is likely that this increase has been driven by favourable economic conditions and consumer confidence alongside the expansion in online and contactless payments. The number of card payments made via the internet amounted to 1.6 billion, representing 12% of total card purchases at UK merchants. Corresponding online spending amounted to £145 billion accounting for 23% of total card expenditure. Meanwhile, contactless transactions at UK retailers reached 1.05 billion, amounting to £7.75 billion.



23% of card spending at UK merchants was online in 2015, up from 21% in 2014

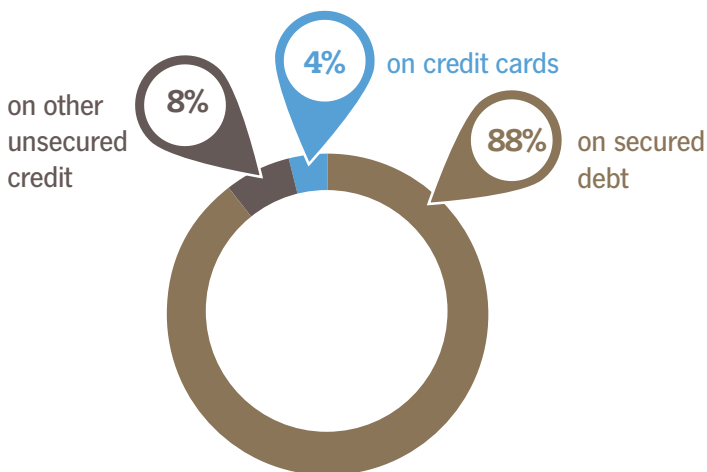
While the majority of card payments still take place at POS terminals in the face-to-face environment, the industry is witnessing a continued growth in e-commerce and m-commerce as more people choose to shop online and on-the-go. This trend will likely lead to an increasing number of merchants offering their goods and services online.

1.5 Credit card borrowings

Credit cards continue to provide an important, flexible and convenient tool for household borrowing. 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.

By the end of 2015 households owed a total of £1.46 trillion in secured and unsecured borrowings. Of this, 88% was secured debt (mostly on property), 8% was owed on other unsecured credit such as loans, car finance and overdrafts, and 4% was on credit cards.

Total consumer borrowings (£1.46 trillion)



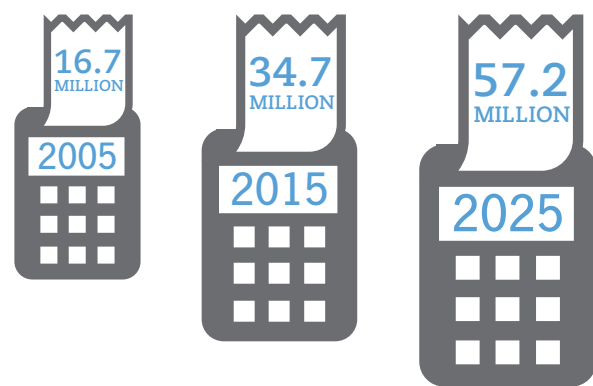
UK credit card debt declined from a peak of £69.1 billion in February 2006 to £63.3 billion in December 2015; of this, 42% incurred interest. This is attributable to balances being paid off or transferred before the end of the interest free period, as well as balances on 0% promotional rate products.

Repayment levels were strong in 2015, continuing the trend evident in 2014. 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 The future

Over the next decade the volume of card payments, in particular debit card payments, is forecast to substantially increase. Total card payment volumes are forecast to increase from 12.8 billion payments in 2015 to 20.9 billion in 2025. The total value of card payments in 2015 was £596 billion and is forecast to increase to £856 billion in 2025.

Card payments in the UK per day:



Debit cards

Consumers' use of debit cards is expected to contribute a significant portion of this increase. This will be driven by a number of factors including online shopping, the increasing use of contactless payments and changing generational preferences. 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. Greater card acceptance by businesses will also drive growth as consumers are provided with more opportunities to use their cards to make payments. For example, all of London's 22,500 black cabs will accept card payments by October 2016.

The growing importance of debit cards has been reinforced over the last couple of years by the increasing popularity of contactless payments in the UK. Roll out of contactless cards to cardholders is forecast to continue, and customers will become more accustomed to using the contactless functionality on their cards to make payments. Contactless payments have resulted in consumers becoming increasingly willing to make low value payments by card. At the same time, small businesses in particular are becoming increasingly willing to accept cards for low value payments. This is forecast to result in migration away from cash towards contactless cards. Contactless payment volumes will also rise as a result of migration of transactions that are currently made using Chip & PIN, although this will not increase the overall share of debit cards as a proportion of total payments in the UK. The higher contactless limit will increase the volume of contactless payments in the future; however most of this will be migration from existing Chip & PIN transactions. By 2025 contactless debit card payments are forecast to account for 47% of all debit card payments.

Technological change may see a large number of future debit card transactions taking place without a physical payment card. For example, transactions may be completed by using a mobile phone with NFC capabilities, rather than an actual debit card. New mobile payment technologies such as Apple Pay are expected to be embraced in particular by the younger generation. Mobile payments are forecast to grow in popularity over the coming decade, further increasing the volume of contactless card payments.

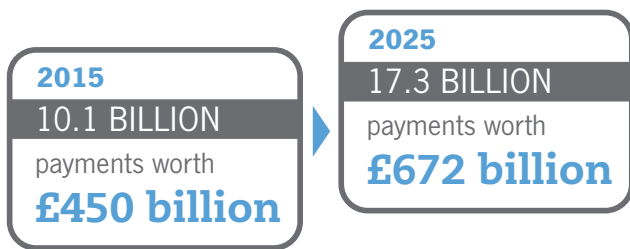
Increasing debit card acceptance, especially among small businesses, is also expected to grow debit card payments over time. Card acceptance is expected to become more cost effective for smaller businesses as more solutions are developed that specifically target SMEs. This will increase the opportunities available to consumers to use their debit cards, whereas previously they may have used alternative payment methods such as cash. Increasingly, consumers are expecting to be able to pay by card when shopping at retailers of all sizes.

Debit card use is also likely to increase among small businesses as card issuance to these businesses increases. As a result these businesses are anticipated to make more payments by debit card. 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. These may be used as an alternative to paying using other methods such as cheques or Bacs Direct Credit.

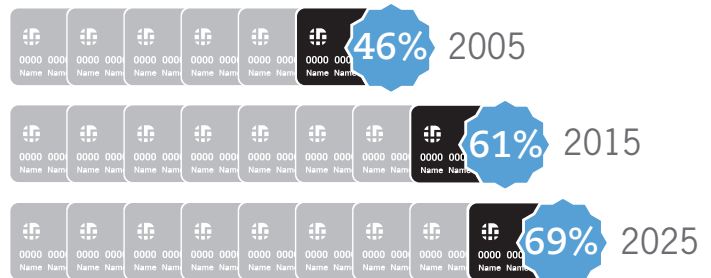
Another major driver increasing debit card payment volumes over the next decade will come from online shopping. This includes not only e-commerce, but also the rapidly growing m-commerce sector, as rapid adoption of both smartphones and tablets by consumers has increased the methods available to them for accessing the internet and shopping online. The growth in online shopping has seen many traditional high street retailers increasing their online presence as they seek to capitalise on the potential for making sales via the internet. This may be seen as a substitute for in-store purchases, form part of a new store experience (e.g. 'click and collect') or generate completely new purchases from customers who otherwise would not have easy access to a store. This assumes that debit cards (and credit cards) will remain the principal payment method in which consumers pay for online purchases. Therefore growth in online shopping translates to growth in debit card payments. It should be noted that implementation of the Payments Services Directive II (PSD2) could result in third party providers offering account-to-account transfers in the online space. This may affect the future volume of online debit card payments, as account-to-account transfers would offer a new alternative method for consumers to pay for goods and services online. Having said this, these new services would have to provide an advantage to consumers over paying by card in order to influence them to change their established payment habits and switch from using cards for online shopping.

By 2025 the volume of debit card purchases in the UK is forecast to grow to over 17 billion payments. This represents a 70% increase compared to the number of payments 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 £672 billion.

Debit card payments



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



Credit cards

Credit card payment volumes are forecast to increase steadily over the next decade. Recent years have seen a trend away from credit cards being used primarily for borrowing purposes, to credit cards being used primarily for transacting purposes. Transacting is a term that indicates that the card holder predominantly uses their credit card for everyday purchases, perhaps in order to accrue points with the card issuer's loyalty rewards programme. The recent introduction of the European Commission's transaction interchange fee cap has affected a number of credit card reward programmes. For example, some have increased their spend requirements from 1 point for every £1 spent to 1 point for every £4 spent. Others have introduced annual fees for their cards or taken other steps that make their reward programmes less costly to run, but also in turn less attractive to consumers. As a result this may affect future volumes for the transactor segment of the credit card market.

This effect may be offset through increasing consumer confidence. Credit card borrowing has increased over the past year. This can be attributed to consumers beginning to make higher value purchases that they may have been delaying during times of more economic uncertainty, as they feel more confident in paying back any borrowing. Such purchases are likely to include items such as household goods and foreign travel.

Contactless payments are also expected to increase credit card volumes as awareness and acceptance of this payment method increases. In particular, this will increase the number of low value transactions that consumers make using credit cards. This would predominately appeal to the transactor market for making everyday purchases. Mobile contactless payment growth is also likely, especially among early adopters and those in younger age groups. It should be noted though that mobile payments are likely to have more significant impacts among debit card holders as opposed to credit card holders. This is due to the demographic difference between the groups, with credit card holders being more likely to be older.

Similar to debit card acceptance, credit card acceptance by SMEs is also expected to increase. There are a number of card acceptance business models introduced by merchant acquirers 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 (B2B) payments.

A continuing expanding economy will also grow the market for corporate credit cards. These are often used to pay for employee travel and other expenses. This will also be driven by increased card holding among large organisations and the public sector.

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.

Credit card payments

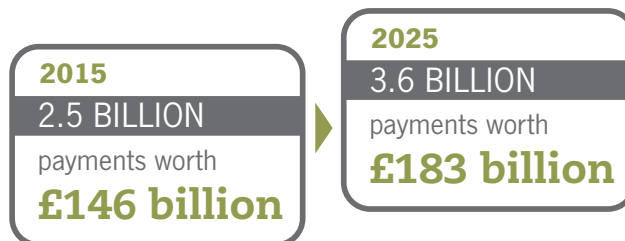
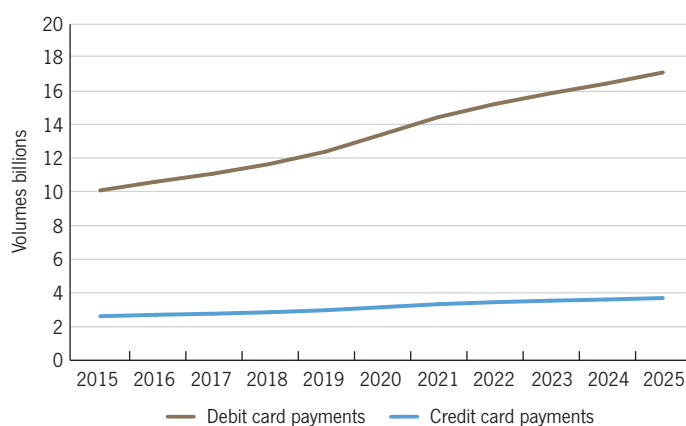


Chart 1.5

Credit and debit card payment volumes forecasts



Source: Payments UK

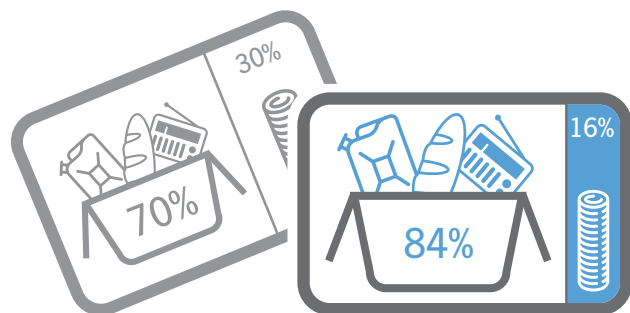
Key Statistics 2015

All cards

There were 175.6 million cards in issue: 59.0 million credit cards; 5.7 million charge cards; 98.8 million debit cards and 12.2 million ATM-only cards.

49% of credit and debit cards in issue were contactless by the end of the year, amounting to 79 million.

In 2015 UK-issued cards were used to make 17 billion transactions (+9.2%) totalling £856 billion (+6.6%).



2005

70% of all card transactions were purchases, with 30% as cash withdrawals

2015

84% of all card transactions were purchases, with 16% as cash withdrawals

Card issuers reported £210 billion was spent online, representing 32% of total card spending.

Approximately 51% of all online transactions were completed via a mobile device (smartphone or tablet).

In 2015 on average cardholders made:



5 credit card purchases per month



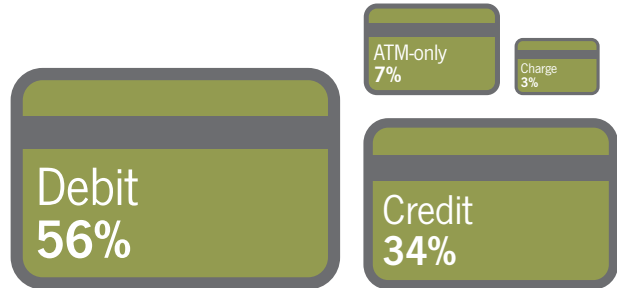
10 debit card purchases per month

Debit cards

Debit cards were used to make 10 billion purchases in the UK to a value of £450 billion.

There were 2.6 billion debit card transactions to acquire £178 billion of cash in the UK.

Of 176 million total cards in issue:



The number of debit card holders increased by around 0.3 million to 49 million.

Around 94% of the UK adults held a debit card in 2015. Those in employment are more likely to have one than those looking for work.

Debit cards accounted for around 55% of the total value of UK retail sales in 2015.

The number of debit card payments made in the UK by UK cardholders is forecast to reach 17 billion payments in 2025, amounting to £672 billion.

Credit and charge cards

Credit and charge cards were used to make 2.5 billion purchases in the UK to a value of £146 billion.

There were just under 32 million credit card holders in 2015.



60%

of the UK adult population have a credit card

Cash advances on credit and charge cards are at historically low levels, and amounted to £3.8 billion in 2015.

80% of all credit and charge card spending in 2015 was made by cardholders who repaid the balance in full.

Around 42% 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 £63.3 billion at the end of 2015, accounting for just 4.4% of the UK's total consumer debt of £1.46 trillion.

UK credit and charge card purchase volumes are expected to grow to 3.6 billion in 2025, with a total spend of £183 billion.

Card acceptance

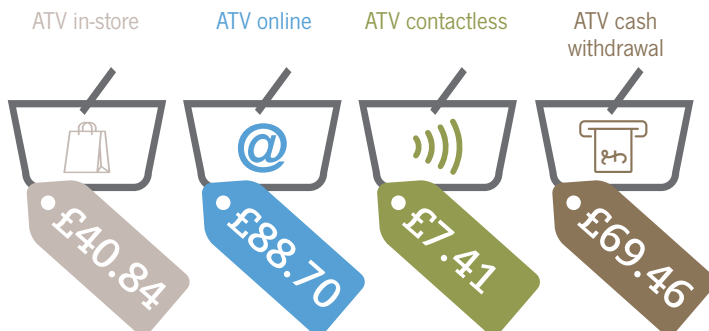
In 2015 UK businesses accepted 13 billion card payments totalling £622 billion (including foreign-issued cards).



The number of contactless POS terminals in the UK surpassed 0.3 million, up by 44% on 2014.

Online spending represented £23 of every £100 spent on cards at UK businesses.

Card average transaction values at UK businesses in 2015:



In January 2015 card expenditure at UK merchants surpassed a milestone of £50 billion within a single month.

77% of card purchases at UK merchants are made using debit cards.

34% of all card payments in the UK were made in supermarkets



Payment card fraud

Fraud losses on UK-issued payment cards increased by 18% to £568 million in 2015. This represented an increase of £89 million; of which 70% was fraud in the remote purchase (online, telephone and mail order) channels.

In 2015 for every £100 spent 8.3p was fraudulent

