UK Card Payments Summary 2017

This is a summary of The UK Cards Association’s UK Card Payments 2017 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 decade.

A full copy of UK Card Payments 2017 can be purchased at £750 from: press@ukcards-ffauk.org.uk

Who uses cards

There are around 164 million payment cards in issue in the UK. The number of debit cards has increased strongly over the past decade.

In 2016 the total number of payment cards in use remained virtually unchanged at 164 million. Of this total 100 million were debit cards (+0.8%); 59 million credit cards (-0.7%) and 5 million charge cards (-4.6%). Over the last ten years debit card holding has increased by 45% while the number of credit and charge cards has declined by 14%. In contrast, the ATM-only card portfolio has halved to 11 million, mainly driven by the closure of dormant accounts and upgrades to debit cards.

While debit card holding has considerably grown over the last decade, credit card holding has been largely static. Around 51 million adults in the UK (96% of the population) have a debit card. Around 32 million adults (60% of the population) 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.

How we use them

Card payments play a crucial role in everyday life.

Card payments continued to grow strongly in 2016. The number of transactions increased by 10% to 19 billion, amounting to £904 billion spent. This equates to more than a third of UK GDP. The number of payment cards in use remained virtually unchanged in 2016, indicating that cardholders are using their cards more frequently across different channels (in-store or remotely) and in various forms (wearables, mobile, in-app etc.).

Continuing a trend from previous years, the highlight of 2016 was the exceptional growth in the circulation and use of contactless cards. The total spending on contactless in 2016 was more than double the preceding eight years combined. Contactless has become an established way of paying, providing an alternative to cash for lower value transactions. By the end of the year, 27% of card purchases in the UK were made using contactless, up from 12% at the end of 2015.

Online card spending also performed strongly, growing by 18% in 2016, aided by emerging technology and changing consumer habits. 35% of card spending with UK-issued cards was online in 2016, with shoppers benefiting from convenience and protection.
What we spend and where

Most transactions are on debit cards.

During 2016 the total number of card transactions increased by 10% to 19 billion, with corresponding values up by 5.5% to £904 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 11% to just under 16 billion, with values up by 6.1% to £763 billion. Of this total, 13 billion were domestic and overseas purchases (up 14%), amounting to £530 billion, up by 9.0% during the year. On average, each debit card was used 159 times with the total amount spent per card amounting to £7,204.

Credit cards accounted for 24% of all retail spending in 2016

Debit cards accounted for 53% of all retail spending in 2016

The growth in credit card transactions is driven by transactors, those who pay off their balances in full.

There was an increase in spending on credit cards during 2016. The total number of credit card transactions increased by 5.0% to 3.3 billion. The combined value of these transactions grew more slowly, increasing by 2.2% to £183 billion. Of the total credit card transactions, 3.2 billion were purchases, amounting to £179 billion spent.

In 2016 on average UK adult made:

- **Credit card payments each month**: 4
- **Debit card payments each month**: 18

Around 80% of credit card spending is attributable to full payers, who in turn account for around 56% of the credit card holding population. While credit card spending increased by £3.9 billion during the year, borrowings increased by £3.2 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.

Card purchases at UK businesses by payment method, 2016

- **Chip & PIN**: 65%
- **Contactless**: 19%
- **Remote**: 16%

The majority of card payments still take place in-store (67%), but both e-commerce and m-commerce shares are growing, as more people choose to shop online and on the move.

As card acceptance has been proven to provide significant benefits to businesses, the number of retailers accepting cards continued to increase to just over 1.0 million, while the number of outlets amounted to 1.3 million. The total number of point-of-sale (POS) terminals in the UK rose by 10% to 2.2 million. Data collected from UK merchant acquirers showed the total number of card purchases in 2016 rose by over 11% to reach 15 billion, while the value spent increased by 4.2% to £647 billion.

Cardholders spent the most on food and drink (£114 billion), followed by other services (£100 billion), financial services (£80 billion) and entertainment (£57 billion). A third of all card purchases in 2016 were made at supermarkets, while every fifth payment was on entertainment.

Spending on payment cards (£ billions) by merchant sector 2016

- **Total £647 billion**
- **Food and drink**: 114
- **Mixed business**: 30
- **Clothing**: 28
- **Household**: 48
- **Other retailers**: 48
- **Automotive fuels**: 32
- **Other services**: 42
- **Vehicle sales and services**: 57
- **Entertainment**: 49
- **Hotels**: 20
- **Travel**: 49
- **Financial services**: 80
- **Other services**: 100

Debit cards accounted for 53% of all retail spending in 2016

Credit cards accounted for 24% of all retail spending in 2016
The growth of contactless

The popularity of contactless payments continued to grow across the UK, with consumers embracing the speed and convenience of the technology.

Since the introduction of contactless in 2007, the number of contactless cards has grown exponentially, with new cards issued in 2016 growing by 26% to 103 million. The number of contactless debit cards rose to 70 million, while contactless credit and charge cards amounted to 33 million.

Contactless payments have continued to grow exponentially, with spending in 2016 rising more than three-fold to reach £25 billion. There were a total of 2.9 billion contactless payments in 2016, up by 174% on 2015.

The increase in the contactless payment limit from £20 to £30, facilitated by The UK Cards Association in September 2015, resulted in a slight increase in the average contactless payment value from £8.57 in December 2015 to £9.52 at the end of 2016. Despite this increased ATV, many contactless payments are still in the lower value range and are being used as a substitute for cash.

Retailer acceptance also continued to widen, with the number of contactless POS terminals in the UK growing by 45% to 450,000 terminals at the end of 2016, representing around 60% of all acquirer owned POS terminals.

Card spending in the sharing economy:

- Peer-to-peer accommodation
- Car sharing
- DIY tasks
- Peer-to-peer lending
- Music streaming

Credit card borrowing

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

After a period of stability, total credit card borrowings grew modestly in 2015, rising from £61.3 billion in January 2015 to £66.6 billion by the end of 2016, accounting for just 4.4% of total consumer debt. Credit card borrowings also account for a relatively small part of household disposable incomes (5.3%), broadly in line with the average of the past decade.

This growth in borrowing has been reflected in other areas of unsecured consumer credit such as personal loans and car finance.

Around 80% of all credit and charge card spending in 2016 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 45% by the end of 2016.

According to the Bank of England, credit card interest rates remained at a consistent level during 2015 and 2016, averaging around 18%. The distribution shows almost half of all accounts incur interest ranging from 15% to 20%, about 5% of accounts have a retail interest of 0%.

Total consumer borrowings (£1.52 trillion) of which:

- 88% on secured debt
- 4% on credit cards
- 8% on other unsecured credit
The future

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 2016 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 growth of in-app purchasing.

A new trend that is emerging is the fusing of social media/messaging formats with payment capability. Consumers’ preferences are moving away from a destination mindset towards more ‘conversational styles’ and forms of engagement. This is reflected in the rise, growth and consolidation of the ‘app-economy’, with growing evidence of declining volumes in downloaded applications and a shift in preference towards more open driven ecosystems (e.g. Facebook).

Another interesting development has been the return of voice as an active communication channel through the successful launches in the UK market of Amazon’s Echo and Google’s Home voice-activated devices. Customers can order online purchases directly just by speaking to these devices.

All of these changes are having a profound impact upon the traditional card payments industry. The introduction of PSD2 will further intensify diversification in the payments market. Rather than focusing on a specific point-of-sale, industry is increasingly moving towards a harmonised digital payment experience across any app, device or platform (e.g. Masterpass/Visa Checkout).

## Share of payments in the UK made using cards:

<table>
<thead>
<tr>
<th>Year</th>
<th>Contactless</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>0%</td>
</tr>
<tr>
<td>2016</td>
<td>22%</td>
</tr>
<tr>
<td>2026</td>
<td>51%</td>
</tr>
</tbody>
</table>

## Total debit card payments:

<table>
<thead>
<tr>
<th>Year</th>
<th>Value (in billion)</th>
<th>Contactless</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>4.5</td>
<td>0%</td>
</tr>
<tr>
<td>2016</td>
<td>11.6</td>
<td>22%</td>
</tr>
<tr>
<td>2026</td>
<td>18.2</td>
<td>51%</td>
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Over the next decade the volume of card payments, in particular debit card payments, is forecast to grow substantially.

A major source of growth in debit card holding will come from the next generation of current account holders. Younger people are 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 18 billion transactions in 2026. This represents a 57% increase compared to the number of transactions in 2016, and is more than four times the number of payments made in 2006. The total value of debit card purchases in 2026 is expected to reach £753 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. By 2026 contactless debit card payments are forecast to account for 51% of all debit card payments.

Credit card payment volumes are forecast to increase steadily over the next decade. In 2026 credit and charge card purchases are forecast to increase to 3.7 billion transactions, up from 2.8 billion in 2016. Values are projected to rise to £189 billion in 2026. One of the most important drivers relating to future credit card volumes and values will be the level of economic growth.