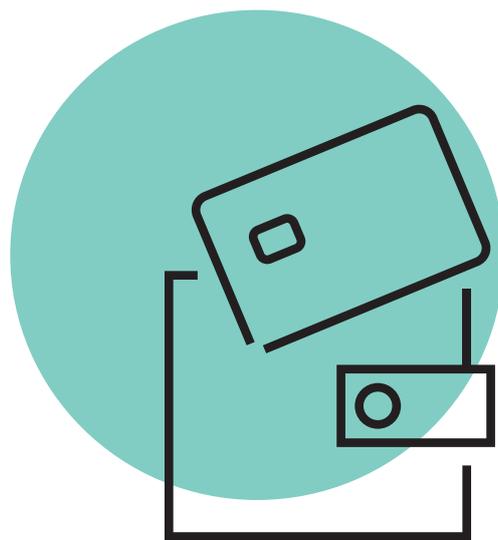


2017



UK Payment Markets Summary

An analysis of recent and emerging developments and forecasts for all forms of payment



How payments are likely to change in the UK over the next decade

Each year, Payments UK prepares a series of reports using definitive industry data to provide a detailed analysis of the UK's payments landscape, across every different payment type. This analysis considers the most recent trends affecting cash, cards, cheques and electronic payments, and develops forecasts for all types of payments that are relied upon by the payments industry, Government, regulators and others to help them plan for the future.

This document presents a summary of the key results from the publication UK Payment Markets 2017. The full report is available free of charge to members of Payments UK, and is available for purchase by others.

More details can be found at:
www.paymentsuk.org.uk/industry-information/annual-statistical-publications

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Summary

The world is getting faster, faster. So runs the thesis of Robert Colvile in his book *The Great Acceleration*, mapping trends underpinned by technological advances that are speeding up everything from financial markets to communication; even affecting the speed at which we walk.

The theory of acceleration is borne out by the increasing pace of change in payments. The last decade has seen the introduction and growth of both the 24/7, real-time Faster Payments Service, and of contactless payments, which speed up checkout times. These innovations, combined with our ongoing love affair with the internet and with mobile devices, have led to rapid changes in the way that many of us manage our finances and make day-to-day payments. Consumers now have more choices available to them when making payments than any previous generation.

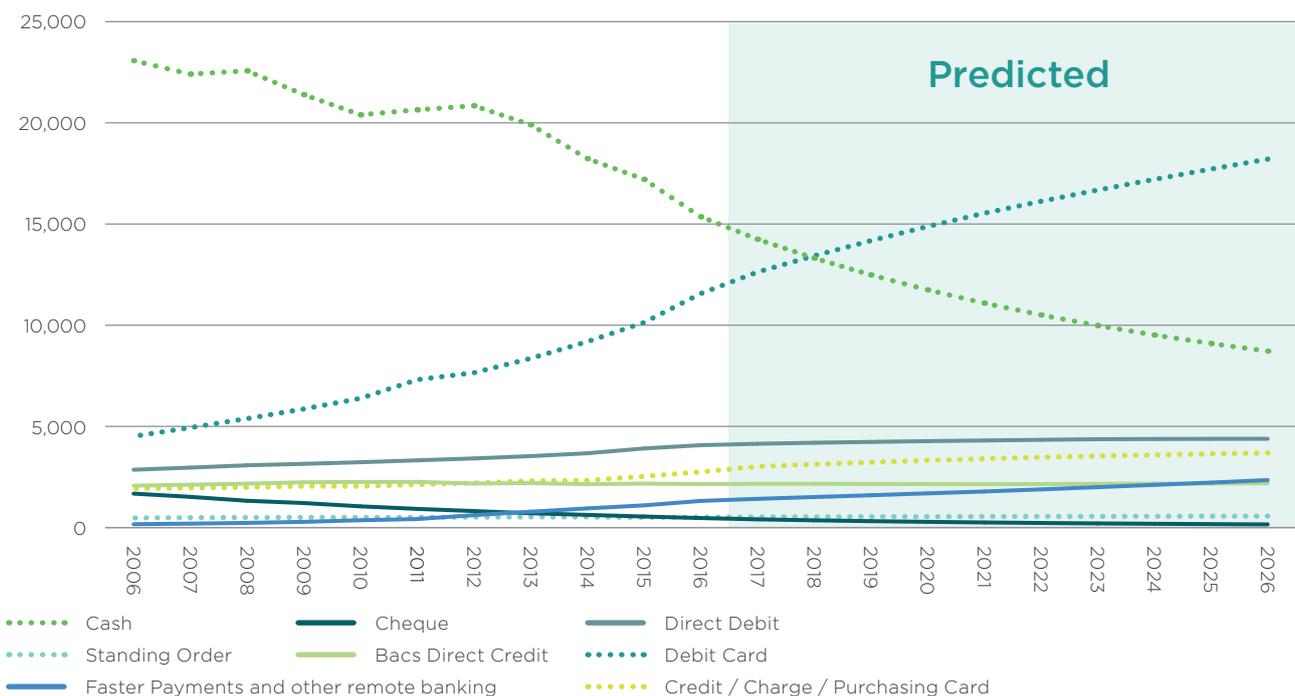
A key finding of this year's UK Payment Markets relates to the rapidly growing adoption of contactless payments. In fact, the popularity of contactless has led Payments UK to bring forward by three years the predicted date when debit cards will overtake cash as the most frequently-used payment method in the UK. We now expect the tipping point to be reached in late 2018, and yet - it's vital to note - even in the face of this change, we believe any claims that the UK will soon become a cashless society are wide of the mark.

People will always choose the payment methods that suit them best, and cash will remain a frequently-used payment method for the foreseeable future. In ten years' time, we will still be using cash for one in five payments in the UK, even as mobile payments and other innovations provide ever greater choice about how to pay.

As we look to the next decade, developments such as Open Banking will further expand the range of payment options and services available to consumers. These developments will come with challenges of their own - not least around security and making sure that consumers are kept safe from fraud.

One thing is for certain - technology will continue to advance and it will play a key role in driving change in payments. No matter how the payments landscape evolves, our definitive data analysis and market insight will be essential reading for those in the industry and beyond who want to make sense of the UK's ever dynamic payments sector. With that in mind, I hope you enjoy the report.

Share of payments in the UK made using different methods, by number of payments (millions)



Payments made by consumers and businesses

There were 38.7 billion payments made in the UK during 2016. Consumers made nine out of ten of these payments. Nearly 86% of payments made by consumers were for spontaneous purchases, with the other 14% being made in order to pay regular bills.

Businesses, Government and not-for-profit organisations made the remaining tenth of payments in the UK that were not made by consumers. Six out of ten of these payments were made for the purpose of paying individual people, and four out of ten were payments made to businesses.

38.7 billion

Total payments in 2016



Consumer
34.6 billion



Spontaneous
29.6 billion



Regular
5.0 billion



Business
4.1 billion



Business-to-individual
2.5 billion



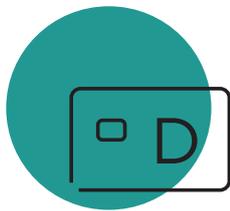
Business-to-business
1.7 billion

Total payments in 2016 and forecasts to 2026

Debit Cards

Debit card payments continued to grow in 2016, increasing by 14% over the year to 11.6 billion payments. The large majority of the population now holds a debit card and most people are very comfortable using them to make day-to-day payments. There were a number of factors that contributed to the strong growth of debit card payments in 2016. The growing popularity of contactless payments provided a boost to overall use of debit cards. Card acceptance has also increased in recent years, with many smaller business and sole traders now able and willing to accept card payments for ever-smaller amounts. Online shopping continued to grow in popularity during 2016, with debit cards being the most popular way of paying for goods and services online.

Debit card payment volumes are forecast to increase more than any other payment method over the next decade, growing by 57% to 18.2 billion payments in 2026. Debit cards will also become the most frequently used payment method in the UK by the end of 2018, overtaking cash. This will be earlier than previously forecast by Payments UK, primarily due to the growing popularity of contactless payments and the increased migration of payments away from cash seen during 2016.

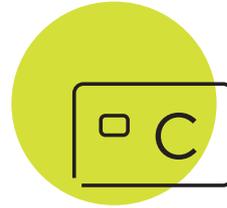


Debit cards will become the most frequently used payment method by the end of 2018

Credit Cards

There were 2.8 billion payments made using credit cards in 2016, an increase of 9% compared with the previous year. This reflects growth in unsecured lending (which includes credit cards, personal loans and car loans) which reached record levels during 2016. Consumer spending on credit cards fell following the financial crisis as many people tightened their belts. However, it seems that some people are no longer willing to defer spending, whilst others may be turning to unsecured lending as a way of making ends meet. In both cases, the result was an increase in credit card spending during 2016. Some growth also arose from 'transactors' who typically use their credit cards to gain value added benefits (such as rewards) and pay off their bill in full every month.

Credit card payment volumes are expected to reach 3.7 billion payments in 2026. Future growth will be closely tied with wider economic conditions which determine consumer appetite for taking on unsecured debt.



62%
of adults in the UK
have a credit card

Contactless Payments

There were just fewer than 2.9 billion contactless payments made in the UK during 2016, more than 2.7 times the volume in 2015. This growth was driven partly by the continued roll-out of contactless cards and card acceptance devices, but also by consumers becoming increasingly comfortable and familiar with making contactless payments.

The number of contactless cards in the UK continued to increase during 2016. By the end of the year 70% of debit cards and 51% of credit cards in the UK had contactless functionality. The number of contactless cards in circulation will continue to grow over the next few years. Beyond this, the availability of contactless-enabled card acceptance devices at the point of sale is expected to increase, as the card industry has committed to ensuring that from January 2020 every bank-issued payment terminal in the UK will be capable of accepting contactless payments.

In 2016 the most popular location to make contactless payments was at the supermarket, which accounted for over a third of all contactless payments made in the UK. People aged between 25 and 34 were the most likely to use contactless cards, with 60% of people in this age group making contactless payments during 2016. People aged 65 or older were less likely to make contactless payments, with 40% of people in this age group doing so. However, it is relevant to note that people in this age group make fewer payments than younger people in general, and so have fewer opportunities for using contactless payments.



7%
of all payments made via
contactless cards in 2016

27%
of all payments made via
contactless cards in 2026

Cash

There were 15.4 billion cash payments made during 2016. Whilst this reflected an ongoing decline in cash usage in the UK, cash still remained the most frequently used payment method in 2016. The main cause of the decline in cash payments has been the increasing use of debit cards, and in particular the growing popularity of contactless payments. Consumers are increasingly turning to contactless payments in situations where previously they may have paid using cash.

Whilst cash payment volumes continued to decline during 2016 there were still 2.7 million consumers who relied mainly on cash to manage their day-to-day spending. On the other end of the spectrum there were 2.9 million consumers who almost never used cash at all, instead relying on cards and other payment methods to manage their spending. This reflects the growing diversity in the way that people approach their spending.

Over the next decade the number of cash payments is expected to continue to fall as consumers turn to alternative payment methods. By 2026 there are expected to be 8.7 billion cash payments in the UK, accounting for 21% of all payments. Despite this fall, cash will still be the second most frequently used payment method in the UK in 2026.

Cash as a % of all payments



62%

2006

40%

2016

21%

2026

Direct Debit

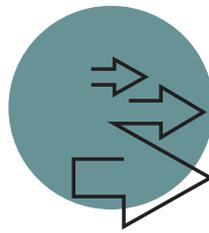
Direct Debit is a familiar and widely-trusted method for paying regular bills, with more than five out of six consumers using them. In 2016 in the UK, 4.1 billion payments were made by Direct Debit, worth a total of £1,262 billion.

Consumers are far more likely to use Direct Debit than businesses, which tend to prefer to retain more direct control over the timing and amount of outgoing payments. The economic cycle and consumer confidence are linked to some extent to Direct Debit payment volumes. When times are tough, households may cut back on non-essential bills or be more reluctant to sign up to paying bills by Direct Debit. As the economy

grows or consumer confidence increases, spending may increase or households may feel able to take on additional regular payments or feel more able to commit to paying regular bills by Direct Debit.

As a well-established method of payment, growth in Direct Debit payment volumes tends to reflect growth in population figures and household numbers. Some growth also arises due to the introduction of new subscription services, or due to major billers expanding the range of payment options that they accept to include Direct Debit. Due to the established nature of Direct Debit, we expect only limited growth over the next ten years, with 4.4 billion payments forecast in 2026.

Volume of Direct Debit payments



4.1 billion

2016

4.4 billion

2026

Faster Payments and other remote banking

The number of account holders using online banking (via a computer) or mobile banking (via an app on their smartphone or tablet) continued to grow in 2016. Seven out of ten account holders used online banking and nearly four out of ten used mobile banking. As a result the number of remote banking payments processed via the Faster Payments Service (or cleared in-house by banks) during 2016 increased to 1.3 billion payments.

Faster Payments and other remote banking



1.3 billion

2016

2.3 billion

2026



Business use of Faster Payments and other remote banking exceeded the use of cheques for the first time in 2016

Over the next decade both consumers and businesses are expected to increase their use of online and mobile banking. This will result in remote banking payments processed via the Faster Payments Service or cleared in-house rising to 2.3 billion payments in 2026.

The implementation of both Open Banking and the Payments Services Directive II (PSD2) may also result in increased volumes of Faster Payments. This is because Open Banking raises the potential for services to be launched that would allow consumers to pay for their online shopping using account-to-account payments at the online checkout, rather than paying using a card or PayPal (or similar service). However, it is not yet clear how these services will be communicated or marketed to consumers, or what the consumer appetite would be to change their established payments behaviour when shopping online.

Standing orders

Standing orders tend to be used in circumstances where a regular payment of a fixed amount must be made, for example, for paying rent or making regular transfer payments from current accounts to savings accounts. There is expected to be slow but steady growth of standing order payment volumes over the next decade, from 516 million payments in 2016 to 564 million payments in 2026.

Bacs Direct Credit

- There were 2.1 billion Bacs Direct Credit payments in 2016
- There are forecast to be 2.2 billion Bacs Direct Credit payments in 2026

Bacs Direct Credits are a popular and cost-effective method for businesses and Government to make bulk payments, where the value and timing of the payment are known in advance. As a result Bacs Direct Credits overwhelmingly remained the most common method for businesses and organisations to make payments during 2016. Over nine in ten employees are paid by Bacs Direct Credit. The Government also uses this service to pay nearly all recipients of state benefits and pensions.

Over the next decade, Bacs Direct Credit is expected to remain the most popular method for businesses to make payments. However, the total volume of payments are not expected to grow significantly. This is because, even though government forecasts suggest steady economic growth, the roll-out of Universal Credit will reduce the total volume of benefit payments made by the government. As a result, just over 2.2 billion Bacs Direct Credit payments are forecast in 2026.

Cheques

The number of cheques used to make payments in 2016 declined by 14% from 2015 to 471 million. Cheque use declined among both businesses and consumers. This is attributed to other payment methods such as cards and remote banking transfers being used where previously a cheque may have been written. Despite this decline cheques still remain valued by those who choose to use them as they provide a convenient and secure method of paying someone when you do not know the recipient's bank account details.

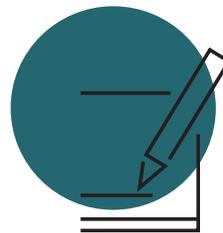
From October 2017, the Cheque and Credit Clearing Company will introduce a new method of clearing cheques in the UK, using digital images of cheques rather than transporting the actual paper cheques around the country. One of the main benefits will be that the cheque clearing process can be sped up, so cheque recipients will see the money appear in their account more quickly. It also opens up the potential for new ways of depositing cheques to be introduced.

Despite the new clearing system, over the next decade both consumers and businesses are expected to continue to migrate away from cheques to alternative payment methods. By 2026 there are forecast to be 156 million cheques written for payment purposes.

Cheques used to make payments

1,678 million

2006



471 million

2016

156 million

2026

CHAPS

- There were 39 million CHAPS payments processed in 2016
- By 2026 there are forecast to be 43.5 million CHAPS payments

CHAPS is used primarily by financial institutions to make wholesale financial payments and by large corporates to make corporate treasury payments. As a result, in 2016 CHAPS accounted for just 0.1% of the total volume of payments in the UK but 90% of the total value of payments. There were 39 million CHAPS payments processed in 2016, worth a total of £75.6 trillion. CHAPS payment volumes are closely related to the state of the UK economy. As such the economic outcome of Brexit and how it affects cross-border trade and investment will likely have an effect on future CHAPS payment volumes. There are forecast to be 43.5 million CHAPS payments in 2026.

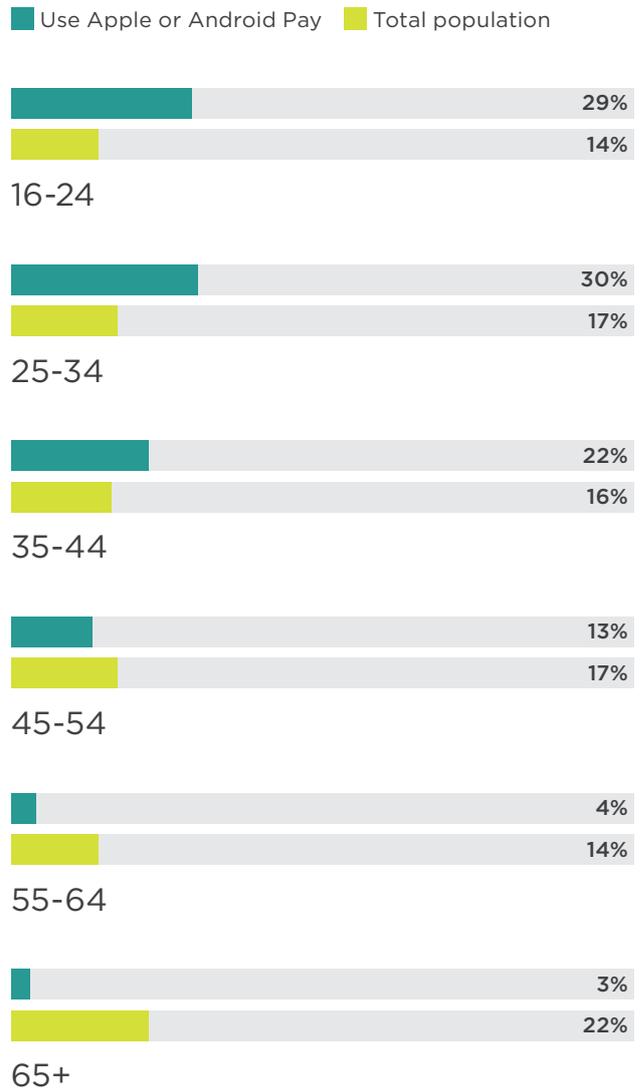
Other

Other payment methods include (but are not limited to) online and mobile payment methods such as PayPal, Apple Pay and Android Pay. This is a growing part of the payment market, with these payment methods accounting for 499 million payments in the UK in 2016. Over the next decade these other payment methods are forecast to increase by 66% to over 800 million payments.

Apple Pay and Android Pay

In 2016 Payments UK collected data for the first time concerning use of both Apple Pay and Android Pay. The results of this market research found that, as with most technological innovations, people in younger age groups are currently more likely to use these payment methods than those in older age groups. It also found that only a small proportion of users could be classified as regular users (on average making more than one payment per week).

Chart 2.5
Age distribution of Apple Pay and Android Pay users vs total population, 2016



UK Payment Markets 2017

This free report summarises the key trends and forecasts for all payments made in the UK. The full 100-page report, UK Payment Markets 2017, presents detailed analysis of different types of payments, with particular focus on payments made by consumers and payments made by businesses.

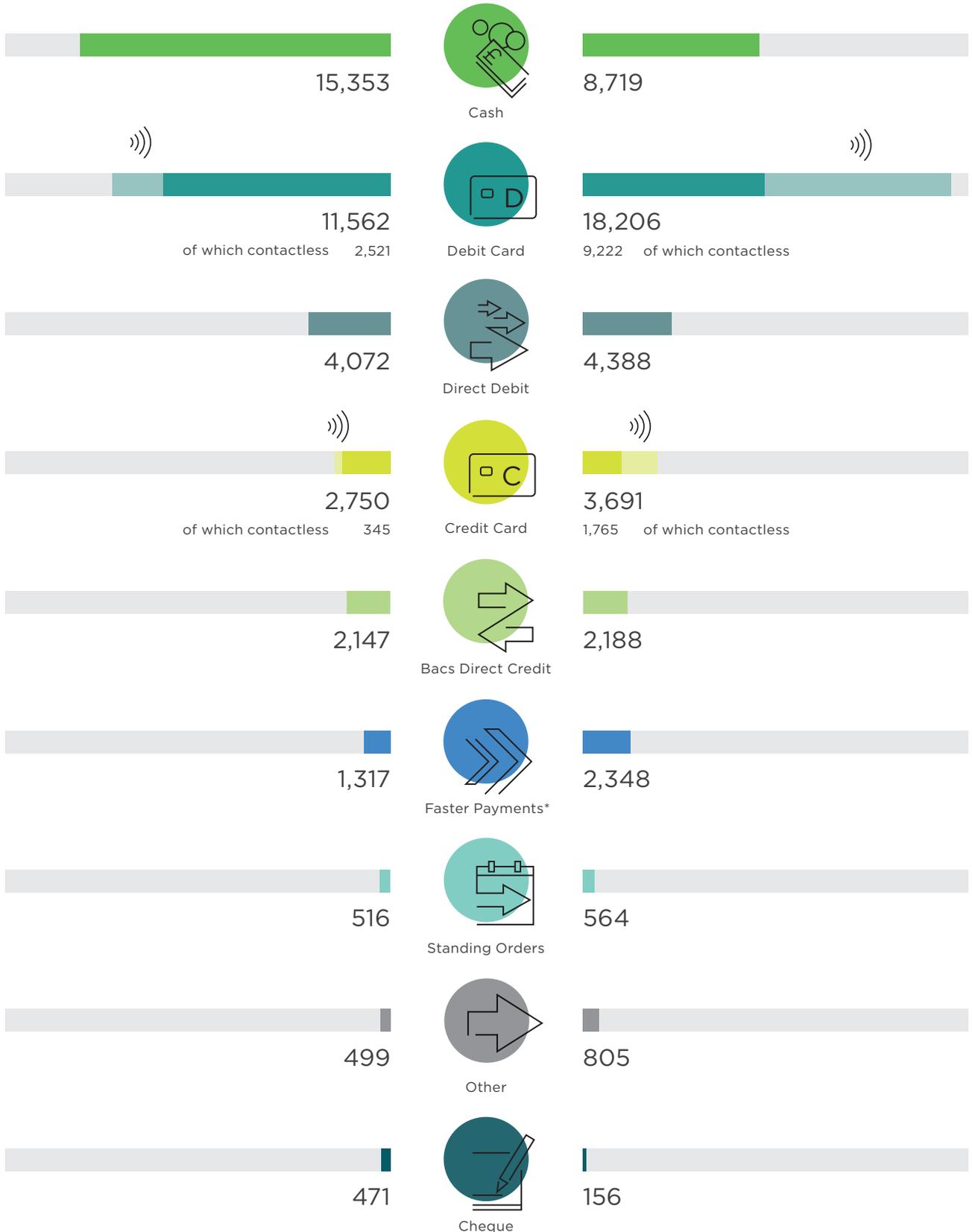
The full report is available free of charge to members of Payments UK.

Alternatively it is available to purchase via the Payments UK website www.paymentsuk.org.uk/industry-information/annual-statistical-publications

Summary: total payment volumes in the UK (millions), 2016 and 2026 (excluding CHAPS)

2016 38,692 million

2026 41,064 million



*and other remote banking