



UK
FINANCE

UK PAYMENT MARKETS SUMMARY 2022

August 2022



UK PAYMENTS IN 2021 AND FORECASTS TO 2031

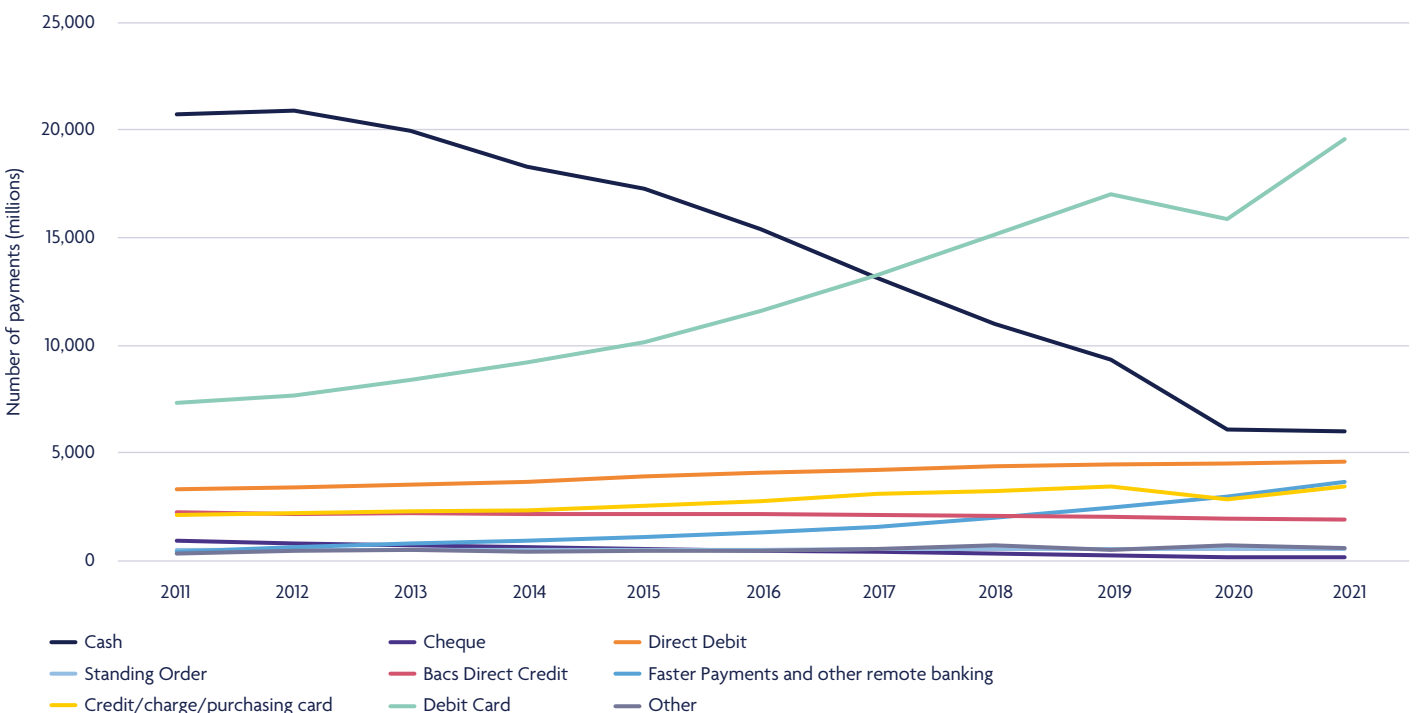
Payment markets have historically tended to evolve slowly over time. People are creatures of habit, and this is no less true for the way that we pay for things than it is for other aspects of day-to-day life. Once we have found a set of payment methods that we are comfortable using and that help us manage our finances effectively, it can take a great deal for us to change to a different way of doing things.

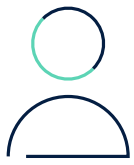
In the last couple of years, however, the global Covid-19 pandemic and associated lockdowns have led to significant changes in patterns of payments in the UK. Lockdowns resulted in large sections of the economy shutting down completely for parts of the year. In those parts of the economy which remained operational, many businesses switched to home working arrangements, reducing expenditure on travel and city centre spending.

As a result of these measures, 2020 saw a significant fall in the number of payments made in the UK. However, as lockdown restrictions were lifted during 2021, the economy reopened and the total number of payments made returned to pre-pandemic levels.

A question remains, however. The pandemic not only led to a reduction in the total number of payments made in the UK, it also led to changes in the types of payments that were used. People made greater use of contactless payments, online banking and mobile wallet channels, largely at the expense of cash payments. This led to the question of whether these observed changes in payment patterns reflected permanent changes to people's behaviour, or whether people's payment preferences would return to pre-pandemic patterns as lockdown restrictions were eased.

Chart 1.1 Payment volumes (millions) 2011 to 2021





Consumer
34.8 billion
payments

Spontaneous
29.0 billion

Regular
5.8 billion



Business
5.5 billion
payments

Business to business
3.0 billion

Business to individual
2.5 billion

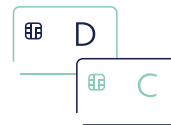
Data from 2021 suggest that trends in payments behaviour have returned towards their pre-pandemic patterns.

Both debit card and credit card payments, which had declined in 2020, rose once again in 2021. Further, the share of payments made using cards, which had increased to 52% of all payments during 2020, continued to increase in 2021, with 57% of all payments in the UK being made using cards in 2021. Contactless payments continued to be popular, with almost a third (32%) of all payments made in the UK during 2021 being made using contactless.

Considering cash, the experience of the past couple of years has shown interesting impacts due to the pandemic. The long-run trend in cash payments over the past decade has been of a continuing decline, with payments transitioning in particular to debit cards. In 2020, the pandemic resulted in cash use falling by 35% compared to the previous year. Since 2017 cash use had been declining by around 15% each year, so 2020 represented an acceleration of this decline. In 2021, it appears that there was a reduction in the rate of decline in cash use. Much of this was to be expected; many parts of the economy with traditionally high levels of cash usage were closed or heavily restricted during lockdown, and in those parts of the economy that remained open, many retailers encouraged the use of contactless payment options, amid fears about cash being a vector for Covid-19 transmission. The reopening of the economy and lessening of fears about Covid-19 transmission appear to have led to a reduction in the rate of decline, particularly when compared with the experience of 2020. Having said this, the total number of cash payments made in the UK during 2021 still declined by 1.7% compared with 2020. Cash remains the second most frequently-used payment method in the UK, being used for 15% of all payments made during 2021.

Throughout the Covid-19 pandemic, strong growth was seen in Faster Payments, and this continued in 2021. Both businesses and consumers increasingly used online and mobile banking to make payments and to transfer money. Mobile banking in particular continued to grow strongly among consumers, with customers extending their use beyond just checking balances to now making payments and managing their finances more generally.

Over the next decade further market developments, such as those brought about through Open Banking and the anticipated New Payments Architecture for the UK, may bring extensive changes to the UK's payments landscape. UK Finance will continue to monitor and analyse how these developments may affect future payment markets.



57%

In 2021 57% of all payments in the UK were made using cards

Payment volumes (millions) 2011 to 2021

A total of 40.4 billion payments were made in the UK during 2021. This represented a return to pre-pandemic payment volumes, after a significant fall in 2020 due to the successive Covid-19-related lockdowns. Nearly nine out of ten payments were made by consumers. Spontaneous purchases accounted for 83% of payments made by consumers, with the other 17% of their payments being made for regular bills and commitments.

Commercial organisations, government and not-for-profit organisations (collectively referred to using the shorthand “businesses” throughout this report) made just over 5.5 billion payments during 2021, a 14% increase compared with 2020. Payments to individuals accounted for 46% of all payments made by businesses, with the other half being payments to other businesses.

There are a wide variety of payment methods available in the UK. Each payment method provides specific benefits to the participants in the transaction. Payers generally choose the method that best meets their needs in any given situation, albeit sometimes influenced by the preferences of the payee.

Debit cards



48%

Debit cards accounted for 48% of all payments in the UK

Overall debit card payment volumes had declined in 2020 due to the pandemic, but payment volumes rebounded in 2021 with growth of over 23% to reach a total of 19.5 billion payments. As a result, debit cards consolidated their position as the most frequently used payment method in the UK, responsible for nearly half (48%) of all payments made in the UK during 2021. The overwhelming majority of the population (97%) now hold a debit card and the majority of people use them to make payments

Throughout 2021, contactless payments continued to grow in popularity, contributing to the ongoing increase in use of debit cards and the migration of payments away from cash. Debit cards are also one of the main payment methods used to pay for online shopping, something which was boosted by periods of lockdown in the UK.

Over the next decade, debit card payment volumes are forecast to continue to increase in use. They are predicted to pass the threshold of accounting for more than half of all payments in the UK, reaching over 24 billion payments in 2031. This growth will be driven by the continuing rise of contactless payments, the ongoing growth of online shopping and ever-increasing levels of card acceptance amongst businesses of all sizes, but particularly amongst smaller businesses.

Credit cards



66%

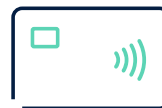
of adults in the UK have a credit card

There were 3.4 billion payments made using credit cards in 2021, an increase of 21% compared to the previous year, reflecting credit card payments returning almost to their pre-pandemic levels. Spending had previously declined due to (a) lockdowns closing sectors of the economy with high credit card spend (such as holidays, travel and entertainment), (b) restrictions on international travel that affected both the leisure and business travel sectors, and (c) reductions in consumer confidence. As lockdowns were relaxed during 2021, opportunities to make payments using credit cards increased. Having said this, consumer confidence has not returned to pre-pandemic levels, and cost-of-living fears in particular may be making consumers more cautious about taking on additional unsecured debt. Concerns about energy and food price increases in particular first emerged in the autumn of 2021 and may have had an impact on use of consumer credit.

By 2031 credit card payment volumes are forecast to reach 4.2 billion payments. Future growth will be closely tied with wider economic conditions, which determine consumer appetite for taking on unsecured debt.

Contactless payments

Percentage of all payments made via contactless cards



3%

2015

19%

2018

32%

2021

During 2021 the number of contactless payments made in the UK increased by 36% compared with 2020, to reach 13.1 billion payments. This was driven by:

- contactless limit increase to £100
- some retailers continuing to encourage consumers to use contactless at point-of-sale
- the continued roll-out of card acceptance devices especially among smaller businesses
- consumers becoming increasingly comfortable and familiar with making contactless payments
- continuing growth in popularity of mobile contactless payment services such as Apple Pay and Google Pay

At the end of 2021 there were 142 million contactless cards in circulation, with 91% of debit cards and 89% of credit/charge cards in the UK having contactless functionality.

Since January 2020, every bank-issued payment terminal in the UK has been capable of accepting contactless payments. Along with many smaller businesses now accepting card payments, this has increased the number of locations where consumers can pay using contactless.

During 2021 supermarkets were the most popular location to make contactless payments payments, accounting for accounting for two-fifths (41%) of all contactless payments. Retail in total accounted for three quarters (75%) of all contactless payments made in the UK.

Contactless payments are used extensively throughout the UK in 2021, with 86% of people making contactless payments at least once a month or more frequently. People of all ages used contactless payments, and even when considering people of retirement age, around eight out of ten (78%) used contactless at least once a month. The group showing the highest rate of use was the 25-34 age group, where nine out of ten (92%) of people regularly made contactless payments. Though differences remain across age group and region, the majority of people in all age groups and across all regions make contactless payments. We expect the popularity of contactless payments to continue to grow over the next decade.



1/3

almost a third of all payments in the UK were made via contactless methods in 2021

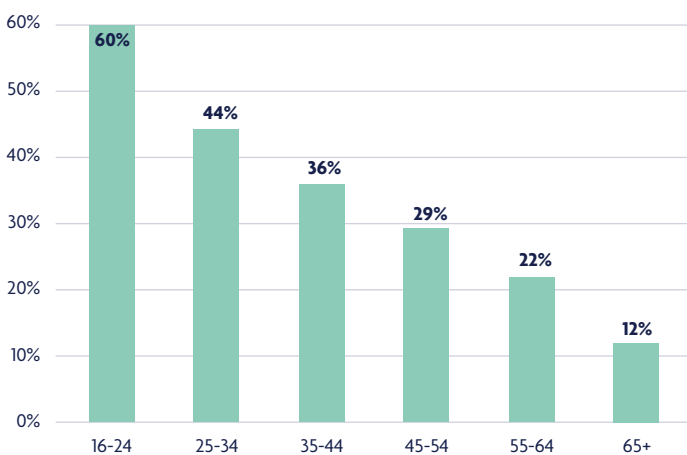
Apple Pay, Google Pay and Samsung Pay

As well as using contactless cards, other devices such as mobile phones and watches can be used to initiate contactless payments, or to make payments for online shopping.

Nearly a third (32%) of the adult population reported being registered for at least one mobile payments service in 2021. Of those registered for mobile payments 92% of these people used the services to make payments during the year. Seven out of ten (70%) of these registered users made payments every month.

Similar to most new technological innovations, UK Finance market research found that younger people are more likely than older people to use one of Apple Pay, Google Pay or Samsung Pay. We expect that, over the next decade, older age groups will start to catch up with younger age groups in terms of adoption of mobile payments, a pattern that is regularly seen following the introduction of new payment and IT services.

Chart 1.2 Proportion of each age group registered to use mobile payments, 2021



Cash

Cash as a % of all payments



Cash payments declined extensively in 2020, as lockdowns closed many parts of the economy that tended to exhibit high cash use, and as many retailers encouraged customers to use contactless payment methods in order to help support social distancing.

In 2021, as the economy reopened, the rate of decline in cash usage slowed. Despite this, the total volume of cash payments still fell slightly in 2021, and as a result the proportion of UK payments made using cash fell to 15%. Cash remains the second most frequently-used payment method in the UK, behind debit cards.

During 2021 there were 23.1 million consumers who used cash only once a month or not at all, instead relying on cards and other payment methods to manage their spending. This was a significant increase from 13.7 million consumers the previous year, itself a significant increase compared with the year before. It appears that the pandemic and associated lockdowns have accelerated some peoples' movement towards living increasingly cashless lives.

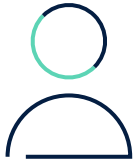
At the same time there were 1.1 million consumers who mainly used cash, choosing this payment method when doing their day-to-day shopping (although the majority still use other payment methods to pay their regular bills). This was a slight decline as compared with 2020, when 1.2 million people mainly used cash. It should be noted that, while these people prefer to use cash when paying for things, they are not necessarily unwilling or unable to use other methods of payment. The majority of them have a debit card. Nevertheless, there remains great diversity in the way in which different people in the UK prefer to manage their finances and conduct their day-to-day spending.

Over the next decade the number of cash payments in the UK is expected to continue to fall, as consumers turn to alternative payment methods, although the rate of decline is expected to slow as use becomes concentrated amongst people who have a strong preference for cash and in situations where cash has advantages over other payment methods.

Traditionally, cash has been used as a budgeting tool by people who are managing limited budgets. However, increasingly we see younger people budgeting using mobile banking and other technology-based services, rather than using physical cash to manage their spending. This change in behaviour is something that we are monitoring, but which has implications for the future use of cash in the UK.

In 2031 there are forecast to be fewer than three billion cash payments made in the UK, accounting for around 6% of all payments. Rather than the UK becoming a cash-free society over the next decade, the UK will transition to an economy where cash is less important than it once was but remains valued and preferred by many.

Buy Now Pay Later



1/8

One in eight people used Buy Now Pay Later in 2021

Around one in eight people in the UK (12% of adults) used Buy Now Pay Later (BNPL) services to purchase something during 2021. There wasn't a significant difference in use between male and female consumers in our survey. The age group that made most use of these services was 35-44 year olds, with one in five adults in this age group using BNPL services during 2021. In contrast, just 4% of people aged 65 or over used these services in 2021.

Direct Debit

Volume of direct debit payments



4.6 billion

Direct Debit payments in 2021

In 2021 there were 4.6 billion payments made by Direct Debit, with an overall value of £1,243 billion. Direct Debit is a familiar, long established and widely trusted method for paying regular bills, and is used by nine out of ten UK consumers.

As a well-established method of payment, growth in Direct Debit payment volumes tends to reflect growth in population figures and household numbers. While the volume of Direct Debit payments grew in 2021 this was at a slow and stable rate. During lockdowns, there were decreases in payments for things like gym memberships, and some customers opted to take a payment deferral for their mortgage, loan and/or credit card. As the economy reopened again, we increasingly saw consumers return to making these types of payments that perhaps had been on hold during the previous year.

Direct Debit payment volumes also tend to be linked to some extent to the economic cycle and consumer confidence. When people feel less secure in their finances, they are likely to try to reduce their outgoing spending. Some things such as mortgage payments or utility bills must always be paid, but other less essential services (such as subscription services or gym memberships) may be reduced by consumers in order to save money, and therefore we sometimes see small changes in Direct Debit volumes in response to changes in economic circumstances.

Consumers are far more likely to use Direct Debit than businesses. Businesses tend to prefer to retain more direct control over the timing and amount of their outgoing payments, although may still use Direct Debits to pay for business-critical services.

Due to the established nature of Direct Debit, there is expected to be slow and stable growth over the next decade, with 5.7 billion payments forecast in 2031.

Faster Payments and other remote banking

Faster Payments and other remote banking (millions)



422
2011

1,317
2016

3,633
2021

Remote banking remained popular in the UK in 2021, with 86% of all UK adults using at least one form of remote banking during 2021 (online banking via a computer, mobile banking via an app on a smartphone or tablet, or calling their bank via a telephone banking service). The majority of people in all age groups used remote banking in 2021, ranging from 72% of those aged 65 and over to 92% of people aged 35-44.

The number of people using mobile banking in particular continued to grow, reaching 57% of all UK adults. There was a slight fall in the proportion of UK adults using online banking (via a computer), as increasing numbers moved across to using only mobile banking. Despite this, almost two-thirds (65%) of UK adults used online banking during 2021.

Related to the ongoing popularity of remote banking services in the UK, the number of remote banking payments processed via the Faster Payments Service (or cleared in-house by banks) during 2021 continued to grow strongly in 2021. The number of payments increased by 23% compared with the previous year, to reach 3.6 billion payments.



In 2021, Faster Payments and other remote banking overtook Bacs Direct Credit as the payment method used most frequently by businesses to make payments

Use of remote banking by businesses also contributed to the strong growth in the volume of Faster Payments. In 2021, 39% of all payments made by businesses were made using Faster Payments and other remote banking, overtaking Bacs Direct Credit for the first time as the most-used payment method among businesses.



57%

of all adults used mobile banking in 2021

Use of Faster Payments and other remote banking is expected to see strong growth over the next decade as both consumers and businesses increase their use of online and mobile banking. By 2031 remote banking payments processed via the Faster Payments Service or cleared in-house are forecast to rise to 5.7 billion.

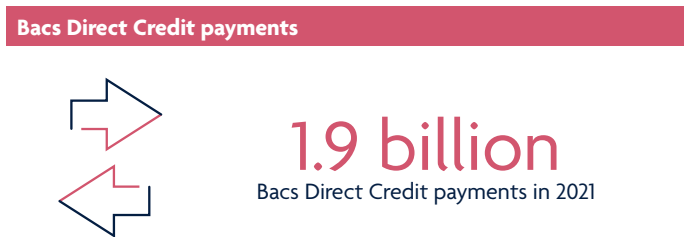
Another potential driver for Faster Payments and remote banking over the next few years may come from the continued development of Open Banking products and services. Open Banking raises the potential for services that would allow consumers to pay for online shopping (or indeed in-store shopping) using account-to-account payments rather than paying using a card or PayPal (or similar service).

As such Faster Payments could become an alternative to card payments (and/or PayPal payments). Having said this, these services have yet to be communicated or marketed to consumers on a wide scale, and it is not clear what the consumer appetite might be to change their established payments behaviour, particularly where the benefits to consumers (rather than businesses) are not obvious. Therefore, we remain cautious in our forecasts at present for the potential volume of online (and real world) shopping payments that could migrate to Faster Payments.

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. In 2021 there were 552 million standing orders, similar to the previous year. This is expected to grow to 573 million payments in 2031.

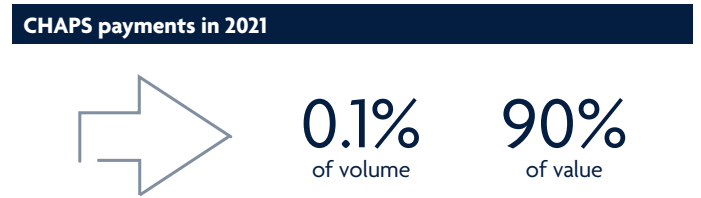
Bacs Direct Credit



Bacs Direct Credit is a popular and cost-effective method for businesses and government to make bulk payments, where both the value and timing of the payment are known in advance. For example, Bacs Direct Credit is a very popular method for paying wages and salaries. The government also uses Bacs Direct Credit to pay nearly all state benefits and pensions in the UK. Over a third (35%) of all payments made by businesses in 2021 were made via Bacs Direct Credit. Despite this, Bacs Direct Credit was overtaken by Faster Payments and other remote banking as the most frequently-used payment method among businesses in 2021.

The total number of Bacs Direct Credit payments is expected to fall slightly over the next ten years, chiefly due to the transition of certain welfare benefits to Universal Credit. This reduces the total number of welfare payments made by the government and is expected to be completed in the next couple of years. There are forecast to be 1.8 billion Bacs Direct Credit payments in 2031.

CHAPS



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 2021 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 48 million CHAPS payments processed in 2021, worth a total of £86.3 trillion. CHAPS payment volumes are closely related to the state of the UK economy. As such, future CHAPS payment volumes will depend largely on the economic outlook for the UK and the future of cross-border trade and investment post-Brexit.

Cheques



The number of cheques used to make payments continued to decline over the past year, falling by 19% compared with 2020 to reach a total of 150 million cheques. Both businesses and consumers continue to choose alternative payment methods instead of using cheques. Cards and remote banking transfers in particular are increasingly being used where previously a cheque may have been written. Despite this decline cheques 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.

The Image Clearing System (ICS) was introduced by the Cheque and Credit Clearing Company in October 2017 and fully rolled out in September 2019. One of the main benefits from this is the cheque clearing process will now complete much faster, so cheque recipients will see the money appear in their account more quickly. It also allows for cheques to be deposited via a mobile phone with a camera (using mobile banking services). Despite this introduction, cheque use continues to decline across the UK and is expected to continue to do so over the next decade, reaching 70 million payments in 2031.

Forecasts for payments in the UK to 2031

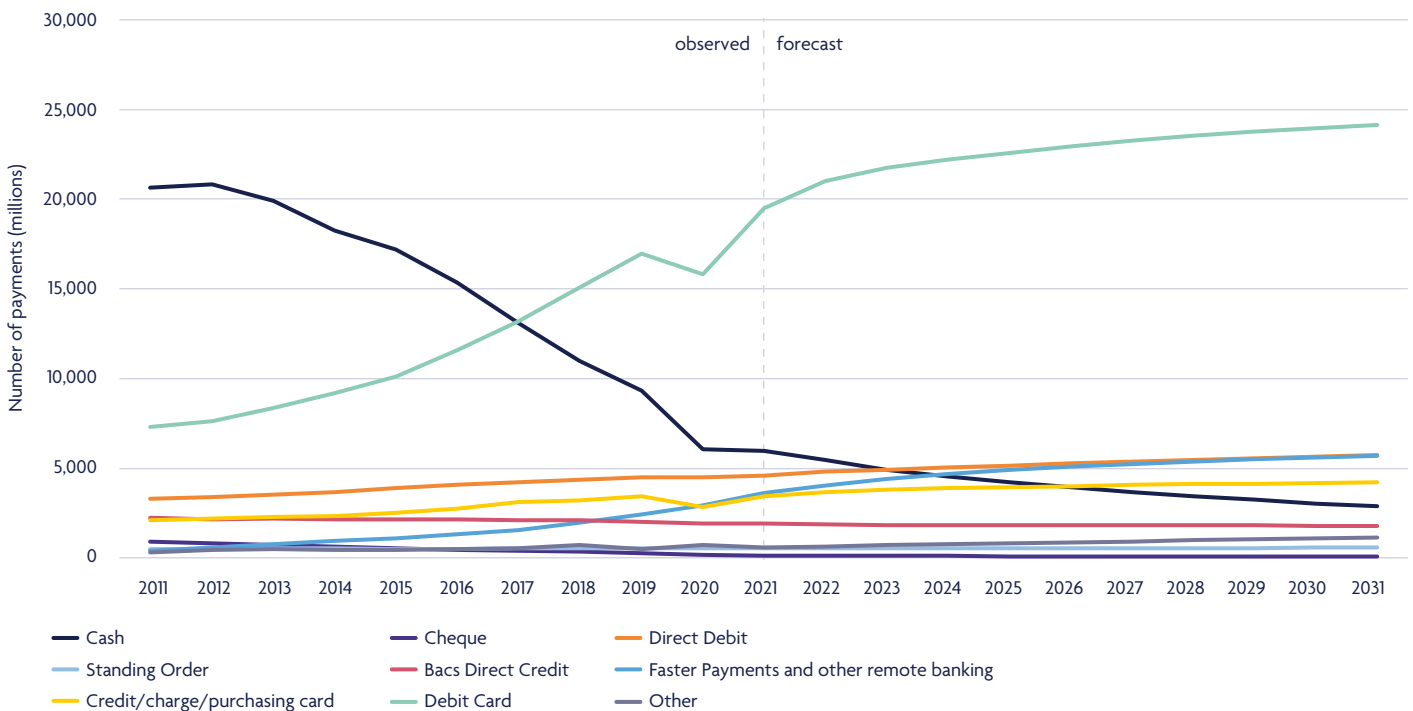
The Covid-19 pandemic had a significant impact on payment totals in the UK. Trends over time show the clear fall in many types of payments in 2020, and how these payment volumes then responded throughout 2021 as the economy reopened.

It appears that consumer behaviour is returning towards the long-run trends that were seen prior to the pandemic; in particular:

- Continued increase in debit card payments
- Continued decline in cash payments, albeit at a reducing rate over time
- Ongoing growth in Faster Payments and other remote banking payments

Our forecasts for development of payment volumes over the next ten years can be seen in the chart below.

Chart 1.3 Payment volumes (millions) 2011 to 2031

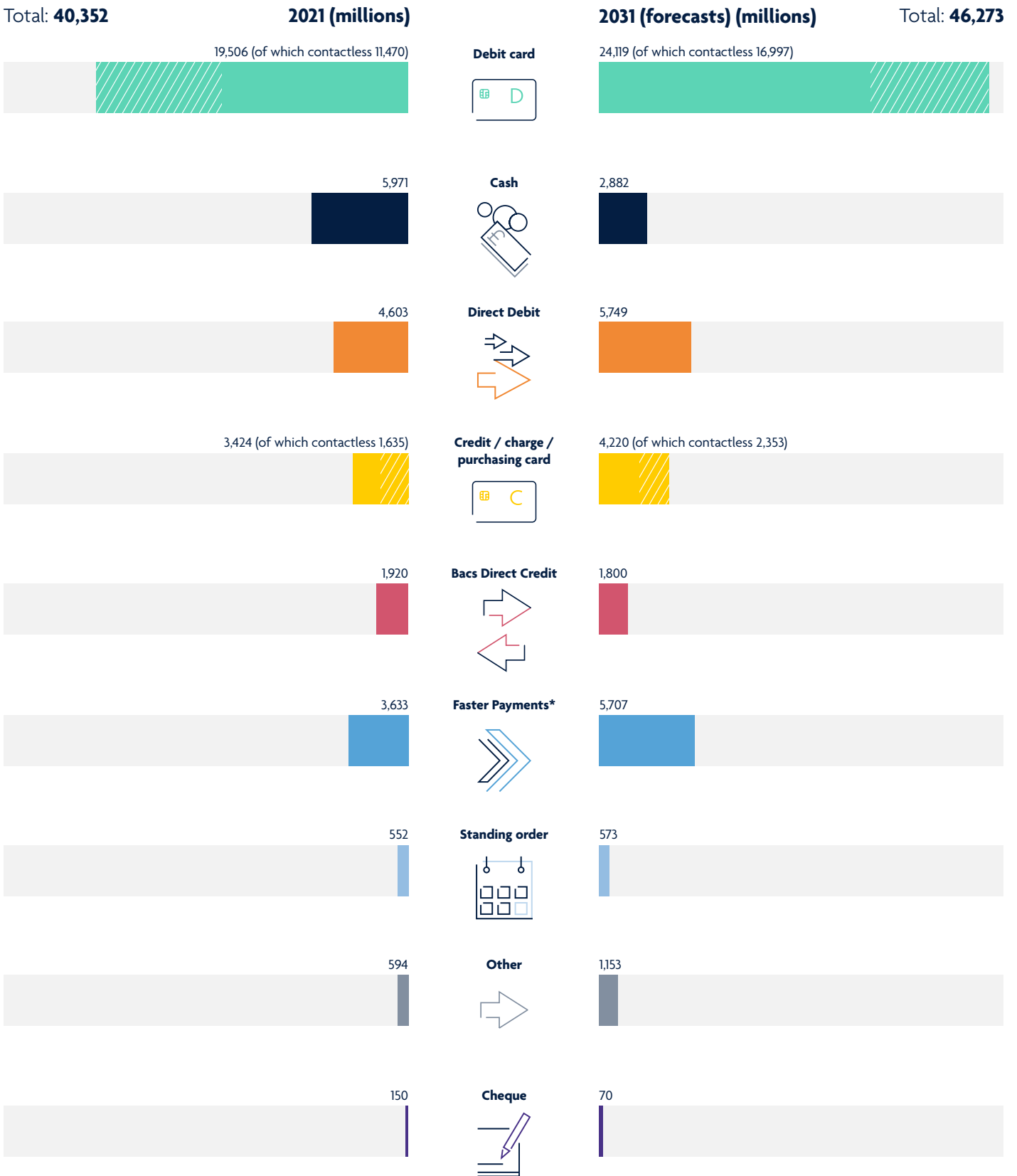


The forecasts developed by UK Finance and presented in this report are:

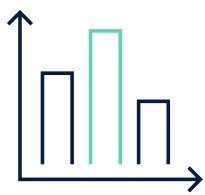
- objective
- based on past trends and observed data on about payments behaviour
- adjusted to take account of available evidence on planned future product launches and/or likely future adoption of products that have already been launched
- only based on information about services that are already well-defined and have been publicly announced, and not including those that are more speculative or not yet clearly defined.

Unforeseen developments in technology, consumer preferences or the nature of society (including such things as pandemics) cannot be taken into account but may affect future payments behaviour.

Total payment volumes in the UK (millions) 2021 vs 2031 forecasts (excluding CHAPS)



PAYMENT MARKETS HEADLINES



40.4 bn

payments made in 2021,
a return to pre-pandemic levels

2021

- Debit cards were the most used payment method with 19.5 billion payments, accounting for 48% of all payments in the UK
- Contactless debit and credit card payment volumes totalled 13.1 billion
- Cash payments decreased by 2% to 6.0 billion, accounting for 15% of payments. Cash remained the second most frequently used payment method in the UK
- Faster Payments and other remote banking totalled just over 3.6 billion in 2021
- Faster Payments overtook Bacs Direct Credit as the payment method most frequently used by businesses to make payments
- 43 million adults used cash machines in 2021 but frequency of use fell, with 64% of them using cash machines at least once a month
- Cheque volumes continued to fall in 2021 and accounted for less than half a per cent of payments made in the UK
- 86% of adults used remote banking. 65% of UK adults used online banking and 57% used mobile banking
- Bacs Direct Credit volumes fell by 1% to 1.9 billion payments
- Direct Debit volumes rose 2% to 4.6 billion payments
- 12% of people used Buy Now Pay Later services
- The value of CHAPS payments was £86.3 trillion
- Infographic: In 2021 card payments accounted for 57% of all payments in the UK

*excluding CHAPS

2031 (PROJECTED)

- Debit cards expected to exceed 24 billion payments in 2031
- Contactless debit and credit card payment volumes expected to reach 19.4 billion payments
- Cash use to decline to the point where 6% of payments are made using cash
- Faster Payments and other remote banking to grow to 5.7 billion payments
- Cheques to continue to decline to account for just 0.2% of payments
- 93% of adults will use remote banking
- Bacs Direct Credit expected to decline slightly to 1.8 billion payments
- Direct Debit forecast to grow to 5.7 billion payments



57%

In 2021 card payments accounted for 57% of all payments in the UK

61%

In 2031 card payments forecast to account for 61% of all payments in the UK