

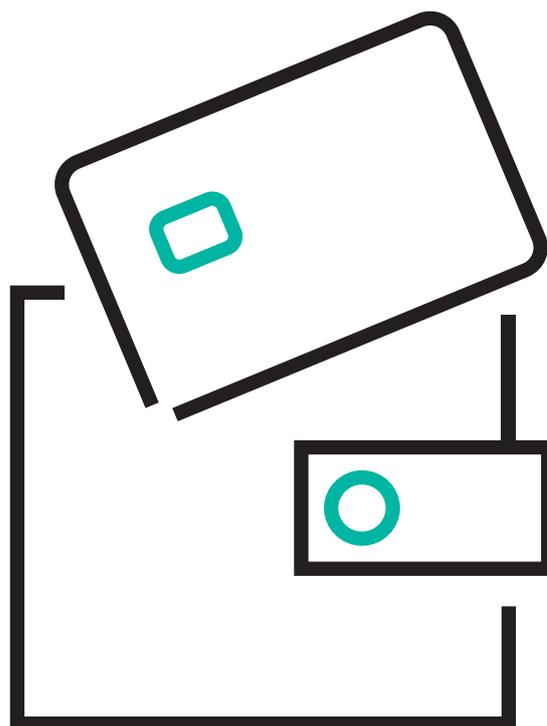
# UK Payment Markets Summary



UK  
FINANCE

## 2018

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



Each year, UK Finance prepares a series of reports, providing a detailed analysis of the UK's payments landscape across every different payment type, using UK Finance's definitive industry data.

The first report in this year's series is UK Payment Markets 2018, which identifies the most recent trends affecting cash, cards, cheques and electronic payments in the UK, and presents forecasts for all types of payments for the next ten years. These forecasts are relied upon by the payments industry, Government, regulators and others to help them plan for the future.

This summary presents the key results from UK Payment Markets 2018. The full report is available free of charge to members of UK Finance and is available for purchase by others.

**More details of how to obtain the full report can be found at:**  
<https://www.ukfinance.org.uk/statistics/payments/>

**If you have any queries about the data in this report, please contact the Data and Research team:**

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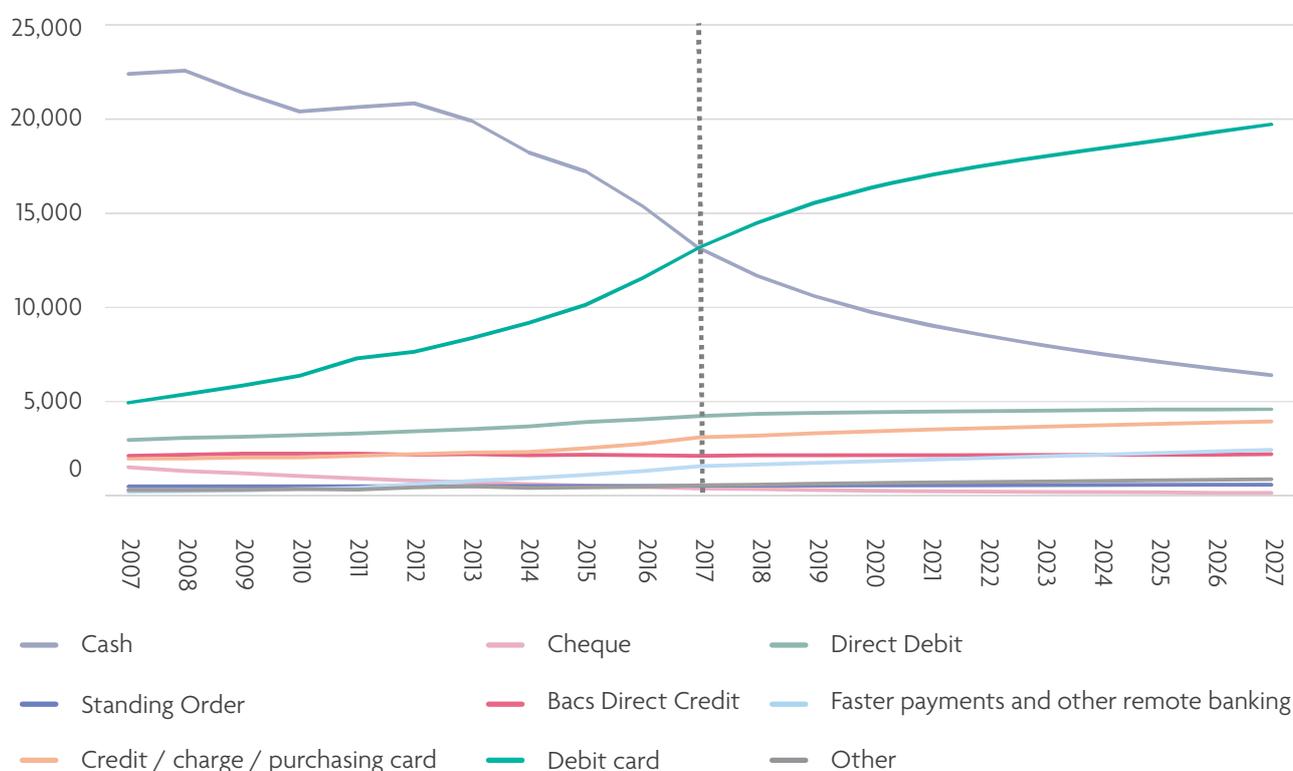
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# 1. Total UK payments in 2017 and forecasts to 2027

The UK's payment markets tend to evolve slowly over time. We are creatures of habit when it comes to the methods we use to make and receive payments. However, changing consumer preferences, innovation in payment methods, technological development and other drivers have seen considerable changes in the UK's payment markets over the past decade.

Chart 1.1 – Payment volumes (millions) 2007 to 2027

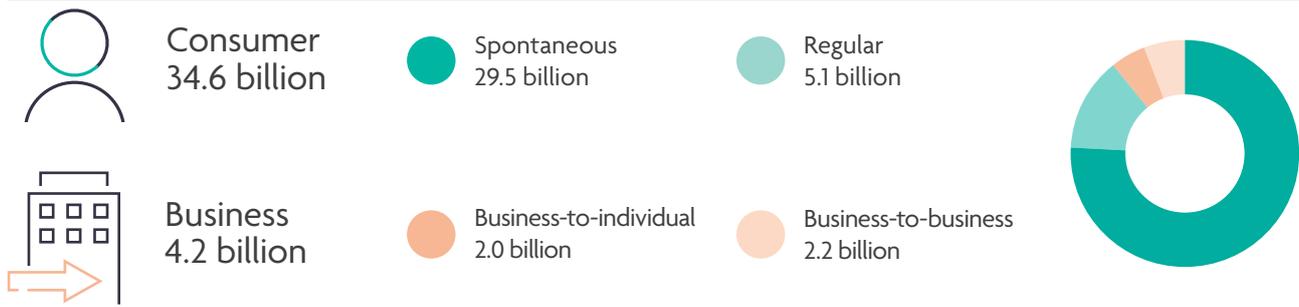


Innovations such as smartphones, online banking and contactless payments have had a significant effect on how we now pay for things. Further market developments, such as those brought about through Open Banking, the advent of PSD2 and the anticipated New Payments Architecture for the UK, may bring extensive changes to the payments landscape over the next decade. UK Finance will continue to monitor and analyse how these developments may affect future payment markets.

In total, 38.8 billion payments were made in the UK in 2017. The majority of payments were made by consumers,

accounting for nine out of ten of all payments. Nearly 85% of payments made by consumers were for spontaneous purchases, with the other 15% of payments for regular bills and commitments.

The remaining payments were made by commercial organisations, government and not-for-profit organisations (collectively referred to using the shorthand “businesses” throughout this report). Payments to individuals accounted for just over half (52%) of all payments made by businesses, with the remainder 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.

It should be noted that the New Payment System Operator (NPSO) has been tasked by the Payments Strategy Forum (PSF) with delivering the New Payments Architecture for the UK, as set out in the PSF's published blueprint<sup>1</sup>. Over time the introduction of this new architecture may lead to changes in the types of payments available in the UK. At present it is unclear exactly what new payment services may be launched, or how any existing payment services may be affected by the new architecture. Until details of such services are made public, we continue to prepare all future forecasts on the basis of the payment methods currently available in the UK. More information is provided later in this report.

### Debit Cards

During the last quarter of 2017 debit cards overtook cash for the first time as the most frequently used payment method in the UK. This happened a few months earlier than previously forecast by UK Finance, primarily due to the growing popularity of contactless payments and the increased speed of migration of payments away from cash.

The large majority of the population (98%) now hold a debit card and most people use them to make day-to-day payments. There were 13.2 billion debit card payments in 2017, an increase of 14% on the previous year.

Over the next decade, debit card payment volumes are forecast to grow by more than any other payment method, increasing by 49% to 19.7 billion payments in 2027. 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.

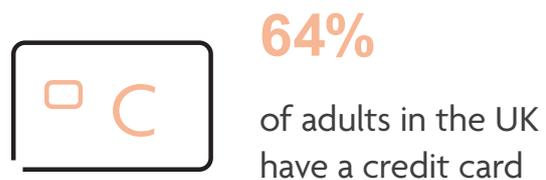
### Credit Cards

In 2017 there were 3.1 billion payments made using credit cards, an increase of 13% over the previous year. This reflects the more general growth of unsecured lending, during 2017 (including lending via credit cards, personal loans and car loans). Increased spending on credit cards may be attributed to a number of factors:

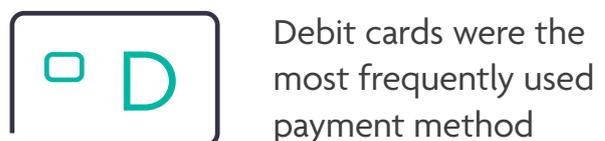
- Upturn in economic growth and consumer confidence post Brexit referendum
- Strong competition in the credit card market
- Increased card acceptance by merchants

Some growth can also be attributed to spending by 'transactors', that is, credit card holders who typically use their credit cards to gain value added benefits (such as rewards) and always pay off their bill in full every month.

By 2027 credit card payment volumes are forecast to reach 3.9 billion. Future growth will be closely tied with wider economic conditions which determine consumer appetite for taking on unsecured debt.



### 2017 in the UK:



<sup>1</sup> <https://implementation.paymentsforum.uk/key-documents>

## Contactless Payments

The number of contactless payments made in the UK increased by 97% during 2017 to 5.6 billion payments. This was driven by:

- the continued roll-out of contactless cards;
- the continued roll-out of card acceptance devices;
- consumers becoming increasingly comfortable and familiar with making contactless payments.

By the end of 2017 there were nearly 119 million contactless cards in circulation with 78% of debit cards and 62% of credit cards in the UK having contactless functionality. 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. This will further increase the number of locations where consumers can pay using contactless.

The most popular location to make contactless payments during 2017 was at the supermarket, with over a third (38%) of all contactless payments being made in these stores. In terms of differences between people of different ages, those aged between 25 and 34 were the most likely group to use contactless cards, with 77% of people in this age group making contactless payments during 2017. Whilst people aged 65 or older are less likely than younger people to make contactless payments, more than half of this age group made contactless payments during 2017. Contactless payments are now used by the majority of people in the UK. Though differences remain across age group and region, 63% of people in the UK now use contactless payments, and no age group or region falls below 50% usage.



**15%**      **36%**

2017      2027

% of all payments made via contactless cards

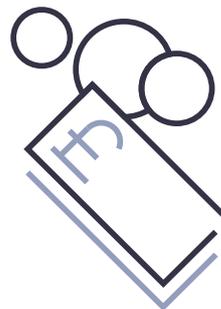
## Cash

Cash payments continued to decline in 2017, falling by 15% to 13.1 billion payments. Despite this cash was still used for over a third (34%) of all payments and was the second most frequently used payment method, just behind debit cards. 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 in preference to cash.

During 2017 there were 3.4 million consumers who almost never used cash at all, instead relying on cards and other payment methods to manage their spending. At the same time there were still 2.2 million consumers who predominantly used cash when shopping. Having said this, these people are not necessarily unwilling or unable to use other methods of payment; 92% of them have a debit card, and 72% of them use payment methods other than cash to pay their regular household bills. Nevertheless, there is great diversity in the way in which different people in the UK prefer to manage their finances and conduct their day-to-day spending.

The number of cash payments in the UK is expected to continue to fall over the next decade, as consumers continue to turn to alternative payment methods, most notably debit cards. There are expected to be 6.4 billion cash payments in the UK in 2027, accounting for 16% of all payments. Despite this fall, cash will remain the second most frequently used payment method in the UK in 2027. Rather than the UK becoming a cash-free society over the next decade, it is transforming to an economy where cash is less important than it once was, but remains a payment method that continues to be valued and preferred by many.

## Cash as a % of all payments



**61%**

2007

**34%**

2017

**16%**

2027

## Direct Debit

Nine in ten UK consumers use Direct Debits to pay some or all of their regular bills. Direct Debit is a familiar, well-established and widely-trusted method for paying regular bills. There were 4.2 billion payments made by Direct Debit in 2017, with an overall value of £1,305 billion.

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 will still use Direct Debits to pay for business-critical services. Direct Debit payment volumes tend to be linked to some extent to the economic cycle and consumer confidence. For example, 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. In times of economic growth and/or increasing consumer confidence, households may feel more able to take on additional regular bills and also may feel more able to pay those regular bills by Direct Debit, rather than controlling the timing of their bill payments more pro-actively.

As a well-established method of payment, growth in Direct Debit payment volumes tends to reflect growth in population figures and household numbers. Any new subscription services, or major billers expanding the range of payment options that they accept to include Direct Debit may also increase volumes. Due to the established nature of Direct Debit, there is expected to be limited growth over the next decade, with 4.6 billion payments forecast in 2027.

## Faster Payments and other remote banking

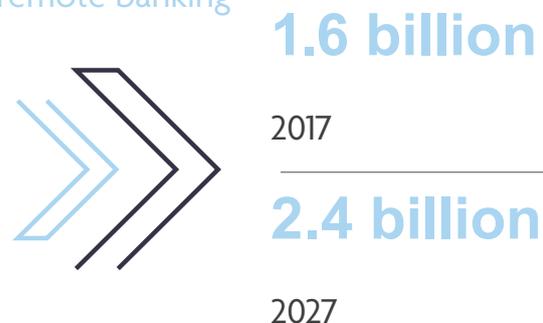
There was continued growth in the number of account holders using online banking (via a computer) or mobile banking (via an app on their smartphone or tablet) in 2017. Over two-thirds of UK adults (71%) used online banking and 41% used mobile banking. This saw the number of remote banking payments processed via the Faster Payments Service (or cleared in-house by banks) during 2017 increase to 1.6 billion.

Both consumers and businesses are expected to increase their use of online and mobile banking in the next ten years. By 2027 remote banking payments processed via the Faster Payments Service or cleared in-house are forecast to rise to 2.4 billion payments.

There is also the possibility that both Open Banking and the Payments Services Directive II (PSD2) may see increased volumes of Faster Payments over the next few years. Open Banking raises the potential for services to be launched that would allow consumers to pay for online shopping using account-to-account payments at the online checkout, rather than paying using a card or PayPal (or similar service). It is possible that we could therefore see Faster Payments being used to pay for online shopping, with an associated reduction in online card payments (and/or PayPal payments). Having said this, 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. At present, therefore, we remain cautious in our forecasts for the potential volume of online shopping payments that could migrate to Faster Payments.

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### Faster Payments and other remote banking



## 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 534 million payments in 2017 to 583 million payments in 2027.

## 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. As a result Bacs Direct Credit overwhelmingly remained the most frequently-used method for businesses to make payments during 2017. As an indication of the widespread use of this payment method:

- Eight in ten employees in the UK are paid via Bacs Direct Credit
- The government uses Bacs Direct Credit to pay nearly all state benefits and pensions in the UK.

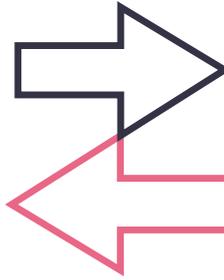
Bacs Direct Credit is expected to remain the most popular method for businesses to make payments over the next decade. However, the total volume of payments is not expected to grow significantly. This is because, even though government forecasts suggest steady economic growth, the roll-out of Universal Credit will reduce the total volume of benefit payments made by the government. By 2027 there are forecast to be just over 2.2 billion Bacs Direct Credit payments made in the UK.

## 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 2017 CHAPS accounted for just 0.1% of the total volume of payments in the UK but 91% of the total value of payments. There were 41.7 million CHAPS payments processed in 2017, worth a total of £84 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. By 2027 there are forecast to be 50.3 million CHAPS payments.

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**2.1 billion**



Bacs Direct Credit payments in 2017

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**2.2 billion**

Bacs Direct Credit payments forecast in 2027

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**41.7 million**



CHAPS payments processed in 2017

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**50.3 million**

CHAPS payments forecast in 2027

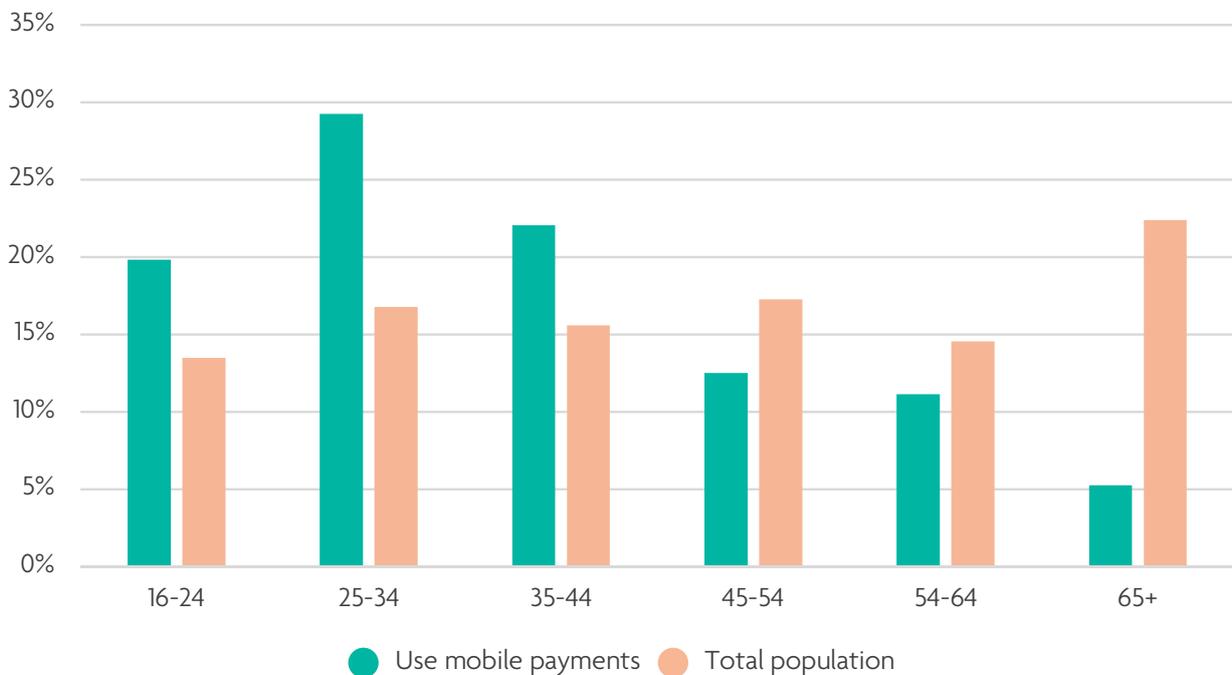
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## Other

Other payment methods include (but are not limited to) online and mobile payment methods such as PayPal, Apple Pay, Google Pay and Samsung Pay. This is a growing part of the payment market, with these methods collectively accounting for a greater volume of payments than either standing orders or cheques. There were 561 million payments made using one of these “other” payment methods during 2017. Over the next decade these payment methods are forecast to grow by 56% to 877 million payments, although there is potential for further growth should consumer appetite shift markedly towards mobile payment services.

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. This research also found that whilst a fifth of those who have registered for one of these mobile payment services have yet to make a payment using the service, of those that have already used them to make a payment, over a third (37%) make at least one mobile payment per week.

Chart 1.2: Age distribution of mobile payment users vs total population, 2017



## Cheques

The number of cheques used to make payments continued to decline over the past year, falling by 15% to 401 million cheques, as both businesses and consumers chose to use alternative payment methods instead. Cards and remote banking transfers in particular are increasingly 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.

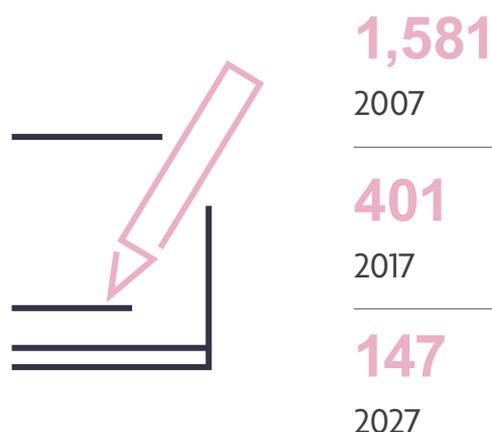
The Cheque and Credit Clearing Company introduced cheque imaging, a new way of clearing cheques in the UK, in October 2017. One of the main benefits will be that the cheque clearing process will now complete much faster, so cheque recipients will see the money appear in their account more quickly. It also opens the potential for new ways of depositing cheques to be introduced, such as via a mobile phone with a camera. The rollout of the new image clearing system is expected to be completed in the second half of 2018.

Despite the introduction of cheque imaging, both consumers and businesses are expected to continue migrating away from cheques to alternative payment methods. It is forecast that there will be 147 million cheques used to make payments in 2027.

## Summary

Looking back on 2017, it will perhaps be remembered as the year when debit cards overtook cash to become the most frequently-used payment method in the UK. Consumers and businesses alike are taking advantage of the ever-widening choice of payment methods available to them, and choosing the options that suit them best in any given situation.

## Cheques used to make payments (millions)



Contactless payments also continued to grow in popularity during 2017. Almost two-thirds of adults (63%) now regularly pay using contactless. This is not restricted to younger people; even amongst people aged 65 or older, over half of people now use contactless payment methods. Indeed, no age group or region falls below 50% usage throughout the whole of the UK, so we can well and truly say that the majority of the UK uses contactless payments.

The UK's payments landscape has changed enormously over the past ten years. All the indications are that the next ten years will bring even more choice of payment methods and ever-improving services for the UK. Throughout the rest of this report, we consider the recent changes experienced by consumers, businesses, government and not-for-profit organisations, and discuss the ways that their payment choices may change over the next decade.

## UK Payment Markets 2018

This free report summarises the key trends and forecasts for all payments made in the UK. The full report, UK Payment Markets 2018, presents detailed analysis of different types of payments, with particular focus on payments made by consumers and payments made by businesses.

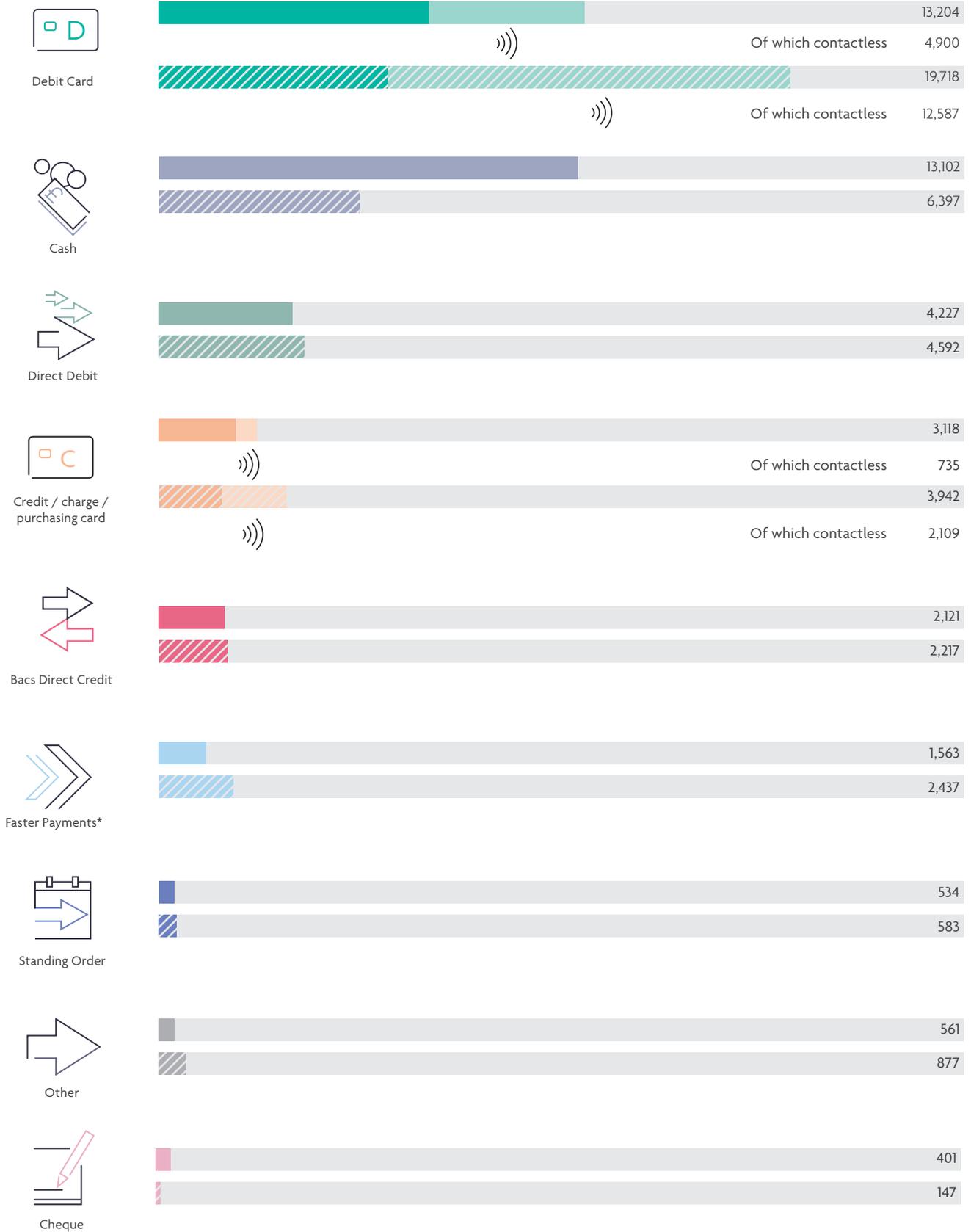
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**Alternatively, it is available to purchase via the UK Finance website:**

<https://www.ukfinance.org.uk/statistics/payments/>

Payment volumes 2017 v 2027

Total payments (millions)  2017 38,830  2027 40,908



\*and other remote banking