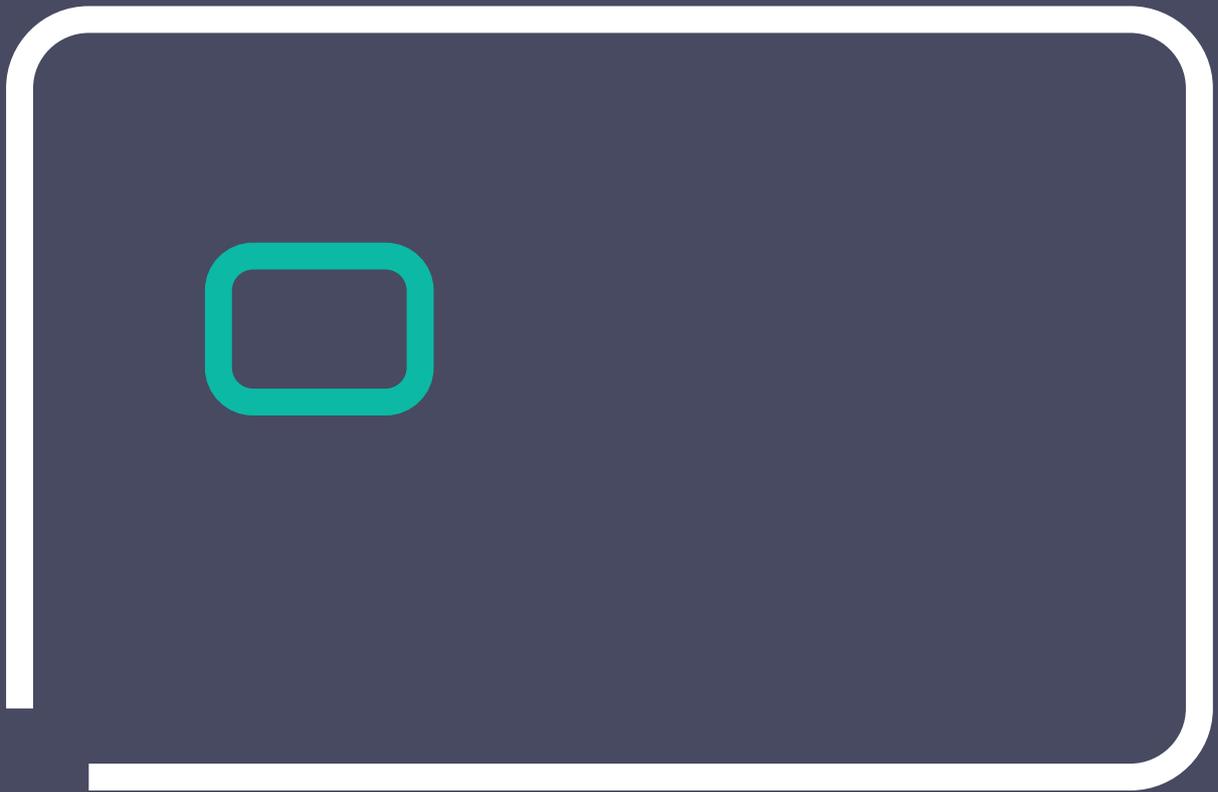


UK Card Payments



UK
FINANCE

2018



2018

UK Card Payments

An analysis of trends and card payments in contactless, debit, credit card lending

UK Card Payments 2018 provides a comprehensive summary of how and where cards were used in 2017. 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 UK Finance 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 2017.

Information on UK Finance can be found at:

www.ukfinance.org.uk

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UK Cards Headlines

2017



Debit card payment volumes surpassed cash payment volumes for the first time in 2017

- Debit cards were the most used payment method in the UK with 13.2 billion payments
- Contactless debit and credit card payment volumes totalled over 5.6 billion accounting for 34% of all card payments
- In 2017 there were 175.7 million cards in issue: 58.6 million credit cards; 5.5 million charge cards; 98.2 million debit cards and 13.4 million ATM-only cards.
- There were 16.3 billion card payments made up of 3.1 billion credit/charge/purchasing card payments and 13.2 billion debit card payments.
- In 2017 the value of debit card payments was £523 billion and credit cards £168 billion
- Around 45% of outstanding credit card balances bear 0% interest or are repaid in full before the end of the interest free period

In 2017, on average each month, UK Adults made:

20

Debit card payments



5

Credit card payments



2027 (projected)



58%

of all payments will be made via cards

- Debit card payment volumes will reach 19.7 billion in 2027 with contactless accounting for over two-thirds of the total
- Credit card payment volumes will reach 3.9 billion in 2027 with contactless accounting for just over half of the total
- By 2020 total card payments will account for 50% of all payment volumes
- Around 64% of all card payments in 2027 will be via contactless methods
- By 2027 the total value of debit card payments is expected to grow to £752 billion and credit card payments to £180 billion
- Business use of commercial cards is forecast to increase to 733 million payments

In 2027, on average each month, UK Adults will make:

28

Debit card payments



5

Credit card payments



1. Overview of the UK Card Payments Market

The growth of card payments has been one of the defining elements of the UK's payments landscape over the past decade. Debit cards in particular have shown strong growth, and in 2017 for the first-time debit cards overtook cash as the most frequently-used payment method in the UK, with 13.2 billion payments being recorded.

There are many factors that have contributed to the success of card payments in the UK, with ongoing changes in card issuing, card acceptance and patterns of card usage all playing their part. However, it is the incredible growth of contactless payments over the past three or four years that has perhaps done most to transform the way we pay for things in the UK in a very short period of time. In 2017, there were over 5.6 billion contactless card payments made in the UK, a figure that had almost doubled in a single year.

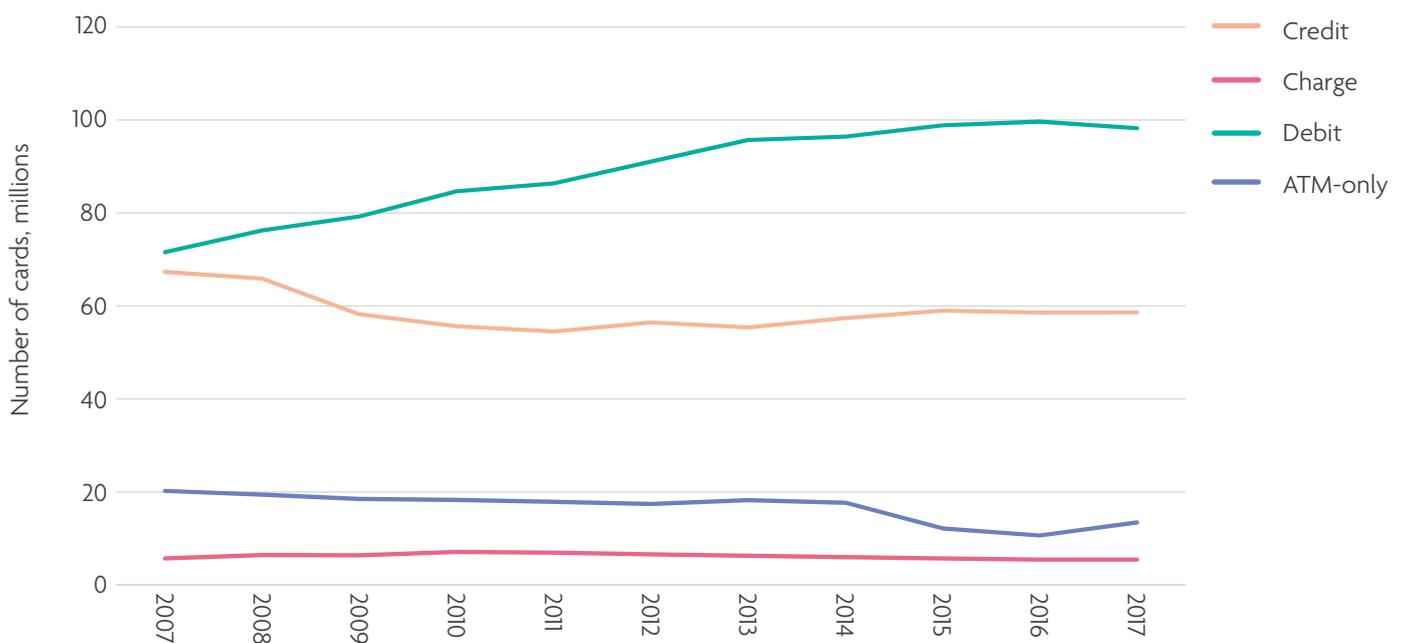
UK Card Payments 2018 discusses key metrics concerning the UK card market in 2017, the recent trends that have been observed in this market, and UK Finance's forecasts for the development of that market over the next ten years. It also presents information comparing card markets internationally, both within the EU and around the rest of the world.

1.1 Cards in issue

Over the last decade, the total number of cards in issue in the UK has increased slightly. This increase has been

driven by rising numbers of debit cards in issue, whilst the number of credit cards, charge cards and ATM-only cards fell slightly over the last ten years.

Chart 1.1
Number of cards in issue



Number of cards in issue in the UK at the end of 2017

98.2 million
Debit

58.6 million
Credit

13.4 million
ATM-only

5.5 million
Charge



Despite the lack of growth in credit card numbers in 2017, there was growth at the premium end of the market. The number of gold cards increased by 11% to 5.7 million, while the number of platinum cards increased by 2.9% to 22 million. The numbers of such premium products have eroded in recent years, so this represents a change in longer-run trends. Meanwhile, the number of affinity cards continued to decline, falling by 17% to 0.9 million. These are credit cards issued by financial institutions in partnership with other organisations, which offer a variety of benefits.

The majority of debit cards in the UK are Visa Debit cards, accounting for 97% of cards in issue. The remainder are MasterCard debit cards. However, the number of MasterCard debit cards is increasing, with growth of 5.4% during 2017.

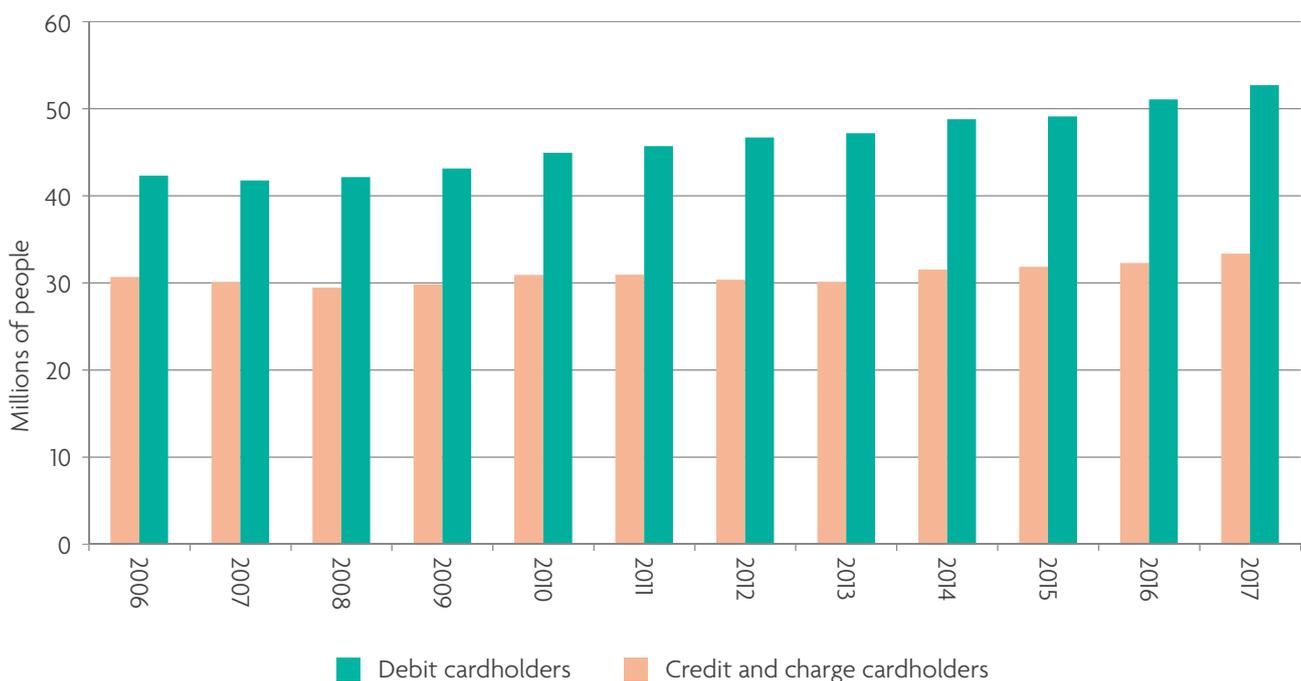
In comparison, 58% of credit and charge cards in the UK carry the MasterCard brand, with 36% carrying Visa branding and the remaining 5% being provided by other companies such as American Express.

Cardholders

The total number of debit cardholders in the UK has been steadily increasing over the last decade, reaching 53 million cardholders in 2017. In contrast, the number of credit and charge cardholders has remained more stable, although there have been indications of a small increase in figures the last three or four years, reaching 33 million cardholders in 2017.

At the end of 2017, there were just under 100 million debit cards in issue in the UK and almost 60 million credit cards. The slight reductions seen in debit card figures in 2017 were most likely due to closures of dormant and/or secondary accounts.

Chart 1.2
Number of cardholders in the UK, 2007-2017



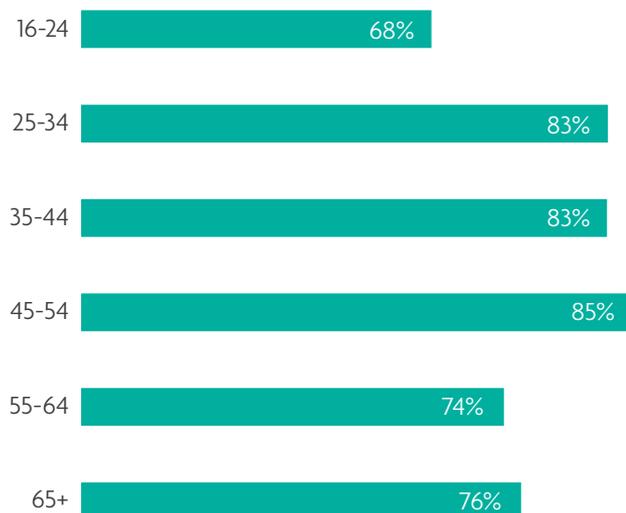
The large majority of adults in the UK (98%) now hold at least one debit card, since these cards are generally issued as standard with most current accounts. This figure has increased considerably over the last decade, from 84% in 2007. In contrast, the proportion of adults with at least one credit or charge card has stayed relatively stable, with 64% of adults having at least one credit or charge card in 2017, compared with 63% in 2007. This reflects a long-running observation in the UK that the proportion of adults that are credit or charge cardholders remains consistently just above the 60% mark, regardless of changes to the economy and consumer confidence. What does tend to change in response to economic changes, however, is the number of credit cards that each cardholder possesses (standing at 1.91 cards per cardholder in 2017), and also the average value of outstanding balances that are held on those cards.

Contactless cards

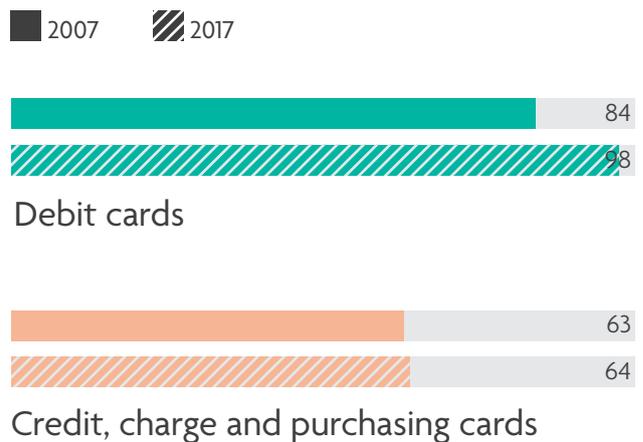
Over the past few years, the rollout of contactless-enabled cards has been proceeding. At the end of 2017, there were 119 million contactless cards in issue, representing 73% of all debit, credit and charge cards in the UK.

The majority of adults also now have access to at least one card that can be used to make contactless payments, since 98% of adults have at least one debit card, and more than four out of five debit cards in issue were contactless-enabled by the end of 2017. In fact, 78% of adults reported holding at least one contactless card in 2017 (although the true number may be slightly higher, allowing for the fact that a small number of people may not be aware that their card has contactless functionality). There are some differences between age groups, with the 16-24 age group showing the lowest proportion of contactless card-holding.

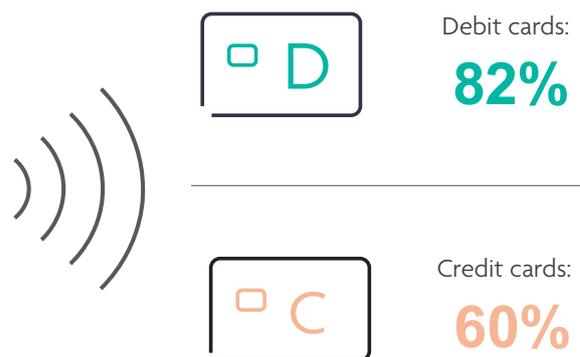
Chart 1.3
Proportion of UK adults holding contactless cards, by age, 2017



Proportion of UK adults holding cards



Proportion of UK cards that were contactless, end 2017



1.2 Card acceptance

Card acceptance among businesses in the UK has been expanding in recent years. Businesses of all sizes are increasingly likely to accept card payments, where once they may have been reluctant to do so. This is particularly the case for smaller businesses. Card acquirers have increasingly offered card acceptance packages that are commercially tailored to the needs of smaller businesses, and customers have become more likely to expect to be able to pay by card. As a result, small businesses have become more likely to accept cards, and businesses of all sizes have become increasingly willing to accept card payments for small-value transactions.

In 2017, the number of outlets accepting card payments rose by 4.8% to 1.4 million.

The total number of point-of-sale (POS) terminals in the UK accepting payment cards, including unattended terminals, rose by 12% to 2.4 million. This was comprised of 0.8 million acquirer-owned terminals and 1.7 million retailer-owned terminals. Growth is faster in the retailer-owned space, with growth of 17% in 2017, compared to growth of 2.3% for acquirer-owned terminals. Strong growth in the adoption of mobile POS terminals across the retail and hospitality sectors in particular contributed to this growth.

The roll-out of terminals that are capable of accepting contactless payments continued during 2017, and by the end of the year over 72% of all acquirer-owned terminals incorporated contactless technology.



72%
of all acquirer-owned
terminals in the UK
were contactless-
enabled by end of 2017

1.3 Card usage

1.3.1 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.

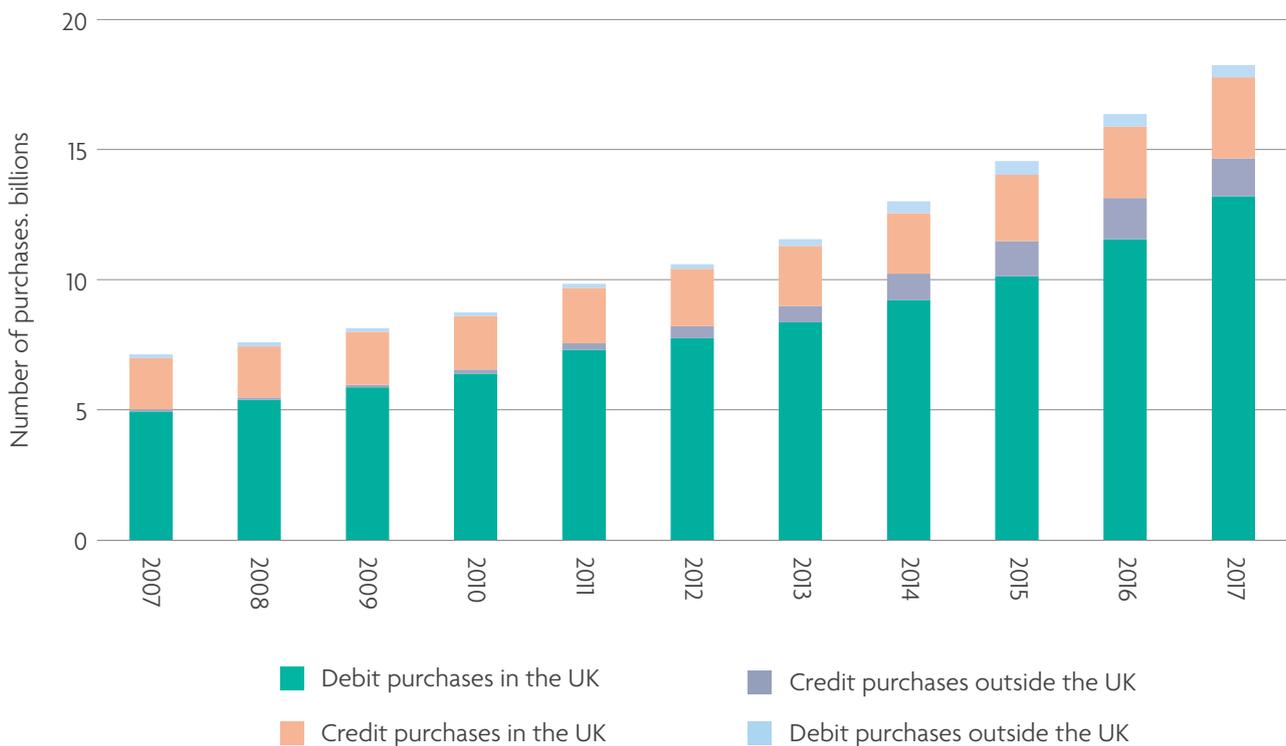
The large majority of the population (98%) now hold a debit card and most people use them to make day-to-day payments. There were 13.2 billion debit card payments made in the UK during 2017, an increase of 14% on the previous year. This growth has been seen throughout the past decade, as a result of:

- consumers becoming ever-more comfortable using debit cards for payments of all types and all values;
- the ongoing growth of online shopping, which accounted for 23% of debit card purchases (by volume) in 2017; and
- ever-increasing levels of card acceptance amongst businesses of all sizes, but particularly amongst smaller businesses.

Having said this, the long-term growth of debit card payment volumes has been further bolstered in the last three years by the strong growth of contactless payments, which have led to an increasing migration of low-value payments away from cash towards debit cards. More information on contactless payments is given later in this Section.

Debit card purchases outside the UK have grown in recent years, reaching 1.5 billion payments in 2017, compared with just 88 million payments in 2007. One in five of these payments are made by UK residents travelling abroad and using their debit cards to make payments whilst travelling. However, four out of five debit card purchases outside the UK are actually online purchases where the payment processing is settled abroad, despite the websites in question being presented to consumers as UK operations. An example of this would be purchases from Amazon's UK website, which processes card payments via its registered offices in Luxembourg.

Chart 1.4
Number of debit and credit card purchases, billions



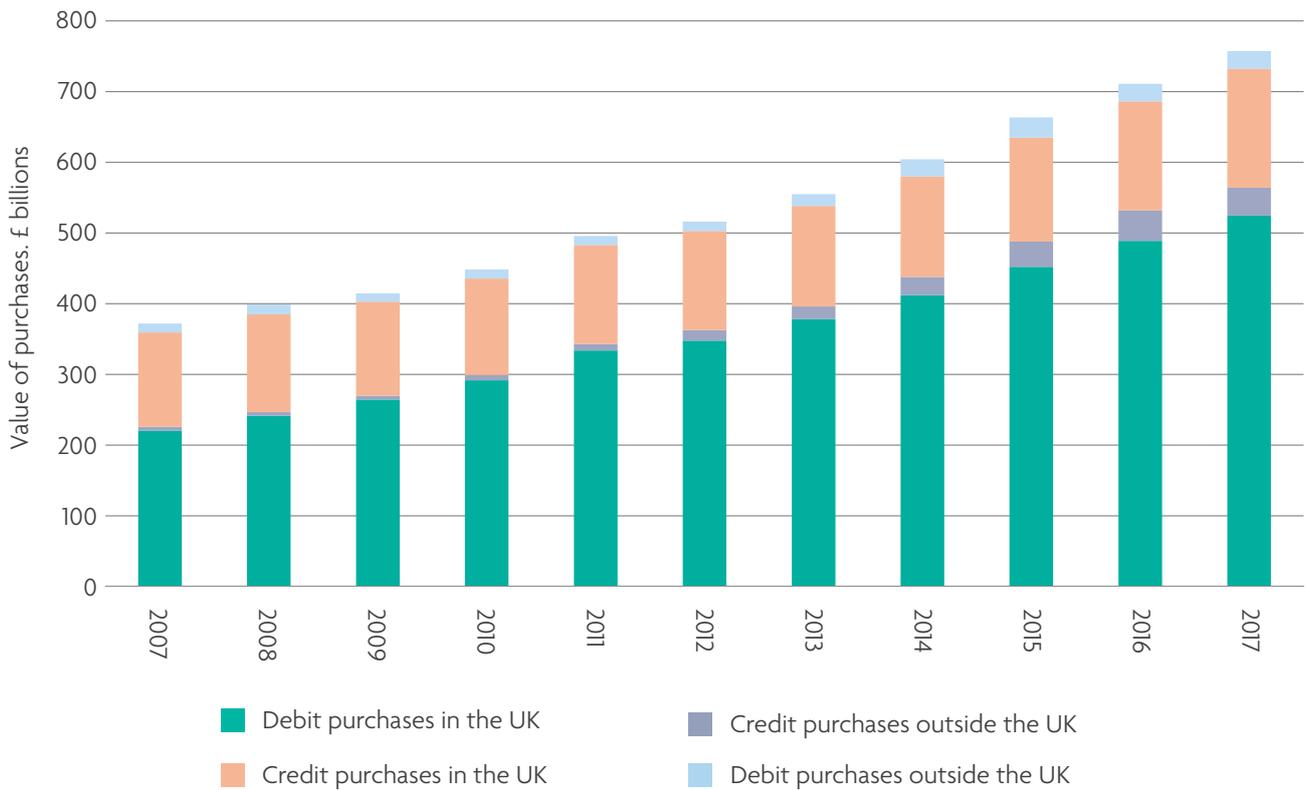
1.3.2 Credit cards

In 2017 there were 3.1 billion payments made using credit cards in the UK, 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). The level of spending on credit cards tends to be closely related to wider economic conditions which determine consumer appetite for taking on unsecured debt. The increases seen in 2017 could have their roots in a variety of possible factors:

- an upturn in economic growth and/or consumer confidence (although the economy did not show rapid growth during this period);
- consumers growing tired of austerity and of deferring purchases, and instead deciding to spend using unsecured credit to fund their purchases;
- strong competition in the credit card market providing greater access to cheap unsecured credit for consumers (particularly seen in interest-free balance transfer offers); or
- 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. Similar to debit cards, 23% of credit card purchases (by volume) were made online during 2017. Also similar to debit cards, the volume of credit card payments made outside the UK has increased in recent years, reaching 467 million payments in 2017, compared to 153 million payments ten years earlier in 2007. Two-thirds of these overseas credit card payments are online purchases from UK websites where the payment is settled outside the UK.

Chart 1.5
Value of debit and credit card purchases, £ billions



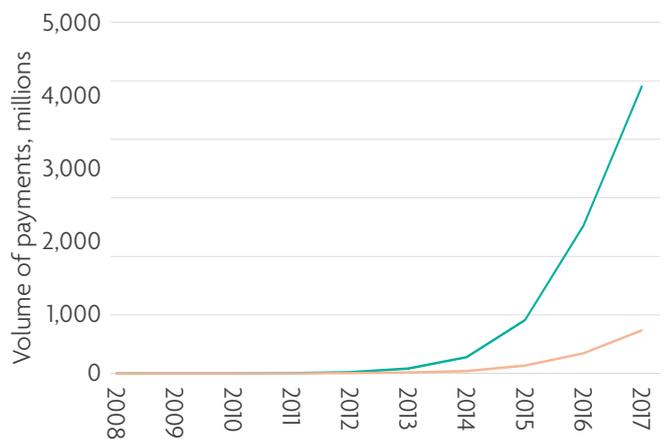
1.3.3 Contactless payments

The number of contactless payments made in the UK increased by 97% during 2017 to 5.6 billion payments. This consisted of 4.9 billion contactless debit card payments and 0.7 billion contactless credit card payments. Growth over the past year 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.

Supermarkets were the most popular location to make contactless payments during 2017, 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.

Chart 1.6
Contactless card volumes



Percentage of card payments made via contactless cards



35%
2017

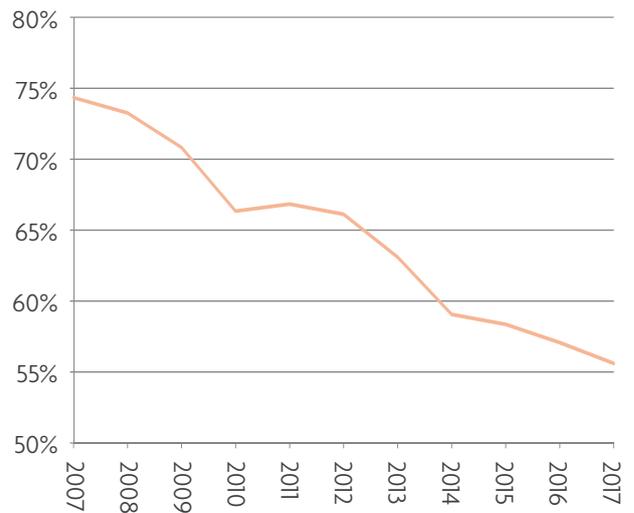
62%
2027

1.4 Credit card borrowing

Credit cards continue to provide an important, flexible and convenient tool for household spending and borrowing. In 2017 credit card spending increased by 8.0% to £193 billion, with growth in net lending up by 8.9% to £5.8 billion. This growth was within the context of an expanding economy. By the end of 2017, households owed a total of £1.57 trillion in secured and unsecured borrowings. Of this, 86.8% was secured debt (mostly on property), 8.7% was owed on other unsecured credit such as loans, car finance and overdrafts, with 4.5% owed on credit cards.

After a period of stability, total credit card borrowings have returned to growth since 2015. This has been driven by underlying trends such as economic growth, population growth and growth in the consumer credit market. During the year, borrowings increased by 5.2% to a year-end total of just over £70 billion¹. Of this total, around 55% incurred interest charges, unchanged on 2016. Repayment levels remained strong, continuing a trend over recent years. 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.

Chart 1.7
Proportion of credit card borrowings that are interest bearing



¹ Source: Bank of England

1.5 Forecasts

Over the next decade the volume of card payments, in particular debit card payments, are forecast to substantially increase. Total card payment volumes are forecast to increase from 16.3 billion payments in 2017 to 23.7 billion in 2027. By the same point, the total value of card payments is projected to reach £932 billion, up from £691 billion in 2017.

The growth of contactless payments is expected to continue over the coming years. As the rollout of contactless cards to cardholders along with card readers to businesses continues more people will be able to use contactless payments. At the beginning of 2020 all point-of-sale terminals will have the ability to accept contactless payments. By 2027, contactless card payments are forecast to account for 62% of all card payments, up from 35% in 2017.

1.5.1 Debit cards

Debit cards are expected to contribute a significant portion of the total increase in card volumes and values. This will be driven by a number of factors including online shopping, the increasing use of contactless payments, greater card acceptance 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, expecting to pay this way. Consumers are also likely to have more opportunities to use their cards as card acceptance increases among smaller businesses and sole traders. Growth among mobile payments and wearables may see a large number of future debit card transactions taking place without a physical plastic card. For example, transactions may be completed by using a mobile phone or a watch with NFC capabilities. This is already starting to occur, with examples including Apple Pay and Google Pay. These services allow consumers to use their phones both at the point-of-sale as well as for online and in-app payments. These new mobile payment technologies are expected to particularly be embraced by the younger generation. Mobile payments are forecast to grow in popularity over the coming decade, further increasing the volume of contactless card payments.

Another major driver increasing debit card payment volumes over the next decade will be growth in online shopping. This includes both e-commerce (shopping via computer), and the rapidly growing m-commerce sector. The latter in particular has seen significant growth as rapid adoption of both smartphones and tablets by consumers has increased the methods available to them for accessing the internet and shopping online. This assumes that debit cards (and credit cards) will remain the principal payment method for consumers making online purchases. Debit card use by businesses is also forecast to increase,

Card payments each day in the UK



especially among smaller businesses. This will be driven by increased demand for debit cards, as businesses look to shop online. As greater numbers of businesses accept card payments, there will be an ever-greater number of opportunities for businesses to use debit cards to pay their suppliers. This may be used as an alternative to other methods such as cheques or Bacs Direct Credit. By 2027 the volume of debit card purchases is forecast to reach 19.7 billion. This represents a total increase of 49% over the next ten years and is nearly four times the number of payments made in 2007. The total value of debit card purchases in 2027 is expected to reach £752 billion.

1.5.2 Credit cards

Credit card payment volumes are projected to increase steadily over the next few years. Credit cards are used by both borrowers and transactors. Transactors are those card holders who predominantly use their credit card for everyday purchases. This can be in order to accrue points with the card issuer's loyalty rewards programme. Despite a reduction in some benefits on offer, it is likely transactors will continue to use their credit cards when making both small and large value purchases.

One of the most important drivers relating to future credit card volumes will be economic growth. When the economy is growing, consumers may feel more confident in taking on unsecured debt through increasing their credit card usage. As such, consumers can begin to use this borrowing to make high value purchases, such as holidays or white goods. Should economic growth slow, then consumers may attempt to reduce their spending and outstanding debt levels, but on the other hand may

need to make increased use of unsecured debt in order to make ends meet. Whilst the UK economy is projected to continue to grow, albeit at a slower rate than previous years, the impact of Brexit and/or changes to central bank policies may still result in changes to forecast economic growth and impact on future credit card growth rates, whether positively or negatively.

Similar to debit card acceptance, credit card acceptance by SMEs is also expected to increase over the coming years. Merchant acquirers have introduced a number of card acceptance business models aimed at the SME market, making accepting this payment method more cost-effective than it has previously been. As a result, a broader range of SMEs will be able to accept credit card payments, potentially also having an effect on business to business payment volumes.

Growth in corporate credit cards will also be linked to economic expansion and by increased card holding among large organisations and the public sector. These cards are often used to pay for employee travel and other expenses.

In 2027 credit and charge card purchases are forecast to increase to 3.9 billion transactions, up from 3.1 billion in 2017. Values are projected to rise from £168 billion in 2017 to £180 billion in 2027

Share of payments in the UK made using cards:

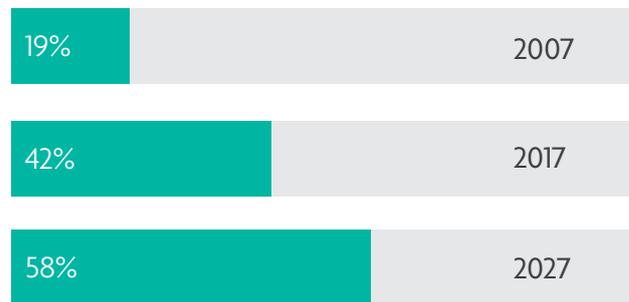


Chart 1.8
Debit and credit card payment volume forecasts

