



UK
FINANCE

UK PAYMENT MARKETS SUMMARY 2019

June 2019



TOTAL UK PAYMENTS IN 2018 AND FORECASTS TO 2028

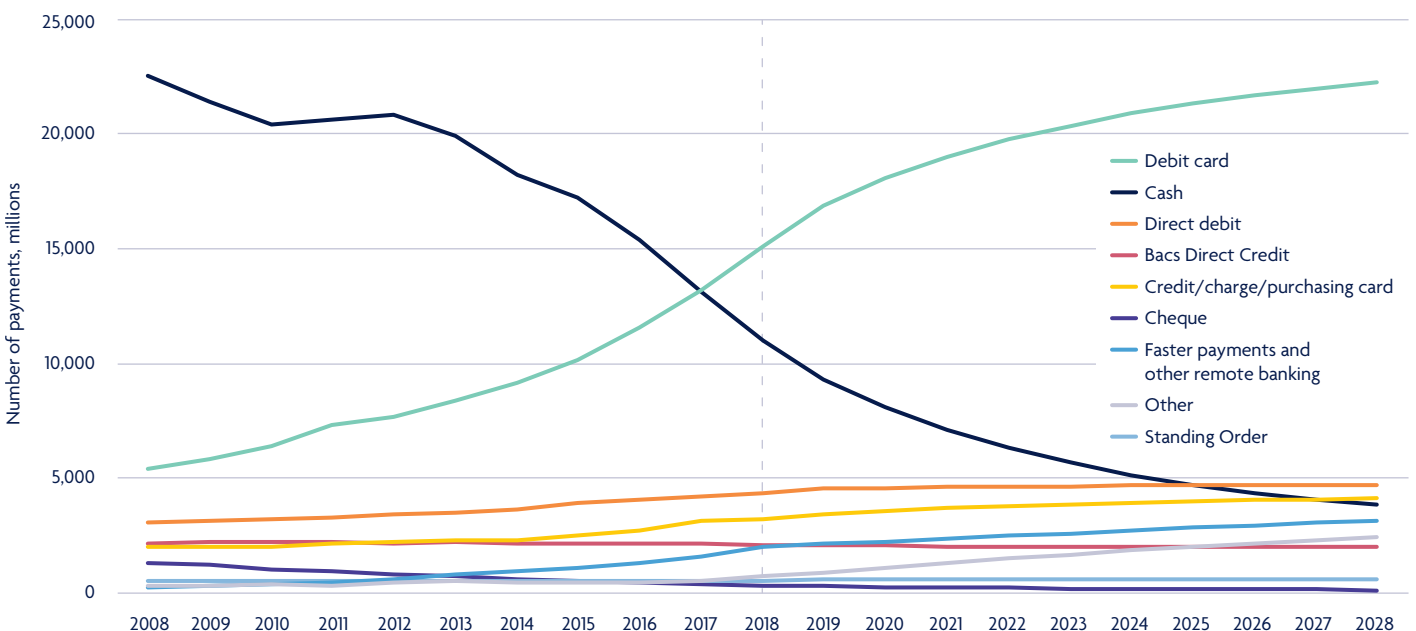
Payment markets have historically tended to evolve slowly over time. People are creatures of habit, and this is no less true for the way that we pay for things than it is for other aspects of day-to-day life. Once we have found a set of payment methods that we are comfortable using and that help us manage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

In recent years however, we have seen a rapid rate of technological change and significant innovation in payment methods, that have brought ever-greater choice in how we pay for things. Smartphones have revolutionised many aspects of modern life in just one decade, and the advent of online banking, mobile banking and contactless payments in particular have had a significant effect on how we now choose to pay for things.

In last year's report, we highlighted how debit cards had overtaken cash as the most frequently-used payment method in the UK. Throughout 2018 the use of debit cards continued to grow, as consumers and businesses increasingly used their cards to pay for things, whether online or in the 'real world'. The popularity of contactless payments continued to bolster this growth, as more and more people started to use contactless payments, and as the number of contactless payments that each person makes continued to increase.

Faster Payments also saw strong growth over the past year as 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, and users widened the range of tasks that they perform using such services, exploring beyond checking their balances to also make one-off payments and manage other aspects of their finances.

Chart 1.1 Payment volumes (millions) 2008 to 2028



The speed and efficiency of instant payments have proved appealing to both consumers and businesses. The use of online banking by businesses in order to make account-to-account payments has increased substantially in recent years, providing a rapid and convenient alternative for payments that would previously have been made using cheques. This has been particularly helpful to smaller businesses, who have made use of online banking to enable them to make instant payments without needing to set up as an originator of Bacs Direct Credit payments.

Primarily as a result of the increased use of debit cards and online payments, the number of cash payments continued their long-term decline during 2018. Nevertheless, cash remained the second most frequently-used payment method in the UK in 2018 and is forecast to remain so until at least 2025.

Over the next decade further market developments, such as those brought about through Open Banking, the advent of PSD2, Secure Customer Authentication 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.

In 2018 there were 39.3 billion payments made in the UK, a small increase on 2017 reflecting the limited extent of economic growth. Consumers made the majority of payments, accounting for nearly nine out of ten of all payments made in the UK. Nearly 85% of payments made by consumers were for spontaneous purchases, representing an average of around 46 payments per adult each month. The other 15% of payments were made in order to pay regular bills and commitments, representing an average of around 16 payments per household each month.

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 half of all transactions 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. Indeed, in recent years we have seen an ever-widening selection of payment methods to choose from in any given situation, with payers following a "pick 'n' mix" approach and selecting the methods that work best for them.

Debit Cards

Having overtaken cash in 2017 debit cards remained the most frequently used payment method in the UK in 2018, used for nearly four in ten payments. Payment volumes increased by 14% in 2018 billion reaching 15.1 billion. The large majority of the population (98%) now hold a debit card and many people use them to make day-to-day payments

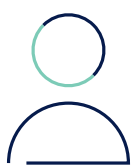
The continued increase in debit card use is driven by a number of factors including the continued growth in popularity of contactless payments and the increased speed of migration of payments away from cash. Debit cards are also one of the main payment methods used to pay for online shopping, and this sector continues to grow year on year.



50%

By 2024 debit cards are forecast to account for half of all payments in the UK

Over the next decade, debit card payment volumes are forecast to reach 22.3 billion payments in 2028, accounting for over half of all payments in the UK. 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.



Consumer
34.9 billion payments

Spontaneous
29.7 billion

Regular
5.2 billion



Business
4.4 billion payments

Business to business
2.2 billion

Business to individual
2.2 billion

Credit Cards



65%

of adults in the UK have a credit card

There were 3.2 billion payments made using credit cards, an increase of 4% over the previous year. This reflects the more general growth of unsecured lending, (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 during 2018 post Brexit referendum
- Strong competition in the credit card market
- Increased card acceptance by merchants
- Some additional use of credit cards as a method of accessing unsecured credit, by those managing tight budgets

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. The increased lending on credit cards has been matched by growth in repayments, reflecting the growing use of cards by consumers as a preferred means of payment rather than as a borrowing mechanism.

By 2028 credit card payment volumes are forecast to reach 4.1 billion. 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

19%
2018



37%
2028 (forecast)

During 2018 the number of contactless payments made in the UK increased by 31% to 7.4 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

There were nearly 124 million contactless cards in circulation at the end of 2018, with 84% of debit cards and 64% 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 2018 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 83% of people in this age group making contactless payments during 2018. Whilst people aged 65 or older are less likely than younger people to make contactless payments, more than three fifths (61%) of this age group made contactless payments during 2018, up from just over 50% in 2017. Though differences remain across age group and region, 69% of people in the UK now use contactless payments, and no age group falls below 60% usage, and no region below 58%.

Cash

Cash as a % of all payments



60%
2008

28%
2018

9%
2028

Cash payments continued to decline in 2018, falling by 16% to 11.0 billion payments. Despite this cash was still used for 28% of all payments in the UK and was the second most frequently used payment method, 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.

During 2018 there were 5.4 million consumers who almost never used cash at all, instead relying on cards and other payment methods to manage their spending. This was an increase from 3.4 million consumers the previous year, showing the growth in people who are living an almost cashless life.

At the same time there were 1.9 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). It should be noted that, whilst 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 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 variety of experience relating to use of cash reflects the “pick ‘n’ mix” approach that UK consumers take to payments with payers choosing the payment methods that suit them best from the ever-widening selection of payment methods available.

Over the next decade the number of cash payments in the UK is expected to continue to fall, as consumers continue to turn to alternative payment methods, most notably debit cards. By 2028 there are expected to be 3.8 billion cash payments in the UK, accounting for 9% of all payments. 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.

Direct Debit

Volume of direct debit payments



Direct Debits are used by nine in ten UK consumers to pay some or all of their regular bills. Direct Debit is a familiar, long established and widely trusted method for paying regular bills. In 2018 there were 4.4 billion payments made by Direct Debit, with an overall value of £1,327 billion.

Consumers are far more likely to use Direct Debit than businesses. Companies 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. 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 4.7 billion payments forecast in 2028.

Faster Payments and other remote banking

Faster Payments and other remote banking



The number of people using online banking (via a computer) or mobile banking (via an app on their smartphone or tablet) continued to grow in 2018. Well over two-thirds of UK adults (72%) used online banking and nearly half (48%) used mobile banking. This saw the number of remote banking payments processed via the Faster Payments Service (or cleared in-house by banks) during 2018 increase to 2.0 billion.

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 2028 remote banking payments processed via the Faster Payments Service or cleared in-house are forecast to rise to 3.2 billion.

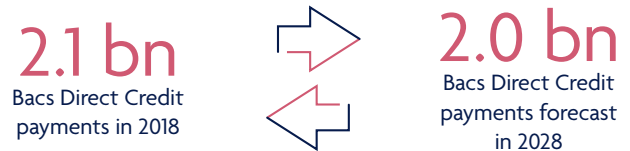
Another potential driver for Faster Payments and remote banking over the next few years may come from the continued development of Open Banking products and services. Open Banking raises the potential for services that would allow consumers to pay for online shopping using account-to-account payments at the online checkout and/or in-store, rather than paying using a card or PayPal (or similar service). As such Faster Payments could be 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. Therefore, we remain cautious in our forecasts at present for the potential volume of online 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. There is expected to be slow but steady growth of standing order payment volumes over the next decade, from 558 million payments in 2018 to 601 million payments in 2028.

Bacs Direct Credit

Bacs Direct Credit payments



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 2018. 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. There are forecast to be just over 2.0 billion Bacs Direct Credit payments made in the UK in 2028.

CHAPS

- There were 48.5 million CHAPS payments processed in 2018
- By 2028 there are forecast to be 51.7 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 2018 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 48.5 million CHAPS payments processed in 2018, 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 2028 there are forecast to be 51.7 million CHAPS payments.

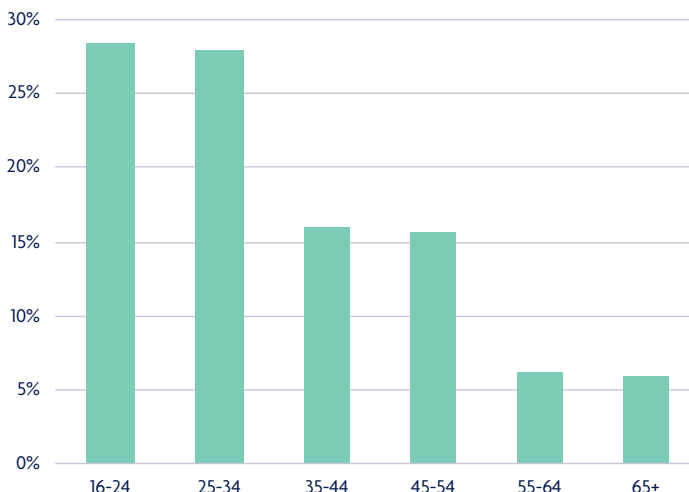
Other

Other payment methods include (but are not limited to) online and mobile payment methods such as PayPal, Apple Pay, Google Pay and Samsung Pay. These methods are now an important and growing part of the payment market, with these methods collectively accounting for a greater volume of payments than either standing orders or cheques. In 2018 there were 708 million payments made using one of these “other” payment methods. These payment methods are forecast to see significant growth and more than triple to 2.4 billion payments. This would see them collectively overtake the forecast volumes of Bacs Direct Credit. It should also be noted that there is potential for further growth should consumer appetite shift markedly towards mobile payment services.

Apple Pay, Google Pay and Samsung Pay

In 2018 around 8.5 million people, or 16% of the adult population had registered for mobile payments with 79% of these registered users recording a payment. Nearly half (46%) of these registered users made payments weekly or more frequently. 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.

Chart 1.2 Proportion of people in each age group registered for mobile payments



Cheques



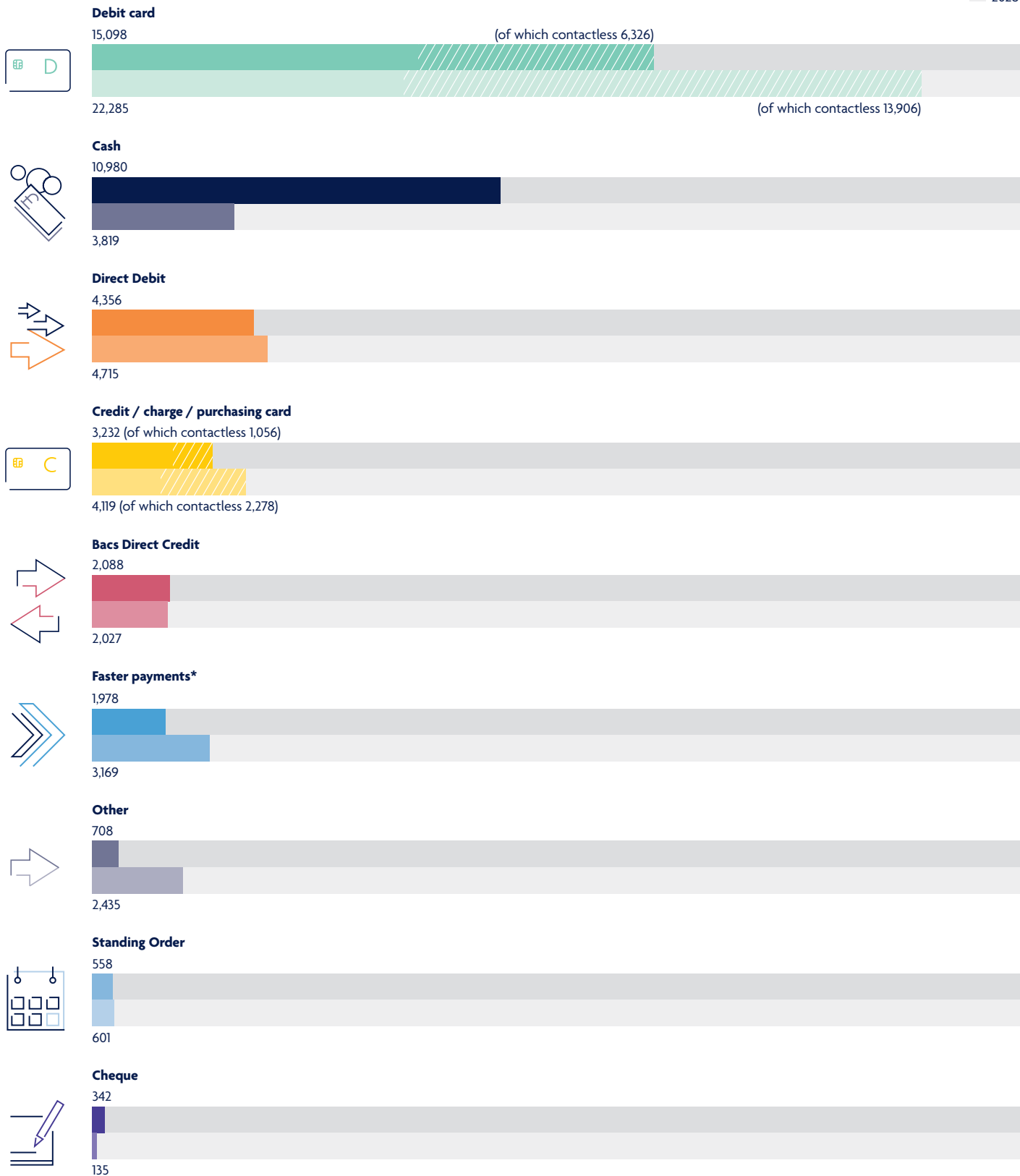
The number of cheques used to make payments continued to decline over the past year, falling by 15% to 401 million cheques, as both businesses and consumers chose to use alternative payment methods instead. Cards and remote banking transfers in particular are increasingly being used where previously 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 introduced in October 2017. 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 new ways of depositing cheques to be introduced, such as paying in a cheque via a mobile phone using just an image of the cheque captured using the phone’s camera (rather than having to take the cheque to the bank). 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. By 2028 it is forecast that there will be 135 million cheques used to make payments.

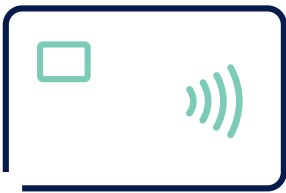
Total payment volumes in the UK (millions) 2018 v 2028 (excluding CHAPS)

2018
2028



*and other remote banking

PAYMENT MARKETS HEADLINES



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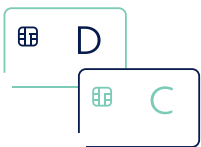
Two-thirds of UK adults now use contactless payments

2018

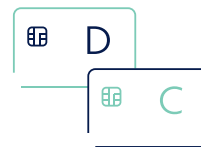
- Debit cards were the most used payment method with 15.1 billion payments
- Contactless debit and credit card payment volumes totalled nearly 7.4 billion
- Cash payments decreased by 16% to 11.0 billion and was the second most frequently used payment method
- Faster Payments and other remote banking totalled just under 2.0 billion in 2018.
- 50 million adults used cash machines and 87% of them did so at least once a month.
- Cheque volumes continued falling in 2018 and account for 1% of payments made in the UK
- 72% of UK adults used online banking and 48% used mobile banking.
- Bacs Direct Credit volumes fell slightly to 2.1 billion.
- Direct Debit volumes rose 3% to 4.4 billion.
- The value of CHAPS payments decreased slightly by 1% to £83.5 trillion.
- 39.3 billion total payments in 2018

2028 (projected)

- Debit card payment volumes will reach 22.3 billion in 2028 with contactless accounting for nearly two-thirds of the total
- By 2019 total card payments will account for 50% of all payment volumes
- Over a third (37%) of all payments in 2028 will be via contactless methods
- Cash will remain an important payment method in 2028 with total payment volumes of 3.8 billion
- Cash machines will account for nearly nine in ten of the volume of cash acquired from personal accounts in 2028
- Direct Debit volumes will reach 4.7 billion in 2028
- Total payment volumes through the Faster Payments Service and other remote banking will reach nearly 3.2 billion in 2028
- Excluding CHAPS, total payment values will be £9,926 billion in 2028
- 43.3 billion total payments in 2028



47%
of all payments
made by card



61%
of all payments
made by card

This summary document presents key findings from the UK Finance report “UK Payment Markets 2019”.

The full report is available free of charge for members of UK Finance. It is also available for purchase by non-members.

More details can be found at:

www.ukfinance.org.uk