



UK
FINANCE

UK PAYMENT MARKETS SUMMARY 2020

June 2020



TOTAL UK PAYMENTS IN 2019

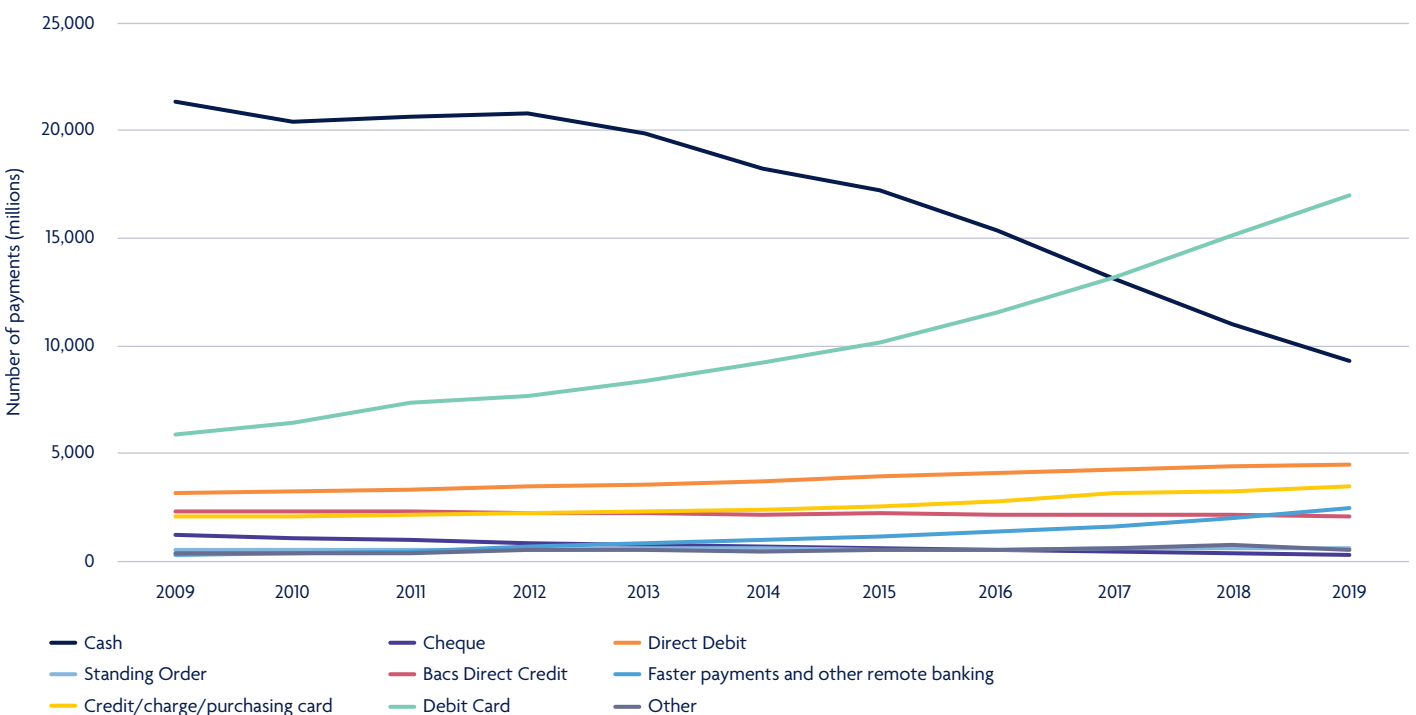
We all tend to reach for the payment methods that we are accustomed to using, forming habits over time that can be quite strong. Once we have found a set of payment methods that we are comfortable using and that help us to manage our finances effectively, it can take a great deal for us to change to a different way of doing things. As a result, payment markets have historically tended to evolve slowly.

Despite this natural inertia, technological change and significant innovation in payment methods have brought greater choice for people and businesses in how they pay for things. This has been led by the popularity of the smartphone, which has revolutionised many aspects of modern life in just over a decade. Also, innovations such as contactless payments, mobile wallets, online banking and mobile banking have had a significant impact on the way that we now choose to pay for goods and services and manage our finances. As people have realised the value to them of doing things in a different way, so their payment habits have evolved, resulting in a gradual revolution in payments in the UK.

During 2019, card payments continued to grow as consumers and business increasingly used their cards to pay for things, whether online or in the 'real world'. This growth saw card payments increase to the point of accounting for over half (51%) of all payments in the UK for the first time. Online and contactless payments continued to act as substantial drivers of this growth, with eight out of ten UK adults using contactless payments in 2019.

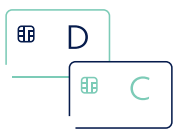
Strong growth was also seen in Faster Payments as both businesses and consumers increasingly used online and mobile banking to make payments and to transfer money. Mobile banking in particular continues to grow strongly, and users are continually widening the range of tasks that they perform using such 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) 2009 to 2019



Cash payments continued their long-term decline during 2019. This was primarily as a result of the increased use of debit cards and online payments. Nevertheless, cash remained the second most frequently used payment method in the UK in 2019, being used for just under a quarter of the total number of payments made.

Over the next decade further market developments, such as those brought about through Open Banking, the advent of PSD2, Strong Customer Authentication and the anticipated New Payments Architecture for the UK, may bring changes to the UK's payments landscape. UK Finance will continue to monitor and analyse how these developments may affect future payment markets.



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In 2019 over half of all payments in the UK were made using cards

There were 40.0 billion payments made in the UK in 2019. Consumers made the large majority of these payments, accounting for nearly nine out of ten of all payments. Spontaneous purchases accounted for 85% of payments made by consumers, with the other 15% of payments being made 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 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.

Debit Cards



42%

Debit cards accounted for 42% of all payments in the UK

Debit cards remained the most frequently used payment method in the UK being used for over four in ten payments. In 2019 payment volumes increased by 12% reaching 17.0 billion. The overwhelming majority of the population (98%) now holds 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 for people of all ages, with 48 million adults shopping online during 2019 and even eight out of ten of those aged 65 and over now shopping online.

Credit Cards

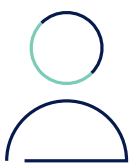


68%

of adults in the UK have a credit card

There were 3.5 billion payments made using credit cards, an increase of 7% over the previous year. 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



Consumer
35.3 billion payments

Spontaneous
30.0 billion

Regular
5.3 billion



Business
4.7 billion payments

Business to business
2.4 billion

Business to individual
2.3 billion

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 the growth in repayments, reflecting the growing use of cards by consumers as a preferred means of payment rather than as a borrowing mechanism.

Percentage of all payments made via contactless cards



During 2019 the number of contactless payments made in the UK increased by 16% to 8.6 billion payments. This was driven by:

- the continued roll-out of contactless cards, especially credit cards in the last 12 months
- the continued roll-out of card acceptance devices
- consumers becoming increasingly comfortable and familiar with making contactless payments

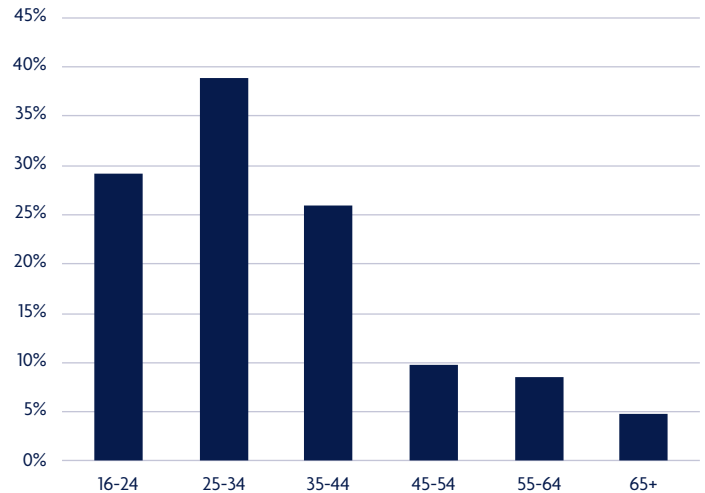
At the end of 2019 there were 132 million contactless cards in circulation, with 85% of debit cards and 74% of credit cards in the UK having contactless functionality. The card industry has committed to ensuring that from January 2020 every bank-issued payment terminal in the UK will be capable of accepting contactless payments. This will further increase the number of locations where consumers can pay using contactless.

Supermarkets were the most popular location to make contactless payments during 2019 accounting for nearly two-fifths (39%) of all contactless payments. The highest rate of use was seen among the 35-44 age group, where 87% of people made contactless payments during 2019. The lowest rate of use was the 65+ age group, however over two-thirds (68%) of this group still made a contactless payment in the last year. Though differences remain across age group and region, 79% of people in the UK now use contactless payments, and no age group or region falls below 68% usage.

Apple Pay, Google Pay and Samsung Pay

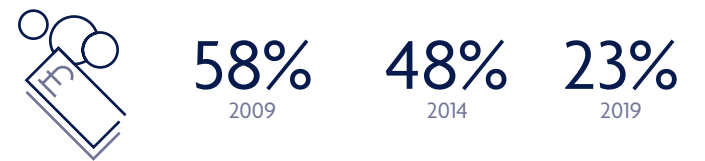
As well as using contactless cards other devices such as mobile phones and watches can be used at point of sale and online. Nearly ten million people, or 18% of the adult population registered for mobile payments in 2019 with 79% of these registered users recording a payment. Nearly half (48%) of registered users made payments fortnightly 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, 2019



Cash

Cash as a % of all payments



Cash payments continued to decline in 2019, falling by 15% to 9.3 billion payments. Despite this cash was still used for just under a quarter (23%) 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 2019 there were 7.4 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 an increase from 5.4 million consumers the previous year, showing the growth in people who are living an almost cashless life.

At the same time there were 2.1 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). 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.

Direct Debit

Volume of direct debit payments



4.5 billion
Direct Debit payments in 2019

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 2019 there were 4.5 billion payments made by Direct Debit, with an overall value of £1,327 billion.

As a well-established method of payment, growth in Direct Debit payment volumes tends to reflect growth in population figures and household numbers. 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. Direct Debit payment volumes tend to be linked to some extent to the economic cycle and consumer confidence.

Faster Payments and other remote banking

Faster Payments and other remote banking (millions)



282 2009 **948** 2014 **2,449** 2019

In 2019 the number of people using online banking (via a computer) or mobile banking (via an app on their smartphone or tablet) continued to grow. Well over two-thirds of UK adults (72%) used online banking and over half (50%) used mobile banking. All age groups had high levels of remote banking use ranging from 93% of those aged 25-34 to 71% for those aged over 65.

The number of remote banking payments processed via the Faster Payments Service (or cleared in-house by banks) during 2019 increased by 24% to nearly 2.5 billion. While the number of people using remote banking helped contribute to this increase growth also came from businesses. Over the past few years the number of businesses using this payment method has increased steadily and four out of ten business-to-business payments were made via Faster Payments or other remote banking in 2019.



50%
of all adults used mobile banking in 2019

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 2019 there were 559 million standing orders, similar to the previous year.

Bacs Direct Credit

Bacs Direct Credit payments

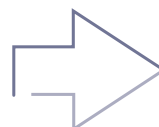


2.0 billion
Bacs Direct Credit payments in 2019

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 2019. 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 also uses Bacs Direct Credit to pay nearly all state benefits and pensions in the UK.

CHAPS

CHAPS payments in 2019



0.1%
of volume

91%
of value

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 2019 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 48.6 million CHAPS payments processed in 2019, worth a total of £83.4 trillion. CHAPS payment volumes are closely related to the state of the UK economy.

Cheques

Cheques used to make payments (millions)



The number of cheques used to make payments continued to decline over the past year, falling by 20% to 272 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 in October 2017. A key benefit is that the cheque clearing process will now complete much faster, so cheque recipients now see the money appear in their account more quickly. It also allows for cheques to be deposited via a mobile phone with a camera. The new image clearing system was fully rolled out in September 2019.

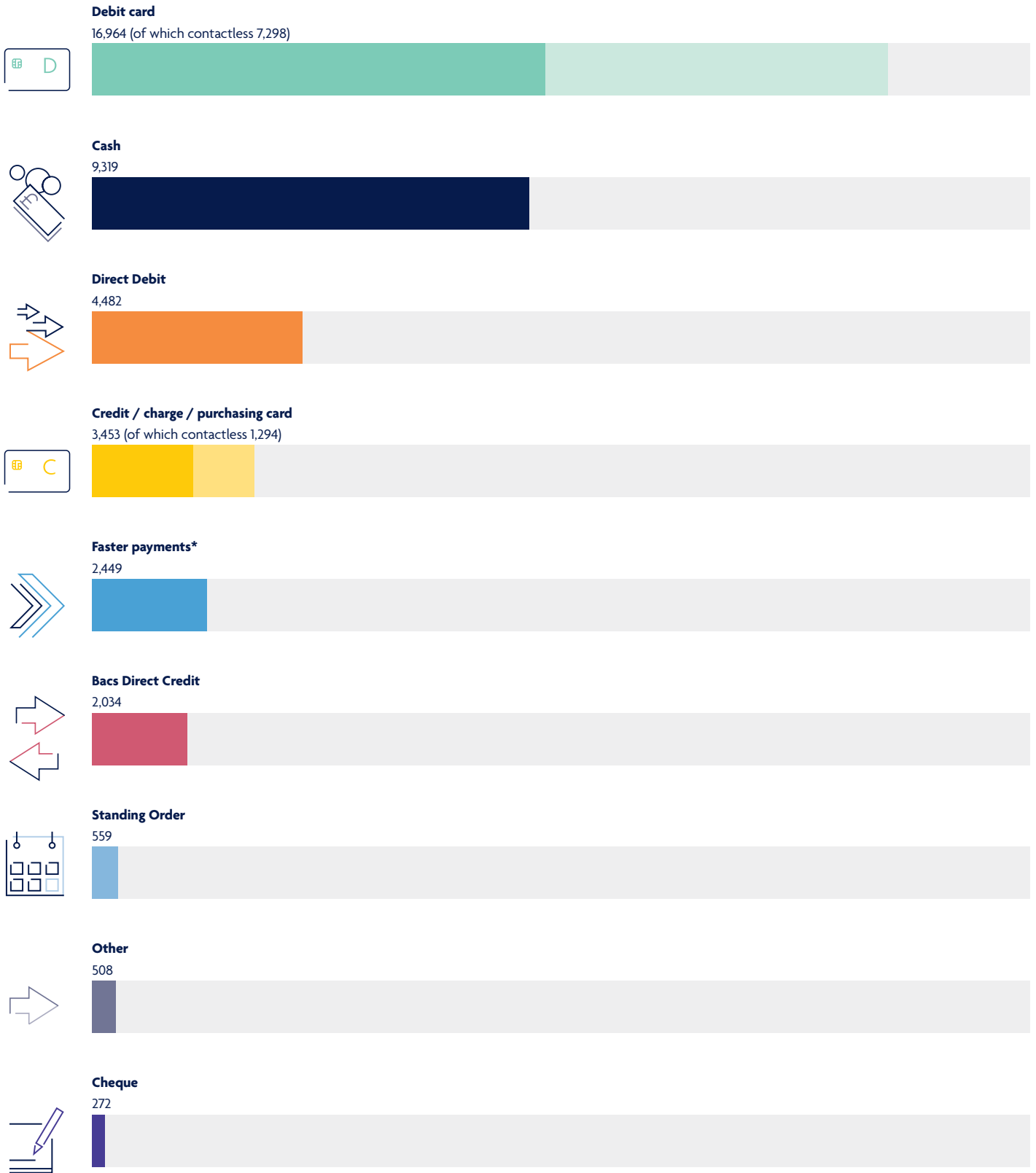
Forecasts

UK Finance's annual Payment Markets Review exercise has in the past involved the development of forecasts for what is likely to happen in payments in the UK over the coming decade. Our experts look at trends in payments in recent years as well as information about anticipated developments in payments in order to develop detailed forecasts for payments in the UK. These have in the past been discussed in detail in previous editions of this publication.

In 2020, however, the Covid-19 crisis has rendered the development of forecasts particularly challenging. Indeed, developing any kind of forecasts is hugely difficult at the present time, given the lockdown that is currently in place in the UK (at the time of writing) and the uncertainty around how long this might continue. Large parts of the UK economy have been brought to a standstill, and consumer behaviour is evolving rapidly to cope with the new circumstances we all face. Further, it is not clear what will happen when the lockdown is eventually relaxed, and the extent to which consumer and business practices will have been permanently altered by the experiences of 2020.

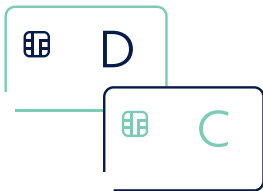
As a result, this report does not contain any detailed forecasts for payments in the UK. Over the coming weeks and months, UK Finance's experts will analyse the possible outcomes for payments in the UK as a result of this crisis. This analysis will be conducted as more becomes known about the extent and duration of the crisis, its economic impacts, and the resulting impact on consumer behaviour and government policy. Its results will be published in due course.

Total payment volumes in the UK (millions) 2019 (excluding CHAPS)



*and other remote banking

PAYMENT MARKETS HEADLINES



1/2

In 2019 card payments continued to grow, accounting for half of all payments in the UK

2019

- Debit cards were the most used payment method with 17.0 billion payments
- Contactless debit and credit card payment volumes totalled 8.6 billion
- Cash payments decreased by 15% to 9.3 billion but cash was still the second most frequently used payment method
- Faster Payments and other remote banking totalled just under 2.5 billion in 2019
- 51 million adults used cash machines and 82% of them did so at least once a month
- Cheque volumes continued falling in 2019, accounting for less than 1% of payments made in the UK
- 72% of UK adults used online banking and 50% used mobile banking
- Bacs Direct Credit volumes fell by 3% to 2.0 billion
- Direct Debit volumes rose 3% to 4.5 billion
- The value of CHAPS payments decreased slightly to £83.4 trillion

*excluding CHAPS



£8,743 billion

total value of payments in 2019*



50%

of adults now use mobile banking



40.0 billion

total payments in 2019