

## **Submission from The UK Cards Association**

The UK Cards Association is the trade body for the card payments industry, representing card issuers and acquirers that facilitate the use of the UK's 56 million credit cards and 88 million debit cards. We represent our members to policy-makers, regulators, media and other stakeholders, helping to shape legal and regulatory developments; promote industry best practice; facilitate fraud prevention; and deliver collective innovation in ways which look to ensure improved outcomes for consumers and retailers.

We have not previously made any submissions to the Inquiry, but have read a number of the working papers with interest. In particular we are interested in your assessment of the relevant market, the extent to which credit cards are substitutable for payday loans and whether the credit card market has exerted a complete effect on pricing in the payday sector. To assist you in this analysis, I thought it might be helpful to share the most recent copy of our 'UK Plastic Cards' publication, which is the authoritative source for key cards market trends. There are a number of sections relating to credit cards which may be of interest, including (i) some key statistics (page 9); (ii) an APR distribution (12); (iii) credit card spending patterns (18-21); and (iv) a breakdown of credit card vs. other forms of consumer borrowing (22). These are all based on 2012 data. We are still a little way off finalising the report based on 2013 data and I will send it to you as soon as it is published.

Please also see below a link to a recent press release issued by the Association, which talks about outstanding balances on credit cards falling by some £8.9 billion in the last 5 years, despite a 20% rise in spending, as customers use their cards more wisely. You will note that we refer to a figure of £57 billion for credit card 'borrowing'. This is obviously significantly less than the £139 billion (2012) figure you quote for 'gross lending' on page 5 of your "Competition between payday lenders and other credit providers" – working paper. This figure includes full payer spending – e.g. those customers who are using their cards, but then paying off the full balance within 30 days without incurring interest.

[http://www.theukcardsassociation.org.uk/wm\\_documents/30012014%20Card%20debt%20release%20-%20FINAL%281%29.pdf](http://www.theukcardsassociation.org.uk/wm_documents/30012014%20Card%20debt%20release%20-%20FINAL%281%29.pdf)

Finally, I am able to provide the following information. This looks at some high-level key metrics from the perspective of (i) the overall credit card market; and (ii) the highest risk group – which we imagine might be an appropriate proxy for payday lending borrowers (source: Argus Information & Advisory Services LLC). For the purpose of some of the analysis that we have undertaken we segment accounts into 9 bands based on a simulated credit score of the cardholder. Around 5% of all credit card accounts are in the highest risk band.

	Overall	Highest Risk Group*
Average Balance	£1,198	£2,091
Average Credit Limit	£5,144	£2,816
Average Repayment	20.8%	4.8%
Average Credit Limit Utilisation	23%	75%

According to the figures quoted in the OFT's 2013 report *Payday Lending: Compliance Review Final Report*, the average payday loan is around £270, which is considerably lower than the balances shown in

the table. Further, the report states that a loan of £100 would cost around £25 on average (with a range of £14 to £51). Even with the highest rates in the credit card market (39.9% - and we know that fewer than 1.5% of credit card accounts have rates higher than this), and assuming minimum payment, the typical cost on a credit card would be around £8 (assuming repayment of £25 per month repaid in 6 months). One of the features of the credit card product is that it provides a degree of flexibility in terms of repayments. Consequently we have modelled a number of other scenarios as follows:

- Minimum cash payment £25 – cost £8, repaid in 6 months
- Minimum cash payment £20 – cost £9, repaid in 7 months
- Minimum cash payment £15 – cost £12, repaid in 9 months
- Minimum cash payment £10 – cost £19, repaid in 13 months
- Minimum cash payment £5 – cost £50, repaid in 31 months

The high cost of the last of these is entirely a function of the fact that the minimum payment in this case is never higher than £5 and the term is therefore considerably extended. We believe that typically where customers are being charged a higher interest rate they would have higher minimum payments. It is only in the most extreme example that the cost of borrowing would exceed that of a typical payday loan and only because the term of the credit card lending extended over a period of 31 months as opposed to a typical term of one month in respect of a payday loan.

Unfortunately we do not have data showing the average APR by risk group, but we do know that 59% of accounts in the highest risk group have an APR of 23% or more. This compares to 20% of all accounts. Only 6% of all accounts have an APR of 30% or more and 1.5% have an APR of above 39.9%.

Similarly, the OFT report states that around a third of loans are repaid late, or not at all – in Q2 2013, less than 4% of accounts were late with their payments.

We believe that this evidence goes a long way to demonstrate that these are considerably different from payday loans and are not substitutable. There is no evidence to suggest that payday lenders are adjusting their pricing to effectively compete with credit card issuers, who as we have demonstrated are offering eligible consumers, in almost all cases with a considerable lower cost borrowing alternative.

I hope the content of this note is helpful in providing some context.

Kind regards,

THE  
**UKCARDS**  
ASSOCIATION

# UK Plastic Cards 2013



Plastic cards are the most popular non-cash payment method in the UK. They allow cardholders to pay for goods and services easily and conveniently, and provide a secure alternative to cash and cheques. Today, most consumers pay for many of their purchases with a plastic card and most retailers accept plastic, as do an increasing number of professional service providers. The majority of purchases on the internet are made using plastic cards.

Plastic cards are issued by a variety of organisations such as banks, building societies and other financial services companies. The types of cards issued and their level of functionality vary from card issuer to card issuer and between the different card schemes under which the cards are issued. These include American Express, Diners Club, JCB International, Maestro, MasterCard and Visa. These card schemes are responsible for setting the rules that govern transaction processes and transmission of money between participants.

This report looks in detail at how plastic cards are held and used, and includes summary tables on cards in issue, the number and value of transactions, and point-of-sale terminals.

*UK Plastic Cards 2013* brings together information on how many cards we have and what we spend our money on, both in the high street and online. It also includes details of personal plastic card spending habits, and forecasts how our use of plastic is expected to change over the next ten years.

You may be interested in a series of publications from the Payments Council including *UK Payment Statistics*, *UK Payment Markets*, *UK Cash & Cash Machines*, *UK Automated Payments*, *UK Consumer Payments* and *UK Cheques*.

A glossary of terms used in this publication can be found at:

[www.theukcardsassociation.org.uk](http://www.theukcardsassociation.org.uk)

Colleagues working on behalf of The UK Cards Association will be happy to help if you have any queries regarding this publication.

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# UK Plastic Cards 2013

The UK Cards Association is the leading trade association for the cards industry in the UK. With a membership that includes all major credit, debit and charge card issuers, and card payment acquirers, the Association contributes to the development of legislative and regulatory frameworks; develops industry best practice; safeguards the integrity of card payments by tackling card fraud; develops industry standards; and co-ordinates other industry-wide initiatives across matters relating to both card payments and the provision of credit.

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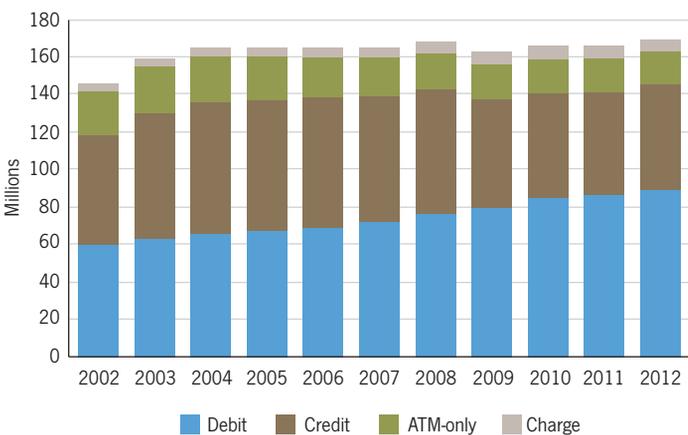
# 1. Overview of the UK Plastic Card Market

## 1.1 Number of cards in issue

The total number of plastic cards in issue increased by 2.0% leaving the end-year total at 169 million – following a marginal decline in 2011. This was driven by a rise in the number of payment cards which increased by 2.6% to 152 million.

Payment cards are defined as the total of debit, credit and charge cards. Meanwhile ATM-only cards declined by 2.6% to 17 million. This rise in the number of payment cards was in turn driven by the increase in the number of debit cards, which rose by 2.6% to 89 million. The rise in the number of debit cards has been driven by organic population growth and the increasing number of UK adults who continue to open bank accounts that offer debit cards. The number of credit and charge cards combined rose for the first time since 2005, increasing by 2.7% to 63 million. This increase could perhaps signify the beginning of a new growth cycle, although it is too early to say.

**Chart 1.1**  
Number of cards at year-end



Visa Debit cards dominate the debit card market. The number of Visa Debit cards increased by 4.8% to 84 million. This increased the Visa Debit share of the number of debit cards in issue from 93% to 95%. The number of Electron debit cards fell by 54% from 3.1 million to 1.4 million while the number of MasterCard debit cards increased, by 2.6%, from 2.8 million to 2.9 million.

At the top end of the market, gold and platinum cards decreased by 52,000 and 1.1 million respectively. Meanwhile, affinity cards decreased by 18% to 2.3 million and co-branded cards fell by 8.1% to 5.8 million. Historically rewards were associated with premium cards. However more recently, rewards have been available with standard cards. This could explain why the number of premium cards have been decreasing, despite an abundance of reward programmes in the market.

ATM-only cards – those that may be used only for withdrawing cash from cash machines, declined by 2.6% to 17 million, the ninth consecutive year of decline. The importance of these cards in mainstream banking has decreased in recent years, but they still play a part in the savings market.

A recent innovation in the plastic cards market has been the introduction of contactless technology which allows card payments to be facilitated in most cases without the use of a PIN. The number of plastic cards capable of being used in a contactless environment grew by 38% in 2012 to reach an estimated 31 million; this figure comprised 16 million credit cards and 15 million debit cards. The number of terminals accepting these cards also increased during 2012, ending the year on 144,000. This was driven by an increase in the number of high profile merchants who begun accepting contactless card payments. In June 2012 the maximum value for contactless payments increased from £15 to £20 bringing an additional 1.0 billion plastic card payments into scope with a value of £17 billion.

## 1.2 Number of cardholders

There were almost 47 million debit card holders in 2012. The number rose by over a million compared to 2011, broadly comparable to year-on-year growth since 2002. Debit cards can therefore be found in the wallets and purses of more than nine in ten adults. The reasons for this growth in the number of holders include a widening current account base, issuance of debit cards on basic bank accounts and population growth.

Despite widespread overall cardholding, some groups are more likely to hold debit cards than others. Almost all those in full-time employment have a debit card but those looking for work are less likely to do so. Higher household incomes also point to an increased likelihood of being a debit card holder. This is also true for use of the cards. Those better off and those in full-time employment tend to make more payments using debit cards than those out of work or those in lower socio-economic groups<sup>1</sup>. Younger users are both more likely to hold and to use debit cards than those at the top of the age spectrum.

As current account holding is now at over 90% of adults, population growth will be the main driver for growth in the number of debit card holders. New adults opening bank accounts are likely both to want and to get debit cards as a matter of course. It is probable they will see them as essential payment methods, having grown up seeing payments made this way.

<sup>1</sup>Further information on socio-economic groups can be found at <http://www.nrs.co.uk/lifestyle.html>

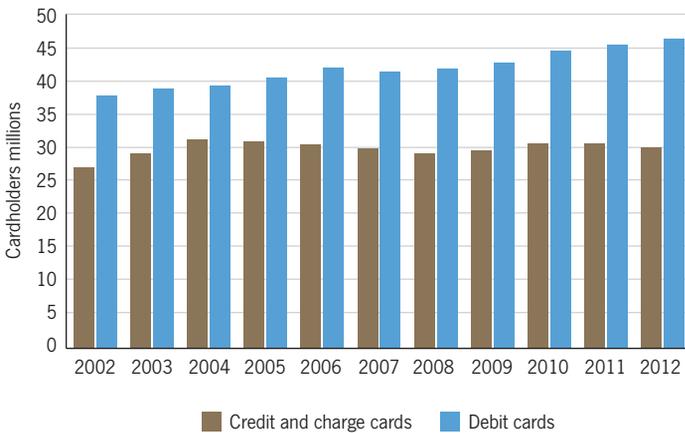
## 1. Overview of the UK Plastic Card Market

After growing steadily through to 2005 as the market expanded, the number of people with a credit card in the UK has been stable at around 30 million. In 2012 there were 30.3 million credit and charge card holders, or 61% of adults aged 18 plus. Cardholding varies significantly between socio-demographic groups. As might be expected, income is the strongest determinant. Nearly nine in ten people in households with an annual income of £50,000 or more have a credit card, and penetration falls as you move down the income spectrum to fewer than one in three people in households where the annual income is £10,000 or less. Another notable difference is that a higher proportion of men, 65%, have a credit card than women, 57%.

The profile of credit card holders is also ageing somewhat more rapidly than the population as a whole, reflecting in part greater risk aversion among younger generations as well as a stronger preference for debit cards. In 2012 41% of credit card holders were aged 55 and over, compared with 39% in 2007, and 34% in 2002.

The number of cards per cardholder rose modestly in 2012 compared with 2011, to slightly fewer than 2.0 per user. This may reflect the increased competition in the provision of balance transfers which would have encouraged greater card holding amongst some cardholders as they shifted their balance from one account to another. Overall, just under half of all cardholders have only one credit or charge card in their wallet or purse, and 29% have two. Only 5% of holders have five or more cards.

**Chart 1.2**  
Number of plastic card holders



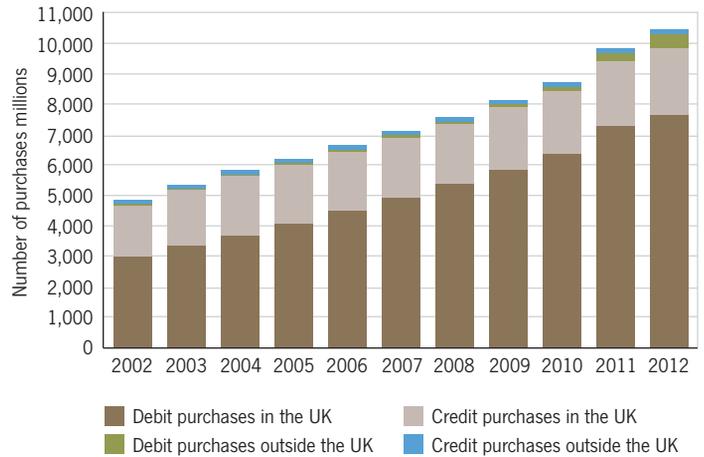
## 1.3 Card transactions in 2012

Card transaction activity consists of purchases and cash acquisition and both increased throughout the year for debit, credit and charge cards. Debit card transaction activity in 2012 was characterised by lower average transaction values (ATVs) and significant increases in spending overseas.

Total debit card transaction volumes increased by 6.1% to 10.8 billion in 2012 while corresponding values grew by 2.7% to £541 billion. Spending on debit cards within the UK grew by 0.9% to £337 billion while volumes grew by 4.7% to 7.6 billion. This resulted in a fall of the ATV from £45.66 in 2011 to £44.01 in 2012, indicating that debit card customers are spending less per transaction. The robust growth in debit card volumes was attributable to the ongoing migration of low value payments from cash.

Cash acquisition on debit cards in the UK increased by 3.4% in 2012 with £184 billion withdrawn from 2.7 billion transactions – giving an ATV of £69.51. A total of £5.4 billion was acquired from 50 million transactions outside the UK.

**Chart 1.3**  
Number of plastic card purchases



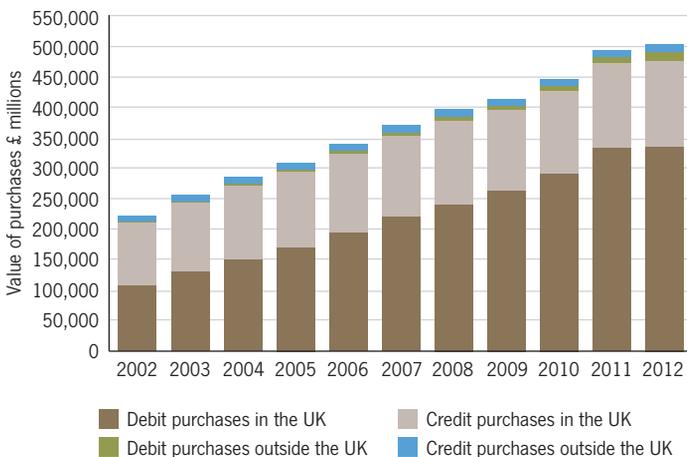
*Credit includes charge cards.*

Debit card spending outside the UK grew by 61% to £15 billion in 2012. There was also a significant increase in the number of debit card purchases outside of the UK which increased by 79% to 456 million. The annual increases in 2012 for both values and volumes represent record highs. With growth in purchase volumes exceeding values, the ATVs for spending abroad decreased from £36.43 in 2011 to £32.77 in 2012. The robust growth in overseas spend owes more to spending at online businesses registered abroad rather than use of the cards at the actual locations abroad.

Total credit card spending in the UK increased by 1.8% to £109 billion while volumes increased by 4.3% to 1.9 billion purchases. The majority of this increase was centred on MasterCard credit cards. The ATV for credit card purchases in the UK decreased to £58.79 in 2012 from £60.22 in 2011. Credit card purchase volumes outside the UK increased by 15% to 163 million while the total spend increased by 6.5% to £10 billion, decreasing the ATV from £68.89 in 2011 to £63.88 in 2012.

**Chart 1.4**

Value of plastic card purchases



*Credit includes charge cards.*

Charge card spending in the UK fell by 6.3% to £31 billion, down from £33 billion in 2011. Volumes remained unchanged at 346 million. This reduced the ATV from £95.74 to £89.56. Charge card spending outside the UK increased by 13% to £2.9 billion with volumes increasing by 14% to 20 billion, with an ATV of £142.68 in 2012 compared to £143.65 a year earlier. Similar to debit cards, strong growth in overseas transactions in credit and charge cards was driven by online spending.

During 2012 there were 32 million cash advances on credit and charge cards amounting to £3.9 billion. Putting this use of credit and charge cards into a broader context, the volume of cash advances was only 1.3% of all credit card transactions during 2012, which equated to 2.5% of the total value of transactions. The cost of using credit cards to obtain cash advances, relative to other methods of obtaining cash, effectively dis-incentivises the use of this service that has been declining for a number of years.

## 1.4 Credit card borrowings

Credit card borrowings have been in decline since 2005 following strong growth in the preceding decade. This trend was amplified with the onset of the financial crisis in late 2008 and the ensuing recession. However, there were tentative signs of improvement in the supply of credit card borrowings in the second half of 2012. Some lenders reported a cautious softening in credit scoring criteria, which was driven by market share objectives. Gross credit card lending was strong during the year, averaging just under £12 billion per month, which represented a year-on-year increase of 1.6%. This still represented a fall in real terms with general price inflation during 2012 averaging 2.8% based on the Consumer Price Index (CPI) or 3.2% for the Retail Price Index (RPI).

Most of this gross lending was channelled through transactors, cardholders who typically repay outstanding balances before the end of the interest free period. A survey conducted by the Payments Council estimated transactors made 81% of all credit and charge transactions in 2012. This was evident in the high levels of repayments with gross lending amounting to £131 billion during the year of which £129 billion was repaid. It is also likely that the uncertain economic climate and the continued squeeze on household disposable incomes was a factor behind the subdued demand for credit card borrowings. Net credit card lending, which is gross credit card lending less repayments, averaged approximately £87 million per month during 2012, down from a monthly average of £106 million in 2011. In fact this average has decreased in each subsequent year since 2008.

If anything households have been looking to reduce debt, choosing to defer non-essential large purchases and repaying debt where possible. This was partly reflected in the decline in credit card borrowings, which decreased for the sixth consecutive year, and in 2012 averaged £55.4 billion per month. This total can be split into two components: interest-bearing and non-interest-bearing. Around 40% of all outstanding balances in 2012 were non-interest-bearing – compared to 27% at the end of 2005. One factor contributing to this increase has been balance transfers on promotional rates, typically 0% interest, which can be available for a period of up to two years.

1. Overview of the UK Plastic Card Market

1.5 The future

Both debit and credit card payment volumes and values are forecast to increase substantially over the next 10 years. The combined total of payments in the UK is expected to almost double, from 9.9 billion in 2012 to 17.3 billion in 2022. Total values are expected to increase from £477 billion to £840 billion.

Most of the increase will come from debit cards, predominantly from consumers, as a number of factors converge to drive their use of the cards. New adults, many of whom will have grown up using debit cards with youth accounts, are likely to turn to the cards almost habitually to pay. The recent willingness to make small value purchases using debit cards is also expected to continue, fostered by greater holding and use of debit cards with contactless technology. Small business card acceptance is expected to increase and this will provide opportunities to pay sole traders, charities and small clubs.

Major technological change that allows debit card payments to be made using mobile phones and other devices is already available from some banks but it is expected to become much more widespread over the next decade. It is likely to appeal particularly to younger users and early adopters who may dispense with plastic cards altogether, using their phones instead.

Among businesses, too, there is likely to be growth in debit card use. Issuance will increase as banks look to support businesses' use of a broad range of payment methods and holding is expected to grow as business owners take personal payment behaviours to their firms. Increased acceptance among small firms, as described above, will provide some businesses more opportunities to pay suppliers by debit card.

Another major factor in increasing debit card volumes is expected to be the continued shift to online shopping. The weak economy has forced some well known high street retailers to close or transfer their business online and this move to online commerce is set to continue. The rapid growth in M-commerce will contribute to this trend. Debit cards will continue to be the principal way to pay online so growth in online shopping will directly affect volumes.

Debit card volumes are expected to grow to almost 14.0 billion in 2022. This would be almost twice as many payments as were made in 2012 and nearly five times the number recorded in 2002. Values are expected to reach around £620 billion.

Credit card volumes are forecast to increase steadily over the next decade. Recent years have seen a shift in the use of credit cards, from borrowers to transactors, who use the cards for everyday spending to accrue rewards on cards issuers' programmes. This has helped drive relatively strong growth in credit card volumes and this trend is forecast to continue. However, it should be noted that any regulatory intervention that reduces interchange fees may reduce the attractiveness of rewards programmes, which may necessarily affect volumes.

Borrowing tends to reflect the state of the economy and has therefore been subdued in recent years, reflecting the depressed economy. Consumers tend to be more willing to use credit cards as sources of short- or medium-term finance when confident about their futures. Such confidence is currently limited, but once the economy starts to grow strongly again, it is expected credit card borrowing will increase.

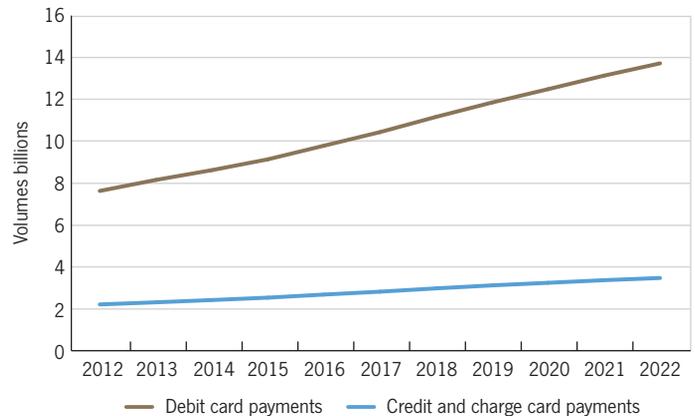
Contactless payments are expected to further boost credit card volumes by increasing the number of low value purchases made using credit cards. This will initially come from increased use of contactless cards but it is expected the next 10 years will also see growth from mobile contactless payments, perhaps among younger users and early adopters. It should be considered that the appeal of mobile payments may not be as strong among credit card holders as among debit card holders, as credit card holders tend to be older and may have grown used to paying by card.

There is also likely to be growth in the acceptance of credit cards. As with debit cards, most major businesses already accept card payments but the proportion doing so among small- and medium-sized businesses is much smaller. Recently launched devices and services aimed at these markets are likely to broaden the range of credit card acceptors. This will also engender growth, including for business-to-business credit card payments.

A weak economy also affects the market for commercial cards, which are often used for employee travel and expenses. This type of spending has fallen while the economy has been weak but it is likely to increase once it strengthens. Growth will also come from increased card holding by large organisations and the public sector, both of which may also be more inclined to increase travel and entertainment spending once they are more confident about their futures.

Credit and charge card purchases are forecast to increase to 3.5 billion transactions in 2022, up from 2.2 billion in 2012. Values are projected to rise to £214 billion from £140 billion in 2012.

Chart 1.5  
Plastic cards payment volumes forecasts



## Key Statistics 2012

### All cards

There were 169.0 million cards in issue – 56.4 million credit cards, 6.6 million charge cards, 88.6 million debit cards and 17.4 million ATM-only cards.

### Debit cards

Debit cards were used to make 7.7 billion purchases in the UK to a value of £337 billion.

The number of debit card holders increased by around a million compared to 2011. There are now almost 47 million cardholders.

91% of the UK adult population had a debit card in 2012. Those in employment are more likely to have one than those looking for work.

Multiple debit card holding continues to be rarer than multiple credit card holding. In 2012 almost two-thirds of cardholders had only one debit card.

In 2012 the average number of transactions passed the 200 mark for the first time. This reflects increased willingness to pay for small value purchases this way.

Debit cards accounted for 50% of the value of UK retail sales.

Debit cards were used 2.7 billion times to acquire £184 billion of cash in the UK.

The number of debit card payments made by UK cardholders in the UK is forecast to reach almost 14 billion in 2022, amounting to £626 billion.

### Credit and charge cards

Credit and charge cards were used to make 2.2 billion purchases in the UK to a value of £140 billion.

There were just over 30 million credit card holders in 2012, 61% of the UK adult population.

Cash advances on credit and charge cards continue to be at historically low levels and at the end of 2012 were at £3.9 billion.

Around two-thirds of credit card holders used their cards to make purchases once each month or more often.

On average, credit card holders made 68 payments in the year, spending £4,000. Those with a household income of £40,000 or more made 89 purchases, compared to 59 among those earning £10,000 or less.

The average value of a consumer credit card payment fell slightly from £61.13 in 2011 to £58.09 in 2012.

The number of credit cards per cardholder increased slightly compared to 2011 to slightly fewer than 2.0 per cardholder. However, just under half of cardholders have only one card.

81% of all credit and charge card spending in 2012 was made by cardholders who repaid the balance in full.

Around 40% of outstanding credit card balances bear 0% interest or are repaid in full each month.

Outstanding borrowing on credit cards has fallen from a peak of £67.4 billion in 2005 to £55.1 billion at the end of 2012, accounting for just 3.9% of the UK's total personal borrowing of £1.42 trillion.

UK credit and charge card purchase volumes are expected to grow to 3.5 billion in 2022, with a total spend of £214 billion in that year.

### Plastic card payments to UK merchants, retailers and service providers

UK merchants, retailers and service providers accepted 10.3 billion payments totalling £502 billion from customers using plastic cards (including cards issued worldwide used in the UK).

The food and drink sector (which includes supermarkets) received the largest proportion (34%) of plastic card payments with 3.5 billion payments amounting to £97 billion.

73% of all spending in the UK retail sector (including automotive fuels) was made using plastic cards, with debit cards accounting for 50% of the total spend.

### Internet card use

Online debit card spending passed online credit card spending for the first time. Debit card spending was £35 billion, compared to £34 billion on credit cards.

Total online card spending increased by £5 billion in 2012. Consumers spent £68 billion online last year – 15% of personal card spending.

Almost nine in ten used the internet for personal purposes in 2012, including 37% who did so using a mobile phone. 86% of users bought something online.

Online debit card volumes are almost one and a half times those of credit cards. Debit card volumes were 542 million in 2012, compared to 388 million credit card payments.

### Plastic card fraud

Fraud losses on UK-issued plastic cards increased by 14% between 2011 and 2012 to £388 million – an increase of £47.0 million.

## 2. Credit and Charge Cards

The term 'credit cards' is a frequently used generic description covering both credit cards and charge cards; similarly 'credit card holders' may refer to holders of credit cards or charge cards (or both). However, a distinction is made in a number of sections of this commentary between credit cards and charge cards, in particular where patterns of card usage differ. Where the term 'charge cards' is used in this publication it refers to all charge cards, together with credit cards issued under the American Express scheme. Net credit card lending refers to gross credit card lending net of repayments.

The figures used are referenced from a variety of sources including the full membership of The UK Cards Association, the Payments Council, The Office for National Statistics, the Bank of England and Argus Information & Advisory Services LLC.

### 2.1 Credit cards – overview

#### 2.1.1 Introduction

Over the past decade the market share of credit cards relative to debit cards has been declining steadily. However, focusing only on the decline in market share obscures the fact that credit and charge card use has been increasing over the past ten years with a 31% rise in the number of UK purchases and a corresponding 36% increase in their total value. However, a decade ago credit and charge cards accounted for 36% of all plastic card purchase volumes in the UK, a proportion that fell to 22% in 2012. Over the same period corresponding values decreased from 49% to 29%.

Despite this declining share of a growing plastic card market, there remain a number of cardholder benefits and inducements for consumers to use their credit cards as a means of payment. Surveys conducted by GfK NOP on behalf of The UK Cards Association found that on the whole a majority of cardholders express a very high degree of satisfaction with their credit cards, citing numerous benefits associated with their use. Some examples include the convenience of using the product both domestically and (increasingly) overseas, the reassurance and flexibility of having a financial safety net, the added security credit cards provide (particularly online), and a perceived greater ability to track spending compared to current account bank statements.

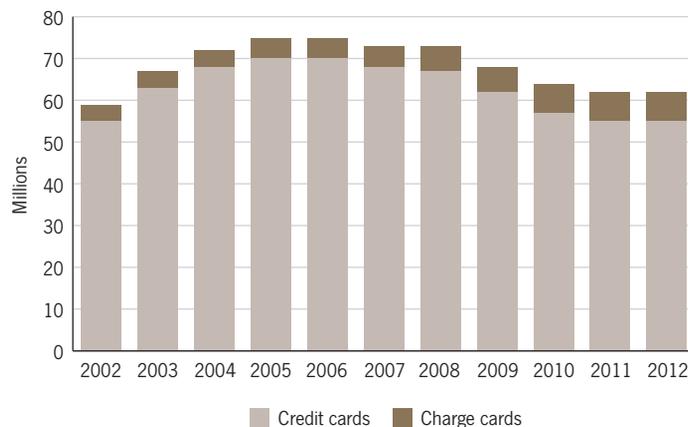
#### 2.1.2 Cards in issue

Between 2011 and 2012 there was an increase in the number of credit cards, but a decrease in the number of charge cards. At the end of 2012 there were 56.4 million credit and 6.6 million charge cards in issue in the UK. The number of credit cards rose by 3.6% whilst the number of charge cards fell by 4.7%. This is the first recorded growth in the number of credit cards since 2004 when the number of cards stood at a total of 69.9 million, and perhaps signifies the beginning of a new growth cycle. The fall in the number of charge cards follows on from a fall of 2.3% recorded in 2011. Despite these recent declines, the number of charge cards are still 49% above the figure recorded in 2004. The greater resilience of charge cards reflects a continued consumer preference for rewards that have been a common feature of charge cards, although increasingly many credit cards offer identical or similar loyalty schemes which are not necessarily exclusive to premium products. This may partly explain the decrease in the number of gold and platinum cards, which was offset by an overall increase in the number of standard MasterCard products, which are generally geared towards rewards and cashback.

Chart 2.1

Number of credit and charge cards in issue

Annual average



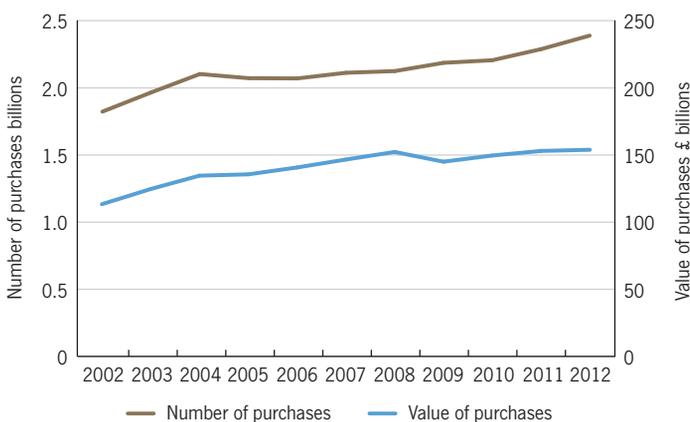
A recent innovation in the plastic card market has been the issuance of plastic cards with contactless functionality. These cards were first rolled out in 2007 and a total of 3.1 million credit cards with contactless functionality were issued in 2012. This increased the number of contactless credit cards in circulation to 15.7 million by the end of the year. In June 2012 the maximum value for a contactless payment also increased from £15 to £20. Acceptance of the cards is also growing. The landscape for acceptance of contactless cards expanded significantly in 2012. A number of high profile merchants began accepting contactless card payments including the Post Office, Marks & Spencer's, WH Smith, Greggs, Wilkinsons, Superdrug, M6 Toll, Co-operative stores and ASDA. More prominently in December 2012 Transport for London rolled out contactless acceptance on the London bus network and plans to start rollout on the rest of its network by the end of 2013. It is likely this increase in contactless acceptance will facilitate customer awareness and embed the technology in cardholder payment behaviour.

2.1.3 Transaction activity

The demand for personal credit cards has two main components: from transactors, who use their cards to take advantage of interest-free periods or other value-added benefits and typically pay off their balance in full and from borrowers, who use cards mainly for short-term financing. Transaction activity in 2012 was centred on growth in volumes with values subdued in comparison to 2011. High levels of growth were recorded in overseas purchases, which were mainly driven by spending at online businesses registered abroad rather than use of the cards at actual locations abroad.

Chart 2.2

Credit and charge card purchases



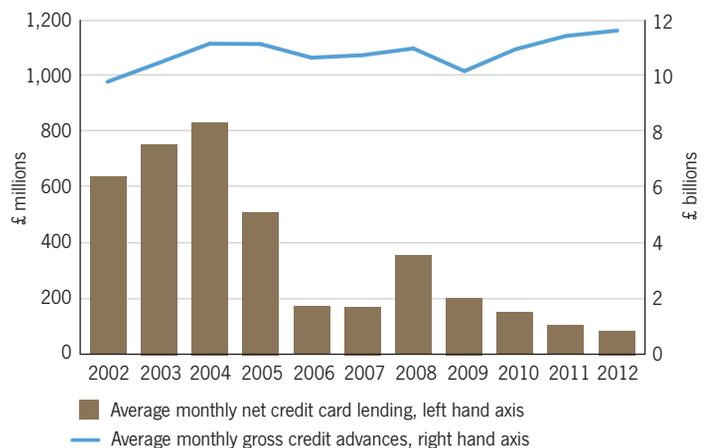
The cost of using credit cards to obtain cash advances, relative to other methods of obtaining cash, effectively dis-incentivises the use of this service. As such the frequency of use of this service has been declining over a number of years, a trend that continued into 2012. Only 1.3% of all credit card transactions during 2012 related to a cash advance, which equated to 2.5% of the total value of transactions.

2.1.4 Borrowings

Borrowings typically increase during periods of sustained economic growth. The decade to 2004 was such a period, recording a sustained increase in borrowings across most products, including credit cards. This was driven by increases in both the supply and demand for credit cards. Gross credit card lending, which is the amount advanced, increased from a monthly average of £4.0 billion in 1995 to £11 billion in 2004. This was matched by gross credit card lending net of repayments, or net credit card lending, which increased from a monthly average of £0.2 billion in 1995 to an average £0.8 billion in 2004. Net credit card lending not repaid in full before the end of the interest free period is effectively what would be termed as borrowings. Over this decade to 2004, borrowings increased from a monthly average of £13 billion in 1995 to £61 billion in 2004.

Chart 2.3

Comparison of average monthly gross and net credit card lending to individuals



Source: Bank of England series LPMVZQO and LPMVZQX

Credit card lending slowed down slightly during the years 2005 to 2008, as cardholders reined in their spending and increased repayments in response to worries about elevated levels of accumulated debt from the preceding years. Borrowings continued to increase until 2006, peaking at just under £70 billion. Thereafter these decreased until early 2008. The onset of the credit crunch in late 2008 and the ensuing recession further reduced credit card lending and borrowing as consumer demand fell away.

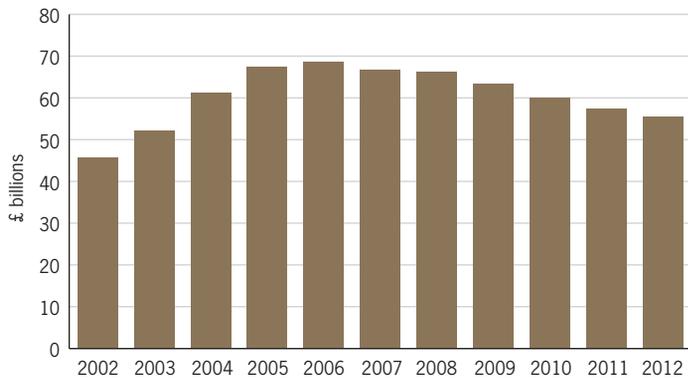
The very low interest rate environment since 2009 removed some pressure on disposable incomes for some cardholders giving rise to a new period of strong gross credit card lending – with a monthly average advance of £11 billion recorded since 2009. In 2012 alone gross credit card lending averaged just under £12 billion per month. A majority of this increase was channelled through transactors, as net lending, already in decline since 2005, did not register a corresponding increase. Subdued demand, and constrained supply in some segments of the market, for credit card credit and high levels of repayments since 2005 explains this divergence between gross and net credit card lending.

## 2. Credit and Charge Cards

**Chart 2.4**

Credit card borrowings

Annual average



Source: Bank of England series LPMVZRJ

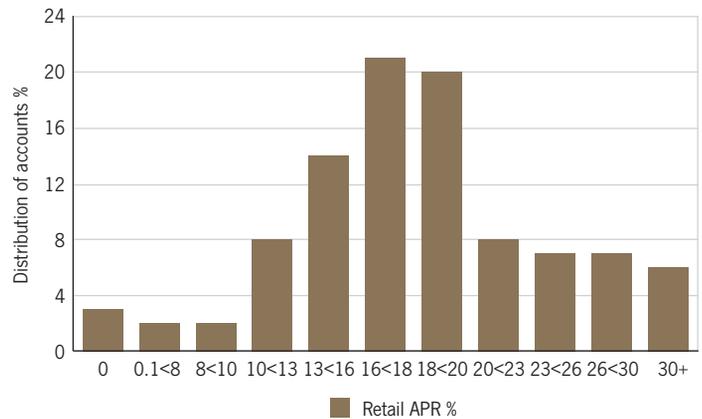
Taking repayments as a proportion of new lending, or a repayment ratio, gives a good indicator of the decision making of credit card users as to whether and to what extent they take the revolving credit that is available (revolvers) or whether they repay in full, effectively using their card only as a means of payment (transactors). Having touched a low of 92.5% in 2004, the repayment ratio has been on an upward trajectory and averaged 98.8% during 2012. Correspondingly, credit card borrowings peaked at a monthly average of just under £70 billion in 2006 and have subsequently declined each year, with the monthly average in 2012 at just over £55 billion. Credit card borrowings can be split into two segments, that which is interest-bearing and that which is non-interest-bearing. This is covered in more detail in section 2.7.1.

### 2.1.5 Interest rates

In recent years there has been regular comment highlighting the difference between the Bank of England base rate and the annual percentage rate of charge, or APR, for credit cards. An APR is used as a measure to compare the costs of borrowing and is a legal requirement for all credit products. Importantly, the APR on credit cards reflects the cost of funding an open-ended credit facility and other costs such as bad debt and fraud. As such the level of the Bank of England base rate has only a marginal bearing on credit card APRs.

**Chart 2.5**

Distribution of accounts by APR as at end 2012 Q3



Source: Argus Information & Advisory Services LLC

The Bank of England publishes a monthly weighted average interest rate<sup>2</sup> based on the advertised APRs of the credit card lenders – the weighting reflects the relative size of each lender’s business. At the end of 2002 this rate stood at 15.7%, touching a low of 15.1% in September 2007. This has steadily risen and stood at 17.3% at the end of 2012, unchanged on 2011. However being an average, this metric inevitably disguises differences in rates charged across the spectrum of the cardholding population.

### 2.1.6 Delinquencies

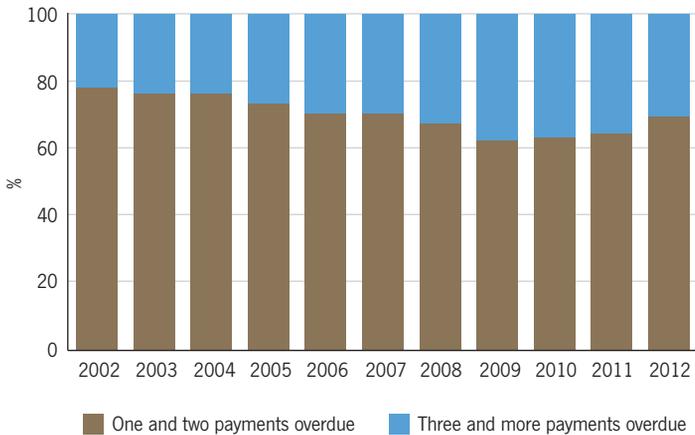
Improvements in the delinquencies have been evident since 2010 and continued into 2012, with the key drivers unchanged. These include an improving risk profile of the cardholding population, an aversion on the part of credit card holders to take on additional debt, and on-going industry measures put in place to assist those in financial difficulties. The monthly average of accounts up to six months overdue in 2012 stood at 0.9 million, below the average of 1.7 million recorded in 2011. This was within the context of an increase of just over one million in the number of active accounts to 32 million.

In value terms, slight improvements year-on-year have been apparent since 2010. The average value of a delinquent account up to six months overdue peaked at £2,898 in 2009, and has subsequently decreased in each successive year. At the end of 2012 this stood at £2,555. However, the data for accounts up to six months overdue do not provide the whole picture of the extent of delinquencies. Accounts that reach this stage are dealt with in various ways by card issuers, including the option of writing off the debt. Delinquent accounts can also be entered into repayment programmes with the agreement of both the lender and borrower.

<sup>2</sup>Bank of England series: IUMCCTL

**Chart 2.6**

Delinquent accounts up to six months overdue

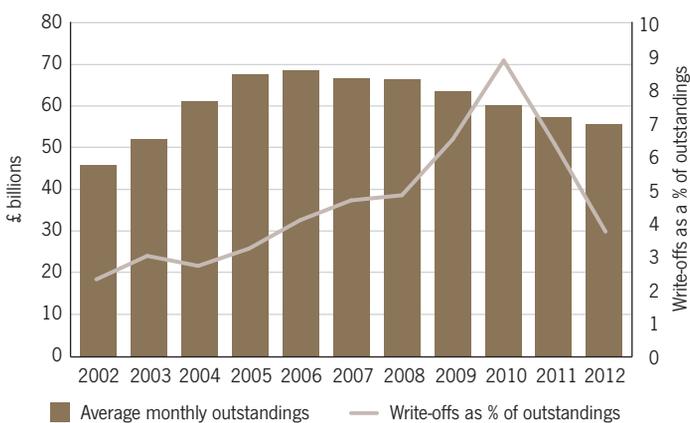


**2.1.7 Write-offs**

Following a sustained increase over a number of years levels of write-offs have been declining since 2010. Over the course of 2012, write-offs amounted to approximately £2.1 billion, which accounted for 3.7% of average monthly borrowings. Comparative figures in 2011 were £3.6 billion and 6.4% respectively. Looking further back write-offs worsened progressively each year through most of the last decade touching a high of £5.3 billion in 2010, representing 8.9% of borrowings. The decline in this proportion since 2010 is perhaps a reflection of the improving picture in delinquencies discussed in the previous section.

**Chart 2.7**

Write-offs as a percentage of credit card borrowings



Source: Bank of England series LPMVZRJ and RPQTFHE

<sup>3</sup>Source: The Payments Council

**Credit card profiles**

The data used in these profiles are provided by Argus Information and Advisory Services LLC.

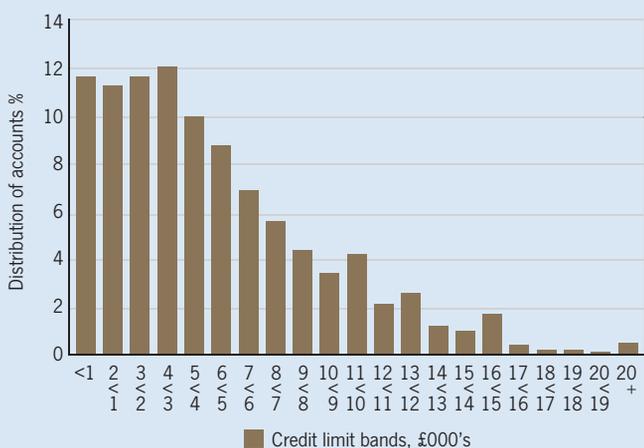
**Credit card limits**

All credit card applications are vetted to assess the lending risk. If the application is successful, the card issuer will issue a card and set a credit limit. Limits tend to be modest initially and may increase as the relationship between the borrower and lender becomes more established. Industry figures showed that at the end of the third quarter of 2012 the average credit limit on all active credit card accounts was approximately £5,100. Just under 12% of all accounts had a limit under £1,000, 45% between £1,000 and £5,000 with the remainder being over £5,000. About 14% of cardholders have a credit limit of over £10,000. Typically these would be high-income earners and consequently high spenders. It is also likely that these cardholders would be using their cards to facilitate their spending and repay in full before the end of the interest free period. These cardholders are commonly referred to as transactors.

**Credit card payments**

Card providers stipulate a minimum monthly repayment, typically around 3.0% of the outstanding balance, although in 2011 the industry introduced a new minimum payment calculation for new card accounts. This stipulated monthly repayments cover all fees and charges for the month plus 1% of the outstanding balance. Cardholders have a choice to pay off the full amount or spread payments over an extended period. Payment behaviour can be placed into distinct categories. Transactors usually repay outstanding balances in full before the end of the interest free period. Partial payers are those who occasionally repay the full balance on at least one of their cards. Revolvers typically pay more than the minimum repayment but less than the full repayment on at least one of their cards. Finally there are minimum payers who tend to pay only the minimum repayment on at least one of their cards. Minimum payers could include those borrowing on an introductory 0% interest rate. Data from the Consumer Payments Survey<sup>3</sup> estimates the approximate split of these categories in 2012 were transactors 59%, revolvers 20%, partial payers 10%, and minimum payers 11%. More details on the nature of credit card holders can be found in section 2.3.

**Distribution of accounts by credit limits as at end 2012 Q3**



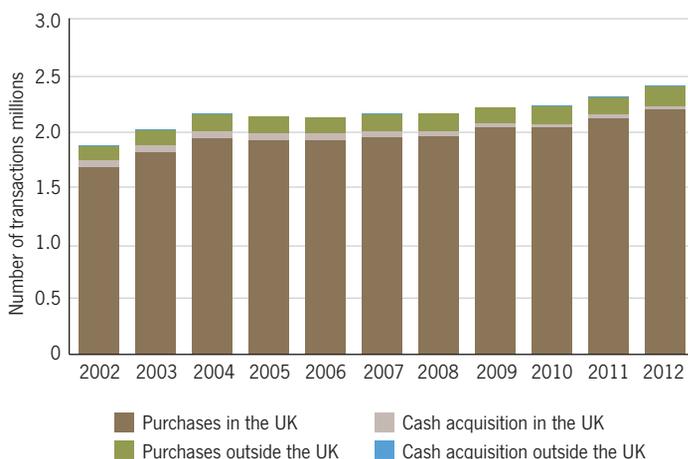
## 2. Credit and Charge Cards

### 2.2 Credit and charge card transactions

Credit and charge cards can be used for purchases or cash acquisitions. Transactions not fully repaid before the end of the interest free period translate to borrowings. While borrowings continued to be subdued in 2012 purchases continued to grow, particularly on MasterCard credit cards which are generally geared towards rewards and cash back. The total number of times credit and charge cards were used increased by 4.3% in 2012 to 2.4 billion. The aggregate value of these transactions grew more slowly, increasing by 0.4% to £157 billion. The Consumer Payments Survey estimated approximately 81% of all credit card spending in 2012 was attributable to transactors, virtually unchanged in 2011. Transaction activity was still heavily geared towards purchases compared to cash acquisition. In 2012 the number and value of purchases as a proportion of total spending stood at 98.7% and 97.5% respectively.

**Chart 2.8**

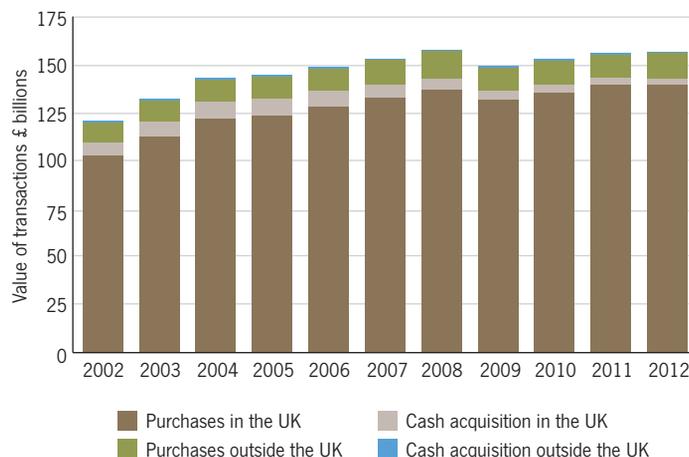
Total volume of transactions on credit and charge cards



Credit and charge card purchases in the UK grew by 3.6% to 2.2 billion. Corresponding values decreased by 0.1% to remain at a rounded total of £140 billion. One factor driving growth in volumes has been the increasing prevalence of online shopping. This is backed by figures published by the Office for National Statistics which estimated the average weekly online spend in December 2012 at approximately £0.8 billion<sup>4</sup>. This represented an increase of approximately 16% compared with December 2011 and equated to approximately 11% of all retail spending excluding automotive fuel. The combined effect of increasing volumes, savvy online shopping and the continuing squeeze on household disposable incomes decreased the ATV of credit and charge cards purchases by £2.46 to £63.31 – the lowest level since 2004. It is also likely that contactless payments – limited to £20 per transaction – are beginning to apply downward pressure to the ATV of these cards.

**Chart 2.9**

Total value of transactions on credit and charge cards



Credit and charge card purchases in the UK grew by 3.6% to 2.2 billion which was in contrast to values which decreased slightly by 0.1% to remain at a rounded total of £140 billion – the ATV decreased by £2.38 to £73.61. As previously stated a majority of the spend was centred on MasterCard credit cards, which are generally geared towards the premium end of the market where rewards programmes are a common feature. Volumes for UK purchases on these MasterCard products grew by 5.9% to 1.3 billion following on from a growth rate of 9.1% to £1.2 billion in 2011. Corresponding values grew by 3.3% to £76 billion following on from an increase of 14%, or £73 billion, recorded in 2011. The annual average spending per MasterCard credit card in the UK increased marginally to £2,094. This figure increased significantly by 14% between 2010 and 2011 to a figure of £2,088 and was most likely driven by transactors chasing rewards and cash back. Growth rates for volumes and values, for UK purchases across most other product lines, were either subdued or negative with the exception of the spend on Visa charge cards which grew by 2.5% to £7.0 billion.

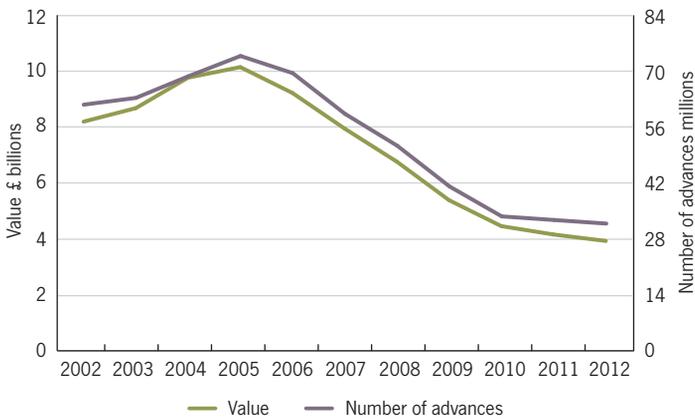
Credit and charge card purchases outside the UK grew by 15% to 0.2 billion while corresponding values increased by 7.8% to £13 billion. These high levels of growth in overseas spend owes more to spending at online businesses registered abroad for example Amazon and iTunes, rather than use of the cards at actual locations overseas. The ATV for overseas purchases decreased by £4.42 to £72.70. However overseas purchases still remain a small proportion of the total, accounting for 7.7% of volumes and 8.7% of values in 2012.

The cost of using credit cards to obtain cash advances, relative to other methods of obtaining cash, effectively dis-incentivises the use of this service that has been declining for a number of years. The number of cash advances fell by 2 million to 31 million in 2012, while the total amount advanced fell by £0.2 billion to £3.9 billion. Putting this use of credit cards into a broader context, the volume of cash advances were broadly unchanged on 2011 and accounted for 1.3% of the total volume of transactions. The value of cash advances were slightly down on 2011 and accounted for 2.5% of the total value of transactions. The number of cash advances in the UK decreased by 2.2% to 27 million with corresponding values declining by 5.3% to £3.3 billion. Similarly overseas cash advance volumes decreased, falling by 4.5% to 4.4 million with values falling by 6.7% to £0.6 billion.

<sup>4</sup>Source: <http://www.ons.gov.uk/ons/rel/rsi/retail-sales/december-2012/stb-rsi-december-2012.html#tab-Internet-Sales>

**Chart 2.10**

Total cash advances on credit and charge cards

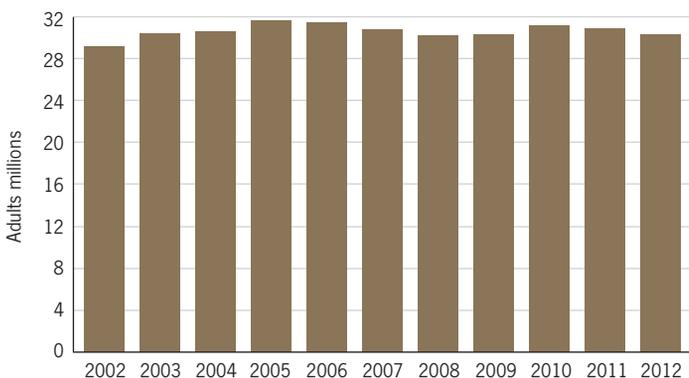


### 2.3 Personal credit card holding and use

After growing steadily through to 2005 as the market expanded, the number of people with a credit card in the UK has been stable at around 30 million. In 2012 there were 30.3 million credit and charge card holders, or 61% of adults aged 18 plus. Cardholding varies significantly between socio-demographic groups. As one might expect, income is the strongest determinant. Nearly nine in ten of people in households with an annual income of £50,000 or more have a credit card, and penetration falls in line with income to fewer than one in three people in households where the annual income is £10,000 or less. Another notable difference is that a higher proportion of men (65%) have a credit card than women (57%).

**Chart 2.11**

Number of credit and charge card holders

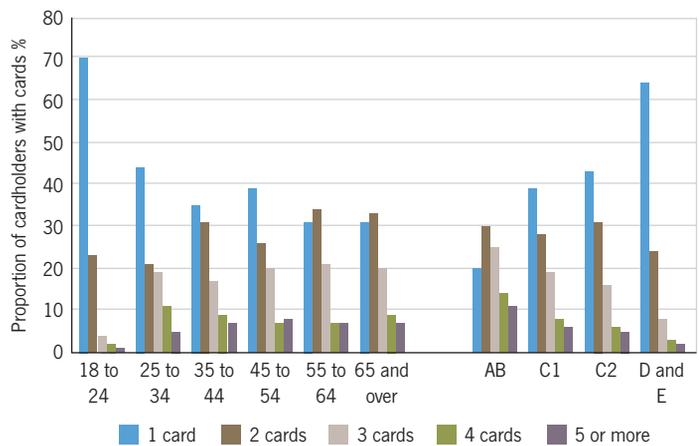


The profile of credit card holders is also ageing somewhat more rapidly than the population as a whole, reflecting the greater risk aversion and stronger preference for debit cards with the younger generation. In 2012 41% of credit card holders were aged 55 and over, compared with 39% in 2007, and 34% in 2002.

The number of cards per cardholder rose modestly in 2012 compared with 2011, to fractionally fewer than two. This may reflect the increased competition in the provision of balance transfers which would have encouraged greater card holding amongst some cardholders as they shifted their balance from one account to another. Overall, just under half of all cardholders have only one credit or charge card in their wallet or purse with 29% having two. Only 5% of holders have five or more cards.

**Chart 2.12**

Multiple credit cardholding by demographic group 2012



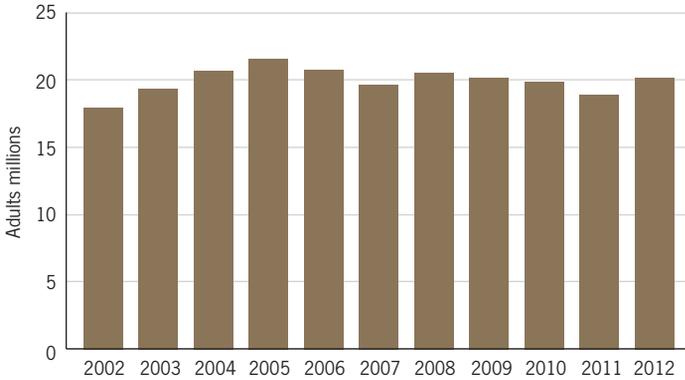
Multiple card holding is quite polarised, with cardholders in the higher socio-economic and higher income groups much more likely to have more than one credit card than those in groups D and E. Older cardholders are more likely to have more than one card than younger adults.

There has been little change in repayment habits over the last few years. In 2012 59% of credit card holders paid off the full balance on their cards each month and a further 10% usually paid it off. Life stage is one of the main drivers of repayment behaviour. Looking by age, cardholders aged 25 to 44 are the least likely to be full payers, with 42% doing so, which reflects the need to borrow if the family has children or is moving up the property ladder. In contrast, over 80% of cardholders aged 65 and over are full payers, as older people are more averse to debt and may also have lower outgoings.

2. Credit and Charge Cards

Chart 2.13

Regular users of credit cards for purchases



Reflecting the subdued nature of the credit card market over the last eight years, the number of people who regularly use credit cards for purchases (i.e. use their credit card at least once per month) has been stable over that period at around 20 million.

In 2012 each cardholder made 68 purchases on average spending just under £4,000. The average value of a consumer credit card purchase fell significantly last year to £58.09 from £61.13 in 2011. This may reflect the squeeze on consumer spending last year, with consumer deferring large value purchases such as electrical goods or holidays. Growth in contactless payments will also have reduced the average value of a credit card purchase.

As might be expected, cardholders who have higher incomes make more payments than those with less money to spend. Credit card holders in households earning £40,000 or more per annum made on average 89 credit card payments last year, compared with 59 payments by cardholders in households with an income of £10,000 or less.

2.4 Personal credit and charge card products

Personal credit cards, in this instance, refer mainly to credit and some charge cards that are either standard, gold, platinum, affinity and co-branded, but exclude business and purchasing cards. There have been some variations in issuance of these various groups of products, but overall the total number of personal cards in issue increased by 2.0% to stand at 60 million by the end of 2012.

MasterCard and Visa standard cards in issue increased by 3.4 million. The number of gold cards decreased by 52,000, or 0.8%, leaving 6.4 million in issue. The number of platinum cards in issue decreased by 8.2% to stand at 13 million. The number of affinity cards decreased by 18% to 2.3 million, while co-branded cards fell by 8.1% to 5.8 million.

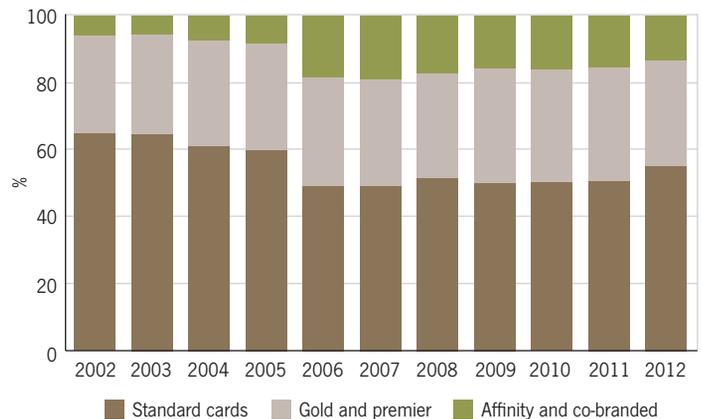
Following the decline in issuance, the number and value of transactions on platinum cards decreased sharply. The number of transactions declined for the first time in a decade, falling by 27%. Corresponding values declined at a slower rate falling by 24%. Consequently the ATV increased from £66.07 to £68.65.

Transactions on gold cards, which include credit and charge cards, continued to decrease as volumes and values declined by 12% and 13% respectively. This marginally reduced the ATV from £69.94 to £69.38.

It is likely that rewards are no longer exclusive to premium products such as platinum and gold cards, which may explain the decline in transaction activity. It is likely some of this transaction activity has transferred to standard MasterCard products, which are generally geared towards reward programmes.

Chart 2.14

Personal credit and charge cards\*: card types as a percentage of total



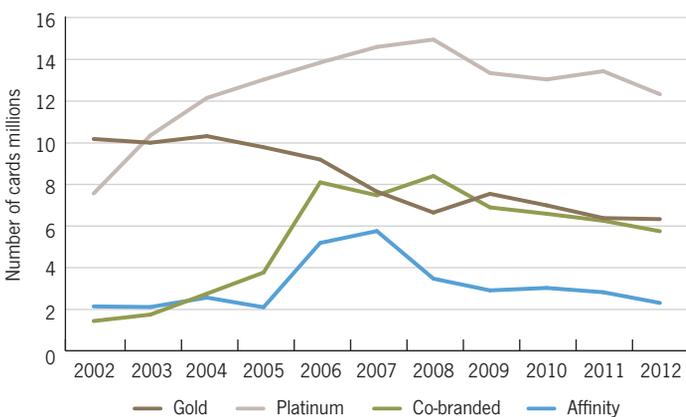
\*Refers only to cards issued under the MasterCard and Visa schemes

Co-branded cards are scheme badged and linked to specific companies or retailers, such as airlines or department stores. There are a wide variety of rewards available in the market, making these cards attractive to loyal customers. However, transaction activity has been declining in recent years due to a decline in the number of cards in issue. In 2012 the number of transactions using co-branded cards declined by 17% to 168 million, while corresponding values declined by 19% to £10 billion. This follows respective falls of 0.5% and 1.9% in 2011. Falls in the ATV have been less acute in recent years however, falling from £63.54 in 2011 to £61.71 in 2012.

Affinity cards are credit or charge cards issued by financial institutions that offer specific benefits as a result of a partnership with other organisations, and come in various types. These include reward cards where the points earned are linked to the affinity partner. Some examples include football club cards that allow cardholders to spend points on official club merchandise and travel cards where points or frequent flyer miles are earned to get free flights or other travel rewards. Some reward cards can also be used as a channel for charitable donations where at no cost to the cardholder a payment is made, by the card issuer, to a nominated charity for each transaction made using the card. Examples of donation cards include National Trust, RSPCA, Breakthrough Cancer and WWF. Most of the affinity products currently on the market are donation credit cards.

Similar to co-branded cards the decline in the number of cards in issue has reduced transaction activity using affinity cards. The number of affinity card transactions declined by 12% in 2012 after falling by 6.2% in 2011 while the value of transactions declined by 20% in 2012 after declining by 0.6% in 2011. This reduced the ATV from £69.50 to £63.28 in 2012.

**Chart 2.15**  
Credit and charge cards: product types other than standard  
At year-end



## 2.5 Business and purchasing cards

There are three main types of non-debit cards for businesses; business credit cards, corporate charge cards and purchasing cards. There were 2.1 million business credit and charge cards in circulation at the end of 2012. These cards were used to make 149 million purchases amounting to approximately £16 billion, equating to an average transaction value (ATV) of £110.

Business credit cards are used by businesses of all sizes particularly those at the smaller end of the spectrum. Increasingly these cards are becoming a preferred method for business-to-business payments for smaller firms most likely due to the guarantee and protection provided by credit cards under Section 75 of the Consumer Credit Act. There were 0.7 million business credit cards in circulation at the end of 2012, which were used to make 33 million purchases amounting to £3.3 billion. This equated to an ATV of £101.

Another recent development has been the increasing use of prepaid business credit cards as an alternative to cash and cheques. Rewards are linked to some prepaid cards particularly in the travel segment, with access to VIP lounges at airports and discounted travel insurance being two notable examples.

Corporate charge cards are predominantly used by medium and larger firms, which typically supply the cards to their staff to manage and control travel, entertainment and other discretionary expenses. There were 1.5 million charge cards in circulation at the end of 2012. These were used to make 116 million purchases amounting to £13 billion, with an ATV of £113.

Purchasing cards are typically used by the public sector and some very large businesses for travel, entertainment and low-value purchases. There were approximately 0.4 million purchasing cards in circulation at the end of 2012. These were used in 13 million transactions during the year amounting to £2.1, with an ATV of £165.

Perhaps the biggest benefit of business and purchasing cards is the wealth of management information they can provide to businesses or institutions, which can be used to plan, control or monitor operations in a number of ways including streamlining procurement processes, invoicing and managing cash flow.

## 2. Credit and Charge Cards

### 2.6 Credit card spending patterns

Where credit cards are used is evident from the Card Expenditure Statistics (CES)<sup>5</sup> that are reported to The UK Cards Association by merchant acquirers, i.e. those banks and other institutions that process plastic card transactions on behalf of businesses and enterprises in the UK. These data are divided into 12 categories (shown in pie charts); the grey shaded categories encompass retailers which together very closely correspond to the Retail Sales sector published by National Statistics, and the brown-shaded categories correspond to the services sector. There is a step change between 2010 and 2011 due to a change in the reporting population introduced in 2011. This change expanded the coverage of CES.

As at end 2012 the coverage was 99.8% by volume and 98.8% by value. A more detailed breakdown is available from The UK Cards Association. These data are available monthly throughout the year; details can be found at:

<http://www.theukcardsassociation.org.uk/2012-factsfigures/index.asp>

UK merchants, retailers and service providers received credit card payments totalling £154 billion in 2012; the total number of purchases was 2.4 billion giving an average transaction value (ATV) of £64.47. Comparative figures in 2011 amounted to £150.9 billion from 2.3 billion purchases giving an ATV of £66.90. Retail sales spending in 2012 amounted to £81.5 billion spread over 1.6 billion purchases with spending on services amounting to £72.6 billion spread over 761 million purchases.

Total credit card spending grew by 2.1% with growth rates in retail sales and services at 3.5% and 0.7% respectively. Corresponding growth rates in volumes were significantly higher at 6.0%, 5.0% and 8.2% for the total, retail sales and services respectively, decreasing the overall ATV by £2.43 to £64.47. Factors contributing to this robust growth in volumes could be the increasing prevalence of online spending and the continuing squeeze on household disposable incomes.

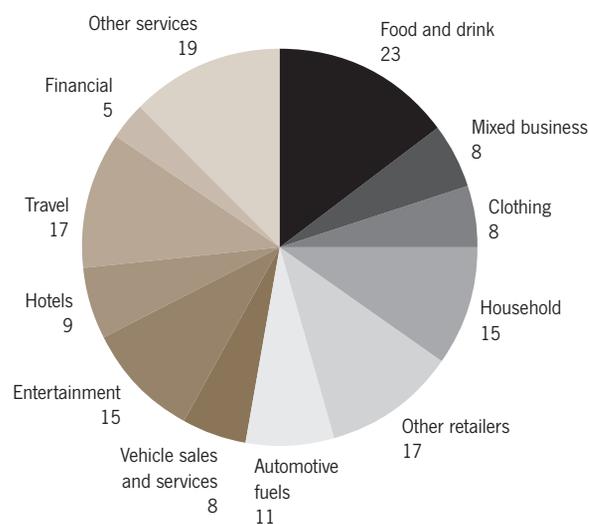
The retail sales sector recorded an ATV decrease of 73p to £50.00, which compares to a decrease of £7.12 to £95.41 in services. Within retail sales only the food and drink recorded an ATV decrease (87p) which was a likely reflection of sustained price competition between the major supermarkets. Another factor driving this fall could be the growing prominence of smaller supermarket chains that predominantly specialise in offering cheaper products.

The fall in ATVs in services was spread across all sub-sectors with the exception of other services. Financial services were down by £31.45 to £183.72 with vehicle sales & services down by £9.41 to £141.20. There were also ATV falls across the 'leisure' sub-sectors with entertainment down by £4.93 to £47.58, travel down by £4.28 to £135.53 and hotels down by £2.02 to £167.80. When general price inflation is taken into account, (CPI was 2.8% and RPI was 3.2%) falls in ATVs were more pronounced.

**Chart 2.16**

Spending on credit cards (£ billions) by sub-sector 2012

Total £154 billion



Credit card spending accounted for approximately 23% of total plastic card spending in volume terms, up by one percentage point compared to 2011. In value terms the proportion was 31%, down one percentage point on 2011. Five years earlier these figures stood at 27% and 34% respectively. The loss of market share to debit cards, in an otherwise expanding plastic card market, owes more to the migration of payments from cash and cheques towards debit cards.

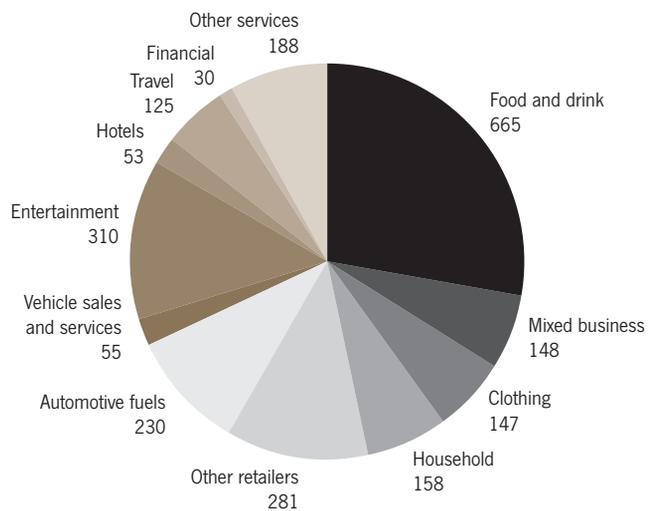
The food and drink sub-sector continued its dominance as the most popular place for credit card usage posting growth of 11% to 665 million purchases and represented 28% of all credit card transaction volumes. Corresponding values grew by 8.1% to £23 billion and accounted for 15% of total credit card spending. Supermarkets account for 99% of this sub-sector and these figures highlight the continuing strength of these businesses.

<sup>5</sup>The acquirers' figures cover all Visa and MasterCard plastic card sales in the UK and include transactions made on foreign-issued cards, for example, by tourists and other visitors to the UK. The CES data (reported at monthly intervals) are seasonally adjusted at the aggregate sector (e.g. retail sales) and sub-sector levels (e.g. food and drink, other services), but data for individual merchant categories (e.g. restaurants, supermarkets) are unadjusted

**Chart 2.17**

Number of credit card purchases (millions) by sub-sector 2012

Total 2,390 million



The next most popular sub-sector for credit card usage was entertainment, which grew by 16% to 310 million purchases and accounted for 13% of all credit card volumes during the year. Entertainment comprises of 14 merchant categories with restaurants accounting for approximately 50% of volumes. Other significant categories include gambling (15%), sporting & games establishments (10%), public houses (9%) and cinema & theatre (7%). These five categories accounted for approximately 284 million purchases in 2012, up from 245 million in 2011.

Compared to volumes, spending on entertainment grew more slowly by 5.2% to just under £15 billion. Spending in the five major categories increased by £0.6 billion to just over £11 billion – with notable increases in restaurants, public houses, and sporting & games establishments which registered respective growth

rates of 6.6% to £6.0 billion, 13% to £1.2 billion and 15% to £1.2 billion.

The majority of spending linked to The 2012 Olympic Games was in the entertainment sub-sector, though this is difficult to quantify.

'Other retailers' is one of two sub-sectors that recorded a decline in transaction volumes in 2012. These decreased by 5.4% to 281 million purchases with values down by 4.7% to £17 billion. This was perhaps a reflection of the subdued economic climate given this sub-sector comprises of 25 merchant categories which are in the main predisposed to discretionary spending. The largest categories in other retailers in 2012 were chemists and direct sales (mail order, telephone and internet sales). Other prominent categories include miscellaneous & speciality shops, sports shops, book & magazine sales, and gift shops. These six categories together accounted for just over 70% of credit card purchases totalling 199 million with a value of £10 billion. This compares to respective figures in 2011 of 204 million purchases amounting to £11 billion. The most significant decline in transaction activity, relative to other categories, were recorded in the music shops and record shops an indication of the challenging economic climate of this business sector.

Credit cards were used for, on average, 26% of all plastic card spending on automotive fuels in the UK in 2012 (excluding fleet and fuel cards). Volumes grew by 3.5% to 230 million while values grew by 4.3% to £11 billion. This increased the ATV by 37p to a record £45.99 and was a reflection of the increase in the price of fuel, despite the 'price war' competition between the major supermarket chains in the second half of the year.

The other sub-sector showing a decline in credit card transaction activity was financial services, which declined by 8.6% by volume and 22% by value. This sub-sector is dominated by insurance services, financial institutions cash disbursements and financial institutions products & services, which combined accounted for 90% of all volumes in 2012. All three categories recorded falls in volumes and values.

The three tables that follow show the top ten merchant categories for credit card use during 2012, and the comparable figures for 2011, ranked according to the number of purchases, the total amount spent, and the average value of a transaction.

**Table 2.1**

Comparing top ten merchant categories for credit card usage in 2012 and 2011 – based on number of purchases

Location	2012			2011		
	Purchases (millions)	Value (£ billions)	ATV (£)	Purchases (millions)	Value (£ billions)	ATV (£)
Supermarkets	609	20.7	34.05	559	19.5	34.93
Automotive fuels	230	10.5	45.94	221	10.1	45.58
Restaurants	156	6.0	38.85	136	5.7	41.72
Family clothing	92	4.6	50.01	92	4.3	46.45
Department stores	73	4.7	63.78	73	4.4	59.68
DIY stores	71	5.0	70.82	73	5.0	69.52
Railways	65	2.9	44.32	61	2.7	44.49
Hotels	53	8.9	167.50	51	8.6	169.99
Gambling	47	1.1	24.35	40	1.3	32.98
Miscellaneous foodstores	45	1.4	30.33	31	0.9	29.80

## 2. Credit and Charge Cards

**Table 2.2**

Comparing top ten merchant categories for credit card usage in 2012 and 2011 – based on value of purchases

Location	2012			2011		
	Value (£ billions)	Purchases (millions)	ATV (£)	Value (£ billions)	Purchases (millions)	ATV (£)
Supermarkets	20.7	609	34.05	19.5	559.36	34.93
Automotive fuels	10.5	229	45.94	10.1	221.48	45.58
Hotels	8.9	53	167.50	8.6	50.82	169.99
Travel agents	6.1	18	334.02	6.3	18.08	349.18
Restaurants	6.0	156	38.85	5.7	135.95	41.72
Airlines	5.7	19	297.70	5.3	17.75	296.12
DIY stores	5.0	71	70.82	5.0	72.58	69.52
Department stores	4.7	73	63.78	4.4	73.66	59.52
Family clothing	4.6	92	50.01	4.3	85.24	50.31
Insurance services	3.5	20	174.05	4.3	21.91	196.15

**Table 2.3**

Comparing top ten merchant categories for credit card usage in 2012 and 2011 – based on average transaction value

Location	2012			2011		
	ATV (£)	Purchases (millions)	Value (£ billions)	ATV (£)	Purchases (millions)	Value (£ billions)
Tax payments	812.78	0.32	0.39	1,000.62	0.26	0.26
Employment agencies	800.46	0.27	0.34	738.20	0.24	0.33
Tax preparation services	487.27	0.00	0.00	308.16	0.00	0.00
Non-FI's – foreign currency, travellers' cheques	390.87	0.18	0.47	367.39	0.12	0.33
Funeral services	388.19	0.16	0.42	1,050.27	0.13	0.13
Floor covering stores	338.38	0.70	2.07	341.14	0.66	1.932
Travel agents	334.02	6.08	18.21	349.18	6.31	18.08
Security brokers and dealers	332.09	0.09	0.28	283.21	0.09	0.31
Legal services	330.94	0.24	0.72	339.69	0.23	0.67
Miscellaneous entertainment	308.07	2.24	7.28	309.07	2.25	7.29

FI's denotes financial institutions

Compared to 2011 the top eight rankings by volume were unchanged with direct sales and chemists relegated from the table. The most popular location for credit card purchase volumes was at supermarkets (food and drink products) which recorded an increase of 8.9% to 609 million. Notably there was a fall in the ATV, which as previously mentioned perhaps reflected the continued price competition between the major supermarket chains, coupled with the growing prominence of the smaller supermarkets who are geared towards price discounts. Almost all other locations recorded increased volumes with the exception of DIY stores, which recorded a decline of 2.7% to 71 million and department stores, which held steady at 73 million. Restaurants posted a 15% increase to 156 million purchases continuing an upward trend observed over the past decade. The ATV for restaurants has been declining in recent years, a trend which continued into 2012. This decreased by £2.87 to £38.85 in 2012 and perhaps indicates that the majority of the increasing volumes were concentrated at the cheaper end of the market.

Similarly the top eight rankings by value were unchanged, the difference being insurance services and family clothing switching places. The majority of credit card spending in 2012 was on food and drink products at supermarkets with a recorded spend of £21 billion, which represented an increase of 6.1% on 2011 and continued a trend observed over the past decade. It is likely rewards and loyalty points on offer on credit cards issued by the major supermarket chains are increasingly driving a significant proportion of spending in this category. Most merchant categories recorded increased spending with the exception of travel agents and insurance services, which recorded falls of 3.2% and 19% respectively. Despite the difficult trading climate spending at department stores increased by 6.8% to £4.7 billion though this could be attributable to the businesses with strong online trading platforms.

There was a significant change in the rankings based on ATVs between 2011 and 2012. Tax payments moved up one place to top the table despite a sharp fall in ATV from £1,000 to £812. Tax payments along with employment agencies breached £800, which were significantly higher than the next ranked merchant category, tax preparation services which climbed ten places with an increase in the ATV from £308 to £487. Another notable change was in funeral services, which fell from top rank in 2011, driven by the sharp fall in the ATV from £1,050 to £388 (though this may be due to a re-classification in this merchant category). Locations dropping out of the top ten were telegraphic money transfers, cash disbursements and sea travel which were replaced by miscellaneous entertainment, security brokers and dealers and tax preparation services.

Notably rankings according to ATV comprise of a number of services that entail unforeseen but essential expenses e.g. employment agencies, funeral services and legal services, which in essence encapsulates one of the core attractions of the credit card product in that it provides financial flexibility. One other benefit of the product is the protection credit cards afford under Section 75 of the Consumer Credit Act 1975, which would be pertinent to expenses relating to floor covering stores, security brokers and travel agents (despite surcharging).

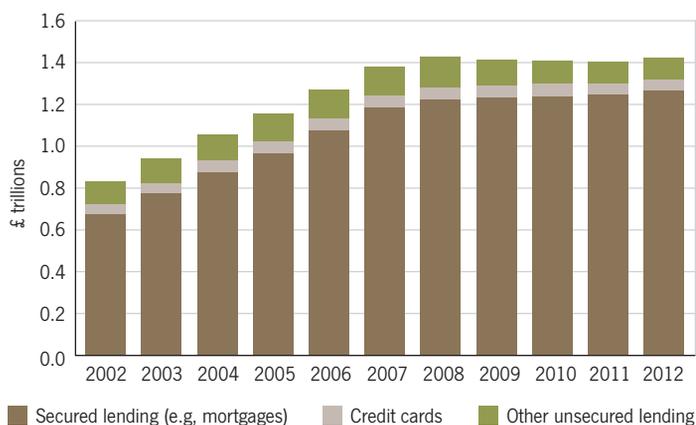
## 2.7 Borrowings

### 2.7.1 Overview

This section looks at credit card borrowings within the context of borrowings across other credit products. Other aspects covered are repayments of borrowings and delinquencies. Total consumer credit borrowings (excluding student loans) increased by £16 billion to £1,421 billion during 2012. This was mainly driven by an increase of £20 billion in borrowings on secured lending, perhaps a reflection of an improving mortgage market. In contrast, borrowings on unsecured lending fell by £3.8 billion. This was split between other consumer credit (£3.1 billion) and credit card credit (£0.7 billion) indicating consumers preference to reduce debt during the year.

Chart 2.18

Borrowings (excluding student loans) at year-end



Source: Bank of England series LPMBZ2A, LPMVZRJ and LPMB4TS

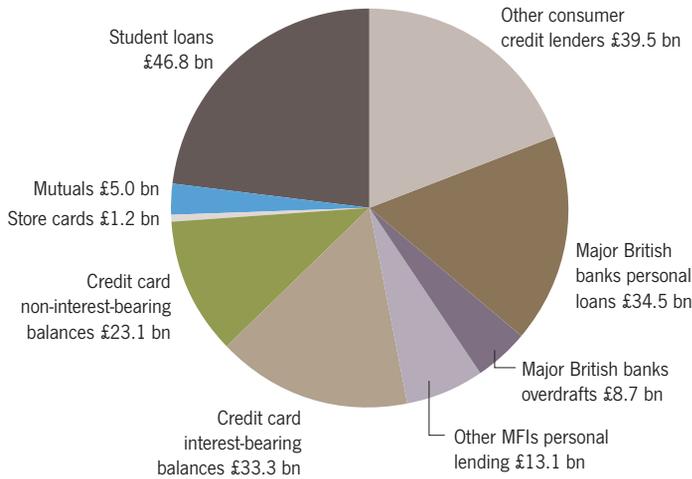
The make-up of unsecured consumer lending at the end of 2012 is depicted overleaf and shows the outstanding amounts of the various components of borrowings. The figure for credit cards is split between delayed payments, representing those advances that are repaid in full before the end of the interest free period, and borrowing, representing the amount of advances where cardholders are taking extended credit. Over a five-year period to the end of 2012 total consumer credit borrowings fell from £219 billion to £205 billion, albeit with some offsetting movements among the components.

## 2. Credit and Charge Cards

**Chart 2.19**

Consumer credit borrowings as at end-2012

Total £205 billion

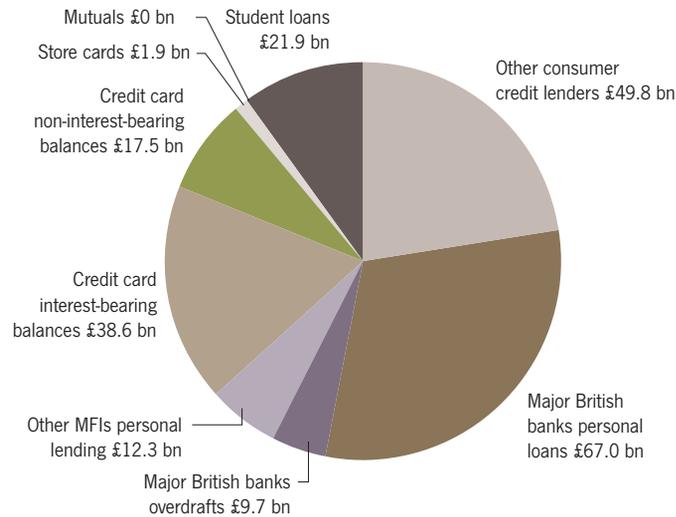


Sources: British Bankers' Association, Finance & Leasing Association, Bank of England (LPMVZRE), National Statistics. Not seasonally adjusted. The figure for student loans are from the Student Loans Company relates to the financial year 2011/12. Credit card data relate to MFIs that issue credit cards; other issuers of credit cards fall within other consumer credit lenders.

**Chart 2.20**

Consumer credit borrowings as at end-2007

Total £219 billion

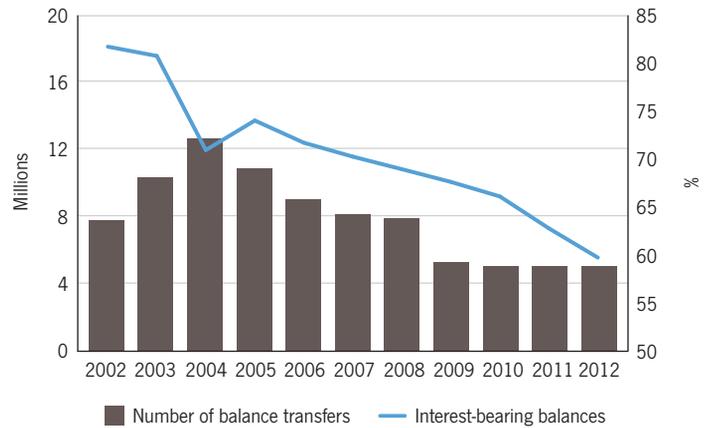


Sources: British Bankers' Association, Finance & Leasing Association, Bank of England (LPMVZRE), National Statistics. Not seasonally adjusted. The figure for student loans relates to the financial year 2006/07. Credit card data relate to MFIs that issue credit cards; other issuers of credit cards fall within other consumer credit lenders. Data for mutuals are unavailable in 2007 and 2008.

As previously mentioned in section 2.1.4, credit card borrowings can be split into two segments – interest-bearing and non-interest-bearing. The latter segment includes accounts bearing 0% interest and those that are repaid in full before the end of the interest free period. During 2012 the amount of non-interest-bearing balances increased slightly by £0.2 billion to just over £23 billion. This represented approximately 41% of total credit card borrowings in 2012, up from a figure of 31% recorded in 2007. This upward trajectory stretches back to 2005 and has been driven by a combination of factors, which include constrained credit card spending and high levels of repayment. Additionally there is some evidence suggesting a correlation between the take up of balance transfers bearing 0% interest and the increase in non-interest-bearing balances and by implication the decline in interest-bearing balances.

**Chart 2.21**

Relationship between balance transfers and interest-bearing balances



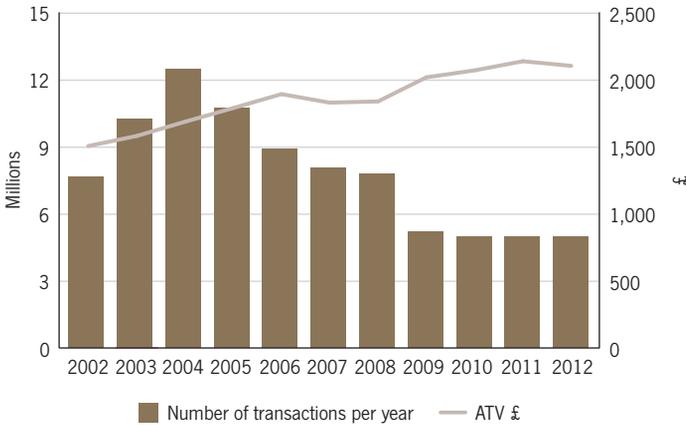
Source: Bank of England, British Bankers Association

Balance transfers first became a feature on credit cards in 2000 and quickly became a leading marketing tool for gaining new business. Having peaked in 2004 the number of balance transfers declined in each subsequent year, with the rate of decline increasing in the aftermath of the financial crisis in 2008. Despite these declines the gradual lengthening of the promotion period meant that the impact of balance transfers could last for a period of up to two years. The cumulative effect of this would have continued to apply downward pressure to interest bearing balances over the period between 2004 and 2012.

It is worth noting balance transfer activity picked up in 2011, which was a reflection of increased competition for market share. This gathered pace in the second half of 2012, with some lenders reporting a cautious loosening in credit scoring criteria in some segments of the market. In 2012 balance transfers amounted to £10.9 billion from 5.1 million transactions. The average amount of a balance transfer in 2012 was approximately £2,100, unchanged from the preceding three years.

**Chart 2.22**

Number and value of balance transfers



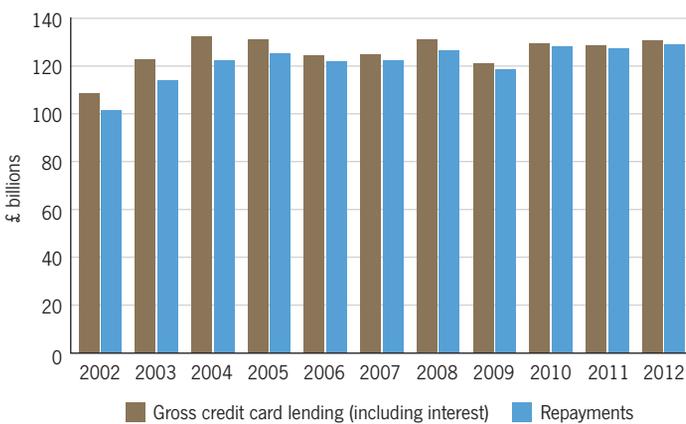
Source: British Bankers Association

**2.7.2 Repayments**

The repayment ratio refers to repayments as a proportion of new lending and is a good indicator of the decision making of credit card users as to whether and to what extent they take on revolving credit (revolvers) or whether they repay in full, effectively using their card only as a means of payment (transactors). During 2012 the repayment ratio was 98.8% of gross credit card lending (including interest and other charges), with gross lending amounting to £131 billion of which £129 billion was repaid. The ratio was broadly unchanged on 2011 which recorded advances of £129 billion of which £128 billion was repaid.

**Chart 2.23**

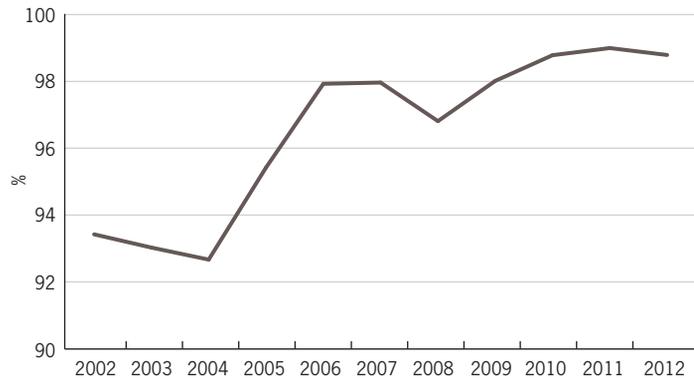
Gross credit card lending and repayments



Having reached a low of 92.5% in 2004, the repayment ratio has since been on a sustained upward trajectory, with an average in excess of 98.0% since 2009. This upward trend correlates with the decline in interest-bearing balances and was driven by similar factors which include the subdued demand for credit card credit, the availability of balance transfers on promotional 0% interest, alongside the continuing influence of transactors.

**Chart 2.24**

Average annual repayment ratio of gross credit card lending



A further factor that may be influencing the rise in the repayment ratio has been the adoption of changes to the minimum repayment calculation. From the beginning of 2011, minimum repayments on newly opened accounts must cover at least the total of any interest charges, fees, plus 1% of the outstanding balance. Some card issuers have also extended this requirement to apply to existing 'back book' accounts.

**2.7.3 Delinquencies**

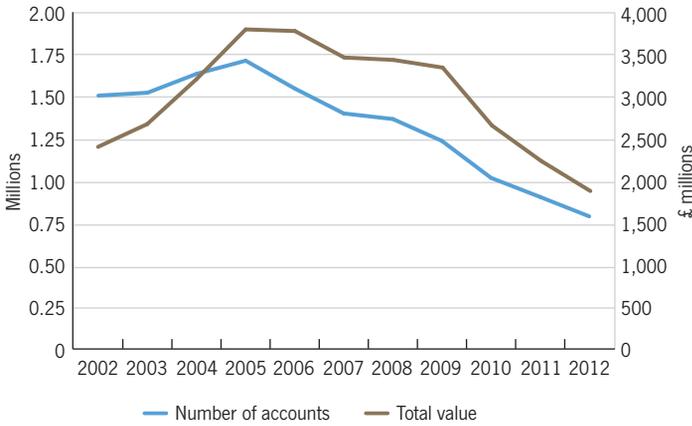
There was continued improvement in delinquencies in 2012, driven by a number of factors. These include an improving risk profile of the cardholding population, an aversion on the part on credit card holders to taking on additional debt, and on-going industry measures put in place to assist those in financial difficulties.

The number of accounts where three consecutive repayments have been missed peaked in 2005 at 1.7 million with a total owed of £3.8 billion. Since then there has been a steady improvement, which gathered pace in 2010. By end-2012 the number of these accounts fell to 0.8 million amounting to £1.9 billion. The average value of an overdue account in this category fell slightly by £78 during the year to £2,397. This average peaked at £2,713 in 2009.

2. Credit and Charge Cards

Chart 2.25

Accounts up to three payments overdue, average for the year

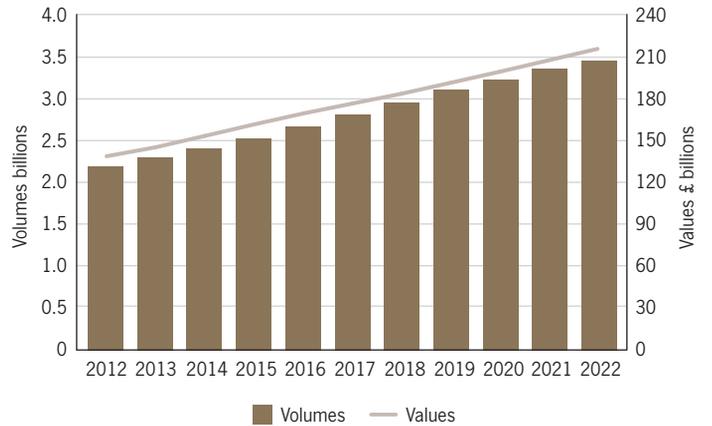


As 2012 progressed, there were also improvements in the number of personal insolvencies and an easing in mortgage repayment problems. Personal insolvencies had fallen to a four-year low by the end of 2012 indicating an improving financial position of the household sector, despite the squeeze on real disposable incomes. Although it is encouraging to see falls in these indicators of personal debt problems, there remain worries that some cardholders may continue to face repayment difficulties if the current economic downturn continues. However, the period since 2010 has recorded a significant reduction in the number of accounts with up to three missed repayments, and the combination of consumer reluctance or inability to borrow, a low interest rate environment, and card issuers' pro-active stance towards debt management may be a good guide to the short-term future.

2.8 Credit card forecasts

Chart 2.26

Credit and charge cards: UK purchase forecasts



The demand for personal credit cards has two main components: from transactors, who use their cards to take advantage of interest-free periods or other value-added benefits and typically pay off their balance each month, and from borrowers, who use cards mainly for short-term financing.

Competition between suppliers of products for the transactor segment of the market is likely to remain strong, and demand for these products will continue to be a major driver of growth in credit card use. However, there is an uncertainty associated with the future of interchange rates which remain the subject of scrutiny from regulators in the UK and Europe. If interchange rates were to fall this could feed through into lower rewards, or reductions in other value-added benefits. This would in turn reduce the attractiveness of cards to transactors and put downwards pressure on use by these cardholders.

The demand to borrow had been in decline although there were signs of a modest pick-up in the second half of 2012. It remains to be seen if this represents a return to growth in the market as consumer confidence is fragile and the economic environment is very volatile. Looking further out, credit cards provide a flexible borrowing tool and as stability returns to the economy and consumers become more confident about their employment and income prospects, it is likely that there will be consistent growth in the demand for credit card borrowing. Suppliers' risk appetites may also return to more normal levels, promoting the supply of credit card credit.

A return to a more stable economic environment, coupled with growth in real disposable income, may also promote greater use of credit cards for high value discretionary purchases. Whether this translates into a reversal of recent years, where the average purchase value has been falling, will also depend on other factors such as growth in low value purchases via contactless technology.

The continued adoption of contactless acceptance in retailers, and wider issuance of cards and other form factors, including mobile phones, should boost low value credit card payment volumes over the forecast period. In 2013 and 2014 major national retail chains will begin accepting contactless payments and Transport for London will begin the roll out of card acceptance across its transport network by the end of 2013. A number of banks will also increase their issuance of credit cards with contactless functionality, which should also boost the case for further merchant acceptance. All of these factors should provide further help towards making contactless a trusted mainstream payment service.

The plastic card is just one way in which consumers can make transactions on the account with their issuer. Consumers are already well-used to making payments over the phone and storing their card details with merchants on the internet such as iTunes and Amazon. E-wallets which securely store payment details on their PC or mobile device and offer one-click payment solutions may promote more card use online and through mobile phones. There is considerable innovation in this space from a range of players including card issuers, mobile network operators and other providers such as Google and PayPal. Alongside storing payment information, e-wallets provide opportunities for loyalty and mobile marketing. One notable development is the V.me initiative from Visa, which will be available to issuers in the UK from the summer of 2013. MasterCard is also developing its PayPass Wallet solution for its issuing members.

Mobile contactless has the potential to have a huge impact upon credit card use, with the mobile phone a secure form factor for payments of all values. It represents the next wave in innovation beyond cards with contactless technology. Mobile contactless applications are already out there in the marketplace or under development, and these solutions leverage the expanding terminal base for contactless transactions. The majority of the population already have smartphones, many smartphones are contactless-enabled and holding is continuing to expand rapidly. Transacting through your mobile device is the natural way of doing things for a growing number of people. The demand for mobile contactless payments can only grow. Although mobile contactless may grow the overall market for credit card payments, it should also be recognised that many of the payments made through mobile phones will represent transactions that would have taken place with a different form factor.

Contactless also provides the opportunity to embed a chip into any object such as the Barclays PayTag sticker, and the market may see continued innovation in the use of different form factors. One example is the Barclays PayBand, where visitors to the 2012 Wireless Festival were given a contactless-enabled wristband which allowed fast entry to the site and cashless payments for goods and services at the event.

It's possible to see the end of the road for plastic as mobile phones, wallets and other ways to pay take over. Although the elimination of the plastic card will not happen within the forecasting period it is possible that within the next ten years a growing number of early adopters and of the new generation of customers will be making many or all of their payments on their credit card accounts using other form factors. But it should not be forgotten that many credit card holders are aged 55 and above and are comfortable using a card at the point-of-sale. It remains to be seen how strong the adoption of mobile payments will be among this group.

Smart phones are also presenting opportunities for increased card acceptance. There has been a lot of innovation in this space with a number of entrants to the UK market seeing the opportunities to provide card acceptance services to tradespeople, mobile businesses and other organisations such as charities fundraising away from their main offices.

Across commercial cards, growth is expected to be steady over the forecast period to 2022. Some of the main opportunities lie with large organisations in the private sector and public sector, including local authorities, taking advantage of the saving opportunities that card programmes can deliver. However, there is increasing competition in this space through alternative solutions such as prepaid cards, which provide a direct cap over spending by staff. Reputational issues may also affect the appetite for commercial cards in the public sector.

The main forecast is that total UK credit and charge card purchase volumes will increase to 3.5 billion in 2022, with total spend in that year of £214 billion. This compares with 2.2 billion payments and a total value of £140 billion in 2012.

### 3. Debit Cards

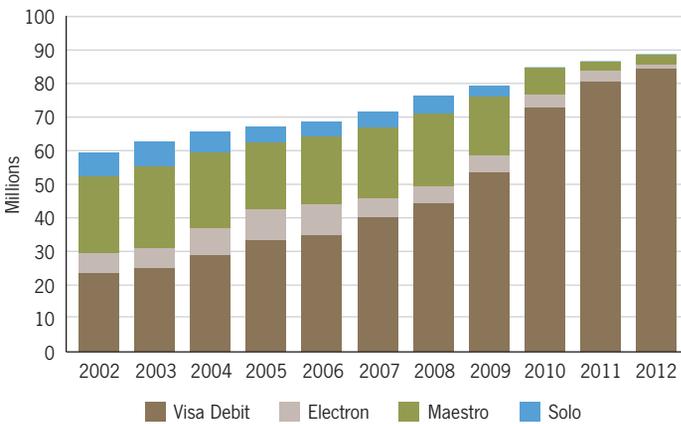
#### 3.1 Debit cards – overview

The number of debit cards in issue and overall debit card usage increased in 2012. The number of debit cards increased by 2.6% to 89 million. Visa cards accounted for 85.7 million, 97% of all debit cards. The migration from Visa Electron to Visa Debit continued in 2012. The number of Visa Debit cards increased by 4.8% to 84 million representing the largest share of debit cards. The number of Visa Electron cards decreased by 54% to 1.4 million while the number of MasterCard debit cards increased by 2.6% to 2.9 million.

A recent innovation in the plastic card market has been the issuance of plastic cards with contactless functionality. These cards were first rolled out in 2007 and a total of 5.4 million debit cards with contactless functionality were issued in 2012. This increased the number of contactless debit cards in circulation to 15 million by the end of the year. In June 2012 the maximum value for contactless payments also increased from £15 to £20.

During the year, the landscape for acceptance of contactless cards expanded significantly. A number of high profile merchants began accepting contactless card payments including Post Office, Marks & Spencer’s, WH Smith, Greggs, Wilkinsons, Superdrug, M6 Toll, Co-operative stores and ASDA. More prominently in December 2012, Transport for London rolled out contactless acceptance on the London bus network and plans to start roll out on the rest of its network by the end of 2013.

**Chart 3.1**  
Number of debit cards in issue showing card types

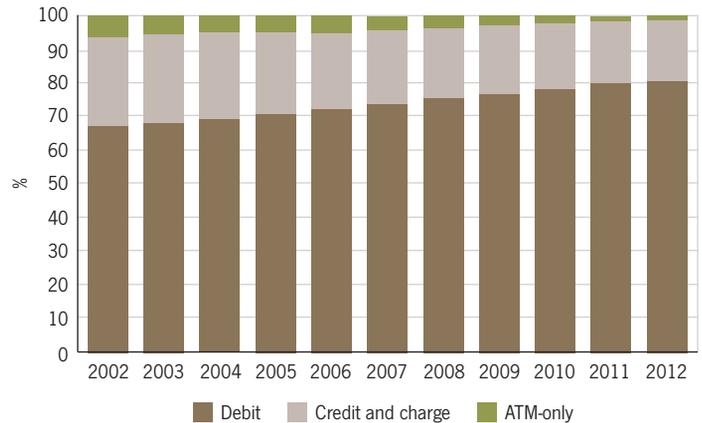


In 2012 the combined value of all debit card transactions (purchases and cash acquisitions) increased by 2.7% to £541 billion. Of this, £337 billion was spent on purchases in the UK after growth of 0.9% throughout the year. This follows annual average growth rates of 8.8% for all debit card volumes and 11% for spend on UK purchases in the preceding five years. The reduction in 2012 growth rates may indicate an end to the elevated increases observed for previous years, but it is too early to say.

Cash acquisition in the UK increased by 3.4% to £184 billion with a backdrop of general price inflation at 2.8% CPI or 3.2% RPI during the year. There are several factors that may have contributed to this increase: a continuing preference to use cash; the greater number of free-to-use cash machines deployed in locations such as supermarkets, convenience stores and social and leisure facilities; a continuing preference to use cash as a budgeting tool in the prevailing uncertain economic climate; and a drive by some supermarkets to re-direct cash acquisition from their tills to cash machines.

There was a marked increase in overseas spending, which grew by 61% to £15 billion after increasing by 30% in 2010 and 25% in 2011. The contrast between growth rates in domestic and overseas spending can be attributed to an increase in online spending by debit cards. Specifically this would include increased spending on goods and services offered by online businesses registered abroad such as Amazon, iTunes and Google. In contrast cash acquisition outside the UK fell by 4.9% to £5.4 billion following an 11% decline in 2011.

**Chart 3.2**  
Card transactions\* as a percentage of the UK card market



\*includes cash acquisition

During 2012 there was an increase of just over one million in the number of people holding debit cards. This brought the total number of holders to just below 47 million. Increased debit card holding in the decade to 2012 has fed through to higher debit card use. Another factor boosting debit card usage has been an on-going migration from other forms of payment including cash, cheques and credit cards.

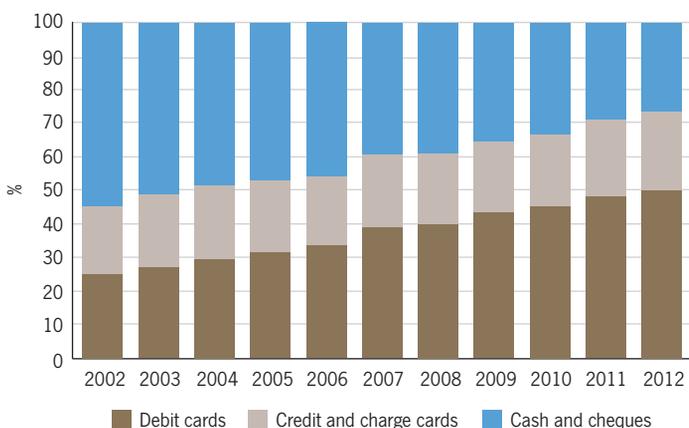
The continued gradual penetration into the low value transaction market where cash predominates has been a consistent theme over the past few years. The average purchase in the UK retail sector using a debit card fell for the fifth consecutive year. It fell by 9p to stand at £31.12 in 2012 and compares to a figure of £32.89 at the end of 2007. Growth in contactless payments – limited to £20 per transaction – will also have contributed to the decrease in the average value of a debit card payment.

In 2002 the ratio of debit card to credit card spend in the UK in terms of the value of purchases made was 51% to 38% respectively. By 2012 the debit card share had increased to 71%. Over this period, debit card spending more than doubled, greatly exceeding growth in credit card spending.

Retail sales are a significant sub-set of total spending in the UK, and the data illustrates the increasing use of debit cards in this sector over many years. In 2002 the value of retail sales represented by plastic card purchases was 45%, with debit cards at 25% and credit cards at 20%. By 2012 the plastic card share of retail sales had grown to 73%, with debit cards at 50% and credit cards at 23%. There are no data available to produce comparable figures for the service sector.

**Chart 3.3**

Retail Sales: proportions using debit cards, credit & charge cards, cash and cheques



A contributory development that has aided the migration to plastic cards from cash and cheques has been the increased deployment of point-of-sale terminals. In the decade to 2012 the number of terminals increased at an elevated rate bringing the total number from 811,000 in 2002 to 1.6 million by the end of 2012. Combined with an increase of 64% in the total number of outlets accepting plastic cards, which brought the total to over 1 million, the coverage of plastic cards acceptance increased significantly over the last decade.

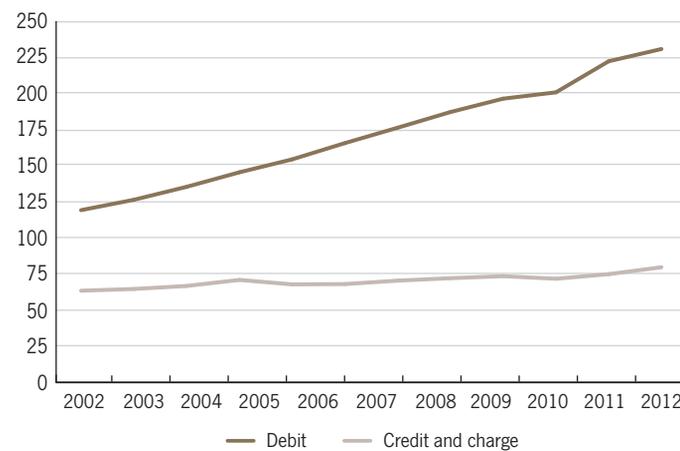
Online purchases have also contributed to increased spending using plastic cards particularly debit cards. The ONS estimated the average weekly online spend in December 2012 at approximately £0.8 billion. This represented an increase of approximately 16% on December 2011 and equated to approximately 11% of all retail spending excluding automotive fuel. Debit card use online has been growing more rapidly than credit cards and accounted for 52% of total online card spending in 2012 compared with 36% in 2006. Alongside this, some debit cards have also begun to offer cashback on spending not too dissimilar to the rewards on offer with some credit and charge card products. These innovations (amongst others) may further boost the holding and usage of debit cards in the future.

### 3.2 Debit card usage

Debit cards can be used for purchases and cash acquisitions. Growth in debit card usage evident in recent years continued into 2012. Debit card volumes increased by 6.1% to 10.8 billion with corresponding values growing by 2.7% to £541 billion. Purchases were the main driver behind this growth, accounting for 75% and 65% of total debit card volumes and values respectively.

**Chart 3.4**

Average number of transactions per cardholder per year



During the year, on average, each debit card was used 86 times to make a purchase within the UK and was used on average 30 times to acquire cash in the UK, with the total amount withdrawn on each card amounting to £2,083. On the surface these numbers may look low but are plausible when multiple holdings of debit cards are taken into consideration. Around 40% of the debit card holding population own two or more cards. As secondary and further additional cards are typically used less frequently, this depresses the per card average for the number of purchases and cash acquisitions. On a per cardholder basis, each cardholder made 205 transactions during 2012, 10 more than in the previous year.

In aggregate there were 7.6 billion debit card purchases in the UK in 2012 representing growth of 4.7% on 2011. Corresponding values grew more slowly by 0.9%, to £337 billion which was a marked deceleration compared to average growth rates of just over 11% in the preceding five years. This slowdown in 2012 may indicate the scope for sustained levels of robust growth is diminishing, though it is too early to say. Debit card spending outside the UK grew by 61% to £15 billion during the year. There was also a significant increase in the number of debit card purchases outside of the UK which increased by 79% to 456 million.

Strong growth observed in volumes and values of purchases outside the UK between 2011 and 2012 was mainly driven by increased spending at online companies registered abroad such as Amazon, iTunes and Google.

### 3. Debit Cards

Debit cards are the most-used card type to make withdrawals from cash machines. In 2012 they accounted for a record 93% of all withdrawals from UK cash machines. The number of debit card cash acquisitions, the vast majority of which were withdrawals from UK cash machines, increased by 3.1% during 2012 to reach 2.7 billion. The total value of cash acquired using debit cards increased by 3.4% to £184 billion with a backdrop general price inflation of 2.8% CPI or 3.2% RPI during the year. The increase in cash acquisition may in part reflect the continuing increase in the number of free-to-use cash machines deployed in locations away from banks and building society branches, such as at supermarkets, convenience stores and social and leisure facilities.

Debit card use outside the UK remained very small at 3.8% of total transactions. Although the value of international purchases grew strongly, as noted earlier, the total value of cash acquired and the number of withdrawals outside the UK continued to fall. The total value was down by 4.9% to £5.4 billion while the total number increased by 1.0% to 50 million.

#### 3.3 Debit card spending patterns

Where debit cards are used is evident from the Card Expenditure Statistics (CES)<sup>6</sup> that are reported to The UK Cards Association by merchant acquirers, i.e. those banks and other institutions that process plastic card transactions on behalf of businesses and enterprises in the UK. These data are divided into 12 categories (shown in the pie charts opposite); the grey shaded categories encompass retailers which together very closely correspond to the Retail Sales sector published by National Statistics, and the brown-shaded categories correspond to the services sector. There is a step change between 2010 and 2011 due to a change in the reporting population introduced in 2011. This change expanded the coverage of CES. As at end 2012 the coverage was 99.8% by volume and 98.8% by value. A more detailed breakdown is available from The UK Cards Association. These data are available monthly throughout the year; details can be found at:

<http://www.theukcardsassociation.org.uk/2012-factsfigures/index.asp>

Debit card payments received by UK merchants, retailers and service providers increased by 6.6% to £348 billion in 2012; the total number of purchases grew by 9.2% to stand at 7.9 billion. As a result the ATV decreased by £1.09 to £44.12. Higher growth rates in volumes relative to values were evident in both retail sales and services sectors. Retail sales spending increased by 6.9% to £176 billion with volumes increasing by 7.2% to 5.7 billion. Debit cards reached a milestone in 2012 averaging 50% of all retail sales spending, up from an average of 48% in 2011. Spending on services increased by 6.3% to £171 billion with volumes increasing by 15% to 2.2 billion. Higher rates of growth in volumes can perhaps be explained by an increase in online spending and continued migration from cash and cheques.

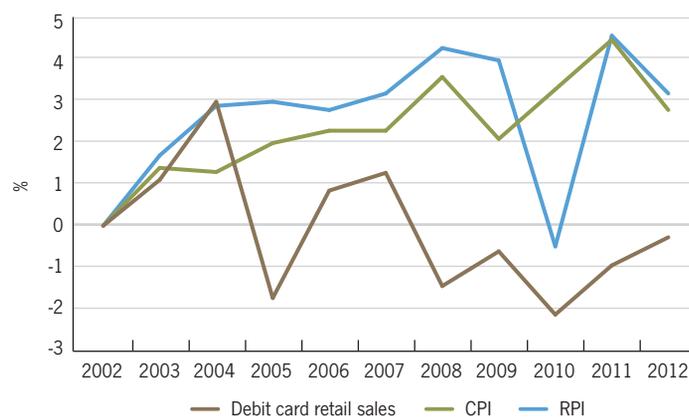
The retail sales sector recorded an ATV decrease of just 8p to £31.12, which compares to a larger decrease of £6.20 to £77.45 in services. Within retail sales, food and drink and mixed business recorded decreases in ATVs. The ATV for food and drink decreased by 78p to £26.27 and could be attributable to a number of factors. These include the on-going competition between the major supermarkets coupled with the growing prominence of smaller supermarket chains that predominantly specialise in offering cheaper products. The continuing squeeze on disposable incomes was another factor. The ATV for the mixed business sub-sector decreased by 33p to £34.38 possibly due to consumer budgeting and bargain hunting.

There were however rises in the ATVs for other sub-sectors within retail sales: clothing increased from £33.81 to £34.55, household increased from £55.25 to £57.65, other retailers increased from £31.25 to £32.26 and automotive fuels increased from £30.01 to £30.82. The increase in the ATV in these sub-sectors was most likely due to relative high inflation in 2012. This would have caused values to increase at a higher rate than volumes thereby increasing the ATVs. For example, the amount of debit card spend on clothing increased by 9.0% while volumes increased by 6.6% in 2012.

However, despite off-setting movements in ATVs, using debit cards, within retail sales sub-sectors the overall ATV for the sector has been decreasing in recent years. This is evident in the widening gap between changes in the average price of a debit card purchase and the headline measures of price inflation (CPI and RPI). These gaps have widened due to the increasing number of lower value transactions particularly in the food and drink sub-sector.

**Chart 3.5**

Changes in debit card average transaction values compared to official price indices  
Average annual increase in prices



<sup>6</sup>The acquirers' figures cover all Visa and MasterCard plastic card sales in the UK and include transactions made on foreign-issued cards, for example, by tourists and other visitors to the UK. The CES data (reported at monthly intervals) are seasonally adjusted at the aggregate sector (e.g. retail sales) and sub-sector levels (e.g. food and drink, other services), but data for individual merchant categories (e.g. restaurants, supermarkets) are unadjusted

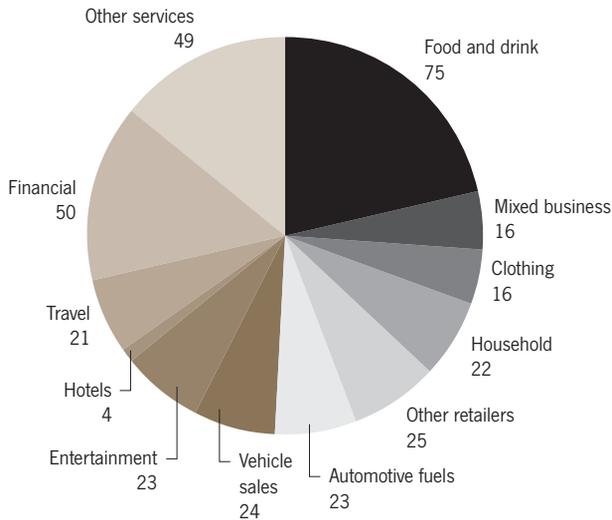
Similarly, although there was an overall decrease in the ATV within services, there were variations by sub-sector. The ATV in vehicle sales and services decreased from £251.57 to £236.85, entertainment fell from £23.50 to £21.49, other services decreased from £91.72 to £86.81 and financial services fell, from £324.95 to £310.79. Tightening budgets by consumers and businesses given the uncertain economic and financial climate could explain the decreases in the ATV for these sub-sectors.

Conversely, the ATV in the hotels sub-sector increased by £3.12 from £90.30 to £93.42 while that in the travel sub-sector increased from £78.12 to £78.38. These increases may be directly related to the boost to tourism from The 2012 Olympic Games but this would be difficult to quantify.

**Chart 3.6**

Spending on debit cards (£ billions) by sub-sector 2012

Total £348 billion



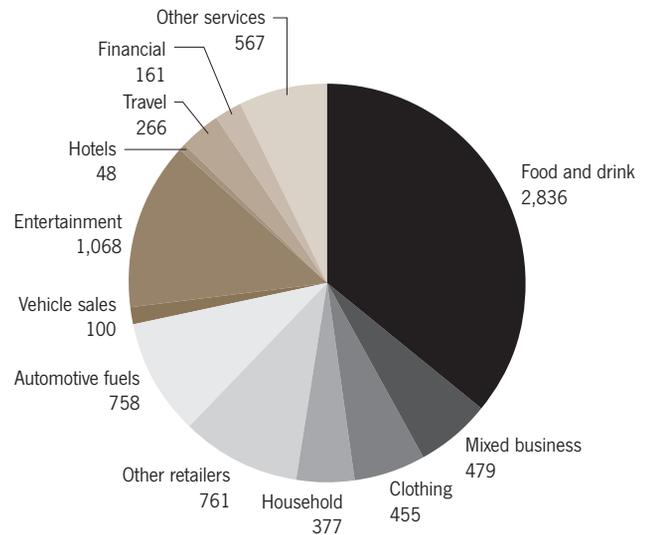
The proportion of plastic card volumes accounted for by debit cards stood at 77% in 2012, with debit card expenditure accounting for 69%. These proportions were unchanged on 2011. The high proportion of plastic card use and expenditure accounted for by debit cards can be attributed to a number of factors: the high levels of holdings across the population, with nine in ten adults owning a debit card; extensive coverage of merchants with point-of-sale terminals that accept plastic cards; and the on-going migration from cash, cheques and credit cards to debit cards.

The food and drink sub-sector was the most popular for debit card usage in 2012, growing by 11% to 2.8 billion purchases and accounting for 36% of all debit card usage. In the decade to 2012 this percentage has barely changed, and has always accounted for the highest proportion of debit card usage amongst the various sub-sectors. Corresponding values grew by 7.6% to £75 billion representing just over a fifth of all debit card expenditure. In terms of usage, supermarkets accounted for the majority of spending in this sub-sector in 2012 with 99% of the total.

**Chart 3.7**

Number of debit card purchases (millions) by sub-sector 2012

Total 7,877 million



The next most popular sub-sector for debit card usage was entertainment, which grew by 21% to 1.1 billion purchases and accounted for 14% of all debit card transactions during the year. Corresponding values grew by 11% to £23 billion accounting for 7% of all debit card spending. In terms of debit card usage, the three largest merchant categories in this sub-sector were restaurants (54%), gambling (22%) and public houses (10%). Jointly they accounted for 86% of debit card use amounting to approximately 926 million purchases, up from 755 million in 2011. Corresponding values amounted to around £18 billion, up on the £16 billion spent in 2011. It is likely that the majority of spending linked to The 2012 Olympic Games was in the entertainment sub-sector, but this would be difficult to quantify.

The third most popular sub-sector for debit card usage in 2012 was other retailers, which is made up of twenty five separate merchant categories. In terms of debit card usage the biggest merchant categories were chemists (28%) sports shops (12%) and books, newspapers and magazines (11%). Together these accounted for just over half of all debit card usage totalling 386 million purchases, amounting to £8.5 billion. Relatively high debit card usage in sports shops, with growth of approximately 7% in both volumes and values, could be directly linked to increased interest in sports related activity and merchandise following The 2012 Olympic Games and the Euro 2012 football championship. However, 'other retail' was the only sub-sector that recorded a decline in transaction volumes, which decreased by 2.3% to 761 million after increasing by 6.2% in 2011. In contrast, values increased by 0.8% to £25 billion following an increase of 3.3% in 2011. Subdued transaction activity was perhaps a reflection of the uncertain economic climate given this sub-sector comprises of merchant categories that are predisposed to discretionary spending.

The three tables that follow show the top ten merchant categories for debit card use during 2012, and the comparable figures for 2011, ranked according to the number of purchases, the total amount spent, and the average value of a transaction.

## 3. Debit Cards

**Table 3.1**

Top ten merchant categories for debit card usage for 2011 and 2012 – based on number of purchases

Location	2012			2011		
	Purchases (millions)	Value (£ billions)	ATV (£)	Purchases (millions)	Value (£ billions)	ATV (£)
Supermarkets	2,605	70.1	26.91	2,354	65.3	27.72
Automotive fuels	758	23.3	30.81	730	21.9	30.00
Restaurants	580	10.6	18.34	476	9.2	19.33
Family clothing	301	10.0	33.15	277	9.1	32.69
Gambling	238	4.5	18.94	193	4.7	24.60
Chemists	213	3.3	15.63	203	3.2	15.67
Railways	198	4.8	24.28	174	4.1	23.67
DIY stores	182	8.8	48.42	186	8.5	45.64
Miscellaneous foodstores	168	3.2	19.12	150	2.8	18.87
Department stores	166	6.0	36.76	169	6.0	35.39

**Table 3.2**

Top ten merchant categories for debit card usage for 2011 and 2012 – based on value of purchases

Location	2012			2011		
	Value (£ billions)	Purchases (millions)	ATV (£)	Value (£ billions)	Purchases (millions)	ATV (£)
Supermarkets	70.1	2,605	26.91	65.3	2,354	27.72
FI's – merchandise & services	33.6	102	329.72	29.4	91	322.53
Automotive fuels	23.3	757	30.81	21.9	730	30.00
Vehicle sales	13.6	16	860.51	12.4	12	1,006.89
Government services	12.8	72	178.39	15.4	65	236.94
Restaurants	10.6	580	18.34	9.2	476	19.33
Travel agents	10.6	18	572.63	10.0	18	547.85
Family clothing	10.0	301	33.15	9.1	277	32.69
DIY stores	8.8	182	48.42	8.5	186	45.64
Auto repair shops	6.4	19	345.28	6.4	18	362.96

FI's denotes financial institutions

**Table 3.3**

Top ten merchant categories for debit card usage for 2011 and 2012 – based on average transaction value

Location	2012			2011		
	ATV (£)	Purchases (millions)	Value (£ billions)	ATV (£)	Purchases (millions)	Value (£ billions)
Security brokers and dealers	3,230.14	3.13	0.97	3,274.10	3.53	1.08
Tax payments	1,523.62	3.17	2.08	1,795.54	3.32	1.85
Vehicle sales	860.51	13.61	15.82	1,006.89	12.44	12.36
Travel agents	572.63	10.58	18.47	547.85	9.96	18.18
Legal services	511.86	0.90	1.76	537.38	0.80	1.49
Tax preparation services	446.54	0.01	0.02	203.10	0.00	0.01
Auto repair shops	345.28	6.43	18.62	362.96	6.44	17.73
FI's – merchandise & services	329.72	33.56	101.79	322.53	29.43	91.24
Timeshares	293.49	0.10	0.34	137.56	0.01	0.04
Telegraph services / Wire transfer money order	291.38	0.21	0.71	327.07	0.17	0.52

FI's denotes financial institutions

There were few changes in the rankings by volume when comparing 2012 to 2011. The top four merchant categories are unchanged from last year. The most popular use for debit cards was on food and drink products at supermarkets which saw an increase of 11% to 2.6 billion purchases but also a decrease in the ATV from £27.72 to £26.91. The fall in the ATV as previously mentioned may have been due to a number of factors such as competition between the major supermarkets and the continuing squeeze on disposable incomes. The number of debit card purchases for automotive fuels increased by 3.8% with an increase in the ATV from £30.00 to £30.81, perhaps reflecting fuel price inflation during the year. All other merchant categories recorded increased volumes with the exception of DIY stores and department stores. The number of purchases at DIY stores fell by 2.2% to 182 million while the number of purchases at department stores declined by 1.2% to 166 million.

Only the top three merchant categories were unchanged between 2011 and 2012 when taking into account rankings by value. The highest amount of spending in 2012 was seen in supermarkets with a recorded spend of £70 billion, up 7.4%

on 2011. This was significantly higher than the next highest ranked merchant category, products and services for financial institutions, which increased by 14% to just under £34 billion. Most other merchant categories recorded increased spending with the exception of government services, which declined by 17% and auto repair shops which saw no growth. Although debit card spend on vehicle sales increased by 9.4% to approximately £14 billion the ATV decreased by £146.38 to £860.51.

Security brokers and dealers and tax payments were the only unchanged merchant categories when comparing ATV rankings between 2011 and 2012. Funeral services and cash disbursements from financial institutions were replaced by tax preparation services and timeshares. Noticeably, there were significant differences in the ATVs of some merchant categories between 2011 and 2012.

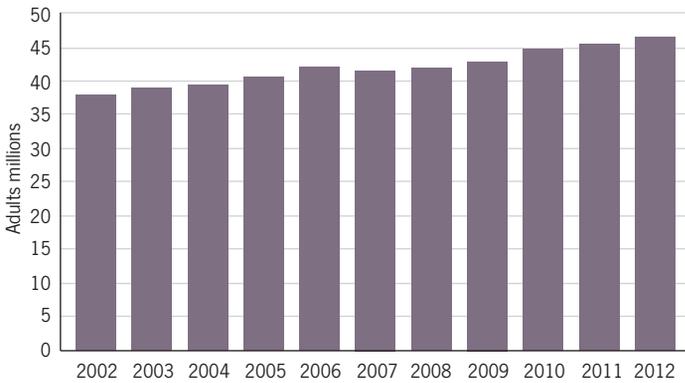
The biggest increases in ATVs were recorded in tax preparation services and timeshares which rose by £243.44 and £155.94 respectively. In contrast the ATVs for tax payments and vehicle sales recorded the largest falls, decreasing by £271.91 and £146.38 respectively.

### 3. Debit Cards

#### 3.4 Debit card holding and use

**Chart 3.8**

Number of debit card holders

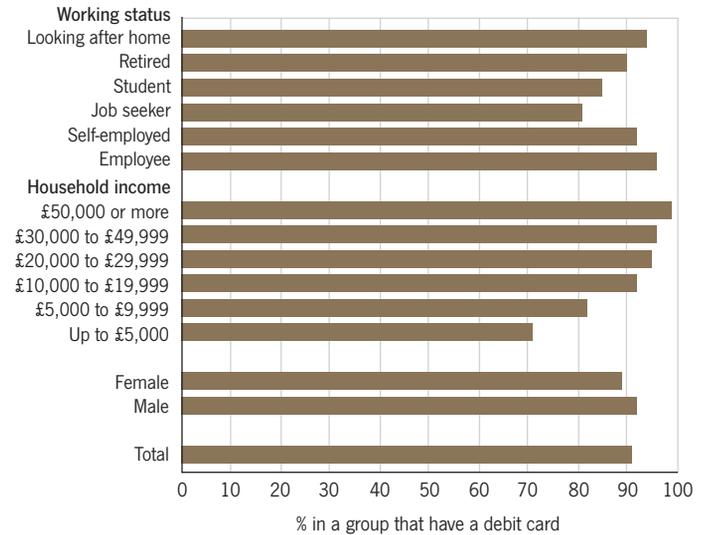


There were more than one million more debit card holders in 2012 than there were in 2011. This is broadly equivalent to the increase seen year-on-year since 2002. The total number is now just below 47 million, meaning more than nine in ten of the adult population now has at least one debit card. Population growth is one reason for the increase but over the last decade or so stronger influences have been continued uptake of current accounts and greater issuance of debit cards on basic bank accounts. There were more than 8.5 million more debit card holders in 2012 than there were in 2002.

Overall debit card penetration is very high. However, individuals from some demographic groups are more likely to be cardholders than others. Almost all of those in full-time employment have debit cards. Perhaps unsurprisingly, given bank account holding among those in work is virtually universal. Employers tend to require staff to have their salaries and wages paid to bank accounts. At the other end of the employment scale, debit card holding is lower among those looking for work. This reflects lower levels of current account holding with job seekers, with over one in five having a Post Office Card Account as their main account.

**Chart 3.9**

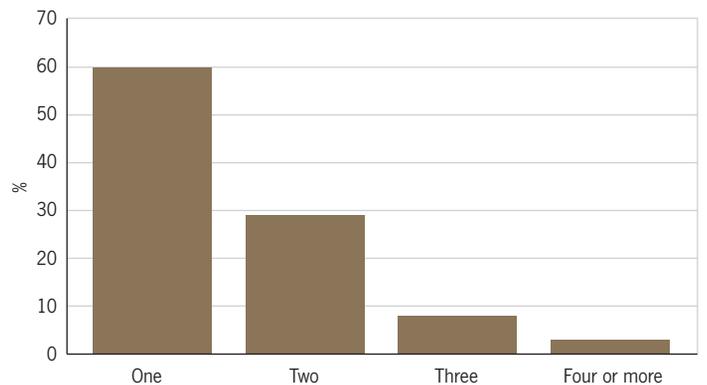
Holders of debit cards by demographic group 2012



There is also divergence when looking at incomes. Near-comprehensive debit card holding among those at the top end of the income scale contrasts with much lower levels at the other end of the scale. With job seekers and other people on the lowest incomes, reliance on Post Office Card Accounts is much higher with low income consumers than with those on higher incomes.

**Chart 3.10**

Multiple debit card holding 2012

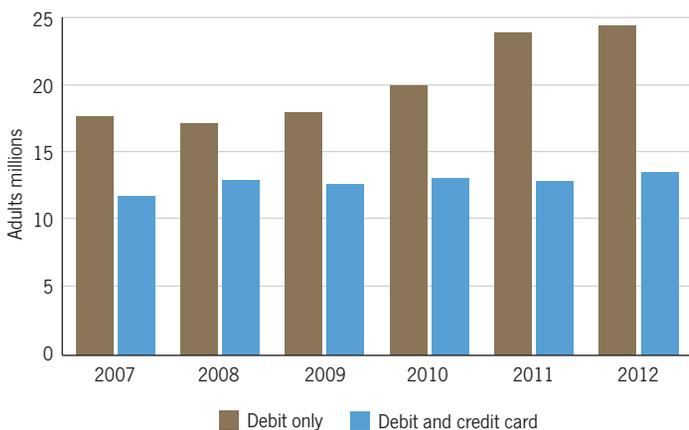


Debit card holding is widespread and a majority of consumers have only one card. In 2012 almost two-thirds had just one card and very few had more than two cards. This contrasts to credit card holding, where multiple card holding is more common. However, the characteristics of multiple cardholders are similar for both card types. Both multiple debit card holders and multiple credit card holders tend to be from the higher socio-economic groups, but older people are more likely to hold more than one credit card than two or more debit cards.

Multiple debit card holding tends to be more common among those in the middle age bands. This may be because they are more likely than those in other age bands to have mortgages linked to current accounts with other banks or to have joint bank accounts in addition to their own.

**Chart 3.11**

Regular debit card users and regular users of both debit and credit cards



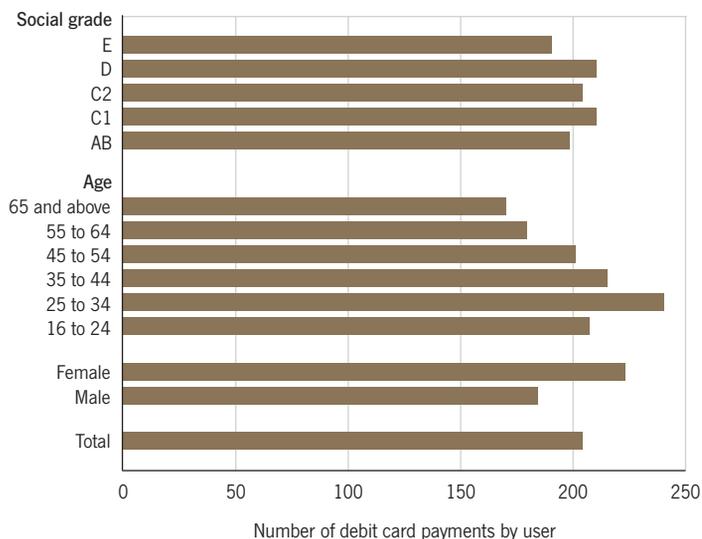
As debit card holding has become more common over the last ten years, so has use of the cards. In 2002 consumers made almost 3.0 billion payments in the UK using debit cards but this number in 2012 was more than two and a half times higher at 7.6 billion.

Nearly 38.0 million adults used their debit cards once a month or more often in 2012. This is three-quarters of the UK's adult population and 81% of debit card holders. Most users are debit-only users – around two in three debit card users used only debit cards on a monthly or more frequent basis in 2012. Debit card holding is more widespread than credit card holding and some consumers prefer that they are spending money from their bank account when they use a debit card, rather than borrowing, potentially at cost, when using credit cards.

The number of debit and credit card users grew by almost 5% last year to the highest number in the last few years. There were 13.6 million debit and credit card users in 2012. This coincided with moderate growth in the number of credit cards in issue but increased use of credit cards might also be due to increased availability of rewards programmes available from some issuers. As noted in section 2.1, there has been a clear shift in the credit card market in recent years from borrowers to transactors as cardholders use credit cards for everyday items to qualify for more rewards.

**Chart 3.12**

Debit card use by holders in different demographic groups 2012



On average, debit card holders used their debit cards to make 205 payments in 2012. This is at least 10 payments more than were made on average in both 2010 and 2011. This growth reflects the fact the number of transactions is growing at a faster rate than the number of cardholders. One explanation for this is that where debit cards were once used mainly for higher value payments, there is now much greater willingness to pay for lower value transactions using debit cards. Many payments for fast food or short train journeys that may have been made using cash in 2002 are often now made using debit cards, particularly following price increases that mean the cost of such items may no longer be met with a single £5 or £10 note.

Looking at the average number of payments by demographic group suggests younger users tend to make more payments using debit cards than older ones. Those aged 65 and above make fewer payments than those in all other age bands and markedly fewer than those in the 25 to 34 age band. This may be because older consumers are inclined to prefer to use cash or cheques and they tend to be heavier users of credit cards. Additionally, younger consumers may simply make more payments – they may be parents with young families – and they also make more payments online than those in the higher age bands.

There is also divergence by age band in the use of debit cards for small value payments. Those in the youngest age band are more likely to use debit cards for purchases of between £1 and £10. Average transaction values also suggest greater willingness among those in younger age bands to use debit cards for low value payments. This could be because older users may consider cash more appropriate for small value payments.

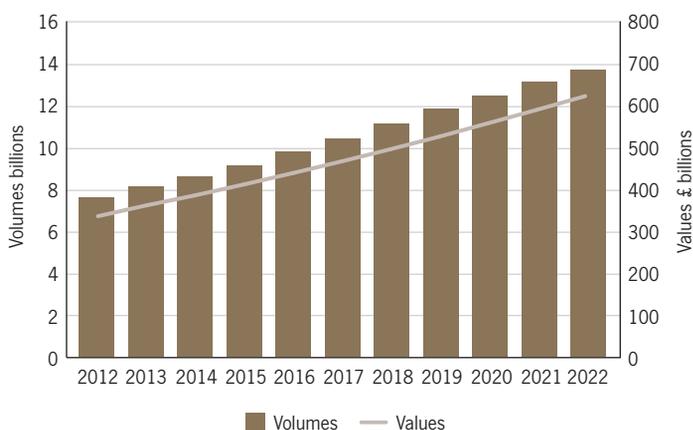
Business debit card payment volumes showed strong underlying growth in 2012. This follows the cards' continued promotion by banks and increased demand from businesses, particularly smaller ones, to make card payments instead of cheque and cash payments. Some suppliers might also require their customers to make payments using cards, particularly if they are online-only businesses. There were 109 million business debit card payments in 2012.

### 3. Debit Cards

#### 3.5 Debit card forecasts

Chart 3.13

Debit card: UK purchase forecasts



Debit card payment volumes are expected to continue their trend of robust increases. A range of factors will converge to drive volumes over the next decade. New adults are likely to want to pay using debit cards, having grown up accustomed to their use. Acceptance is expected to continue growing. Technology will probably play a major part, with the emergence of mobile payments, and changes to the UK retail sector, such as growth in online shopping, may also have an effect.

New adults receiving debit cards over the next ten years are likely to make heavy use of them, having grown up using cards for cash withdrawals and seeing their parents pay for products using cards. Also many are likely to have had youth accounts that offer debit cards. As they grow up and take on more commitments and have a greater need to make more payments, it is likely to be the debit card to which they turn in a large number of cases.

Some of the growth in debit card volumes in recent years has come from increased use of debit cards for low value purchases. Decisions by a large number of retailers to stop accepting cheque payments in the last decade has helped promote debit card use, as has a preference among some consumers to use debit cards because they know the money is coming from their account. These trends are expected to continue over the next ten years, especially as retailers increase use of self-service terminals. Self-service may encourage greater use of card payments and the number of terminals is expected to expand, especially in sectors such as mini supermarkets on high streets, where speed and convenience is important.

Convenience is also an important aspect of the appeal of contactless payments and this relatively new way of paying will help drive increased volumes of low value payments over the next ten years. Holding of such cards is increasing as more banks give their customers debit cards with the contactless capability needed to make contactless payments. This is happening at the same time as acceptance is growing as a result of retailers updating their point-of-sale hardware. A number of major high street chains have already done so and Transport for London's bus users can use their contactless cards to pay fares, and passengers will start to be able to use their cards on the rest of its network from the end of 2013.

Increased acceptance is crucial to developing comfort and confidence paying this way. Volumes of contactless debit card payments are expected to grow strongly over the next ten years, with much of it migrating from cash.

Card acceptance is already high among large and major businesses but it is lower among smaller firms. In many cases this is because these organisations process too few payments to make a card acceptance device cost-effective. A number of services and devices have launched recently designed for this market and, though it is not clear whether one or many of them will emerge as market leaders, their existence is likely to grow the market for debit card payments by ensuring small businesses and sole traders, such as plumbers and child carers, can accept card payments. Smaller charities, too, may find them attractive ways to accept debit cards as they move to accept payments from the next generation of donors.

Technological change is expected to substantially affect volumes over the next decade. Mobile phones that allow contactless payments are already available and both their number and use are expected to grow over the next decade, particularly among younger users and early adopters. Payment values are currently subject to the contactless cap of £20, but it is possible this will be raised in future. This would increase the range of options for and the attractiveness of paying by phone.

Greater use of phones could in turn lead to changes to the high street shopping experience. Barcode-scanning functions in phones that combine a payment feature may reduce the need for the traditional shop till because customers can scan and pay for goods and services on a self-service basis. For some, not having to queue may make paying by phone relatively more attractive than paying by other methods that require a wait.

Changes to where consumers do their shopping will also lead to increased debit card volumes. Increasing proportions of UK retail sales have been made online in recent years and it is expected this trend will continue over the next decade. This may be accelerated by changes to the high street, prompted by the weak economic recovery, that has seen and continues to see a number of large and many smaller retailers transfer their business online or close altogether. Increased prevalence of smartphones will enable people to make purchases online wherever they are, possibly at the expense of purchases that would previously have been made in store. Debit cards are the principal way of paying for goods and services online and growth in internet sales is expected to drive volumes further.

Recent years have seen strong underlying growth in business debit card volumes. This has been aided by the increasing issuance and promotion by banks. More widespread acceptance has also been a factor, as has businesses doing more of their purchasing online. Both are likely to increase over the next decade. Issuance will continue to grow as business owners take their personal payment habits to their firms and acceptance grows, particularly among small businesses with increased availability of cost-effective card acceptance services. The effect is forecast to be a near-doubling of volumes to 195 million in 2022.

Debit card payment volumes are expected to pass 10 billion in 2017 and to be nearly 14 billion payments in 2022. At the same time, debit card payment values are forecast to be £469 billion in 2017 and £626 billion in 2022. In 2022 it is forecast that debit card volumes will exceed the number of cash payments for the first time.

## 4. Other Cards

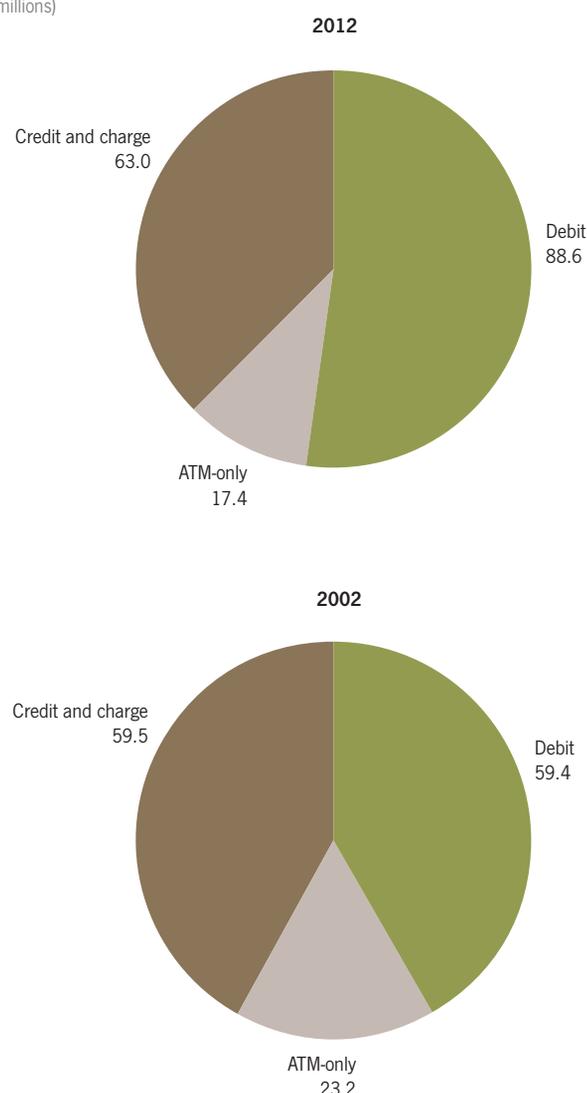
### 4.1 ATM-only cards

The number of ATM-only cards in issue at the end of 2012 fell by 0.5 million, or by 2.6%, to stand at 17 million. Since 2003 ATM-only cards have declined every year on an annualised basis as ATM-only cards linked to basic bank accounts have been replaced by debit cards. Of the 17 million ATM-only cards that remain it is likely that the majority of these relate to savings products. These cards provide a withdrawal facility usually only at cash machines owned by the account provider.

In addition to ATM-only cards, 152 million other cards also allow withdrawals at cash machines and these comprise 89 million debit cards and 63 million credit and charge cards. In 2002 when there were 23 million ATM-only cards in issue which declined to 17 million by the end of 2012. Over the ten year period, there has been a 49% rise in the number of debit cards with ATM functionality and a 6.0% increase in the number of credit and charge cards with this facility.

Chart 4.1

Cards with ATM functionality  
(millions)



### 4.2 Store cards

The Finance & Leasing Association provides these data on store cards. Store cards are excluded from the figures used elsewhere in the commentary.

Table 4.1

Store cards

	Number of cards			Number of accounts (thousands)
	in issue (thousands)	Change	% Change	
2002	24,170	2,045	9.2%	22,911
2003	23,464	-706	-2.9%	21,312
2004	23,145	-319	-1.4%	20,475
2005	17,875	-5,270	-22.7%	16,385
2006	15,934	-1,940	-10.8%	13,393
2007	15,637	-297	-1.9%	13,197
2008	15,291	-346	-2.2%	13,691
2009	13,269	-2,022	-13.2%	12,895
2010	12,860	-409	-3.1%	12,122
2011	10,896	-1,964	-15.3%	9,468
2012	8,064	-2,832	-26.0%	7,004

	Number of transactions (thousands)	Value of transactions (£ millions)	Value of outstanding balances (£ millions)
2002	139,751	5,113	*
2003	131,540	5,394	2,840
2004	100,232	4,590	2,860
2005	83,435	3,765	2,510
2006	67,874	3,366	2,170
2007	55,083	2,977	1,936
2008	50,529	2,953	1,874
2009	44,249	2,561	1,701
2010	39,196	2,043	1,611
2011	34,115 ^	1,723 ^	1,391
2012	30,703	1,466	1,192

\* Data not available

^ Revised figure

## 4. Other Cards

The number of store cards in issue has fallen to a third of the level it was in 2002. Over the ten year period between 2002 and 2012 this number has fallen to 8.1 million with the largest fall of 26% recorded last year. The number of accounts held has also fallen at the same rate of 26%, to stand at 7 million, continuing the downward trend seen since 2001.

The value of outstanding balances on store card accounts fell by £199 million (14.3%) during 2012, to stand at £1.2 billion, an average of £170 per account, higher than the 2011 figure of £147. With 30.7 million transactions and a total spend of £1.5 billion; the average store card was used 3.8 times in the UK during 2012. Average spending on these cards increased to £182 in 2012, an increase of £24 (15%) on the 2011 figure which stood at £158.

Usage patterns for store cards remain low compared to credit cards, where in 2012 credit cards were used an average of 34 times per year for purchases in the UK with an average spend per card of £1,969. Due to the drop in both the number and value of transactions for store cards, the ATV of £47.75 decreased by £3 from a revised value of £50.51 recorded in 2011. The transaction value for purchases in the UK using a credit card stood at £59 in 2012.

### 4.3 Prepaid cards

#### 4.3.1 Prepaid Cards/Wallets

Although The UK Cards Association does not represent the interests of prepaid card issuers industry, the Association is in regular dialogue with the Prepaid International Forum (PIF) covering a range of topics and is grateful to PIF for providing the information that follows.

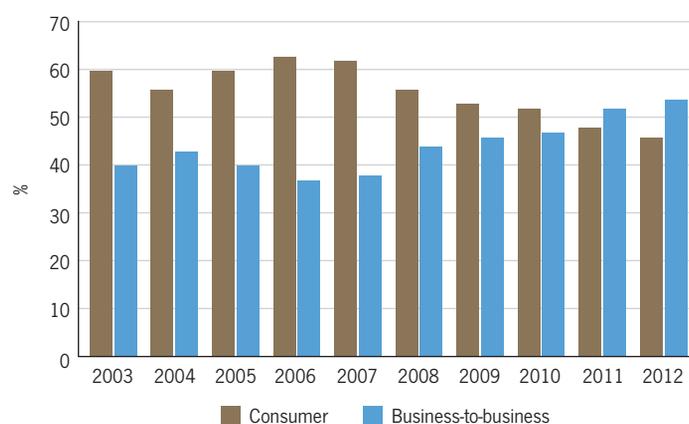
Prepaid cards provide an alternative way to pay for goods and services. Cards/Wallets are pre-loaded with funds that can be used to make payments and in some cases to withdraw cash from ATMs. Funds may be loaded by consumers, corporations or governments. Prepaid card accounts do not offer credit or pay interest.

Consumers may use a prepaid card/wallet instead of cash, a debit or credit card. The drivers for use vary with consumers but are mainly to control what they spend (budgeting), to enable electronic/digital payments securement i.e. online or as a means of storing funds in a secure way while travelling. Employers may use prepaid solutions to pay employees (payroll/per diem solutions) or to monitor and control expenses. One of the fastest growing areas is the use of virtual prepaid cards for supplier payments. For governments prepaid solutions can provide ease of administration in the disbursement of benefits and the enablement of individuals to have 'personal budgets'. In some parts of the world prepaid cards/wallets offer an alternative solution for servicing the unbanked in place of traditional banking services as a more cost effective platform.

Prepaid solutions are generally termed 'closed' or 'open loop'. A closed loop card can be exchanged for goods and services only in a limited or pre-defined number of outlets, for example, gift cards, fuel cards or transport cards such as the Oyster card. The term can become grey with services such as Neteller and Moneybookers where the wallet must be prefunded but the number of merchants it can be used at runs to several hundreds. Gift card products make up an estimated 20% of the prepaid card market. Although historically these products were largely business-to-customer, business-to-business (B2B) products have for the first time now overtaken business-to-customer. An example of a B2B prepaid card programme is a gift card scheme used by businesses to reward or incentivise employees.

**Chart 4.2**

Percentage breakdown: consumer vs business to business gift cards and vouchers



Source: UK Gift Card & Voucher Association (UKGCVA)

The definition is further complicated by the 'Restricted Acceptance Network' solution. These products run on the rails of the card schemes, but are not scheme branded. Their use is restricted to a specified range of outlets. These have been used by the UK Government for disbursement of Asylum Seekers funds and also by some retailers with specific requirements.

In contrast, open loop cards are branded by one of the card schemes, (e.g. American Express, MasterCard, Visa), and are generally accepted at all retailers showing the scheme badge. Certain types of cards are now allowed to be restricted by the party issuing the cards on where they can be used. These restrictions include for instance only shops within a particular shopping centre, only certain outlets for promotional incentive cards, only certain outlets for corporate cards. In some cases they can also be used to withdraw cash from cash machines.

Prepaid cards can also be sub-divided into those that are reloadable and those that are non-reloadable. In general terms non-reloadable or single-use cards are purchased or issued with a fixed value pre-loaded onto the card and cannot be topped up. Examples include gift cards or cards issued as part of an employee reward or incentive scheme. Reloadable cards are in reality the majority of open loop gift cards issued.

### 4.3.2 The regulatory framework

UK institutions offering prepaid card products that do not fall under the Limited Network<sup>7</sup> and Limited Goods and Services<sup>8</sup> exemptions must be authorised or registered with the Financial Conduct Authority (FCA) as either an Authorised E-Money Institution (AEMI) or a Small E-money Institution (SEMI). Most prepaid card programmes operate through a third party issuer often referred to as a BIN sponsor (e.g. a bank, or AEMI). In accordance with these regulations customer funds are placed in ring-fenced accounts, or 'safeguarded' to protect funds if the issuer should fail.

It is estimated that up to 75% of the prepaid card market is exempt from regulation under the Limited Network and Limited Goods and Services exclusions. A significant proportion of this unregulated market is made up of gift card products which have generally tended to be non-reloadable. Whilst gift cards have typical values of less than £50 there are no regulatory restrictions to limit the value that can be stored on a gift card. Recent challenges with retailers going into bankruptcy and declining to accept gift cards has raised the profile and issues surrounding these products. The UK Gift & Voucher Association (UKGCVA) is actively lobbying for a change in the rules of administration to protect consumer funds in these situations.

As new developments and innovations occur, more reloadable and higher value prepaid card products are being introduced to the market, some of which are regulated while others fall within the regulatory exemptions.

Since 2008 PIF on a quarterly basis has collected data from BIN Sponsoring Banks, Issuing Banks and programme managers. PIF believe the data represents around 50% of the prepaid industry in the UK today.

The latest data available were collected for the quarter October – December 2012. As with all data it is the trend that are most important compared with any data for a particular quarter. Data are collated for four broad types of cards: consumer loaded reloadable cards, consumer loaded non reloadable cards, travel card and corporate/government prepaid cards.

On consumer loaded prepaid cards the average per spend has remained fairly constant since Q1 2011, but the average load in Q1 2011 was the lowest ever seen. Current average load levels of £160 are now nearly four times this and although dropping in Q3 2012, for the other quarters levels have been consistent since Q3 2011. Most consumer loaded cards still appear to be loaded around once per month.

For foreign currency cards most of these as might be expected, are only loaded 'as needed' and thus the average is one in four cards active is loaded each quarter only. The average load value though has remained fairly constant since Q4 2011 at £450. The average spend on these types of cards is around 50% higher than on general consumer loaded prepaid cards.

Christmas 2011 saw almost a doubling in average load value for open loop gift cards, but this was not repeated during Christmas 2012, despite an increase compared to the first half of 2012. Q3 2012 saw a particularly low level of average load. The average transaction value ranges between £20 and £30.

Government/corporate prepaid cards continued to be used about once per week although the actual amount spent per transaction varies considerably by quarter. The average load is higher than on consumer cards and since Q2 2010 has averaged over £200.

**Table 4.2**

Number of prepaid card programmes – UK

	H1 2007	H2 2007	H1 2008	H2 2008	H1 2009	H2 2009	H1 2010	H2 2010	H1 2011	H2 2011	H1 2012	H2 2012
Number of General Cards	24	33	42	52	69	92	94	95	99	96	80	71
Number of Retail/Gift Cards	15	14	61	68	76	79	92	87	92	91	93	93
Number of FX cards	11	10	12	13	15	17	19	27	31	31	31	30
Number of Youth Cards	4	1										
Number of Money Remittance Cards	2	5	7	6	10	9	9	10	11	10	8	8
<b>TOTAL</b>	<b>56</b>	<b>63</b>	<b>122</b>	<b>139</b>	<b>170</b>	<b>197</b>	<b>214</b>	<b>219</b>	<b>233</b>	<b>228</b>	<b>212</b>	<b>202</b>

Source: Polymath Consulting

H1 denotes January to June and H2 denotes July to December

<sup>7</sup>Limited Networks: Those that may be used to purchase goods and services only in or on the issuer's premises and those that may be used to purchase goods or services under a commercial agreement with the issuer within a limited network of service providers

<sup>8</sup>Limited Goods and Services: Those that may be used to purchase a limited range of goods and services

Source: *The Electronic Money Regulations 2011*

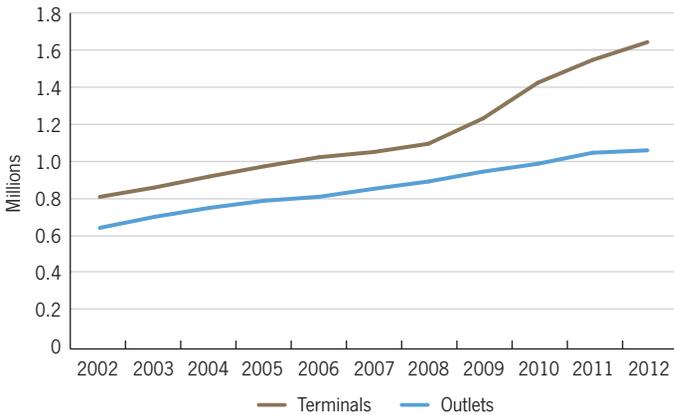
## 5. Card Acceptance

### 5.1 Card acceptance

The total number of terminals in the UK accepting plastic cards in the face-to-face environment, including unattended terminals, increased to 1.6 million in 2012. The number of bank owned terminals rose by 1.8% to 799,031 whilst the number of retailer owned terminals increased to 0.8 million. The continued roll out of contactless cards terminals amongst smaller retailers in sectors such as fast food, newsagents and public transport will continue to drive the increase.

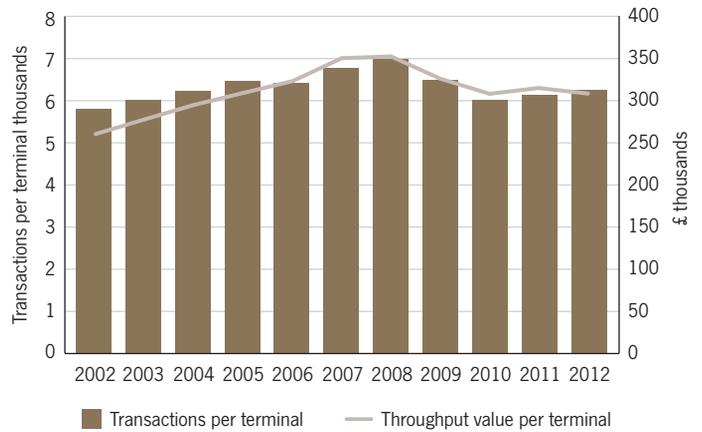
The number of outlets accepting plastic cards increased by 12,493 to 1.1 million, with an annual growth rate of 1.2%, down from a figure of 6.0% a year earlier. This slowdown may be attributable to closures of high street stores during 2012, two notable examples being HMV and Comet. However, future growth in the number of outlets will also be driven by the internet which is seeing usage increase at much higher levels than at point-of-sale terminals and for which plastic cards remain the leading payment method.

**Chart 5.1**  
Number of outlets and terminals accepting plastic cards



The number of point-of-sale transactions grew to 10.3 billion in 2012, a rise of 8.1%. Values grew at a slower rate of 3.9% for a value of £508 billion. The average number of transactions per terminal rose by 1.8% to stand at 6,277. Average transaction values on both credit and debit cards fell by £2 between 2011 and 2012, from £62 to £60 for credit cards and from £52 to £50 for debit cards. Throughput value per terminal decreased by 2.1% to £309,559 in 2012. The average transaction value of £49 was slightly lower than the £51 recorded in both 2010 and 2011.

**Chart 5.2**  
Average number and value of transactions per terminal



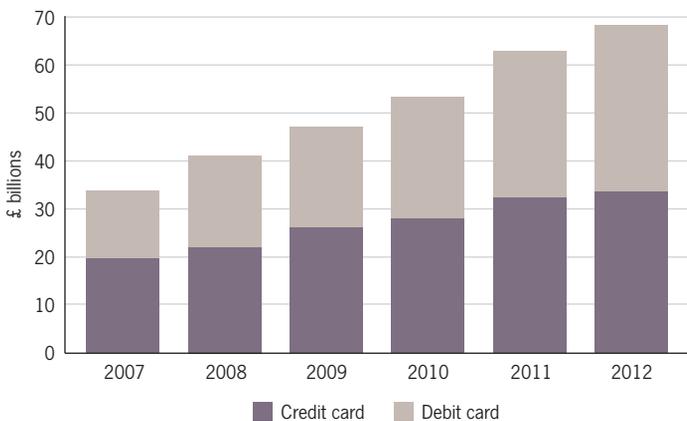
## 6. Online Card Transactions

### 6.1 Internet card payments

In 2012 online shopping continued to defy the depressed economic environment. Buoyant growth in spending was driven by a number of factors including growth in mobile channels, integration of online and offline by retailers allowing customers to select and pay for goods over the internet and then pick them up in store, and the underlying trend for people to do more of their shopping online. Last year, 83% of adults used the internet for personal purposes, including 37% who accessed it through a mobile phone. 86% of those internet users, or 38 million adults, shopped online.

**Chart 6.1**

Consumer internet card spending



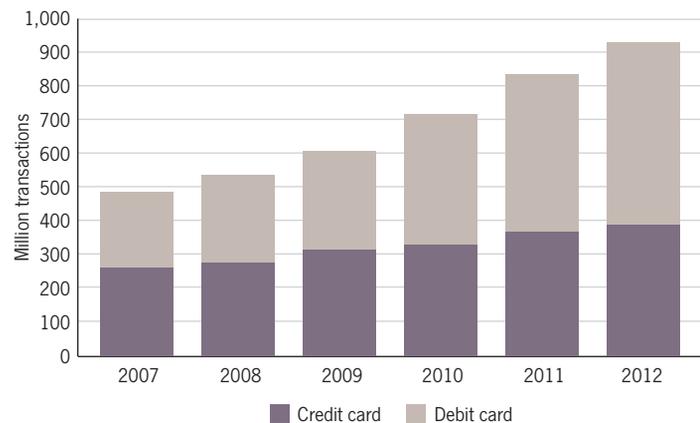
Reflecting the broader trends in the marketplace and other factors such as the direct charging from some internet merchants for using credit cards, debit card use online has been growing more rapidly than credit cards. In 2012, for the first time, online card spending by debit card, at £35 billion, was marginally greater than that by credit, at £34 billion. Total card spending online, at £68 billion last year, was £5 billion up on 2011. Online accounted for 15% of all personal card spending in 2012.

However, credit cards do provide some additional value to cardholders including protection under Section 75 of the Consumer Credit Act, and the risks of using a credit card may be perceived to be lower than using a debit card as the latter could provide access to the cardholder's current account if details are stolen. Credit cards are also used relatively more heavily than debit cards for higher value purchases in sectors where the internet has made a major impact such as travel. As a result the proportion of all consumer card spending online by credit card, at 48% last year, is much higher than the corresponding proportion of offline spending of 20%.

The total number of consumer internet purchases made by debit and credit card rose to just over 900 million in 2012, or 10% of all card payments. The average value of a personal debit card payment online was around £64 compared with £87 for a credit card payment. This lower average value means that the total volume of debit card payments online exceeds that with credit cards, at 542 million compared with 388 million respectively last year.

**Chart 6.2**

Consumer internet card payment volumes

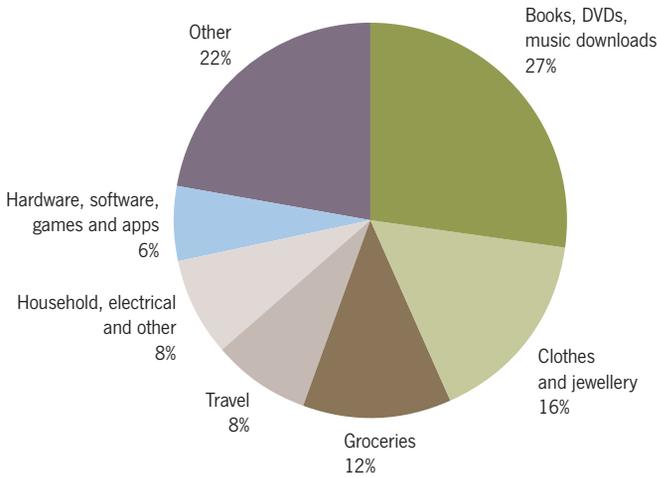


Around two-thirds of online shoppers used debit cards for some or all of their internet purchases last year. The next most popular method was credit cards, which were used by 47% of shoppers. PayPal is also widely used by consumers, with around 40% of internet shoppers using it last year. Electronic vouchers have been growing rapidly in popularity, with over 3.5 million people using them last year. As one might expect there are some significant differences between online shoppers in different socio-economic groups in the payments methods they use online. Credit cards are used more by older shoppers, and debit cards by younger online shoppers. PayPal is used by a higher proportion of online shoppers in the middle age bands than in the bands at the ends of the age spectrum. Shoppers in socio-economic groups AB and C1 are significantly more likely to use credit cards than those in groups D and E. However, there is little variation by socio-economic group in the proportion of shoppers using debit cards and PayPal. For all of the main payment methods, the proportions of people using them that are men or women split roughly 50:50.

6. Online card transactions

**Chart 6.3**

Consumer internet purchases by sector 2012

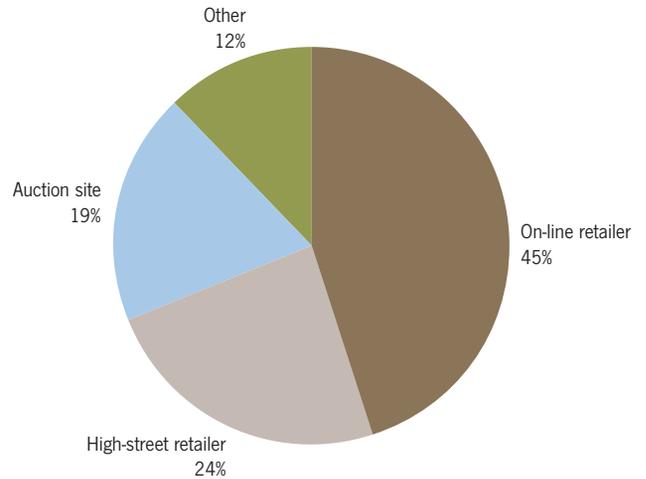


The mix of goods and services bought online has changed little in recent years. The most notable changes in 2012 were the falls in the share of purchases for travel and household goods, which fell by 3 and 2 percentage points respectively and are likely to reflect the continuing squeeze on household budgets. Within the 'other' category one significant item is government services such as road tax, income tax and payments to local authorities, at 4% of all payments last year.

The pattern of purchases by shoppers in different demographic groups is very much as you would expect. Men are much more likely than women to buy hardware, software, computer games and apps, whereas women are more likely to buy clothes, cosmetics and do the grocery shop online. 16 to 24 year olds are the most likely to buy event tickets and travel online, whereas those in the next age bands up (25 to 44) are the most likely to buy software, games, apps and groceries. 45 to 54 year-olds are the most likely to buy financial services. It is also interesting that there are no notable differences between the proportions of people buying each type of product or service across socio-economic groups. For instance, the proportions of AB and DE online shoppers buying groceries over the internet are similar at 23% and 21% respectively.

**Chart 6.4**

Consumer internet purchases by type of retailer 2012



Online retailers, such as Amazon, Ocado or iTunes received 45% of consumer online payments last year. High street retailers such as Tesco, Sainsbury's and Argos accounted for nearly one internet purchase in four, and auction sites such as eBay for 19%.

## 7. Plastic Card Fraud

### 7.1 Plastic card fraud – overview

Total card fraud losses increased by 14% to £388.0 million – an increase of £47.0 million. This is the first increase in plastic card fraud losses since 2008. Despite this increase, card fraud losses are still 36% lower than their peak in 2008.

Fraudsters are continuing to exploit the areas of plastic card usage that are not protected by chip and PIN, such as mail order, telephone order and internet channels. The cards industry continues to work to increase awareness of how customers can protect their personal information to reduce the likelihood of becoming a victim of fraud.

Counterfeit card fraud increased by 16% to £42.1 million in 2012: despite this increase losses are still 75% lower than at the highest point seen in 2008.

The main driver for this increase was the rise in the use of counterfeit cards at international retailers and ATMs. The majority of cross border counterfeit card fraud took place in countries that do not have mature Europay, MasterCard & Visa (EMV) chip technology at their shops and ATMs.

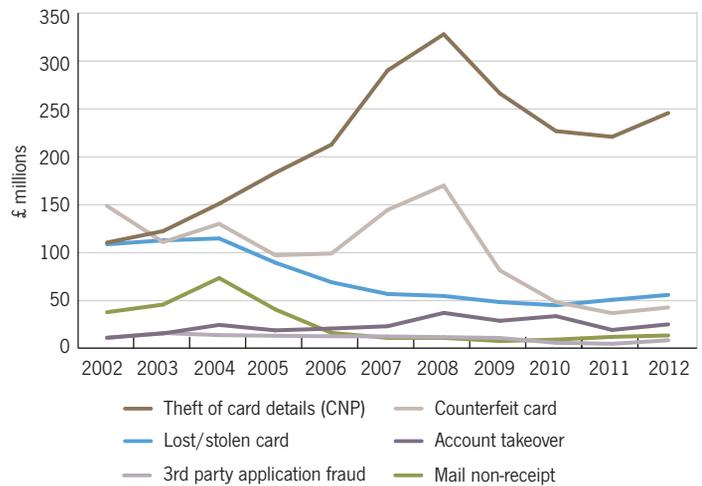
Theft of card details or Card Not Present (CNP) compromise losses increased by 11% to £245.8 million, an increase of £24.9 million. This was the first increase in this category since 2008. CNP losses continued to dominate overall plastic card fraud losses and accounted for 63% of the total, an increase of two percentage points on 2011. The most likely driver behind these increases is a significant rise in phishing attacks where fraudsters set up a fake version of a genuine bank website and then send out thousands or even millions of e-mails trying to convince people to click on a link that will send them to the fake site. Phishing attacks increased by 131% in 2012 when compared to 2011.

Losses on lost or stolen cards increased by 10% to £55.2 million with an increase across all card types. Lost or stolen card fraud accounted for 14% of the total losses in 2012. Intelligence suggests that the rise was due to an increased number of card entrapments and distraction thefts at ATMs. Other common points of theft included bars, clubs and supermarkets.

Card ID theft losses increased by 42% to £32.1 million in 2012. Card ID theft occurs when a criminal uses a fraudulently obtained card or card details, along with stolen personal information, to open or take over a card account held in someone else's name. The majority of fraudulent transactions in card ID theft cases took place at face-to-face merchants in the UK.

Chart 7.1

Fraud Losses on UK plastic cards



### 7.2 Fraud in the card-not-present environment

As face-to-face fraudulent transactions in the UK continue to be increasingly difficult to undertake due to the success of chip and PIN, fraudsters are concentrating their efforts on the Card Not Present (CNP) channels (mail order, telephone and internet). However, the continued take-up of online security systems such as MasterCard SecureCode, Verified by Visa and American Express SafeKey<sup>9</sup> by merchants and cardholders has helped to restrict the growth of online CNP fraud in the UK.

<sup>9</sup>See [www.mastercard.com/UK](http://www.mastercard.com/UK), [www.visaeurope.com](http://www.visaeurope.com) and [www.americanexpress.com/uk](http://www.americanexpress.com/uk)

## 7. Plastic Card Fraud

### 7.3 Fraud in the face-to-face environment (including cash machines)

With the enduring positive impact of chip and PIN on fraud in the UK, losses at UK ATMs decreased by 1% in 2012 from £29.3 million to £28.9 million. Fraud at UK retailers increased for the first time in three years as losses rose by 26% to £54.5 million, driven by account takeover compromises.

The fraud that remains in this environment is typically the type of fraud that cannot be prevented by chip and PIN. In these cases, the fraudster possesses a genuine card together with the PIN that has been acquired dishonestly, such as by the theft or intercept of both the card and the PIN, or through account takeover.

### 7.4 Cross border losses

International fraud losses on UK-issued cards were £101.3 million in 2012, a 27% increase on 2011. An increase was seen at both international ATMs and retailers. Losses at international ATMs rose by 27% to £15.7million; this is the first major increase in four years. Fraud at retailers outside the UK increased by 26% to £85.6 million. Throughout the world EMV chip technology is increasing the levels of card payment security, with ever-increasing numbers of international merchants being chip enabled. Those countries yet to commence implementation are progressively more targeted by fraudsters. Where this is happening, the use of intelligent fraud detection systems by UK card issuers will continue to help identify and prevent fraud losses on UK cards.

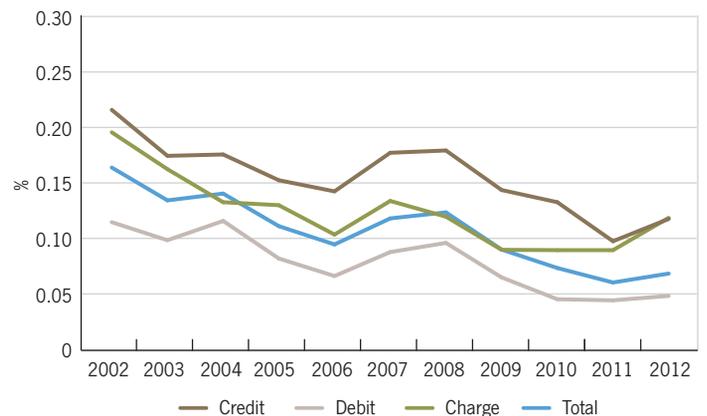
The USA still accounts for the majority of all cross border fraud on UK-issued cards with 23% share of the overall losses seen in 2012.

### 7.5 Fraud-to-turnover ratios

Fraud-to-turnover ratios are a widely used measure to place plastic card fraud losses in the context of an ever-increasing use of plastic cards. In the UK £477 billion was spent using UK-issued plastic cards in 2012. Fraud-to-turnover for all plastic cards increased to 0.071% in 2012, equivalent to 7.1 pence of fraud for every £100 spent. This ratio excludes cash acquisition, both from the fraud totals and from the genuine transaction figures.

The fraud to turnover ratios for all card types increased for the first time in four years. Despite this increase, levels remain 61% lower than in 2001 when they peaked at 18.3 pence of fraud for every £100 of spending. The fraud-to-turnover ratio on credit cards in 2012 was 11.8 pence of fraud for every £100 of spending; on debit cards this was 5.2 pence of fraud for every £100 of spending. The day-to-day use of debit cards in preference to other card types means they have a considerably higher turnover. Debit card fraud increased in 2012 accounting for the highest fraud loss of all card types at £212.5 million; 55% of all plastic fraud.

**Chart 7.2**  
Fraud-to-turnover ratios



## 8. Recent Regulatory Developments

2012 was yet another year of regulatory scrutiny for the consumer credit industry. The industry continued to proactively engage with regulators and legislators, and, as in 2010/2011, sought to employ a robust, evidenced-based approach to its consultation responses and other engagement with Government and regulators. The key objective is to ensure that there is at all times an appropriate balance between the interests of consumers and the industry, substantially reducing the risk of unintended consequences.

2012 saw the introduction of the final changes agreed with Government as a result of the 2010 Credit & Store Card Review, with the industry delivering Annual Credit Card Statements, enabling customers to benefit from a snapshot of their spending and payments over the year, together with other useful information.

With the formation of the new Financial Conduct Authority (FCA) to regulate the conduct of all firms (both retail and wholesale) the industry has been closely engaging with HM Treasury, the Department for Business, Innovation & Skills (BIS) and the Financial Services Authority (FSA) to understand and influence the future shape of the consumer credit regime as it migrates to the FCA. Consultations on key elements of the migration and rulebook have recently closed, with a further consultation expected in Autumn 2013. The industry is committed to working closely with industry contacts, key stakeholders and regulators to ensure a proportionate and effective regime for all parties going forward.

Having spent much of 2011 focusing its attention on the evidence-based arguments against rate-capping and the shortcomings of APRs for credit cards, the industry has continued lobbying on these issues. Following consumer research, working in partnership with the Personal Finance Research Centre at the University of Bristol, The UK Cards Association has developed its 'CardCosts' website, which will act as a 'complement' to the APR, helping consumers to more fully understand the costs of their credit card.

At a European level, the Association has been working closely with its members, other trade bodies, UK-lead regulators and other key stakeholders to influence key areas of activity and, in particular, Data Protection Proposals and the Payment Services Directive (PSD) II. Both these areas are expected to continue to dominate the European agenda in 2013 and, in the case of the data protection discussions, beyond.

Proactively, The UK Cards Association has continued its work in the area of consumer protection, working closely with the debt advice sector, regulators and the Lending Standards Board to ensure that an appropriate, proportionate and robust approach is at all times adopted. The Association has also been actively engaged in working to address the recommendations from the BIS Committee's inquiry into Debt Management, including how to facilitate better data sharing across the payday lending sector.

The Association has sought to work in partnership with key regulators to ensure a more proactive and forward-thinking approach to industry developments. To this end the industry is working with HM Treasury to identify opportunities for earlier settlement in the merchant acquiring environment, together with the development of a merchant services code with the intention that compliance would be monitored and enforced by the Lending Standards Board to ensure a consistent and independent monitoring regime.

Given the changes that will take place to consumer credit, and consultations already anticipated, 2013 is expected to be another busy year of regulatory attention for the industry.

## 9. Card Technology – The Future

### 9.1 Cards go mobile

As new shopping or payment channels have emerged the plastic card industry has adapted its products and services to ensure that it is well placed to provide consumers with options to allow them to continue to transact using their card account. The challenge for the card industry has always been to ensure that products offer the same levels of convenience and security that a traditional card payment enjoys.

In the digital age we can expect to see our traditional bank cards slowly morph into a series of payment applications delivered to the customer through 'digital wallets' on consumer electronic devices such as mobile phones and tablets.

These applications will allow the consumer to carry out a range of card-like transactions from a single device, enabling them to pay for goods and services online, to transfer money between card accounts or to carry out contactless transactions in a face-to-face environment using the devices with NFC capabilities.

To complement these applications the customer will be provided with an enriched environment in which to manage their spending; devices will receive instant feedback on transactions and additional 'shopping basket' data will be added to allow the consumer to monitor and manage their money on the go.

Consumers will be able to load their wallets with a number of mutually interoperable loyalty applications and through the devices' internet connection and location based services they will be able to receive targeted offers and coupons to enhance the shopping experience.

Many of these applications will be enabled through the growing number of contactless card readers that retail merchants are deploying and whilst at this time consumers may be expected to tap their device more than once to execute them, it is anticipated that in time these multi-applications services will be launched in a single interaction saving time at the counter.

The work to drive this mobilisation of payment is being led in the UK by the multi-stakeholder NFC Steering Board which is driving the development and agreement of uniform processes to support this new approach.

### 9.2 Changes at the shop counter

Just as the plastic card is evolving in the digital age, so too is the traditional point-of-sale. In the last year we have seen a growing number of mobile point-of-sale solutions launched by the likes of iZettle and SumUp. Their current manifestation is aimed at the small- to medium-sized business where a traditional point-of-sale (POS) device is too costly or where portability is essential. However we are seeing increased interest in these new solutions from major high street chains that see the potential to re-engineer the shopping experience by placing the devices in the hands of shop staff walking around the store and allowing customers to pay without the need to stand in a queue at a traditional counter.

The availability of wireless and mobile networks in store will remove the need to have hard-wired devices connected to the store systems and secure solutions are already available to transfer card payments across the airwaves.

Paper receipts will be outdated as this connectivity will allow stores to send electronic receipts, including shopping basket data, to the customer's phone or home e-mail address.

### 9.3 The end of plastic cards

Whilst some will say that these developments herald the end of the plastic card in our wallets, just like the cheque, tales of this demise are widely exaggerated.

We will continue to need plastic cards for use at locations that do not enjoy the benefits of mobile and wireless signals and when technology fails merchants will still need to be able to fall back to a traditional, contact chip & PIN, transaction.

To support this and the changing world of card payments EMV Co are developing the 'next generation' card and terminal specifications creating a more open, yet secure platform for card applications capable of supporting changes to the way we pay with cards.

## 10. A comparison of the UK cards market with other countries 2011

### 10.1 Cards held

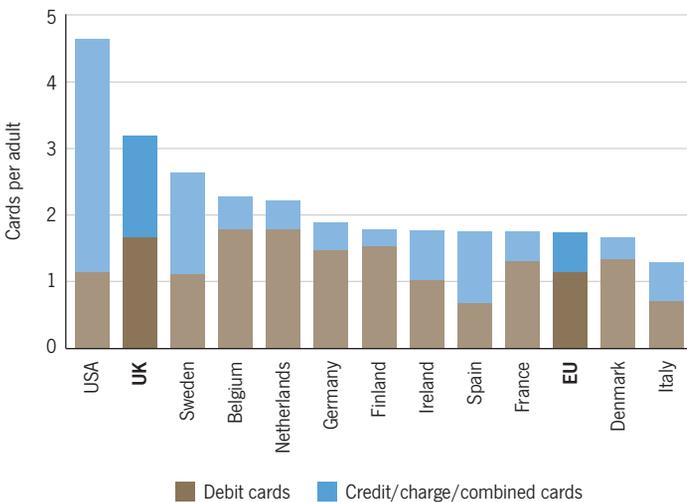
The use of plastic cards varies widely between different countries, not just in terms of the total number of cards in issue, but also in the type of cards that are in use (whether debit cards, credit cards, charge cards or cards with combined functions).

Cardholding in the UK is higher than in other western European countries, with over 3 cards per adult held by UK residents. The EU average lies somewhat lower, at around 1.7 cards per adult.

**Chart 10.1**

Number of cards per adult 2011

USA and Western Europe, end of year



Note: US figures include prepaid cards

Source: ECB Blue Book, CPSS Red Book, US Census Bureau

Whilst the UK leads the way in Europe, it still lags some way behind the USA, where card holding lies above 4.6 cards per adult. Having said this, the UK is characterised by greater issuance of debit cards, whilst the US market tends towards credit and charge cards, as well as prepaid cards. Indeed, prepaid cards have enjoyed particular success following the US recession, as consumers have tried to reduce their debt levels.

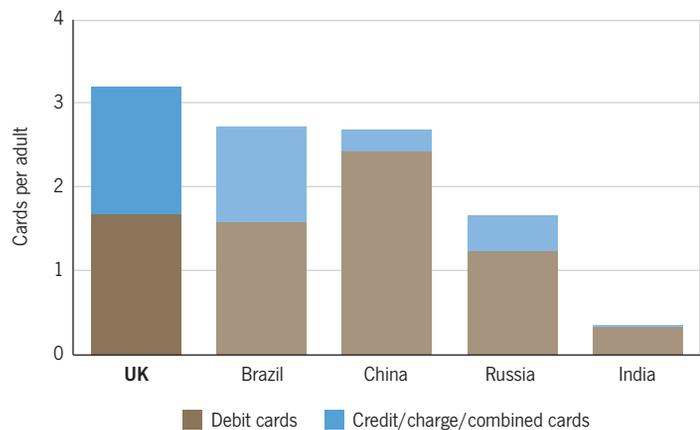
Italy and Spain are the only two western European nations with less than one debit card per adult in circulation. Spain compensates for this to some extent with charge cards and credit cards, taking its total to 1.75 cards per adult. However, in the case of Italy, the card market has historically been smaller than the other large EU economies, although it leads the way in the use of prepaid cards.

Considering the experience of the four large economies that have shown growing economic power in recent years, (Brazil, Russia, India and China – the 'BRIC countries'), it is evident that their experience of cardholding varies significantly.

**Chart 10.2**

Number of cards per adult 2011

UK and BRIC countries, end of year



Source: ECB Blue Book, CPSS Red Book, US Census Bureau

Brazil has a mature cards market, with a similar number of debit cards per adult to the UK and an extensive distribution of credit and charge cards. China's use of cards continues to grow, and it is now the largest single debit and credit card market in the world in terms of number of cards issued, with almost 3 billion cards in circulation at the end of 2011.

The Russian market is dominated by state-owned banks, the largest of which is Sberbank, which had 47% of the retail deposit market at the end of 2011. However, in recent years competition has intensified as smaller banks attempt to win personal customers away from Sberbank. Part of the competitive strategy has involved relaxing the lending criteria that are applied to credit card applicants. Following a period of significantly tightened controls between 2007 and 2009, Russian banks promoted their cards heavily in 2011 and competed aggressively for new cardholders. Looking to the future, in 2011 the Russian Government continued to work towards introducing its Universal Electronic Cards (UEC), which will function not only as bank cards but also as identity cards that will be used for governmental, customs and taxation purposes, as well as being used to manage access to social benefit services.

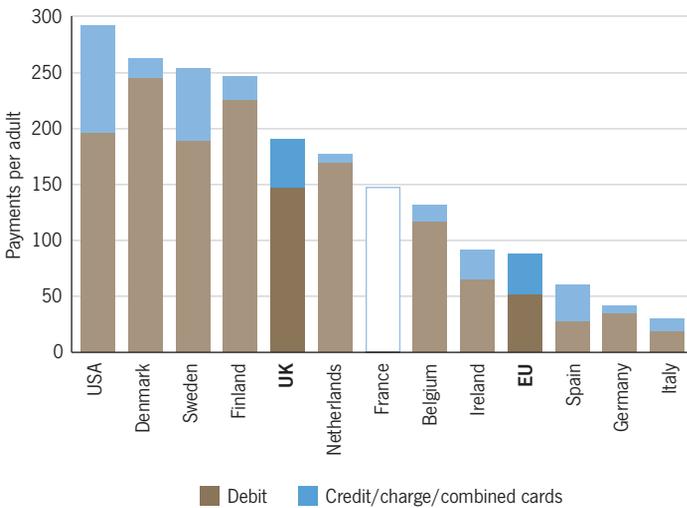
India, meanwhile, remained primarily a cash-using market and continued to show significant aversion to incurring debts. Nevertheless, card issuance and holding has started to grow, as consumers grow more confident in this method of payment (particularly those in younger age groups) and as India's growing GDP increases levels of disposable income.

10. A comparison of the UK cards market with other countries 2011

10.2 Card usage

Considering the USA and western Europe, four countries showed higher volumes of card payments per adult than the UK. These were the USA, Denmark, Sweden and Finland, each with around 250 or more card transactions per adult during 2011.

**Chart 10.3**  
Number of payments per adult 2011  
USA and Western Europe



*Note: Data for France records total transactions across all card types, as most French bank cards are combined debit and delayed debit cards*  
*Source: ECB Blue Book, CPSS Red Book, US Census Bureau*

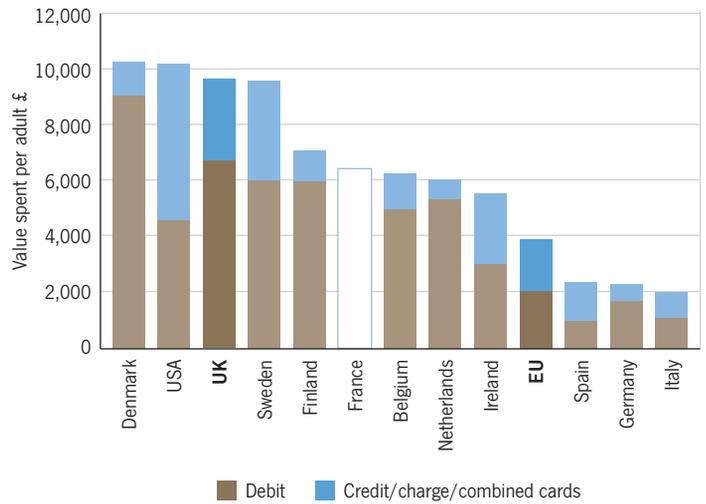
Interestingly, Denmark shows the highest volume of debit card payments per adult, thanks predominantly to the success of the domestic Dankort debit card. There was some decline in credit card transaction volumes, possibly due to the introduction of charges for customers paying by credit card. For the future, the Government is supporting the introduction of a card-based travel system and a prepaid school card project, both of which reflect a continuing trend towards a cashless society in Denmark.

High card usage levels in Sweden and Finland reflect the efforts made by governments and banks in Nordic countries to drive adoption of alternatives to cash.

In contrast, use of cards remains low in Spain, Germany and Italy, with each showing a volume of transactions per adult significantly below the EU average. In the case of Spain, this pattern of use has been exacerbated by recent economic difficulties.

This pattern of card usage is also reflected in the value of card purchases per adult.

**Chart 10.4**  
Value of card purchases per adult 2011  
USA and Western Europe, sterling equivalent



*Note: Data for France records spend across all card types, as most French bank cards are combined debit and delayed debit cards*  
*Source: ECB Blue Book, CPSS Red Book, US Census Bureau, HMRC*

Under this measure, Denmark leads with the highest value of spending per adult, just outreaching the USA. Card spending per adult in the UK is greater than that seen in Sweden and Finland, despite the fact that the Nordic countries show higher number of transactions per adult. This suggests that the average transaction value is higher in the UK than it is in Sweden and Finland.

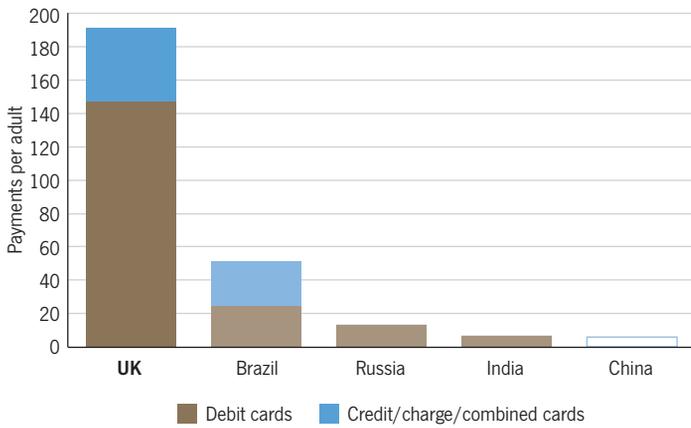
Spending in the Netherlands provides an interesting contrast to the UK. Whilst the total number of cards per adult is similar in the two countries, the total amount spent on those cards per adult is significantly lower in the Netherlands. This perhaps reflects two key factors; firstly, credit card use has historically been low in the Netherlands; and secondly, payments on the internet in the Netherlands are dominated by the online bank transfer service iDEAL, whereas in the UK internet purchases would more typically be made using cards.

Considering the BRIC countries, it is clear that whilst the number of cards per adult in Brazil and China may be similar to that seen in western Europe, the use of those cards remains significantly lower.

**Chart 10.5**

Number of payments per adult 2011

UK and BRIC countries



Source: ECB Blue Book, CPSS Red Book, US Census Bureau

Transactions per adult in Brazil far outstrip those in Russia, India and China, driven by sustained economic growth, which has resulted in millions of Brazilians moving from low-income groups to join a new emerging middle-class. This expanding group in society is widely expecting to continue to fuel growth in card use in coming years.

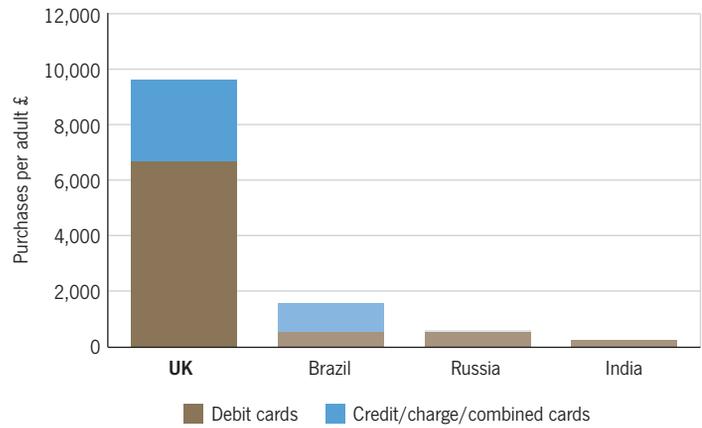
Card use in the other three BRIC countries has not reached the same levels as Brazil to date. Whilst all three have shown growth in card use in recent years, they have each started from a very low usage base, and therefore the number of transactions per adult remained relatively low in 2011. Continued economic growth, combined with changing social norms and concerted efforts by governments and the banking sector, should see these transaction levels rise substantially in the future.

This pattern is also reflected in the value of card purchases per adult.

**Chart 10.6**

Value of card purchases per adult 2011

UK and BRIC countries, sterling equivalent



Note: Breakdown of value by card type not available for China

Source: ECB Blue Book, CPSS Red Book, US Census Bureau, HMRC

Whilst the differences between the UK and the BRIC countries may be exaggerated somewhat due to differences in GDP, UK spending on cards in 2011 was around 33% of GDP, whereas spending in Brazil was around 15% of GDP. As can be seen, there appears to be plenty of scope for growth in card use in the BRIC countries in future.

## 11. Summary Tables

Summary table 11.1: Cards in issue

Thousands							Total payment cards	
	Credit		Charge <sup>(a)</sup>		Debit		Number	% Change
	Number	% Change	Number	% Change	Number	% Change		
2002	58,794	13.7	4,311	-2.6	59,419	9.4	122,524	10.9
2003	66,825	13.7	4,431	2.8	62,854	5.8	134,110	9.5
2004	69,888	4.6	4,423	-0.2	65,544	4.3	139,855	4.3
2005	69,858	..	4,725	6.8	66,990	2.2	141,573	1.2
2006	69,497	-0.5	5,042	6.7	68,657	2.5	143,196	1.1
2007	67,310	-3.1	5,696	13.0	71,577	4.3	144,583	1.0
2008	65,885	-2.1	6,434	13.0	76,236	6.5	148,555	2.7
2009	58,171	-11.7	6,359	-1.2	79,237	3.9	143,767	-3.2
2010	55,601	-4.4	7,088 ^	11.5 ^	84,642	6.8	147,331 ^	2.5 ^
2011	54,483	-2.0	6,928 ^	-2.3 ^	86,325	2.0	147,736 ^	0.3
2012	56,443	3.6	6,604	-4.7	88,553	2.6	151,600	2.6

Thousands							Total all cards	
	Payment cards		ATM-only		Cheque guarantee only <sup>(b)</sup>		Number	% Change
	Number	% Change	Number	% Change	Number	% Change		
2002	122,524	10.9	23,196	-3.5	1,810	-23.6	147,530	7.8
2003	134,110	9.5	24,874	7.2	1,605	-11.3	160,588	8.9
2004	139,855	4.3	24,829	-0.2	831	-48.2	165,515	3.1
2005	141,573	1.2	22,867	-7.9	667	-19.8	165,106	-0.2
2006	143,196	1.1	21,294	-6.9	541	-18.9	165,031	..
2007	144,583	1.0	20,210	-5.1	538	-0.5	165,331	0.2
2008	148,555	2.7	19,411	-4.0	409	-24.1	168,374	1.8
2009	143,767	-3.2	18,515	-4.6	376	-8.0	162,658	-3.4
2010	147,331 ^	2.5 ^	18,268	-1.3	196	-47.8	165,795 ^	1.9 ^
2011	147,736 ^	0.3	17,866	-2.2			165,601 ^	-0.1
2012	151,600	2.6	17,393	-2.6			168,993	2.0

<sup>(a)</sup> Charge cards include transactions on credit cards issued by card schemes other than Visa and Mastercard.

<sup>(b)</sup> The UK Domestic Cheque Guarantee Card Scheme closed on 30 June 2011.

.. Value too small to be shown.

^ Revised figure.

This table also appears in *UK Payment Statistics 2013* as Table 6.1.

Summary table 11.2: Transaction volumes

Millions							Total purchases in the UK	
Purchases in the UK							Number	% Change
Credit		Charge <sup>(a)</sup>		Debit				
Number	% Change	Number	% Change	Number	% Change			
2002	1,471	9.7	216	-2.0	2,994	11.1	4,681	9.9
2003	1,598	8.6	224	3.8	3,364	12.4	5,186	10.8
2004	1,727	8.1	222	-1.1	3,690	9.7	5,639	8.7
2005	1,674	-3.1	250	12.9	4,084	10.7	6,008	6.5
2006	1,659	-0.9	273	9.0	4,507	10.4	6,438	7.2
2007	1,665	0.4	291	6.8	4,939	9.6	6,895	7.1
2008	1,628	-2.2	340	16.6	5,384	9.0	7,352	6.6
2009	1,708	4.9	338 ^	-1.7	5,859	8.8	7,907 ^	7.5
2010	1,709	..	334 ^	-1.3	6,386	9.0	8,429 ^	6.6
2011	1,780	4.2	347 ^	3.7 ^	7,308	14.4	9,434	11.9 ^
2012	1,857	4.3	346	-0.1	7,649	4.7	9,853	4.4

Millions							Total cash acquisition in the UK			
Cash acquisition in the UK							Number	% Change		
Credit		Charge <sup>(a)</sup>		Debit		ATM-only				
Number	% Change	Number	% Change	Number	% Change	Number	% Change			
2002	50	4.7	4	-0.6	1,757	8.1	452	0.2	2,263	6.4
2003	51	2.1	4	-10.2	1,865	6.2	434	-4.0	2,354	4.0
2004	57	13.1	4	-3.5	1,976	6.0	393	-9.6	2,430	3.2
2005	62	8.4	4	2.2	2,105	6.5	449	14.3	2,621	7.8
2006	57	-8.7	4	5.9	2,161	2.7	474	5.5	2,696	2.9
2007	48	-15.1	4	-5.7	2,291	6.0	438	-7.5	2,782	3.2
2008	40	-16.1	4	-8.3	2,372	3.5	378	-13.8	2,794	0.4
2009	32	-20.3	3	-15.0	2,471	4.2	327	-13.5	2,833	1.4
2010	26	-19.2	3	-7.8	2,438	-1.3	275	-16.0	2,741	-3.2
2011	26	-2.0	3	-10.1	2,573	5.6	223	-18.9	2,825	3.1
2012	25	-1.4	2	-10.9	2,653	3.1	176	-21.1	2,857	1.1

<sup>(a)</sup> Charge cards include transactions on credit cards issued by card schemes other than Visa and MasterCard.

.. Value too small to be shown.

^ Revised figure.

This table also appears in *UK Payment Statistics 2013* as Table 6.2.

## 11. Summary Tables

Summary table 11.2: Transaction volumes continued

Millions	Purchases outside the UK						Total purchases outside the UK	
	Credit		Charge <sup>(a)</sup>		Debit		Number	% Change
	Number	% Change	Number	% Change	Number	% Change		
2002	119	9.2	15	-3.3	35	8.5	169	7.8
2003	126	5.8	15	3.3	38	8.1	179	6.1
2004	136	8.1	15	-0.5	54	41.9	205	14.5
2005	132	-3.0	14	-8.5	71	32.4	217	5.8
2006	122	-7.8	15	10.1	83	16.7	220	1.4
2007	136	11.7	17	9.0	88	5.9	240	9.3
2008	138	1.7	17	-0.5	89	2.2	244	1.7
2009	122	-11.4	15	-10.8	99	10.8	236	-3.5
2010	144	18.0	17	13.2	164	65.5	325	37.6
2011	142	-2.0	18	6.5	255	55.6	415	27.5
2012	163	14.8	20	13.5	456	78.7	639	54.1

Millions	Cash acquisition outside the UK							Total cash acquisition outside the UK		
	Credit		Charge <sup>(a)</sup>		Debit		ATM-only		Number	% Change
	Number	% Change	Number	% Change	Number	% Change	Number	% Change		
2002	7	16.1	1	-3.1	34	10.9	1	0.7	44	11.1
2003	7	1.0	1	-3.9	39	13.8	3	167.7	51	15.9
2004	7	-4.2	1	-5.7	48	22.2	4	8.5	59	17.0
2005	7	-2.7	1	-9.1	51	6.6	4	9.1	62	5.5
2006	7	6.5	1	16.5	57	11.3	3	-22.4	68	8.6
2007	7	-6.4	1	12.0	58	2.6	3	-3.3	69	1.5
2008	6	-7.6	1	-4.6	62	6.3	3	-2.1	72	4.5
2009	5	-20.5	1	-15.4	59	-5.0	3	-6.7	67	-6.5
2010	4	-20.1	1	21.4	54	-7.7	2	-22.7	61	-8.9
2011	4	-0.9	1	-10.0	49	-9.9	1	-37.5	55	-10.3
2012	4	-3.9	1	4.5	50	1.0	1	-39.8	55	-0.3

Millions	Purchases in the UK		Cash acquisition in the UK		Purchases outside the UK		Cash acquisition outside the UK		Total number of transactions	
	Number	% Change	Number	% Change	Number	% Change	Number	% Change	Number	% Change
	2002	4,681	9.9	2,263	6.4	169	7.8	44	11.1	7,157
2003	5,186	10.8	2,354	4.0	179	6.1	51	15.9	7,770	8.6
2004	5,639	8.7	2,430	3.2	205	14.5	59	17.0	8,333	7.3
2005	6,008	6.5	2,621	7.8	217	5.8	62	5.5	8,908	6.9
2006	6,438	7.2	2,696	2.9	220	1.4	68	8.6	9,422	5.8
2007	6,895	7.1	2,782	3.2	240	9.3	69	1.5	9,986	6.0
2008	7,352	6.6	2,794	0.4	244	1.7	72	4.5	10,462	4.8
2009	7,907 ^	7.5	2,833	1.4	236	-3.5	67	-6.5	11,042 ^	5.5
2010	8,429 ^	6.6	2,741	-3.2	325	37.6	61	-8.9	11,556 ^	4.7
2011	9,434	11.9 ^	2,825	3.1	415	27.5	55	-10.3	12,728	10.1 ^
2012	9,853	4.4	2,857	1.1	639	54.1	55	-0.3	13,404	5.3

<sup>(a)</sup> Charge cards include transactions on credit cards issued by card schemes other than Visa and MasterCard.

^ Revised figure.

This table also appears in *UK Payment Statistics 2013* as Table 6.2.

Summary table 11.3: Transaction values

£ Millions							Total purchases in the UK	
	Purchases in the UK						Value	% Change
	Credit		Charge <sup>(a)</sup>		Debit			
	Value	% Change	Value	% Change	Value	% Change		
2002	81,105	13.2	22,006	0.1	107,845	13.6	210,956	11.9
2003	91,368	12.7	22,036	0.1	130,469	21.0	243,874	15.6
2004	99,432	8.8	23,363	6.0	150,152	15.1	272,947	11.9
2005	99,554	0.1	24,497	4.9	170,672	13.7	294,723	8.0
2006	100,934	1.4	28,147	14.9	194,941	14.2	324,023	9.9
2007	102,112	1.2	31,238	11.0	220,710	13.2	354,060	9.3
2008	100,483	-1.6	37,260	19.3	241,158	9.3	378,901	7.0
2009	98,005	-2.5	34,576	-7.2	264,341	9.6	396,922	4.8
2010	101,025	3.1	35,391 ^	2.4 ^	291,644	10.3	428,060 ^	7.8
2011	107,220	6.1	33,082 ^	-6.5 ^	333,688	14.4	473,990 ^	10.7 ^
2012	109,190	1.8	31,008	-6.3	336,638	0.9	476,837	0.6

£ Millions									Total cash acquisition in the UK	
	Cash acquisition in the UK								Value	% Change
	Credit		Charge <sup>(a)</sup>		Debit		ATM-only			
	Value	% Change	Value	% Change	Value	% Change	Value	% Change		
2002	6,099	0.3	995	4.9	107,995	10.0	34,109	-0.9	149,198	6.9
2003	6,605	8.3	958	-3.7	117,661	9.0	32,603	-4.4	157,827	5.8
2004	7,824	18.5	923	-3.6	130,791	11.2	31,362	-3.8	170,901	8.3
2005	8,275	5.8	904	-2.1	141,845	8.5	32,954	5.1	183,979	7.7
2006	7,307	-11.7	907	0.4	142,366	0.4	33,467	1.6	184,049	..
2007	6,149	-15.9	844	-7.0	151,965	6.7	32,029	-4.3	190,986	3.8
2008	5,076	-17.4	732	-13.3	162,901	7.2	26,331	-17.8	195,039	2.1
2009	3,920	-22.8	688	-6.0	170,925	4.9	22,698	-13.8	198,228	1.6
2010	3,169	-19.2	637	-7.4	172,435	0.9	19,402	-14.5	195,643	-1.3
2011	2,937	-7.3	600	-5.7	178,418	3.5	17,097	-11.9	199,052	1.7
2012	2,828	-3.7	522	-13.0	184,430	3.4	14,300	-16.4	202,080	1.5

<sup>(a)</sup> Charge cards include transactions on credit cards issued by card schemes other than Visa and MasterCard.

.. Value too small to be shown.

^ Revised figure.

This table also appears in *UK Payment Statistics 2013* as Table 6.3.

## 11. Summary Tables

Summary table 11.3: Transaction values continued

£ Millions							Total purchases outside the UK	
	Purchases outside the UK						Value	% Change
	Credit		Charge <sup>(a)</sup>		Debit			
	Value	% Change	Value	% Change	Value	% Change		
2002	8,173	13.5	1,766	-4.3	1,757	8.4	11,696	9.7
2003	8,911	9.0	2,003	13.4	2,136	21.6	13,050	11.6
2004	9,613	7.9	1,843	-8.0	2,711	26.9	14,166	8.6
2005	9,372	-2.5	1,816	-1.4	3,448	27.2	14,636	3.3
2006	9,119	-2.7	2,137	17.6	5,186	50.4	16,442	12.3
2007	10,506	15.2	2,389	11.8	5,244	1.1	18,139	10.3
2008	11,562	10.0	2,563	7.3	5,709	8.9	19,834	9.3
2009	9,956	-13.9	2,106	-17.8	5,719	0.2	17,781	-10.4
2010	10,302	3.5	2,510	19.2	7,448	30.2	20,260	13.9
2011	9,755	-5.3	2,584	3.0	9,300	24.9	21,639	6.8
2012	10,390	6.5	2,914	12.8	14,946	60.7	28,250	30.6

£ Millions							Total cash acquisition outside the UK			
	Cash acquisition outside the UK						Value	% Change		
	Credit		Charge <sup>(a)</sup>		Debit				ATM-only	
	Value	% Change	Value	% Change	Value	% Change			Value	% Change
2002	978	34.8	144	4.4	3,094	25.0	108	10.6	4,324	25.8
2003	987	0.9	149	3.4	3,860	24.8	285	163.5	5,281	22.1
2004	908	-8.0	134	-10.3	4,478	16.0	321	12.8	5,840	10.6
2005	868	-4.4	121	-9.4	4,792	7.0	343	7.0	6,124	4.9
2006	888	2.3	137	13.4	5,257	9.7	273	-20.6	6,555	7.0
2007	826	-7.0	147	7.3	5,903	12.3	205	-24.8	7,080	8.0
2008	814	-1.5	158	7.5	6,670	13.0	262	27.5	7,904	11.6
2009	663	-18.6	131	-17.5	6,781	1.7	249	-4.8	7,824	-1.0
2010	545	-17.8	125	-4.7	6,345	-6.4	193	-22.6	7,208	-7.9
2011	528	-3.1	109	-12.3	5,675	-10.6	145	-24.8	6,457	-10.4
2012	499	-5.6	96	-12.3	5,395	-4.9	82	-43.7	6,071	-6.0

£ Millions										
	Purchases in the UK		Cash acquisition in the UK		Purchases outside the UK		Cash acquisition outside the UK		Total value of transactions	
	Value	% Change	Value	% Change	Value	% Change	Value	% Change	Value	% Change
2002	210,956	11.9	149,198	6.9	11,696	9.7	4,324	25.8	376,174	9.9
2003	243,874	15.6	157,827	5.8	13,050	11.6	5,281	22.1	420,032	11.7
2004	272,947	11.9	170,901	8.3	14,166	8.6	5,840	10.6	463,854	10.4
2005	294,723	8.0	183,979	7.7	14,636	3.3	6,124	4.9	499,462	7.7
2006	324,023	9.9	184,049	..	16,442	12.3	6,555	7.0	531,068	6.3
2007	354,060	9.3	190,986	3.8	18,139	10.3	7,080	8.0	570,267	7.4
2008	378,901	7.0	195,039	2.1	19,834	9.3	7,904	11.6	601,678	5.5
2009	396,922	4.8	198,228	1.6	17,781	-10.4	7,824	-1.0	620,756	3.2
2010	428,060 ^	7.8	195,643	-1.3	20,260	13.9	7,208	-7.9	651,170 ^	4.9
2011	473,990 ^	10.7 ^	199,052	1.7	21,639	6.8	6,457	-10.4	701,139 ^	7.7
2012	476,837	0.6	202,080	1.5	28,250	30.6	6,071	-6.0	713,238	1.7

<sup>(a)</sup> Charge cards include transactions on credit cards issued by card schemes other than Visa and MasterCard.

^ Revised figure.

.. Value too small to be shown.

This table also appears in *UK Payment Statistics 2013* as Table 6.3.

Summary table 11.4: Point-of-sale terminals

	Point-of-sale terminals				Total number of terminals <sup>(a)</sup>	
	Bank owned		Retailer owned <sup>(a)</sup>		Number	% Change
	Number	% Change	Number	% Change		
2002	487,219	8.6	323,381	..	810,600	5.0
2003	520,382	6.8	340,964	5.4	861,346	6.3
2004	571,955	9.9	348,060	2.1	920,015	6.8
2005	595,999	4.2	378,052	8.6	974,051	5.9
2006	631,008	5.9	392,207	3.7	1,023,215	5.0
2007	633,731	0.4	417,017	6.3	1,050,748	2.7
2008	651,539	2.8	443,425	6.3	1,094,964	4.2
2009	709,145	8.8	522,331 ^	17.8 ^	1,231,476 ^	12.5 ^
2010	744,594	5.0	676,909 ^	29.6 ^	1,421,503 ^	15.4 ^
2011	785,264 ^	5.5 ^	759,082 ^	12.1 ^	1,544,346 ^	8.6
2012	799,031	1.8	840,236	10.7	1,639,267	6.1

	Total number of outlets accepting plastic cards	
	Number	% Change
2002	645,433	2.8
2003	704,101	9.1
2004	752,078	6.8
2005	789,638	5.0
2006	810,520	2.6
2007	854,007	5.4
2008	892,796	4.5
2009	946,364	6.0
2010	988,004	4.4
2011	1,047,284	6.0
2012	1,059,777	1.2

Annual averages	Electronic transactions					
	Number of transactions per terminal		Value per POS transaction (£)		Throughput value per terminal (£)	
	Number	% Change	Number	% Change	Number	% Change
2002	5,833	4.3	45	4.0	261,367	8.6
2003	6,041	3.6	46	3.0	278,872	6.7
2004	6,247	3.4	47	2.7	296,072	6.2
2005	6,492	3.9	48	0.9	310,382	4.8
2006	6,445	-0.7	50	5.3	324,442	4.5
2007	6,814	5.7	52	2.6	351,858	8.5
2008	7,031	3.2	50	-2.5	353,914	0.6
2009	6,529 ^	-7.1 ^	50	-0.4	327,384 ^	-7.5 ^
2010	6,050 ^	-7.3 ^	51	2.0	309,337 ^	-5.5 ^
2011	6,165 ^	1.9	51	0.3	316,279 ^	2.2
2012	6,277	1.8	49	-3.9	309,559	-2.1

<sup>(a)</sup> Based on best estimates from acquiring banks.

^ Revised figure.

.. Value too small to be shown.

This table also appears in *UK Payment Statistics 2013* as Table 15.1.

# The Board of The UK Cards Association

**Membership of The UK Cards Association is open to any organisation that issues credit, debit, charge and ATM cards in the UK under the American Express, LINK, Maestro, MasterCard and Visa schemes, or that acts as a merchant acquirer in the UK for any of these schemes.**

The UK Cards Association Board is the industry's most senior decision-making body and is chaired from outside the industry by an independent non-practitioner (Melanie Johnson). The Board is responsible for setting the strategic priorities for the industry, typically meeting on a quarterly basis and overseeing the work of a number of specialist sub-committees.

Melanie Johnson became the first non-member Chair of the Board in September 2009 following a successful career in politics as a Government minister between 1999 and 2005. During her time at the then Department of Trade & Industry she undertook the first review of consumer credit legislation for more than 30 years.

Members who issue a million or more cards under the named schemes (of which half must be debit, credit or charge cards) and/or acquire at least 2.5% of total UK card purchase are entitled to a seat on the Board.

Organisations that fall beneath these volume criteria are still eligible to join the Association. Non-Board members are represented collectively on the Board by a Nominee Director. During 2012 the Association welcomed one new member to its ranks – SAV Credit, and Europe Arab Bank withdrew membership. During 2013 Investec Bank Plc joined the Association. ■

## The UK Merchant Acquiring Market

An important feature of the UK card payments industry is the growing number of acquirer-only members as the traditional retail banks divest themselves of their merchant acquiring businesses. In recent years The UK Cards Association has already seen WorldPay join Elavon on the Board as merchant acquirer-only members, with others likely to join them in the near future.

## Prepaid Cards

The UK Cards Association does not represent the interests of the whole of the prepaid card payments industry, though speaks on behalf of its members that do issue such cards. Whilst still a largely embryonic market comprising many different market segments, prepaid cards would appear to have established a niche in the UK, typically being provided by non-traditional card issuers who sit outside of The UK Cards Association community. The UK Cards Association will act on prepaid cards, for example in improving transparency, if it is in its members' interest to do so.

## The UK Cards Association Members as 1st June 2013

Full Board Members	Other Members
Chair – Melanie Johnson	Allied Irish Bank
<b>Board Directors</b>	Chelsea Building Society
American Express – Colin Walsh	C Hoare & Co
Bank of Ireland – Marco Hughes	Citibank
Barclays – Nick Clements	Coventry Building Society
Capital One – Vicky Mitchell	Investec Bank Plc
Clydesdale Bank* – Anthony Lupton	Northern Bank**
Co-operative Bank – David Fawell	Virgin Money Plc
Elavon Financial Services – Simon Haslam	SAV Credit
HSBC* – Andrew Slough	Standard Chartered
Lloyds TSB* – TBC	Vanquis Bank
MBNA Europe – Ian O'Doherty	
Nationwide – Anne Dagleish	
Royal Bank of Scotland* – Steve Rubenstein	
Santander – Alan Mathewson	
Tesco Personal Finance – Will Curley	
WorldPay – Ron Kalifa	
Nominee Director – Michael Lenora (Vanquis Bank)	
	* Banks whose membership covers other banks within their group
	** Danske Bank is a trading name of Northern Bank Limited



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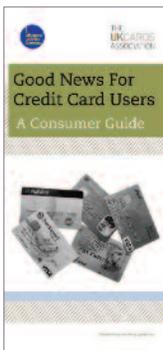
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