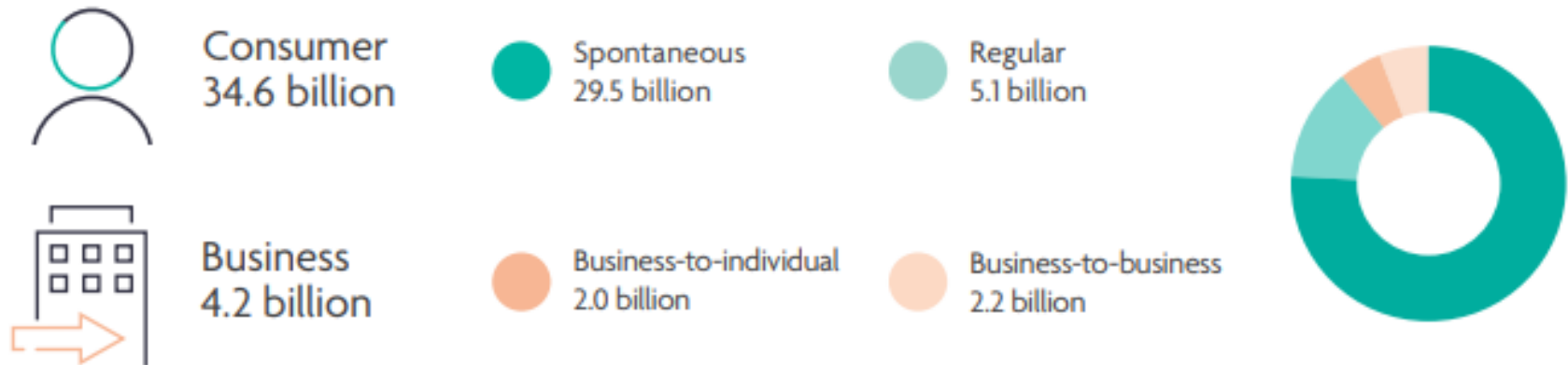


# What's happening to payments

Tim Lambertstock

BCS Oxfordshire Branch  
13 September 2018

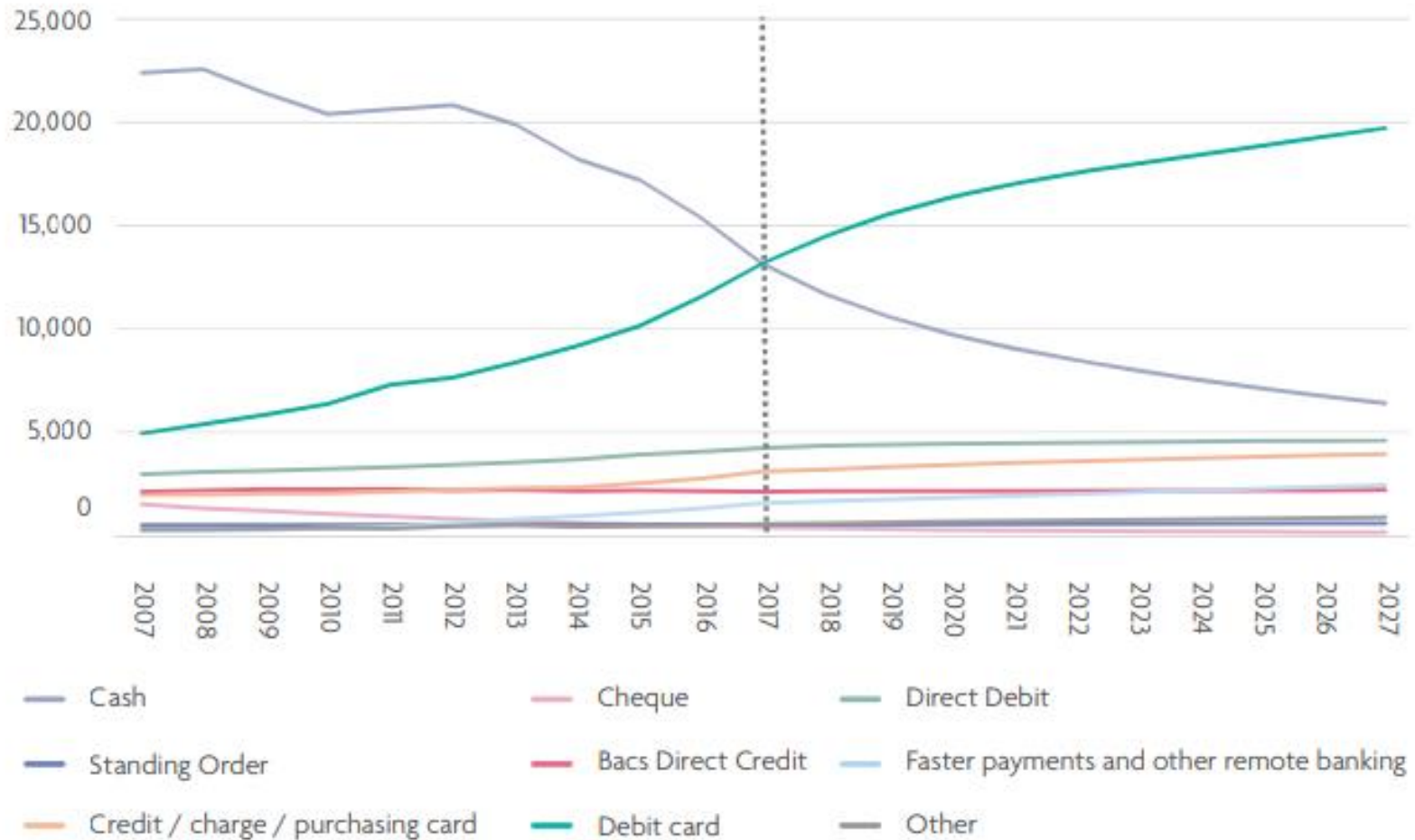
# UK Spending habits



- UK is probably the most well-developed payments market in the world with a wide range of payment methods available to consumers and businesses
- Cards now account for 76% of retail sales value (according to BRC)
- Cash payments fell by 15% during 2017 but cash was still used for 34% of all payments (according to UK Finance)
- Evolving consumer habits, increasing access to card payments and new technology are providing consumers with more choice

# UK Payment volumes (millions)

(source: UK Finance, Payments Market Report 2018)



# Contactless cards

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- 63% of people in the UK now regularly use contactless payments and the number of contactless payments doubled in 2017 (UK Finance)
- Uses a Contactless chip and EMV antenna in the card at enabled PoS terminals (all terminals need to be Contactless by January 2020)
- Currently limited to £30 per transaction and occasionally need to go online for authorisation according to card chip settings
- Growing alternative to Oyster on London buses and trains (over half of all journeys use Contactless cards or phones)
- Some consumers still have security concerns and 'card clash' has been reported as an issue on London Underground



# Cheques

- Volumes continue to fall
- Still valued by certain groups of people but many younger people have never written a cheque
- New image-clearing system being introduced by end-2018 to speed-up clearing process
- Proposals for depositing cheques with images taken on a mobile phone
- Volumes will continue to fall, particularly as businesses migrate away from cheques

Cheques used to make payments (millions)



**1,581**

2007

**401**

2017

**147**

2027

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# UK Electronic payments

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- Over 90% of consumers use Direct Debit to pay regular bills
- Standing Orders continue to be used particularly for rent and savings
- Bacs Direct Credit (first introduced in 1968) is used by government and businesses to make bulk payments such as salaries, state benefits and pensions on a 3-day clearing cycle
- Faster Payments (first introduced in 2008) is used mainly for online and mobile banking transfers – 71% of adults use online banking and 41% mobile – and its use is expected to rise
- CHAPS is used mainly for wholesale financial payments (and house purchases), representing 0.1% of payments by volume but 91% by value!
- SEPA Direct Debit and Credit Transfers used for Euro payments
- SWIFT credit transfers used for other international payments using correspondent banking

# But... maybe cash isn't dead yet!

- A survey of 47 countries conducted by G4S in 2017 revealed that demand for cash continues to rise globally, despite the increase in electronic payment options, including mobile in recent years
- While contactless payments and e-commerce growth continues unabated, the G4S report highlight cash in circulation relative to GDP increasing to 9.6% across all continents, up from 8.1% in 2011.
- In Europe, 80% of point-of-sale transactions are conducted in cash
- In North America, where card payments are most regularly used, cash use still accounts for 31% of transactions
- More than three-quarters of online purchases in a number of countries in Asia are paid for by cash on delivery.



# Mobile (digital wallet) payments

- Main players are ApplePay, GooglePay and SamsungPay (the 'Pays')
- Some retailers have attempted to launch their own digital wallets but take-up has been minimal (Starbucks in the USA is the exception)
- All use NFC (Contactless) to communicate with PoS terminal and biometrics to confirm payment
- Should work with any Contactless PoS terminal
- Allows transactions over the £30 Contactless limit with many merchants
- Card details held as encrypted token (Tokenization)
- Visa and MasterCard provide translation between token details and actual card details to enable processing by card issuers
- Independent of mobile phone operators





# Apple Pay

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- Market-leading wallet in UK and globally
- UK launch in July 2015 and now supported by all major UK card issuers
- Over one billion cumulative global transactions in the last quarter, a 300% increase in transactions year-on-year
- Uses TouchID/FaceID to confirm each payment
- Strict standards required by Apple to ensure consistent user experience
- Only wallet to support mobile, desktop, in-app, P2P, and PoS transactions
- Integrated into Apple Wallet, not a separate app



# Google Pay

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- UK launched as 'Android Pay' in May 2016
- Supported by many UK card issuers
- Similar to ApplePay but for NFC-enabled Android devices
- Send & Request Money right from the Google Pay app
- And if you picked up the tab using Google Pay, it's even easier to split the bill. Just tap on a recent purchase and instantly request money from up to five people
- Can also store Boarding Passes & Tickets



# Samsung Pay

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- Launched in August 2015 (UK in May 2018)
- More than 1.3 billion transactions globally since launch
- Partnership with PayPal allows you to link to PayPal account
- Linked to Samsung Rewards and merchant API
- Not as widely supported by card issuers as Apple Pay or Google Pay



## Other examples

- Visa wristbands used at 2016 Olympics (using a Contactless card chip, known as a passive wearable)
- Active wearable devices with integrated payment capability and display
- Various car manufacturers building in capability to pay for fuel via a screen in the car
- Contactless advertising screen for charity donations
- Hyundai builds bespoke 'Contactless Car' for cancer charity



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# Open Banking

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- Payment Services Directive 2 (PSD2) came into force in January 2018 creating the framework for Open Banking
- By 14 September 2019, banks will have to provide third-party access to accounts (by registered Third-Party Providers) using APIs
- Two main use cases:
  - Account consolidation, allowing a customer to see their bank account details via a third-party application
  - Payment initiation, allowing a customer to make a direct payment from their bank account via a third-party application which may be that of the merchant (such as Amazon)
- In UK, the largest (CMA9) consumer banks have been mandated to use the UK Open Banking standards to achieve this and have launched developer sandboxes to support TPPs and gain FCA approval
- The impact is uncertain and depends on consumer and business take-up

# The future

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- Use of cash and cheques will continue to fall rapidly
- Contactless cards and mobile will continue to grow
- But... we have only seen mobile 'version 1.0' so far...
- PayPal and cards largely have the online space but this could change if TPPs have their way
- Direct Debit dominates utility payments but 'Request to Pay' could change this
- Businesses are being offered more integrated 'Procure to Pay' solutions
- Integration with IoT starting to emerge
- Blockchain has been talked about for the future but it's hard to see that this could ever become mainstream
- Customer choice and merchant acceptance are key to growth of new payment products – very few Fintechs seem to understand payments!

# Questions and discussion

BCS Oxfordshire Branch

13 September 2018