PAYMENTS SURVEY 2015

BRC

BASE DATA FOR SURVEY:
THE (BRC) ANNOUNCES THE RESULTS AND ANALYSIS OF ITS MEMBERS PAYMENTS SURVEY FOR THE 2015 CALENDAR YEAR.
THE RESPONSE LEVEL TO THE SURVEY COVERS NEARLY 50% OF TOTAL UK RETAIL SALES (2015: £339 BILLION) WITH A COMBINED TURNOVER OF £167 BILLION.
THIS IS EXCLUSIVE AND CONFIDENTIAL DATA FROM OUR MEMBERS.

CONTENTS

KEY RESULTS

CUSTOMER PAYMENT TRENDS

The way people shop and the changing nature of the way customers pay continues to be demonstrated in the final analysis of trends highlighted by this survey. The continuing increase in the use of cards for transactions, and more so for lower transaction values, is particularly relevant. In contrast, the use of cash - while still an important payment method - has seen a significant decline. However the higher average transaction values (ATV) of the remaining cash transactions is evidence of a greater number of small value transactions being paid for using debit cards in particular.

The major trends in Average Transaction Values against the 2014 figures are:

CASH	£9.21	↑ 7.31%
DEBIT CARDS	£26.14	↓ 1.08%
CREDIT & CHARGE CARDS	£35.91	↓ 5.09%

During 2015 there has also been a continuation of the substantial changes in the mix of payment methods used.

Measured as a percentage of sales transactions against the 2014 figures the major trends are:

CASH	↓ 9.49%
DEBIT CARDS	↑ 19.94%
CREDIT & CHARGE CARDS	↑ 12.59%

Measured as a percentage of sales turnover against the 2014 figures the major trends are:

CASH	↓ 11.68%
DEBIT CARDS	↑ 7.88%
CREDIT & CHARGE CARDS	↓ 2.83%

CASH USE CONTINUES TO DECLINE

HEADLINE: During 2015 cash use continues to decline both in value and the number of transactions completed.

TURNOVER: The value of cash used by customers to make payment has declined in 2015 by 11.68 percent year on year to 23.32 percent of total from 26.4 percent in 2014.

TRANSACTIONS: Cash still retains an important role, although there has been a significant decline. It now accounts for only 47.15 percent of transactions, down 9.49 percent year on year (2014: 52.09 percent).

AVERAGE TRANSACTION VALUE: During 2015 the ATV for cash has increased by 7.31 percent from £8.59 to £9.21, indicative of a trend to transact even lower value purchases using a card.

FIVE YEAR PROPORTIONAL MARKET SHARE: Over the last five years the value of cash taken by retailers as a proportional share to all other payment methods taken has fallen by 27.2 percent (from 32.03 percent in 2011 to 23.32 percent in 2015) although the share of the number of transactions has only decreased by 11.85 percent.

DEBIT CARDS: NOW THE MAIN PAYMENT METHOD

HEADLINE: The survey has identified a dramatic increase in the use of debit cards when measured against other forms of payment. They now account for over 53 percent of sales turnover in this year's survey.

TURNOVER: Debit card use has increased and now accounts for 53.42 percent (2014: 49.52 percent) of retail sales value, up 7.88 percent year on year.

TRANSACTIONS: Debit cards now account for 38.07 percent of transactions, up from 31.74 percent last year, an increase of 19.94 percent.

FIVE YEAR AVERAGE TRANSACTION VALUE: Over the last five years the average debit card transaction value has reduced by 12.37 percent (from £29.83 in 2011 to £26.14 in 2015). This is indicative of the increased use of debit cards for lower value transactions previously transacted in cash.

FIVE YEAR PROPORTIONAL MARKET SHARE: Over the last five years the value of debit cards taken by retailers as a proportional share to all other payment methods taken has increased by 17.03 percent (from 45.65 percent in 2011 to 53.42 percent in 2015).

Some of the contributing factors responsible for the continuing debit card trends as highlighted above include:

- Customers responding to card schemes, banks and retailers' marketing initiatives highlighting the use of contactless cards, which are mainly debit cards, as a cash replacement for transactions. It should be noted that in the latter part of 2015 the contactless transaction value limit rose from £20 to £30.
- Changing development of smaller stores' format in the food sector that are generating smaller average basket sizes arising from customers shopping more frequently.
- Promotion by retailers of the benefits of using self service facilities where card use is being seen by their customers as a convenient way to pay.
- Increased use of debit cards in online shopping.

CREDIT & CHARGE CARDS: USED MORE BUT SPENT LESS

HEADLINE: The use of credit and charge cards have during 2015 increased their share of transactions but not the corresponding share of value.

TURNOVER: The percentage of share in turnover value has declined to 21.48 percent from 22.11 percent in 2014 down 2.83 percent on the year.

TRANSACTIONS: During 2015 credit and charge cards share in transaction volume has accounted for 11.14 percent of transactions, up from 9.9 percent in 2014, an increase of 12.59 percent.

FIVE YEAR AVERAGE TRANSACTION VALUE: Over the last five years the average transaction value has declined by 3.36 percent (from £37.16 in 2011 to £35.91 in 2015). This is in line with the market decrease in the ATV of all card payment methods used by customers.

FIVE YEAR PROPORTIONAL MARKET SHARE: Over the last five years the value of credit and charge cards taken by retailers as a proportional share to all other payment methods has remained static (from 21.47 percent in 2011 to 21.48 percent in 2015), although the share of the number of transactions has increased by 1.46 percent (from 10.98 percent in 2011 to 11.14 percent in 2015).

Some of the contributing factors responsible for the changing credit and charge card trends as highlighted above include:

- Customers responding to card schemes, banks and retailers' marketing initiatives highlighting the use of contactless cards per se.
- Banks and card schemes marketing initiatives aimed at promoting responsible credit and charge card use.
- Promotion by retailers of the benefits of using self service facilities where card use is being seen by their customers as a convenient way to pay, with no discrimination as to the method of payment or type of card used.
- Continued use of credit and charge cards in online shopping where consumer payment protection is enhanced.

CARD COLLECTION COSTS REDUCED

The cost for a retailer to process a debit, credit or charge card payment has started to fall however the differential between the cost of different payment types still exists. The cost comparison analysis for the main payment methods are:

- Cash accounts for **47.15 PERCENT** of transactions - yet only account for **10.22 PERCENT** of costs
- Debit cards account **38.07 PERCENT** of transactions - and account for **34.27 PERCENT** of costs
- Credit and charge cards account for only **11.14 PERCENT** of transactions - yet they still account for a staggering **49.24 PERCENT** of costs

AVERAGE COST TO HANDLE A TRANSACTION BASED AS A PENCE PER TRANSACTION FOR THAT PAYMENT METHOD

	2015	% CHANGE IN LAST YEAR
CASH	1.39 pence	↑ 14.53%
DEBIT CARDS	5.79 pence	↓ 38.81%
CREDIT & CHARGE CARDS	28.41 pence	↓ 16.09 %

AVERAGE COST TO HANDLE A TRANSACTION BASED AS A PERCENTAGE OF TOTAL SALES TURNOVER FOR THAT PAYMENT METHOD

	2015	% CHANGE IN LAST YEAR
CASH	0.15%	↑ 6.72%
DEBIT CARDS	0.22%	↓ 38.14%
CREDIT & CHARGE CARDS	0.79%	↓ 11.59%

COST IMPACTS

During 2015 the average cost of collection for all payment types as a percentage of tender turnover has decreased to 0.35 percent of turnover compared to 0.44 percent in 2014. During the last five years the overall average has decreased by over 15.65 percent (from 0.41 percent in 2011 to 0.35 percent in 2015).

The cost of handling a cash transaction has increased by 14.53 percent in 2015 compared to the previous year (from 1.22 pence to 1.39 pence per transaction).

The average cost of accepting each credit or charge card transaction has reduced to 28.41 pence (2014: 33.85 pence) for each transaction - a 16.09 percent decline.

This decline reflects in part the past continuing action taken by the BRC in representing its members' interests both at a European and domestic level with the regulatory authorities to achieve significant reductions in card acceptance costs. It is predicted that further cost reductions will occur during 2016 as the full impact of Interchange Fee Regulation (IFR) is achieved.

It should be noted that with the IFR in place the method of charging for interchange on debit card transactions has changed from being a fixed price per transaction to a value related ad valorem fee. This change by definition will mean in practice that not all debit card acceptors will experience a reduction in their debit card interchange costs compared to historic costs incurred.

While the cost to handle a debit card transaction has declined to 5.79 pence compared to 9.46 pence in 2014 – a 38.81 percent decrease, it is anticipated that further decreases may occur for most retailers over the next two years.

The movement of cash transactions into other payment methods, which has taken place during 2015, is a concern given that the cost of such transactions are higher. Debit card transactions based on current survey results are still more than four times more expensive than cash. (2015: Cash – 1.39 pence, debit cards 5.79 pence)

Merchant service costs (which include interchange as a major element) still account for more than 96 percent (2014: 97 percent) of the total costs incurred in the acceptance of any type of card by retailers.

The continuing risk to retailers' future cost structures will be the further movement of cash transactions into other payment methods where the cost of such transactions would then be higher. For instance, a debit card transaction would, based on current survey results, be almost eight times more expensive than cash. (2014: Cash – 1.22 pence, debit cards 9.46 pence)

WHAT IS THE IMPACT OF THE EU AND UK GOVERNMENT ACTION ON INTERCHANGE FEE REGULATION?

The opportunity to see a major reduction in payment card handling costs has now become a reality. The EU directive on the Interchange Fee Regulation[1] (IFR) was implemented in the UK from 9 December 2015. The full impact of this legislation should be experienced by all retailers during 2016 and beyond.

In advance of those IFR changes being available to all retailers, the payments survey indicates that a significant decrease in the bank charges paid by some BRC members has already occurred. This was due in part to the pre-emptive steps taken by the card schemes in advance of the IFR enabling some retailers to immediately reduce their overall costs, although not all retailers were able to take advantage of this initiative.

Costs for the handling of debit and credit card transactions within the survey have reduced considerably in 2015, by £159 million:

- For debit cards savings were circa £122 million - Average cost of handling a debit card transaction down from 0.36 percent to 0.22 percent
- For credit cards savings were circa £37 million - Average cost of handling a credit card transaction down from 0.89 percent to 0.79 percent

Given the current and well documented pressures on retailers, these cost reductions are welcomed by those retailers that were able to benefit and will contribute to the continued investment in our members' customer offer.

1 The Regulation imposes a cap on consumer debit cards of a weighted average of 0.2% of the product price.
For consumer credit cards the cap is 0.3% of the product price.
Interchange fees are charged by a cardholder's bank (the issuing bank) to a merchant's card processor (the acquirer) for each sales transaction made at a merchant outlet with a payment card

KEY FINDINGS BY PAYMENT METHOD

CASH

- Cash is losing its appeal – while it is still an important element in the payment mix a major decline has occurred in 2015 – cash still accounts for circa 47.15 percent of all retail transactions.
    - £23.32 in every £100 spent at retail outlets is by cash
    - The typical cash transaction now costs the retailer an average of 1.39 pence per transaction to handle (0.15 percent of transaction value)
    - Average cash transaction value has increased to £9.21 (2014: £8.59)
    - Cash remains the most cost effective method for retailers to accept customer payments.

DEBIT CARDS

- Debit card use continues to increase at a rapid rate now accounting for 53.42 percent (2014: 49.52 percent) of retail sales value.
    - Each debit card transaction now costs the retailer an average of 5.79 pence per transaction to handle. (0.22 percent of transaction value)
- Average debit card transaction value has declined to £26.14 (2014: £26.42).

CREDIT AND CHARGE CARDS

- Credit and charge cards now account for 21.48 percent (2014: 22.11 percent) of retail sales value.
- The average credit and charge card transaction costs the retailer 28.41 pence. (0.79 percent of transaction value)
- Average credit and charge card transaction value continues to fall to a level of £35.91 (2014: £37.84).

NON CARD PAYMENTS

This category of payment refers to all other payment types that are accepted at point of sale and/or on the internet that are not included within any of the card or cash totals.

- Non card payments account for only 1.77 percent of retail sales value. (2014: 1.97 percent)
- The average non card payment transaction costs the retailer 11.08 pence (1.22 percent of transaction value)

ADDITIONAL KEY INFORMATION OBTAINED

- During 2015 the conversion of manned POS to accept contactless cards has continued – now 47 percent of all manned POS terminals have the capability to accept contactless cards
- During 2015 the growth of self service checkouts (SSCs) has increased by 17 percent and now account for circa 22 percent of the total payment terminals in retailer outlets. Currently circa 89 percent of SSCs accept both cash and cards as a payment method.
- Circa 25 percent of SSCs now have the capability of handling contactless cards. Expansion of this functionality is continuing.
- Overall the survey showed that 7.8 percent (2014: 6.63 percent) of the participants' turnover was completed by their customers shopping online. This equated in 2015 to over £13 billion sales.

PAYMENT SURVEY RESULTS 2015 DATA

FIGURE 1
% TURNOVER BY NUMBER OF TRANSACTIONS 2015

FIGURE 2
% OF TURNOVER BY NUMBER OF TRANSACTIONS 2011 TO 2015

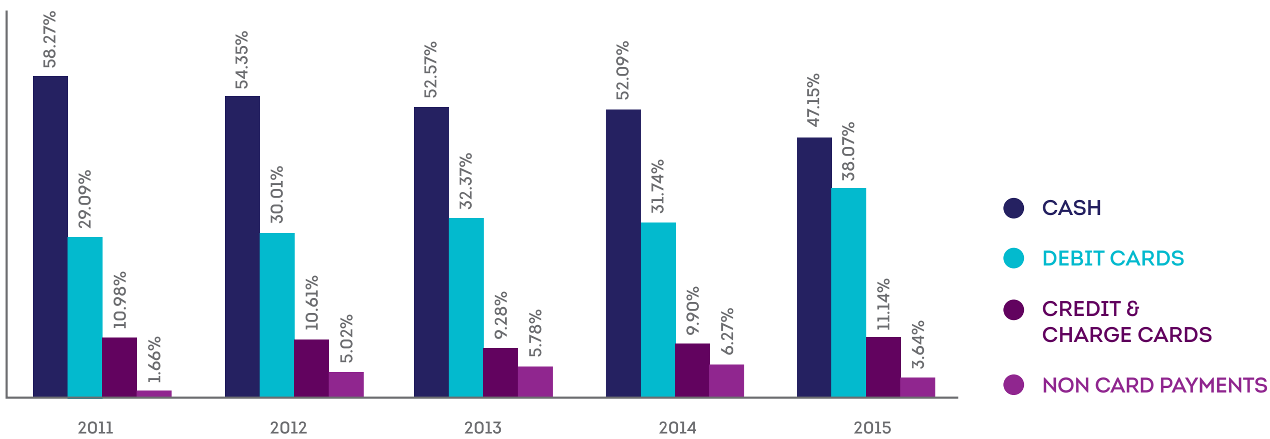


FIGURE 3
% TURNOVER BY NUMBER OF TRANSACTIONS

	2011	2012	2013	2014	2015
CASH	58.27%	54.35%	52.57%	52.09%	47.15%
DEBIT CARDS	29.09%	30.01%	32.37%	31.74%	38.07%
CREDIT & CHARGE CARDS	10.98%	10.61%	9.28%	9.90%	11.14%
NON CARD PAYMENTS	1.66%	5.02%	5.78%	6.27%	3.64%
TOTAL NUMBER (MILLION)	9,368	9,923	10,627	10,920	8,971

FIGURE 4
% TURNOVER BY VALUE 2015

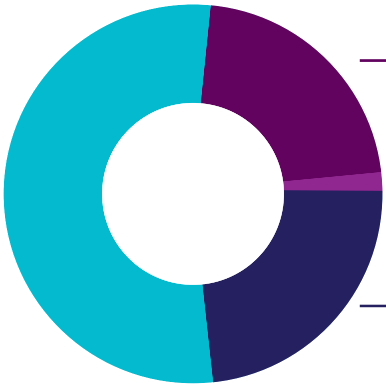


FIGURE 5
% OF TURNOVER BY VALUE OF TRANSACTIONS 2011 TO 2015

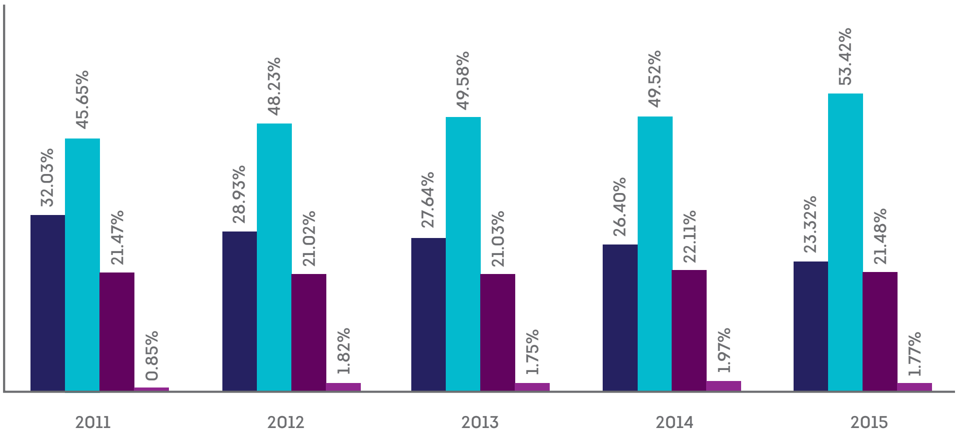


FIGURE 6
% OF TURNOVER BY VALUE OF TRANSACTIONS 2011 TO 2015

	2011	2012	2013	2014	2015
CASH	32.03%	28.93%	27.64%	26.40%	23.32%
DEBIT CARDS	45.65%	48.23%	49.58%	49.52%	53.42%
CREDIT & CHARGE CARDS	21.47%	21.02%	21.03%	22.11%	21.48%
NON CARD PAYMENTS	0.85%	1.82%	1.75%	1.97%	1.77%
TOTAL VALUE (£BILLION)	**£173**	**£178**	**£182**	**£191**	**£185**

FIGURE 7
AVERAGE TRANSACTION VALUE BY PAYMENT METHOD

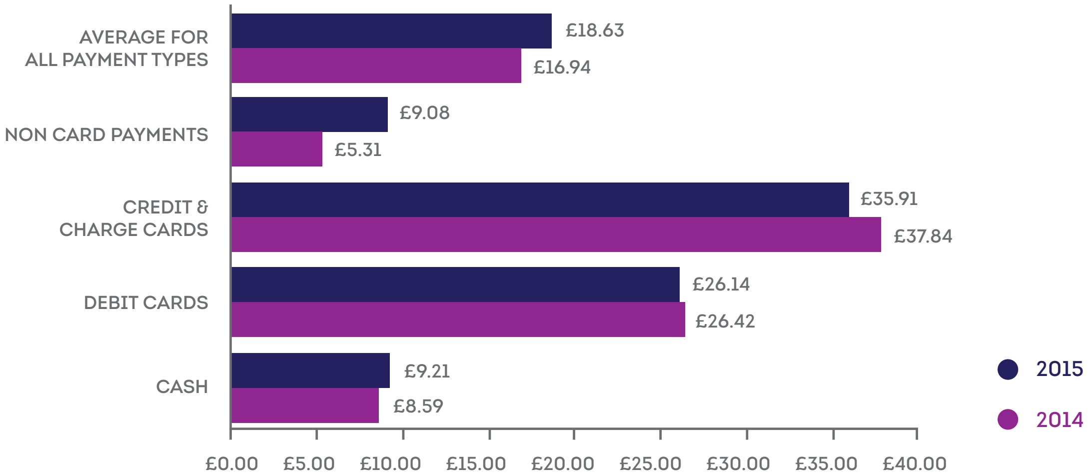
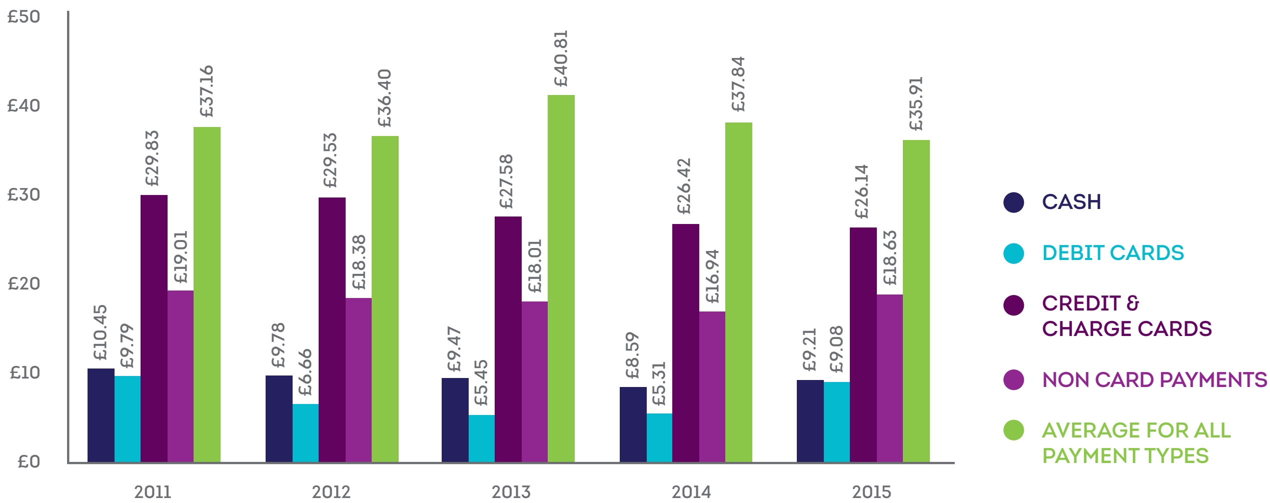


FIGURE 8
AVERAGE TRANSACTION VALUE BY PAYMENT METHOD 2011 TO 2015

	2011	2012	2013	2014	2015
CASH	£10.45	£9.78	£9.47	£8.59	£9.21
DEBIT CARDS	£29.83	£29.53	£27.58	£26.42	£26.14
CREDIT & CHARGE CARDS	£37.16	£36.40	£40.81	£37.84	£35.91
NON CARD PAYMENTS	£9.79	£6.66	£5.45	£5.31	£9.08
AVERAGE - ALL PAYMENT TYPES	**£19.01**	**£18.38**	**£18.01**	**£16.94**	**£18.63**

FIGURE 9
AVERAGE TRANSACTION VALUE BY PAYMENT METHOD



TOTAL COST OF PAYMENT COLLECTION

Total amount spent by retailers in the survey on payment collection is £577 million.

FIGURE 10
TOTAL COST OF COLLECTION BY TYPE OF CHARGE 2015

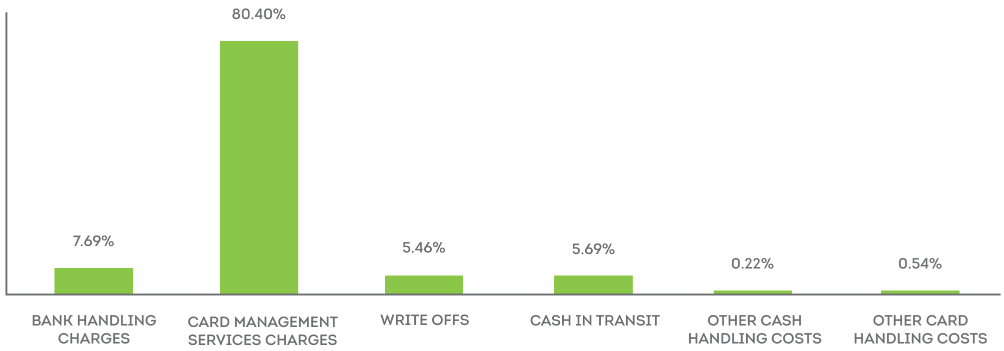


FIGURE 11
% TRANSACTIONS BY NUMBER 2015

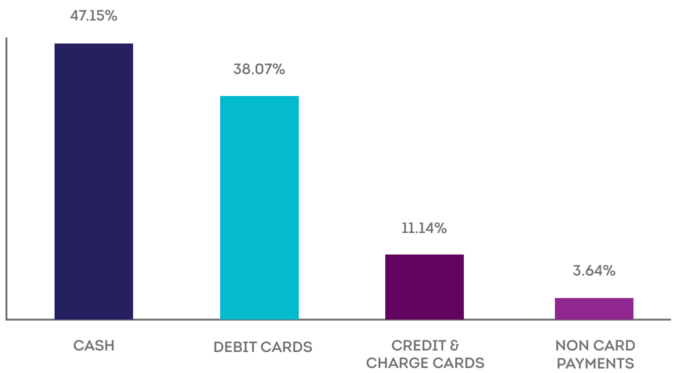


FIGURE 12
TOTAL COST OF COLLECTION BY PAYMENT METHOD 2015

The biggest single cost, 80.4 percent of total collection costs for retailers accepting cards, continues to be the merchant service charge (MSC) within that cost the fixed element, interchange, accounts for over 90 percent.

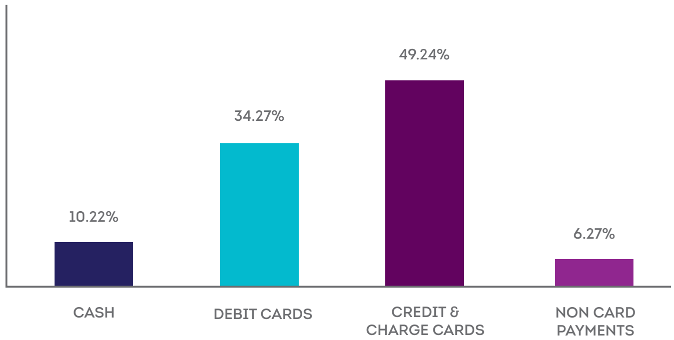


FIGURE 13
COST OF COLLECTION PENCE PER TRANSACTION 2011 TO 2015

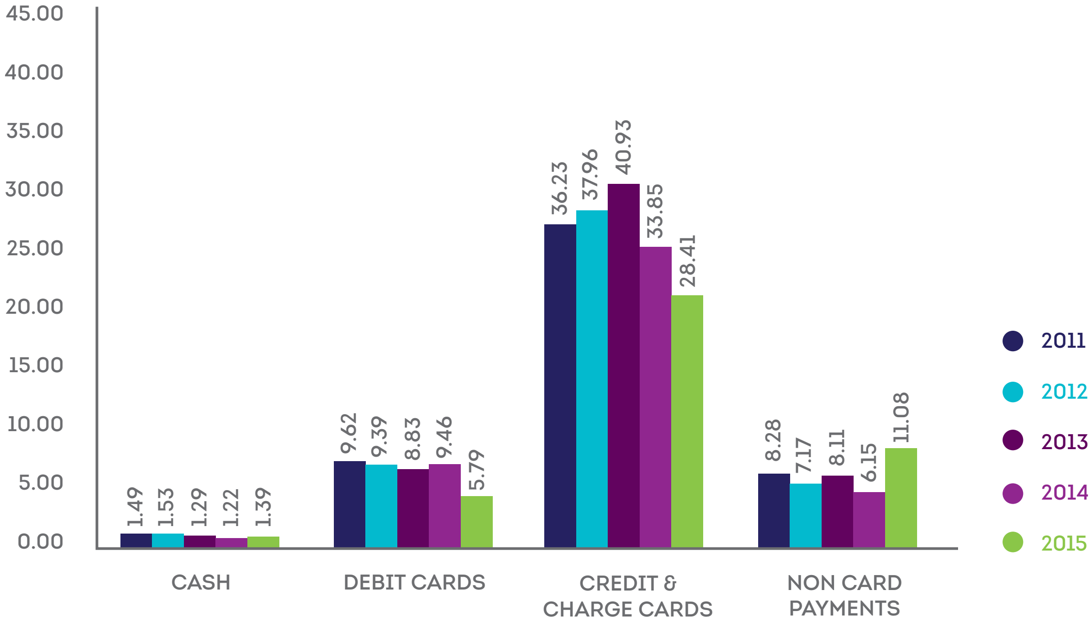


FIGURE 14
COST OF COLLECTION PENCE PER TRANSACTION 2011 TO 2015

	2011	2012	2013	2014	2015
CASH	1.49	1.53	1.29	1.22	1.39
DEBIT CARDS	9.62	9.39	8.83	9.46	5.79
CREDIT & CHARGE CARDS	36.23	37.96	40.93	33.85	28.41
NON CARD PAYMENTS	8.28	7.17	8.11	6.15	11.08
AVERAGE - ALL PAYMENT TYPES	**7.78**	**8.04**	**7.81**	**7.37**	**6.43**

FIGURE 15
COST OF COLLECTION AS A % OF TENDER TURNOVER 2011 TO 2015

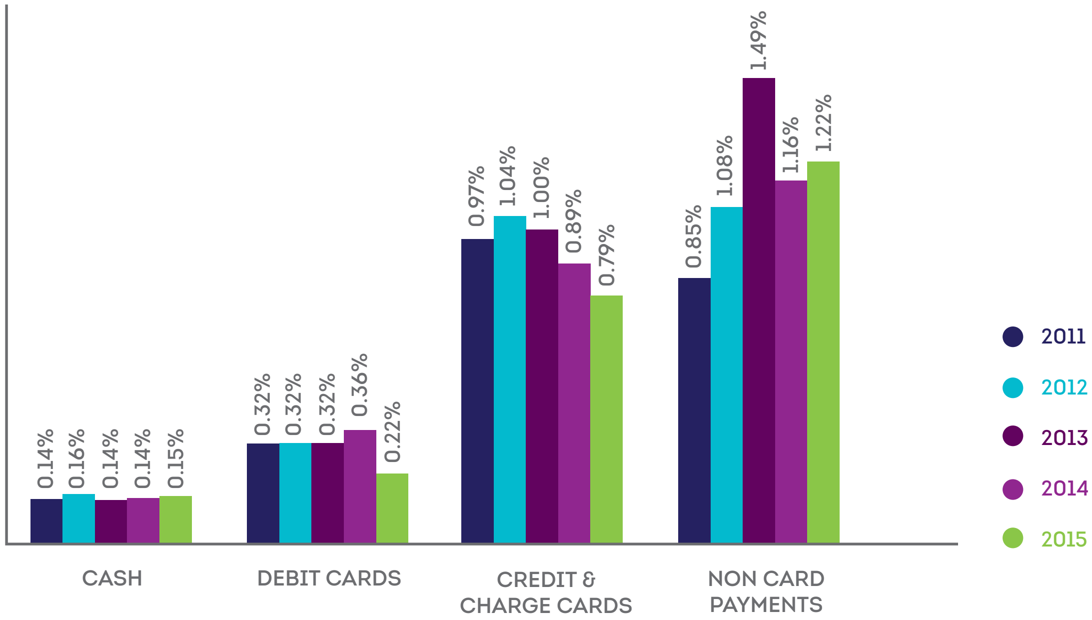


FIGURE 16
COST OF COLLECTION AS A % OF TENDER TURNOVER 2011 TO 2015

	2011	2012	2013	2014	2015
CASH	0.14%	0.16%	0.14%	0.14%	0.15%
DEBIT CARDS	0.32%	0.32%	0.32%	0.36%	0.22%
CREDIT & CHARGE CARDS	0.97%	1.04%	1.00%	0.89%	0.79%
NON CARD PAYMENTS	0.85%	1.08%	1.49%	1.16%	1.22%
AVERAGE - ALL PAYMENT TYPES	0.41%	0.44%	0.43%	0.44%	0.35%

PURPOSE AND METHODOLOGY

PURPOSE

The results from the BRC Payment Survey conducted for the 2015 calendar year was completed by retailers that represent nearly 50 percent of UK retail annual sales turnover which in 2015 was £339 billion.

This survey has been compiled on a consistent basis since 1999. It is recognised as providing an independent and definitive view of not only the cost of collection but also the important trends within the UK payments market. It provides the only representative and reliable measure for the cost of payment collection, as it draws on exclusive data straight from the tills. While payments methodology remains a contentious issue, the BRC Payments Survey is widely accepted as the leading indicator of retail payments in the UK, with costs and inputs defined by those directly responsible for retail financial operations.

The survey collects data that refers to the costs associated with taking payment from customers both at point of sale and through the internet and mail order. Within the different payment types the costs include items such as card acquiring fees (inclusive of the interchange and card scheme fees), fraud, bad debt, losses, cash in transit and related administration costs in all categories. These costs amount to circa £577 million in the responses received and therefore account for one of the key cost elements in retailing operations today.

The primary purpose of the survey is to:

- Provide provable data in support of the BRC's continuing monitoring and representation of its members' interests in ensuring that the end to end cost reductions envisaged as a result of the new interchange fee regulations occur for all our members.
- Provide participating BRC members with a range of figures to allow them to benchmark and improve their own cost structure and components.
- Compare the results with previous surveys covering the period 2011 to 2015 in order to analyse how the mix of payment methods and the collection costs have changed.
- Keep the BRC informed of payment market trends within our membership to enable us to speak in a knowledgeable way on all payment and related issues.
- Position and present the key data in a consolidated format in order for the BRC to communicate selected data to the regulatory authorities within the UK and Europe.

METHODOLOGY

The BRC circulated a questionnaire to all members and responses were received from members who account for an annual sales turnover of circa £167 billion, which is nearly 50 percent of total UK retail sales. Most of these retails sales arose from more than 16,300 shops of all types in addition to circa 7.8 percent of those total sales having been paid for via the internet, mobile or mail order channels.

The survey covered the following cost items:

BANK OR THIRD PARTY HANDLING CHARGES	Service charges, night safe costs, etc.
CASH IN TRANSIT	Costs incurred in using a cash-in-transit service provider to collect cash/cheques and distribute them to the bank and deliver coin (change) to retailers.
OTHER CASH HANDLING CHARGES	Third party handling costs for prime count, provision of coin.
CARD MERCHANT SERVICE CHARGES	Card merchant service charges including acquirer processing fees, interchange and card scheme fees.
WRITE OFFS (LOSSES)	All write-offs including losses arising through till and banking discrepancies, chargebacks, unpaid cheques, bad debt and fraud.
OTHER CARD HANDLING COSTS	For example to include some or all of the following - depreciation of PIN pads and any card specific hardware, maintenance of PIN pads and server costs, specific additional call authorisation costs, terminal rental, storage and filming of signature receipts.

The following definitions were used to determine in the individual payment methods:

DEBIT CARDS	Total for all MasterCard debit, Maestro, Visa debit, Visa Electron and VPAY card transactions.
CREDIT AND CHARGE CARDS	Total for all MasterCard and Visa credit and charge cards, Diners, JCB, American Express and any other cards or store cards that do not include a Visa or MasterCard logo on them.
NON CARD PAYMENTS	Total for all other payment types accepted at point of sale and/or internet that are not included within any of the other categories. The totals provided excluded retailer own branded gift vouchers redemptions. Examples of payment types included in the 'other non card non cash' category here were cheques, PayPal, coupons issued by third parties (not own branded coupons) used as part payment for goods.

Research has shown that the staff costs involved in handling payments is marginal in terms of the total costs incurred and evenly divided across all payment methods therefore this cost has been excluded from all categories.

Confidentiality of individual retailer submissions has been assured by the method of data collection.

For further information please contact:

ANDREW CREGAN
P | +44(0)207 854 8950
E | andrew.cregan@brc.org.uk

BRC PAYMENTS SURVEY 2015

BRITISH RETAIL CONSORTIUM
2 London Bridge, London SE1 9RA
+44 (0)20 7854 8900 | info@brc.org.uk | brc.org.uk
British Retail Consortium - a company limited by guarantee
Registered in England and Wales No. 405720 | 10087akb16