The Future of Payment in the UK

A Cebr report for Zapp

September 2013
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Executive summary

Key findings

• Value of purchases of goods and services made using a mobile phone to almost triple from £4.8bn in 2013 to £14.2bn in 2018.

• Mobile payments to account for 1.4% of UK consumer spending by 2020 – up from 0.5% in 2013.

• Over 20 million people (aged 16+) are expected to use mobile payments to purchase goods and services by the end of the decade.

• Far from being costless, cash is the most expensive mainstream form of payment.

• Mobile payment can provide consumers and businesses with greater security, helping reduce plastic card fraud losses which amounted to almost £400m last year.

• Consumers can benefit from viewing their bank balance before making transactions, reducing risk of being dragged into overdraft. Over a quarter of consumers incurred overdraft charges last year.

This report presents Cebr’s analysis of the benefits of mobile phone payment to UK businesses and consumers.

UK consumers are becoming increasingly sophisticated in the way they purchase goods and services in the UK, and are using mobile phones to enhance their shopping experiences. They are using mobile phones to find stores, check prices and – increasingly – to pay for goods and services. Cebr expects the value of purchases of goods and services made on mobile phones to almost triple between 2013 and 2018, with over 20 million people aged 16+ using their phones to purchase goods and services by the end of the decade.

Against a backdrop of technological advancement and internet retail growth, cash is becoming less useful as a means of purchasing goods and services. Other payment methods offer instant settlement into bank accounts and greater security. Far from being a costless means of payment, studies suggest that cash is more expensive than other forms of payment, once costs such as store count, preparation and transaction errors are factored in. Shifting away from cash payments can thus help businesses reduce costs. The rise of mobile phone payment will help facilitate this shift.

Some forms of mobile payment can also help reduce fraud in the UK economy. This report shows that fraud losses on plastic cards stood at £388 million last year, with £68 million of these losses from cards lost, stolen, or intercepted in the post. Card ID theft also led to £32 million of fraud losses. Secure mobile (and other) payment systems requiring PIN identification have the potential to reduce this type of fraud.

Declining use of cash can also help reduce fraud – as many as one in 36 £1 coins in circulation are estimated to be counterfeit. The case for eliminating cash payment altogether will become increasingly strong in the future and, indeed, we should expect some lower denominations of UK currency to disappear going forward. The Royal Canadian Mint stopped distributing pennies in February 2013, given the expense of minting these coins. The UK should consider doing the same, and should focus on becoming a world leader in new payment technologies which offer a range of benefits over cash.
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UK consumers are becoming more sophisticated in the way they pay for things

- Data in Ofcom’s 2013 Communications Market Report show that UK consumers are becoming increasingly digitally sophisticated, using mobile phones to enhance their shopping experiences.

- A growing share of mobile internet users are using their phones to find stores, purchase goods and services, and compare product prices.

- The share of mobile internet users purchasing goods or services with their mobile phones increased from 16% in April 2012 to 21% in April 2013, as shown in the graph opposite.

- The majority of mobile internet users purchasing goods and services (63%) spent up to £100 per month, with a significant 37% spending more than this. (Average for the three months to April 2013.)

- This current group of people paying for goods and services with their mobile phones are likely to be early adopters, who are comfortable with mobile technology. About two fifths had spent less than £50 in a month through their mobile. Those spending more are likely to be making high frequency, low value purchases or ad-hoc larger value purchases.

![Activities undertaken by mobile internet users](chart)

**Source:** Ofcom Communications Market Report 2013

© Centre for Economics and Business Research, 2013
Many early adopters of mobile payment are comfortable spending a significant amount of money through this channel.

Monthly value of goods and services purchased using a mobile phone, among those purchasing goods and services (average for three months to April 2013)

Source: Ofcom
Purchases made using a mobile phone to almost triple in value between 2013 and 2018

- VocaLink survey data show that while 20% of mobile phone users aged 16-65 currently make mobile payments, an additional 30% are interested in doing so.

- As mobile payment technology advances and becomes applicable in more situations, we expect these interested users to start making mobile payments.

- Purchases of goods and services using a mobile phone currently account for a small share of total consumer spending in the UK – we estimate just 0.5% of consumer spending in 2013.

- The rolling out of new mobile payment systems – such as the Zapp payment system being introduced in 2014 – will drive continued growth in mobile payment over the coming years.

- We expect the value of goods and services purchased using a mobile phone to almost triple, from £4.8 billion in 2013 to £14.2 billion by 2018. This will be driven by a significant increase in the volume of people using mobile payment.

Source: Cebr analysis
Mobile payments to account for a growing share of consumer spending

- We estimate that purchases of goods and services using a mobile phone will account for 0.5% of total consumer spending in the UK this year.

- This is expected to more than double to 1.2% in 2018 and to reach 1.4% in 2020 as mobile payments are used in an increasing number of situations.

- “Mobile payment” covers a wide range of processes, and the market remains fragmented at present – there is no dominant way of making a payment for a good or service using a mobile phone. Some individuals use mobile phones to pay for parking by calling a phone number, others use payment systems such as Paypal to purchase goods. Other individuals use mobile web browsers and websites to enter credit/debit card details.

- A move towards standardisation of mobile payment options over the coming years should help increase take-up of mobile payment in general, offering consumers clarity and a “clear choice” on the best means of buying a product or service using a mobile phone. A growing ability to use mobile phones to buy goods in shops will also increase take-up.

Source: Cebr forecasts
Over 20 million people are expected to make purchases using their mobile phone by the end of the decade

• Cebr estimates that currently 5.6 million people aged over 16 in the UK use their mobile phones to purchase goods and services – 10.7% of the 16+ population

• This is forecast to rise to 30.8% of the 16+ population by 2018 – an estimated 16.5 million individuals.

• By 2020, we expect 21.0 million people aged 16+, 38.8% of the population in this age group – to be using their mobile phones to purchase goods and services, reflecting the spread of mobile payment systems across the UK as well as a continued rise in smartphone ownership.
Secure new payment systems should help to address fraud in the UK

- Although debit and credit card fraud losses have declined from the £610 million seen in 2008, this type of fraud still amounted to £388 million worth of losses in 2012.

- New payment methods emerging over the coming years will have varying levels of security – some may prove less secure than “traditional” payment methods such as debit and credit cards, while others should offer improved security.

- Analysis breaking down debit and credit card fraud into different categories, illustrated on the next page of this report, is insightful and suggests that fraud has shown little to no decline in certain areas. This yields insights into what makes for a secure payment system.

- In addition to card fraud, counterfeit cash also remains an issue for consumers and businesses. Estimates suggest that as many as one in every 36 £1 coins in circulation are counterfeit.

**Annual fraud losses on UK-issued debt and credit cards, £ millions**

Source: Financial Fraud Action
Some types of fraud have held up in recent years

- Between 2007 and 2012, card-not-present (telephone, internet and mail order) fraud losses declined from £290.5 million to £245.8 million. Counterfeit (skimmed/cloned card) fraud losses fell from £144.3 million to £42.1 million.

- However, fraud losses on lost and stolen cards remained remarkably stable over this time period, and stood at £55.2 million in 2012.

- Fraud losses from card ID theft have also seen little change, standing at £32.1 million in 2012.

- Mail non-receipt fraud (cards being stolen in transit) losses stood at £12.8 million in 2012, up from £10.2 million in 2007. Properties with communal letterboxes such as flats or student halls of residence are at particular risk of this type of fraud.

- The fact that these types of fraud have held up highlights one of the security challenges associated with some traditional payment methods – individuals do not necessary need a PIN to purchase goods and services using these methods. Sometimes details visible on debit/credit cards themselves are sufficient to make a payment. Going forward, payment methods should aim to avoid this by requiring PIN validation to make purchases.

Source: Financial Fraud Action
Mail non-receipt fraud losses rose by over 25% between 2007 and 2012

% change in plastic card fraud losses, 2007-2012

Source: Financial Fraud Action

- Mail non-receipt: 25.5%
- Counterfeit (skimmed/ cloned) fraud: -70.8%
- Fraud on lost or stolen cards: -15.4%
- Card ID theft: -5.9%
- Telephone, internet and mail order fraud (card-not-present fraud): -1.8%
Retailers to benefit from lower transaction costs. Cash is far from costless

- Although cash is often thought of as a “costless” means of transaction, this is far from the case. Cash needs to be counted, checked, kept under security and can be stolen.

- Once these costs are taken into account, cash is one of the most expensive ways of paying for goods and services. The cost of cash is estimated to be 2.8% of total cash takings by retailers. 70.3% of this cost is store count and preparation. Errors in cash transactions account for 2.7% of the cost of a cash transaction.

- The cost of cheques are estimated to be 2.0% of total cheque takings, with fraud perceived as a common issue with this type of payment.

- The transaction cost of debit and credit cards amounted to 1.1% of total plastic card takings.

- New payment methods – which offer accuracy, speed, security and low merchant costs – can potentially offer even lower transaction costs on average.

Source: Centre for Retail Research
Cash has significant store count and preparation costs.

Retail costs of cash, as a % of total cash transaction costs

- Errors in cash transactions: 2.7%
- Bank charges: 18.0%
- Cost of cash pick-up in-store: 9.0%
- Store count and preparation: 70.3%

Source: Centre for Retail Research
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Instant settlement will help businesses – particularly SMEs

• By offering instant settlement, new payment methods such as mobile payment should provide some respite for the many businesses in the UK struggling with cashflow issues.

• The ICAEW/Grant Thornton Business Confidence Monitor, a quarterly survey of 1,000 UK businesses, showed that just under a quarter (24%) of businesses in the UK reported late payments from customers to be a greater challenge than a year ago in Q3 2013.

• This share is even greater when looking at private small and medium-sized enterprises (SMEs), where the share stood at 28% in Q3 2013. This compares with just 14% for UK-listed companies.

% of businesses reporting late payment from customers to be a greater challenge than a year ago, Q3 2013

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<tr>
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<td>All businesses</td>
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Source: ICAEW/Grant Thornton Business Confidence Monitor
Mobile payments offer benefits for both consumers and the exchequer

• Data from the Office for Fair Trading show that over a quarter of consumers in the UK incurred an overdraft charge in 2012.

• As the chart opposite shows, for those consumers with unarranged overdrafts, average overdraft costs are notably higher than for arranged overdrafts.

• The greater transparency offered by mobile phone payments, which can allow instant bank account balance checking, should leave many consumers better informed and able to avoid tipping over the edge of their authorised limits.

• Furthermore, uptake of mobile payment by small businesses has the potential to move the ‘cash in hand’ economy over to mobile payments due to the increased convenience it offers. This will help reduce the “tax gap” in the economy – the difference between tax collected and the tax that should be collected.

• With the tax gap estimated to cost the exchequer as much as £32 billion per year on the latest estimates,1 mobile payments could therefore provide a substantial boost to government finances by improving transparency of earnings.

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1 Source: HMRC, measuring tax gaps 2012. £32 billion estimate covers the 2010/11 fiscal year.
Over a quarter of consumers in the UK incurred an overdraft charge last year.

Proportion of consumers that incurred an overdraft charge, 2012, by household income

- **Up to £20,000**: 24%
- **£20,001 to £40,000**: 29%
- **£40,001+**: 32%

Source: OFT review of personal current account market
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