



**BRITISH
RETAIL
CONSORTIUM**

PAYMENTS
SURVEY
2014

BASE DATA FOR SURVEY

Responses to the survey cover around 56 per cent of total UK retail sales (£333 billion) with a combined turnover of £185 billion. The data we receive from individual retailers is confidential and is collected exclusively by the BRC.

The respondents to the survey incurred collection costs (charges levied by payment providers to process transactions) totalling around £805 million in 2014.

KEY FINDINGS

CUSTOMER PAYMENT TRENDS

Recent reports on the way people shop and the changing nature of the high street continue to be reflected in the survey results. More frequent shopping trips for a smaller number of goods, and the rise of convenience stores particularly in the food sector is reflected in the survey with the continued decline in the average transaction value (ATV) across all payment methods.

	Average Transaction Values	Average Transaction Values against the 2013 figures	
Cash	£8.59	↓	-9.3%
Debit Cards	£26.42	↓	-4.2%
Credit & Charge Cards	£37.84	↓	-7.3%

During 2014 substantial changes in the mix of payment methods used continued.

Measured as a percentage of sales transactions and sales turnover against the 2013 figures the major trends are:

	Measured as a percentage of sales turnover		Measured as a percentage of sales transactions	
Cash	↓	-0.9%	↓	-4.5%
Debit Cards	↓	-1.9%	↓	-0.1%
Credit and Charge Cards	↑	+6.7%	↑	+5.2%

CASH USE CONTINUES TO DECLINE

Headline: Cash use continues to decline in value, specifically the number of transactions completed and in the average transaction value. However, the decline is not as dramatic as the survey has seen in previous years.

Turnover: The value of cash used by customers to make payment declined 4.48 per cent year-on-year (from 27.64 per cent in 2013 to 26.4 per cent in 2014).

Transactions: Cash still retains an important role as it now accounts for 52.09 per cent of transactions, down 0.91 per cent year-on-year (2013: 52.57 per cent).

Average Transaction Value: During 2014 the ATV for cash declined by 9.33 per cent and the decline over the last five years is 33.62 per cent (from £12.93 in 2010 to £8.59 in 2014).

Five year proportional market share: Over the last five years the value of cash taken by retailers as a proportional share of all payment methods fell by 19.5 per cent (from 32.78 per cent in 2010 to 26.4 per cent in 2014), although the share of the number of transactions has only decreased by 5.56 per cent. These changes reflect the impact of the reduction in the cash ATV during that five year period.

DEBIT CARDS - THE MAIN PAYMENT METHOD

Headline: The survey has identified a slight slow-down in the use of debit cards when measured against other forms of payment. However, they still account for nearly 50 per cent of sales turnover in this year's survey.

Turnover: Debit card use has been maintained in line with the growth in the retail market and now accounts for 49.52 per cent of retail sales value (2013: 49.58 per cent), down 0.12 per cent year-on-year.

Transactions: Debit cards account for 31.74 per cent of transactions, down from 32.37 per cent last year, a decrease of 1.94 per cent.

Five year Average Transaction Value: Over the last five years the average debit card transaction value has declined by 10.67 per cent (from £29.58 in 2010 to £26.42 in 2014). This is due in part to the increased use of debit cards for lower value transactions that were 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 of all other payment methods has increased by 7.35 per cent (from 46.13 per cent in 2010 to 49.52 per cent in 2014).

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

- Customers responding to banks and retailers' marketing initiatives highlighting the use of contactless cards, which are mainly debit cards, as a cash replacement for transactions below £20
- An increase in the number of smaller stores in the food sector that generate smaller average basket sizes
- Promotion by retailers of the benefits of using self service facilities where card use is seen by customers as a convenient way to pay
- Increased use of debit cards in online shopping

CREDIT AND CHARGE CARDS BACK IN FAVOUR

Headline: The use of both credit and charge cards have increased in their share of turnover and number of transactions. This shows that customers are returning to the use of credit cards for some transactions which is reflected in the overall UK market trends.¹ⁱ

Turnover: The percentage of share of turnover value has increased to 22.11 per cent from 21.03 per cent in 2013, up 5.15 per cent year-on-year.

Transactions: During 2014 credit and charge cards share of transaction volume was 9.9 per cent, up from 9.28 per cent last year, an increase of 6.65 per cent.

Five year Average Transaction Value: Over the last five years the average transaction value has declined by 9.11 per cent (from £41.63 in 2010 to £37.84 in 2014). This is in line with the market decrease in the ATV of all 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 proportion of all payment methods taken has increased by 6.39 per cent

¹ⁱ See UK Cards Expenditure Statistics January 2015

(from 20.78 per cent in 2010 to 22.11 per cent in 2014), although the share of the number of transactions has decreased by 8.88 per cent (from 10.86 per cent in 2010 to 9.9 per cent in 2014).

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

- Customers responding to banks and retailers' marketing initiatives highlighting the use of contactless cards.
- 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 seen by 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

THE COST OF PAYMENT COLLECTION

CARD COLLECTION COSTS NEED TO BE REDUCED

The cost for a retailer to process a debit, credit or charge card payment is still excessively high and out of line with the costs that retailers incur for cash transactions. The cost comparison analysis for the main payment methods are:

- Cash accounts for **52.09 per cent** of transactions - yet *only* account for **8.6 per cent** of costs
- Debit cards account **31.74 per cent** of transactions - *and* account for **40.72 per cent** of costs
- Credit and charge cards account for only **9.9 per cent** of transactions - yet they account for a staggering **45.45 per cent** of costs

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

	2014	per cent Change in last 5 years	
Cash	1.22 pence	↓	-29.3%
Debit Cards	9.46 pence	↑	3.3%
Credit & Charge Cards	33.85 pence	↓	-12.9%

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

	2014	per cent Change in last 5 years	
Cash	0.14 per cent	↑	6.5%
Debit Cards	0.36 per cent	↑	11.0%
Credit & Charge Cards	0.89 per cent	↓	-4.2%

COST IMPACTS

During 2014 the average cost of collection for all payment types as a percentage of tender turnover has marginally increased to 0.44 per cent of turnover compared to 0.43 per cent in 2013. However during the last 5 years the overall average has risen by more than 14 per cent - from 0.38 per cent in 2010 to 0.44 per cent in 2014.

The cost of handling cash transactions continues to fall, down by 5.7 per cent in 2014 compared to the previous year and from 1.29 pence to 1.22 pence per transaction. Over the last five years there has been a 29 per cent reduction in cash handling costs (2010: 1.72 pence, 2014: 1.22 pence).

The average cost of accepting each credit or charge card transaction has reduced to 33.85 pence (2013: 40.93 pence) for each transaction - a 17 per cent decline. This decline reflects the continued action taken by the BRC in representing its members' interests both at a European and domestic level to significantly reduce card acceptance costs. This per transaction decrease reflects a charging structure for credit and charge cards that is predicated on a percentage of the transaction value charge (ad valorem) and therefore as average transaction values fall this cost will continue to decrease.

The impact of the lower cost of accepting debit card transactions, prompted by the use of contactless payment cards (which tend to attract the lowest transactional fee structure), appears to have been counteracted by an overall increase in debit card collection costs such as processing and card fees. Therefore, the cost to handle a debit card transaction has risen to 9.46 pence for each transaction, compared to 8.83 pence in 2013 - a 7.06 per cent increase.

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 is higher. For example, a debit card transaction, based on current survey results, would be almost eight times more expensive than cash. (2014: Cash - 1.22 pence, Debit Cards - 9.46 pence)

Merchant service costs, which includes interchange as a major element, still account for more than 97 per cent (2014: 97.23 per cent, 2013: 97.4 per cent) of the total costs incurred in the acceptance of any type of card by retailers.

THE COST OF INTERCHANGE FEES

The total cost to retailers in this survey to process debit and credit cards was over £616 million. It is estimated that interchange fees comprised around 90 per cent of this amount. This equates to £554 million². This means the current estimated total annual cost of interchange fees for all UK retailers is approximately £1 billion.

IMMEDIATE GOVERNMENT ACTION NEEDED ON IMPLEMENTING INTERCHANGE FEE REGULATION³

The survey highlights the continued excessive costs being incurred by retailers in accepting all types of card transactions. The opportunity to see a major reduction in these costs has been opened to the UK authorities with the most recent EU directive on interchange regulation. Therefore, it is important for the UK Government to implement and enforce those changes within the UK immediately. Based on the survey responses immediate implementation of the EU regulation would potentially save all UK retailers approximately £480 million per annum based on the cost basis retailers were charged in 2014.

KEY FINDINGS BY PAYMENT METHOD

CASH

- Cash has not lost its appeal. While it is still dominant a further decline has occurred in 2014. Cash still accounts for approximately 52.09 per cent of all retail transactions.
 - £26.40 in every £100 spent at retail outlets is by cash
 - The typical cash transaction now costs the retailer an average of 1.22 pence per transaction to handle (0.14 per cent of transaction value)
 - Average cash transaction value has significantly decreased to £8.59 (2013: £9.47)
- Cash remains the most cost effective method for retailers to accept customer payment.

² 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

³ The Regulation proposes a cap on consumer debit cards of 0.2 per cent of the product price. For consumer credit cards the cap is 0.3 per cent of the product price.

DEBIT CARDS

- Debit card use has remained constant and continues to account for 49.52 per cent (2013: 49.58 per cent) of retail sales value.
 - Each debit card transaction (whatever the value) now costs the retailer in total an average of 9.46 pence per transaction to handle. (0.36 per cent of transaction value)
- Average debit card transaction value has decreased to £26.42 (2012: £27.58).

CREDIT AND CHARGE CARDS

- Credit and charge cards now account for 22.11 per cent of retail sales value (2013: 21.03 per cent).
- The average credit and charge card transaction costs the retailer 33.85 pence (0.89 per cent of transaction value).
- Average credit and charge card transaction value reversed a trend seen last year and decreased to £37.84 (2013: £40.81).

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 1.97 per cent of retail sales value (2013: 1.75 per cent).
- The average non-card payment transaction costs the retailer 6.15 pence (1.16 per cent of transaction value).
- Average transaction value decreased to £5.31 (2013: £5.45).

ADDITIONAL KEY INFORMATION OBTAINED

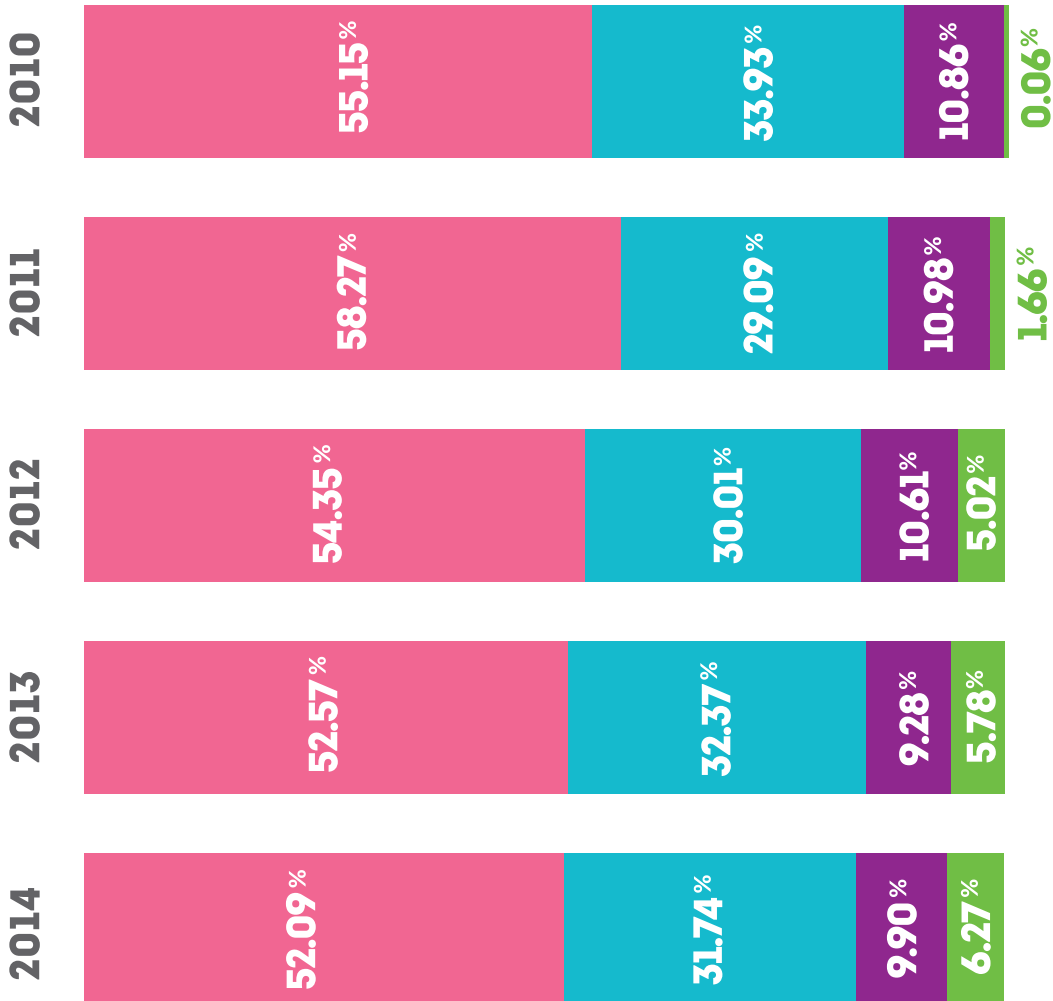
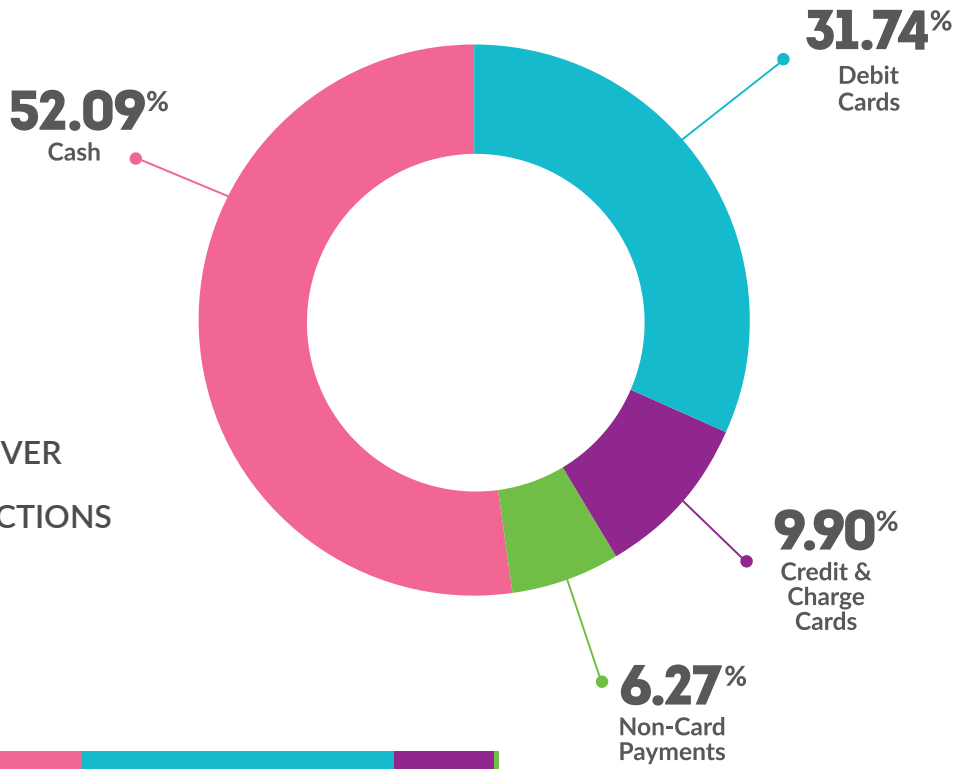
- During 2014 the conversion of manned POS to accept contactless cards has continued. Now 42 per cent of all manned POS terminals now have the capability to accept contactless cards. This is an 18.25 per cent increase on previous year.
- During 2014 the growth of self-service Checkouts (SSCs) increased by 8 per cent and now accounts for approximately 18 per cent of total payment terminals in retailer outlets. Currently around 90 per cent of SSCs accept both cash and cards as payment methods.
- Approximately 18 per cent of SSCs now have the capability of handling contactless cards. This is an increase of 113 per cent compared to the previous year. A major expansion of this capability is anticipated in the near future.
- Overall, the survey showed that more than 6.6 per cent (2013: 6.3 per cent) of the participants' turnover was completed by their customers shopping online. This equated in 2014 to over £12 billion sales.
- According to survey respondents, during 2014 the only significant development in new payment methods being introduced was confined to the deployment of non-card payment methods for internet sales (dominated by the expansion of PayPal).

RETAIL PAYMENTS SURVEY RESULTS

TRENDS

PAYMENT SURVEY RESULTS 2014 DATA

PERCENTAGE OF TURNOVER
BY NUMBER OF TRANSACTIONS
2014



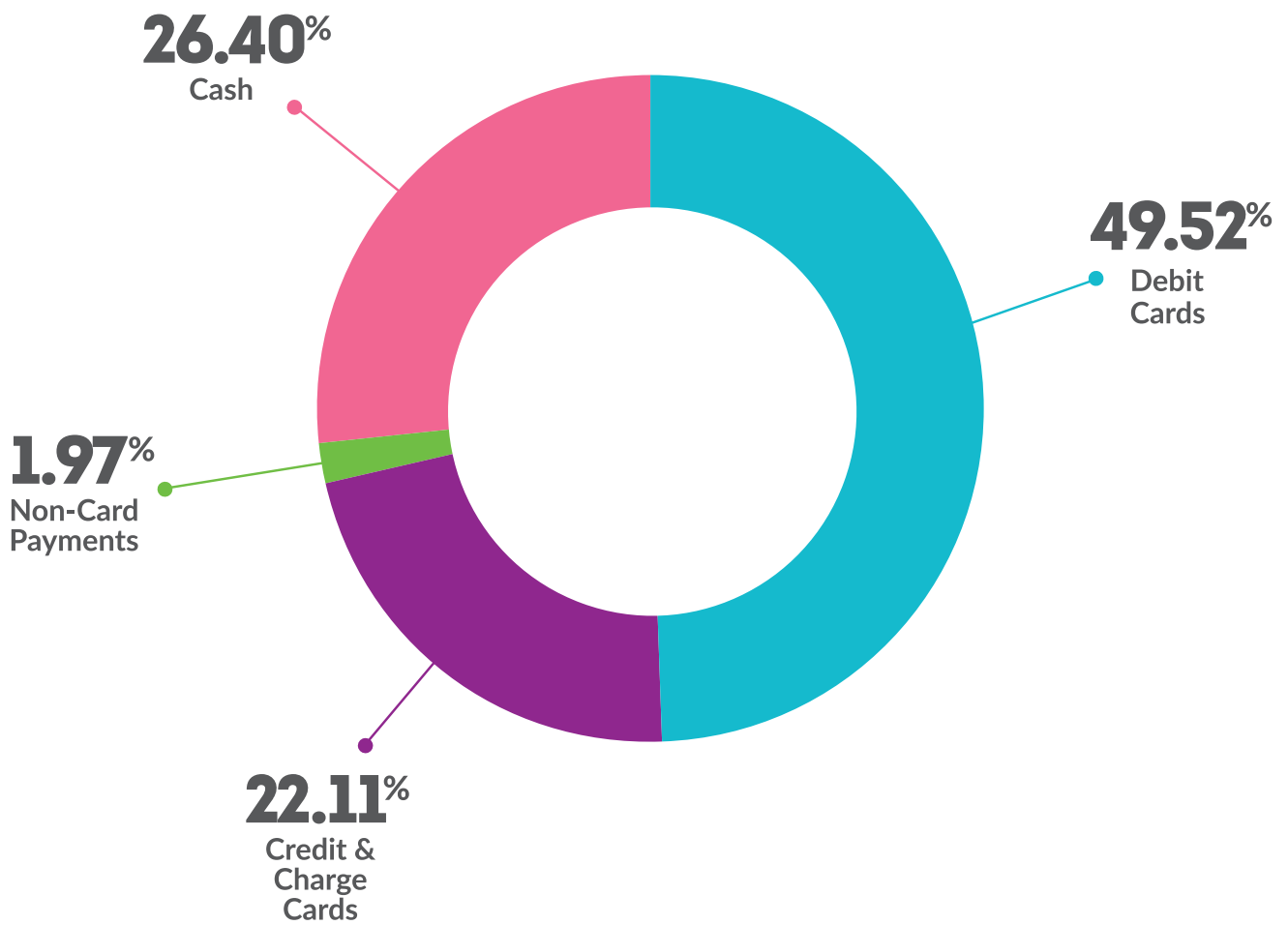
PERCENTAGE OF
TURNOVER BY
NUMBER OF
TRANSACTIONS

CASH DEBIT CARDS CREDIT & CHARGE CARDS NON-CARD PAYMENTS

PERCENTAGE OF TURNOVER BY NUMBER OF TRANSACTIONS

	2010	2011	2012	2013	2014
Cash	55.15%	58.27%	54.35%	52.57%	52.09%
Debit Cards	33.93%	29.09%	30.01%	32.37%	31.74%
Credit & Charge Cards	10.86%	10.98%	10.61%	9.28%	9.9%
Non-Card Payments	0.06%	1.66%	5.03%	5.78%	6.27%
TOTAL Number	7,957m	9,368m	9,923m	10,627m	10,920m

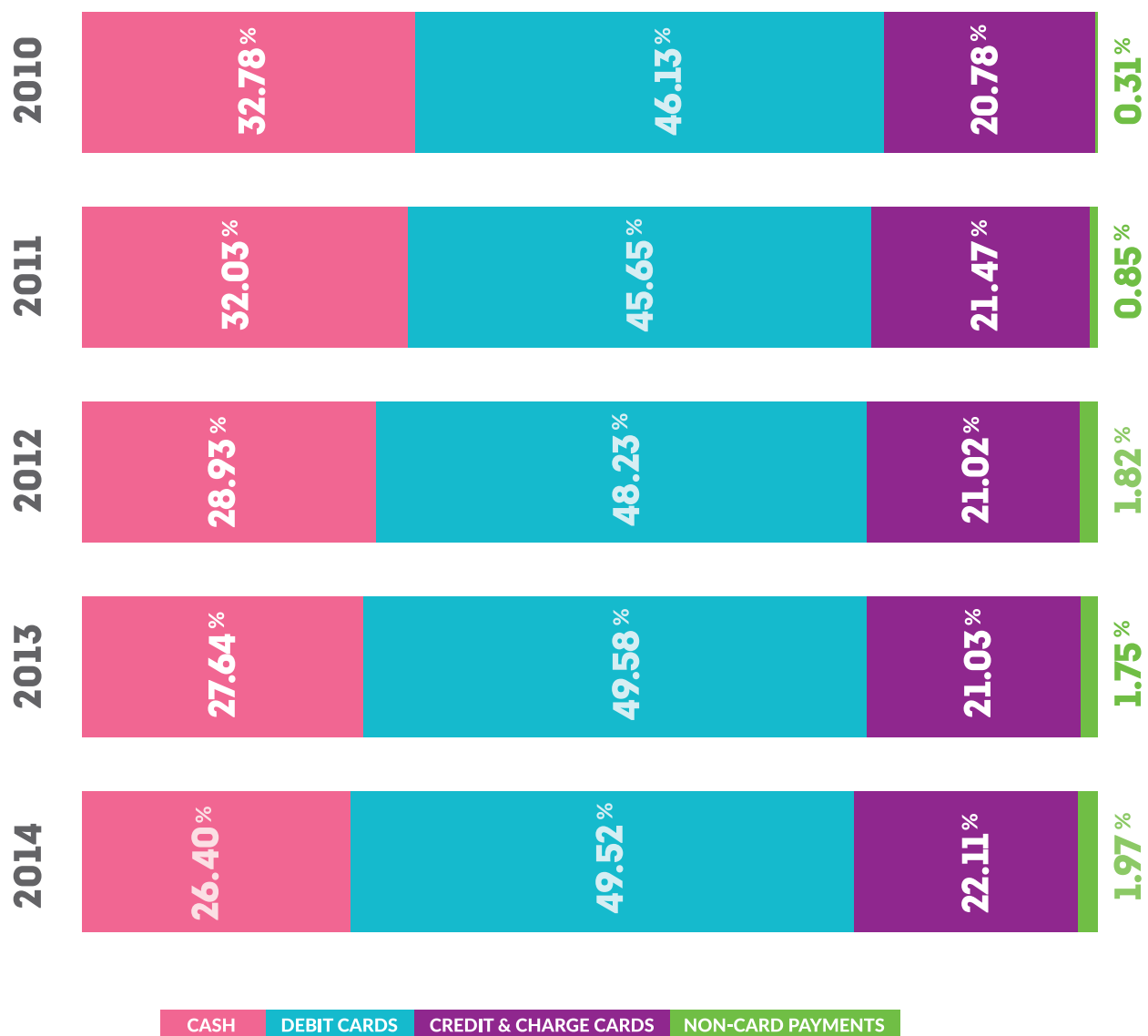
PERCENTAGE OF TURNOVER BY VALUE OF TRANSACTIONS 2010-2014



PERCENTAGE OF TURNOVER BY VALUE OF TRANSACTIONS 2010-2014

	2010	2011	2012	2013	2014
Cash	32.78%	32.03%	28.93%	27.64%	26.40%
Debit Cards	46.13%	45.65%	48.23%	49.58%	49.52%
Credit & Charge Cards	20.78%	21.47%	21.02%	21.03%	22.11%
Non-Card Payments	0.31%	0.85%	1.82%	1.75%	1.97%
TOTAL Value (£bn)	£173	£178	£182	£191	£185

PERCENTAGE OF TURNOVER BY VALUE OF TRANSACTIONS 2010-2014



AVERAGE TRANSACTION
VALUE BY PAYMENT
METHOD

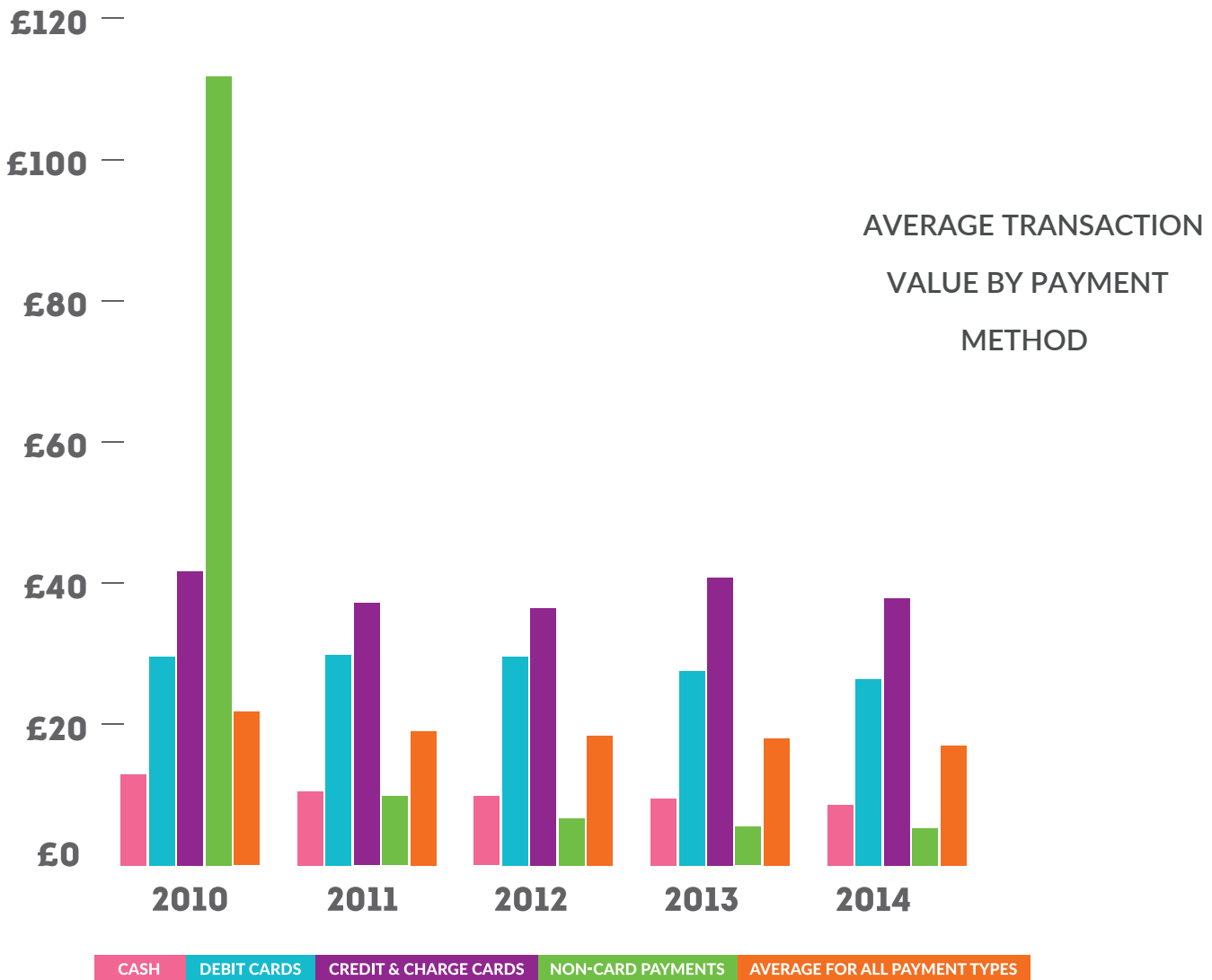


AVERAGE TRANSACTION VALUE BY PAYMENT METHOD 2010-2014

	2010	2011	2012	2013	2014
Cash	£12.93	£10.45	£9.78	£9.47	£8.59
Debit Cards	£29.58	£29.83	£29.53	£27.58	£26.42
Credit & Charge Cards	£41.63	£37.16	£36.40	£40.81	£37.84
Non-Card Payments	£111.82	£9.79	£6.66	£5.45	£5.35
Average - All Payment Types	£21.76	£19.01	£18.38	£18.01	£16.94

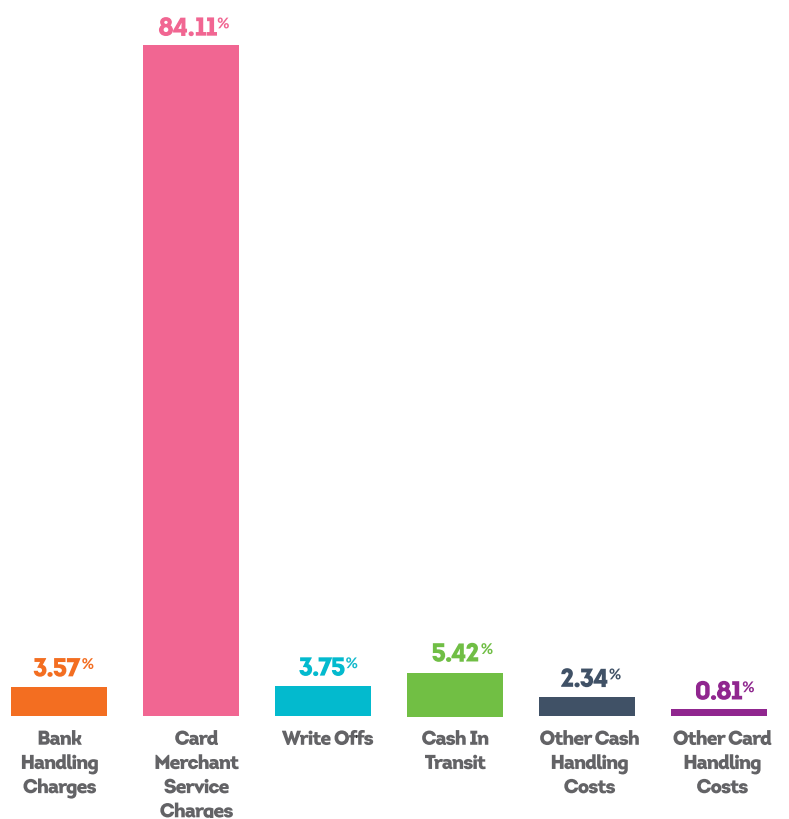
TOTAL COST OF PAYMENT COLLECTION

Total amount spent by retailers in the survey on payment collection is £805 million.

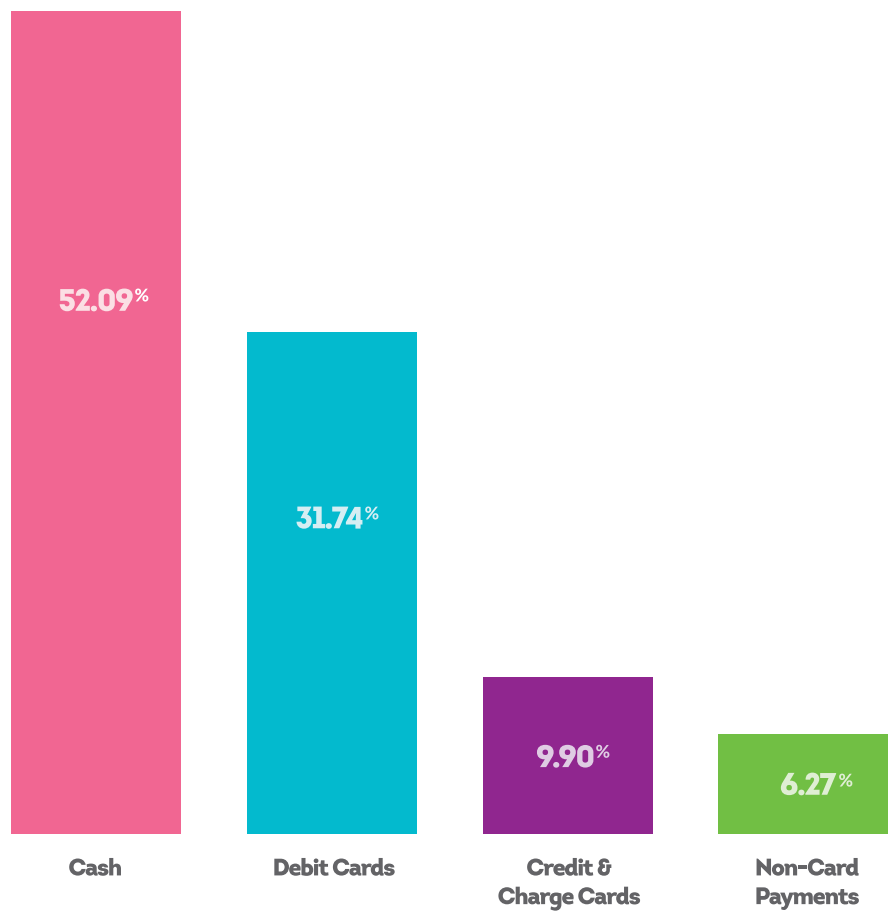


TOTAL COST OF COLLECTION BY TYPE OF CHARGE

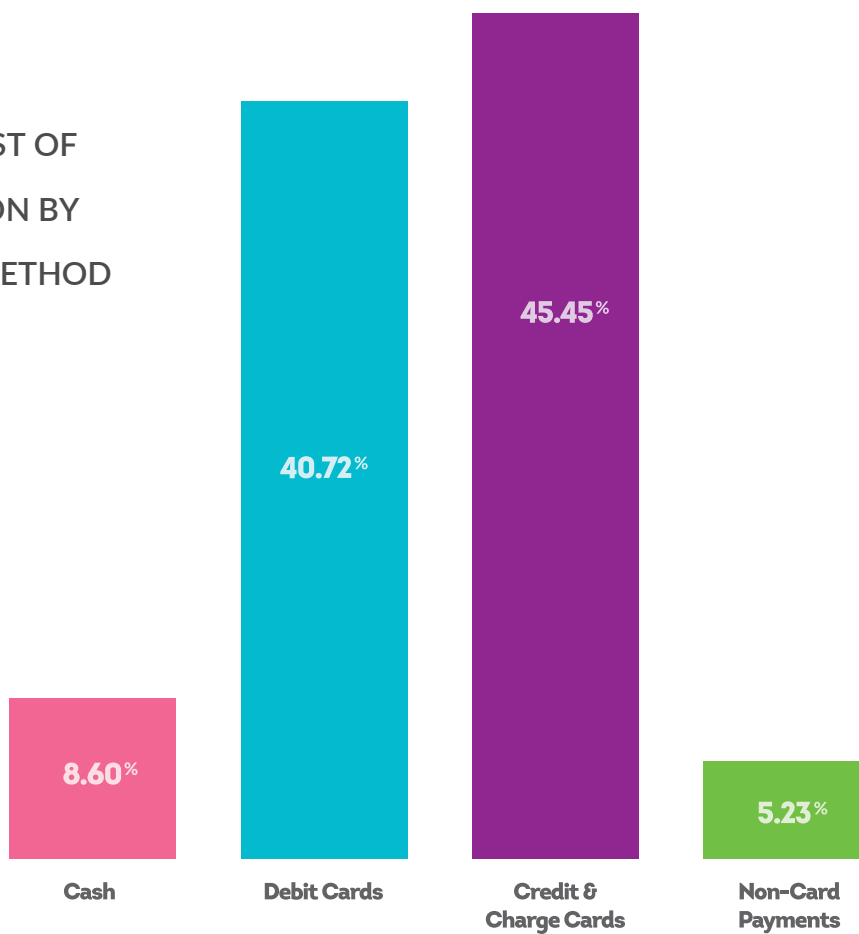
2014



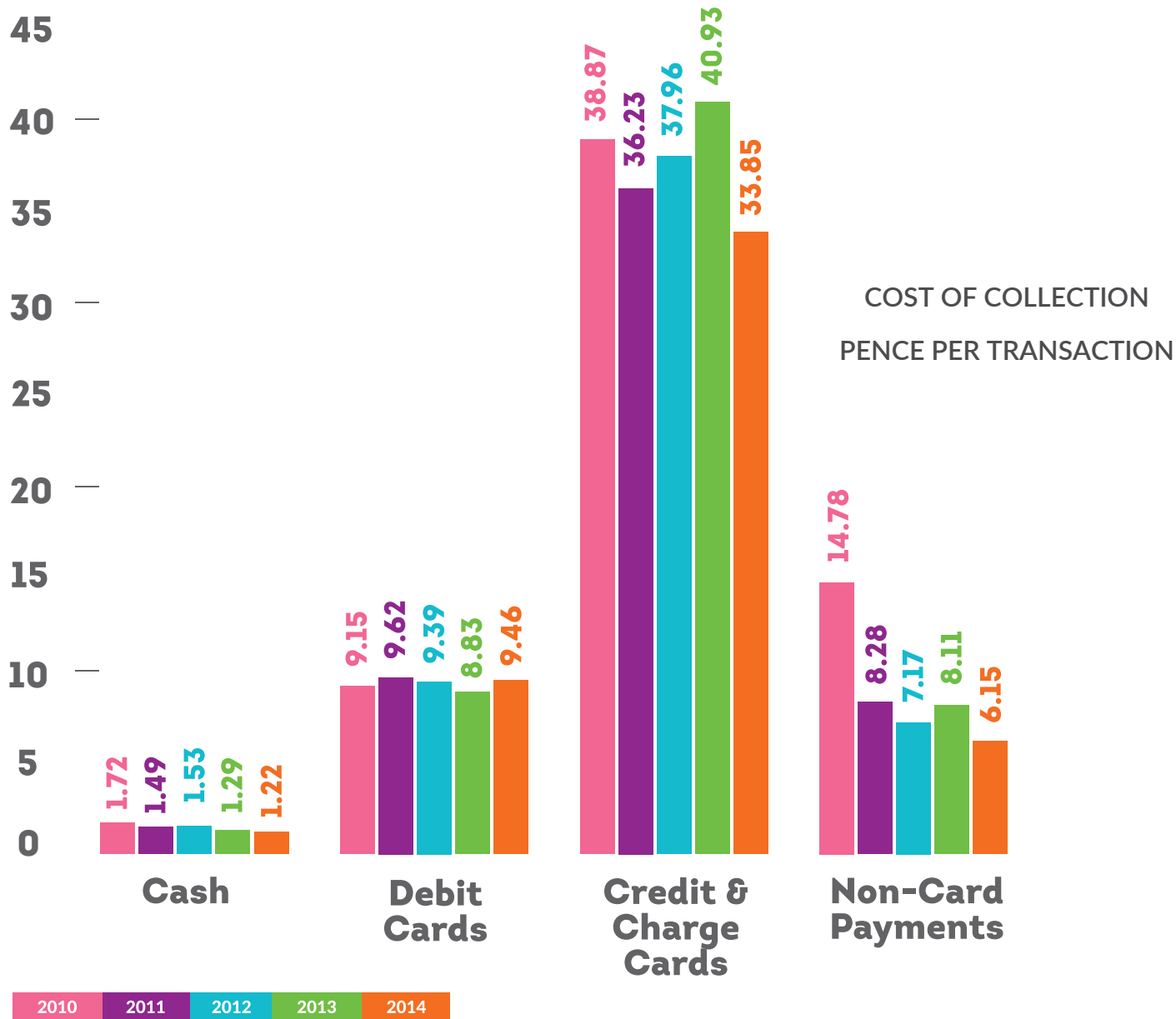
PERCENTAGE OF
TRANSACTIONS BY
NUMBER
2014



TOTAL COST OF
COLLECTION BY
PAYMENT METHOD
2014

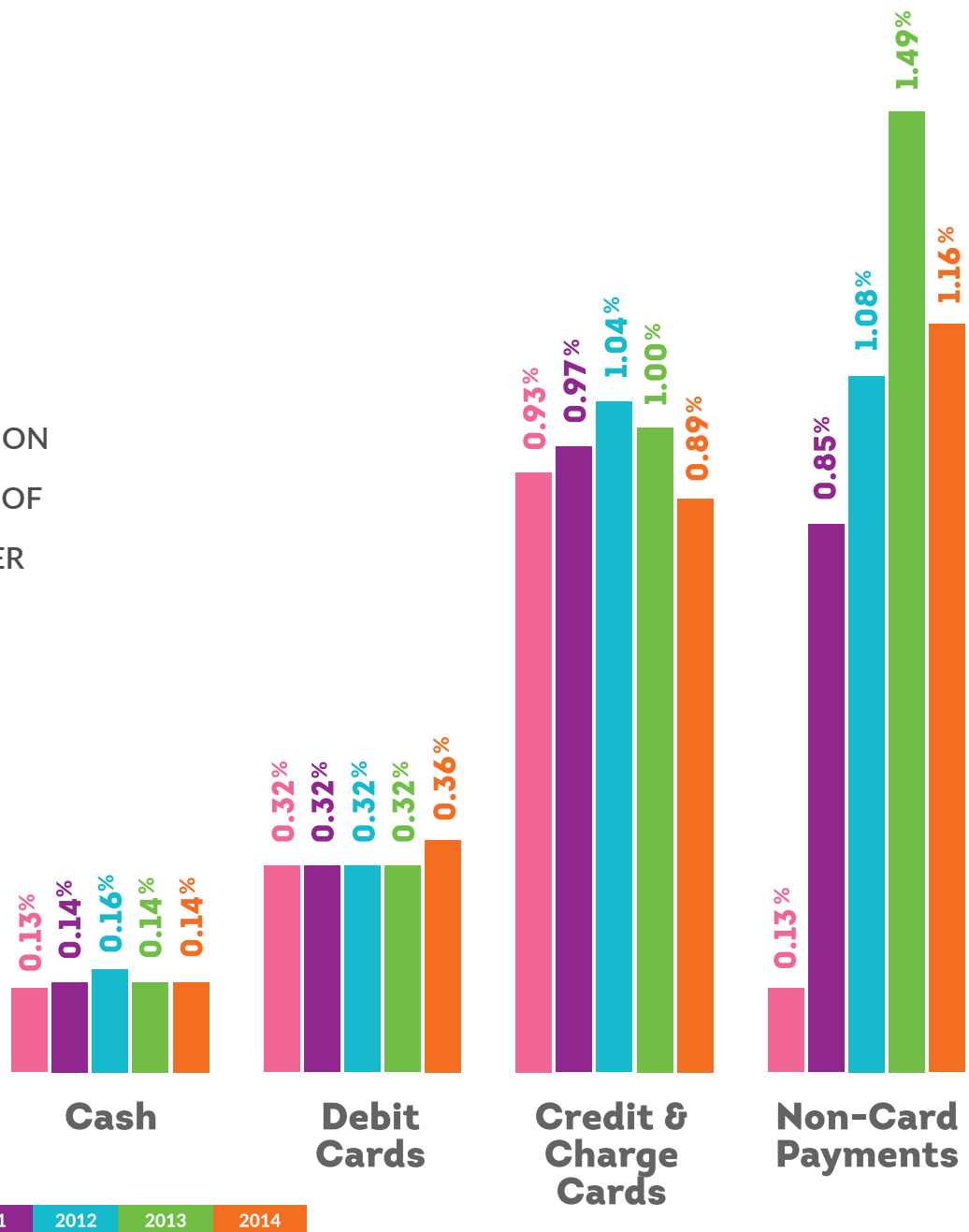


The biggest single cost (84.1 per cent of total collection costs for retailers accepting cards) continues to be the Merchant Service Charge (MSC) within that cost the fixed element, interchange, accounts for over 90 per cent.



	2010	2011	2012	2013	2014
Cash	1.72	1.49	1.53	1.29	1.22
Debit Cards	9.15	9.62	9.39	8.83	9.46
Credit & Charge Cards	38.87	36.23	37.96	40.93	33.85
Non-Card Payments	14.78	8.28	7.17	8.11	6.15
Average - All Payment Types	8.29	7.78	8.04	7.81	7.37

COST OF COLLECTION
AS A PERCENTAGE OF
TENDER TURNOVER



	2010	2011	2012	2013	2014
Cash	0.13%	0.14%	0.16%	0.14%	0.14%
Debit Cards	0.31%	0.32%	0.32%	0.32%	0.36%
Credit & Charge Cards	0.93%	0.97%	1.04%	1.00%	0.89%
Non-Card Payments	0.13%	0.85%	1.08%	1.49%	1.16%
Average - All Payment Types	0.38%	0.41%	0.44%	0.43%	0.44%

RETAIL PAYMENTS SURVEY 2014: PURPOSE AND METHODOLOGY

PURPOSE

The results from the British Retail Consortium (BRC) Payment Survey conducted for the 2014 calendar year was completed by retailers that represent around 56 per cent of UK retail sales annual turnover. In 2014 this totalled £333 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 approximately £805 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 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 2010 to 2014 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 its membership to enable the BRC 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

- Provide provable data in support of BRC's continuing representation of its members' interests in the ongoing UK and European lobbying for significant reductions specifically in MasterCard and Visa interchange fees for all card types and any specific card scheme related additional charges.

METHODOLOGY

The BRC circulated a questionnaire to all BRC members and responses were received from members who account for an annual sales turnover of approximately £185 billion, which is nearly 56 per cent of total UK retail sales. Most of these retail sales arose from more than 18,500 shops of all types in addition to approximately 6.6 per cent 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 coins (change) to retailer

Other Cash Handling Charges

Third party handling costs for Prime Count, Provision of coin(I don't know what this means)

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.