



PAYMENTS SURVEY

2022

BRC

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ABOUT THE PAYMENTS SURVEY

The Payments Survey is an annual publication of the BRC measuring the sales volumes and values of different payment channels employed by retailers across the UK. Conducted by the BRC for over twenty years, the Survey utilises an exclusive set of data from retailers to assess the changing approaches in the ways that customers choose to pay for goods. It also provides a unique look at the cost of collection across different payment channels and provides a valuable benchmarking tool for BRC members.

The data for this survey was gathered in 2022 and covers the 2021 calendar year. The survey was completed by retailers that represent just under 40% of UK retail annual sales turnover which in 2021 was £421 billion. Past data going back as far as 2014 is also considered in the report.

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 point of sale. 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 in stores, over the internet or through mail order or telephone order (MOTO). Within the different payment types, the costs include items such as Merchant Service Charges (inclusive of card acquiring fees, interchange and card scheme fees), fraud, bad debt, losses, Cash-In-Transit, and related administration costs in all categories. These costs amount to £1.3 billion across the retail industry and therefore account for one of the key cost elements in retailing operations today.



THE KEY PURPOSES OF THE SURVEY ARE



DATA

Provide participating BRC members with data to allow them to benchmark and improve their own payments cost structure



ANALYSIS

Compare the results with previous surveys in order to analyse how the mix of payment methods and the collection costs have changed



MEASURING TRENDS

Keep the BRC informed of payment market trends within its membership to enable the BRC to provide unique data on retail payments and related issues



TACKLING COST

Ensure that cost savings from the Interchange Fee Regulation are fully realised by retailers, and to identify the source of any cost increases imposed by the payments industry



ADVOCACY

Provide a strong evidence-base in support of BRC advocacy and campaigns on behalf of our members



SUPPORT

Support the work of regulatory authorities within the UK and Europe with pertinent data in a consolidated format

KEY FINDINGS AND RECOMMENDATIONS



VALUES UP: Total UK retail sales rose by 4.57% to £421 billion in 2021; people were spending more which was reflective of general inflation and price increases across the market, but also a strong bounce back from the pandemic following periods of lockdown and uncertainty for the retail industry.



DEPENDENCE ON CARDS INCREASES EVEN FURTHER: The drop we see in cash usage in 2021 is replaced almost entirely by an increase in debit card use. Card transactions in 2021 accounted for almost 90% of all retail transactions, with 67% of turnover being accounted for by payments made on debit cards.



VOLUMES UP: Extrapolating our sample for the entire retail industry, the data implies that there were 17.1 billion retail transactions overall in 2021, up from 16.7 billion transactions in 2020, but still lower than pre-pandemic levels (19.1 billion transactions in 2019).



CARD 'TAX': Retailers spent £1.3 billion on costs in 2021, of which £1.15 billion was spent on processing card transactions. The average cost for using a debit card in 2021 rose from 0.265% to 0.273%, with scheme fees increasing by 28% compared to 2020 and total Merchant Service charges increasing by 12%. With a much higher volume of transactions being made on debit cards, this increase resulted in an additional £141 million being spent on processing debit card transactions. We refer to this as a 'tax' imposed upon retailers by the card schemes and are signatories to the new campaign 'Axe the Card Tax' with other trade associations, pushing for fairer fees and more effective competition.



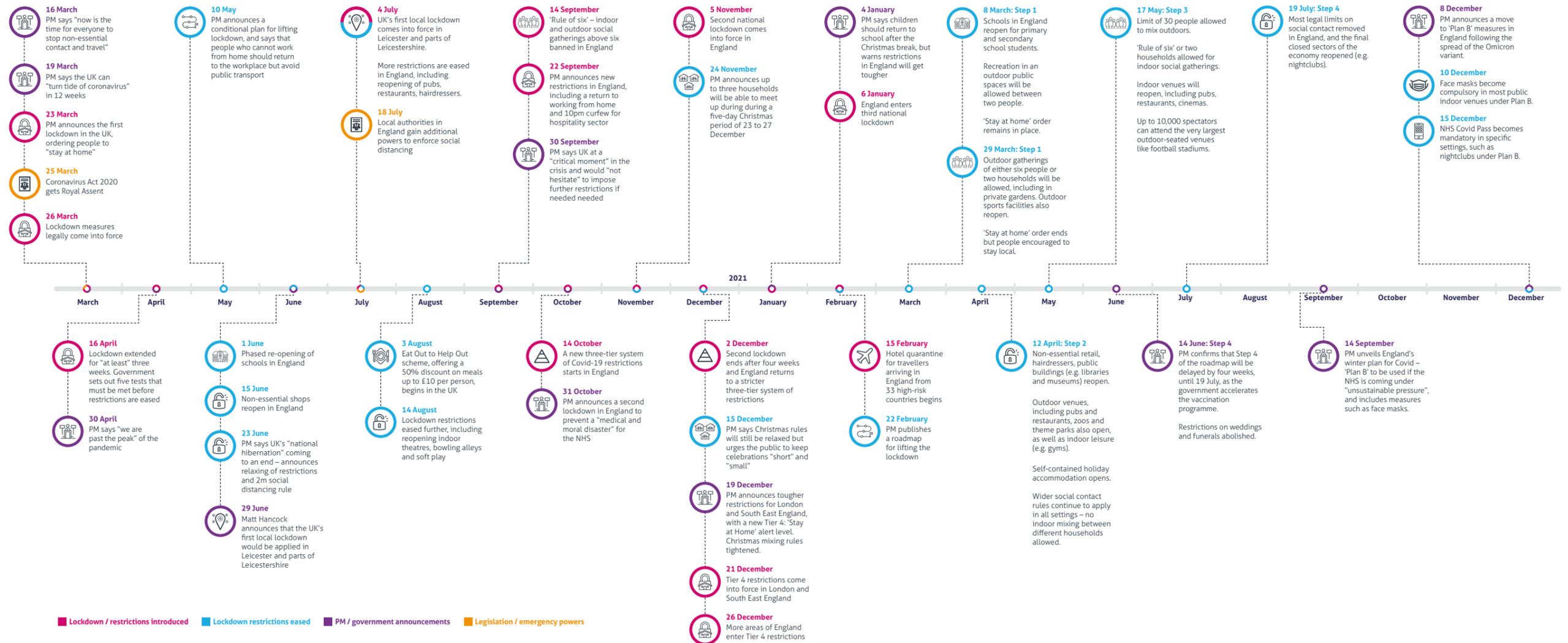
CASH USAGE IS DOWN: This year's Payments Survey shows a vast drop in consumers' use of cash from 30% down to 15%. This data covers the 2021 calendar year, which was the only year the UK was fully 'in' a pandemic for the entirety of the year and during which time consumers were advised against using cash to reduce physical contact and limit the spread of the virus. This year we also saw significant periods of lockdown, during which time visiting physical stores was limited, again minimising the opportunities to use cash.



THE BACKDROP TO 2021

Timeline of UK government coronavirus lockdowns and measures, March 2020 to December 2021

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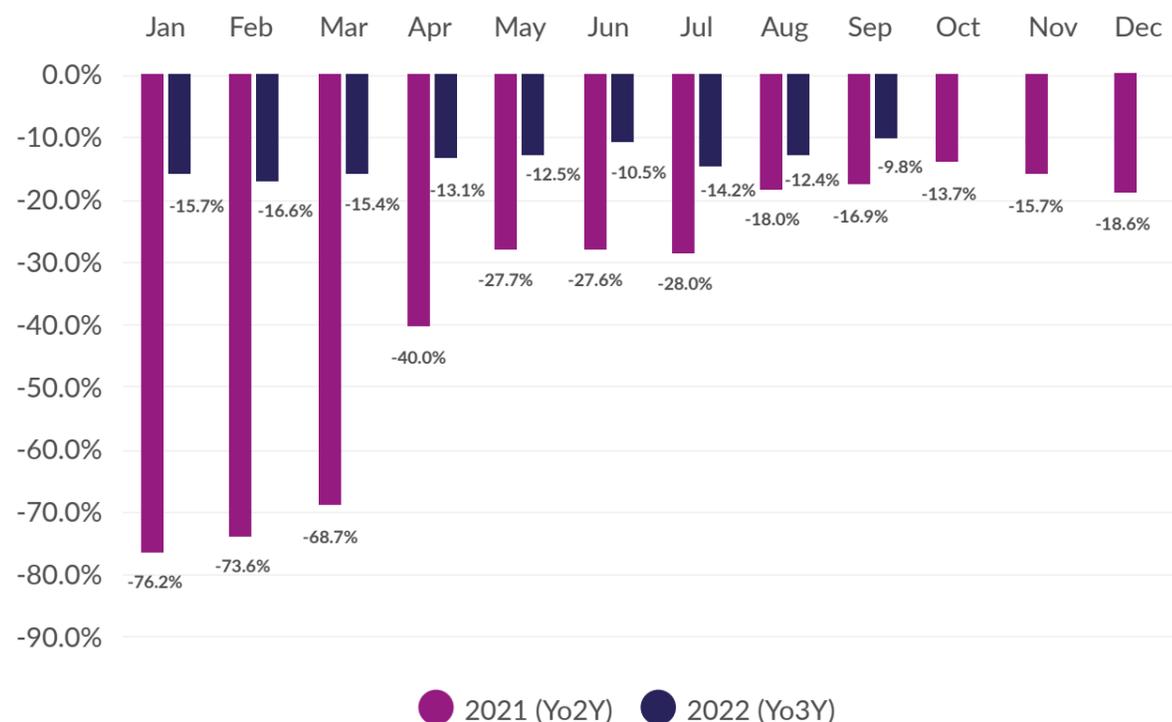


Source: Institute for Government analysis.

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The Covid-19 pandemic that broke out in the UK in early 2020 continued into 2021. On 6 January 2021, the UK saw a third national lockdown imposed, with hotel quarantine coming into effect in February for those entering the UK from abroad, halting tourism even further. Non-essential retail did not reopen until April and social distancing rules continued until the middle of July. With these various government measures in place, the return to physical shops was slow, but by the middle of 2021 footfall numbers were returning to pre-pandemic levels.

TOTAL UK FOOTFALL (% CHANGE ON PRE-PANDEMIC LEVELS)



CASH

2021 saw the largest decline in cash usage recorded since the inception of this survey, tumbling from 30% in 2020 to just 15% of transactions in 2021, accounting for just 8.2% of the total spend. Though we are used to seeing the proportion of cash transactions declining year on year, this is an unusually large fall.

However, this was not totally unexpected, as the restrictions in the early part of the year continued the 2020 trend of online spending, and as physical stores reopened the advice was to minimise physical contact by using contactless transactions wherever possible.

This also meant that consumers began using their cards for small transactions that would previously have been made by cash. We see this in the average value of a debit card transaction which fell from £27.12 down to £24.90.

There continues to be a need for cash within society, and this need can be especially important for those in the most vulnerable situations. This is shown in that 15% of transactions were still being carried out using cash, even during a year when cards were recommended. The average transaction value for cash rose from £12.91 to £13.87.

PROTECTING ACCESS TO CASH

Availability and use of cash remains an integral part of society, and protecting it remains a high priority for all affected stakeholders. Despite a substantial number of consumers preferring other forms of payment, there is still a sizeable minority of people for whom cash is essential, and it is critical that cash remains an option for these people.

Cash use has been declining for many years, and the lower demand for cash has impacted on retailers and consumers, in terms of cost, ease of use and accessibility. Many of our BRC members recognise the importance of cash for consumers, and have signed up to the Which? Cash Friendly Pledge, vowing to continue to accept cash in all of their stores, despite logistical difficulties.

The retail industry continues to be concerned about the long-term sustainability of the cash eco-system. Given the fall in cash usage, which creates increased costs and logistical difficulties for retailers, the BRC encourages the government to consider further interventions to support the future of cash.

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CARDS

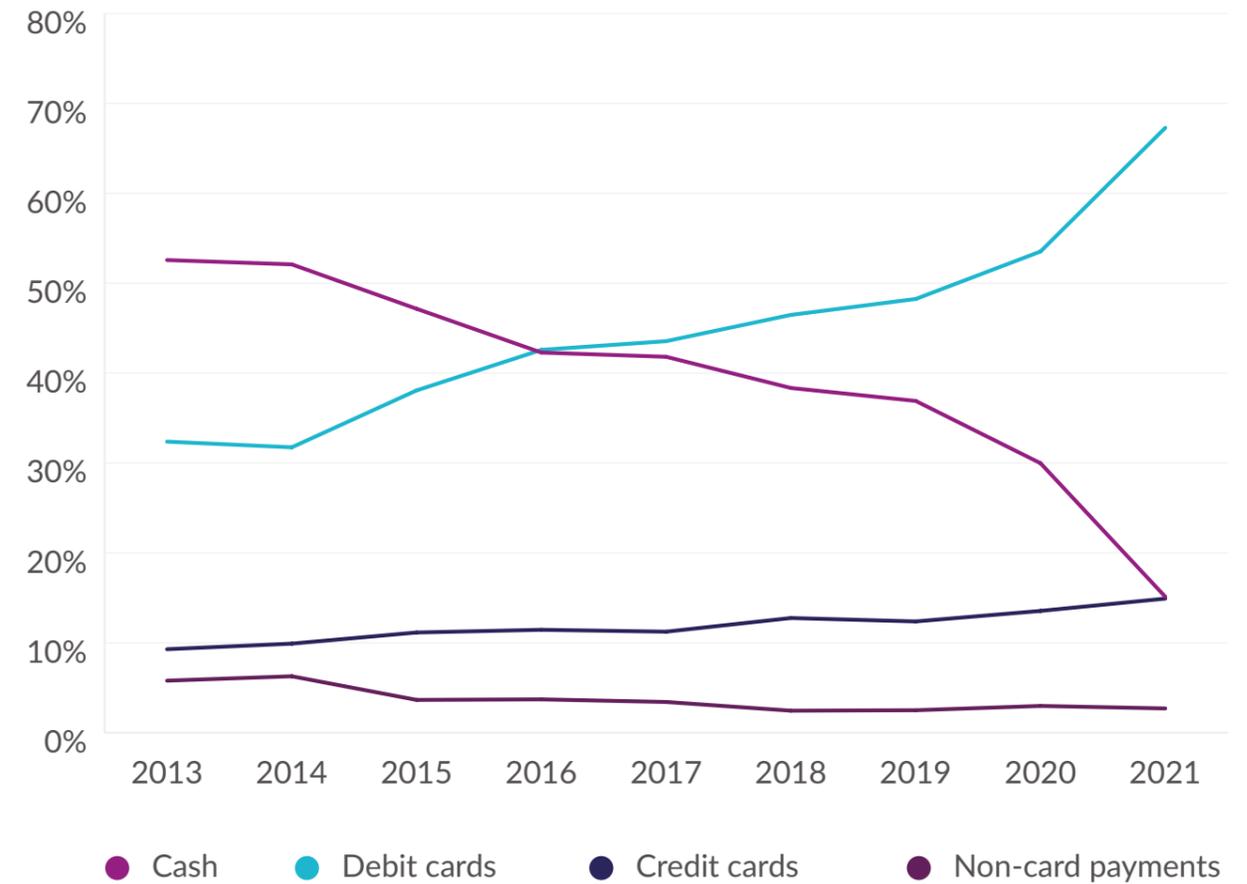
In 2021, consumers were advised to limit physical contact to reduce the spread of coronavirus, and with that came a decline in the use of cash and an increase in the use of cards. The UK was advised to use contactless payments wherever possible, and retailers encouraged to make card payments readily available. The significant increase in the contactless card limit to £100 was also a key factor. As a result, cards became overwhelmingly the preferred method of payment for the vast majority of transactions and were used to purchase £377.9 billion worth of goods, accounting for 89.7% of retail sales in 2021.

There were 14.1 billion transactions made on cards in 2021, up from 11.2 billion in 2020.

Almost 75% of all card transactions were made on debit cards, whilst credit and charge cards account for the remaining 25%. Interestingly, as a share of total sales by value, debit card transactions have been steadily climbing year on year. However, credit cards appear to remain consistent, accounting for around 20-22% of total transaction value every year. As shown in the table below, this again demonstrates that the shift away from cash was largely replaced by debit cards, even prior to the pandemic.



% PROPORTION OF TRANSACTIONS



SHARE OF TOTAL SALES (TURNOVER)				
Date	Cash	Debit Cards	Credit & Charge Cards	Non Card Payments
2013	27.64%	49.58%	21.03%	1.75%
2014	26.40%	49.52%	22.11%	1.97%
2015	23.32%	53.42%	21.48%	1.77%
2016	23.22%	54.05%	20.51%	2.23%
2017	22.01%	54.85%	20.84%	2.30%
2018	20.41%	56.86%	21.53%	1.20%
2019	19.67%	57.78%	20.52%	2.03%
2020	15.09%	59.22%	21.73%	3.95%
2021	8.23%	66.96%	22.74%	2.08%

DEBIT CARDS

Debit cards continued to see the highest proportion of transactions, with £282 billion spent on debit cards, accounting for 67% of all retail transactions. This is a huge 18% increase on the total value spent on debit cards in 2020, up from £239 billion.

Using implied figures, our survey suggests that debit cards were used to make 11.5 billion transactions, rising steeply from 8.9 billion transactions in 2020. As previously highlighted, this is largely due to the switch from cash to debit cards in the coronavirus pandemic.

The average transaction value spent on debit cards decreased from £27.12 in 2020, to £24.90 in 2021. Traditionally, transactions made with cash are more likely to be of smaller value and so the switch from cash to debit cards has resulted in an increased number of transactions being made on debit card, but mostly for smaller value purchases. This has therefore resulted in the average transaction value declining.

DATE	SHARE OF RETAIL SALES VALUE	SHARE OF RETAIL TRANSACTIONS	AVERAGE TRANSACTION VALUE
2013	49.58%	32.37%	27.58
2014	49.52%	31.74%	26.42
2015	53.42%	38.07%	26.14
2016	54.05%	42.58%	23.38
2017	54.85%	43.55%	23.01
2018	56.86%	46.47%	23.16
2019	57.78%	48.24%	22.82
2020	59.22%	53.52%	27.12
2021	66.96%	67.28%	24.90

CREDIT CARDS

Credit and charge cards were used to make 2.6 billion transactions in 2021, up from 2.3 billion in 2020. This represents a small increase of 13.5% and meant that they accounted for 15% of total transactions.

Purchases made on credit cards totalled £95 billion, up from £88 billion in 2020, though as in previous years the percentage share of total retail sales remains largely consistent year on

year. For 2021 they represented 23% of total sales value compared with 22% in 2020.

Similarly, the average transaction value has held steady over the past four years, increasing slightly to £33, a similar level to 2019.

DATE	SHARE OF RETAIL SALES VALUE	SHARE OF RETAIL TRANSACTIONS	AVERAGE TRANSACTION VALUE
2013	21.03%	9.28%	40.81
2014	22.11%	9.90%	37.84
2015	21.48%	11.14%	35.91
2016	20.51%	11.44%	32.72
2017	20.84%	11.23%	31.54
2018	21.53%	12.75%	31.71
2019	20.52%	12.37%	33.52
2020	21.73%	13.54%	32.61
2021	22.74%	14.91%	33.00



ALTERNATIVE PAYMENTS

For the purposes of this survey, 'Alternative Payments' encompass anything that isn't a traditional card or cash payment. That may include account-to-account services, Buy-Now Pay-Later (BNPL), gift cards, and payment channels such as PayPal, as well as the developing utilisation of crypto currencies and blockchain.

This category saw a somewhat surprising fall from 4% share of total sales in 2020, down to 2.1% in 2021. There could be a number of reasons behind this.

These alternative payment methods generally tend to be used by consumers shopping online. BNPL, for example, is generally most available to online customers and similarly, PayPal would traditionally be used solely online. This drop in share may be explained by the fact that the latter part of 2021 saw a return to physical stores as Covid restrictions were removed.

2020 saw consumers face the greatest period of uncertainty, and therefore many turned to non-traditional forms of credit, and/or using gift cards and vouchers. This is seen in the average transaction value, which surged in 2020 to hit a record high of £34.32, but then fell back down to £9.44 in 2021. Given the drop in a lot of consumer's income in 2020, it seems plausible that consumers turned to deferred payment and alternative methods of payments for larger purchases, whilst 2021 saw a return to more normal spending habits.

We also saw the introduction of virtual cards by some BNPL providers. It is believed that these cards are mainly recorded in the survey as card transactions instead of BNPL transactions, and may explain part of the 'decline' we are seeing in 2021 in the alternative payments category.

DATE	SHARE OF RETAIL SALES VALUE	SHARE OF RETAIL TRANSACTIONS	AVERAGE TRANSACTION VALUE
2013	1.75%	5.78%	5.45
2014	1.97%	6.27%	5.31
2015	1.77%	3.64%	9.08
2016	2.23%	3.70%	11.10
2017	2.30%	3.41%	27.99
2018	1.20%	2.44%	15.76
2019	2.03%	2.49%	12.20
2020	3.95%	2.97%	34.32
2021	2.08%	2.69%	9.44

COSTS

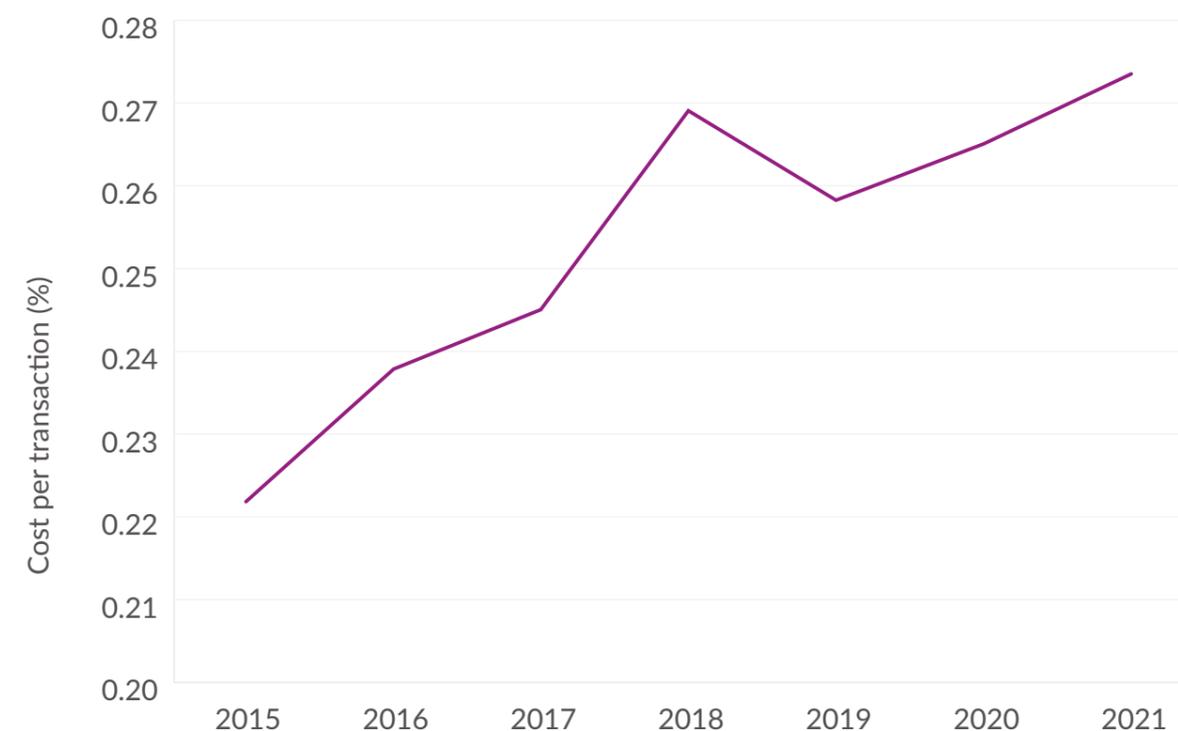
This section of the BRC Payments Survey covers the expenditure that retailers incur for accepting payments, taking account of the various cost factors including bank charges, transit costs, cash and card handling charges, and write offs (losses).

Retailers spent £1.3 billion in 2021 on the costs associated with different forms of payments. The findings for 2021 show that credit card and cash costs have decreased, whilst debit card and alternative payment costs have increased. With a payment landscape shifting towards use of debit cards and alternative payments, it

is clearly a matter of concern that retailers are seeing increased costs on the payment methods used most frequently.

The transaction cost for accepting debit cards (as a % of the transaction value) rose to 0.273% in 2021, up from 0.265% in 2020. These costs have been incrementally creeping up since the introduction of the Interchange Fee Regulation (IFR) in 2015, that was meant to reduce the cost of accepting cards for retailers.

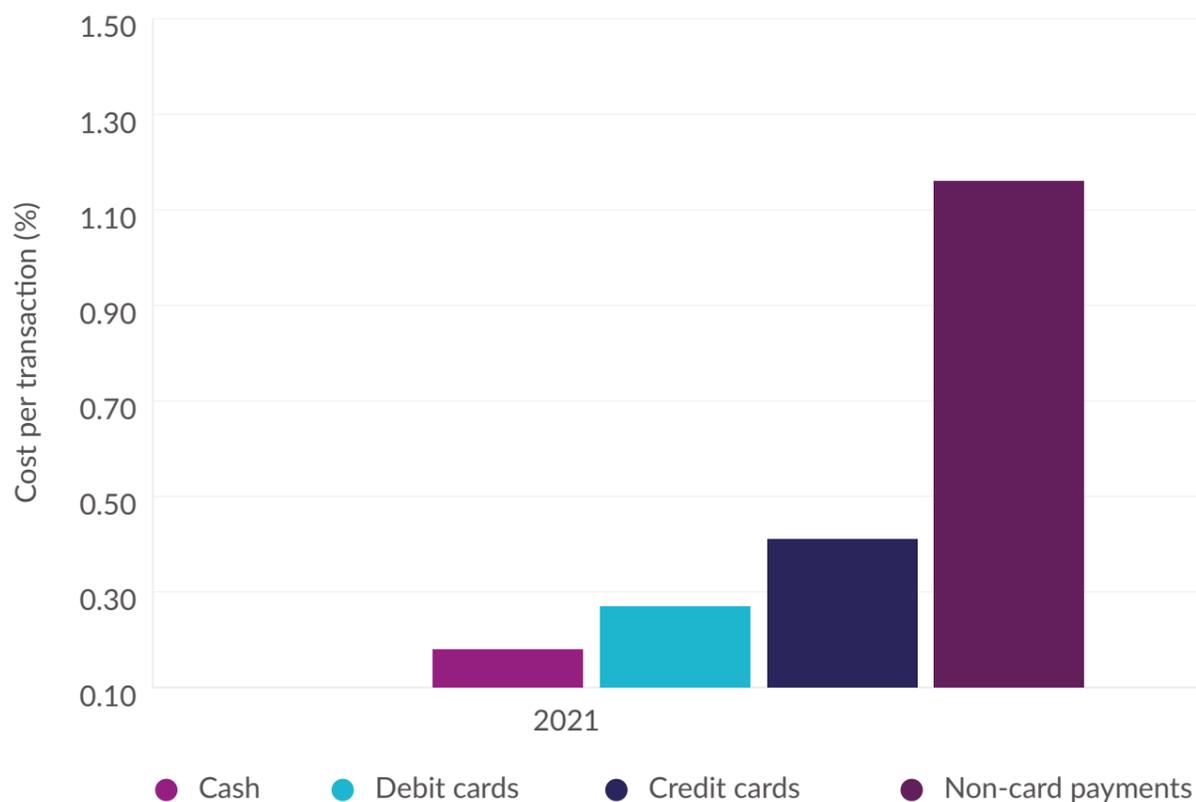
COST OF DEBIT CARDS (AS A % OF TRANSACTION VALUE)



Given the increased volume of debit card transactions in 2021, this meant that retailers paid 11% more for accepting debit cards in 2021 compared to 2020, spending an additional £141 million.

Alternative payments continue to be the most expensive for retailers to process; however, this category is a broad amalgamation of several payment methods and is therefore difficult to interpret single payment method costs within this category.

2021 COST OF COLLECTION



The average transaction cost for debit cards rose to 0.27% of total turnover, while credit and charge cards cost 0.41% of turnover, resulting in retailers spending £1.15 billion to process card transactions.

Cash remains the most cost-effective payment method. The cost of processing cash accounted for just 0.16% of total turnover, compared with 0.27% in 2020, though per transaction remained at 2.44 pence; exactly the same as in 2020.

COST OF CARDS AND ASSOCIATED FEES- THE CARD 'TAX'

With 90% of retail transactions being made on card, the rising cost of using cards is a huge concern for the retail industry.

Cards account for 82% of transactions, but 88.5% of retailers' cost of collection.

Credit and charge cards remain the most expensive, accounting for 30% of total costs, but just 15% of transactions. The average transaction cost of credit and charge cards decreased from 15.43 pence in 2020 to 13.46 pence in 2021, and from 0.48% to 0.41% as a percentage of turnover. This may reflect retailers' move away from particular card schemes as well as potential discount packages that are available to certain subgroups of retailers. Acquirer fees have also reduced on average for credit cards from 2.87 to 2.75 pence per transaction.

Meanwhile, the transaction cost of using debit cards rose again, and in 2021 retailers spent £762 million on processing debit card transactions, accounting for 59% of total costs. While the average transaction cost decreased marginally from 7.18 to 6.8 pence, this results from the lower average transaction value of £24.90 for 2021 compared to £27.12 in 2020. As a percentage of turnover, the cost of using a debit card increased from 0.26% to 0.27%.

Scheme fees jumped substantially, averaging a 28% increase in 2021, as a percentage of turnover. Credit cards saw the worst of this, increasing by a very substantial 42%, whilst debit cards saw a 23% increase. Measured in pence per transaction, scheme fees on average rose from 1.04 to 1.25.

SCHEME FEES (% OF TURNOVER)			
Payment type	2020	2021	% Increase 2020 -> 2021
Credit Cards	0.041%	0.058%	42%
Commercial Cards	0.045%	0.051%	12%
Debit Cards	0.037%	0.045%	23%
Total	0.038%	0.048%	28%



With 90% of retail transactions being made on card, the rising cost of using cards is a huge concern for the retail industry.

Looking at interchange fees, these have averaged a 10% increase as a percentage of turnover. Credit cards again saw the worst of this with a 26% increase, whilst debit cards rose 4%. Measured in pence per transaction, interchange fees on average rose from 6.39 pence to 6.65 pence.

INTERCHANGE FEES (% OF TURNOVER)			
Payment type	2020	2021	% Increase 2020 -> 2021
Credit Cards	0.27%	0.34%	26%
Commercial Cards	0.96%	0.84%	-12%
Debit Cards	0.20%	0.21%	4%
Total	0.22%	0.25%	10%

Overall, therefore, retailers saw an average 12% increase on total merchant service charges compared with 2020.

TOTAL MERCHANT SERVICE CHARGES (% OF TURNOVER)			
Payment type	2020	2021	% Increase 2020 -> 2021
Credit Cards	0.43%	0.52%	21%
Commercial Cards	1.02%	0.90%	-11%
Debit Cards	0.25%	0.27%	7%
Amex	0.76%	0.76%	0%
Total	0.29%	0.33%	12%



Due to the nature of their businesses, retailers must continue accepting card payments, given 90% of transactions were made by card in 2021. Cards are now considered integral for UK consumers. However, what we are seeing is the card schemes abusing their dominant position, taking advantage of the retailers' reliance upon their services, and increasing fees over and above what is fair.

We very much welcome the Payment Systems Regulator's (PSR) market reviews into card fees but we are concerned that the reviews might not lead to meaningful and rapid regulation. We are also concerned that during the time during which the reviews are conducted, the card schemes can continue not just charging, but also adding and increasing fees.

We continue to urge the PSR to consider abolishing interchange fees, in line with the Supreme Court's decision in 2020 that these are unlawful.

We also urge the PSR to put in place temporary measures to prevent the introduction of new scheme fees whilst the full market reviews are conducted, and long-term solutions are implemented.

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OPEN BANKING PAYMENTS

Account-to-account payments represent a key area of payments innovation and are beginning to drive much-needed competition in the market. For retailers, this competition is very welcome, bringing with it the potential for lowering transaction fees. However, at the moment, there are difficulties in encouraging take-up of these new options and steering consumer behaviour towards options that are more cost effective.

Retailers respond directly to consumer behaviour; without any incentive to switch, consumers still rely on retailers offering card services as a payment option and are very likely to continue to choose this well-known payment type, until offered a material reason to change. Interchange fees currently drive revenue for banks from card transactions, so there is also little incentive for banks to promote alternative payment types.

We continue to work with all involved stakeholders to push for Open Banking barriers to be broken down and to help drive fair competition and new payment options in the market.

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METHODOLOGY

The BRC circulated a questionnaire to all BRC members and responses were received from members who account for an annual sales turnover of almost £150 billion, which was 36% of total UK retail sales (2021: over £421 billion). These in turn represented sales from approaching 25,000 stores of all types, in addition to sales paid for via internet, mobile or MOTO 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 and cheques, and to deliver notes and coins to retailers for change.



Other Cash Handling Charges

Third party handling costs for 'Prime Count' and provision of coins.



Card Merchant Service Charges

Card Merchant Service Charges, including acquirer processing 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

Including 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 recording of signature receipts.

THE FOLLOWING DEFINITIONS WERE USED TO DETERMINE 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 'Non Card Payments' category here were cheques, PayPal, and 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.

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The BRC's purpose is to make a positive difference to the retail industry and the customers it serves, today and in the future.

Retail is an exciting, dynamic and diverse industry which is going through a period of profound change. Technology is transforming how people shop; costs are increasing; and growth in consumer spending is slow.

The BRC is committed to ensuring the industry thrives through this period of transformation.

We tell the story of retail, work with our members to drive positive change and use our expertise and influence to create an economic and policy environment that enables retail businesses to thrive and consumers to benefit. Our membership comprises over 5,000 businesses delivering £180bn of retail sales and employing over one and half million employees.



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