The Future of Payment

Recent trends in payment methods and future projections

A Cebr report for PayPoint
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Executive Summary

Payment methods are changing rapidly, with the shares of transactions being made with debit, credit, cash and other methods changing every year. We focus on market shares of each payment method, both by value and by volume.

- From 9.3% of all transactions today, non-card non-cash payments are projected to more than double to 19.6% by 2019. Non-card non-cash payment methods include cheques, mobile payments, coupons and PayPal.

- Though cheques are in decline and likely to be phased out soon, the others are helping the category grow rapidly in their shares of payments. In value terms, we forecast growth from 3% to 7% of the value of retail transactions between 2014 and 2019.

- Non-card non-cash payments have a smaller average value than other payment methods. People tend to use non-card non-cash methods and cash for small transactions, and cards for larger ones.

- Debit continues to grow in use while cash stagnates. Debit card is the most commonly cited preferred payment method in general. Almost half (48%) of UK adults surveyed indicated that this was their preferred payment method. This compares with 23% for cash. Those in lower income groups are more likely to express a preference for cash payment over card payment.

- However, the picture is nuanced, and generalisations regarding payment methods are not rigid. For instance, the East of England prefers cash to the North West, although East of England incomes are higher on average.

- Security of payment is the most commonly cited deciding factor in determining how to pay – 55% of those surveyed said that this was the most important factor. 26% of those surveyed said ease of payment was the most important factor.

- The structural shift towards internet retail means that people are becoming less willing to wait. For in-store purchases, the average maximum queuing/payment time that people were willing to endure was 5.7 minutes, which compares to 2.9 minutes for online purchases.

- Compared with the UK, a notably higher proportion of consumers in the US state that cash is their preferred payment method in general, at 29.5% (compared with 23.0% for the UK).

- Retailers could gain by accepting the payment method which their customers prefer: our survey finds that payments taking too long or seeming insecure caused customers to abandon purchases in 4% of cases in bricks-and-mortar retailers, and in over 5% of online purchases.

- By implementing better payment systems, these sectors as a whole could make potential gains of £2.5 billion in the case of bricks-and-mortar retailers and £390 million for online sales when customers abandoned the purchase altogether.

- These businesses could have gained £9.5 billion for traditional retailers and £1.5 billion for online retailers, from implementing better payment systems when customers abandoned the retailer for a different one.
1 Introduction

This Cebr report examines the future of payments in the UK. We also consider, in some places, payment trends in the US, for comparative purposes.

The way that consumers purchase goods and services has gone through a period of drastic change in recent decades, as society has gradually shifted away from cash and towards card payment. Cash has become relatively less important over time, as have other “traditional” payment methods such as cheques. While cards currently dominate the realm of non-card non-cash payments, this could change over the coming years as companies take advantage of new payment technologies. Mobile payment – the ability to purchase goods and services using a smartphone – looks particularly likely to be a strong growth area over the coming years.

These new payment channels have the potential to offer significant benefits to consumers, improving their experiences when paying for goods and services. Implemented in the right way, new channels such as mobile payments can offer more convenient, more secure and faster payment, improving consumer shopping experiences and, in turn, allowing businesses to generate sales that they would not otherwise achieve. With new technologies, consumers can reap other benefits – such as being able to view their bank balances on their phones before making a purchase.

As this report shows, the declining importance of cash is likely to continue over the coming years, as cards and non-card non-cash payment methods grow in importance. For new payment systems, survey research in this report suggests that security is by far the biggest determining factor in whether an individual will adopt a new payment method. Without assurances of security, these payment methods will be doomed to fail.

Having the right payment infrastructure in place – both online and “in the real world” – is crucial if businesses wish to generate the maximum amount of sales that they can. Consumers are not willing to make a purchase if waiting times are long or if payment systems are insecure. This research quantifies the potential gains that retailers could realise from improving their payment systems. For the UK, these gains amount to billions of pounds.

The structure of this report is as follows:

- Section 2 examines recent trends in payments in the UK
- Section 3 examines consumer perceptions and preferences for payment in the UK and the US
- Section 4 examines the potential gains that businesses could realise from improving their payment systems
- Section 5 draws conclusions and implications for businesses from the preceding analysis
2 Recent trends in payment methods

- The two dominant modes of payment, both in numbers and value of transactions, are cash and debit cards.
- The share of cash in total payments is falling, while that of debit cards is stagnating.
- A new growth trend concerns an increase in non-card non-cash payments, which include cheques, mobile payments, coupons and PayPal. Though cheques are in decline, the others are helping the category grow rapidly in their shares of payments. From 9.3% of all transactions today, they are projected to rise to 19.6% by 2019. In value terms, we forecast growth from 3% to 7% of the value of retail transactions between 2014 and 2019.
- These have a smaller average value than other payment methods. People use non-card non-cash methods and cash for small transactions, and cards for larger ones.

2.1 Non-card non-cash transactions will hugely grow in number

We examine trends in the British Retail Consortium’s payments data. The BRC collects data on its members, which collectively account for almost 60% of total UK retail sales. This year, the total number of BRC retail transactions in the UK is estimated at almost 11.6 billion, equivalent to 165 per person. We expect continued robust growth in the total number of transactions, consistent with growth in the size of the population and the economy. Between 2007 and 2019, the number of transactions is projected to see an increase of 135%. Use of all four payment methods shown in Figure 1 – cash, debit cards, credit
cards and non-card non-cash payments – will increase, but to different extents as technological change and consumer preferences evolve.

The most notable trend in number of transactions is the rise of non-card non-cash payment methods, which made up 1.8% of the total value of transactions in 2012 and, we estimate, 3.3% now (see Figure 2). Under our forward projections, this category in 2019 will account for 7% of the value of all transactions and 19.6% of the number of all transactions. People will be using them, therefore, for relatively small payments.

The rise of non-card non-cash payments means older methods will lose out. Cash, the oldest and currently most-widely used payment method, will continue to decline in importance: although the actual number of cash payments will grow, its share of all transactions will fall. Surveys show that debit cards are the most preferred method of payment (at present: this may change), suggesting people use cash in more transactions than they would if they had greater choice over payment method.

Credit and charge cards, though set to see growth of 52% in numbers of transactions over the whole period from 2007 to 2019, have already started to slow down due to other payment methods’ growing popularity. Between today and 2019, we forecast an increase of just 6% in this method, meaning their share of all transactions (by volume) is set to fall from 10% to about 7.5% in 2019.

2.2 Non-card non-cash payments: young and upwardly mobile

Behind the non-card non-cash payment trend is the emergence of one new payment form (mobile payments), the decline of another (cheques), and a surprising resurgence in an old payment form (coupons).

Until 2010, the share of total payment value made by non-card non-cash transactions was very low and the total number was even lower, meaning that previously people used them for relatively large transactions. The trend of shrinking transaction values in this category is consistent with small-value mobile payments growing.

In 2014, the total value of payments made to BRC members is expected to be just under £210 billion. The value of the non-card non-cash share should hit, about £6.8 billion, while in 2019, its value is projected to be slightly over £18 billion.
Cheques continue to decline and now account for just 2% of non-card non-cash payments, i.e. 0.19% of all transactions. We are likely to see cheques phased out completely in around a decade’s time, though there is no firm date. The Payments Council had planned that by 2018 they would no longer be accepted, but public opposition prevented it – surprisingly, given how rarely they are used.

Coupons issued by third parties have become a surprising growth area, reinvigorated in the digital age, accounting in 2012 for £1.2 billion in transactions, i.e. around 36% of the non-cash non-card market.

The main contributors to the future growth of this category will be mobile wallets/mobile payment platforms and PayPal (the BRC does not give percentages for these categories), both of which we expect will grow rapidly over the next few years.

Various mobile payment platforms exist, some operated by Internet giants such as Google, others by mobile operators and others by handset companies. There are currently four distinct models for making payments: premium SMS messages, mobile billing, mobile web payments and contactless Near Field Communication (NFC). The market is likely to evolve over time towards a dominant model, but already has achieved traction among consumers. A survey for Consumer Focus found in March 2011 that 32% of consumers used their mobile phone to make payments, and among 18–24 year olds the figure was 46%¹.

Section 3 looks at the proportion of those who have made smartphone purchases after prompting from an advert or endorsement.

¹ Consumer Focus response to the DCMS seminar papers on the Communications Review September 2012
2.3 By transaction values, non-card non-cash payments tend to be lower

**Figure 3 Average transaction value by payment method**

![Graph showing average transaction value by payment method](image)

Source: British Retail Consortium Cost of Collection Survey. Note: non-card non-cash payments increased 2008–2010 due to increased cheque values. Full height of peak not shown, for scale purposes.

Figure 3 above shows us how much, on average, people spend on a transaction by the payment method used.

**Non-card non-cash payments** Including cheques, PayPal, coupons and mobile wallets are used for the smallest-value transactions. They show a very large increase between 2008–2010, when cheque values increased, and the small number of non-card non-cash payments during those years meant that had a large effect on the overall average. Since that, the average value of cheque transactions has been in decline.

**Cash** is also used for small-value transactions. On average, a cash transaction in 2014 will be worth £10.32, around a third of the typical debit card transaction or a quarter of one made using a credit card. The replacement of cash with cards has been starting with the most expensive purchases, relegating cash to smaller-value payments. Each year, the value of a typical cash transaction falls slightly.

**Debit cards** come next in value. We forecast that the average value of a debit card transaction will stay broadly stable. **Credit and charge cards** are the payment method with the highest-value transactions. A contributing factor, no doubt, is that people prefer to make “big-ticket” purchases using this method and then pay it back over time. On average, this year a transaction made using a credit card will be almost £39 and we forecast further gradual increase to 2019.
2.4 The growth in total value of non-card non-cash payments will be less pronounced

Figure 4 Total value of retail transactions at British Retail Consortium members by payment method

Turning to sales by value, our projections show that over the period from 2007–2019, the total value of transactions will increase by 97% – as well as the growth in population and economic activity already noted, inflation causes prices to rise.

The finding from the previous section that non-card non-cash payments are the smallest by average value means that their rapid growth in popularity will translate into less dramatic rises in value terms between now and 2019. They grow from 0.9% of the total value of transactions in 2007 to just over 7% of our 2019 estimate for total value – although it is important to remember that there are shifts between payment methods within this category over our window, away from cheques and towards mobile payments and PayPal. In monetary terms, the growth of non-card non-cash is from £1.1 billion in 2007 to a projected £19.3 billion in 2019.

As mentioned above, cash is set to decline in importance. From 34% of total value in 2007, by 2019 it will account for just 25% of retail spending. At the end of the projection window in 2019, it is still growing in absolute terms, but at a very gradual pace.
2.5 Online sales

Online sales are not a different payment method but a different platform. In theory, they can take the same payment methods as are available in traditional retail, but, in reality, cash is virtually absent from online retail, with card payments taking the vast majority of transactions.

Figure 5 Growth of online sales, 2009–2019

As mentioned, online sales will help to drive growth in debit cards and non-card non-cash transactions. UK retail sales via mobile devices, meaning almost exclusively smartphones and tablets, rose to almost £8.2 billion last year, according to eMarketer. This represented year-on-year growth of over 100%, and meant that the sector accounted for 18% of all retail e-commerce sales. This year, tablets are likely to dominate the market, with 58% of sales expected to come via tablets versus 40.5% on smartphones.
The future of payments – what do consumers tell us?

- Security is an important factor, but speed is clearly decisive in certain contexts and consumers refuse to wait beyond a certain threshold. The threshold varies according to whether the transaction is on- or offline, suggesting that consumers’ preferences within payment method vary.

- Security of payment is the most commonly cited deciding factor in determining how to pay – 55% of those surveyed said that this was the most important factor. 26% of those surveyed said ease of payment was the most important factor.

- The structural shift towards internet retail means that people are becoming less willing to wait. For in-store purchases, the average maximum queuing/payment time that people were willing to endure was 5.7 minutes, which compares to 2.9 minutes for online purchases.

- Survey respondents were asked to consider what they would most like to see in new payment methods in the future. By far the most cited factor was reduced risk of fraud, with over half (51%) saying that this was the factor that they would most like to see. The next most commonly cited factor was ability to purchase in-store without queuing (14%) and ability to see one’s bank balance when making a payment (10%).

- Survey findings suggest a willingness to use smartphone payments – among younger demographics at least. Just 27% and 19% of 18–24 and 25–34 year olds with smartphones respectively would never purchase items on their smartphone. This proportion rises to 64% among those aged 55 and over.

- 31% of 18–34-year-olds have purchased products or services via their smartphones after seeing advertising/endorsements for them. The trend applies to older age groups too: 23% of those aged 35–44 have done this, and 16% of those aged 45–54. However, as with all payment trends, this picture is nuanced: 27% of 18–24-year-olds would never make a purchase using their smartphone, a higher proportion than is seen among those aged 25–34.

- Compared with the UK, a notably higher proportion of consumers in the US state that cash is their preferred payment method in general, at 29% (compared with 23% for the UK).

Preferences for payments – what do consumers look for in a payment system?

As part of our research into the future of payments, a YouGov survey of 2,356 adults in the UK was commissioned. A survey of 1,132 US adults was also commissioned and the findings of this survey were used to compare and contrast with the UK – this is examined in a subsection of this section.

The UK survey findings are interesting in that they show marked differences in payment preferences across demographic groups – preferences differ by age, region and income group, sometimes in surprising ways.

By a significant margin, debit cards are the most commonly cited preferred payment method in general – just under half (48%) of those surveyed said that this was their preferred method. Cash is the next most popular, at 23%, followed by credit cards at 22%. Notably, very few individuals prefer purchasing using other payment methods beyond these.
As part of our research, YouGov asked consumers in the UK about their most important factor in choosing how to pay. Security of payment method was by far the most commonly cited factor in choosing how to pay – over half (55%) of consumers said that this was the most important factor. The next most common factor was ease of making a payment, with over a quarter (26%) citing this as the most important factor. This is shown in Figure 6 below.

Figure 6: Thinking about how you choose to pay for products/services, which ONE, if any, of the following is the MOST important factor in how you choose to pay for products/services?

![Figure 6 showing the most important factors in choosing how to pay](image)

Source: YouGov, Cebr analysis

3.2 Willingness to pay when confronted with queues and security concerns

The structural shift towards internet retail means that people are becoming less willing to wait to pay, as shown clearly by the YouGov survey commissioned as part of this research.

Survey data, shown in Figure 7 below, shows that individuals are less willing to wait to pay online than in-store. For in-store purchases, the average maximum queuing/payment time that people were willing to endure was 5.7 minutes, which compares to 2.9 minutes for online purchases. That is to say, maximum waiting times in the realm of the internet are 50% lower than in stores – people are less willing to put up with long payment processes online, and this is likely to be reflected in high online shopping cart abandonment rates. Research by the Baymard Institute\(^2\) suggests that over two thirds of online shopping carts are abandoned.

Figure 7: Which ONE of the following answers is closest to the MAXIMUM amount of time you would be willing to wait in the queue to pay for a typical purchase in-store or to complete a payment process online, before you would decide the wait is too long and abandon making the purchase entirely on that occasion?

Source: YouGov, Cebr analysis

Other research, shown in Figure 8 below, suggests that over a fifth (21%) of online shopping carts is abandoned because the process of online shopping was taking too long. Some 17% of online shoppers leave without paying because of concerns about payment security, while 18% leave because of excess payment security checks. So, clearly having the right payment processes in place is crucial to those selling goods and services.

Figure 8: Why do online shoppers leave without paying?

Source: Statista
Security appears to be less important from Figure 8 than YouGov’s polling suggested. As the above research asked a different question, the results are not directly comparable. YouGov’s survey is about preferences in general, while Figure 8 relates to a specific situation. Additionally, Statista’s research was carried out in 2012, while YouGov’s is contemporary. Attitudes can change quickly, especially regarding new technologies, so we would not regard the two as inconsistent. Security is certainly a very important concern.

We have analysed how consumers are likely to respond when confronted with lengthy or insecure payment methods, or being unable to pay with their preferred payment method – this is shown in Figure 9 below. Notably, a significant share of consumers would abandon purchases, either by going to another retailer or abandoning a purchase altogether. For example, in the case where payment processes are taking too long, just under half (48%) would abandon their purchase and look for it elsewhere, while 10% would abandon their purchase altogether. In the case of being confronted with a payment method that seems insecure, 57% would look for their purchase elsewhere while 18% would abandon their purchase altogether – suggesting that insecure payment methods appear to have a “scarring” effect on consumers, making them more likely to give up on purchasing a good or service altogether.

Figure 9: Please imagine that you were faced with each of the following situations when making a payment... In which ONE, if any, of the following ways would you be most likely to respond to each of the following situations when purchasing products/services?

![Graph showing consumer responses to different situations](image)

Source: YouGov, Cebr analysis

3.3 Future trends – what do consumers want?

Survey respondents were asked to consider what they would most like to see in new payment methods in the future. By far the most cited factor was reduced risk of fraud, with over half (51%) saying that this was the factor that they would most like to see. The next most commonly cited factor was ability to purchase in-store without queuing (14%) and ability to see one’s bank balance when making a payment (10%).

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Figure 10: In general, which ONE, if any, of the following would you MOST like to see in new payment methods of the future?

<table>
<thead>
<tr>
<th>Feature</th>
<th>18-24</th>
<th>25-34</th>
<th>35-44</th>
<th>45-54</th>
<th>55+</th>
</tr>
</thead>
<tbody>
<tr>
<td>A reduced risk of fraud</td>
<td>31%</td>
<td>31%</td>
<td>23%</td>
<td>16%</td>
<td>5%</td>
</tr>
<tr>
<td>Ability to purchase something in-store without queuing</td>
<td>14%</td>
<td>10%</td>
<td>10%</td>
<td>8%</td>
<td>5%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Ability to see my bank account balance when making a payment</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Ability to use the same payment methods in any situation (e.g. using the same method to pay...)</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Ability to pay faster</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Ability to buy things based on recommendations (e.g. from social media, online reviews etc.)...</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: YouGov, Cebr analysis

Mobile payments look set to be a key growth area in payment systems over the coming years, as new systems are rolled out by companies trying to enter this market. While survey data illustrated earlier show relatively few individuals citing smartphone payment as their preferred payment method, this likely reflects limited knowledge about these nascent payment platforms at present. Survey findings suggest a willingness to use smartphone payments – among younger demographics at least. Among those with smartphones, just 27% and 19% of 18–24 and 25–34 year olds respectively would never purchase items on their smartphone, though this rises to 64% among those aged 55 and over. While just under one third (31%) of 18–24 year olds have purchased on their smartphone after seeing advertisements/endorsements for it, this falls to just 5% among those aged 55 and over (see Figure 11).

Figure 11: % of those surveyed that have ever purchased any product(s) / service(s) via their smartphones (e.g. app, browser etc.) after seeing any advertising / endorsements for it

Source: YouGov, Cebr analysis
Figure 12: Please indicate which ONE, if any, of the following ways you would prefer to pay for each of the following products / services, assuming that all the following methods were available to you.

![Bar chart showing payment preferences for different products/services.]

Source: YouGov

Figure 12 shows us that consumers are more or less willing to use different payment methods depending on the context, in this case, the product they are purchasing. We note that jewellery, a high-value purchase, appeals much less than the low-value purchases as a transaction that people would make on their smartphone; people prefer to do this in person. More than double the number would purchase car parking on a smartphone than would purchase jewellery (10% compared to 3%).

Figure 13: % of all adults online that have a smartphone, who would never make a purchase using a smartphone, by age group.

![Bar chart showing the percentage of adults who would never make a purchase using a smartphone by age group.]

Source: YouGov, Cebr analysis

To win over users, mobile payment providers will clearly need to show that they can provide strong security – this is the most significant factor that consumers cite for choosing a payment method, and stronger security is the thing that they are most looking for in the payment platforms of the future.
3.4 Comparisons with the US

Compared with the UK, a notably higher proportion of consumers in the US state that cash is their preferred payment method in general, at 29% (compared with 23% for the UK). Debit card is much less likely to be cited as the preferred payment method in the US, with 35% of those surveyed saying this was the preferred method, compared with 48% in the UK.

Overall, the US is not as far down the road as the UK in moving over to a cashless society, as evidenced by the survey analysis undertaken as part of this research. The UK has been more successful than the US in transitioning from store-based retail to internet retail sales, as shown by existing research.3

As with the UK, reduced risk of fraud is the most commonly cited factor that individuals in the US want in the payment methods of the future, though at a smaller share than in the UK – 44% compared with 51%. As with the UK, ability to purchase in-store without queuing was the next most commonly cited factor – 14% of those surveyed said this was the thing they most wanted from a future payment system.

3.5 Demographic factors

These preferences vary by age and socioeconomic group, though, in most groups, debit card is the preferred means of paying for goods and services. Perhaps surprisingly, the group most likely to prefer cash – the “traditional” payment mechanism – is not the oldest age group surveyed, but the youngest (18–24 year olds). Those in the North of England are more likely to prefer paying with cash than those in the South of England, and those in lower income socioeconomic groups are, not surprisingly, also more likely to prefer paying by cash.

Overall, it appears that those in lower income age groups, regions and socioeconomic groups are more likely to display a preference for cash, while higher income groups are more likely to prefer debit or credit card payment. This perhaps reflects the fact that lower income groups prefer holding onto and counting cash as a means of managing (more limited) finances, and also the fact that these groups may find it more difficult to acquire cards, particularly credit cards.

Youth is not necessarily related to being keen on new payment methods, contrary to what one might expect. Aside from the cash preference noted, 18–24-year-olds are less keen on smartphone payments and debit cards than the group immediately above them (25–34-year-olds). They are also more likely to want to write a cheque, perhaps surprisingly. In general, 18–24-year-olds are less likely to abandon purchases to look elsewhere when the payment process takes too long or seems insecure.

3 http://www.retailresearch.org/onlineretailing.php
4 Potential gains to businesses from offering better payment options

- Retailers could gain by accepting the payment method which their customers prefer; our survey finds that in almost 4% of cases, customers would abandon a purchase in a bricks-and-mortar retailer if it was taking too long or seemed insecure; in over 5% of online purchases, people would abandon a purchase for the same reasons.

- These sectors as a whole could make potential gains of £2.5 billion in the case of bricks-and-mortar retailers and £390 million for online sales, from implementing better payment systems.

- We estimate customers changed retailer in a sufficient number of cases that these businesses could have gained £9.5 billion for traditional retailers and £1.5 billion for online retailers, from implementing better payment systems.

Figure 14 Potential gains to retailers due to insecure payment systems and payments taking too long

Consumers do not like having to wait or deal with insecure payment systems or long payment processes. These are so inconvenient for some consumers, in fact, that losses to retailers due to these problems run into the billions. Drawing on evidence from surveys on consumers, we find that retailers will miss out on about £13.3 billion this year due to consumers either changing store or giving up on the purchase entirely. Most of that sum – £11.0 billion – will move to shops which have developed better payment systems (provided a ready substitute exists, of course). But the remainder of £2.8 billion will be lost altogether.

4.1 In-store

We will spend about £305 billion this year in old-fashioned, bricks-and-mortar stores. Regarding payments, these have the advantage that consumers can use cash, cheque, debit or credit card, according to their preference – provided the shop offers the chosen method. The YouGov consumer survey commissioned as part of this research suggests that, if the payment process does not go smoothly, consumers overall are willing to give up on that store some of the time, depending on their own personal threshold for inconvenience – 66% of consumers respond they sometimes abandon purchases if they are too slow or insecure. The most common response, “only once or twice”, was given by 38% of consumers.
Overall, we estimate that about 3.9% of all transactions in stores are abandoned due to problems like this.

This will cost bricks-and-mortar retailers about £11.9 billion this year. However, only £2.5 billion worth of purchases will be abandoned altogether. The other £9.5 billion will be a gain for those shops which have better payment systems and can pick up custom from those who have experienced frustration elsewhere.

4.2 Online

We will spend almost £36 billion online in 2014. Online shopping is no longer new, but it is still growing fast: sales for March 2014 were up 7.1% on a year ago. From the survey, we know that online shoppers are slightly more willing to abandon purchases. Therefore, we estimate that 5.3% of online sales are abandoned for these reasons. This translates into £1.5 billion worth of custom that went to competitors, while £390 million was abandoned altogether.

This is likely to be an underestimate of the potential gains, as the survey implicitly assumed that there would be a competitor who offered the same service or product by giving the option of going to a competitor. Going to a competitor also requires the customer to be aware of them and where to find them. In fact, there may be no substitute in a significant number of cases, and so consumers would probably end up abandoning the purchase more often than they estimate.

4.3 Potential gains from better prevention of fraud

Card fraud via internet, mail and telephone is the most prevalent type

Card fraud cost UK consumers just over £450 million in 2013. Remote purchase fraud is the most prevalent type. Although for every £100 spent on cards, only 7.4p worth of fraud is committed, the consequences can be expensive for those who are targeted and so security is not surprisingly top of consumers’ concerns when shopping. Counter-fraud efforts are relatively successful in preventing it, and helped to drive down the incidence of overall fraud plus the largest constituent, mail order fraud, for three consecutive years between 2008 and 2011.

The cat-and-mouse nature of fraud and counter-fraud makes predicting future trends particularly difficult. We may have seen it peak in 2008 – Misha Glenny’s “DarkMarket” describes how a forum for
online fraud flourished between 2005 and 2008 before law enforcement got to grips with it. Many of the fraudsters were subsequently arrested, and the episode principally highlights the danger of new technologies before they become mature. A particularly effective form of card fraud was known as “skimming”, where devices are attached by fraudsters to cash machines in order to read card details and defraud card owners. Anonymity meant online forums were useful for matching buyers and sellers, meaning that they made this form of fraud much more effective. Cash machine fraud also peaked in 2008 (see Figure 16).

Figure 16 UK cash machine fraud

Source: Financial Fraud Action UK
5 Conclusion and implications

The key findings have important implications for businesses for which payments are an important part of their model.

- Most obviously, **people want a choice** of payment systems. While many choose debit cards and cash, significant segments of the market choose other means of payment.

- The chosen payment system depends on what they prioritise. **Security is a priority** for most, but **speed is important** for many others: plenty will abandon purchases if they have to wait longer than a certain threshold. **Avoiding prolonged queuing** in shops is a priority for many of those surveyed.

- People prioritise different things in different contexts. The length of time people will wait is much lower when making an online purchase than in a shop.

- People prefer different payment methods for different purchases. While **10%** of those surveyed would use a smartphone to pay for parking and **8%** would pay for public transport this way, **only 3%** would pay for jewellery like this. We expect these proportions to rise once people gain familiarity with the new payment methods.

- Those in lower income groups, lower socioeconomic grades and in poorer regions tend to show a **higher preference for cash** over cards than those in higher incomes, higher socioeconomic groups or poorer regions.

- However, the relationship is not rigid. For example, while poorer income groups generally prefer cash, sometimes a richer region will prefer cash payments to a poorer region, e.g. East of England versus the North West. Other factors, such as age, social grade and soft cultural variation that a survey may not pick up, cause there to be exceptions.

- Generalisations such as “young people are more keen on new payment methods” (e.g., mobile payment platforms) are mistaken. Though more young people use mobile payment, there are also more 18–24-year-olds than 25–34-year-olds who claim they would never use it. This emphasises the importance of context, and the difficulty of segmenting the market by demographic groups.

- **Speed is crucial**. Businesses both online and offline forego potential gains of billions from their customers’ lack of patience for even a few minutes’ wait or poor security. Between unwanted delays and perceptions of insecure payment processes, bricks-and-mortar shops could pick up **£2.5 billion** as a sector. Online retailers could gain **£390 million**.

- These are net figures, for gains for the two sectors as a whole. In these cases, the poor shopping experience causes consumers to abandon the purchase altogether. Gross figures are much larger (**£9.5 billion** for offline and **£1.5 billion** for online), because those retailers that improve speed or security of payment systems relative to competitors can gain a significant market segment from them.

- **Consumers are unwilling to wait to pay**, and the shift towards online retail suggests they will be increasingly so, even while making off-line purchases. This suggests a secure, faster payment method could enable shops to pick up substantial extra revenues. Although online sales are growing faster and tend to attract most attention within research and commentary on retail, there is still a significantly greater potential revenue from enabling improved payment methods in the crucial security and speed dimensions within bricks-and-mortar stores.