

20 years of the debit card

Charting the rise of our
favourite way to pay



Contents

Introduction	03
Consumer context	04
Cards trends	05
Uses	07
Demographics	09
The plastic generation	11
Technology, fraud and the future	13
Milestones	15

Introduction

When the UK's first debit card was launched in 1987 it heralded a fundamental shift in the way consumers pay and in how they access their money. Many people now can barely recall the need to write cheques in supermarkets and indeed cheques are now not even accepted in some stores. Today we have a generation of customers who haven't known life without a debit card. But the debit card has proved itself to be more than just a handy convenience in face to face transactions; it has also enabled us

to withdraw cash from cash machines and get cash-back in some stores. It supports the dramatic rise in e-commerce and can be used widely in many countries both over the counter and at cash machines overseas. As the fastest growing payment method it is no exaggeration to say that the recent history of the way we pay is to a large extent the story of the rise and rise of the debit card.



Consumer context

When the first debit card was launched on 3 June 1987 the UK was a very different place. Days after the launch Britons would elect Margaret Thatcher and a Conservative government for a third term in office and

though the economy was starting to boom there were almost twice as many people unemployed then as there are today (3 million in 1987 compared to 1.7 million in 2007).

1987 – the year that was

- **1987 General Election.** Despite a revitalised Labour Party under the leadership of Neil Kinnock, Mrs Thatcher was returned to office for a third time with a majority of 102.
- **Tear down the Wall.** During a visit to Berlin, Germany, U.S. President Ronald Reagan challenges Soviet Premier Mikhail Gorbachev to tear down the Berlin Wall.
- **DLR.** The Queen opens London's Docklands Light Railway, the UK's first driverless railway.
- **Black Monday.** Wall Street crash on 19 October wipes £50 billion off the value of shares on the London Stock Exchange.
- **Rugby World Cup.** The first World Cup was held in New Zealand with the home side winning the final 29-9 against France. The game was still an amateur sport.
- **Nike Air Max.** Launched in '87 the trainers became such a popular fashion accessory that wearers were regularly mugged.
- **Smiley faces.** They adorn T-shirts, caps, badges, pencil cases and even vans across the UK.
- **Number 1.** Top of the charts on 3 June as the first debit cards hit the doormats was Club Nouveau with *Lean on Me*. The bestselling album in 1987 was *Bad* by Michael Jackson.

Born in 1987

Joss Stone, Musician

Cesc Fàbregas, Arsenal footballer

Andrew Murray, tennis player

Cost of living

According to the Retail Price Index, goods and services cost half as much in 1987 as they do today. In 1987 a loaf of white bread cost just 55p while a pint of milk cost 25p. A pint of lager would have set you back just 93p, a packet of 20 cigarettes cost £1.43 and a litre of petrol just 38p.

Cards trends

The history of payments over the last 20 years has been dominated by the debit card. It has become our favourite way to pay – in fact it overtook cash on the high street for the very first time in 2005 and it's now hard to imagine life without it.

Back in 1990, three years after the launch of the debit card, there were just 19.0 million debit cards in circulation. Over the first ten years growth was rapid and by 1996 27.8 million of us had debit cards. Also that year we purchased £37 billion of goods and services on our debit cards with 56 per cent of those holding a debit card using them regularly. As the number of debit cards grew so did their popularity.

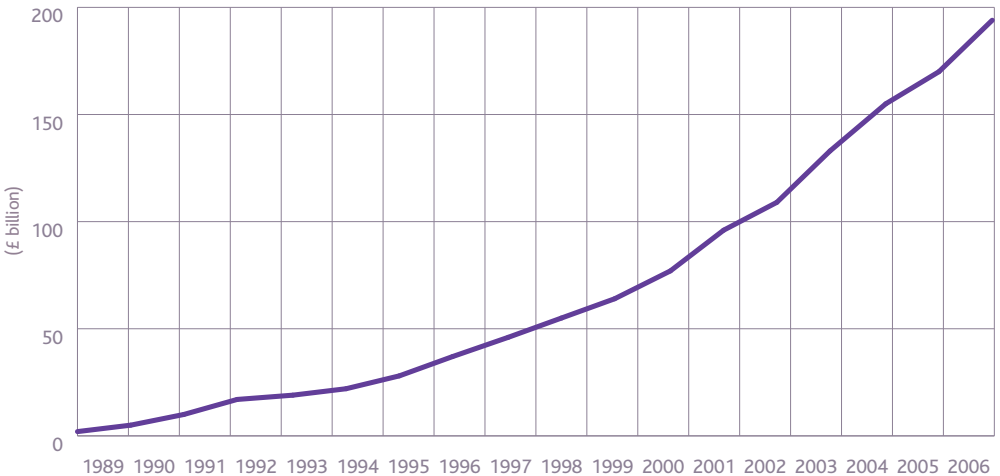
Today 41 million of us hold a debit card – 84 per cent of the adult population – with over

68 million debit cards in circulation. On average each holder has 1.6 cards and in 2006 28.8 million of us were using our cards regularly (70 per cent of holders) to make purchases. We made 4.5 billion purchases in the UK – the equivalent to 143 purchases every second – and we spent £194.9 billion, a total of five times more than we did in 1996.

In 2006 each card holder used their cards 166 times on average – acquiring £3,848 in cash and making £4,799 worth of purchases in the UK.

Growth in the number of debit cardholders has slowed as the market has become more saturated, but the appetite for using them has remained strong: debit card spending volumes and values have seen double-digit growth in almost every year since debit cards were introduced.

Debit card spending in the UK 1989-2006



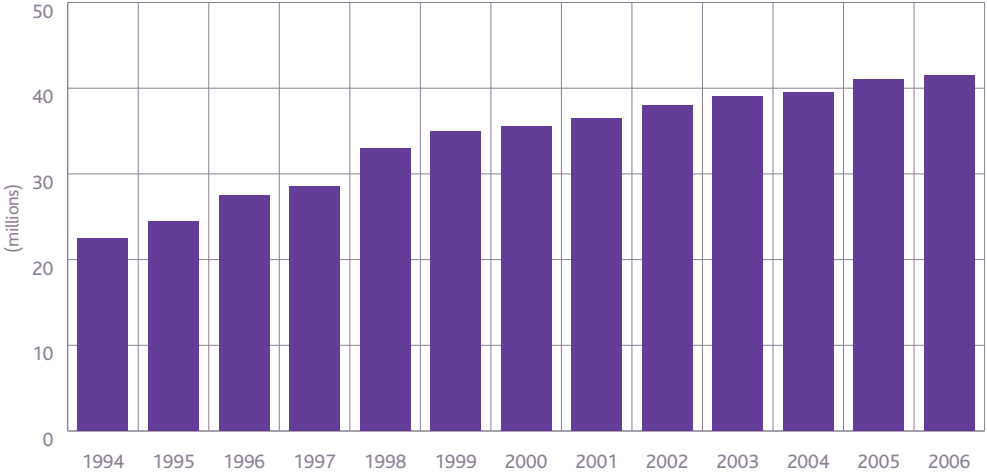
Why is this? As our flexible friend is accepted safely and easily nearly everywhere – in thousands of locations across the UK – consumers are migrating away from cash and cheques. At the same time as more of us are paid salaries and benefits directly into our bank accounts, we choose to access it and spend it directly with our plastic.

Matching the increasing use of debit cards at home is the fact that we are also using our debit cards more frequently abroad. In 2006 we made 139 million transactions worth over £10 billion on debit cards outside of the UK compared to just 19 million transactions worth just over £1 billion ten years ago.

Over the next ten years debit card use is expected to continue to rise. By 2016 the number of debit card purchases in the UK will more than double to 9.2 billion – with more than £400 billion of spending. The number of us who regularly use debit cards for purchases is also expected to increase from 28.8 million in 2006 to 34.5 million in 2016.

The next major benchmark is currently expected to be around 2011 when total personal spending by debit card will overtake personal spending in cash and the number of debit card payments will exceed that of all automated payments.

Number of debit card holders 1994-2006



Uses

Whether we are buying our groceries in the supermarket, paying for a meal in a restaurant, buying music online or withdrawing cash from a cash machine, we are increasingly likely to use our debit cards.

2005 was the year that debit card spending topped 'king cash' on the high street - with £89 billion of retail spending that year on debit cards



against £85 billion in cash. Today that is still where we use our debit cards most often – more than any other kind of payment.

Plastic spending on the high street has grown consistently year-on-year since 1989 and, with the introduction of contactless debit cards starting later this year, this trend looks set to continue.

The pattern of debit card spending has changed very little in 20 years. Food and drink remains the dominant sector and accounts for nearly a third of all debit card transactions. Far and away the most popular location for using debit cards is the supermarket. In fact 30 per cent of all debit card purchases are made at supermarket checkouts. In 2006 we bought over £42 billion of groceries spending on average £30.49 at each visit to the checkout

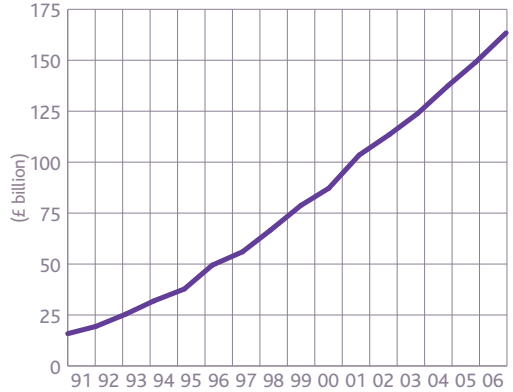
Top ten locations for debit card usage in 2006

Location	Purchases (millions)	Value (£ billions)	Average transaction value £
Supermarkets	1,373	42	30.49
Service stations	474	11	22.94
Department stores	242	7	30.17
Restaurants	179	5	27.55
Family clothing	169	5	28.02
Chemists	148	2	15.60
DIY stores	142	6	39.90
Telecoms	94	2	20.13
Discount stores	84	3	32.76
Railways	84	2	23.30

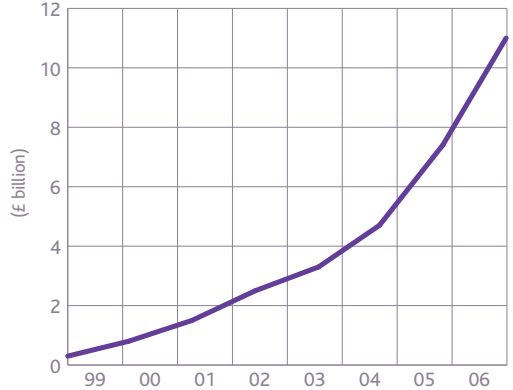
The other major way that we use our debit cards is to acquire cash – whether through withdrawals from cash machines, over branch counters or through cash-back at retail outlets. This has grown substantially over the past 20 years – from £49 billion in 1996 to over £163 billion in 2006. In fact, in the last ten years alone we have acquired over £1 trillion in cash on debit cards!

More and more of us are now using the internet to do our weekly shopping or buy music and books. So it is no surprise that we are increasingly using our debit cards online. Growth in this sector has been sharp and amounted to £11 billion worth of purchases in 2006 compared to just £300 million in 1999.

Cash acquisition on debit cards 1991-2006



Debit card spending online 1999-2006



Demographics

In 2006 there were over 68 million debit cards in issue. Their appeal is not limited to any one part of society – people of all different ages, genders and incomes find debit cards a useful payment option. Today most UK adults hold a debit card.

However, debit card holding is not completely equal across the UK with some parts of society displaying a greater preference for them. Statistically, the group with the strongest preference for debit cards is that of 25-34 year-old self-employed men living in the South West or Greater London and earning over £50,000 a year. Only 71 per cent of 16-24 year-olds hold cards compared with 91 per cent of 25-34 year olds.



Men and women hold debit cards to roughly the same extent, and age is no barrier to debit card holding, with 88 per cent of over-65s having one.

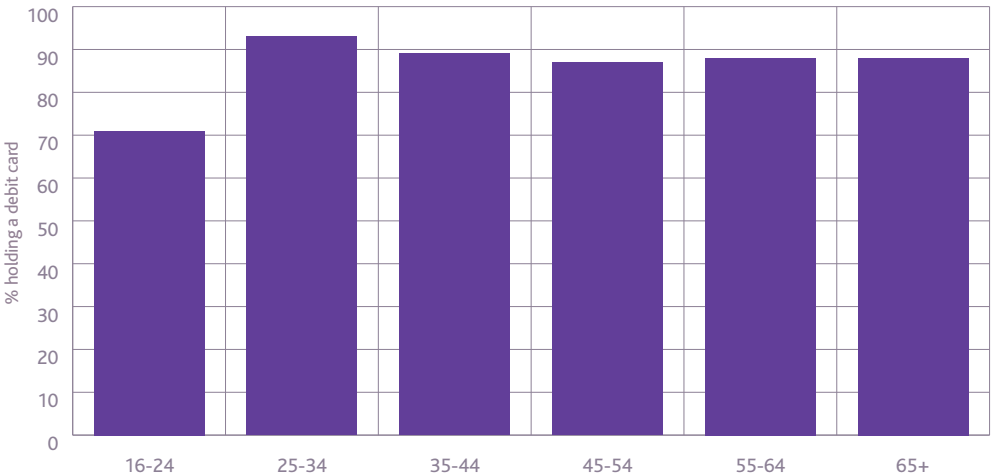
As you might expect, a person's income affects his or her likelihood to hold a debit card, with only 69 per cent of those earning less than £10,000 a year having one, compared with 98 per cent of those earning £50,000 or more.

Another factor in debit card holding is location – residents of the South-East, Wales or Yorkshire and Humberside are more likely to have a card (90 per cent have one) compared with the North, where 77 per cent of the population have debit cards.

Debit card holding by region

Region	Percentage holding a debit card
North	77%
North West	89%
Yorkshire and Humberside	90%
East Midlands	81%
West Midlands	87%
South West	89%
East Anglia	87%
Greater London	86%
South East	90%
Wales	90%
Scotland	82%

Debit card holding by age group



The plastic generation

The past 20 years has seen the 'cash and cheque' generation, reliant on traditional payment methods, being replaced by a new 'plastic' generation. This generation has seen the advent of many new payment options – including debit cards, and online and telephone payments.

In all cases we tend to opt for a particular type of payment because we want speed, convenience, fraud protection and a tighter rein on our finances; debit cards have the benefit of ticking all these boxes.

In 2006 alone we saw online banking overtake phone banking and debit cards overtake cash for spending on travel and entertainment.

Though all age groups are keen cardholders the 25-34 age group shows a particular affinity for debit cards, with 91 per cent holding a debit card. They grew up with debit cards and are used to using them for payments both large and small.

These trends sit alongside a

significant reduction in the use of cheques and cash across the board. Traditional bastions of cheque use, like bill payments, have given way to other payments like direct debit. At the same time, small value transactions – where cash is still preferred – are increasingly handled with other payment tools, in many cases the debit card.

Debit card use is projected to double over the next ten years to 9.2 billion payments in the UK in 2016. As payment by plastic becomes ever more commonplace there will naturally be consumer

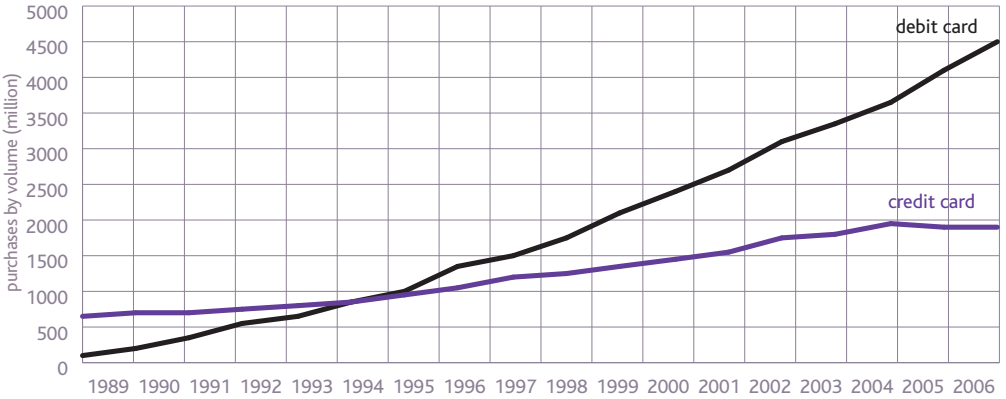


pressure on those few retailers currently not accepting debit cards.

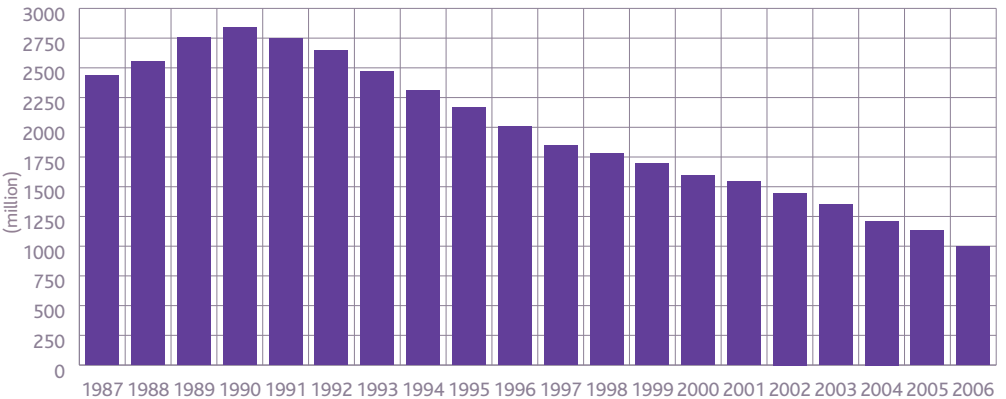
Though the cash-free society is a long way off, anticipated trends in payments over the next 20

years mean that this 'plastic generation' may well be the first to live cheque-free and without the need to rely upon cash in many more situations.

Debit and credit card purchases 1989-2006



Volume of personal cheques 1987-2006



Technology, fraud and the future

Plastic cards are an often overlooked example of how modern technology has completely changed our lives. Debit cards allow, in a small, portable format, card holders to pay for goods and services and withdraw cash anywhere in the world, providing secure, fast and efficient transactions. All of this is due to the application of worldwide technology standards, like chip and PIN, which allows for fast secure customer verification at the point of purchase.

The future of debit card payments will see further developments in technology, with the UK leading the way in making payments even easier, faster and more secure.

Debit cards: The technology timeline

In the 1960s, magnetic stripes were used on credit cards for the first time and by the 1970s this was the international standard. The microchip that would later be incorporated into credit and debit cards, was invented in 1959.

1987

• The magnetic stripe

The first debit cards incorporated a magnetic stripe on the reverse of the card, together with other security features on the front of the card such as holograms and secure printing.

• ZipZap machine

Before electronic terminals at retailers, these machines were widely used to create paper receipts for retailers and customers.

1990s

• Introduction of electronic point-of-sale terminals in retailers

• Increase in online transactions

• Introduction of the Industry Hot Card File, for use by retailers. It contains records of cards reported as lost or stolen

• Trials of 'chip' technology

Throughout the 1990s trials began for what would eventually become known in the UK as 'chip and PIN'.

2000s

• Chip & PIN

Officially rolled out across the UK, chip and PIN has been the success story of UK debit and credit cards, making significant inroads into the level of high street card fraud.

• Extra security checks for retailers

The Address Verification System (AVS) means that non-face-to-face transactions can be

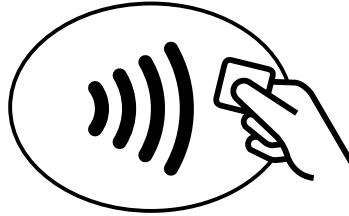


verified by comparing the delivery address with the address the card is registered to, while the Card Security Code (CSC) is a three-digit code on the back of the card providing extra proof for the retailer that you have the physical card in your hands.

- **Introduction of *MasterCard SecureCode* and *Verified by Visa***

Adding an extra level of security to online payments, *Verified by Visa* and *MasterCard SecureCode* enables a cardholder to register a private password with their card company for use when shopping online at participating retailers. By signing up to the system a cardholder makes it more difficult for a fraudster to use their card online and the participating retailer protects their business from fraud losses.

Future technology



- **Contactless**

Using new technology, very quick, easy payments can be made by simply holding your card close to a special card reader. In the future this will allow small value transactions (under £10) to be made without the need for your PIN.

- **'Mobile payments'**

The future of payments may include allowing people to make payments using their mobile phones, by providing access to a their account with SMS messaging.

- **Biometrics**

Biometrics such as fingerprints or iris scans could provide an extra level of security in the future. Widespread adoption of this technology is thought to be some way off.

Milestones

3 June 1987 – Barclays launch the first debit card (Visa Delta) under the Connect brand

1988 – Switch debit card is launched by Midland, NatWest and RBS

October 1988 – First Switch transaction

1990 – Cashback is introduced as a method of acquiring cash (7 million transactions in 1990)

1992 – Maestro is launched by MasterCard as its international debit card

1994 – Half of UK adults hold a debit card

1995 – UK debit card volumes exceed credit card volumes for the first time

1996 – Visa Electron debit card is launched. All purchases made with Electron cards are subject to electronic authorisation

1997 – The Switch Solo debit card is launched. All purchases made with Solo cards are subject to electronic authorisation

1998 – UK debit card payments exceed personal cheques and account for half of all of non-cash spending in supermarkets

2001 – Debit card expenditure exceeds credit card expenditure for the first time

2002 – Chip and PIN is announced in the UK

2003 – More than half of UK adults use their debit card regularly

2004 – Switch is rebranded as Maestro for UK debit card payments

2004 – UK card expenditure exceeds cash expenditure for the first time

2004 – The average debit card user spends over £100 per week

2005 – Debit card retail spending outstrips cash spending for the first time. Debit cards account for 37 per cent of all retail spend in 2005, ahead of cash at 34 per cent

Future Milestones

2011 – Debit card payments will exceed total of all automated payments

2011 – Personal spending by debit card will overtake personal spending by cash

2016 – By 2016 we will be spending over £400 billion on our debit cards, more than double today's figure

2016 – 46.8 million of us will hold debit cards and 34.5 million of us will be regular users

For further information please contact:

APACS
Mercury House
Triton Court
14 Finsbury Square
London
EC2A 1LQ
Tel 020 7711 6259
Fax 020 7256 5527

Email: press@apacs.org.uk
www.apacs.org.uk

APACS (Administration) Limited 2007

