



THE PAYMENT

INDUSTRY'S

'PERFECT STORM'



FOREWORD



The payments industry is changing like never before. A number of mega trends are combining to create a 'perfect storm' which, as a consequence, will present huge opportunities for growth to those businesses willing and able to harness them. New customer habits, readily available technology, fierce competition and willing investors are just some of the things shaping the payments industry of the future. As one of the world's largest card payment processors, we are committed to helping our customers navigate the complex and changing world of new payment methods, to help them grow their business and find the solutions that are right for them. Our research is designed to shine a light on the likely evolution of the market, so that customers can futureproof their businesses by putting the right technology in place today. We hope that you find this insight helpful.

A handwritten signature in black ink, appearing to read 'Chris Davies', with a stylized flourish at the end.

Chris Davies
Managing Director
Global Payments

Annual domestic card spending by UK consumers crossed the £500 billion mark for the first ever time in 2013.



THE INDUSTRY IS CHANGING



The payments industry is changing at an unprecedented speed. New customer habits, technological innovation, fierce competition and investment inflows are driving a profound transformation.

As the industry continues to grow and expand from a reliance on traditional plastic into new digital payment methods, card issuers and payment processors, and other industry participants have many opportunities to offer new ways to pay that are flexible, simple and quick.

While cash remains an important way for us to pay for things, the increasing popularity of cards for everyday transactions is shown clearly in The UK Cards Association's latest data. Annual domestic card spending by UK consumers crossed the £500 billion mark for the first ever time in 2013 as the trend towards plastic continued its upward trajectory. Debit and credit cards now account for three in every four pounds spent in our shops, up from two in every four just a decade ago. And card spending has more than doubled over the last decade, up from £244 billion in 2003.

In May, The UK Card Association said that just under 45 million debit cards with Contactless functionality were in circulation, which accounts for 47% of all debit cards in issue.

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Average transaction value can

Whether the hold that cash has over us results from habit, familiarity or trust, our routines are changing as alternative payments become a common feature of the landscape.

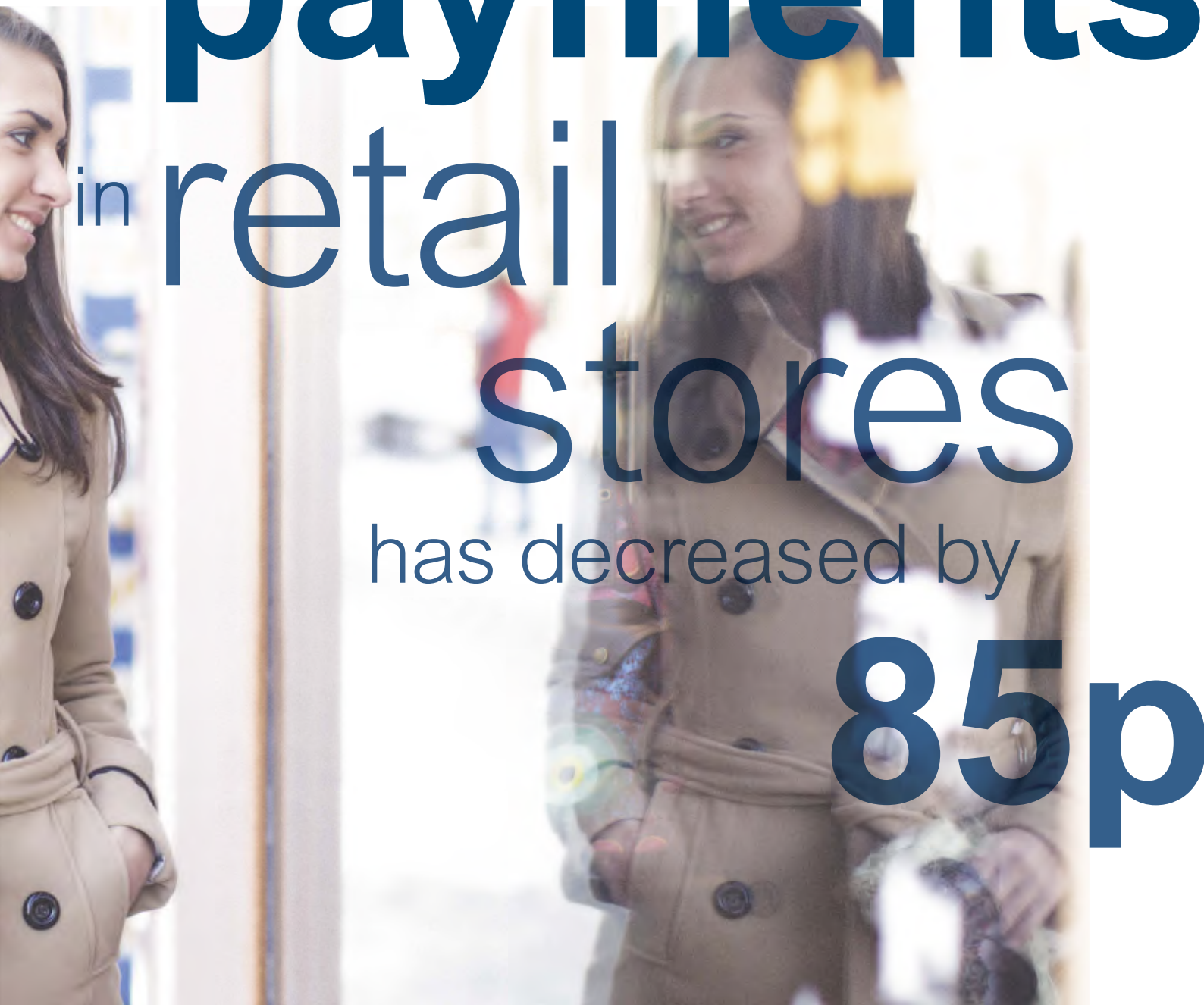
For example, while the adoption of Contactless payments has taken longer than many expected, we are reaching a tipping point in its evolution. In May, The UK Card Association said that just under 45 million debit cards with Contactless functionality were in circulation, which accounts for 47% of all debit cards in issue.

More and more businesses of all types are now taking Contactless cards, and in one sector, transport, the benefits are particularly apparent. Since September this year, Transport for London has accepted Contactless cards as an alternative to Oyster cards when passengers travel on their trains and similar schemes operated by other networks across the UK are being rolled-out. This development is likely to fuel the growth of Contactless in 2015.

Average transaction value for cards is falling, likely due to the introduction of Contactless payments. According to Global Payments' data, average transaction value for card payments in retail stores has decreased by 85p, which can be attributed to the increasing use in Contactless for purchases.



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A total of £91 billion was spent online in 2013, a 16% increase over 12 months.



The explosive growth of e-commerce has led many consumers to regularly shop online. According to Capgemini¹, a total of £91 billion was spent online in 2013, a 16% increase over 12 months. Much of this success can be attributed to the growing influence of m-commerce, with sales via mobile devices increasing by 138% on 2012.

Our data showed that the average transaction values in e-commerce rose £7.27 between 2012 and 2013. Unsurprisingly, mail and telephone orders are dropping as the popularity of the online channel grows – ATV fell £2.34, as did overall volume.

The shift to electronic payments is in part because technology has permeated every part of our day to day lives. A prime example of this is the ubiquitous smartphone. An average smartphone today has more computing power than all of NASA had in 1969, when it put two astronauts on the moon. Placing this at a consumer's fingertips has driven phenomenal opportunities in m-commerce.

The recent launch of Apple Pay has the potential to push mobile payments into a completely new sphere. Their mobile wallet uses near field communication (NFC) to allow customers to pay using their iPhone. The same NFC technology is already used in Contactless cards and so Apple Pay will work on retailers' existing Contactless card readers.

The introduction of such a popular handset with mobile wallet capabilities has the potential for very swift and widespread adoption, incentivising both retailers and consumers to really engage with mobile payments.

But Apple isn't just exploring the possibilities of paying using a mobile phone. They also announced plans to launch a smartwatch incorporating technology for the user to make a payment by holding the watch against a payment reader.

The development of 'wearable' technology such as this is another feature of the payments industry. For example, prepaid or Contactless wristbands are now being seen at music and sporting events, cutting vendors' security risk as they hold less cash in their tills while 'queue busting' at the same time.



There are thousands of payments start-ups, providing a steady stream of ideas, innovation and talent to the wider industry

The industry is only just beginning to explore the potential for wearable payment technology with applications for clothing, jewellery and even glasses in various stages of development.

Not only is the rapid pace of change in the payments industry piquing the interest of innovators, investors too are focusing on the sector, seeing the potential to generate consistent revenue as the sector grows. They are also behind the emergence of a thriving M&A sector.

Many of these innovators are new to the Market. With the benefit of little or no legacy systems in place to develop around, they are agile and fast to develop, moving ahead of their older and more established competitors. However, this speed to market is not without pitfalls, and robust legacy systems and strong reputations will do much to sway the minds of loyal consumers.

It's not an exaggeration to say that there are thousands of payments start-ups, providing a steady stream of ideas, innovation and talent to the wider industry. While it is inevitable that only a relatively small number of these enterprises will survive, at least in their original guises, the more established players are paying close attention to see who the likely winners and losers might be, and eagerly snapping up those with the most potential.





explore the
potential
for
wearable
payment
technology



At the other end of the scale, the last 12 months has been notable for a number of significant transactions. For example, we have seen Optimal Payments buy Meritus Payment Systems and Global Merchant Advisors; Paypal acquired Braintree, a business providing payment services to emerging ecommerce businesses; and two giants of the private equity world, Advent International and Bain Capital, who already own WorldPay, partnered with ATP, the Danish pension fund, to secure Nets for \$3.1bn.

It is clear that the payments industry is at the centre of what we might term a 'perfect storm', where new customer needs, product innovation, easily available technology and investor funding combine to create huge opportunities for growth. As the secular shift from cash to electronic payments continues to fuel this, 2015 promises to be one of the most interesting and dynamic times that the industry has ever seen.

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ABOUT GLOBAL PAYMENTS



Global Payments, a Fortune 1000 company, is one of the largest card payment processors in the world, with offices across the UK, America, Canada, Asia Pacific and Europe. We work with companies of all sizes, from large multi-nationals to owner-managed businesses to maximise sales through payment card processing. Our focus in the UK is on meeting the needs of customers with up-to-date card processing technology, whether face to face, online or over the phone. We support our customers to attract the growing overseas market with a range of services including international card acceptance, enabling visitors to pay in their own currency and tax free shopping.

If you would like to learn more about how Global Payments can help your business, please contact us on **0800 731 8921*** or visit **www.globalpaymentsinc.co.uk** for more information about the company and its services.



*Lines are open Monday to Friday, 9am to 5pm excluding Bank Holidays

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