

Introduction

Credit cards are now part of our daily lives.

- We use them to pay for goods and services quickly and conveniently virtually anywhere in the world.
- We use them to borrow money in the short-term, taking advantage of the interest-free period offered by our credit card provider as long as we pay the bill in full every month.

We all agree that credit cards have revolutionised our spending power and transformed the way we manage our money. They really are part of our daily lives – in fact in 2005 there were 31.6 million credit cardholders in the UK with an average number of 2.4 credit cards per person. We spent £124 billion on credit cards through the 790,000 retail outlets that now accept plastic card payments.

This year we are marking the 40th anniversary of the credit card. We take a look back at the way we have paid for goods and services over the last forty years and the payment services that might be on offer in forty years time.



How we Pay and How that's Changed – 1965 - 2015						
	1965	1975	1985	1995	2005	2015
cash	95%	93%	86%	78%	64%	49%
cheques	5%	6%	10%	9%	5%	2%
automated (inc direct debits & salary payments)	-	1%	3%	7%	14%	19%
debit cards	-	-	-	3%	11%	22%
credit cards	-	<1%	1%	3%	6%	8%



The last forty years

- 1966** On 29 June 1966 Barclays issues the UK's first credit card – Barclaycard - based on the BankAmericard that had been issued a few years earlier in the USA.
- 1967** The world's first cash machine opens in a Barclays Bank branch, Enfield in Middlesex. Early cash dispensers were designed to receive hole-punched vouchers of £10.00 each purchased by the customer from the bank and used in the dispenser when needed.
- 1967** The first direct debit is made.
- 1968** The Inter-Bank Computer Bureau is established to process electronic payments. In 1971 this was renamed to become BACS (Bankers Automated Clearing Services).
- 1969** The UK's Domestic Cheque Guarantee Card Scheme is established, guaranteeing cheques up to a value of £30 (subsequently increased to £50 with additional levels of £100 and £250).
- 1971** On 15 February 1971 the UK currency goes decimal and we stop using pounds, shillings and pence.
- 1972** The Access brand for credit cards (to be known through advertising for ever after as our flexible friend) is launched by Midland Bank, National Westminster Bank and Lloyds Bank.
- 1977** On 1 July 1977 the Consumer Credit Act 1974 comes into force. Among its many clauses, Section 75 provides protection to consumers buying goods costing between £30 and £10,000 (increased to £100 and £30,000 subsequently) on their credit card.
- 1984** CHAPS is established to process high-value same-day electronic payments.
- 1987** The first debit card is launched in the UK; Barclays is the first to issue a Visa Delta card under the Connect brand. Midland, National Westminster Bank and Royal Bank of Scotland follow closely in 1988 issuing debit cards under the Switch brand (which itself became Maestro in 2004).
- 1990** Cashback emerges as a means of acquiring cash with 7 million transactions in that year.
- 1994** Half of all UK adults hold a debit card, only seven years after their launch.
- 1995** Town clearing (for high-value cheques within the City of London) closes.
- 1997** Banks offer online banking services to personal customers.
- 1998** The UK's first cash machine not owned by a financial institution is installed.
- 1999** Half of all UK adults hold a credit card. The average value of a credit card purchase exceeds £50 for the first time.
- 1999** Internet card issuers (Egg, Smile, Marbles) join the marketplace.
- 1999** Annual fees disappear, extras such as travel insurance and loyalty schemes begin to be offered to attract customers, who are beginning to hold more than one card each.

The last forty years continued

- 1999** The euro comes into being, allowing electronic euro-denominated transactions for the first time.
- 2001** More than half of UK retail spending is on plastic. More than 100 million card payments are made online.
- 2001** Debit card expenditure exceeds credit card expenditure for the first time.
- 2002** Euro notes and coin appear as the national currency in 12 European countries.
- 2002** More than half of all cash we acquire is through cash machines. Mobile-phone top ups become available at cash machines for the first time.
- 2003** Chip and PIN cards start hitting the doormats throughout the UK – the biggest change to consumer payments since decimalisation.
- 2004** UK card expenditure exceeds cash expenditure for the first time (£273 billion compared to £272 billion). The average debit card user spends over £100 per week.
- 2005** More than half of all adults now use remote banking services – either online or over the phone.
- 2006** Debit card expenditure on the high street overtakes cash expenditure for the first time.



1966

In the year England won the World Cup, cash and cheques were the main forms of payment in the UK. We wrote 560 million cheques that year with a total value of £68 billion (the average cheque value being £121). Less than one in four of the UK population had a current account and most will have received their wages in cash. Debit cards, credit cards and guaranteed domestic cheques had not been introduced and there were no cash machines on the high street; consumers could only access their cash through high street branches. The biggest change to the way we used money was not to come for another five years – on 15 February 1971 the UK currency went decimal and we stopped using pounds, shillings and pence.

The only form of payment card in circulation at the time was the charge card, introduced by American Express in 1963 with an annual fee of £3 12s (=£49 in 2005) and a required income of £2,000 (=£27,250 in 2005) The card was usable in 3,000 UK outlets and 83,000 overseas outlets.

Therefore, the introduction of the first credit card in 1966 was a significant milestone for payments in the UK. Although initially there were only a few cards in issue which were accepted in only a handful of retail outlets, within a short period of time the credit card became an important part of our daily lives.

2006*

The UK is now a plastic society, as debit and credit cards have overtaken cash as our most popular method of payment. We are used to the security and flexibility plastic offers. There are currently 141.6 million payment cards in circulation (67 million debit and 74.6 million credit and chargecards), with the average number of cards per person standing at 2.4 credit cards and 1.6 debit cards. 42 million of us have at least one card in our purse or wallet.

Today entire generations of shoppers readily delve for their plastic card instead of cash – in fact as a nation we pay by plastic both in the UK and abroad 6.2 billion times a year spending a total of £309.4 billion.

We are now presented with many payment choices which were not available to us in 1966 – and we use all those on offer. We still use cheques – much more than in

1966 but a lot less than when cheque use peaked in 1990. We write 1.6 billion cheques a year for a total value of £1.15 trillion (the average cheque value is now £175). But we also use direct debits to pay our regular payments and receive our salary electronically too. So not only do we have to choose between payment methods, we also have to choose between the thousands of products in the marketplace, and even between the way we look after our finances – including online and telephone banking. Nowadays 16.2 million of us bank online which would have seemed very 21st century back in 1966.

We remain someway away from being a cashless society, with two-thirds of all payments we make still being in cash, albeit predominantly for low-value amounts.

*Latest available statistics, 2005.



2046

Our plastic society is set to increase, with other providers outside traditional banks and card issuers expected to offer debit and credit cards. In fact this new generation may well have never seen the more traditional forms of payment – such as a cheque. Cash will still be around, but will be used significantly less than it is currently.

Personal identity verification is likely to be biometric, using an automated method of verifying or recognising our identities by our body characteristics, such as iris scanning or fingerprints. Most likely, cards will have been replaced by these biometrics contained within chips which we will carry around, perhaps as part of any mobile phone technology we're then using.

Predictions are that in 40 years time chip and PIN will have evolved to enable it to continue tackling plastic card fraud as it does now – whilst chips will be commonplace, they'll be used in a contactless way. All payments will be made in real-time, so when buying something in a shop or over the internet, we will validate our identity and then be presented with a range of our subscribed payment methods. Once this choice has been made, the funds from our account will be transferred in real-time.

2046 will present a huge step change away from our current payment systems, with yet more security, flexibility and convenience on offer to the next generation of card users. We may not be a cashless society but we will be a lot closer to it.