THE CHANGING DYNAMIC OF PAYMENTS IN EUROPE

Norway
Introduction

Norway’s GDP growth was hit significantly after the fall in oil prices in the second part of 2014. Since then, GDP has rebounded to close to 2.5% quarter on quarter annual revenue.\(^1\) Going forward, growth is expected to remain strong, which should contribute to further lowering the unemployment rate, and as a result, lift inflation. The Norges Bank has become more hawkish in recent months, signalling that the policy rate, which currently stands at 0.5%,\(^2\) could be hiked in Q1, 2019.\(^3\)

\(^1\) This information is based on projected figures and is subject to change at any time
Norway: At a glance

<table>
<thead>
<tr>
<th>Feature</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>5.23m</td>
</tr>
<tr>
<td>Average age</td>
<td>39.1 years</td>
</tr>
<tr>
<td>GDP</td>
<td>€370.6bn</td>
</tr>
<tr>
<td>B2C eCommerce market value</td>
<td>€9.44bn</td>
</tr>
<tr>
<td>Internet penetration</td>
<td>98%</td>
</tr>
<tr>
<td>Smartphone penetration</td>
<td>68%</td>
</tr>
<tr>
<td>Card penetration per capita (debit &amp; credit)</td>
<td>2.83</td>
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</tbody>
</table>

Norwegians made up just 1% of the population of Europe in 2016, the smallest country by population in our study. Nevertheless, Norway is a mature and dynamic ecommerce market; buying goods online has become ingrained in the day-to-day shopping habits of the majority of Norwegians.

This familiarity with online spending has propelled Norway’s ecommerce market to double-digit growth in recent years. Norway’s B2C ecommerce value was €9.44bn in 2016, up 16.4% on 2015 (€8.11bn) and 32.2% on 2014 (€7.14bn). This growth is expected to continue. Fuelled by a population that is very comfortable with ecommerce, the country has a forecasted B2C market value in 2020 of €14.74bn, representing a compound annual growth rate (CAGR) of 11.8%.

Youthful opportunity

Norway is youthful and affluent. People aged 24 or under make up 30.6% of the population. The average age in Norway in 2016 was 39.1 years, making it the youngest nation included in our study – the European average age is 42.7 years. This bodes well for ecommerce, as a large cohort of ‘digital natives’ continues to mature. Norwegians already spend large amounts online; the average annual online spend per consumer in 2016 was €2,467, making Norway the second-highest spending country in our study.

Norwegians are also using the internet to better inform in-store purchases. The tendency for consumers to carry out research online before going out to purchase the products in person is a rising trend across the Nordics. 33% of Norwegian shoppers engage in this activity for clothing and footwear purchases. And significantly, this habit has not harmed online sales for the category, with clothing among the most popular categories purchased online. Retailers must be aware of such trends and cater to this demand by presenting their brands via multiple channels.
Consumers eye international options, while digital banking dominates

In Norway, two-thirds of the population shopped online during an average month in 2016. Some 40% of these transactions were made on foreign websites, with Chinese, UK, US, and Swedish businesses all popular. Perhaps because of this high number of orders from abroad, Norwegian shoppers’ expectations concerning speed of delivery are quite low. Just 14% of online shoppers in Norway expect to receive their delivery within two days; around 20% expect delivery times of more than six days. Slow delivery times may also be a function of the country’s logistically challenging geography and non-EU import rules.

Cards were the dominant payment method in Norway in 2016, used for 37% of sales by value. Bank transfers were the second-most used way to pay by value, at 21%, while e-wallets took a 19% share. Cash accounted for just 4% of sales.

This reflects the Nordics’ negative attitude in general towards cash as a payment method, and Norway’s own efforts to cut down on the use of notes and coins. Norway’s biggest bank, state-backed DNB, has eliminated cash from its branches, and physical banking is also in major decline in Norway; DNB closed half its branches in 2016. Consequently, the value of cash transactions fell 15% between 2015 and 2016, to €340m.

Bank transfers and app innovation

As the use of cash diminishes in Norway, the value of transactions made by other methods is rising. The value of card transactions rose 14.8% between 2015 and 2016, to reach €3.48bn. E-wallets also rose by 18.3% to €1.81bn. The biggest rise, however, was in bank transfers, which jumped 134% from €0.83bn worth of transactions in 2015 to €1.95bn in 2016. As bank transfers become more convenient and efficient, we expect them to continue to take market share from cards, although they still pose issues with reconciliation. One interesting development is Bank Axess, which is a connected payment system covering much of the banking sector in the country; its customers can make secure transfers by using a Bank ID number.

Card penetration per capita

<table>
<thead>
<tr>
<th>Metric indicator</th>
<th>Total</th>
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<tbody>
<tr>
<td>Debit card per capita (ecommerce enabled)</td>
<td>1.61</td>
</tr>
<tr>
<td>Credit card per capita (ecommerce enabled)</td>
<td>1.22</td>
</tr>
<tr>
<td>Total cards per capita (ecommerce enabled)</td>
<td>2.83</td>
</tr>
</tbody>
</table>

Source: J.P. Morgan’s Country Insights: The Changing Dynamic of Payments in Europe: Data has been provided to J.P. Morgan Merchant Services by Edgar, Dunn and Company via GlobalData & Lafferty, 2016
Two important components of this rapidly growing bank transfer-led payment culture is both high smartphone penetration and a strong internet infrastructure. At 68%, Norway has the second-highest smartphone use in our study (Sweden, at 70%, is highest).\(^2\) Norway also has the highest internet penetration rate across Europe, with 98% of the population having access to the internet, in comparison to the European average of 80.1%.\(^3\)

Elsewhere in the alternative payments space, PayPal holds around 11%-13% of the market in terms of value, and Klarna has 5%-7%.\(^4\)

But what is clear is that Norwegians are willing to accept new technological innovation in certain segments.

Companies hoping to profit in the alternative payments space or indeed the wider ecommerce industry can learn much from Norway. Despite its diminutive market size compared to its European siblings, Norway represents an example of a highly advanced digital payments economy, underpinned by shoppers willing and able to spend high sums online.
For more information please contact:
Your Relationship Manager or visit https://www.jpmorgan.com/europe/merchant-services/payment-insights

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References