

Payments in the Nordics

Next generation payments – what does the future hold for payments in the Nordics?

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About the report

The Payments in the Nordics report is a report series launched by Svea Bank, exploring the Nordic payment landscape.

The report is based on consumer surveys, extensive desktop research, and expert interviews. The surveys were fielded in October 2022, surveying 1,000 consumers in Sweden, Denmark, Norway and Finland respectively. The survey explored needs, behaviours, and attitudes connected to payments. Extensive desktop research was done, specifically looking into academic research on payments as well as what is currently happening with the Nordic payment sphere. Expert interviews were done with the following persons:

Niklas Arvidsson, Professor at Unit of Sustainability, Industrial Dynamic and Entrepreneurship, KTH Royal Institute of Technology

Niklas Arvidsson was one of the first to predict the cashless society, and has done extensive research on why the Nordics are at the forefront of payment innovation.

Carin Rehncrona, Researcher at the Department of Service Studies, Lund University

Carin Rehncrona focuses her research on what mechanisms determine why specific payment methods are picked up by merchants and consumers, and why some are not. She has also done substantial research on the merchant perspective when it comes to payment innovation.

Pelle Petterson, CEO and founder, Omniarch

Pelle Petterson is the Chief Executive Officer and founder of Omniarch, an agency that helps retailers develop digital growth strategies.

Oscar Berglund, Chief Business Development Officer, Trustly

Oscar Berglund is the Chief Business Development Officer at Trustly. Trustly is one of the biggest actors within open banking in the Nordic countries. A Swedish 'unicorn', they are a strong representative of Fintech success in the Nordics.

Magdalena Caesar, Business Area Manager Payments, Svea Bank

Magdalena Caesar is the business area manager within payments at Svea Bank, and is specialised in the area of e-commerce payments.

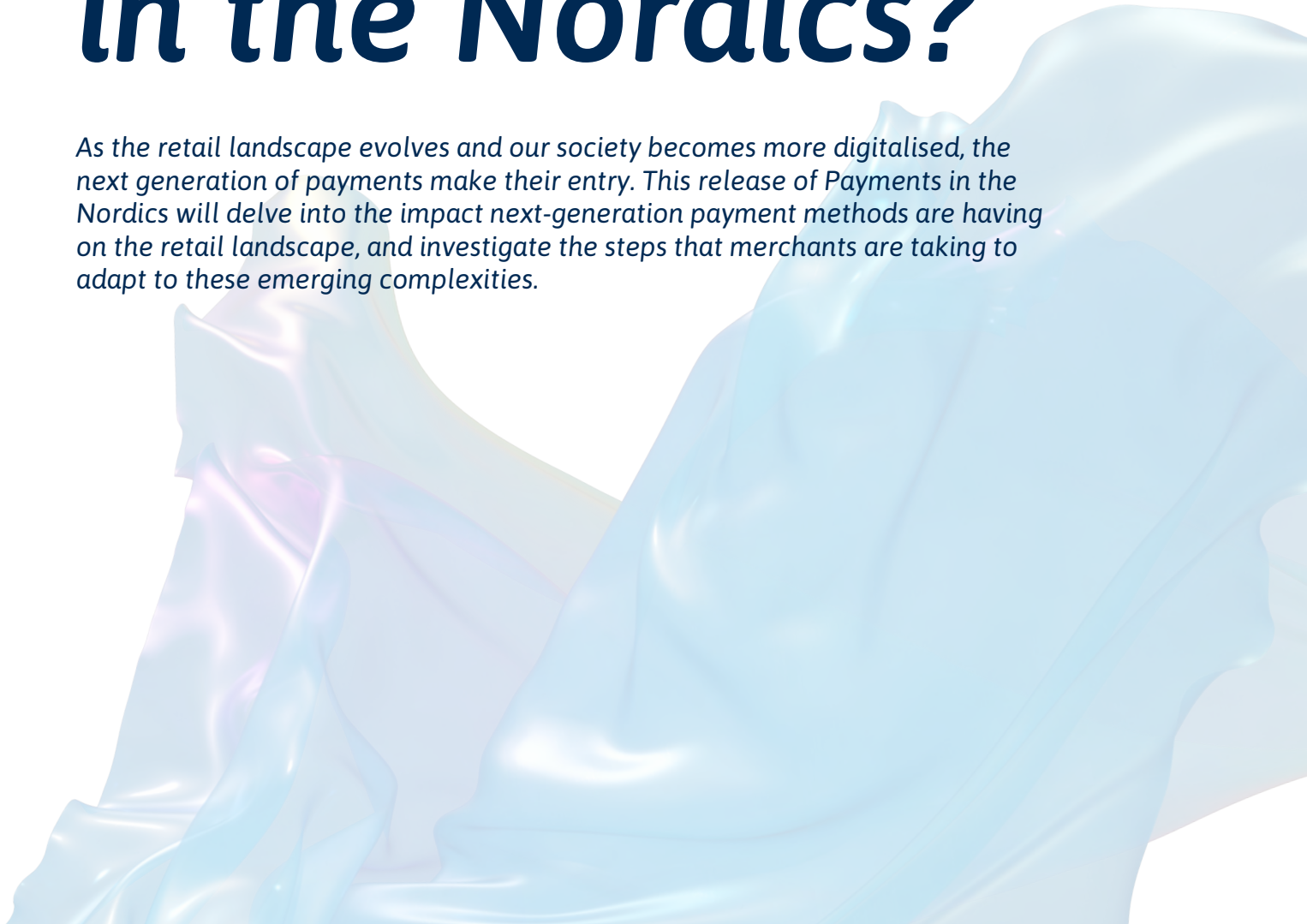
Mikael Kustmark, Business Manager Mobile Payments, Svea Bank

Mikael Kustmark is the business manager within mobile payments at Svea Bank and is specialised within mobile and app payments.

The report is produced in collaboration with HUI Research.

Next generation payments – what does the future hold for payments in the Nordics?

As the retail landscape evolves and our society becomes more digitalised, the next generation of payments make their entry. This release of Payments in the Nordics will delve into the impact next-generation payment methods are having on the retail landscape, and investigate the steps that merchants are taking to adapt to these emerging complexities.



Contactless payments – next generation payments are already here

Today, contactless payments are the most established form of next generation payments, with it being offered in most stores. What are contactless payments and why have they become so ubiquitous? And what role does contactless technology play in furthering the digital wallet surge?



Contactless payments are already used by the vast majority of Nordic consumers

Contactless payments, that is, using a debit or credit card without having to touch the card reader, has become a ubiquitous payment method. Fully 83% of

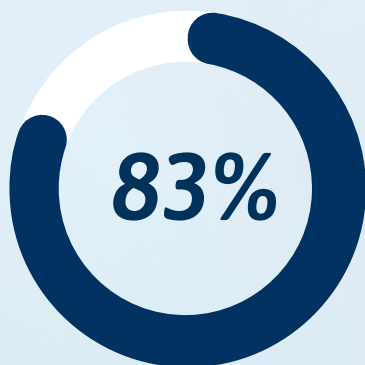
Nordic consumers attest to having made a contactless payment. Today, virtually all point of sales terminals are equipped with contactless payment technology.

The adoption of contactless payments has been driven by supply-side innovation and the appreciation of convenience

Contactless payments are well suited to meet consumer demands for quick and seamless payments. By eliminating the need for PINs and signatures, they save consumers vast amounts of time every day.

However, when contactless cards first arrived, they were met with some scepticism. In particular, there were concerns about security; many consumers felt that not using a PIN was insecure, and that the saved time and

increased convenience was not worth it. Nevertheless, since then, consumers have come to accept the contactless card as a normal part of everyday life and the security frontier has been pushed forward with ever larger transactions being eligible for contactless. Today, only 13% of Nordic consumers who have used contactless payments consider them insecure.



of Nordic consumers have
used contactless payments.



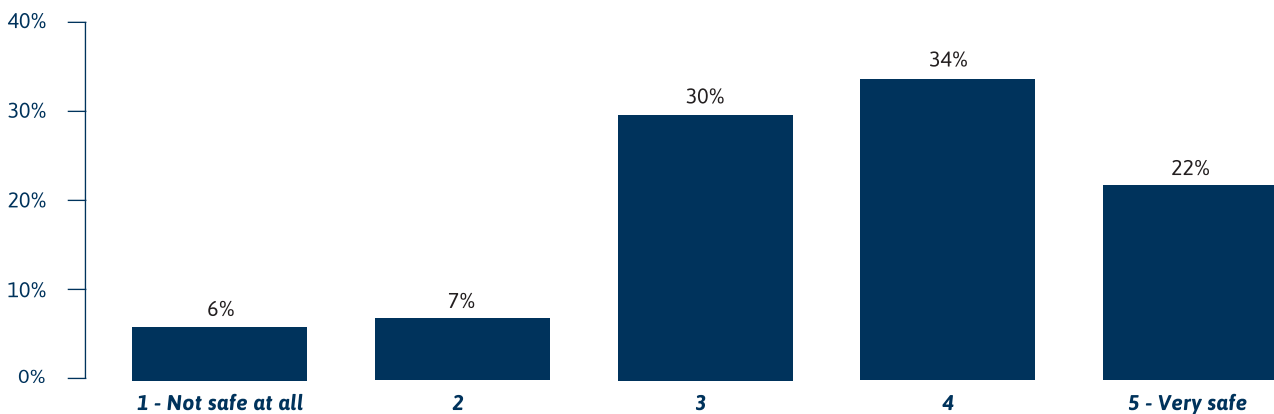
"Contactless payments are a perfect example of a technology innovation which has been adopted by consumers and which now is a ubiquitous part of their everyday life, and we will continue to see more blurred lines around what people consider secure as they adapt to new technologies."

Magdalena Caesar, Business Area Manager Payments, Svea Bank

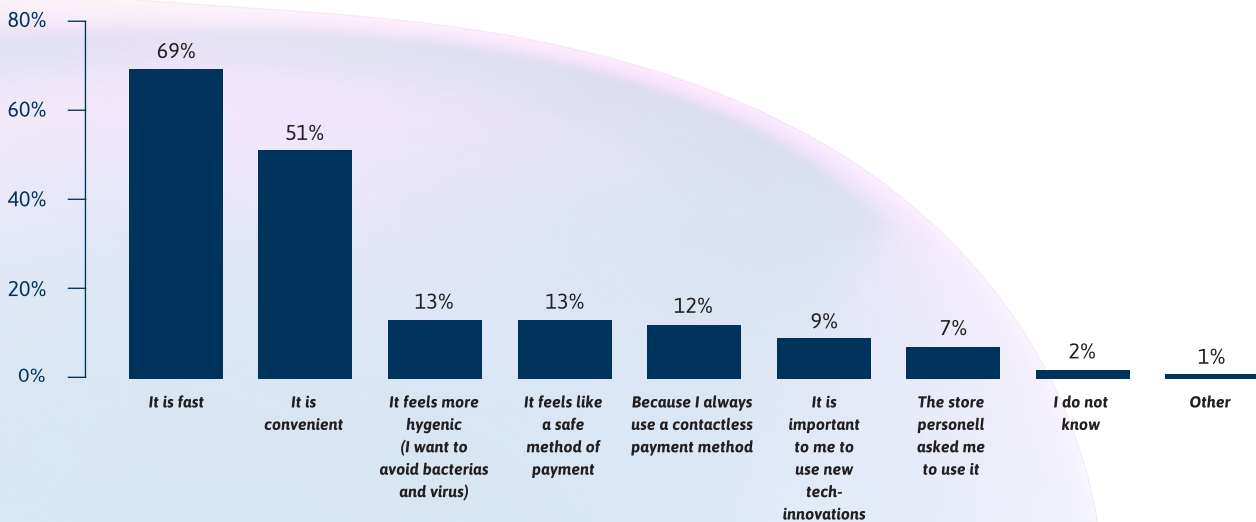
In recent years, the competitiveness of contactless payments has further increased. In addition to the benefits of speed and convenience, the act of not having to physically touch the payment terminal has

been a benefit during the Covid-19 pandemic. When asked why they have used a contactless payment, "hygiene" is the third most common answer.

How safe do you perceive contactless payments as a payment method?



Why have you used a contactless payment?

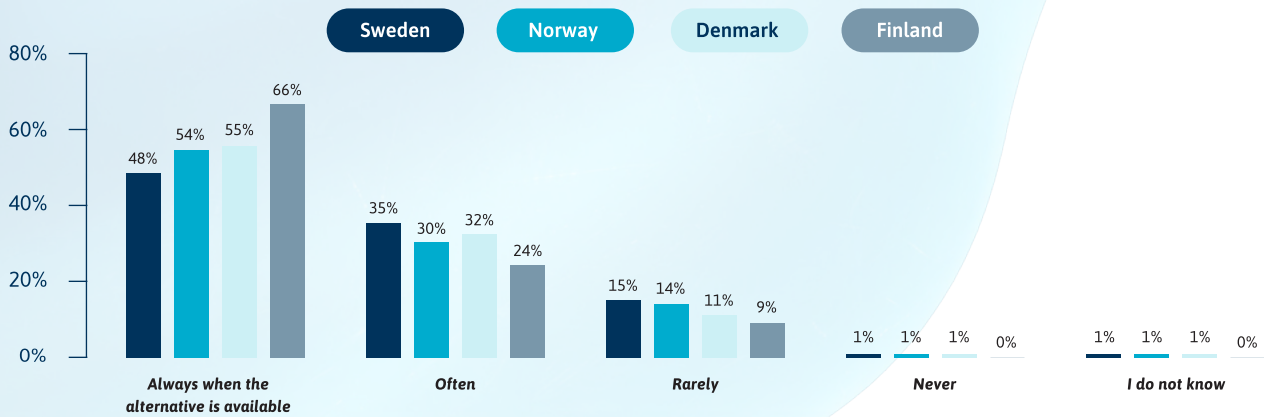


Offering contactless payments is vital for retailers

Contactless payments have become so widespread that consumers now expect them to be available when shopping. Therefore, it is crucial for retailers to provide the option of paying contactless. Fifty-four percent of Nordic consumers using contactless payments always

use it when the option is available. This is consistent across the Nordic countries. Furthermore, 43% consider it important that a store offers a contactless payment option.

How often do you use a contactless method of payment?



Contactless payments are already old news, but they have enabled the surge in digital wallets

Contactless payments have been around for years and are widespread. Their popularity is evident across geographical and generational boundaries, with older consumers being as likely to use contactless payments as young consumers and the share having used them is above 80% in each Nordic country.

43%

of Nordic consumers consider it important that a store offers contactless payments.

84%

18 - 29

84% and 82%, the share among 18-29 year olds and those above the age of 60 who use contactless payments often or always when the option is available.

82%

Above 60

Even though contactless payments may be old news, they are powering the next revolution in payments: the digitalisation of in-store payments. The use of digital wallets, having your card stored in your phone

and using it to pay, would not be possible without the technology behind contactless cards. The next section explores the rise and future of the digital wallet.



What is NFC?

Most contactless cards are based on NFC, or Near Field Contact. NFC is a protocol for electronic communication over very short distances. The point of NFC technology is the ability to use a scanner to read information from a "passive" object such as a card or a tag. The NFC technology which enables contactless cards is also what came to enable contactless payments using smartphones.

Digital wallets – the phone as an all-in-one solution?

The adoption of digital wallets is still in its infancy and is expected to increase in the Nordic countries as well as globally. What is the function of digital wallets? And will the digital wallet allow the phone to become a hub for payments, replacing the traditional physical wallet?

"Digital wallets are expected to grow in popularity, together with other digital solutions like Swish, MobilePay and Vipps."

Pelle Pettersson, CEO and founder, Omniarch

In-store payments are on their way to being digitalised

The digital wallet is a digitalised version of the physical wallet, holding the same items such as cards and tickets. Some well-known versions of digital wallets are Apple Pay, Google Pay, and Samsung Pay. Globally, there were 3.4 billion people using a digital wallet in 2022 according to Juniper Research¹, this corresponds to 42% of the world's population. This number is expected to increase to 5.2 billion in 2026.

Digital wallets often rely on the technology of NFC (near field communication), which is the same technology that is used in credit and debit cards for contactless payments. Hence, the digital wallets can be used in-store whenever the contactless function is available. However, digital wallets can also be used online where the main function is that the digital wallet prefills your card information.

43%

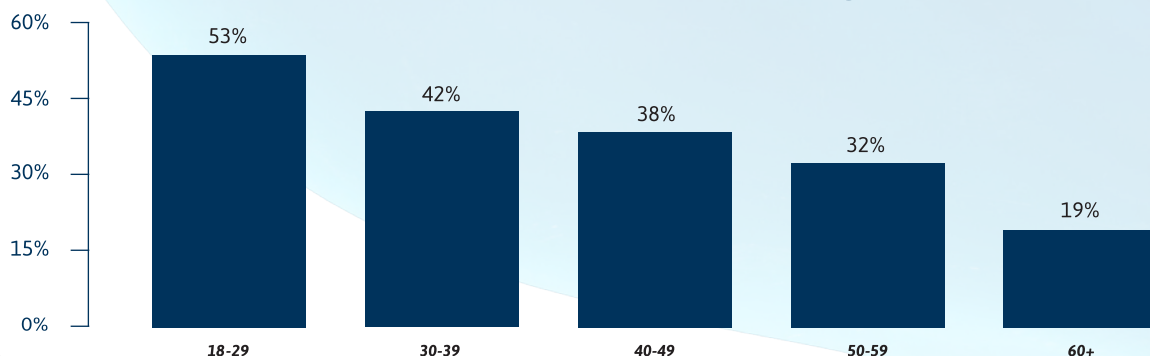
of the global population is using digital wallets



In the Nordics, 37% of consumers have used a digital wallet. This makes it the least adopted next generation payment method as both BNPL and contactless payments are more commonly used. The use of digital wallets is, in part, a metropolitan phenomenon, with people who live in large cities being more prone to use them. In addition, older consumers have adopted digital wallets to a lesser extent than younger consumers, perhaps due to the technology barrier and safety concerns. The use of digital wallets is expected to increase further as

digital natives come to make up an even larger share of the population, as the technology becomes more established, and as the power of habit contributes to digital wallets being used in a larger extent by existing users. Digital wallets are mainly used when making purchases in physical stores. Thirteen percent of Nordic consumers used a digital wallet at their last in-store purchase. In contrast, only 2% used it as payment method for their last online purchase.

Share of consumers who have used a digital wallet



¹<https://www.juniperresearch.com/press/digital-wallet-users-exceed-5bn-globally-2026>

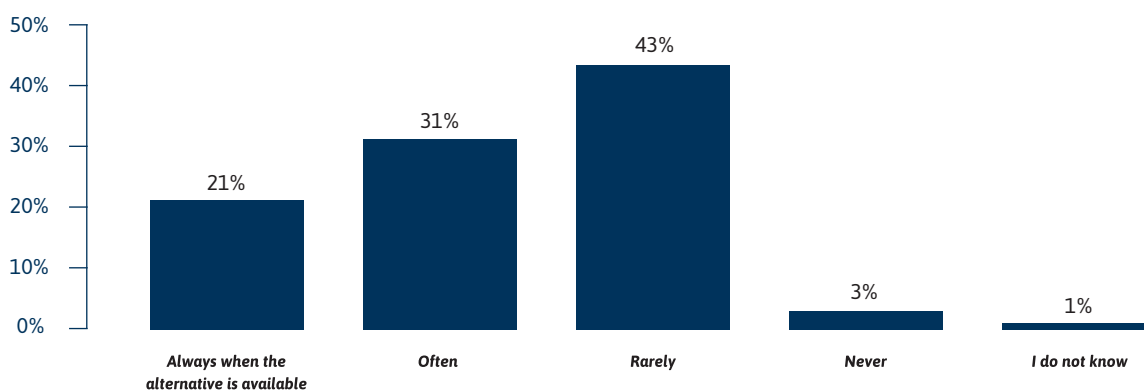
Are digital wallets a way to be tech-trendy or a convenient way to pay?

In developed countries, digital wallets have mainly replaced credit and debit cards, while developing countries have used digital wallets to leapfrog directly from cash in some instances.

In the Nordics, the main reason for using digital wallets is that they are fast and convenient. However, fully 1 in 5 consumers (21%) who have used a digital wallet did so, at least in part, because they felt that it is important to use new innovations. This probably explains why only 21% of Nordic consumers use their digital wallets as often as the alternative is available,

whereas the corresponding number for contactless payments is 54%. In conclusion, many consumers may only be using digital wallets to keep up with current trends. Alternatively, they may be using their digital wallets for other purposes than paying, such as holding digital tickets. However, there are barriers towards the digital wallet completely replacing the physical wallet, with identification documents often needed in physical form and not possible to store in digital wallets, and digital wallets being limited by the upper transaction limit for contactless payments.

How often do you use your digital wallet when making a payment?



Technology barriers the main obstacle to using digital wallets

Digital wallets are a part of a broader digitalisation trend in retail and payments in general. For instance, the most experienced online shoppers are more likely to use digital wallets. This is probably in part because these consumers have more knowledge and experience of digital tools. Thus, the main obstacle

to using digital wallets is probably the technology barrier. Forty-two percent of the Nordic consumers who have not used a digital wallet, have not done so due to a lack of familiarity with the technology.

"There is a generational technology gap which may hinder new payment methods from reaching older consumers. Not everyone in the older generation uses BankID for example, and are not as comfortable using new payment methods. However, the pandemic made it necessary for people to use more digital solutions. The older generation had to make friends with new technology and these new practices may reduce this barrier in the future."

Carin Rehn Crona, Researcher at the Department of Service Studies, Lund University

"If digital wallets fully replace physical wallets, and the phone becomes a hub for payments, it will be important for retailers to make sure any of their channels, no matter physical or online, are compatible with these."

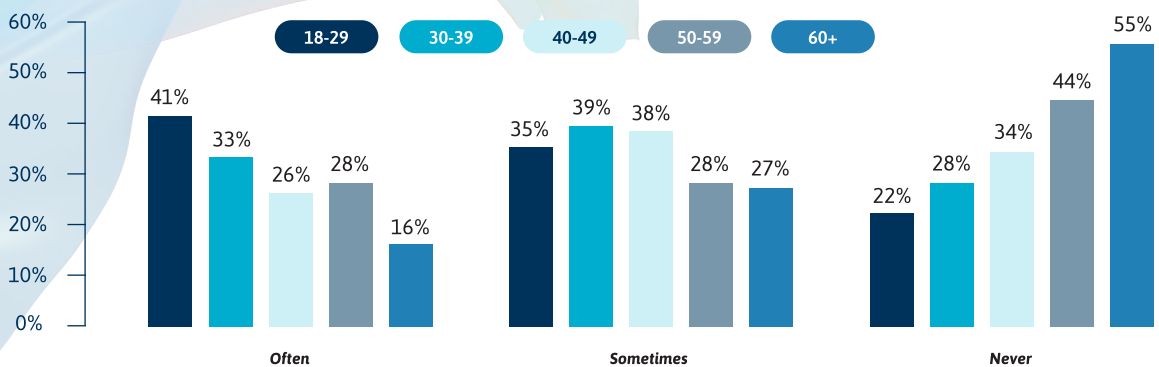
Mikael Kustmark, Business Manager, Mobile Payments, Svea Bank

The phone as a payment hub replacing the physical wallet?

Digital wallets are similar to physical wallets in many ways and are used for many of the same tasks, such as storing cards and tickets. As consumers become more used to digital wallets, is it possible that they will come to replace physical wallets altogether? Younger users have already started to substitute the physical wallet for the digital one. Forty-one percent of Nordic consumers aged 18-29 who have used a digital wallet, often leave their physical wallet at home as they have a digital one. Thirty-five percent of the same group sometimes do so. In contrast, among older users, it is less common to solely rely on

the digital wallet. However, even among consumers aged over 60 who have used a digital wallet, 43% sometimes or often leave their home without their physical wallet, relying only their digital wallet. As consumers get more used to paying with their digital wallet in-store, it will become even more important to offer this payment method online as well. In addition, retailers and card providers will have to make sure that their solutions are compatible with digital wallets. For instance, a loyalty program may lose some of its appeal if the membership card cannot be added to one's digital wallet.

How often consumers substitute their physical wallet for their digital wallet





BNPL – easy access credit in the era of e-commerce

Parallel with the developments in contactless payments, another trend in payments has emerged: the rise of 'buy now, pay later' (BNPL) solutions. What is BNPL and why is it surging right now? What will the impact of BNPL be?

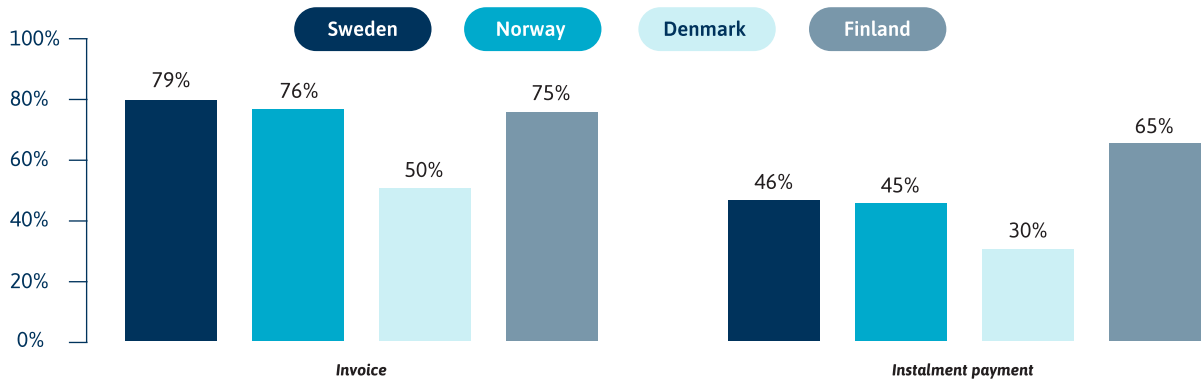
What are BNPL payments and how are they used?

Buy Now, Pay Later (BNPL) comes in two variants: invoice and instalment payments. However, credit cards, which is also a form of credit, are usually not considered a BNPL-solution. BNPL is a form of easy access credit which is accessed at the point of sale.

of payment, and 46% having used instalment payments. Denmark, however, is an outlier with usage being significantly lower than in the rest of the Nordics. In Finland, on the other hand, instalment payments are much more common than in the other countries.

BNPL payments are common in the Nordics with 71% of Nordic consumers having used invoice as a method

Share of consumers who have used the following payment method



What is an instalment payment?

Instalments are when a product is purchased and payment is split up and delayed. It varies how many payments the purchase is split into, but a common number is four and the total payment is usually significantly larger than the original price.

The reason for using BNPL varies slightly between invoice and instalment payments. Forty-eight percent of the Nordic consumers who use invoices do so because they want to see or try the product before paying. For

instalment payments, the most common reason (48%) is that it allows the consumer to make a purchase which they would not have afforded otherwise.



The most common reason for using an invoice is because the consumer wants to see or try on the product before they pay for it



The most common reason for using an instalment payment is because the consumer wants to make a purchase which they would not have afforded otherwise



What is an invoice?

Invoice payments are when a product is purchased but the payment is delayed. The method is usually free and the delay tends to be circa one month.

"Swift reimbursement upon returning a product is crucial, that is part of the appeal of BNPL. It is important for other payment alternatives to also match these expectations, as individuals are disinclined to extend credit to companies. This is crucial for enhancing the customer experience and, consequently, promoting customer loyalty."

Pelle Pettersson, CEO and founder, Omniarch

BNPL and e-commerce surge in tandem

One of the reasons for the rising popularity of BNPL is the expansion of e-commerce, as BNPL allows customers to see or try on the product before payment. This means the customer does not have to carry the risk of the transaction if, for instance, they want to return the product. Hence, BNPL solutions are a form of security for the customer when shopping online, improving the customer experience. Nevertheless, it has also become increasingly common for physical

retailers to offer BNPL payment options, providing the consumers with convenient and flexible payments in-store as well. Hence, BNPL usage is expected to increase in the future as consumers shop more online and as the line between online and offline blurs. And the expectations on convenience in terms of refunds when returning a product will spill over on other payment options as well.

BNPL: smart and seamless or dangerous and expensive

The surge in BNPL-payments is mostly linked to the consumer quest for convenience and the rising amount of e-commerce. People mostly use BNPL solutions when shopping online and as the market share of digital channels have grown, so have the quantity of BNPL payments. There are several benefits with BNPL. For instance, most consumers that use invoice as a

method of payment do so for reasons of convenience and security. But in connection with the development of BNPL usage, questions about negative side effects have been raised. In particular, there are worries that young people may take on unsustainable amounts of debt.

Next generation payments: the line between online and offline is blurred

Merchants operating in both the online and offline retail sectors will find it crucial to stay abreast of the future developments in payment methods. There are three main trends which might impact the future of payments: namely, a wider offering of payments in-store, the phone as a hub for payments, and grab-and-go payments.

“There will be an increase in the diversity of payment methods, and presently, few retailers have payments as a primary concern. Nevertheless, businesses that have a high transaction intensity stand to benefit significantly from looking over their payment solution as there exists ample opportunities to reduce associated costs”

Pelle Pettersson, CEO and founder, Omniarch

It will be increasingly important to offer a wide array of payment options in-store

With omnichannel solutions reducing the differences between online and in-store retail, the line between how consumers want to pay in the different channels

blurs as well. Hence, it will become even more important for retailers to offer classic “online” payment methods in-store and vice versa.

The phone as hub for payments and other tasks

In the short to medium-term, the most prominent trend in payments will be the continued rise of digital wallets. Many digital natives have already substituted their physical wallet for the wallet in their phone. As ever more features are added to the digital wallet, such as holding ID cards or metro cards, this trend is likely to strengthen.



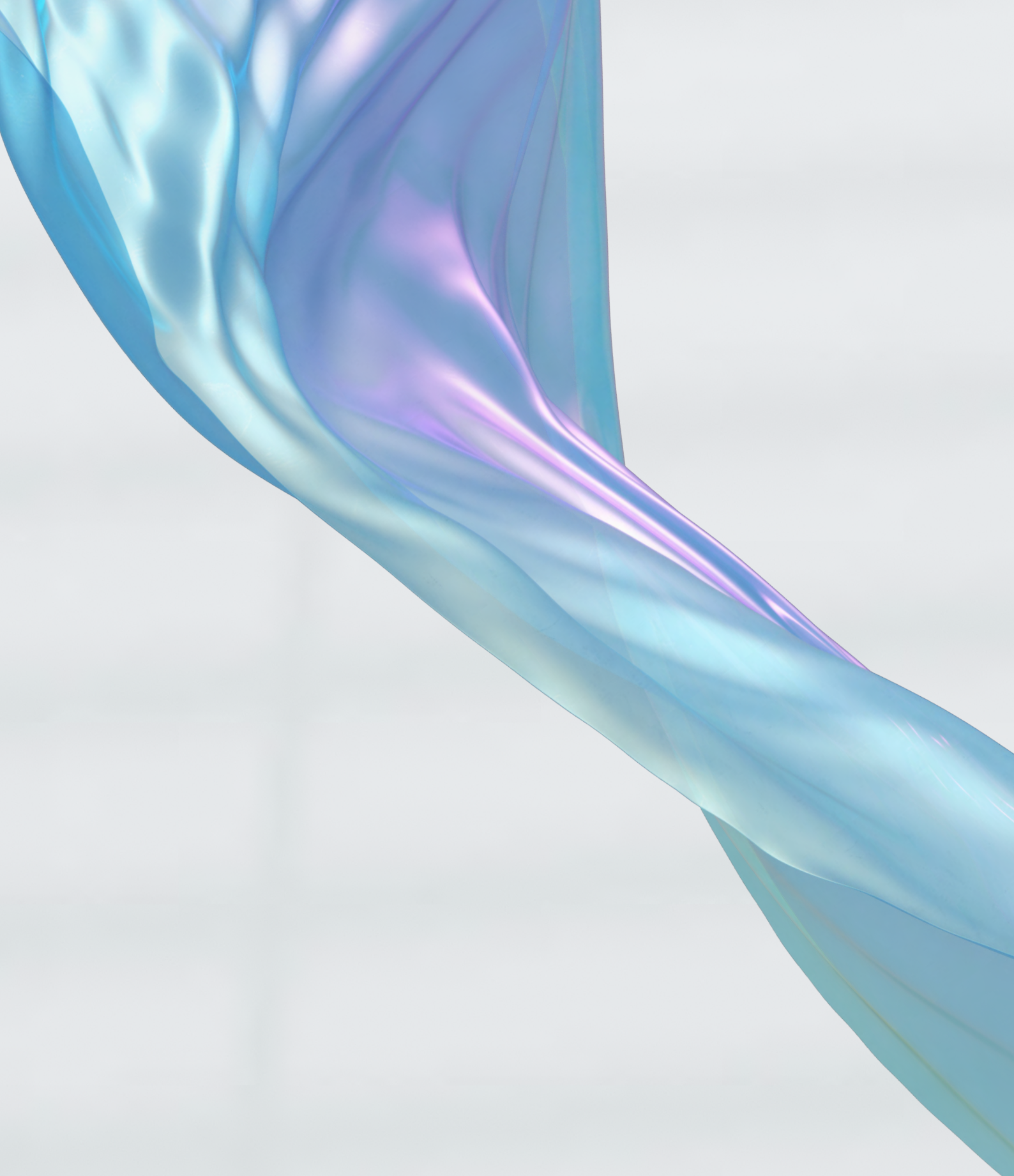
Will grab-and-go replace digital wallets?

As the current next generation payment methods become more established, one question inevitably rises, what comes next? Biometric authentication methods, such as facial recognition and fingerprint scanning, are becoming more common for payments. Some retailers are experimenting with stores in which one can enter, pick the goods one wants and then leave, without ever

having to interact with a payment terminal. The only thing certain is that the future will be determined by what lies at the intersection between what consumers want and what retailers and merchants can supply. Navigating this landscape is crucial for anyone who wants to be ready for the next generation of payments.

Key takeaways:

- **Retailers need to prioritise payments.** By integrating payments in their strategy, retailers can reduce transaction costs and, most importantly, prevent the loss of revenue from customers who choose to cancel their purchase due to the payment solution. Furthermore, effective payments, and thus returns, may increase customer loyalty.
- **Contactless payments and digital wallets may be next generation payments but are already commonly used by the Nordic consumers,** offering these payment options is vital for today's retailers.
- **It will become more important to offer a wide range of payment methods offline and online.** Consumers have high expectations and are quickly adopting new payment methods.
- **Reduce the difference between online and offline.** As consumers get more used to omnichannel retail, they will come to expect online and offline payments to be basically indistinguishable.
- **The importance of being agile and swiftly adopting new payment methods will become clear as consumer preferences keep evolving in the coming years.**



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