

Payments in the Nordics

Navigating friction, security, and ease within payments
– a deep dive into Nordic consumer behaviour

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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 Management and 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.

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.



Payment frustrations

Both consumers and companies in the Nordic countries are pioneers when it comes to payment technology. Nordic consumers are sophisticated shoppers that have high expectations when it comes to payments, both online and offline. When the payment process does not meet their expectations frustrations can occur and purchases may even be cancelled.

Nordic consumers expect a seamless payment experience

Nordic consumers expect payments to be safe, secure, and seamless, and innovation in the field of payment technology is quickly removing pain points in order to deliver on these expectations. However, frictions causing frustrations remain, and understanding them is vital to providing a payment experience that keep up with the demands and preferences of consumers. In this report, we will take a closer look at the causes of friction and how efforts related to removing them need to strike a balance between convenience and security.



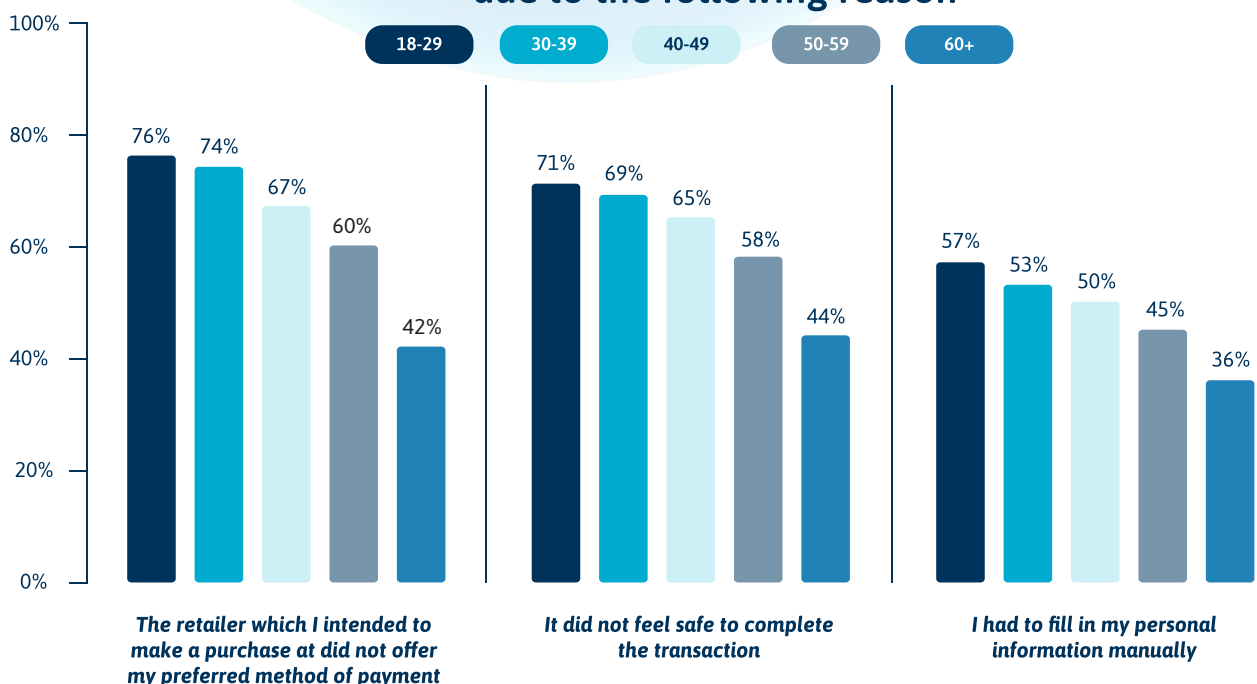
Payment frustrations lead to cancelled purchases

Payments are a vital part of the purchase journey and when payment options, or their functionality, do not match consumer expectations, it can lead to cancelled purchases. Especially young consumers expect transactions to be frictionless and are more prone to cancel purchases due to payment frustrations.

Offering a variety of options is key – 64% of Nordic consumers have cancelled a purchase due to the

retailer not offering their preferred method of payment. In Sweden and Finland, the number is even higher – 74% and 71% respectively – indicating that Nordic consumers are picky when it comes to how they choose to pay. The safety aspect of the transaction is also critical to consumers with 61% of Nordic consumers having cancelled a purchase because they did not feel safe completing the transaction.

Share of consumers who have cancelled a purchase due to the following reason



KEY INSIGHT: Nordic consumers have high expectations when it comes to payments – hence, it's important for retailers to enable effortless transactions by being aware of key triggers that may cause consumers to cancel their purchase.

"Mobile payments are becoming a vital part of the everyday life of people. For the best possible payment experience it is crucial that it is customised for mobile devices. With a flexible payment solution, retailers will be able to meet the expectations of the consumer."

Mikael Kustmark, Business Manager Mobile Payments, Svea Bank

Online payments need to be frictionless

Nordic consumers demand frictionless payments to a greater extent online compared to in physical stores and are more frustrated when payments do not work online. Several factors may cause frustration when making an online payment, most notably a check-out page freezing or loading for too long. This causes

insecurity as it becomes unclear to the consumer whether the purchase has been completed and they may cancel the purchase. Hence, it is vital for retailers to make sure that the transaction process is easy and frictionless.

It is important to customise online payments for specific devices. Forty-four percent of Nordic consumers feel frustrated when the check-out is not customised for mobile usage. This is especially true for 18-29 year olds, who are more frequent online shoppers and who more often shop via their phones. Swedish consumers are the most frustrated when the check-out is not customised for mobile usage.



of Nordic consumers feel frustrated when the check-out page freezes or loads for too long while making an online purchase.



Percentage of Nordic consumers that get frustrated when the check-out process is not customised for mobile usage

Sweden 47%

Norway 45%

Denmark 42%

Finland 37%

Individual preference is another important aspect to consider. Thirty-seven percent of Nordic consumers feel frustrated when their preferred payment method is not available. Thus, it is important for retailers to offer a wide range of payment options to satisfy different

consumer needs. This is especially important in Finland, where 43% of consumers feel frustrated when not being offered their preferred method of payment.

"The payment is an important part of the purchase journey. Ideally, it should not be noticed at all by the consumer. If the consumer is aware of the transaction, it is often because there is something not working, that it is complicated to complete the transaction, or that it feels unsafe."

Carin Rehnecrona, Researcher at University of Lund

Consumers are more accepting when making purchases in-store

Consumers experience less frustration from payments in-store compared to online payments. The explanation for this may lie in the historically more homogenous character of in-store payments – most are made by card and most stores use solutions that appear similar to the customer. The room for disappointment is small.



Even though frustration is generally less common in physical stores, what consumers find frustrating offline is similar to what creates frustration online. The most common cause of frustration is that the preferred method of payment is not available. More than one in three Nordic consumers experience frustration when this occurs.

Younger consumers, who are digital natives, are used to frictionless transactions, with one in three young consumers becoming frustrated when they need to enter their PIN. Only 13% of consumers aged 60 and above get frustrated when this happens. This is probably because the younger generation has grown up with contactless payments and therefore expects it to be available as an option. A similar pattern can be seen for online payments, with younger consumers becoming more frustrated when their personal information is not prefilled. Older generations may prefer entering their information manually because it feels safer.



of Nordic consumers aged 18-29 feel frustrated by having to enter their PIN code manually in-store.

Customers are getting used to being offered several payment methods when shopping online and expectations are starting to spill over to in-store payments. It is thus becoming even more important to have customised offerings in physical stores as well."

Magdalena Caesar, Business Area Manager Payments, Svea Bank

The background of the slide is an abstract, flowing blue liquid or smoke-like texture. It has a soft, ethereal quality with varying shades of light blue and white, creating a sense of movement and depth. The texture is more pronounced at the top and bottom, framing the central text.

Striking a balance **between security and usability**

Since friction is the enemy of payments, removing friction is a critical part of payment innovation. However, as barriers are eliminated and payments become increasingly fast and seamless, will the relationship between security and usability continue to be inversely proportional? How can a balance be struck between the two? And how do Nordic consumers navigate between easy and secure when choosing how to pay?

"There continues to be the fundamental trade-off between security and convenience, although the efficient frontier is moving in the right direction. You can always find ways to improve the customer journey, but most consumers will want to keep some kind of seat belt on."

Oscar Berglund, Chief Business Development Officer at Trustly

Convenience is key for consumers – but not at the expense of security

Striking a balance between security and ease of use can be a challenge when adopting new payment technologies. As payments become increasingly fast and frictionless, concerns about security aspects grow, too. This is reflected in the adoption of European regulations such as the PSD2 directive that, among other things, seeks to make payments more secure.

But how do consumers navigate between security and usability? When asked what they appreciate when making a payment, convenience trumps security for Nordic consumers. Forty-nine percent say what they appreciate most is that the payment is easy and without friction, while 32% prioritise security. This does not mean consumers do not care about security, but rather that they consider it to be a basic requirement.

The value consumers place on convenience emphasises the key question of balance. When technology and payments continue to evolve in tandem, will consumers need to choose between speed and safety? Is lack of security the price that needs to be paid for ease of use, or can both be achieved simultaneously?

Payment technologies continue to develop quickly, not least via the introduction of biometric authentication such as facial recognition and fingerprint scanners. This means it is more vital than ever to understand what payment options and payment technologies Nordic consumers trust and why.



What is PSD2?

The Payment Services Directive 2, or PSD2, is an EU directive for electronic payment services that seeks to create a more integrated European payments market, to make payments in Europe more secure, and to protect consumers. The original Payment Services Directive was adopted in 2007 but as the digitalisation of the European economy has progressed, new services and players that were outside the scope of the PSD have entered the world of payments, creating a need for updating the directive. PSD2 contains a total of 117 articles, that cover different aspects of secure payments, focusing on, for example, increased security of internet payments using Strong Customer Authentication (SCA). Two or more of the following elements will need to be used for all electronic transactions: something only the user *knows* (e.g., password, PIN), something only the user *possesses* (e.g., Smartphone), and something only the user *is* (e.g., fingerprint, voice recognition).

One third of Nordic consumers worry about online fraud

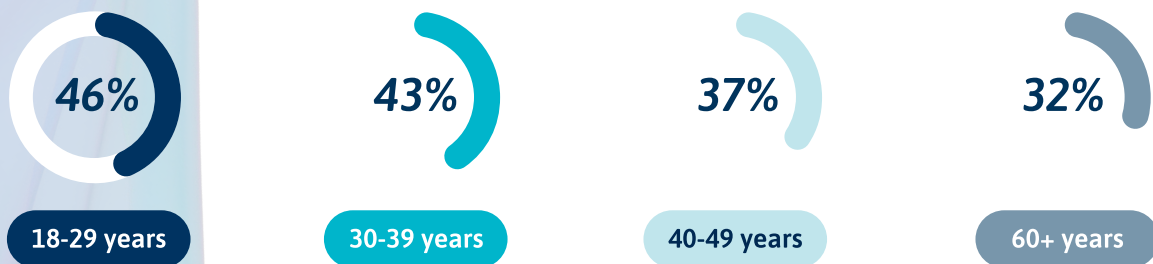
Consumers have reason to be cautious and think about how they pay. According to estimates by Juniper Research, online payment fraud losses could amount to USD 48 billion by the end of 2023, an increase of USD 7 billion from 2022¹. As payment fraud evolves, security measures will need to evolve even quicker to stay ahead.

Consumers seem to be aware of the risk of online fraud, 4 in 10 consumers in the Nordics are worried about it when shopping online. Overall, Swedish and Finnish consumers are slightly less worried than those in Denmark and Norway. Younger consumers are the most worried, perhaps due to being more

aware of, and exposed to, the risks since they are more frequent online shoppers.

Furthermore, the most and least experienced online shoppers are the ones who most regularly worry about online fraud. For the experienced group, this is probably explained by the fact that they, by definition, are more frequent online shoppers, which means there are more occasions on which they can fall victim to fraud. For the less experienced group, the reason is possibly that the lack of experience leads them to overestimate the risks associated with shopping online.

Percentage of Nordic consumers that worry about online fraud when shopping online, based on age:



Consumers who feel worried about fraud online

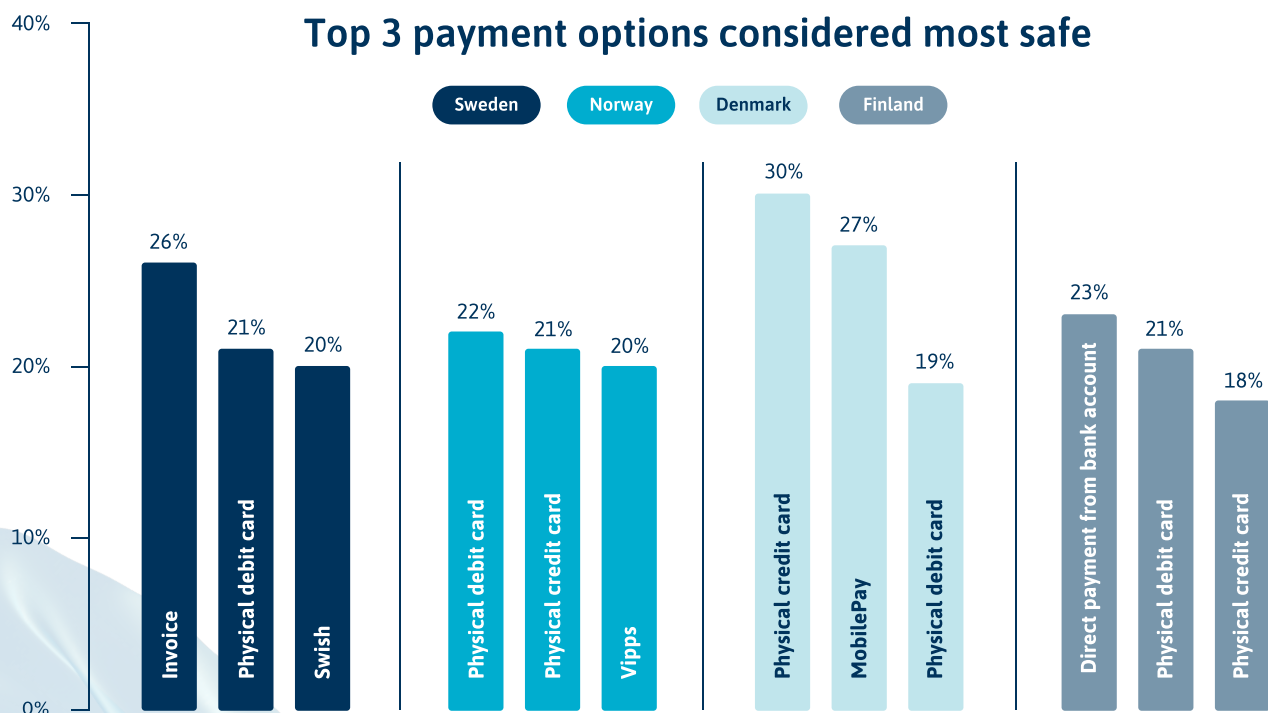


¹E-Commerce losses to online payment fraud to exceed \$48 billion globally in 2023, as fraud incursions evolve", Juniper Research, October 2022

Most trusted payment option differs between countries

Nordic consumers are risk averse when it comes to payments, which means they are picky about which payment methods they trust. Cards are generally considered the safest option; around 20% in all four countries view physical debit cards as the safest payment method. For credit cards, the share that considers them the safest option varies from 14% in Sweden to 30% in Denmark. The high share in Denmark is likely due to the widely used Danish payment card Dankort which functions both as a credit and debit card.

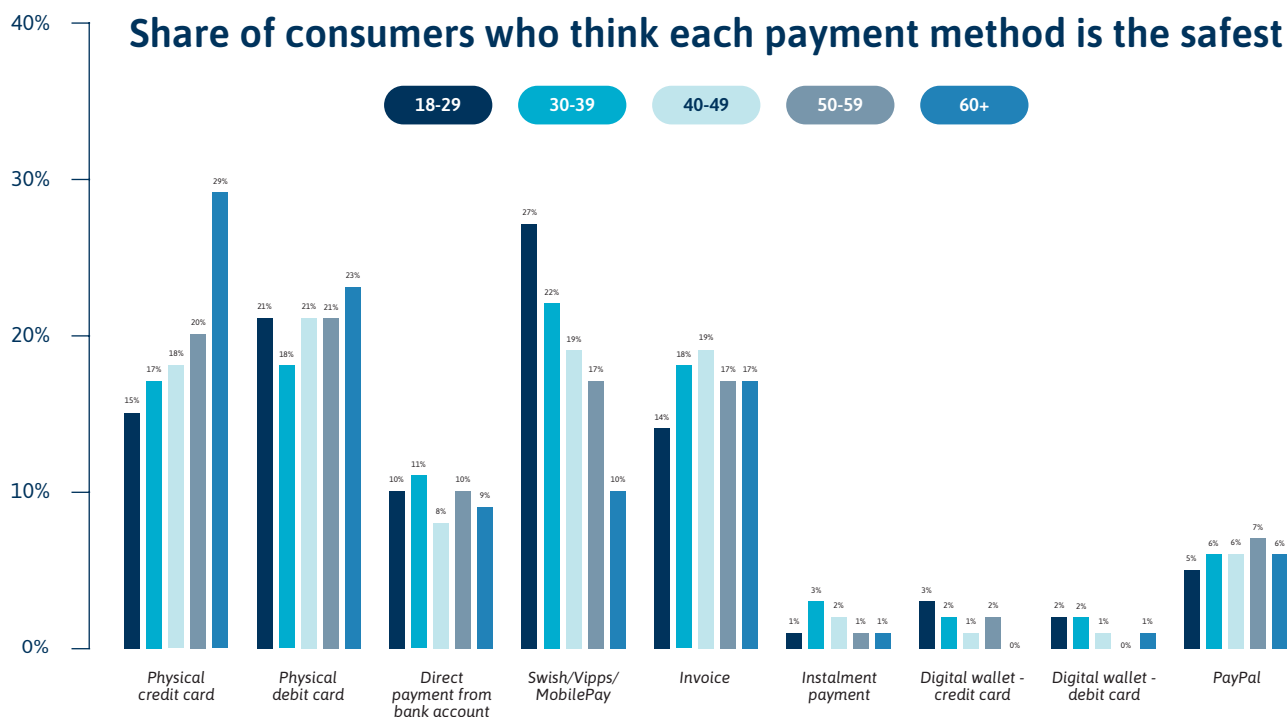
Overall, Nordic consumers seem to agree that cards are generally safe to pay with. However, there are notable local differences when it comes to some of the other payment methods. It is important to note that perception of safety seems to correlate with actual usage – that is, in countries where a specific payment method is used more, it is also generally trusted more. Determining cause and effect is difficult in this case, but the data indicates that consumers are more likely to trust an option they have used before, pointing to the need for local adjustments when it comes to what payment methods are offered.



Younger consumers consider mobile apps the safest payment method

Trust in different payment options differs considerably between generations. Among young consumers, mobile apps are considered the safest, while cards are the most trusted option among older consumers. This points to habit and recognition being of vital importance to consumers – 18-29 year olds are digital natives who have grown up with mobile payment technologies

and are thus more likely to trust them. Interestingly, young consumers view credit cards as considerably less safe than older generations, while there are almost no generational differences in the perception of debit cards. A greater fear of fraud and credit card debt among the younger generation, may be part of the explanation.



Recognition builds trust

There are significant differences between countries and generations when it comes to which payment methods are considered safe. However, in general, when consumers are asked what makes them trust a specific payment method, they point to recognition and habit. Fifty-two percent of Nordic consumers say they are likely to trust a payment provider because it is well known. In addition, 43% say they trust a payment method they recognise, and an equal share say they trust a method they have used before.

Consumers below the age of 30 are more likely to trust a payment option because friends or relatives have used it, indicating that social networks are especially important for building trust among the digital natives. Consumers above the age of 60 however, are more likely to trust a payment option based on their own experience.

The issue of trust is also tied to the issue of nationality. Domestic payment providers are trusted to a greater extent than providers that are from the Nordics in general. Thirty-nine percent say that a payment provider being from their own country makes them trust the provider, the corresponding number for a provider being from the Nordics is only 17%. Danish consumers are especially prone to base their trust on the fact that the payment provider is Danish (44%). Finnish consumers, on the other hand, are slightly more focused on recognition (50%) and the company being well known (57%). It is clear that merchants operating in the Nordics likely have much to gain in terms of consumer trust by adjusting their payment offerings, and by making sure to include local payment options.

What makes you trust a specific payment method?



KEY INSIGHT: As perceptions of safety varies significantly between countries, and as consumer trust in domestic payment options are higher than in foreign or even Nordic options, retailers will benefit from offering a wide option of payment methods, including highly local options tailored to each specific market.

"Changes in consumer behaviour can happen fast when it comes to payments. Generally, people seem to trust payment options that other people in their social network are using – if others use it, it is considered more safe."

Carin Rehncrona, Researcher at University of Lund

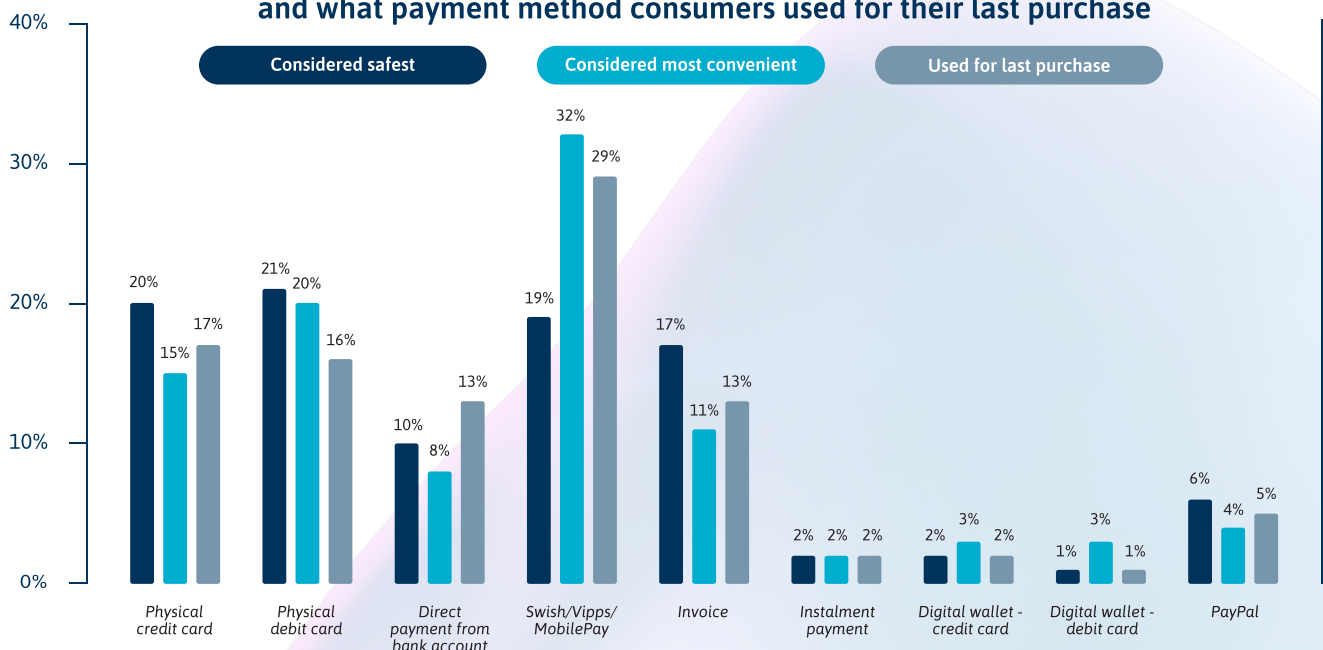
"Safe enough" can be good enough

Trusting a specific payment method is essential for consumers actually choosing to use it, and trust plays a crucial role in the adoption of new payment solutions. However, convenience is also a key driver for consumers. The same goes for speed – consumers are increasingly expecting fast payments options to fit with their digital lifestyles. So how do Nordic consumers navigate between the three demands of safety, convenience and speed – and how do they prioritise among them? The short answer is that the power of habit seems to be a strong determining factor – but also that when consumers cross the threshold of actually using a payment method for the first time, habits can quickly change.

When looking at what payment method Nordic consumers consider the safest, what payment method they consider the most convenient, and what

payment method they used for their last purchase, it is difficult to detect a clear pattern. The safest option is not necessarily considered the most convenient, and vice versa – and preferences related to safety and convenience are not automatically tied to how consumers actually choose to pay. Again, habit seems to play a vital role in determining the chosen payment option. As long as it is deemed safe enough, and convenient enough, a payment option does not have to be considered the safest or the most convenient for consumers to keep using it. An interesting example is mobile payment methods such as Swish, Vipps and MobilePay, which are considered the most convenient by Nordic consumers, but not the safest. However, almost a third (29%) used a mobile app to pay for their last purchase, indicating that a perception of "safe enough" can be sufficient for consumers, especially if it excels in other ways, such as speed and convenience.

Mis-match between what payment methods are considered safest vs. most convenient – and what payment method consumers used for their last purchase

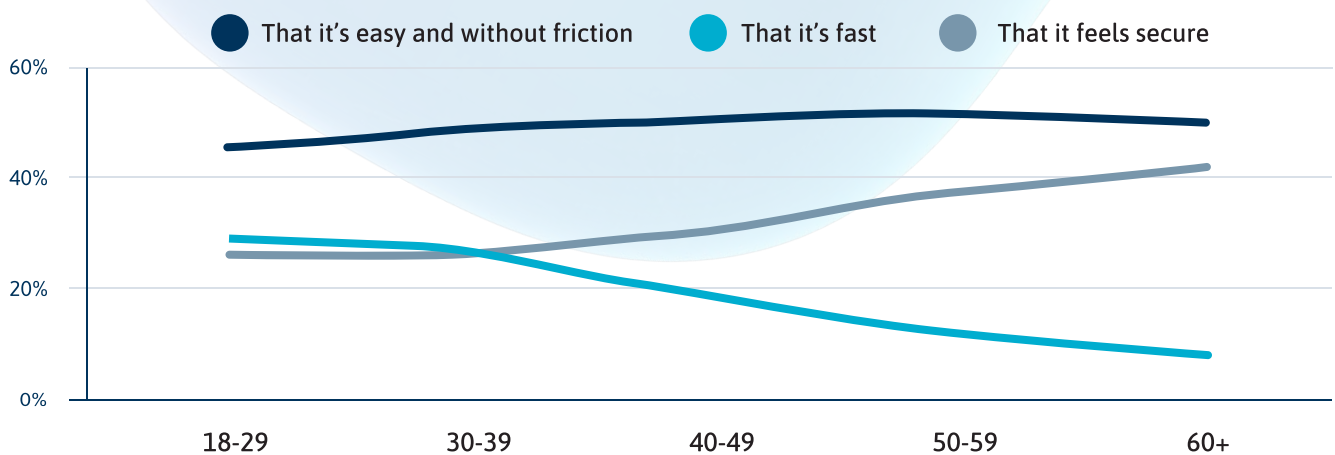


KEY INSIGHT: As long as it is deemed safe enough, and convenient enough, a payment option does not have to be considered the safest or the most convenient for consumers to keep using it.

Older consumers value safety, younger value speed

There are significant differences between generations when it comes to how consumers value speed, safety and convenience. Safety is generally valued higher by older consumers. When making payments, 41% of consumers aged 60 and above appreciate safety most, while that number is only 26% among 18-29 year olds. Younger consumers instead value speed more – only 7% of consumers aged 60 and over appreciate speed most when making a payment, while the share among 18-29 year olds is 29%. This is probably linked to trust – the fact that older generations are more concerned with safety could be a result of them having less experience in using new payment technologies, which goes back to the habitual character of payments and how important it is in creating trust among consumers.

What do you appreciate most when making a transaction?



KEY INSIGHT: Generational differences are significant when it comes to how consumers view different payment options, and what they value when making a payment. Understanding the consumer base and its core demographics is key for retailers who want to increase conversion rates and customer loyalty through an effective payment offering.

Key takeaways for retailers:

- **Payments are a vital part of the purchase journey**, a failure to offer frictionless payments may cause consumers to cancel purchases and choose other retailers.
- **Nordic consumers have high expectations when it comes to payments** and are frustrated when their favourite payment method is not available, offering several options is key.
- **The preferred payment method differs between consumer groups.** Understanding the customer base, and thus which options to provide, is vital to increase conversion rates and customer loyalty.
- **Local adaptations are necessary in the Nordic market.** Consumers across the Nordic countries differ in their views of different payment methods, and it is vital to offer locally established payment options.
- **The payment method which is perceived as most safe differs among the generations.** While cards dominate among the older consumers, the 18-29 year olds who are digital natives are more likely to trust mobile payment technologies.
- **It is essential to strike a balance between convenience and safety** – consumers reject payment methods they do not trust but they also value speed and convenience above most other factors.

In our next report:

Looking ahead – what's to come in payment innovation?

Trust is a core component in all commercial exchanges – not least payments – and distrust towards new technologies is one of the main barriers to adopting new and emerging payment methods. This means that understanding consumer sentiments is key for successful payment innovation.

What does the future hold when it comes to payments in the Nordic countries, and what role do retailers have in driving further innovation? The third release of the Payments in the Nordics report will take a closer look at how next-generation payment methods are changing the retail landscape, and what merchants are doing to prepare for and adapt to these new complexities. These are exciting times for payments – payment transformation is everywhere, and as consumers are growing accustomed to security and ease co-existing when it comes to payments, the future is likely to become increasingly frictionless.

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