THE CHANGING DYNAMIC OF PAYMENTS IN EUROPE

Italy
Introduction

Italy’s GDP growth trajectory is predicted to take a slight downward turn, decelerating to 1.5% in 2018 and then 1.3% in 2019.\(^1\) Generally speaking, private consumption is driving economic growth, although this is expected to broaden to investment and exports.\(^2\) The unemployment rate is predicted to gradually recede from 11.3% in 2017 to 10.5% in 2019,\(^3\) which should put cash in more citizens’ pockets and help support online retail sales.

\(^1\)This information is based on projected figures and is subject to change at any time.
A small but rapidly growing market

Italy’s B2C ecommerce market value was €20bn in 2016, a figure that put it on a par with the Netherlands in terms of market value, despite Italy having more than three times the population. At just 3% of the total retail market, Italy has the smallest ecommerce penetration out of all the countries studied, while the average annual online shopping spend is just €938 per capita, 40% below the European average.

The underdevelopment of the ecommerce market could be explained by the fact that Italy has one of the lowest broadband penetration rates among European countries. In 2016, 25% of Italians did not use the internet at all. This low penetration rate is also not growing as quickly as might be expected – internet adoption has only increased at a compound annual growth rate (CAGR) of 4% over the last five years.

However, despite this lagging internet penetration rate, the online shopping market expanded by 20.6% in 2016, making it the fastest growing out of the European countries surveyed. Italy’s ecommerce market value is forecast to grow at a CAGR of 15.6% between 2016 and 2020, hitting a value of €35.76bn in 2020. It is therefore clear that those Italian consumers that are connected are happy to embrace the online option as a retail channel.

The number of e-shoppers in Italy has increased from nine million in 2011 to more than 18.8 million in 2016. And with Italy still a small player in the overall European ecommerce market, there is plenty of room for both major companies and emerging start ups to make their mark.

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**Italy: At a glance**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>60.6m</td>
</tr>
<tr>
<td>Average age</td>
<td>45.1 years</td>
</tr>
<tr>
<td>GDP</td>
<td>€1.52trn</td>
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<tr>
<td>B2C eCommerce market value</td>
<td>€20bn</td>
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<tr>
<td>Internet penetration</td>
<td>65.6%</td>
</tr>
<tr>
<td>Smartphone penetration</td>
<td>50%</td>
</tr>
<tr>
<td>Card penetration per capita</td>
<td>1.07 (debit &amp; credit)</td>
</tr>
</tbody>
</table>

Source: Source: J.P. Morgan 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 World Bank, CIA (2016), Global Data, Internet Live Stats 2016

**Italy: Consumer spending**

Source: Trading Economics, ISTAT
Prepaid cards remain prominent

With online shopping still by no means ubiquitous in Italy, long-established and understood methods, such as cash and card, perform well. In 2016, cards accounted for 27% of e-commerce payments by value (€5.3bn). One reason for this is that Italy has a strong preference for using prepaid cards.

The country is the world’s biggest market for prepaid credit cards, with more than 25 million prepaid cards issued. Italy’s large unbanked population of an estimated 8 million people makes prepaid cards a simple option for converting cash into a digital means of payment. An attitude of mistrust towards major banks, repeated financial crises in the country, and online security concerns have also helped grow a preference for prepayment. As a result, prepaid cards account for an approximately 16% market share.

Meanwhile, e-wallet use was also relatively high, accounting for 23% (€4.6bn) of payments. But when considering the volume, rather than value, of transactions, e-wallets are well ahead of other payment methods. The number of e-wallet transactions in Italy during 2016 was 203.54mn, compared to 70.68mn online card transactions and 34.5mn cash transactions. There was also a 43% growth in the value of e-wallet transactions between 2014 and 2016, suggesting rapidly growing acceptance of the method.
Of the different alternative payment methods, PayPal was the most popular, accounting for around 17% of the ecommerce market. The launch of digital-only banks (such as N26, which launched in Italy in December 2015) that are integrated with other payment services, such as Apple Pay, could also help boost the use of alternative transactions. However, these bank transfer services will likely be used to load payment methods such as e-wallets and cards, rather than to complete transactions.

Meanwhile, cash took a 14% share of payments in 2016. As a proportion of the market, this was one of the highest rates in the region, reflecting the undeveloped nature of both ecommerce and alternative payments in general in the country. Since 2011, Italian association CashlessWay has been running the No Cash Day initiative to encourage consumers to switch to digital payment methods. Despite such attempts, cash remains resilient, a trend that presents a significant challenge to online merchants, especially with operational functions such as collection.

Although bank transfers represented the lowest value at 12% (€2.34bn), this is the fastest growing payment area, increasing by 101% in 2016. The popularity of prepaid cards has likely influenced this trend. Banks that offer prepaid cards as an entry-level option to customers are creating more sophisticated bank account-linked services and offers (such as e-ticketing) to boost use of their cards beyond the basic load-cash-and-pay model.

Other alternative payment methods occupy much smaller segments of the market, with no other individual method taking up more than 5%. Among these are local e-wallet company MySì di CartaSi, which is funded by Visa®/Mastercard®, and Swedish system Klarna.

Embrace mobile payments to woo the Italian shopper

Companies planning to explore Italy as a growth market may find mobile shopping will need to become a key part of their strategy. While general internet use is lower than in other parts of the EU, smartphones are becoming a key element in the day-to-day life of the Italian working-age population. Purchases via smartphone grew by 63% in 2016, accounting for 30% of total ecommerce sales. Italy is also amongst the 34 countries that implemented Single Euro Payments Area (SEPA) Instant Payment in November 2017.
Opportunity awaits in low basket spend and improving infrastructure

Despite a relatively low internet penetration rate, the Italian ecommerce market is nevertheless growing at a double-digit rate. With the lowest average annual online basket spend per consumer in the EU, there is also potential for businesses to encourage higher ecommerce spending. Supported by high-level European payment frameworks, and emerging high-speed domestic payments infrastructure, Italy is a market offering significant opportunity.

References


For more information please contact: Your Relationship Manager or visit https://www.jpmorgan.com/europe/merchant-services/payment-insights