

J.P. Morgan Country Insights

THE CHANGING DYNAMIC OF PAYMENTS IN EUROPE
France



Introduction

Economic growth in France is expected to be solid in 2018, with GDP forecast to expand by 1.75%.¹ Low interest rates, coupled with tax reductions, are stimulating business growth while at the same time unemployment is falling and is expected to hit 9.3% in 2018.^{2,3} In addition, the recovering labour market should help support private consumption growth as well as an increase in disposable income, both of which are positive indicators for the online retail sector. However, inflation is expected to trend upwards, which will eat into purchasing power.^{4,5}



This information is based on projected figures and is subject to change at any time.

France: At a glance



Population	66.9m
Average age	41.2 years
GDP	€2.3trn
B2C eCommerce market value	€72bn
Internet penetration	86%
Smartphone penetration	53%
Card penetration per capita (debit & credit)	1.2

Source: World Bank, CIA (2016), GlobalData & FEVAD, Internet Live Stats 2016

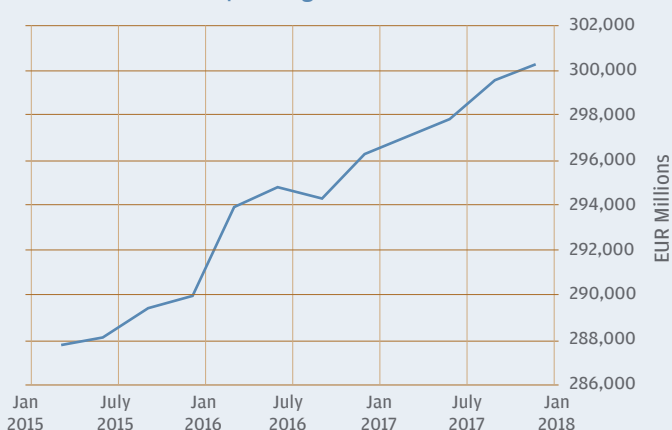
A mature, innovative market where opportunities still abound

With a population of 66.9 million people,⁶ France accounts for 13.2% of the total population of the EU,⁷ making it a significant market for online retail.

France's eCommerce market is worth €72bn⁸ making it the second largest of the selection of countries reviewed by J.P. Morgan, second only after the UK (€156bn).⁹ Despite having a smaller population and economy than Germany, France's eCommerce market is 7% larger in value terms.¹⁰

The French eCommerce market expanded by 14.5% in 2016,¹¹ and accounted for 9.2% of the total retail market in the country.¹² This strong growth is being driven both by increasing numbers of online retailers as well as greater online shopping penetration.¹³

France: Consumer spending



Source: Trading Economics INSEE

However, the average basket spend is actually declining as a result of a number of factors. Firstly, customers have a growing range of eCommerce outlets to choose from, and this is driving prices down. At the same time, as competition in the sector increases, retailers are increasingly offering reduced or free shipping costs, reducing the average outlay per item.¹⁴

eCommerce: % of total sales by segment






Network development to spur online shopping boom

Going forward, ecommerce growth is expected to continue to be strong, although at a slightly slower rate than seen over the past three years. By 2020, the market value is forecast to reach €108.53bn, representing a compound annual growth rate (CAGR) of 10.8% between 2017 and 2020.¹⁵

Growth in online sales will be supported by the French government's commitment to provide widespread access to high-speed broadband across the country by 2022 which currently stands at 86% versus 93% in the UK.^{16, 17} In addition, the development of the country's mobile network assets will facilitate the greater uptake of smartphones.

The growth in French transactions completed on a mobile device will provide an opportunity for payment providers to grab a slice of the country's relatively untapped mcommerce market. The European average of ecommerce sales made by this method was 36.4% in 2016, compared to just 28% in France,¹⁸ unusual for such a large, well-developed economy. However, mobile is now the fastest growing channel in France and is expanding at three times the rate of the overall ecommerce sector.¹⁹

Card penetration per capita

Metric indicator	Total
 Debit card per capita (ecommerce enabled)	0.76
 Credit card per capita (ecommerce enabled)	0.44
 Total cards per capita (ecommerce enabled)	1.20

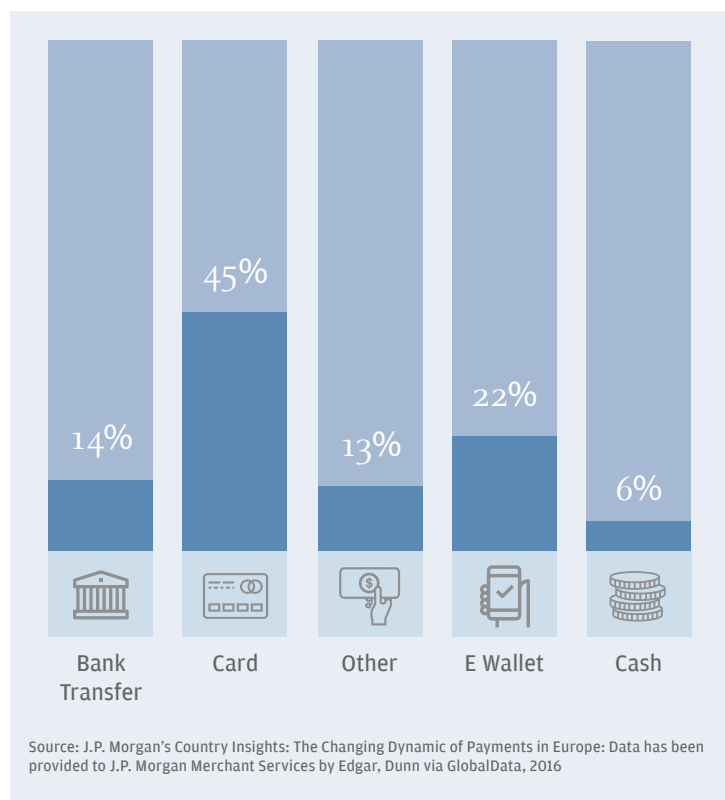
J.P. Morgan's Country Insights: The Changing Dynamic of Payments in Europe: Data has been provided to J.P. Morgan Merchant Services by Edgar, Dunn and Company via GlobalData & Lafferty, 2016

The preferred method of payment in France is cards, with 45% of the market, compared to 22% for e-wallets and 14% for bank transfers.²⁰ Part of the reason for the popularity of card payments is the strength of Cartes Bancaires (CB), a well-established, domestic interbank payment system. CB-branded payment cards are offered in collaboration with Eurocard/Mastercard® or Visa®, allowing them to be used outside of France. Meanwhile, some virtual payment cards are emerging, such as pure digital payment provider e-Carte Bleue, which markets itself as a virtual payment card and takes approximately 5% of the alternative payments market.²¹ e-Carte Bleue is a Verified by Visa payment system.

In 2016, French card payments reached €32.54bn²² in value, although growth was flat. In contrast, over the next five years, bank transfers are forecast to grow in popularity.²³ Indeed, in 2016, this payment method grew by 90%,²⁴ driven in part by the rise of a number of digital-only banks. In November 2017, telecoms provider Orange launched Orange Bank in France, an online-only banking service which allows customers to pay, check balances and talk with advisers from their smartphones 24/7.²⁵

This service follows on the heels of similar offerings from well-established French lenders; BNP Paribas launched its digital bank Hello in June 2013, while AXA Banque launched a similar creation, Soon, in January 2014.²⁶ However, one of the drawbacks of bank transfers is that they can take time to process and can be hit by delays due to issues like bank maintenance.

Payment method split by value (%)



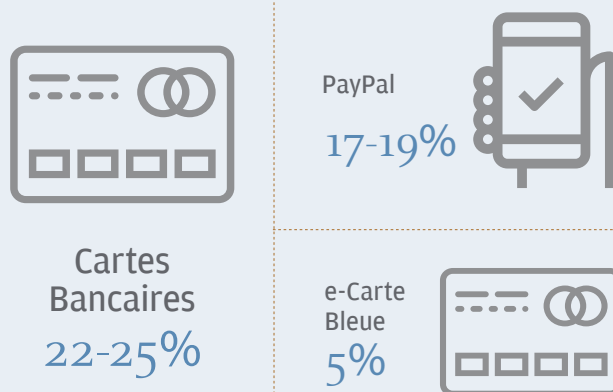
Meanwhile, growth has also been impressive for e-wallets, with transactions reaching €15.8bn in 2016, representing a growth of 25% from the previous year.²⁷ Increased smartphone penetration and the rapid expansion of the mcommerce sector will help this area. PayPal is the leading e-wallet in the country with a 17-19% share of the market.²⁸

Higher fraud rates despite being a major online player

In France, card fraudsters have turned their focus to online retail, with two-thirds of domestic card fraud taking place via the internet.²⁹ In the card-present space, France adopted 'Chip and Pin' payments several years ahead of other European countries, in the early 2000s. As a result, criminals thwarted by France's strong physical payment security measures have migrated to online attempts to steal money and information instead.³⁰ A recent card fraud study noted a 5% y-on-y growth in France.³¹ Although Germany – currently the third largest eCommerce market (€67bn) behind the UK (€156bn) and France (€72bn) – will undergo slightly stronger growth, France is expected to remain the second largest of the eleven eCommerce markets in this study.^{32,33,34*} As a major economy that still has plenty of room for growth in its eCommerce and payments sectors, it is a key market for players hunting for opportunities.

* J.P. Morgan's Country Insights: The Changing Dynamic of Payments in Europe study includes the following countries: UK, the Netherlands, Germany, France, Italy, Spain, Norway, Denmark, Sweden, Switzerland, Finland
 ** BNP Paribas, Société Générale, Crédit Agricole, La Banque Postale and Crédit Mutuel Arkéa, Banque Populaire and Caisse d'Épargne (BPCE) Group

Penetration of alternative payment methods (%)



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

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