

# **NEW BANKS IN THE CZECH REPUBLIC: THREAT OR OPPORTUNITY FOR THE WELL ESTABLISHED BANKS**

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## **Abstract**

Contribution is called "The new banks the Czech market: Threat or opportunity for well-established banks'. The entry of a new low-fee banks into the Czech market in recent years has created from a relatively rigid banking market a market much more dynamic from many perspectives. It broke extent dogma that the fees are necessary, since each service generates cost and without them it can not do banking market. Contribution concerns the basic financial data and performance of newcomers banks and permanent, well-established banks in the Czech market. Contribution deals with short excursion into the past (history of the banks) and introducing the banks in the term of their portfolio of services. I also describe the current situation in the banking market in the Czech Republic in terms of competitiveness. Finally, I would like to confirm or disprove the hypothesis one, whether the newcomers are a threat or an opportunity for current dominant market position of traditional banks, so goal is very clear.

## **Key words**

Balance sheet total, deposits, portfolio of services, earnings after tax

## **Introduction**

Contribution is concerning current situation in the Czech banking sector. I present the biggest banks in the Czech market in terms of number clients, total balance sheet, loans to customers, client deposits. These biggest banks and well known to the public. Most of these banks were founded in the period before 1989 and during 1990 's were financially saved by Czech government and subsequently sold to foreign investors (foreign banks group). Then I present the new comers, which means new banks in czech market and briefly I present treir history, but mainly I would like to devote time of presentation to current situation and challenges to the future.

# 1 Introduction of „old banks“

## 1.1 3 the biggest banks in the Czech Republic

After fall of communism in the Czech Republic and transformation period, where government sold their assets to the investors, banking sector in the Czech Republic was under pressure from public to lend more and more money, because among people was not so much money and policy of these banks were bad in terms of providing money to anyone who asks for them. There were not like today sophisticated programs which determinate your ability to repay debts, no scoring and many banks bankrupted as they had burden of bad loans and that is reason why czech government bail them out using taxpayers money of course and these bank like I said were sold to abroad. Iam speaking about Česka spořitelna, Komerční banka and Československá obchodní banka. These banks are now owned by other, foreign capital. Česka spořitelna is a part of Erste Group (one of the biggest banking group in Austria), providing wide scale banking and investment products and services. The key financial figures as of 2013 are these: Balance sheet total: 943 billion CZK, client deposits: 669 billion CZK, loans to customers: 491 billion CZK, earnings after tax: 11,4 billion CZK and number of clients: 5,03 million.<sup>1</sup> Komeční banka is owned by French bank Societe Generale and was founded in 1990. The key financial figures as of 2013 are these: Balance sheet total: 864 billion CZK, client deposits: 649 billion CZK, loans to customers: 473 billion CZK, earnings after tax: 12,5 billion CZK and number of clients: 1,5 million.<sup>2</sup> The the last the biggest bank in the Czech Republic – Československá obchodní banka is owned by Belgian bank- KBC group, was founded in 1964, like the previous banks this bank is providing wide scale banking and investment products and services. The key financial figures as of 2013 are following: Balance sheet total: 958 billion CZK, client deposits: 743 billion CZK, loans to customer: 509 billion, earnings after tax: 13,7 billion CZK and number of clients: 2,9 million.<sup>3</sup> As you can see, all these 3 the most profitable banks are not in Czech hands anymore. These 3 banks generate altogether more than 37 billion CZK earning after tax. For comparison Czech agriculture sector generate “only” 18 billion CZK net profit. The most of these profits are outflowing in form of dividends out of the Czech Republic as these banks are subsidiary branches to foreign

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<sup>1</sup> Česká spořitelna. *Klíčové údaje* [online]. [cit. 2015-01-08]. Dostupné z: <http://www.csas.cz/banka/nav/o-nas/klicove-udaje-d00014557>

<sup>2</sup> Komerční banka. *Vztahy s investory* [online]. [cit. 2015-01-08]. Dostupné z: <http://www.kb.cz/cs/obance/vztahy-s-investory/vykazy-a-vysledky/vyrocní-zpravy.shtml>

<sup>3</sup> Československá obchodní banka. *Vztahy k investorům* [online]. [cit. 2015-01-08]. Dostupné z: [http://www.csob.cz/WebCsob/Csob/O-CSOB/Vztahy-k-investorum/Financi-informace/CSOB\\_prezentace\\_vysledku\\_4Q2013\\_cz.pdf](http://www.csob.cz/WebCsob/Csob/O-CSOB/Vztahy-k-investorum/Financi-informace/CSOB_prezentace_vysledku_4Q2013_cz.pdf)

banks. These banks are forming economy, because these banks are providing the most of loans to the economical subjects. They are buying the government bonds as an investment. They provide loans in many forms (mortgages, investment, operational loans) to the public (households, corporate clients). For example if I sum up balance sheet total of these 3 biggest bank it will equal the Czech Republic's GDP for 2013 so these banks play a key role in economy and in financial system. That is why the Czech central bank (ČNB) supervise them very carefully and publish monthly reports about banking sector as one of the central bank's mission is supervisory of bank sector in the Czech Republic and I must say that the Czech bank sector is one of the most stable in Europe. Thank God we did not have meet the problems like in Greece, Italy, Spain in terms of "toxic assets" Under this term I consider the bad loans which cannot be repaid. They invested to the bad securities such as CDS and financial derivatives derived from mortgages, interest rates etc. On the other hand these 3 banks are under pressure from public about their fees policy. How is possible that for example Česká spořitelna is generating the 90 % of all Erste Group profit. One bank is donating whole banking group. Are we richer than Austrians? According to GDP per capita not and according to average salary as well and as whole the fees of these banks are very high in comparison to the western world.

## **2 Introduction of „new banks“**

Banking sector in the Czech Republic were rigid until let's say 2007. There were not many competitors to these 3 biggest banks. In 2007 entered into the Czech market Polish owned bank- Mbank which gained much attention as the first bank which is free of charge. Arrival of this bank started a little revolution, at the beginning, there were talks that such concept of bank has no chance of survival, but nowadays this bank has got more than 500 000 clients and this figure is still increasing and the most important is that this bank is profitable, the net profit as of 2013 is 249 million CZK.<sup>4</sup> Of course it cannot be compared to the biggest 3 banks in terms of profitability, but this bank started as "Greenfield" gaining more market share and clients. 3 biggest banks in the Czech Republic were bought by foreigners with database of millions of clients so they did not start from nothing, they already got a certain strong background. The real bank revolution and booming started in 2011. In this one year 3 other banks were founded in the Czech Republic (got banking licence from central bank of the Czech Republic). Since this time revolution has started revolution in banking fees, but also in

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<sup>4</sup> Mbank. *O nás* [online]. [cit. 2015-01-08]. Dostupné z: <http://www.mbank.cz/o-nas/o-bance/>

approaches to clients and ways how to do banking. In the year entered Air bank, which belongs to PPF group and as of 2013 got more than 310 000 clients, loans to customers: 22 billion CZK and balance sheet total: 45 billion CZK.<sup>5</sup> Equa bank which is owned by British investment funds and as of 2013 got more than 110 000 clients, balance sheet of total: 8,1 billion CZK and client deposits: 10,5 billion CZK.<sup>6</sup> The last bank, which entered into the market is Zuno bank, which is owned by Raiffeisen bank International Group and as of 2013 attracted more than 180 000 clients ( figure common for both Czech Republic and Slovakia), balance sheet total: 11,5 billion CZK, client deposits: 9,2 billion CZK and loans to customers: 2,5 billion CZK.<sup>7</sup>

## 2.1 New banks

These new banks nowadays are getting more attention from the public, because of their new policy. They are known for low cost way of working. The most things, operations are done through internet, so it reduces the cost, their branches do not work with cash, branches are created as low cost places, mainly in shopping malls or somewhere where they can be seen. They offer higher interest rates for deposits and on the other hand offering low interest rate on loans. The common sign of these bank is that, they started „greenfield“ they must have invested much money to their start (equity, banking licence, IT support, branches, employees etc), so half of these banks are still in financial loss according to their financial statements, but their financial situation has been improving for years and for example mbank and fio bank, which is by the way the first really low cost bank, as of 2013, generating more than 3,4 billion CZK of net profit, having more than 450 000 clients and balance sheet total: 27,5 billion CZK.<sup>8</sup> These two banks have been generated profit for several years and for example airbank is predicted to be in profit already in 2014. That is fantastic if you consider they exist short time.

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<sup>5</sup> Air bank. *Povinně uveřejňované informace* [online]. [cit. 2015-01-08]. Dostupné z: <https://www.airbank.cz/cs/vse-o-air-bank/dokumenty/povinne-informace/>

<sup>6</sup> Equa bank. *O nás* [online]. [cit. 2015-01-08]. Dostupné z: <http://www.equabank.cz/o-nas/>

<sup>7</sup> Zuno bank. *Finanční výsledky* [online]. [cit. 2015-01-08]. Dostupné z: <https://www.zuno.cz/o-nas/zuno/financni-vysledky/>

<sup>8</sup> Fio banka. *O nás* [online]. [cit. 2015-01-08]. Dostupné z: <http://www.fio.cz/o-nas/fio-banka>

## Conclusion

Contribution should have answered the question, if the new banks are opportunity or threat to well-established banks and conclusion is, that these new banks can be considered as a threat to the biggest 3, as they have got a new approaches, launching new technologies, new way of communications, low – fees policy and these banks are gaining more and more clients, so it means that number of clients in the biggest 3 is being declining and for these 3 the biggest banks this means loss of competitiveness, lost of market share and it has an impact on profitability, but also it is an opportunity for these 3 biggest banks, because they still play a key role in banking sector, they still got the most clients, they still provide the wide scale products and they can learn from these new banks in order to maintain the clients and they can change their policy, which they are doing.

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