Czech Republic

The Czech banks covered by the survey account for 80 per cent of the country's total banking assets, with the majority of those assets owned by foreign banks (Chart 1).[1] Nearly 78 per cent of banks in the Czech Republic expect their branch network to decline over the next five years. While this is in line with average expectations in Central Europe and the Baltic States (CEB), it is much higher than in the EBRD economies as a whole, where just under half of banks expect their branch network to shrink.

On average, Czech banks are in line with their CEB peers in having environmental and social policies and targets, while exceeding the regional average in terms of climate change-related policies and targets. Around 60 per cent of banks in the Czech Republic cite climate change risk as an explicit part of the bank's risk management and an even higher proportion (around 70 per cent) have their own policies on climate change and the environment. On a similar note, as far as lending to SMEs is concerned, a much higher proportion of Czech banks undertake environmental, social and climate change-related impact assessments than banks in the CEB and EBRD economies (Chart 2).[2]

The Czech Republic has one of the highest shares of banks providing loans for the specific purpose of improving the energy efficiency of residential housing. Some 80 per cent of banks offer such loans, compared with 70 per cent and 56 per cent, on average, in the CEB and EBRD economies, respectively (Chart 3).

When it comes to the use of digital technologies, all of the banks surveyed in the Czech Republic cited corporate lending as the business line offering most opportunity from fintech, closely followed by asset management and leasing. Although there is consensus among Czech banks in this regard, views in CEB and the EBRD economies as a whole remain divided (Chart 4). In the retail lending segment, only one in five Czech banks – similar to banks across

Chart 1 Branch presence of surveyed banks

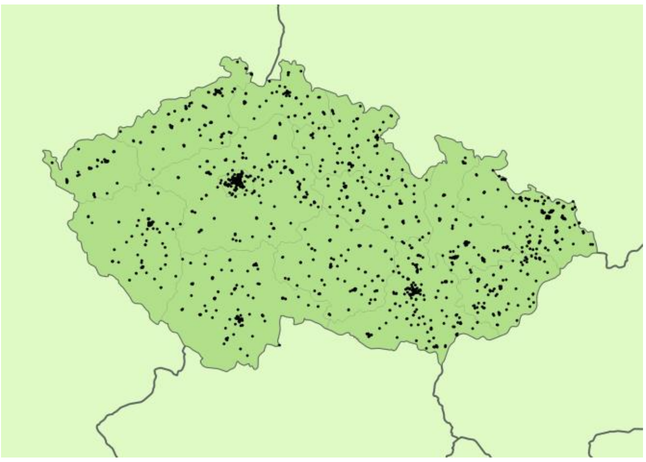


Chart 2 Impact assessment of SMEs before loan approval

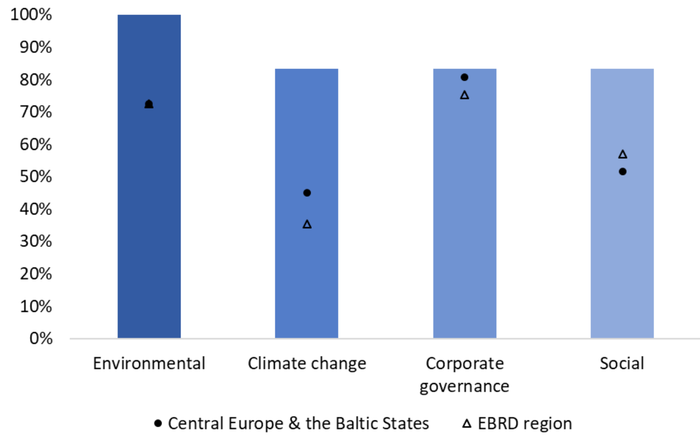


Chart 3 Prevalence of loans to improve clients' energy-efficiency

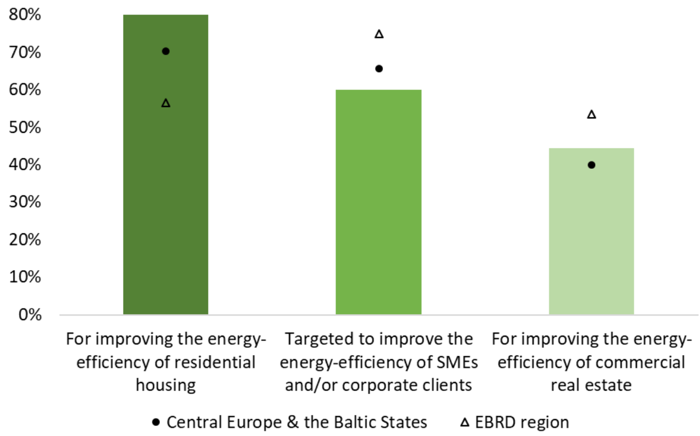
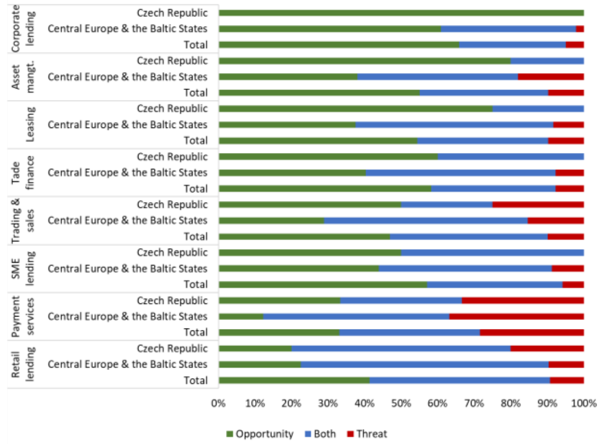


Chart 4 How fintech will affect banks' business lines



[1] Foreign banks account for 96 per cent of these banking assets.

[2] Bars in Charts 2, 3, 6 and 7 refer to the percentage share of banks in Czech Republic.

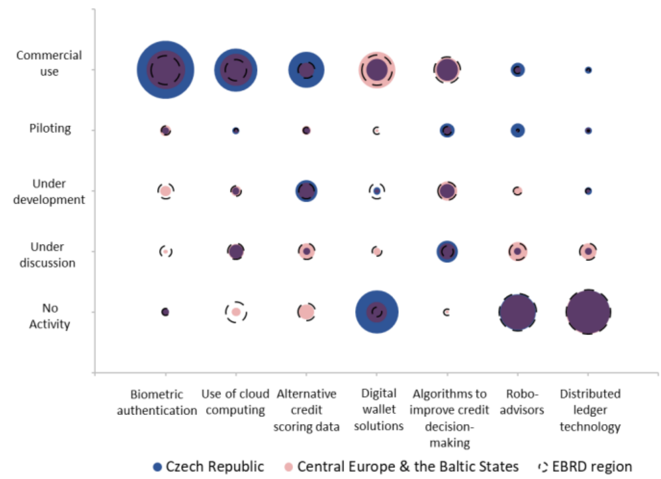
CEB on average, view fintech as an opportunity. However, in the EBRD regions as a whole, almost double the percentage of banks view fintech as an opportunity for retail lending.

Czech banks are, on average, ahead of their peers in CEB and the EBRD regions in the uptake and use of certain digital technologies (Chart 5). The proportion of Czech banks that report the commercial use of biometric authentication for customer identification services, cloud computing and alternative credit-scoring data sources is double the EBRD economy average. However, Czech banks lag on the uptake of digital wallet solutions, with 60 per cent of banks reporting no activity, while close to half of banks across CEB and the EBRD regions report the commercial use of this technology. Reflecting this shift to digital technologies in the retail lending segment, just over half of Czech banks report strong competition from non-bank financing companies, while a third report strong competition from non-bank online lenders.

Banks in the Czech Republic appear far less concerned than other banks in the EBRD regions about information technology (IT) security and regulatory uncertainty, difficulties in establishing links and financial constraints with regard to investing in the fintech space (Chart 6).

A lack of creditworthy customers and loan officers' lack of skills in evaluating credit risks are two of the main constraints faced by Czech banks in lending to innovative industries such as IT, chemicals and pharmaceuticals (Chart 7). Notably, the proportion of Czech banks citing loan officers' skills as the main constraint is three and five times the average in the CEB and EBRD economies, respectively. Even so, 60 per cent of banks in the Czech Republic lend to innovative industries, with these loans accounting for just over 20 per cent of all loans (by volume), on average, the highest share in the EBRD regions (Chart 8).

Chart 5 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 6 Concerns about digital technologies

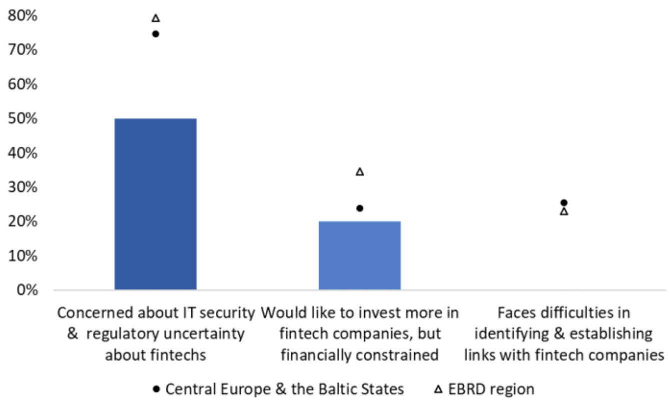


Chart 7 Constraints on lending to innovative industries

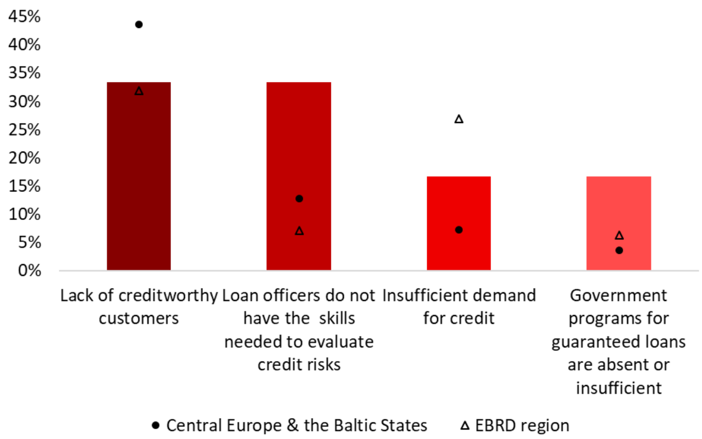


Chart 8 Lending to innovative industries