

Credit card numbers jump by 120% in the Czech Republic

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The number of credit cards in the Czech Republic rose by 120 percent between 2004 and 2006, according to new research from Lafferty Group.

In an analysis of the Czech payment cards and consumer finance market, Lafferty Group – a UK-based cards research house – found that at the beginning of 2007 there were 2.57 million credit cards in the Czech Republic, equivalent to 35 cards per 100 adults.

Although this rate of growth is exceptionally high by Western European standards, it is lower than the rates recorded in other markets in Central and Eastern Europe, most notably Romania and Russia.

Credit card issuers in the Czech Republic generated \$26 million (€19 million) in pre-tax profits on credit cards in 2006, according to Lafferty Group's analysis. Vladimir Vukicevic, Senior Researcher for World Card Intelligence at Lafferty Group, comments: "Profitability is fairly strong in the market and increasing, but it can be significantly improved if issuers are able to increase the number of transactions occurring on credit cards – at the moment most of the profits come from borrowing."

According to the research, credit cards are often used for cash withdrawals at ATMs. This is typical for underdeveloped markets and shows that Czech cardholders are often unaware that they can use their cards at the point of sale, explains Mr Vukicevic.

Credit card issuers are responding to the challenge with initiatives to shift usage on all types of cards from the ATM to the point of sale by introducing the option of cash-back at retailers. In addition, they are trying to encourage greater use of credit cards at the point of sale through multi-retailer loyalty schemes, though this has had little success so far.

Mr Vukicevic continues: "It appears that Czech cardholders expect to see more choice, advantages and benefits than the banks are currently offering. Recently introduced loyalty programmes have not offered a sufficient incentive to change consumer behaviour. Furthermore, the loyalty schemes have not been appropriately communicated to clients".

Despite these challenges, Lafferty Group expects to see the number of credit cards in issue grow by between 20 percent and 30 percent per year over the next two years.

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Notes to editors:

World Cards Intelligence is a global research and advisory service that provides senior cards industry management with customised research on the consumer finance and payment cards market in over 60 countries.

Lafferty Group is a specialist research and advisory firm with global expertise in the fields of retail banking and credit cards.

For more information visit www.lafferty.com

World Card Intelligence: Czech Republic

Research Summary

- The Czech Republic has a population of 10.3 million, remaining static over the last decade, and a labour force of almost half the population at 4.9 million. Around 14 percent of the population is over 65 years old and 16 percent is under 15.
- The Czech economy over the last few years has been characterised by one of the highest rates of GDP growth among the EU-25 states. The main drivers of GDP growth have been higher household consumption and increased investment. Consumption has increased as a consequence of higher real salaries, lower unemployment and greater social benefits.
- The Czech consumer credit market is still in its early stages of development and consumers are not yet experienced in taking out consumer credit. Although the total consumer credit market currently stands at just over 40 percent of PDI in 2006 (compared to around 75 percent in France, 132 in Spain and 154 percent the UK), it has grown constantly and retail banking customers have shown an increasing willingness to accrue debt. Aggressive advertising campaigns emphasise the easy accessibility of bank loans, and there is a wide choice of loans on offer.
- Czech consumers used to be conservative about taking on debt and some are still reluctant to take out significant mortgages or build up debt on their credit cards. However, behaviour is beginning to change, especially among young people who appear to be more willing to accrue debt primarily in order to establish their families, buy (and equip) their flats and cars, and pay for holidays. They are increasingly able to do so due to rising real incomes and easier and cheaper loans from banks and non-bank institutions.
- The Czech Republic is still a predominantly cash-orientated society and within the payment card industry less than half of total payment card transactions are currently carried out at the point of sale, compared to 70 percent of credit card transactions.
- The Czech cards market remains dominated by debit cards, despite healthy growth in the credit cards market since the beginning of 2000. Nevertheless, credit cards represent a growing proportion of payment cards in issue - from 12 percent in 2003 to 28 percent by the end of 2006.
- The number of bank-issued credit cards grew by 44 percent in 2006 and is forecast to grow a further 78 percent between 2006 and 2008.

- Pre-tax profits in the Czech Republic grew by an estimated 52 percent in 2006 to \$26 million and are forecast to grow a further 59 percent between 2006 and 2008. Profitability has mainly been driven by net interest income rather than transactional income. With average interest rates of 21 percent and a low cost of funding, revolving credit products are proving very profitable for Czech issuers.
- The ability of issuers to increase profitability in the future will probably depend on their success in stimulating cards usage at retailers, not only to drive greater average spend and interest income, but also from merchant service charges.
- Several issuers have recently established multi-retailer loyalty schemes - offering cardholders the opportunity to earn loyalty points and discounts at selected retailers - however, these programmes have not proved popular among cardholders. Cardholders have been disappointed with the level of benefits offered and consequently the card programmes have lacked the sufficient incentive to fundamentally change customer behaviour. In addition, it is felt that the loyalty schemes have not been appropriately communicated to clients. Issuers are now clambering to implement other initiatives to drive point of sale activity – such as cash-back facilities.
- The growth of point of sale transactions is also thought to be hindered by insufficient POS terminal infrastructure, in particular beyond the country's major towns.
- MasterCard is the leading credit card brand in the Czech Republic by cards in issue (bank and non-bank), with over 1.5 million MasterCard branded credit cards at the end of 2006. This is mainly due to its dominance in portfolios of consumer credit organisations, although it is estimated that only around half of these are currently active, depending on the market segment.
- Visa has maintained its position in the bank credit cards market as a result of its strong relationship with Czech banks and its early presence in the market.
- Credit card issuing in the Czech Republic is relatively competitive, with some 15 banks and four key consumer finance companies currently issuing cards. Consumer credit organisations dominate the credit cards sector by number of cards.
- The bank-issued credit cards market is dominated by the country's three largest banks - Česká spořitelna (owned by Erste Bank), Československá obchodní banka (owned by KBC) and Komerční banka (owned by Société Générale) – which together hold a 78 percent share of the market.

- Cetelem is the largest credit card issuer in the Czech Republic by a significant margin, followed by Home Credit and Česká Spořitelna. Other significant players in the market include consumer credit issuers: Multiservis and Essox, but also the leading banks - Komerční banka and Československá obchodní banka.
- Payment cards are accepted at over 53,000 merchant outlets in the Czech Republic. Currently five banks own licenses to acquire card transactions at point of sale terminals. Komerční banka maintains its leading position in the merchant acquiring market and is the only organisation to acquire transactions on cards from all five major international card networks.
- Global Payments Europe dominates the processing market and is currently responsible for over three quarters of both issuing processing and acquiring processing in the Czech Republic.