

## **14 March 2016 Group CEO interview for MF Dnes, a leading Czech daily**

**Country: Home Credit B.V.; company: Home Credit B.V.**

*Newspaper headline: Fear and uncertainty are omnipresent in today's world. How does it affect business?*

*Home Credit financial group, the largest Czech company, is responding to changes brought about by today's world, such as shifting geopolitical influences, new technologies, and instability.*

*Owned by entrepreneurs Petr Kellner and Jiří Šmejč, Home Credit is the biggest enterprise in the Czech Republic. It provides consumer loans in 11 countries on three continents and employs more than 70,000 people. The company, however, is no longer the moneymaking machine it used to be: Russia, where Home Credit grew to become a global player, is caught in the throes of a recession and is pulling the group into the red. Home Credit recorded 1.2 billion crowns in losses last year, mainly due to the situation in the Russian market. There is another reason behind the slump: the company's costly expansion in China, India, Indonesia, and the Philippines. It's as if Home Credit's bosses have lost confidence in good old Europe, as scepticism and uncertainty spreads around the continent. We asked Jiří Šmejč, Home Credit Group's minority shareholder and CEO, about his views of the world, Europe, and doing business in the present unstable times.*

**\* Russia has pulled Home Credit into the red. You have reduced your business operations there to nearly a third, but your company is growing in Asia at the same time. Is the Russian dream a thing of the past that will never come back?**

It was never a dream. In 2012, Home Credit's Russian business had the second highest profitability in the world among large financial institutions worth over one billion dollars. That only happens once in a lifetime. We didn't expect that the situation would ever repeat itself, with or without a recession. But things are turning around in our favour now. At the end of this year, profitability from our new loans will most likely be twice as high as the standard figure in Western banks. Russia has the potential to become a comfortably profitable country capable of generating profit on a long-term basis. It might take two to three years, I don't know, but profitability will come back.

**\* Still, Russia will not play as key a role as it did before. Or will it?**

Russia has already played a key role. Profits earned in the Russian market have helped us start our expansion in Asia. When you do business in two countries with a population over 2.5 billion – China and India – and compare them with the Russian population of 140 million, the roles are obvious.

**\* Will Europe experience the same thing as you have? Will Europe's economic prospects stand and fall with China? And will Europe's global importance shrink?**

It depends on whether one wants to grow. For those who don't, there is no need to expand into Asia and go through hardship there. But if you have ambitions, you definitely have to do business in Asia. That certainly applies to retail, where you need a large number of customers. You can set up shop, say, in South America, but conditions for doing business there are even wilder than in Asia. You can also expand into the U.S. or cover all of Europe. But still, if you combine all European countries, you'll get a market that's as big as the Chinese market. Almost.

**\* China's growing influence is a change of historical proportions. In what other ways is**

## **today's world changing?**

The world is pervaded by enormous volatility, which keeps growing. Instability, fluctuations, imbalance, different territories that are developing in a very dissimilar manner. Nobody knows what will happen in the next month. We've had to determine what to do to ensure that our business will be sustainable, effective, and highly competitive on a long-term basis in these conditions. And we're adapting Home Credit accordingly.

### **\* How do you adapt the consumer finance business to such uncertainty?**

It was in fact the recession in Russia that has helped us clarify our position. We're now trying something no one has tried before: to combine our business with a non-traditional area – safety. Consumer loans are generally perceived as something that you get fast and comfortably, but something that can make the bailiff knock on your door one day. We try to assign another attribute to loans – safety. If the customer treats us fairly, doesn't cheat, and communicates with us, we, in turn, will act in a fair manner towards the customer. We'll help him, for instance in the event of unexpected problems, such as the loss of a job, to make sure that loan repayment doesn't become an insurmountable burden. We want to spearhead a change in this direction as the first company in our field in the world.

### **\* What is so revolutionary about the fact that you want to be less tough with your customers? Some lenders are more aggressive, others are more conservative. Designating a product with such words as "safe" is more of a marketing strategy than a revolution.**

The truth is that nobody has made the kind of shift we have, even though many talk about it. To do that, the corporate system needs to be completely restructured. You have to create a whole array of new instruments for customers, such as debt restructuring or repayment holidays for the time a person is in trouble. You also need independent consultants to prevent people from thinking that we're only after our own interests. It might sound banal and you may have heard it many times elsewhere, but all this is a major undertaking. I suggest that we get together in three years and we'll see how different we will be from others.

### **\* Safe lending with lower risk for the customer will be less profitable, won't it?**

We don't do anything just for the sake of our image. We will genuinely fulfil our promise of safety. We're now meticulously fine-tuning every process in terms of how it affects the customer. From the short-term perspective, we might make less money by pursuing this strategy. But we'll be able to maintain stable profitability over the long term. That's better than earning mega profits at one time and then incurring losses the next time around.

### **\* Is the new strategy intended for the Czech market and for Europe, where concerns about the future are spreading around? Or does the "safety concept" work in Asia, as well?**

The new strategy is much broader. We are planning to use it throughout the group. Wherever we are present in Asia, our position is now strong enough to allow us to dictate trends.

### **\* Financiers must face the fact that in a few years, business will be transformed by new technologies, social networks, and the sharing economy. What will be your response?**

We believe that the whole system will revolve around one phenomenon – the smartphone. We are hungry for what is called big data (the analysing of large amounts of information collected on the Internet, Editor's Note). Already now, we work with big data in all countries. Thanks to knowing more about the customer from search engines, Facebook, and mobile operators' data, we can, for instance, simplify the loan application and approval processes. On the Asian market, we roll over the competition thanks to technologies that allow us to issue a new loan within 20 minutes on average; our competitors need much longer, sometimes days, to do that. We would like to reduce the processing time to less than 10 minutes.

**\* How about e-shop purchases? Do they help the lending business or are they detrimental?**

The amount of goods bought on credit in normal shops is nearly 10 times higher than goods bought over the Internet. Such a ratio is not substantiated. It's like that only because credit companies take their offline processes and apply them to the digital world. Such an approach doesn't work so well. That's why we try to define processes that correspond to customers' behaviour in the digital world. A credit check for a loan applicant on the Internet must be faster than the time you need to get your ID from your wallet in a shop. We now have an online division in each country, and we've had three development centres for the past year – in the Czech Republic, in Russia, and in China. They mainly work on "big innovations" which might provide high potential within some three years or so. In the Czech Republic, we've launched a number of pilot projects, such as Buy-and-Be Safe (lending at the third party e-shops), Japanese Loan (a fully on-line-based microcredit platform), Auto Team, and "Zonky" (a P2P lending company).

**\* The most frequently discussed is the "Zonky" project, which is a platform for peer-to-peer loans between people who find one another on the Internet. Is "Zonky" a project of fundamental importance for you?**

I wouldn't say so. We've launched "Zonky" because we wanted to get more involved in the concept of the shared economy and understand the way people think in that environment. In February 2016, "Zonky" has brokered 70 loans worth some CZK nine million. That is a sizeable amount in this country, but traditional loans provided in China in January 2016 alone amounted to about 400 million euro. "Zonky" is more of a place for trying new things. It helps us learn about motivation and emotions that drive the shared economy.

**\* Do you consider the sharing economy to present tangible competition to corporate business?**

Yes. It is a question, however, of how sophisticated a given service is. For instance, car sharing is simple to arrange. But just as I believe that people should not play on the stock exchange on their own, it would be difficult to determine the quality of a loan for a person who doesn't systematically focus on the credit scoring. That's one of the reasons why we've created a service as part of "Zonky", which assigns a *rating* to individual loans and which can facilitate people's orientation. I believe in the success of the shared economy wherever decisions are made based more on emotions. However, if a sophisticated system is necessary, I think that an expert sponsor is needed.

**\* At present, you are mainly investing into the large markets in Asia, but you entered the U.S. market last year. Can you make it there?**

If all goes according to plan, the American branch of Home Credit could lend over a billion dollars next

year. Our start in the U.S. has been faster because we've teamed up with a local partner, Sprint, which has 55 million customers. Today, we are the world's biggest company financing mobile phone purchases, even though most of our business is done in Asia and Russia. In America, mobile phones are mostly financed by telephone companies, but if we do the business well, we'll be the largest financial institution there as far as loans for mobile phones are concerned.

**\* High debt, fluctuating economy, the migration crisis. Is Europe a good place for doing business at all?**

Nobody can predict how Europe will develop in the future. I'm one of those who believe that both the euro and the European Union continue to make sense. In my opinion, the EU's problem is that politicians haven't found anything that would bring European countries together, other than economic interests. If the EU fails to find some other form of shared identity, the future will be bleak. However, I don't know whether Europe will be a good place to live and to do business.

*An alumnus of the Faculty of Mathematics and Physics of Charles University, Šmejč founded the its own investment arm, MEF Holding, shortly after graduation. Later, the holding's investment into the Czech "TV Nova" station brought him to the services of Petr Kellner's PPF Group where Šmejč oversaw the expansion of the Home Credit into Russia at that time. He left PPF three years ago. Currently, Šmejč holds a direct share in the Home Credit Group and manages it as its Group CEO.*

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