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## **Business Strategy of Home Credit in China**

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School year: 2018/2019

## **Declaration**

I hereby declare that I am the sole author of the thesis entitled “Business Strategy of Home Credit in China.” I duly marked out all quotations. The used literature and sources are stated in the attached list of references.

**In Prague on .....**

.....

**Kryštof Sochna**

## **Acknowledgement**

I hereby wish to express my appreciation and gratitude to the supervisor of my thesis, Ing. Jaroslav Halík, MBA, Ph.D. for his permanent encouragement given to me throughout the whole writing process, for his helpful recommendations, devoted time, and assistance.

Further, I wish to express my appreciation to Home Credit B.V., and some key individuals for sacrificing time in their busy schedules, sharing their knowledge, data, and for being a great source of inspiration for me.

Lastly, I would express my appreciation to my parents and the whole family for inspiring me, believing in me, being patient with me, and making me a better person every day.

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## List of abbreviations

ABS	Asset-backed security
AI	Artificial Intelligence
CBIRC	China Banking and Insurance Regulatory Commission
CBRC	China Banking Regulatory Commission
CF	Consumer finance
CFC	Consumer finance China
CITIC	China International Trust Investment Corporation
CPC	The Communist Party of China
CZK	Czech koruna
EUR	Euro
GDP	Gross domestic product
GR	Government Relations
HC	Home Credit
HC; HCC; HCCFC	In Chapters 2 & 3 all related to the same Chinese entity
HCC	Home Credit China
HCCFC	Home Credit Consumer Finance Company
HQ	Headquarters
IT	Information Technology
JBAT	JD; Baidu; Alibaba; Tencent
JL	Joint lending
NPL	Non-Performing Loan
PBoC	People's Bank of China
POS	Point of sale
PPF	První Privatizační Fond
PRC	People's Republic of China
P2P	Peer-to-peer
RMB	Renminbi
USD	United States Dollar

## Introduction

Today's China is a cauldron of change: its rapidly growing population, the rise of a new middle class fixated on consumption, new technologies, values, and the evolving mindset of its people all have an impact on the consumer finance market in more significant ways than ever before. The attitude of the Chinese to spending money on traveling, mobile phones, houses, cars, or luxury fashion brands is a topic of constant discussion.

The aim of this work is to describe and examine the business strategy of the consumer finance company Home Credit and pinpoint the main causes and challenges behind the company's success in the ever-changing Chinese market. I have identified the key factors I believe to be fundamental for Home Credit's business approach in China, although I do understand there are several other detailed aspects contributing to the business strategy.

The principal areas of research are as follows. How did Home Credit become successful in China? What were the key factors behind Home Credit to enter such an unpredictable market? Are political connections essential for Home Credit's operations? To what extent do regulators affect the business? What are the fundamental funding sources? What is the Group's main target segment of citizens and what are the products offered to the Chinese population? What is the future of Home Credit China in terms of business strategy and innovations?

To answer all of these questions it is vital to pay close attention to Home Credit's step by step strategy, operations, influencing factors, and examine the nature of the consumer finance market as well as the economic, political, funding, business innovations, and regulatory environment. When it comes to the consumer finance market in China, Home Credit's significance and position cannot be overlooked.

In 1997, Home Credit, a global consumer finance provider offering a variety of products differentiated for every market, was established in the Czech Republic. It soon began a continuous expansion to other countries - Slovakia, Russia, Kazakhstan, China, India, Indonesia, the Philippines, Vietnam, and the United States.

In the late 1980's, the consumer finance industry in China was born. In 1999 the People's Bank of China allowed commercial banks to launch a comprehensive consumer credit business. In the following years, PPF Group opened a representative office in China's capital. The consumer credit business officially started for PPF in 2007. Two years later, Home Credit

received the approval and was privileged to set up one of the first four consumer finance companies in China.

This thesis consists of three parts. In order to better understand the nature of Home Credit and its business strategy in China, the first part of the work is dedicated to the brief description of the company; identification of concrete products in the company's portfolio; the Group's current market position; its presence in worldwide markets; a short description of the history; major milestones; and Home Credit brands.

The second part analyzes the main factors I have identified to be crucial for Home Credit's business model in China. First of all, it is necessary to take a closer look at and understand the consumer finance industry. I will provide a brief explanation of Chinese consumer finance, its history, continuous development, and point out all entities providing its services in this sector. The following chapter will focus on the Home Credit China development; year by year financial highlights; target segments of customers; product portfolio; and identification of the current competitors. Business culture, values, and tradition play a significant role when doing business in China. Respecting this culture and building constructive relationships are the key factors that every company needs to focus on. A stable political, as well as economic environment, is vital for any entity operating in China. Contributing to this, regulators play an absolutely critical role in Home Credit's business, while strong funding positions from a diverse range of sources is another crucial factor in the Group's strategy.

The last part of the thesis is focused on a summary of Home Credit's business strategy in the People's Republic of China. Model structure of a SWOT analysis will be used for the interpretation and evaluation of my findings. Additionally, Home Credit Social Responsibility and Sustainability will be taken into consideration. These factors cannot be overlooked as the Group educates its customers to have sufficient knowledge about their loans while instilling a sense of mutual respect and trust. Finally, I will identify Home Credit China Business Innovation goals and the company's future business strategy.

In the first chapter, the information focusing on the company's background, products, and history will be sourced from Home Credit's official documents, Home Credit Group website, and PPF Annual Reports. Additionally, in the introductory part of the chapters dealing with Home Credit brands, the facts will be retrieved from PPF Annual Reports and selected Internet sources.



Interviews with individuals directly connected to Home Credit Group and Home Credit China will be the crucial source of information in the second chapter. Home Credit Group and PPF Group Annual Reports, government documents, China consumer finance market researches, selected Internet sources, and university reports will be employed as well.

In the last chapter, based on the research, the interpretation of my findings and conclusions will be provided on the company's business strategy, while Home Credit China Business Innovations and strategy for the upcoming year will be discussed with Home Credit Group key employees. Home Credit China's Social Responsibility will be sourced from the Group's official documents.

In order to fulfill the aim of the paper and for the research questions to be answered, I will analyze the selected business strategies of Home Credit in China and later use synthesis and deduction to provide the reader with my conclusions, recommendations, and suggestions. A large part of the thesis consists of interviews with key people connected to the topic. My interviews were mostly semi-structured and always with one person at a time. Some were organized face-to-face, while interviews with people from the People's Republic of China were conducted via telephone or video conference. These interviews opened up a rich seam of qualitative and highly relevant up-to-date information as well as data, which went a long way to making my research worthwhile.

What is my motivation for choosing this particular topic? As a Czech company being the most significant consumer finance provider in the People's Republic of China, I was desperate to analyze and understand the strategy behind this huge success. I was able to arrange several meetings with key individuals connected to this issue, longing to provide me with valid knowledge and details regarding Home Credit's business model in China. Finally, the Home Credit Group shareholders and leading employees are people that really inspire my thinking and actions. Everything is possible as long as I maintain the hard work, commitment, and resilience.

# 1. Home Credit Group overview

Home Credit Group<sup>1</sup> is a global leading consumer credit provider founded in 1997 in the South Moravian town of Hustopeče, Czech Republic, and currently operating mainly in Asian countries, but showing some high growth potential in its traditional markets in Central Europe and in the United States where partnering with Sprint Corporation. PPF Group holds an 88.62% stake, while Jiří Šmejce's Emma Capital owns 11.38 %. The company has been managed by Jiří Šmejce since 2002. Today, Home Credit (HC) operates in the Czech Republic, Slovakia, Russia, Kazakhstan, China, India, Indonesia, the Philippines, Vietnam, and the United States.

Home Credit is a multi-channel consumer finance (CF) lender, offering a substantial variety of products that differ in every single market. It successfully appeals to first-time borrowers or clients who have not been previously able to access any bank loans. The Group offers its services in a network of shops, banks, points of sales (POS), and post offices. Last year, there were more than 400,000 service points globally. Due to the growth of the online world, HC has also started offering its services online and through some social media platforms.<sup>2</sup>

## 1.1 Main products of Home Credit Group

The Group's core business is to improve the way the customers shop through online & offline product sales financing, and also focus on forging meaningful relationships with the existing clients through cross-selling and up-selling opportunities. The POS loan is the key product in Home Credit's business model because this is the entry point for most of the customers into the company. Having the opportunity to acquire a customer through POS loan for durable goods, the company starts the long-term relationship with repeat business. People use POS loans to buy mobile devices, televisions, furniture, or fridges. HC employees process the loan application in the shop, while the underwriting takes place centrally. Home Credit's massive advantage is a unique client database and technological capability. Expert data analysis along with the level of risk response are quickly delivered to the customer. In some markets, the company also offers a particular type of point of sale loan for buying motorbikes. In emerging Asian markets, such as India, Indonesia, and the Philippines, POS loans drive the growth of

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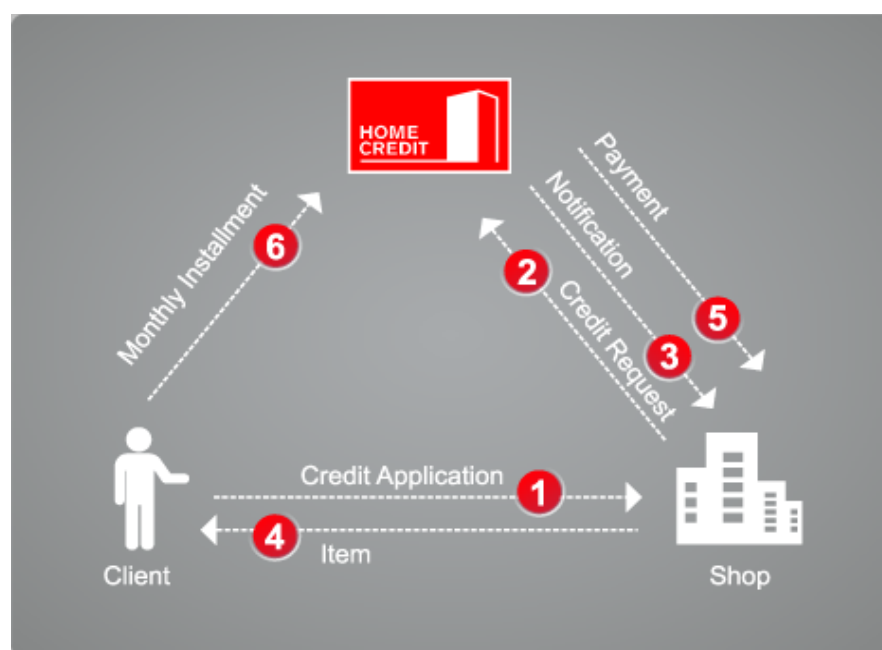
<sup>1</sup> In the first section of the thesis "Home Credit Group Overview," I will use the words "Home Credit Group," "Home Credit," "the Group," "the company," and "HC" interchangeably.

<sup>2</sup> Interview with Jakub HLADÍK, Foreign Affairs Manager, Home Credit International. PPF Gate, Evropská 2690/17, 160 00 Prague. 8 November 2018.

the company's business. In mature markets, an initial POS loan is the first step in the process of defining a customer's credit capacity as well as possible progress to credit cards, increased limits, cash loans, revolving loans, or car loans. As the business expands, the company is also selectively adding retail banking services in certain countries.<sup>3 4</sup>

The POS loan process is shown in the image below. First, a customer chooses an item and together with HC representative, they complete a credit request. The application is submitted for processing and run through the scoring system. Home Credit then sends a statement of approval or refusal. If the request is approved, Home Credit lets the client sign a contract before buying the product and paying the first installment to the shop. HC pays for the item once the shop has submitted all the customer's documents. Finally, the client pays monthly installments to Home Credit.<sup>5</sup>

**Figure 1:** Home Credit's POS loan process



**Source:** *Products*, [2019]. Home Credit Group [online], [Accessed 10 January 2019]. Available from: <http://www.homecredit.net/about-us/products.aspx>

<sup>3</sup> Interview with Jakub HLADÍK, Foreign Affairs Manager, Home Credit International. PPF Gate, Evropská 2690/17, 160 00 Prague. 8 November 2018.

<sup>4</sup> *Products*, [2019]. *Home Credit Group* [online], [Accessed 10 January 2019]. Available from: <http://www.homecredit.net/about-us/products.aspx>

<sup>5</sup> *Ibid.*

As stated above, the point of sale loans are, in several cases, the first product a new customer buys. Once, the client's credit capacity is assessed, HC will take a chance to offer further financial services to suit people's needs. Ultimately, the company provides a full range of consumer lending products including credit cards, debit cards, revolving loans, car loans, cash loans for walk-ins, deposits, current accounts, and insurance.<sup>6</sup>

### Home Credit Group's current market position

In 2017, the deposits of Home Credit's clients totaled EUR 6.4 billion. The Group announced a net profit of EUR 244 million. The continuous development and major success in Russia, Kazakhstan, and China resulted in a 79.4% increase in the volume of Home Credit's new loans to EUR 20.693 billion. Home Credit also raised its profit due to lower operating costs and the stabilization of non-performing loans (NPLs). At the end of 2017, the Group was employing close to 160,000 people worldwide. The company's services are now used by nearly 30 million active clients, which is almost 50% more than a year ago. Home Credit Group has served 100 million customers since its launching. HC is currently paying attention to FinTech solutions, innovations as well as to the development of mobile apps in most of the markets. These elements have certainly a positive impact on customer experience.<sup>7</sup> For the comparison, the table below shows consolidated results and pinpoints some numbers as of 31 December 2018.

**Figure 2:** Home Credit Group consolidated results as of 31 Dec 2018

<b>EUR 17,462 million</b>	Net loan portfolio	<b>434,000+</b>	Distribution points
<b>EUR 422 million</b>	Net Profit	<b>111 million</b>	Customers in database
<b>EUR 23,647 million</b>	Total assets	<b>29 million</b>	Active customers
<b>EUR 6,688 million</b>	Customer's deposits	<b>132,400</b>	Full-time employees

**Source:** Author's own, based on Home Credit Group. *Internal Documents*.

<sup>6</sup> Interview with Jakub HLADÍK, Foreign Affairs Manager, Home Credit International. PPF Gate, Evropská 2690/17, 160 00 Prague. 8 November 2018.

<sup>7</sup> PPF Group. *Annual Report*, 2017. Available from: <https://www.ppf.eu>

## 1.2 History of Home Credit Group

Home Credit was established in 1997, and within a relatively short period of time, the company was able to gain a strong position amongst companies offering services associated with the sales of consumer goods on installment and proved to be fully capable of competing with strong foreign players. HC was the most significant Czech company involved in the sales of consumer goods through installment plans and the third biggest company in the field within the Czech market. The primary factor in achieving this position was the speed of offering new products to the Czech consumers. Later in 2000, the company was the first in the Czech market to launch the YES<sup>8</sup> universal credit purchasing card; therefore, taking the pole position in terms of the number of credit cards issued in the Czech Republic. The company's turnover increased by 75% in 2000 to CZK 2.2 billion.<sup>9</sup>

In 1999, Home Credit a.s. began offering consumer credit services in the Slovak market through its subsidiary Home Credit Slovensko a.s., and quickly became the Slovak market leader.<sup>10</sup>

Home Credit has been successfully facing ever-increasing competition, having its turnover nearly double to CZK 4 billion in 2001. A major factor of success was the variety of financial products, dominated by the YES universal shopping credit card. HC has issued 320,000 YES cards.<sup>11</sup>

In 2002, Home Credit Finance a.s. successfully retained its strong market position with the growing competition. The year saw a little shift in interest from electronics to furniture and other household items. At the end of the year, Home Credit a.s. and Home Credit Finance a.s. were merged in the logical next step of Home Credit Group's rapid expansion in the Czech Republic. The Group also paid close attention to the development of new projects and the creation of the best possible conditions for satisfying the needs of existing as well as potential clients. 2002 can be called the year of the revolving credit, with the issuing of more than 350,000 YES cards. The number of vendor locations that accept YES cards grew to 5,000.

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<sup>8</sup> A revolving, embossed card that may be used both in the Czech Republic and abroad.

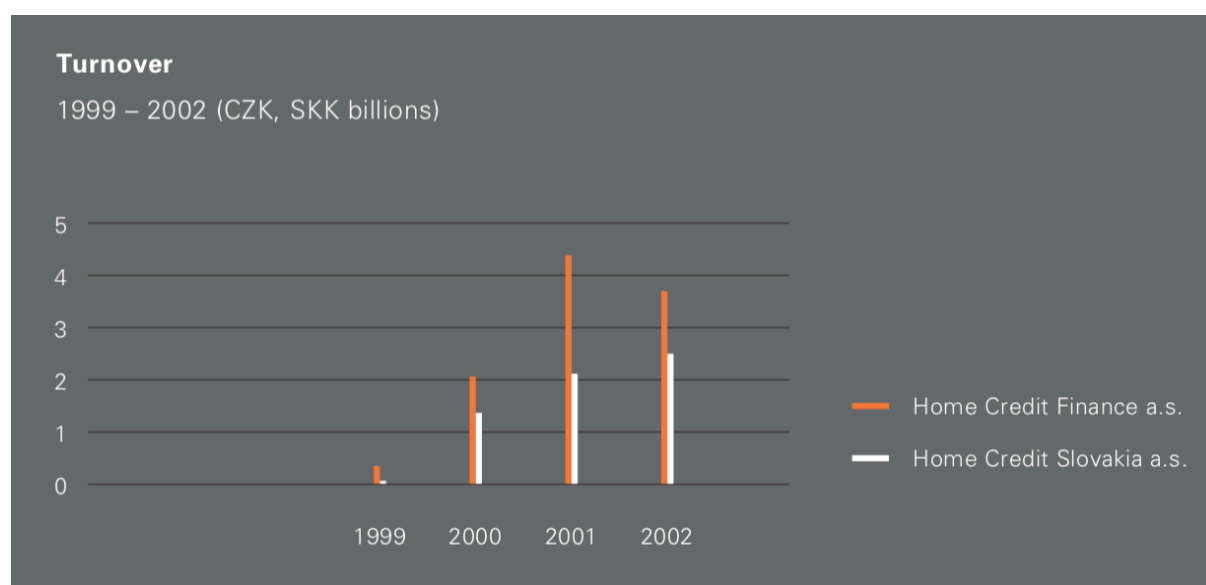
<sup>9</sup> PPF Group. *Annual Report*, 2000. Available from: <https://www.ppf.eu>

<sup>10</sup> Interview with Jakub HLADÍK, Foreign Affairs Manager, Home Credit International. PPF Gate, Evropská 2690/17, 160 00 Prague. 8 November 2018.

<sup>11</sup> PPF Group. *Annual Report*, 2001. Available from: <https://www.ppf.eu>

Later in the year, the company launched a flexible product, whose aim was to adapt to the client's financial situation. Furthermore, co-branded cards were issued in cooperation with ASKO-NÁBYTEK, spol. s.r.o. At the very end of the year, Home Credit opened a new distribution channel, Czech Post. The company's turnover totaled CZK 3.7 billion.<sup>12</sup> In the graph below, we can spot the Home Credit's turnover in the Czech Republic and Slovakia from 1999 to 2002.

**Figure 3:** Turnover of Home Credit Group (1999-2002)



**Source:** PPF Group. *Annual Report*, 2002. Available from: <https://www.ppf.eu>

2003 saw further development of collaboration with vendors based on the provision of client services associated with financing purchases of all types of consumer goods. Thanks to seven years of success, the company became a well-respected player, not only in the Czech market. 2004 led to further strengthening of the company's position and saw dynamic growth. It financed a total of CZK 6.24 billion in client purchases, up 20% from the previous year. With a market share of 27%, the company became the number-two player in the Czech market. Nearly 992,000 customers had utilized the services of Home Credit Finance a.s. Since 2001, the company has posted positive earnings and increased its performance every year. In May 2004, a plan to restructure Home Credit Group was approved. The new Group structure will consist of companies that engage in business operations in individual country markets, all under Home Credit B.V. as the holding company. The objective of Home Credit Finance a.s. was to continually expand as well as innovate its offering of financial services. The company

<sup>12</sup> PPF Group. *Annual Report*, 2002. Available from: <https://www.ppf.eu>

specialized in two basic products - revolving loans and consumer credit. In 2004, revolving loans accounted for 53% of Home Credit Finance's business - a total of CZK 3.3 billion. In November, a new product was presented with the opening of the first sales location to offer "Prepaid Cards," an entirely new type of credit instrument in the Czech Republic.<sup>13</sup> In 2005-2006, further changes were made in the equity structure. Business operations in the Czech Republic were taken over by Home Credit a.s., which was created by splitting the company Home Credit Finance a.s. into two companies: one for operations and the other a holding company.<sup>14</sup>

### **1.3 Home Credit Group's continuous expansion into the global markets**

As stated above, the company was founded in 1997 in the Czech Republic. The initial growth was reflected in the domestic markets of the Czech Republic and Slovakia. Since 2002, the Home Credit Group has been developing its activities in the Russian Federation, and from 2005, it entered the market in Kazakhstan.<sup>15</sup>

In 2006, Home Credit established a presence in Ukraine by acquiring two local financial institutions and in Belarus with the purchase of Lorobank. Home Credit sold its Ukrainian business and left the country in 2011, while the business in Belarus was sold in June 2018.<sup>16</sup>

In 2004, PPF Group opened a representative office in Beijing. The year 2007 was a breakthrough, as it saw the launch of Home Credit China (HCC), with headquarters in Shenzhen. In September 2008, Home Credit B.V. acquired a minority stake in AO International Bank Almaty in Kazakhstan. Jiří Šmejc purchased the majority stake. The bank's name was quickly changed to Home Credit Bank JSC.<sup>17</sup>

In 2009, PPF Group through PPF Vietnam Finance Limited, launched its consumer finance operations in Vietnam under the HC brand.<sup>18</sup> In 2010, PPF Group was authorized to establish

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<sup>13</sup> PPF Group. *Annual Report*, 2004. Available from: <https://www.ppf.eu>

<sup>14</sup> PPF Group. *Annual Report*, 2006. Available from: <https://www.ppf.eu>

<sup>15</sup> PPF Group. *Annual Report*, 2005. Available from: <https://www.ppf.eu>

<sup>16</sup> Interview with Home Credit Group Regional Executive Officer. PPF Gate, Evropská 2690/17, 160 00 Prague. 21 February 2019.

<sup>17</sup> Interview with Home Credit Group Executive Chairman. PPF Gate, Evropská 2690/17, 160 00 Prague. 15 March 2019.

<sup>18</sup> PPF Group. *Annual Report*, 2009. Available from: <https://www.ppf.eu>

the CF company under a new Chinese law applicable to non-bank finance companies. Home Credit Consumer Finance Company Co Ltd. became the one and only company under full foreign ownership to hold this license. The Chinese Home Credit brand operates under HC Asia N.V., a subsidiary of PPF Group N.V.<sup>19</sup>

Later in 2011, Home Credit started operations in India under Home Credit India B.V. and launched the CF services in January 2012. In 2011, Home Credit Indonesia B.V. signed a joint venture agreement with local partners to establish the consumer finance company in Indonesia. This marks the first joint venture in Home Credit's history. Both Home Credit India B.V. and Home Credit Indonesia B.V. are subsidiaries of HC Asia N.V.<sup>20</sup>

In 2013, Home Credit launched operations in the Philippines through a joint venture with a local partner. In 2014, PPF was granted a national license to provide the consumer finance services in China, where the Group is now present in 29 provinces. Home Credit has continued expanding its distribution network and building its online distribution.<sup>21</sup>

In 2015, Home Credit and Sprint Corporation introduced a start-up joint venture to extend inclusive financing options for smartphones. This is the first step of providing Home Credit's innovative solutions to the U.S. market. The clients will obtain the latest smartphone technology, accessories, and find a wireless plan that works for life. Unlike other cards, the Sprint Credit Card has no annual fee.<sup>22</sup>

## **1.4. Home Credit Group brands**

In November 2011, Air Bank a.s., a modern and innovative 21st-century Czech bank, started its operations in the Czech market offering a new generation of Internet banking. The bank's slogan is to be the first financial institution that people can like. Air Bank's fundamental values include courage, simplicity, a user-friendly approach, and transparency. Moreover, the entity is ranked as customers' first choice when they think about opening a current account. The main advantages of Air Bank compared to other banks on the Czech market are current accounts

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<sup>19</sup> PPF Group. *Annual Report*, 2010. Available from: <https://www.ppf.eu>

<sup>20</sup> PPF Group. *Annual Report*, 2011. Available from: <https://www.ppf.eu>

<sup>21</sup> Interview with Home Credit Group Executive Chairman. PPF Gate, Evropská 2690/17, 160 00 Prague. 15 March 2019.

<sup>22</sup> Our Product. *Home Credit US* [online]. [Accessed 31 March 2018]. Available from: <https://www.homecreditus.com/product/>



with no absurd charges; consumer loans and mortgages with rewards for timely repayment; user-friendly and straightforward online banking; innovative branches without counters; and finally, opened in the evenings and over the weekends.<sup>23</sup>

In 2017, the bank made a net profit of CZK 603 million and revenues of CZK 2.1 billion. Total assets climbed by 13% year on year to CZK 98.1 billion. Total profit went up by 147% year on year, driven by an increase in the number of clients and the volume of loans granted. At the end of the twelve-month period, Air Bank had 597,000 customers, served by 767 employees at 35 branches. The bank attracted 82,000 new customers, which represents 16% year-on-year growth. It again received numerous awards including the Most Helpful Bank of the Year and a company delivering the best customer experience in the Czech Republic. The ATM network doubled to 321 machines. Air Bank became the first bank in the world to start publicly testing a unique, purely contactless ATM.<sup>24</sup>

Air Bank has become very popular and is currently one of the strongest brands in the Czech market. Today, Air Bank has more than 660,000 clients, 700+ employees, 34 branches in major Czech cities, and manages deposits in excess of CZK 75 billion. Plans to open Air Bank in other European countries have been under discussion for some time.<sup>25</sup>

Another subsidiary of Home Credit Group is Zonky s.r.o., a Czech peer-to-peer (P2P) online service that mediates online loans among people. Established in the Czech Republic in June 2015, Zonky follows the trend of a shared economy alongside AirBnB or Uber. In 2016, total borrowings were 600 million Czech crowns. However, by the end of 2017, this figure had grown to nearly CZK 2 billion. Being the only Czech peer-to-peer platform, it has access to the Banking and Non-Banking client registers.<sup>26</sup>

Zonky works as an online broker that, on the basis of the risk, evaluates the interest-bearing loan with a given interest rate and exposes its demand to the Internet Marketplace where it seeks an investor. The company also monitors all legal and administrative matters and resolves

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<sup>23</sup> *Air Bank* [online]. [Accessed 31 March 2019]. Available from: <https://www.ppf.eu/cs/companies/air-bank>

<sup>24</sup> PPF Group. *Annual Report*, 2017. Available from: <https://www.ppf.eu>

<sup>25</sup> Interview with Michal STRCULA, Air Bank Chief Executive Officer. PPF Gate, Evropská 2690/17, 160 00 Prague. 25 January 2019.

<sup>26</sup> ALIAPULIOS, Janis, 2017, Zonky bude nově provozovat Home Credit. *Hospodářské noviny* [online]. 11 April 2017. [Accessed 10 January 2019]. Available from: <https://byznys.ihned.cz/c1-65692980-home-credit-bere-pod-sva-kridla-pujckovou-platformu-zonky-obmeni-se-i-sef-projektu-tvaruzkovou-nahradi-novak>

any disputes with the payments. If the client stops paying, the loss goes to the investor. Therefore, it is crucial that investors exercise prudence and diversify their portfolio as much as possible.<sup>27</sup>

Interest rates are fairly wide, in the range of 3.99% p.a. up to 19.99% p.a. Zonky receives 2% of the loan. For comparison, traditional banks usually borrow at an interest rate of 6% to 13%. Borrowing between CZK 20,000 and CZK 750,000 is possible. In order for a client to borrow on this platform, he or she must fill in a questionnaire about basic information, such as employment and income. The client presents necessary identity documents, account statements, or other additional papers. Zonky then views the Insolvency Register, Central Register of Enforcement, Trade Register, and others. The online service assesses the client's credibility and adds a rating to that interest rate. After the money collection, Zonky sends the money directly to the customer's bank account. Loans are repaid to Zonky, which divides them among the investors.<sup>28</sup>

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<sup>27</sup> PAVEC, MICHAL, 2017, Šéf Zonky: Na reklamu jsme dali ještě víc než loni. Naše ztráta je plánovaná | Chytré portfolio. *Lidovky.cz* [online]. 6 December 2017. [Accessed 10 January 2019]. Available from: [https://byznys.lidovky.cz/sef-zonky-expanze-do-asie-proc-ne-troufnout-si-muzeme-i-na-nemecko-p9z-/chytre-portfolio.aspx?c=A171205\\_175637\\_ln-byznys-portfolio\\_pave](https://byznys.lidovky.cz/sef-zonky-expanze-do-asie-proc-ne-troufnout-si-muzeme-i-na-nemecko-p9z-/chytre-portfolio.aspx?c=A171205_175637_ln-byznys-portfolio_pave)

<sup>28</sup> S.R.O., Zonky, [no date], Zonky. *Hlava Zonkyho* [online]. [Accessed 10 January 2019]. Available from: <https://zonky.cz/otazky-a-odpovedi-investor>

## 2. Selected business strategies of Home Credit in China

The second part of the thesis consists of crucial factors I have identified to be fundamental for Home Credit's business strategy in the People's Republic of China. I am aware of the fact that several other detailed aspects are contributing to the business strategy.

### 2.1 China consumer finance characteristics

Consumer spending is one of the dominant drivers of economic development and growth, furthermore, notably supports a country's GDP. As the economy shifts to the new stage characterized by quality and demand, the role of consumption is continuously enhanced. A well-established, properly-regulated consumer finance market has macroeconomic advantages that benefit a country's overall economy by smoothing liquidity constraints and sustaining consumption. It also brings microeconomic benefits by helping individuals with little or no credit history gain access to reliable as well as affordable credit for improving their standard of living and enables companies (retailers) to grow their businesses.<sup>29</sup>

The profound changes in the consumer market, the diversity of consumer formats, and the vastness of the marketplace itself have made it impossible to meet people's growing demand for better lives by relying solely on their current income. The emergence of consumer finance in China has both made up for this lack of financial support in the country's consumer sector and relieved the embarrassment, which consumers face when cannot reconcile the difference between their current and permanent income.<sup>30</sup>

China's consumer finance market, with the swift development of e-commerce and Internet finance, has entered a strong period, but it is still in the early stages and has massive potential in the future. Chinese values have been slowly changing with the advent of economic development, the rise in living standards, and the growth of the middle class. Having a good job is more important than ever before while buying a car is becoming more popular than having a second child. The consumer way of life has a growth pattern as people are both traveling more and spending greater amounts on luxury goods.<sup>31</sup>

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<sup>29</sup> Home Credit Group. *Internal Documents*.

<sup>30</sup> *Chinese Consumer Credit Market Research 2018*. rep. Beijing, China: Tsinghua University, 2018.

<sup>31</sup> Interview with Jakub HLADÍK, Foreign Affairs Manager, Home Credit International. PPF Gate, Evropská 2690/17, 160 00 Prague. 7 March 2019.

Consumer finance focuses on the financial subjects involved in the consumption process from the perspective of the consumers. In Administrative Measures on Pilot CFCs issued by China Banking and Insurance Regulatory Commission (CBIRC), former Banking Regulatory Commission (CBRC), the consumer finance companies are interpreted as the non-bank financial institutions providing loans for the purpose of consumption.<sup>32</sup>

## **History and continuous development of consumer finance in China**

1987 saw the birth of the consumer finance industry in China when commercial banks started to offer consumer durable goods loans for the first time. In 1999, the People's Bank of China allowed commercial banks to launch a comprehensive consumer credit business for urban residents. However, in the late 90's, the Chinese economy was still in its infancy, the level of financial literacy and technological development lagged behind other countries, while the attitudes were strict and conservative.<sup>33</sup> In 2004, PPF Group opened a representative office in Beijing, while in 2007, the consumer credit business officially began, as Home Credit China<sup>34</sup> was launched with headquarters in Shenzhen. However, the situation has not entirely changed until 2009, when PPF Group was one of the four non-bank companies to develop the consumer finance business in China and was the first wholly foreign-owned enterprise approved to establish a CF company.<sup>35</sup>

As mentioned previously, only four institutions were granted a national pilot license to conduct the consumer finance business in China - **BOB Consumer Finance Company** (initiated by Bank of Beijing), **BOC Consumer Finance Company** (initiated by Bank of China), **Jincheng Consumer Finance Company** (initiated by Chengdu Bank), and **Home Credit Consumer Finance Company** being the only foreign company.<sup>36</sup>

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<sup>32</sup> *China Consumer Finance Market Insights*. rep. CFA China Shanghai, 2018.

<sup>33</sup> *Ibid.*

<sup>34</sup> In the section 2 & 3 of the thesis, I will use the words "Home Credit," "Home Credit China," "Home Credit Consumer Finance Company," "Home Credit Consumer Finance China," "Home Credit Consumer Finance," "the Group," and "the company" interchangeably.

<sup>35</sup> Interview with Home Credit Group Executive Chairman. PPF Gate, Evropská 2690/17, 160 00 Prague. 15 March 2019.

<sup>36</sup> Interview with Jakub HLADÍK, Foreign Affairs Manager, Home Credit International. PPF Gate, Evropská 2690/17, 160 00 Prague. 7 March 2019

In 2009, the founding of the first four consumer finance companies marked the formal entry of the CF industry into the regulatory era. In 2013, CBIRC updated and promulgated the Administrative Measures on Pilot Consumer Finance Companies, which loosened the requirements on investor conditions, business scope, operating conditions, diversified equity ownership, and widened the sources of funds. On June 10, 2015, the executive meeting of the State Council decided to liberalize market access. The pilot of the consumer finance companies was expanded to the whole country, and the examination, as well as approval power, was delegated to provincial departments. During each year from 2013 to 2018, the number of the licensed CF companies approved in China was 4, 7, 13, 21, 23, and 24 respectively.<sup>37</sup>

The liberalization of policies in this time improved the enthusiasm of banks and other entities to participate in consumer finance. The CF companies were established and expanded rapidly throughout the country. Home Credit Consumer Finance was the fastest to grow, with the highest registered capital.<sup>38</sup>

China's colossal CF market fills the gap in the traditional financial market and has extended financial products and services from real estate, automobiles, and consumer durables to daily consumer goods, tourism, medical care, education, and culture connecting China's vast consumer market and supply market. In particular, consumer finance has driven the high-quality economic growth in the context that the power of export and investment is insufficient, effectively promoting economic transformation and optimizing the supply structure. It is an indispensable means to enlarge domestic demand after China's economy has entered the consumption-driven period.<sup>39</sup>

To understand the Home Credit's business, the **licensed** consumer finance companies are non-bank financial institutions approved by the CBIRC and supervised by the banking regulatory department. Since 2009, the licensed consumer finance companies started their pilot projects in four cities. Home Credit started its project in Tianjin, while the other three companies began their projects in Beijing, Chengdu, and Shanghai. The advantages of the licensed CF companies

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<sup>37</sup> *Chinese Consumer Credit Market Research 2018*. rep. Beijing, China: Tsinghua University, 2018.

<sup>38</sup> *Ibid.*

<sup>39</sup> *Ibid.*

are clear business positioning, innovative business models, professional operating specifications, lower capital costs, strong profit sustainability, and risk management.<sup>40 41</sup>

For comparison, the **non-licensed** consumer finance companies do not have a unified risk control standard, and their customers cover all groups of the Chinese population. With differentiated pricing protecting against different credit risks, interest rates designed for borrowers with a high credit risk are also high. Such interest rates range from around 20% to above 100%.<sup>42</sup>

In the table below, we can notice all the institutions providing the CF services in the People's Republic of China.

**Figure 4:** All entities conducting consumer finance in China

Institutions	Description
<b>Banks</b>	Bank's consumer finance business is equivalent to credit card installment as well as the payday loan business. Bank customers are mostly people with stable income or a good credit history.
<b>Licensed consumer finance companies</b>	Approved by the CBIRC; banks mostly shareholders; <b>Home Credit.</b>
<b>Non-licensed</b>	Non-licensed CF companies include: Internet companies, P2P, E-commerce, and Star-ups.
<b>Internet companies</b>	JBAT (JD, Baidu, Alibaba, Tencent) - Baidu set up Chongqing Baidu Micro-Loan with the support of Baidu Wallet app. It covers sections including real estate, tourism, medical goods, and payday loans. Ant Financial of Alibaba has been a pioneer and innovation leader in small ABS market in China. Tencent has acquired a massive number of customers with the leverage of WeChat mobile app. JD BaiTiao offers an online shopping JD Mall.
<b>P2P</b>	P2P financing costs are often higher than the interest rates of bank mortgage loans. P2Ps cover high default rates with high interest rates. Bad practices, no guarantees, no safety net - leading to extinction.
<b>E-commerce</b>	E-commerce providers are actively using Big Data to analyze consumer characteristics and credit risks.
<b>Start-up</b>	Focusing on consumer segments and specific groups of people.

**Source:** Author's own, based on Home Credit Group. *Internal Documents. China Consumer Finance Market Insights.* rep. CFA China Shanghai, 2018.

<sup>40</sup> Interview with Chief Commercial Officer, Home Credit Group. EMMA Capital, Na Zátorce 672/24, 160 00 Prague. 1 April 2019.

<sup>41</sup> *China Consumer Finance Market Insights.* rep. CFA China Shanghai, 2018.

<sup>42</sup> *Ibid.*

## 2.2 Home Credit in the People's Republic of China

Chinese human beings were always taught to live a modest life, save money, and only spend when necessary. Traditional aversion to credit means older Chinese consumers will be hesitant to take up offers from the consumer finance companies. The older generation still believes that saving is the correct approach. However, people born from the 1980's onwards are known as the Chinese "young generation" who share different values, desires, and are confident of being the main driving force in the consumer market. In 2009, China finally understood the importance of moving in the direction of consumption and has slowly started the process of opening itself towards the world. The more developed the economy is, the richer the citizens are and the higher the proportion of consumption in the national economy, which has become the trend of world economic development. China has entered a new era with the dramatic rise of upper middle class households. According to Jan Popelka, the number of upper middle class and affluent households will double to 100 million in 2020 and account for 30% of all urban households, compared to only 7% in 2010.<sup>43</sup>

Young and middle-aged citizens will need money for education, rent, food, or clothes. Already educated will use money to travel and buy higher quality food. The middle class will spend on further education, traveling, and entertainment. Therefore, the emergence of consumer finance enables residents to optimize cross-period consumption behavior through borrowing.<sup>44</sup>

In 2004, PPF entered the market in China and opened a representative office in Beijing. The decision was strongly supported by fresh experience from a high-priority Russian market and the visibility of the different prospects and opportunities in comparison with a relatively small Czech and Slovak home markets. China was also selected because of the consumer finance maturity, which was de facto non-existent and just a few companies were conducting similar business. At the same time, China was a structured country with consistent economic growth in contrast to the big Asian economies. Given the regulatory limitations and a non-existent framework of legislation, which did not allow the entities to be direct lenders of consumer loans, the trust/guarantee model was chosen for business operation. The whole system was extremely complicated with an involvement of a "guarantee company" that was able to

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<sup>43</sup> Interview with Jan POPELKA, Business Innovations Manager, Home Credit China. Skype Video. 19 March 2019.

<sup>44</sup> Interview with Jakub HLADÍK, Foreign Affairs Manager, Home Credit International. PPF Gate, Evropská 2690/17, 160 00 Prague. 11 January 2019.

originate the loans, while “trust company” was competent to underwrite the loans and a “credit factory” that was supported by the contract. This triangle model was negotiated and approved as a temporary model by CBIRC, the regulator. The purpose was to test the market, tune the model, and prepare the framework for consumer finance. Later on, CF was legislated, and the concrete form of the Home Credit Consumer Finance company was established in Tianjin. Home Credit was very helpful with its know-how during the set-up of the framework and was granted one of the four pilot licenses. As of January 2014, changes of the consumer finance regulation enabled Home Credit to upgrade its license from city license to national license. From this point, the gradual increase of the consumer finance companies is evident. Home Credit has beaten some of the world’s largest financial organizations to become the first international entity to set up as a consumer finance lender in China.<sup>45</sup>

After being granted a national license to provide consumers finance services in China, the business skyrocketed in 2015. Figures speak for itself as 41% of all Home Credit loans worldwide were granted in China (for comparison, in 2014 the figure was 18%). In PRC, almost 15 million customers in 261 towns and cities across 24 provinces were served. On 1st May 2015, Home Credit branches and POS in China received 88,000 loan applications, during this one day. Throughout the year, the daily average number of loan applications was 19,000. The Group continued expanding its distribution network, building its separate online distribution, while maintaining risk management and compliance capacities to underpin its growth. At the end of the year, Home Credit China was recognized by the first major independent report on consumer finance as the country’s leader in financial inclusion.<sup>46</sup>

2016 was a year of healthy business development. I will now point out several numbers to provide concrete ideas of the growth. On 11th November 2016, known in China as Singles Day (similar to Valentine’s Day), HCC processed 12,840 loan applications in a single hour. Overall, the Group lent EUR 5.3 billion to almost 11 million people in China in 2016. Most loans were typically for the purchase of mobile phones, electronics, or home supplies. Home Credit ran close to 200,000 points of sale in 29 Chinese provinces.<sup>47</sup>

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<sup>45</sup> Interview with Home Credit Group Executive Chairman. PPF Gate, Evropská 2690/17, 160 00 Prague. 15 March 2019.

<sup>46</sup> PPF Group, *Annual Report*, 2015. Available from: <https://www.ppf.eu>

<sup>47</sup> PPF Group, *Annual Report*, 2016. Available from: <https://www.ppf.eu>

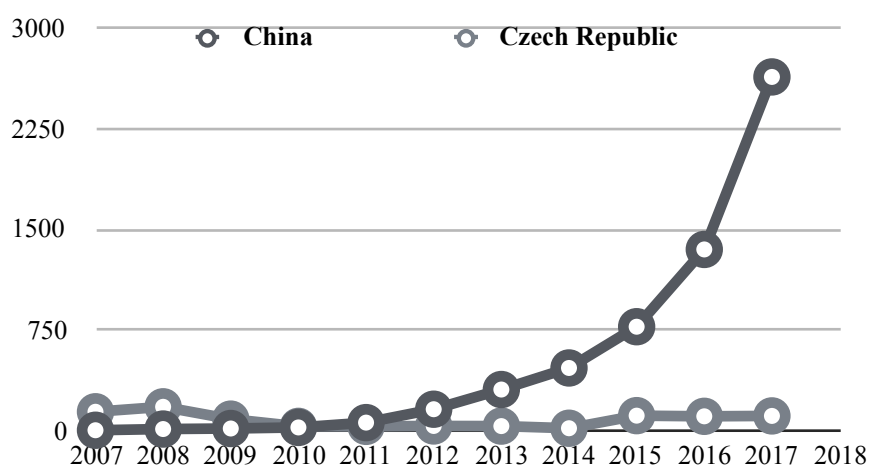


In 2017, the company kept to the growth trajectory, coping with the new regulations imposed on the entire consumer finance sector, while developing new business models, and focusing in particular on online lending via mobile application. The active client portfolio grew by more than 50% to over 16.3 million.<sup>48</sup>

After the first quarter of 2018, which was affected by market restructuring, the second part saw a strong recovery in profits. Points of sale and online business kept growing, while the value of the company's offline presence is steadfastly preserved. The mobile app was used by close to 12 million customers per month, more than three times the number just a year ago. An innovative new revolving loan product is available through the company's app and is seeing enthusiastic uptake. Home Credit Consumer Finance Company (HCCFC) continues to increase its capital to supplement its performance growth demand. It is currently the largest licensed consumer finance company with the highest registered capital in China. HCC effectively fills the gap in traditional Chinese finance, and it is a pioneer in China's consumer finance.<sup>49</sup>

A revenue graph of Home Credit Consumer Finance Company and Home Credit International accounting for a period from 2007 to 2017 is shown below. The Czech HC data are provided to notice the enormous difference and point out the significance of Home Credit China for the Home Credit Group as a whole.

**Figure 5:** HC revenues in China and the Czech Republic in EUR millions



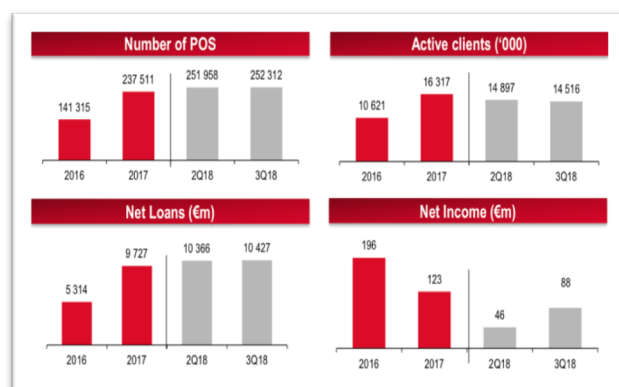
**Source:** Author's own, based on PPF Group. *Annual Reports*, 2007-2017.  
Available from: <https://www.ppf.eu>

<sup>48</sup> Home Credit Group. *Annual Report*, 2017. Available from: <http://www.homecredit.net>

<sup>49</sup> Home Credit B.V. *IFRS consolidated results for the period ended 30 September 2018*. Available from: <http://www.homecredit.net>

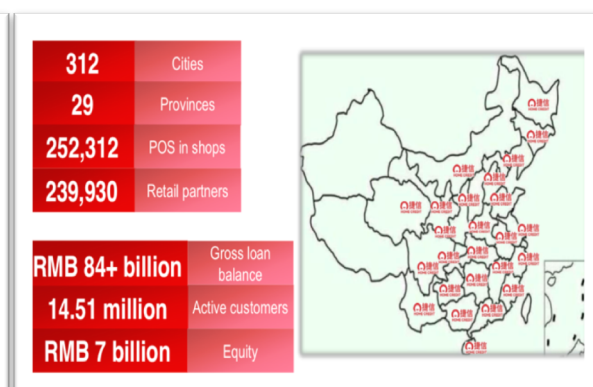
The next images will focus on some exact figures including the number of POS, clients, provinces where HCC operates, and some critical financial results.

**Figure 6:** Home Credit China in numbers as of 30 Sep 2018



Source: Home Credit Group. *Internal Documents*.

**Figure 7:** Home Credit China indicators as of third quarter of 2018



Source: Home Credit Group. *Internal Documents*.

## HC China products<sup>50 51</sup>

Home Credit Consumer Finance's product design introduces advanced foreign concepts, follows the principle of respecting customers' needs, satisfies inclusiveness, and provides convenient and thoughtful services.

**Point of Sale (POS) loans** - customers use POS loans to buy durable goods, such as mobile phones, electronics, bikes, or home appliances. HCCFC sells POS loans primarily to first-time borrowers. These are generally small loans with a short maturity - on average, a standard POS loan amounts to RMB 3,000 (EUR 394), and the average maturity is ten months. HCCFC has a unique technological capability, so it can expertly analyze data, the level of risk, and deliver a response quickly and efficiently to the customer. HC in China partners with various retailers including Tesco, ALDI, or Sunning.

**Consumption Loan (Cash loan)** - customers use cash loans for consumption under different shopping scenarios. An application can be processed offline, online, and through a mobile app. The average consumption loan amount is RMB 30,000 (EUR 3,937) and maturity is 45 months on average. HCCFC continuously serves the grassroots groups, enabling more people to enjoy

<sup>50</sup> Home Credit Group. *Internal Documents*.

<sup>51</sup> Interview with Chief Commercial Officer, Home Credit Group. EMMA Capital, Na Zátorce 672/24, 160 00 Prague. 1 April 2019.

convenient consumer finance services by providing affordable consumer finance products. Cash loan generally cumulates more profit; however, it is riskier; therefore, it is safer to offer cash loans to clients with a credit history or an experience with POS loans.

**HC Pay (Revolving Loan)** - a new product on the market, which is available through the company's mobile app.

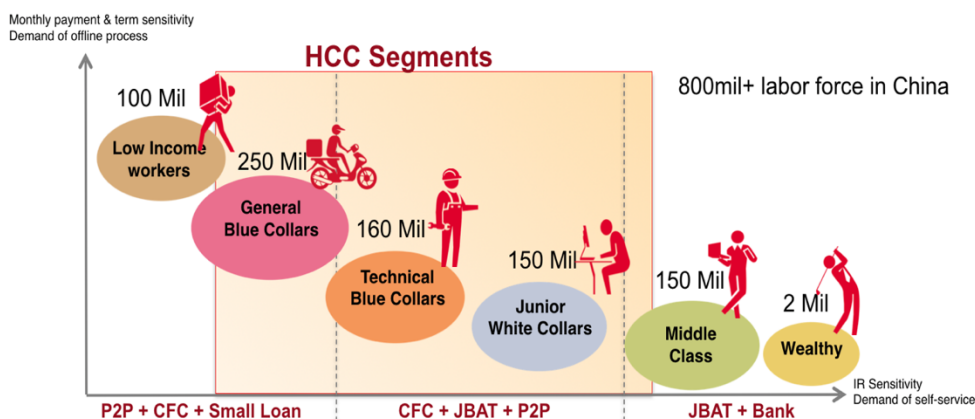
**Market Place** - a brand new product launched in the first week of March 2019. Home Credit mobile application consists of a new feature - Market Place in the form of an e-shop where people can buy products for a 0 % interest rate. The maturity of the loan is from 3 to 12 months.

### Home Credit China target customers<sup>52</sup>

Home Credit specializes in borrowing to first-time borrowers, or to those who have not been previously able to access any bank loans. The Group gives them more choices and realizes reasonable purchasing desires to help improve their quality of life. Home Credit has been a responsible lender and wants to become the lender of choice for groups who need access to trustworthy as well as regulated sources of financing.

In the chart below, the customer segments can be observed. Home Credit targets the core of the “pyramid” focusing on the Blue Collars customers. I will explain this term more detailed in the next paragraph. HCCFC does not offer its products to low income, rural, and low-level job workers. Home Credit is not the “shark” that is trying to gain profit from the struggling citizens. On the other hand, HCCFC does not target the higher income and wealthy segment either.

**Figure 8: HCC Target Profile in China Market**



**Source:** Home Credit Group. *Internal Documents*.

<sup>52</sup> Home Credit Group. *Internal Documents*. (Citing the whole chapter “Home Credit China target customers”).

Home Credit China target segments are:

**General Blue Collar** - the largest segment of customers. Middle age, lower education, married, and income < RMB 4,000 (EUR 525). Spending money on housing, food, clothes, and education. They care about personal image, pay attention to brands, and often go to the cinema or hang out for shopping.

**Technical Blue Collar** - youth, middle education, and income RMB 4,000 - 6,000 (EUR 525 - 787). Spending on food, clothes, housing, travel, and education. New and repeat customers with higher ticket offer. These citizens save for a sense of security, pay attention to cost-efficiency, purchase with discount, and prefer to stay at home during holidays.

**Junior White Collar** - middle age, high education, married, and income RMB 6,000 - 10,000 (EUR 787 - 1,312). High demand for high ticket consumption. Spending on food, travel, housing, clothes, education, and entertainment. This segment follows the latest fashion trends, spends money for happiness, is interested in entertainment, tries new things, prefers high-quality products for the higher price, and likes to travel abroad.

**Middle Class** - a tiny portion of the segment. Middle age, high education, married, a credit card with a high credit limit, and income > RMB 10,000 (EUR 1,312). Using consumer finance for short term liquidity issue beyond necessities. Spending on education, travel, entertainment, housing, clothes, health, food, and others. High demand for significant ticket cash turnover with easy access.

### **Major competitors of Home Credit China<sup>53</sup>**

Home Credit China operates in a very competitive market. According to Home Credit Group Chief Commercial Officer, the key competitors are as follows:

**Mashang CFC** started its business in September 2015, with some members of senior management joining from Home Credit China, including risk managers, and de facto copying the Home Credit's business model. Mashang CFC expands quickly in offline POS loans as well as in online business. On the other hand, Mashang CFC's size is 1/3 compared to HC's China size.

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<sup>53</sup> Interview with Chief Commercial Officer, Home Credit Group. EMMA Capital, Na Zátorce 672/24, 160 00 Prague. 1 April 2019.

**MU Finance** is also conducting its business according to Home Credit's business model. MU Finance's advantage is a stable funding base.

A few years ago, **Billions Finance** was covering 300 cities, had 10 million customers, and 100,000 points of sale. It was a significant competitor. However, a series of operating and business strategy errors occurred. The entity is close to bankruptcy after more than 10,000 employees were dismissed in March 2019.

## 2.3 Business culture and environment analysis in China

Business culture and environment are related to behavior, ethics, and will take a closer look at values, working styles, and habits. I will now describe the country by using the six dimensions model by Geert Hofstede. The dimensions are Power Distance, Individualism, Masculinity, Uncertainty Avoidance, Long Term Orientation, and Indulgence. Later, I will discuss the Chinese business culture, manners, etiquette, and will point out some specific examples regarding Home Credit China.

Power Distance copes with an enormous inequality of individuals in a society. At 80, China appears high on the ranking. The inequalities and class division amongst people are reasonable and widely accepted. Authorities openly demonstrate their rank, while subordinates are not given important work, expect clear guidance from above, and are blamed for things going wrong.<sup>54</sup> However, in the Chinese Home Credit, the top management consists of highly experienced people from several foreign countries; therefore, the overall approach and business culture is rather international. HC management gives clear direction and highlights the deadlines to Chinese employees.<sup>55</sup>

It is understandable that, at a score of 20, Individualism is very low. People are used to following a particular group, rather than acting on behalf of themselves. Therefore, we call China a highly collectivist culture where the in-group membership is exchanged for loyalty.

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<sup>54</sup> China. *Hofstede Insights* [online]. [Accessed 31 March 2019]. Available from: <https://www.hofstede-insights.com/country/china/>

<sup>55</sup> Interview with Jakub HLADÍK, Foreign Affairs Manager, Home Credit International. PPF Gate, Evropská 2690/17, 160 00 Prague. 24 January 2019.

Personal opinion does not really exist, while harmony is well valued.<sup>56</sup> In Home Credit China, it is crucial to always praise the team, rather than individuals.<sup>57</sup>

A high score of Masculinity indicates competition, achievement, and success driven society. This system starts to be taught in school and continues throughout organizational life. At 66, China is a Masculine society. Many Chinese will sacrifice family as well as leisure priorities to work. A typical Chinese manager is decisive, assertive, and aggressive.<sup>58</sup> Whether on a managerial position or an employee in the store, people in Home Credit will always give preference to their work assignments and would stay up all night to complete them.<sup>59</sup>

Uncertainty Avoidance deals with the fact that the members of a culture feel threatened by ambiguous or unknown situations. At 30, Chinese are comfortable with ambiguity and are very adaptable. China seems to have numerous laws, rules, and regulations in place to avoid ambiguous situations; however, the laws and rules are adaptable to suit the actual situation.<sup>60</sup> For example, the working hours can sometimes be flexible in Chinese Home Credit management.

Long Term Orientation deals with maintaining some links with the past while dealing with the challenges of the present and future. With a score of 87, China happens to be a very pragmatic culture. In these types of societies, people firmly believe that truth depends on the situation, context, and time. The Chinese are taught to be very modest, show a strong propensity to save, and to thriftiness.<sup>61</sup>

Indulgence is understood as control of desires and impulses, based on the way people were raised. Relatively weak control is called “Indulgence,” while relatively strong control is called

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<sup>56</sup> China. *Hofstede Insights* [online]. [Accessed 31 March 2019]. Available from: <https://www.hofstede-insights.com/country/china/>

<sup>57</sup> Interview with Jan POPELKA, Business Innovations Manager, Home Credit China. Skype Video. 19 March 2019.

<sup>58</sup> China. *Hofstede Insights* [online]. [Accessed 31 March 2019]. Available from: <https://www.hofstede-insights.com/country/china/>

<sup>59</sup> Interview with Jakub HLADÍK, Foreign Affairs Manager, Home Credit International. PPF Gate, Evropská 2690/17, 160 00 Prague. 24 January 2019.

<sup>60</sup> China. *Hofstede Insights* [online]. [Accessed 31 March 2019]. Available from: <https://www.hofstede-insights.com/country/china/>

<sup>61</sup> *Ibid.*

“Restraint.” China with a low score of 24 is a Restrained society. People with this score are usually pessimistic and do not put much emphasis on leisure time.<sup>62</sup>

Doing business in China involves utterly different behavior from accepted practices in the Czech Republic or Europe. Numerous major western companies have tried to make a breakthrough in the Chinese market but failed due to the contrasting cultural approaches to business. One of the most significant of these is that the Chinese are not generally open to doing business with foreigners.

In China, the key is to build and deepen trust. Rather than focusing on dissimilarities, it is vital to build on similarities, and pay attention to small cultural differences. According to the old rules of Confucianism, business and societal relationships rely on networks of trust and mutual obligations than on strong laws. This concept is called *guanxi* and translates as personal connections, relationships, or social networks. Having good, bad, or no *guanxi* impacts one’s influence as well as the ability to get the tasks completed. Foreign companies may never be able to gain the same level of trust and connections with authorities that local companies can. For Home Credit, good *guanxi* with state authorities, regulators, or state-owned companies is crucial for the successful business. On the other hand, *guanxi* is often associated with corruption and can lead to dangerous and unlawful situations. While business in China is about people and relationships, an over-reliance on *guanxi* is a good excuse for not doing the assigned task properly and can lead to further issues. *Guanxi* has a significant role to play, but it is unlikely to rescue a business lacking a solid strategy and strong leadership.<sup>63</sup>

China is a land of opportunities but also a land of potential bear traps. The Chinese will go assertively in the completion of their goals. Patience, psychological resilience, fairness in negotiation, and modesty are the main qualities of Chinese deal makers.<sup>64</sup> The Chinese tend to extend negotiations far beyond the agreed deadline because they fear bad decisions and loss of face. Impatience will achieve nothing other than delaying the process even more. Their attitude

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<sup>62</sup> *Ibid.*

<sup>63</sup> WENDEROTH, Michael C. How A Better Understanding Of *Guanxi* Can Improve Your Business In China. *Forbes* [online]. 16 May 2018. [Accessed 30 March 2019]. Available from: <https://www.forbes.com/sites/michaelcwenderoth/2018/05/16/how-a-better-understanding-of-guanxi-can-improve-your-business-in-china/#3e96a08b5d85>

<sup>64</sup> KOLEKTIV PRACOVNÍKŮ ZÚ PEKING. *BusinessInfo* [online]. 24 August 2018. [Accessed 31 March 2019]. Available from: <https://www.businessinfo.cz/cs/zahranicni-obchod-eu/teritorialni-informace-zeme/cina.html>

to time generally shows a greater emphasis on work than in the west: the Chinese are accustomed to spending many hours a day at work. Office hours usually begin between 8:00 am and end around 6:00 pm.<sup>65</sup>

Extreme politeness and showing respect are absolute necessities for the foreign business person. The first meetings are always dedicated to building relationships and trust. Unless one speaks fluent Chinese, it can be challenging to do business in many parts of China without the aid of a translator. Home Credit has used the services of a Czech-Chinese interpreter and a leading Czech sinologist, Vít Vojta.<sup>66</sup>

The display of hierarchy cannot be underestimated. The owner or the CEO of the company should be present at all meetings with his partners. There are cases where major investments collapsed because the senior management of the company was not in attendance and the Chinese partner immediately withdrew from the deal. In communication, indirectness is to be expected - in order not to give offense. Hearing a direct “no” from the Chinese counterpart is therefore highly unlikely; anything other than an unequivocal “yes” will most likely mean “no.” Phrases such as “Yes, but” or “probably yes” will mean “no.”<sup>67</sup>

The Chinese businessmen will expect their partners to be exceptionally prepared for every meeting. Punctuality is vital as being late is a serious offense. Nowadays, the Chinese do not bow as they greet with light and lingering handshake. Business cards are swapped during the first gathering, treated with respect, translated to Chinese, and presented in both hands with the partners’ side facing up. Even the highest representatives of Home Credit exchange their business cards with the bank and other representatives.<sup>68</sup> Formal attire as “black tie” is not necessary as “smart casual” is optimal. Long pants and closed shoes are a must. The Chinese can sometimes wear their modern blazer “čung-šan.”<sup>69</sup>

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<sup>65</sup> Interview with Jakub HLADÍK, Foreign Affairs Manager, Home Credit International. PPF Gate, Evropská 2690/17, 160 00 Prague. 24 January 2019.

<sup>66</sup> *Ibid.*

<sup>67</sup> KOLEKTIV PRACOVNÍKŮ ZÚ PEKING. *BusinessInfo* [online]. 24 August 2018. [Accessed 31 March 2019]. Available from: <https://www.businessinfo.cz/cs/zahranicni-obchod-eu/teritorialni-informace-zeme/cina.html>

<sup>68</sup> Interview with Jakub HLADÍK, Foreign Affairs Manager, Home Credit International. PPF Gate, Evropská 2690/17, 160 00 Prague. 24 January 2019.

<sup>69</sup> VOJTA, Vít. *Mezi Čínou a Západem*. Umění stolovat s čínskými partnery. VIT Consulting, 2018. 97 p. ISBN 978-80-906153-1-1.



Negotiations are often held in restaurants or bars. Banquets are very traditional and can consist of up to thirty dishes. The Chinese do not always arrive on time due to traffic jams. The evening starts with a cup of tea. It is highly recommended to know famous Chinese green and white teas. The meals are served on a rounded table and trying a little of every single meal is polite and respectful. Toasts and alcohol inherently belong to the meetings, while “hongjiu”<sup>70</sup> as well as “Wuliangye”<sup>71</sup> are the usual drinks. Reciprocal invitations are highly appreciated and well received. The final toast gives an immediate ending to that particular night.<sup>72</sup>

The Chinese will always appreciate gifts, which express friendship, loyalty, or a successful deal. It is vital to avoid buying expensive gifts, as this could be a sign of bribery. How the present is wrapped is important, as red lucky, while gold symbolizes wealth and fortune. However, there are some gifts that should always be avoided, such as a clock, which symbolize death. The gift should tell a story from a country of origin. Home Credit’s typical gift to a regulator, bank, or a key business partner can include a Prague guide, welcome letter, or the Czech famous cartoon character “Krtěček.”<sup>73</sup>

## **2.4 Economic and Political situation influencing Home Credit China**

Officially, the People’s Republic of China is the world’s most populous country with 1.417 billion of inhabitants, second biggest economy, the largest exporter of goods, and an influential player in the global economy. PRC has been the most significant single contributor to world growth since the financial crisis of 2008. In 2016, China has ratified its new 5-year plan to cope with the current issues and challenges. It focuses on addressing social imbalances, reducing pollution, increasing energy efficiency, improving education and healthcare sectors, and raising people’s livelihoods. The annual growth target for 2019 is 6.5% and maintaining the objective of achieving a “moderately prosperous society” by 2020.<sup>74</sup>

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<sup>70</sup> Hongjiu is a “French style” Chinese red wine.

<sup>71</sup> Wuliangye is one of the most famous Chinese liquor.

<sup>72</sup> VOJTA, Vít. *Mezi Čínou a Západem*. Umění stolovat s čínskými partnery. VIT Consulting, 2018. 97 p. ISBN 978-80-906153-1-1.

<sup>73</sup> Interview with Jakub HLADÍK, Foreign Affairs Manager, Home Credit International. PPF Gate, Evropská 2690/17, 160 00 Prague. 24 January 2019.

<sup>74</sup> China Overview. *World Bank* [online]. 26 September 2018. [Accessed 30 March 2019]. Available from: <https://www.worldbank.org/en/country/china/overview>

Politics has always overshadowed China's state-dominated economy. Currently, businesses complain that their operations are being slowed down due to tightened censorship of what the Chinese citizens see online and that the party is pushing foreign managers to rewrite the documents defining the company's structure and goals. This act would allow the Chinese to steer the company in the party's favor. However, since Xi Jinping took the power, the party has reversed its trend of loosening its control of the business to encourage entrepreneurial activity.<sup>75</sup> According to Thomas Wang, HCC remains confident about the government's potential plans demanding a stake or gaining any control of Home Credit China.<sup>76</sup>

The Communist Party of China (CPC) is the founding and ruling political party of the People's Republic of China. The 90-million membership makes it the biggest political party in the world. Joining the party brings significant privileges as members have better access to information, education, and work opportunities. Xi Jinping is the head of the state, the General Secretary of the Communist Party, and is elected by the National People's Assembly. Xi is having greater personal power than any Chinese leader since Mao.<sup>77</sup> Within the CPC, Politburo Standing Committee of the Communist Party of China or "the big seven" is China's most powerful decision-making body. These men rule the country with unlimited power.<sup>78</sup>

The business strategy, financial condition, and results of operations of the HCC are, to a significant degree, subject to the economic as well as political developments in the People's Republic of China. The Chinese economy differs in many respects, including government involvement, level of development, growth rate, and foreign exchange control. The government exercises significant control over the Chinese economic growth by allocating resources, setting monetary policy, providing notable treatment to particular companies, and having the power to implement macroeconomic controls affecting the Chinese economy. If, by any chance, the Chinese economy experiences a decrease in growth rate or a significant downturn, the unfavorable business environment and economic conditions could negatively impact the Home Credit customers' ability to repay loans and reduce their demand for the

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<sup>75</sup> MCDONALD, JOE. Politics weighs heavily on foreign businesses in China. *The Seattle Times* [online]. 17 January 2018. [Accessed 30 March 2019]. Available from: <https://www.seattletimes.com/business/politics-in-china-weighs-heavily-on-business/>

<sup>76</sup> Interview with Thomas WANG, Financial Officer, Home Credit China. WeChat Video. 28 March 2019.

<sup>77</sup> BOČÁNKOVÁ, Milena. *Intercultural communication: typical features of the Czech, British, American, Japanese, Chinese and Arab cultures*. University of Economics, Prague, 2014. ISBN 978-80-245-1648-6.

<sup>78</sup> Overseas Business Risk - China. *GOV.UK* [online]. [Accessed 30 March 2019]. Available from: <https://www.gov.uk/government/publications/overseas-business-risk-china/overseas-business-risk-china>

consumer finance services. In addition, global economic uncertainty and the potential slowdown in Chinese economic growth may continue to raise the possibility of fiscal, monetary, regulatory, and other governmental actions. The business of Home Credit may thus be materially and adversely affected.<sup>79</sup>

Home Credit's business strategy is not only influenced and affected by the situation in China but also in the home country of the Czech Republic. On October 2014, president Miloš Zeman traveled to China to meet his Chinese counterpart Xi Jinping. It was the first visit by a Czech leader in nearly a decade. Zeman was traveling alongside several businesspeople, including Petr Kellner, the majority owner of PPF Group and Jiří Šmejce, the minority owner of the Home Credit Group. Political leaders are usually accompanied by a delegation of the country's most prominent investors who also join the official meetings. Ordinary citizens and some Czech politicians saw the participation of PPF and Home Credit leaders as not standard. People think these business relationships will only benefit and support their business activities.<sup>80</sup> On the contrary, according to Mel Carvill<sup>81</sup>, Home Credit and PPF helped foster a better relationship between the Czech Republic and the People's Republic of China, which has led to the revival of Czech-Chinese relations. Like any country, the Czech Republic should support its national champions. How many times did Angela Merkel visit PRC to promote the German business? Consequently, it is absolutely correct that the Czech government makes those trips to support the Czech enterprise in China.<sup>82</sup>

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<sup>79</sup> Home Credit Group. *Internal Documents*.

<sup>80</sup> Interview with Jakub HLADÍK, Foreign Affairs Manager, Home Credit International. PPF Gate, Evropská 2690/17, 160 00 Prague. 8 November 2018.

<sup>81</sup> Mel Carvill is a member of the Board of Directors of Home Credit Group and is responsible for the Group's government and public affairs.

<sup>82</sup> CARVILL, Mel. Význam Číny v našem byznysu postupně poklesne. *Interview* for Seznam Zprávy [online]. 22 February 2019. [Accessed 30 March 2019]. Available from: <https://www.seznamzpravy.cz/clanek/exkluzivne-o-ppf-vyznam-ciny-v-nasem-byznysu-postupne-poklesne-66469?seq-no=12&dop-ab-variant=&source=clanky-home&autoplay=1>

## 2.5 Regulatory authorities affecting Home Credit's business in China

Unlike other countries, China has decided to adopt tailor-made regulations designed for the consumer finance companies, rather than amending the existing banking regulations. The Chinese regulators chose such an approach due to several reasons - CFCs operate in a very different, much faster mode, targeting various customer segments with higher risk probability.

The consumer finance companies in the People's Republic of China are subject to the supervision of two main regulatory bodies:

**The People's Bank of China (PBoC)**, the Chinese Central Bank and the major policy maker.

**China Banking and Insurance Regulatory Commission (CBIRC)**, former China Banking Regulatory Commission and the China Insurance Regulatory Commission.

PBoC enforces relevant laws, rules, sets the directions, and is the primary policy and regulations maker. The financial market department of PBoC is the most pertinent body affecting Home Credit's business. PBoC also prevents systemic financial risks to safeguard financial stability.<sup>83</sup>

CBIRC formulates, approves, implements, enforces, and controls all the regulatory measures while encouraging fair and orderly competition. It consists of 26 departments, of which the Non-bank Regulatory Department is the most relevant for HC. The regulator is headquartered in Beijing but has numerous provincial headquarters including one in the city of Tianjin, where Home Credit Consumer Finance China has its base. The Tianjin department communicates with HC on a daily basis, making inspections, supervisions, checking all the regulatory measures, and approving new ideas and products. The Shanghai HQ is connected with Home Credit when implementing new state regulations and supervisory standards.<sup>84</sup>

The new regulatory authority was established in 2018, when the China Banking Regulatory Commission and the China Insurance Regulatory Commission were combined to better control the risks of financial markets. Since then, both regulators PBoC and CBIRC have been actively

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<sup>83</sup> Interview with Jakub HLADÍK, Foreign Affairs Manager, Home Credit International. PPF Gate, Evropská 2690/17, 160 00 Prague. 21 February 2019. (Citing all previous paragraphs in this section).

<sup>84</sup> Interview with Anastasia KORNILOVA, Government Relations, Home Credit China. WeChat Video. 26 March 2019.

addressing topics, particularly lack of liquidity, bankruptcy, insurance, and shadow banking irregularities.<sup>85</sup>

At the end of 2017, CBIRC (that time CBRC) intensified the supervision of P2P platforms, which were featuring high interest rates (up to even 100%), unsecured loans, short term, and violent collection. Some of the big P2Ps were shut down as many of their funding sources were restricted. On numerous occasions, P2P clients were over-indebted and had to take another loan from Home Credit to pay back the original P2P loan.<sup>86</sup>

Home Credit China possesses both a Government Relations (GR) and Legal and Compliance teams, which communicate, discuss, and maintain a positive relationship with the two regulators. The GR unit interfaces with the PBoC and Beijing HQ of CBIRC, while the Legal and Compliance team addresses day to day topics with CBIRC in Tianjin. Understandably, direct communication is only done by Home Credit's Chinese employees.<sup>87</sup>

To the extent required under the Chinese law, Home Credit Consumer Finance China cooperates with the Chinese governmental authorities to timely secure all necessary regulatory approvals. Home Credit also actively participates in several projects on improving people's financial literacy: it supports education in disadvantaged communities and participates in several healthcare projects. HC also holds an annual conference in Prague for the Chinese regulators to enhance their knowledge and develop their skills through training.<sup>88</sup>

Home Credit's business strategy in China is directly affected by changes in the Chinese regulatory policies, laws, and rules governing the financial sector. Meanwhile, the regulations and laws exercising control over the whole regulatory industry are changing and evolving; therefore, any future changes might have an effect on the Home Credit business strategy, operations, and financial condition. At the moment, from a regulatory point of view, Home Credit China has nothing to fear, mainly on account of the fact that the business is well

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<sup>85</sup> *China Banking and Insurance Regulatory Commission officially unveiled* [online]. [Accessed 31 March 2019]. Available from: <http://www.cbrc.gov.cn/EngdocView.do?docID=F495CC398DAD4FA4B10B0B25A8BDC9E5>

<sup>86</sup> Interview with Chief Commercial Officer, Home Credit Group. EMMA Capital, Na Zátorce 672/24, 160 00 Prague. 1 April 2019.

<sup>87</sup> Interview with Anastasia KORNILOVA, Government Relations, Home Credit China. WeChat Video. 26 March 2019.

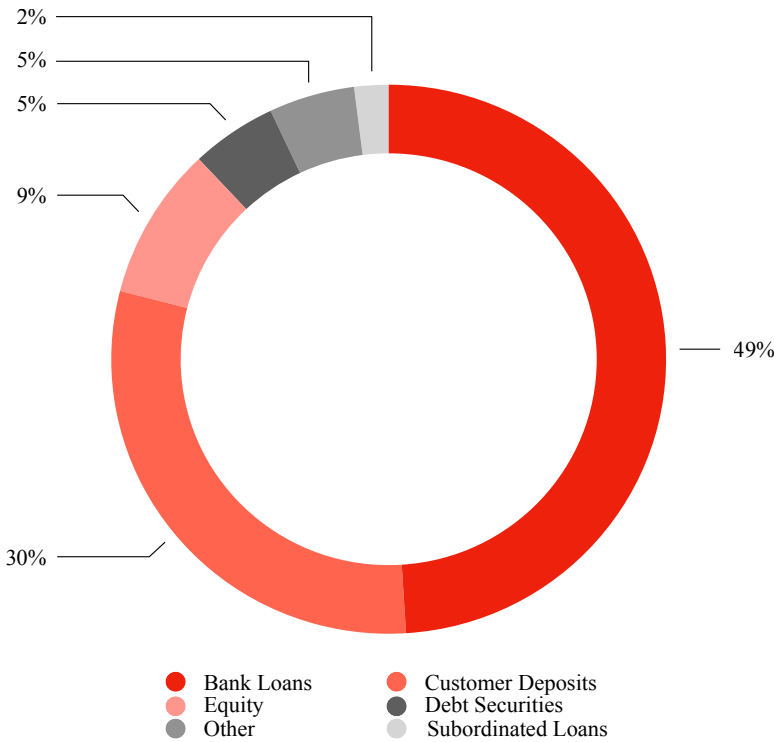
<sup>88</sup> *Ibid.*

capitalized, operates fully in line with all the Chinese regulations, and has never incurred a fine from the Chinese regulators.<sup>89</sup>

## 2.6 Home Credit China Funding

Home Credit funding is understood as the act of gathering financial resources in several forms including loans (bilateral loans, club loans, syndicated loans, and intragroup loans); bonds (local bonds, Eurobonds, senior, or subordinated bonds); asset-backed securities; customer deposits; and others.<sup>90</sup> As the chart shows, Home Credit Group have a strong funding position from a diverse range of sources. The situation is non-identical in Home Credit China.

**Figure 9:** Home Credit Group’s funding sources in 2017



**Source:** Author's own, based on Home Credit Group. Annual Report, 2017.  
Available from: <http://www.homecredit.net>

<sup>89</sup> Interview with Chief Executive Officer, Home Credit China. WeChat Video. 29 March 2019.

<sup>90</sup> Interview with Thomas WANG, Financial Officer, Home Credit China. WeChat Video. 28 March 2019.

In China the funding sources include:<sup>91</sup>

**Bank Loans (20%)** - HCC cooperates with 18 banks on a bilateral basis. All loans are unsecured with one-year maturity.

**Syndicated Loans** - an agreement signed with more lenders with one-year maturity.

**Trust Loans (50%)** - bilateral and the largest source of funding secured by the pledge of receivables with up to three-year maturity. Loan agreement signed with one lender only.

**Asset-backed security (ABS)** - is a type of security backed by a pool of assets. ABS is the process of creating asset-backed securities (notes, which are rated, listed and may be traded on the secondary market) by transferring assets from the issuing company (being HC China) to a bankruptcy remote entity.

**Financial Bond** - the maturity is three years. Financial bond  $\leq$  equity. Issued on the Chinese Interbank Bond Market and approved by CBIRC and PBoC.

**Home Credit China Equity (10%)**

**Joint Lending** - the customer loan is split between Home Credit and a joint lending partner (bank) usually 10% / 90%. The customer is the debtor to both funding partners, although just one contract is signed among HC and the customer. This model works perfectly with the Home Credit's Cash loan product. Banks often offer better interest rate; therefore, HC rather partners with the bank.

In late 2018, Home Credit Consumer Finance Company signed a memorandum of a strategic partnership with one of the largest Chinese state-owned investment companies CITIC Group. In return for the funding from CITIC Bank and AiBank (both under the roof of CITIC Group), Home Credit is going to provide CITIC with its client's information database. For Home Credit, this will not only be a significant source of funding, but it will also increase the company's competitiveness against new potential players as American banks JPMorgan and Goldman Sachs already applied for the consumer finance license.<sup>92</sup>

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<sup>91</sup> *Ibid.*

<sup>92</sup> ZENKNER, Petr and HEJKRLÍK, Pavel. PPF dostane od čínské skupiny CITIC peníze na další rozvoj Home Creditu v Číně. Na oplátku jí poskytne své úvěrové know-how. *Hospodářské noviny*. Prague, 6 November 2018.

According to Thomas Wang, the latest funding strategy of HC China is to diversify the channels by finding partners among different financial institutions. Secondly, target trusts and banks to issue more ABS and expand the joint lending financing. Thirdly, continuously improve pricing, reduce capital requirements as well as focus on lower price funding sources - financial bonds and bilateral loans. Additionally, control asset liability management risk and increase funding tenor to match portfolio maturity.<sup>93</sup>

Home Credit Group Chief Commercial Officer enlightened me about a new governmental regulation announcement, regarding foreign entities being able to apply for a Bank License. The international company can now own all the shares without any involvement of the Chinese financial institutions. Home Credit China is considering this application as owning a bank in China would provide a new significant funding channel and could open whole new scopes of business opportunities.<sup>94</sup>

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<sup>93</sup> Interview with Thomas WANG, Financial Officer, Home Credit China. WeChat Video. 28 March 2019.

<sup>94</sup> Interview with Chief Commercial Officer, Home Credit Group. EMMA Capital, Na Zátorce 672/24, 160 00 Prague. 1 April 2019.



### **3. Summary of Home Credit's business strategy in China**

The last chapter of the thesis describes the current business strategy of Home Credit China, but before moving to this topic, I will take into consideration Home Credit China Social Responsibility and Sustainability as they cannot be overlooked, followed by Home Credit Consumer Finance Company Business Innovations and its goals for the future.

#### **3.1 Sustainability and Social Responsibility in Home Credit China**

Home Credit is putting effort into the contribution to the development of the markets where it operates. In China, the Group assists in reducing poverty, improving living standards, caring for the welfare, and promoting respect for economic & human rights. HC builds the relationship with its clients on mutual trust, fairness, transparency, and helps them to make their dreams come true in a financially secure way.<sup>95</sup>

Established lenders usually do not adequately serve the needs of lower income or first-time borrowers. In PRC, numerous potential customers are unable to take out loans, as this issue, in some cases, leads them towards unregulated lenders. Furthermore, this exclusion not only harms financial and personal well-being but also hinders economic and social order. By offering inclusive consumer finance products, HCCFC helps consumers to enter the formal financial system, establish a credit score, plus access a range of opportunities.<sup>96</sup>

Responsible lending, transparency, and excellent customer experience are elements that matter. HCCFC makes sure that a loan is safe on both sides of the lending relationship: on HCCFC side, by performing the latest credit scoring calculations, and on customers' side by providing assistance to make an uncomplicated as well as precise assessment of their credit needs. All clients receive a Welcome Card containing loan-related information along with transparent breakdown of costs and obligations. Home Credit presents 15-days cooling-off period, during which the customer may cancel the loan free of charge.<sup>97</sup>

Industry analysts recognize HCCFC's achievements in terms of responsible lending and transparency over the past years. In 2016, Tsinghua University research of the Consumer Credit

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<sup>95</sup> Home Credit Group. *Internal Documents*.

<sup>96</sup> *Ibid.*

<sup>97</sup> *Ibid.*

Market in China confirmed HCCFC's top first rank in Financial Inclusiveness and Safety & Responsibility categories. In 2017, HCCFC ranked first in inclusiveness category.<sup>98</sup>

The Chinese government has put much emphasis on financial education to better implement its policy of alleviating national poverty and increasing the level of financial inclusion. Home Credit China educates its communities via workshops, roadshows, open branch days, campaigns in media, or in-store events to ensure that customers make well-informed borrowing decisions. Bringing financial education provides people with valuable opportunities and broader access to financial services. Ultimately, financial literacy will help consumers to achieve a better standard of living and protects them against frauds and non-compliant lenders. More than 2 million people have benefited from Home Credit's financial literacy activities, and the goal is to make a difference in the lives of 6 million people by the end of 2020.<sup>99</sup>

Home Credit teamed up with China Foundation for Development of Financial Education to cooperate on several projects including financial literacy inclusion into schools' curriculum. HCCFC is also devoted to other areas of social responsibility with the contribution of RMB 1 million to drinking water and field irrigation related projects. HCCFC also supports cooperation along the Belt and Road Initiative. In 2017, the Group donated over RMB 3 million to finance a project under which 30 doctors from the Shanghai Hospital went to Prague and completed an intensive training given by Prague Emergency Medical Services that prepared them to operate the first air ambulance in China ever.<sup>100</sup>

Providing its financial products at the POS retailers' stores is where an enormous number of customers is acquired. For this reason, it is essential to build mutually beneficial business partnerships with retailers. Access to fast lending services in stores, without the need of several bank visits, gives the partnering retailers a strong advantage in relation to their competitors. HC offers long-term benefits as the increased inflow of customers to the stores with a propensity to purchase more of higher value. The retailers' revenues often escalate by 30% compared to retailers who do not provide lending in the store. Later, Home Credit monitors the

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<sup>98</sup> *Ibid.*

<sup>99</sup> *Ibid.*

<sup>100</sup> *Ibid.*

POS through performance statistics, store visits, and mystery shopping to ensure that goals and agreed standards are successfully met.<sup>101</sup>

### 3.2 Home Credit China Business Innovations

Home Credit Consumer Finance Company continues to develop and innovate its services as well as products in multiple ways using Big Data, Artificial Intelligence, and new technologies. According to Jan Popelka together with his team, the primary outcomes of the business innovations are:<sup>102</sup>

**VoiceBot** - cultural traditions along with values are making the Chinese society shy when talking on the phone. For this reason, Home Credit has invested in the machine learning technology averaging 60,000 calls a day. The use of VoiceBot provides greater efficiency while being more popular and more effective than a human being.

**ChatBot** - the very same system as VoiceBot. The only difference is that the bot does not speak but types the text. The Chinese feel very comfortable chatting to a bot.

**Video Call** (currently in a pilot project) - with the use of video, Home Credit can access locations where the Group is not present yet. Moreover, the voice call will also be actively used in POS shops, where the customer scans a Quick Response Code, which is provided by the shop assistant. Home Credit then “takes control of the customers’ mobile device” giving guidance throughout the whole process. The client is quickly assessed, plus can obtain the loan within a few minutes.

**Robotization** - robots have already appeared on numerous occasions during peoples’ lives in China. HC has entered the robot industry with significant plans to “employ” them across the POS chain in the future.

**Big Data** - with the client’s approval, HCC can get all the necessary information about using data far beyond the client application to improve scoring models’ performance. Furthermore, HC uses advanced anti-fraud processes with robust prevention and identification elements.

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<sup>101</sup> Economic benefits. *Home Credit Group* [online]. [Accessed 31 March 2019]. Available from: <http://www.homecredit.net/sustainability/economic-benefits.aspx>

<sup>102</sup> Interview with Jan POPELKA, Business Innovations Manager, Home Credit China. Skype Video. 19 March 2019. (Citation up to “Artificial Intelligence”).

**Artificial intelligence** - HC is developing a picture recognition system that would be able to read from the facial expressions, whether the client is going to pay the installments.

Home Credit's Business Innovations team manages risks driven by superior data analysis, leveraging Big Data, and biometrics. HCC uses highly automated underwriting processes with dynamic credit-scoring and pricing assessment to make immediate and effective decisions on loan applications. The median time to a "yes" decision is slightly more than a minute. Moreover, the company is continuously improving the ability to make correct decisions in terms of borrower selection.<sup>103</sup>

As retailing and customers generally move online, Home Credit China launched a mobile application in 2015. The society has adapted to mobile payments and is using the devices instead of cash notes. Until today, more than 28 million people have downloaded the app with one million daily users.<sup>104</sup> Mobile e-commerce already accounts for 51%<sup>105</sup> of all online sales in China. HC China is slowly evolving into an IT firm developing a robust online portfolio.<sup>106</sup>

*"I am particularly proud that in selected markets we have been able to take this one step further, leveraging our sophisticated and highly efficient scoring algorithms, which use Big Data and deliver not just fast but instant loan approvals."*<sup>107</sup>

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<sup>103</sup> Home Credit Group. *Annual Report*, 2017. Available from: <http://www.homecredit.net>

<sup>104</sup> Interview with Pavel BURIN, Alternative Development Sales Manager, Home Credit China. WeChat Video. 18 April 2019.

<sup>105</sup> KUO, Youchi. 3 great forces changing China's consumer market. *World Economic Forum* [online]. [Accessed 31 March 2019]. Available from: <https://www.weforum.org/agenda/2016/01/3-great-forces-changing-chinas-consumer-market/>

<sup>106</sup> Interview with Chief Commercial Officer, Home Credit Group. EMMA Capital, Na Zátorce 672/24, 160 00 Prague. 1 April 2019.

<sup>107</sup> ŠMEJC, Jiří. *Home Credit B.V.: IFRS consolidated results for the period ended 30 September 2018* [online]. 27 November 2018. [Accessed 30 March 2019]. Available from: <http://www.homecredit.net/~media/Files/H/Home-Credit-Group/documents/reports/2018/181125-hcbv-q3-2018-results-release.pdf>

### 3.3 Interpretation and evaluation of findings of Home Credit's business strategy in China

Based on my research and knowledge gained, this section is dedicated to a summary of my findings and will also provide suggestions and conclusions about the business strategy of Home Credit in China. I will include a SWOT analysis, followed by detailed recommendations after which key strategy points for the near future will be identified.

As shown in the image below, based on my research, the model structure of a SWOT matrix will be used for the interpretation and evaluation of my findings.

**Figure 10:** SWOT matrix of HCC current business strategy

<b>Strengths</b> <ul style="list-style-type: none"><li>• Consumer finance license</li><li>• Risk management</li><li>• POS dominance</li><li>• More than 20 years of experience with CF; PPF backing</li><li>• Market Place</li><li>• Social Responsibility</li><li>• Management &amp; Shareholders</li></ul>	<b>Weaknesses</b> <ul style="list-style-type: none"><li>• Fully privately-owned company</li><li>• High costs of funding</li><li>• Go-to-market</li><li>• Brand awareness</li></ul>
<b>Opportunities</b> <ul style="list-style-type: none"><li>• Closer cooperation with thirds parties</li><li>• Target new customer segment</li><li>• Joint lending</li><li>• Bank License</li></ul>	<b>Threats</b> <ul style="list-style-type: none"><li>• Funding</li><li>• Regulatory environment</li><li>• Big online players (JBAT)</li><li>• Mashang CFC</li></ul>

**Source:** Author's own, based on the research.

#### Strengths

A licensed company provides clear business positioning, innovative business models, reasonable capital cost, a transparent operating policy, and good profit sustainability. HCC is the nations' leader in POS and is continually increasing its locations to reach more potential customers across mainland China. Moreover, 20 years of experience bring successful methods that have already been tested as well as applied in various markets. Having the backing of PPF Group gives HC considerable competitive advantage as the Chinese institutions value its size

and importance. Regarding risk management, Home Credit will continue using highly automated processes to make fast, effective, and correct decisions on loan applications and will seek to improve the median time to a 'yes' decision to less than a minute. The Chinese demand things immediately and waiting a minute for the approval might seem long for them.

Home Credit China continues to expand its product portfolio to extend variability and attract new customers. Home Credit's brand-new Market Place (e-shop) offers a 0%<sup>108</sup> interest rate on loans for the offered products on the e-shop. 0% - that is a significant strength and competitive advantage of HCC. Additionally, Chinese society is swiftly moving towards online with the usage of mobile devices along with the applications for everyday life including payments, chatting, and various other aspects. The Market Place can potentially attract every mobile phone user with the Internet connection in PRC. According to statistics from 2017, 1.077<sup>109</sup> billion of the Chinese population owns and uses a mobile phone.

Home Credit Consumer Finance Company builds long-term relationships not only with its customers but also with employees, retailers, regulators, and other state organizations based on mutual trust and fairness. HC is a responsible lender providing fair products to suit the customers' needs and guiding them to understand their loans as well as commitments. Home Credit spreads the financial education across China teaching society the financial basics, safe borrowings, and managing the budget. In addition, the company supports education and health projects in PRC.

Last but not least, well experienced and professional top management together with the shareholders' involvement, dedication, enthusiasm, hard work, resilience, and the continuous belief in the successful projects, makes not only Home Credit China but the whole Home Credit Group as successful as it is.

## **Weaknesses**

The principal weakness in the strategy of Home Credit lies in it being an entirely privately-owned company and thus an easy target for the government, regulators, and other institutions. This is associated with the high costs of funding.

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<sup>108</sup> Interview with Chief Commercial Officer, Home Credit Group. EMMA Capital, Na Zátorce 672/24, 160 00 Prague. 1 April 2019.

<sup>109</sup> Mobile phone users China 2013-2019 | Statistic. *Statista* [online]. [Accessed 31 March 2019]. Available from: <https://www.statista.com/statistics/233291/forecast-of-mobile-phone-users-in-china/>

The second weakness I see, is the go-to-market<sup>110</sup> strategy. Even though HCC has a variety of products serving the market of China, I believe the company should create an exclusive financial product for daily usage, which would offer valuable benefits including a collection of points, special offers as well as discounts. This would encourage the loyalty of the customers who search for profits and gains.

Despite the fact Home Credit is a POS leader in China, the superb brand awareness should be a goal to work on. Every Chinese citizen knows JBAT, but not Home Credit. Sometimes and despite informing them in accordance with the applicable law, customers taking a loan at the POS do not necessarily have the perception that the loan is given through Home Credit. If the POS is for example located in the ALDI store, the customer applying for the loan may think that ALDI is the loan provider. I see the potential in banners, stoppers, wobblers, or leaflets with specific product and Home Credit's offer. However, I believe, that the brand awareness will skyrocket via the usage of the Market Place (e-shop), as it will undoubtedly generate massive daily traffic, encourage clients to stay connected, and continue their relationship with HC. Television commercials promoting concrete products offered in the HC e-shop will also have a positive influence on building the brand. Advantageously, the outlay for the TV ad should be minimal for HC, as the company owning the promoted product will pay the costs.

## **Opportunities**

Home Credit has introduced closer cooperation with third parties, signing a strategic partnership agreement with the Chinese conglomerate CITIC Group last year, aiming to cooperate in various ways and to deliver win-win solutions for each party. It seems to me that building these kinds of partnerships with valuable Chinese players should bring Home Credit new sources of funding, boost comparative advantage, strengthen the company's position, and ability to collaborate in numerous fields of activities.

A few years ago, people used to take out a loan to buy mobile phones, small electronics, or home supplies. Nowadays, Junior White Collars and Middle Class segments of HCC are often willing to spend more significant amounts of money to enjoy traveling or to obtain a world-class education. In my opinion, Home Credit may consider further targeting the middle class, enter the upper middle class, and even the wealthy part of the population. These are the people

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<sup>110</sup> Home Credit China go-to-market strategy is a plan to enhance the overall customer experience and achieve competitive advantage.

who may borrow money for expensive travels, healthcare, luxury clothes, or plastic surgeries. We are talking about a group of 150+<sup>111</sup> million Home Credit's potential customers.

Joint lending is an equity-light business model where the customer loan is split between Home Credit and a joint lending partner. In my judgment, joint lending is the future of Home Credit's borrowing strategy in several product sectors. In some cases, large banks can offer a lower interest rate compared to Home Credit's. Therefore, HC should continue cooperating with JL partners in definite sectors, where they offer a lower interest rate. JL partners (banks) will serve more clients, while Home Credit will lower the risk by providing 10% of the loan and still generate a decent profit.

Last year, the Chinese government allowed foreign companies to apply for a Bank License. The international entity can own the majority of the bank; therefore, gaining full control. The potential benefits were briefly pointed out by Home Credit Group Chief Commercial Officer, and I suggest, in the light of this, Home Credit should bring Air Bank to the Chinese market. Air Bank would apply the successful business model from the Czech Republic, serving as a retail bank and a significant source of funding for the Czech HC. Having Air Bank in the Chinese market would further help to widen the Home Credit's funding channels. In PRC, having a stable and sufficient source of funding is an absolute necessity.

## **Threats**

The Chinese regulatory sector has been continuously evolving with a tremendous level of unpredictability. It restricts funding channels and other activities, and simply makes new rules along the way. The only advice I can provide to Home Credit is to continue supporting financial literacy, social responsibility, and promoting social harmony to benefit the Chinese society as a whole. Secondly, the rocketing growth of unlicensed lenders as P2P has occurred in the last couple of years. On the one hand, the business is conducted by strictly regulated licensed consumer finance companies, and on the other hand, by unlicensed companies operating under relatively loose rules. I would recommend Home Credit China establishing a unified consumer credit business supervision system. A unified regulatory system will facilitate fair competition among various institutions, and a trustworthy competitive environment will be more conducive to the development of licensed institutions. More importantly, unified supervision will further

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<sup>111</sup> Home Credit Group. *Internal Documents*.



restrict the premature advance behavior of non-licensed institutions, promote the concept of responsible loans, and provide better protection for borrowers.

Even though Back License is a big opportunity to sustain funding, funding itself is still a leading component of most threats to Home Credit. The regulator can restrict or limit any source of funding. From my point of view, market players including Home Credit should encourage regulatory authorities to issue a policy to strengthen the importance of licensed consumer finance companies and allow them to seek finance from insurance companies. Thanks to this, Home Credit and other licensed CF companies would be able to obtain the same level of financial support as the real economy industry. As Thomas Wang informed me, the whole consumer finance sector can only be financed from the domestic institutions. I would suggest Home Credit and other leading companies to fight for promotion and legalization of overseas financing in order to access new financing channels and to meet the steadily rising needs of the Chinese people. This act will also play a positive role in expanding the use of offshore Renminbi and promoting the internationalization of RMB.

Another threat in the HCC strategy may be the emergence of JBAT (JD, Baidu, Alibaba, Tencent). These online companies are currently focusing on the more affluent community, but with approximately 800<sup>112</sup> million clients in their database, I believe, they can enter Home Credit target segments and become serious competitors. Furthermore, JBAT has made significant steps forward in automation and possesses a much stronger brand than Home Credit China.

Lastly, Mashang CFC, with some members of senior management from HCCFC, should be viewed as a potential threat. Mashang's business model is very similar to that of Home Credit, and it might be further developed according to key features of the Group's model.

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<sup>112</sup> Interview with Chief Executive Officer, Home Credit China. WeChat Video. 29 March 2019.

## 2019 HCC Strategy<sup>113</sup>

**Sufficient and sustainable funding** - continue in the funding channels diversification. Expand the Joint lending financing, issue more ABS, and put more emphasis on financial bonds.

**Equity-light business models** - business models as Joint lending to balance the business and increase the ROE.

**CUSTEX** (Integrated customer experience) - receiving feedback on Home Credit China from its customers. The HCC will experience what the clients appreciate and what they do not throughout the whole lending process.

**Risk Management** - 44% of the credit risk of the whole Home Credit Group lies in China. However, a massive growth occurred in Home Credit businesses in Indonesia, the Philippines, and Vietnam; therefore, the investment share of China will eventually decrease. Further, innovate the automated underwriting processes to make immediate as well as effective decisions on loan applications.

**Brand** - building the brand awareness through HC Market Place and new potential products.

**Effectivity** - reduction of employees and substituting them with the usage of VoiceBots and ChatBots.

**Big Data** - enhance the data usage far beyond the client application to improve scoring models' performance and Home Credit's services.

**Win-Win Partnerships** - continue cooperating with the big financial institutions to boost funding sources as well as a competitive advantage.

*"We are well-positioned for the future. We are focused on offering industry-leading products to our customers. We remain able to adapt quickly while being vigilant about our risk and costs. So while we are delivering good results today, we believe to have even greater potential for the future."*<sup>114</sup>

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<sup>113</sup> The 2019 HCC Strategy was discussed with numerous key Home Credit employees.

<sup>114</sup> ŠMEJC, Jiří. Home Credit Group. *Annual Report*, 2016. P. 7. Available from: <http://www.homecredit.net>

## Conclusion

This work was aimed to describe and examine the business strategy of the consumer finance company Home Credit and identify the main factors as well as challenges behind the company's success in the ever-changing Chinese market.

The thesis consisted of three pillars. The first part of the work was dedicated to a brief description of the company; identification of concrete products in the portfolio; Home Credit's current market position; its presence on markets worldwide; a short summary of the history; and Home Credit brands to provide the reader with a sense about the development of this global company. The primary sources of the first chapter were derived from one-to-one interviews, PPF Group Annual Reports, Home Credit official documents, and Home Credit Group webpage. Facts about Home Credit brands were retrieved from PPF Annual Reports and selected Internet sources.

The second chapter described the main factors I have identified to be crucial for the business strategy of Home Credit in China. I characterized consumer finance, its history, continuous development, and included a chart of all consumer finance entities in the People's Republic of China. This was followed by Home Credit China market entry; its growth; financial highlights; target segments of customers; product portfolio; and current competitors. Chinese business culture, values, and traditions were necessary to mention as Home Credit has to constantly focus on respecting the local culture, building constructive relationships within it, and promoting social harmony. Even though it is a sensitive topic, I was required to "touch" on the economic and political situation in the People's Republic of China as, to a significant degree, this affects the business strategy and operations of Home Credit. Regulators and funding have been subjects of great importance for Home Credit's strategy, as the business is directly affected by the unpredictable changes in the Chinese regulatory policies, which have an impact on the channels and amounts of funding. A qualitative research method in the form of interviews was a major source of this chapter, followed by information retrieved from Home Credit Group and PPF Group Annual Reports, Home Credit official documents, China consumer finance market researches, university reports, and selected Internet sources.

In the last section, attention was given to Home Credit China Sustainability and Social Responsibility, which is an important part of the company's business model. This involves not only building relationships with the customers, but also promising safe lending and providing

them with education about loans as well as money management. Later, a short paragraph was dedicated to Home Credit Consumer Finance Company Business Innovations, rapid development of Artificial Intelligence, and Big Data. Finally, I interpreted and evaluated my findings on the business strategy supported by a SWOT analysis and indicated the core strategy of Home Credit China for the near future.

What were the key factors behind Home Credit to enter such an unpredictable market? Are political connections essential for Home Credit's operations? To what extent do regulators affect the business? What are the fundamental funding sources? What is the Group's main target segment of citizens and what are the products offered to the Chinese population? What is the future of Home Credit China in terms of business strategy and innovations? These questions were all discussed and answered in the appropriate sections of the thesis.

While the world is shrinking, the Home Credit's possibilities keep on expanding. The goal is to enable people to keep up with their ambitions, needs, and dreams in a fast, simple, and smart way. It all started 22 years ago in one small Czech town. Home Credit had a tiny team but big plans for the future. Since then, the Group has concurred three continents, opened thousands of branches, and served millions of people. Everything Home Credit does revolve around clients' needs. The company speaks the language they understand and lends without creating unnecessary obstacles. Home Credit Group is not only changing consumer finance, but transforming the entire markets, and teaching the world a new style of shopping. In many countries, the Group has basically introduced the term "consumer finance," and launched new innovative brands.

Home Credit has succeeded in China alongside hundreds of competitors because they are simply the best. I attribute this success to three main reasons. Firstly, Home Credit benefits from the fact that Czechs are very adaptable, lack arrogance, and have enormous respect for local specifics and cultural differences. The employees have been able to build relationships, learn from others, find win-win solutions, and work together as one team. Secondly, the private ownership has been a massive benefit due to its speedy decision-making processes, reserves of patience, resilience, and an endless persistence combined with a "never give up" mentality of the shareholders to develop a successful company in the Chinese market. Third, Home Credit quickly dominated the Chinese consumer finance market with an exceptional shopping experience. Although much learning and training still has to be done, the Group has used its know-how and more than 20 years of successful involvement in consumer finance to achieve

an enviable position in a difficult market. The Czech Republic has a very successful company, which is a world leader in many countries, with both developed and emerging economies. This is something to be really proud of because it is Czech entrepreneurship and innovation that has driven the success. Although the company is largely technology led, it has used this basis to develop excellent customer experience and effective risk management, which in turn have made a significant contribution to overall business success.

Home Credit has to act as a role model in order to bring about change in the world, while the Group will only succeed in bringing fairness, inclusivity, and sustainability to customers if the company and its employees live by these values. Be fair, be innovative, be entrepreneurial, and be focused on results. Home Credit's values are present all over the globe. Taken together, I believe they represent what is best about Home Credit.

Without doubt, Home Credit's business strategy can be seen as a guide for other companies and investors on how to succeed in the People's Republic of China.

As stated above, this work included selected business strategies of Home Credit Consumer Finance Company. I would suggest future research built upon the findings of this thesis while exploring other strategies contributing to the company's success. In my view, Home Credit China is both well prepared for the future and able to cope with any potential issues and threats. However, as business in China is evolving rapidly, I suggest continual monitoring of the changing environment and Home Credit's results to either confirm or deny this study in the long term.

What will happen if the regulators cut off some significant funding sources? What if the government demands a share in the company? Will the China-United States trade war have a substantial effect on the Chinese people and the consumer finance industry? Is the current Huawei controversy and mystery a threat to Home Credit? All these assumptions might be addressed in future studies.

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