

Donath-Burson-Marsteller
The Fleet Sheet's Final Word

*How managerial perceptions reflect media
criticism of the Czech banking sector*

Final Survey Report

Prague, October – November 2009

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About the survey

The Czech press's negative coverage of certain issues related to the Czech banking crisis led us to conduct a survey of the impact of the negative coverage on the views of Czech opinion leaders. The survey addressed topics ranging from the stability of the banking sector to the level and range of services provided by Czech banks, as well as the way the largest banks and their products are perceived.

The survey was conducted through Donath-Burson-Marsteller's electronic polling system and took place in the period from Oct. 14 to Oct. 22. We surveyed the opinions of readers of the influential internet news bulletin *The Final Word*, published on workdays in English by the Fleet Sheet. Readers of the *Final Word* have middle and upper-level decision-making authority and play a significant role in influencing the opinions of people in their immediate surroundings. Most of the readers of the *Final Word* work in the business sector.

The questionnaire was completed by 550 respondents, 33 of whom declared themselves to be active in banking, and 34 in finance. Although the banking group represents only 6 percent of the total number of respondents, we regarded it as so important that we decided to present this group's views separately when evaluating the answers to most of the survey's individual questions. Results are presented in the form of graphs showing the distribution of the views related to the individual statements. The graphs are supplemented by short descriptions of the main findings, sometimes with the mention of details we found interesting. It is important to note these details are not always statistically significant.

The report's appendices contain detailed information about the survey as well as the replies respondents gave to open-ended questions.

Main findings

Dominating among respondents is the opinion that the current crisis does not immediately threaten the Czech banking market and that none of the risks facing the market are critical in nature. Foreign owners of Czech banks represent a rather stabilizing element, but the risk of capital being taken out or of a bank being sold is not negligible.

Most respondents expect further consolidation in the banking sector. The greatest threat to the established banks in terms of the retail market is thought to be low-cost banks. On the corporate side, loans from within multinational groups are thought to pose the greatest threat.

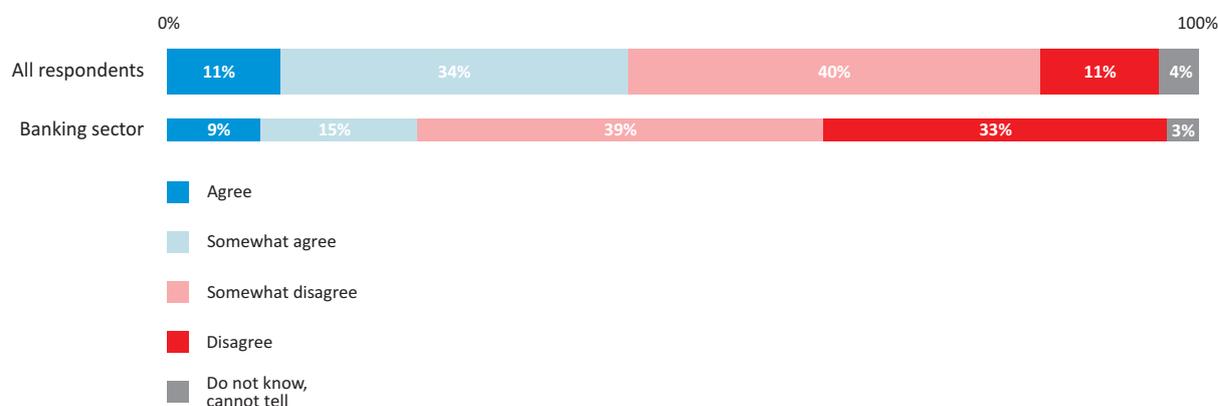
In terms of banking services, respondents expressed extremely critical opinions, with a significant majority agreeing with statements that were formulated aggressively. For example, more than three-quarters of respondents said they agree or somewhat agree with the statement, "Clients are banks' prisoners, and banks abuse this." Almost 80 percent of respondents thought that banks' "unwillingness to make corporate loans is due to the inability to identify promising clients and projects."

As far as the assessment of individual banks and their services is concerned, there are only small differences in the way they were perceived, with the exception of responses related to the "stability" and "comprehensiveness of services" parameters.

Banking sector – stability

Bank stability is put at risk in the current crisis

Do you agree?



The number of positive and negative responses is almost equal. The views of almost half the respondents regarding the stability of the Czech banking sector are therefore in conflict with the unambiguously positive views of representatives of the Czech National Bank. The respondents who declared themselves to be from the banking sector rejected statements about bank stability being endangered, with few exceptions.

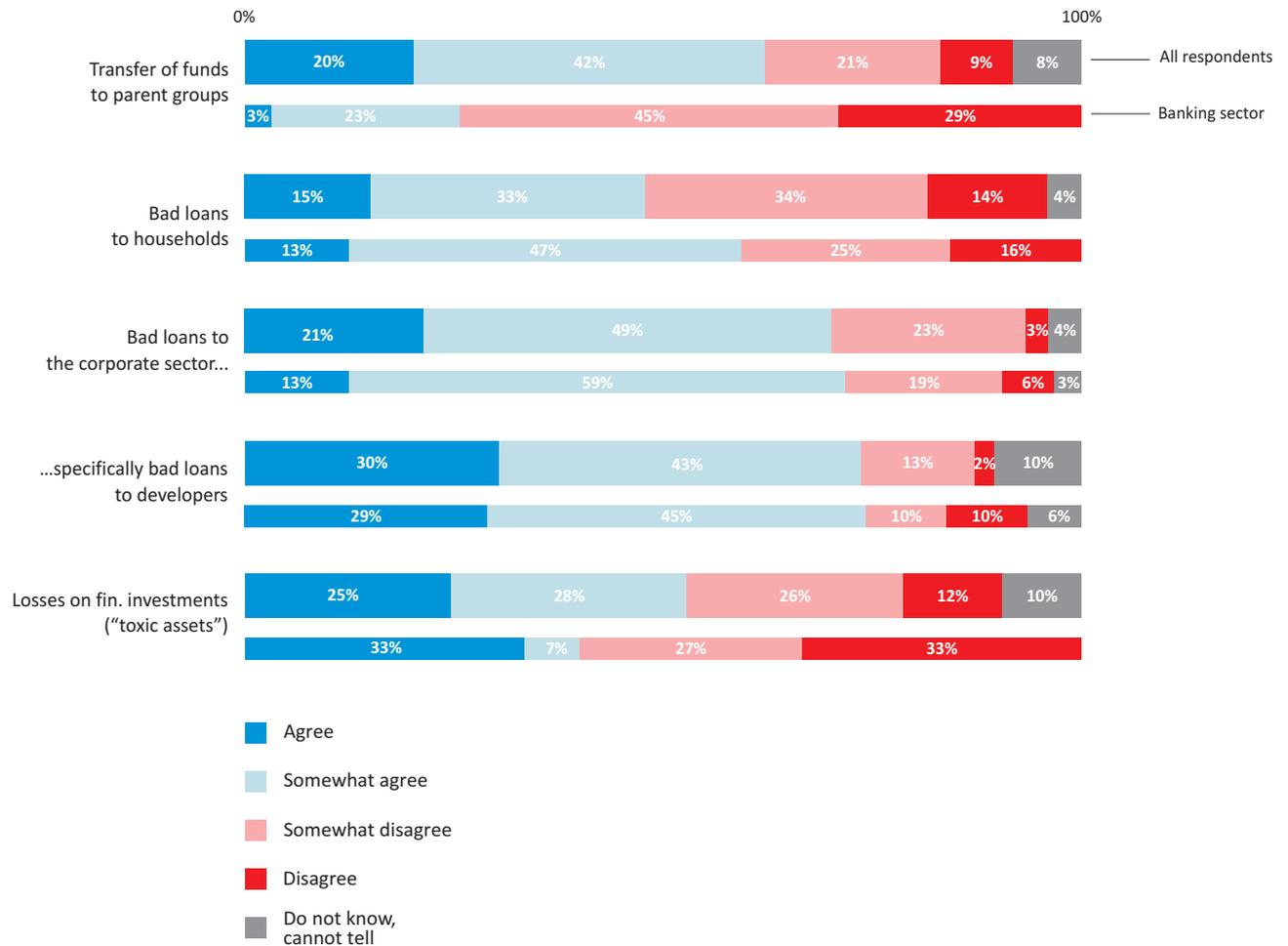
Of the 59 respondents who expressed clear agreement with the statement that banks are at risk, 14 provided explanatory comments. All of these comments are contained in Appendix No. 1 — Comments by skeptics regarding bank stability.

As a matter of interest:

- Seven respondents thought that banks are in danger and declared clear agreement with all of the five reasons offered. Only one of them, though, is from the financial sector; none of them said they were from the banking sector. With one exception, they all completed the English version of the questionnaire.
- There were 44 respondents who agreed or somewhat agreed that the banking sector is at risk and who also agreed or somewhat agreed with all of the reasons given. Five of them are from finance, and two are from the banking sector.

Banking sector – stability

If banks are at risk, the reasons are:



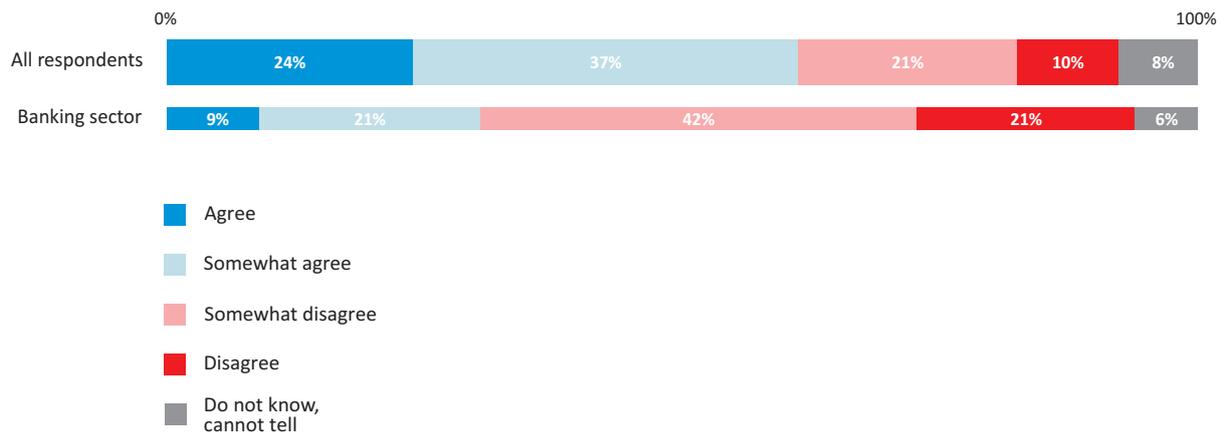
The only threat of those listed that was rejected by respondents (albeit by a slight majority) is loans to households. Here, respondents from the banking sector are more pessimistic. On the contrary, their opinion about the risk of taking capital out for use by parent groups is more optimistic and even diametrically opposed to the view of the majority.

Respondents from the banking sector reported clear-cut attitudes regarding banks' losses from financial investments as a reason for putting banks at risk. There are 10 of each “agree” and “disagree” attitudes, whereas there are only two who replied with “somewhat agree,” and eight replied with “somewhat disagree”.

Banking sector – stability

The Czech National Bank should supervise the banking sector more strictly

Do you agree with the statement?



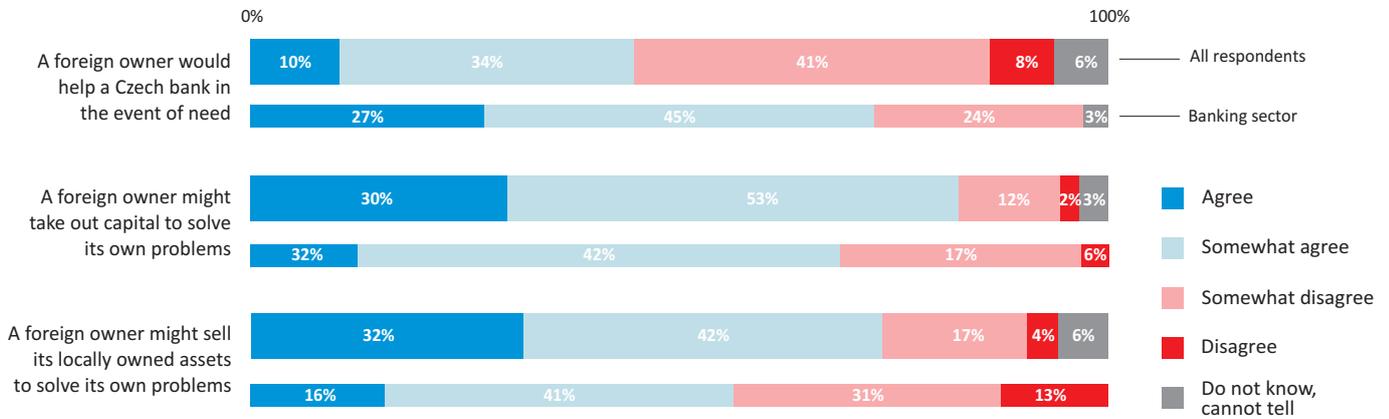
The supporters of regulation — those who agree or somewhat agree with the statement that the Czech National Bank should more strictly supervise the banking sector — are double the respondents who disagree or somewhat disagree.

As a matter of interest:

Forty four respondents came out clearly for stricter regulation by the Czech National Bank but said that banks are not at risk (“disagree” or “somewhat disagree”). There are only 13 opposite cases where a respondent agrees or somewhat agrees with whether banks are at risk but clearly disagrees with tightening regulation. However, not all of them are ultra-liberals: seven of them agree that consumer-protection organizations should show an interest in the banking market. Three even expressed agreement with the statement, “Bank profits are immorally high, and something should be done about it.”

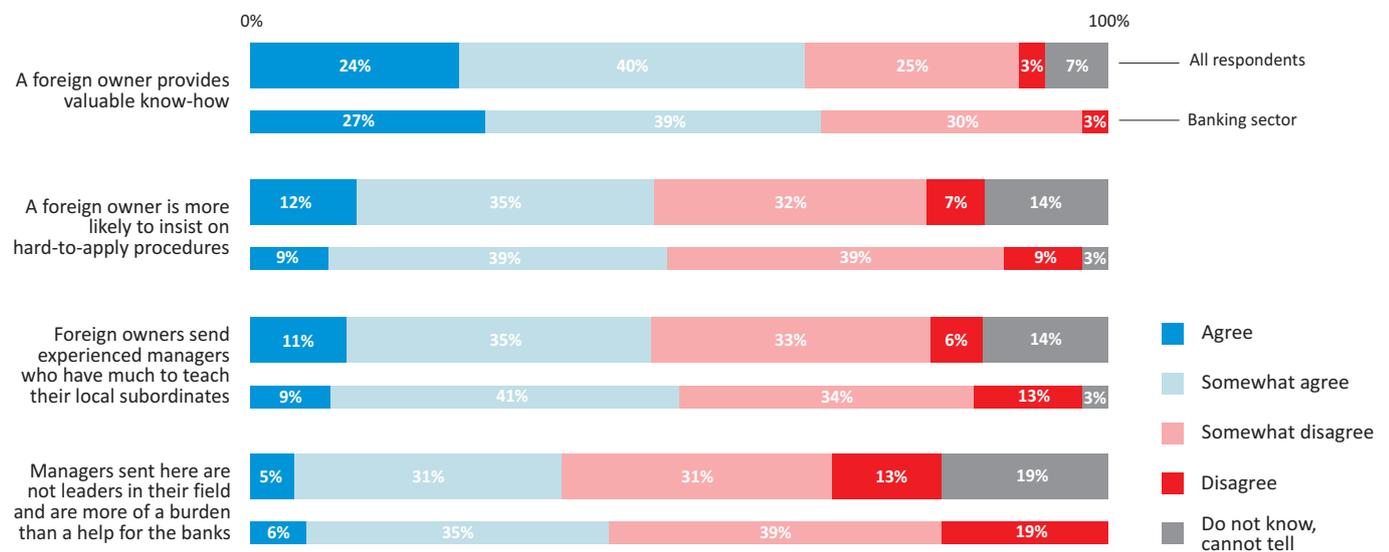
Influence of foreign owners on Czech banks

Do you agree with the following statements?



Supporters of the hope that a foreign owner would help its Czech branch are roughly as numerous as those who do not share this view (48% agree or somewhat agree). However, the opinion that a foreign owner could take capital out to resolve its own problems is clearly dominant (85% agree or somewhat agree).

Those who think a foreign owner could realistically sell a bank (agree or somewhat agree) total 78 percent, and 56 percent of these responses come from respondents within the banking sector.



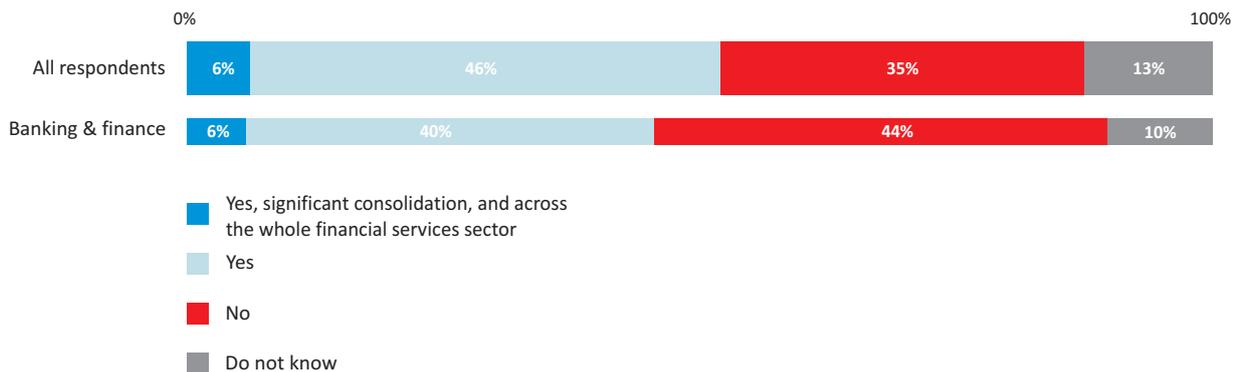
Seventy percent of respondents „agree“ or „somewhat agree“ with the statement that foreign owners provide valuable know-how to Czech banks.

Fifty-four percent of respondents „agree“ or „somewhat agree“ with the statement that foreign owners send experienced managers who have much to teach their local subordinates.

Banking sector – future

Do you expect further consolidation on the Czech banking market?

What is your opinion?



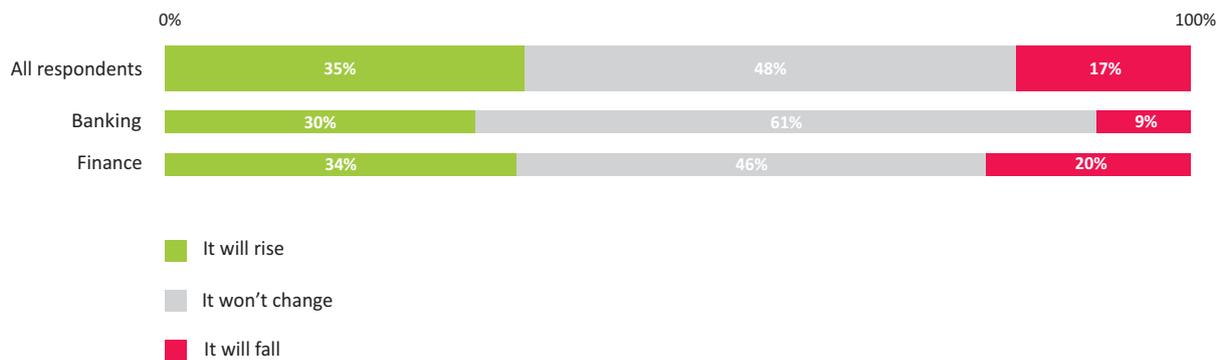
Only 32 respondents expect an earthquake in the form of a “significant consolidation of the banking market, and across the whole financial services sector,” but a simple majority (exactly half of the respondents from the banking sector) expects “further consolidation of the banking market.”

Note: The reason we combined “banking” and “finance” into one group is that the first of the questions posed was aimed at the entire financial services sector.

Banking sector – future

Do you think that the share of banks in the market for retail financial services will rise or fall?

What is your opinion?



As far as the share of banks on the market for retail financial services is concerned, the opinion predominates that it will not change. The number of those who expect the share of banks to rise is nevertheless twice as large as those who expect it to decline.

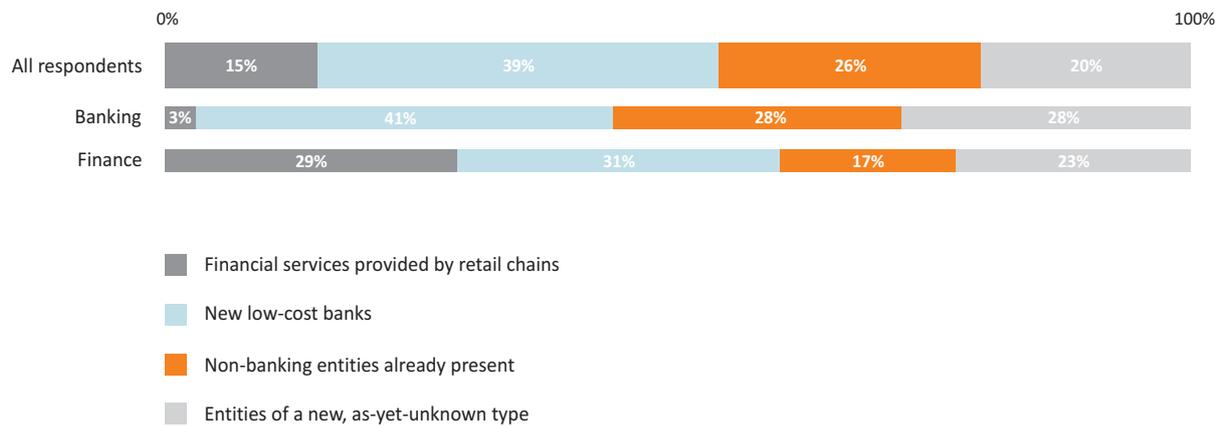
The difference between the expectations of respondents' who declared themselves to be part of the banking sector and those from finance is only small.

As a matter of interest:

Both respondents who expect an increase in the market share of banks and those who expect the share to fall evaluate banks in essentially the same way. The average marks they give big banks differ only slightly. For example, in the “modern and progressive” parameter, it is 2.5 versus 2.7 points (see Page 19).

Banking sector – future

The greatest threat to banks on the retail market is/will be:



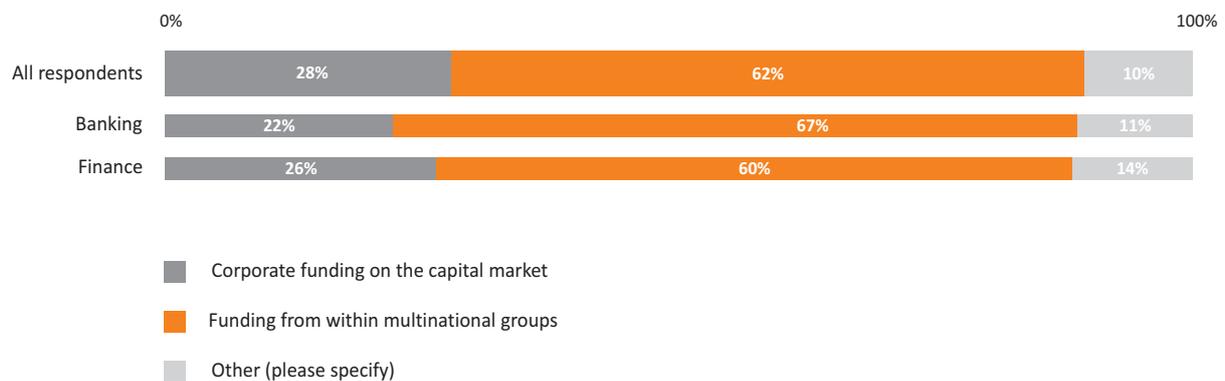
N.B. The chart shows the percentage of those who agreed with the option

All groups of respondents perceived the biggest threat as new low-cost banks.

The largest differences are in the view of the threat posed by retail chains. Whereas respondents from banking marginalize this threat, those from finance regard retail chains as posing almost the same level of threat as low-cost banks.

Banking sector – future

The biggest threat to banks in the corporate segment is/will come from:



N.B. The chart shows the percentage of those who agreed with the stated option

Loans to companies from within multinational groups are clearly regarded as the biggest threat in the corporate segment.

Most additional comments provided by respondents mentioned perceived threats related to the ongoing financial crisis.

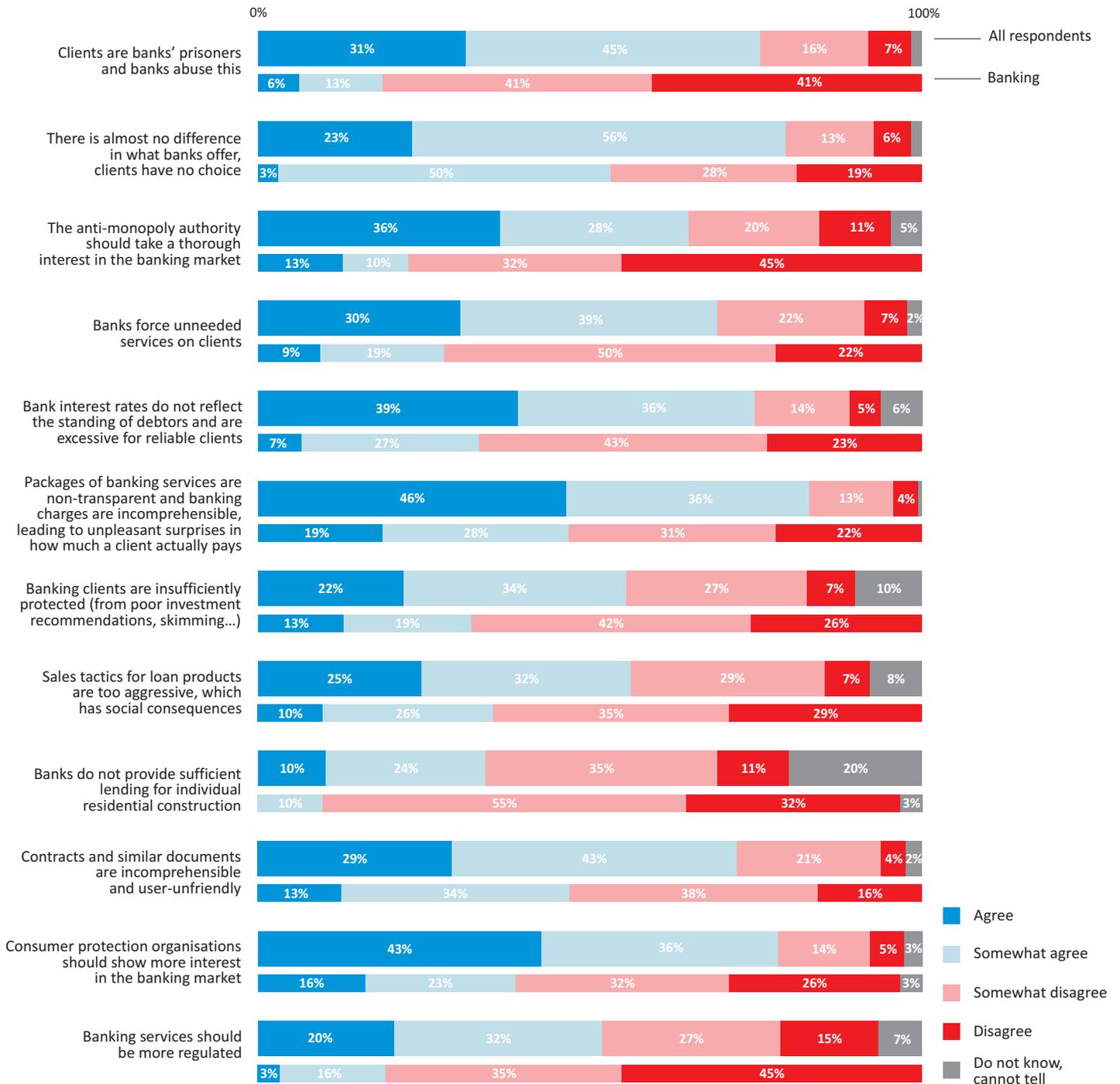
As a matter of interest:

Of the five “external threats” specified, four concern private equity or venture capital (but with the caveat that “it is not a threat, but more the only small-volume alternative”) and one financing through the use of investment banks.

Banking services

Banking services – retail

Do you agree with the following statements?



Among all respondents expressing an opinion, there was the most agreement regarding the critical statement about the non-transparency of packages of retail services.

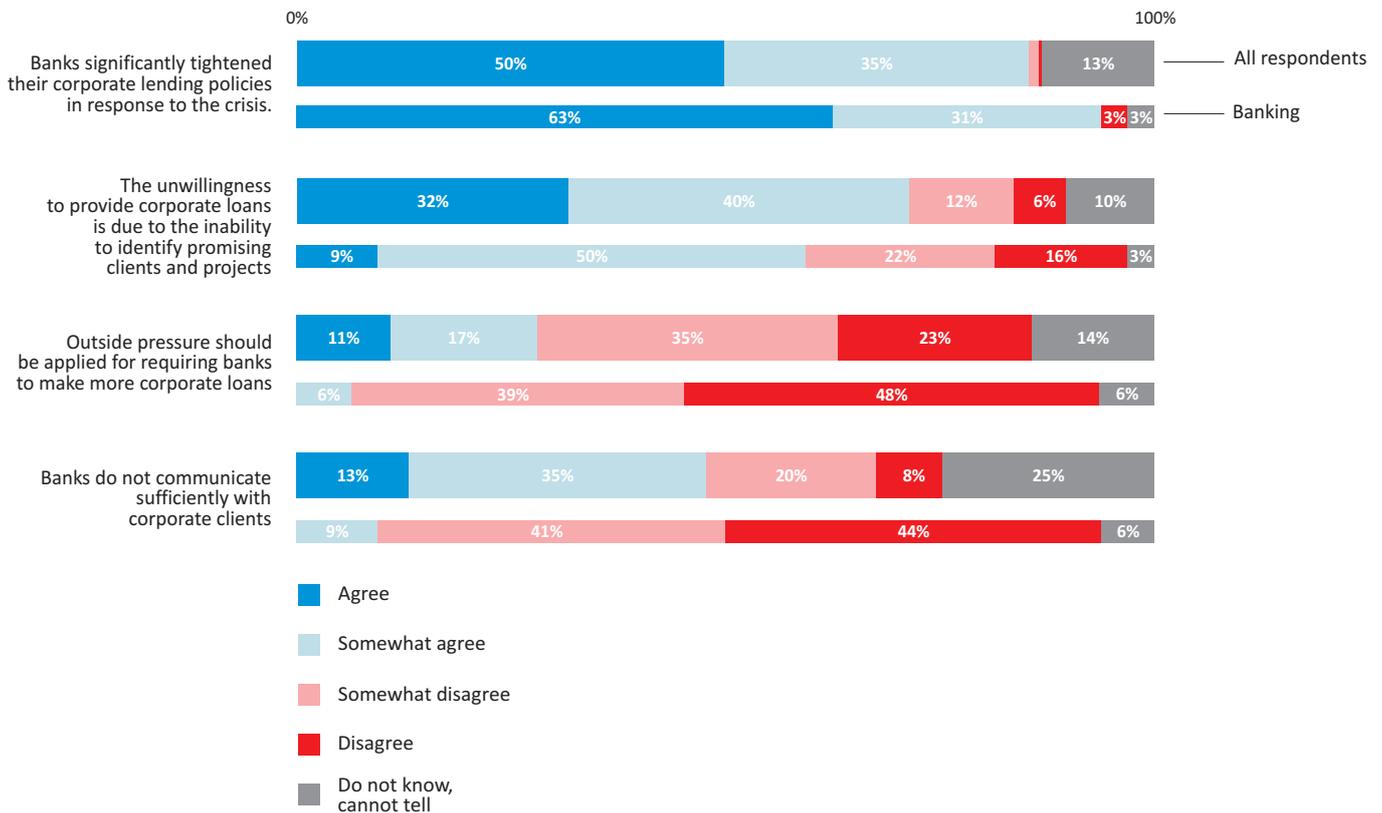
As a matter of interest:

Eight respondents agree with all 10 critical statements about retail banking services. On the contrary, two respondents expressed fundamental disagreement with all the statements.

Banking services

Banking services – corporate

Do you agree with the following statements?



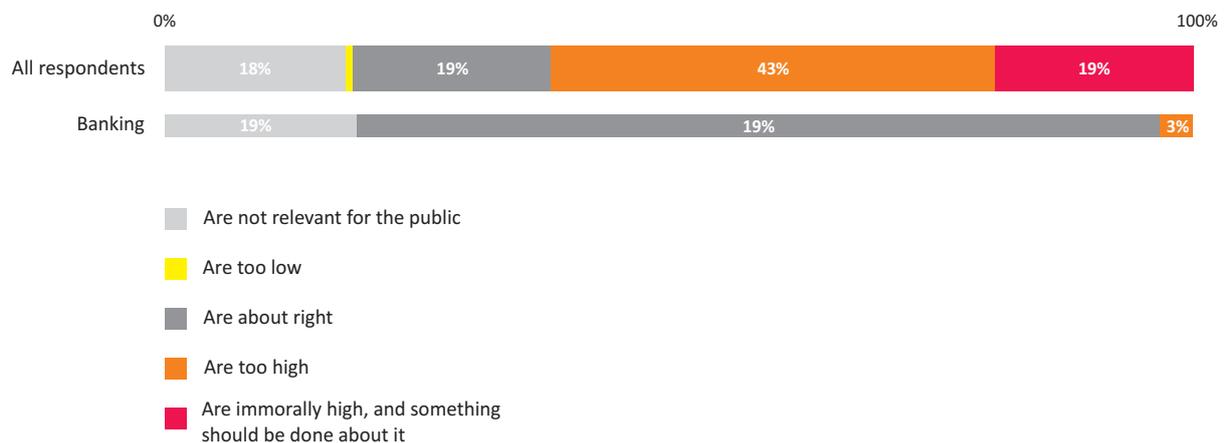
One hundred seventy respondents expressed clear agreement with the statement about the inability of banks to identify promising clients and projects, whereas “somewhat agree” was stated in another 213 cases, which gives a total of almost 80 percent of all those who expressed an opinion on this question. Respondents declaring themselves to be part of the banking sector are also very critical on this point.

Respondents from banking have a diametrically different opinion on communications between banks and their corporate customers from other respondents. Whereas most respondents agree with the claim, “Banks do not communicate sufficiently with corporate clients” (64 percent “agree” or “somewhat agree”), an overwhelming majority of respondents from banking disagree with this (90 percent “disagree” or “somewhat disagree”).

Social responsibility

Bank profits:

Which of the following statements describes your opinion most accurately?



More than 60% of respondents chose one of the two critical responses with regard to bank profits, whereas there was only one such person among representatives of the banking sector.

As a matter of interest:

Of the 104 respondents for whom bank profits are “immorally high and something should be done about it,” a marked majority believes (agrees or somewhat agrees) that:

- Banking services should be more regulated (79 respondents)
- Banks don't share their success with society sufficiently (82 respondents)
- Banks are primarily to blame for the crisis (86 respondents)

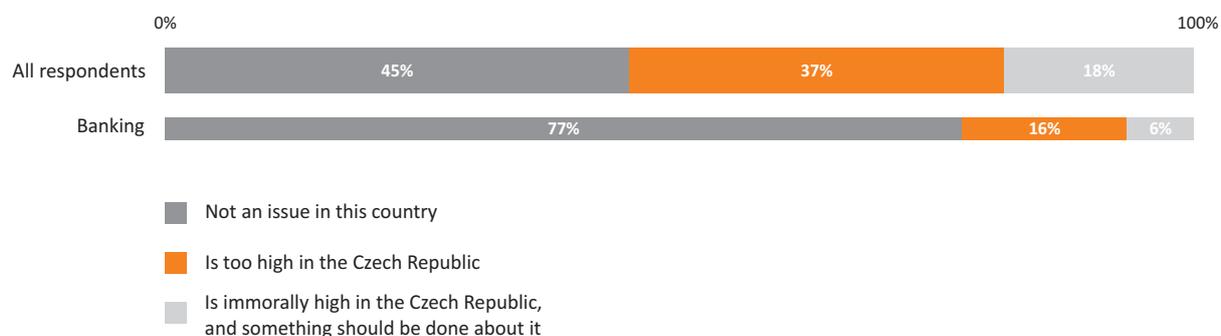
These respondents also rate banks (see page 19 of this report) significantly worse than the average for all respondents:

- For social responsibility: 3.4 versus 2.9
- For value for money: 3.4 versus 2.5

Social responsibility

Remuneration of bank managers:

Which of the following statements describes your opinion most accurately?



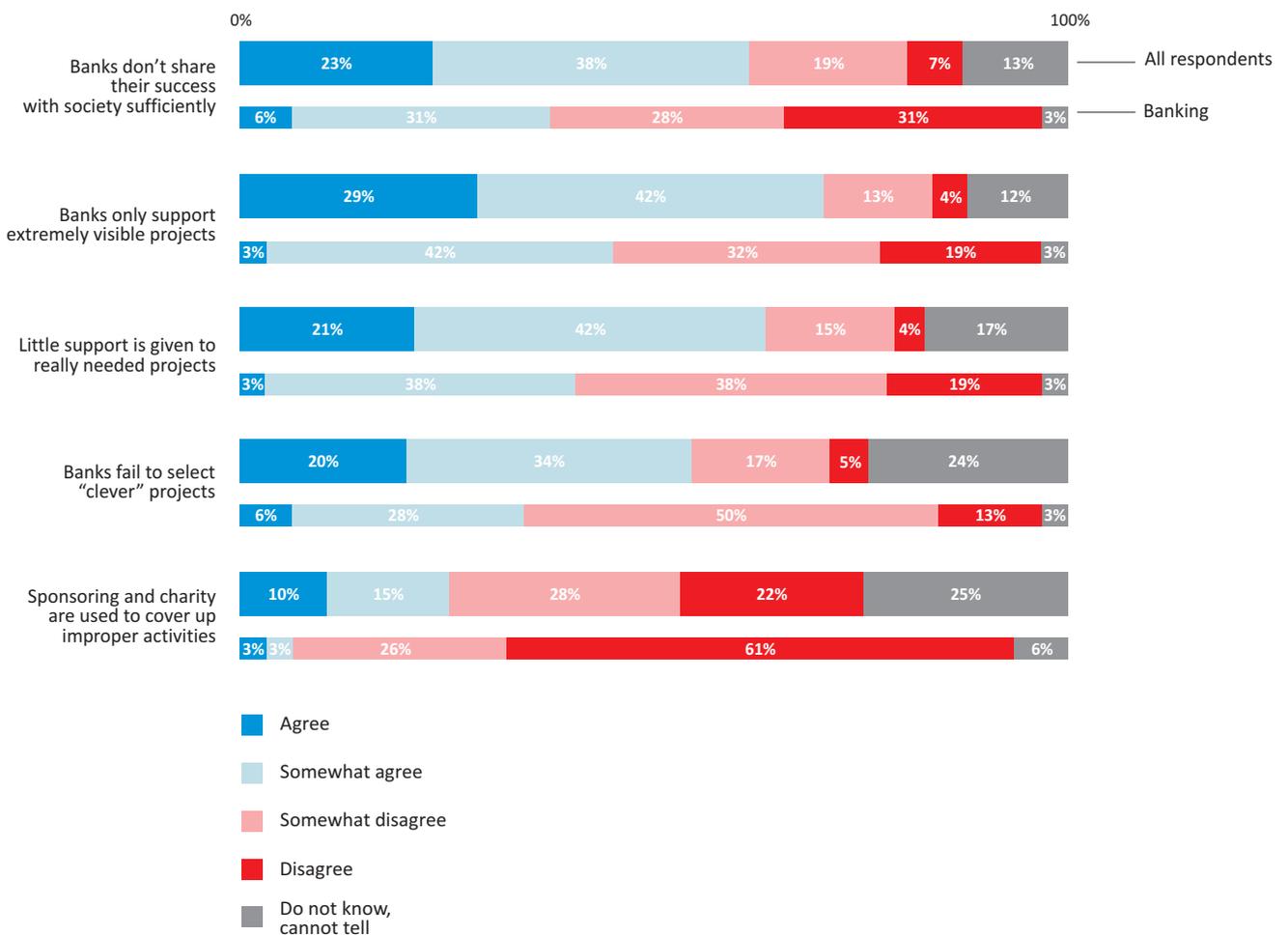
The attitude of respondents from the banking sector was significantly different from the attitudes of the whole set of respondents.

The group of 95 respondents who call for limits on the remuneration of bank managers gives banks' social responsibility an average rating that is four-tenths of a point lower than those who replied that it is only a problem abroad (3.1 versus 2.7 - see page 19 of this report).

Social responsibility

Sponsoring and charity

Do you agree with the following statements concerning corporate social responsibility?



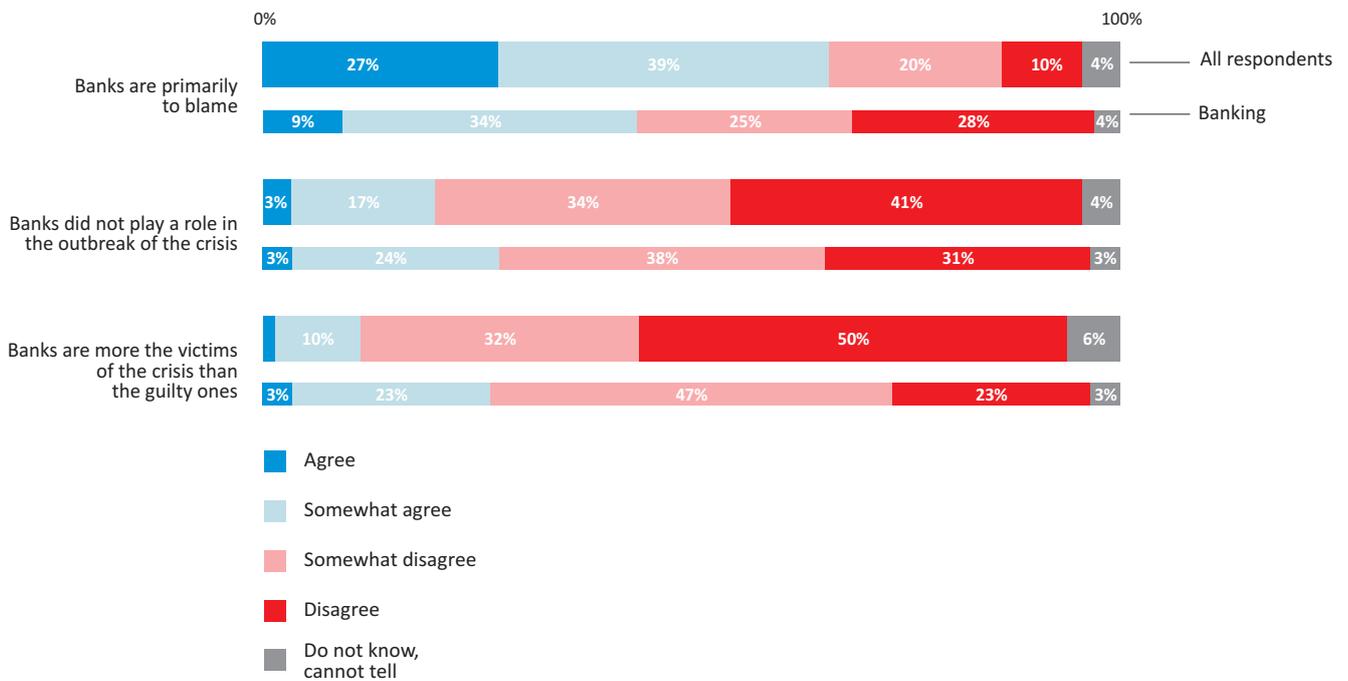
The greatest degree of agreement among respondents was found here with regard to the orientation of banks on only visible social projects (total of 85% agree or somewhat agree). This question also received the lowest level of rejection from respondents from the banking sector (mostly unanimous for “disagree” or “somewhat disagree”).

As a matter of interest:

A third of all respondents report the position “agree” or “somewhat agree” for all of the first four statements. Nine percent of respondents had the opposite attitude, i.e. “disagree” or “somewhat disagree.”

Banking sector and bankers – image

Do you agree with the following statements concerning the role of banks during the financial crisis?

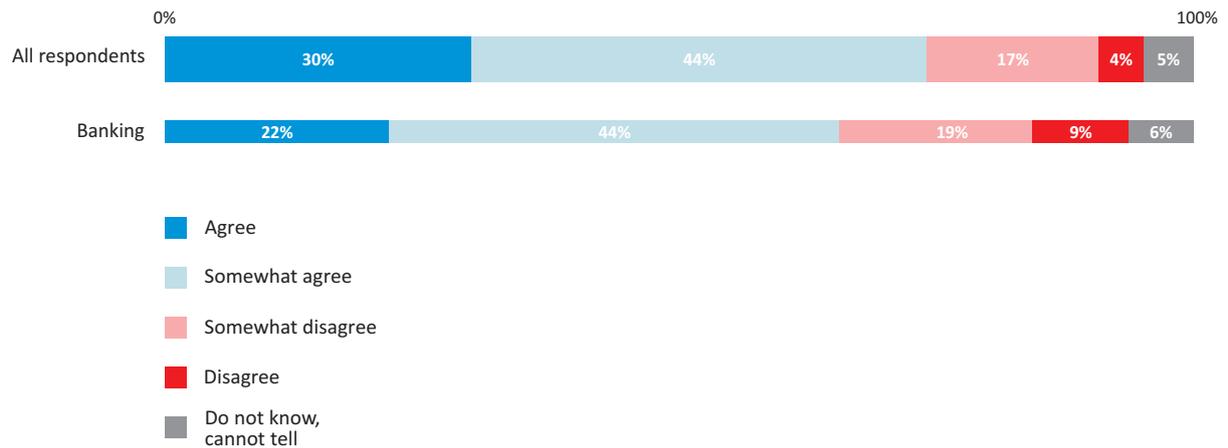


Not only 70% of all respondents but also almost 40% of respondents from the banking sector agree with the statement that banks are mostly to blame for the crisis. More than 70% of the respondents from the banking sector disagree or somewhat disagree with the statement that banks are rather the victims of the crisis than those at blame for it.

Banking sector and bankers – image

Bankers can actively contribute to overcoming the consequences of the crisis on the Czech economy.

Do you agree?



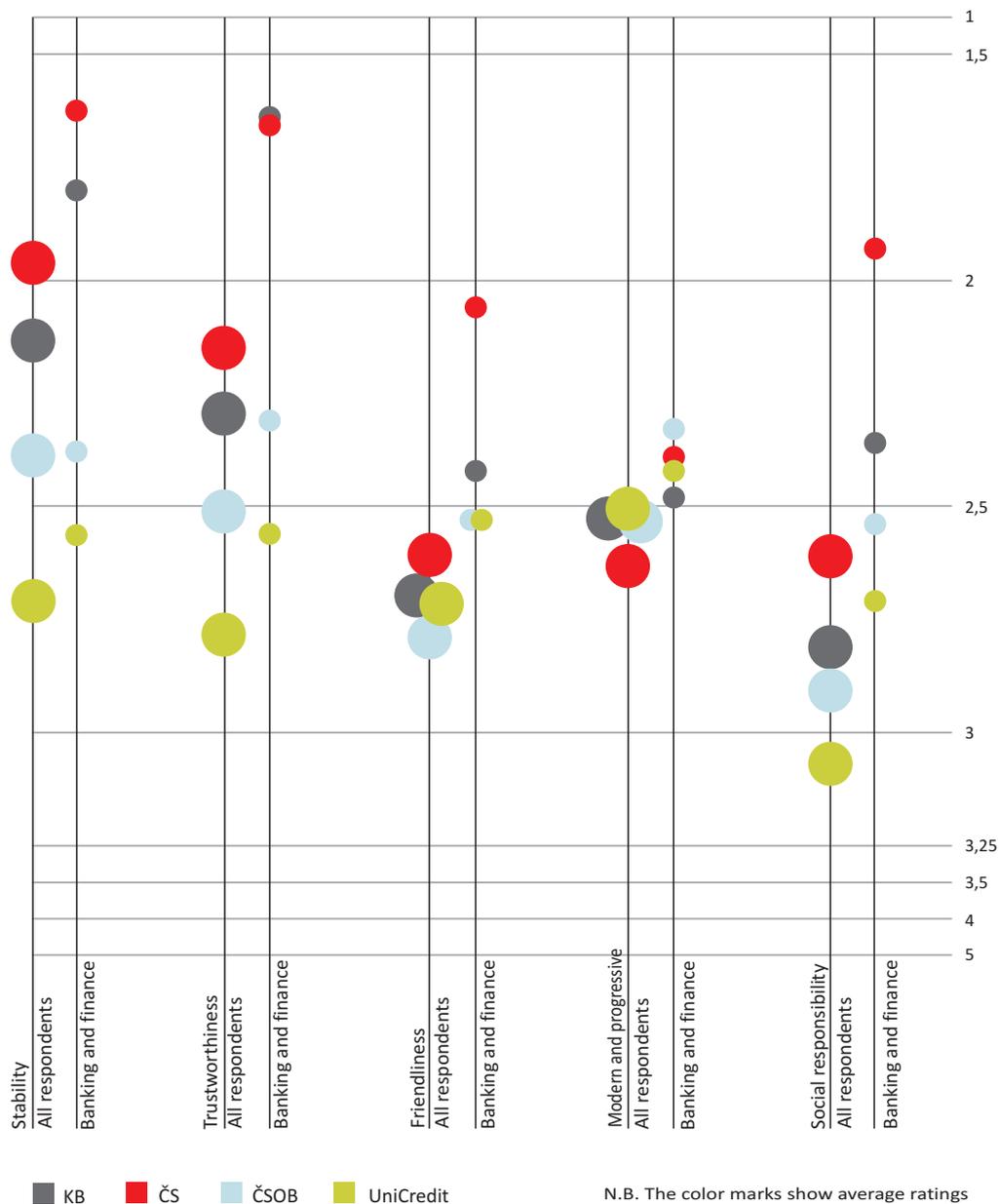
Seventy-eight percent respondents “agree” or “somewhat agree”, while from the banking sector only 70 percent share this view.

As a matter of interest:

Those who “agree” with the statement (162 respondents) rate banks more harshly than the aggregate of respondents in each of the five rating categories (See Page 19). Corporate Responsibility is the parameter with the most significant difference (an average rating of 3,05 compared to 2,85).

Assessment of banks

Rate each of the four large banks — from 1 (best) to 5 (worst) in all categories

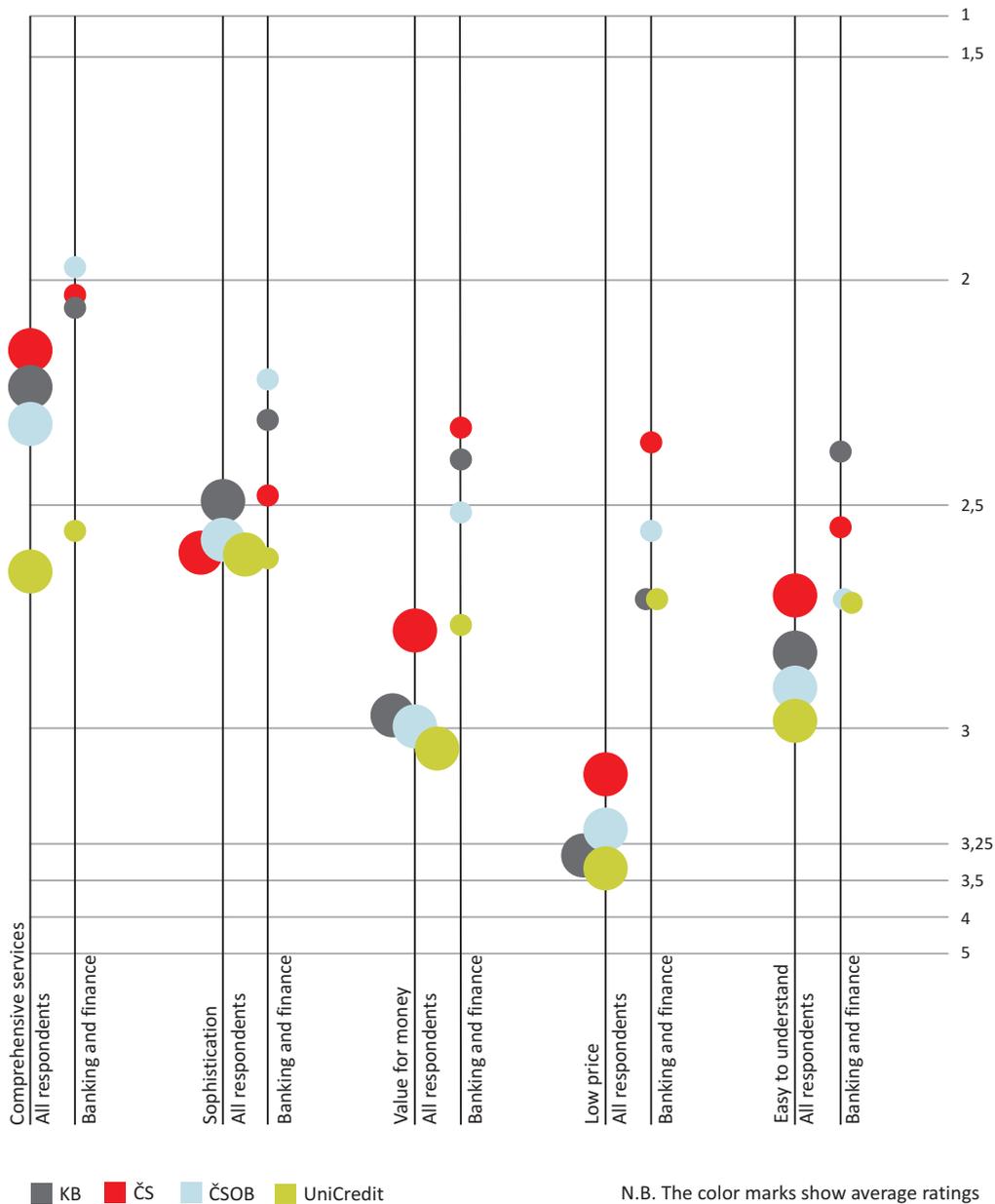


Respondents had the opportunity to express their opinion on the four banks that are classified under the Czech National Bank's methodology as "large banks." In each category, they could also state which banks they consider to be the best. These replies are summarized in Appendix No. 2.

Note to the methodology: The way respondents approached the evaluation of the banks could have been influenced by the previous questions. Therefore, the results are only indicative when measured against themselves; the results should not be compared with the results of other surveys.

Assessment of banks

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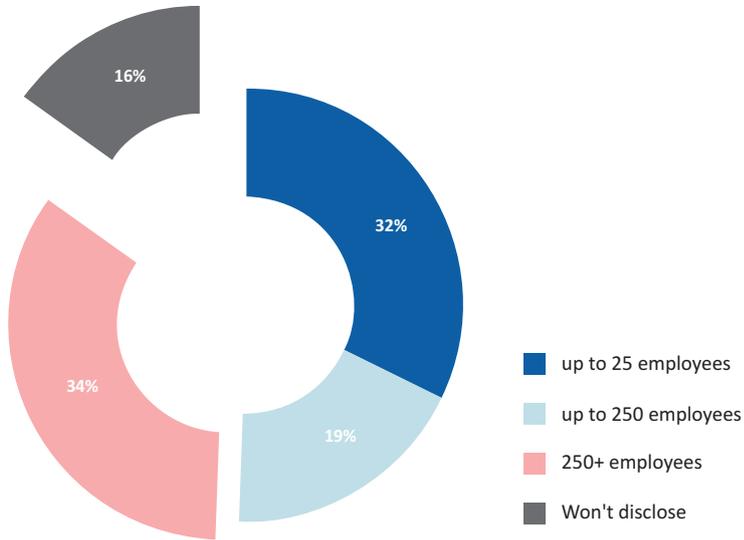


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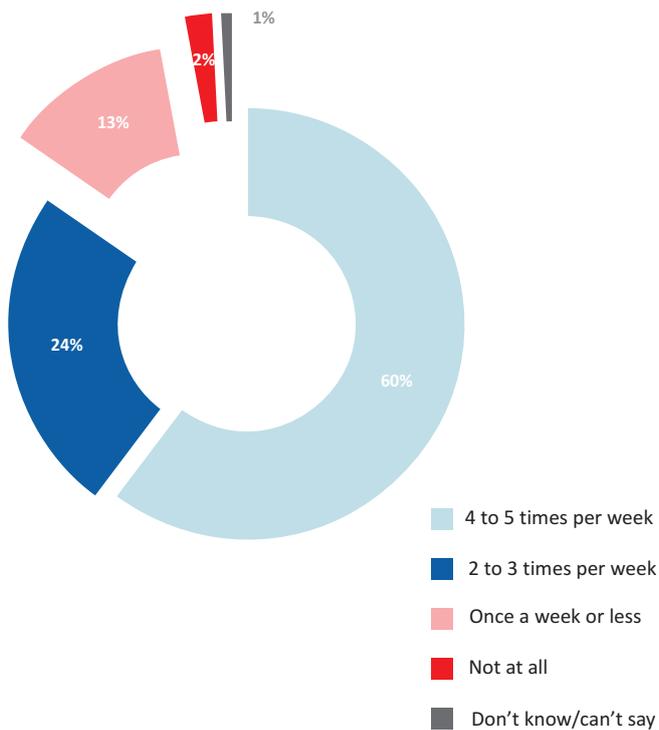
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Respondent structure

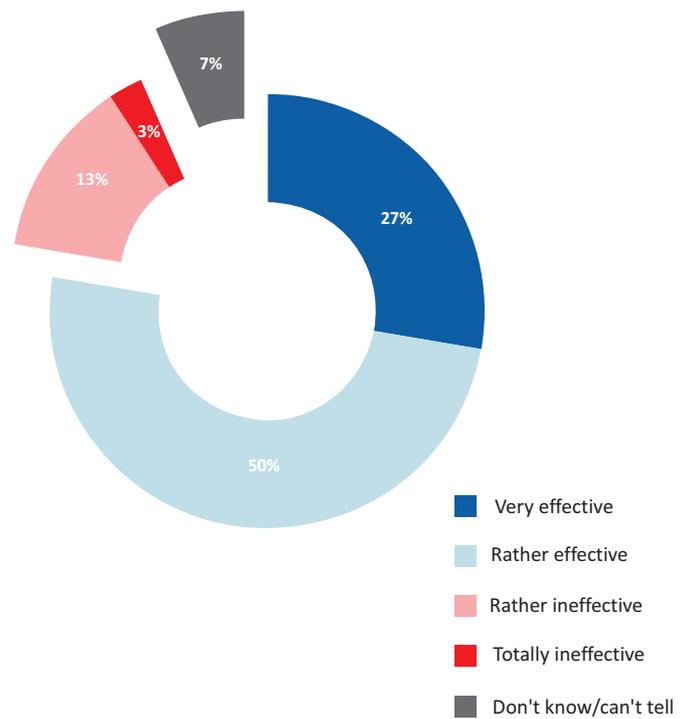
I work for a company with:



How often do you read the Final Word?



How effective do you consider the Final Word in highlighting important issues in the Czech Republic, such as financial crisis?



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Bad-debt torpedo approaching

If you're in a fast boat and a torpedo is fired at you from an enemy vessel, whether you can outrun the approaching missile is a matter of arithmetic. But unless you know all the pertinent values, such as the speed and fuel capacity of the torpedo, praying might be your best option. Czech banks are being pursued by a fast-paced torpedo in the form of non-performing loans. The banks don't know all the pertinent values and are hoping the economy will pick up speed before the bad loans sink them. Results of a recent survey of Final Word readers by Donath-Burson-Marsteller (in [English](#) or [Czech](#)) found that Czech bankers are even more pessimistic about bad loans than managers in general. If a separate report by [Merrill Lynch](#) on German banks is at all indicative for the Czech economy, it could be because Czech bankers know that this bad-debt torpedo still has a lot of fuel left in it.



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The Fleet Sheet's Final Word

is a daily e-mail bulletin targeting political and economic issues in the Czech Republic. For more information see www.fsfinalword.com.

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If you are interested in receiving more information about this survey or about the services provided by Donath-Burson-Marsteller, or by the Fleet Sheet/E.S. Best s.r.o., please contact:

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Appendix 1

Comments by skeptics regarding bank stability (See Page No. 4)

Lack of effective oversight, greed

Distrust among banks during the crisis

Lack of knowledge/experience within the people who will be in charge of the various areas of concern during the present crisis

Liquidity in financial markets (fluctuations)

The fragile situation of parent groups, particularly with the exposure to other countries in CEE region

High banking fees

They make most of their income from fees, and fees have been hurt by low transaction volumes

Poor local management

Entire sector problems - lending longterm and borrowing short term

Continual cronyism, corruption, political ties, intense lobbying and definitely in the background contacts with Russian politicians, new cloak-and-dagger people from Russia, etc.

Overall, poor leadership/management in the banking sector & too much insider privileges to companies that do not deserve banking privileges.

General lack of prudence and common sense

Loans based on FX speculation

Revenues consuming managerial system

Appendix 2

Assesment of banks and their offerings

Banks that were named as the best in individual categories (treshold of three votes applied).
The “Big Four” banks are excluded.

Stability		Comprehensive services	
Raiffeisenbank	10	GE	9
GE	5		
Citibank	3	Sophistication	
Trustworthiness		Raiffeisenbank	13
Raiffeisenbank	7	GE	4
GE	4	Value for money	
Citibank	3	Raiffeisenbank	9
Friendliness		mBank	7
Raiffeisenbank	22	Fio	4
GE	5	ING	3
mBank	4	Low price	
Citibank	3	Raiffeisenbank	13
Modern and progressive		mBank	12
Raiffeisenbank	25	Fio	3
mBank	8	Easy to understand	
GE	6	Raiffeisenbank	8
		mBank	6
		GE	4

Note: Numbers indicate how many respondents named the bank as the best in each given category