

Emerging Sectors of the Sharing Economy in the Czech Republic



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Those who follow media news coverage on the sharing economy in the Czech Republic may get the impression that this new *trend* is limited mostly

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to two sectors: transportation and accommodation, where large international startups dominate. It is true that known brands, established international clientele and sufficient finances for the development of operation in the country are all concentrated within these two sectors. However, the phenomenon of a sharing (or collaborative) economy cannot be reduced only to these two sectors.

One of the key advantages of a sharing economy is that it brings such positive features of the Internet as the instant matching of supply and demand or the availability of information on every participant through the process of individual reviews and references into real everyday life. This feature has a great potential to reshape various sectors where, a few years ago, only services of traditional providers were available.

There are three sectors that may, at present, be less under the spotlight but where some aspects of the sharing economy have already taken roots in the Czech Republic:

- debt crowdfunding;
- carsharing platforms;
- real estate marketplaces.

In order to map the current share of the sharing economy and how it influences the operation of traditional service providers in the particular sectors, available quantitative data needs to be analyzed. The data presented in this article is based on a study prepared by the Association for international affairs (AMO) for the Ministry of Industry and Trade of the Czech Republic in the spring of 2016¹.

¹ Kruliš K. and Rezková A. *Analýza vybraných sektorů sdílené ekonomiky v České republice*. May 11, 2016. Available [online]: http://www.amo.cz/wp-content/uploads/2016/05/amocz_RP_2_2016_web.pdf

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FROM
THE PERSPECTIVE
OF A SHARING
ECONOMY, DEBT
CROWDFUNDING
PLATFORMS
MEDIATE P2P
LOANS BETWEEN
NATURAL PERSONS
AND BRING NEW
CONDITIONS
FOR BOTH
CREDITORS
AND DEBTORS

DEBT CROWDFUNDING IN THE CZECH REPUBLIC

The term “crowdfunding”, taken with a grain of salt, could be considered as a sharing economy label within the financial sector. It indicates that a larger number of people come together via an online platform for a specific purpose – donating for a charity project, participating in an increase of registered capital in a trading company, or (in the case of debt crowdfunding) participating in the provision of a loan. Individual investors have possibilities to invest in projects which would otherwise be inaccessible to most of them due to the lack of information or limited means to invest. On the other

hand, those who seek funds can gain new sources of possible financing through crowdfunding.

From the perspective of a sharing economy, debt crowdfunding platforms mediate P2P loans between natural persons and bring new conditions for both creditors and debtors. Creditors can invest their free financial resources for higher interest than with banks (average interest in crowdfunding platforms is around 10% p.a.). However, they take on a higher risk and their loans are not covered by insurance of deposits as in the case of money saved on bank accounts. The debtor is not a bank or the platform itself, but specific natural persons.

This risk can be managed especially by a broad diversification of the portfolio, in which several creditors (possibly even several hundred creditors) come together and provide the resources for one loan. An advantage, on the part of the debtors, may be lower interest than in the case of other financial products available to them. It may also represent an alternative source of financing in the case of projects which banking providers are not able to cover due to the existing regulations.

The interest which the creditor acquires on loans via debt crowdfunding platforms is not subject to withdrawal tax as in the case of interest from banks. The creditor must declare this in their annual income tax declaration. In comparison with the financial resources offered by a bank (in which the deduction from income is made automatically and the tax is taken by the bank on behalf of the taxpayer), creditors on crowdfunding platforms have an increased tax administrative burden and their overall tax base is thus increased. This could be understood in a way that creditors, within the framework of crowdfunding platforms are *de facto* acting as



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WITHIN THEIR FIRST YEAR, ZONKY.CZ AND BENEFI.CZ MEDIATED LOANS WITH A SUM VALUE OF A LITTLE OVER CZK 40 MILLION

providers of loans, bear the risk of non-payment of loans, and decide on the selection of a suitable investment themselves. They thus substitute the activity of a traditional provider of credit themselves and are taxed accordingly.

The advent of debt crowdfunding was postponed in the Czech Republic until 2015², when two crowdfunding platforms (Zonky.cz and Benefi.cz) started their operation. Within their first year, Zonky.cz and Benefi.cz mediated loans with a sum value of a little over CZK 40 million. Each of the platforms mediated approximately half of this amount. The Zonky.cz platform later started a very visible marketing campaign and it expects that by the end of 2016 it will have loaned CZK 450 million.

² The first instances of use of internet and social media to raise funds for a specific purpose dates back to the end of the 1990s in the US. The first regular debt crowdfunding platforms appeared in the US and the UK in the middle of the first decade of the new millennium. The concept of crowdfunding was known in the Czech Republic for several years only in its form of the Donation Based form (charity projects) or Reward Based form (items or services in return for provided funding). Debt Crowdfunding followed in 2015 and the first Czech Equity Crowdfunding (Fundlift.cz) was launched only very recently in the spring of 2016.

If these optimistic predictions by one of the platforms is taken into consideration, the annual potential of P2P loans between natural persons in the Czech Republic (for all platforms) can be estimated around CZK 500 million³. The average length of loans on Zonky.cz is about four years. It is therefore possible to expect that in the years between 2016 and 2019, the total aggregate volume of loaned resources via these platforms will increase rapidly and could reach the amount of CZK 2 billion by 2020. Even if this optimistic scenario comes true, the volume of resources in P2P loans would constitute only half of one thousandth of the volume deposited in banks by Czech residents (CZK 3,680 billion in 2015, according to the Czech National Bank).

From the perspective of the demand (debtor) side, it is necessary to point out that about 74% of the total volume of loans provided to households in the Czech Republic are loans for housing.⁴ The predominant part of these loans functions on the basis of mortgage lending provided by the banking sector in the Czech Republic. As the average interest rate on mortgages is currently very low in the country, most of the debt is far beyond the potential which can be attained within the framework of P2P lending. With their current business plan, debt crowdfunding platforms have the potential to enter the competitive battle (by means of new financing or refinancing) in particular in the segment of consumer

³ Kruliš K. and Rezková A. *Analýza vybraných sektorů sdílené ekonomiky v České republice*. May 11, 2016, Available [online]: http://www.amo.cz/wp-content/uploads/2016/05/amocz_RP_2_2016_web.pdf

⁴ The Czech National Bank. *Bankovní statistika*. June 2016, Available [online]: https://www.cnb.cz/cs/statistika/menova_bankovni_stat/bankovni_statistika/bank_stat_komentar.html

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ZONKY.CZ,
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FULLY CONTROLLED
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IN THE CONSUMER
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(HOME CREDIT LAB N.V.)
AND THE SUCCESS
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loans in the non-banking sector, which amounted to CZK 56 billion at the end of 2015⁵.

In case the total aggregate volume of the loaned resources via crowdfunding platforms really reaches CZK 2 billion as suggested by the optimistic scenario mentioned above, the crowdfunding sector will still only achieve a market share of 2% of the narrow segment of consumer loans in the non-banking sector and an even much lower share in the case a broader segment of the financial sector is considered. This means that debt crowdfunding will remain only an additional supplement to the market covered by the traditional providers during these years.

It is also possible to expect that a sharper increase of the segment of P2P loans (beyond the framework of the already optimistic scenario mentioned above) would generate a corresponding response also from the traditional banking and non-banking players in the given segment, and the dynamic growth of crowdfunding loans would progressively weaken.

Furthermore, in the case of a sharp increase in the popularity of crowdfunding loans in the Czech Republic, other players may respond not only with a modification of their established services, but also by launching their own crowdfunding platforms. Zonky.cz, the leading crowdfunding portal is itself fully controlled by one of the traditional non-banking players in the consumer lending sector (Home Credit Lab N.V.) and the success of the project may lure other players in this area to start their own crowdfunding platforms as an

⁵ Česká leasingová a finanční asociace. *Statistiky ČLFA*. 2015, Available [online]: <http://www.clfa.cz/index.php?textID=64>

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alternative to their traditional services. In such a case, the success of one player could start a domino effect which could reshape the segment of consumer loans in the non-banking sector.

CARSHARING: THE MOST GENUINE SEGMENT OF THE SHARING ECONOMY OR JUST A NEW FORM OF CAR RENTAL OUTLETS?

The Czech Carsharing Association was established in the spring of 2015⁶. It brings together six active providers of services that could fit under a broad label of 'car-sharing' (sharing of passenger vehicles). Services offered by its members, however, fundamentally differ between one another to a various extent.

The nature of the services of the majority of association members in essence resembles an innovative and technologically advanced way of how to provide cars for rental. What makes their services different from traditional car rental outlets is that their cars are parked in the streets and can be unlocked by a special card. It is thus not necessary to collect a rented car at one of the car rental company's locations, but directly in your neighborhood. Other members of the association offer a rather simple internet marketplace in which individual car owners can offer their vehicles to other persons for rent.

In April 2016, the number of all vehicles offered by members of the association reached 169⁷. It is generally considered that one shared car effectively located in the streets can substitute up to ten cars in the ownership of individual natural

⁶ Prague and Brno, the two biggest cities in the Czech Republic, are primarily covered by members of the Czech Carsharing Association, with only limited cars available in other towns.

⁷ Based on the current data available on the websites of the members of the Czech Carsharing Association.

persons⁸. This would mean that the cars currently in a carsharing mode represent a substitution of up to 1690 private vehicles. As of September 30, 2015, a total of 5,110,452 passenger vehicles were regis-

when it is needed, its proximity to your home and other conditions under which you can rent it.

The situation in which only one shared vehicle is available in several areas of Prague may have a deterrent effect on potential users of carsharing services. The fact that some people decide to rely entirely on sharing instead of car ownership will depend to a considerable extent on a sufficient capacity of shared vehicles in their immediate vicinity.

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THE BIGGEST BREAKTHROUGH FOR CARSHARING MAY COME WITH THE ASCENT OF SELF-DRIVING CARS

tered in the Czech Republic. The present capacity of carsharing thus represents only one third of a thousandth of the entire number of registered cars in the Czech Republic.

The development of carsharing will be influenced in the future mostly by economic and user factors. The economic factors include a calculation of the costs of using a shared vehicle in comparison with costs connected to car ownership, including: car depreciation, insurance, obligatory checks of a technical condition, changing of winter/summer tires and other costs related to car maintenance. The user factors are primarily car availability at the time

Until now, it is possible to assume that the phenomenon of carsharing will be rather of a supplementary nature in relation to traditional car ownership and has probably the biggest potential to influence the acquisition of a second car by a household or be an alternative for mostly occasional drivers. The biggest breakthrough for carsharing may come with the ascent of self-driving cars. Having your shared car coming to a given address at the time of your preference could be the swaying feature that could make carsharing the dominant form of car ownership in the future.

As carsharing platforms develop and expand, they move more and more away from the concept of several people coming together to buy one car that would be shared by them. Some of the services in the Czech Republic started in this form, but with the acquisition of new cars, several platforms started to offer basic tariffs without flat fees and opened themselves to users who did not invest in the purchase of any car. In this case, the platform resembles services offered by traditional car rental outlets. The main remaining difference resides in the option of collecting the car at a predefined location (not only at selected stations) and opening it by

⁸ E.g. Autonapůl. Available [online]: <http://www.autonapul.org/#page-ohledupline>

means of a card allocated to each client in advance (and thus offering availability regardless of the opening hours of the car rent outlet).

P2P REAL ESTATE MARKETPLACES: A THREAT AND A USEFUL TOOL FOR REAL ESTATE AGENTS

The P2P real estate marketplaces enable an immediate meeting of supply and demand in the long-term residence sector through the mediation of property sale, rentals or shared housing⁹. They brought greater price transparency and a reduction of costs onto the real estate market, for both the supply and the demand side, and represent an alternative to real estate agents' services.

Traditional mediation services provided by real estate agents are least influenced by P2P marketplaces within the category of mediation of the sale of real estate, as these transactions involve bigger sums of money and require a higher level of professional expertise. As regards the mediation of shared housing, P2P platforms dominate, even though it is possible to estimate that a substantial role is also played here by regular social networks.

The area of rentals represents a middle ground which allows for the greatest coexistence of P2P real estate marketplaces and traditional services of real estate agencies. P2P platforms are used most widely in the flat rentals segment in Prague, but even there the traditional real estate agents found a way to reshape their service in order to face the new situation.

Namely, real estate agents focused their services on the side of the tenants with specific rental requirements. These tenants are more willing to pay a commission for professional assistance by an agent. The

existence of P2P platforms, however, has led to the disappearance of the practice in which real estate agents demanded a commission from both parties to the transaction. This previous practice that increased the transaction costs and had a negative impact on overall market flexibility has been significantly reduced.

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The P2P real estate marketplaces for shared housing has the strongest features of the sharing economy. They allow advertising of available living spaces by the means of the Internet. The largest supply and demand for shared housing on P2P marketplaces is by far in Prague. From this perspective, the capital city represents a specific market within the Czech Republic. Foreign nationals represent approximately one third of transactions on P2P marketplaces in Prague¹⁰. The concept of

⁹ In contrast to platforms offering accommodation such as Airbnb or Booking.com, the real estate marketplaces focus on housing transactions (sales, rentals or cohabitation).

¹⁰ Kruliš K. and Rezková A. *Analýza vybraných sektorů sdílené ekonomiky v České republice*. May 11, 2016, Available [online]: http://www.amo.cz/wp-content/uploads/2016/05/amocz_RP_2_2016_web.pdf



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P2P mediation of shared housing also exists in Brno and to a certain extent in other larger university cities.

However, in its initial phase, shared housing often begins with the joint rental of a flat, either on the P2P marketplace or with the use of the services of real estate agents. The mediation of shared housing via P2P especially represents a secondary marketplace for cases in which existing users of a flat are seeking a new flatmate, either on the basis of their own decision concerning space in a flat available for sharing or due to the departure of one of their existing flatmates.

The development of a secondary marketplace for those sharing housing also has some additional effects such as a contribution to greater stability in the relations between cohabiting tenants and landlords. The departure of one of the tenants does not have to lead to the termination of the entire lease contract, because the functioning P2P platform can be used to substitute the leaving flatmate with a newly found person. In places where this secondary market functions (especially in Prague and partially also in Czech university cities), this contributes to a greater willingness on the part of landlords to conclude a contract of lease with cohabiting persons who do not constitute a family.

Platforms offering P2P mediation of cohabitation are mostly free of charge for private advertisers. They are paid only in the case of advertisements from real estate agents. Paid servers (e.g. Spolubydleni.cz) are not thriving at present due to abundance of the free of charge competition (e.g. eSpolubydleni.cz or myFlatshare.cz).

CONCLUSIONS

A sharing economy is not limited only to the two most visible sectors of transportation and temporary accommodation.

It has the potential to reach almost all spheres of our life and provide alternatives in most traditional retail sectors. This process is also ongoing in the Czech Republic. The analysis of the three specific sharing economy sectors of: debt crowdfunding, carsharing and real estate marketplaces shows that the phenomenon has already taken roots in the Czech Republic with a varying degree of influence on traditional services.

The debt crowdfunding platforms are new on the Czech market. The two biggest platforms started their operation in 2015. Despite a limited space in the financial sector which is given by the currently low-average interest rates on mortgages in the banking sector, debt crowdfunding has a potential for rapid growth in its initial years. This is due to a zero base from which the sector is growing. The crowdfunding platforms thus have the capacity to take part of the consumer loans market of the non-banking institutions.

Even if the optimistic scenarios expected by the platforms themselves are taken into account, the entire debt crowdfunding sector can still constitute only a small share (around 2%) of the non-banking consumer loans market. It could be further expected that growth above this scenario could trigger a response by traditional non-banking providers, which may include the innovation of their own services or even the establishment of their own crowdfunding platforms in order to keep up with such a trend.

The phenomenon of carsharing in its earliest form of development could be considered as a genuine example of sharing economy where users are, at the same time, co-owners of the used items. Several people, usually those living in one neighborhood, invest together in purchasing

a car that would be used by all of them. As the carsharing platforms grow, the factor of common investing is present less and less and the purchases are financed by the platform itself from money earned on fees for car rental. Several Czech carsharing platforms thus offer rental of their cars also without any flat payment and all you pay is directly related to the duration of your rental and number of kilometers you travel.

In this manner, the carsharing platforms resemble traditional car rental outlets and the most visible technological change is that you pick up your car for rent directly in the street. The present capacity of carsharing in the Czech Republic is still very limited and represents only one third of a thousandth of the entire number of registered cars in the country. An expected future advent of self-driven cars could, however, bring a big change and carsharing could become the dominant form of car ownership.

The traditional services of real estate agencies have been partly influenced by the popularity of real estate marketplaces. The most visible influence is in the segment mediation of shared housing, where P2P platforms and also regular social networks almost erased the space for the operation of traditional real estate agents. To a lesser extent, this influence could be seen in the segment of rentals of flats, where the traditional services coexist with the P2P marketplaces after real estate agents reshaped their services and focused on tenants with specific requirements.

The sharing economy in the Czech Republic is, in a predominant way, still represented by several strong brands of international platforms such as Airbnb or Uber. These brands dominate in the two most visible sharing economy sectors of

accommodation and transportation and due to their large foreign clientele and availability of capital it is difficult to imagine that they would be challenged by a new Czech start-up in the foreseeable future.

Nevertheless, the mapping of the other sectors of sharing economy in this article reveals that there are many examples of successful sharing economy platforms that have started in the Czech Republic from scratch. Their initial growth rate is very fast and they have the potential to lure more and more users. Some of them may remain independent, although examples of Czech start-ups acquired by big international brands, such as in case of the long distance ride-sharing platform Jizdomat.cz that was acquired by Blablacar at the beginning of 2016, can already be seen. We can only wait and see how will the market evolve in the near future. •



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