

Report on Master Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University

| | |
|-----------------------------|---|
| Student: | Lin Zhang |
| Advisor: | Evžen Kočenda |
| Title of the thesis: | Financial Distress Prediction in Digital Finance Platforms |

OVERALL ASSESSMENT (provided in English, Czech, or Slovak):

Please provide your assessment of each of the following four categories, summary and suggested questions for the discussion. The minimum length of the report is 300 words.

Contribution

The thesis analyzes factors contributing most to the financial distress of FinTech firms. In the analysis, the firm-level financial data from 973 FinTech firms worldwide over the period 2018-2023 are employed to analyze the effects of the CAMELS-type variables on the likelihood of distress. Specifically, the variables on capital adequacy, operating activities, and profitability are targeted with a solid reason for choosing these variables. There are two key contributions. First, a new evaluation approach called the CFS framework, inspired by the Cash Flow Statement, which organizes company accounting elements into financing, operating, and investing categories. Second, the set of empirical results suggests that during crises, the financial distress of FinTech firms is mainly influenced by profitability and operating activities, with capital adequacy playing a less significant role.

Methods

In a modeling framework, several approaches are used. They include the use of the Binary Choice Models (BCM), Ordered Response Models (ORM), and Bayesian Model Averaging (BMA) model. The methods are used for baseline estimations and through robustness checks. These checks include rare event handling, ordered response model analysis, and the Bayesian model averaging (BMA) approach. Robustness checks show that the results are valid and do not alter with respect to the baseline estimates. All methods are rightly used and executed.

Literature

The literature review section summarizes the current state of research in the field quite well. Moreover, the literature review covers several angles of the research topic from the perspective of the theoretical framework, determinants of bankruptcy, and related empirical studies. Further, the literature review also contains a related section on the hypotheses development. There is also an informative and relevant section on the analyzed topic's economic background that targets the FinTech industry's evolution, the difference between FinTech and traditional banks, and FinTech regulation. Hence, the literature is reviewed in detail and covers all relevant papers and angles.

Manuscript form

The manuscript conforms to the formal requirements for the master thesis. The text reads well but it could be marginally improved after some minor imperfections in sentence and grammar are accounted for. The results are presented with enough detail. The introduction is informative, and the goal of the thesis is clearly stated. Data are described with sufficient detail. Hypotheses are clearly stated in the thesis itself. Tables and figures are presented in an organized and legible manner, but some of them lack self-explanatory notes. References are complete.

Report on Master Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University

| | |
|-----------------------------|---|
| Student: | Lin Zhang |
| Advisor: | Evžen Kočenda |
| Title of the thesis: | Financial Distress Prediction in Digital Finance Platforms |

Summary and suggested questions for the discussion during the defense

The thesis does represent a very good work in the area of the distress of FinTech firms. The results of the Urkund analysis do not indicate significant text similarity with other available sources. I believe the thesis definitely fulfills the requirements for a master's thesis at IES, Faculty of Social Sciences, Charles University. I suggest a grade of A and recommend that the thesis be considered for an award.

SUMMARY OF POINTS AWARDED (for details, see below):

| CATEGORY | POINTS |
|---|---------------|
| <i>Contribution (max. 30 points)</i> | 30 |
| <i>Methods (max. 30 points)</i> | 29 |
| <i>Literature (max. 20 points)</i> | 20 |
| <i>Manuscript Form (max. 20 points)</i> | 18 |
| TOTAL POINTS (max. 100 points) | 97 |
| GRADE (A – B – C – D – E – F) | A |

NAME OF THE REFEREE: *Evžen Kočenda*

DATE OF EVALUATION: *June 3, 2024*

Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

CONTRIBUTION: *The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis.*

METHODS: *The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed.*

LITERATURE REVIEW: *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

MANUSCRIPT FORM: *The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography.*

Overall grading:

| TOTAL | GRADE |
|----------|-------|
| 91 – 100 | A |
| 81 - 90 | B |
| 71 - 80 | C |
| 61 – 70 | D |
| 51 – 60 | E |
| 0 – 50 | F |