

Opponent's Report on Dissertation Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University
Opletalova 26, 110 00 Praha 1, Czech Republic
Phone: +420 222 112 330, Fax: +420 222 112 304

Author:	Karolína Vozková
Advisor:	Doc. Ing. Zdeněk Tůma CSc.
Title of the Thesis:	Bank fee and commission income - its determinants and impact on bank's profitability and risk
Type of Defense:	DEFENSE
Date of Pre-Defense	April 15, 2020
Opponent:	doc. Tomáš Výrost Ph.D.

Address the following questions in your report, please:

- a) Can you recognize an original contribution of the author?
- b) Is the thesis based on relevant references?
- c) Is the thesis defensible at your home institution or another respected institution where you gave lectures?
- d) Do the results of the thesis allow their publication in a respected economic journal?
- e) Are there any additional major comments on what should be improved?
- f) What is your overall assessment of the thesis? (a) I recommend the thesis for defense without substantial changes, (b) the thesis can be defended after revision indicated in my comments, (c) not-defensible in this form.

(Note: The report should be at least 2 pages long.)

Date:	11. 9. 2020
Opponent's Signature:	
Opponent's Affiliation:	doc. Tomáš Výrost Ph.D. Ekonomická univerzita v Bratislavě

a) *Can you recognize an original contribution of the author?*

The last decades have presented a rather difficult environment for the banks to operate – following the 2008-2009 global financial crisis, after experiencing substantive losses in the universal banking sector, several regulative restrictions have been enforced, effectively limiting the activities banks may undertake (e.g., the Volcker rule). On the other hand, the low interest rate environment has forced the banks to explore other non-traditional fee and commission bearing services to maintain sustainable performance. Thus, an analysis of fee and commission income with respect to the bank profitability and risk is relevant.

The thesis itself is presented as a collection of five related treatises on fee and commission income in Czech and European commercial and cooperative banks.

The first essay focuses on the description and comparison of bank fee and commission income in the Czech Republic and EU. The comparison is made by using ECB data on banks, which are aggregated into five groups – EU, PIIGS, CEE, Eurozone and the Czech republic, during the period 2007 – 2018. The paper focuses on the evolution of net fee and commission income (NFCI) relative to total income, total assets and national GDP and stays largely descriptive. The only exception presents a chapter, exploring the relationship between market concentration and the magnitude of fee income by means of a simple regression on the averages of the Herfindahl index and the ratio of NFCI over total income. Even though this paper is not so interesting methodologically, it provides a good initial review and context for later chapters.

The second paper explores the determinants of bank fee income. The main results are related to the level of market concentration, equity to assets and deposits to assets ratios. Methodologically, the main results are based on using a system generalized method of moments estimator in a dynamic panel model of net fee and commission income (relative to total income and total assets), explained by bank –specific, sector-specific (including Herfindahl index) and country level variables.

The third paper focuses on possible relation of NFCI relative to total operating income with several performance measures, such as returns, risk-adjusted returns, net interest margins and the Z-score. Here, 329 EU banks are investigated within the timeframe of 2005 – 2014, again using system GMM.

In the fourth paper, the focus shifts to 189 cooperative banks in the period 2007 – 2014. The estimated model specification and methodology are precisely the same as in the second paper, yet the results are markedly different (e.g. with respect to the Herfindahl index).

The final paper examines the net interest margin of 994 cooperative and commercial banks during the 2008 – 2015 period. Here, the net interest margin is explained by five regressors in a simple panel model framework with fixed effects.

Collectively, the five papers do present relevant information on the relationship of NFCI with bank, industry and country level variables, as well as its relation to main performance measures in EU banks.

b) *Is the thesis based on relevant references?*

Overall, the thesis cites more than 150 published academic papers and working papers, up from about 80 sources cited in the version of the thesis submitted for pre-defense. The references presented jointly for all five treatises include relevant published papers related to the research topic.

- c) *Is the thesis defensible at your home institution or another respected institution where you gave lectures?*

The thesis does sufficiently present the capability of and preparedness for independent activities in research and as such, I find it defensible in its current form.

- d) *Do the results of the thesis allow their publication in a respected economic journal?*

As the thesis is defended as a collection of already published papers, the conducted research has already successfully passed some peer review. Even though I am not particularly fond of the format (a collection of partially published results), I accept this is admissible under current rules for defense.

Following the incorporation of modifications suggested by the opponents in their reports, as well as suggestions of the committee members, I find the resulting quality of scientific examination satisfactory and the literature review adequate. I believe the theses does pose relevant and interesting questions, and presents real contributions. These are all relevant aspects for the research to be published in a respected economic journal. Despite these facts, I believe a fully dedicated paper would probably require a more focused effort and definitely need an updated dataset.

Thus, the answer to the question of admissibility of the results for publication in a respected journal is not completely straightforward (the format really does not help here). However, if the question is taken more broadly, I find the research presented in the thesis – the research idea, the attention given to the model assumptions and robustness checks, as well as the discussion and presentation – convincing enough to conclude that, in my opinion, the author has sufficiently demonstrated the ability and skill for such endeavors.

- e) *Are there any additional major comments on what should be improved?*

As I had the opportunity to review the thesis as an opponent for pre-defense, I have summarized my findings as part of my previous report. My two major comments addressed the lack of an integrating approach given the form of the thesis, which is made up of several independent treatises, as well as some concerns regarding the econometric treatment of the difference GMMs used as the primary estimation method in most chapters. I find that both of the issues have been addressed in this version of the thesis.

Most notably, to examine the potential effect of a violation of the assumption of the GMM estimation, several robustness checks (presented in the appendix) have been performed, including using higher lags, as well as using different instruments. The presented results suggest robustness even in this setting, validating the results presented in individual chapters.

As for my previous minor comments, I find all of them to be either implemented in the main text of the thesis, or discussed at length in the appendix. I highly appreciate the level of detail in responding to the comments, particularly the amount of econometric modelling supporting the author's claims and the discussion provided on the highlighted issues.

- f) *What is your overall assessment of the thesis? (a) I recommend the thesis for defense without substantial changes, (b) the thesis can be defended after revision indicated in my comments, (c) not-defendable in this form.*

I recommend the thesis for defense without substantial changes