

# Report on Master Thesis

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

<b>Student:</b>	<b>Bc. Yilin Lu</b>
<b>Advisor:</b>	<b>prof. Ing. Oldřich Dědek, CSc.</b>
<b>Title of the thesis:</b>	<b>The Impact of Third-Party Payment on The Profitability of Commercial Banks</b>

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

*Please provide a short summary of the thesis, your assessment of each of the four key categories, and an overall evaluation and suggested questions for the discussion. The minimum length of the report is 300 words.*

### **Short summary**

Ms Yilin Lu has selected a very interesting topic, which could be broadly characterized as the discussion (and partially analysis) of the effects of broadly defined new trends and new actors in payments processing and financial intermediation on the performance of commercial banks. While the situation in several other countries (India, Jordan, Indonesia, Malaysia) is mentioned in the literature review, she mainly discusses financial innovations present in Chinese financial markets (Alipay, We Chat Pay) and the USA. Her attempt at empirical analysis is based on a small sample of data for 15 Chinese banks during 2016-2019.

### **Contribution**

The actual contribution of the thesis is rather minor. Although the author discusses fascinating innovations in some of the most important markets of the current global economy and while she is aware of interesting challenges, the description and discussion of the trends and challenges remain shallow and does not get far beyond the level of treatment that financial innovations in the Chinese market typically receive in non-academic texts. On the positive side, the author attempted to provide a more balanced description of the role of "internet finance" and included a discussion of risks and regulatory issues (section 8).

The attempt at empirical analysis is, however, disappointing – there are not so many reasons to believe (see the next section for more detailed comments) that the results provide strong enough support to the claims and interpretations expressed by the author.

### **Methods**

The author attempts to provide empirical tests of the effects of the presence of third-party payments providers on the profitability of banks by means of running a set of simple panel regressions on a sample of 15 banks during 2016-2019.

Interestingly, neither section 6 (Methodology and Data) nor section 7 (Empirical Part) include any explicit equation that would provide a description of the specification. Such an equation is only provided in the Master Thesis Proposal, which is attached to the thesis. Unfortunately, many readers would have found this more explicit description of the specification quite useful for clarification of possible misunderstandings which might arise because of the author's relatively liberal use of econometric terminology – for instance, that the "*dynamic panel data*" (p. 29) are in fact really just usual panel data on which traditional fixed effects and random effects were applied.

The author does not provide any deeper explanation of the logic of the estimated relationship either. It is not mentioned whether it is derived from an underlying model or whether it is typical in literature or inspired by some previously published paper. It seems that the specification was selected ad hoc.

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Additional uncertainty can be caused by the names of the variables. Two of the variables include the prefix “L\_” in their names (L\_TTPS, L\_BSIZE). Somebody might expect that the author used the prefixes to signal the use of logs or lagged variables – but the author remains silent on this issue. Perhaps she really just used a different name.

When reporting the results of the regressions, the author seems to attach relatively high importance to R2. Interestingly, she reports R2 for some regressions and “pseudo-R2” for other ones (e.g. Table 7.2, p. 38) – but in the text, she suddenly calls it “adjusted R2”.

The relatively small overall sample (60 observations) did not prevent the author from estimating her model also on subsamples, the smallest of which only includes 12 observations (3 banks over 4 years) – Tables 7.3 & 7.4. The regressions estimated on this small sample use the full set of 6 explanatory variables plus most probably also bank-specific level effects. The author seems to be quite content with the model and its results – because “*adjusted R2 [...] is 0.958, implying that the goodness of fit is strong*” (p. 44).

Implications: the reader is left in the vague – it is not explained why the author did what she did or indeed what she actually did – e.g. how she treated the variables (logs, lags).

In my opinion, there is a fairly high probability that the results might be contaminated by other influences not discussed by the author. Chinese financial markets have also experienced several other interesting changes during the years analyzed by the author (reforms intended to increase the openness for foreign investors, the culmination of the rise of shadow banking, changes in regulation – including e.g. asset and wealth management regulation), at least some of these additional changes might have influenced the profitability of Chinese banks. I would have expected such factors to be mentioned by the author, even if she did not find a way how to take them into account.

## Literature

With the exception of section 2, the author almost never works with literature and references. The author does not attempt to support her ideas or stated facts with references or links to official documents or other materials. In some sections, it seems that the author relied on data from other sources, but links to the data or the sources are not provided (e.g. p. 19 – “*I would like to introduce to you a collection of news articles with detailed data*”).

The author too often veers towards describing her own ideas and personal impressions (based on her experience as a consumer using online payments) and does not attempt to confront her own impressions with either published academic research or even results of surveys of other customers’ opinions – in spite of the fact that academic papers analyzing e.g. motivation of WeChat payments’ customers do exist. And when at least a survey is finally mentioned (once - p. 51) – neither details on the survey nor a link or any proper reference are not given.

Numerous relevant publications on Chinese banks and the Chinese fin-tech sector have been published in recent years, but the author mentions only very few of them.

Finally, the list of references is not even sorted alphabetically and formatted in a uniform style. Some of the items on the list also appear incomplete: e.g. Manuchehr (2008) – missing title of the paper. The list of references also includes a text which seems to have been published only in Indonesian – Dewi et al (2015); the reference to this text (p. 7) seems to be based on first names of the authors.

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## Manuscript form

The style of the text is rather unusual; some sections of the thesis are replete with statements starting “*I think...*”, “*I believe...*”. Consequently, some sections of the submitted text remind me rather of a text intended for a blog rather than a Master-level thesis. For example, section 4 of the text is pretty much just a fairly soft and non-systematic description of a portfolio of services available to normal users of online platforms such as Alipay and We Chat payment – all described from a user’s perspective.

Language-wise, the text is disappointing too. Some sentences and phrases are formulated in ways that reminded me of either very hasty translations from Chinese or of machine translations. For example, when describing her results, the author repeatedly uses the term “*optimistic correlation*” (pages 39, 40, 43, 44, 47,...), by which she clearly means positive correlation.

## Overall evaluation and suggested questions for the discussion during the defense

The results of the Urkund analysis are more complicated in this case. At first sight, Urkund indicates quite a high similarity with another text (35%). However, it seems that Urkund was misled by a document written by the same author (and possibly submitted for a check during a thesis seminar or during another similar opportunity). Ironically enough, all the afore-mentioned rather specific style and other peculiarities of the thesis provide a reasonably high probability that the submitted text indeed is original.

Even though the thesis focuses on an interesting topic and attempts its own independent tests, the quality of the resulting text is below the usual standards expected at the IES. In my opinion, it is not only not at the level required for a Master thesis, but at least in its current form, it is not too convincing even in comparison with most of the bachelor theses successfully defended at the IES in recent years.

Therefore I do not recommend the thesis for the final defence.

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

<b>CATEGORY</b>	<b>POINTS</b>
<i>Contribution (max. 30 points)</i>	14
<i>Methods (max. 30 points)</i>	12
<i>Literature (max. 20 points)</i>	10
<i>Manuscript Form (max. 20 points)</i>	7
<b>TOTAL POINTS (max. 100 points)</b>	<b>43</b>
<b>GRADE (A – B – C – D – E – F)</b>	<b>F</b>

**NAME OF THE REFEREE:**

*Vilém Semerák Ph.D.*

**DATE OF EVALUATION:**

*June 8th, 2021*

*Digitally signed (June 8th, 2021)  
Vilém Semerák*

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**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