

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):

Short summary

The thesis investigates the factors contributing to financial distress in FinTech firms, particularly focusing on capital adequacy, operating activities, and profitability. Using a logistic regression and analyzing accounting-based data from 973 FinTech firms worldwide between 2018 and 2023, the study assesses these variables' impacts during crisis periods. The research employs additional robustness checks using the ordered response model and Bayesian model averaging to ensure the validity of its findings. Results indicate that profitability and operating activities significantly influence financial distress, whereas capital adequacy plays a lesser role.

Contribution

The thesis makes a substantial contribution to the financial economics literature by addressing the relatively unexplored area of financial distress prediction in FinTech firms. Unlike traditional banking studies, this research highlights the unique risk factors associated with digital finance platforms, offering valuable insights into the operational and profitability aspects of these firms. The introduction of a new evaluation framework, the CFS framework, categorizes CAMELS ratios into three subgroups, providing a more nuanced analysis of FinTech firms' financial health. This innovative approach fills a notable gap in existing literature, making a significant academic and practical contribution.

Methods

The methodological framework is robust, combining traditional econometric techniques with advanced statistical models. The primary method involves logistic regression, with robustness checks performed using the ordered response model and Bayesian model averaging. The study meticulously constructs a dataset from the S&P Capital One database, ensuring comprehensive coverage and comparability of financial data. The CFS framework offers a novel way to categorize financial ratios, enhancing the analysis's depth. Additionally, the research effectively handles outliers and rare events, demonstrating a high level of methodological rigor. I would imagine a slightly better explanation of the differences between odds ratios and marginal effects interpretation and better comments on the evaluation metrics of the models, but they are still reported to up to a reasonable level.

Literature

The literature review is thorough and well-structured, covering theoretical frameworks, determinants of bankruptcy, and empirical studies. It places the research within the context of existing knowledge while identifying specific gaps that this study aims to fill. The review includes seminal works on bankruptcy prediction and contemporary studies on FinTech firms, offering a balanced perspective. The integration of CAMELS ratios within the CFS framework represents a novel contribution, extending the understanding of financial distress prediction.

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Manuscript form

The manuscript is well-organized, with a clear and logical structure. Each chapter progresses naturally from the literature review to methodology, results, and conclusions. The use of tables and figures is effective, enhancing the clarity of data presentation. The writing is clear and concise, adhering to academic standards. However, some sections, particularly the empirical results, could benefit from more detailed explanations to aid readers unfamiliar with advanced statistical techniques.

Overall evaluation and suggested questions for the discussion during the defense

This thesis provides a comprehensive analysis of financial distress in FinTech firms, making significant contributions to the literature. Its innovative methodological approach and thorough literature review demonstrate a high level of academic rigor.

Suggested Questions:

- How do you ensure the accuracy and reliability of the data used from the S&P Capital One database?
- Can you discuss the potential implications of your findings for FinTech firms and their regulatory environment?
- How might the results differ if other financial ratios or variables were included in the analysis?
- How do your findings relate to the broader financial industry, particularly in terms of risk management and financial stability?

The TurnItIn analysis has not uncovered any suspicious practices (score of 19% with no large portions of overlapping text).

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

CATEGORY	POINTS
<i>Contribution</i> (max. 30 points)	29
<i>Methods</i> (max. 30 points)	27
<i>Literature</i> (max. 20 points)	19
<i>Manuscript Form</i> (max. 20 points)	18
TOTAL POINTS (max. 100 points)	93
GRADE (A – B – C – D – E – F)	A

NAME OF THE REFEREE: Ladislav Kristoufek

DATE OF EVALUATION: 11 June 2024

Referee Signature