

# Report on Bachelor / Master Thesis

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

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|-----------------------------|------------------------------------------------------|
| <b>Student:</b>             | <b>Bc. Petr Polák</b>                                |
| <b>Advisor:</b>             | <b>PhDr. Ing. Jiří Skuhrovec</b>                     |
| <b>Title of the thesis:</b> | <b>Portfolio diversification on P2P loan markets</b> |

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

### Summary:

I consider the thesis idea both relevant and interesting. Author did good job in identifying relevant literature, putting together reasonable model and interpreting its results. Though I have some non-trivial reservations on thesis form and methodology, I think it is well defensible.

### Major comments / questions for defense:

P33: “Data from 2016 are available, but we prefer to run our analysis on loans for which we have at least 12 months history“ what led to arbitrary choice of 12 months? In chapter 2 author claims that default data 2013+ are increasingly unreliable, as lot of loans is still running. Would it not be preferable to choose shorter span of data, to get less biased sample?

P44: I see the concept of maximising profit using simple cut-off rate as relatively suboptimal (in contrast for example with plain approach using expected value), as it ignores interest rates tied to individual investment opportunities. Once these are plugged into optimal portfolio calculation (P49), these apparently lead to overinvestment into shares just under cut-off rate (which are predicted to be not default, probably with high error rate..), with good interest rate. Why has author chosen such approach?

I am missing more extensive comparison of results with non-P2P market, putting the results into traditional context. Can author present some comparison?

### Minor comments:

The claims such as *consuming way of life leads to significant increase of individual debts of people* (P2) should be sourced. For instance the US household debt/GDP ratio has been steadily declining since 2010, which might be in contrast with the first statement.

While it is ok to put link into footnote, it is not admissible for citations (such as footnote 1, which should apparently refer to some study at „forrester.com“. This apparently does not well describe the exact source, nor the date or author, and cannot be considered sufficient academic citation. Similarly later footnote linking 2014 default rate to <https://www.nsrplatform.com> , which does not really describe, where has author taken the number.

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P5 – author speaks on *number of platforms* worldwide, then comes up with an estimate of 1.3 billion pounds of outstanding principal in the UK, claiming it is his *own estimate based on number from these platforms*, without any further explanation on which platforms are meant or how the estimate was calculated.

P10 – it is unclear, what “Banking sector default rate” means, better description of source would be needed. As the 2.2 Figure essentially suggests quite strong fact, that P2P loans with no collateral have been in generally less risky than those in banking sector (especially retail), the data should be taken more seriously.

Lower there is apparently some atypical definition of ROI used – as text suggests loans with negative ROI are issued (is default rate accounted within ROI? It is average ROI per all investments..?). Neither the sourced webpage actually describes the methodology well, thus relevance and more importantly comparability of the numbers is uncertain.

P15 missing figure reference

*Hicks (1934): „Application of mathematical methods to the theory of risk.”* Is not sufficient bibliography entry. Mr. Hicks has also a first name, the article has been published in *Econometrica*.

Chapter 4.2.1 got me confused. Starts working with some „testing dataset“ (not defined yet, this is supposed to be a chapter on theory), then introduces idea of moving of the rate where we apparently arbitrarily set amount of default companies (in contrast with actual number of defaults in data). At this point it is very unclear what is the purpose of this exercise, and how it is related to previous theory.

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

| <b>CATEGORY</b>                      | <b>POINTS</b> |
|--------------------------------------|---------------|
| <i>Literature</i> (max. 20 points)   | 20            |
| <i>Methods</i> (max. 30 points)      | 20            |
| <i>Contribution</i> (max. 30 points) | 20            |

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|------------------------|--------------------------|-----------|
| <i>Manuscript Form</i> | <i>(max. 20 points)</i>  | 10        |
| <b>TOTAL POINTS</b>    | <i>(max. 100 points)</i> | <b>70</b> |
| <b>GRADE</b>           | <b>(1 – 2 – 3 – 4)</b>   | <b>2</b>  |

**NAME OF THE REFEREE:** *Jiří Skuhrovec*

**DATE OF EVALUATION:**

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*Referee Signature*

**EXPLANATION OF CATEGORIES AND SCALE:**

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

Strong                  Average                  Weak  
20                          10                          0

**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.*

Strong                  Average                  Weak  
30                          15                          0

**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.*

Strong                  Average                  Weak  
30                          15                          0

**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.*

Strong                  Average                  Weak  
20                          10                          0

**Overall grading:**

| TOTAL POINTS | GRADE    |                |                           |
|--------------|----------|----------------|---------------------------|
| 81 – 100     | <b>1</b> | = excellent    | = výborně                 |
| 61 – 80      | <b>2</b> | = good         | = velmi dobře             |
| 41 – 60      | <b>3</b> | = satisfactory | = dobře                   |
| 0 – 40       | <b>4</b> | = fail         | = nedoporučuji k obhajobě |