

Peer Review

Review of: "An Empirical Analysis of Loan Repayment Behavior and Default Rates on Digital Lending Platforms: Evidence from an Emerging Market"

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This work represents an econometric analysis of the loans in Kenya obtained through digital platforms, with a focus on loan defaults. Keeping in mind the diversity of similar digital loan services in some other African countries, as well as researching relevant literature concerning loan defaults in this region of the world, the authors tried to reveal the specificities of the Kenyan digital loan market and to extract (or eliminate) factors that significantly influence the default rate of the loans provided by digital platforms in this country. Thereby, for the estimation of the probability of defaults, the *Probit* statistical model was used on a purified dataset that contains 161 valid records of borrowers' data (obtained from the initially collected responses of 283 borrowers), while the input values of the model were taken as four key factors: interest rate (%), repayment term (time period in months), borrower's age (years), and place of residence (urban or rural). Besides these factors, some other variables such as loan amount or monthly income were analyzed too, but eventually, they were eliminated from the model due to statistical insignificance or multicollinearity.

Results of the Probit regression are presented in the paper in tabular form, suggesting that three factors (age, repayment term, and residence) can be considered significant predictors of loan default, while the interest rate is not statistically significant. These findings represent valuable insight into the Kenyan digital loan market and, as such, can contribute to the reduction of loan risks through the proper correction of lending policies. For example, the awareness of the fact that the increase of the interest rate (within considerable boundaries) does not increase the loan default probability can result in a greater number of more expensive loans and, therefore, obtain higher profits. Also, the performed

marginal effect analysis further clarifies, in practical terms, the influence of each factor on the loan default probability. Finally, the robustness checks (including procedures such as the *Likelihood Ratio Test*, *Cross-Validation*, *Heteroskedasticity Checks*, and *Alternative Model Specification*) show that the *Probit* model proposed in this paper is well-specified and produces reliable estimates.

All the findings are thoroughly discussed, and relevant conclusions are derived. Also, the English language in this paper is at a satisfactory level, so the final recommendation of this reviewer is that the paper can be accepted.

Declarations

Potential competing interests: No potential competing interests to declare.