

Discussion of Miranda Ghana Project: Coupling Insurance and Credit

Craig McIntosh, UCSD

BASIS/I4 meeting, UCD Sep 13 2013

Core questions of project:

- What is the differential demand for credit with and without the requirement to insure (as in Gine & Yang 2009)?
- Does it matter to whom the indemnity goes, borrower or lender?
 - Advantage of sending to borrower: most concrete way of providing risk protection to the person making investment decisions.
 - Advantage of sending to lender: better way to crowd in credit supply?
- How is demand for credit affected by the requirement to cover different fractions of the loan with insurance?

What makes the project unique

- Strong pre-existing index insurance product (GAIP).
- Lenders already deeply exposed to weather risk from rural lending.
 - Therefore the linking of insurance and credit may directly solve a problem of an agent on the ground now.
- Determination to build the market without subsidies (!).

Questions

- Link project more closely to pre-existing work on theoretical side (Carter, Cheng, Sarris 2011, Rai & Sjostrom 2004).
- Product-side questions:
 - Does it make sense to push the insurance demand question all the way to the borrower, or should banks simply use it as a portfolio management tool?
 - Do lenders want to insure 100% of loan portfolio?
 - What should borrowers know about the nature of their loan contingencies?
 - Weakening of ‘culture of repayment’: very hard in practice to cover part but not all of loan?
 - What will be the combined cost of commercial ag credit + unsubsidized commercial index insurance?

Questions

- Evaluation question:
 - Laudable to work without subsidies, but how many clusters will they need for this design to work entirely cross-cluster? No power calcs.
 - What is likely uptake across different arms; important also this be included in power of ITT.
 - Proposal vague about identifying group of farmers ‘interested in loan’; this sample selection is key.
 - Default is a rare event, weather-related default may not be observed in any given year. How to estimate the correct longer-run ATE?