



HOW MUCH CAN ASSET PORTFOLIOS OF RURAL HOUSEHOLDS BENEFIT FROM FORMAL FINANCIAL SERVICES?

Discussion

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Central idea, key contribution



- ▶ Measurement of household portfolio in developing countries is extremely hard.
- ▶ Peering into the asset composition of poor households important for several reasons:
 1. Role of access to financial services.
 2. Extent of under-diversification
 3. Potential contribution of risk-mitigating strategies
- ▶ What the authors do: At the same levels of risk, what would be the returns to the household **had they purchased specific financial products?**
- ▶ Key contribution: Stylised facts, quantify gains from financial assets in a representative household's portfolio in India.

Stylised facts about a household portfolio



- ▶ Is housing an asset for a low-income household, or is it a “consumption” asset?
Roof over one’s head regardless of labour income is risk mitigating?
- ▶ Jewellery is hardly ever sold. It is used as an underlying for a loan. What about existing loans?
- ▶ What about access to informal sources of finance: We know a lot about the household’s assets so far, but the liabilities are not explored.
Important to know what fraction of assets can be pledged, for instance.
- ▶ Is education investment or expenditure? A provocative thought: *Education is an investment if social structure expects children to take care of parents in the old age - a crude pension scheme?*
- ▶ A well thought through categorisation is a great contribution to Indian household finance discourse.

Mitigating labour income risk

Table 4: Stylised Asset Portfolios

Asset category	Agriculture-Only	Labour-Only	Salaried-Agriculture	Business-Agriculture	Labour-Agriculture
Electronics	7,000	7,000	7,000	7,000	7,000
House	99,000	63,000	225,000	225,000	99,000
Vehicle	1,250	1,250	-	-	1,250
<i>Consumption assets (total)</i>	<i>107,250</i>	<i>71,250</i>	<i>232,000</i>	<i>232,000</i>	<i>107,250</i>
Agricultural-equipment	2,500	-	5,500	5,500	2,000
Investment	-	-	-	-	-
Jewellery	110,400	66,240	64,384	96,576	66,240
Land	200,000	-	130,000	140,000	120,000
Livestock	20,000	300	25,000	25,000	20,300
Shop	-	-	-	-	-
<i>Investment assets (total)</i>	<i>332,900</i>	<i>66,540</i>	<i>224,884</i>	<i>267,076</i>	<i>208,540</i>
<i>Investment assets (as % of all assets)</i>	<i>75.63%</i>	<i>48.29%</i>	<i>49.22%</i>	<i>53.51%</i>	<i>66.04%</i>
All assets (Total)	440,150	137,790	456,884	499,076	315,790

The hypothetical portfolio



- ▶ Livestock insurance, rainfall insurance, a suite of products such as ETFs, government securities
- ▶ Households don't always pick risk-mitigating products. This is the “ideal” world.
- ▶ Claim: Salaried-Agriculture portfolio witnesses reduction in risk, and increase in returns
- ▶ Show paired t-test of differences in mean before and after introduction of financial assets.

- ▶ Implications in the paper do not flow from the study.
- ▶ Two part assumption, untested, to imply policy suggestion:
 1. Only hindrance for the hypothetical portfolio from being realised is access to finance.
 2. All households trust financial institutions with their money.
- ▶ Normative vs. positive statements

A few suggestions

- ▶ Self-reported income information notoriously bad
Compare income distribution with existing survey information from this region
- ▶ Are these portfolios constructed **before** the investor is offered products by this financial service provider? If not, very important to do so.
- ▶ Small, medium and large households. Return variation across income size of households: How does risk mitigation help across the income distribution?
- ▶ Ideal setting for this study: Study the household's returns before and after the financial services provider started providing services. More ideal would be to randomly roll out access with a baseline and post rollout survey with the data provider!