How much can asset portfolios of rural households benefit from formal financial services?

Discussion

Vimal Balasubramaniam
Saïd Business School, Oxford-Man Institute

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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.
Table 4: Stylised Asset Portfolios

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

- 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!