Discussion:
How Does Informal Risk Sharing Influence Insurance Decision? Theory with Field Evidence

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What they do

- **Puzzle & Question**
  - **Puzzle:** Low take up of index-insurance, especially by risk averse individuals
  - **Baseline:** Does informal risk sharing affect the decision to purchase index weather-insurance?
  - **Mechanism:** Does[and how] informal risk sharing affect risk preferences?

- **Approach**
  - **Theory:** Introduce informal risk sharing in Clarke(2016) linking risk aversion to index-insurance take up
  - **Empirics:** Panel data from an experimental sample that exploits randomized ‘informal networks’

- **Contribution**
  - New Basis Risk computation
  - Explain the puzzle using informal risk sharing
  - **Findings:** Informal risk sharing raises insurance take up by reducing risk aversion towards basis risk and reduces insurance take up by increasing price-sensitivity
Comments: Theory

Introduction: 'Individual endogenously chooses to join an informal group...'
- In theory it is not clear, in empirics it is exogenous
- If endogenous, is it simultaneous or sequential w.r.t. insurance purchase decision?
- If simultaneous, might not be optimal to stay in informal network after insurance purchase - Morten 2013; Meghir/Morten et al 2018
- If informal network decision precedes insurance take up decision, then there might be exit costs - repeated game; future entry barred
- Why not make it exogenous in theory to match with empirics?

'Informal risk sharing reduces risk aversion'
- Is effective risk-aversion for every group member same as the group’s aggregate risk-aversion?
- Given that my risk is covered by the informal network wouldn’t I have the incentive to defect - not purchase insurance
- Since this drives the main hypothesis and the contribution of the paper, it would help to discuss more
Comments: Empirics

- **Basis Risk Measure**: *briskDOWNSIDE; briskUPSIDE*
  - Calculation depends on insurance purchase in the previous period \([\text{payout}_{it-1}]\)
  - So regression estimates purchase decision in period t conditional on purchase in \((t-1)\)
  - Why not compute ’potential basis risk’ using the average village payout for all households? [instead of imputing downside basis risk for these households]

- **Treatment: Religion**
  - Are Hindu/Muslim/Neutral flyers matched with the religion of the treated individuals?
  - If not, then what is the risk sharing group?
  - Related: It is well documented that risk sharing groups are formed along caste lines. Any evidence of these groups along religious lines?

- **First Stage: Informal risk sharing reduces risk aversion**
  - Since the main interpretation of your paper rests on this link, can you show this using secondary data sources like IHDS?
Comments: Others

- Page 9: Definition of $\eta$ missing
- Page 18: You write: 'While such approach may have the downside of not capturing actual risk-sharing .....it has an empirical appeal: it allows for randomization of risk-sharing'
  - Akin to saying, IV is exogenous but first stage doesn’t work !!
- Write more clearly about implications - government or marketing policy