

**Comment on**  
**Xavier Giné and Dean Yang:**  
**Insurance, credit, and technology adoption:**  
**Field experimental evidence from Malawi**

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# General thoughts

- New results on index-based insurance
  - Appealing idea in principle
  - No clear breakthrough in practice
- Tackles fundamental question on low take-up of insurance
- Nice example of RCT 2.0:
  - Not a straight impact evaluation
  - Explores the fundamental nature of choice



# RCT 2.0: Examples

- Commitment savings
- Savings reminders
- Financial literacy
- Business training
- Interest rate/fee sensitivity
- Loan installment schedules
- Marketing
- Group contracts vs. individual (Giné)

# Index insurance

## **Addresses:**

- Adverse selection
- Moral hazard
  
- Can be sold to non-farmers
- Can be scaled easily

## **Tensions:**

- Basis risk
- Prices high due to ambiguity premium
- Low quality (slow, unreliable)



# Insurance, credit, and technology adoption

- **Assumption:** risk averse farmers deterred in adopting new agricultural technologies
  - HYV maize, improved groundnut seeds.
- **Hypothesis:** Coupling rainfall insurance with a credit product will increase adoption.
- **Method:** Randomized field experiment involving about 800 maize and groundnut farmers.
  - half the farmers were offered credit to buy the new seeds
  - half were offered a similar credit product coupled with a weather insurance policy (at “actuarially fair” rates)



# Results

- If offered **credit only**: 1/3 of farmers took up.
- If offered **credit + insurance**: take-up was 13 percentage points *lower*.
- Puzzle 1: Generally low demand
- Puzzle 2: Why does insurance *reduce* demand?

# Explanations

1. Basis risk: What does it mean to be actuarially fair?
2. Complexity; terms of the policy can be hard to weigh.
  - Support: More educated farmers were more likely to take up the combined product.
3. Effective informal insurance mechanisms reduces net impact of formal insurance contracts (Morduch 1999)
4. Disaster relief limits the net impact of private insurance.
5. New modes of marketing; lessons on loss aversion (Bertrand et al 2006).
6. “Social” preferences: loss valued relative to losses of neighbors?
7. Reliability? Speed, administrative ease?



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# PORTFOLIOS OF THE POOR

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*How the World's Poor  
Live on \$2 a Day*

## Financial Diaries

Poor, very poor and near-poor households were surveyed in detail about finances over a year.

- Bangladesh
- South Africa
- India
  
- Urban and rural
- Income statements every 2 weeks
- Track all financial transactions (formal and informal)





**Tikkapara November 2004**

# The Portfolio Perspective:

Hamid and Khadeja's closing balance

November 2000, \$US = 50 taka

<b>Financial Assets</b>	<b>\$174.80</b>	<b>Financial liabilities</b>	<b>\$223.34</b>
Microfinance savings account	16.80	Microfinance loan account	153.34
Savings with a moneyguard	8.00	Private interest-free loan	14.00
Home savings	2.00	Wage advance	10.00
Life insurance	76.00	Savings held for others	20.00
Remittances to the home village *	> 30.00	Shopkeeper credit	16.00
Loans out	40.00	Rent arrears	10.00
Cash in hand	2.00		
		<b>Financial net worth</b>	<b>-\$48.54</b>



# Bottom lines

- Risk matters
- Low insurance demand is a broad puzzle
- Trust and reliability loom large
- Lessons from saving and credit: mechanisms matter.
  - Not true that poor can't save.
  - Not true that poor can't understand insurance?
- Next step: truly integrated (and simple) weather-contingent credit contract?