Discussion

Household Portfolio and Deposit Insurance: Implications for the Supply of Safe Assets

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This Paper

- **Question**

  What is the impact of DI on portfolio decisions?

  - Broader impact on safe asset demand, asset prices, welfare

- **Setting**
  - India's DI limit increase in February 2020
  - Depositor-level data

- **Overall Assessment**
  - Hugely important question
  - Extremely ambitious project → 129 pages (!)
    - Theory + Measurement + Welfare
  - Very exciting contribution to the literature

High-Level Summary

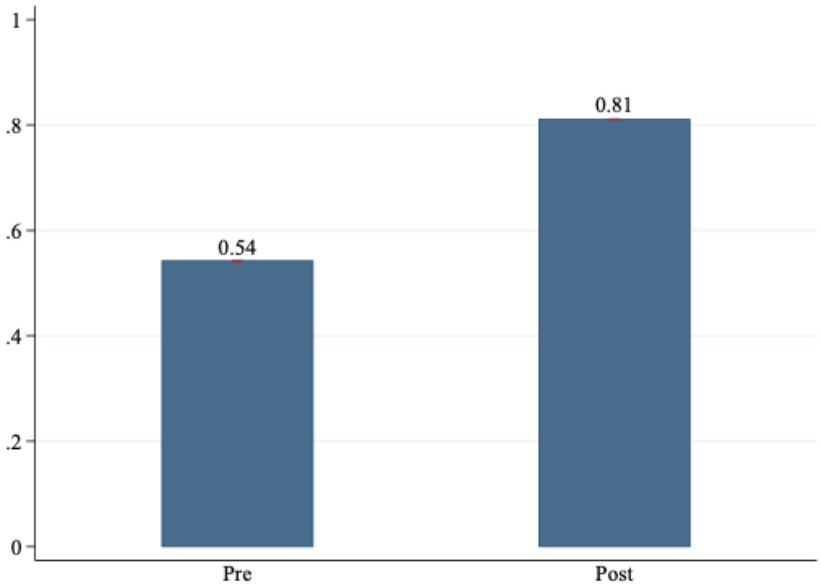
1. India's DI limit change: ₹100,000 to ₹500,000 → February 2020
   Similar system to US
   - US: $\frac{\text{limit}}{GDP_{pc}}$ is ~ 4
   - India: $\frac{\text{limit}}{GDP_{pc}}$ from 0.7 to 3.5
2. Theory: two-asset mean-variance portfolio + DI threshold
   - Proposition 1: DI Threshold → Bunching
   - Proposition 2: Sensitivity to DI-limit higher around the threshold
     - Deposit growth + Risky-asset sales
3. Data
   - Individual-level data from single bank (4% of bank depositors)
   - Data: Deposit + Stocks + Mutual Funds ← unique dataset
     Question: all stock/MF holdings, or just those in the bank?
4. Empirical Strategy
   - Bunching-in-differences
     - Bunchers (around ₹100k) vs. non-bunchers
     - Before vs. after DI expansion
   - Within-depositor fixed effects + (ZIP-time, etc.)

Summary of Results

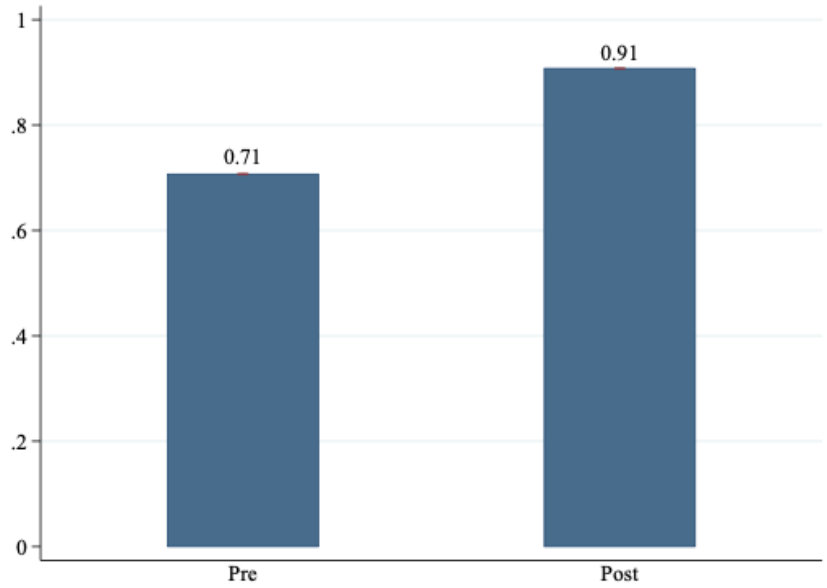
- Bunchers
  - increase deposits by ~5% relative to non-bunchers
  - liquidate risky assets: explains $\sim 72\%$ of deposit increase
  - disproportionately sell state-owned enterprise stocks (safer)
- Transient downward pressure on SOE stock prices (up to 5%), reverting within a month
- 1 p.p. increase in DI coverage $\rightarrow$ 2.1-3.0% deposit increase
  consistent with existing estimates (US & Colombia)
  - **Remark:** it is great to have these elasticities
- Welfare results $\rightarrow$ Stylized model
  - **Remark:** I like connecting share of bunchers with failure probabilities
    Davila/Goldstein 2023

Results

Figure C.1: Aggregate Analysis: Insured deposits and DI Limit Expansion



(a) Frac. of Accounts Completely Insured

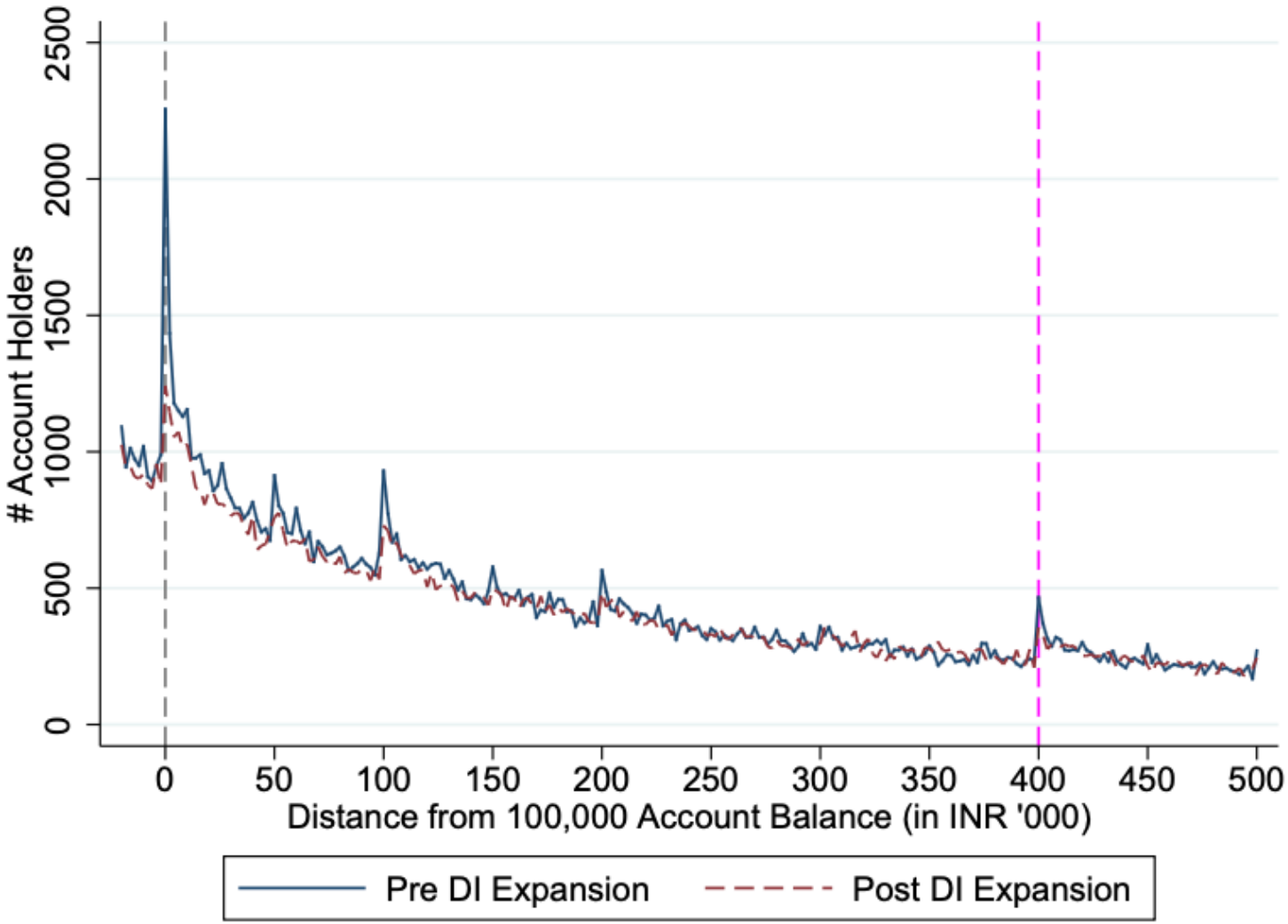


(b) Sh. Deposits Insured

- Aggregate expansion of covered deposits
- **Remark:** it is useful to report both → Different strategic implications

Results

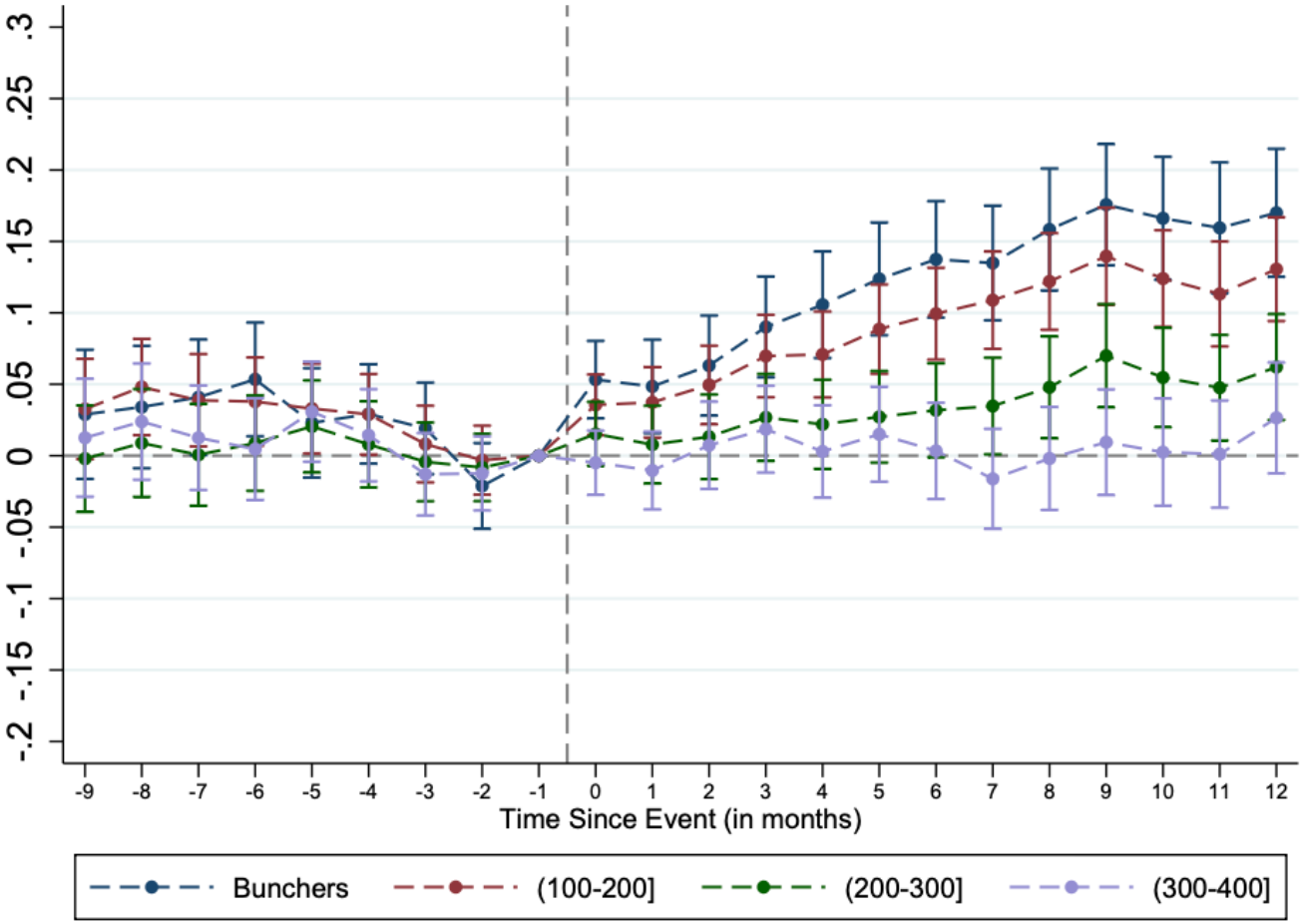
Figure C.2: Depositor Distribution & Deposit Insurance Threshold



- Bunching at 100k before, 500k after

Results

Figure 7: Assessment of Pre-Trends: Heterogeneous Response of Non-Bunchers

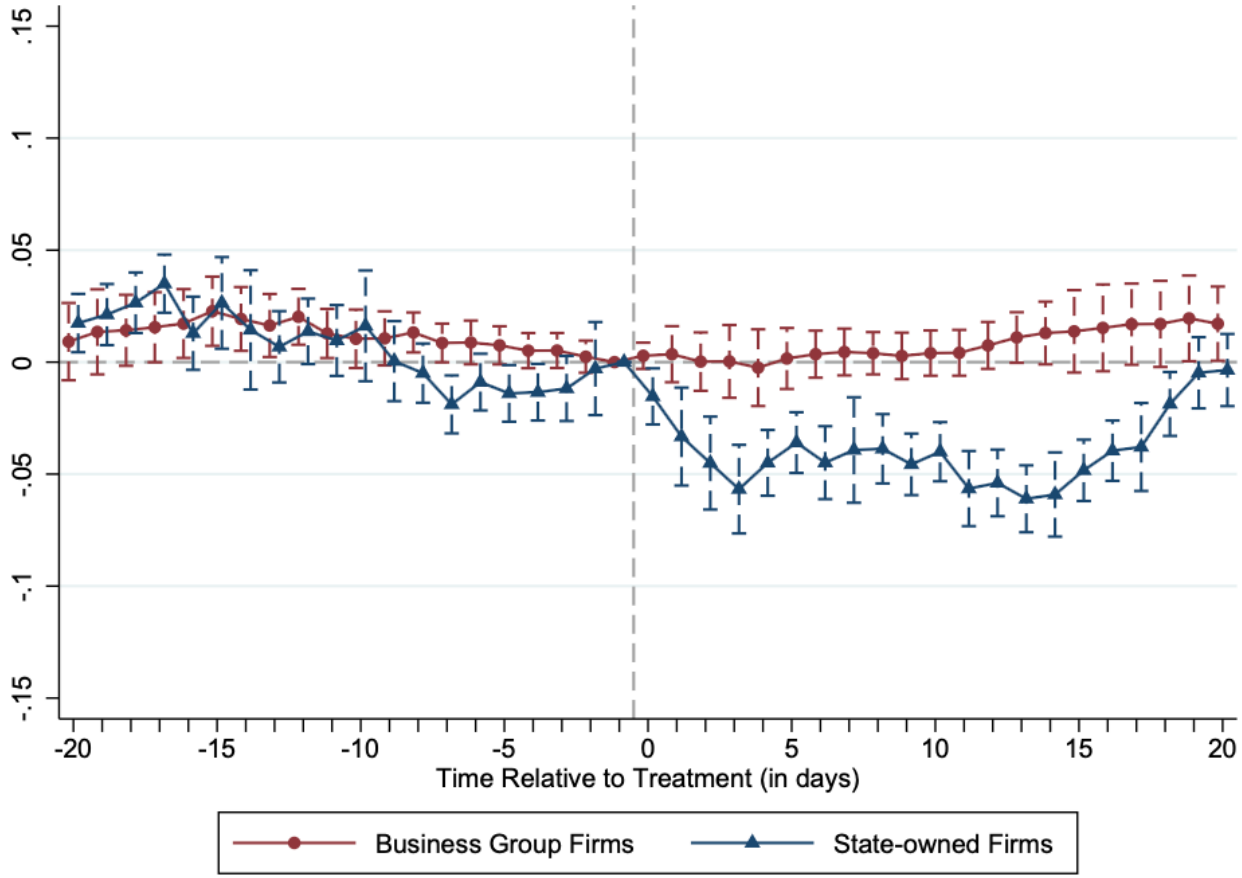


$$\ln\left(\text{Deposits}_{i,t}\right) = \sum_k \sum_j \beta_j^k \text{Bin}_k \cdot 1\{t = j\} + \theta_i + \theta_{z(i\in z),t} + \varepsilon_{i,t}$$

- Monotonic effects $\rightarrow$ convincing

Results

Figure 9: Asset Pricing Implications of SOE Liquidation



- Bunchers have a tilt towards SOE's
  - Liquidate positions → Reflected in prices
- Consistent with inelastic/price pressure models → elasticity?

Comments/Remarks

1. **Theoretical Framework**
   - Could be augmented to explicitly incorporate equilibrium effects
     - e.g. equilibrium changes in interest rates, failure probabilities
     - This could help clarify the interpretation of the estimates
   - Mean-variance preferences are not ideal for welfare computations
     Not expected utility
   - Dynamic model
2. **Role of COVID**
   - I wonder if there were any other policy initiatives around this time that could somehow confound the effect.
   - For instance, the result on the ownership or returns on SOEs?
   - I understand time-fixed effects help

Comments/Remarks

3. **Direct measure of bank's financial health?**
   - CDS Spreads?
4. **Safe asset narrative**
   - Usually discussed in terms of government bond rather than insured deposits
   - Interaction with government debt as a competing safe asset?
5. **What if cross-bank data were available?**
   - Deposit splitting
   - Equilibrium effects

Conclusion

- When we wrote DG2023, we hoped to see a paper like this
- Very exciting contribution to the literature!
  - Great analysis of depositors' behavior
  - Very welcome elasticity measures
- I hope to see even more work on these issues

Thank you for your attention