

Discussion: “Household Portfolio and Deposit Insurance: Implications for the Supply of Safe Assets” by Ghosh, Limodio, and Vats

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The paper in one slide

- ▶ **Motivation:** What is the optimal level of deposit insurance (DI)?
 - ▶ Usually trade-off bank fragility vs bank moral hazard
 - ▶ This paper: Δ DI $\Rightarrow$ households' portfolio allocation
- ▶ **This paper:**
 - ▶ What can we learn about the benefits from DI in India?
 - ▶ Idea: HH demand for safe assets exceeds supply.
DI threshold limits constrains $\Rightarrow$ bunching, forced risk-taking
 - ▶ Data: India's 5 $\times$ DI increase (Feb 2020)
 - ▶ Month-individual-level: deposits, stocks, mutual funds, ...
 - ▶ Bunchers ($\equiv$ just below DI threshold) increase deposits
 - ▶ Liquidate stocks/MFs to fund deposit increase;
state-owned-enterprise (SOE) stocks in particular
- ▶ **Model:**
 - ▶ Mean-var ptf choice w/ kinked capital allocation at DI threshold
 - ▶ Bunchers = depositors constrained by DI limit
 - ▶ *Policy:* Share of bunchers is sufficient stat for depositor-implied prob. of bank failure
 - ▶ *Welfare:* Gains 0.05–0.57%, claim robust to moderate moral hazard

Household portfolio choice problem

Standard View

(Constraints on *Risk*)

- ▶ **Assumption:** Safe asset is *elastic* (infinite supply)
- ▶ **Constraints** on risk-taking (e.g., margin limits, reg. capital)
- ▶ **Optimization:**
maximize return s.t. risk limit

This paper

(Constraints on *Safety*)

- ▶ **Assumption:** Safe asset is *inelastic* (Capped at δ).
- ▶ **Constraints:** "You cannot be as safe as you want."
- ▶ **Optimization:**
maximize return s.t. riskfree capacity constraint, which creates a kink in the objective

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- ▶ Here, agents are safety-seeking but rationed
 - ▶ **This paper's result:** "Forced risk-taking" into equity (e.g., SOEs) is not a preference change; it is a **corner solution** to a safe-asset shortage.

Discussion

This paper: rich data on DI benefits for HH in emerging economy, careful analysis, a ton of work, interesting insights

1. Mechanism: relaxation of constraint on safety or flight to safety
2. External validity: role of safe asset scarcity
3. Welfare implications and quantifying the value of safety

(C1) Bunching design and the COVID confounder

What the paper does:

- ▶ **Setting:** Feb 2020 — India raises DI limit Rs. 100K → Rs. 500K
- ▶ **Design:** Bunching-in-differences compares “bunchers” (70K–100K pre-policy) to non-bunchers
- ▶ **Specification:** $\ln D_{i,t} = \beta \cdot \text{Buncher}_i \cdot \text{Post}_t + \theta_i + \theta_{z(i),t} + \varepsilon_{i,t}$
→ Depositor FE + ZIP $\times$ time FE
- ▶ Bunchers raise deposits by 5.2% of which 72% from stocks/MFs liquidations

COVID timing concern: DI announced Feb 1, Global stock crash Feb 24th, lockdown March 24

- ▶ **Potential confound:** Flight to safety if bunchers are more risk-averse
- ▶ **Paper's defenses:**
 - ✓ Effect begins immediately at $t = 0$ (pre-lockdown); clean pre-trends
 - ✓ ZIP $\times$ time FE, within-household tests, 1,000 placebo thresholds

Residual concern: Robustness checks prove internal validity: the limit binds, and bunching is real. they do not establish causal identification of the trigger

(C1) Flight to safety or undersupply of safe assets?



► Identification challenge:

► The shift (Stocks → Deposits) is consistent with **both**:

1. **Mechanism**: Undersupply of safe assets
2. **Confounder**: "Flight to Safety" / Panic selling

► Why fixed effects ($Zip \times Time$) might not save it:

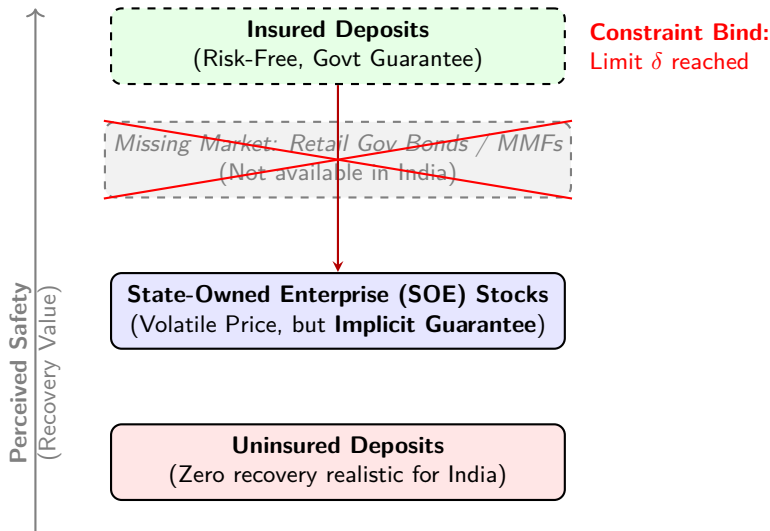
- FE absorbs the monthly *average* local COVID shock
- "Immediate reallocation response" still consistent with initial panic reaction to Covid news
- Highly risk-averse agents (Treatment group) react *more strongly* to the panic than control group
- Estimator likely picks up *policy effect* + *flight to safety effect*

► Maybe: exploit geographical variation in COVID intensity (e.g., Green vs. Red zones) to separate the **DI limit effect** from the **flight to safety**?

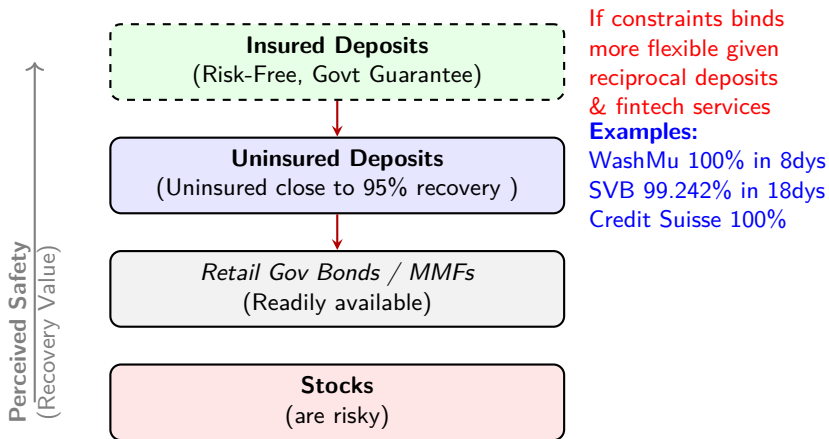
(C2) This setting's pecking order of safety

Key institutional features:

- ▶ Insured deposits = **only safe liquid asset** for Indian households
- ▶ G-secs inaccessible to retail before 2021; MMFs/gilt funds < 2% of AUM (high fees); (lots of detail in paper)



(C2) Pecking order of safety in US/Europe

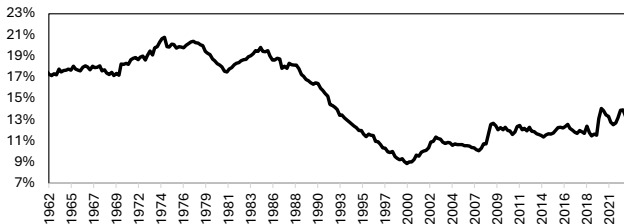


- ▶ Best alternative to safe deposits $\neq$ stocks
- ▶ Question also for India: How much will the reallocation channel attenuate when (1) uninsured deposits are safer and (2) safe alternatives exist?
- ▶ Comparison suggests that DI limit is not the only lever for policy maker

(C2) US deposit share of HH financial assets has declined

- ▶ Data: US depositors look less constrained

US depositors have been shifting out of deposits for decades



Source: Buchak, Matvos, Piskorski, Seru (2025)

- ▶ For HH "safe deposits" are not as scarce in the US as in India
- ▶ Comparison raises external validity q but tons of related work in appendix
- ▶ HH unlikely to benefit as much from an increase in DI-limit
- ▶ Potentially more scope for benefit for corporate depositors

(C3) Welfare and moral hazard

- ▶ Welfare gains: 0.05%–0.57% of utility, depending on γ

Peaked for intermediate-wealth depositors

Large increase in failure rate due to moral hazard needed to offset welfare gain

- ▶ Comments:

- Change in DI could change depositor composition, and thus run-risk (e.g., Blickle, Li, Lu, Ma 2025)
- Moral hazard affects only failure rates: misses asset quality, externalities, etc
- Hence welfare is depositor-side only; abstracts from economy-wide benefits and costs
- Estimates of failure rates and depositor welfare still informative (e.g., Davila-Goldstein-23) if not confounded by Covid

(C3) Direction for future work

How much do Indian depositors value the **safety** of deposit insurance?

Analogy to Regulatory Bunching Literature

Alvero, Ando, and Xiao (2022)

Agent: Banks

Action: Growing Assets (A)

Threshold: \$10B / \$50B

Friction: **Regulatory Cost** jumps at threshold

Bunching: Avoids cost

Estimation: **Implied Reg Cost**

This Paper (Household)

Agent: Households

Action: Saving (D)

Threshold: Limit δ

Friction: **Safety Benefit** drops at threshold

Bunching: Retains safety

Estimation: **Value of Safety**

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- ▶ The “bunching mass” is a revealed preference estimator in normal times to estimate the value of safety for HH
 - ▶ Could be done outside of the confounding aggregate shock event and thus provide plausible estimates of enhancing access to safe assets

Conclusion

Very interesting and carefully executed paper with rich data on the benefits of DI for HH in a large emerging economy

Very useful to learn about a large emerging economy such as India

► Takeaway

- DI threshold constrains the supply of safe assets to Indian HH
- DI expansion coincides with equity liquidation $\Rightarrow \uparrow$ deposits
- India would benefit from financial market reform, providing broader, cheaper access to safe assets

Open questions

- Is an increase in the DI limit the best policy?
- Separate deposit insurance effect from COVID flight to safety?

Appendix comment: is SOE liquidation really about “safety”?

- ▶ SOEs perceived safe because of **implicit government guarantee**
- ▶ Paper controls for many characteristics (Table 6)
 - ✓ Sector, beta, alpha, volatility, size, dividends, etc.
- ▶ Remaining concern: “safety” of SOE is hard to isolate
 - SOEs large and well-known in India — familiarity bias?
 - SOE ownership $\neq$ low risk in general; could be local/home bias
- ▶ Suggestion: Compare response across stocks sorted by
 - Idiosyncratic risk, low- β
 - Credit quality of issuer

Would sharpen the “unmet demand for safety” interpretation

Appendix comment on depositor-implied bank failure probability

- ▶ Key insight: share of buncers pins down depositor-implied π

Given γ : bunching region has upper & lower bounds in Y
Fraction of Y -distribution in bunching region = observed buncher share $\Rightarrow \pi$ identified

- ▶ Calibrated π : 0.54% at $\gamma = 3$, up to 1.74% at $\gamma = 10$
- ▶ Attractive for regulation: simple, observable, bank-level metric
- ▶ Concerns:
 - Requires knowing γ (or its distribution across depositors)
 - π estimate may conflate policy-driven with behavioral bunching due to γ
- ▶ Suggestion: Compare implied π across banks — do they predict actual default risk?