

Free-Riding in Teams

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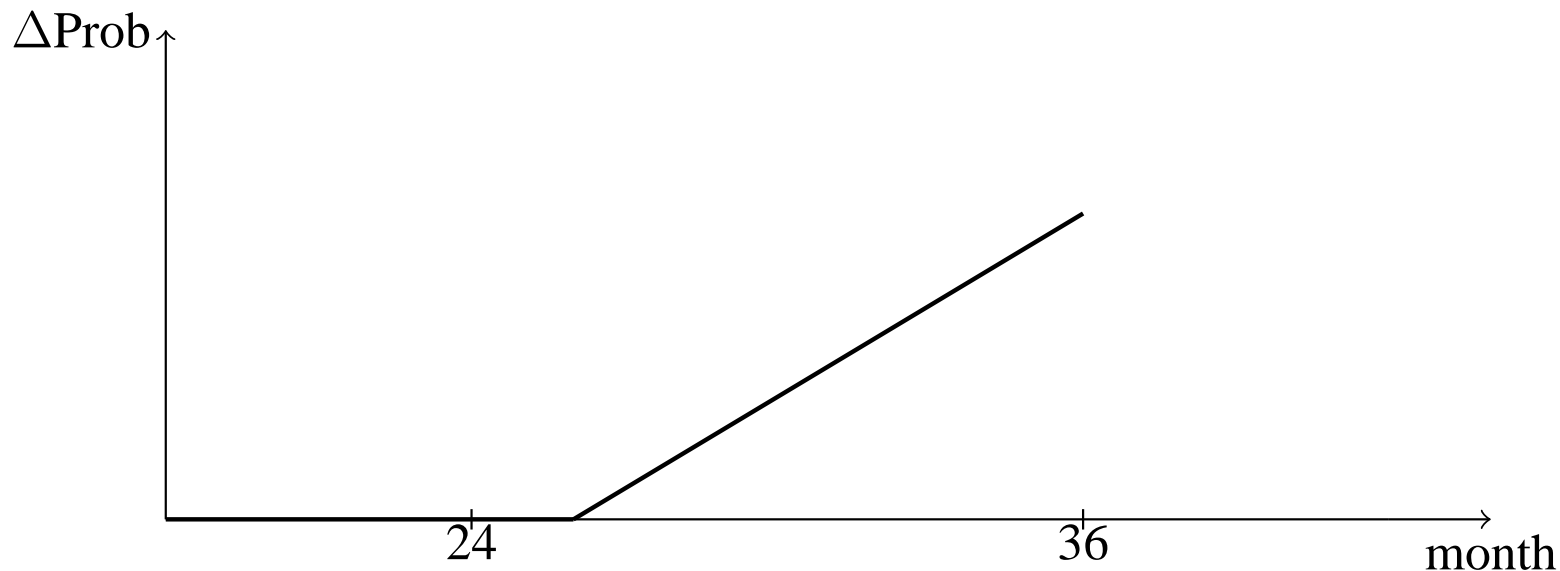
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^aThe views expressed here are mine and do not necessarily represent those of the Federal Reserve Bank of Philadelphia or the Federal Reserve System

Summary

- Setting:
 - Forced rotation of loan officers
 - in an Indian state-owned bank making agricultural loans
 - Loans can be matched to officers
- Question:
 - Is loan performance affected by the rotation?
 - What is the cause?
- Findings:
 - Loans issued in anticipation of rotation under-perform
 - The latest loans are the worst
 - Attributed to free-riding in monitoring

Findings and Interpretation



- **Finding:** Gradual but accelerating increase in default rate on loans issued as the rotation date looms
- **Interpretation:** Free-riding in monitoring
 - by both outgoing and incoming loan officers
 - Not selection
 - Not disruption

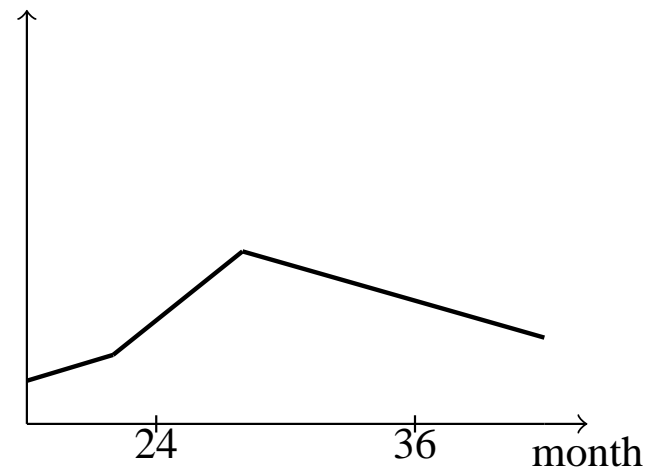
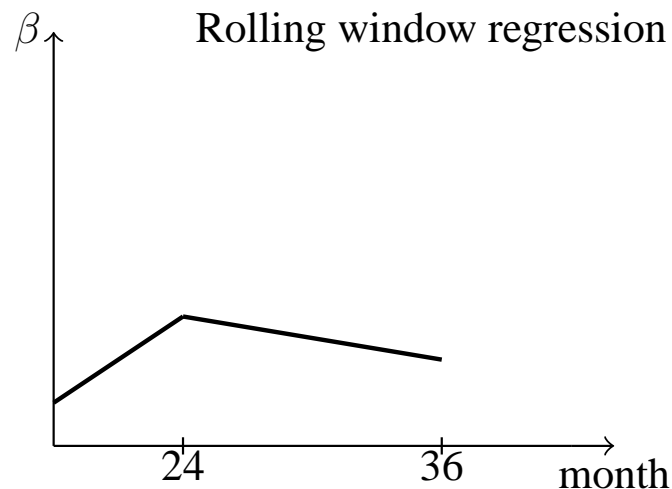
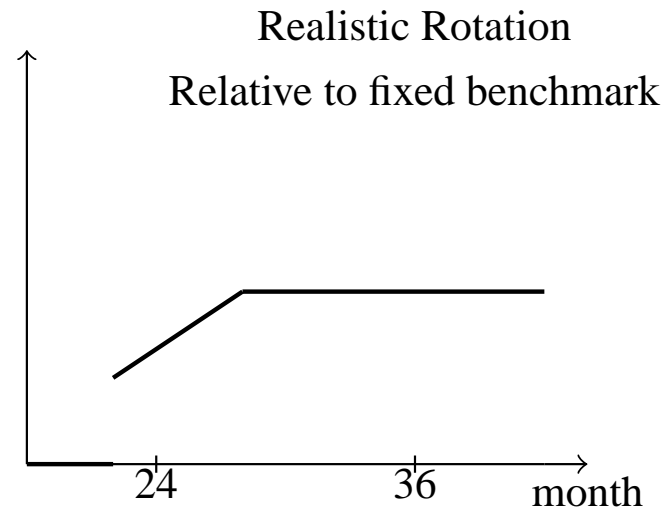
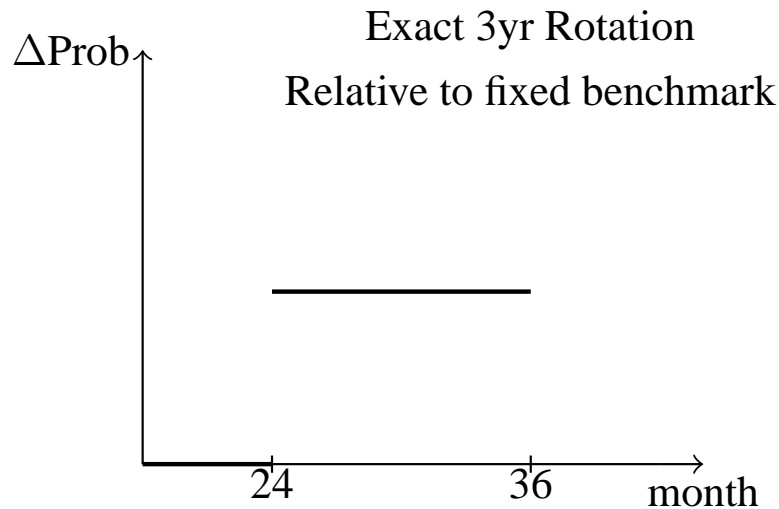
Evidence

- Are we measuring the right thing?
 - “Default” is exceedingly prevalent (63%)
 - defined as missing the payment by even just a day
 - “Delinquency” is much less common (27%)
 - defined, I presume, as 60 days behind on the payment
 - Ultimate recovery rates are what matters
 - and be patient, as average loan duration is 606(!) days
- Re-running all the regressions for different cut-offs
 - does not hold the β s constant
 - changes the pool of comparison loans
- Officer X Month fixed effects — “Rain Man”

Interpretation

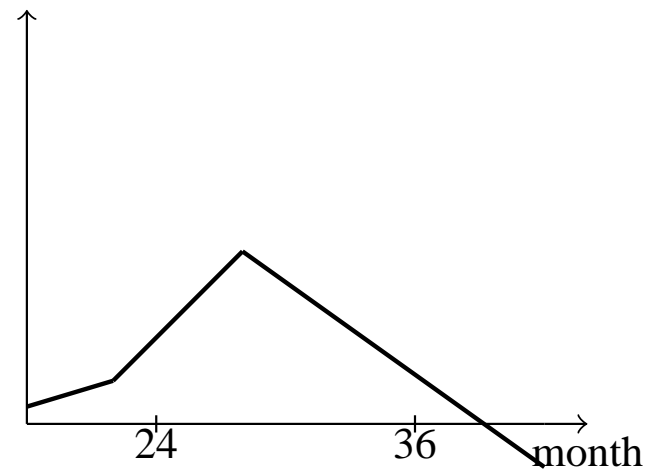
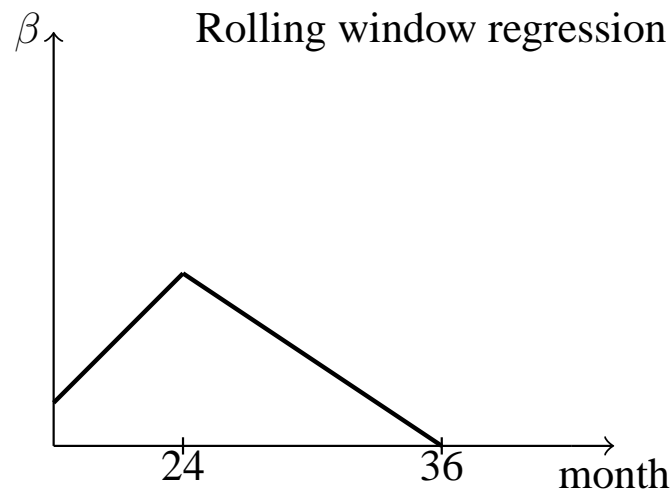
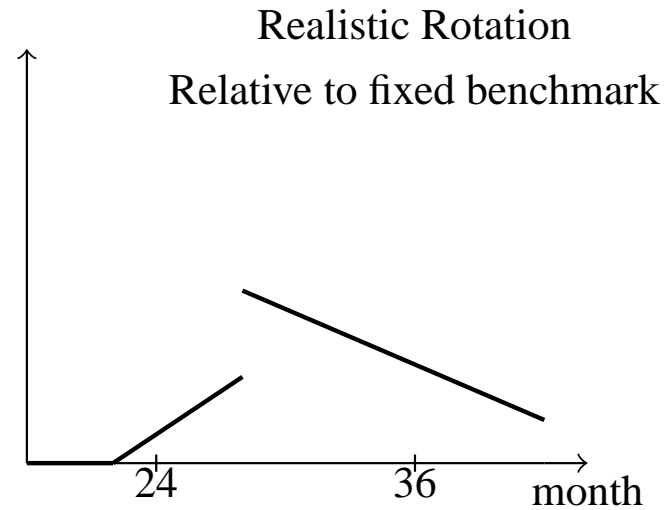
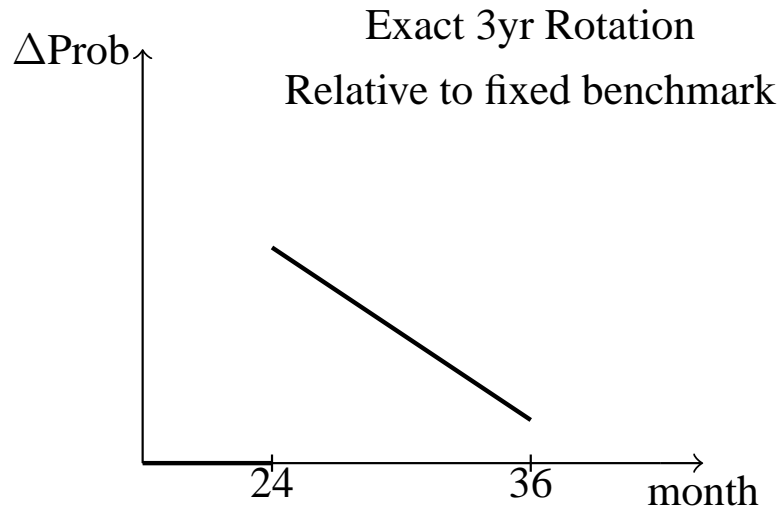
- Re-Framing the Interpretation Analysis:
- Basic mechanisms:
 - Screening
 - Monitoring
 - Enforcement
- What drives the deterioration of loan quality?
 - Expectation of rotation
 - Realization of rotation
- Can we blame/convict the incoming loan officers?
- And what does it have to do with “teams”?

Interpretation I. Selection



- Driven entirely by the *expectation* of rotation
- Predictions: Sharp rise around 24-month mark, then flat

Interpretation III. Enforcement (by relation)



- Driven entirely by the *realization* of rotation
- Predictions: Jump at separation, then decline

Interpretation

- Framing the Interpretation Analysis:
- Basic mechanisms:
 - Screening **Probably Not**
 - Monitoring
 - Enforcement **Probably Not**
- What drives the deterioration of loan quality?
 - Expectation of rotation ✓
 - Realization of rotation ?
- Can we blame/convict the incoming loan officers?
- And what does it have to do with “teams”?

Tell Me a Story

- What is this “monitoring” you speak of?
 - How do loan officers affect the repayment probabilities?
 - Beyond trying to make sure the loan is for agriculture
 - Do they visit the borrowers? Build personal relations?
- And how does this mechanism generate the *increasing* deterioration of loans in the last months of tenure
- What are loan officers incentives?

Relation to Literature

- Relation to Hertzberg Liberti Paravisini (2010) has been made exceptionally clear (and helpful)
 - Different kind of “team production”
 - HeLP (2010) — author + referee
 - STaB (2017) — co-authors
- But what about Fisman Paravisini Vig (2015)?
 - Also exploiting rotation in an Indian SOB
 - Claim a very different incentive structure:
“officers are held accountable for loans defaults after moving branches ... for three years”
 - and dramatically lower default rates:
8.6% late, 3.6% delinquent (on a wider set of loans)
- Is there an important complementarity between screening and enforcement?
 - if “in-group” lenders have advantage at both

Summary

- Very nice paper
 - I learned a lot
- Very nice data
- Very sharp findings

- Rich data permits distinguishing between mechanisms
 - Don't have to pick one and rule out the rest
 - You can do a decomposition

- Please tell me a story about monitoring
 - preferably with a model

- And please tell the SOB to think about incentives