

The Formation of Mutual Insurance Networks within Group Lending

Experimental and Survey Evidence
from Self-Help Group Program in South India

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Abstract

In the theoretical and empirical literature on microfinance, a large number of studies have examined the formation of mutual insurance networks within group lending, in which a participant is expected to be charged to repay obligations instead of peers who belong to the same group if they

do not repay their own obligations. However, there is still a lack of understanding of the formation of mutual insurance networks within group lending, especially in the context of the self-help group program in South India.

In this study, we examine the formation of mutual insurance networks within group lending in the context of the self-help group program in South India. We use experimental and survey data to investigate the formation of mutual insurance networks within group lending.

Our results show that the formation of mutual insurance networks within group lending is significantly affected by the size of the group and the level of the interest rate. Specifically, the formation of mutual insurance networks is more likely to occur in larger groups and at lower interest rates.

These findings suggest that the formation of mutual insurance networks within group lending is an important mechanism for reducing the risk of default and improving the sustainability of microfinance programs. Therefore, policymakers should consider the size of the group and the level of the interest rate when designing microfinance programs.

Our study also provides some policy implications. First, policymakers should encourage the formation of larger groups to facilitate the formation of mutual insurance networks. Second, policymakers should consider lowering the interest rate to reduce the risk of default and improve the sustainability of microfinance programs.

Finally, our study highlights the importance of mutual insurance networks within group lending. Future research should further investigate the formation of mutual insurance networks within group lending in different contexts and with different participants.

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