Introduction

This paper studies how access to banking affects household resilience to shocks. Shocks include for instance bad harvests or health emergencies.

- A large literature shows that households are not sufficiently insured in developing countries (Gertler & Gruber, 2002).
- In absence of insurance, households have to apply costly strategies, e.g. taking children out of school or reducing food consumption.

Against this background, this paper asks the question whether access to banking can increase household resilience to shocks. In order to answer this question, I combine

- Policy of the Reserve Bank of India (RBI)
- Nationwide natural experiment (RDD)
- Indian Human Development Survey (IHDS)
- Nationally representative household-level survey

Policy

- Introduced in 2005 by RBI, intact until today.
- Objective: Incentivize banks to open branches in underserved locations.
- Policy: Banks increase their chance to obtain license for favored location by strengthening presence in underbanked districts.

Underbanked Districts

<table>
<thead>
<tr>
<th>Population [District]</th>
<th>Population [National]</th>
</tr>
</thead>
<tbody>
<tr>
<td># Bank Branches [District]</td>
<td># Bank Branches [National]</td>
</tr>
<tr>
<td>Underbanked/Treated</td>
<td>National</td>
</tr>
</tbody>
</table>

- List of underbanked districts published 2006
- Only names, I reconstruct ratio

Regression Discontinuity Design

- Forcing variable: District-level ratio
- Cutoff: National-level ratio
- Fuzzy

375 Underbanked Districts

Household-Level Data: Indian Human Development Survey (IHDS)

- Nationally representative
- Pre-Policy round: 2004/2005 IHDS-I
- Post-Policy round: 2011/2012 IHDS-II

Timeline

Main Results

- Banks open branches due to the policy
- Households take up banking services in response to shocks
- Households that experience droughts show signs of increased resilience

Results

1. Banks open branches

2. Households Use Banking Services

3. Evidence of Increased Resilience

Drought shocks:
- Households take up banking services
- This translates into improved welfare
- Mechanism: temporary work migration
- Increase in informal, decrease in semi-formal loans
- No over-indebtedness

Next step: Idiosyncratic shocks