Policy

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

Overview

This paper studies how bank presence affects health of households.

- Nationwide natural experiment
- Policy of the Reserve Bank of India (RBI) from 2005 that introduces exogenous variation in bank presence
- Policy incentivizes banks to enter underbanked districts, which have a population-to-branch ratio above the national average
- I compare households in districts just above and just below the national average
- I find a strong and positive effect on: morbidity rates, vaccination rates, pregnancy and just below the national average
- I highlight two novel aspects of banking: banks offer health insurance to households and credit to health care providers

Regression Discontinuity Design

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

375 Underbanked Districts

No Manipulation of Ratio

Data

- Demographics and Health Survey DHS (2015/2016)

Regression Specification

Underbanked_{d,s} = α_0 + α_1 Above_{d,s} + α_2 DistRatio_{d,s} + α_3 DistRatio_{d,s} Above_{d,s} + λX_{d,s} + μ_s + ϵ_{d,s}

γ_{h,d,s} = β_3 + β_4 Underbanked_{d,s} + β_5 DistRatio_{d,s} + β_6 DistRatio_{d,s} Above_{d,s} + γX_{d,s} + η_s + ζ_{h,d,s}

Results

1. Banks Open Branches

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Days ill</td>
<td>-0.29**</td>
<td>-0.44***</td>
<td>-0.88**</td>
</tr>
<tr>
<td>Control Mean</td>
<td>0.82 (0.12)</td>
<td>0.58 (0.13)</td>
<td>2.12 (0.35)</td>
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<tr>
<td>Mean Change</td>
<td>-25.21</td>
<td>-35.40</td>
<td>-58.56</td>
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<tr>
<td>Bandwidth</td>
<td>2.658</td>
<td>2.513</td>
<td>2.948</td>
</tr>
<tr>
<td>Efficient Obs.</td>
<td>12,968</td>
<td>12,421</td>
<td>14,576</td>
</tr>
<tr>
<td>Observations</td>
<td>32,280</td>
<td>33,346</td>
<td>32,983</td>
</tr>
<tr>
<td>(log no.)</td>
<td>(log no.)</td>
<td>(log Rs)</td>
<td></td>
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</tbody>
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Days missed due to illness expenses

2. Health Improves

3. Mechanisms

I highlight two novel aspects of banking:

- Banks offer health insurance
- Banks offer credit to health care providers