Bernstein Center for Leadership
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Banks Contribute to Better Health Outcomes in Developing Countries

Ethical Implications

- Incentives for increasing the number of bank branches in developing countries can have impacts beyond just finance.
- Banks provide health insurance to households and credit to hospitals in developing countries.
- The presence of more local banks can help improve the health of households.

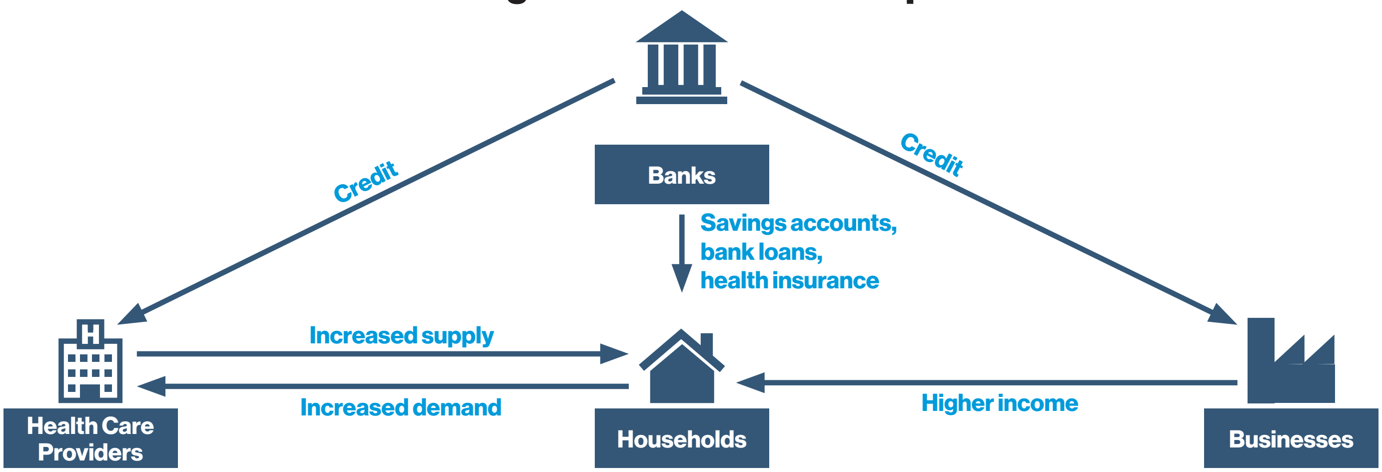
Policymakers and international organizations like the United Nations have suspected that local banks play a role in improving healthcare outcomes in developing countries. New research affiliated with the Sanford C. Bernstein & Co. Center for Leadership and Ethics takes a broad look at bank services in developing countries and uncovers surprising links between healthcare marketplaces and positive community outcomes.

Kim Fe Cramer, Bernstein Research PhD Grant recipient, who was awarded the funds in her final year at Columbia Business School, provides empirical evidence from a natural experiment in India in her paper, "Bank Presence and Health." The data show that a policy designed to increase bank presence in underserved areas had long-lasting effects on the health of nearby households.

The Effects of Policy Incentives

Cramer, who is now an assistant professor at the London School of Economics, examined a study introduced by the Reserve Bank of India (RBI) in 2005. It incentivized the creation of new branches in underbanked districts. After five years, the number of bank branches in these districts had increased significantly (19 percent). Furthermore, household health in these districts improved substantially, according to analysis of the Indian Human Development Survey and the Demographics and Health Survey—conducted six and 10 years after the policy implementation, respectively.

Potential mechanisms through which banks can improve health outcomes



Six years after the policy, households in the districts with increased bank presence were 36 percent less likely to experience a non-chronic illness such as fever or diarrhea. In addition, 10 years after the policy, they had higher vaccination rates and lower risks associated with pregnancies. A decrease in morbidity rates also positively affected health-related economic outcomes. The surveys found households missed less school and work due to illness and incurred significantly lower medical expenses.

> **With access to banks, more households established savings accounts, but perhaps more importantly, they also had access to health insurance.**

Three mechanisms likely played an important role in the improved outcomes. The first is the presence of banks and the availability of credit for local businesses leads to increased household incomes and thereby the means to invest more in health.

Second, the data show that the increased presence of banks provides households with services that can help them be prepared to pay for healthcare services when illnesses or injuries occur. With access to banks, more households established savings accounts, but perhaps more importantly, they also had access to health insurance. In India — and more than 50 percent of other developing countries — banks serve as middlemen for insurance companies in far-away cities, selling healthcare policies to their local banking customers. This is remarkably different from the U.S. or other developed countries, where health insurance is acquired directly from insurance companies or government programs.

Third, Cramer shows that hospitals are more likely to be financed by bank credit. Eight years after the policy implementation, 140 percent more hospitals operated in the incentivized districts, and providers reported that institutional loans were their main source of finance. Local households were less likely to report problems with health care supply.

Conclusions

The study has implications for both policy and future research. One potentially vital aspect of the RBI policy deserving more attention is that it stimulated both the demand and supply sides of local healthcare markets, through health insurance to households and credit access to providers. Regarding the mechanisms brought forward in the study, policymakers can now make more informed decisions about incentive structures targeting these functions. This could include incentivizing further collaborations between insurance companies and banks, or directing additional credit to health care facilities, as RBI did during the COVID crisis.

Read the full working paper:

Bank Presence and Health

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