Interview with Professor Bhagwan Chowdhry

Bhagwan Chowdhry, Professor of Finance at UCLA’s Anderson School and Director of the Master of Financial Engineering Program, is the co-founder of Financial Access at Birth (FAB), an economic and social innovation that seeks inclusion. He began his career in corporate finance and international finance, and recently refocused his research and teaching on microfinance.

Can you discuss the context in which you developed the FAB model?

A couple of years ago, I was reading about One Laptop per Child, and I had dinner with Vijay Mahajan, the founder of Basix, at his house. I proposed it would be great if we had one bank account for every child at birth. Vijay really liked that idea, but it was just an idea conversation, and we didn’t do anything about it immediately.

A few months later at a meeting of the Faculty Council of the Center for Financial Inclusion at ACCION International, the question came up of how to expand financial access, and I heard numbers that were really large, that a great percentage of the world population doesn’t have any access. Today, 2.7 billion people (more than half of the world’s adult population) still lacks access to financial products and services. At that time, I mentioned the idea again, and there were a few people who thought it was worth pursuing. In particular, Paul Hudnut, a fellow member of the Faculty Council, was encouraging. A few months later, I called Paul and Vijay, and suggested we think about this idea more carefully, formalize it, and see what can be done. Then, a few other people joined us in developing the concept.

What are some of the key elements of FAB?

First, the four key ingredients are a savings account, an initial deposit, mobile technology, and a unique, universal ID. Second, FAB is committed to an unwavering belief that every human deserves the dignity of financial citizenship, and that it is within reach. Third, its approach is collaborative and consultative.

The main idea of the model is to bring these already familiar key ingredients together to generate access and inclusion. But what does access really mean? FAB proposes to give some sort of identity to every person who is born. And by identity, I mean you give every person a chance to be a part of the formal system—the regulated financial system — starting at birth so there is an opportunity to integrate financial access to a legal identity via a birth certificate. What FAB suggests is to roll the two into one. At birth, if you bundle the birth certificate with a unique ID, which would be linked to a bank account, it establishes all these three things at the same time. While the need for a legal identity and function might be clear, we need to demonstrate the same for the bank account. After all, what good is a bank account if nobody uses it?

Thus, the bank accounts should be simple, electronic, secure, and cost-effective so that, in fact, people will actually use it. Everything else follows from that; everything else about which we
are talking becomes possible if there is access, and whether the access is cost-effective enough to be used.

How important are technology solutions like mobile banking to FAB?

The role of technology is absolutely essential, since it will help to reduce costs and build an electronic delivery channel and electronic backbone for both financial and other transfers. One of the barriers to fostering financial inclusion for the poor is cost. The traditional solution of a bank branch is simply not going to work to reach everyone. Technology, however, can help make reaching the “last mile” more affordable. We want to go deep inside the villages; we want to go deep inside places, where traditional brick and mortar bank branches are not feasible; FAB aims to reach the last mile.

Another role for technology: information management and correspondence banking will allow for the realization of cost benefits from economies of scale of large volumes of new accounts. With an initial cash transfer of $100, we anticipate that this initial deposit will go far towards making this an economically viable proposition by generating the demand to reach large volumes. That is, banks or telecom companies that think it’s not cost effective for small transactions can recover costs, when there are a large number of these accounts. We’re not talking about one account, two accounts, ten accounts, but every baby—such volumes would support the business case and cover the fixed costs.

Do you think that this is actually sustainable for the government to roll out?

Government buy-in is a pre-requisite for the FAB model—but the government cannot do it on its own. How exactly one would make sure that the buy-in is there, and that it is stable is important. I think we need to start in a position where the government is already inclined to think FAB is a feasible and worthwhile idea, or at least the government has a commitment to inclusion and is willing to explore innovations to reach it. Once a pilot demonstration is made, then, making the case to other governments will be made more easily. Multi-lateral organizations, like UNICEF, UNDP, and the World Bank, which already have relationships with key decision-makers, might play a role. So I think this will have to happen slowly in order to earn the social, political, and economic will that is necessary to ensure success at the operations level.

One question people ask is: isn’t $100 a big amount? The FAB model recognizes that like any good recipe, it will have different versions of its model to accommodate the availability of local ingredients and context. Further, in a macro situation, the initial deposit can be thought of as a transfer; it’s not a cost in the usual sense of the cost. It offers to those who lack access to financial services an initial incentive to seek it. It’s like priming the pump. I don’t think cost will prove to be such a big issue if the governments perceive it as a transfer, a repositioning of aid, and a transfer that is likely to reach (more efficiently) those who need it the most.
Governments need to be convinced that the benefits that come from FAB are important and long-lasting. Once political decision-makers see the model operationalized, I don’t think they will see the cost as a major impediment. On the contrary, they might think of FAB as an investment in infrastructure—a delivery channel for the transfer of financial and other social services. I think it’s like building roads; I think it’s like building the Internet.

**An essential aspect of the FAB model is that it begins with newborns. What do you see as the potential impact of a project like this on the broader community—their parents, their siblings, etc?**

If you think about the function of the $100 opening deposit, it’s really an incentive, and we know how incentives work. We know that many of the poor do not register a child’s birth due to a number of reasons, including illiteracy, cumbersome processes, or long distances that must be traveled. I think with a $100 incentive, mothers would make the additional effort required; I think that’s from where the ancillary benefit comes. A parent, who might not otherwise have prioritized the birth registration process, might say, “I need to get this for my child.” And guess what? As a result of this, we’ve suddenly brought the parent into the picture.

And there’s more. If you bring the mother in to register the child, she, too, could become eligible for a bank account or other services. So, the link between a FAB baby and parents, and in particular, the mother, is really important. It’s also possible that once you bring in the parents, the spillover will reach to include siblings, as well. Finally, once the FAB parents and family have a relationship with a financial service-provider, there are opportunities for the financial service provider to cross-sell savings, insurance, credit, and other products and services that can ensure prosperity and help manage future shocks.

**What are some of the key conditions that need to be in place to implement FAB?**

FAB needs collaboration with a wide range of institutions and individuals. FAB would benefit from expert feedback regarding operations and measuring outcomes and impact. It needs engagement from financial institutions, telecommunication companies, multilateral organizations, and governments. Most importantly, FAB requires funding for the design, implementation, and evaluation of a pilot. Without a pilot demonstration, it will remain just a good idea.

**How do you envision the program sustaining itself into the future, or eventually becoming sustainable?**

A pilot will help us better understand the various incentives that will be necessary to recruit and engage all the stakeholders required to operationalize FAB. Key among them is the role of government collaboration to ensure sustainability. Most stakeholders, whether a telecommunications company or financial institution, will seek a business case. We anticipate a pilot will help us build the business case as well as to encourage participation and buy-in for the
development of key ingredients, such as the electronic, m-banking backbone and biometric technology for the unique, universal ID.

Where does the FAB currently stand?

The Center for Financial Inclusion at ACCION International has hosted FAB since September 2010, and UCLA Anderson’s Center for International Business Education and Research (CIBER), has provided seed funding. FAB has also benefitted from a number of pro bono services and support from professionals and students, including graduate students at UCLA Anderson and Harvard Kennedy School, Credit Suisse Employee Virtual Volunteer Program, and the Pagannuci Fellows from Tuck School of Business at Dartmouth.

Program Manager, Rosita Najmi, drives FAB’s day-to-day operations and is leading strategies for communications, fundraising, and partnerships. In the pipeline is a concept note which will serve as a foundation for a series of global consultations with key stakeholder groups in order to benefit from sector expertise and to avoid risks. The concept note and consultations will inform the design of pilots.

We are currently preparing feasibility studies and funding proposals for Ghana and Samoa and have also considered Mexico, Rwanda, and Pakistan. Pilots would allow us to test assumptions such as the function of the initial $100 deposit—namely, does it work as an incentive for parents to participate? Is it enough from the perspective of the deposit-holder? A pilot could also suggest whether financial inclusion extends beyond the FAB baby to the FAB family, including siblings, parents, and neighbors. Finally, FAB will soon launch its new website before its cameo (in late August) on HBO television series, “Entourage.” Stay tuned for more developments via the FAB website, Twitter, and Facebook presence.