Bhagwan Chowdhry's FAB Campaign Aims to Put $100 in Bank Account for Every Baby

BY FASTCOMPANY STAFF  Sun Mar 14, 2010

Bhagwan Chowdhry, a Professor of Finance at UCLA's Anderson School, outlines his organization's mission to give every newborn in the world access to financial legitimacy. The most stunning part of the Financial Access@Birth (FAB) campaign isn't the remarkable impact that participants would get from a mere $100 starting balance or even the GNP metrics envisioned to fund this campaign, it's the idea that this could help erase poverty. Here's the organization's plan in full.

The FAB Campaign, by Bhagwan Chowdhry, Joshua Coval, Paul Hudnut, Vijay Mahajan, and Peter Singer

Imagine putting your life savings into a piggybank or under your mattress. That would be crazy, since neither offers much security, nor any interest to make the account grow. Yet, nearly half of the world's population does not have access to any formal financial services. Their savings are kept in small jars or trunks, or through a patchwork of informal methods. Nandini, a village woman in India who deposits 5 rupees every day for 220 days with her village deposit collector, only accumulates 1000 rupees after 220 days --an astonishing APR of minus 90%, notes Stuart Rutherford in his book "The Poor and Their Money." If Nandini had access to a simple bank savings account that paid a modest interest rate of 4% per annum, she would have instead saved 1113 rupees. This loss of 113 rupees may not appear to be significant, but consider the following scenario. Her young daughter, Krupa, gets ill and needs life saving medication which costs 100 rupees. If she does what any desperate mother would do, she may have to pay 5% a day to the local moneylender paying him 150 rupees month after month and still continuing to owe him 100 rupees. Lack of access to formal financial services, forces Nandinis of our world into a cycle of constant indebtedness, preventing them from building up household resources for security or investment, and perpetuating their poverty.

The emergence of the microcredit industry, with innovators such as Grameen Bank in Bangladesh, ACCION in Latin America and more recently Kiva in cyberspace, has begun to address the issue of financial services for the poor. But microcredit is only one piece of the puzzle of financial inclusion, and while these early leaders provide inspiring examples, they help only a small fraction of the world's poor. The poor also suffer because they are inadequately insured against unanticipated shocks and contingencies caused by events such as illness or death of a family member, and natural calamities such as floods, droughts or earthquakes. Any security provided by savings and assets is grossly compromised for the poor who are excluded from the formal economy, as emphasized by Hernando De Soto and former U.S. Secretary of State Madeleine Albright in a recent U.N. report. Even during catastrophic events, such as tsunamis, earthquakes, floods and droughts, attempts to provide social insurance in the form of aid and charity are often inadequate and inconsistent.

What is required to bring billions into the formal economy, and start them on the path out of poverty? We believe there is a relatively simple solution. It isn't easy and it isn't fast, and we need your help. But the proposal is feasible, and comprehensive enough that it will lead to financial inclusion for every child and young adult by 2030. We propose that starting November 11, 2011 (11/11/11), every child born in this world will start life with a Financial Access at Birth (FAB) bank account. The opening of these "FAB" bank accounts would be integrated with the official birth registration process and perhaps with electronic banking. Governments, with the help of institutional/individual donors will make a deposit of US$100 in each FAB account.
Bhagwan Chowdhry’s FAB Campaign Aims to Put $100 in Bank Account for Every Baby...

This will entice parents into registering the birth of every child. An initial deposit of $100 could significantly change lives for people in poor countries. The deposit cannot be withdrawn until the child reaches an age of 16 - preventing a parent or another adult from misusing the money. Use of new technology, such as biometric identity systems, could further minimize the possibility of fraud and manipulation.

How much will it cost and where will the money come from? Currently, 134 million children are born worldwide each year. Assuming that 25% of parents will voluntarily forgo the initial $100, this would require a funding of $100 per child for approximately 100 million children every year, which amounts to a total of $10 billion. It would seem sensible to require the host governments to share part of this burden themselves. This could be managed by a multilateral agency such as the United Nations Children’s Fund (UNICEF) in which all member countries could contribute an amount that is proportional to their GNP and would receive a transfer that is proportional to the number of children born in that country.

The total requirement per year of $10 billion is about one-fiftieth of one percent of the world GNP of about $50 trillion, and this would be the contribution level for each country. So, for instance, Rwanda with a GNP of nearly $4 billion would contribute less than one million dollars, and would receive a transfer of nearly $30 million for FAB accounts of nearly 300,000 children born every year. India with a GNP of nearly $1 trillion would contribute $200 million and receive $2.5 billion for FAB accounts for nearly 25 million children born in India every year. Developed nations such as the United States with a GNP of $14 trillion would contribute less than $3 billion - raised by a partnership between the government, private banks, and charitable giving - for FAB. These amounts would require prioritization, but are within the ballpark of many other development initiatives.

Once the FAB account is set-up, a number of useful benefits become feasible. Relatives, private donors, other social organizations could design plans in which regular payments are made to FAB accounts to provide for education, training, health-care. Imagine that, at the time of Krupa’s birth, Nandini opens a FAB account for her. A retired teacher in Germany might like to sponsor Krupa’s school fees for middle school. By using the FAB account, this can happen easily, with the bank transferring payments directly to the school. Imagine further that your teenage daughter Emily decides to contribute $10 a month for Krupa for her college education. Krupa’s initial $100 deposit plus a $10 a month contribution from Emily accumulates interest until Krupa turns sixteen. At a (real) interest of 4% a year, Krupa would have accumulated nearly $7,000 or Rupees 150,000 that can pay for her college education in India. Another direct mechanism could be to pledge a small amount every time those who wish to give use a credit card. Supported by electronic banking, these transfers could occur automatically, at very low cost, and at limitless scale.

The interest earned on the initial deposit could either be reinvested or used for providing critical services such as immunization, health-insurance or catastrophe insurance. Perhaps most importantly, delivery of aid or charity in times of emergency can be targeted to individuals and communities in affected areas. When FAB accounts are integrated with mobile telephony, those to whom the aid is directed, such as Krupa and her mother Nandini, could withdraw (only) emergency funds donated by private citizens or aid agencies, or direct payments to the FAB account from catastrophe insurance, in time of need almost immediately and without any slippage or loss that is often associated with traditional aid.

This would require a serious commitment and coordination among many. Governments will have to agree to fund the initiative and allow the official birth registration process to be integrated with setting-up online bank accounts. Banks would have to do their part and determine business models to implement such accounts. Technology companies will have to develop and provide the necessary hardware and software support. The telecom industry will have to integrate mobile banking with telecom services using mobile phones. Civic and charitable organizations will have to assist with financial education and enrollment systems that would make it simple for individuals to participate in making donations and sending targeted aid. Furthermore, we would need to ensure that funds are transferred in their entirety to the recipients, which means that institutions involved must agree to bear additional administrative and transactions costs as acts of corporate social responsibility.

All of the required pieces to make this happen, in fact, exist today. Korea, Singapore, Canada and the U.K. have all tried opening bank accounts at the time of birth. Individual Development Accounts (IDAs) in the United States, pioneered by Michael Sherradan, provide mechanisms to match, through a variety of government and private sector sources, savings accounts of low-income families. India is embarking on an ambitious unique identification program (UID), headed by Nandan Nilekani, a co-founder of Infosys, for its entire resident population, using biometric technology. Online access for banking is the norm in many countries. Mobile banking using cell-phones has arrived in Kenya, Philippines and other countries. Organizations such as Kiva and United Prosperity have made it easy to identify people in need, and companies such as Paypal make transfer of even small amounts of money easy and instantaneous. Large amounts of financial aid from rich to poor countries already occur through organizations such as the World Bank. The time has come to integrate all of these together and provide financial access to every child that is born in the world.

The idea is simple, transparent and universal. Many details need to be worked out. We invite the world community to come together to work on the implementation challenges, think creatively and persuade each other on the simplest ways to achieve various parts of the concept. You can support the FAB Campaign by visiting the Web site FABCampaign.org and signing your name. We urge leaders of technology and telecom companies, banks, non-profit foundations, microfinance institutions and government and multilateral agencies to support and join the FAB Campaign team by writing to us through the FABCampaign.org Web site. The FAB Campaign team will study the implementation of the idea by identifying a country or two to get started, and showing that this can work. For instance, it would take $30 million a year to get every child born in Rwanda a FAB account. Let’s make financial security a reality for Nandini and billions just like her. Let’s put our resources to work and help the poor gain another foothold on the slippery path out of poverty.
To read more about the names behind the FAB Campaign, and to include yours visit FABCampaign.org

Lawrence Richards 03/18/2010 05:46 PM

I think this is a great idea. This will break the cycle of poverty so prevalent in rural India and among the Hill Tribes.