
Alternative Student Finance

Department for Business, Innovation and Skills

RPC rating: fit for purpose

Description of proposal

The Government currently offers loans to students but none of the options are generally considered compliant with Shari'ah principles.

The Department proposes to introduce primary legislation to allow the Government to offer alternative student finance, alongside equivalent student loans, which would meet the needs of students who wish to comply with Shari'ah principles regarding the payment of interest. The details, including the choice of product offered, will be set out in subsequent secondary legislation.

Impacts of proposal

The Department is not yet certain exactly which Islamic finance product it will offer. However, the most likely product is based on the Takaful model. In this model the contributions of graduates participating in a Government run Takaful fund would be used to provide finance to future students who elect to join the fund. The element of borrowing money and paying it back with interest to a third party (which is haraam, or forbidden, by Shari'ah principles) would not exist. It would be available to everyone, with no financial advantage or disadvantage relative to equivalent student loans, as contributions to the fund will be set at equivalent levels to interest repayments on traditional student loans.

The Department does not, at this stage, expect there to be any costs to business, as the measure is planned to be implemented within the existing processes used by graduates and their employers to make payments into the student finance system. However, the Department has also stated that it cannot be sure of this until the details are set out in secondary legislation.

The Department states that Muslim students who attend university as a result of the availability of alternative student finance could benefit from lifetime graduate wage premiums. These are, on average, approximately £168,000 for men and £252,000 for women. The Department states that survey evidence shows that there are some students who will only attend university if alternative student finance is available, but it is not yet sure how many of these students there are. The Department also states that there may be some students who would take out loans under the existing

system if no alternative was available, but would emotionally and psychologically benefit if they were also offered a Shari'ah compliant product.

The Department states that the proposed scheme is likely to impose start up and operational costs on the Government. The size of these costs will depend on the product offered and the takeup of the product.

On the basis that any impacts of secondary legislation would be assessed in line with the requirements of the Business Impact Target, the RPC validates the primary legislation's estimated equivalent annual net cost to business (EANCB) of £0.0 million for reporting purposes.

Quality of submission

The Department has included sufficient analysis for this stage. However, when appraising the secondary legislation, the Department should ensure that it includes sufficient analysis of how repayments on alternative finance products will be collected and whether this will impose any costs on universities, graduate employers or voluntary organisations. If any costs are imposed on these groups, then the Department should include detailed analysis on the costs to any small and micro businesses.

The Department should also include additional analysis on the likely take-up of any alternative student finance products offered to both Muslim and non-Muslim students.

The IA would also benefit from analysis of whether there will be any public sector effects of tying revenues from the repayments on student loans to the funding of the education of future students.

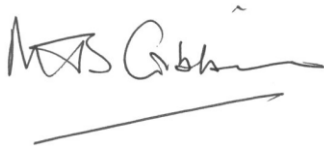
Departmental assessment

Classification	Qualifying regulatory provision (IN)
Equivalent annual net cost to business (EANCB)	zero (at this stage)
Business net present value	zero (at this stage)
Societal net present value	zero (at this stage)

RPC assessment

Opinion: final IA
Origin: domestic
RPC reference number: RPC-3334(1)-BIS
Date of implementation: not known

Classification	Qualifying regulatory provision (IN)
EANCB – RPC validated ¹	£0.0 million
Business Impact Target (BIT) Score ¹	£0.0 million
Small and micro business assessment	Sufficient (at this stage)



Michael Gibbons CBE, Chairman

¹ For reporting purposes, the RPC validates EANCB and BIT score figures to the nearest £100,000.