



Sharia-compliant student finance

Imperial College Union's response to the Government consultation

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Introduction

The Department for Business, Innovation & Skills (DBIS) is consulting with the Muslim community and the wider public on an alternative Sharia-compliant student finance scheme.

Riba, the charging of interest on loans, is prohibited by *Sharia*, the moral and religious code of Islam.¹ As the student loan system currently in place involves the charging of interest, British Muslims are faced with a difficult choice when considering higher education, leading to prospective students deferring or declining higher education in order to remain faithful to their beliefs. The Government's proposal for Sharia-compliant finance is a welcome step towards ensuring Muslim students and Britain's Muslim community can fairly access higher education and the personal, social and economic benefits it brings.

Method

Imperial College Union replicated the DBIS survey and consulted widely with the student body, with a particular focus on student groups with significant Muslim membership. Imperial's Islamic Society and Muslim Medics Society, as well as representatives of postgraduate and international students, were closely involved in the local consultation process and the drafting of the Imperial College Union response.

Over 140 responses were received, many with detailed opinions and personal stories of the impact of the current Government loan system on the higher education aspirations of the UK's Muslim community.

A drafting panel of elected student representatives and Muslim student leaders collated the following input and feedback on the Government's Sharia-compliant loan proposal.

We would like to thank the Government and the Department for Business, Innovation & Skills for the opportunity to contribute to the implementation of this loan system, and we hope that it will pave the way for young members of the UK's Muslim community to access higher education without compromising their religious beliefs.

We would also like to thank the National Union of Students and the Federation of Student Islamic Societies for their work in bringing this important issue to national attention.

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¹ وَأَحَلَّ اللَّهُ الْبَيْعَ وَحَرَّمَ الرِّبَا

¹“Allah has permitted trade and has forbidden interest” - Surat Al-Baqarah, Qur'an 2:275

Background

At present, students can access loans of up to £9000 a year for tuition fees and £4375 a year for maintenance. While still studying, the loans have an interest rate of the Retail Price Index (RPI) + 3%, and after graduation, an income-dependent rate between RPI and RPI +3%.

As of May 2014, RPI was 2.5%, meaning student loans attract an interest rate of up to 5.5%. The student loan system in place before 2012 carried a lower interest rate; the lower of either RPI or a rate pegged to the base rate of a group of banks. The increasing of the interest rate to a level beyond inflation and the increase in fees from £3600 to £9000 a year has, in the opinion of our respondents, had the double impact of discouraging Muslim students from accessing the loans, and making it considerably more difficult for students to raise £9000 annually and pay tuition fees up front, either from friends & family or through working and saving.

Proposal for Sharia-compliant financial product for students

To alleviate the concerns of Muslim students, DBIS has collaborated with Islamic financial experts and institutions to develop a Sharia-compliant financial product that would allow Muslim prospective students to enter higher education.

A number of criteria for a viable proposal were developed, including the following:

- Students using the Sharia-compliant financial product must have identical repayments to students using the existing system, to ensure no students would be financially advantaged or disadvantaged by the system they chose.
- The product must be made available through the Student Loans Company and be transparent and understandable by prospective students and their families.
- Repayments must be made through the tax system, as happens under the existing system.
- The financial product must be acceptable under Sharia and approved by experts in Islamic finance.

The proposed model is based on the long-standing *takaful* practice of Islamic finance, which is built upon the principle of group mutual assurance, charitable contributions and financial assistance. Benefit and obligation is shared amongst all participants in the scheme; the repayments of graduates are used to provide finance to future and current students.

Whilst a conventional loan contract requires the applicant to pay interest on the amount borrowed, the Takaful contract requires the applicant to make a unilateral promise to make future charitable donations in exchange for the Takaful fund paying for the applicant's tuition fees. The rates of repayment and price point of both models are identical.

To distinguish this new proposal from the current system, it is important to realise that the Sharia makes a distinction between a donation based contract and a compensatory contract. Put simply, it is possible for a prospective student to receive a donation from a fund set up to fund tuition fees, and to agree to make future contributions to that fund even if the value of the

future contributions is more or less than the amount received. This only works if the contract is truly donation based not compensation based.

The scheme operates as follows:

- An initial sum of money is donated to establish the scheme, following the Islamic finance principle of *qard hasan*, an interest-free loan for charitable purposes.
- Students will apply to the fund for finance via the Student Loan Company
- Students will sign a Sharia-compliant contract that they will repay a *takaful* contribution; this is considered a charitable contribution from a Sharia perspective.
- This contribution will be set at the same level as a user of the existing loan scheme would pay.
- The contribution is returned to the fund, which is kept entirely separate from any other funds.
- The contributions are used to provide finance to the next generation of students.
- The *takaful* fund is managed by the Student Loan company for a specified management fee; this is acceptable under Sharia as an example of *wakala*, the use of an agency or third party to manage a fund.
- The fund would be regularly audited by a Sharia supervisory committee, with an annual report made available to students.

Questions & Answers

Q1

To what extent, if any, are you aware that students with religious objections to the charging of interest have been affected by the changes in tuition fees and student loans?

The feedback from our members is clear: many of them personally know students who have been affected by the recent step change in tuition fees and the interest charged on loans. Numerous respondents describe how they relied on friends, family and their own earnings to pay tuition fees when they were £3000, which is now incredibly difficult or even impossible to do with the new £9000 fees. For families with multiple children of university age, the burden is even heavier. In some instances, students have had to postpone attending university to seek employment instead, such that they could save the necessary funds to pay future university tuition fees.

Even then, enrolling onto full-time courses was not always possible, with some prospective students having to settle for part-time courses or apprenticeships, effectively ruling them out of attending well-established full-time institutions such as our own Imperial College London. In other cases, respondents mentioned having to work part-time alongside their full-time degree, which had a negative effect on their academic performance as well as personal wellbeing.

Some respondents mentioned that the relatively higher living costs in London added a further layer of financial burden for those aiming to study at institutions in the capital. This had an effect on their university choices, with members citing friends who've had to enrol at universities in their home cities such that they could remain living at home, which at times entailed them having to settle for courses other than their first preferences.

On the contrary, it was also mentioned that some students were looking for alternatives to studying in the UK altogether, with institutions abroad being considered for their more affordable tuition.

Additionally, several respondents reported that they, their friends and family who have taken out interest-bearing loans feel a sense of deep unease and guilt about contravening their religious beliefs to attend university. In many cases, students who were not able to reconcile the taking of the government loan with their religious beliefs have had to take the decision to opt out of entering higher education.

From the respondents who identified themselves as having not taken the government loan, some of them mentioned that they would consider quitting their degree should they no longer be able to continue funding their tuition fees through other means.

I think it does pose a large problem to students with these views. On a personal level,

I know of several very academically well achieving and bright students who are currently in the process of deciding whether to even go to university or not, due to the loan system not currently being sharia compliant, and there being no way for them to afford the tuition fees and living costs themselves. I think it does pose a real moral dilemma for a smaller but increasing proportion of students.

Yes, I know of several Muslims who are on student loans and they have to pay interest on these loans. It is a clear part of Islam that interest is forbidden and should not be taken or given. I can only imagine how unnecessarily difficult it is for these Muslims as they should not have to be put in a situation where they have to choose between their religious obligation to God and their education!

Yes, I am well aware. I live in the east of London in a mixed community and personally know several local young Muslims. The majority of them have decided to postpone university due to the increase in fees and intend to enrol after having accumulated some funds through working. Even then, they might enrol onto part-time degree courses, thus potentially ruling them out from great full-time places like Imperial.

Significantly - I personally know several people who have applied abroad instead of the UK.

I along with many friends decided not to take out a student loan due to the involvement of interest, which is against basic principles of Islam. My friends decided not to study at university and ended up getting a full-time job. I was very fortunate to secure a scholarship which pays for all my tuition fees. This means it is permissible for me to study at university since I am not dealing with any dealings that involve interest.

I am aware that many students have religious objections to the charging of interest. This was the case with me and with many of my friends back in sixth form. I had to work over my summer holidays and ask for support from my family to be able to pay my full tuition fees as I was not eligible for a maintenance grant. Many of my friends used their maintenance grants to pay their tuition fees. However, that was only feasible when university fees were around £3,200. Now with tuition fees at a soaring £9,000, my parents are under a lot of pressure to be able to fund my brother and sister's university degrees simultaneously as both will enter university at the same year. That will be £18,000 for three years (at least) which is not easy to secure by any means.

A friend of mine was made to live at home whilst studying as she does not believe in taking out a student loan due to the interest. This meant she was unable to choose the course she preferred due to the distance from her home.

Q2

Do you believe that there would be a demand among students and potential students for an alternative finance product which was Sharia-compliant?

96% of respondents agreed that there would be demand for the proposed Sharia-compliant finance product. Our members were strongly supportive of the proposal and were fully aware of the long-term benefits that such a product would bring to their families and communities, by widening economic & employment options for Muslim prospective students.

Respondents felt that had the alternative system currently been in place, many of their own friends who had decided against entering higher education (for reasons outlined in the previous section) would have chosen to enter university due to being able to take out a loan. Those with further academic aspirations noted that a Sharia-compliant system would enable them to continue onto a higher degree of studies, such as attaining a Masters degree or a PhD.

Some respondents mentioned that their friends from other faiths who also object to interest transactions would also benefit from a Sharia-compliant finance product, and that the alternative product should be open to all students to ensure fairness.

It was quite evident from the responses that the prospect of an alternative system was something much discussed in Muslim households, which is a good indication that an alternative would attract strong demand from prospective religious students.

Having a shariah compliant fees system would give access to many more students, many of whom would be hard working, very able and would be able to provide their local communities with the best of what an Imperial education provides.

I feel that the demand will be there for the sharia compliant loans from every single Muslim student studying and needing a loan, as well as those others to have objections to interest being from other faiths (i.e. Jewish, Orthodox, Catholic)

DEFINITELY. We have been crying out for some sort of answer to this dilemma, never suspecting that the Government would come in and be so incredibly receptive to our plight. We would JUMP at the opportunity for a Sharia-compliant alternative.

I know of many people who would go to university if it were changed. I am sure there is a high demand.

It is difficult to feel a conflict between fundamental beliefs and a desire to achieve the best in one's desired career plan. This would widen opportunity for many Muslims who feel this conflict.

Many more students are able to attend university and receive a higher degree or continue with a higher degree of study such as a Master's degree or PhD.

Q3

Do you believe that students will be satisfied with the opinion of a Sharia advisory committee as to the Sharia-compliance of an alternative finance product?

95% of respondents agreed that a Sharia advisory committee would be a satisfactory way of guaranteeing to Muslims that the finance product was fully compliant with Islamic finance. Additionally, there was a consensus that other knowledgeable authorities could help accredit and validate the Sharia-compliance of the product. Several of our members recommended that the Government seek the approval of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) for the scheme.

The AAOIFI is a not-for-profit international body dedicated to 'developing Islamic accounting and auditing thoughts', funded by subscriptions from Islamic banking institutions across the world. Several countries in the Middle East and governments further afield in countries such as Australia and South Africa have relied upon AAOIFI standards for their national guidelines and practices.

Our members also commented on the importance of transparency for the supervisory board, and the importance of having recognised Islamic scholars on it. We also recommend that the supervisory board be made accountable to the students and graduates participating in the *takaful* scheme, with decisions and thought processes made clear to all.

Furthermore, the importance of clear explanations surrounding the loans was also mentioned. This ranges from the aforementioned background of the scholars, to the oversight board, right to how the service is provided to students.

Yes, as long as it is a trusted and independent committee that understands Sharia law and the interests of the Muslim students the loan is providing for.

As long as full information is provided as to who is overseeing the service and ensuring it is Sharia compliant. A detailed breakdown of how the service is provided should be given.

Students would be sufficiently assured so long as the development of solutions are overseen by credible local Islamic scholars; any proposed shariah model should be AAOIFI compliant. Members should be eminent British scholars who understand the situation and who represent those communities affected by these changes the most.

It would be good if there was an 'interest-free' loan, given that their payback rate is higher. According to Islamic Law, Sharia, Muslims are not allowed to pay nor receive payment in the form of interest. However, Muslims are also not allowed to die upon debts. It is therefore very important to ensure that those Muslims, who take out a loan to build up a future, will end up paying back their loan "IN FULL." This is something that would need to be arranged somehow. I think that is only fair for the Government as well as towards the Muslims.

The product should be done according to sharia. If a panel of scholars who are suitably qualified make the decision, that is fine, as long as the decision and thought process is

transparent.

Q4

Do you believe that students whose faith has resulted in concerns about the interest rate on traditional loans would find this alternative finance product acceptable? If not please provide an explanation.

97% of respondents believed that a Sharia-compliant finance product that is approved by a Sharia advisory committee would be acceptable. This was qualified by the strong opinion of several students that the product be clearly and transparently developed '*in keeping with sound Islamic principles,*' which would be achieved by the involvement of '*local credible scholars.*' Respondents felt that finding out who has contributed and been involved in helping develop the system should be made easily available. Furthermore, the actual details of the scheme itself and an explanation of how it will work should also be made clear and easy to access.

Another key factor which seems to affect the acceptability of any proposed scheme is that once developed, efforts should be made to work with well-established Islamic organisations, in order to get them on-board to act as endorsers of the scheme. This would provide a much wider appeal of the scheme to the general public by recognition from household Islamic institutes. All of this will help increase the acceptability of the scheme.

As long as full information is provided as to who is overseeing the service and ensuring it is Sharia compliant. A detailed breakdown of how the service is provided should be given.

Yes as long as the panel that supervises this is made up of credible Islamic scholars that stick by Islamic principles.

Again, if sufficient assurances and endorsement are provided by Muslim councils, we would definitely find it acceptable.

Once again this would only be an acceptable alternative as long as it is in strict accordance with sound Islamic principles. If there is a panel of credible scholars overseeing the putting together and implementation of this plan, the Muslim community would be accepting of it.

Q5

Do you believe that the working of the proposed alternative finance product would be understandable to students?

93% of respondents agreed that the alternative product would be understandable to students, however many free text comments emphasised the need for clear and practical explanation over how the system would work.

Some students mentioned that many take the time to research the current loans system thoroughly before signing up to the scheme, so as long as the information is provided at this point of service, they did not anticipate a problem with students understanding the Sharia-compliant version.

Many others mentioned the importance of presenting the information in a different format to make it easier to understand, such as through illustrations or videos, as some felt the communication of the scheme might be the most challenging aspect of the project.

Several other responses suggested co-operation with the Muslim community to help disseminate information about the new scheme. Free text responses mentioned involving Muslim organisations, mosques and student societies in the project as this would aid both understanding and acceptance of the scheme.

As long as it is explained properly yes. If Muslim organisations, mosques, Islamic societies, student societies are approached also, this would do a lot in making it more understandable, acceptable and appreciated.

I liked the explanation provided and found it understandable. Again, a video provided and commentated by a recognised Islamic scholar would make it even easier/better understood.

I think that many people actually go into great depth to understand the current system, so any shariah compliant model would go down very well. It would be much appreciated by British Muslims and large prominent Islamic organisations would get behind the model and promote it to ensure that it is easy to understand, this is if the final model is suitable.

The process of applying for a loan with student finance under their current scheme is extremely confusing and based on this I don't think that the working of the alternative loan would be easy to understand.

Q6

Do you believe it will be clear to students why this alternative finance product is Sharia-compliant? If not please provide an explanation.

93% of respondents believed that it would be clear to students why the alternative finance product is Sharia-compliant. No free text input was taken from those who said yes, however correlating this with the responses given for Question 4 regarding the acceptability of the alternative product, it is clear that the majority of our members who deem the alternative product to be acceptable will understand why it is Sharia-compliant. On the flip-side, this also implies that if the alternative finance product isn't widely accepted as being Shariah-compliant, the majority of students will be clear as to why it's not.

No explanations were provided by the 7% of respondents who answered no to this question.

Do you have any other comments that might aid the consultation process as a whole?

- A theme emerged throughout the answers to several questions that presently, Muslim students encountered a conflict between their religious beliefs regarding *riba* and their strong desire to learn, particularly the STEM subjects taught at Imperial. We recommend that the communication of these loans to prospective students and to the wider public not only clarifies the Sharia compliance of the loan, but the opportunities it creates for Muslim students to access the personal & economic benefits and opportunities a scientific education can bring.
- The consultation is rightly concerned with how the proposal is understood and interpreted by students. We recommend that student groups be encouraged to produce information and resources on the proposed system to educate Muslim prospective students, possibly in collaboration with mosques and other Muslim organisations.

DBIS could arrange a competition between groups to produce the best publicity idea, with a prize fund given to the best proposal.

- A review mechanism to measure uptake of the loans should be defined prior to the launch of the scheme, so success and awareness can be compared to targets and projections.
- DBIS and HMRC should collaborate to ensure the appropriate terminology is used when communicating with users of this product on documents such as P60s and payslips, to ensure mistaken references to interest are avoided.