Alternative student finance

- Alternative student finance (ASF) is a new student finance product compatible with Islamic finance.
- An important concept in Islamic faith is that money has no intrinsic value and riba – essentially interest – is prohibited. In this product, the idea of borrowing and paying back interest is absent. Instead of paying interest, students will pay a fee that will vary depending on their income and the amount that they borrowed.
- The amount of funding students' receive and the amount they contribute in repayment will be equivalent to the student loan.
- A central feature of ASF is the Takaful fund, this will be a separate fund, kept in a separate pot to the normal student loan fund in which outgoing payments to students and incoming contributions from students will be kept.
- ASF will be approved by an Islamic finance committee of scholars, Muftis and Sheikhs, who are experts in Islamic finance and will ensure the product complies with sharia law, similar to other Islamic finance products in the UK and internationally.
- ASF will be available to all students irrespective of their religious beliefs, and result in no financial advantage or disadvantage for students, relative to the equivalent student loan.

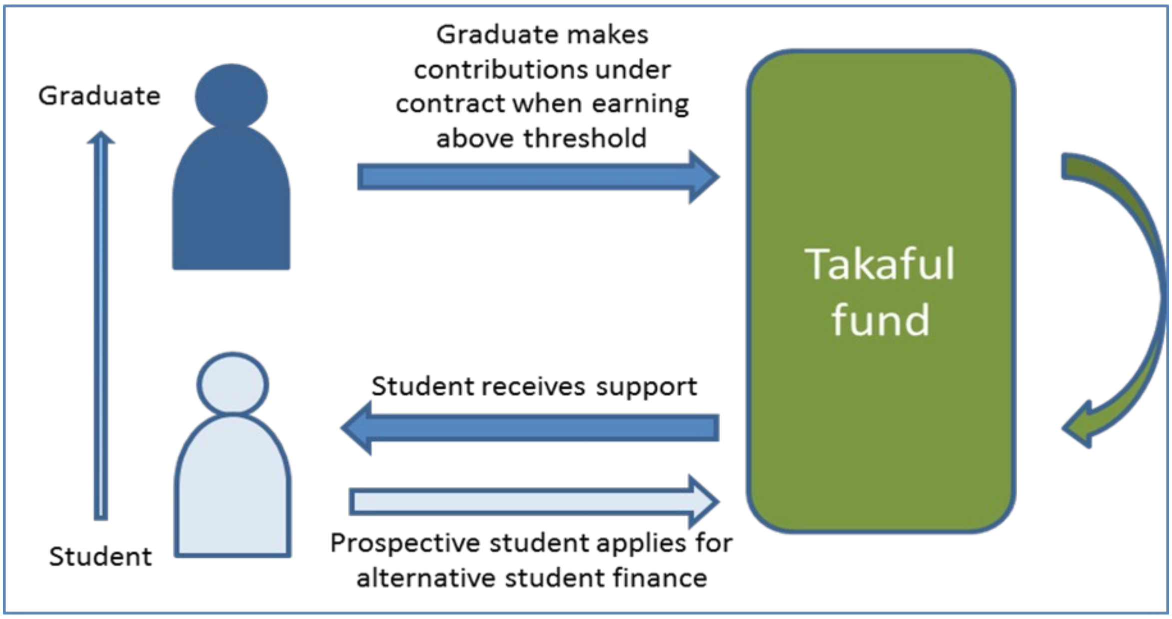
Current undergraduate maintenance loans and tuition fee loans

- Currently when undergraduate students apply for maintenance loans or tuition fee loans, they enter into a contact to receive funding for their studies.
- If they graduate, they will start repaying their loans once they earn over a certain amount, and the size of their monthly repayment will depend on how much they earn, not what they owe.
- Repayments from students are made through the tax system and sit in what is called the consolidated fund, where most of the UK's proceeds of taxation sit too.

ASF undergraduate maintenance and tuition fee loans

- Students would apply for this alternative finance in the same way they would apply for the equivalent student loan.
- If a student takes out a tuition fee loan their institution would receive this money in payment for their higher education course. If they take out a maintenance loan they would receive money in their bank account to help pay for living costs. In taking up either or both of these loans the student enters into a contract requiring them to pay the money back.
- With ASF, the money students pay back will be called a contribution, it will not include interest, and will be paid into the Takaful fund, used to provide non-interest bearing student finance.
- Students will only be required to make contributions into the fund once they have graduated and are earning over a certain amount. The size of their contribution will be based on how much they earn.

Figure 1: Diagram of the Takaful model



Source: DfE, 2017

The Takaful fund

- ASF will be different to current student loans as they will be based around a model of Islamic finance - money will flow through the Takaful fund. This will be separate to the funding for student loans and contributions will not go into the consolidated fund.

- The underlying principle of the model is identified as ‘one of communal interest and transparent sharing of benefits and obligations'. It has been developed from a type of Islamic insurance, a system of mutual contribution and protection, in which the participants donate part or all of their contributions to a common fund for other co-contributors to benefit from as well, with ownership transferring upon usage.

- The two main constructs the Takaful fund:

  1. The **contribution**, based on al-Nihd. In the case of ASF, this contribution will be made after the student has received financial support and once their income exceeds the earnings threshold.

  2. A **unilateral binding promise**, based on the Mālikī school, which constitutes part of the product rules and legal terms. Having received support from the fund an individual contributor will be legally obliged to support the fund through agreed contributions. These contributions are mutual insurance for all students who benefit from the fund, as each contributor will be partly responsible for the protection of the fund and their co-contributors.