



Department
for Business
Innovation & Skills

**SHARIA-COMPLIANT STUDENT
FINANCE**

Government response to
consultation on a Sharia-
compliant alternative finance
product

SEPTEMBER 2014

The consultation is relevant to: Current and future students, members of religious communities, Higher Education Institutions.

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A Sharia-compliant Alternative Finance product for students

1. Introduction

The Government has been developing a possible model Alternative Finance product which would be Sharia-compliant and could potentially be offered alongside traditional loans to students wishing to attend Higher Education. This model finance product has been conceived by experts in Sharia-compliant finance and has received preliminary approval from the Islamic Bank of Britain's Sharia supervisory committee. As part of the development process the Government wanted to know whether this model product addressed the potential concerns around the charging of real interest rates on student loans, and the extent of the demand for such an Alternative Finance product.

In April 2014 the Government launched a consultation "Sharia-compliant Alternative Finance Product" which ran for 10 weeks. The purpose of the consultation was to obtain views from students, Muslim communities, and the wider public, on the acceptability of an Alternative Finance product based upon the Takaful Model. The consultation ran for 10 weeks and offered respondents an opportunity to provide feedback on a Sharia Alternative Finance product for students. The Government had already approached many stakeholders interested in the development of an Alternative Finance product and will continue to do so as part of the policy development process.

The Government intends to use the responses to gauge the level of demand for Sharia-compliant alternative student finance (in combination with other research that the Government has carried out). The Government will also use the feedback on the proposed finance product to determine if this would be a product that would meet the needs of Muslims, and other students opposed to the paying of interest and if it would be acceptable to the Muslim community at large. If the finance product is acceptable, the Government will explore how and when this product might be made available through the Student Loans Company.

Scope of the consultation

Higher Education is a devolved matter in Scotland, Wales and Northern Ireland. The Consultation related to Higher Education policy in England only, as does this Government response.

This response does not commit any of the Devolved Administrations of the United Kingdom to any UK-wide actions or policy positions. Where the stated actions have implications for UK-wide delivery bodies, this is without prejudice to the individual policies of the devolved administrations of the United Kingdom

The existing student loans system

As part of the Government's reforms of Higher Education from September 2012 Higher Education institutions may now charge tuition fees of up to £9,000. Eligible Higher Education students starting their studies after September 2012 can take out income contingent repayment loans of up to £9,000 to cover their tuition fees and up to £4,375 for their maintenance costs. They may do this for every year of their course. While they are studying the loan carries an interest rate of the Retail Price Index (RPI) + 3%.¹ After graduation, when borrowers reach their statutory repayment due date, the interest rate is based on their income and will be between RPI and RPI + 3%. For those living in the UK repayments are made through the UK tax system, managed by HMRC.

Repayment amounts for student loans are based on earnings and not on what was borrowed. Repayments are normally collected automatically through the tax system once the student has finished their course and is earning more than the threshold, which is £21,000. Repayments are made at a rate of 9% of any yearly income over £21,000 (or weekly/monthly equivalent). If the borrower's income drops below £21,000 then repayments stop for this period.

This differs from the pre-2012 student loan system. Under this older system students could take out a maximum tuition fee loan of around £3,000 every year. Interest is charged at rate of RPI or 1% above the highest Base Rate of a nominated group of banks, whichever was lower. Repayments are also made at a rate of 9% of any yearly income above a threshold but the threshold was lower for these types of loan, and is currently £16,365.

The Government believes that most students are currently willing to take out student loans from the Student Loans Company to benefit from Higher Education. However, student loans issued after September 2012 bear a real rate of interest above inflation and concerns have been raised that some religious groups, particularly Muslims, may feel that the charging of such an interest rate is incompatible with their beliefs.

In addition, some stakeholders have suggested that Muslim students were able to borrow from family members to cover the cost of tuition and maintenance fees before 2012, but that the increase in tuition fees in 2012 has meant that families are no longer able to cover the entire cost of higher education.

The suggested Alternative Finance model's underlying principle is one of communal interest and transparent sharing of benefit and obligation, with the repayments of students participating in the fund being used to provide finance to future students who select to join the fund. This ensures that all members of the fund benefit equally from it.

• ¹ Her Majesty's Revenue and Customs, who collect the repayments through the taxation system, are unable to take repayments under the new system before April 2016. Some borrowers who are on short courses or who leave their course early will be due to repay before that date. Those borrowers will be charged interest at RPI + 3% until the April after they leave their course; RPI only between that date and April 2016; and the appropriate rate of variable interest from April 2016.

Choosing a Sharia-compliant finance product

The Government evaluated five potential ways of providing Alternative Finance products to higher education students. These were each based on financial structures already used in Islamic finance. The suitability of these products was based upon their ability to meet the key objectives the Government believes a Sharia-compliant student finance product, needs to achieve.

These criteria were that:

- *Repayments after graduation and debt levels must be identical to that of a traditional loan, so that students who chose the Alternative Finance product would be in no worse or better position than those who took out a traditional loan.*
- *Making repayments should be as easy for students who chose the Alternative Finance product as it is for those students with traditional loans, therefore it should be possible for repayments to be made directly through the UK tax system.*
- *The Alternative Finance product must be applied for in the same way as a traditional loan, through the Student Loans Company, to ensure that no extra burden be imposed upon the student.*
- *The finance product should be transparent in its workings and easy for potential students to understand.*

Using these objectives, the Government worked with experts in Islamic Finance to select one potential finance product which could meet all of these key criteria. The finance product the Government identified is based on the 'Takaful' structure used in Islamic finance to allow groups of people to cooperate to provide mutual finance assistance to members of the group. This type of mutual fund model is familiar to Sharia scholars and many UK Muslim families, who use a similar concept to raise funds between cooperating relatives.

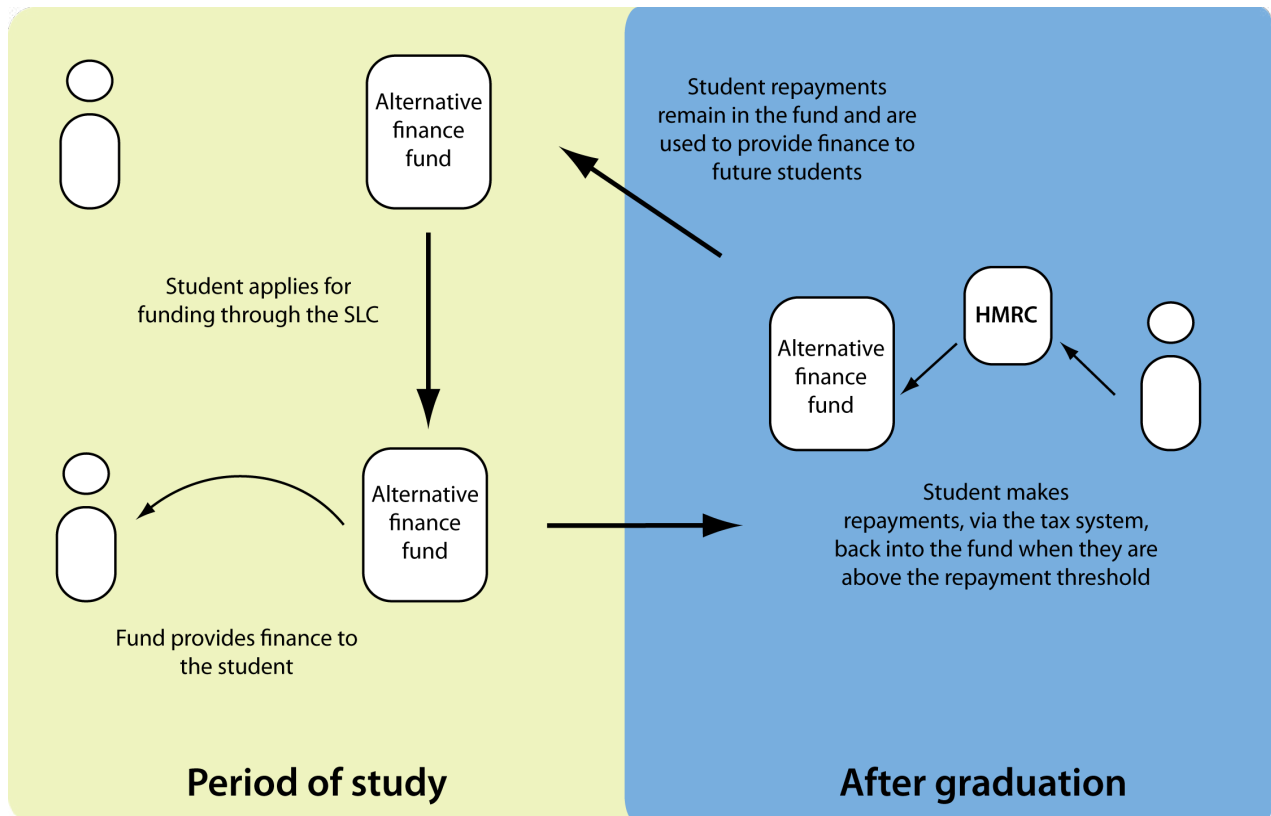
Students participating in the fund would not be borrowing money and paying it back with interest to a third party, which would not be compliant with Sharia law. Instead, the Takaful fund will be established with an initial amount of money that can be donated to the fund or on the basis of Qard Hasan (interest-free loan) and based on a concept of mutual participation and guarantee.

Students will obtain finance from the fund by applying in a similar manner to the conventional loan. The contract will be based upon a unilateral promise guaranteeing that they will repay a Takaful contribution - which is perceived as a charitable contribution from a Sharia perspective for the benefit of the members of the fund. Monies will be released once the contract is signed. Repayment will be made to the fund once they are in employment and earning above the repayment threshold, which would be set at the same level as for traditional student loans.

The contribution paid back into the fund by the student would help future students benefit from the fund, allowing them to complete their studies as the original student did. The mutual basis of this structure, with members (borrowers) of the fund helping each other to attend higher education, would make this model acceptable under Sharia-law. This is because the lending/borrowing relationship which results in a payment of interest by the students to the Student Loans Company does not exist in this model.

The student finance fund, i.e. the Takaful fund, would be managed by a fund manager (in this case the Student Loans Company under the Islamic finance principle of Wakala (agency) for a specified fee. The fund would be completely segregated from the traditional student loans to ensure full compliance with Sharia in the whole cycle of the fund.

Figure 1: Model of how the Takaful would work



*SLC - Student Loans Company

*HMRC - Her Majesty's Revenue and Customs

2. Sharia- compliant student finance summary of responses

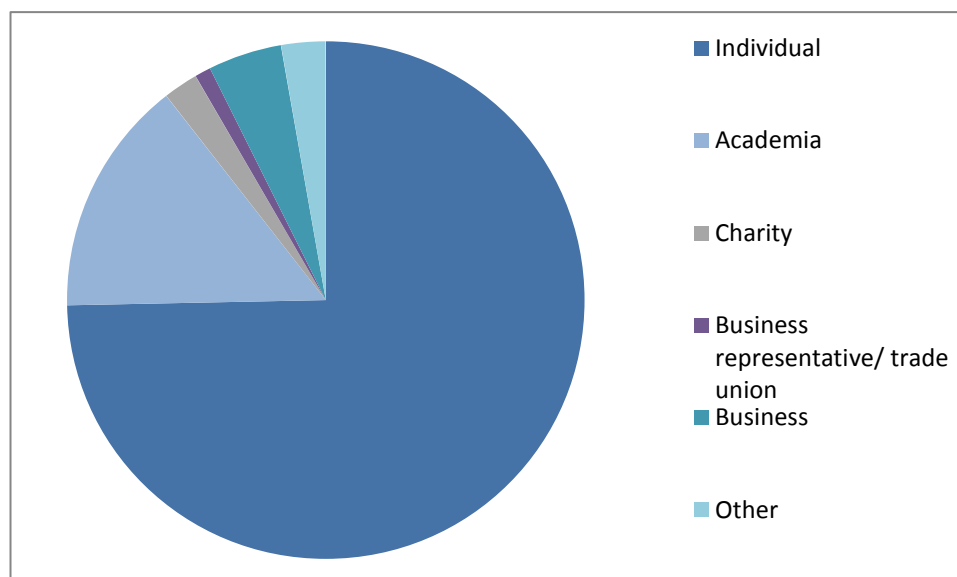
The Department launched its consultation on Sharia-compliant Alternative Finance product in April 2014. The consultation received 19,886 formal responses. In addition 68 comments were sent to the consultation email address. A list of respondents to the consultation can be found at Annex A.

Responses by Sector.

Responses by sector are illustrated by Figure 2. and suggest that over three quarters of responses were received from people sent in a personal capacity. The largest sector that represented was academia, with 2,939 respondents. However, although respondents were asked to complete the sector they represented, many individuals selected the sector they worked in instead. For example 276 of the respondents who cited academia as their sector provided supplementary information that verified they were responding as individuals. Also only 53 provided an academic email address and several of these stated they were students or parents rather than responding on behalf of an education institution. The remainder were mostly personal e-mail accounts. If this is extrapolated to the remainder of respondents, it is probable that less than 4% of respondents who said they were from academia represented an education institution.

Therefore all sectors apart from individual are probably over represented by a significant amount.

Figure 2 Responses by sector as reported in the consultation responses



Overview of responses to the consultation questions

The consultation posed 6 questions about the Governments proposal for a Sharia Alternative Finance product based upon the Takaful model.

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?

Large impact	16,575	(83%)
Some impact	1,951	(10%)
No impact	335	(2%)
Not sure	861	(4%)
Did not answer	164	(1%)

Q2: Do you believe that there would be demand among students and potential students for an alternative finance product which was Sharia-compliant?

Yes	18,600	(94%)
No	267	(1%)
Not sure	372	(2%)
Did not answer	657	(3%)

Q3: Do you believe that students will be provided with sufficient assurance by a Sharia supervisory committee as to the Sharia-compliance of an alternative student finance product?

Yes	16,450	(83%)
No	568	(3%)
Not sure	1,660	(8%)
Did not answer	1,208	(6%)

Q4: Do you believe that students and potential students whose faith has resulted in concerns about the interest rate on traditional loans would find this alternative finance product acceptable?

Yes	16,043	(81%)
No	311	(2%)
Not sure	1,052	(5%)
Did not answer	2,480	(12%)

Q5: Do you believe that the working of the proposed alternative finance product would be understandable to those applying for a loan?

Yes	15,455	(78%)
No	355	(2%)
Not sure	1,828	(9%)
Did not answer	2,248	(11%)

Q6: Do you believe it will be clear to students why this alternative finance product is Sharia-compliant? If not please provide an explanation.

Yes	15,573	(78%)
No	443	(2%)
Not sure	1,765	(9%)
Did not answer	2,105	(11%)

Detailed overview of comments to the consultation questions

It was clear from a number of comments that some respondents were concerned about how the system would operate (i.e. was it truly interest free, or was the proposed model simply an ordinary loan by another name), or in some cases believed that the intention was to offer loans that would somehow cost students less to repay than under the current system (which introduced accusations of unfairness). From the comments there were a number of respondents (Muslim and non-Muslim), who were opposed to religion having a part in education. Many of these wrongly believed that the Alternative Finance proposal would cost less and would therefore as a result increase anti-religious feeling, isolating Muslims in Higher Education.

Comments are not broken down by respondent type due to a general misunderstanding of the question by individuals who tended to give their employment type. It is likely that the vast majority of the respondents were individuals. Comments are only attributed directly to organisations when verifiable information on the organisation was provided. There was also evidence of potential bias with clusters of almost identical comments detected throughout the results. This is discussed in more detail within the specific question summary.

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?

Out of 5,370 comments received, the majority of respondents thought that there was a large impact on students with religious objections to interest as a result of the increases in fees and the introduction of a real rate of interest. Many non-Muslims who responded no impact did not understand the concept of the Takaful, that is, the conventional and Alternative Finance products would result in identical repayments, and therefore thought Muslims will be offered a cheaper alternative which is not the case.

Several respondents noted that everyone would prefer to pay no interest, not just Muslims. Of the Muslims who responded no impact, many stated they took a loan which verifies previous evidence that there is no consensus in Islam

Out of the 1095 responses that provided an example from an individual, the top responses were

- 337 specifically said they **objected to interest**, although some did not state whether this would ultimately prevent them from going to university.
- 144 stated they **will not go to university** as a direct result of requiring an interest bearing loan and the increased tuition costs as no other means of financial support was available to them with 72 still undecided.
- 143 stated they had loans with most being on the pre-2012 plan (fees capped at £3000 and interest set to RPI or base rate +1%, whichever is the lower). The majority stated that it caused great **distress knowing that these loans carry interest**which is strictly forbidden in religion. An additional 20 took loans but didn't understand that they were interest-bearing at the time.
- 133 **did not go to university** attributing interest bearing loans and no alternative means of financial support (plan 1 and plan 2) as the direct cause
- 90 **borrowed from friends and family**. The majority were on the pre-2012 loans with £3000 tuition fees which were more manageable levels to raise.
- 70 **self-funded** through savings, part time work or scholarships while 36 took a **cheaper degree**.
- 38 said they had **dropped out of higher education**, this included getting too costly to self-fund and from finding out their loans had interest

The majority of Muslim students who took loans said they thought hard before applying for one.

"I am a Muslim student who started university in September 2011 as part of the last cohort on the old fee system. Despite paying significantly lower fees than current students, I felt very conscious that I was taking out a loan in order to fulfil my studies. It is important and plays a large part in a practising Muslim student's decision to pursue further education."

A student

Students gave examples of minimising their costs while studying and the impact this had on university and course choice

"Students, including myself, chose to stay at home through their higher education in order to take only the minimal loan necessary to avoid extra interest. Most significantly in my opinion, this seriously limits the options of universities that they can apply to as they can only apply to ones within a reasonable commutable distance. This might mean that they miss out on courses only available at specific universities, or miss out on applying for the best universities for their course of interest. This can hinder these students from the best career for themselves that they could possibly have achieved otherwise."

A student

The overall findings are also shared by the National Union for Students

“We have been contacted by a number of our member students’ unions and various MPs’ offices who have had prospective students contact them with concerns. These are particularly concentrated in London and it is difficult to say how representative these are. However, in summary there have been two main groups. The first are prospective students who have told the SU or MP that they cannot attend higher education as they do not feel able to access the loans, cannot afford to pay up front and cannot identify alternative means. The second is those who are making certain choices, including selecting an institution close to home, or attending a cheaper institutions, that have arisen primarily from a desire to limit their liability for interest-bearing loans rather than the best academic option for them”

National Union of Students

Q2: Do you believe that there would be demand among students and potential students for an Alternative Finance product which was Sharia-compliant?

Out of the 2,835 respondents who provided additional comments, 225 gave direct evidence saying they themselves would take the Alternative Finance product if it was available, 249 said they knew of people who would take the product while the remaining 2,360 provided anecdotal comments.

Out of the 474 comments received with direct (about themselves) and indirect (about friends and family) evidence, the top responses were

- 347 stated that there **was demand** for an Alternative Finance product
- 101 respondents stated that the **current system was a deterrent** that prevent many people from attending university.
- 10 stated that we **would see an increase in people attending university** if the product was made available.

The top anecdotal comments showed

- 1,667 respondents thought there **was demand** for the product with a further 165 stating that the product **would result in more people attending university** than just the conventional loan system and an additional 113 respondents stating that the product **would remove barriers** to entry for prospective students
- 68 respondents expressed views that the proposed product should be Accounting and Auditing Organization for Islamic Financial Institutions (**AAOIFI**) **compliant** and have **credible scholars**, although opinions differed as to whether scholars should be mainstream, international or local.
- 120 respondents supported the product but had **completely misunderstood the way it would function** and thought that being non-interest bearing meant that the borrower would pay back less which is not the case.
- An additional 28 respondents were **against the introduction** of the product. There was a mix of those who misunderstood the product thinking the loans would be cheaper and misunderstood the difference between Sharia law which is not being proposed and Sharia principles

- 42 thought the proposed product was not Sharia and would not be acceptable i.e. if the product was labelled as Sharia compliant but replicated the traditional student loan system.

It should also be noted that there were numerous instances of a particular comment which was either extremely similar or identical in wording (and which often appeared grouped together, implying that the surveys were being completed at similar times), which gives rise to the possibility of potential bias due to lobbying or other awareness-raising campaigns.

The comment was:

“Any proposed shari’ah model should be AAOIFI compliant and have local credible scholars appointed to the shari’ah panel”

A number of respondents were of the view that regardless of numbers of students who would ultimately take up the offer of a non-interest bearing option, the Government needed to provide the choice; summarised by the National Union of Students below.

“We are also clear that the principle of ensuring that this alternative is available given that some students do feel unable to access HE is also vitally important, over and above the exact level of demand”

National Union of Students

Many respondents were concerned that that the product should be understood as Sharia compliant and accepted as providing identical outcomes in terms of repayments as the conventional system.

“It is essential that an alternative product does not disadvantage students who take it up. It needs to be made clear that the product is Sharia-compliant. It is also important that an alternative product is not perceived to disadvantage users of the regular loan system.”

National Association of Student Money Advisers

Q3: Do you believe that students will be provided with sufficient assurance by a Sharia supervisory committee as to the Sharia-compliance of an alternative student finance product?

1633 additional comments were received from people who responded “yes”, sufficient assurance would be provided by a Sharia supervisory committee.

467 respondents used the opportunity to further articulate their broad support for the principle of a sharia advisory committee. Numerous comments stressed that although it **was unlikely**

that everyone would be in agreement with such a committee, it was important to acknowledge diversity and support a proposal with which the majority was happy.

However, the vast majority of additional comments (982) stated that their satisfaction with an advisory committee would depend (either largely or entirely) on the **constitution, composition and remit of such a committee** – despite the fact that all these respondents had answered ‘yes’ to the question.

As with Question 2 comments, the same particular comment was found as well as an additional comment which was also commonly grouped, implying similar completion times and potential bias.

The comment was:

“The government needs to ensure that in order for the shari’ah panel to be credible, its members are British based and drawn from the communities most affected by this issue”

The remaining 184 comments made more general observations about the principles of Alternative Finance (often continuing their answers from previous questions) or were outside the scope of the consultation.

372 comments were received from respondents who had answered “not sure”.

20 of these comments were deemed to be outside the scope of the consultation (most making more general comments) or demonstrated that the respondents had not understood the proposal. A further 69 comments expressed concerns that any proposed model needed to be truly Sharia compliant and should not simply seek to replicate the existing student finance system but replacing interest with a Takaful contribution. Although this may be relevant to the consultation generally, it did not directly relate to the question about the Sharia advisory committee.

The vast majority of the remaining 283 comments from respondents stated that their satisfaction with an advisory committee would depend (either largely or entirely) on the constitution, composition and remit of such a committee, reflecting in large part the comments from those who had answered ‘yes’.

Of the 112 comments received from respondents who had answered “no”, 33 of these comments were outside the scope of the consultation (making more general comments) or demonstrated that the respondents had not understood the proposal. A further 28 expressed concerns that any proposed model needed to be truly Sharia compliant and should not simply seek to replicate the existing student finance system but replacing interest with a Takaful contribution. Although this may be relevant to the consultation generally, it did not directly relate to the question about the Sharia advisory committee.

Of the remaining 51 comments, the main themes were again similar to those expressed by those respondents who had answered ‘yes’ to this question.

A number of themes emerged through suggestions as to how an advisory committee could operate. These were:

- Independent of Government

- Free from financial incentives
- Should have no conflicts of interest
- Transparent and open (re selection, composition and operation)
- Contains leading and credible scholars (although opinion differed as to whether these should be local, national or international)
- Representative of/chosen by relevant communities (although the issue of how these 'communities' are defined is not made clear)
- Representative of all major schools of thought
- Recognises diversity of beliefs
- Use of evidence (rather than just 'opinions') and references to texts to support decisions on sharia compliance
- Regular monitoring/auditing to ensure continued compliance
- Responsive to questions
- Provide explanations which are understandable to lay people.

Another common response was to suggest that the proposed system should be compliant with Accounting and Auditing Organization for Islamic Financial Institutions standards or approved by Accounting and Auditing Organization for Islamic Financial Institutions. While this does not relate directly to the proposed advisory committee, it would seem to follow that if Accounting and Auditing Organization for Islamic Financial Institutions compliance was considered necessary or desirable, some or all of the committee members would presumably need to be familiar with Accounting and Auditing Organization for Islamic Financial Institutions principles.

Some respondents provided names of individuals and suggested that their involvement and approval would be likely to add strength and support to the proposals.

Similarly, there were references to numerous organisations which some respondents believed should be engaged in the process.

Selected comments reflecting the views of the majority of respondents are provided below

"It has been reported that there is a variety of interpretations amongst Muslim groups as to what would be acceptable under Sharia requirements. It seems any solution will inevitably have some element of compromise about it."

National Association of Student Money Advisers

"Even though I have heard some scholars criticising it I still think that it's better than having no option at all. If its [sic] got some discrepancies those can be corrected with time and further effort."

Individual respondent

Q4: Do you believe that students and potential students whose faith has resulted in concerns about the interest rate on traditional loans would find this Alternative Finance product acceptable?

Out of the 1054 comments received, 182 reiterated that any alternative product introduced would need to be **approved by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI)**, be differentiated from conventional students loans and specifically follow Accounting and Auditing Organization for Islamic Financial Institutions standards in order for it to be accepted. As for questions 2 and 3, a significant number of these used identical or very similar wording suggesting bias, although there were enough unique responses to make this a valid comment. An additional 43 respondents specifically stated that any proposed model used should carry **internationally accepted standards** for Islamic finance.

129 respondents stated that in order for the product to be accepted and to attract more people it must be presented with **clear evidence** of sharia compliance adaptation with a further 124 respondents commenting on the importance of endorsement from the UK bodies and the need for ensuring the oversight of a **reputable Sharia advisory committee**, with orthodox Muslim scholars.

113 respondents reported that interest-based loans was the biggest hindrance preventing them going to university and an alternative product must be interest free.

Out of the 757 respondents who said yes, they would welcome an alternative product, 292 who did not fall into a specific category added comments ranging from 'encouraging start by government' to 'not sure such a scheme would be credible'.

Overall, respondents were broadly supportive of the proposed Alternative Finance product with the responses from the National Union of Students summarising the views of many

"The organisations we have liaised with have told us they find the proposals acceptable, and would recommend them as an alternative model. We are unaware of any opposition on religious grounds to the proposed scheme."

National Union of Students

Q5: Do you believe that the working of the proposed Alternative Finance product would be understandable to those applying for a loan?

Out of the 1049 respondents that provided comments, 501 respondents said they required further explanation of how the alternative model would work, with an additional 24 of the respondents stating the alternative model was hard to understand.

- 86 respondents stated that the product and the process would need to be certified as Sharia compliant by Sharia scholars

- 63 respondents advised an advisory committee would be required to certify the product as Accounting and Auditing Organization for Islamic Financial Institutions compliant and 6 asked for the Alternative product to be compliant with International standards.
- 141 respondents stated it was obvious how the model would work and was acceptable.

Similarly Imperial College Union who collected over 140 responses to the consultation found that 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.

Two examples of responses which are representative of the majority are provided below

“I think that the way it has been explained here is understandable for someone with prior knowledge of islamic finance. However explanation in a simpler form may be required for young students.”

A respondent

“To some the working would be clear. To others not so clear. The importance of having a Sharia counsel endorse this loan would convince the people who don't understand.”

A respondent

Q6: Do you believe it will be clear to students why this Alternative Finance product is Sharia-compliant?

1437 people responded with comments to this question, of which

- 582 thought that once **clearer information** was provided explaining why the product was Sharia-compliant people would accept it.
- 154 respondents wanted Scholars to approve the product out of which 43 specified that British Scholars would be preferred to International Scholars
- 115 respondents thought that the product should meet Accounting and Auditing Organization for Islamic Financial Institutions standards and an additional 7 respondents wanted the product to meet [unspecified] international standards
- 113 respondents did not understand the product and an additional 9 did not think it was clear why the product was Sharia compliant and a further 40 respondents thought it was not Sharia-compliant. However, 60 respondents thought it was obvious that the proposed product was Sharia compliant.
- 79 respondents thought an advisory committee to certify the product as compliant would be needed with an additional 28 stating the product and the process to certify it as compliant needed to be transparent.

The remaining respondents left general comments, with 26 saying that it should not be introduced - reasons ranging from discrimination against those people with conventional loans, showing a lack of understanding of the product through to religious prejudice.

“Some students may disagree, but truth is there will always be a minority who disagree, but majority will see how the government is going out of its way to accommodate all needs and will appreciate this move”

A respondent

The consultation gave respondents the opportunity to make additional comments summarised below.

Of the 4200 general comments received more than 2057 welcomed the consultation and generally considered it would be a good initiative if implemented. A significant number (638) said they would welcome an alternative product if it encourages and widens the participation of students from all background not just Muslims to go to university. 140 were not convinced that an alternative product was necessary. Some questioned the reasons for considering religious beliefs/religious groups.

The remaining responses reiterated comments made for specific questions and have been covered in the summary of responses above.

3. Government Response

This consultation provides the first recent and comprehensive examination of Muslim views on student loans and in particular the effect of the 2012 changes in the student funding system due to HE reforms.

It should be noted that there are limitations in the consultation data due to some evidence of campaigning activity which resulted in a large number of responses showing evidence of identical or very similar wording.

Another limitation could be caused by a misunderstanding of the product. From the comments received, some respondents misunderstood the interest free component of the product, interpreting it to mean reduced repayments. It is likely that many others may also have misunderstood but either not provided comments or not made it clear in the comments. This will have affected both the positive responses as well those who felt the product was unfair to those taking out conventional loans.

The Government has been working with the Islamic Bank of Britain and other Islamic finance experts to develop the Takaful as a potential alternative to conventional student loans. This consultation provided the Government with the opportunity to determine whether there was demand for an Alternative Finance product and whether the Takaful would be accepted.

It is clear from the large number of responses received by the Government to this consultation that the lack of an Alternative Finance product as an alternative to conventional student loans is a matter of major concern to many Muslims. The overall message is that an Alternative Finance product would be welcomed by the majority although the Government would need to undertake further work to provide greater clarity on how the product would work and accepted as Sharia compliant.

The Government had previously been made aware that some students, whose religious beliefs may forbid the taking out of a loan that bears interest, may feel unable to take advantage of student loans. However prior to the consultation launch, there has been no direct evidence to help inform policy making.

There is demand for the proposed Alternative Finance product and responses to the consultation indicate that this would enable many of those who have been or will be prevented from undertaking both FE and HE, to attend by removing the conflict between faith and funding. For this to be the case it is clear that the Alternative Finance product (Takaful) would have to be understandable and accepted as Sharia compliant.

The majority of respondents believed that sufficient assurance would be provided by the proposed supervisory committee to make the Takaful acceptable. While it would be unlikely that everyone would be in agreement with such a committee, the overall acceptability would be achieved through the constitution, composition and remit of the committee. The Government would need to seek advice from Islamic finance organisations on what criteria would be required for the supervisory committee. However it is likely that criteria for membership would include but not be limited to the committee needing to be transparent and open as well as independent of Government. The scholars on the committee would be leading and credible, and would use evidence and references to texts to demonstrate sharia compliance as well as being familiar with Accounting and Auditing Organization for Islamic Financial Institutions principles. The explanations on Sharia compliance would need to be understandable by the general public as well as experts in Islamic finance.

The consultation highlighted the need for a clear description of why the Alternative Finance product differs from conventional loans and the need to follow Accounting and Auditing Organization for Islamic Financial Institutions /international standards for Islamic finance for it to be acceptable to the majority of Muslims. The Government has maintained that should an Alternative Product be feasible, then we would ensure that it was approved by a reputable Sharia board which met International standards. All evidence would need to be presented in a clear and transparent manner to lend credibility to the product.

The Government recognises that with the introduction of an Alternative Finance product comprehensive information and guidance would need to be put in place to raise awareness and articulate how this was Sharia compliant and which Sharia board and Scholars had approved it. The Student Loans Company already provides student loans tours to educate and inform potential students so the basic infrastructure is already in place to facilitate this. It is clear from the responses that Muslim communities play an important role in people's decisions, therefore outreach to imams and community leaders to help inform potential borrowers as well as directly to potential students and their families through already established routes would be needed.

People taking any Alternative Finance product would need to understand how their finance worked, from borrowing through to payment. Respondents have made suggestions such as a dedicated website and video clips explaining various aspects of the system would help. The Government will consider the suitability of different methods of communication during the feasibility study of an Alternative Finance product.

Some respondents have expressed concern that the introduction of an Alternative Finance Product would be an endorsement of Sharia law in a wider sense. This is not the case. Sharia law has no jurisdiction in England and Wales and the Government has no intention to change this position. Such a product would simply offer potential students whose religious beliefs mean they feel unable to take out an interest bearing loan the option to fund their higher education in a way that is compatible with their moral and religious beliefs while not putting them at any advantage or disadvantage to those who take out traditional student loans.

4. Conclusion

The Government has analysed all of the responses to the consultation. It is clear there is a demand for an Alternative Finance product, although the extent is unquantifiable. The Takaful option would be largely accepted as long as it is verified with a combination of a clear and transparent explanation of how the Alternative Finance product works (there is no consensus amongst Muslims as the UK has a very diverse Muslim population from all the main schools of thought). Additionally an endorsement by a widely acceptable Sharia advisory committee stating what makes it Sharia compliant would also be required. The awareness raising campaign and on-going communications through Student Loans Company's student loan tours and links with community groups should also reassure those whose faith has resulted in concerns over interest charged on traditional student loans.

Currently the Secretary of State has the powers to offer loans and grants. The Government would require new primary legislation to enable the Secretary of State to offer the Alternative Finance product, and this will take time as an appropriate legislative window would need to be identified. The Government will also need to conduct a full feasibility study as to whether the Student Loans Company could provide the Takaful and the role of Her Majesty's Revenue and Customs in collections would also need to be verified. However, in light of the positive

response to the proposals in the consultation, the Government supports the introduction of a Sharia-compliant Takaful Alternative Finance product available to everyone and will work on its development.

5. What happens next?

The feedback received from respondents to the consultation indicates that the student finance product being proposed meets the needs of the majority of students concerned about the charging of interest. The Government will begin to examine what may be required to allow this product to be offered to students through the Student Loans Company. Additionally legislative changes will also be sought and the Government will continue to work with the Islamic finance specialists to refine the Takaful model into a functioning product. Given the complexity of these issues and the time needed to resolve them, it is unlikely that any Alternative Finance product could be available before academic year 2016/17.

Annex 1: List of Respondents

19954 responses

Responses on behalf of organisations

1st Ethical

Al-Furqan Islamic Centre, Glasgow

Al Qalam

Bangladesh association of greater Reading

British Dental Association

British Medical Association

CityUK

Darul Arqam Educational Trust

Da'wah association

Fareham and Gosport Home education group

Greenwich Islamic Centre

Imperial College Union

IslamBradford

Islamic Finance Council UK

Islamic Relief Australia

Islamic society of Southampton University

Islamic Society at University of Birmingham

Meet Your Muslim Neighbours

Muslim Council of Britain

Muslim Research and Development Foundation

National Association of Student Money Advisors

National Union of Students

Pak Cultural Society

Pushtoon community centre for women

Sisters4Islam

Turath Scholarship Fund

University of Sheffield Student's Union

West Itchen Community Trust

Young Muslim Organisation UK



Department for Business, Innovation & Skills

Annex 2: Consultation Questions

Question 1 (refer to relevant paragraph numbers in consultation document)

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? Please illustrate your answer with any specific examples you may have

No impact some impact large impact Not sure

Comments:

Questions 2

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

Yes No Not sure

Comments:

Questions 3

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?

Yes No Not sure

Comments:

Questions 4

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.

Yes No Not sure

Comments

Questions 5

Q5: Do you believe that the working of the proposed alternative finance product would be understandable to students?

Yes No Not sure

Comments:

Questions 6

Q6: Do you believe it will be clear to students why this alternative finance product is Sharia-compliant? If not please provide an explanation

Yes No Not sure

Comments:

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