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## Does India Need A Clearinghouse?

**T**he Indian higher education sector has been seeing a lot of activity of late. Promises of higher salaries, opportunity to be a “Global Indian”, lifetime of benefits, stability, security, and more luxury along with socio-economic status; these incentives have been driving students to opt for better higher education opportunities.

With 16,885 colleges providing higher education courses to about 10 million students, India boasts of one of the largest higher education (HE) systems in the world. In a nation where scale is so massive, management and tracking relevant information is a tedious task for stakeholders—higher education institutions (HEIs), employers and banks.

### About The Business Of Loans

To boost HE in India, one of the reforms brought in was in the area of education loans. With easier availability of funds, students began to turn to banks for assistance. In 2009 alone, almost ₹ 70 billion was disbursed by banks and non-banking financial companies (NBFCs) in the form of loans. This, however, opened up the issue of efficient recollection and recovery of loans.

Between 2009 and 2010, a leading Indian private bank saw some ₹ 22.8 billion being disbursed from the previous amount of ₹29.47 billion, amounting to an “year on year” (YoY) growth of 29 percent. At the same time, the amount of non-performing assets increased at an unprecedented rate—from ₹613 million to ₹1.13 billion (YoY growth of 85 percent). In the past couple of years, the growth has been a challenge faced by banks that operate in this space. Higher NPA on student loans

is partly a result of economic recession. Its adverse impact on the job market, reduces a student’s capability to pay off. Also, a chunk of students don’t update lending institutions about repayment ability (employed or otherwise), thus converting the process of tracking the borrower, into a task. Presently, banks update information about a borrower’s enrolment status and employment details by contacting institutions or parents.

### Employers’ Verification; A Tedious Task

Enrolment and degree verification is a part of the induction process for employers. With a rise in numbers of degree and certificate scams, employers now emphasise more on an employee’s degree. Employers manually collect this data (validity of the certificate) either from the student herself, or an institution. This is performed either by a team within the organisation, or is outsourced to agencies that offer background screening services. Often, such activi-

ties are time consuming or results are unsatisfactory. Reasons for unsatisfactory results are multiple—lack of willingness to share information, outdated databases, no mechanism to validate the data collected, etc.

A majority of screening agencies resort to informal ways of procuring information. When the background check is performed in-house, or when it is outsourced, cost and effort involved gets high. This makes HEI participation, in providing enrolment and degree verifications, imperative. In the current scenario, HEIs provide validation of data to employers or potential employers and banks, with help of administrative staff—a process that involves a lot of paperwork, administrative hassles and waste of resource (money, time). Also, this process becomes confusing, burdensome and expensive, as it is fragmented among institutions, lenders and employers.

### Taking The Clearinghouse Path

These factors highlight the need for a “student clearinghouse”—a centralised agency that acts as a data repository. Such an agency collects, stores, and disseminates information as and when required. Due to the nature of the data involved, a clearinghouse is ideally supported (directly or not) by a government agency that has a buy-in from all HEIs. An organisation such as “Association of Indian Universities” is ideally positioned to drive a clearinghouse platform.

### US National Student Clearinghouse

National Student Clearinghouse is a non-profit organisation that provides verification reporting, secure data transfer and database management solutions to US HEIs. It enables institutions to minimise their administrative burden and hassles by collecting information on a continuous basis and disseminating them to loan-holders, employers and student-service providers. Under Family Educational Rights and Privacy Act (that protects privacy of student education records), some 3,500 schools subscribe to their services. Loan-holders and employers need to interact with a single body to track and respond to student’s enrolment and degree status.

By designating the clearinghouse as a service provider, US Department of Education, and educational institutions outsource the task of collating, updating, maintaining and transferring data



### STRAIGHT FACTS:

**Student Clearinghouse is a centralised repository that collects, stores and disseminates information regarding students to interested parties**

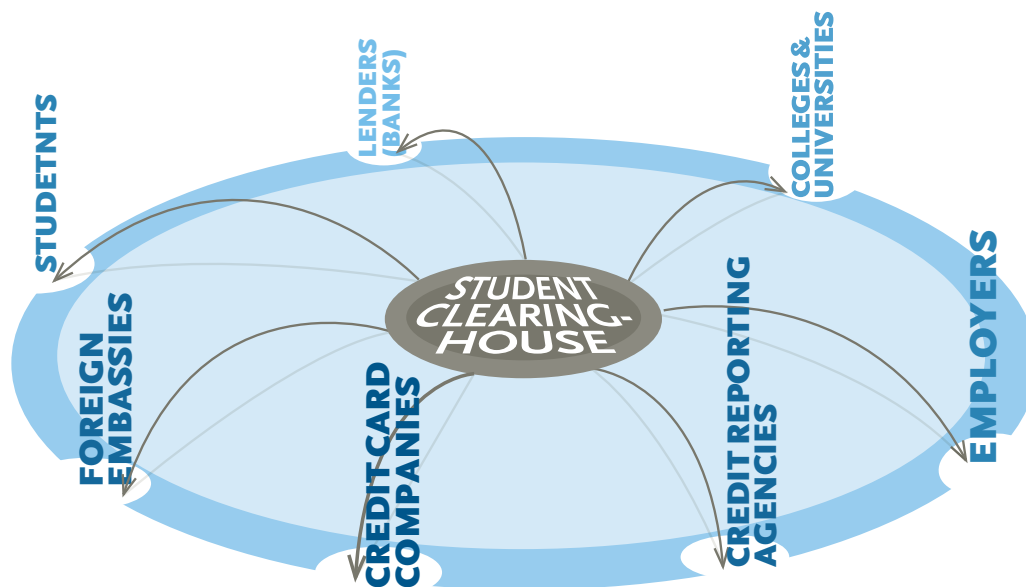
to the clearinghouse. A college is expected to enter data on an online platform once in every 30-45 days. With the following services, the clearinghouse cumulatively helps institutions save more than a \$100 million annually:

- **Verification Services:** The clearinghouse provides automated enrolment verification and deferment reporting services for students, who have taken aid from lending institutions. This enables lending agencies and guarantors to keep tab on the student’s status. This in turn decreases the default rates.

- **Tracking Services:** A clearinghouse maintains comprehensive records database, which is made available (as allowed by FERPA and subject to conditions set by the institution that has provided data) to colleges for educational research and analysis. For example, this data enables a college to understand choices made by their prospective students and provides it an insight into the competition matrix. It also provides factual information, on the basis of which they can devise strategies to target, attract, select and retain students. Tracking services are provided for high schools that can gauge the success of students in college education.

- **Transcript Ordering and Exchange:** A transcript is a detailed record that mentions the courses taken and grades earned by a student. Often, students who have moved to other institutions or have passed out require such transcripts. Though a small number of US colleges enable online transcript handling facility, a majority use paper transcripts, increasing expenses and wasting manual resources. Electronic transcript exchange between high schools, colleges, and organisations speeds up the process. It also provides status updates of

## STUDENTS' DATA, A CLICK AWAY



the exchange process. Students and alumni can order for transcripts at any hour of the day.

### The Revenue Model

An interesting aspect of the process is the revenue model that clearinghouses follow. Being a non-profit organisation, the Student Clearinghouse provides almost all services for free, or at subsidised rates to educational institutions. Costs that they incur are compensated by funds provided by guarantors, lending agencies and servicers.

Institutions that are not a part of the National Student Clearinghouse Programme are required to go through and edit each and every Student Status Confirmation Report. It is a comprehensive report of students who have availed financial aid. They are also expected to report all discrepancies. These are then compared with the government borrowers' records every academic term. This means responding to volumes of paper-based requests for lender status and deferment.

In case of a dropout, an institution has to report the same to the appropriate holder, the identification of which is a tedious task for the school.

Also, there is no fixed standard communication process or format. Each stakeholder has a different formatting and reporting procedure, which makes it cumbersome. Also, lack of a fixed channel of communication, results in duplicate information being transferred, making it difficult to sort out the most updated status of a borrower.

An agency like the Student Clearinghouse pro-

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**Largest portfolio in the US loan market is the education loans. The overall exposure to outstanding education loans in India, is \$5 billion, as compared to \$700 billion in the US**

vides clear benefits of eliminating administrative hassles and freeing resources, increasing reporting and record-keeping efficiency, and speeding up execution of a task. It creates a transparent system, with almost no chance of fraudulent claims. Institutions, on their part, don't have to develop an online platform. With the Eleventh Year Plan targeting to raise the Gross Enrolment Ratio for higher education to 15 percent (24 million), the Indian HEI space is going to expand more. That means more loans will be disbursed. There will be volumes of employment and enrolment data that would need to be sorted. In the US, students' loans constitute the third-largest portfolio, while in India it is much smaller. The overall exposure to outstanding education loans in India stands at \$5 billion, as compared to \$700 billion in the US.

However, this sector is slowly picking up in our country, evident by the entry of specialised education loan providers such as Credila (HDFC-backed NBFC) in the Indian market.

There is a need to establish systems and processes that will help digitise, centralise and channelise information in a systematic manner from HEIs to the right stakeholders. It will help in easy management of information for educational institutions and employers, reduce delinquency rates for banks and help set right the foundation for a transparent and efficient system. **EDU**

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