

India needs higher education financing investments to meet its Gross Enrolment Ratio target: **Steve Hardgrave, Co-Founder, and CEO, Varthana**

*As per the New Education Policy (NEP), India is aiming to reach a GER of 50 per cent by 2030 from 27 per cent currently. This would require significant investments in education financing, building more colleges, and ensuring access to education in rural India. To know more about the trend of banks and NBFCs moving increasingly towards technology and digital infrastructure, **Srajan Agarwal** of **Elets News Network (ENN)**, had a conversation with **Steve Hardgrave**, Co-Founder, and CEO, Varthana.*



STEVE HARDGRAVE
Co-Founder, and CEO, Varthana

Post-pandemic, we have come across a new ecosystem in the education sector. What current changes are apt for the holistic development of education loans?

While the pandemic played a role in unexpectedly transforming the digital readiness of many schools in the country, it also played a role in highlighting the massive digital divide both at the family and school levels. The affordable private schools in rural and semi-urban areas were hit especially hard due to the school closures, and the students suffered with little or no access to education for close to two years.

What these two years of closure did was impact the learning outcomes adversely with the learning levels plunging to 59 per cent in grade 3, 49 per cent in grade 5, 42 per cent in grade 8, and 36 per cent in grade 10 as per a survey conducted by the National Achievement Survey (NAS) of 2021. The survey findings revealed that

there was a decline in learning levels across grades and subjects as compared to the NAS 2017 survey. A decline in learning levels has far-reaching effects on student readiness for further studies and employment opportunities.

The need of the hour is for the learning loss to be bridged on priority and also for the schools and students to be digitally equipped and ready for the future. India's NEP 2020 aims to improve the quality of education including through digital means right from revamping the educational structure to creating a robust digital learning system. Lenders can provide access to funds to schools and institutions to upgrade their technology infrastructure. Lenders can also support parents and students to help spread out the cash flows related to school fees and expenditures on digital equipment required for the children.

The pandemic further accelerated the trend of banks and NBFCs moving increasingly towards technology and digital infrastructure to have a viable lending ecosystem with minimal physical touchpoints. Easy-to-use tech-enabled platforms were built to service the consumers. Due to this, there was also a change in the consumption behavior of consumers of education loans or small ticket-size loans. The processing time of getting a loan dramatically reduced as lenders moved to a totally digital sourcing and underwriting model. Some Fintechs even developed internal credit scores to accurately predict credit risk through various Machine Learning Models and Data Science methods.

Post-pandemic lending has accelerated from consumers reaching Banks/NBFCs to Banks/NBFCs serving the consumers wherever they are in the country and it will continue to evolve due to tech advancements and customer expectations.

What are the structural challenges faced by the organisation while dealing with the overall outlook for education loans?

As per the New Education Policy (NEP), India is aiming to reach a GER of 50 per cent by 2030 from 27 per cent currently. This would require significant investments in education financing, building more colleges, and ensuring access to education in rural India.

Access to credit is a significant issue to



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resolve in order to get to the GER target. Bank lending has not grown with the increase in demand for education loans primarily due to high delinquency rates in their earlier lending to students. New-age lenders, mostly fintech-based models, have entered the market to meet this demand. These lenders focus on the current household income level of parents (in the case of younger students), or on the student's existing income (in the case of upskilling) to determine eligibility. With this model, these lenders tend to serve only the highest income earners with formal employment, which can be the easiest to underwrite in an automated fashion. To

increase credit offtake more dramatically in the segment, lenders will need to develop the ability to underwrite the high number of students from lower and middle-income families as well.

Varthana launched its student loan business in 2019 and has enabled over 5000 students from economically challenged backgrounds to access education through our loans. We are now trying to increase our footprint across the country for the student loan business and trying to make it easier for students to apply for loans through an app designed specifically for students or their parents.

For our school loan business, there is a considerable pent-up demand for loans as most schools/institutions had delayed investing in new projects until after the pandemic. So, our focus is on steadily ramping up the business to meet the pent-up demand of the schools and institutes.

Varthana provides loans designed exclusively to fit school requirements. What are the challenges you have faced while serving the low-income community?

While it has indeed been a challenge, it has also been a great privilege to be able to support these schools which are integral to nation-building. Right from sourcing the schools which are in need of a loan to underwriting loans from a segment that is underbanked, we had to virtually invent the entire process from the beginning. In the initial years, school owners were quite



surprised that a finance company would consider giving loans to schools. It took some time to build that trust and then we saw schools not just taking loans but also referring to their other friends who were also running schools. Calculating eligibility has always been a detail-oriented process and the assessment of property being offered as security too has different norms from state to state. Varthana thrives in addressing such challenges and that is the sole reason why we have such a large customer base spread across the country.

The other challenge that we constantly face is the core objective and mission of the company. Varthana exists to ensure better learning outcomes for children. Providing a loan to a school is just the first step in a long journey for transforming education. This involves engaging with teachers, children, and solution providers who can improve the teaching and learning at schools. We are constantly connecting schools with innovative service providers so that schools can get access to the best technology and methods of teaching.

What is the role of NBFCs in empowering the education loan sector in the country?

By 2040, India would surpass China as the country with the highest number of young people with 955 million people in the age group of 20-64 years. India's youth will play an important role in the country's future. So it is extremely important for the youth to

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be educated and ready to take up the 21st-century jobs that are available and that will drive the Indian economy.

NBFCs are helping young people by providing easy access to education loans with the help of new user-friendly technology, credit ratings, and underwriting methods. From enquiry to disbursement, everything is done online these days. The loans are disbursed and credited to the account within

48-72 hours sometimes even within a day depending on the client's creditworthiness. Even low-income or middle-class families who otherwise were deprived of accessing credit are increasingly being served in an efficient manner.

Varthana has been empowering the sector by providing easy access to loans for quality higher education for domestic studies to the students from families that often continue to be excluded by other lenders (i.e. cab or auto drivers, small-business owners, tailors, farmers, gardeners, house helps, electricians, etc.). To reduce the burden on students after their education is completed, Varthana provides various payment options to make repayment of education loans as easy as possible for students and families.

What is your enhancement plan to transform India and its populace into a 100 percent educated nation?

Varthana's mission is to transform affordable education. We do this primarily by making finance available to institutions and students who otherwise might not get access to finance.

Most schools use Varthana loans to expand their infrastructure and improve the quality of education. This allows them to serve more students. For example, many of our school clients began their relationship with Varthana when they had only 300 students attending their institution. In many cases, Varthana's financing has allowed them to increase their capacity to now attend to more than 1,500 students. With more than 8,500 schools served by Varthana, we have already helped increase access to education. There is still much more to be done, and we are currently working to extend our reach to more Tier III and Tier IV cities so that students in the interior areas can also be benefitted.

Varthana's loans to students are mostly focused on post-secondary education, be it a graduate degree, post-graduate degree, upskilling or even vocational training. This is crucial as too many young people in India discontinue their education after secondary school. For many of these young people, a loan would help them invest further in their education. We are committed to reaching these segments of domestic students that are too often neglected by banks and fintechs.. •