Chapter 3

The Learning Bank – an assessment of roles and functions

3.1 A consideration of the role and functions of Funding Councils brings into view the role for a ‘Learning Bank’. A key question here concerns the interaction of two functions:

- the management of ILAs and the transactions resulting from them;
- the regulation and steerage of the higher education sector as a whole.

_Student Loan Company as ‘Learning Bank’_

3.2 One line of reasoning suggests that the two functions should be kept separate. This would be possible if the Student Loan Company (SLC) were to be ‘re-badged’ as the Learning Bank. Indeed it would be wasteful not to imagine the SLC as a core component of a Learning Bank. It has built an account management system capable of handling nearly two million accounts by 2000; and it possesses the staff and technical equipment to discharge many of the functions required for the management of the transactions of ILAs.

3.3 However, the SLC has been designed with two principal functions in mind, namely the management of a loan facility and the recapture of outstanding repayments. It has not been required to manage the full range of functions of an ILA as described in this assessment - managing fund accumulation and distributional functions, for example - and a separate assessment would need to be made of its capacity and competence to act in this manner if that became an object of policy.

3.4 One limitation of the proposal to ‘re-badge’ the Student Loan Company as the Learning Bank might be that a system of ILAs would become fixed in the public mind as little more than a re-presentation of a higher education student loans.
system. This might limit the potential of the ILA both to develop as an investment and distributional instrument for higher education in the future, and to broaden its focus beyond higher education into lifelong learning more generally.

3.5 The limitations might in part be lessened if the emerging loan system were to adopt an income contingent Higher Education Contribution Scheme (HECS) style character similar to that adopted in Australia. Furthermore, policy would need to make clear that the conversion of the SLC into a 'Learning Bank' was the first step to a fuller transformation of funding relationships across the post-school sectors.

**Funding Bodies as 'Learning Bank'**

3.6 Another line of reasoning suggests that the two functions of account management and system regulation should be contained within one overall public authority - in this case, the Learning Bank. This would imply that tuition fees were shifted from funding councils into ILAs managed by the 'SLC' division of the Learning Bank, but the Learning Bank itself would be a public authority superordinate to its account management arm. In this model, the Learning Bank would retain accountability and control over system quality and size, and would continue to supply recurrent grants and funds for capital programmes and research.

3.7 It is also possible to contain a role for the private sector in this particular model. If the Learning Bank were an overall public authority, it would be in a position to secure the supply of services. The commercial banks have the infrastructures and machinery to manage large numbers of transactions and repayment recovery from millions of accounts. From evidence collected during the consultation process, the private banks might be keen to take on the management of ILAs under contract to a relevant public authority perhaps.

**Private sector involvement**

3.8 The attraction of this arrangement to the commercial sector appears to lie in the prospects for gaining access to a prestigious market for secondary products - sales of life insurance and so forth to ILA holders - rather than in the price to be gained from the management contract itself.
3.9 While there is a strong case for private sector involvement in account management on the grounds of experience and competence, there are also causes for concern. Banks are not charities and they are not public services. They are commercial enterprises whose principal purpose is the loan and recovery of money. They will rarely issue unsecured loans, except at punitive rates of interest, and have little commercial interest in making loans to individuals with bad debt records. Unless bound by contract - for which a price would be charged - commercial banks would not willingly open an ILA for any eligible individual, thereby breaching a fundamental commitment to equity. As they point out, if there are several million ILAs from higher education alone, there will be many thousands of individuals with bad debt records who represent high risk to the commercial banks.

3.10 A second cause of concern involves the price the commercial sector might charge to protect against the likelihood of default on loans. In the case of private loans to students in the learning market, there is the promise of the capacity to repay the loan from future earnings but there is no asset to provide security against default. The commercial banks are likely to price the risk highly, at least in the early years, until a reliable pattern of repayment builds up.

3.11 A management partnership between a ‘public’ Learning Bank and the commercial banking sector cuts across the idea of a re-titling of the Student Loans Company (SLC), but it does not rule out the possibility of the privatisation of the SLC along with the sale of the debt to the private sector. However, in the context of the development of a Learning Bank, there is far less of a persuasive case for the privatisation of the SLC and a more natural case to be made for its retention close to, or as an agency of, the Funding Bodies if the ‘unified model’ of a Learning Bank were to be adopted.

3.12 Whatever role is envisaged for a Learning Bank, as a reformed SLC or otherwise, no line of argument has emerged which sees a continuing role for Local Authorities in the management and distribution of student maintenance and tuition fees for higher education students.

**Learning Bank as a mutual association**

3.13 We have considered whether the Learning Bank could be conceived as a
mutual society. Mutuality developed in the 19th century as a response by communities to failures of capital markets in providing resources for housing. Although mutuality now appears to have reached the end of the line as far as private housing finance is concerned, a familiar situation may be emerging in the learning market.

3.14 Individuals need access to sources of finance to repay loans incurred as a consequence of undertaking higher education. They might also wish to save to offset repayment burdens later in life; and they will wish to distribute the funds of any account according to their individual learning preferences. Of course, they will expect their account and its funds to be portable if they change institution or programme.

3.15 The principal of mutuality could be an important feature of the Learning Bank. It embodies fairness, collective endeavour, the use of funds for the common good, and above all, trust. Holding an ILA in a mutual society could yield large presentational advantages. It could be the means by which public confidence is attracted and sustained. In a mutual society, returns to the collective asset flow fairly to the individual accounts, and joint funds are deployed for a public good - whether this is housing currently, or learning in the future.