i-CAN-IDEATE

IDEAS THAT HELP US GROW TOGETHER

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FROM THE DESK OF GS

Shri Ravi Kumar K.

Winning strategy is to proactively create new business frontiers when others are still planning to act!

Dear Canpals,

In the last few months, our mother bank successfully embarked on new frontiers, such as reaching a Rs. 1 trillion Gold Loan business, reaching Rs. 75 thousand crores of Housing loan portfolio and registering a strong operating profit growth in Q1 FY23. With the strong fundamentals of our Bank, we recorded these phenomenal figures by proactively capturing the market trends and business expectations. This winning strategy further requires continuously exploring newer possibilities and creating implementable frameworks.

In this respect, our editorial team has assessed to need to explore the education loan landscape in the country, especially, the big ticket inland loans. We say, **Is Education loan business the new game-changer?** Our team has put forward the need of tapping the entire ecosystem of education loan so that the same can be leveraged to facilitate expansion of other retail loans too. ***Support them when they need you the most and sow seeds of lifetime relationship*! Happy Reading! Happy Learning!**

CANARA BANK OFFICERS ASSOCIATION'S MONTHLY NEWSLETTER

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WHY EDUCATION LOANS?

Rising costs of education in the country :

- As per the All India Survey on Higher Education, student enrolment in higher education increased by Rs 11 lakhs, a 3% jump between 2019-2020. This surge combined with spiraling **education inflation** has led to steady growth in **education loan demand** in the country. This trend continues to accelerate especially in a post-covid phase.

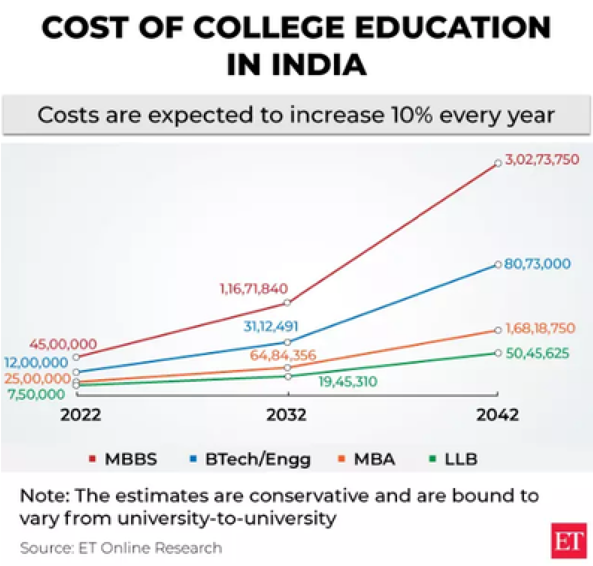
- The **education inflation** rate in India was 0.63% in April 2021 and 1% in May 2021, but has increased to 4.12% and 4.09% (provisional) in the corresponding months of 2022, respectively, according to the Ministry of Statistics and Programme Implementation. It has further increased to 5.51% in August 2022. The cost is huge especially with regard to nominal rise in incomes of a general household. **Aspirations and costs rise much faster than incomes!**

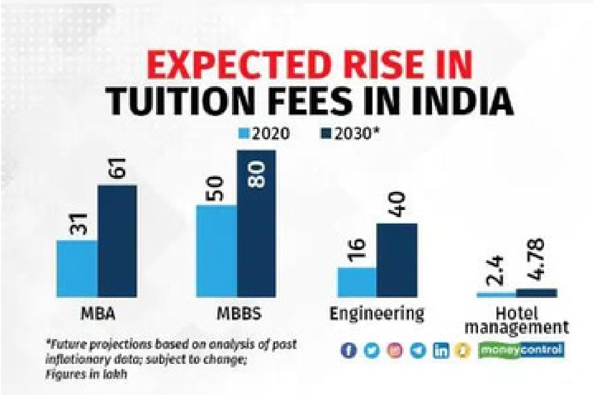
- The **rise in the cost of education cannot alone be attributed to increased tuition fees**. There are several other factors including the overall higher cost of living, administration costs, security, modern school infrastructure, and technological updates by educational institutions. As per the Charts (on the right), the future **projections of fees rise reveal that cost for higher education is going to rise at least 10% every year**, with the highest rise to be projected in medical education (MBBS etc.) followed by engineering (B. Tech etc.).

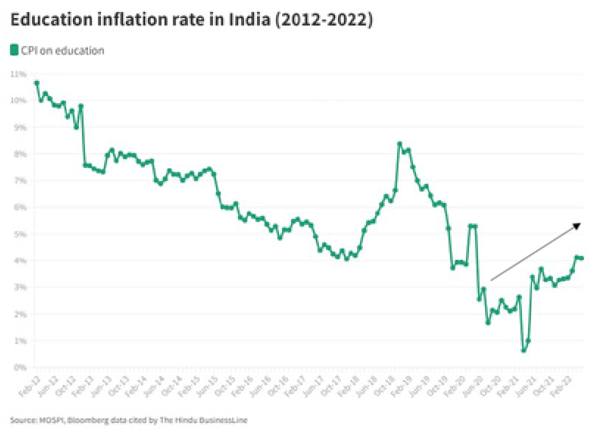
- The thirst to ensure quality education at all costs can be gauged from the **annual growth in credit deployment for Education showing a upward trend in the last few months** starting Feb 2022, even with a very high base last year.

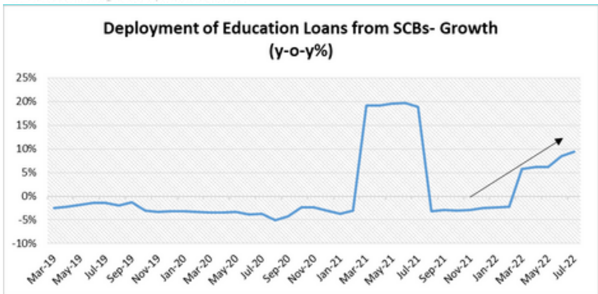
Where do we stand?

- Our mother Bank is a brand name when it comes to Education loans in the market. As a trusted Banker, we are catering to a millions of aspirations and dreams with a strong market share (around 15-16%). Besides being a source of commercial business, it is a priority sector for our Bank as it is for the economy. **As a responsible corporate entity, we are cognizant and duty-bound to fulfill millions of dreams being envisioned everyday.**









Our say:

The thirst to ensure quality education at all costs can be gauged from the annual growth in credit deployment for Education showing a upward trend in the last few months starting Feb 2022, even with a very high base last year. ***When post-covid phase saw a tremendous upsurge in Education loans across SCBs, this year's trend is a measure of unimaginable potential education loan portfolio holds for Banks. This potential needs to be tapped at the earliest!***

DEMAND CAN COME FROM?

Demand for Education Loans comes primarily from 'Southern India' - empirical evidences say so!

Especially with huge upsurge of private colleges in southern India, increased inclination towards abroad studies, network effects* along with higher cost of education, the trend of education loan has strengthened there.

*Network effect refers to increased contacts/relations in a place giving rise to higher inclination to study and work in that place.

Google trends on "How to get Education Loan?":

- State of **Andhra Pradesh** has the highest trend in the search for the query in the last 12 months clearly alluding to higher demand for Education loans in the region. The trend is followed by Kerala, Telangana, Tamil Nadu and Karnataka.
- Similarly, **Hyderabad** tops the city wise search location for the above query on Education loans. Intuitively too, the city as well as the corresponding state holds a substantial share in NRIs especially in the USA, Europe region. **Among the metros, Bangalore tops** the search location followed by Chennai, Mumbai and New Delhi.

College Density among major states:

- As per the data from govt. of India, the **college density** i.e. the number of colleges per lakh eligible population (population in the age- group 18-23 years), **is highest in Telangana, Karnataka and Andhra Pradesh.** Infact, the density is rising for Karnataka and Andhra Pradesh.

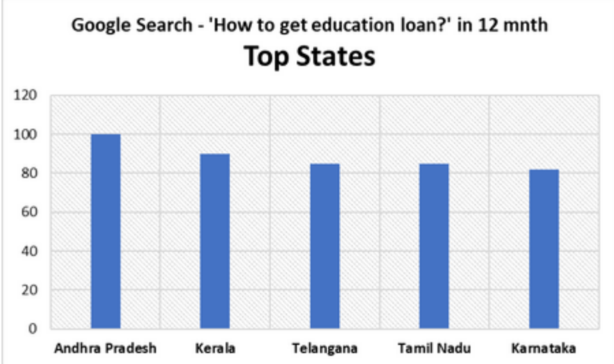
With a trend of higher college density, wider search for education loans and visible network effects, southern India (esp. Andhra Pradesh, Kerala, Tamil Nadu and Karnataka) drives the demand for **education loans in India.**

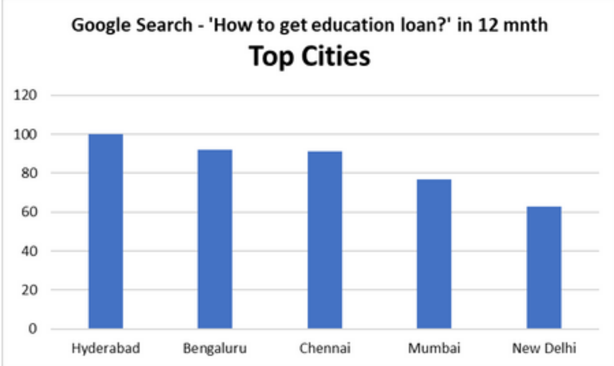
Level	Courses	College	Average Liability (Fees, hostel, other expenses etc.)	Average Package (Entry level package/annum)	Liability to package ratio
UG	Engineering	Top Colleges	1000000	2400000	0.4
	Engineering	Tier-2 College	600000	1400000	0.4
	Engineering	Tier-2/3 College (Private)	1000000	500000	2.0
PG	MBA	Top Colleges	2000000	3500000	0.6
	MBA	Tier-2 College	2000000	2500000	0.8
	MBA	Tier-2/3 College (Private)	1500000	800000	1.9
	M.Tech	Top Colleges	250000	1500000	0.2
	M.Tech	Tier-2 College	300000	1000000	0.3
	M.Tech	Tier-2/3 College (Private)	500000	600000	0.8

Note: Non reserved category candidate
Author's estimates and secondary data research

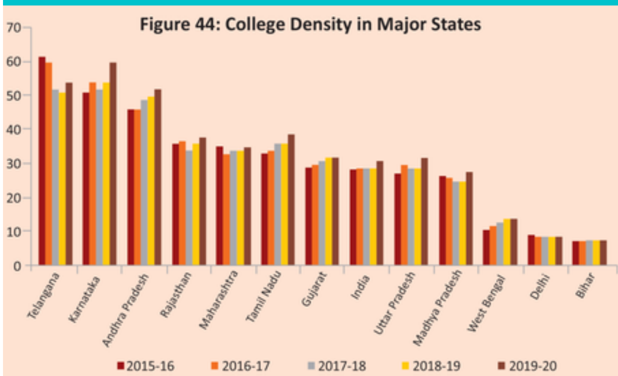
Level	Courses	College	Average Liability (Fees, hostel, other expenses etc.)	Average Package (Entry level package/annum)	Liability to package ratio
UG+PG	Medical	Top Colleges (Govt.)	400000	3500000	0.1
	Medical	Top Colleges (Private/Quasi Private)	6500000	3000000	2.2
	Medical	Tier-2/3 College (Private)	8000000	2500000	3.2

Note: Non reserved category candidate
Author's estimates and secondary data research





Note: A score of 100 shows the region where the term is most searched, while the other scores are relative to the peak region.



Source of Figure 44: All India Survey on Higher Education 2019-20 (Ministry of Education, Govt. of India)

India Top colleges expenses vs average package

The table (on the left) presents an approximate numerical picture of liability to package ratio (author's representational ratio) for major category of colleges in the country. Lower the value of ratio, better the prospects for lending a loan.

**Top Colleges include IITs, NITs, IIITs etc.*

Our Say:

With a trend of higher college density, wider search for education loans and visible network effects, southern India (esp. Andhra Pradesh, Kerala, Tamil Nadu and Karnataka) drives the demand for education loans in India.

TAPPING THE BUSINESS EARLY...

Tapping the Education Loan ecosystem:

- Like Mr. Arjun (story on the right), there are numerous such opportunities of establishing personal and emotional connect with the customers. It is a well known fact that Education is close to a person's heart and so is the education Loan and its facilitator Bank.
- **Targeting complete family solutions for Education Loan borrowers**. In this regard, easier and cheaper subsequent loans to the family of main Education loan applicant may be contemplated. The thrust should be to tap the retail as well as non-retail borrowing needs of the entire family, garnering CASA, TD and Advances from a single family.
- Doctors and Engineers (Tier-1 colleges) as students are a good source of education loan business for the bank. Later on, as practicing professionals, they are high net worth individuals. Hence, **Full Loan solutions to Doctors/ Engineers** (in tailor- made way) may be devised wherein those who have availed education loans from our Bank either for themselves or their children may be offered additional benefits in the subsequent borrowings in terms of cheaper rate of interest, lower service charges, free insurance facility etc.

Customer tales & Ecosystem:

"Mr. Arjun (name changed), 52 years, is a renowned surgeon in the city. He has a good net-worth and two hospitals running under his leadership. He and his entire family transact with XYZ Bank since last 30 years. Given his net-worth and credit worthy customer profile, he gets continued calls from other leading Banks tempting him with a lot of facilities. ***He still Banks with XYZ Bank. The connect is emotional as he has studied his MBBS and PG taking education loan from XYZ Bank. He trusts XYZ.*** *The ecosystem is built from that 1st education loan and now encompasses 2 Education Loans for his children, 1 housing loan, 3 Vehicle loans, 2 Term Loans for hospital building and equipment respectively. The 1st education loan is fully repaid, while Mr. Arjun's existing exposure with XYZ Bank is around Rs. 2.30 Cr with not even a single day overdue"*

Our Say:

Full Loan solutions to specific professionals like Doctors/Engineers (in tailor- made way) *may be devised wherein those who have availed education loans from our Bank either for themselves or their children may be offered additional benefits in the subsequent borrowings in terms of cheaper rate of interest, lower service charges, free insurance facility etc.*

CBOA NEWSLETTER EDITORIAL TEAM

Special Focus on Big-ticket (Top colleges) loans:

- NBFC are arranging forex and credit cards, laptops, electric vehicles, mobile phones and overseas accommodation for student borrowers, **aiming to become one-stop financial shops for the students.** Essentially, they don't just arrange loan funds but also help students settle down properly in the new place! **Providing these additional facilities may be explored which could make our mother bank a preferred choice for the students.**
- **Ease of application & quick TAT:** Prominent players in Education Loans segment that are attracting big-ticket loans boast of very simple application and 24-48 hours disbursement. For our bank, **this could be easily implemented for Tier-1 colleges (Vidya Turant scheme) using the existing Digital lending Platform.**

Could it be a new game-changer?

Education loans business can be the new game-changer in terms of tapping the big ticket inland along with abroad loans. Not just that, Education loans help establish a special relationship very early with the students, who can then act as brand ambassadors of our bank. Needless to say, this relationship could further bring in other retail/non-retail loans into our business.