POVERTY REDUCTION
SCALING UP LOCAL INNOVATION FOR TRANSFORMATIONAL CHANGE

United Nations Development Programme

Public-Private Partnership

Public-Private Partnership: Equalizing Higher Education Opportunities Through Credit Insurance for Youth from Poor Households in China

Abstract

Higher education not only benefits the individual but also has long-lasting positive impacts on the society as a whole. To give disadvantaged youth the opportunity to attain a higher education, the Government of China with the assistance of Sinosafe Insurance Co. of China, designed and developed the Government Subsidized Student Loans Credit Insurance (GSSLCI). Since GSSLCI's inauguration it has helped hundreds of thousands of youth to afford higher education opportunities. Reasons behind GSSLCI's successful promotion are mainly the effective division of labour and innovative partnership between banks, the insurance company, higher education institutions, and government agencies. Each participating entity utilized its specialized advantages to support the GSSLCI scheme. The GSSLCI's success shows how insurance can support equalizing higher education opportunities for youth through innovative public–private partnership. It offers important lessons as to how such partnership could be nurtured and promoted successfully.

FOREWORD

Scaling up local development innovations is key to achieving sustainable and equitable development, especially when these innovations are driven by national and local governments and actors. In order to best support countries to scale up proven local successes and achieve transformational changes, the UNDP Poverty Practice of the Bureau for Development Policy (BDP) works to build a solid knowledge base and to uncover systematically the enabling environment and drivers for scaling up. In this context, the Poverty Practice has initiated a series of case studies of "scaled up" development cases. Learning from these country cases, we aim to identify key policy, institutional and political enablers and drivers for a successful scaling up process, and to inspire development partners to transform innovations into sustainable development results.

In 2011, the Poverty Practice launched its first series of case studies on successfully scaled up local development innovations from China, Costa Rica, Mexico, Mongolia and Nepal. While the case studies are about a range of different development challenges and responses, from agriculture extension, environmental protection, social protection, micro-finance to energy provision, they all try to address the common question of development effectiveness: how is it possible to scale up a pilot/seed initiative to achieve larger and sustainable development impact? The case studies attempt to answer this question through describing the process of scaling up, capturing the key milestones, and distilling the main drivers for success. The common findings of the case studies point to scaling up enablers such as the political vision and commitment, internal and external 'catalysts,' and political, financial and policy enablers, as well as institutional arrangements and human capacities.

The 2012 series of country case studies provide examples of successfully scaled up innovations through usage of inclusive financial systems and leveraging public-private partnerships. Such successes would not have been possible without the involvement and commitment of government agencies, formal financial institutions, NGOs and the private sector. The case studies demonstrate successful examples from middle income countries to low income and least developed countries, including Brazil, Bhutan, China, Rwanda, Timor-Leste and an example from the Arab States. This case study is the first of the 2012 scaling up series. It outlines successful innovation and scaling up of a credit insurance scheme which helped equalize higher education opportunities for the youth from poor households in China. The credit insurance scheme tackled the scaling up bottleneck of the Government Subsidized Student Loan Scheme (GSSLS) through win-win public-private partnerships.

The findings of all the case studies will be further utilized in the UNDP guidance note on scaling up local development innovations for poverty reduction, as well as the ongoing UNDP efforts of strengthening an integrated approach for local development.

The Poverty Practice would like to expresses its sincere gratitude to the country offices and for the private sector and academia partners for their strong support to this initiative. Without their vision and commitment, this work would not have materialized. We also gratefully acknowledge the peer reviewers who helped improve the quality of the case studies, and authors of each country case. Their contributions are acknowledged in each case study. Lastly, in addition to facilitating this initiative, UNDP Poverty Group colleagues have also compiled and edited all the case studies.

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List of Acronyms and Abbreviations

ABC	Agricultural Bank of China
BOC	Bank of China
CCB	China Construction Bank
DL	Direct Loan (United States)
FFEL	Federal Family Education Loan (United States)
GSSL	Government Subsidized Student Loan
GSSLS	Government Subsidized Student Loan Scheme
GSSLCI	Government Subsidized Student Loan Credit Insurance
HEI	Higher Education Institution
ICBC	Industrial and Commercial Bank of China
LSFS	Local Student Financial Scheme (Hong Kong SAR)
SFAA	Student Financial Assistance Agency (Hong Kong SAR)
Sinosafe	Sinosafe (Hua'an) Insurance Co

Summary

Current studies have shown that investment in higher education, including all post-secondary education, have greater benefits not only on the individual but also on society as a whole. Passed at UNESCO's 1998 World Conference on Higher Education held in Paris, the *World Declaration on Higher Education for the Twenty-First Century: Vision and Action* points out that higher education improves students' employability and potentially transforms them from job seekers to active job creators. Higher education also facilitates the reduction of poverty, promotion of tolerance, and eradication of violence. Therefore, it is clear that creating higher education opportunities for the disadvantaged or the marginalized people, especially youth, facilitates employability and provides a ladder to alleviate people out of poverty. Research shows that in China the expansion of higher education opportunities correlates positively with poverty reduction (Guo and Rong 2011). However, while primary and secondary education are compulsory and free of charge in China[1], higher education tuition has been increasing quickly in recent years.[2] Therefore, regardless of the expansion of access,[3] youth from poor families with limited financial means still cannot benefit from higher education opportunities. Each year about 40 percent of Chinese rural households outspend their income. Among them, about 20 percent of all rural households had incomes that were only about 75 percent of their aggregate expenditure, which made it difficult for them to commit to additional expenditures (National Bureau of Statistics of China 2010) towards their children's higher education.

The Chinese government has introduced various forms of financial assistance for poor students starting from subsidy funds and state grants to tuition waivers and student loans. This paper focuses on policy innovations regarding the provision of student loans to poor students. In 1999, China piloted the Government Subsidized Student Loans Scheme (GSSLS) in select regions to help cover tuition costs and daily expenses of higher education for students from poor households. In the first few years of the programme, GSSLS had a very limited coverage. From 1999 to 2004 1.84 million students applied for GSSL, banks however, approved only about half of the applications.[4]

Against this background, an innovative approach was developed in 2006 to address this challenge. Based in Shenzhen, China, Sinosafe (Hua'an) Insurance Co. (Sinosafe) designed and developed the Government Subsidized Student Loan Credit Insurance (GSSLCI) scheme to assist poor students and their families in financing university and college expenses. Since its inauguration, it has helped hundreds of thousands of vulnerable and disadvantaged youth in realizing their dream of attaining a university education.

Access to quality and affordable higher education is now the frontline issue as far as both equity and employment is concerned. Policy schemes to provide student loans and enhance access to higher education are increasingly attracting attention in a growing number of countries. A number of products have evolved to facilitate access to higher education. Nonetheless, business models for providing loans to poor students and consideration of public-private partnerships that can help to reduce transaction costs and increase accessibility have not received broad-based attention they deserve.

1. Introduction of GSSLS and GSSLCI

GSSLS was formally established in 1999 with the sole purpose of assisting poor students who attend public universities to cover tuition costs and living expenses. GSSLS is currently the main student loan scheme in China. Loan capital is provided by state-owned commercial banks. Half of the commercial interest rate on loans is provided by the government. Since the state-owned banks provide the loan capital, "the total loan volume is constrained by the system of institutional 'quotas', based on the total amount of interest support available from government and by the willingness of commercial banks to provide loans"

1 In 2007, the net enrolment rate for primary education for boys was 99.46 percent and 99.52 percent for girls with a retention rate of 98.42 percent for boys and 98.46 percent for girls. For secondary education, the enrolment rate reached 95 percent for both male and female students, while their three-year student retention rate reached 92.14 percent and 93.29 percent respectively (Chinese National Commission for UNESCO 2008).

2 Since the late 1980s and particularly since 1993, there has been a shift towards cost-recovery and cost-sharing in higher education.

3 As of 2009, the gross enrolment ratio (GER) for higher education in China reached 24 percent for men and 25 percent for women (UN, 2011).

4 *www.chsi.com.cn/jyzx/200607/20060725/552576.html*

(Ziderman, 2004, pg. 21). HEIs process the loan payments while the commercial banks conduct the selection, lending and collection of loan payments. Since there are no formal guarantors on loans, students' integrity acts as a guarantee for repayment. The lack of a well-established credit system makes banks the sole bearers of the default risk. In light of this fact, some banks discriminated against students who were more prone to defaulting which in most cases were the poorer students. Thus, the lending scheme did not act in an equitable manner since the chances of receiving a loan were much lower for poorer students who were most in need of the loans. Moreover, since local government provided the interest subsidy for local HEIs, poorer local governments were less able to provide such subsidies, therefore making the scheme more inequitable. By 2001, GSSLS only covered 3.8 percent of the students.[5]

The introduction of the GSSLCI scheme assisted in addressing some of the bottle necks which GSSLS faced. GSSLCI is a form of credit insurance scheme based on the borrower's performance risk. Put simply, government-authorized financial institutions (banks) can extend loans, insured by Sinosafe, to students for education assistance. Should the student fail to perform the repayment obligation, Sinosafe will then repay the financial institution and assume the responsibility of debt recovery. If the repayment default is due to death or significant loss of capacity to work, Sinosafe will then cease the collection of the remaining debt from the student or from the family. Additionally, GSSLCI has a repayment waiver rider which states, when the student borrower's remaining overdue debt is no more than 5 percent of the entire debt, Sinosafe will not be liable to match such payments to the bank.[6] The banks will bear the loss in such cases.

The GSSLS loan period is calculated based on the length of the education programme (usually three to five years) plus certain years for repayment (usually within 10 years). The whole period should not exceed 14 years in total. The borrower student is expected to start making repayments within two years after graduation. The GSSLCI period of insurance starts from the day after the GSSL is granted and ends upon the student's full repayment. Therefore, GSSLCI's insurance period synchronizes with the GSSLS loan period almost perfectly. This imposes very high demand on the quality of GSSLCI's credit management.

To date, the GSSLCI has helped 339,000 financially underprivileged students in obtaining GSSLs at 328 HEIs located in 10 provinces and municipalities. The programme is still ongoing and will continue to benefit students at an increasing rate.

a) Key Success of the GSSLCI Scheme

From a development perspective, GSSLCI has helped to reduce inequalities by providing an essential service to the poor and the vulnerable. Firstly, it helped students from poor families to receive GSSLs, thereby shifting the financial burden from their families, and reducing the risk of their families from slipping into further poverty due to large short-term financial commitments associated with university expenses (see case study 1). Secondly, the GSSLCI scheme also increased poor students' chances of finding adequate employment opportunities at a much higher income after graduation, which assisted them in improving their and their families' economic situation.

Thirdly, GSSLCI also contributed towards reducing gender inequalities. Due to the cultural preference of a son over a daughter, many parents tend to sacrifice the daughter's education to ensure the educational opportunity for their son. This is particularly so when they face financial constraints. Now with the implementation of GSSLCI, financial aid can be made more easily and equally to both female and male students. The girl students have a better opportunity than before for continuing their education. In Heilongjiang province of China, where GSSLCI has made great inroads, the current ratio between male and female higher education students insured by Sinosafe Heilongjiang branch is 10:12 — the ratio for female beneficiaries far exceeds the average national figure.[7]

There are a few important factors that have ensured such an innovative scheme could achieve its objective of poverty reduction effectively. The GSSLCI was initiated in line with the government's policy orientation to promote the social management role of the insurance sector. In the meanwhile, since the unveiling of the GSSLCI, central

5 Ziderman, A., Policy options for student loan schemes: lessons from five Asian case studies, Bangkok: UNESCO Bangkok, 2004.

6 The data about GSSLCI in this report come from Sinosafe.

7 In recent years, the gender ratio of higher education students nation-wide has been 1:1 (Ministry of Education of China, 2010).

and local governments have paid great attention to such an innovation and have inaugurated a series of policies on GSSLS and on the related insurance scheme. A healthy interaction between practice and policy has been nurtured throughout the development of the GSSLCI. As a private enterprise, Sinosafe has been using market-oriented methods to facilitate GSSLS development to ensure that it has a great potential for sustained future development. GSSLCI does not have a particularly high technological barrier to entry. While its managerial models and processes are continuing to mature, it has strong replicability.

Case Study 1: GSSLCI Helps Female University Student Realize Her Potential

Liang Xuedi, born in 1987, comes from Hongkeli township, Yilan county, Harbin municipality in Heilongjiang province. With the assistance of Sinosafe's GSSLCI loan, in 2010, Liang was able to graduate from the School of Management at Harbin University of Science and Technology with a major in Human Resource Management. Before graduating from university, Liang received a job offer from Midea Group and is currently earning a monthly salary of ¥4,000 renminbi. This employment opportunity helped her repay her GSSL obligations in less than a year's time.

Before applying for the GSSLS, Liang's family struggled to make ends meet. They depended greatly on the income generated from the small arable land they own along with pursing other forms of employment on the side. However, the incomes generated were barely sufficient to sustain basic living needs. In her second year of middle school, her father sustained a severe brain injury from a car accident and, as a result, lost the ability to work. This unfortunate accident had a tremendous effect on her family's financial situation due to her father's annual medical expenses. Liang was admitted to the university a couple of years later, and unfortunately, her family was unable to afford the university tuition along with other related living expenses. This hindered her opportunity to continue her education. With GSSLCI's assistance, she was able to receive a GSSL payment for a total amount of ¥3,500 renminbi from Harbin Bank annually, totaling ¥14,000 renminbi over four years. The GSSLCI scheme provided her with the opportunity to pursue her education and assist her family financially.

Source: *Sinosafe GSSLS client files and interview with Liang Xuedi.*

2. Initiation of GSSLCI

In 1999, People's Bank of China, Ministry of Education, and Ministry of Finance, introduced GSSLS in a few selected pilot regions. However, due to the fact the banks were lacking of incentives to provide loans to poor students, whose ability to repay was not guaranteed, GSSLS maintained very limited coverage. In 2004, the central government unveiled a policy authorizing the Ministry of Finance and HEIs to make risk compensation payments to assigned banks to encourage GSSL issuance to poor students. Nonetheless, GSSLS was still experiencing significant managerial challenges due to the great number of small installments with each loan and to the fact that some student borrowers tend to relocate to different regions or provinces after graduation. Since China has yet to have a well-established credit tracking system, it was hard for banks to collect from the borrower students after they relocate. These challenges were also compounded by the financial institutions' lack of enthusiasm in helping with the GSSLS management. This resulted in an averagely 28.4 percent default rate in GSSL. Under government regulations default rates on commercial loans are not permitted to exceed 15 percent. This further discouraged bank participation in issuing GSSL, limiting its expansion to other regions and provinces.

In 2006, in light of the GSSLS limited coverage and the banks' lack of enthusiasm in participating, Sinosafe actively decided to develop GSSLCI with its vision to 'care for the disadvantaged groups and assume social responsibility'. Under the guiding principle of risk and reward sharing, Sinosafe designed a whole set of standard operational procedures and risk management frameworks to clearly define each participating entity's responsibility, rights, and rewards.

On 16 June 2006, after China's Insurance Regulatory Commission approved the GSSLCI as a financial product, Sinosafe convened a press conference in Beijing to unveil to the market its wholesale solution to GSSLS by introducing GSSLCI. The announcement was enthusiastically welcomed by the government, financial institutions, HEIs, students, and other stakeholders in China.

In August 2006, the People's Bank of China issued a policy document entitled 'Notice Regarding the Strengthening of the GSSLS'. This policy document called on provincial

Table 1. Attributes of GSSLS and Sinosafe's GSSLCI

		GSSLS	Sinosafe's GSSLCI
Differences	Product type	Loan	Credit insurance (Derivative of loan)
	Operating institution	Bank	Insurance company (Sinosafe initiated and currently holds 90% of the GSSLCI market in China)
	Target	Poor university students attending public universities	Banks which grant GSSL
	Main functions	Provide loans to poor students to cover tuition costs and living expenses.	Manages performance risk of students to ensure recovery of GSSL.
	Main working mechanism	Bank lends GSSL to students and students perform the repayment obligations. If without GSSLCI, when student fails to repay loan payments, banks assume the responsibility of debt recovery.	If student fails to perform the repayment obligation, Sinosafe will repay banks and assume the responsibility of debt recovery. When student fails to repay the loan payments due to death and/or significant loss of capacity to work, Sinosafe will cease the collection of the remaining debt from the student or from the family after compensating the bank.
Similarities	Direct purpose	Provides financial support to poor university students.	
	Main indirect purpose	Tap an untouched market that could be profitable in the future.	
	Operating period	GSSLCI's insurance period synchronizes with the GSSLS loan period.	
	Main risk features	Students' integrity and ability to repay loans.	

and municipal governments to explore feasible measures to provide insurance for GSSLS. This was a strong signal of government's support for GSSLCI's further development.

In November of the same year, six Jiangsu provincial government agencies which included the Ministry of Education, Ministry of Finance, Office of Credits, People's Bank of China Nanjing[8] Branch, Bank Regulatory Bureau, and Insurance Regulation Bureau issued a joint policy document entitled 'GSSLCI Implementation Methods for Jiangsu Province's University Students (Pilot Phase)'. This was the first official policy document which unambiguously pronounced the integration of GSSLCI scheme in the issuance and management of GSSLS. This policy marked the provincial government's unequivocal support for GSSLCI.

a) Evolution of GSSLCI

Since its inauguration, GSSLCI has been launched in 10 provinces and municipalities which include Yunnan, Chongqing, Jiangsu, Anhui, Hubei, Sichuan, Shandong, Heilongjiang, Dalian, and Fujian provinces. Before the inception of GSSLCI, GSSLs were mainly distributed by four state-owned commercial banks; the Industrial and Commercial Bank of China (ICBC), Agricultural Bank of China (ABC), China Construction Bank (CCB), and the Bank of China (BOC). After introducing GSSLCI, ABC bank and Harbin Bank, were Sinosafe's first and main collaborators. Their regional presence and financial capabilities facilitated GSSLCI's expansion.

Promotion of GSSLCI via ABC Bank Channels- Partnership with a Formal Financial Institution

Chinese university students from financially constrained families come primarily from rural areas. Due to ABC bank's large commercial presence all over China and its distinct dedication to servicing agriculture, rural areas, and farmers, Sinosafe was able to build a solid partnership with ABC bank and make it its first partnering financial institution. The collaboration was tested with a pilot project launched

8 The Capital City of Jiangsu Province, China.

in selected areas of the Yunnan province. Through this collaboration, the Yunnan province was able to add six HEIs to its GSSLS-granting list. In light of this accomplishment, in February 2007, Yunnan provincial government issued the 'Implementation Methods for GSSLS in Yunnan Province for Higher Education Institutions (Pilot Phase)' policy document, which establishes a framework for the insurance-backed GSSLs. This provided a supportive policy framework for the further expansion of GSSLCI in the Yunnan province.

By end of 2007, Sinosafe and ABC bank were able to expand the coverage of GSSLCI to eight additional provinces. Sinosafe and ABC bank signed various agreements on the GSSLCI cooperation and successfully carried out the processes of insuring, underwriting, and issuing insurance policies. This signified the large scale promotion of GSSLCI through ABC bank.

Promotion of GSSLCI via Harbin Bank- Building on the Knowledge and the Capacities of a Microfinance Institution

Harbin Bank is a regional bank headquartered in the Harbin, Heilongjiang Province. It specializes in private and microfinance loans. Sinosafe was able to initiate a cooperation agreement with Harbin bank to launch the GSSLCI scheme.

Before the initiation of GSSLCI in 2007, GSSLS only covered 24 out of the 60 HEIs in the Heilongjiang Province. Due to this lack of coverage, it received intense criticism from the Deputy Minister of Education at that time, indicating the ineffectiveness of the GSSLS in the Heilongjiang province (Wen, Xu, and Zang, 2005). To address this concern, in June 2007 the Industrial and Commercial Bank of China (ICBC)-Heilongjiang branch issued a total of ¥229 million renminbi worth of GSSLs to 36,700 students; however, the percentage of students awarded GSSLs made up only a quarter of the poor students.

Sinosafe saw this as an opportunity to launch GSSLCI with the full cooperation of Harbin Bank. In September 2007, Heilongjiang Province Department of Education, Department of Finance, and Harbin Bank signed a cooperation agreement to launch GSSLS in their province. Meanwhile, Harbin Bank, Sinosafe-Heilongjiang branch and relevant Heilongjiang-based HEIs signed cooperation agreements to launch the GSSLCI scheme. These agreements assisted more than 20,000 students in local government-administered universities and colleges to obtain GSSLS support that year.

GSSLCI operations have undergone continual innovation and improvements in the Heilongjiang province. To make the process effective and more efficient for both the bank and the students, Harbin Bank, set up a branch that specializes in issuing GSSLs. Moreover, Sinosafe's Heilongjiang branch and Harbin Bank set up a joint service centre that specializes in managing the GSSLCI scheme. To streamline the whole management process, they established specialized divisions in auditing, lending, and logistical support. They also established a loan management mechanism used by HEIs to address issues or concerns pertaining to information collection, interim risk monitoring, post-lending tracking and collection. The two agencies also assisted HEIs in setting up multi-faceted student creditability education campaigns to inform poor students about GSSLS, GSSLCI, and their benefits. Various communication methods, such as telephone, newsletters, public conferences and lectures, in-person meetings, and email correspondence, were used to reach out to the students.

In 2010, in light of GSSLCI's widespread coverage through local government-administered HEIs, Sinosafe and Harbin Bank reached additional agreements to jointly promote the availability of GSSLS services at the student's hometown (as opposed to place of education), thereby progressing toward the goal of comprehensive GSSLS coverage. By July 2011, GSSLCI covered 57 HEIs in the Heilongjiang province, lending a total amount of ¥763 million renminbi to approximately 72,200 poor students (see figure 1).

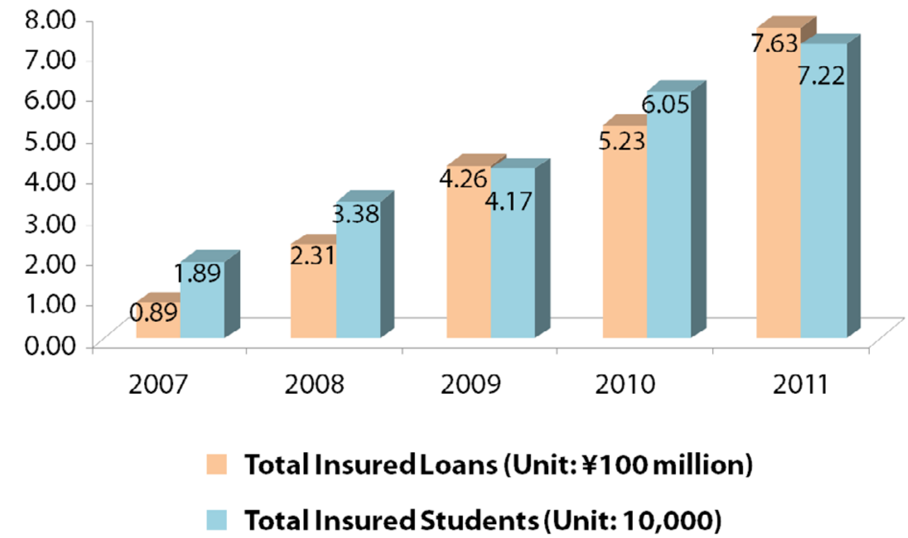
Promotion of GSSLCI Through Other Banks

Due to the successful cooperation between Sinosafe and Harbin Bank, GSSLCI's coverage was further expanded. In 2008, Sinosafe and CCB agreed to cooperate on GSSLCI in the city of Dalian in the Liaoning Province. This represented a breakthrough for GSSLCI's expansion due to CCB's wide presence in the country.

In September 2008, in Fujian Province, Southeast of China, five agencies of the Fujian Provincial Government, including the Department of Education and Department of Finance, released a joint policy document titled 'Opinions Regarding Further Promotion of GSSLS' which proclaimed the introduction of the GSSLCI insurance mechanisms into GSSLS. Sinosafe and Industrial Bank Co. reached a cooperation agreement on promoting GSSLCI in the province.

In 2009, Sinosafe and CCB collaborated on expanding GSSLCI's coverage in Yunnan, a province located in the Southwest of China. In 2010, Sinosafe began expanding its partnerships with rural credit unions in the Fujian province, promoting further GSSLS coverage. In the same year, Sinosafe and ICBC also signed a cooperation agreement on introducing GSSLCI in Dalian, thus opening yet another channel for GSSLCI's wider expansion.

Figure 1: GSSLCI performance in Heilongjiang province, 2007-2011



b) Present Status of GSSLCI- Demand Oriented, Client-focused, Multi-stakeholder Engagement Model

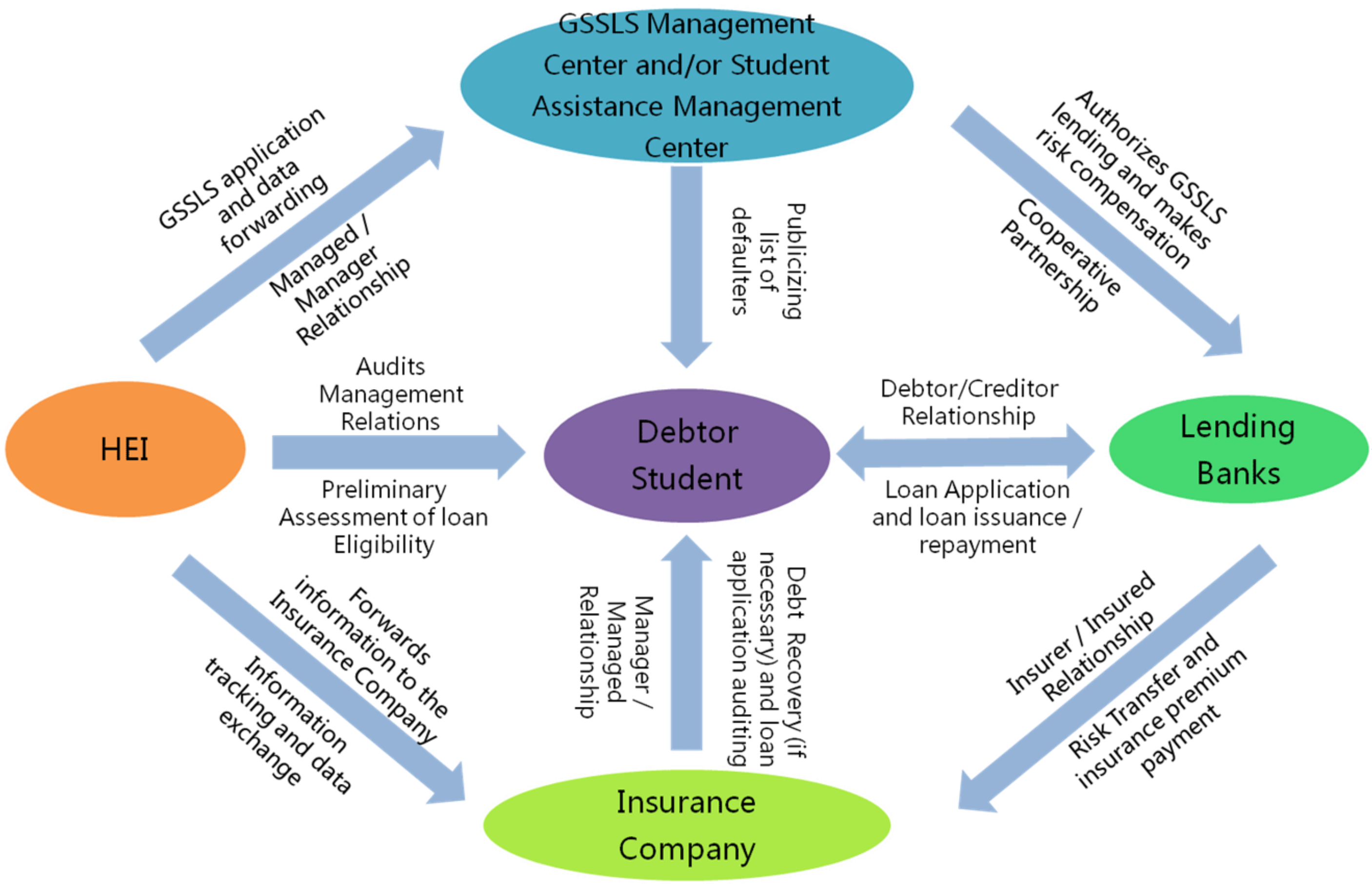
Many entities were involved in GSSLCI's introduction: banks, the insurance company, HEIs, and government agencies. The establishments of GSSLS management centres and student assistance management centres amplified the government's involvement and participation in this process. Currently, with the borrower at the centre of this process, the entities involved were able to establish a sound system for maintaining the division of labour (see figure 2).

In the old GSSLS model before the introduction of GSSLCI, lending banks took on the risk management and financial risks associated with GSSLs. The new model involving the GSSLCI scheme utilizes each entity's specialized advantages especially that of the insurance company in risk management. First, in the new model, the compensation function of the insurance scheme ensures that the financial risks associated with GSSLS are transferred from banks to Sinosafe. Moreover, banks are waived from paying the insurance premiums on the loans as this financial burden is covered by the risk compensation fund provided by the government and HEIs. Second, Sinosafe's risk management ability relinquishes the banks from having to take on risk management on their own; this was due in part to Sinosafe's centralized management regime. Third, the selected banks utilize their liquidity provision functions by providing funds for the loans. HEIs, on the other hand, use their student management apparatus to monitor and manage the borrower's education and financial records. Government agencies, with its public service function, carry out policy guidance and performance evaluation.

Since GSSLCI's inauguration, Sinosafe has put strong emphasis on strengthening its cooperation with banks and HEIs, particularly in terms of incentivizing banks' in the issuance of GSSLs, and reinforcing HEIs' role in the management of the borrower's financial behaviour, along with their participation in the issuance and repayment process. Sinosafe proactively reaches out and coordinates with the Ministry of Education, Ministry of Finance, People's Bank of China, Insurance Regulatory Commission, and other relevant government agencies at various levels. This management process has practically eliminated obstacles the government may face in its expansion of the GSSLCI scheme, and it also created a win-win situation for all of the stockholders involved. GSSLCI has not only helped expand GSSLS coverage, it also helped decrease the GSSL default rate to 10 percent in the Heilongjiang, Dalian, and Fujian provinces where it operates, in comparison with the national average which stood at a staggering 28.4 percent.

Over the last five years since GSSLCI was initiated as an innovative product marked by social responsibility, GSSLCI helped Sinosafe to differentiate itself from its competitors

Figure 2: GSSLS Transaction Structure with introduction of GSSLCI (Xu, 2010)



and safeguard its competitiveness in risk management. GSSLCI also facilitated Sinosafe's further development through sophisticated market networks and linkages with banks by building a stable multi-faceted sales model. Furthermore, GSSLCI provided Sinosafe with the opportunity to cultivate a group of loyal young customers who in turn will propel Sinosafe's continued sustainable development in the future.

The operational and administrative cost in managing GSSLCI was relatively high in the initial stage. Based on scientific management and incentive policy, Sinosafe controls cost well as the programme expands. First, Sinosafe implements separate budget and assessment management in GSSLCI. Every kind of expense about GSSLCI is set up in the annual budget and is strictly enforced in practice. Second, Sinosafe widely uses electronic platforms in managing GSSLCI to improve efficiency. In the collection of the remaining debt of GSSL, Sinosafe mainly uses cost-saving methods including phone calls, letters and the internet to contact students, and tries to avoid costly site-visits. Third, Sinosafe raises the premium rate of GSSLCI to some extent through negotiation with banks. In the GSSLCI scheme, the insurance premium is transformed from the risk compensation fund of GSSL. In the past few years, in some provinces, only part of the risk compensation fund of GSSL is transformed to the insurance premium. In recent years, greater proportion of the risk compensation fund of GSSL is transformed to the insurance premium. The total share of the risk compensation fund in GSSL has also been increased to 15 percent since September 2008 because of national policy changes (see Table 2). This allows more space for covering the operation cost of the GSSLCI.

GSSLCI's side benefits have become more apparent. Due to Sinosafe's success with GSSLCI, it was able to gain other insurance schemes with selected banks and HEIs, such as auto insurance, employee personal accident insurance, and so on. GSSLCI also assisted Sinosafe in establishing a public image of being a socially responsible corporate and advancing its brand value.

Table 2. Comparing the Main Differences between the Evolving Types of GSSLS

Product	GSSLS offered at the place of education		GSSLS offered at the place of residence
Introduction date	June, 1999.	June, 2004.	September, 2008.
Policy Basis	Management protocol regarding the GSSLS trials.	Make risk compensation payments to banks.	Expand Credit Education Assistance Loans in Students' hometowns.
Clients / Borrowers	Full-time undergraduates.	Full-time undergraduates, postgraduates, and those pursuing a second bachelor degree.	Full-time undergraduates, postgraduates, and those pursuing a second bachelor degree and students who have already received admission to a full-time undergraduate programme.
Loan Limit	¥4,000 renminbi per annum	¥6,000 renminbi per annum	¥6,000 renminbi per annum
Repayment Timeframe	Repayment starts right after graduation. Must be repaid in full within four years.	Repayment starts two years after graduation. Must be repaid in full within six years.	Repayment starts two years after graduation. Must be repaid in full within 10 years.
Interest Subsidized by the Government*	50 percent interest subsidized by the government throughout the duration of education period.	100 percent interest is subsidized by the government throughout the duration of education period.	100 percent interest is subsidized by the government throughout the duration of the education period.
Partners	Government-designated commercial banks.	Government designates banks through an open bidding process.	China Development Bank.
Risk Compensation Method	Cancellation of the bank's GSSLs-related bad debt (though the actual process is complex, the implementation process remains a work-in-progress).	Ministry of Finance and HEI pay a certain percentage of the bad debt (usually not exceeding 15 percent) as risk compensation.	Ministry of Finance pays 15 percent of the bad debt as risk compensation.
Core Institution for Borrower Management	HEIs where the borrower is studying.	HEIs where the borrower is studying.	The county-level administration agency of the place where the borrower and his/her parents (or other legal guardians) household registration is based.

** The interest of GSSLS is partly or wholly paid by government as the form of subsidy. If the interest of GSSLS is partly paid by government, the rest of the interest is to be paid by the student borrower.*

Source: *Website of the Ministry of Education of China.*

Through experience with GSSLCI, Sinosafe was able to deepen its understanding of the insurance needs for the poor. This understanding helped with the GSSLCI's expansion. For instance, Sinosafe introduced GSSLS not only at the student's place of education but also at the student's home residence. This new method eased the poor students' access to GSSLs, lengthened the repayment timeframe, decreased the default rate, and significantly increased local governments' participation and attention to the initiative (see Table 2). Several provinces and municipalities that lack such an insurance scheme are currently studying the possibility of introducing GSSLCI in their jurisdictions.

As of July 2011, GSSLCI was able to successfully expand in 10 provinces and municipalities, insuring approximately 339,000 students for a total amount of ¥3.61 billion renminbi. The repayment rate currently stands at 85 percent. Cooperation partners include national commercial banks such as ABC, CCB, ICBC, as well as regional banks like Harbin Bank and various rural credit unions. Moreover, GSSLCI currently covers 328 HEIs. All in all, Sinosafe has enjoyed significant success in promoting GSSLS and GSSLCI in select regions of China.

3. Key Enablers Behind GSSLCI'S Successful Promotion and Expansion

a) Developing Products and Services that are Responsive to the Market Demand and Needs

China, being the most populous developing country in the world, still has a significant number of people living in relative poverty and income disparity has been a serious issue in the country. Pockets of poverty mostly exist within rural areas and in the mid-western region. Even though the government provides developmental assistance to these regions, innovative financing products and services are needed for sustainable poverty reduction and human resource development.

As a poverty reduction tool, GSSLS has been the main instrument in assisting poor students' access to higher education in China. China admits approximately five million new students in HEIs annually; of those admitted, 20 percent tend to come from poor families. Currently, there are 18 million students enrolled in HEIs, 3.6 million of them are from poor households. This large poor student population provides GSSLS with the incentive to develop and expand in order to reach all poor students throughout China.

The bottlenecks which hindered GSSLS's development were the primary stimulus to GSSLCI's development. In recent years, GSSLS has been the main financial source in assisting poor students attending HEIs. However, GSSLS's high operational cost and credit risks discouraged banks from issuing GSSLs. This resulted in low lending rates and severely constrained the extension of higher education to poor students. Banks, HEIs, and government sectors yearned for the establishment of a new mechanism that could stabilize and further develop GSSLS. Sinosafe assessed the value-added benefits this potential market might have on poor families and on society as a whole. The Board then decided to develop GSSLCI service as a new future oriented product as well as a means to meet the needs and demands of the disadvantaged population to fulfill its corporate social responsibility. Through exercising its expertise in risk management, Sinosafe helped break the bottlenecks that GSSLS was facing.

b) Strong Leadership of Sinosafe's Board of Directors and Management

Sinosafe's Board of Directors played a pivotal role in GSSLCI's development. During the initiation phase of GSSLCI's development, Sinosafe drew upon the successes of Grameen Bank's microfinance programme. Grameen Bank's microfinance programme, which focuses on assisting poor farmers, proved to be a successful financial practice in scale and in generating profits. There are both commonalities and differences between Sinosafe's GSSLCI and Grameen Bank's microfinance products. GSSLCI benefits from a set of conducive conditions which are highlighted in Table 3, including large demand and a strong public-private partnership.

Prior to GSSLCI's inception, Sinosafe's Board of Directors organized a number of special meetings dedicated to enhancing GSSLCI's design. Chairman Li Guangrong[9] took a strong leadership stance in this process as he emphasized the importance of having faith in the students' integrity and repayment capacity once they complete their higher education studies. Chairman Li also valued GSSLCI's social benefits and emphasized GSSLCI's critical importance for brand building and customer cultivation for Sinosafe.

c) Cooperation and Support from Business Partners

Capitalizing on the Core Strengths of Financial Institutions

The success of the GSSLCI scheme has been attributed to the financial security it offers to GSSL-providing banks. This core value has helped GSSLCI's expansion throughout many financial institutions in China. This success was attributed to many factors. As a starting point, GSSLCI was able to cooperate with ABC and Harbin banks due to their wide presence in rural regions, making it easier to reach potential and current poor university students. Moreover, the GSSLCI scheme was an attractive tool to such banks since GSSLS bears a significant resemblance to the private and microfinance loans they extend to farmers.

9 Sinosafe's Chairman Li Guangrong himself came from a financially underprivileged rural family. While attending university, Li had to borrow from extended family and friends in order to complete his university education. He was only able to repay his loans five or six years after graduation. The fact that Sinosafe holds responsibility as the core of its corporate culture and that GSSLCI has become Sinosafe's strategic product of choice is inseparable from Chairman Li's advocacy, efforts, and perseverance.

Table 3: Comparison of Grameen Bank's microfinance and Sinosafe's GSSLCI

		Grameen Bank's microfinance	Sinosafe's GSSLCI
Similarities	Market positioning	Small amount, private/personal financing.	
	Client	Impoverished sector of the population (Grameen Bank's microfinance focuses on impoverished farmers; Sinosafe's GSSLCI focuses on economically underprivileged university students)	
	Source of confidence	Faith in the capability of the poor borrower to make repayments	
	Operation model	Commercial operation	
	Market demand	Large demand from the underprivileged population	
Differences	Linkage with clients	Direct	Indirect to an extent
	Economic effect on the client	Promotes the formation of productive capital	Promotes the development of human capital
	Financial burden on the client	Higher interest rate than traditional bank loans, which places an economic burden on the borrower	Does not require student borrowers to pay insurance premium; therefore does not add economic burden on the student borrower
	Government subsidy	No government subsidy	Receives indirect government subsidy as it benefits from government assistance in risk compensation and interest payments

Source: *www.grameen-info.org*

The advantage of providing GSSLCI is that it guarantees the security of GSSLs by alleviating the banks concern over loan repayments particularly in extreme situations such as the death of a student or the inability to gain employment due to a loss of bodily functions. Furthermore, the risk compensation fund that banks use to pay the insurance premiums is financed by the Ministry of Finance and HEIs, thus, the insurance premium will not impose additional burdens on the issuing banks. The cooperating banks were also able to outsource part of the GSSLS bad loans to Sinosafe therefore eliminating additional operational costs associated with the loan recovery process. Last but not least, banks that offered GSSLS were able to enlarge their businesses by partnering with HEIs on various construction projects and extending other financial products.

Partnering banks also provided support to GSSLCI in various direct and indirect ways. Each partnering bank nominated persons' who are responsible for the issuance and collection of GSSLs. Harbin Bank established a branch specialized in GSSL issuance staffed with well trained personnel. Moreover, ABC's Vice President, Yang Kun, convened several coordination meetings and issued internal documents requesting relevant internal divisions to study the successes of the Yunnan pilot and to extend GSSLCI's coverage throughout the bank's entire nation-wide presence. Furthermore, Harbin Bank and other financial institutions issued special debit cards to assist student borrowers in the lending and repayment process of GSSLs across different localities. Due to Harbin Bank's successful experience with the GSSLCI, it invited Sinosafe to explore the possibility of expanding the GSSLCI scheme to its other branches outside the Heilongjiang province.

Cooperation and Support from HEIs

The GSSLCI scheme helped stabilize the income stream of both HEIs and borrowers while strengthening the institutions' management capacity. First, GSSL's primary purpose is to cover the borrowers' tuition and other living expenses, which are the primary source of income for HEIs. GSSLCI, therefore, through insuring and promoting the issuance of GSSLs, supported the stabilization of HEI's income streams. Second, GSSLCI promoted the issuance of GSSLs, by providing sufficient financial support for poor students and their families without adding additional financial burdens. Third, the GSSLS has become one of the HEIs 'selling points' in enrolment campaign by attracting poor students to enrol. Without the GSSLS and the backing of the GSSLCI scheme, these institutions may encounter significant challenges in their enrolment rates, reputation, income streams, and student management.

HEIs also supported the GSSLCI scheme in various direct and indirect ways. The majority of HEIs have established institution-wide taskforces to promote the GSSLS. They also set up financial aid offices to provide students with more information on the GSSLS and how to gain access to it. In addition, some institutions have designated full-time or part-time counselors in their affiliated schools or departments to further promote poor students access to GSSLS. The counselors' main tasks are to assist students in the loan application process which includes eligibility assessment, contract signing, integrity training, post-lending management, and procedures for the repayment process.

Cooperation and Support from Other Agencies.

In the development process of the GSSLCI scheme, Sinosafe integrated other societal forces that were not previously part of the GSSLS framework. For example, Sinosafe reinvigorated its cooperation and linkages with People's Bank of China's Credit Reference Centre, Ministry of Public Security-Information Centre, and government agencies specialized in human resource and social security. In doing so, Sinosafe was able to enlarge its facility base in order to provide current and past students who have active GSSLs with the ease and flexibility to track and update their personal information. Sinosafe also conducts frequent consultations with finance experts and scholars who are able to provide viable assessments on market conditions and foreseeable financial risks. These consultations safeguard GSSLCI from major financial risks while at the same time making it adoptable to market changes. Moreover, because of GSSLCI's function in prompting GSSLS's expansion and helping poor students, it has gradually gained the recognition and approval from society during its expansion. Certain government agencies, banks, HEIs, students, parents, and news media outlets which had no direct linkages with GSSLCI all demonstrated their approval, admiration, and enthusiasm for the new innovative insurance scheme.

d) Promotion and Support from Government Policy

Policy Support at the National Level

Due to the increasing income disparities in China, the government placed strong emphasis on its poverty reduction strategy in order to ensure social equality, economic stability, and societal development. In 2001, China's State Council issued a policy document entitled 'Guidelines on Poverty Alleviation and Development in China's Rural Areas (2001-2010)'. The document called on the private sector to participate in China's poverty alleviation efforts and for all levels of the local governments to create conducive policy environments and investment climates in order to induce public-private partnerships. The Chinese government in the process inaugurated one policy after another to support and move forward various forms of poverty alleviation efforts targeting the poorest and most vulnerable populations.

After GSSLS's introduction in 1999, GSSLS policy was largely government-led and was operated by designated state-owned commercial banks (see Table 1). In 2004, the government inaugurated a new GSSLS policy which delegated the act of lending entirely to commercial banks which were selected through a bidding process (see Table 1). Compared with the previous approach, the new policy weakened the government's direct intervention in the GSSLS market and took on the role of providing indirect public service provision and policy support. However, this change did not lead to GSSLS desired coverage, which was mainly due to the banks' lack of enthusiasm of issuing GSSLs since they were viewed as financially risky. This subsequently led to GSSLS's underperformance and management inefficiency.

Given that the insurance industry already performs a natural endogenous social management function, as an aggregator and manager of individual risks and its bearings on a wide range of insurees, having an insurance scheme to assist poor university students fitted well within China's poverty reduction strategy. In June 2006, the State Council issued an official document entitled 'Certain Opinions Regarding Reform and Development of the Insurance Sector'[10] calling on provincial and municipal governments

10 The document about GSSLS and GSSLCI in this report comes from the internet of the Central People's Government of the People's Republic of China and from the related provinces and municipalities.

to utilize insurance functions in their formulation of GSSLS policies in order to promote economic compensation, adequate financial flows, and social management.

The debate of GSSLCI in 2006 stimulated new thinking on the enhancement of the GSSLS. The sole purpose of the introduction of this new insurance scheme is to make GSSLS more marketable and affordable to poor university students while at the same time stressing the importance of having public-private partnerships. The GSSLCI scheme was seen as a new innovative tool to reduce poverty. It utilized functions and experiences of non-governmental agencies, while reducing the government's control, thereby helping improve the efficiency of the poverty reduction process. For this reason, the introduction of GSSLCI corresponded well with the government's overall poverty reduction strategy.

From the government's perspective, the main social benefit and manifestation of the GSSLS policy is to ensure that all poor students have access to higher education. By maximizing the GSSLS coverage at a relatively low interest rate, GSSLS seeks to bring loans to every poor student. Thus, by introducing GSSLCI it removed the student default risk the lending banks may face, making it more financially feasible. This policy encouraged banks to expand the size of their loans and eventually making GSSLS more sustainable in the long run.

Under these conditions, GSSLCI received strong support from government agencies. People's Bank of China, Ministry of Education, Ministry of Finance, and other central government agencies instituted many independent or joint policies that helped remove bottlenecks faced by GSSLS and created unambiguous policy support and conducive conditions for GSSLCI's large scale expansion. For example, in July 2007, People's Bank of China issued an official document entitled 'Notice Regarding Implementing GSSLS for Students from Financially Disadvantaged Families'. The document called on relevant banks to explore new channels for introducing insurance schemes into GSSLs in order to effectively transfer and prevent risks associated with GSSLs. This provided an effective policy support for GSSLS nation-wide expansion. Moreover, other policies also indirectly promoted GSSLCI's development. For example, in 2006, the Ministry of Finance, Ministry of Education, and other government agencies issued policy documents such as 'Provisional Measures for Substitute Repayment of Tuition and GSSL Debts for Higher Education Graduates,' 'Provisional Measures for Substitute Repayment for Tuition and GSSL Debts for Higher Education Graduates Who Enter Into Obligatory Military Services' and other documents which authorizes the government to repay active GSSLs for students living in the mid-western region or in remote regions who are employed by government agencies or are currently engaged in obligatory military services. This substitute repayment scheme helped alleviate the risks of GSSL defaults and the challenges of collecting loan payments from students.

Policy Support at the Local Level

In addition to gaining the national government's support, GSSLS also gained support from local governments as well. Due to GSSLS's aforementioned social and economic benefits and recognition by the Central Government, local governments were encouraged to introduce GSSLS in their provinces and municipalities.

In some provinces and municipalities where GSSLCI has taken hold, local governments have issued targeted policy documents which expressed support and recognition of GSSLCI. This provided policy support for GSSLCI promotion in their localities.

In November 2006, Department of Education, Department of Finance, Office of Credits, People's Bank of China Nanjing Branch, Bank Regulatory Bureau, and Insurance Regulatory Bureau in the Jiangsu Province issued a joint official document entitled 'Implementation Method for Education Assistance Loans Credit Insurance for Jiangsu Province University Students'. This document explicitly approved GSSLCI's role in managing GSSL risks.

In February 2007, Yunnan Provincial Government issued an official policy document entitled 'Implementation Methods for GSSLS for Yunnan's Provincial Higher Education Institutions' which encouraged "GSSL-issuing banks to engage with insurance companies (voluntary basis) to proactively explore mechanisms for risk mitigation for GSSL".

In September 2008, in the Fujian Province, five provincial departments including the Department of Education and the Department of Finance issued a joint official document entitled 'Certain Opinions Regarding Further Promotion of the GSSLS'. The document encouraged the introduction of an insurance mechanism into the management of GSSLS through a market-oriented risk transfer in order to manage risks associated with GSSLS.

Thereafter, municipal governments in Chongqing and Dalian organized a series of GSSLS coordination meetings to study the GSSLCI scheme. The purpose of the meetings were to deliberate on how GSSLCI will be introduced and managed in their municipalities. Moreover, the government authorities in Tianjin, Liaoning, Guangdong, Jiangxi and Hebei also expressed interest in introducing GSSLCI into the GSSLS lending mechanism. Their promotion further catalyzed the expansion of GSSLCI in their localities.

4. Additional Factors Behind GSSLCI's Successful Expansion

a) Conducive Internal Factors for Sizeable Expansion

Superiority Product Backed by Multiple Risk Management Systems

The GSSLCI's main purpose is to ease the students' access to higher education. With the government's provided risk compensation fund in place, GSSLCI does not impose an additional financial burden on borrowers or on their families. Through commercial operation, GSSLCI helps build a stable market order along with an efficient financial division of labour among the agencies involved, thereby reducing Sinosafe's own risks. This demonstrates that GSSLCI is a beneficial win-win scheme and its large-scale promotion is highly desirable.

Vision of Investment in the Base of the Pyramid Markets and Fulfilling Corporate Social Responsibility

By developing the GSSLCI scheme, Sinosafe has enhanced its social corporate image as a responsible investor for the poor, which increased the value and substance to its brand. GSSLCI also added diverse range of economic values to Sinosafe. For example, it improved Sinosafe's income stream. By providing GSSLCI to poor university students, Sinosafe automatically secures them as loyal clients as they will be more prone to purchase other financial products from Sinosafe upon completing their university education. Moreover, through its cooperation with relevant banks and HEIs on the GSSLCI scheme, Sinosafe's Heilongjiang branch was able to extend its insurance coverage to other service items such as car insurance and employee accidental insurance through those banks and HEIs. Additionally, GSSLCI assisted Sinosafe in differentiating its products from its competitors, enrich its variety of services, expand its product structure, and provide a learning benchmark to other insurance companies to develop their own insurance schemes. Even though there is not yet a fixed concept and a uniform approach about corporate social responsibility in China, producing innovative products that benefit the poor, such as GSSLCI, is believed to be an important practice that promotes social responsibility. As Sinosafe's business scale expands, GSSLCI's social and economic benefits will gradually become more prominent and will undoubtedly further propel GSSLCI's future development.

b) Systematization of the Operation Mechanism

Clear Framework for Multi-institutional Division of Labour

Due to Sinosafe's national wide presence in China it was able to extend GSSLCI services to many poor students and their families. It began this process by signing GSSLCI cooperation agreements with local partnering banks and HEIs. According to these agreements, it entailed the banks to issue GSSLs, Sinosafe to underwrite them, while HEIs take the lead role on the daily management for their respective institutions. Banks on the other hand, pay the insurance premiums on GSSLs to Sinosafe using the risk compensation fund provided by the Ministry of Finance and HEIs.

Education Authorities at the provincial and county levels set up specialized centres for managing GSSLS named 'GSSL Management Centres' or 'Student Assistance Management Centres'. These specialized centres play an important role in extending GSSLs at the student's place of residence. They are responsible for collecting, sorting and aggregating student information. This method allows the centres to clearly identify and verify student financial need. They are also responsible for handling student loan applications. Since they are strategically located at the student's place of residence these centres assist banks in the collection process, their main task is to remind the student borrowers and their families of their loan obligations. This basic GSSLCI management framework established clear and well defined roles and responsibilities for all of the agencies involved therefore improving the overall operational efficiency of the GSSLCI scheme.

Students applying for GSSLs at the university.

Multi-stage Loan Management Mechanism

As the four entities (banks, insurance company, HEIs, and the government) refined their institutional and personnel allocations, they also established a loan management mechanism that emphasized the pre-lending information gathering, interim risk monitoring, and post-lending tracking and collection. Sinosafe established specialized GSSLCI divisions at both its headquarters and branches that are staffed with personnel respectively responsible for sales and promotion of GSSLCI, insurance and compensation eligibility auditing, collection and recovery of loans, and the overall management of GSSLCI. However, in order to continually strengthen the multi-faceted joint operational mechanism between the three agencies (banks, HEIs and the insurance company), they are urged to actively engage in the GSSLS improvement process. For example, the banks and Sinosafe have provided inputs on how HEIs can further improve its GSSLS management system. The three entities have continuously enhanced their information databases by exchanging up to date information on borrowers in order to ensure that all three agencies have matching consistent information at all times. Additionally, Sinosafe has further improved its GSSLCI scheme by developing an 'early compensation service'. This new service makes early compensation payments to banks once the bad loans have met certain set of conditions, after which Sinosafe will pursue the debt collection and recovery from the student. This new service has helped control the risk of both GSSLS and GSSLCI. As of July 2011, GSSLCI had accumulated a total of ¥37.7 million renminbi in compensation payments, ¥7.1 million renminbi in post hoc debt recovery, and ¥75.4 million renminbi in a priori recovery receipts.[11]

11 In GSSLCI parlance, post hoc debt recovery refers to the insurance company's attempt at collecting debt from the student after it has paid the remaining student debt to the bank on behalf of the student. Whereas, a priori debt recovery refers to attempts at collecting debt from the student before the insurance company pays the student debt to the bank. Therefore, the *a priori* debt recovery amount will be greater than post hoc debt recovery.

Diversified Integrity Education Model with Strong Linkages to Individual Credit Ratings and Social Security Entitlements

During the auditing process on loans applications, all three agencies (banks, insurance company, and HEI) reach out to the students and their parents in order to verify the authenticity and accuracy of the information provided. After approving the loans applications, the banks and the insurance company jointly prepare 'A Letter to the Student Borrower', 'A Letter to the Student's Parents', and other documents which stress the importance of conducting GSSL repayments in a prompt and timely manner. Upon the issuance of the loans, the banks, insurance company, and HEI jointly hold formal GSSL issuance ceremonies and integrity education conferences to reiterate the importance of abiding with the loan agreements and the impacts and effects defaulting loans can have on students. For example, failure to make prompt and full repayments may incur legal consequences along with bad credit records which could severely hinder their opportunities in seeking employment, gaining access to future loans, and impacts on their social security entitlements. They will further explain in detail the various clauses of the GSSL contract to help students understand clearly their rights, obligations, and the repayment process. Additionally, a number of HEIs also convened a series of campaigns about GSSLS and GSSLCI that aim at inspiring the students' own sense of integrity and commitment in fulfilling their loan obligations.

Harnessing the Potential of Technology-led Solutions

Banks, the insurance company, and HEIs are all striving for the full computerization of the loan management process. Along with utilizing traditional communication channels such as Sinosafe's 95556 call centre and correspondence by mail, Sinosafe also resorts to emails, QQ groups (a most popular online instant messaging service in China), Renren network (a social networking service in China), and other ICT means for the purpose of reaching out to borrowers. Sinosafe also established online help desks that assist students, banks and HEIs with their loan inquires. Sinosafe also uses the online help desks to update the involved stakeholders on new key policy information, supply guidance concerning employment prospects and opportunities, and other information pertaining to finance services. Moreover, Sinosafe established a database on all of the defaulting loans (GSSLCI contract breaches) in order to ensure an efficient process of loan collection and repayment.

Innovative Experimentation with Managerial Methods in Sinosafe's Branches

Sinosafe's corporate headquarters encourages and supports its local branches and divisions to proactively innovate their managerial methods to further improve GSSLCI. For example, the Heilongjiang branch experimented with a 'four letters' approach: the first letter, entitled 'A Letter to the Student Borrower', is issued at the time of lending to advise students to cherish and safeguard their credit history. The second letter, entitled 'A Letter to the Student Borrower's Parents', is prepared after the issuance of the loan in order to inform the parents of the loan transaction, thereby encouraging the parents to supervise their children's timely repayment. The third letter, entitled 'A Letter to the Graduate', which is issued just prior to graduation to congratulate students on their academic success and performance, while reminding them to observe the 'Repayment Confirmation' document which they had initially signed, and to arrange for a repayment plan. In this letter they are also instructed to provide Sinosafe with the details and contact information of their new employers. This letter also reminds the borrowers that are not able to seek employment to provide an update on their job-seeking plans.

The fourth letter, entitled 'A Letter to the Employer', is later issued after graduation to inform the employers of the students borrowing history and to request their assistance in proactively urging the students to repay their loans. The fourth letter is designed in accordance with the policy regulation entitled 'Management Protocols Regarding GSSLS (Trial)' which was jointly issued by the People's Bank of China, Ministry of Education, and Ministry of Finance in May 1999. The policy contains provisions concerning the obligations of relevant agency or employer to assist banks in the timely recovery of the graduates' remaining GSSL debts. The 'four letters' approach has increased the students and their families' sense of credit integrity thus, facilitating GSSLS's timely and full repayment and GSSLCI's sound development.

Sinosafe has committed itself to the continuous improvement of GSSLCI through modifying and adjusting provisions when need be, and by improving its insurance premium scheme to ensure GSSLCI's development and expansion. Furthermore, controlling operational risks are a major priority for Sinosafe. It was able to manage such risks by conducting periodical audits on its cooperation agreements with partner banks and HEIs and periodically revising or adding addendum to its regulations when necessary.

5. Comparative Experiences of Other Loan Schemes

The central objectives of many student loan schemes are to make higher education more accessible to the poor by providing monetary installments to cover tuition fees and university expenses and to increase the poor student's chances in attaining better employment and income generation in the future.

Student loan schemes are currently active in more than 70 countries around the world and this number is growing annually. Most of those loan schemes benefit from sizeable built-in government subsidies and are subject to repayment default and administrative costs that are not passed on to student borrower. These loan schemes are more prevalent in developing countries (Shen and Ziderman, 2009). However, the credit insurance scheme has not yet materialized in many student loan schemes that are currently operative in many countries.

Many countries have adopted student loan schemes without the involvement of an insurance scheme; however one of the most successful lending schemes is currently active in the United States. Between 2007 and 2008, approximately 49 percent of undergraduate students attained student loans,[12] with a default rate of 7 percent according the U.S. Department of Education.[13] The U.S. student loan scheme has a broad target; it is open to any student enrolled in an accredited educational institute irrespective of the student's financial situation. The U.S. lending scheme extends loans to students through two methods of lending, Direct Loans (DL) and the Federal Family Education Loans (FFEL). Under DL the student borrows directly from the government using federal funds provided by the U.S. Treasury. Servicing (account billing and payment processing) is conducted by a few selected guarantee agencies. However, under this programme the government will bear all of the default risks. This method of lending made up 30 percent of all lending to students. Under the Federal Family Education Loan (FFELP) programme, which was eliminated as of July 2010, the student borrows directly from private lenders such as banks. Many banks and government sponsored guarantee agencies were involved. FFEL programme, which administered 70 percent of all new federal student loans, private lenders made federally guaranteed student loans to parents and students. Commercial lenders that served as government-sponsored guarantee agencies (e.g. Sallie Mae) would use their private capital to finance loans under the FFEL but received subsidies from the federal government. These subsidies were used to maintain interest rates at the federally mandated levels, pay down fees associated with the loans and cover expenses associated with collection and defaults. The government also guaranteed a large portion of the loans, insuring private lenders against default. If a parent or student defaults, the private lender was reimbursed by the government for its losses.

However, due to the abolishment of this progamme, banks no longer receive federal subsidies for making government-guaranteed university loans. Instead, the U.S. Department of Education - which already makes roughly a third of these loans through its DL programme - will make 100 percent of them. The government though will bear all the financial risk of default (private lenders are no longer involved in the process). However this change does not impact the student borrower in anyway; students will apply for the government student loan through the university's financial aid office, making this system more centralized. The government estimates it will save US$61 billion over the next 10 years because it will decrease the cost of funds due to the elimination of payment subsidies to banks. This change came after the financial crisis. Currently there is not enough data to determine if this new policy is better than using private lenders in terms of coverage and repayment collection. However, it is important to point out that the U.S. has a well-established Credit Bureau which monitors borrowing and repayment activities.

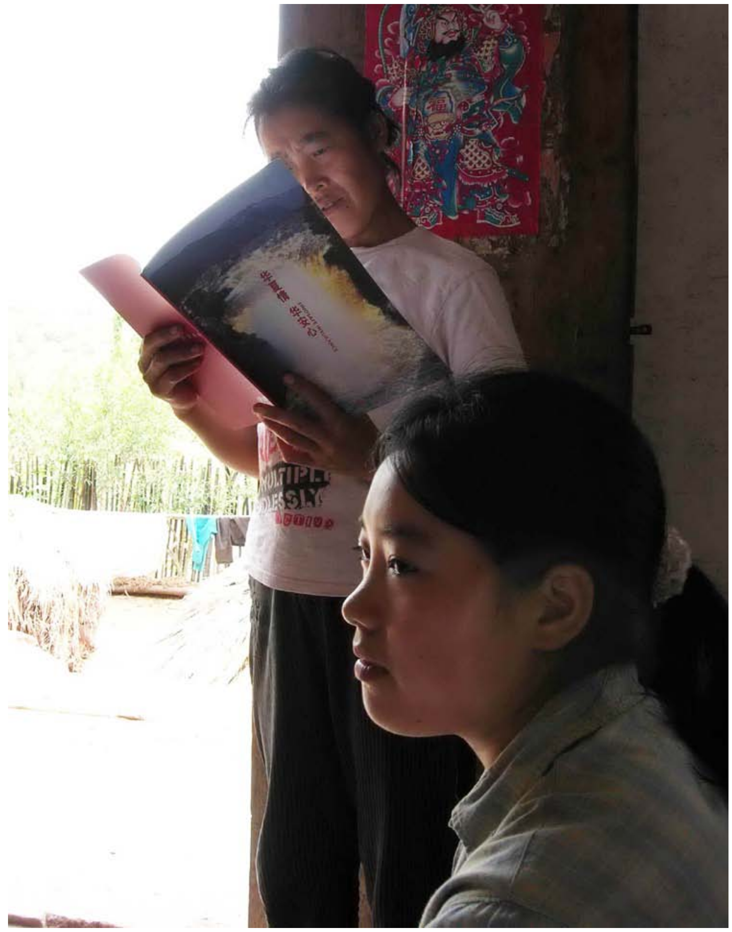
Another successful example is currently operating in Hong Kong SAR. This lending scheme is probably the most successful in reaching the intended target group, poor

12 U.S. Department of Education and National Center for Education Statistics, Fast Facts, 2009. *http://nces.ed.gov/fastfacts/display.asp?id=31*

13 U.S. Department of Education, Default Rates Rise for Federal Student Loans, (2011). *http://www.ed.gov/news/press-releases/default-rates-rise-federal-student-loans*

students; however everyone is eligible to apply. The scheme is operated by a self-governing public loans organization, the Student Financial Assistance Agency (SFAA). Currently, the scheme consists of interest-free loans under the Local Student Financial Scheme (LSFS) which are means-tested to take into account the financial condition of the students and their families. The distribution of the student loans in Hong Kong SAR has been mainly based on consideration of equity, efficiency and adequacy. Loan entitlements differ according to the student's financial situation, thus students that are from not-so-well-off families tend to receive greater financial assistance. Moreover, the maximum amount of a loan is adjusted to correspond to the living needs of the students. The main feature of this loan scheme is its broad scope. It is a well-funded means-tested scheme, run by a centralized loans agency and offering tuition grants for poor students, supplemented by loans for living expenses. Currently, over one third of university students (35 percent) are covered by this scheme with a default rate slightly over 1 percent which is considered very low rate in comparison with international standards. However due to Hong Kong's small geographical area, effective administration and repayment collection are much more manageable in comparison to more populated counties or territories. Nevertheless, this lending scheme could encounter higher repayment burdens and greater defaults if less favourable economic conditions.

Yet, some countries were not as successful in implementing student loan schemes. For example, in the Republic of Korea, the government has multiple lending schemes which operate independently with no national coordination, and are aimed at different target populations. Most schemes are based on existing financial funds. Student loans cover tuition fees only, and not living expenses; this is a particular problem for the poor since they will not be able to pay for their living expenses. Moreover, the largest loan programme which is run by the Ministry of Education (MOE) is not successful in targeting poor students. In practice, it may happen that loans are allocated to students that are not necessarily in financial need. This is because some universities and colleges allocate loans on a 'first-come, first-served' basis and also because some institutions apply merit-based and needs-based criteria in combination in the selection process. Moreover, commercial banks play a central role in loan capital provision, distribution and collection. They provide the loan capital, shifting



A student borrower from Sichuan Agricultural University discussing with her family the benefits of GSSLCI.

the financial risk burden from the government on to the banks. However, these banks require students without creditworthy guarantors, usually poor students, to take out loan insurance, amounting to 5 percent of the loan amount. Due to these circumstances, the MOE loan scheme reached only 6.4 percent of the poor students (Ziderman, 2004).

Another example of poor implementation of the student loan scheme occurred in Thailand which introduced a student loan scheme without the involvement of the private sector. The Thai loan scheme, which was launched in 1996, is aimed at assisting poor students, enrolled in public and private education institutes that include upper secondary general, vocational institutes as well as higher education institutes. The coverage of the scheme is broad, reaching approximately a quarter of the students in upper secondary, a third of university students and up to a half of all students enrolled in teacher training institutes. However, it failed to reach the intended target group; the poor students. Loan budgets are allocated to individual schools and other educational institutions which are obtained through the Ministries of Education, the central Student Loan Scheme Committee, and University Affairs which then distribute to selected student applicants making it more of a centralized system without the engagement of commercial banks. Loan budget allocation to educational institutions is only very loosely tied to the social profile of the student population at a given institution (in the case of universities, allocation criteria are not based at all on student poverty within the university or related to need).

Since universities have the sole decision on deciding the sizes of the loans (which is set at a certain limit), this has created considerable inequalities across the educational system. Moreover, the lending scheme has a high income ceiling, making it hard for poor students to qualify for loans. In terms of loan payment collection, the central Student Loan Scheme Committee, education ministries, and the educational institutions, which allocate individual loans; do not engage in repayment collection; it is this the sole responsibility of the public Krung Thai Bank (KTB). KTB's responsibilities include maintaining individual borrower accounts; dispatching repayment notices when due; and following up with borrowers who fail to repay their loans. Still, this system has not been as effective which is indicated by the high default rate. The government of Thailand has made some recommendations to assign the collection duties to the Revenue Department (Ministry of Finance); in which repayments will be deducted automatically by employers from the wages of employees/ borrowers (Ziderman, 2004).

Third-party intermediary organization is absent from many student loan schemes in many countries, especially in developing countries (Shen and Ziderman, 2009). This condition makes it difficult to effectively share the default risk on loans therefore governments bears nearly all the risks. Moreover, governments who have inadequate revenues and unstable financial sectors find it financially difficult to develop their own student lending schemes.

Having Sinosafe as a third-party intermediary organization in the student loan scheme, assisted in GSSLS's expansion and success. Sinosafe's experience in developing GSSLCI as a third-party intermediary organization is distinctive. It can serve as a valuable experience for other countries to draw upon, especially for developing countries.

6. Moving Forward: Potential Challenges and Important Considerations in GSSLCI's Further Development

a) Strengthening the Banks' Repayment Collection Role

Student loan schemes operate effectively only if there is an effective loan repayment mechanism in place. Banks tend to be the most effective in executing loan collection due to their infrastructure and comparative advantage. However, to warrant successful repayment collection, banks must have an incentive to collect. Since GSSLs are guaranteed by GSSLCI, banks proactive collection of loans could be weakened due to full loan guarantee by GSSLCI in which banks are more likely to collect from the insurance company than from the individual borrower. This eventually will increase cost for Sinosafe associated with loan recovery in the long term as GSSLCI's coverage expands. According to Ziderman (2004), a loan guarantee below 100 percent is advisable, with the banks taking on a small part of the risk. This method will provide an incentive for banks to collect loans and to further step up efforts to secure repayments to finance loans for new borrowers.

b) Minimizing GSSL Defaults

The default rate has decreased drastically after GSSLCI's inauguration, from a staggering 28.4 percent to 10 percent; however, loan defaults are still a main concern. The repayment of GSSLs is prerequisite for GSSLCI's sustainable development. Because of insufficient employment, low salaries, and other personal circumstances, some student borrowers may not be able to repay their loan on time. According to Sinosafe, 15 percent of the student borrowers have overdue GSSL repayments which are currently insured by GSSLCI. As GSSLCI's coverage expands, the percentage of overdue payments will more likely increase. This could be problematic for Sinosafe in the long run due to the increasing costs associated with loan recovery and loan compensation to banks.

There are currently two main causes for the borrowers' failure to repay their loans: some cannot repay due to financial difficulties and some who do not want to repay. The GSSLCI process currently does not treat these circumstances differently.

For borrowers who encounter repayment difficulties due to insufficient salaries or unemployment to cover the loan payments, a temporary repayment remission process should be put in place to avoid those borrowers from defaulting (Ziderman, 2004). This could be done by establishing a threshold income level; if the borrower's income level falls below the designated threshold level, the borrower will be exempt from repayment (grace period) while still accruing interest. Another option is to replace the current mortgage type loan with the income-contingent loan. The mortgage type loan has a fixed level repayment plan which does not take into account the borrower's earning ability, which tends to impose heavy burdens on new graduates who usually earn low starting salaries. However, under the income-contingent loan scheme, periodic loan repayments are fixed as a percentage of the borrower's earning each year, which lowers the repayment burdens during the first years of employment.

These two options could assist in decreasing the default rate while at the same time, taking in mind the low level of graduate salaries or unemployment. These options could assist Sinosafe in decreasing the overdue loan repayment rate and default rate as well especially during economic downturns. Nevertheless, these options will require the government to further increase its subsidy annually in order to make-up for losses associated with delayed payments.

c) Ensure Adequacy of GSSLS Loan Size

Currently the maximum amount of the GSSLS loan is ¥6,000 renminbi per year which is insufficient to cover tuition costs and living expenses. According to a study conducted by Loyalka, Song and Wei (2010), they saw a variation in tuition costs across several majors of study. The average gross tuition costs for science and engineering majors are among the highest (approximately ¥5,800 renminbi), whereas economics and law majors are among the least expensive (approximately ¥5,000 renminbi), medicine, however, was the most expensive. In light of this context, the recipients of GSSLs may find the designated maximum loan amount insufficient to cover higher education costs. The implication of the insufficient loan size makes higher education inaccessible for the poorest students. Thus, rather than spreading the loan budget more sparsely amongst a larger number of student borrowers, which might include students who are in lesser need, poor students could be targeted more effectively to ensure that they receive adequate support while at the same time increasing the loan amount (Ziderman, 2004). This will ensure that poor students have a more viable chance in attending a higher education institute.

d) Anticipation of External Economic Shocks

When there is an economic downturn, GSSLCI's market demand will be profoundly affected. Banks will also be widely affected by such shocks. They will experience an increase in credit risk in addition to liquidity challenges. In light of this, the government will see an increase in the number of poor students needing GSSLS assistance while banks and HEIs will request further GSSLCI support due to the borrower's inability to make timely and full repayments. These factors will likely increase GSSLCI's risks. Moreover, as a new insurance scheme, the insurance industry has only limited amount of past experience to draw upon for dealing with such challenges. It is therefore important for the insurance company to strike a balance between satisfying market demands and controlling its own risks.

e) Strengthening HEIs Comparative Advantage in Managing Student Borrowers

In comparison with banks and the insurance company and with the absence of a well-established credit system, HEIs are more familiarized with the students' financial and academic circumstances during the students' study and even after their graduation. HEIs are perceived by the students as more caring and attentive to their financial situations than banks or the insurance company. This positive perception allows HEIs to establish a more trusting relationship with students while at the same time strengthening their commitments to repay their loans. Therefore, HEIs should continue to strengthen their detail-oriented management mechanism in order to enhance the verification and collection of student information. This could be done by adopting an effective eligibility and screening criteria to ensure that loans reach the intended target group. This does not just include setting a definition of loan eligibility, but checking and testing the authenticity of the information provided by the loan applicant, thus reducing non-poor student's access to GSSLS (Ziderman, 2009). This will further reduce GSSLS's risks, expand its effectiveness, and promote the sound development of GSSLCI.

f) Reinvigorate the Government's Policy Support for GSSLCI

Policy support from various levels of government will guarantee GSSLCI's future success and long-term sustainability. These policies should place emphasis on the continued advancement of the GSSLS risk management system and sufficiently evaluate the positive effects of GSSLCI. In addition to providing policy support, the government should also introduce additional policies specifically targeting GSSLCI. The government should draw upon the successes from the pilots and introduce standardized national policies concerning GSSLCI. Furthermore, the borrower's repayment capacity is the key factor to GSSLS's sustainability. Increasing employment opportunities for graduating students will boost their income levels and their repayment capacity after graduation. Therefore, the national government should further advance its policy support for employment creation.

Conclusion

Sinosafe designed and developed GSSLCI in order to reduce inequalities by allowing poor student to attain higher education degree. The basic GSSLCI management framework established clear and well defined roles and responsibilities for all of the agencies involved. GSSLCI's introduction into GSSLS enabled a professional third-party insurance institution to conduct risk management for GSSLS which facilitated its expansion. The private sector's involvement in providing a public good has proven to be a feasible and effective method of enlarging and improving the public services to the poor. Through the innovation and development of GSSLCI, insurance has proven its important role in societal management in China.

The core element to GSSLCI's success is Sinosafe's precise positioning of the insurance scheme. GSSLCI is a typical managerial product that has a long managerial cycle, complex managerial details, and significant managerial difficulties. Sinosafe places an emphasis on its role as the 'risk manager'. Sinosafe is thoroughly involved in every step of the process, from pre-lending auditing, interim monitoring, and post-lending management. GSSLCI's approach to risk control is fundamentally based on the concepts of 'preprocessing' and 'thorough involvement'. In other words, Sinosafe uses preventive risk controls to mitigate the risks before they could materialize. This approach signifies GSSLCI's dominant role in the GSSL scheme and creates room for GSSLCI's mass expansion.

The introduction of the new insurance mechanism into the GSSLS framework helped bring a 'win-win' situation for all the agencies involved. For the government, the GSSLCI scheme helped expand the number of participating actors in the GSSLS framework, strengthened the risk control capacity, and eased the implementation of the GSSLS policy without placing additional financial burdens on the government. At the same time, this new policy framework contributed to China's agenda in reducing poverty. For HEIs, the GSSLS framework helped resolve the issue of overdue tuition costs of poor students by alleviating their budgetary pressures. For the poor students, this new framework decreased the dropout rate and at the same time increased the enrolment rate of poor students by providing them with the opportunity to lift themselves and their families out of poverty. For the banks, GSSLCI reduced the risk concerns of issuing GSSLs, improved the quality of their business, and expanded their range of financial services. For the insurance company, GSSLCI provided Sinosafe with the opportunity to demonstrate its commitment to corporate social responsibility, share the government's burden in alleviating poverty, explore a new business territory, and last but not least, cultivate a large base of potential customers. All in all, the GSSLS framework proved to be a successful tool for all of the stakeholders involved.

With specialized, detail-oriented management, GSSLCI can expect to continue its sound and sustainable growth in the foreseeable future. By empowering students to complete their education, Sinosafe creates a positive corporate image among the beneficiary students, thus cultivating a base of potential, loyal, and desirable customers. By introducing GSSLCI, Sinosafe was able to venture in a novel territory in the insurance market. More importantly, GSSLCI has helped Sinosafe realize its social values and its influence on society. The long-term operation of GSSLCI will gradually transform Sinosafe's brand image and social influence, which will eventually lead to more opportunities for cooperation with partnering banks and further development of the education insurance market. For these reasons, GSSLCI's enterprise value is bound to be a long-term self-reinforcing virtuous cycle that will benefit Sinosafe and poor students for years to come.

As an important financial means of supporting the development of higher education, GSSLS has already been implemented in many countries. However, according to available evidence, the third-party mediated credit insurance for student loans is not widely used yet. Sinosafe's experience in developing GSSLCI can serve as a valuable experience for other developing countries to draw on.

GSSLCI is also still a new scheme. Data about employment, income, repayment and other aspects of borrower's behaviour is not yet sufficient since many borrower students have just graduated. This has limited the scope and depth of the analysis in this study. As GSSLCI's coverage expands more substantive information will be available in the coming years.

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