

SPECIAL COMMENT

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Increased Policy Focus on International Students Credit Positive For Canadian Universities

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Summary

New Canadian immigration policies aimed at increasing international student enrolment that came into effect on June 1st, 2014 will enhance the competitiveness of Canadian universities in the international student market. This is credit positive for Canadian universities as international students pay higher tuition fees, boosting universities' revenues.

- » **Governmental policies will support growth in international student enrolment.** A relaxation of work restrictions for overseas students that came into force on June 1st will reinforce Canada's demonstrated success in attracting students from around the globe. International students now comprise a meaningful proportion of enrolment at many of Moody's rated universities.
- » **Universities benefit from additional net tuition revenue from international students.** International students are liable for higher tuition fees than domestic students, paying 3.4 times more on average for undergraduate programs and 2.3 times more for graduate programs. As other sources of revenue are squeezed, international enrolment offers an area for revenue growth.
- » **Financial benefits will be partly offset by mounting competition and required investment.** Although policy changes will help attract more international students to Canadian universities, the financial benefits may not be as significant as the government hopes. Universities will need to invest in new infrastructure and services to accommodate this growing student population.

Governmental policies will support growth in international student enrolment

International student interest in Canadian universities will continue to increase as a result of Canada's efforts to maintain immigration friendly policies while other countries move to enforce more stringent immigration policies¹. The Canadian Government recently placed international education among its top priorities, noting Canada's competitive advantage in attracting international students and has decided to take an active role alongside universities in pursuing international students. Furthermore, the federal government will fund an International Education Marketing Strategy, with a target to reach 450,000 international students over the next 10 years, double the amount currently enrolled.

Amendments to the Immigration and Refugee Protection Regulations that took effect in June allow international students to work for up to 20 hours a week, giving them an opportunity to earn money and integrate into the Canadian community through work experience.

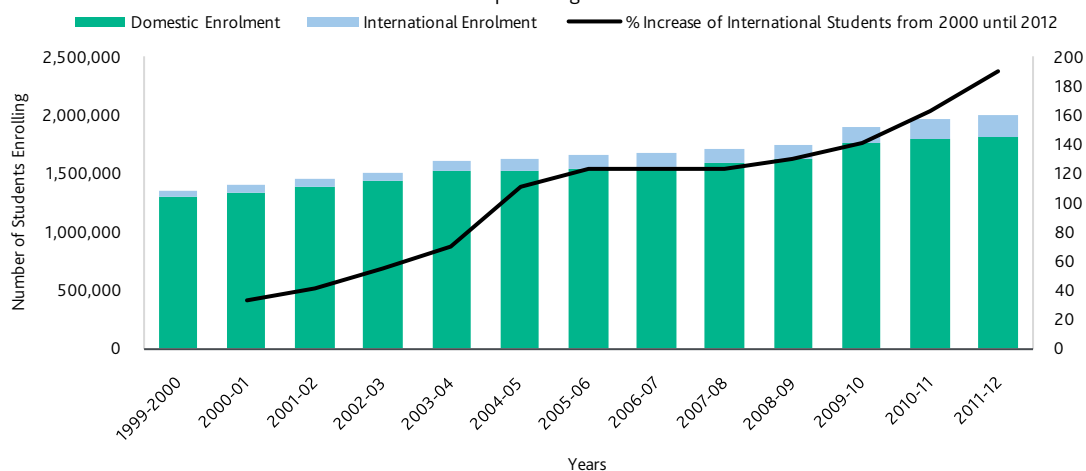
Students are also authorized to work full-time after their studies are completed as long as they have a work permit application in progress. This allows students greater flexibility during and after their studies, which will help attract future students and retain existing ones.

These changes will bolster Canada's proven success over the past ten years in attracting international students. The number of international students enrolling at Canadian universities rose more than fourfold from 43,296 (3.2% of total enrolment) students in 2000 to 186,492 (9.3% of total enrolment) in 2011-12, as shown in Exhibit 1.

EXHIBIT 1

Significant Increase in International Students over Last Decade

The number of international students increased 190% as a percentage of total enrolment



Source: Statistic Canada, Post Secondary Enrolments

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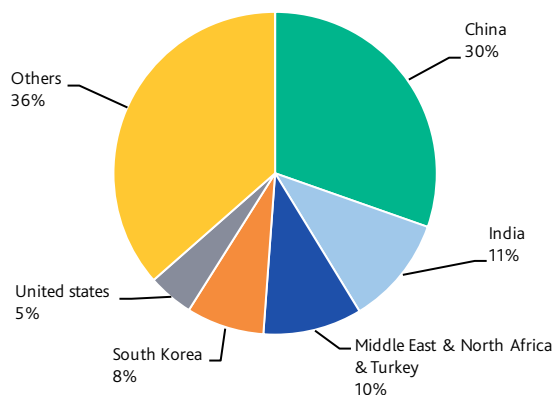
As part of Canada's international education strategy, the government will target emerging markets that have the fastest-growing demand for global education (specifically: Brazil, China, India, Middle East, Turkey, Mexico and Vietnam). This will help reduce Canadian universities' reliance on China, which currently accounts for nearly a third of their overseas students.

¹ For example the United Kingdom visa changes included higher language proficiency standards and financial requirements, stricter student work eligibility and a five-year cap on the amount of time students can stay in the country. For more information see our special comment "[Stagnation in International Student Enrolment is Credit Negative for English Universities](#)", April 7, 2014

A government investment of \$5 million annually will be dedicated to efforts in these new priority markets, along with retention strategies for existing markets. This will complement the marketing efforts of universities.

Greater diversification of source countries is credit positive as a concentration of enrolment in particular countries introduces vulnerability to regional political and economic changes, as well as exposure to exchange rate risk.

EXHIBIT 2

China and India Currently Comprise over 40% of Canada's International Student Population

Source: *Canada's International Education Strategy (2012)*, Government of Canada

Universities benefit from additional net tuition revenue from international students

Growth in net tuition revenue from international students will partially offset stagnation in Canadian universities' other core revenue streams: domestic student revenue and provincial operating grants.

The number of domestic students is stable, limiting domestic enrolment growth. At the beginning of the millennium (2000-2004), domestic enrolment grew at an average of 4%, declining to 1.5% in more recent years (2010-2012). Demographics combined with limited additional funding for domestic students are pushing universities to expand their geographic market draw.

Canadian universities are able to charge international students substantially higher tuition rates than their domestic counterparts in all study programs. Moreover, provinces typically regulate increases on domestic student tuition, while leaving international student tuition to the discretion of each university. For example, in 2013, the Ontario Tuition Framework capped tuition increases on domestic students to a 3% (only one percentage point above inflation) maximum increase for most programs, but did not cap international student tuition. In an increasingly competitive environment, it is likely that some schools may provide financial aid for international students, which has historically been a full pay market.

Growth in tuition revenue has become increasingly critical to compensate for decreases in government funding and grants in many provinces. In the 1980s, government grants accounted for more than 80% of university operating revenue but Moody's estimates this will fall to about 55% in 2014. Tuition revenue has largely filled the gap. With little growth in domestic student enrolment and caps on domestic undergraduate tuition increases in many provinces, growth in international student enrolment can be an important supplement to universities' budgets.

In our rated universe portfolio, McGill University has the highest percentage of international students accounting for 21.2% of enrolment in 2013 (Exhibit 3), a figure that is expected to rise to 22.4% in 2014. The University of Toronto and University of Ottawa expect international enrolments to rise to 16.4% and 11% of the total respectively over the next two years. Globally recognized universities have the greatest prospects for enrolment growth, but the common target of one percentage point annual increase in the share of international students of universities is achievable over the next several years, helped by the government's more flexible immigration policy. Simon Fraser University, for example, has grown their share of international students from 7% in 2006 to 18.4% in 2013.

EXHIBIT 3

Increased Policy Focus on International Students Credit Positive For Canadian Universities

Institution	Rating	2013 International Students	2013 Total Enrolment	International Students as % of Enrolment*
University of British Columbia	Aa1	7,991	50,255	15.9
Simon Fraser University, BC	Aa1	26,640	490,176	18.4
Concordia University	Aa2	4,275	27,846	15.4
McGill University	Aa2	6,732	31,828	21.2
University of Ottawa	Aa2	4,076	45,294	9.0
University of Toronto	Aa2	10,193	70,311	14.5
University of Windsor	Aa3	3,378	18,349	18.4
Lakehead University	A1	222	8,389	2.6
The Ontario Institute of Technology	A2	487	9,117	5.3
UQAM	A3	560	26,489	2.1

*FTE employment refers to Full Time Equivalent enrolment for students taking the full course load during a school year

*The University of Ontario Institute of Technology provided headcount figures

Source: Information provided by the respective universities

Financial benefits will be partly offset by mounting competition and required investment

Growth in international student numbers will be gradual and may not fully meet targets due to a lack of direct funding for investment in student recruitment, heightened global competition, and the need to invest in infrastructure, such as housing facilities. Additional resources, including additional debt to finance strategies, may be limited by provincial regulations. Global universities are increasing their spending to better accommodate and integrate international students, through guaranteed housing, English as a second language courses and international-centric student centers. The University of British Columbia, for example, recently inaugurated Vantage College which offers a parallel first-year track to international students, to help them focus on adapting to a new country and culture before transitioning to the main UBC stream for their second year. Similar kinds of innovative approaches will be needed to gain further share and may generate financing needs.

Even as Canada's number of international students has grown, its share of the market has held relatively steady, standing at 4.74% in 2011 compared to 4.56% in 2000, according to the Organization for Economic Cooperation and Development's (OECD) most recent data.

Moody's Related Research

Sector Comments:

- » [Increased International Graduate School Applications Credit Positive for US Universities, April 2014 \(169784\)](#)
- » [Stagnation in International Student Enrolment Is Credit Negative for English Universities, April 2014 \(167355\)](#)

Rating Methodology:

- » [Methodology for Rating Public Universities, August 2007 \(103498\)](#)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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