

**UNIVERSITY OF SOUTHERN
QUEENSLAND**

**The Role of Islamic Finance in Reducing
Financial Exclusion: An Exploratory Case
Study of Muslims in Queensland,
Australia**

A Dissertation submitted by

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ABSTRACT

Nearly 3 billion people in the world faced the difficulties in accessing formal financial products and services on the basis of financial exclusion. Financial exclusion refers to a situation where individuals lack access to appropriate and affordable financial products and services. In 2012, approximately 3.1 million of the Australian adult populations were identified as being financially excluded.

The purpose of the study is to explore the nature and extent of financial exclusion of Muslim community in Queensland, Australia as well as to understand the overall socio-economic structures and banking behavior of the community including their access to conventional finance. Based on the available data, there are 476,300 Muslims in Australia as at 2011. Approximately 20,300 Muslims resided in the state of Queensland.

The research method employed by the study is by using qualitative survey questionnaires. The main finding of the research is that the Muslim community in Queensland, Australia are financially excluded due to the absence of banking and finance products that would meet their needs and comply with the Shariah (Islamic Law). Although the Muslim community in Queensland, Australia have a preference for Islamic finance products and services, the current Islamic finance products being offered in Australia are limited and do not enhance their financial inclusiveness. Based on the findings, the main reason for the problem is that Islamic finance facilities are not widely offered in Australia but it was centralised in two major cities - Sydney and Melbourne. There are no Islamic financial institutions in Queensland and as such, this limits the access of Muslims community to the financial system that is consistent with their religious beliefs. Another revelation from the study is that it appears that there is no mechanism in Australia that would compel the IFSPs to comply with regulations and directions of the international Islamic regulatory bodies.

On the other hand, the study discovers that there are no Islamic insurance products in Australia. The insurance market in Australia are dominated by conventional insurance, hence, again this has deprived the Muslim community from accessing insurance products that is in line to their belief.

The fact that the majority of the Muslims observe Shariah-compliance in all aspects of their lives, including the consumption of financial services, means that they will remain financially excluded unless authentic, suitable and competitive financial products are offered to them. The current provision does not appeal to many people of this community at all and thus the effect that the current Islamic finance products have had on enhancing their financial inclusion has been minimal. The limitations of access to products and services that are in compliant with Shariah (in terms of banking, finance and insurance) have created a gap between the Muslims community and the financial systems in Australia. This suggests that a holistic and coordinated effort is warranted if this chronic problem is to be dealt with. This research concludes that the Muslims in Queensland are financially excluded from Australia's financial systems.

CERTIFICATION OF DISSERTATION

I certify that the ideas, analyses, and conclusions reported in this dissertation are entirely my own effort, except where otherwise acknowledged. I also certify that the work is original and has not been previously submitted for any other award, except where otherwise acknowledged.

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DEDICATION

This dissertation is dedicated to:

My late father who passed away in his sleep (2012) and

My late brother who passed away (2013) as a result of health complications

For my beloved mother for her tireless encouragement,

my wonderful brothers and sisters,

for their love, prayers, advice and kind support.

A special dedication goes to my dearest wife Hanee and my children Farah,

Hakim and Hafiz for their patience, sacrifices and endless support during my

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Last, but not the least, I owe my loving thanks to my wife Hanee and our children Farah, Hakim and Hafiz who have suffered during this research due to my long working hours and absence. I am sure that without their constant support and encouragement, completing this work would have been an impossible task.

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List of acronyms and abbreviations

ANZ	ANZ Banking Group Limited
APRA	Australian Prudential Regulation Authority
ASIC	Australian Security and Investments Commission
AusAID	Australian Agency for International Development
CBA	Commonwealth Bank Australia
CSI	Centre for Social Impact
ICFAL	Islamic Co-operative Finance Australia Limited
IFSB	Islamic Financial Service Board
IFSPs	Islamic Finance Service Providers
ISKAN	Iskan Finance Property Limited
MCCA	Muslim Community Co-operative Australia
MIQ	Muslims in Queensland
NAB	National Australia Bank
NILS	Non Interest Loan Scheme
PBUH	Peace be upon him
RBA	Reserve Bank of Australia

Glossary

Aqad: Contract, consisting of all tenets of a contract

Bai' dayn: Sale of Debt

Bai bithaman ajil: Sale contract based on deferred payment at certain price

Bai Inah: Sale contract followed by repurchase by the seller at a difference price

Bai Salam: Sale contract based on order of certain asset with certain specifications. Full payment is made in cash at the time of conclusion of the contract whereas the delivery of the asset is deferred to a specified time

Fatwa: Considered opinion given by a qualified scholar or mufti concerning a legal/religious issue; a religious edict

Gharar: Uncertainty

Hadith: Sayings of the Prophet (pbuh) as recorded

Halal: Permissible, lawful, legitimate or allowed.

Haram: Forbidden or prohibited

Hawalah: Remittance

Hibah: Gift

Hilah: Trick (contractum trinius)

Ibadat: Worship

Ibra': Rebate/waiver of partial or total claim against certain right or debt

Ijab: Offer (tenets of a contract)

Ijarah: Lease or service contract that involves benefit/usufruct of certain asset or work for an agreed payment or commission within an agreed period

Ijarah Muntahiah Bi Tamlik: Lease contract which ends with acquisition of ownership of the asset by the lessee

Ijtihad: Rigorous thinking and efforts by scholars who have attained the degree of *mujtahid* in order to issue certain *Shariah* ruling definitely in a matter which is not clearly provided in *al-Quran* or *Sunnah*

Istisna': Sale contract by way of order for certain product with certain specifications and certain mode of delivery and payment (either in cash or deferred)

Ju'alah: Service Charge

Kafalah: Guarantee

Maysir: Gambling

Muamalat: Man-to-Man transaction

Mudharabah: Profit sharing contract

Mudharib: Entrepreneur, in a *Mudharabah* transaction

Murabahah: Sale contract with a disclosure of the asset cost price and profit margin to the buyer

Musawamah: Sale contract without the disclosure of the asset cost price and profit margin to the buyer

Musyarakah: Profit and loss sharing

Musyarakah Mutanaqisah: A contract of partnership that allows one (or more) partner(s) to give a right to gradually own his share of the asset to the remaining partners based on agreed terms

Nasi'ah: Delay (used in relationship in delay of payment of money)

Qabul: Acceptance (tenets of a contract)

Qard: Loan contract

Qard Hassan: Benevolent Loan

Qimar: Gambling

Rab Ul Maal: Capital owner/investor

Rahn: Pledge/charge

Riba: Usury (interest)

Sarf: Exchange of foreign currency

Shariah: Islamic law

Shirkah: Partner

Sukuk: Islamic securities/bonds

Sunnah: Custom, habit, practice, actions or teachings of the Prophet Muhammad (pbuh)

Takaful: A scheme which is based on the spirit of cooperation and helping each other by providing financial assistance to participants when needed and all participants mutually agreed to give contribution for the said purpose

Tawarruq/commodity murabahah: Purchasing an asset with deferred price, either on the basis of *musawamah* or *murabahah*, then selling it to a third party to obtain cash

Ujrah: Commission

Wa'ad: Promise

Wadiah: Safe keeping contract in which a party entrusted his property to another party for safe keeping and to be returned upon request

Wadiah Yad Amanah: Safe keeping contract based on trust

Wadiah Yad Dhamanah: Safe keeping contract with guarantee

Wakalah: Agency contract

Waqaf: A form of endowment by an owner of a property for public benefit and wellbeing which is allowed by *Shariah*

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