

## FINANCIAL EXCLUSION IN AUSTRALIA: AN EXPLORATORY CASE STUDY OF THE MUSLIM COMMUNITY

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### ABSTRACT

Nearly 3 billion people in the world faced the difficulties in accessing formal financial services and products which alerted on the issue of financial exclusion. Financial exclusion refers to a situation where individuals lack access to appropriate and affordable financial services and products. In 2012, approximately 3.1 million of the Australian adult populations are identified to be financially excluded. The study of financial exclusion is highly important for the nation and society because consequences of financial exclusion are detrimental to the economy. The purpose of this paper is to explore the nature and extent of financial exclusion faced by the Muslim community in Australia. This paper is based on literature reviews, secondary data and the authors' personal experience in association with banking industry, as the research is in the progress of data collection. The initial finding of this paper concludes that there is still lacking of information about financial exclusion according to ethnicity or religious group in Australia. It also appears that very limited financial institutions in Australia that is offering Islamic financial services and products to cater for the needs of some 476,000 Muslims in Australia. These Muslims communities may have been financial excluded due to their faith and religious belief, because Islam prohibits *Riba* (usury and/or interest) as widely practiced in conventional banking and finance operations.

**Keywords:** Financial exclusion, Muslims, Australia

### INTRODUCTION

Financial crises have profound economic and social consequences. They tend to induce what the financial-services industry describes as a 'flight to quality'; that is, a search for 'safer' markets, a process which tends to be in favour of the more affluent and powerful social groups and against the poor and disadvantaged groups. Financial exclusion refers to a situation where individuals lack access to appropriate and affordable financial services and products. Nearly 3 billion people in the world faced the difficulties in accessing formal financial services which alerted on the issue of financial inclusion (Kumar & Mishra 2011). A good financial system serve a vital purpose, offering savings, credit, payment, and risk management products to people with a wide range of needs. Financial systems that allow broad access to its services, without price or non-price barriers to their use are especially likely to benefit the disadvantaged groups including the poor. Without inclusive financial systems, these groups of people must rely on their own limited savings to invest in their education or become entrepreneurs and small enterprises must rely on their limited earnings to pursue promising growth

opportunities. This can contribute to persistent income inequality and slower economic growth (Simpson & Buckland 2009).

Although the researcher is unable to locate any specific research conducted on faith-driven financial exclusion in Australia, the existence of the problem can't be denied as suggested by some commentators (Burkett & Sheehan 2009; Pearce 2010). In another context, Bhalla and Lapeyre suggested that research on social and financial exclusion can and should be done at different spatial scales whether individual or social groups including women, minorities, ethnic groups, etc. (Bhalla & Lapeyre 1997). Connolly et al. (2011) recommended that a further research be conducted on the barriers to financial inclusion faced by persons born overseas in particular from non-English speaking countries; this category of people would include the Muslim community that came to Australia for various reason. This study will focus on the issue of financial exclusion faced by the Muslim community in Australia and explore the path towards improving their financial inclusion level.

## **FINANCIAL EXCLUSION**

Leyshon and Thrift proposed the first definition of financial exclusion. According to the authors, financial exclusion involves the “processes that serve to prevent certain social groups and individuals from gaining access to the financial system” (Leyshon & Thrift 1995). The study emphasized on the role of geographical exclusion, e.g. the difficulties experienced by certain individuals in accessing financial services because of the lack of a bank branch in their area or because of the closure and relocation of a branch. Subsequent research studies adopted this “in and out” approach but explored other causes which explained access difficulties (Devlin 2005; Kempson 2001; Sinclair, P. 2001). The study emphasized that difficulties of access can also be explained by condition exclusion (e.g. requirements to access financial products are inappropriate), price exclusion (e.g. services are costly), marketing exclusion (e.g. information about new products is not displayed to non-desirable customers), self-exclusion (e.g. people do not access financial products because of fear or distrust of banks or because they have already been refused).

The European Commission (EC) defines financial exclusion as a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong (Commission 2008). Although the term ‘normal social life’ was not explicitly explain how far financial inclusion policies should go, the EC’s definition, and the fact that financial exclusion has been expressly incorporated in its poverty and social exclusion agenda, represents a step ahead of the more restricted focus on individual ‘accession’ to the mainstream financial system. In another study, it was highlighted that financial exclusion is attributable to an intersection of migrant status with several disadvantages such as gender, ethnic and racial inequalities, as well as immigration status and labour market position (Datta 2009). It was also reported that Muslim communities may have faced financial disadvantages because of their faith and religious belief which make them financially excluded from the mainstream financial systems (Pearson 2008).

In the UK, where financial inclusion has been part of the policy agenda for more than a decade (Kempson & Whyley 1999), some 1.75 million adults still lacked access to a transaction account (Taskforce 2010). Increasing access to the mainstream system through a bank account was one of the primary tasks of the financial inclusion strategy

initiated in 2004 which targeted access to banking services, affordable credit and face-to-face financial advice. These initiatives were complemented by policies to stimulate asset building. In a study on financial exclusion in Canada, the author defined financial exclusion as the situation faced by people who have no relationship or insufficient relationship with the mainstream financial institutions to meet all their financial service needs (Buckland 2012). The said study examined financial exclusion among low-income people in inner cities and the resulting hard choices they need to make about their banking. As a consequence, the study found that many people rely for all or a portion of their financial services on fringe banks such as cheque cashers and pawnshops.

In a policy research working paper published by the World Bank in 2012, Mexico seriously lags behind in financial depth and inclusion by both international and regional standards. It was reported that only 27.4% of adults had an account at a formal financial institution (Demirguc-Kunt & Klapper 2012), just below Bolivia's 28.0%; a country with a GDP per capita one fifth that of Mexico (Cull et al. 2013). Hence, the report is in conformity that financial exclusion is indeed a global issue. The article by Sinclair (2013) discussed from a knowledge exchange review of financial inclusion in Britain and compares to key features of financial exclusion evident from European analyses. The research identified agreement among British stakeholders over several aspects of financial exclusion, in particular continuing problems of access to mainstream banking services for low income customers and a lack of appropriate and affordable credit provision. Areas of controversy included whether banks denied services to lower income customers or were withdrawing from deprived communities, and the necessity for further regulation of mainstream financial services (Sinclair 2013). Levels of financial exclusion vary between developed and the developing countries, however various studies have confirmed that it is the same group of people who are always financially excluded. The mostly cited financially-excluded groups include the long-term unemployed or those with unstable work patterns, the elderly with no or few assets, lone parents who cannot work due to family commitments, people without educational qualifications and the financially illiterate, ethnic minorities and immigrants where community influence leads to financial exclusion, driven by cultural and religious factors, people who live in deprived neighbourhoods with high levels of crime and people with a history of bad debt.

### **The importance to study financial exclusion**

Development economist suggested that the lack of access to finance contributes to the slow growth in economic development (Mohieldin 2011). The main reason why finance matters is because financial development and intermediation has been shown empirically to be a key driver of economic growth and development of a nation. Economic growth needs to be sufficiently inclusive so that the benefits can be shared among all, or else the growth process itself shall be jeopardized and derailed (Burkett & Drew 2008). Modern development theory studies the evolution of growth, relative income inequalities, and their persistence in unified models. The evolution of financial development, growth, and intergenerational income dynamics are closely interrelated. Finance influences not only the efficiency of resource allocation throughout the economy but also the comparative economic opportunities of individuals from relatively rich or poor households (Joassart-Marcelli & Stephens 2010). Improving access and building inclusive financial systems is a goal that is relevant to economies at all levels

of development. The challenge is greater than ensuring that as many people as possible have access to basic financial services (Howell 2008; Smyczek & Matysiewicz 2012). It is just as much about enhancing the quality and reach of credit, savings, payments, insurance and other risk management products in order to facilitate sustained growth and productivity, especially to combat financial exclusion.

Financial exclusion holds back its victims from progress and development by imprisoning them in a vicious cycle of social deprivation and poverty. It is impossible to measure the overall impact of financial exclusion on the excluded due to the complex nature of this problem but wider implications of financial exclusion include social and financial consequences that have a detrimental effect on the excluded. In addition, financial consequences affect the way people access financial services as well as how they use them, whilst social consequences have a larger impact due to their effect on the consumer's overall economic and social behaviour

### **Overview of financial exclusion in Australia**

Before we delved into the financially excluded in Australia, it is essential to highlight two limitations. The first limitation is that financial exclusion is not static but can occur at particular periods of the life course and in different areas of finance, statistical data will always fall short of capturing the complete picture. The second limitation refers to the lack of disaggregated and updated statistics that would allow a detailed analysis and monitoring of financial exclusion across time (Arashiro 2010).

The most frequently cited definition of financial exclusion in Australia was developed by Connolly & Hajaj who stated that "it is a lack of access to financial services by individuals or communities due to their geographic location, economic situation or any other 'anomalous' social conditions which prevents people from fully participating in the economic and social structures of mainstream communities" (Connolly & Hajaj 2001). In a report by Chant Link & Associates (commissioned by ANZ), a new definition of financial exclusion was developed that considered access, as well as an assessment of whether products were appropriate or affordable, and also making a connection between financial exclusion, income and hardship.

*Financial exclusion is a lack of access by certain consumers to appropriate, low cost, fair and safe financial products and services from mainstream providers. Financial exclusion becomes of more concern in the community when it applies to lower income customers and/or those in financial hardship. Financial exclusion is observable at individual, family, or household level, but can also be heavily concentrated in suburbs or regions, and sometimes among ethnic minorities in a suburb or region. Financial exclusion can also apply to individual small businesses, NFPs [not for profits] and other community enterprise organisations (Associates 2004).*

The above definition represented a significant shift in understanding financial exclusion in Australia, suggesting that it is broader than ownership of products. In particular, the definition makes a connection between the lack of access to appropriate products and a negative impact for people on low incomes or in financial hardship. It is also significant that the definition implies that mainstream providers should make appropriate products available to address financial exclusion.

The study by Ingrid Burkett and Belinda Drew (2008) tend to suggest that financial institutions believe (not always with evidence) that there are higher costs associated with providing services to low income groups – particularly transaction costs.

They raise the point that lending money to the poor is high risk and doing business with them at all poses greater brand and reputation risks. It was also highlighted that the development of specific and independent Community Development Finance Institutions could make a significant contribution to addressing this exclusion. While most definitions have focused on the exclusion of individuals, this report argues that exclusion extends to non-profit organizations, social enterprises and micro enterprises. The authors also argue that, while regulation in Australia has been important for transparency, it has led to a highly uniform framework for financial services and products which has put pressure on smaller and more specialist companies. "Credit unions with a focus on serving remote indigenous communities and small rural areas have merged with larger institutions that may not have the same orientation to addressing the needs of their members. And small funds with more social and ethical missions have disappeared, as size begins to matter," they said (Burkett & Drew 2008).

In May 2011 The Centre for Social Impact (CSI) published Australian first report on measurement of financial exclusion as commissioned by National Australia Bank (NAB). According to the measurement, approximately 15.6% or 2,650,000 of adult population in Australia were either fully excluded or severely excluded from financial services in 2010. This figure comprises 0.8% of adults who were fully excluded (they had no financial services products) and 14.8% of adults who were severely excluded (they only had one key financial services product) (Connolly et al. 2011).

CSI's definition of financial exclusion is 'where individuals lack access to appropriate and affordable financial services and products'. Among the key financial services and products are a transaction account, a moderate amount of credit and general insurance. A brief description on the financial services and products as reported by CSI is as follows:

- Transaction account – access to a transaction account is seen as a universal need in most developed societies. Since it is the most popular and generalised financial product, the lack of it can stigmatise individuals and promote social exclusion. Essentially, a transaction account is the key to accessing other financial services.
- Moderate amount of credit – credit is a major financial tool to enable access to goods or services that are beyond the monthly budget such as vehicles and furniture. It can also play a significant role in smoothing consumption and protecting against income shocks and financial assets.
- General insurance – it is a way for individuals to protect their key assets and manage risk. Insurance in particular home and contents and motor vehicle insurance is regarded as a significant financial product that provides a personal safety net for individuals or households when facing a range of risks, such as burglary, natural disaster and accidents.

In the same report, it was recommended that there is a need to conduct further research on the barriers to financial inclusion faced by persons born overseas in particular from non-English speaking countries (Connolly et al. 2011). This category of people would include the Muslim community that came to Australia for various reasons from many parts of the world. They may have faced financial disadvantages because of their faith and religious belief which in turn makes them financially excluded from the mainstream financial systems (Pearson 2008). In another literature that was reviewed, it was reported that there is a lack of financial systems in Australia to meet the needs of

the Muslim community who have particular beliefs about the charging of interest (Burkett & Sheehan 2009). In countries where Islamic Finance does not have a presence, it is common to observe that a substantial segment of the Muslim population would refrain from using the conventional banking facilities in order to avoid dealing with usury or interest (*Riba*) due to religious principle (Mohieldin 2011; Pearce 2010).

Often being said in the literature that financial exclusion is very much located at the heart of social exclusion (Scutella 2009; Scutella & Wilkins 2010), there are some social repercussions that can be directly attributed to financial exclusion. For example, financial exclusion denies a segment of the society the opportunity to be active and productive members of the community and thus impedes them from fully integrating and contributing to the well-being of the nation in which they live. This in turn will create other social problems, such as lack of social cohesion and/or integration and the social groups affected will be pushed further into the poverty trap. Moreover, financial exclusion has a detrimental effect on how people run their lives and puts them in a very difficult position where they feel that they have lost control of their lives, causing anxiety and bringing about severe personal and community consequences. In summary, despite having one of the most diverse financial services sectors in the world, financial exclusion in Australia remains a reality for many people. The numbers of Australian population who are financially excluded (no matter what degree of exclusion) are increasing for the past three years. Without access to financial systems, the conduct of everyday life of an ordinary man within a contemporary capitalist society can become extremely problematic.

### **Causes of financial exclusion**

There is no one common reason for financial exclusion. However, there are several factors that definitely act as catalysts for this phenomenon, including the restriction of physical access due to banks closures in disadvantaged neighbourhoods, higher charges for services required by the poor, inappropriate products and biased marketing strategies (Sinclair, S. 2001). Some commentators who focus on the macro aspect of the problem say the major causes of financial exclusion include low income, unemployment, irregular and/or casual work, lack of financial literacy, poor financial habits and geographical remoteness. However, it is generally agreed that the causes of financial exclusion are very complex and differs over time. According to a comprehensive report compiled by the Financial Services Authority in UK: “The problem of financial exclusion has, ironically, resulted from increased inclusion that has left a small minority of individuals and households behind” (FSA 2000). Another reason for financial exclusion, according to some commentators, relates to the competitiveness of the financial services industry where the providers of financial services view people on low incomes as unworthy of their services, thus resulting in a minority of the population having needs unmet by the competitive financial services market (Kempson 2001).

One particular type of financial exclusion that will be covered in this study is faith or religion-driven financial exclusion because people may voluntarily exclude themselves from the financial services for religious or cultural reasons, even though they do have access and can afford the services (Beck & Dermiguc-Kunt 2008). This type of study of financial exclusion is often relates to ethnicity as ethnicity itself is believed to be a major reason for financial exclusion in some developed countries. For instance in the UK those who were classified as ethnic Muslims are many times more likely to be financially excluded than their counterparts in the same category. It was

reported that being Pakistani makes someone four times as likely to be without a bank account while being Bangladeshi triples the odds (Kempson 2001).

It is general consensus among many commentators on the subject of faith-related financial exclusion that the lack of *Shariah*-compliant products is the major reason behind the wide financial exclusion which exists among various Muslim communities in many parts of the world (Mohieldin 2011; Pearce 2010). This refers to financial products and services that comply with the principles of Islamic law (*Shariah*) as Muslims are prohibited from accessing any finance involving the payment and receipt of interest (*Riba*). One of the *Shariah* scholars advising Lloyds TSB told the BBC in June 2006: “Access to *Shariah* compliant financial products would ultimately mean “less exclusion and less extremism” (Knight 2006).

He was also quoted as saying:

“Everyone needs financial services. We should see less and less exclusion and less extremism. The spread of Islamic financial services would help combat social and financial exclusion amongst the UK's 1.6 million Muslims” (Knight 2006).

As the above literature suggests a major portion of the financial exclusion among Muslims in countries where Islamic financial services and products are in short supply could be linked to religiosity. Although faith-related financial exclusion deters many social groups and individuals from accessing certain financial products, the causes of the problem are wider and more diverse. Generally, the causes of financial exclusion are many and varied but a general tendency can still be detected. Indeed, and not so surprisingly, the most frequently evoked causes are as follows:

### **Societal Factors**

Societal factors play an important role in the financial exclusion of certain social groups and individual (Aalbers 2011). For example, liberalisation of financial markets has led to the creation of more sophisticated and varied financial products. It has increased the financial inclusion of the well off but having an adverse effect for the lower income group who are still trapped in their vicious cycle of social deprivation and poverty. On the other hand, when rules on financial transactions have become tighter to combat financial crimes, such as money laundering, it significantly bars certain group of people from accessing certain financial services and products in some countries (Burgstaller 2013). Similarly, the vast changes in technological advancement has leads to some sort of financial exclusion as the older generation find it difficult to cope with the higher dependency on technology where most of the traditional banking services have been taken over by modern technology, such as internet and phone banking (Anderloni et al. 2006; Atkinson 2006; Kempson 2001). ‘Self-exclusion’ is another key societal factor that substantially increased financial exclusion. This refers to cultural and psychological barriers to financial services when the less well-off group or individual feels that financial services are “not for people like us” (Collard et al. 2001; Kempson 2001; Mitton 2008). Some commentators opined that a major portion of this type of financial exclusion is fuelled by religious and cultural motives and is recognised across the board as one of the most difficult and prevalent deterrents holding back the unbanked communities (Buckland 2003; McDonnell & Westbury 2002). They believe that the indigenous populations of Australia and Canada are prevented from using banking services due to psychological and cultural barriers. Similarly, the Pakistani and Bangladeshi Muslim communities in Britain are excluded from banking as transactions

can cause them to become inadvertently overdrawn and thus incurring interest, which is forbidden (*haram*) under *Shariah law* (Collard et al. 2001).

### **Supply Factors**

Based on literature under review, it is noted that most of the previous study on financial exclusion, focused only on the supply factors as they are the most obvious and common reasons for this problem (Kempson et al. 2004; Saunders 2011). This occurs as a result of the financial institution's failure and/or hesitance to offer the suitable and affordable financial products to the less well-off, whose financial services needs are quite different from the needs of their counterpart. Bank refusals, identity requirements, unfavourable terms and conditions, bank charges, geographical remoteness and technological advancements are some of the major ingredients of the supply factors of financial exclusion. However, the supply factors can be generally grouped as follows:

1. Access exclusion which refers to access barriers such as geographical and physical exclusion of people living in disadvantaged neighbourhoods (Alamá & Tortosa-Ausina 2012; Collard et al. 2001; Kempson 2001).
2. Condition exclusion which refers to being excluded due to certain conditions such as failing to pay the minimum deposit required for opening certain accounts, failed certain conditions such as credit history checks and required income threshold due to their low income, as banks perceive them to be high-risk and unworthy customers (Howell & Wilson 2005). Identity requirements may also affect certain groups such as the homeless and refugees who normally cannot provide the required identity for account-opening purposes (Datta 2009).
3. In another context, price exclusion such as bank charges act as a deterrent when people on low incomes are required to pay charges they cannot afford (Burkett & Sheehan 2009).

### **Demand Factors**

Demand factors refer to the cultural and psychological factors that deter some people from accessing financial products. For instance, less educated people feel that banks are not for them and therefore they mistrust them and seek other means of handling their finances (Anderloni 2008; Barry 1998). Also, elderly people generally feel uncomfortable using modern technology, such as the internet, and prefer traditional ways of managing their finances. Some are worried about losing their money should the bank go bankrupt as witnessed in some parts of the world, including some Western countries (Wilson 2006). Apart from the elderly people, the middle aged group of people are also concerned about employing modern technology to manage their finances, such as internet banking, due to the fear of financial loss through on-line identity theft or some other type of fraud such as internet hacking. This is a justifiable concern for many and is thought to be one of the demand-related factors that stop people from demanding certain financial products and services (Mitton 2008; Osei-Assibey 2010).

Marketing strategies employed by banks and other financial institutions (FI) may also exclude certain sector of the population from demanding financial products. Most of the commercial publicity was designed to cater for the affluent group of people,



which drives the opposite group away as they feel alienated and excluded by these adverts and look for alternative means of managing their finances (Anderloni et al. 2006; Healey 2011). Premised on the above, societal, supply and demand factors can play a role in the exclusion or limited inclusion of individuals. In summary, the above three factors are the most common causes of financial exclusion but availability of financial products and services may not equal financial inclusion, because people may voluntarily exclude themselves from the financial services for religious or cultural reasons, even though they do have access and can afford the services (Beck & Dermiguc-Kunt 2008).

## MUSLIMS IN AUSTRALIA

Muslims in Australia is a minority religious group. According to Census 2011, 476,300 people or 2.25% of the total Australian population were Muslims. This made Islam the fourth largest religious grouping, after all forms of Christianity (64%), no religion (22.9%) and Buddhism (2.5%) (ABS 2011). The Australian Muslim community is drawn from more than 70 different countries, is ethnically and linguistically diverse, and geographically scattered (DFAT, 2008). There are indications that even earlier Muslim Arab explorations took place off northern Australia. The map of the Sea of Java of Muhammad ibn Musa al-Khwarizmi 820 CE shows, Cape York Peninsular, a "V" shaped Gulf of Carpentaria and a curved Arnhem Land. A later map by Abu Isak Al-Farisi Istakhari 934 CE, also includes an outline of the northern coast of Australia (Tames 1999). The first regular Muslim contacts with Australia were made by the people of Makassar from Indonesia who had converted to Islam in the early 1600s. They traded with the Aboriginal people living along the northern coast from about 1650 until the early 1900s and influenced their language and culture. A few Muslim free settlers and some Muslim sailors arrived in the early years of settlement but little is known of them. The most significant early arrivals were the 'Afghan' cameleers who from 1860 to 1939 took part in expeditions to explore the interior. They were also involved in survey, construction and carrier work for the Overland Telegraph Line from 1870 to 1872, supplied the goldfields and provided an essential transport and communications network throughout Australia until they were superseded by rail, road and air services (Tames 1999).

It is the teaching of Islam that Muslims are forbade from dealing with *Riba* or well known as usury and/or interest which is widely being practise in the conventional banking and finance systems. In a policy research working paper (PWS6290) published by The World Bank in December 2012, 5 per cent of the of the respondents from 123 countries do not have a formal account with a financial institution because of their religious belief (Allen et al. 2012). Based on literature, Muslims are particularly excluded from the main conventional banking and financial products such as mortgages, personal, business and investment accounts due to the prohibition of *Riba*. The provision of these services in a manner compliant with their faith would be welcomed by this community provided it is deemed that the products offered are authentic, competitive and relevant to the consumers' requirements.

## RESEARCH METHODOLOGY

The design of the study would be using qualitative and quantitative method or more commonly known as mixed methods. The assumption of this study is that different data

offer useful insights for understanding financial exclusion. Based on literature available, research can take the form of three basic designs that is exploratory, descriptive or causal (Leedy & Ormrod 2009). The focus of this study will be an exploratory in nature and the sample survey method (questionnaire) would be one of the appropriate methods for data collection. Under this method the data is collected from a portion of the populations and from that data appropriate inferences about the population can be made. Even though this means that the sample serves only as an approximation of the entire population, it has been recommended as it could actually be highly accurate if chosen with care (Cresswell 2007). In another context, semi-structured interviews are usually used to find answers from the respondents to specific questions. In this research, practitioners and scholars of Islamic finance will be interviewed with the objective of gaining answers for the research question. Generally, a combination of two or more research methods will give better interpretation as the information missed by one method may be captured in another method (Creswell 2009).

### INITIAL FINDINGS

As mentioned earlier, the study is in the process of data collection and the finding here are not supported by any empirical work but based entirely on secondary data. An in-depth examination of issues was not undertaken and the scope of the paper was limited to existing materials. In 2012, more than three million Australians suffer severe or full financial exclusion. In real terms, 194,117 adults are fully excluded and 2,929,402 are severely excluded providing a combined total of 3,123,519 (Connolly 2013). This was based on the research conducted by the National Australia Bank (NAB) and the Centre for Social Impact (CSI). The measurement of financial exclusion employed in NAB/CSI report are based on the ability to access three basic financial tools i.e. a basic transaction account, moderate amount of credit and general insurance, with severe exclusions being an inability to access any two of three tools and full exclusion being the inability to access any of them. Summary of three years statistical data of Australian adult populations that were fully and severely excluded is shown in Table 1 below:

Table 1. Data of Australian adult populations that were fully and severely excluded from 2010 to 2012 (Connolly et al. 2012; Connolly et al. 2011; Connolly 2013).

Degree of Exclusion	2010	2011	2012
Fully excluded	129,000	192,000	194,117
Severely excluded	2,521,000	2,803,000	2,929,402
Total	2,650,000	2,995,000	3,123,519

The research showed the cost of maintaining basic financial services has fallen from previous years, with the average costs at \$1739 per year. CSI Research Associate Chris Connolly said cost had to be considered alongside other barriers, such as difficulties with language and identification documents, a general lack of financial literacy and changes in employment arrangements, which all contributed to the growth in financial exclusion.

"Younger Australians and migrants are particularly marginalised. The casualization of our workforce is compounding the issue, with increasing

numbers of people engaged in low-paying casual, part-time or seasonal work," Connolly said (Spits 2013).

According to the research, young adults aged 18-24, migrants and people engaged in low-paying casual, part-time and seasonal work are the most excluded, as are many Aboriginal and Torres Strait Islanders. The research shows 43.1 per cent of the latter group suffer some form of exclusion. The costs and complexity of insurance products also keep people with low incomes from accessing appropriate insurance. A geographical breakdown highlighted that areas with low levels of insurance were usually inner-city areas of the large capital cities or extremely remote areas. The NAB/CSI Financial Exclusion Indicator research was drawn from face-to-face interviews with 50,000 Australians, and additional online surveys of a further 1500 people. The historical data of financial exclusion in Australia from 2007 to 2012 (adopted from Connolly 2013) are summarized in Table 2 below:

Table 2: extent of financial exclusion in Australia 2007– 2012

<b>Degree of Exclusion</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Included	45.7%	46.6%	44.6%	43.4%	40.8%	39.7%
Marginally excluded	38.4%	38.7%	40.0%	41.0%	42.0%	42.6%
Severely excluded	14.5%	13.8%	14.6%	14.8%	16.1%	16.6%
Fully excluded	1.5%	0.9%	0.7%	0.8%	1.1%	1.1%

As this study was about financial exclusion faced by the Muslim community in Australia which is also in relation to exclusion due to faith and religious belief, the study found that Islamic finance facilities (*Shariah*-compliant) are not being widely offered in Australia. There are 20 locally owned banks, 8 foreign subsidiary banks and 40 branches of foreign banks in Australia (APRA 2013). However, none of these banks or any of the high street banks offered Islamic banking and finance facilities even though some of the foreign banks do provide it outside Australia. The Islamic banking and finance facilities referred here includes savings and current account, credit card and mortgages/financing (i.e. home or vehicle). Australia's experience with Islamic financing has been relatively new. The first attempt to introduce Islamic financing products in Australia was made by the Muslim Community Co-operative Australia (MCCA) (Ahmad et al. 2010). The organization began in 1989 with AU\$22,300 worth of seeding capital and by 2003 MCCA had 5,600 members and deposits worth AU\$24 million (Faruq & Rafique 2009). Majority of the MCCA members are from Melbourne and Sydney where the organization has a physical presence. The products and services offered by MCCA ranges from investments to home financing (MCCA 2013).

Apart from MCCA, there are another two organisations that offer Islamic finance facilities: Islamic Co-operative Finance Australia Limited (ICFAL) and Iskan Finance (ISKAN). ICFAL provide home and vehicle financing to its members only and they are operating in Sydney (ICFAL 2013). Meanwhile, ISKAN solely offering home financing facility and it is open to the public i.e. Muslim and Non-Muslim and their operations are centralised in Sydney (ISKAN 2013). In terms of Islamic fund management, there is Crescent Wealth, a wealth management company offering a

superannuation fund as well as a series of managed funds that invest into socially responsible assets based on Islamic investment principles (CrescentWealth 2013). The expansion and growth of Islamic finance in Australia has been slow due to various reasons, for example lack of regulatory support and policy framework (Ahmad et al. 2010). Further discussion on the development and impediment of Islamic finance in Australia are discussed in the author's paper titled "Islamic Finance in Australia: History and Development" (Sain et al. 2013).

In summary, if we based on NAB/CSI's financial exclusion measurement criteria (access to three basic financial tools i.e. a basic transaction account, moderate amount of credit or general insurance), it appears that only one financial tool that is available in the Australian market which comply with Islamic law (*Shariah*): moderate amount of credit. The example of access to moderate amount of credit is through *Qard Hassan* or No Interest loan offered by The Islamic Council of Victoria (ICV 2013). The scheme of *Qard Hassan* provides loans of up to \$1000 to people on low incomes for the purchase of essential household items that will improve the quality of their life. For the purpose of understanding, *Qard Hassan* means gratuitous or beneficial loan which is a loan given to a borrower without charging interest as payment and receipt of interest is prohibited in Islam. In fact it is the only type of loan acceptable in Islam and it is sometimes referred to as "benevolent loan". For home and vehicle financing, MCCA, ICFAL and ISKAN do offer such facilities but it must be mention here that the availability are subject to limitation of area because these companies are mainly operating in Sydney and Melbourne. Meanwhile, the other two financial tools i.e. basic transaction account and general insurance that are *Shariah*-compliant are not available.

## CONCLUSIONS

This paper concludes that financial exclusion is a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream financial system that are in accordance to their needs and requirements. Societal, supply and demand factors remained to be the three common causes of financial exclusion. Tackling financial exclusion is important because it is not just about increasing access to financial systems, but it goes beyond that boundary. If we analyse carefully, it actually helps to fight poverty and improving the economic status of the people and/or the community. Hence, by tackling financial exclusion problems it will indirectly addressed the social related issues. Nevertheless, this paper also found that there is still lacking of information about financial exclusion according to ethnicity or religious group in Australia. As such, there is still plenty of room for in depth study on the subject of financial exclusion in Australia. On another context, it appears that Islamic finance facilities currently being offered in Australia are still limited in terms of its availability and range of products and services. We fear that these limitations will exclude a proportionate population in Australia i.e. the Muslim community from being involved in a wider financial activities because to them, conventional banking and finance is not acceptable based on *Shariah* principles. This is because conventional banking and finance contains *haram* (prohibited) elements such as *riba* (interest), *gharar* (uncertain factors) and *maysir* (gambling). Hence, the financial sector will not achieve its optimal outcomes keeping the Muslim community, out of the financial market.

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