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.

____________________________ 25 November 2013

Mohamed Rosli Mohamed Sain Date

Candidate

ENDORSEMENT

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Dr Mohammad Mafizur Rahman Date

Principal Supervisor

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Dr Rasheda Khanam Date

Associate Supervisor

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 study. May Allah bless and reward them all.

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PUBLICATIONS ARISING FROM THIS RESEARCH

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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: Permissable, 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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CHAPTER 1: INTRODUCTION

1.1 Research background

A good financial system serves 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 in the society 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.

Nearly 3 billion people in the world faced the difficulties in accessing formal financial services that has caused them to experience a lack of financial inclusion (Kumar & Mishra 2011). The study of financial inclusion is highly important for the society because consequences of financial exclusion may be detrimental to the economy. This study will focus on the issue of financial exclusion faced by the Muslim community in Queensland, Australia and what is the role of Islamic finance can play in improving the financial inclusion of the community.

Islamic finance in the modern era began in the 1960s, accelerated rapidly during the 1970s and has grown significantly in the 1990s as a result of banking deregulation in the 1980s (Ahmad et al. 2010). Islamic finance emerged in Australia in the 1990s in response to the growing demand of 350,000 a market of Australian Muslim through establishment of the Muslim Community Cooperative Australia Limited (Ahmad et al. 2010). Over the years, Islamic Finance has become an increasingly substantial segment within the global financial system. During turbulent times, especially the 2007-2009 global financial crisis, Islamic finance showed some degree of resilience to financial shocks (Askari et al. 2010; Asutay 2010). Islamic finance, thus, is not only considered as a feasible and viable alternative for the conventional financial system but also a more efficient, productive and equitable way of financial intermediation (Khan 2010; Obaidullah & Latiff 2008). Islamic finance asset as at 2011 were reported to be worth $983.6 billion (DiVanna 2012).

Muslims in Australia represent a minority religious group. According to Census 2011 (ABS 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%). These Muslim communities may have faced disadvantages including problems specific to them such as financial exclusion because of their faith and religious belief (Pearson 2008). Financial exclusion is construed as the inability to access necessary financial services in an appropriate form due to problems associated with access, conditions, prices, marketing or self-exclusion in response to discouraging experiences or perceptions of individuals/entities. Definitions of financial exclusion in the literature vary depending on the dimensions such as breadth, focus and degree of exclusion. The broadest of all definitions linking financial exclusion to social exclusion which defines financial exclusion as the processes that prevents poor and disadvantaged social groups from gaining access to the financial system (Leyshon and Thrift, 1995).

1.2 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 jeopardised 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 the complex nature of this problem but the 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 the social consequences have a larger impact due to their effect on the consumer's overall economic and social behaviour.

1.3 Overall Objectives

The objectives of this research are as follows:

a. to explore the nature and extent of financial exclusion of Muslims in Queensland, Australia;
b. to understand the overall socio-economic structures as well as the banking behaviour of this community and their access to conventional finance in Australia;
c. to identify what other micro-financial services and home-financing facilities are used by Muslims in Queensland;
d. to increase the level of awareness of the Muslims in Queensland about Islamic banking and finance products;
e. to evaluate the perception of the Muslims in Queensland towards existing *Shariah*-compliant financial products and services; and
f. To find ways to make Islamic finance products attractive to the Muslim communities.

1.4 Problem Statement

Based on previous study on financial exclusion, Muslims faced disadvantages such as financial exclusion due to their faith and beliefs (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 interest/*riba* due to religious principles (Pearce 2010).

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 el. (2011) recommended that further research should 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. This study will focus on the issue of financial exclusion faced by the Muslim community in Queensland, Australia and explore the path towards improving their levels of financial inclusion.

1.5 Research Questions

The main research question and sub-questions are as follows:

1. How can the Muslims in Queensland be better included financially in the Australian financial systems?

    a) What are the socio-economic structures of the Muslims in Queensland?

    b) What type of banking and financial services currently used by these communities?

2. What are the attitudes of the Muslims in Queensland towards the existing Islamic finance products and services, and to what extent do cultural and religious attitude influence their banking and financing behaviour?

a) What is the level of awareness of the Muslims in Queensland regarding the existing Islamic finance products and services in Australia?

b) What is the perception of the Muslims in Queensland regarding the existing Islamic finance products and services?

c) Has the introduction of Islamic finance products and services in Australia enhanced the access level of Muslims in Queensland into Australia's financial system?

The first research question is aimed to shed light on how well the conventional financial system meets the financial services needs of the Muslims in Queensland. The objective is to estimate the level of faith-related financial exclusion which often being ignored in most research on the subject of financial exclusion (Collard et al. 2001). Understanding the level and magnitude of religion-based financial exclusion among Muslims in Queensland is important as one of the component to answer the main research question. It also will provide information as to whether or not these communities are lagging behind in their use of the Australian financial services market.

The second research question is also aimed at informing and expanding the current literature on how well aware the Muslim communities are of existing *Shariah*-compliant financial products available in Australia and of their attitudes towards these products. On the other hand, the sub-question shall attempt to find ways to make Islamic Finance products and services more attractive in Australia.

One goal is to establish whether or not there is a link between the level of awareness and the level of access. Also, understanding the attitudes of the Muslims in Queensland towards the existing Islamic financial products and services is very important in explaining whether or not such products and services are sufficient.

1.6 Hypothesis

Kempson (2001) suggested that the lack of *Shariah*-compliant products was the major reason behind the broad financial exclusion that exists among various Muslim communities in many parts of the world. In the meantime, Burkett (2009) commented that the lack of financial systems in Australia to meet the needs of the Muslim community, who have particular beliefs about the charging of interest, could be the major factor causing financial exclusion. Pearce (2010) suggested introducing Islamic finance products as a way to improve financial inclusion. Islam offers a rich set of instruments and unconventional approaches, which, if implemented in true spirit, can lead to reduction in poverty and inequality (Mohieldin 2011). Hence, by improving access to Islamic finance products and services, this will increase the financial inclusion status of the community as well as improving their economic status.

The research hypotheses will determine the parameters of the research questions and the methods to be employed in testing the hypotheses that are relevant for both the research questions and the research hypotheses. Summary of the research hypotheses are listed below.

H1: The Muslims in Queensland are financially excluded from the mainstream financial system in Australia

H2: Muslims in Queensland prefer Islamic finance to conventional finance under normal circumstances.

H3: Increased access to Islamic finance products and services will improve the level of financial inclusion of the Muslims in Queensland, Australia.

H4: The higher level of financial inclusion will improve the socio-economic status of the Muslim in Queensland, Australia.

The hypothesis can be read together with the conceptual model at Appendix I

1.7 Research Methodology

The research method employed by the study is qualitative-survey questionnaire. The researcher will also conduct extensive literature review on the relevant topics in relation to the subject matter. Based on literature available, research can take the form of three basic designs: exploratory, descriptive or causal (Leedy & Ormrod 2009).

The focus of this study will be an exploratory in nature and the sample survey method (questionnaire) is one appropriate method for data collection in this case. 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 & Plano Clark 2007).

1.8 Motivation

This study is motivated by the going concern about financial exclusion in Australia. A joint study conducted in 2011 by National Australia Bank (NAB) and the Centre for Social Impact (CSI) at the University of New South Wales, has found that 2.65 million Australian adults would have difficulty in raising AUD3000 from mainstream financial institutions if they needed it in an emergency.

In an article published on August 25, 2011 by the Australian Business School "*Financial Exclusion: The Dark Side of an Affluent Nation*", it was reported that Mikala Hehir, NAB's Head of Community Finance and Development Corporate Responsibility said that: "*NAB has been running a micro-financing scheme for eight years in partnership with the Good Shepherd charity and state and federal governments, but had no data that showed what types of people and how many were affected by financial exclusion*."

1.9 Outline of the Research Chapters

This chapter, as the first research chapter, is the introductory chapter of the thesis and outlines the research questions, research objectives, hypotheses and research methodologies as well as the chapter contents.

Chapter Two will introduce the related literature review on the subject of Islamic finance and some brief background information about Islamic finance in Australia.

Chapter Three will consist of a literature review of financial exclusion covering the definition of the term, as well as its causes and consequences.

Chapter Four will introduce the research design and methodology for this thesis. This chapter will explain the importance of research design as the guiding tool of the whole study and the critical role that the research design plays in directing the work to be carried out. The chosen research methodology will also be explained, citing the selection criteria with supporting arguments for it. Details are also provided at the various stages of practical field work and the tasks involved in each phase. The concept of data reliability and validity will also be tackled in this chapter to explain how it will be incorporated into the research process in order to increase the accuracy and objectivity of the research results.

Chapter Five will introduce the statistical analysis of the survey questionnaire to be carried out by the researcher. In this chapter, discussions on the research findings will also be presented based on the results of the data analysis.

Chapter Six is the final chapter of this thesis where the research findings will be summarised and recommendations presented. It will revisit the research objectives and the overall content in order to demonstrate the link between the research questions, the findings and the proposed recommendations.

CHAPTER 2: ISLAMIC FINANCE

2.1 Introduction

Islam is claimed to be a comprehensive way of life, which strikes the balance between spiritual and material needs of human being (ISRA 2012). One of the most important aspects of human life is the need for a comprehensive system in order to govern their life and to ensure that all needs are catered adequately including material needs and financial management. This aspect of life is closely related to the fast growing industry known as Islamic financial services industry. Islamic finance is defined as financial services principally implemented to comply with the main tenets of *Shariah* or Islamic Law. The ontological and epistemological sources of these principles are enshrined in the Holy Book of Islam, namely the Qur'an, and in the sayings (*hadith*) and the traditions (*sunnah*) of Prophet Muhammad (pbuh).

2.2 Brief history of Islamic finance

The development of Islamic financial services may have started with the establishment of Mit Ghamr Savings Bank in 1963, but this does not mean that no earlier attempts were made to establish Islamic financial institution (Haron & Azmi 2009). Some parties believed that Islamic financial services industry were developed from the early theoretical writings on interest-free finance in the mid-1940s (Erol & El-Bdour 1989).

Among the pioneering experience in this sector was the establishment of Pilgrimage Fund Board in Malaysia. Money being saved for meeting the cost of the pilgrimage to *Makkah* was profitably invested by this organisation that still operates even today.

In the private corporate sector, early efforts began with the establishment of the Dubai Islamic Bank in 1975 under a special law allowing it to engage in business enterprise while accepting deposits into checking accounts. Ten years later, twenty seven more similar banks were established in the Gulf countries such as Egypt and Sudan (Archer & Karim 2007). Around the same time, more than 50 conventional banks, some of them located at financial centres like London were offering Islamic financial products. This was followed by some of the major conventional banks establishing Islamic branches dealing exclusively in Islamic products. Citi-Islamic in Bahrain and Grindlays in Karachi were followed by the National Commercial Bank in Saudi Arabia establishing over 50 Islamic branches by the 1990s. By the year 2000, there were 200 Islamic financial institutions with capital over USD8 billion, more than USD100 billion in deposits, managing assets worth in excess of USD160 billion (Rosly 2005). About 40% of these activities were concentrated in the Persian Gulf and the Middle East, another 40% in South and South-East Asia, the remaining equally divided between Africa, Europe and the Americas. Two thirds of these institutions are very small, with assets less than USD100 million. The Islamic Finance Service Board estimates the Islamic financial services industry's assets to be worth USD1.6 trillion as at 31 December 2012 (*IFN Alerts* 2013).

Islamic finance has emerged in recent decades as one of the most important developments in the financial world and is gaining momentum and much attention globally. Apart from catering to the Muslim markets, particularly in the Middle East and South-East Asia, the combination of ethical, social and financial considerations at play make Islamic finance an increasingly attractive proposition (Saleem 2012; Schoon 2008).

2.3 Theoretical framework of Islamic finance and banking

Shariah or Islamic law and also sometimes referred to as Islamic Jurisprudence are the origin and basis of Islamic finance and banking.

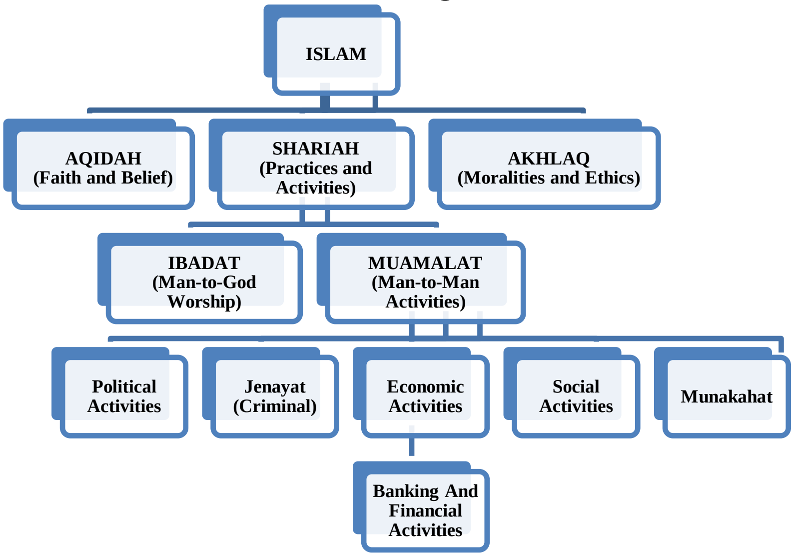


Figure 1: Theoretical framework of Islamic finance and banking
Source: (Sain et al. 2013)

Figure 1 above illustrates the Islamic view of life of a Muslim which placed his economic activities including banking and financial activities within the theoretical framework. As shown above, Islam may be perceived as comprising three basic elements as per the followings:

a) *Aqidah* - This element is concerned with all forms of faith and belief of a Muslim in Allah (God) and His will, from the fundamental faith in His being to the ordinary belief in His individual commands.
b) *Shariah* - This element is concerned with all forms of practical actions by a Muslim manifesting his faith and belief. *Shariah*, being the practical aspect of a Muslim's daily life, is divided into two:
   (i) *Ibadat* - Concerned with the practicalities of a Muslim's worship of God, in the context of man-to-Allah relationship.
   (ii) *Muamalat* - Concerned with the practicalities of various forms of man-to-man relationships.
c) *Akhlaq* - This element is concerned with behaviour, attitude and work ethics with which a Muslim performs his practical actions.

A significant segment of *Muamalat* is the conduct of a Muslim's economic activities within the economic system. Within this economic system is the banking and financial system where he conducts his banking and financial activities. Thus, in the Islamic scheme of life and *Shariah* framework, a Muslim's banking and financial activities can be traced to his economic activities, to *Muamalat*, to *Shariah*, to Islam and finally, to God (Laldin 2008). This is the root of Islamic finance and banking.

It is also important to highlight here that by implementing Islamic finance, one will also fulfil the objectives of Shariah or also known as “Maqasid Al-Shariah”. The objectives of Shariah can be divided into three categories, namely essentials (daruriyyat), the complimentary (hajiyyat) and the embellishments (tahsiniyyat).

The first category i.e. essentials are enumerated as five, namely life, intellect, faith, lineage and property. The Shariah, on the whole, seeks, primarily, to protect and promote these essential values, and validates all measures necessary for their preservation and advancement (Kamali).

The second category known as the hajiyyah or the complimentary, are not a completely independent category. They protect and supplement to the five essentials interests, albeit in a secondary capacity.

The third category known as embellishments or al-Tahsiniyyat, are in the nature of desirability. They seek to attain refinement and perfection in the customs and conduct of the people, at all levels (Kamali 2003; Laldin 2008).

2.3.1 Islamic principles in contracts and finance

The Quran sets out principles of equity, justice, fairness, morality and social welfare, among others, as preferable underpinnings of any human society. It was explained in the Quran through surah *Al-Hadid* 57:30, *Al-Baqarah* 2:30, *Al-Ahzab*:72 and *Sad* 38:26, that Allah (God) creates and owns everything and human beings therefore hold wealth on *amanah* (Trust) for God to be spent and dealt with accordingly (Balala 2010). The beneficiary of such wealth, held by any human being, is the collective community of humans whose interest must be served in spending or dealing with money. Contractual dealings, whilst governed primarily by the principle of permissibility and recognising the freedom of the individual to contract freely (see Quran - surah *Al-Maidah* 5:1 and surah *An-Nisa* 4:29), was nonetheless to operate within the ambit of fairness as between the parties and social justice.

In general, it is accepted that in all matters (*muamalat*) other than faith (*ibadat*) the operating principle is that of permissibility (*ibaha*) unless there is a clear text in the primary sources to the contrary (Mansuri 2006a, 2006b). The principle of permissibility does not operate in a vacuum but rather goes back, and is linked, to the notion of human beings as trustees or stewards of God’s wealth/creation on earth. Permissibility is therefore tempered by rules enunciated in the Quran which indicate, broadly, the extent to which contracting parties are free in deciding their terms and conditions (Saleh 1992). Chief among these rules are that any given transaction should be devoid of *riba* or *gharar* (Mansuri 2006b).

In summary, fairness and the upholding of social justice in a contract, and permissibility are the main principles. These two principles provide a platform from which Islamic finance is to be applied in compliance with the objectives (*maqasid*) of the *Shariah*. Among the objectives of the sharia is the creation of ease (*maslaha*), both in this world and the hereafter (in the material and spiritual spheres of existence), which is derived from the concept of *taysir* (making things easy) and relates closely to the concept of *raf ’ al haraj* - the removal of hardship (Bakar 2008; Hunt-Ahmed 2013).

2.3.2 Shariah compliance

Shariah means path or way and represents the sacred laws of Islam. It is God's law according to all Muslim beliefs and cultures. *Shariah* rules and guides an individual's private and personal matters such as religion, hygiene, diet, dress code, and family life, as well as the general matters of community and society such as politics, crime, financial, and economic issues (Crawford et al. 2010; Thani et al. 2010). Within the Islamic scheme of life and *Shariah* framework, Islam imposes its *'ahkam'* (laws) or in modern terminology, sometimes referred to as norms or values, on its believers. These laws or values are not man-made, instead they are ordained by God. These laws are derived from the sources of *Shariah*. The main sources of *Shariah* are the *Quran, Hadith, Sunnah, Ijma, Qiyas* and *Ijtihad*.

The *Quran* is the book of revelation given to the Prophet Muhammad (pbuh); *Hadith* is the narrative relating the deeds and utterances of Prophet Muhammad (pbuh); *Sunnah* refers to the habitual practice and behaviour of Prophet Muhammad (pbuh) during his lifetime; *Ijma* is the consensus among religion scholars about specific issues not envisaged in either the *Holy Quran* or the *Sunnah*; *Qiyas* is the use of deduction by analogy to provide an opinion on a case not referred to in the *Quran* or the *Sunnah* in comparison with another case referred to in the *Quran* and the *Sunnah*; and *Ijtihad* represents a jurists' independent reasoning relating to the applicability of certain *Shariah* rules on cases not mentioned in ether the *Quran* or the *Sunnah* (Hussain 2010). These laws as derived from the primary sources are arranged into the following scheme of five levels (refer Figure 2).

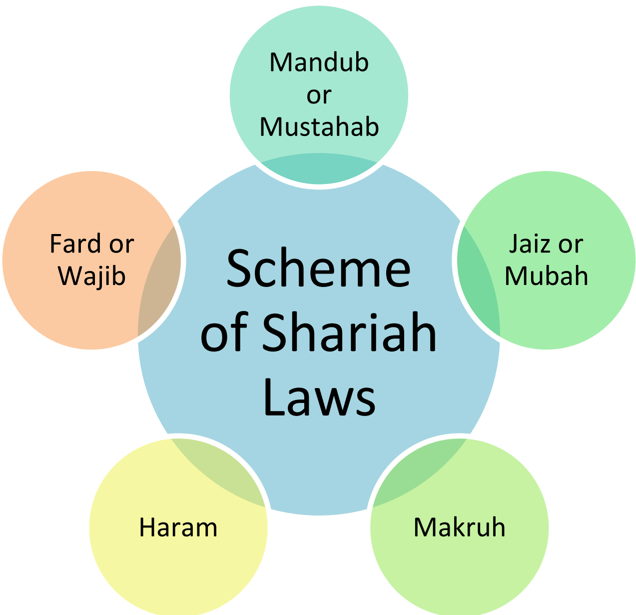


Figure 2. Scheme of Shariah laws.
Source: (Sain et al. 2013)

a) *Fard* or *Wajib* (Compulsory)
   Compulsory duties and acts to be performed by all Muslims. The omission of which is punishable.

b) *Mandub* or *Mustahab* (Desirable)
   An action which is rewarded but the omission is not punishable.

c) *Jaiz* or *Mubah* (Permissible)
   An action if were performed or omitted is neither rewarded nor punishable.

d) *Makruh* (Disapproved)
   An action which is disliked yet not punishable, but the omission is rewarded.

e) *Haram* (Forbidden)
   An action under which is absolutely forbidden and punishable.

As a matter of fundamental principle, *Shariah* law forbids any practices that are considered unfair and exploitative, and it promotes and encourages the welfare of the population (Crawford et al. 2010). *Shariah* provides sufficient tools of finance to meet all the lawful needs of man for commercial and investment transactions. These tools are based on the maxim of *al-Ghanam bil-gharm*. *Al-Ghanam*, in this context, means economic gain, profit and yield, whereas *Al-Gharm* refers to loss, risk and liability. The principle, therefore, connotes that no person is allowed to invest in a way that generates profit without exposing himself to the risk of loss rather it exposes both parties to the outcome of their deal whether it is a profit or a loss (Rosly 2005).

Islamic instruments of finance are indeed, just and fair in that they do not take-side with any of the contracting parties to the disadvantage of the other (El-Gamal 2002; Schoon 2008; Thani et al. 2010). Nevertheless, *Shariah* encourages all parties to take every precautionary measure to procure their due profit, avert and/or minimise loss. Such human effort can be done through collection of adequate and relevant data, appropriate analysis of information and use of a man's experience.

2.4 Specific rules governing contract and finance according to *Shariah*

The specific rules of the *Shariah* governing contracts and finance whose parameters define the scope and nature of Islamic finance are explained briefly below:

2.4.1 Prohibition of Riba (usury or interest)

The basic tenets of Islamic finance are clearly set out in the following two verses from the Quran (Chapra 1992):

"Those who eat Riba will not stand (on the day of Resurrection) except like the standing of a person beaten by Shaitan (satan) leading him to insanity. That is because they say: Trading is like Riba," whereas Allah has permitted trading and forbidden Riba. So whoever receives an admonition from his Lord and stops eating Riba, shall not be punished for the past; his case is for Allah (to judge); but whoever returns (to Riba), such

are the dwellers of the fire – they will abide therein forever." Surah Al-Baqara 2:275. (Khan & Al-Hilali 2001)

"Allah will destroy Riba and give increase for Sadaqat (deeds of charity, alms). And Allah likes not the disbelievers, sinners." Surah Al-Baqara 2:276 (Khan & Al-Hilali 2001)

Islam prohibits *riba* as widely practised in conventional banking and finance operations. Prohibition of *riba*, a term literally meaning "an excess" and interpreted as "any unjustifiable increase of capital, whether in loans or sales," is the central tenet of the Islamic financial system. More precisely, any positive, fixed, predetermined rate tied to the maturity and the amount of principal (that is, guaranteed regardless of the performance of the investment) is considered *riba* and is prohibited (Iqbal & Mirakhor 2011).

The general consensus among Islamic scholars is that *riba* covers not only usury but also the charging of "interest" as widely practiced (Iqbal & Mirakhor 2011). A direct implication of the prohibition of interest is that pure debt securities with predetermined interest rates are also prohibited. This prohibition is based on arguments of social justice, equality, and property rights. Islam encourages the earning of profits but forbids the charging of interest because profits, determined ex-post, symbolise successful entrepreneurship and the creation of additional wealth. By contrast, interest, determined ex ante, is a cost that is accrued irrespective of the outcome of business operations and may not create wealth if there are business losses (Askari et al. 2010).

In *Shariah*, it is the measure of excess in one thing when two things are exchanged in some bargain or in the case of a loan, an increased amount of the loan at the time of payments. *Ar-Riba* is of two kinds (Rosly 2005):

- First, *Riba Al-Fadl*: To take more in exchange of one commodity in the event of barter of two similar commodities.
- Second, *Riba An-Nasiah*: To take a larger return of one thing while two identical things are bartered. But in this case the larger return is affected after a fixed period of time.

Riba is also seen to be an unfair practise that affects borrowers and lenders alike (Balala 2010). Iqbal and Molyneux (2005) argue that the borrower must pay interest and repay the capital, as well as bearing any losses from the use of these funds (a form of 'double charging': that is, charging for both the funds and the use of the funds). In addition, *Riba* is also regarded as being unjust to the lender. This is because the real rate of interest may become negative if, say, the rate of inflation is higher than rate of interest. Therefore, lenders who wish to earn a profit from lending money could make a loss. Once again the loss incurred would be unrelated to the actual use of the funds (Iqbal & Molyneux 2005).This is the reason why *Shariah* has forbidden interest of every kind and regarded it unlawful, no matter whether the loan is for the personal or commercial requirements.

In summary, *Shariah* are devised for serving the *Maslaha* or interest of a man. It does not, therefore, prohibit things such as *riba*, merely for the sake of prohibition, but rather for the injurious effect it has on the *Maslaha*, be it personal and/or public.

2.4.2 Prohibition of *Gharar* (Uncertainty)

Gharar is often, and insufficiently, translated as uncertainty. This concept's meaning is far broader than this narrow definition and encompasses speculation, excessive risk, ignorant and generally hints at consumer/investor protection (Balala 2010). *Gharar* can be any contract for sale or purchase that includes uncertainty in genus, species, quantity of the object, price, time of payment in deferred sales, existence of object, and identity of object. Although there is no explicit statement known in the *Quran* forbidding *Gharar*, it is well-accepted that it is forbidden. For example, the verse of the Quran from which the prohibition of *Gharar* is derived is surah *Al-Maidah* 5:90. It states: 'O you who believe! Intoxicants (all kind of alcoholic drinks) and gambling, *Al-Ansab* (animals that are sacrificed in the name of idols on their altars) and *Al-Azlam* (arrows for seeking luck or decision), are abominations of Satan's handiwork. So avoid (strictly all) that (abominations) in order that you may be successful' (Khan & Al-Hilali 2001).

There are many *Hadiths* (traditions) banning *Gharar* sales narrated by Imam Muslims (Islamic scholar). For instance, "Ahmad and Ibn Majah narrated on the authority of Abu-said Al-khudriy: The Prophet Muhammad (pbuh) forbade the sale of a runaway slave or animal, the sale of a bird in the air or fish in the sea, the sale of what the vendor is not able to deliver, or the unborn when the mother is not part of the transaction and milk in the udder (Yahya & Mubarakpuri 2002). This statement has been given considerable weight by *Shariah* scholars and is interpreted as having three juristic consequences: (i) a *gharar* sale is prohibited, (ii) such prohibition is total and extends to all transactions that qualify as a '*gharar* sale', and (iii) the effect of the prohibition is that a *gharar* sale is void (Balala 2010; Wan Ahmad 2008).

Iqbal and Molyneux (2005), asserted that "*Gharar* refers to acts and conditions in exchange contracts, the full implications of which are not clearly known to the parties.The existence of uncertainty in a contract is prohibited because it requires the occurrence of an event which may not ultimately occur. "Full disclosure" by both parties is the norm in contractual relationships. Any type of transaction where the (i) subject matter, (ii) the price, or both are not determined and fixed in advance amounts to "uncertainty". As a concept, it is predicated on the principles of equity and efficiency in transactions (Choudhury 2011).

2.4.3 Prohibition of *Maysir* (Gambling/Speculation)

Maysir is regarded by most Islamic scholars as gambling or any games of chance (including lotteries, lotto, casino-type games and betting on the outcomes of animal races). Together, these share a desire for obtaining return through deliberate risk-taking. The high risk available in these types of transactions, some people win a large amount of money, but others suffer from a loss of their money, and sometimes face bankruptcy (Iqbal & Molyneux 2005). This could lead to greater financial and societal problems. In addition, these games and gambling are unnecessary for society because they cannot add any surplus to societal wealth. Speculation is equivalent to gambling, and therefore is prohibited. This has essentially deterred many Islamic financial institutions from participating in derivative transactions. Speculative investments on the capital market in general are viewed suspiciously by *shariah* committees and avoided by financial institutions (Balala 2010). Caution must however be taken not to confuse risk with speculation. Risk taking is inevitable in commercial and investment transactions (the basis for making a profit/increased returns) (Askari et al. 2012). Speculation may on the other hand be viewed as excessive and/or avoidable risk taking.

2.4.4 Risk Sharing

Social justice demands that borrowers and lenders share rewards as well as losses in an equitable fashion and that the process of wealth accumulation and distribution in the economy be fair and representative of true productivity. Because interest is prohibited, pure debt security is eliminated from the system and therefore suppliers of funds become investors, rather than creditors. Provider of financial capital and the entrepreneur share business risks in return for shares of the profits and losses (Askari et al. 2012). Moreover, it is one of the objectives of *Shariah* that wealth should benefit not only its owner, but also the other contracting party and the society as a whole (Saleem 2012).

2.4.5 Prohibited transactions or investments

Islamic financial institutions cannot provide finance for an activity which is prohibited by *Shariah* irrespective of its profitability and economic viability. These transactions are involving prohibited elements such as pork, alcohol, armaments, activity involving speculation, gambling and any sort of immorality. By extension, Islamic institutions may have reservations about (and refrain from) investments involving businesses such as hotels and the entertainment industry, where alcohol and pork may be served and gambling may take place (Balala 2010; Tuma 2007). The aim of *Shariah* in this regard is to promote 'ethical' investments that again do not affect people and society adversely through the violation of religious prohibitions.

2.4.6 Financial assets

Money and financial assets in general are deemed merely media of exchange, not commodities that can be traded in (they are not deemed property). The sale of currency is therefore prohibited (both as a medium of exchange and/or a highly speculative investment) while the sale (through securitisation, restructuring or otherwise) of any debt remains largely doubtful in legality due to the scholastic consideration of debt as money (Balala 2010; Schoon 2008). Money is treated as "potential" capital – that is, it becomes actual capital only when it is joined with other resources in undertaking a productive activity. Islam recognises the time value of money but only when it acts as capital, not when it is "potential" capital (Askari et al. 2010).

2.4.7 Sanctity of contracts

Islam upholds contractual obligations and the disclosure of information as a sacred duty. This feature is intended to reduce the risk of asymmetric information and moral hazard (Askari et al. 2010).

2.4.8 Social justice

In principle, any transaction leading to injustice and exploitation is prohibited. A financial transaction should not lead to the exploitation of any party to the transaction. Exploitation entails the absence of information symmetry between parties to a contract (Askari et al. 2010, 2012).

Based on the above backdrop, Islamic finance emphasises a close link between financial transactions and real economic activities. Islamic finance, thus, is not only considered as a feasible and viable alternative for the conventional financial system but also a more efficient, productive and equitable way of financial intermediation (Khan 2010; Obaidullah & Latiff 2008).

2.5 Islamic finance methods

Islamic finance institutions (IFI) have developed a wide range of methods and/or techniques which allow them to uphold the religious and legal principles while enabling them, at the same time, to offer viable financial products. The search is actually still going on to find newer, and for variations based upon the existing ones to offer more attractive and useful instruments for the investors. The following list covers many of them, but it is not considered as exhaustive (Ahmad et al. 2010; Hussain 2010; Karim 2010; Yahya et al. 2012):

- ***Murabahah*****:** A form of asset financing where an IFI purchases an asset and then sells it to its client at a higher price (mark-up sale) with deferred payment terms. The interest that would ordinarily be paid by the client in a conventional loan – and which would constitute the bank's profit - is replaced by the difference between the purchase price and the sale price;
- ***Mudharabah*****:** A form of limited partnership where an investor (the silent partner) gives money to an entrepreneur for investing in a commercial enterprise. The profits generated by the investment are shared between the partners in a predetermined ratio. The losses are borne only by the investor;
- ***Musharakah*****:** Unlike a *Mudharabah* transaction, both partners in *Musharakah* must contribute capital to the partnership. Both partners and/ or one of them may manage the venture or alternatively both may appoint a third party manager to manage the investment. While profits may be shared in a pre-determined ratio, losses are shared in proportion to the capital contributed;
- ***Ijarah*****:** Similar to a hire-purchase, IFI purchases the asset and allows the customer to use it for an agreed period and for an agreed rent;
- ***Sukuk*****:** Shariah-compliant financial certificates of investment that are similar to asset-backed bonds; and
- ***Takaful*****:** Similar to a mutual insurance arrangement, a group of individuals pay money into a Takaful fund, which is then used to cover payouts to members of the group when a claim is made.

A summary of the differences between Islamic banking and conventional banking can be found at Appendix II.

2.6 Muslims in Australia

Muslim 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).

The data from Census 2006 indicated that Muslims population in Queensland are 20,300 and most of these people resided in Brisbane area. This is the target population of the study because according to previous studies, 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 interest/usury or also known as *Riba.*

2.7 Awareness of Islamic Finance in Australia

Empirical research on attitudes towards Islamic banking and finance has been limited globally. In Australia, only two known studies have been carried out to date (Farrar 2011) and only one on individual customers' attitudes, by Rammal and Zurbruegg. Their research was carried out in Adelaide in June 2004 and showed genuine interest amongst practising Muslims in the idea of Islamic banking products – but a lack of familiarity with Islamic brands and understanding of Islamic principles of financing (Rammal & Zurbruegg 2007). The other study by Jalaluddin in 1999 surveyed the attitudes towards profit and loss finance methods of 385 small businesses and 80 financial Institutions in Sydney. He noted that 60 per cent of his small business respondents (the majority of whom were non-Muslim) expressed an interest in profit and loss (*muđharabah*) financial arrangements and more than 40 per cent of the financial institutions were prepared to lend on that basis (Jalaluddin 1999).

The latter study suggests policy makers should look beyond the actual numbers of the Muslim population when determining the potential market; Islamic finance is not just for Muslims. Evidence from Malaysia indicates a substantial take-up from non-Muslims attracted by the fair terms and quality of Islamic finance products (Venardos 2006). As such, it is imperative that additional steps to introduce Islamic finance in Australia to be taken so as to increase awareness and disseminate the correct information to the public.

2.8 Religious Influence

In general, religion can influence one's behaviour, well-being, and lifestyle (Ebaugh 2002). Some researchers claimed that religion is the main cultural component that influences man's behaviour and decisions (Cornwell et al. 2005). At the same time, religion is seen as a subsystem of culture and a value in itself, and is regarded as a way of life that encourages people to strive for other values. Religious orientations based on values have two main purposes. Firstly, it is a powerful force in forming one's attitudes and behaviour and secondly, it serves as important guiding principles in one's daily life (Schwartz & Huismans 1995).

There is also evidence and arguments, which indicate that a religion may influence certain aspects of consumer's attitude and decisions making. The influence of religion on purchasing decisions depends most likely on the religion itself and on the extent to which individuals interpret and follow the teachings of their religion (Ismail & Phoon 2007). Schwartz and Huismans (1995) further highlights that the effect of the influence of religious value systems on consumer behaviour cannot be underestimated. There are two types of influence: first is through the direct influence of religious codes of conduct on personal choice, and the second is indirect which relates to religion's influence on attitude and value formation, in particular those who are concerned with economic issues.

However, the influence of religion depends greatly on religiosity. Nejdet Delener defines religiosity as the degree to which an individual is committed to a particular religious group and it is one of the important cultural forces and a major influence in buyer behaviour (Delener 1994). It is substantiated by a study done by (Esso & Dibb 2004) which states that religious affiliation affects consumer behaviour principally by influencing the consumer's personality structure, his or her beliefs, values and behavioural tendencies.

Consequently, it is highly likely that religiosity will help to administer an individual's behaviour as it is part of one's faith (Soesilowati 2010). Religious traditions and practices which constitute part of faith in certain religions (for example Islam, Judaism, Hinduism and Buddhism) may prohibit the use of certain goods and services. Religious affiliation and commitment may influence various aspects of the choice behaviour of its followers by the rules enforces and the taboos it proscribes. For example, the teaching of Islam forbade its followers i.e. Muslims from dealing with *Riba* or well known as usury and/or interest which is widely being practise in the conventional banking and finance operations. As such, the Muslims community are obliged to seek for banking and finance system that comply with the *Shariah* (Islamic law) such as Islamic finance and religious do play a role in a decision making of men towards their financial needs.

2.9 Islamic Finance in Australia

In Australia, there are 20 locally owned Banks, 8 foreign subsidiary Banks and 40 branches of foreign banks (APRA 2013). However, none of these banks or any of the high street banks offered Islamic finance even though some of the foreign banks do provide Islamic finance facilities elsewhere. Australia's experience with Islamic financing has been relatively new. Currently there are three main providers of Islamic finance products and services in Australia as detailed below:

2.9.1 Muslim Community Co-operative Australia (MCCA)

The first attempt to introduce Islamic financing products in Australia was made by the MCCA (Ahmad et al. 2010). MCCA is a non-bank financier based on unique system that recognises and meets the community's religious needs. It also spouses a philosophy of providing finance on a fairer and more equitable basis, which in the long-term should be better for society at large. Based in two major cities of Australia, Melbourne and Sydney, MCCA serves the diverse needs of all consumers. In 2006, MCCA was awarded with the Australian Business Award for Small and Medium Enterprises (SMEs) in the categories of Enterprise and Community Contribution for community service and community reinvestment. Its membership is open to all, whether Muslims or non-Muslims. Established in February 1989 with ten members with A$22,300 worth of seeding capital, MCCA's members stand now over 8,000 in Victoria and New South Wales (MCCA 2013). The products offered by MCCA include property financing (residential and commercial), property construction financing, motor vehicles financing and other commodity financing. MCCA also provides *Qard Hassan* facility (interest free loan) to its members.

2.9.2 Islamic Co-operative Finance Australia Limited (ICFAL)

ICFAL was officially endorsed and registered by the Registry of Co-operatives, Department of Fair Trading, the Government of the State of New South Wales, in May 1998 under the Co-operatives Act 1992 (NSW), sections 8, 9 and 10 to function as co-operative within the state of New South Wales (ICFAL 2013). The primary objectives of ICFAL are:

- To provide methods of investment & finance opportunities for its members in line with Islamic principles (Halal): Equity Profit & Loss sharing concept, which is fair, simple and straightforward;
- Facilitate earning Halal income;
- Facilitate ownership of property (home, vehicle & other approved tangible assets);
- Facilitate performing social & religious obligations for Muslim members i.e., *Zakah* & Hajj; and
- Establish feasible joint venture or partnership deals with members & similar organisations.

At present, ICFAL provides the following products and services for its members.

1. Housing finance under *Murabaha*, *Musharaka* and *'Ijara wa 'Iqtina* financing schemes. It follows almost all the terms and conditions and procedures followed by MCCA for its house financing scheme.
2. Vehicle finance under *Murabaha* and *'Ijara wa 'Iqtina* modes of finance.
3. Buying consumer's durables for customers and reselling to them under the *Murabaha* mode of finance
4. Small business finance under *Musharaka* and *Murabaha* financing schemes.
5. Hajj Fund under the *Mudaraba* mode of investment. Under this scheme a customer wishing to perform Hajj deposits money by instalments to this fund over a specified period to be able to bear Hajj related expenses when the fund is matured. The accrued dividend is distributed among the participating members for the whole period of investment.
6. Children Education Fund under the *Mudaraba* mode of investment. Under this arrangement ICFA provides financial facilities to cover the education expenses of the participating members' children during the later stage of high School and tertiary education. To meet eligibility criteria of an active membership provision a child under the age of 18 years pays at least 10% of the joining fee of A$100 plus10% of 5 shares (each share is valued at A$100) and agrees to pay the remaining portion by equal instalments during the first financial year. The maturity period of this fund package to be purchased must be at least 5 years.

7. *Zakah* Fund. Under this scheme ICFAL acts on behalf of each member, if requested to calculate, collect and distribute *Zakah* to the poor and other deserving needy people as outlined in *Shariah*.
8. Qard Hasan (Benevolent Fund).

As regards the membership requirements, any person residing in the State of New South Wales may be eligible to become a general member of ICFAL by paying a one off membership fee of $100 dollars and an active member of ICFAL by purchasing a minimum of 5 shares valued at $100 dollars each. An active member is entitled to receive finance from ICFAL's under the schemes mentioned above subject to the down payment of 20% of the total price of the house, commodity or other products under purchase.

2.9.3 Iskan Finance Pty Limited (ISKAN)

Iskan Finance, as stated on its official website, is an Australian business established in 2001 by a group of Australian and Non-Australian Muslims with the core objectives: to pioneer, create and promote the most competitive *Shariah*-compliant home facilitation programme possible for the Islamic community in Australia. In 2001, Iskan commenced its business with residential and commercial property financing. In 2006, it introduced another product called ultiMATE Home Finance package offering a wider range for its customers. 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)

Apart from MCCA, ICFAL and ISKAN, another Islamic finance service provider operating in Australia is Crescent Wealth. It is 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).

Meanwhile, Islamic Council of Victoria provide small microfinance loan that is *Shariah*-compliant and known as *Qard Hassan* scheme or No Interest Loan (ICV 2013). The scheme provide loans of up to $1000 dollars 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 a "benevolent loan". However, this microfinance facility is not offered throughout Australia and is centralised in Melbourne.

Despite of the above developments, the expansion and growth of Islamic finance in Australia has been slow for various reasons, for example lack of regulatory support and policy framework (Ahmad et al. 2010). We shall look deeper on the issues that surrounding the development of Islamic finance in Australia in the next section.

2.9.4 Legal and regulatory framework for financial institutions in Australia

An appropriate legal and regulatory framework is a basic requirement for establishing and operating sound financial institutions and markets. Like many Western economies, Australia utilises a combination of market and government mechanisms to regulate the banking and finance industries. Government involvement operates to prevent market failure and also to facilitate efficient running of the markets. Australia uses three government regulatory agencies at the federal level:

1. Australian Prudential Regulation Authority ('APRA');
   APRA enforces prudential legislation and is in charged specifically with protecting the interests of depositors, insurance policy holders and superannuation fund members (APRA 2003). Islamic deposit-taking institutions, such as banks and cooperatives, and those running *Takaful* (Islamic insurance) operations, therefore, would have to deal with APRA. Under the *Banking Act 1959* (Government 2003), APRA can exert a significant degree of supervisory control through insertion of conditions requiring the holder of a licence to comply with any of its inquiries or directives.

2. Australian Securities and Investment Commission ('ASIC')
   ASIC supervise matters that fall outside the jurisdiction of APRA, for example supervision in the area of financial securities, financial instruments and stock exchanges. Like APRA, it has considerable scope to supervise Islamic financial institution through the conditions it imposes on its licensees and the need for self-reporting of breaches. ASIC's responsibilities fall under the *Corporations Act 2001* and are concerned more with market integrity in general and consumer protection. It has civil and criminal jurisdiction, has powers to investigate corporations, inspect books, call witnesses, require disclosure on the detail of financial products, and hold public hearings (Government 2001).

3. Reserve Bank of Australia ('RBA')
   The RBA, formally independent of the Federal Government, decides on monetary policy (similar as the Bank of England) and works to ensure stability of the financial system as a whole. Its responsibilities are covered by the *Reserve Bank Act 1959*. Since 1998, it has not been involved with prudential regulation of banks or other deposit-taking institutions. In addition to supervision from government regulators, Islamic finance service providers have to comply with directives from their market regulators, who are themselves subject to directives from ASIC and the overall supervision of the Minister (Farrar 2011).

Similar to the Common law and Civil law systems, the *Shariah* offers its own framework for the implementation of commercial and financial contracts and transactions (Ahmad 2008). However, not many countries have the appropriate financial, commercial and company laws to facilitate the implementation of Islamic finance. For example, in most countries, many Islamic banking and financial contracts are treated as buying and selling properties and hence are taxed twice. In some countries like the UK and Singapore, double stamp duty on some Islamic home finance schemes has been abolished so as to provide tax neutrality (Ahmad et al. 2010).

In Malaysia, the Stamp Act 1949 has been amended to cater for Islamic finance in line with the government's policy to ensure tax neutrality between Islamic and conventional financing products (Thani et al. 2010). The additional instruments that are required to be executed in accordance with the Islamic principles have been given stamp duty exemption so that the stamp duty on the Islamic financing product is similar to that of the conventional product.

In the absence of Islamic banking and finance laws, any enforcement of agreements in the courts of law may require extra efforts and maybe higher costs. Therefore, banking and company laws in several countries require suitable modifications to provide a level playing field for Islamic financial institutions (Ahmad 2004). Furthermore, international acceptance of Islamic financial contracts requires them to be *Shariah*-compatible as well as acceptable under the major legal regimes such as the common law and civil law systems.

At the moment, there is no mechanism in Australia that would compel Islamic finance service providers to comply with regulations and directions of the international Islamic regulatory bodies, either directly or indirectly. There are two international standards-setting bodies: the Islamic Financial Services Board ('IFSB') and the Accounting and Auditing Organisation for Islamic Financial Institutions ('AAOIFI'). The former is an association of central banks, monetary authorities and other institutions responsible for regulation and supervision of Islamic financial services. Its primary purpose is to set and harmonise standards for supervision and regulation internationally that are consistent with *Shariah* principles (Farrar 2011; Saleem 2012). IFSB also liaises and coordinates with standards-setting bodies from the conventional sector to promote stability and disseminate best practices. One of its most important functions to date has been the adaptation of Basel II on capital adequacy requirements to Islamic finance service providers.

Meanwhile, AAOIFI is an autonomous international Islamic organisation which prepares accounting, auditing, governance, ethics and *Shariah* standards for Islamic finance service providers. Its members are drawn from certain Islamic financial institutions and *Fiqh* academies, including the Fiqh Academy of the Organisation of the Islamic Conference (OIC). The AAOIFI complements the IFSB through the setting and harmonising of *Shariah* standards. The rulings, standards and guidelines of both organisations are voluntary in nature but have been incorporated (directly and indirectly) into the domestic laws of some jurisdictions (Krichene 2012).

As can be seen above, Islamic finance industry needs to be supported by a strong regulatory and supervisory framework. This is to ensure that the operations of the Islamic finance institution (IFIs) are sound and not a source of susceptibility to the banking system. At the moment, the legal and regulatory frame work in Australia does not actually cater for the development of Islamic finance.

2.9.5 Impediment issues related to Islamic finance in Australia

According to Thani, Abdullah and Hassan (2010), the Islamic finance sector requires more than a receptive market; it also needs an enabling legal environment for both the retail and wholesale markets to prosper. In their analysis of the experiences of several countries, key factors in the successful development of Islamic finance have been: clear policy decisions and directions coordinated by local financial regulations; legislation establishing, licensing and supervising institutions offering Islamic finance services and clarifying the difference with conventional services; comprehensive and precise mechanisms that ensure systemic *Shariah* compliance, supervised by qualified *Shariah* scholars as part of a *Shariah* Advisory Board (SAB); taxation friendly frameworks which enable Islamic finance providers to compete effectively with providers of conventional finance; supporting infrastructures, including accounting standards and human resource development; and participation in global initiatives, such as the Islamic Financial Services Board (Thani et al. 2010).

Earlier studies indicates that due to the unfamiliarity of the relatively new Islamic finance system, Islamic financial institutions in Australia have not been able to play the expected role in the development of Australian economy through mobilising funds and attracting more customers (Ahmad 2008). Other major obstacle in Australian regulatory system is its federal structure. All institutions, be it financial or otherwise, are required to follow both State and Federal regulations. These regulations may vary from State to State. The States and Territories may have different regulations. Thus lack of uniform regulations across all the six States and two Territories are also not conducive for growth of Islamic finance in Australia (Ahmad & Hassan 2006).

In September 2008, the Australian Government commissioned a report into how to position Australia as a leading financial services hub in the Asia-Pacific region and as a result, the Johnson Report was introduced. The Johnson Report made two specific recommendations on Islamic finance: the removal of regulatory barriers to the development of Islamic finance products in Australia, and a call for an inquiry by the Board of Taxation into whether Australian tax law needs to be amended to ensure that Islamic financial products have parity of treatment with conventional banking products (Khan 2012).

The focus of this report was not to give any special treatment to Islamic finance, but to make sure there was a level playing field for the development of Islamic finance in Australia. This wouldn't require large scale re-writing of the Australian law and merely sought neutrality in treatment. For example, purchasing a home through an Islamic mortgage would result in double payment of stamp duty. This is because *Shariah*-compliance requires the asset to change hands twice. A neutral treatment would require amending the law such that the stamp duty is paid once or an equivalent amount in two instalments. The Victorian government already introduced such changes after working together with the MCCA (Khan 2012).

In April 2010, the Australian Government announced that the Board of Taxation would conduct a comprehensive analysis of Australia's tax laws as recommended by the Johnson Report and identified areas which might need fine-tuning. In further development, on 18 May 2010 the then Assistant Treasury Mr Nick Sherry announced the Terms of Reference for the Review (Government 2012). Among others the issue under review are as follows:

Review of the tax treatment of Islamic finance

1. The Board of Taxation was asked to undertake a comprehensive review of Australia's tax laws to ensure that, wherever possible, they do not inhibit the expansion of Islamic finance, banking and insurance products.

2. The Board was asked to:
    i. identify impediments in current Australian tax laws (at the Commonwealth, State and Territory level) to the development and provision of Islamic financial products in Australia;

ii. examine the tax policy response to the development of Islamic financial products in other jurisdictions (including the United Kingdom, France, South Korea and relevant Asian jurisdictions); and

iii. make recommendations (for Commonwealth tax laws) and findings (for State and Territory tax laws) that will ensure, wherever possible, that Islamic financial products have parity of tax treatment with conventional products.

3. In conducting the review, the Board should have regard to the following principles as far as possible:
   i. The tax treatment of Islamic financial products should be based on their economic substance rather than their form.
   ii. Where an Islamic financial product is economically equivalent to a conventional product, the tax treatment of the two products should be the same.

4. If the Board concludes that amendments to the tax law are required, the Board should consider whether adjustments can be made to existing tax frameworks rather than the development of specific provisions directed solely at Islamic financial products.

5. The Board was asked to report to the Assistant Treasurer by June 2011.
   source: (Sherry 2010)

In respond to the call made in April 2010, the Chairman of the Board of Taxation, Mr Dick Warburton AO announced the release of a discussion paper on the Board's review of the taxation treatment of Islamic finance, banking and insurance products in a statement dated 13 October 2010. To facilitate public consultation, the Board has developed a discussion paper as a basis for further discussion. The Board welcomes submissions on issues raised in the 84 pages discussion paper and sets the closing date for submissions on 17 December 2010.

To assist in the Review process, the Board conducted consultation meetings on 8 November 2010 in Melbourne and 11 November 2010 in Sydney. The consultation meetings were attended by representatives from taxation professional bodies, major law and accounting firms, various major corporations and business associations. The Board was expected to provide a final report to the Assistant Treasurer by June 2011 after considering the views of all stakeholders (Government 2010).

The Board of Taxation has finally submitted its final report to the Government recently. The submission was informed to the general public by the then Parliamentary Secretary to the Treasurer, Mr Bernie Ripoll at the “Amanie Australia Islamic Finance Forum” in Melbourne on 16 April 2013 (Moore 2013). In his speech, Mr Ripoll said that Australia is making progress on implementing the recommendations of the 2010 Johnson Report. The Report made two specific recommendations relating to Islamic Finance (Ripoll 2013):

1. The first recommendation was to review Australia’s tax laws to ensure that wherever possible they do not inhibit the provision of Islamic finance, banking and insurance products and that it has parity of tax treatment with conventional

products - Mr Ripoll confirmed that the Board of Taxation has submitted the final report to the Government, which is considering the issues raised in the report.

2. The second recommendation was to review whether any regulatory barriers to the development of Islamic financial products in Australia – Mr Ripoll informed that currently there is no substantive regulatory barriers at the Commonwealth level.

However, as of October 2013, the Australian Government has not release any decision with regards to the Board of Taxation's recommendations. The decision that the Australian Government makes will decide the future of Islamic finance in Australia. It is the decision that is highly anticipated by the local and foreign banks who have taken a wait-and-see approach so far.

2.10 Role of Islamic finance in tackling financial exclusion

Islamic finance has been perceived to perform mostly the same functions of conventional finance, but they do so in distinctly different ways (Chapra 1985). The distinction can be justified as follows:

- First and foremost, Islamic finance strives for a just, fair and balanced society. The principle of *Shariah* prohibiting *riba*, *gharar* and *maysir* (just to name a few) have been prescribed to provide a level playing field to protect the interest and benefits of all parties involved in the transaction and to promote social harmony (Dusuki 2011). For example, the prevailing practice of interest in conventional banking system involves injustice to the borrowers since the interest on their loans has to be paid irrespective of the outcomes of their businesses. Similarly, interest contracts can be unjust to the lenders, especially when their returns on deposits that the banks channel to entrepreneurs are not commensurate with the actual performance of the investments.
- Islamic finance was built upon the principle of brotherhood and cooperation, which calls for a system of equity-sharing, risk-sharing and stake-taking (Askari et al. 2012). A system that promotes sharing and cooperation between the provider of funds (investor) and the user of funds (entrepreneurs) or in conventional system known as lender and borrower.
- As a system grounded in the ethical and moral framework of the *Shariah*, Islamic finance is also characterised by ethical norms and social commitments. There is a moral filter based on the definition of *halal* (permissible) and *haram* (prohibited) operating at different levels (Iqbal & Mirakhor 2011). This helps in shaping the entrepreneurs and firms, promoting a positive social climate for society and provides an expedient legal framework. That is why Islamic finance do not finance any project that contradict with the moral value system of Islam; for example financing activities which is prohibited in Islam or known to be detrimental to society.
- Islamic finance is community oriented and entrepreneur-friendly, emphasising productivity and the physical expansion of economic productions and services (Askari et al. 2010). Thus, it shifted from predominant practice of focusing on financial collateral or borrower's financial worth to the entrepreneur's trustworthiness and the project's viability and usefulness. This feature has important implications for the distribution of credit as well as the stability of the system.

- Finally, Islamic finance operates within limit that ensure stability in the value of money and that curtail destabilising speculation (Askari et al. 2010). This was demonstrated when the monetary flows through Islamic financial modes are tied directly to the flow of goods and services. Hence, there is limited room for a sudden mass-movement of funds as compared to the flow of interest-based short-term funds.

The above explains one part of how Islamic finance can play a major role in tackling financial exclusion.

2.10.1 Promoting social justice in finance

One of the distinguishing characteristic of Islamic finance is the prohibition of interest in all its forms. It is generally agreed that prohibition of interest has an intrinsic value that promotes justice, brotherhood, social equality and equitable distribution (Dusuki 2011). In this regards, Islamic finance institutions should guarantee the participation of every segment of society. In particular, the replacement of interest-based financial intermediation by profit-loss-sharing (PLS) modes if financing should promote financial and social inclusion as opposed to the emerging financial exclusion that is becoming common phenomenon in most developed countries.

There are many verses in the *Quran* and *hadith* commanding Muslims to help the poor and provide for the needy. We can briefly consider some of these verses and sayings in order to understand the importance of financial and social inclusion in Islam to attain the overall goal of *Shariah* to provide social welfare and cohesion. For example, Chapter 6 verse 36:

"*Serve God and join not any partners with Him and do good to parents, kinfolk, orphans, those in need, neighbours who are near, neighbours who are strangers, the companion at your side, the wayfarer and what your right hand possesses, for God loveth not the arrogant, the vainglorious."* (Khan & Al-Hilali 2001)

It is obvious from the above verse that the most important task for the believers after witnessing the oneness of God is to do good for their fellow human beings, which clearly shows the importance of social service and social inclusion in Islam.

In the *hadith* of Prophet Muhammad (pbuh) that was recorded in *Sahih Muslim*:

"*Whoever relieves the hardship of a Muslim in this life, Allah will relieve one of his hardships on the Day of Judgment; and whoever eases a financial difficulty for a Muslim, Allah will relieve his difficulties in this life and the hereafter; and Allah always assist the believer as long as he is assisting his brother*" (Yahya & Mubarakpuri 2002).

It is clear from the above *Quranic* verse and *hadith* that Islam shuns social deprivation and encourages communal spirit over individualism and urges its followers to understand that removing the suffering of the needy is a highly commendable act as it leads to societal well-being and communal harmony.

2.10.2 Promoting Islamic microfinance

The assets managed by Islamic finance industry was estimated to be worth $1.6 trillion dollars as at the end of 2012, and it was forecasted that it will go beyond $2 trillion dollars by the end of 2013 (EY 2012). The figures indicate that Islamic finance is expected to continue its tremendous growth and as such, it should be in a good position to tackle the issue of financial exclusion among the Muslims. We take for example, Islamic micro-financing/micro-credit refers to a *Shariah*-compliant way of providing financing to those rejected by the mainstream financial services, to help them start up micro-enterprises or maintain their existing business (Hasanzadeh 2012).

Sources for micro-financial institutions could be many and varied, but some of the most popular sources of funds for these include *zakat* (Almsgiving), *sadaqa* (Charitable giving), *awqaf* (Charitable endowments) and *qard-hassan* or benevolence loan (Obaidullah & Latiff 2008). *Zakat* is one of the pillars of Islam and is obligatory on a Muslim's wealth while the others are discretionary and entail all forms of philanthropic giving such as *tabarru'at* (donations), *hibah* (gifts), *infaq* (charitable spending) and when these are expected to continue over long period of time they are called *awqaf* which are a kind of endowment for charitable purposes (Obaidullah & Latiff 2008).

Furthermore, Islamic finance institutions could enter into *Mudharabah* arrangements with the needy. For example, a company or a Muslim businessman gives *Zakat* of $10,000 dollars. The IFIs identifies 10 needy people in which it can then invest. For each, a thousand dollars can be invested; and the microfinance helps them start a small business. It enters into a *Mudharabah* contract by sharing a minimal profit of maybe 10% with them. This will enable the *Mudharib* or the needy person to put in more effort to get better output. Also, the 10% can cater to the cost of the microfinance company. These 10 people in the coming year will have no need to take *Zakat* any more since they will be now providing for themselves.

It is evident from the above that the spirit of the entire Islamic economics and financial systems are based on the concept of 'social justice' by ensuring that wealth is fairly distributed among members of society to promote social and financial inclusion.

There are many other ways that Islamic finance can help reducing financial exclusion. This has been explained in the earlier section in this chapter in relations to Islamic finance method.

2.11 Summary

In this Chapter, an introduction to Islamic finance and brief history of the industry was presented. We also looked into the current Islamic finance service providers in Australia and the range of products that they offer. In addition, the theoretical framework and specific rules of the *Shariah* that governed Islamic finance was also elaborated. Like conventional financing, Islamic finance industry needs to be supported by a strong regulatory and supervisory framework because these are the key and important elements in the development and growth of the Islamic financial services industry in any country. However, Islamic finance in Australia is still relatively new and there is a long way ahead for it to be fully established as can be seen from the issues discussed in the last section of the chapter.

The role of Islamic finance in tackling financial exclusion was also discussed in this Chapter. It is evident from the discussion above that the spirit of the entire Islamic economics and financial systems are based on the concept of 'social justice' by ensuring that wealth is fairly distributed among members of society to promote social and financial inclusion.

CHAPTER 3: FINANCIAL EXCLUSION

3.1 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 favour the more affluent and powerful social groups at the expense of marginalised groups. Financial exclusion is one aspect of the wider concept of social exclusions and it follows logically that groups who are at risk of financial exclusion are also at great risk of social exclusion. If experienced by new migrants, financial exclusion can pose difficulties in their successful integration into the host country (EC 2008). Nearly 3 billion people in the world faced difficulties in accessing formal financial services based upon financial exclusion/inclusion (Kumar & Mishra 2011).

3.1.1 Financial Exclusion

The concepts of financial exclusion and inclusion are complex and multifaceted. The two notions are constantly developing in academic discourse globally. Both are thoroughly intertwined with each other, and both must be understood in the broader context of the agenda to combat social exclusion (Rahim et al. 2009).

According to a European Commission (EC) report, the term financial exclusion was first used in 1993 by geographers who were concerned about limited physical access to banking services due to bank branch closures. Throughout the 1990s there was a growing body of research relating to the difficulties faced by particular sections of societies in gaining access to modern payment instruments, banking services, consumer credit and insurance. There was also concern about some people lacking savings of any kind (EC 2008). The term became prominent in the UK in the late 1990s during the debates around poverty and social exclusion (Blake and de Jong, 2008).

Subsequent research studies adopted this “in and out” approach but explored other causes which explained access difficulties (Devlin 2005; Kempson 2001; Sinclair 2001). The study emphasised that difficulties of access could 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 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 (EC 2008). Although the term ‘normal social life’ does 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 can 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 lack 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 designed 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 pawn-shops.

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 (Demirgüç-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.

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 or not 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.

3.1.2 Financial Inclusion

To understand financial exclusion in the wider context, it is also important to examine financial inclusion. Financial Inclusion is about ensuring everyone has the opportunity to access the financial services products needed to participate fully in modern-day society and the economy. Financial exclusion affects some of the most vulnerable members of society – extensive research has shown that those living on low incomes, and experiencing multiple forms of disadvantage, are most likely to be affected by financial exclusion. Tackling this problem, therefore, is an important part of social policy and social justice and action to break the inter-generational cycle of disadvantage. (HM Treasury 2007:5).

Financial inclusion has been conceived more recently as being constituted by two elements namely good financial decision-making (the demand for financial services) - people need financial literacy in order to understand financial concepts; and financial capability: the skills and motivation to plan ahead, find information, know when to seek out advice and then apply it.

From the related studies, financial inclusion refers to the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost, in a fair and transparent manner, by mainstream institutional players (Chakrabarty 2011). A financial sector that provides “access‟ to credit for all “bankable‟ people and firms, to insurance for all insurable people and firms, to savings and payment services for everyone (United Nations 2006 b). Inclusive finance does not require that everyone who is eligible will use each of the services, but they should be able to choose to use them if desired.

World Bank report (2007), states that financial inclusion or broad access to financial services is defined as an absence of price or non-price barriers in the use of financial services. It recognises the fact that financial inclusion does not imply that all households and firms should be able to borrow unlimited amounts or transmit funds across the world for some fee. It makes the point that creditworthiness of the customer is critical in providing financial services. The report also stresses the distinction between “access to‟ and “use of‟ financial services as it has implications for policy makers. “Access‟ essentially refers to the supply of services, whereas use is determined by demand as well as supply. Among the non-users of formal financial services a clear distinction needs to be made between voluntary and involuntary exclusion. The problem of financial inclusion addresses the “involuntarily excluded‟ as they are the ones who, despite demanding financial services do not have access to them. In advanced economies, financial inclusion is more about the knowledge of fair and transparent financial products and a focus on financial literacy (Chakrabarty, 2011). The term financial inclusion needs to be interpreted in a relative dimension, depending on the stage of development; the degree of financial inclusion differs among countries. For example, according to the Scottish Government 2005, financial inclusion is access to appropriate financial products and services this includes having the capacity, skills, knowledge and understanding to make the best use of those products and services. In emerging economies, it is a question of access to financial products and knowledge, as well as their fairness and transparency (Chakrabarty, 2011).

M. Vighneswara Swamy P. (2011) asserted on the importance of financial inclusion and poverty reduction. The study suggested that access to finance by the poor is a prerequisite for poverty reduction and sustainable economic development. Nearly 3 billion people in the world faced the difficulties in accessing formal financial services based on financial inclusion. In the study, the author has critically analysed the issues and challenges involved in financial inclusion for inclusive growth and has also successfully highlighted the factors that can aid in achieving financial inclusion for inclusive growth in India, particularly in the context of the feared global slowdown and negative impact of high inflation on the Indian economy (Swamy 2011).

Another study from a policy perspective conducted by Kumar & Mishra (2011) found that two relevant issues are important towards financial inclusion, that is to widen the ambit of policy initiatives under financial inclusion: thereby reducing the dependency on informal source of financial services, particularly credit; and secondly: to provide greater focus on vulnerable states/regions in providing access to financial services where they are currently lacking (Kumar & Mishra 2011).

In a study on financial inclusion in the Middle East and North Africa, Pearce (2010) suggested the introduction of Islamic banking products for low income consumers and microenterprises as a way to improve financial inclusion. A lack of *Shariah*-compliant financial services is a constraint on financial inclusion to a percentage of the population. However, the growth of Islamic microfinance will depend to a large degree on whether or not financial institutions can develop sufficiently attractive financial products and services, which are competitive with conventional products in terms of pricing, transparency, processing time, and burden on the client (Pearce 2010).

Mohieldin (2011) identified the gaps currently exist in Organisation of Islamic Cooperation (OIC) Countries that is, lack of *Shariah*-compliant microfinance and financial for small and medium enterprises and the state of traditional redistributive instruments. The paper concludes that Islam offers a rich set of instruments and unconventional approaches, which, if implemented in true spirit, can lead to reduce poverty and inequality (Mohieldin 2011).

Having briefly looked into previous studies, we can conclude that financial inclusion has the ability to generate positive externalities: it leads to increase in savings, investment and thereby, spurs the processes of economic growth. It also provides a platform for inculcating the habit of saving money, especially amongst the lower income category that has been living under the constant shadow of financial duress, mainly because of absence of savings, which makes them a vulnerable lot. Presence of banking services and products aims to provide a critical tool to inculcate the savings habit. It also creates avenues of formal credit to the unbanked population who are otherwise dependent on informal channels of credit like family, friends and moneylenders. Availability of timely, adequate and transparent credit from formal banking channels will allow the entrepreneurial spirit of the masses to increase outputs and prosperity in the countryside. It will open the doors of formal remittance facilities to the low income and unbanked populace who, presently, are forced to use all kinds of informal and costly ways of sending money from one place to another. As we all know, financial inclusion has now been viewed as a remedy to plug gaps and leaks in distribution of government benefits and subsidies through direct benefit transfers to beneficiaries' bank accounts rather than through subsidizing products and making cash payments. Thus, on the whole, Financial Inclusion has the potential to bring in the unbanked masses into the formal banking system, channelize their savings, stoke their entrepreneurial ambitions by making available credit and thus give a fillip to the economy.

3.2 Causes of financial exclusion

There is no one common reason for financial exclusion. Early commentators asserted that mainstream financial institutions view people with low incomes and certain disadvantaged social groups as representing too high a risk and avoid geographical areas where these groups of population live (Leyshon & Thrift 1995; Leyshon et al. 1998). There is now a growing body of research identifying a much wider range of other factors restricting access to, and appropriate use of financial services:

- Geographical exclusion, e.g. resulting from branch closures;
- Condition exclusion, e.g. the failure to qualify due to the minimum deposit required, poor credit history or identity requirements;
- Price exclusion, e.g. the relative cost of financial products and services such as unauthorised overdrafts;
- Marketing exclusion, i.e. less profitable groups of customers are not targeted by providers and so they are unaware of the financial services available; self-exclusion, i.e. cultural and psychological barriers – "financial services are not for people like us" (EC, 2008).

There may also be a complex set of overlapping barriers causing individuals financial exclusion; it is a dynamic process with no single explanation (Mitton 2008). Different groups will have a different balance of capability and access issues because of their divergent situations. For example, migrant communities share characteristics with other financially excluded groups in the community, such as people with low incomes, whilst retaining unique characteristics that compound their exclusion, such as language difficulties and the financial practices in their own countries (Datta 2007). For the purpose of this study, three factors have been identified as the causes of financial exclusion. These factors include societal, supply and demand, and a discussion of each factor is as detailed below:

3.2.1 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 of 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. 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 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 increases 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, Collard (2001) suggested that Pakistani and Bangladeshi 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).

3.2.2 Supply Factors

Based on literature under review, it is noted that most of the previous studies on financial exclusion, focussed 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 institutions' 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 counterparts (Pearson 2008). 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 (Collard et al. 2001; Kempson 2001). Questions about access to and use of financial services are, therefore, numerous. These questions often demand that answers are provided to them if any meaningful effort is to be made towards ensuring an inclusive financial access. In this regard, a lot of pertinent questions are raised:

   > 'Just how limited is financial access around the world? What are the chief obstacles and policy barriers to broader access? How important is access to finance as a constraint to growth or poverty alleviation? Which matters more: access by households, or access by firms? Is it more important to improve the quality and range of services available to those firms and households who might already have access (intensive margin), or to provide basic services to those who are completely excluded (extensive margin)? How important is direct access to finance for the poor and small firms compared with economy wide spill over effects of greater financial development through more efficient product and labour markets?' (Demirgüç-Kunt et al. 2008).

   Efforts at providing answers to these myriad of questions related to financial access are still on-going. However, most of these researches are carried out at the macro level. The fear that aggregate data can be misleading was, however, raised by most researchers (Demirgüç-Kunt et al. 2008). This is due to the differences in the socio-economic condition of countries and the paucity of requisite data upon which such aggregate findings can be validated.

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 (McDonald 2009; Pearson 2008).

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).

3.2.3 Demand Factors

Demand factors refer to the cultural and psychological factors that deter some people from accessing financial products and services. 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 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).

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; Buckland 2012).

3.3 The effects of financial exclusion

It has been cited in the literature that financial exclusion is very much located at the heart of social exclusion (Scutella 2009; Scutella & Wilkins 2010), and 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 poverty. 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.

Exclusion from basic financial products and services can cause vulnerable groups, such as new migrants, difficulties in making and receiving payments, borrowing from safe sources, making and keeping savings safe, paying additional and costly charges for services and avoiding over-indebtedness. Individuals without basic transaction bank accounts face difficulties in taking employment where wages are paid directly into bank accounts or in dealing with cheques. A study of new migrant workers showed that without access to a transactional bank account they were more likely to find work only at the margins (Mckay & Wickelmann-Gleed 2005). Furthermore, individuals who did not hold accounts and stable relationships with banks but used them occasionally for one-off services were often forced to pay higher charges (EC, 2008).

Individuals who were unable to obtain credit from banks or other mainstream financial providers were often forced to use intermediaries or sub-prime lenders who charge higher rates and offered substandard terms and conditions. As a result of such terms and conditions inherent in some sub-prime products, these customers may have been more vulnerable to greater financial difficulties and over-indebtedness. Those who are totally 'credit excluded' and who cannot gain access to any type of credit may force to rely on informal borrowing such as from kinship networks. They may also resort to using unsafe sources of money such as illegal lenders who may use violence and intimidation if customers are unable to meet repayments (EC 2008).

3.4 Financial Exclusion in Australia

> 'In Australia, there appears to be a particular emphasis on affordability as a cause of financial exclusion … Low income consumers therefore bear the brunt of financial exclusion in Australia. Those living on low incomes and suffering exclusion from mainstream credit services are likely to turn to alternative credit providers such as payday.'(Connolly & Hajaj 2001).

Financial exclusion has gained momentum in the developed world since the late 1990s and has attracted huge public interest in many countries including Australia. Leyshon and Thrift proposed the first definition of financial exclusion. According to the authors, financial exclusion involved the "processes that serve to prevent certain social groups and individuals from gaining access to the financial system" (Leyshon & Thrift 1995). The study emphasised 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.

The definition of financial exclusion in Australia differs from other contexts (Howell & Wilson, 2005; Chant Link, 2004, Burkett & Drew, 2008). In countries such as the United States and the United Kingdom, many people do not have a bank account and are therefore referred to as 'unbanked'. As a result, many definitions of financial exclusion in these countries focus on ownership of financial products, particularly bank accounts. However, in Australia less than 1 per cent of people have no basic financial products (Chant Link & Associates, 2004), primarily because the government only pays Centrelink and other benefits through bank accounts.

The earlier definition of financial exclusion in Australia was developed by Connolly & Hajaj (2001) 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".

In a report by Chant Link & Associates (commissioned by ANZ), a new definition of financial exclusion was developed:

> 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 represents a significant shift in understanding financial exclusion in Australia, suggesting that it is broader than merely the ownership of products. In particular, the definition makes a connection between the lack of access to appropriate products and the negative impacts 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. It can be argued that access to the mainstream financial system, its products and services is fundamental for individuals to participate in a modern market economy – and in a developed nation such as Australia is a hallmark of inclusion.

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. According to the measurement, around 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 comprised 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).

In the same report, it was suggested that there was a need to conduct further research 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 (Connolly et al. 2011). They may have faced financial disadvantages because of their faith and religious beliefs which in turn makes them financially excluded from the mainstream financial systems (Pearson 2008). In another study, it was reported that there was 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). Muslims in Australia are a minority religious group. According to Census 2011 (ABS 2011), 476,300 people, or 2.25% of the total Australian population were Muslims. This made Muslims the fourth largest religious grouping, after all forms of Christianity (64%), no religion (22.9%) and Buddhism (2.5%).

The second report release by CSI in May 2012 shows that there was an increase in the level of financial exclusion in Australia. It found that 16.1% of the adult population in Australia were severely excluded and 1.1% was fully excluded. In real terms, 192,000 people were fully excluded and a further 2,803,000 people were severely excluded from access to financial services, making a total of 2,995,000 Australian adults (Connolly et al. 2012). Please refer to Appendix III for six years data of financial exclusion in Australia from 2007-2012.

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 are 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.

From the literature review undertaken, financial exclusion is a process whereby a person, group or organisation lacks or is denied access to affordable, appropriate and fair financial products and services, with the result that their ability to participate fully in social and economic activities is reduced, financial hardship is increased, and poverty (measured by income, debt and assets) is exacerbated. The study will adopt the financial exclusion definition developed by CSI: "individual lack of access to appropriate and affordable financial services and products".

3.5 Financial inclusion initiatives in Australia

Reflecting early priorities in Australia the approach to tackling financial exclusion was on financial literacy and consumer protection. Initiatives included the creation of the Financial Literacy Foundation and the 'Understanding Money Educational Campaign'. Similar work was also undertaken by the Australian Securities and Investments Commission. A couple of years back, the Australian Government attempted to strengthen the national consumer credit code. Furthermore, the federal welfare agency Centrelink was provided with funding to offer financial counselling services to its clients. These information and advice services are aimed at equipping people with the right information to make informed choices within the context of ever increasingly complex financial products. Such initiatives mirror trends occurring in other countries where the focus of policies aimed at tackling financial exclusion have accounted for both access issues and also providing people with the relevant skills and capabilities to engage with financial services (Kempson 2006, HM Treasury 2007).

In 2010, the Australian Agency for International Development (AusAID) had launched a program called 'Financial Services for the Poor: A Strategy for the Australian Aid Program 2010-2015'. This strategy presents a considered framework to improve access for those in financial hardship to financial services. It provides a coherent framework to guide the Australian Government in achieving its goal of increasing access to financial services in developing countries. The document reflects the Government's increased commitment to expand financial service provision in order to reach those people previously excluded or underserved The strategy builds on the lessons Australia and others in the international community have learnt (AusAid 2010).

In addition, there are also other program offered by a range of organisations and some larger programs emerged through partnerships between not-for-profit organisations and banks to address financial exclusion as detailed below:

3.5.1 Microcredit program

The largest known Microcredit program in Australia is the No Interest Loans Scheme (NILS), which is partnered through the National Australia Bank (NAB) and the community organisation Good Shepherd Youth and Family Services. It has also received funding from the Australian Government. The NILS program is also the longest running program, having been established in 1980 (McInerney 2005).

3.5.2 Microenterprise loans program

NAB established the Microenterprise Loans program in 2007 to address financial exclusion in Australia by providing unsecured loans of up to $20,000 at an affordable interest rate to those who could otherwise not access finance for their business. It was reported that as at 2012, NAB has exceeded 1,000 loans worth $13 million under the Microenterprise Loans program. The program has helped establish cafes, clothing designers, carpenters and gardeners - to name only a few (CSI 2012).

3.5.3 Micro-savings program

Developing a savings habit is a crucial pathway to accumulating assets. Asset building policies in the USA have been successfully implemented through Individual Development Accounts (IDAs). Conceptualised by Michael Sherraden, IDAs are matched savings programs that encourage low-income people to save and build assets (Schreiner et al. 2002). In Australia, there are four known matched savings programs (Burkett & Sheehan 2009). The largest of these is 'Saver Plus' which is a matched savings program run in partnership by ANZ and the Brotherhood of St Laurence. There are also many programs that include provision for both savings and loans. The main aim of the matched savings programs is to assist people on low incomes to develop a saving habit (Burkett & Sheehan 2009).

However, all the above programs are based on conventional banking and only the microfinance product that being offered by Islamic Council of Victoria that is *Shariah*-compliant as discuss in Chapter 2.

3.6 Faith or religious-driven financial exclusion

One particular type of financial exclusion that will be covered in this study is faith-based or religion-driven financial exclusion which has been briefly described in earlier studies on the subject. Ethnicity itself is believed to be a major reason for financial exclusion in some developed countries, and the effect of ethnicity on people as far as financial exclusion is concerned, is relative. In a policy research working paper no. WPS6290 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). 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 trebles 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 broad financial exclusion that 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 religion.

3.7 Summary

The concepts of financial exclusion and inclusion are complex and multi-faceted and no single definition of either exists (Rahim et al. 2009). Definitions all commonly refer to financial exclusion as exclusion from financial products and/or services. Additionally, existing definitions represent areas in which attempts have been made to remedy these exclusions through more inclusive policies, practices and initiatives (Kumar & Mishra 2011).

Despite having one of the most diverse financial services sectors in the world, financial exclusion in Australia remains a reality for many people. Without access to financial systems, the conduct of everyday life of an ordinary man within a contemporary capitalist society can become extremely problematic. As discussed in the literature review section, the 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). The core principles of Islam place great emphasis on social justice, inclusion, and sharing of resources between the haves and the have-nots. Islam offers a rich set of instruments and unconventional approaches, which, if implemented in a genuine way, can lead to reduce poverty and inequality (Mohieldin 2011).

Premised upon the literature reviews undertaken, it appears that very limited information that is available on the subject of financial exclusion amongst Australian Muslim. As such, it is the main intention of the study to investigate and examine the state of financially-excluded Muslim communities in Queensland, Australia. At the same time, the result of the study is expected to give some information on the role of Islamic finance towards improving the levels of financial inclusion for Australian Muslims.

CHAPTER 4: METHODOLOGY

4.1 Introduction

> Any account, report or other piece of serious factual writing is intended to take effect on someone at some time. It must consequently meet that someone's demands. Those demands amount to this: Is the account true, reliable, complete? Is it clear, orderly, easy to grasp and remember? All the devices and methods that the researcher combines under the name of technique exist to satisfy these requirements (Barzun & Graff 2003).

Every researcher are very concerned about the reliability, completeness and the clarity of their research findings and results and therefore the most appropriate methods and devices to achieve the desired outcome of each research must be carefully choose. In the coming paragraphs, we shall review the literature on research design/methodologies and the merits of each. Also brief explanation will be given on the research questions, research hypothesis, sampling strategy, data collection and the chosen analytical tools, with the objective of justifying the selection of survey questionnaire as the most appropriate and relevant data collection methods. A final copy of the survey questionnaire is presented in Appendix IV of the thesis for further perusal and reference.

4.2 Theory on Research Design and Methodology

Research design is simply the action plan of the study. Just as an engineer prepares a plan prior to the actual construction of an object, or an artist sketches and draws lines before drawing the real picture, the researcher is also expected to have a well-defined plan that guides him/her throughout the research process (Rao 1994). The main objective of the research design is to ensure that the researcher keeps track of his/her actions and stays the course as he/she may get lost in the daunting task of the research process. Some commentators define research as the logical and systematic planning and directing of a piece of research (Rao 1994). Others have defined research design simply as the art of simplifying the research process by dividing the task into smaller, more manageable parts. According to Robson (2007) "Design is concerned with turning research questions into projects". Dividing the research questions into more specific questions that can be explored in more detail is extremely useful and that is why we decided to divide each of the main research questions into two or more sub-questions. The survey questionnaires were devised to answer the sub questions, which would then lead to the answer of the main research questions. This has greatly enhanced the clarity of the questions which should contribute immensely to our overall objective of finding relevant and reliable responses to each of our research questions.

Having a clear, unambiguous plan is one of the key determinants of the quality of the research outcome (Moore 2000). Having realised the importance of having a proper research design that would act as the blueprint for the collection, measurement and analysis of data; we set out a clear plan for the field work and therefore started by asking the following questions:

1. What are the research questions?
2. Who are the respondents?
3. What is the best way of approaching them?

4. What data is needed to get meaningful responses to the research questions?
5. What would be the most appropriate research instruments to employ in collecting the required data?

Once the research questions have been formalised, the researcher should then decide on the research design as their next priority. Research design is greatly influenced by the resources available to the researcher and the chosen design should be realistic within the prevailing research constraints. The most common research constraints include money, time and expertise.

4.2.1 Types of research design

Research design concerns the various things that one should keep in mind while carrying out the research project (Robson 2007). The components that require due consideration in this regard include: the purpose of the of the study, the relevant theory to the topic under consideration, the research questions to be addressed, the methods or best techniques for collecting the required data and the sampling strategy that will be adopted.

Research design can be divided into various categories depending on the objective of the categorisation criteria, as each researcher has to prepare his/her own research design depending on the specific nature of the study. As the type of research design selected is determined by the type of research is question, it makes sense to briefly introduce the various types of research based on the fundamental objective or purpose of the research study. Research has been classified as Exploratory, Descriptive, Diagnostic or Experimental (Rao 1994).

As explained in Chapter One, this research can be classified as both exploratory and descriptive. Research is also at times classified by the research discipline it falls under which makes mine social research as it falls under the area of 'Social Sciences'. Social research designs are broadly divided into two major categories, namely fixed and flexible designs. The following paragraphs will briefly introduce and discuss each of these designs to discover which one is the most appropriate for my research project.

'Fixed design' is usually employed in social research designs where the phenomenon of interest is quantifiable, although there are no hard and fast rules about the applicability of this approach in qualitative studies. One of the distinguishing characteristics of fixed design is the strong linkage between the theory and the research and therefore it is known as a theory-driven type of research (Robson 2007).

Flexible designs, on the other hand, are usually employed in qualitative research where the study is framed within the assumptions and characteristics of the flexible approach to research (Robson 2007).

4.3 Research Methodology

Generally, research methodology refers to the method or methods of collecting; analysing and reporting data. In other words, it is the framework in which the researcher works to collect, analyse and interpret information in order to find satisfactory and meaningful answers to his/her research questions. Using the analogy of a detective investigating a case, the researcher should decide on the most suitable method of collecting data for the subject under study. A detective may choose to watch the behaviour of the suspect or question them by using various interrogation methods. Similarly, the researcher may use observation, interview or questionnaires (Robson, 2007).

The selected methodology will mainly be influenced by the research design and objectives. Human subjects all have specific biases and some may prefer qualitative over quantitative approaches or vice versa. But in general, a research methodology that combines two or more research methods gives the best interpretation as the information missed by one method might be captured by the other and thus an enhanced and integrated result may emerge from the analysis. The complexity of our research problems calls for answers beyond simple numbers in a quantitative sense or words in a qualitative sense. A combination of both forms of data can provide the most comprehensive analysis of problems (Cresswell & Plano Clark 2007).

4.3.1 Survey Questionnaires

Surveys are very common and although many are undertaken by commercial organisations in the interest of marketing some products or services, a substantial proportion are academic, with the objective of explaining a social phenomenon or finding out what is going in our society (Robson 2007). However, both share a common interest in getting the assessment right as the reliability of resulting information depends on the appropriateness of the tools used and how well these methods are applied.

The concept of survey technique is the collection of primary data about subjects and involves the selection of a representative sample of the population under study, through the use of a questionnaire (www.ryerson.ca-majoppe/research, accessed July 2012). It is very popular since many different types of information can be collected including attitudinal, motivational, behavioural and perceptive aspects of the subject being studied.

This methodology was selected for this study as it involves collecting primary data about experiences, views, the attitudes and the access of Australian Muslim to the *Shariah*-compliant financial products on offer. It will employ a representative sample of the population under study. For instance, the Muslim community will be categorised according to ethnicity and a sample will be randomly selected from each ethnic group to make it as representative as possible.

If properly designed and implemented, surveys can be an efficient and accurate means of determining information about a given population. Results can be provided relatively quickly and, depending on the sample size and methodology chosen, they are relatively inexpensive. Survey questionnaires have many advantages over other methods of data collection. Robson (2007) furnished the list of advantages associated with the use of survey questionnaires which include:

1. They provide a relatively simple and straightforward approach to the study of attitudes, values, beliefs and motives. This is very important in our study as the research involves extracting information on all the described variables
2. They may be adapted to collect generalisable information from almost any human population
3. A high amount of data standardisation is achieved

However, surveys also have a number of disadvantages which must be considered by the researcher in determining the most appropriate data collection technique and avoiding the risks involved in that particular method of investigation (Robson 2007). Below are some of the drawbacks of the survey technique:

1. The validity of the responses may be compromised by the favourable image a respondent may wish to express (response or bias error)
2. Sometimes respondents may shy away from giving crucial information due to the sensitivity attached to the topic
3. Inability to answer the question could also affect the response rate and reliability
4. The interviewer can inadvertently influence the response
5. The interviewer can introduce bias through facial expressions, body language or the way they are (interviewer error or bias)
6. The response rate could have a dramatic detrimental effect on the results
7. The chances of following up are almost impossible if delivered by post

4.4 The Relevance of the Selected Methodologies to this Research

The aim of the research project is to gather information about the research questions which have been presented in chapter one. The first research question and its sub-questions aim to shed light on how well conventional Australian financial systems meet the financial services needs of the Muslims community. The objective is to estimate the level of faith-related financial exclusion which is ignored in most research on the subject of financial exclusion.

As have been explained in Chapter Three, financial exclusion is one of the key components of social deprivation and finding out how significant the level of faith-related financial exclusion is could possibly contribute to the objective of finding a solution for this problem.

It is hope that the result of this research will be valuable to both policy-makers and the financial community at large as well as to the pioneers of *Shariah*-compliant financial products in Australia. Understanding the level and magnitude of religion-driven financial exclusion among the Australian Muslim community may answer some of the questions of why certain communities, are lagging behind in accessing the Australian financial services market.

The second question and its sub-questions are also aimed at enlightening us on how well aware the Muslim communities are about the existing *Shariah*-compliant financial products and what their attitudes are towards these products. How much does their perception of the available *Shariah*-compliant financial products influence their decisions on accessing such products? The aim is to discover if there is a link between the level of awareness and the level of access. Also, understanding attitudes of the Muslims community towards existing Islamic financial products is very important in trying to find the right antidote for the issue.

4.4.1 Research Hypothesis and Characteristics

> "A hypothesis is a tentative generalisation, the validity of which remains to be tested. In its most elementary stage, the hypothesis may be a mere hunch, guess, imaginative data, which becomes the basis for action or investigation." (Rao, 1994)

As the above statement suggests, most research proposals start with a hypothesis which triggers the research itself. Using the analogy of a criminal case, the jury conducts a hypothesis test to decide on either of two hypotheses based on the basis of the evidence presented by both the prosecution and the defence. The first one is called the null hypothesis represented by H0 which means the defendant is innocent and the second hypothesis is called the alternative hypothesis represented by H1 which means the defendant is guilty. The final decision will be reached after all the evidence of both parties have been carefully analysed and interpreted by the jury (Orna & Stevens 2009). Similarly, the research hypothesis will determine the parameters of the research questions, therefore methods employed in testing the hypothesis should be relevant to both the research questions and the research hypothesis. Below is a summary of the research hypothesis:

1. The Muslims in Queensland are financially excluded from the mainstream financial system in Australia
2. Muslims in Queensland prefer Islamic finance to conventional finance under normal circumstances.
3. Increased access to Islamic finance products and services will improve the level of financial inclusion of the Muslims in Queensland, Australia.
4. The higher level of financial inclusion will improve the socio-economic status of the Muslim in Queensland, Australia.

Based on the above-mentioned research hypothesis and the research question presented earlier, this research has its own unique features due to the particular subject it is investigating and these characteristics can be summarised as follows:

1. Try to examine the level of faith-related financial exclusion among the Muslim community in Queensland, Australia.
2. To examine if there is a gap between the Islamic financial products on offer in Australia and the financial services needs of the Muslim community and how that gap could be bridged.

Based on the research questions and the research hypothesis, the researcher had to select the most suitable methods to enable him to get reasonable answers to the research questions. Methodology is important when carrying out research because it is crucial to choose a suitable method for the research questions and the circumstances under consideration. Likewise, types of data vary and serve different purposes in different situations. The research method chosen is therefore tailor-made to answer the two key research questions and their sub-questions that have been tackled in previous paragraphs.

Chapter One of the theses has also clearly demonstrated the objectives of the main and sub-questions as each question and its secondary questions are phrased to answer a particular question. The selected methods for this research are survey questionnaire and brief discussion on the decision to choose this method will be presented in the next section.

4.4.2 Objectives of the Survey Questionnaire

As described in previous sections of this chapter, the research questionnaire was developed with the objective of finding relevant and satisfactory responses to the main research questions and their sub-questions. The questionnaire will be distributed to a randomly-selected sample of the target population. The sampling strategy and the specific steps of collecting the data will be tackled later in the Chapter. In order to explain what I hope to achieve from the survey questionnaire the specific objectives of this data collection tool can be summarised as follows:

1. To describe the socio-economic profiles of the Muslim community in Queensland, such as ages, levels of education, income and other demographic identifiers;
2. To assess the level of financial access (both conventional and Islamic finance) of the Muslims in Queensland;
3. To estimate the level of awareness of the Muslims about existing Islamic finance products and how significantly this level of awareness has influenced their access to these products.
4. To assess how significant the connection between the level of awareness of existing Islamic finance products and the level of accessing these products is;
5. To assess the gap between the current Islamic finance products on offer in Australia and the financial services needs of the Muslims; and
6. To understand the attitudes of the Muslims in Queensland towards the existing Islamic finance products and services.

4.5 Validity and Reliability of the Data

In general terms, data is only useful if it actually measures what it is supposed to be measuring. The concept of validity, therefore, refers to the extent to which the data we collect gives a true measurement/description of social reality.

The validity of the data is crucial, regardless of the method used to collect such data, as invalidity renders it worthless. The validity of the questionnaire largely depends on how accurate and honest the responses given by the respondents are. Measuring accuracy and honesty is a difficult task and no one can give absolute assurance on it. However, the researcher have tried his best to minimise the risk of compromising the validity of data by personally completing the questionnaire after fully explaining what the questions actually mean and thus reduce the possibility of errors resulting from lack of understanding and ambiguity.

Having an introductory paragraph at the beginning of the survey questionnaire, anonymity of both their identity and personal responses contributed to the validity of the data collected. Reliability is another vital characteristic that every sound research should possess and it refers to the consistency and the repeatability of the same results over time. In simple terms, this means that if the research was to be carried out by other independent researchers employing the same methodology and strategy, they would arrive at a similar conclusion, all other things being equal.

If a method of collecting evidence is reliable it means that anybody using this method, or the same person using it at another time, would come up with the same results. The work could be repeated and the same results gained (www.sociology.org.uk, accessed November 2012). The key components of data reliability, according to McNeil (1996) in his article “Research Methods”, include consistency, precision and explicability of results which suggests that the researcher should be consistent when collecting the data and should aim for a high degree of precision and accuracy, which of course will be subject to many factors outside the control of the researcher (McNeil 1996). However, the researcher should try and minimise bias in the data collection process.

In essence, the reliability and the validity of data will be enhanced by the ability and the skills of the researcher in predicting potential bias and errors and eliminating them at an early stage. An obvious example is the danger that the questions presented in the questionnaire or the way the interviewer is dressed may affect respondents, leading them to distort their responses or abstain from giving answers. The onus is upon the researcher to foresee these problems and deal with them accordingly.

4.6 Stages of Conducting the Fieldwork

This section will explain the steps that the researcher will take to conduct the fieldwork for the survey questionnaire. The following section will outline how the researcher will collect the primary data for the research. The objective is to show the reader the road map of the primary data gathering and analysis process. Primary data collection has been divided into three major stages which are:

1. Development of the survey questionnaire.
2. Collecting the primary data from the respondents and interviewees. This phase involves finding the right sample for the questionnaire; therefore the sampling strategy to be adopted by the researcher is briefly explained.
3. Analysis of the primary data collected by survey questionnaire.

4.6.1 Development of the Survey Questionnaire.

Developing a survey questionnaire that enables the researcher to collect relevant, reliable and valid data to answer the research questions is extremely crucial in the research process. When developing the survey questionnaire the researcher should be guided by the research questions and the questionnaire should be designed so as to generate the right responses for the research questions (Robson, 2007). This was true, all the questions were carefully selected after giving due consideration to their relevance to the research questions, as the survey questionnaire presented in Appendix 8.5 clearly shows. The development of the final survey questionnaire has been subject to various stages of refining and modification, including initial designing and pre-testing through pilot questionnaire until the final questionnaire was written up.

4.6.2 Piloting the Survey Questionnaire.

The draft questionnaire is best pre-tested informally, initially concentrating on individual questions. Colleagues, friends and family can usually be cajoled into reading them through and providing (hopefully) constructive comments on the wording. Are the questions clear, simple, unambiguous? (Robson, 2007).

Piloting is very important as it highlights any shortcomings before the document is fully launched. The objective is to check the overall presentation, clarity and reasonableness in terms of the length of the questions and the depth of the information sought. As discussed earlier, the researcher is determined to enhance the reliability and the validity of the primary data as much as possible. On this basis and with the knowledge that lack of reliability and validity would render the data worthless, all the possible avenues are explored to enhance the data quality, especially its reliability. To be reliable, the survey questionnaire needed to be consistent that the questions must be answered by different respondents the same way each time. Some commentators suggest the practice of comparing the answers that the respondents give in one pilot study with the answers given in another pre-test (www.writingcolostate.educ/index), accessed September 2012).

Validity of the data is usually determined by how well it measures the concepts it is intended to measure. Again this can be tested by comparing how different respondents answer in different settings (www.writingcolostate.educ/index). Acting upon the above-mentioned advice and the sound guidance from supervisors, a random small sample group was selected to test the reliability and the validity of the questionnaire. The respondents were asked to answer the questions and were informed that the objective of this study was to obtain their opinion on the reliability and the validity of the questionnaire. This is known as 'the participating method' as the researcher clearly explains to the respondents that the exercise genuine, but rather a preliminary test which allows the interviewee to respond with the right mindset.

The participating respondents' feedback was then incorporated into the questionnaire and a further random sample then selected and the amended version of the questionnaire was distributed to the second selected sample. This time the respondents were not told that the questionnaire was for piloting as the method employed here is known as 'the undeclared method'. The objective is to conduct the study as if it were real and find out if inconsistency and ambiguity issues still persist. Any comments or concerns raised by the interviewees were noted and the feedback of this group was again added to the questionnaire. This produced the final version that was used to collect the primary data for this research. Calculating the Cronbach's Alpha is also one of the suggested ways of enhancing the reliability of the data. Cronbach's alpha measures how well a set of items (or variables) measures a single dimensional latent construct. When data have a multi-dimensional structure, Cronbach's alpha will usually be low. Technically, Cronbach's alpha is not a statistical test - it is a coefficient of reliability or consistency (www.ats.ucla.edu, accessed September 2012).

However, calculation of Cronbach's Alpha is particularly relevant in cases where the questionnaire is one-dimensional and the majority of the questions measure the same variable. However, if the questionnaire is multi-dimensional it will be low, as the above extracts states. Since the questionnaire is multi-dimensional and the other tests of reliability and validity discussed above proved to be successful, Cronbach's Alpha was not deemed to be particularly relevant and thus was not calculated.

4.6.3 Sampling

Sampling refers to the concept of selecting a part of a whole as it is not always feasible to cover the whole, known as 'the population', in a study. The concept of sampling is an integral part of most research and ours is not an exception. Sampling has been defined as a small representation of the larger whole (Rao 1994.p.262).

Sampling is usually done as covering the entire population is costly and time-consuming. Instead of testing the population, you can choose a representative sample so that you can generalise the findings to the population (Rugg & Petre 2007). The objective is to use small representations to draw conclusions from the whole, known as the 'population' or the 'universe'. However, this will not be achieved unless the chosen sample has certain characteristics and it is the duty of the researcher to make sure his or her sample meets that criterion. Therefore, the researcher has to seriously think about the following:

1. The relevant population and parameters, which refers to the population from which the sample should be selected. In this case, after evaluating the relevant facts and

figures, the appropriate sampling framework, which means identifying all the members in the population (Rao 1994).

2. The sampling method to be used, which implies that a choice has to be made between probability and non-probability sampling. Also, within each method, a specific method must be chosen. For instance, if probability sampling is preferred, then the researcher needs to further identify the probability sampling method selected. As the name suggests, this involves dividing the sample into groups or strata and then randomly selecting from each group (Robson 2007).

   As stated earlier, the research population is the Muslims community in Queensland which are made up of various communities with distinct characteristics in terms of culture, language, socio-economic profiles and their level of integration and exposure to the Australian financial system. The choice of stratified random sampling is therefore deemed most appropriate in this regard.

3. Sample size, which is very important as the size of the sample has a direct impact on the overall acceptability and the generalizability of the findings. Many things were taken into consideration in deciding the appropriate sample size including:
   i. The overall Muslims population
   ii. The opinions of my supervisor and other academics, by seeking their opinions regarding the most appropriate sample size
   iii. Existing literature on the subject of sampling and deciding on the most appropriate sample size
   iv. Any statistical tools that could assist me in determining the right sample size.

Knowing the minimum sample size was very important as it set the threshold that needed to be reached or exceeded as statistical tests have minimum numbers below which they should not be used (Robson 2007). Generally speaking, one has to find a fair balance between the time and the cost constraints involved in that particular sample, the level of accuracy sought and the sample size. Obviously, the larger the sample, the more representative and the more accurate it will be and it will be easier to generalize the findings. According to Rugg and Petre (2007) “The larger the sample size is, the more accurate one can expect the sample estimates to be”. As far as the sample was concerned, there were obviously some real cost and time constraints which limited the sample size. The significant diversity and dispersion of the population from which the researcher had to draw a representative sample meant the time and cost constraints would be unusually high due to the inherent extra complications associated with such a target population.

Caught between these challenges and the strong desire to make the sample size as large as possible, the researcher managed to collect 251 responses from the original 400 questionnaires distributed. The sample size for this study, upon which both descriptive and inferential statistical analysis will be performed, is therefore 251 questionnaires.

4.6.4 Practical steps of conducting the survey questionnaire

The sample respondents were chosen from two major mosques in Brisbane and one in Toowoomba. Apart from that, the survey was also conducted at the 2013 *Eid* Fest in Brisbane which is one of the major events conducted annually by the Muslim community in conjunction with the *Eidul Fitri* celebrations.

The above venues were chosen for their obvious relevance to the research objectives. The target sample would be highly probable to these places. However, each respondent had to be selected randomly to ensure that each had an equal chance of being included in the survey questionnaire. The researcher was well aware of the importance of the process, the approach and the etiquette of conducting survey questionnaires to reduce subjectivity and personal bias.

4.6.5 Questionnaire Screening and analysis

It is a highly recommended practice to clean the data before carrying out any real analysis on it. The objective is to check any errors and inconsistencies or what is known as 'rogue data' which may have resulted from either incomplete questionnaire or data wrongly entered into the computer which could distort the results (Moore 2006)

The steps taken by the researcher in this regard is recommended by many commentators including Robson (2007) who states that "Just as one needs to proof-read text for errors, so a computer data set needs to be checked for errors made while 'keying in' the data". Others explain that this step is a prerequisite for data analysis as the chances of data entry errors are very high and carrying out real analysis on the crude data would be very dangerous indeed (www.findarticles.com, accessed October 2012). Once data have been entered, it should be 'screened' and 'cleaned' before subsequent analysis. Screening is a process that identifies real or potential errors in your data entry. The errors need to be corrected (cleaned) to the maximum extent possible before analysing the data.

4.6.6 Challenges and Obstacles

Like any other research, this research was not immune to practical challenges and difficulties and some of the obstacles encountered included:

1. Some respondents expressing a degree of suspicion concerning the objectives of the survey due to the general feeling among Muslims about any study on their finances or religiosity. Despite assurances regarding their anonymity and the strict confidence of their responses and detailed explanations of the aims of the survey, some still remained sceptical about our intention and declined to take part;
2. The language barrier which was a challenge on some occasions;
3. Some respondents declining to give responses saying that they would like to take time to think about their responses. This prolonged the process and resulted in many mistakes that would have been avoided had the interviewer had the opportunity to clarify matters at the scene;
4. Incomplete questionnaires and ineligible text when the questionnaires were left behind with the respondents;
5. Getting data from females respondents was not an easy task;
6. Knowledge of the respondents about the subject matter may limit or distort their answers;
7. Sampling errors may creep in; and
8. Bias of the researcher in interpreting the results.

4.7 SUMMARY

This chapter introduced the research design and methodology strategy. It started with the importance of research design and the critical role it plays in planning the overall research project. It also tackled the research methodology, explaining the chosen research methodology for this thesis and the justification therein. Survey questionnaires and interviews were covered in some detail, emphasising their relevance to this research as confirmed by both the research questions and hypothesis which have been presented again in this chapter. Data reliability and validity were briefly discussed in order to show how it would be dealt with in this thesis.

Finally, the stages of conducting the fieldwork were briefly explained with special emphasis on the practical phases of collecting the primary data for this research. As an important element of the data collection process, sampling strategy was also briefly discussed. The researcher hopes that this chapter clearly demonstrates how the entire research process was carried out in order to achieve the research objectives which were to find relevant, reliable, accurate and comprehensive answers to the research questions.

CHAPTER 5: DATA ANALYSIS

5.1 Introduction

As the title suggests, this chapter will discuss on the analysis of the quantitative data collected through the survey questionnaire, summarizes the collected primary data. In this section, we shall concentrate on the salient features of the sample respondents of the survey questionnaire, covering, among other things, the format of the questionnaire, its objectives and the profile analysis of the respondents.

As described in the previous chapter, the research questionnaire was developed with the objectives of finding relevant and satisfactory responses to the main research questions and their sub-questions. Bearing the above objectives in mind, the questionnaire was distributed to a selected sample of the target population. The sampling strategy and the specific steps for collecting the data were tackled in Chapter Four and will not be repeated here. However, the format of the survey questionnaire is explained in the coming section followed by the specific objectives of the same.

5.1.1 Explanation of the survey questionnaire

As stated earlier, the questionnaire was devised with the objective of finding reliable and reasonably accurate answers to the two main research questions and their sub-questions. The questionnaire consists of 29 questions and, based on the previously mentioned objectives; it has been divided into four main parts with specific questions for different objectives. Explanation will be provided in each part of the questionnaire, however the objectives of some parts may overlap as the overall objective may be the same.

There are two major research questions and each research question has sub-questions. For instance, question one has two sub-questions (1a and 1b) while question two has three sub-questions (2a, 2b and 2c).

The two sub-questions of the first main research question (1a and 1b) relate to part A of the questionnaire while the three sub-questions of the second main research question (2a, 2b and 2c) relate to part B and C of the questionnaires. As the survey questionnaire format portrays, each set of survey questions in the questionnaire address one of the two key research questions and their sub-questions. For instance, the first part (Part A) which is represented by questions (1-5) is expected to collect data from the sample of respondents to answer the two sub-question of the first main question (What are the socio-economic structures of less affluent UK Muslims and what type of banking and financial services are currently used by these communities?). This question will hopefully be answered by the data collected through Part A of the questionnaire on the selected sample by using basic descriptive statistics such as frequencies and percentages.

The second part of the survey questionnaire (Part B) consists of four questions (6-14) which have been designed to extract crucial data on respondents' levels of access to Islamic financial products and services in Australia. Again, as have been explained in previous sections, each part of the survey questionnaire is aimed at collecting data on one of the main research questions and its sub-questions. This part specifically relates to sub-question (2a) of the second main research question (level of awareness of MIQ regarding the existing Islamic finance products in Australia). It is expected that the responses of the sample respondents will provide reasonable answers to this particular question. The real statistical analysis of this part and others will be presented in later part of this chapter as part of the descriptive and inferential statistics that will be carried out in that chapter to draw some conclusive answers from the data.

The third part of the survey questionnaire (Part C) which covers questions (15-21) was designed to shed light on the attitudes of MIQ towards the existing Islamic finance products. The objective of this section is to find out what MIQ's think about the Islamic finance products currently on offer in Australia and how their perception of these products influences their decision in accessing them. This is expected to answer the second and third sub-questions (2b and 2c) of the second main research question.

The last part of the questionnaire (part D) comprises of eight questions in relating to the demographic criteria of the respondents. The mechanics of the empirical work carried out by the researcher was tackled in the previous chapter in great depth. However, the characteristics of the sample respondents will be presented in the coming sections as the beginning of the process of generating some basic statistical tables to achieve the stated research objectives.

5.1.2 Response Rate

400 survey questionnaire samples were distributed at three mosques located in Brisbane (2) and Toowoomba (1) and also at the 2013 *Eid*-Fest celebrations in Brisbane. However, only 251 responded to the survey. Therefore, the response rate could technically be calculated as 62.75% of the projected sample size (251÷400×100).

5.1.3 Characteristics of the sample respondents

This section, as the beginning of the statistical tests to be carried out by the researcher, presents the descriptive statistical tables generated from the SPSS output after subjecting it to rigorous data cleaning and accuracy testing as detailed in the previous chapter. The general characteristics of the sample respondents who participated in the survey questionnaire are explained.

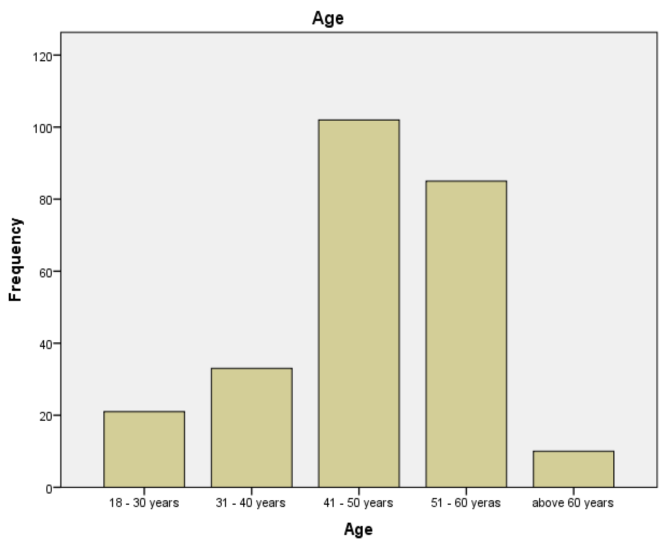
Describing the general features of the respondents prior to actual data analysis is a highly recommended practice in quantitative data analysis in general and in survey questionnaire analysis in particular. The objective is to summarise the data by using frequencies, percentages and tables known as profile analysis or exploring the data set (Robson 2007). However, it is worth mentioning that SPSS was employed in carrying out the above-mentioned tasks, the accuracy of the data was rigorously checked before any data from the generated information was used. The reason for carrying out these common checks, including data cleaning, was to inspect any unusual or invalid entries.

We shall now turn to the mechanics of carrying out this important task as presented in the following tables.

Table 5.1.3(a): Respondents age group

Age Group	Count	Percentage
18 – 30 years	21	8.4
31 – 40 years	33	13.1
41 – 50 years	102	40.6
51 – 60 years	85	33.9
Above 60 years	10	4.0
Total	**251**	**100**

It is apparent from the above table that the majority of respondents who participated in this study were between the age of 41 and 50. It is further clear from this table that those respondents aged above 41 represented 78% of all respondents which gives some crucial information about the age concentration of our sample. Append below is a Bar chart showing the age of the respondents:



What we can understand from the Bar chart is that the Muslims aged below 41 years old were not particularly well represented as they accounted for 54 samples from the total of 251. This is crucial data and will definitely be taken into consideration when carrying out further analysis.

Figure 3: Bar chart- respondent's age

Table 5.1.3(b): Respondents Gender

Type of Gender	Count	Percentage
Male	244	97.2
Female	7	2.8
Total	**251**	**100**

Most of the respondents that participated are male, with 244 participants or 97.2 per cent from the total of 251. This was not surprising because the survey was conducted at three mosques after *Juma'ah* or Friday prayers which are mandatory for the men. Nevertheless, there are small percentage of the respondents are female.

Table 5.1.3(c): Respondents Marital status

Status	Count	Percentage
Married	228	90.8
Single	22	8.8
Others	1	.4
Total	**251**	**100**

As the above table shows, 228 participants are married and 22 participants are single and only one participant which marital status is others. Despite that the majority of participants are married the numbers in the above table will be clearer and tell us more when the above frequencies are looked in at different angle in the later section of this chapter.

Table 5.1.3(d): Respondents Education Level

Type of Education	Count	Percentage
Diploma	15	6.0
Degree	160	63.7
Master	65	25.9
PhD	4	1.6
Others	7	2.8
Total	**251**	**100**

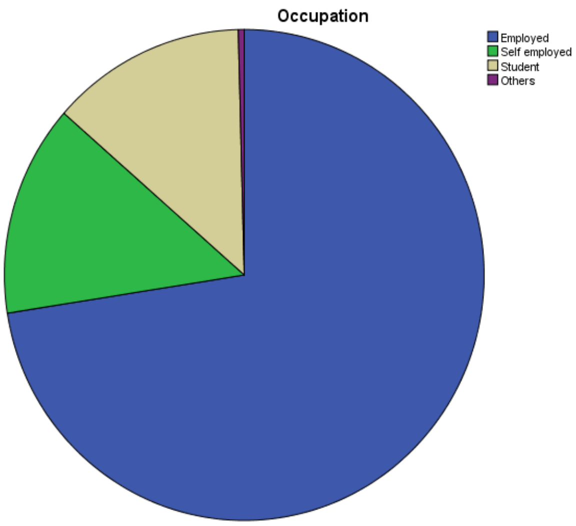
Table 5.1.3(d) depicts qualification of respondents. Out of 251 respondents, 6.0% holds a diploma, 63.7% with bachelor degree, 25.9% having Master and only 2% possessed a PhD. Hence, the sample is dominated by the respondents with middle level of education background. It is quite interesting here because the result shows that the Muslims in Queensland are quite well educated.

Table 5.1.3(e): Respondents Occupation

Type of Occupation	Count	Percentage
Employed	182	72.6
Self-employed	35	13.9
Student	33	13.1
Retired	0	0
Others	1	.4
Total	**251**	**100**

The above table is in relations to respondent's occupation. 182 of the respondents are employed while another 35 are self-employed. Students that participated in this survey were 33 and 1 in others category.

Figure 4. Pie chart – respondent's occupation



From the pie chart on the left, we can conclude that majority of the Muslims in Queensland are fully employed and as such, unemployment is not an issue. This is crucial data because it will help in answering sub-question 1(a) in relations to the socio-economic structure of MIQ.

Table 5.1.3(f): Respondents country of origin

Country	Count	Percentage
Australia	5	2.0
Bangladesh	126	50.2
India	17	6.8
Indonesia	11	4.4
Malaysia	7	2.8
Middle East countries	34	13.4
Northern Africa countries	29	11.6
Pakistan	18	7.2
Singapore	3	1.2
Others	1	.4
Total	**251**	**100**

As the above table shows, the majority of respondents were Bangladeshi which indicates that Bangladeshis represent high proportion of Muslims in Queensland. It also seems that the respondents of Middle East countries and Northern Africa countries were fairly evenly distributed at 13.5% and 11.6% respectively. This followed by Pakistani with 7.2% and India at 6.8%. The participants from South East Asia (Indonesia, Malaysia and Singapore) accounted for 8.4%. Since the Bangladeshi accounted for 50.2%, it may be good idea to group the respondents into Bangladeshi and non-Bangladeshi when carrying out the statistical analysis on the basis that this may produce some significant results.

Table 5.1.3(g): Respondents length of stay in Australia

Length of Stay	Count	Percentage
Less than 3 years	33	13.1
3 years to 6 years	84	33.5
Above 6 years	134	53.4
Total	**251**	**100**

It is clear from the above table that the majority of respondents have been in Australia for more than 6 years. It looks like the new comers category quite fairly and evenly distributed with 3 years to 6 years category have 84 participants and less than 3 years category has 33 participants. This means that, although the majority are not recent comers they are people who are not yet fully integrated into the Australian system as full integration usually takes longer than one decade.

Table 5.1.3(h): Respondents estimated monthly income

Range of Income	Count	Percentage
Less than $3,000	71	28.4
$3,001 to $5,000	153	61.0
$5,001 to $7,000	23	9.2
$7,001 to $9,000	4	1.6
More than $9,000	0	0
Total	**251**	**100**

From the above table, we can see that majority of the respondents (89.4%) estimated monthly income is below $5,000. As such, we can safely say that the populations of MIQ are quite stable in terms of their monthly income. Under normal circumstances, bankers will take these criteria as one of the most important aspects went assessing their potential borrowers. This implies that majority of MIQ should be able to apply for a credit facilities from conventional banks but refrain from doing so due to religious factor which we shall discuss in the later section of the Chapter.

If we revisit the results from table 5.1.3(d)(e)(h), we can summarised that the socio-economic structure of MIQ is moderate. Majority of MIQ are having middle class education, gainfully employed with an average monthly income of below $5,000 dollars. As such, these results had answered the research sub-question (1) (a). However, the situation can be improve if they can have access to credit and accumulate their wealth by acquiring properties or insurance.

5.2 Analysis and discussion of the results

Quantitative analysis depends heavily on statistical significance, to the extent that some suggest the two terms are actually synonymous (Robson, 2007) and upon completion of the analysis in this chapter, I hope be able to answer most or all of the research questions as the whole objective of the thesis is to find satisfactory answers to the research questions (Moore, 2000).

The SPSS statistical package was selected by the researcher to for its obvious appealing features. As the package selected to analyse the data is SPSS, all the generated descriptive and inferential statistics will be explored and explained. However, the fact that the majority of our data is in nominal form means that the amount of relevant inferential statistical analysis is limited. However, all the possible and relevant descriptive and inferential statistical analysis will be explored and utilized as practically as possible.

As have been explained earlier, the questionnaire is divided into four sections and each section is developed to find satisfactory answers to one or more of the main research questions and their sub-questions.

5.2.1 Respondents' access to conventional finance

RQ1(b)-What type of banking and financial services being employed by these communities?

This section will therefore look at the overall access that the sample respondents had to conventional finance and the sub-sections I will look at include:

1. Respondents' access to conventional accounts such as current, savings and investment accounts;
2. Respondents' access to conventional home finance through loans and financing; and
3. Respondents' access to informal finance such as *Hawala* (money transfer) and informal credit through family and friends.

Each of the above-mentioned topics will be dealt with separately, with the help of some descriptive statistics such as frequencies and percentages, as the following sections will clearly demonstrate. Also, some inferential statistical analysis will be performed, such as Chi-square tests and regression analysis. Any other statistical analysis deemed to be relevant to this section will also be tackled here.

Table 5.2.1(a): Respondents access to formal conventional bank accounts

Type of Account	Count	Percentage
Savings	249	99.2
Current Account (Cheque)	2	.8
Investments account	0	0
Others	0	0
Total	**251**	**100**

As the above table shows, out of the 251 people who participated in the study, 249 respondents (99.2%) said that they had a savings account, the most basic banking product but essentials for everyone. Only 2 (.8%) respondents had a current account.
From the results shown above, it can be said that MIQ do not have any problem accessing the normal conventional banking services which is widely being offered in Queensland. However, it is interesting to see from the table that none of the participants have investments account. There could be two probabilities; firstly investment products require a certain level of financial literacy and sophistication such as an appreciation of the tax benefits involved in such a scheme and so on. Secondly, maybe because of MIQ's income has somehow restricted their ability to invest.

Table 5.2.1(b): Respondents having loans and financing

Type of Loan/Financing	Count	Percentage
Home Loan	16	6.4
Car Loan	11	4.4
Personal Loan	1	.4
Business Loan	0	0
Others	19	7.6
No loans/financing	204	81.2
Total	**251**	**100**

The above table tells us a lot about the level of access that the Muslims in Queensland have, to the most common major conventional finance which is the backbone of the Australian financial system. Interestingly, it is clear from this table that 204 (81.2%) of the 251 respondents who participated in this study said they did not have any of the above products and less than 7% said they had home loans, while less than 5% had car loans. Only one (.4%) participant had a personal loan.

This clearly indicates that although most of the participants have basic bank accounts, such as savings account as the previous table indicates, majority of them do not access the above-mentioned financial products. This may be due to the lending criteria or conditions imposed by the banks against their prospective borrower. Finance is primarily social based on the Latin root word of credit, *credere* which denotes the meaning of to believe or entrust (Dusuki 2006). Indeed, the essence of every financial transaction is the invocation of an element of trust. The contacts between a borrower and a lender will only be honoured if the element of trust exists in such transactions.

According to Kenneth Arrow, *"Virtually every commercial transaction has within itself an element of trust, certainly any transaction conducted over a period of time. It can be plausibly argued that much of the economic backwardness in the world can be explained by the lack of mutual confidence."* (Arrow 1972). The basis of the trust depends on two critical elements; first is the applicant's reputation as a person of honour (Diamond 1991) and; second is the availability of enough capital or collateral against which claims can be made in case of default (Holmstrom & Tirole 1997).

The essence of conventional profit-maximisation banks as financial intermediaries that provide financial services to the people hinge upon these two elements. As the formal lenders, risk-averse banks will only be willing to lend if these two elements that serve as a basis of trust in their reciprocal relationship with their clients/borrowers exist. However these two elements poised important impediments to the disadvantaged groups in a society to access into credit market. They are usually perceived by the 'profit-orientated' conventional banks as high-risk borrowers due to the inherent difficulties in assessing their creditworthiness at the same time their inability to provide collateral to pledge against any potential risk (Dusuki 2006). This may be one of the reasons for low take up of the basic loans being offered in Queensland, apart from the religious beliefs and obligations which have been discussed in Chapter 2. It can be concluded from this table that the Muslim community in Queensland are largely excluded from the main conventional financial services. As such, the answer for hypothesis one of the researches is affirmative.

Table 5.2.1(c): Type of property occupied by respondents

Type of Property	Count	Percentage
Rented	224	89.2
Owned	19	7.6
Others	8	3.2
Total	**251**	**100**

The above table shows that majority of the respondents live in rented properties. Only 7.6% of respondents owned their properties. This could explain the level financial exclusion among the Muslims in Queensland, especially regarding home loans which are the mainstream mode of financing home in Australia.

As have been explained in the previous table [5.2.1(b)], these people do not access conventional finance for many reasons including religious beliefs. Together the above three tables present a convincing answer to the first main research question and its sub-questions presented at the beginning of this section. They clearly show that the Muslims in Queensland are not well served by the conventional financial system in Australia, because they are on the margins of accessing its services.

Although a high number of this community have savings account, they are still very much excluded from the main financial services market, such as the home loans or business loan. That is why 81.2% of those who participated in the survey questionnaire said they had none of the main conventional financial services. Again this fact is reiterated by the following table [5.2.1(c)] where, the type of property in which respondents resided was analysed. It confirmed an endemic lack of access to home-financing, as almost 90% of respondents lived in a rented property.

Having touched upon the respondents' access to conventional finance such as bank account, loans and financing, and the type of properties in which they resided, we are now ready to answer the first research question regarding the level of access that the Muslims in Queensland have to the various conventional financial products available in Australia. The facts presented in the above table answer this question very well and show clearly that the needs of the Muslims in Queensland are scarcely met by the Australia's conventional financial system. However, the respondents differed in many aspects such as gender, age and level of income and therefore the way they responded to a particular question could have been influenced greatly by the category to which they belonged. Hence, it is crucial that we look at how the characteristics of the respondents impacted on their respective responses and whether significant differences exist among the respondents' answers as a result.

Table 5.2.1(d): Reasons why Muslims in Queensland do not access conventional financial products

Reasons	Count	Percentage
I don’t want to deal with interest	154	61.4
I don’t need to borrow	58	23.0
I don’t know how to apply	5	2.0
I have tried but not successful	5	2.0
Did not answer	29	11.6
Total	**251**	**100**

The above table present the reasons why respondents do not access the basic conventional financial products. As can be seen above, majority of the respondents (61.4%) avoiding access to these products due to religious grounds. A much lower number (23%) gave a reason that they don’t need to borrow. Only 2% said they don’t know how to apply and another 2% said they have tried but not successful.

The operations of conventional banking are based on a potentially disruptive element, and that element is *riba* or interest. Islam prohibits the acceptance and payment of *riba* or charged interest. A number of Muslim intellectuals are of the opinion that not only is the practice of *riba* immoral, but that it also hinders growth of society (Haron & Azmi 2009). As such, it is not surprise to see from the results above that majority of MIQ choose not to get involved with *riba* or interest as a matter of practising the teaching of Islam. In fact, Islam is not the only religion which prohibits its followers from taking *riba*. Judaism and Christianity, during the early years, never condoned their followers’ acceptance of interest.

Given the fact that the main reason for abstaining from accessing conventional financial products was religious grounds, one would expect to see an unprecedented demand for Islamic finance products or its equivalent. Meantime, the supply for Islamic finance in Queensland does not meet with the demand for such products or services. This was evidenced by the result from the above table which clearly interpret the demand of MIQ for Islamic finance products and services, but based on literature, it is sad to say that Australia doesn’t have any Islamic Bank to date.

Nevertheless, it is the main purpose of this study to see how significantly the introduction of Islamic finance products has improved the financial inclusiveness of the Muslim community in Queensland and we hope to find a reasonable conclusion on this matter upon completion of all the analysis and after writing the conclusions.

5.2.2 Access to informal finance

As part of the survey questionnaire, data were collected on the level of access that Muslims in Queensland have to finance organised around families and friends instead of conventional, formal finance accessed through banks or finance company. In the coming sections, I will be looking at the level of access to informal finance as it is generally expected that the Muslims run some sort of a shadow economy, where the interaction is mainly between family and friends, instead of dealing with the formal finance industry. The objective is to see the extent to which this informal financial service is preferred by this community and the underlying reasons for this preference.

Table 5.2.2(a): Respondents access to informal finance

Informal financial products	Count	Percentage
Money transfer facilities	1	.4
Short-term interest free loan	1	.4
Small business loan	4	1.6
None	245	97.6
Total	**251**	**100**

The above table shows that less than 3% of the respondents had used informal finance, whilst 97.6% said otherwise. Such result indicates that MIQ did not actively use informal finance. There could be various reasons such as:

- Money transfer can be done through savings account via internet
- High charges imposed for informal loans
- Limited facilities

The low access to informal finance by MIQ can be a topic for future investigation.

5.2.3 Access to conventional Insurance

Insurance is part of the mainstream financial products and services that being offered in Australian financial system. It compliments other basic financial products and services such as home or car loans. In the survey questionnaire, the respondents were asked about their access to the conventional insurance. Results of the frequency distribution for respondents' access to conventional insurance are as follows:

Table 5.2.3(a): Access to conventional insurance

Insurance products	Count	Percentage
Home Insurance	20	8.0
Car Insurance	234	93.2
Personal Insurance	1	.4
Medical Insurance	194	77.3
None	7	2.8
Total	**251**	**100**

From the above table, it can be seen that majority of the respondents have had car insurance (93.2%) and medical insurance (77.3%). The remainder insurance products have much lower number, for example only 8.0% have home insurance, 2.8% have no insurance at all and 0.4% or one respondent has personal insurance.

Car is a basic requirement for every household in Australia due to the geographical factor and the fact that the second hand car market in Australia is quite attractive also plays a major role. As such, it is very common in Australia to have car insurance because the legislation would require a car owner to have at least the "Compulsory Third Party" insurance policy. As for medical insurance, it is also something that is not unusual for people to have it these days because the medical costs are not that cheap and can be very expensive. As for international students studying in Australia, it is one of the mandatory requirements imposed by the Australian government for them to have a medical insurance during the period of their stay.

The analysis carried out so far has provided satisfactory responses to the first main research question and its two sub-questions. However, the second research question and its three sub-questions will be dealt with in the next part of the analysis where the awareness, perception and access to Islamic finance products on offer in Australia is looked at by analysing the responses given by the respondents who participated in the survey questionnaire. Perhaps, it is worth reminding ourselves at this point what the second main research question and its sub-questions were:

2. What are the attitudes of the Muslims in Queensland towards the existing Islamic finance products and to what extent does this attitude influence their banking and financing behaviour?

    a) What is the level of awareness of the Muslims in Queensland regarding the existing Islamic finance products in Australia?
    b) What is the perception of the Muslims in Queensland regarding the existing Islamic finance products?
    c) Has the introduction of Islamic finance financial products and services in Australia enhanced the access level of Muslims in Queensland into Australia's financial system?

5.2.4 Respondents knowledge and access to Islamic finance

Now we are entering into Part B of the questionnaires where the respondent's knowledge about Islamic finance products and services in Australia was enquired.

Table 5.2.4(a): Respondents knowledge about the existence of Islamic finance in Australia

Answers	Count	Percentage
Yes	110	43.8
No	141	56.2
Total	**251**	**100**

The above table and all the following tables are designed to find satisfactory answers to the research question 2(a) where the level of awareness of the Muslims community in Queensland about the availability of Islamic finance products, their perception of them and the level of access is examined.

Table 5.2.4(a) above, in particular deals with the second sub-question of the second main research question. The data presented above suggests that 110 of the 251 respondents (43.8%) knew about the existence of Islamic finance products and services in Australia. Meanwhile, 141 or 56.2% of the respondents' didn't know about the existence of Islamic finance products and services in Australia. From the results, it can be concluded that the level of awareness of the Muslims community in Queensland about Islamic finance products and services in Australia are still below the satisfactory level. It is therefore important that financial institutions invest in new products to meet Islamic customer needs and demands. Equally important is the need to develop an effective communication plan that goes beyond just marketing and advertisement. As the results of table 5.2.4(a) show, the relevant bodies and institutions needs to educate the public towards understanding the fundamental point of Islamic finance which involves the sharing of both profits and losses. There is still room for improvement by creating awareness campaign and disseminating the correct information to the community to increase awareness about the existence of Islamic finance products and services in Australia.

Table 5.2.4(b) Respondents with an account with Islamic financial institutions (IFIs)

Answers	Count	Percentage
Yes	0	0
No	251	100
Total	**251**	**100**

None of the 251 Muslims in Queensland that participated in the survey has any account with IFIs. At a glance, one would wonder what the reason is for such result. The answer can be found in the following table.

Table 5.2.4(c): Reasons for not having account with IFIs

Reasons	Count	Percentage
I'm not interested as they are not different from conventional finance	0	0
I have applied but was not successful	0	0
Not available in Queensland	191	76.1
Others	60	23.9
Total	**251**	**100**

As can be seen from the table above, majority of the respondents' (76.1%) answered that Islamic finance is not available in Queensland. Meantime, 23.9% answered "Others" as their reason. The results above are in conformity that there is no Islamic finance service provider in Queensland. Most of the ISFPs are operating in Sydney or Melbourne as discussed in Chapter 2.

IFSPs need to reach a wider range of customers by expanding their market presence to more customer segments. Indirectly the above results can draw much attention from the relevant authorities at the federal and states level so as to make the expansion and development of Islamic finance in Australia inevitable. In the meantime, some 23.9% of the respondents choose 'others' as their answers. This can be explored further as another topic for future study.

Table 5.2.4(d): Property financed by conventional loan

Answers	Count	Percentage
Yes	16	6.4
No	234	93.2
Did not answer	1	.4

From the above table, it shows that only 6.4% of the respondents took out conventional loan to finance the purchase of their properties. The remaining 93.6% did not have any financing. This was mainly because of the property that they are currently occupying is on rental basis or it belongs to their family members. On another thought, it is also possible to say that since there is no Islamic Bank in Australia, and there is no ISFP in Queensland, hence it hinders MIQ from acquiring a property.

Table 5.2.4(e): Respondents' willingness to switch their conventional loan to Islamic finance

Answers	Count	Percentage
Yes	48	19.1
No	0	0
Did not answer	203	80.9

The results shown on the above table indicated that 48 or 19.1% of the respondents agree to switch their conventional loan and choose Islamic finance instead. The number may not be high because bear in mind only 16 respondents have a conventional loan as explained in the table earlier and the question was designed specifically for respondents that currently having a conventional loan. That is why 203 or 80.9% of the respondents do not answer the question.

Nevertheless, we can conclude that these respondents' are willing and wanted to have the Islamic finance products and services here in Queensland. This statement are supported by the results in the following table, where 99.2% or 249 respondents' said "yes" to Islamic finance products as their future financing.

Table 5.2.4(f): Respondents willingness to choose Islamic finance products for future financing

Answers	Count	Percentage
Yes	249	99.2
No	0	0
Did not answer	2	.8

Again, results in the above table are positive and should give a hint to the respective Islamic finance service providers (ISFPs) or even the conventional banks to tap on the opportunity for business expansion. As experience in major cities of Islamic finance hub like Kuala Lumpur (Malaysia), London (UK) or Dubai (UAE) which has dual banking systems. The financial regulators in the places mentioned above do allowed conventional banks to have a "window" to offer Islamic finance products and services even though they are not a full fledge IFSPs. Globally, almost 80% of the potential customer base for Islamic finance is still untapped. It is about time for the existing IFSPs to grab the opportunity to widen their business and fulfil their corporate social responsibility by servicing these potential customers in Queensland.

Table 5.2.4(g): Respondents access to Islamic Insurance or Takaful

Answers	Count	Percentage
Yes	0	0
No	251	100.0

Table 5.2.4(h): Reasons for not having Islamic Insurance

Answers	Count	Percentage
They are the same as conventional insurance	0	0
Not available	251	100.0

It is apparent from the results in the above two tables that MIQ have no access to Islamic insurance or also known as *Takaful*. This result is not surprising because as we see in the results at table 5.24(h) above, there are no IFSPs in Queensland. Based on literature review, Islamic insurance or *Takaful* product is unavailable not just in Queensland, but also in Australia. This result had answered research sub-question (2) (c) where introduction of Islamic finance products and services does not enhance MIQ's access into Australia's financial system. It also answer in the affirmative of hypothesis one where MIQ are financially excluded.

The insurance industry is one of the pivotal financial intermediaries that mobilises economic resources of a country. This is another area which the author hopes that whether the IFSPs, Insurance firms and the regulators can look into and take the necessary actions. This is because Islamic insurance products are not limited to Muslim only but it is open to anyone; similar to Islamic banking and finance products and services.

5.2.5 Respondents perception and attitude towards existing Islamic finance products and services in Australia

Part C of the survey questionnaires comprised of seven statements to gauge the knowledge, perception and attitude of the respondents towards existing Islamic finance products and services in Australia.

Table 5.2.5(a): Results from Part C of the survey questionnaires

	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
15.	Islamic financing are more expensive than conventional loan.	10	219	22	0	0
16.	The availability of Islamic Finance products and services will enhance the Muslim community access and participation into Australia's financial systems.	0	0	51	199	1
17.	By increasing access to Islamic Finance products and services, the socio-economic status of the Muslim community will be improved (e.g. potential to acquire a property, car or insurance will be higher)	0	0	49	200	2
18.	There are Muslims in Australia who are not accessing banking and financial products in order to avoid *Riba* or interest/usury but will do so if they have an alternative that are *Shariah*-compliant.	0	1	146	101	3
19.	The existing Islamic Finance products and services in Australia are very selective and limited.	0	0	140	109	2
20.	Muslims in Australia should switch their banking (i.e. savings/investments) and financing (i.e. home/car) facilities to Islamic finance products and services regardless of costs or price.	0	0	23	210	18
21.	Muslims in Australia should be given a choice to choose between Islamic insurance (also known as *Takaful*) or conventional insurance.	0	0	21	212	18

Brief explanation of the above table is as follows:

Statement No. 15
The Muslims in Queensland rejected the statement that Islamic finance is more expensive than conventional loan. This is based on the results shown in the above table where 219 or 87.3% of the respondents disagree with the statement, 10 or 4.0% strongly disagree and 22 or 8.8% of the respondents stays neutral. As can be seen from the above table, none of the respondents' agree or strongly agree with the statement.

Statement No. 16
Out of 251 respondents, 200 or 79% of them agreed or strongly agreed with the statement that once the Islamic finance products and services are available to them, it will enhance their access and increase their participations in Australia's financial system. This clearly

shows the high expectation that these respondents had and their desire to have the Islamic finance products and services in Queensland, Australia.

Statement No. 17
The above result shows that 79.7% of the respondents agree with the statement that increasing access to Islamic finance products and services will improve their socio-economic status. On the other hand 19.5% stays neutral and none of the respondents disagree or strongly disagree with the statement.

Statement No. 18
With reference to the above table, 101 of the respondents agree with the statement that there are Muslims in Australia who are not accessing banking and financial products in order to avoid interest or *Riba* while 146 respondents choose neutral. The mixed reaction shown by the respondents maybe was driven by their general knowledge that majority of the people staying in Australia would have an account with a conventional banks.

Statement No. 19
The mixed reactions of the respondents also shown in their respond to statement no 19, where 109 respondents agree with the statement and 140 stays neutral. This is maybe because of the fact that many of the respondents' have not had any experienced with the Islamic finance products and services.

Statement No. 20
Form the above table, the result shows that 210 respondents agree and 18 strongly agreeable with the statement. A small portion of the respondents i.e. 23 of them stay neutral but none of the 251 respondents disagree with the statement.

Statement No. 21
The results from the table above shows that 212 respondents or 84.5% of the respondents agree with the said statement with another 18 respondents or 7.2% indicated their strong agreement. 21 respondents stay neutral and none of them disagree with the statement.

Having tabled the frequency distribution of the respondents answer to questions 15 until 21, we shall analyse and discuss in further detail in the following section.

Table 5.2.5(b): Respondents perception towards Islamic finance on offer in Australia

Statement	**Percent of agreement ***
Islamic financing are more expensive than conventional loan.	0
The availability of Islamic Finance products and services will enhance the Muslim community access and participation into Australia's financial systems.	79
By increasing access to Islamic Finance products and services, the socio-economic status of the Muslim community will be improved (e.g. potential to acquire a property, car or insurance will be higher)	80
There are Muslims in Australia who are not accessing banking and financial products in order to avoid *Riba* or interest/usury but will do so if they have an alternative that are *Shariah*-compliant.	41
The existing Islamic Finance products and services in Australia are very selective and limited.	44
Muslims in Australia should switch their banking (i.e. savings/investments) and financing (i.e. home/car) facilities to Islamic finance products and services regardless of costs or price.	90
Muslims in Australia should be given a choice to choose between Islamic insurance (also known as *Takaful*) or conventional insurance.	91

* Agree or Strongly Agree

Research sub-question (2) (b): What is the perception of Muslims in Queensland about the existing Islamic finance financial products and services?

This is the second sub-question of the second main research question and the objective is to analyse the Muslim community in Queensland's perceptions about Islamic finance products and services currently on offer.

It is obvious from the above table [5.2.5(b)] that majority of Muslims in Queensland don't believe that Islamic finance products are much more expensive than their conventional counterparts. Another interesting point portrayed by our table is that the Muslim community in Queensland would be more financially included if convincing, customer-driven and *Shariah*-compliant financial products were brought to the market.

Seventy nine per cent of the respondents believe that the availability of Islamic finance products and services will enhance the Muslim community access and participation into Australia's financial systems. The results had answered the research hypothesis three – increased access to Islamic finance products and services will improve the level of financial inclusion of MIQ. This was supported by the following statement "By increasing access to Islamic Finance products and services, the socio-economic status of the Muslim community will be improved (e.g. potential to acquire a property, car or insurance will be higher)"

Such response shows that if MIQ had proper Islamic finance products and services, they would buy more houses, start more businesses and would be more involved and active in the financial services market. This in turn will improve their economic status when through acquiring of property. With this result, we can conclude that hypothesis four: The higher level of financial inclusion will improve the socio-economic status of MIQ, has been answered in the affirmative. We have to understand the importance of credit facilities that act as a catalyst for men to acquire wealth. It is a very rare case of an average income worker can save his earnings every week/month and purchase a house on cash term basis. Thus, the role of Islamic finance in tackling financial exclusion of MIQ is unquestionable.

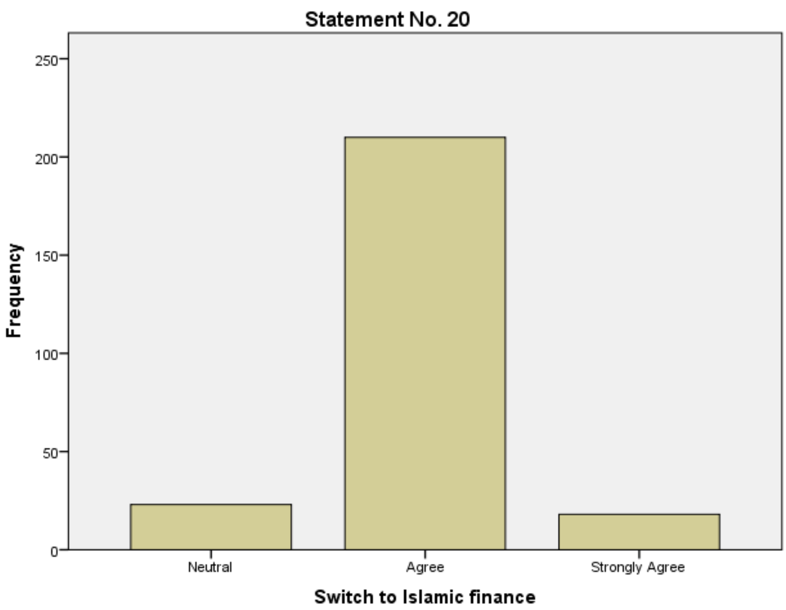
Statement No. 18

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	.4	.4	.4
	Neutral	146	58.2	58.2	58.6
	Agree	101	40.2	40.2	98.8
	Strongly Agree	3	1.2	1.2	100.0
	Total	251	100.0	100.0	

If we look at the response on Statement No. 18: "There are Muslims in Australia who are not accessing banking and financial products in order to avoid *Riba* or interest/usury but will do so if they have an alternative that are *Shariah*-compliant." - majority of the respondents (58.2%) choose neutral as their answer. Perhaps this was influenced by their awareness level towards Islamic finance products and services. However, the percentage of respondents that agreed or strongly agreed to the statement is fairly high at 41.4%.

Almost the same pattern of result occurs in Statement No. 19: Islamic Finance products and services in Australia are very selective and limited. 55.8% of the respondent's stays neutral while another 44.2% agreed or strongly agreed with the statement. The result may be due to MIQ's low experience on Islamic finance products and services which are not currently available in Queensland.

Another revelation from the result of table [5.2.5(b)] above is that majority of MIQ believes that Muslims in Australia should switch their banking and financing facilities to Islamic finance products and services regardless of costs or price.



The Bar chart of the left clearly reflects the MIQ's strong supportive of the statement. It gave a positive impact on their perception and desire towards Islamic finance products and services in Australia.

Another interesting point from the table 5.25(b) is that Muslims in Queensland prefer to have alternative insurance product. This is because, 91% of the respondents agreed or strongly agreed with the statement and they believe that the Muslim should be given a choice to choose between *Takaful* and conventional insurance. The results also are in supportive to the research hypothesis three which indirectly linked to hypothesis four. Such result can also be translated as a "hint" or message for IFSPs and/or the conventional insurance providers to include *Takaful* in their product range and capitalised on the current demand for the product. It is also important to highlight that the gap between the potential and existing Islamic finance market in Australia remains large.

We can summarised from the feedback received on statement 20 and 21, implies that Islamic finance should persuade a lot of Muslims to access Australia's financial system on a large scale because the major obstacle of 'incompatibility' with their belief is removed. These two factors no doubt measure the same phenomenon as they are closely related and simply measure the level of preference that respondents placed on Islamic finance. The fact that these expectations were not met for a variety of reasons means that there is a huge gap between what the respondents were expecting and what is actually on offer as far as their perception to these products are concerned. Therefore, these factors could also be called the 'expectation gap factors'. What we mean by this term is that the hopes of these respondents were dashed by the existence of the other negative factors called the 'inconvenience factors' such as the limited range of products and unavailability of service in certain area.

5.2.6 Factor analysis

"Factor analysis seeks to discover if the observed variables can be explained largely or entirely in terms of a much smaller number of variables called the factors" (www.psych.cornell.edu, accessed April 2012).

As there are seven statements, all analyzing the respondents' perceptions towards the *Shariah*-compliant financial products currently on offer in the Queensland, Australia the researcher felt that reducing these statement into more a manageable number would enhance the analysis and would tell more about how respondents perceived these products. Hence, factor analysis is deemed to be relevant in this respect as the main task of factor analysis is to cluster the related group of variables through their common variance (Field, 2005). Simply put, this is a method of data reduction where large numbers of variables are reduced to just a few by classifying them according to the strength of the association between them. For factor analysis to be really useful, certain basic pre-conditions have to be met such as the sample size has to be reasonably large and a significant association between the variables (correlation coefficients) has to exist.

According to some commentators, including Tabachnick and Fidell (2007), the reliability of the correlation coefficients will be tainted if the sample size is less than 100. Other commentators including Coakes, S.J and L.G Steed (2003) preferred a sample size of 200. It seems that our sample meets this criterion as the final sample size is 251 respondents. An important step in this process is to decide the adequacy of our sample for factor analysis and we usually decide that through KMO and Bartlett's tests.

Table 5.2.6(a): KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.652
Bartlett's Test of Sphericity	Approx. Chi-Square	1954.522
	df	21
	Sig.	.000

According to the above table, the KMO value is 0.652 and Bartlett's test is significant as the p-value suggests ($P<0.000$). I can therefore conclude that factor analysis is appropriate for this study. Once the researcher is convinced that factor analysis applies to his or her data; the next task is to choose the most suitable method of data extraction.

In this case, principle component analysis (PCA) has been chosen as it is deemed to be the most suitable method for our data. Principal component analysis involves determining the patterns with the objective of studying the similarities and the differences among the components of the data set.

> It is a way of identifying patterns in data, and expressing the data in such a way as to highlight their similarities and differences. Since patterns in data can be hard to find in data of high dimension, where the luxury of graphical representation is not available, PCA is powerful tool for analysing data (www.cs.otago.ac/student_tutorial, accessed April 2012).

We now perform factor analysis based on Principal Component Analysis (PCA) and Varimax rotation with Kaiser Normalization as the following table suggests.

Table 5.2.6(b): Total Variance Explained

Total Variance Explained

Component	Initial Eigenvalues			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.818	54.548	54.548	2.966	42.373	42.373
2	1.272	18.165	72.712	2.124	30.340	72.712
3	.967	13.817	86.530			
4	.753	10.752	97.282			
5	.135	1.922	99.203			
6	.031	.447	99.651			
7	.024	.349	100.000			

Extraction Method: Principal Component Analysis.

According to Pallant (2002), the Eigen value has to be greater than 1.0 to be regarded as significant and to be used in determining the factors. The assumption here is that the Eigen values stand for the amount of total variation represented by the factors and this means that an Eigen value of 1.0 or above indicates a high level of variation (Field, 2005).

The above table shows that there are two factors with an Eigen value greater than 1.0, (3.818 and 1.272) and therefore our analysis resulted in a two-factor solution where the seven factors were reduced to only two. Each explains a particular amount of variance in the items and in our case, factor one explains 54.548% while factor two explains 18.165% of the variance.

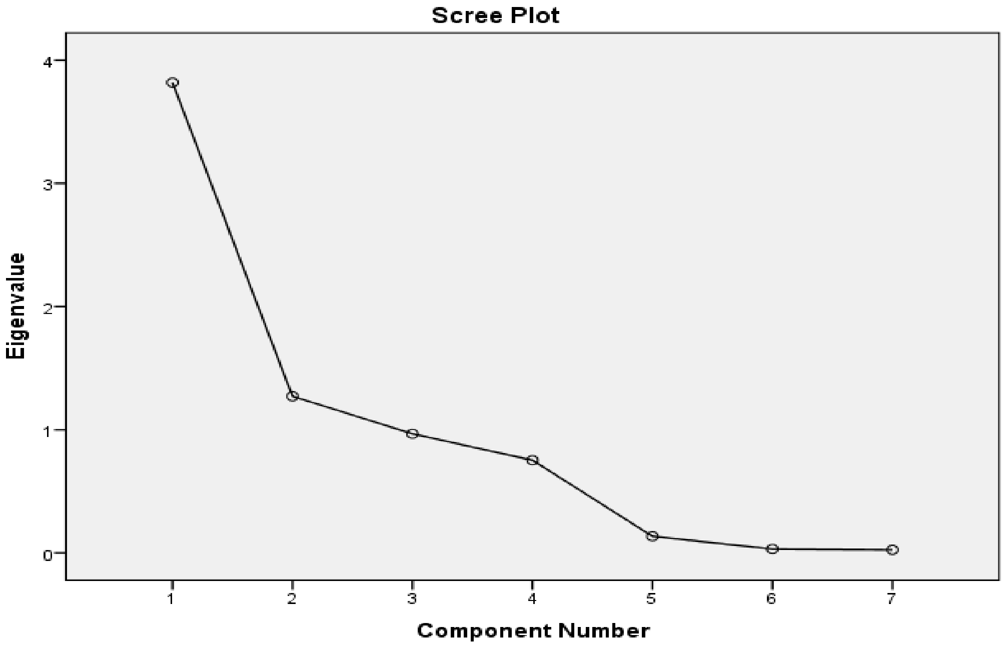
*Table 5.2.6(c): Rotated Component Matrix (a) on the Perceptions of MIQ**

		Component	
		1	2
Q15.	Islamic financing are more expensive than conventional loan.	-.076	-.586
Q16.	The availability of Islamic Finance products and services will enhance the Muslim community access and participation into Australia's financial systems.	.783	.304
Q17.	By increasing access to Islamic Finance products and services, the socio-economic status of the Muslim community will be improved (e.g. potential to acquire a property, car or insurance will be higher)	.798	.309
Q18.	There are Muslims in Australia who are not accessing banking and financial products in order to avoid *Riba* or interest/usury but will do so if they have an alternative that are *Shariah*-compliant.	.251	.894
Q19.	The existing Islamic Finance products and services in Australia are very selective and limited.	.270	.875
Q20.	Muslims in Australia should switch their banking (i.e. savings/investments) and financing (i.e. home/car) facilities to Islamic finance products and services regardless of costs or price.	.888	.122
Q21.	Muslims in Australia should be given a choice to choose between Islamic insurance (also known as *Takaful*) or conventional insurance.	.887	.117

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
*Muslims in Queensland (MIQ)

According to the rotated component matrix table presented above, the seven statements have been reduced to only two and each component has a set of related factors determined by the Eigen values. For instance, the statements that relate to component one are (Q15, 16, 17, 20 and 21), while the rest of the statements relate to component two.

The factors in each component have some common characteristics and measure the same phenomenon. For instance, factors in component one deal with the scepticism expressed by the respondents about the *Shariah*-compliant financial products on offer in the Australia as the statements clearly show. The factors in component two on the other hand tell us something about the preference for *Shariah*-compliant finance by Muslims in Queensland and the statements in this category shed some light on how Muslims in Queensland perceive the availability of *Shariah*-compliant financial products as far as their access to financial products is concerned and how much they prefer them over conventional finance. A detailed explanation of both components and the kind of message they carry will be presented separately in the interpretation section.



Also, the Scree plot, which is basically a graph of the Eigen values, shows that the seven variables could be reduced to only two as the graph slopes down steeply before becoming parallel to the horizontal line. It is therefore clear from the plot that there is only a two factor solution to this study.

5.2.7 Interpreting the factor analysis:

The final step in the factor analysis is to interpret the results of the analysis where the objective is simply to identify factors that cluster together and find the common thread between them. In the next few paragraphs, I hope to do just that. The factor analysis carried out here indicates that there is a two-factor solution to the perception of Muslims in Queensland of the *Shariah*-compliant financial products in Australia. These two factors can be summarized as follows:

- Factors analysing the scepticism expressed by Muslims in Queensland regarding the *Shariah*-compliant financial products available to them in particular, and to the Australian Muslims in general. The scepticism factors are represented by the statements presented in table 5.2.7(a). As this table demonstrates, the level of agreement to most of the statements in this category is quite sizable.

It is obvious from this table that there are various causes for the expressed scepticism although the end result is the same. For instance, in the first statement which reads *"The existing Islamic Finance products and services in Australia are very selective and limited."* the source of the scepticism is the non-inclusiveness of Islamic finance in

Australia. This is putting off a lot of would-be customers among Muslims in Queensland who cannot get access to such products despite their preference for them.

Table 5.2.7(a): Factors measuring the scepticism expressed by respondents towards Islamic finance in Australia

No	Statement	Percent of Agreement (Comments)
18.	There are Muslims in Australia who are not accessing banking and financial products in order to avoid *Riba* or interest/usury but will do so if they have an alternative that are *Shariah*-compliant.	41 (scepticism relates to religious beliefs)
19.	The existing Islamic Finance products and services in Australia are very selective and limited.	44 (scepticism relates to the lack of inclusive policies)

The table presents some crucial information about the scepticism expressed by respondents. Although the percentage is 41 and 44, but it is significant enough if we compared to the respondents who disagree or strongly disagree (A brief explanation has already been presented in the previous paragraph).

Table 5.2.7(b): Factors measuring preference for Islamic finance

No	Statement	Percent of Agreement (Comments)
15.	Islamic financing are more expensive than conventional loan.	0 % (Costs is not a barrier)
16.	The availability of Islamic Finance products and services will enhance the Muslim community access and participation into Australia's financial systems.	79 % (The expectation is high but has that materialised?)
17.	By increasing access to Islamic Finance products and services, the socio-economic status of the Muslim community will be improved (e.g. potential to acquire a property, car or insurance will be higher)	80 % (Increasing access is the keyword and the lack of it negates the outcome)
20.	Muslims in Australia should switch their banking (i.e. savings/investments) and financing (i.e. home/car) facilities to Islamic finance products and services regardless of costs or price.	90 % (Is the religious motive enough?)
21.	Muslims in Australia should be given a choice to choose between Islamic insurance (also known as *Takaful*) or conventional insurance.	26 % (Choice to choose is the key word)

5.2.8 Interpreting the presented information:

1. Inconvenience (Scepticism factors):

As far as the scepticism factors are concerned, it is obvious that the respondents' gender did not significantly affect the response. This is evidenced by the P-value (0.115) of the gender variable which suggests that the differences between respondents were not at all significant. However, the respondents' responses differed according to their ages, as the above table represented by the P-values shows (0.00). For instance, the group between the ages of 18 and 30 seems to be neutral as their mean indicates (3.06) while those over 50 years agreed with almost all the scepticism statements (3.7). Significant differences also existed in other variables including age, country of origin, and length of stay, employment status and annual income, indicated by the P-value of the respective variables.

2. Preference for Islamic finance factors:

Interestingly, the differences of the respondents' responses were not significant in most cases as far as the preference factors were concerned. The sole variable where the difference was significant was in the case of annual income as the P-value suggests (0.03). This may explain the fact that the agreement among respondents was strong in preferring Islamic finance products and services over conventional banking/finance. Conversely, it may suggest a high degree of disappointment among Muslims in Queensland as far as the way Islamic finance products and services are offered in Australia is concerned. Obviously the high preference expressed by Muslims in Queensland for Islamic finance was badly tainted by the unavailability and limitation of Islamic finance products and services currently on offer in Australia and it seems to be the major source of the scepticism discussed above. Hence, the onus is upon the institution offering such products to revise all the phases of their product offering, including development, promotion and market segmentation strategy, to remedy the situation.

5.3 Summary

This chapter is the main analysis for the study which employed qualitative data represented by survey questionnaire where both descriptive and inferential statistics were used in understanding the information containing the survey questionnaire. Frequencies and percentages were among the descriptive statistics used while Kruskall-Wallis factor analysis and Chi-square tests were the selected inferential statistical analysis deemed to be particularly relevant in this study.The chapter started with the objectives of the survey questionnaire, followed by a brief explanation of the analysis to be carried out to find reasonable answers to the main research questions and their sub-questions.

Firstly, the respondents' access to conventional financial products was studied to assess the extent to which the Queensland Muslim community accesses products such as bank accounts and loans. It was obvious from the analysis carried out that although a significant proportion of the Queensland Muslim community had some sort of basic bank accounts, the majority did not access the major conventional financial products such as home/car loans or personal and business loans. This answered the first main research question which explored how well the Australian conventional financial system meets the financial services needs of this community. The outcome of the analysis of this section was that MIQ are not well served by the Australian conventional financial system. The study also revealed some important information about the extent to which MIQ do not rely on informal financial services such as *Hawala* (money transfer) and other informal loans.

However, as far as respondents' perception and attitudes towards the *Shariah*-compliant financial products currently on offer is concerned, a major portion of this study was devoted to these and all relevant descriptive and inferential statistical analysis was performed to find the answer to second research question which was specifically aimed at shedding light on this issue. Finally, I can conclude that this chapter has met its objectives as it has succeeded in finding relevant and suitable answers to all the research questions.

CHAPTER 6: CONCLUSIONS

6.1 Introduction

This chapter will summarise the thesis, present the research findings and make recommendations. It will start with a brief description of the various phases of the thesis to provide the reader with an overall picture of how the research began and its logical flow thereafter. The main objectives of the research, as well as the selected methodologies, will be reviewed, followed by a brief discussion of the main research findings and recommendations. Finally, the research limitations and suggested further research topics will be presented. In the coming sections, we will sum up each chapter chronologically, beginning with the first one.

6.2 Summary of the Research

The first chapter introduced the main research questions and their sub-questions and stated the research objectives and explained the rationale for choosing the research topic. It has also briefly discussed the research hypothesis, and the selected research methodology. An outline of the chapters to be included in the thesis was also presented.

The second chapter surveyed literature relating to Islamic finance. Within this chapter, an introduction to the basic principles and specific rules governing the Islamic finance were first introduced and then expanded upon in further detail.

The third chapter looked at the concept of financial exclusion, its theory and how it affects the people. This chapter explored the various causes of financial exclusion and identified the people mostly affected by it, and finally the chapter explored the varied and diverse policy responses introduced in Australia designed to overcome financial exclusion.

The fourth chapter explained the research methodology that was employed in the study, and provided the justification and explanation as to why this method was chosen.

The fifth chapter focussed on data analysis and results. It started with the mapping of the research questionnaire to the research questions by relating the four parts of the of the survey questionnaire to the two main research questions and five research sub-questions. The SPSS preliminary outcome was presented in tabular form so as to best explain the most distinctive features of the survey questionnaire respondents such as age, country of origin and gender.

Finally this chapter concluded the study with an explanation of the findings and recommendations made for both practitioners and regulators who are the key stakeholders. Research limitations and further research topics were also discussed in this final chapter.

6.3 Research Findings

The findings of the research have been presented in Chapter 5. However, in this chapter, I will summarise the main research findings with the aim of recommending some policy initiatives. The main research findings, which were closely connected to the research questions and hypothesis, were as follows:

1. The conventional financial system in Australia does not meet the financial services needs of MIQ. This fact was made clear by the frequency tables in the previous chapter. Perhaps, it is worth remembering at this juncture that 81.2% of our sample respondents stated that they did not have any of the main conventional financial products, such as home/car loans or personal or business loans. While, the majority of Muslims interviewed responded that they did have basic bank accounts such as savings account, still they are either excluded or are on the margins of the conventional financial services market.

2. MIQ does not use informal financial services, although they have low rates of utilisation of the formal financial services. This maybe because of limited type of facilities that being offered by the informal finance service providers.

3. The level of awareness about existing *Shariah*-compliant financial products was relatively low. More than 56% of respondents said they had no knowledge of or had not heard of *Shariah*-compliant financial products.

4. There are no IFSPs in Queensland, although the demand for *Shariah*-compliant financial products and services is there. The data presented in table 5.2.5(b) explains the findings in greater detail.

5. Islamic finance products and services are not widely marketed in Australia. The current IFSPs are operating in two major cities i.e. Sydney and Melbourne.

6. The introduction of Islamic finance products and services has barely enhanced the financial inclusiveness of MIQ as the products and services currently on offer do not meet the financial services needs of these communities and the lack of appropriate products is hindering their financial inclusiveness enormously.

7. There is no legal and regulatory framework in existence in Australia for guiding and supervising the functions of IFSPs to operate within the precepts of *Shariah* or Islamic legal systems.

8. There are microfinance products being offered by conventional banks such as "Non-Interest Loan Scheme (NILS)". However, all of these institutions are interest-based and exist to respond to the financial services needs of the ordinary financially and socially excluded Australian consumers as opposed to the needs of the faith-conscious and socially excluded Australian Muslims.

9. There is demand for *Shariah*-compliant products and services at the moment in Queensland as discussed in the Chapter five, but there is no supply to match this demand.

10. Although most of the MIQ are gainfully employed but the percentage of them living in their own house is very low. The socio economic status of these communities can be improved when they can accumulate wealth by acquiring properties.

6.4 Recommendations and Policy Implications

Islamic finance advocates risk sharing and equity finance, while prohibiting debt financing and leveraging. Given the emphasis on social and economic justice and the eradication of poverty, the lack of Islamic finance products and services is constraining financial inclusion for the Muslim community. The community which represent 2% of the Australian population who want these Islamic finance products, face significant barriers to accessing them. Islamic finance is different from regular banking for a number of reasons as discussed in Chapter three. In general, one can't see a point to these religious-based constraints – but in a free society, governments should not be putting unnecessary impediments in the way those who want to adhere to them. Moreover, it should be a concern that some regulations, like compulsory superannuation and institutional indifference, force individuals into financial products that are, in some cases, not compatible with their beliefs. This also occurs within the Insurance industry where, to the researchers' knowledge, there are currently no Islamic insurance products available.

The regulators can provide a more level playing field for Islamic finance products and services. This extends beyond financial sector regulation to the tax code, as Islamic financing that involves additional transactions such as passing on a property title, may have tax implications such as capital gains tax or stamp duty, which are not applicable in conventional deals. We take for example in designing Islamic financial products to facilitate people to acquire a property. As we know interest is prohibited, a conventional mortgage loan is not acceptable. Islamic finance works around these prohibitions with some simple financial engineering. The financial institution buys the house an individual wishes to own, and leases it to the individual on agreed terms via a long term contract. At the end of the contract the ownership of the house is transferred to the individual. The main problem with implementing that in Australia is double stamp duty, once on the initial purchase by the financial institution and second when the house is transferred to the owner at the end of the lease. Under conventional mortgage loan, stamp duty is only levied once when the house is initially purchased. Only the Victorian government has removed this impediment, by allowing house purchase under Islamic financing arrangements to only incur one lot of stamp duty. We strongly recommend other State governments in Australia to follow the footsteps of the Victorian government so that to facilitate the growth of Islamic finance products and services throughout the nation.

The Australian government should also extend access to a broader range of financial services through existing branch networks of conventional banks, which can offer a unique network of existing outlets as a delivery mechanism for *Shariah*-compliant financial services. This is another way to exploit the potential of Islamic finance instruments in order to achieve the objectives of enhancing access to finance or "financial inclusion". The researcher believes the Australian government should take necessary steps to enable these growing opportunities to be pursued in this country.

In addition to the above and from analysis of the result, there is a need for the public (both Muslims and non-Muslims) to be fully informed of the processes and practices of Islamic finance that differ from conventional ones. This is because Islamic finance is comparatively new in Australian society and thus it has not been fully understood even by many Australian Muslims (Ahmad 2010) and it will takes some time for the people to grasp the fundamental point. Perhaps the regulators and industry players can jointly design a new way to disseminate information and/or improve/update the existing materials. As such, it is imperative that continuous effort to educate and provide the correct information to the public pertaining to Islamic finance in Australia is recommended.

6.5 Recommendations for IFSPs in Australia

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. This suggests that a holistic and coordinated effort is warranted if this chronic problem is to be dealt with.

The institutions providing Islamic financial products should adjust their strategic and operational plans to reflect the reality on the ground. The growth of Islamic finance will depend to a large degree on whether financial institutions can develop sufficiently attractive financial products and services, which are competitive with conventional products in terms of pricing, transparency, processing time, and burden on the client. At present all these IFSPs are providing investment facilities rather than retail banking facilities, which is not enough. In order to attract more clientele thus providing the twin engines of fulfilling communities' religious needs and economic development of the country through Islamic micro-financing investment and retail banking facilities must be integrated. Expanding the suite of Islamic finance products and services nationwide is another area that IFSPs can explore. Currently, the operations of IFSPs are concentrated in two states - New South Wales and Victoria. IFSPs need to reach a wider range of customers by expanding their market presence to more customer segments and the presence of IFSPs in other states of Australia is much anticipated by the Muslims consumers. Perhaps the two main players of the Islamic finance in Australia namely MCCA and IFCAL which are co-operative in nature can merge and become a bigger entity for the growth and development of Islamic finance in Australia. This will help expand Islamic finance that Australia's vibrant Muslim community could utilise comfortably as it would meet their religious as well as financial requirements.

The existing Islamic finance market stands at $1.35 trillion in assets based on disclosed assets by all Islamic finance institutions (full *shariah*-compliant as well as those with *shariah* 'window'). This represents a very small proportion of global financial assets but it is a fast growing segment at 15-20% a year in many of its core markets. It is recommended that current IFSPs to consider collaborating with *Shariah*-compliant mortgage brokers, possibly through a link with global wholesale banks such as HSBC and Citibank through their trans-national banking subsidiaries that are currently operating in Australia, as an avenue for expansion.

6.6 Research Limitation and Further Research

Like any other academic research, our current research also faced certain restrictions due to the limited resources that were available to the researcher at the time of the study. Limitations on time available to the researcher restricted the overall scope of the research insofar as it restricted the overall sample size. The extant available literature on Islamic Finance and Banking in Australia was very limited and thus the references were limited accordingly. Similarly, data on Australian Muslims was in short supply and this limited the scope of the discussion presented in the relevant sections of the thesis. The literature on financial exclusion based on ethnicity in Australia was also very limited and at times non-existent. All of these limitations had a significant effect on the research. However, the researcher is of the opinion that the lack of research in this area merely underlines the importance of this thesis and strengthens the impact of these findings, highlighting the importance of trying to improve the financial inclusion of the Muslim community in Australia.

Suggestions for further research

This research has thrown up many questions in need of further investigation. Some of the areas where further research could be conducted are as follows:

1. Further studies with more focus on designing financial inclusion policy that includes ethnicity factor;
2. More empirical research studies on Australian legal and regulatory perspectives towards facilitating Islamic finance products and services;
3. Further research should be done to investigate the potential of having *Shariah*-compliant banking services by IFSPs conventional counterparts like NAB, ANZ, CBA, Westpac and others in parallel with the conventional banking facilities offer for the prospective customers; and
4. Exploring on the possibility of making available Islamic insurance products or also known as *Takaful.*

6.7. Summary

The inherent features of Islamic finance strengthen its potential contribution towards growth, development and as a tool for financial inclusion. Financial inclusion essentially needs to achieve a multi-dimensional goal that goes beyond the consideration of enhancing access to financing for those from the lower income segment of the society or those that are unable to access banking services. It is also about creating financially responsible and financially independent people in a society. In addition, it fosters responsible behaviour by the financial institutions through previously outlined strategies for ensuring more effective usage, affordability and increased convenient access of financial services. These considerations are being equally applied for the Islamic financial system.

The importance of financial inclusion has been emphatically underlined in the wake of the global financial crisis. As we all know, the crisis has had a significant negative impact on lives of individuals globally. Millions of people have lost their livelihoods, their homes and savings. One of the prominent causes for the crisis was that the financial system was focused on furthering its own interests and lost its linkage to the real sector and with the society at large.

The report on financial exclusion for the past five years, have shown consistent increase in the numbers of people who are marginally and severely excluded from Australia’s financial system (see Appendix III). From the research findings tabulated in the respective chapters, this research concludes that the Muslims in Queensland are financially excluded from Australia’s financial systems. It is the humble hope of the researcher that this study has someway contributed to the literature, and thereby will enhance the knowledge on financial exclusion among the Muslims in Queensland in particular and the entire Australian population in general.

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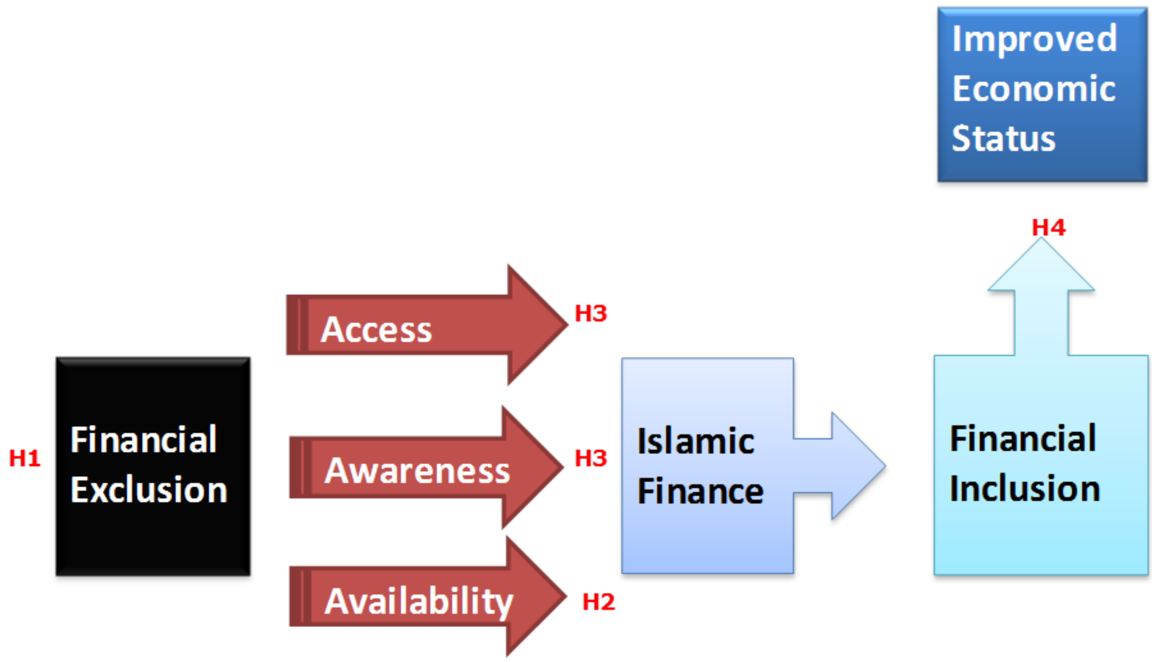
8. APPENDIXES

8.1 Appendix I – Conceptual Model



Summary of the research hypotheses are listed below.

H1: The Muslims in Queensland are financially excluded from the mainstream financial system in Australia

H2: Muslims in Queensland prefer Islamic finance to conventional finance under normal circumstances.

H3: Increased access to Islamic finance products and services will improve the level of financial inclusion of the Muslims in Queensland, Australia.

H4: The higher level of financial inclusion will improve the socio-economic status of the Muslim in Queensland, Australia.

8.2 Appendix II - Differences between Islamic and Conventional Banking

Characteristics	Islamic Banking System	Conventional Banking System
Guiding principle	Guided by Quranic edicts, Hadith, Islamic ethics and Islamic laws.	Guided by profit motive alone, with no religious or ethical considerations.
Ethics of financing	Financing being asset-backed and meant for productive use helps reduce the overall debt burden.	Debt burden arising out of excessive use of credit leads to bankruptcies, and waste of financial resources.
Liquidation Assets	An Investment Account Holder will have similar rights as shareholders.	Depositors are paid before the shareholders.
Involvement of risk & Equity financing	Equity financing is available to a project or venture that involves profit-and-loss sharing. Risk-sharing and profit sharing go together.	Commercial banks do not usually indulge in equity financing; only venture capital companies and investment banks do. Conventional banks carry much less risk, major part of the risks being transferred to the borrowers.
Return on Capital	Depends on productivity, idle money cannot earn any return. Money is not capital per se, only potential capital[1].	Even idle money in bank deposits earns returns.
Prohibition of Gharar (uncertainty)	The existence of uncertainty in a contract is prohibited because it requires the occurrence of an event which may not ultimately occur. "Full disclosure" by both parties is the norm in contracts. Derivatives trading e.g. options are considered as having elements of *Gharar*.	Trading and dealing in derivatives are widely considered as the main source of liquidity in the conventional financial, commodity and capital markets.
Profit and Loss Sharing	Most transactions are based on this variable returns, dependent on lenders' performance. Greater share of risks forces them to manage risks more professionally, to ensure better returns than conventional accounts. Depositors & investors have opportunity to earn higher returns than in conventional systems.	There is no relationship between bank performance and returns to the depositors or investors, who mostly enjoy a risk-free return. Conventional institutions mostly act as intermediaries between lenders & borrowers enjoying almost a risk-free spread.
Characteristics	**Islamic Banking System**	**Conventional Banking System**
Zakat	It has become one of the functions of the Islamic banks to collect and distribute *Zakat*.	Government Taxes perhaps serve the same purpose - mode and rate of charging are different, though.
Compounding or Interest on interest	The Islamic banks have no provision to charge any extra money from the defaulters.	It can charge additional money (compound rate of interest) in case of defaulters.
Money-Market Borrowing	For the Islamic banks, it is comparatively difficult to borrow	For commercial banks, borrowing from the money market is the main

[1] It becomes actual capital only when it joins hands with other resources to undertake a productive activity. Islam recognizes the time value of money, but only when it acts as capital, not when it is "potential" capital.

	money from the money market.	source of liquidity.
Developing expertise	Since it shares profit and loss, the Islamic banks pay greater attention to developing project appraisal and evaluation systems.	Since income from the advances is fixed, it gives little importance to developing expertise in project appraisal and evaluations.
Viability v/s credit-worthiness	The Islamic banks, on the other hand, give greater emphasis on the viability of the projects.	The conventional banks give greater emphasis on credit-worthiness of the clients.
Relationship with Clients	The status of Islamic bank in relation to its clients is that of partners, investors and trader.	The status of a conventional bank, in relation to its clients, is that of creditor and debtors.
Capital Guarantee	No guarantee.	Built into the system.
Deposit insurance	None	An integral component

Source: (Askari et al. 2012)

8.3 Appendix III – Financial Exclusion in Australia

Historical data for year 2007 to 2012

Degree of Exclusion	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
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%

Notes:
The level of financial exclusion is measured as follows:

- Included (having all 3 services)
- Marginally (lacking 1 service)
- Severely (lacking 2 services)
- Fully excluded (lacking all 3 services)

The services are comprised of the following

- The ability to maintain day to day transactions and payments – ownership of a transaction account
- Access to a moderate amount of credit - credit cards
- The ability to protect key assets – insurance

8.4 Appendix IV - Questionnaires

UNIVERSITY OF SOUTHERN QUEENSLAND

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

FOR MASTER OF BUSINESS RESEARCH (MBSR)

السلام عليكم

Dear Sir/Madam,

I am a research student at the School of Commerce, Faculty of Business, Education, Law & Arts from University of Southern Queensland, Toowoomba. I would like to invite you to participate in this survey as per the followings:

- **The purpose of the study is to explore the nature and extent of financial exclusion of Muslim community in Queensland, Australia.**
- **Financial exclusion refers to a situation where people do not have access to fair, safe and affordable banking products and services.**
- **The probabilistic outcome from this research shall be of help and beneficial not just to the Muslim community but also to the rest of Australia.**
- **Please make every effort to answer the following question as accurately as you can**
- **The honesty of your response will determine the reliability of the research outcome.**
- **Rest assured that your individual response will be highly confidential and will not be made available in the public domain.**
- **Last but not least, this survey is conducted strictly on voluntary basis and you are free to withdraw your participation at any time.**

Along with this letter is the questionnaire which will take approximately 10 minutes to complete. Thanking you in advance for your time, cooperation and participation in this survey.

بارك الله فيكم

Warmest regards,
Mohamed Rosli Mohamed Sain
Mobile: +614 3446 8813
Tel: +617 4687 5851
Email: mohamedrosli.mohamedsain@usq.edu.au

If you have any ethical concerns with how the research is being conducted or any queries about your rights as a participant please feel free to contact the University of Southern Queensland Ethics Officer at the following address:

Ethics and Research Integrity Officer
Office of Research and Higher Degrees
University of Southern Queensland
West Street, Toowoomba 4350
Tel: +617 4631 2690
Email: ethics@usq.edu.au

PART A: Your access to conventional financial products and services in Australia
Please tick (✔) the appropriate box

1. Do you or anybody in your household have any of the following accounts?

☐ Savings account
☐ Current account (Cheque)
☐ Investments account (e.g. Unit Trust)
☐ Others, please specify____________

2. Do you have any of the following financial products with a conventional bank?

☐ Home loan
☐ Car loan
☐ Personal loan
☐ Business loan
☐ Others, please specify____________

3. If you do not have any of the above products, what was the reason?

☐ I don't want to deal with interest
☐ I don't need to borrow
☐ I don't know how to apply
☐ I have tried but not successful

4. Some of the day-to-day financial services that you need but not available from your bank and you obtain it elsewhere such as:

☐ Money transfer facilities
☐ Short-term interest free loan
☐ Small business loan
☐ None

5. Do you have a conventional insurance such as:

☐ Home Insurance
☐ Car Insurance
☐ Personal Insurance
☐ Medical Insurance
☐ None

PART B: Your access and knowledge about Islamic Finance products and services in Australia.

6. Do you know that Islamic Finance products and services are being offered in Australia?
☐ No
☐ Yes

7. Do you have any account with Islamic Finance institutions in Australia?

☐ If Yes, what type of account _______ _______________ (Go to question 9)
☐ No

8. If you say no to question 7, what was the reason for not having an account with the said institutions:

☐ I'm not interested as they are not different from conventional finance
☐ I have applied but was not successful
☐ Not available in Queensland
☐ Others, please specify
____

9. Do you live in a:

☐ Rented property
☐ Owned property
☐ Others, please specify____________

10. Did you take out a conventional loan to purchase the property?

☐ Yes (Go to question 11)
☐ No (Go to question 12)

11. If you have a conventional loan, will you switch it to Islamic financing instead?

☐ Yes
☐ No, please explain why
____

12. If you are buying a property or car, will you choose Islamic financing instead of conventional loan?

☐ Yes
☐ No, please explain why
____

13. Do you have an Islamic insurance product or also known as *Takaful*?

☐ Yes
☐ No

14. If you say no to question 13, what was the reason?

☐ They are the same as conventional insurance
☐ Not available

PART C: **Your knowledge, perception and attitude towards the existing Islamic Finance products and services in Australia**						
SCALE		**Please tick (✓) at the appropriate box**				
		1	**2**	**3**	**4**	**5**
		Strongly Disagree	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
15.	**Islamic financing are more expensive than conventional loan.**					
16.	**The availability of Islamic Finance products and services will enhance the Muslim community access and participation into Australia's financial systems.**					
17.	**By increasing access to Islamic Finance products and services, the socio-economic status of the Muslim community will be improved (e.g. potential to acquire a property, car or insurance will be higher)**					
18.	**There are Muslims in Australia who are not accessing banking and financial products in order to avoid *Riba* or interest/usury but will do so if they have an alternative that are *Shariah*-compliant.**					
19.	**The existing Islamic Finance products and services in Australia are very selective and limited.**					
20.	**Muslims in Australia should switch their banking (i.e. savings/investments) and financing (i.e. home/car) facilities to Islamic finance products and services regardless of costs or price.**					
21.	**Muslims in Australia should be given a choice to choose between Islamic insurance (also known as *Takaful*) or conventional insurance.**					

PART: D

Please tick (✔) in the appropriate box

22. Age Group

- ☐ 18 – 30 years
- ☐ 31 – 40 years
- ☐ 41 – 50 years
- ☐ 51 – 60 years
- ☐ Above 60 years

23. Gender

- ☐ Male
- ☐ Female

24. Marital status

- ☐ Married
- ☐ Single
- ☐ Others, please specify

____

25. Education Level

- ☐ Diploma
- ☐ Degree
- ☐ Master
- ☐ PhD
- ☐ Others, please specify

____

26. Occupation

- ☐ Employed
- ☐ Self-employed
- ☐ Student
- ☐ Retired
- ☐ Others, please specify

____

27. Income Range

- ☐ Less than $3,000 per month
- ☐ $3,001 to $5,000 per month
- ☐ $5,001 to $7,000 per month
- ☐ $7,001 to $9,000 per month
- ☐ More than $9,000 per month

28. Which country are you from:

- ☐ Australia
- ☐ Bangladesh
- ☐ India
- ☐ Indonesia
- ☐ Malaysia
- ☐ Middle East
- ☐ Northern Africa
- ☐ Pakistan
- ☐ Singapore
- ☐ Others, please specify

____

29. Length of stay in Australia

- ☐ Less than 3 years
- ☐ 3 years to 6 years
- ☐ Above 6 years