

Financial exclusion in Australia: An exploratory case study of the Muslim community

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ABSTRACT

Nearly 3 billion people in the world faced the difficulties in accessing formal financial services which alerted on the issue of financial exclusion. The study of financial exclusion is highly important for the nation and society because consequences of financial exclusion are detrimental to the economy. A good financial system serve a vital purpose, offering savings, credit, payment, and risk management products to people with a wide range of needs. The purpose of the study is to explore the nature and extent of financial exclusion faced by the Muslim community in Australia.

Keywords: Financial exclusion

I. INTRODUCTION

Financial crises have profound economic and social consequences. They tend to induce what the financial-services industry describes as a ‘flight to quality’; that is, a search for ‘safer’ markets, a process which tends to be in favour of the more affluent and powerful social groups and against the poor and disadvantaged groups. Financial exclusion refers to a situation where people do not have access to fair, safe and affordable banking products and services. Nearly 3 billion people in the world faced the difficulties in accessing formal financial services which alerted on the issue of financial inclusion (Kumar & Mishra 2011).

A good financial system serve a vital purpose, offering savings, credit, payment, and risk management products to people with a wide range of needs. Financial systems that allow broad access to its services, without price or non-price barriers to their use are

especially likely to benefit the disadvantaged groups including the poor. Without inclusive financial systems, these groups of people must rely on their own limited savings to invest in their education or become entrepreneurs and small enterprises must rely on their limited earnings to pursue promising growth opportunities. This can contribute to persistent income inequality and slower economic growth.

The study will focus on the issue of financial exclusion faced by the Muslim community in Australia and explore the path towards improving the financial inclusion of the community.

II. SIGNIFICANT OF THE STUDY

The study will explore the nature and extent of financial exclusion facing the Muslim community in Australia. Although the researcher is unable to locate any specific research conducted on the topic of faith-driven financial exclusion in Australia or any study on financial exclusion on a specific ethnic group in Australia, the existence of the problem can't be denied as suggested by some commentators (Burkett & Sheehan 2009; Pearce 2010). As such, the study will contribute to the existing literature and knowledge.

III. FINANCIAL EXCLUSION

Development economist suggested that the lack of access to finance contributes to the slow growth in economic development (Mohieldin 2011). The main reason why finance matters is because financial development and intermediation has been shown empirically to be a key driver of economic growth and development of a nation. Economic growth needs to be sufficiently inclusive so that the benefits can be shared among all, or else the growth process itself shall be jeopardized and derailed (Burkett 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 (Mitton 2008).

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). 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.

Leyshon and Thrift proposed the first definition of financial exclusion. According to the authors, financial exclusion involves the “processes that serve to prevent certain social groups and individuals from gaining access to the financial system” (Leyshon & Thrift 1995). The study emphasized on the role of geographical exclusion, e.g. the difficulties experienced by certain individuals in accessing financial services because of the lack of a bank branch in their area or because of the closure and relocation of a branch.

Subsequent research studies adopted this “in and out” approach but explored other causes which explained access difficulties (Devlin 2005; Kempson 2001; Sinclair 2001). The study emphasized that difficulties of access can also be explained by condition exclusion (e.g. requirements to access financial products are inappropriate), price exclusion (e.g. services are costly), marketing exclusion (e.g. information about new products is not displayed to non-desirable customers), self-exclusion (e.g. people do not access financial products because of fear or distrust of banks or because they have already been refused).

The European Commission defines financial exclusion as a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong (Commission 2008). Although the term ‘normal social life’ was not explicitly explain how far financial inclusion policies should go, the EC’s definition, and the fact that financial exclusion has been expressly

incorporated in its poverty and social exclusion agenda, represents a step ahead of the more restricted focus on individual 'accession' to the mainstream financial system.

Howell argued 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 (Howell 2008). It was also reported that Muslim communities may have faced financial disadvantages because of their faith and religious belief which make them financially excluded from the mainstream financial systems (Pearson 2008).

In the UK, where financial inclusion has been part of the policy agenda for about a decade (Kempson & Whyley 1999), some 1.75 million adults still lacked access to a transaction account (Taskforce 2010). Increasing access to the mainstream system through a bank account was one of the primary tasks of the financial inclusion strategy initiated in 2004 which targeted access to banking services, affordable credit and face-to-face financial advice. These initiatives were complemented by policies to stimulate asset building.

In a recent 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 had 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 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 (Demirguc-Kunt & Klapper 2012), just below Bolivia's 28.0%; a country with a GDP per capita one fifth that of Mexico (Cull et al. 2013). Hence, the report is in conformity that financial exclusion is indeed a global issue.

IV. FINANCIAL EXCLUSION IN AUSTRALIA

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

Like social exclusion, financial exclusion needs to be grounded in social and economic contexts in order to gain policy relevance. Studies on wellbeing and happiness have found that these subjective measures are influenced by our relationship with the context in which we live and socialise (Bruni & Porta 2005). Data from the 2008 ANZ financial literacy survey (ANZ and the Social Research Centre 2008) revealed that 97 per cent of respondents had ‘an ordinary everyday banking account’. However, the indicators proposed by Scutella et al. (2009) for the measurement of poverty and social exclusion in Australia provide a more thorough picture of financial exclusion. They include, under the ‘material resources’ domain, household income, household net worth, household consumption expenditure, homelessness; and under the ‘community’ domain, financial hardship and access to financial services (Scutella et al. 2009).

The most frequently cited definition of financial exclusion in Australia was developed by Connelly & Hajaj who stated that “it is a lack of access to financial services by individuals or communities due to their geographic location, economic situation or any other ‘anomalous’ social conditions which prevents people from fully participating in the economic and social structures of mainstream communities” (Connolly & Hajaj 2001). (Scutella et al. 2009)

In a report by Chant Link & Associates (commissioned by ANZ Banking Group Limited), a new definition of financial exclusion was developed that considered access, as well as an assessment of whether products were appropriate or affordable, and also making a connection between financial exclusion, income and hardship.

Financial exclusion is a lack of access by certain consumers to appropriate, low cost, fair and safe financial products and services from mainstream providers.

Financial exclusion becomes of more concern in the community when it applies to lower income customers and/or those in financial hardship. Financial exclusion is observable at individual, family, or household level, but can also be heavily concentrated in suburbs or regions, and sometimes among ethnic minorities in a suburb or region. Financial exclusion can also apply to individual small businesses, NFPs [not for profits] and other community enterprise organisations (Link & Associates 2004).

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

Interestingly it was reported that 6 per cent of adults in Australia could be said to be excluded. Despite the complexity of their definition, the Chant Link report still quantified the problem of financial exclusion on the basis of product holdings only, which meant, for instance, that people struggling with high cost credit or having inappropriate levels of insurance cover were assessed as financially included on the basis that they identified as using the products. As a result, it is likely that the Chant Link study underestimated the extent of financial exclusion in Australia.

The study by Burkett (2008) explore the nature of financial exclusion in Australia and argues 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 organisations, social enterprises and micro enterprises. The report concludes that new approaches are needed which can build on current responses to develop innovative solutions to the issues involved in financial exclusion. (Burkett 2008).

In May 2011 The Centre for Social Impact (CSI) published Australian first report on measurement of financial exclusion as commissioned by National Australia Bank (NAB). According to the measurement, approximately 15.6% or 2,650,000 of adult

population in Australia were either fully excluded or severely excluded from financial services in 2010. This figure comprises 0.8% of adults who were fully excluded (they had no financial services products) and 14.8% of adults who were severely excluded (they only had one key financial services product) (Connolly et al. 2011).

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

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

In another literature that was reviewed, it was reported that there is a lack of financial systems in Australia to meet the needs of the Muslim community who have particular beliefs about the charging of interest (Burkett & Sheehan 2009). In countries where Islamic Finance does not have a presence, it is common to observe that a substantial segment of the Muslim population would refrain from using the conventional banking facilities in order to avoid dealing with usury or interest (*Riba*) due to religious principle (Pearce 2010).

V. MUSLIMS IN AUSTRALIA

Islam 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%) (Statistics 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).

VI. RESEARCH METHODOLOGY

The design of the study would be using qualitative and quantitative method or more commonly known as mixed methods. The assumption of this study is that different data offer useful insights for understanding financial exclusion. Based on literature available, research can take the form of three basic designs that is exploratory, descriptive or causal (Leedy 2009).

The focus of this study will be an exploratory in nature and the sample survey method (questionnaire) would be one of the appropriate methods for data collection. Under this method the data is collected from a portion of the populations and from that data appropriate inferences about the population can be made. Even though this means that the sample serves only as an approximation of the entire population, it has been recommended as it could actually be highly accurate if chosen with care (Cresswell 2007).

In another context, semi-structured interviews are usually used to find answers from the respondents to specific questions. In this research, practitioners and scholars of Islamic finance will be interviewed with the objective of gaining answers for the research question. Generally, a combination of two or more research methods will give better interpretation as the information missed by one method may be captured in another method (Creswell 2009).

VII. INITIAL FINDINGS

As the study is in the progress of data collection, the initial findings here are based entirely on secondary sources. An in-depth examination of issues was not undertaken and the scope of the paper was limited to existing materials.

The level of financial exclusion among the Australian population is quite alarming. In the year 2011, approximately 16.1% of the adult population are severely excluded and 1.1% was fully excluded. In real terms, 2,995,000 of Australian adults are financially excluded of which 192,000 people are fully excluded and 2,803,000 people are marginally and severely excluded from access to financial services (Connolly et al. 2012). On the other hand, the financially included population is constantly decreasing each year. The historical data of financial exclusion in Australia from 2007 to 2011 (in percentage) are summarized in Table 1 below:

Table 1: Financial exclusion in Australia – historical data

(Base: Australian population aged 18+)

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

Source: Connolly et al. 2012

VIII. CONCLUSIONS

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. Though the percentage of the Australian population affected by financial exclusion are on the increasing trend as shown in Table 1 above, there is still lacking of information about financial exclusion according to ethnicity or religious group in Australia. This paper concludes that there is still plenty of room for in depth study on the subject of financial exclusion in Australia.

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