MEASURING THE AWARENESS OF AUSTRALIAN MUSLIMS TOWARDS SHARI'AH COMPLIANT BANKING PRODUCTS.

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Abstract: This paper seeks to find out the demand for Islamic finance among the Muslim community in Australia. A survey was conducted in Adelaide during the first half of 2004 covering Muslims attending Friday prayers. Of the respondents, 58.3 percent stated that they were aware of Islamic financing. With the Australian Muslim community growing in number, the results of this survey represent opportunities for Australian financial institutions to provide financing to Muslims who previously have stayed away from conventional interest-bearing loans.

Keywords: Australian Muslims, Islamic Finance.
1. Introduction

The concept of interest-free finance is an ancient one (De Jonge 1996), and was practiced prior to the advent of Islam. Over the last three decades the concept of Islamic financing has experienced an increased interest in its application worldwide (Dudley 2001). By early 2003 there were at least 176 Islamic banks around the world, with deposits in excess of $147 billion (Ghannadian and Goswami 2004).

While Islamic financing has become popular in both Muslim and Non-Muslim countries, the system has not achieved wide spread success in Australia. The main reason for this has been the lack of awareness about the system among the population.

The purpose of this paper is to ascertain the demand for Islamic finance in Australia. The paper is divided into seven sections. Section two provides a brief overview of the Islamic financing system followed by section three which looks at some of the criticisms levelled against the Islamic financial system. Section four covers the history of Australia's involvement with Islamic financing. Section five details the methodology used for this study. Section six reports on the findings and implications of this study, while the final section provides suggestions for further studies.

2. Overview Of The Islamic Financing System

The guiding principle in Islamic Financing is the prohibition of Riba (interest) in the light of the Shari'ah ruling. Shari'ah refers to Islamic law, which is based on the teachings of the Quran. Since Muslims cannot receive or pay interest, they are unable to conduct business with conventional banks (Ariff 1998; Jaffe 2002). To service this niche market, Islamic financial institutions have developed a range of interest-free financing instruments that conform to Shari'ah ruling, and therefore are acceptable to their clients (Malaysian Business 2001). The first successful application of Islamic finance in the modern era was undertaken in 1963 by Egypt's Mit Ghamr Savings Banks, which earned its income from profit-sharing investments rather than from interest (Lewis & Algaoud 2001). By the 1970's, the push for Islamic finance had gained momentum. In 1973 the conference of foreign ministers of Muslim countries decided to establish the Islamic Development Bank with the aim of fostering economic development and social progress of Muslim countries in accordance with the principles of Shari'ah (Saeed 1996). This marked the first major collective step taken by Muslim countries to promote Islamic finance. Since then Islamic financing has witnessed rapid success with holdings of more than US$360 million and growing by 15 percent per year (Bokhari 2003).
Islamic financing is not just restricted to Muslims but is also available to Non-Muslims.

The market leaders in this industry are Citigroup, HSBC, J.P. Morgan, and Standard Chartered who provide Islamic financing products through the use of Islamic windows (Day 2003). The main Islamic financial products include the profit-and-loss sharing instruments of Mudaraba (finance trusteeship) and Musharaka (equity partnership), cost plus mark-up, and leasing.

Mudaraba is an agreement between two parties, where one provides finance to another for utilisation in an agreed manner (Usmani, M.T. 1998). The financier of the venture is known as the Rabb-ul-mal, and the entrepreneur responsible for the management and execution of the project is referred to as the Mudarib. The parties achieve their returns by sharing in the profits of the venture, which are divided on a proportional basis. Under a Mudaraba agreement, returns cannot be provided as a lump sum, and cannot be guaranteed. To fulfil the requirements of this contract the parties must decide on a rate for sharing of the profits prior to the commencement of the business activity. After the business is completed the financier receives the principal and the pre-agreed share of the profit. The remainder of the profit is the entrepreneur's compensation for their ideas and services (Gafoor 1996).

Musharaka refers to a joint partnership formed for conducting business in which all partners share the profit according to a specific ratio while the loss is shared according to the ratio of the contribution (Usmani, M.I. 2002). The partners share profits in an agreed manner and bear losses in proportion to their capital contributions (Lewis & Algaoud 2001).

Mark-up transactions account for 80 to 95 percent of all investments by Islamic financial institutions (Warde 2000). The most popular of all mark-up instruments is the Murabaha. In Murabaha a client wishing to purchase goods requests the financial provider to purchase the items and sell them to the client in the future at cost plus a declared profit.

Leasing (referred to as Ijarah) in Islamic financing is similar in principle to conventional leasing. In this agreement the financing company leases an asset to a third party in exchange for a specified rent (Warde 2000). The parties agree to the payment amounts in advance and the asset remains the property of the lessor.
3. History Of Australia's Involvement With Islamic Finance

Australia's experience with Islamic financing has been relatively recent. Australia's involvement with the system began in 1987 when the ANZ Bank introduced the 'Grindlays Mudaraba' contract in Pakistan (ANZ Bank 2003). Since then ANZ has successfully ventured into cross-border Islamic financing and has introduced Shari'ah compliant products into other parts of Asia.

While ANZ has had success in introducing Islamic financing instruments worldwide, these products have not been introduced in Australia by any of the well-established commercial banks. The first attempt to introduce Islamic financing products in Australia was made by the Muslim Community Cooperative Australia (MCCA) (Saeed 2001). Since its humble beginnings in 1989 when the organisation had AUS$22,300 worth of seeding capital, the organisation has experienced rapid success with 5,600 members and deposits worth AUS$24 million in the year 2003 (Buttery 2003). While the MCCA has members from all over Australia, the majority of them are from Melbourne where the organisation has a physical presence.

In 2001 another organisation, Iskan Finance, also started providing Shari'ah compliant home financing options. This was in response to the growing demand for residential and investment property in Australia due to low interest rates. Since many Muslims were unwilling to purchase a home using conventional interest-bearing loans, they were missing out on the opportunity to own their own homes (Iskan Finance 2004).

4. Criticism Of Islamic Financing

Whilst Islamic Finance has provided a halal option to Muslims worldwide, it is not without criticism. Critics of the system argue that Islamic finance is nothing more than conventional financing operating where interest is disguised as mark-up and profit. Most of the criticism is levelled against the Murabaha contract (cost plus mark-up). The percentage of mark-up rate used by Islamic banks is usually similar to the prevailing market interest rate, prompting opponents of the system to claim that the system is not that different from a conventional one. Since majority of Islamic financing is conducted using Murabaha, opponents of the system claim that their criticism is justified. Islamic scholars defend the system by arguing that even though the system has been in existence for centuries, it's practical application has only come about three decade ago. In the initial introduction phase, organisations attempted to develop financing products, which would be able to fit into the conventional banking framework.
while avoiding the use of *Riba. Murabaha* was a product of this introductory phase. But as the system has gained more maturity, scholars have advocated for a greater use of the profit-and-loss sharing system. Since profit-and-loss sharing contracts do not guarantee a return, and any return made is linked to risk, it is considered to be the most authentic form of Islamic financing.

5. Methodology
The research findings presented in this paper are based on survey responses gathered by using a short self-administered questionnaire, which was produced in English. A sample of the Australian Muslim population was selected for the study. Although a large number of potential respondents were approached, only those were selected for the study that fulfilled the following criteria:
(a) The respondents came from a Muslim background and were practicing Muslims.
(b) The respondents were adults (18 years and over) who currently owned a bank account in Australia,
(c) The respondents were interested in *halal* banking products, and
(d) The respondents were employed.

Three research assistants were hired to help conduct the survey, and were given the task of distributing and collecting the questionnaires to potential respondents. The research assistants approached the respondents after attending Friday prayers held at the various locations in Adelaide during the period of March 2004 and June 2004. By default, an overwhelming majority of the respondents were male. At the time of this paper being written, 180 questionnaires were filled and returned. The survey questions were tailored to be close-ended, where the respondents were asked to provide their responses by selecting 'Yes' or 'No'. The questionnaires asked the respondents 6 questions. In some instances the respondents elaborated on their answer by writing statements that expressed their opinion on the issue. The questionnaire was designed as such that it would only take a few minutes of the respondent's time to complete. This was done with the hope of getting a high response rate.

6. Findings And Implications
The survey questionnaire was aimed at finding the respondents opinion on the following six issues:
1. Are the respondents' aware of the *halal* banking products.
2. Do the respondents hold, or have held an account, or taken out a loan that came under the *halal* financing category?
3. Would the respondents switch to *halal* financing if they were offered the same quality of service and benefits (such as ATM, online access, phone banking) as conventional banks?
4. Would they still consider switching to *halal* financing if the option of credit facilities (like credit card) was not available?
5. Would the respondents still be interested in switching from conventional to *halal* financing, if there was a chance that due to the profit-and-loss sharing nature they may have to share in the losses?
6. Would the respondents' decision to switch to *halal* financing be affected by whether the financial institution providing these services was well established, that is, is the service provider's brand image and awareness important?

The focus of this paper is on the first two questions covered by the survey: (1) Awareness of Australian Muslims in relation to Islamic financial products, and (2) whether the respondents had ever held an account with an Islamic financial institution. The responses to the first question revealed a low level of awareness in relation to Islamic finance. Out of the 180 responses, 105 respondents (58.3 percent) ticked 'Yes', indicating awareness of the system, while 74 respondents (41.1 percent) were unaware of the existence of such a system. 1 respondent had not made a selection and was therefore registered as 'No Response'.

The second question relating to identifying respondents who held an account or had taken a loan under the *halal* system revealed a very low number of positive responses. Only 37 respondents (20.6 percent) had previously had any business dealings involving Islamic financial products, whereas a massive 141 respondents (78.8 percent) had no previous dealings with the system. 2 respondents did not answer the question. These responses have some practical implications for Islamic financing in Australia. The lack of a physical presence of Islamic financial institutions in Adelaide may have been a contributing factor to the lack of awareness displayed by nearly half of the respondents. A large number of respondents reacted positively to the idea of Islamic financing and were keen to find out more about the system and its availability in Australia. These respondents approached the research assistants for further information, which suggests that the system would be popular with the respondents.
Another reason for this low awareness is that unlike other Non-Muslim nations like the U.K. and the U.S.A, where the area of Islamic finance is actively researched and its functions discussed (Rahman 1994), Australia has not made any such attempts. While some Australian researchers have been actively researching in the field, the Islamic financial system has not become part of mainstream business discussions.

The results of the survey also reveal an interesting finding in relation to the number of respondents who had previously held an account or taken a loan under the halal financing system. While 105 respondents were aware of the system, only 37 of them had held a halal account. This would indicate that while more people are aware of the system, they might not be aware of the availability of products in Australia.

Some Muslim scholars and jurists believe that in cases where Islamic financial products are not available, Muslims are permitted to deal with conventional banks and financial institutions. But where the option is available, it should be made use of. In Australia, MCCA's presence gives this option to the Muslim community, but as the survey results indicate this option has not been availed even by those who are aware of the system.

The findings of the survey are consistent with MCCA's analysis of the market. According to the Chief Executive Officer of the MCCA, Mohamad Nasser Abdel Hakim, many educated Muslim understand the operations and aims of an Islamic financial institution, but there is a need to reach all members of the Muslim and Non-Muslim communities:

Every time we send out a news release...many Non-Muslims contact us and show their interest in getting some information so that they can benefit from our system. Because the concept is new in Australia and is not fully understood, even some Muslims, we have a challenge. The challenge is to educate both Non-Muslim and Muslims, to clarify how we differ from conventional banking (Saeed 2001, p.201).

The result of the study has revealed some opportunities for financial institutions that may have an interest in tapping into the growing Muslim population in Australia. According to the Census of the population conducted in 2001, there are more than 281,000 Muslim in Australia, which is equivalent to 1.5 percent of
the total Australian population (Australian Bureau of Statistics 2003). This marks an increase of 40 percent in the Muslim population since the previous census was conducted in 1996.

Many of these Muslims have traditionally stayed away from borrowing from conventional banks that lend on the basis of interest. While organisations like MCCCA and Iskan finance are providing options via Islamic financing instruments, there is an opportunity for conventional banks to fulfil the growing demands of the Australian Muslim community, especially in cities where the above mentioned organisations do not have a physical presence.

Jalaluddin's (2002) study on the probability of lending funds on profit/loss sharing method of finance by Australian Financial Institutions found that 41.2 percent of the organisations were ready to provide funding on the profit and loss sharing basis. Unfortunately this readiness has not yet materialised into practice.

The result of this study suggests that if these products were made available and actively promoted, organisations would be able to attract consumers from the Muslim community and further expand their consumer base.

7. Limitations And Further Research
The study was limited in the use of a convenience sample. This study would be further built on by extending this study to cover the Muslim population in other cities of Australia. This would help draw a comparison between the Australian Muslim population where there is physical presence as compared to cities were there is no physical presence.

Other studies may involve looking into the preference of the Australian Muslim population for the different financing options. This could involve determining the preference for profit and loss sharing instruments over cost plus mark-up, and leasing.

Researchers may also be interested in looking at the awareness of the Australian business community, in particular exporters, towards Islamic financing. This will become more of a necessity in the future as Muslim countries follow the actions of the Iran, Syria and recently Pakistan, where Islamic financing is the only available option.
References:


