# Opportunities of Islamic Finance in the Australian Market in the Aftermath of the Global Financial Crisis

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## Abstract

*The purpose of the paper is to examine what led Australia to look for opportunities to expand its exports and imports of financial services in the aftermath of the global financial crisis, although it has arguably been the most efficient and competitive financial sector in the Asia-Pacific region. This was due to part of its searching for an alternative to conventional finance which had slowed the Australian economy significantly during this global downturn, although it is the only OECD country not to have had a 'recession' in 2008-09. It was also due to Australia's vision to join countries such as Egypt and South Korea in seeking to ease barriers to Islamic finance products and tap into this industry whose footprint is $1 trillion in assets, which the Kuala Lumpur-based Islamic Financial Services Board predicts will reach $1.6 trillion by 2012. While the approach for this study is to promote opportunities for Islamic finance in Australian market the attempts have not been made to make any comparison analysis of the effects of financial crisis on Islamic financial sector in Australia or otherwise in the aftermath of the worst crisis the world has seen in 2008 since the Great Depression in the 1930s. The paper concludes with a summary and suggestions for further research.*

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## 1. Introduction

Islamic financing is widely seen as having fared well through the global financial crisis due to its non-speculative nature, although the overall risk in relation to product structuring is still to be tested in the courts of law. According to Mohammed Amid, There are three main reasons why Islamic finance would have been less likely to result in the global financial crisis (NewHorizon 2009). They are as follows:

*a) Prohibited contracts.* Certain contracts are simply prohibited in Islamic finance. The prohibition of gharar and of selling things not owned precludes complex contracts such as CDO2 (collateralised debt obligations squared, CDOs based on other CDOs are called CDO2) and CDS (credit default swap), the relatively complex structures developed by investment bankers apart from securitising original loans. Accordingly, many of the contracts that have led to the greatest difficulties would never have been used.

*b) Different risk sharing.* The Islamic financial system distributes risk differently from conventional finance. While the same aggregate business losses may arise, their different distribution makes the system less likely to 'seize up' or result in corporate bankruptcies. For example, with a conventional bank liabilities are repayable in full so losses fall exclusively on the banks equity. Accordingly, even a relatively small asset default rate can seriously impair the banks equity and its ability to lend. Conversely, the Islamic bank shares losses with the holders of profit-sharing investment accounts. As the equity of the banking system does not bear all of the losses, its ability to continue to lend is less impaired than in the conventional finance scenario. Similarly, the issuer of a sukuk based on a mudarabah contract, for example, is less exposed to corporate bankruptcy if the business faces a temporary decline than is the issuer of a conventional bond.

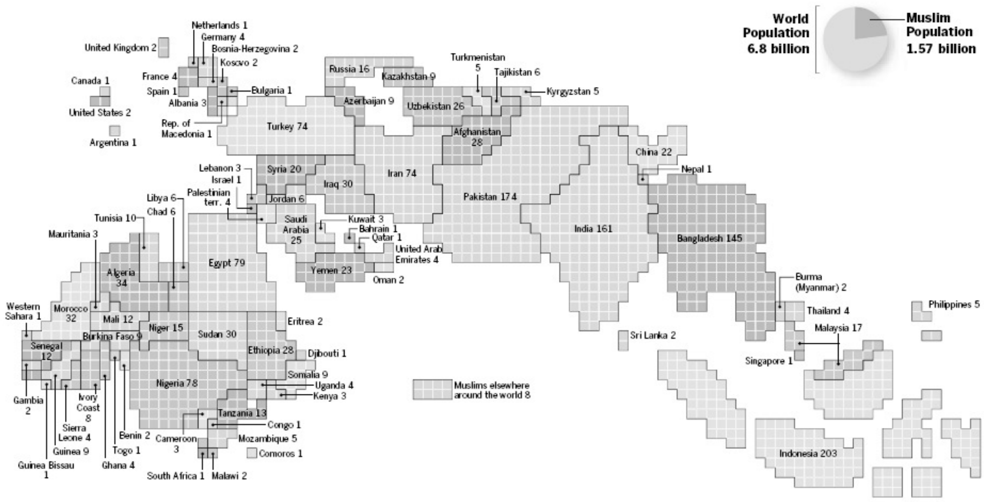
*c) Requirement for ethical conduct.* There are some prescribed situations, such as UK financial services companies dealing with retail customers, where the institution is required to treat customers fairly.

The recent emergence of a variety of Islamic derivative products indicates a mounting interest in Islamic finance within global financial markets, and despite the current limited scope of Islamic finance in Australia, there is strong growth potential in this area (Ghouse). The recent developments in getting support for Islamic finance industry in Australia by the ruling Labour Government are due to the fact that global crisis on financial sectors had have a tremendous impact on world economy. Although the Australian economy slowed significantly during this global downturn, it endured the crisis better than most other advanced economies. Besides, Australia has arguably the most efficient and competitive financial sector in the Asia-Pacific region, but there are further opportunities to expand its exports and imports of financial services. Keeping it all in perspective, Australia is now planning *inter alia* to change laws to ensure Islamic finance products are taxed fairly as the government seeks to attract investors from the Middle East and Asia. It is also looking to join countries from Egypt to South Korea in seeking to ease barriers to Islamic finance products and tap the industry's $1 trillion in assets, which the Kuala Lumpur-based Islamic Financial Services Board predicts will reach $1.6 trillion by 2012 (Permatasari & Rae).

Australia's Muslim population of 365,000 (1.7 per cent of the total population), exceeds the combined Muslim population of Hong Kong and Japan and is more than half of that of Singapore (ABS, 2006). The following map shows the world distribution of Muslim population.

**WORLD DISTRIBUTION OF MUSLIM POPULATION**

This 'weighted' map of the world shows each country's relative size based on its Muslim population. Figures are rounded to the nearest million.

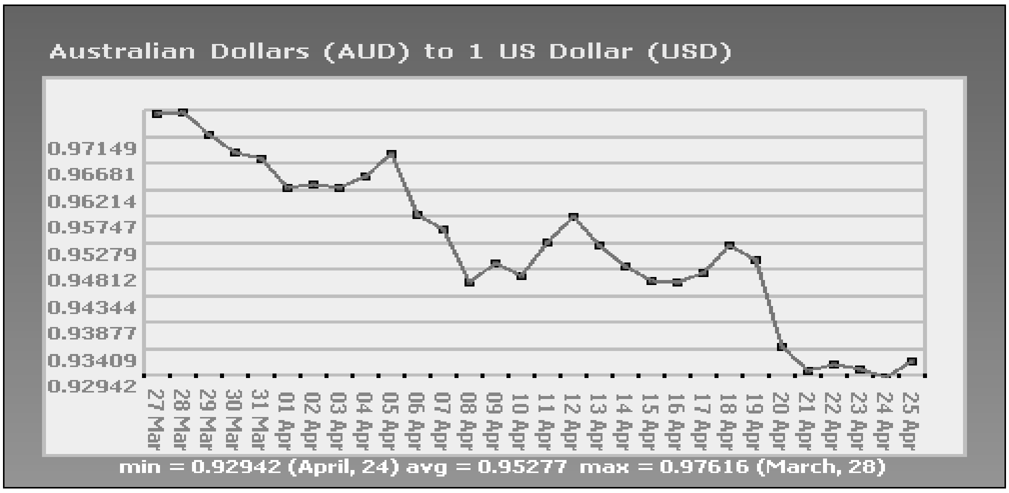



Mapping the Global Muslim Population, Pew Research Center's Forum on Religion & Public Life, © 2009, Pew Research Center http://pewforum.org/. http://pewforum.org/docs/?DocID=450.

Australia's political stability and geographic position, especially its proximity to the large Muslim populations of the Asia Pacific where 62 per cent or 972.5 million of the world total Muslim population resides (PRC, 2009), present an important base to service this fast growing sector in the global financial services market. Australia's attractiveness as a financial centre is supported by a sizeable domestic economy and financial market. The nation has the fourth largest economy in the Asia Pacific (after Japan, China and India). Australia's finance and insurance industries generate around 8.1 per cent or AUD82 billion of real gross value added (ABS, 2006).

The Australian Government is committed to an open and competitive financial system and a socially inclusive environment for all Australians. In an attempt to make Australia's financial infrastructure more attractive government made a range of recommendations including steps to ensure Islamic finance is enabled in Australia (Muehlenberg, 2010). According to Muhelenberg (2010) Australian government believes that this will present opportunities for Australian-based banks and financial institutions to develop Islamic finance products for domestic and international markets. Australian government report on this regard has made several recommendations including removal of regulatory barriers to the development of Islamic finance products. The report further recommended 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 products ((Muehlenberg, 2010). The future potential for Islamic finance is bright and government concern in promoting Islamic finance would further encourage Islamic Financial Institutions to move in to country. There have been many players within the government bodies, the big four banks, major fund management companies as well as major developers that have regularly visited the GCC and communicated information on the vibrancy of Australian economy, the state of the Australian dollar as well the robustness of the regulatory system. Also, within the past year, two major delegations from the GCC have visited Australia. This has helped to keep the GCC informed about Australia and the opportunities provided within its financial markets (Ghouse). The following graph shows historical exchange rates between the Australian Dollar (AUD) and the US Dollar (USD) between Australian Dollar (AUD) and the US Dollar (USD) between March 27, 2011 and April 25, 2011.

**Australian Dollars (AUD) to 1 US Dollar (USD)**




Source: http://www.exchange-rates.org/history/AUD/USD/G/30

In order to reflect upon the objectives of the study the sections are structured and organized as follows: Followed by an introduction, Section 2 gives a short brief on Australia's current status in global economy. Section 3 delineates the future prospects and opportunities of Islamic finance and banking market in Australia in the aftermath of global financial crisis. Section 4 concludes with the summary and analytical findings of the study, and offers some suggestions and recommendations in the relevant field.

## 2. State of the Australian Economy in the World

In looking at the recent developments and future prospects of Islamic finance vis-à-vis the impact of post financial crisis on Islamic financial sector in Australia it is first necessary to discuss the position of the Australia in world economy and how the Government is positioning Australia to be a regional financial centre. While Australian economy slowed significantly during the global downturn, it endured the crisis better than most other advanced economies. In 2009, Australian economy grew by 1.3 per cent which is 4½ percent above the average for all advanced economies. During this period public investment grew by a strong 12.5% in the quarter. Stimulus programs, including the Building the Education Revolution, are estimated to have contributed around 0.4 of a percentage point to GDP growth for the quarter. This outcome provides tentative signs that a self-sustaining private sector recovery is in prospect, although growth still relies on public infrastructure investment. The Government, by sticking to its very strict fiscal rules, is bringing the Budget back into surplus in 2012-13 — three years ahead of schedule. This will make Australia the first advanced economy in the world to return to surplus. Furthermore, the Australian economy is forecast to grow by 3¼ per cent in 2010-11, rising to 4% in 2011-12. The increasing pace of this growth means the economy is expected to approach full capacity in 2011-12. Australian unemployment rate, already the second-lowest among the major advanced economies, is set to fall further, to 4¾ per cent by mid-2012. Forecast deficits are now lower across the forward estimates. An underlying cash deficit of $40.8 billion, or 2.9 per cent of GDP, is forecast in 2010-11. This is $16.3 billion less than expected one year ago. Net debt is projected to peak at just 6.1% of GDP in 2011-12. This is half of the level projected a year ago and less than one tenth of the average across the major advanced economies – their average debt will peak at 93 per cent (Sherry, 2010).

The Government's stimulus strategy has been one of the main reasons for Australia being one of only three advanced economies to avoid recession. Another major reason has been Australia's close economic links with the Asian region, particularly

China. These countries outperformed the North American and European zones during the global recession and are leading the global recovery. This global recovery is pushing up prices for Australia's key commodity exports and this is expected to cause a substantial rise in the terms of trade in 2010. In turn, this will support a recovery in incomes across the economy. The terms of trade are expected to rebound by 23% - 14.25% in year average terms in 2010-11- injecting $30 billion into the economy. This boost in incomes will help to reinvigorate the mining sector and general economic activity. Australia's solid performance through the global financial crisis has meant that it has avoided the erosion of the skills base and loss of business capital seen in other countries and in previous downturns. This leaves Australian firms and workers in good shape to meet a recovery in demand (Sherry, 2010).

Apart from Australia's better position in world economy its financial services industry is one of the world's most sophisticated, competitive and innovative. It is also one of the safest. The finance and insurance sector is now the largest contributor to the Australian economy. In 2008-09, the sector generated about 10.8% of GDP. Over the past decade, the sector has grown by an average of 4.3%t a year which is significantly above the average for all sectors. Australia is highly regarded internationally as a place to conduct business. The World Economic Forum recently ranked Australia as the second among the world's financial centres, behind only the United Kingdom, primarily due to the stability of its financial institutions over the past 12 months (Sherry, 2010).

Australia has other competitive advantages in the Asia-Pacific region. These include having the largest funds management industry; the largest hedge funds industry, deploying the widest range of investment strategies; the largest Real Estate Investment Trusts market; and the largest pension fund industry after Japan. Taking into consideration of the generating significant jobs and wealth by Australia’s finance and insurance sector it has now a great untapped potential. That is why the Australian Government is apparently working to position Australia as a leading financial services centre. In September 2008, the Government commissioned a report into how we can work towards that goal. On 15 January, 2010, the Government released the report, *Australia as a Financial Centre - Building on our Strengths*, known as the Johnson Report. The report concluded Australia has arguably the most efficient and competitive financial sector in the Asia-Pacific region, but there are further opportunities to expand its exports and imports of financial services. Australian Government is reported to have made progress on the recommendations in the report, in addition to introducing other initiatives to improve its international competitiveness (Sherry, 2010).

### *The current status*

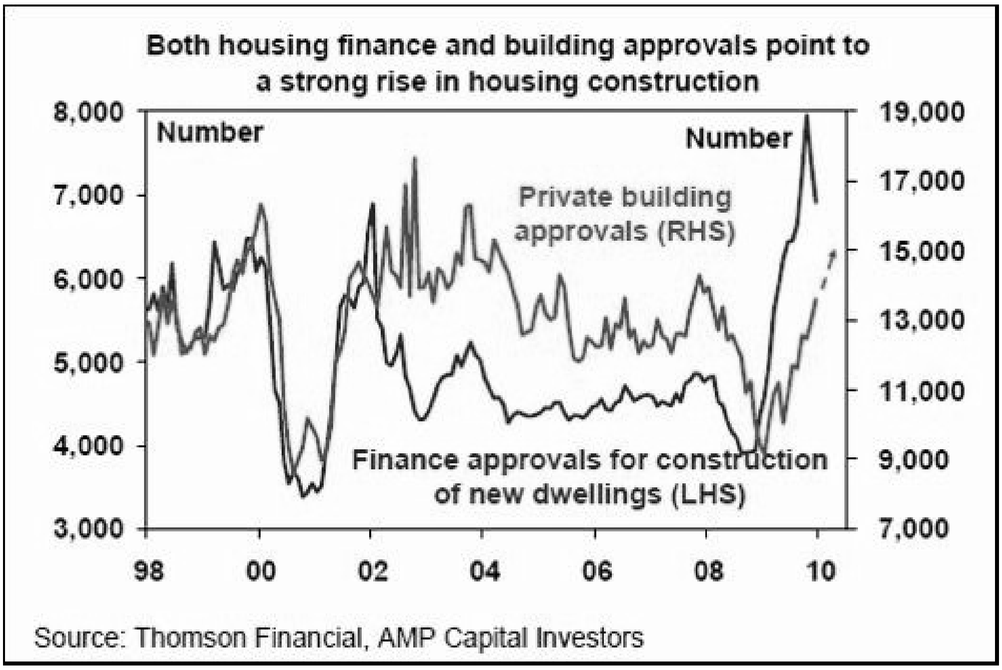
According to Shane Oliver, chief economist of AMP Capital Investors, Australia's largest retail and corporate superannuation provider, the Australian economy is set to grow by around 4% through this year, reflecting the lagged impact of monetary and fiscal stimulus, high levels of business and consumer confidence, the rebound in wealth and higher export prices. This possibly pushing unemployment back below 5% over the year ahead while the long term outlook for the Australian economy is also bright reflecting Australia's exposure to high growth Asia, strong population growth, low public debt and a reasonably healthy financial sector.

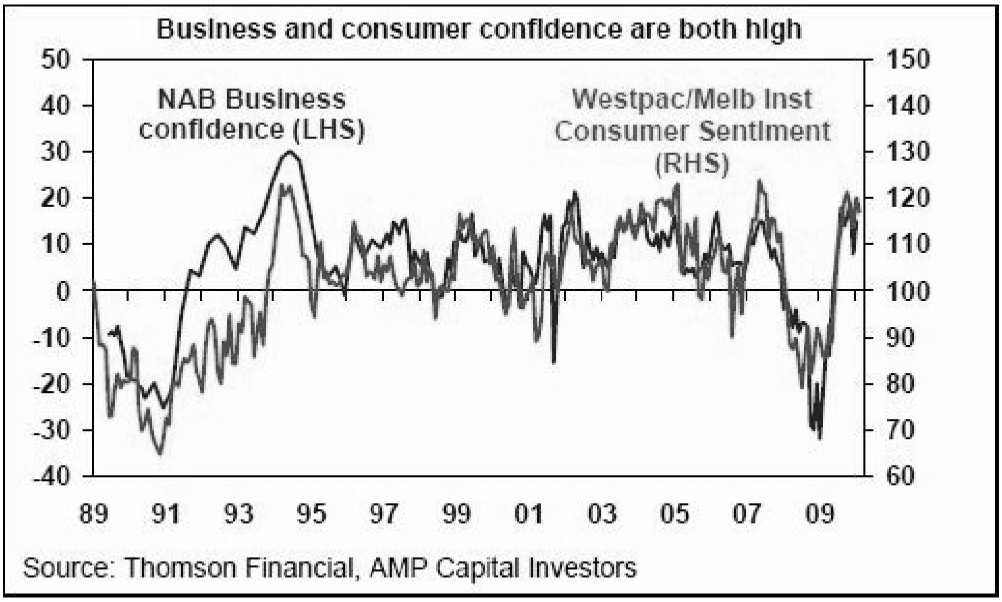
While the worry list for the global outlook is still significant – Chinese tightening, high public debt levels, a shift towards populist policy making in the US, etc – there is plenty of reason for optimism concerning the outlook for Australia. This is both in terms of the coming cyclical economic recovery and also from a longer term perspective. Moreover, after its worst slowdown since the early 1990s recession, Australia's economy is set to rebound over the year ahead. In 2009, the Australian economy is estimated to have grown by 0.9%. This seems low but far better than expected a year ago, and significantly better than what occurred in other developed countries where GDP contracted 5% in Japan, 4% in Europe and the UK and 2.5% in the US (ABV). Australia's relative resilience is owed to a range of factors including tougher bank lending standards and a stronger financial system; a shortage of houses; the quick application of significant monetary and fiscal stimulus; the relative resilience of demand from China and a sharp fall at the height of the crisis in the value of the Australian dollar, which acted as a shock absorber.

### *What is anticipated over the year ahead?*

Australia is likely to see a strong recovery in growth reflecting. A rebound in housing construction activity – finance approvals for the construction of new dwellings and significant growth in building approvals point to a strong increase in housing construction in year 2010. While housing finance has recently dipped, it fell from a very high level and it is likely to remain strong on the back of the improving jobs market. Housing starts in the same year are likely to be around 165,000 dwellings – up from 135,000 in 2009 but still well down from underlying demand which is now around 200,000 dwellings per annum.

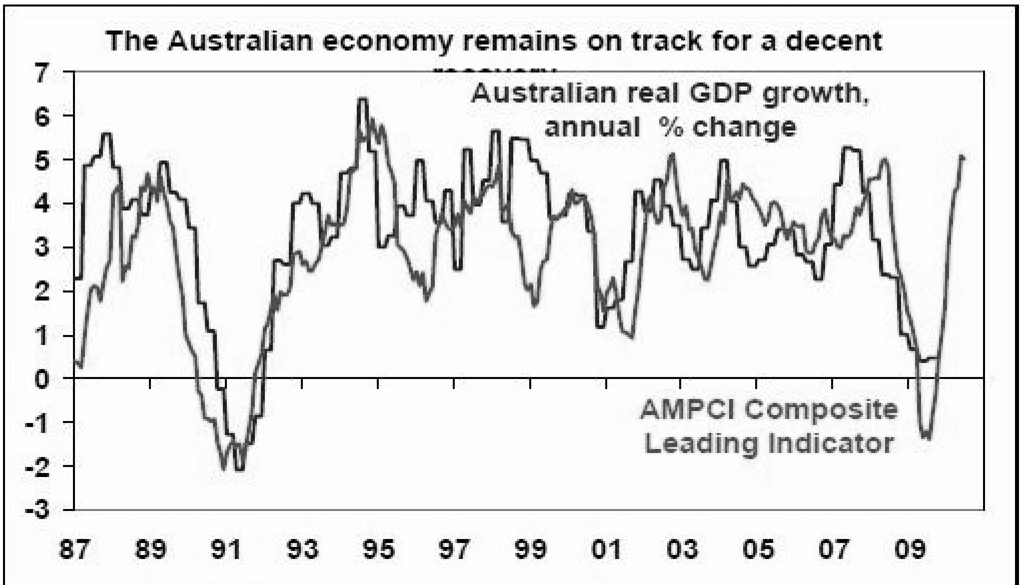
National income is likely to rise strongly supported by a 40% plus increase in prices for iron ore and coal (spot prices for iron ore would even suggest a 90% rise). A solid turnaround in business investment – on the back of stronger profits which are expected to rise 20% this year, the recovery in business confidence from the 2008-09 slump and a large number of mega-projects particularly in the resources sector with the top ten projects alone having an estimated cost of $240 billion.




Solid consumer spending – on the back of high levels of consumer confidence, an improving labour market (with unemployment now back down to 5.3% and likely to fall below 5% over the next 12 months), more tax cuts from July 2010 (worth $5.80 a week for a worker on $80,000 and $13.50 a week for a worker on $120,000), the recovery in wealth over the last year thanks to higher house and share prices and still low interest rates.

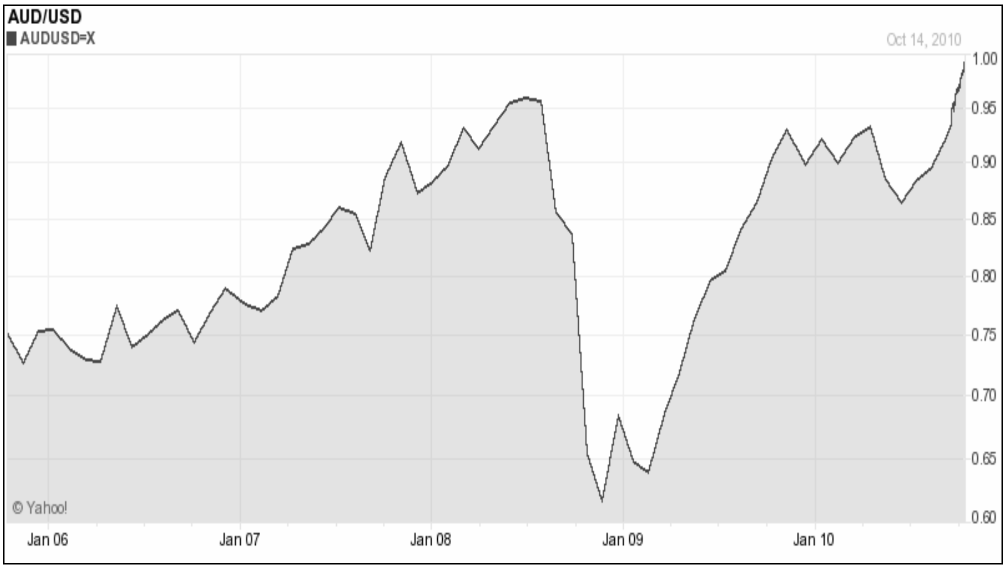
While mortgage rates are on the rise, they are still low. For example, a family with a $300,000 mortgage on the standard variable mortgage rate currently has an annual interest bill of $20,100 per annum, but this is down from $28,800 in mid 2008. Even if expectations for a 1% rise in interest rates by year end come to pass, this will still be relatively low at $23,400. Strong growth in public investment – as stimulus spending on infrastructure and schools flows through. The leading indicator for the Australian economy is pointing to growth of around 4% over the year ahead.




Source: Thomson Financial, AMP Capital Investors

This has a number of implications. Interest rates have further to rise but with inflation likely to be around 2.5% by year end, the process is likely to be gradual taking the cash rate up another 1% or so; unemployment is likely to fall back below 5%; the budget deficit is likely to improve faster than projected by the Government, as growth comes in faster boosting revenue and cutting spending. The 2009-2010 budget deficit is likely to be $20 billion less than the November projection for a $57.7 billion deficit, bringing forward the return to surplus to around 2013-2014. At the end of the 1990s Australia was seen as an 'old economy', lacking much exposure to the 'new economy' driven by information technology. Partly reflecting this, the Australian share market had been a relative underperformer versus global shares for the previous decade or so and the Australian dollar was sinking to new historic lows versus the US dollar. By contrast, as we commence a new decade, Australia is looking a lot brighter.

This is reflected in a range of factors, such as: a) the Australian dollar has hit parity overnight on October 16, 2010 with the US dollar for the first time since the currency was floated in December 1983; b) Australia is the only OECD country not to have had a 'recession' in 2008-09; c) the price Australia receives for its exports relative to what it pays for its imports (i.e. the terms of trade) is back up around levels not seen since the 1950s. There are four reasons to remain optimistic about the relative long term economic outlook for Australia.

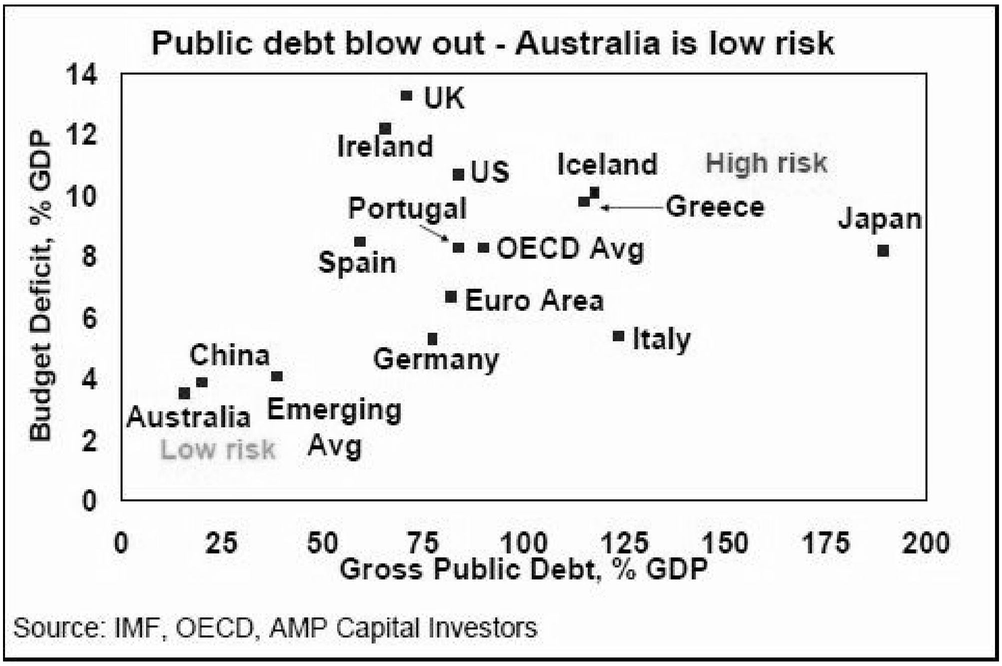



Source: http://www.forexblog.org/category/australian-dollar

*First,* Australia's major export markets – with the dominance of high growth Asian countries - have relatively strong growth prospects compared to the world has a whole which is dragged down by debt constrained advanced countries. The potential here is highlighted by China, which is now Australia's biggest export market. China's industrialisation process still has a long way to go – per capita GDP is still just over $US3000, the percentage of the population in urban areas is still just 45% and despite being the world's biggest car market, per capita car ownership is only where the US was in 1917. The upshot is demand for raw materials is likely to remain strong for several decades as China continues to industrialise. The same goes for other emerging countries such as India and Brazil. This suggests the boost to Australia's national income from the resources boom has a lot further to go.

*Second,* Australia has relatively favourable demographics compared to other developed countries. While Australia's population is aging, thanks to a higher fertility rate and high levels of immigration it is growing faster than most countries and this is projected to remain the case at least to 2050. As a result, Australia's labour force (which is a key driver of economic growth) will keep growing solidly, whereas in many developed countries, including Japan and parts of Europe, it is already declining.

*Third,* Australia is not lumbered with a massive public debt overhang. The next graph shows budget deficits against public debt, as a percentage of GDP. The countries most at risk have high budget deficits and high public debt levels, including Greece, Iceland and Japan, i.e. countries in the top right corner of the chart. By contrast, Australia is in the bottom left corner in the very low risk category.




*Fourth,* the Australian financial system is relatively strong with low levels of non-performing loans and signs that the bad debt cycle is likely to have peaked. With the Australian financial regulatory framework performing well through the recent global financial crisis, a significant re-regulation of Australian banks is unlikely, compared to say the US where a tougher approach is being proposed. Therefore, apart from international influences, the supply of credit is unlikely to be as constrained in Australia as in other advanced countries. All of these considerations point to relatively strong growth in Australia in the decades ahead.

Nevertheless, none of this is to say Australia does not face problems and risks – household debt and house prices are relatively high, manufacturing and some service industries will be under pressure as a result of the resources boom, the two speed economy is alive and well, productivity growth needs to be boosted (as the Government has noted) and there is always a danger of hubris setting in. However, unless things go terribly wrong these problems should be manageable and allowing for the normal cyclical ups and downs, the big picture outlook for Australia is pretty positive. This should augur well for the relative performance of Australian assets – bonds, property, infrastructure, equities and the Australian dollar.

## 3. Future Prospects and Opportunities of Islamic Finance in Australia

With one of the world's largest contestable pools of investment fund assets, Australia had A$1.3 trillion worth of assets under fund management by the end of 2009. This figure is approximately equivalent to domestic equity market capitalization and is almost 110 percent of the country's nominal GDP. Australia's investors are sophisticated, well-informed and outward looking, with significant exposures to global markets and alternative asset classes (Parker, 2010). Australia is well placed to take advantage of the Islamic finance opportunity, with widely recognised strengths in retail and commercial banking and experience in infrastructure, property, resources and agricultural financing.

There has been a surge in interest in Islamic finance in Asia-Pacific countries such as Korea, China, Hong Kong, Japan, Singapore and Thailand. The recovery of global Islamic finance has been spearheaded by Muslim countries in the region, notably Malaysia, Indonesia and Brunei. This has been achieved through sukuk issuances and consumer finance among other products. Unlike its neighbors and In spite of its stellar performance in fund management, Australia is still at nascent stage in adoption of Islamic finance. Australian financial institutions have limited involvement in Islamic finance in their operations (Parker, 2010).

In a clear show of firmness of purpose and solidness of commitment, the Australian Government has launched a chain of initiatives which when completed and hopefully adopted will make Australia one of the most proactive Islamic finance markets in the Asia-Pacific Region. The government is committed to an open and competitive financial system and a socially inclusive environment for all Australians. Sen. Nick Sherry, Assistant Treasurer of Australia, recently launched a new book, titled "Demystifying Islamic Finance — Correcting Misconceptions, Advancing Value Propositions", in Sydney. He confirmed he has requested Australian Board of

Taxation to undertake wide-ranging reviews of Commonwealth (Federal) Tax Laws, and State and Territory Tax Laws. The board will consult progress in this respect in other jurisdictions such as the UK, Luxembourg, France, Malaysia and Indonesia. The primary aim of the review is "to ensure that, wherever possible, the laws are not impediments to growth and expansion of Islamic finance, banking and insurance products" (Parker, 2010).

"The guiding principle for the board is that the tax treatment of Islamic financial products should be based, wherever possible, on their economic substance rather than their form. I would emphasize that this review is not about creating special treatment — which no one in this area has ever asked me for. Rather, it is about creating a level playing field for the provision of Islamic financial products into the Australian market," he said. Indeed the mandate of the Board of Taxation is to provide the government a final report by June 2011. This review complements a cross-government review of the regulatory environment launched by Australian Minister for Financial Services, Chris Bowen, which had the focal goal of removing any hurdles and roadblocks to smooth operation of Islamic finance in Australia (Parker, 2010).

The Australian Government is keen to emphasize the benefits of Islamic finance with respect to potential for job creation, wealth allocation and contribution to financial and social stability. In the words of Assistant Treasurer: "This potential has been recognized in other jurisdictions that have, like Australia, traditionally been focused on more conventional finance products. Notably the United Kingdom has actively pursued the development of Islamic finance, with the result that the UK now has five licensed Islamic banks - the only such institutions in the European Union. France is another jurisdiction taking measures to facilitate Islamic finance. The first French Islamic bank is expected to be licensed in the near future. In our region, a few countries are taking measures dedicated to securing significant shares of the Islamic finance market; this presents us with strong opportunities. Malaysia has recently made moves to establish itself in this space with its international Islamic Financial Centre, and is actively encouraging foreign firms. The Government continues to work toward enhancing access to foreign markets for all Australian businesses, and businesses offering Islamic finance products should benefit from any successes we achieve in that sphere" (Sherry, 2009).

Senator Sherry also remarks: "While Australia may not have a large Islamic population, our geographical position presents us with an important window into the Islamic finance sector. Our closest neighbor, Indonesia, is the most populous Muslim majority nation with over 207 million Muslims, with a further 40 million in the broader south East Asia region. Last year, the Government established the Australian Financial Centre Forum as the vehicle to promote the Australian financial services sector internationally. Islamic finance has been raised in the Forum as being an area of potential opportunity for the financial services sector. Australian bankers of late have stressed the growing awareness among community and policy makers, of the potential for Islamic finance in Australia. "We are taking a keen interest in ensuring there are no impediments to the development of Islamic finance in this country, to allow market forces to operate freely. This is in line with our commitment to foster an open and competitive financial system, and a socially inclusive environment for all Australians" (Sherry, 2009).

The bulwark of Australian asset management industry is portfolio construction, risk management, wealth advisory, distribution capabilities, funds administration, and custody services. The country is set to export these financial management skills and expertise to South East Asia and the Middle East region. There is potential for blanket application of the depth and breadth of those skills, complemented by legal acumen, to Islamic finance sector (Parker, 2010).

"We also have global leading skills in real estate and infrastructure financing — two areas with great potential in relation to wholesale Islamic finance activity as they both involve very real underlying assets, something we all know is needed in Shariah-compliant projects," stressed one Australian banker. There has been concerted effort by independent reports and agencies to identify the potential benefits of Islamic finance in Australia. A classic example is the report published by Australian Financial Center Forum that identified Islamic finance as a feasible means of accessing offshore pools of savings from the Middle East. Such pools of savings would not only provide more diversified and competitive funding avenue for Australia's investment needs. The report recommends equal treatment of Islamic finance products and conventional products under tax law (Parker, 2010).

Senator Sherry remarks: "While the growing interest in Islamic finance is evidence in Australia and globally, the market for Islamic finance products have grown phenomenally over the last ten years, being estimated to have been worth in excess of US$700 billion in 2007 and US$822 billion by the end of 2009. This is projected to reach $1.6 trillion by 2012. Moody's Investor Services estimates a global Islamic finance market potential of at least $5 trillion at maturity. The Sukuk market in Australia will be encouraged by the Indonesian Government's recent successful Sukuk issue of US$650 million, which was oversubscribed. The market for Sukuk appears to provide a promising wholesale opportunity for innovative Australian financial sector companies. There are also opportunities to be considered at the retail level. With over 340,000 Muslims in Australia, as well as presenting a new commercial opportunity, the offering of retail Islamic finance products contributes to fostering social inclusion, by enabling Australian Muslims to access products that may be more consistent with their principles and beliefs as well as widening the choice of products for non-Muslims" (Sherry, 2009).

***Opportunities of Introducing Islamic Banking***

There is no fully fledged Islamic bank that exists in Australia. Also, there is not a single conventional bank in Australia which has a separate Islamic banking branch or window or subsidiary like in some Muslim and non-Muslim countries alike that carries out Islamic banking operations. This is due to the existing legal, regulatory and supervisory system of Australia that is exclusively made to control and supervise its conventional banking system, in addition to what the Islamic banks are governed by the supervisory boards of Muslim clerics to ensure compliance with Shari`ah law (Ahmad & Hassan, 2009).

Nevertheless, in response to the local Muslims' growing demand and as an alternative to global credit crunch in the financial market the opportunities of establishing Islamic banks in Australia using the models of some Western countries like U.K. have now become the need of time. According to Australian Assistant Treasurer Nick Sherry (Bell, 2009), "the Federal Government is committed to making the regulatory framework governing banks flexible enough to accommodate Islamic banking products and services while still protecting consumers". John Hewson, former Liberal Party leader and Global DC chairman predicts: "Australia is likely to have at least one Islamic bank within five years, if regulatory hurdles could be overcome. …I believe strongly that not only will we see one or more Islamic banks in Australia, but I think we could emerge as the dominant Islamic financial centre in the Asia Pacific region. …the time is right to attract a foreign Islamic bank to Australia or to turn local Islamic banking co-operative, the Muslim Community Co-operative (Australia), into a bank".

Based on the above comments made by the government and opposition and given the luminous opportunities of Islamic banking in this vast continent, the MCCA became very confident of securing a banking license in three years to become Australia's first Islamic bank. Its Managing Director Chaaban Omran says, "The co-operative will work with the Australian Prudential Regulation Authority to change its registrable superannuation entity license into a banking license". The MCCA is currently regulated by ASIC (the Australian Securities & Investments Commission) and is the holder of an RSE license (Bell, 2009).

***Prospects of Islamic Banking and Finance in Academic Level***

The brilliant prospects of Islamic finance in Australia persist to mark as preparations are ahead by some Australia universities to offer courses in the field of Islamic banking and finance. The La Trobe University has announced about the introduction of the first course in Australia dedicated to Islamic banking and finance, joining a handful of universities in the West embracing this fast-growing segment of global finance. The university's recently introduced the Master of Islamic Banking and Finance course is believed to be able to provide students with postgraduate training in the technical skills demanded by Global Islamic capital markets and institutions. This program is also expected to appeal to international students from Asia wanting Islamic financial training in English and to local graduates keen to enter the growing sector in Australia.

Following is the excerption of the University's newly introduced Islamic Banking and Finance (Master) course description (La Trobe, 2009):

"This innovative program seeks to meet the growing demand for graduates with sound academic and industry knowledge in Islamic finance in the Middle East and South East Asia, and in particular, the Gulf Cooperation Countries (GCC), Indonesia and Malaysia. Graduates will also be prepared to enter the growing Islamic finance sector in Australia. The program provides postgraduate students with training in the technical skills in demand by global Islamic capital markets and institutions. Students develop expertise in Islamic banking, Islamic insurance and Islamic capital markets".

The International Centre of Education in Islamic Finance (INCEIF), a training subsidiary of Bank Negara Malaysia (The Malaysian Central Bank), the equivalent to Australia's Reserve Bank, has assured to provide industry-based certification for graduates of the La Trobe course, opening up employment opportunities throughout the international banking and finance sector.

Besides, the Australian Monash University offers Australian Postgraduate Award Industry (APAI) Scholarships funded by an Australian Research Council (ARC) Linkage Projects grant and worth $25,118 per annum to conduct postgraduate research in the area of over 3 years full time study for PhD research projects in the general area of Islamic finance. The projects that have to have entail empirical work relating the application of finance theory to some aspect of Islamic banks, insurance companies, fund managers, markets or instruments, is considered as a significant development in Australia's Islamic finance industry in academic and professional level.

The University of Melbourne has also been offering different courses on Islamic banking and finance in undergraduate and postgraduate level mostly by courses. For example, the University's Islamic Banking and Finance Postgraduate program (course 730737) mentions its objectives (UniMelb, 2009):

"A candidate who has successfully completed the subject should:

- Demonstrate a firm grasp of the history and development of Islamic banking
- Be familiar with the basic principles and rules of Islamic banking
- Understand the differences between Islamic banking and conventional interest-based banking systems
- Understand the basic structure and operation of the key financial instruments used in Islamic banking
- Be able to apply the knowledge gained to selected case studies
- Be able to identify some of the key controversies in Islamic banking".

The Griffith University has planned to introduce Islamic Banking and Finance course (Course 2608 HUM) from Semester 2, 2009 at undergraduate level. The course aims as is delineated in its course outline (Griffith, 2009):

"- To familiarise students with developments in global financial and capital markets in relation to faith-based banking and finance;

- Provide students with an overview of Islamic finance law, regulations and aspects of the Islamic banking system;

- Provide students with an understanding of Islamic banking products and concepts;

- Challenges faced by Islamic banks, and

- Add a new facet to the study of finance".

In addition, a report published in *The Australian* on October 20, 2006 disclosed that National Australia Bank (NAB) will look at introducing Islamic financing into its product range to capture an "untapped" market that could be worth millions of dollars. It also declared offering AUD 25,000 post-graduate scholarships to a member of the Muslim community starting from the year 2007 to further NAB understands of Islamic banking. Furthermore, NAB was reported to be planning a AUD 35mn investment in a Shari`ah-compliant listed industrial property trust (Kerbaj, 2006).

## 4. Summary, Findings and Recommendations

### *4.1Summary and Findings of the Study*

The paper's objective was to examine what has led Australia to look for opportunities to expand its exports and imports of financial services in the aftermath of the global financial crisis. Keeping this key objective in consideration the following summary of the findings of the study has been put forward by examining the opportunities and challenges of Islamic finance in Australia:

1. The Islamic finance in Australia was established in an environment where conventional financial services providers are already in the market. The crucial challenge in this regard is that Islamic finance' customers must enjoy similar, although not necessarily the same, protection as customers of conventional financial institutions. At the same time, it is expected that regulatory authorities would ensure there is a level playing field, so that neither Islamic finance nor conventional financial institutions are disadvantaged. In Australia where Muslims are minorities and full-fledged IBs are absent, regulators have nevertheless been expected to approve and monitor Islamic financial products, including those offered by Islamic managed funds.

2. The key philosophies that distinguish conventional from Islamic financial markets may suggest that the regulatory building blocks for regulating Islamic finance need to be different from those used for conventional regulation, but in fact they are not different from a regulatory perspective. The principles that strengthen conventional markets regulation are mainly designed to ensure that financial firms are able to deliver upon their promises - promises to cover policy holders' losses; or to repay investors or depositors upon particular terms agreed at the time of contract formation. Like other regulators, Australian regulatory authorities would like to be satisfied that Islamic financial markets have appropriate compliance and enforcement powers and practices; that the conventional and Islamic finance are both in good standing with relevant international standard setters; and that they are committed to appropriate levels of information sharing and cooperation. If all of these hurdles can be overcome, obviously they can take comfort that differences of detail in regulatory approach will not prejudice consumers of the Shari`ah-compliant products.

3. Islamic finance in Australia is still in its early stages. Because of the character of most of Australian immigrants, lots of incoming Muslims here have naturally been more worried with how to support their families than with developing financial institutions. However, quite a few small financial enterprises have started; with at least three in operation at present. Some of these IFIs, being cooperative in nature are

currently limited to providing facilities for their shareholders and are not allowed to accept normal bank deposits as Australian law normally does not permit taking deposits without an appropriate license. While others work with a number of other providers and offer mortgage and leasing facilities.

### *4.2 Recommendations and Suggestions for the Study*

This study suggests that in order to overcome the underlying problems and challenges faced by the Islamic finance in the Australian market the Islamic finance sector in Australia should work on the following areas.

A key requirement for the development and growth of Islamic finance in Australia will be commitment from and supportive government policies by the Commonwealth and relevant state governments for Islamic finance in and from Australia. This involves a focus by governments on the domestic growth of Islamic finance, attraction of foreign Islamic finance operations to Australia, and the export of Islamic finance services and products from Australia.

Specifically the following will need to be addressed:

1. Government preparedness to ensure a level taxation, legal and regulatory playing field for both Islamic and non-Islamic finance. Taxation must be responsive and enabling but non-preferential;
2. Strong promotion and facilitation through government investment attraction and export promotion agencies;
3. Government engagement with the private sector in achieving Islamic finance objectives, to identify impediments to, and opportunities for, growth;
4. A focus on deepening Islamic finance skills in key Australian cities – education, training, attainment of relevant qualifications – and on access to appropriate Islamic law scholars;
5. Encouraging the growth of Islamic finance professional service providers in key Australian cities; and
6. Government consideration of a future sovereign Sukuk issue.

### *Government policies*

The Australian Government is committed to an open and competitive financial system and a socially inclusive environment for all Australians. The Government sees the development of an Islamic finance industry in this country not only as having the potential to make a very positive contribution to achieving both of these principles, but also as being part of its effort to establish Australia as a financial centre in the region. The Government has already taken a number of initiatives to support this objective. The Australian and state governments are also working together to ensure that the regulatory framework and tax arrangements facilitate Islamic banking and finance in Australia.

Furthermore, the study makes the following recommendations for consideration by regulatory authorities for Islamic banking and finance in Australia.

1. The study recommends that an arduous effort be made to educate people since the general populace and those associated with the industry given the high level of ignorance of the underlying philosophy and nature of Islamic finance among the general populace and those associated with the industry. For example, it is not known to many people that one of the great successes and growth of Islamic finance lies in "its value-orientated ethos that enables it to draw finances from both Muslims and non-Muslims alike". Also, since the Shari`ah contracts that are now used and advertised by Islamic finance in Australia appear to be traditional mortgage contracts where the borrower takes the risk and the lender gets a fixed rate of return it is suggested that Muslim customers should be provided with fully disclosed information about the institutions with whom they enter into business relationships.

2. The Islamic finance may merge with each other for their future growth and development through attracting more capital and providing investment facilities. This will help expand Islamic finance that Australia's vibrant Muslim community could use comfortably as it would meet their religious as well as financial and market requirements.

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