Financial Exclusion in Australia: Can Islamic Finance Minimise the Problem?

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Abstract

The purpose of this study is to explore the nature and extent of financial exclusion in Australia focussing particularly the Muslim community. Financial exclusion refers to a situation where people lack access to affordable and appropriate financial services and products. In 2013, 16.9% of adults living in Australia were severely or fully financially excluded; that is, almost one in six adults had no access to at least two basic financial products. This paper is based on literature reviews, secondary data and the authors' personal experience in association with banking industry. The finding of this paper concludes that financial exclusion remains a problem in Australia and there is still lack of information about financial exclusion based on ethnicity or religious group in Australia. It also appears that very limited financial institutions in Australia are offering Islamic financial products and services to cater for the needs of some 476,000 Muslims in Australia. These Muslims communities may have been financially excluded due to their faith and religious belief, because Islam prohibits Riba (usury and/or interest) which is widely practiced in conventional banking. Islamic finance can mitigate the severity of the problem.

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1. INTRODUCTION

Financial crises have profound economic and social consequences. They tend to induce a search for safer markets for financial products, a process which tends to be in favour of the more affluent and powerful social groups and against the poor and disadvantaged groups. Financial exclusion refers to a situation where individuals lack access to appropriate and affordable financial services and products (Connolly et el 2011). The key financial services and products are a transaction account, general insurance and a moderate amount of credit. Nearly three billion people in the world faced the difficulties in accessing formal financial services which alert on the issue of financial inclusion (Kumar & Mishra 2011). 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 including the poor. Without inclusive financial systems, these groups of people must rely on their own limited savings to invest in their education or become entrepreneurs, and small enterprises must rely on their limited earnings to pursue promising growth opportunities. This can contribute to persistent income inequality and slower economic growth (Simpson & Buckland 2009).

Although the researchers are 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 covering individual or social groups including women, minorities, ethnic groups, etc. (Bhalla & Lapeyre 1997). Connolly et el. (2011) recommended that a further research be conducted on the barriers to financial inclusion faced by persons born overseas in particular from non-English speaking countries; this category of people would include the Muslim community that came to Australia for various reasons. This study will focus on the issue of financial exclusion faced by the Muslim community in Australia and explore the path towards improving their financial inclusion level.

The studies on this important topic particularly in Australia, are limited. This is the main motivation for this research. This paper is mainly based on the literature review, secondary data and the authors' personal experience in association with the banking industry.

2. FINANCIAL EXCLUSION--AN OVERVIEW

Financial exclusion is a phenomenon that has been documented at international level since the 1990s (for example: Leyshon, Thrift, 1995; HM Treasury, 1999; Kempson, Whyley, 1999; Carbo et al., 2005; Devlin, 2005; Corr, 2006; RFA, 2008a). Basically it is understood as a difficulty experienced by sections of the population in accessing financial services. During the literature review we encountered a diverse number of opinions regarding the definition of financial exclusion.

A British study by Regan and Paxton (2003) did emphasize the importance of the appropriateness of access. They explained that financial exclusion produces its effect in breadth (through a variety of appropriate, accessible products) and in depth (the capability

of people to use them appropriately, having regarded to their own situations). This understanding allowed the researchers to define financial inclusion as the situation “when citizens have access to appropriate financial products and services and the opportunity, ability and confidence (and appropriate support and advice) to make informed decisions about their financial circumstances, as would be regarded as a minimum to organize their finances in society effectively” (Regan, Paxton, 2003, p.8). Extensive literature is available on financial exclusion and it is not the role of this paper to repeat or summarize the vast amount of information that has already been published.

A policy research working paper published by the World Bank in 2012 noted that Mexico is seriously behind in financial depth and inclusion by both international and regional standards. It was also reported that only 27.4% of adults had an account at a formal financial institution (Demirguc-Kunt & Klapper 2012), just lower than Bolivia’s 28.0%, a country with a GDP per capita one fifth that of Mexico (Cull et al. 2013). Hence, the paper is in conformity that financial exclusion is indeed a global issue. The article by Sinclair (2013) discussed from a knowledge exchange review of financial inclusion in Britain and compared the key features of financial exclusion evident from the European analyses. The research identified agreement among British stakeholders over several aspects of financial exclusion, in particular continuing problems of access to mainstream banking services for low income customers and a lack of appropriate and affordable credit provision. Areas of controversy included whether banks denied services to lower income customers or were withdrawing from deprived communities, and the necessity for further regulation of mainstream financial services (Sinclair 2013).

Based onthe literature, 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.

There is growing realization that in addition to financial development, the emphasis should be to expand the accessibility to finance which can play a more positive role in eradicating poverty. Development economists are convinced that improving access and making basic financial services available to all members of the society in order to build an inclusive financial system should be the goal.

3. WHY FINANCIAL EXCLUSION IS A CONCERN

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

development theory studies the evolution of growth, relative income inequalities, and their persistence in unified models. The evolution of financial development, growth, and intergenerational income dynamics are closely interrelated. Finance influences not only the efficiency of resource allocation throughout the economy but also the comparative economic opportunities of individuals from relatively rich or poor households (Joassart-Marcelli & Stephens 2010). Improving access and building inclusive financial systems are goals that are 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.

Furthermore, financial exclusion holds back its victims from progress and development by imprisoning them in a vicious cycle of social deprivation and poverty. Thus the knowledge of financial exclusion and its remedial measures is extremely important.

4. OVERVIEW OF FINANCIAL EXCLUSION IN AUSTRALIA

Financial exclusion has gained momentum in the developed world since the late 1990s and has attracted huge public interest in many countries including Australia. 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 first report on measurement of financial exclusion in Australia were published in May 2011. The report was prepared by The Centre for Social Impact (CSI) as commissioned by National Australia Bank (NAB). CSI's definition of financial exclusion is 'where individuals lack access to appropriate and affordable financial services and products'. The key financial services and products are a transaction account, general insurance and a moderate amount of credit (Connolly et al. 2011). A brief description on the financial services and products as reported by CSI is as follows:

- Transaction account – access to a transaction account is seen as a universal need in most developed societies. Since it is the most popular and generalised financial product, the lack of it can stigmatise individuals and promote social exclusion. Essentially, a transaction account is the key to accessing other financial services.

- General insurance – it is a way for individuals to protect their key assets and manage risk. Insurance on particular home and contents and motor vehicle 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.

- 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 for vehicles and furniture costs. It can also play a significant role in smoothing consumption and protecting from the shocks of income and financial assets.

Based on this 2011 report, 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 service products) and 14.8% of adults who were severely excluded (they had only one key financial services product). In the same report, it was highlighted that there is a need to conduct further research on the barriers to financial inclusion faced by persons born overseas in particular from non-English speaking countries (Connolly et al. 2011). This is in line with the findings of earlier studies on financial exclusion such as Muslim communities are tied to their faith and religious belief which in turn makes them financially excluded from the mainstream financial systems that was based on conventional method (Pearson 2008).

CSI published the second report in 2012. The report shows that the overall level of financial exclusion has risen. Around 17.2% of the adult population in Australia were either fully excluded or severely excluded from financial services in 2011. This figure comprises 1.1% of adults who were fully excluded (they had no financial services products) and 16.1% of adults who were severely excluded (they had only one financial services product). In real terms, 2,995,000 adult Australians have just one, or no mainstream financial services (192,000 people are fully excluded and 2,803,000 people are severely excluded). This represents a slight increase on the 2010 data, when 15.6% of the population (2,650,000 people) were either fully excluded or severely excluded (Connolly et el. 2012).

In June 2013, CSI published the third report on financial exclusion in Australia. This report repeats the main measurement of the extent of financial exclusion using data for the 2012 calendar year. Around 17.7% of the adult population in Australia were either fully excluded or severely excluded from financial services in 2012. This figure comprises 1.1% of
adults who were fully excluded (they had no financial services products) and 16.6% of adults who were severely excluded (they had only one financial services product). It represents an increase from the previous report, which identified 17.2% of the population as being either fully excluded or severely excluded in the 2011 data (Connolly, C. 2013).

According to 2014 Global Financial Development Report, financial inclusion calls for a concerted global effort to promote financial inclusion (World Bank, 2014). In March 2014 NAB and CSI published a new global snapshot of financial exclusion that examined and compared responses to financial exclusion in 23 selected jurisdictions. It is in this context that NAB and CSI continue to publish important research on the level of financial exclusion in Australia.

The fourth report on measurement of financial exclusion in Australia was released in April 2014. More than three million people (16.9% of the adult population in Australia) were either fully excluded or severely excluded from financial services in 2013. This figure comprises 1% of adults who were fully excluded (they had no financial services

products) and 15.9% of adults who were severely excluded (they had only one financial services product). This represents a slight improvement over the 2013 report, which identified 17.7% of the population as being either fully excluded or severely excluded (Connolly, C. 2014).

Premised on the above, there have been small variations each year and we have seen an increase in the number and proportion of adults who are either fully excluded or severely excluded from access to financial services. Thus, financial exclusion remains an important issue in Australia.

5. CAUSES OF FINANCIAL EXCLUSION

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

One particular type of financial exclusion that will be covered in this study is faith or religion-driven financial exclusion because people may voluntarily exclude themselves from the financial services for religious or cultural reason, even though they do have access and can afford the services (Beck & Dermiguc-Kunt 2008). This type of study of financial exclusion is often related to ethnicity as ethnicity itself is believed to be a major reason for financial exclusion in some developed countries. For instance, in the UK those who were classified as ethnic Muslims are many times more likely to be financially excluded than their counterparts in the same category. It was reported that being Pakistani makes someone four times as likely to be without a bank account while being Bangladeshi triples the odds (Kempson 2001).

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

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

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

i. 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 (Burgstaller 2013). Similarly, the vast changes in technological advancement have leads to some sort of financial exclusion as the older generation find it difficult to cope with the higher dependency on technology where most of the traditional banking services have been taken over by modern technology, such as internet and phone banking (Anderloni et al. 2006; Atkinson 2006; Kempson 2001). 'Self-exclusion' is another key societal factor that substantially increased financial exclusion. This refers to cultural and psychological barriers to financial services when the less well-off group or individual feels that financial services are "not for people like us" (Collard et al. 2001; Kempson 2001; Mitton 2008). Some commentators opined that a major portion of this type of financial exclusion is fuelled by religious and cultural motives and is recognised across the board as one of the most difficult and prevalent deterrents holding back the unbanked communities (Buckland 2003; Mcdonnell & Westbury 2002). They believe that the indigenous population of Australia and Canada are prevented from using banking services due to psychological and cultural barriers. Similarly, the Pakistani and Bangladeshi Muslim communities in Britain are excluded from banking as transactions can cause them to become inadvertently overdrawn and thus incurring interest, which is forbidden (*haram)* under *Shariah law* (Collard et al. 2001).

ii. Supply Factors

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

ingredients of the supply factors of financial exclusion. However, the supply factors can be generally grouped as follows:

1. Access exclusion which refers to access barriers such as geographical and physical exclusion of people living in disadvantaged neighbourhoods (Alamá & Tortosa-Ausina 2012; Collard et al. 2001; Kempson 2001).

2. Condition exclusion which refers to being excluded due to certain conditions such as failing to pay the minimum deposit required for opening certain accounts, failed certain conditions such as credit history checks and required income threshold due to their low income, as banks perceive them to be high-risk and unworthy customers (Howell & Wilson 2005). Identity requirements may also affect certain groups such as the homeless and refugees who normally cannot provide the required identity for account-opening purposes (Datta 2009).

3. In another context, price exclusion such as bank charges act as a deterrent when people on low incomes are required to pay charges they cannot afford (Burkett & Sheehan 2009).

iii. Demand Factors

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

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

6. HIGHLIGHTS OF FINANCIAL EXCLUSION IN AUSTRALIA

Australia has not shifted the problem of financial exclusion. Approximately one in six Australians were severely or fully financially excluded throughout 2006 to 2013 (Muir et el. 2015). In 2013, more than three million Australians suffer from severe or full financial exclusion. In real terms, 181,000 adults are fully excluded and 2,859,000 are severely excluded making a combined total of 3,040,000 (Connolly, C. 2014). This was based on the research conducted by the Centre for Social Impact (CSI) for National Australia Bank (NAB). The measurement of financial exclusion employed in CSI's report is based on the ability to access three basic financial tools i.e. a basic transaction account, moderate amount of credit and general insurance, with severe exclusions being an inability to access any two of three tools and full exclusion being the inability to access any of them. Summary of four years statistical data of Australian adult populations that were fully and severely excluded is shown in Table 1 below:

Table 1. Australian adult populations that were fully and severely excluded from 2010 to 2013

Degree of Exclusion	2010	2011	2012	2013
Fully excluded	129,000	192,000	194,117	181,000
Severely excluded	2,521,000	2,803,000	2,929,402	2,859,000
Total	2,650,000	2,995,000	3,123,519	3,040,000

Source: Connolly et al. 2011; Connolly et al. 2012; Connolly, C. 2013 & 2014.

Another finding is that in 2013, the average cost of maintaining basic financial services is $1,801 which is 3.6% higher compared to the previous year. For 8.1% of the adult population (1,456,300 people) this cost would represent more than 15% of their annual pre-tax income. For another 10% of the population, this would represent between 10 to 15% of their annual income. These costs severely limit the ability of large proportion of the Australian population to gain access to mainstream financial services (Connolly, C. 2014). We append below the breakdown of the average annual cost of Basic Financial Products (2010 to 2013):

Table 2. The average annual cost of Basic Financial Products (2010 to 2013)

Item	2010	2011	2012	2013
Transaction account	$92	$88	$85	$82
Credit card	$793	$808	$711	$717
General insurance	$855	$898	$943	$1002
Total	$1740	$1794	$1739	$1801

Source: adopted from Connolly, C. 2014

The following table shows the degree of financial exclusion in Australia over eight-year period:

Table 3: Degree of financial exclusion in Australia 2006– 2013

Degree of Exclusion	2006	2007	2008	2009	2010	2011	2012	2013
Included	46.3%	45.7%	46.6%	44.6%	43.4%	40.8%	39.7%	40.2%
Marginally excluded	38.2%	38.4%	38.7%	40.0%	41.0%	42.0%	42.6%	42.9%
Severely excluded	14.0%	14.5%	13.8%	14.6%	14.8%	16.1%	16.6%	15.9%
Fully excluded	1.4%	1.5%	0.9%	0.7%	0.8%	1.1%	1.1%	1.0%

Source: Muir et el. 2015

As can be seen in Table 3, the proportion of severely financially excluded people was higher in 2013 (15.9%) than it was in 2006 (14.0%), in spite of a brief decline in 2008. On the other hand, there was a small decline in fully financially excluded segment over the period 2006 (1.4%) to 2013 (1.0%), improving slightly in post-global financial crisis and remaining relatively stable between the period 2011 to 2013.

7. MUSLIMS IN AUSTRALIA

Muslims in Australia are a minority religious group. According to the 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 and is ethnically and linguistically diverse, and geographically scattered (DFAT, 2008). There are indications that even earlier Muslim Arab explorations took place off northern Australia. The map of the Sea of Java of Muhammad ibn Musa al-Khwarizmi 820 CE shows Cape York Peninsular, a "V" shaped Gulf of Carpentaria and a curved Arnhem Land. A later map by Abu Isak Al-Farisi Istakhari 934 CE also includes an outline of the northern coast of Australia (Tames 1999). The first regular Muslim contacts with Australia were made by the people of Makassar from Indonesia who had converted to Islam in the early 1600s. They traded with the Aboriginal people living along the northern coast from about 1650 until the early 1900s and influenced their language and culture. A few Muslim free settlers and some Muslim sailors arrived in the early years of settlement but little is known of them. The most significant early arrivals were the 'Afghan' cameleers who, from 1860 to 1939, took part in expeditions to explore the interior. They were also involved in survey, construction and carrier work for the Overland Telegraph Line from 1870 to 1872, supplied the goldfields and provided an essential transport and communications network throughout Australia until they were superseded by rail, road and air services (Tames 1999).

It is the teaching of Islam that Muslims are forbade from dealing with *Riba* or well known as usury and/or interest which is widely being practised in the conventional banking and finance systems. In a policy research working paper (PWS6290) published by The World Bank in December 2012, 5 per cent of the respondents from 123 countries do not have a formal account with a financial institution because of their religious belief (Allen et al. 2012). Another literature noted that Australia is lacking of financial services and products that caters for needs of the Muslim community who have particular beliefs about the charging of interest (Burkett & Sheehan 2009). In countries where Islamic finance does not have a presence, it is common to observe that a substantial segment of the Muslim population would refrain from using the conventional banking facilities in order to avoid dealing with usury or interest (*Riba*) due to religious principle (Mohieldin 2011; Pearce 2010).

8. ISLAMIC FINANCE IN AUSTRALIA

Islamic finance refers to a financial system that follows Islamic law (called shariah law) and is, therefore, shariah-compliant. Islamic finance features banks, capital markets, fund managers, investment firms, and insurance companies, etc. just like the existing conventional financial systems.

Islamic finance facilities (*Shariah*-compliant) are not being widely offered in Australia. There are 20 locally owned banks, 8 foreign subsidiary banks and 40 branches of foreign banks in Australia (APRA 2013). However, none of these banks or any of the high street banks offered Islamic banking and finance facilities even though some of the foreign banks do provide it outside of Australia. The Islamic banking and finance facilities referred to savings and current account, credit card and mortgages/financing (for home or vehicle, for example). Australia's experience with Islamic financing has been relatively new. The first attempt to introduce Islamic financing products in Australia was made by the Muslim Community Co-operative Australia (MCCA) (Ahmad et al. 2010). The organization began in 1989 with AU$22,300 worth of seeding capita,l and by 2003 MCCA had 5,600 members and deposits worth AU$24 million (Faruq & Rafique 2009). Majority of the MCCA members are from Melbourne and Sydney where the organization has a physical presence though the organisation has commenced its activities in Brisbane very recently. The products and services offered by MCCA ranges from investments to home financing (MCCA 2013).

Apart from MCCA, there are another two organisations that offer Islamic finance facilities: Islamic Co-operative Finance Australia Limited (ICFAL) and Iskan Finance (ISKAN). ICFAL was officially endorsed and registered by the Registry of Co-operatives, Department of Fair Trading, the Government of New South Wales, in May 1998 under the Co-operatives Act 1992 (NSW). The primary objectives of ICFAL are, amongst others, is to provide methods of investment and finance opportunities for its members in line with Islamic principles (*Shariah*). At present, IFCAL provides house financing, vehicles financing, consumer durables financing, small business financing, Hajj financing and children education financing. Meanwhile, ISKAN solely offershome financing facility and it is open to the public i.e. Muslim and Non-Muslim and their operations are centralised in Sydney (ISKAN 2013). In terms of Islamic fund management, there is Crescent Wealth, a wealth management company offering a superannuation fund as well as a series of managed funds that invest into socially responsible assets based on Islamic investment

principles (CrescentWealth 2013). The expansion and growth of Islamic finance in Australia has been slow due to various reasons, for example lack of regulatory support and policy framework (Ahmad et al. 2010).

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

The tremendous growth of Islamic finance globally has proved that Islamic finance is a viable alternative solution for conventional finance. It has the potential to foster greater financial inclusion, especially for the Muslims. Islamic finance emphasised on asset-backed financing and risk-sharing feature that could provide support for small and medium-sized enterprises. Finally, its risk-sharing features and prohibition of speculation suggest that Islamic finance may, in principle, pose less systemic risk than conventional finance. For this potential to be realized, however, and to allow this industry to develop in a safe and sound manner, a number of challenges will need to be addressed. For example, focus must be given towards improving the regulatory and financial infrastructure to promote an enabling environment.

9. CONCLUSION

This paper concludes that financial exclusion is a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream financial system that are in accordance to their needs and requirements. Societal, supply and demand factors remained to be the three common causes of financial exclusion. Tackling financial exclusion is important because it is not just about increasing access to financial systems, but it goes beyond that boundary. If we analyse carefully, it actually helps to fight poverty and improve the economic status of the people and/or the community. Hence, by tackling financial exclusion problem it will indirectly addressed the socio-economic issues. The proportions of marginally or severely excluded Australian adult population are still large. They were 42.9% and 15.9%, respectively, in 2013. It is really a matter of concern for desired economic growth and sound financial sector development.

On another context, it appears that Islamic finance facilities currently being offered in Australia are still limited in terms of its availability and range of products and services.

We fear that these limitations will exclude a proportion of population in Australia i.e. the Muslim community from being involved in wider financial activities because to them, conventional banking and finance is not acceptable due to non-compliance of *Shariah* principles. This is because conventional banking and finance contains *haram* (prohibited) elements such as *riba* (interest), *gharar* (uncertain factors) and *maysir* (gambling). Hence, the financial sector will not achieve its optimal outcomes keeping the Muslim community out of the financial market. Therefore, necessary policy measures are to be taken to improve financial inclusion by introducing wide-spread of *Shariah* compliant financial products and services through commercial and other special banks and financial institutions all over Australia. This paper also reveals that there is still lack of information about financial exclusion according to ethnicity or religious group in Australia. As such, there is still plenty of room for further studies on the subject of financial exclusion in Australia. Future research should be directed to this end.

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