

# Islamic Banking And Finance Services: New Trends In The Australian Finance Market "Part I"

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The Islamic banking and finance (IBF) system is a small but growing sector



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## FOCUS:

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### I AM AMR II

Just a few weeks ago I celebrated a decade of being Muslim. All thanks be to Allah! A decade—ten years seems to have slipped by me. Last night I reflected on what I have learned and how I feel today being Muslim. That giddy, almost painful joy felt during the first few months following my reversion has diminished. Did I think back then that I would forever feel like that? Perhaps...having all my past sins wiped away was heavy stuff for a 52 year old. All converts to Islam know what I am talking about. Today I have a more realistic understanding of what it means to be a Muslim. While remembering some of the significant milestones of my growth as a Muslim I realised that I have experienced a few setbacks, too. Most setbacks happened because I forgot to bear in mind that I am human just as are my sisters and brothers. I have always had high expectations for myself and sometimes failed to recognise that I held others to my personal expectations. This was unfair to others and caused unneeded disappointments.

Four significant milestones I have reached through being Muslim:

1. Before I converted to Islam my point of view of people in general and of the world around me was primarily and narrowly defined by the place where I live. Islam opened the world to me. I have met hundreds of individuals from cultures and countries around the globe and been fortunate to have had the opportunity to come to know many perspectives and points of view about religion, politics, the environment, and much more. As a Muslim, my world is now much larger.
2. Prayer was always a part of my life before my conversion, but after my reversion prayer became a way of life. Re-establishing my priorities: Allah first, working in His service, and focusing on family have become My Priorities. Prayer isn't just a few hours

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in the finance industry which is gaining popularity due to its ability to present an alternative banking system. Globalisation and the rising number of faithful Muslims have made it advantageous for the Australian finance market to tap into the IBF industry and gain the endorsement of the Australian Government.

Islamic banking principles are important not only due to the number of international investments taking place in the Middle East, but also because of the large number of Islamic banks and corporate clients that the Australian financial and legal industry may interact with. In particular, it has been reported that the Islamic finance industry is worth US\$1 trillion globally and although it is still relatively small compared to other banking industries, the Islamic banking and finance industry has growth rates of 10-15% in the past decade. Furthermore, steps are being taken towards setting up Islamic products in Australia with the Islamic

Council of Victoria and the National Australia Bank offering Islamic financial products such as benevolent or no interest loan scheme (NILS).

NILS is based on the concept of circular community credit. They are targeted at meeting the financial needs of people with low incomes who cannot access normal credit. Through this program, low income consumers are provided with access to funds so that they are able to purchase essential household items such as fridges, washing machines, or beds. NILS also enables people to meet health or educational needs. This may include credit for dentures, computers or essential educational needs. Loan amounts vary, but typically they are in the range of \$800 to \$1200 and repayments are made fortnightly over a period of 12-18 months on a no interest and no fee basis.

This article seeks to provide an overview of Islamic legal principles, the features of the Islamic commercial system and the nature and types

of Islamic finance, as well as developments in Australia.

Islamic Legal Principles  
In order to understand Islamic banking, it is important to appreciate Islamic law (Shari'ah). Unlike Western law, Shari'ah covers all aspects of a Muslim's life from political government to the sale of real property, from hunting to the etiquette of dining, to worship and prayer.

All banking and finance transactions have to be in compliance with Islamic law. Shari'ah is derived from the Qur'an, the sayings of the Prophet Muhammad (pbuh) and Islamic schools of law.

Islamic Commercial System  
Islamic law governing commercial transactions (mu'amalat) vary from the conventional commercial system in the following ways:

Firstly, Islamic finance is asset based as opposed to conventional finance which is debt based. This means that each transaction has to be tied to

a 'tangible, identifiable underlying asset'. According to Shari'ah law, one is allowed to purchase or sell items with payment deferred and the resultant debt is treated as 'amount receivable' by the creditor. This can be contrasted to a lender in conventional finance where the focus is on the debt arising from the transaction and the ongoing service of the debt for financial gain.

Secondly and most importantly, all forms of interest (riba) are strictly forbidden according to the major schools of Islamic law.

Thirdly, Islamic banking prohibits uncertainty (gharar) and the terms and conditions of any risk flowing from transactions must be clearly understood by the parties to any transaction. This means that the sale of probable items with uncertain existence cannot form the subject of a contract under Shari'ah law. For example, this would include the sale of fish in sea, or unborn animals. Contemporary examples of such a prohibition include trading in futures

and derivatives and purchasing insurance.

Fourthly, it is also important that money should only be invested in industries that are acceptable to Islamic law. Investment in alcohol, pornography, gambling and pork industries is strictly forbidden.

Part 2 to follow in May Edition

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