

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

Melbourne  
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### Islamic Methods of Financing

Most Islamic scholars claim that the prohibition of interest is the reason for the alternative Islamic framework of banking and finance. This framework is reflected in three major forms of equity based profit loss sharing methods within Islam known as mudaraba (trust financing), musharaka (participating finance) and murabaha (cost plus trade financing). These three methods of financing are discussed below.

### Mudaraba (Trust Financing)

Mudaraba is a trust financing method in Islam where one partner provides the investment (rab-ul-maal) and the other partner invests this money in a commercial enterprise (mudarib). The profits are shared through a pre-determined ratio.

A mudaraba transaction may consist of two or

bitamlik. This transaction accommodates financial intermediaries who do not wish to involve the bank as a permanent partner in the venture and prefer liquidity in their investments. Therefore, in the diminishing musharaka venture, the bank's share in equity is diminished annually through the partial return of capital. The bank's periodic profits are based on its reduced equity shares and as the shares increase over time, the client eventually gains complete ownership of the asset.

### Murabaha (Cost Plus Trade Financing)

Murabaha is defined as a contract of sale in which a customer requests the Islamic bank to purchase goods from a supplier and resell them to the customer at the original purchase price plus expenses and a negotiated profit, on agreed terms. This financial structure is one of the most commonly used methods by Islamic Banks and financial institutions. In fact, 66% of Islamic transactions worldwide are conducted through the murabaha structure.

Since the Qur'an permits trade but forbids

is one of the most popular Islamic financing products and has been approved by Islamic jurists worldwide. BBA involves the deferment of payment and whether the cost and mark-up price are known to the parties is irrelevant whereas traditional murabaha requires both parties to the transaction to know the cost and profit/mark-up.

### Developments in Australia

The Australian Government is very keen to promote Islamic banking and finance in Australia and thinks that Australia can play a greater role in this market segment. Later this year, the Assistant Federal Treasurer Nick Sherry will be travelling to Qatar, Bahrain and the UAE to promote Australia's status as a financial centre. With the Middle East being an obvious major source of savings funds, sovereign wealth funds and Islamic finance, the Australian government is keen to be able to provide a safe, stable and Shari'ah compliant venue in which to invest. The Australian Government is currently considering the tax treatment of investments to ensure compliance with Shari'ah standards for investment flows in Australia.

In addition, in early 2010, the Australian Government released a seminal publication on 'Islamic Finance', which is available at the Austrade

## East West 101 Cleans Up At AFI Awards

Australia's love affair with crime drama has been recognised at the AFI Awards, with *East West 101* picking up three awards in the television categories.

The series took out the most prestigious gong for best TV drama series, beating hit shows like *Packed To The Rafters*, *Underbelly* and *Satisfaction*. Susie Porter, who plays Inspector Patricia Wright, triumphed over *Packed To The Rafters*' Rebecca Gibney in the lead actress category.

*East West 101*'s director Peter Andrikidis won the director category.

Don Hany was awarded the TV Week Silver Logie - Most Outstanding Actor for his performance in *East West 101*. This was Hany's second Logie nomination for his role as Zane Malik, the Muslim detective struggling to balance his work with his cultural and religious beliefs.

The acclaimed director paid tribute to SBS. "Thank you for commissioning a drama that truly represents a multicultural Australia in 2009," he said.

### More About The Show

Series 1

Zane Malik is a young detective at the Major Crime Squad. He is also a Muslim. And as a Muslim detective in a post 9/11 world where just to be an Arab, is to arouse suspicion and fear, Malik feels under pressure to prove himself, over



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more parties comprising the investor (rab-ul-maal) who provides capital and develops a partnership with the working partner (mudarib) who contributes their skills and expertise. This investor usually provides capital to the working partner so that the skills and expertise are used to earn profit. The profits are shared according to a fixed ratio and the capital provider bears the losses. In practice, mudaraba financing is often limited in Islamic banking activities because it is based on good faith and banks are often reluctant to enter such contracts due to the risks involved.

**Musharaka (Participating Finance)**  
Musharaka literally means 'sharing' and is a form of joint enterprise through which the partners share their profit according to a pre-determined ratio. Musharaka is different to mudaraba because it requires that losses are strictly shared according to the proportion of the respective contribution. This arrangement accommodates partners who wish to pool their financial resources in order to undertake a commercial transaction.

A variation of musharaka, known as declining musharaka, has recently gained popularity and is often used to finance the purchase of a house. The declining musharaka is also known as musharaka mutanaqisah (diminishing partnership) and in Australia, it goes by the name of ijarah muntahiyah

usury (which is lending money at an exorbitant rate), murabaha sale is seen as a valid form of sale. According to Islamic law, the buying and selling of goods for a profit in the process of trade is permitted.

Whilst it should be noted that some jurists classify the profit mark-up in a murabaha sale as 'interest', the majority of Islamic scholars argue that the profit mark-up is different to 'interest' because the purchase price (including expenses and profit) is known in advance to the parties involved.

Furthermore, the following rules for murabaha need to be satisfied for the transaction to take place:

- the subject of the transaction must exist at the time of the sale and be identified to the buyer;
- the seller must possess the subject matter at the time of sale and the sale must be instant, absolute and unconditional;
- the subject matter should be a property having value;
- the subject matter should be considered permissible by Islamic jurists and cannot include prohibited subject matters such as alcohol or illegal drugs;
- the delivery of the commodity to the buyer and the price must be certain.

A popular form of murabaha is known as bai bithaman ajil (BBA), this is a form of sale where the payment of the price is deferred to a future date. It

website. The purpose of this publication is to raise public awareness of Islamic finance in Australia and to promote opportunities for Islamic finance in Australia.

**Conclusion**  
The global Islamic banking sector is gaining widespread recognition in the Western world. It is ironic that while some aspects of the Shari'ah are shunned by the non-Muslim community, when it comes to money and finance, entities like the Australian Government and the major Australian banks are falling over themselves to become Shari'ah compliant and Muslim friendly for overseas investment. This leads to the 'elephant in the room' question: all this is great for Muslims in the Gulf Cooperation Council region and elsewhere around the world, but apart from the few products currently being offered, what else is being done to provide Shari'ah compliant services for Australian Muslims?

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and over.

Snr Detective Crowley was a detective of the old school, where rules and regulations played a poor second to getting a result. Crowley is a man at odds with the times. Not just the times, Crowley's at odds with everything and everyone, even himself. If he's at war with anyone, it's Zane Malik.

Series 2  
In Season Two, *East West 101* expands to seven episodes as the Major Crime Squad investigate crime and murder in all quarters of multicultural Sydney.

But overarching all, is Detective Zane Malik's quest for to find the truth behind a car bomb attack which kills two men.

The Major Crime Squad form a joint task force with the NSO (National Security Organisation) to deal with the crime. There is paranoia in the city and fallout on the Muslim community.

Malik knows that in order to stop the circle of hate, he must solve the crime. Was the bomb really an act of extremists, as the media suggest, or a sophisticated killing by a career criminal? Malik doggedly pursues the truth until he, too, becomes a target.

Inspector Patricia Wright questions his motives but her vision is clouded by personal issues she wants to keep hidden from the squad. Crime has touched her own family.

Source: SBS