



ISLAMIC FINANCE PRODUCTS IN THE AUSTRALIAN MARKET 2021

AN ESSENTIAL GUIDE

Islamic Finance Products in the Australian Market 2021 – An Essential Guide

This article hopes to give some insight into the common Islamic finance products currently available to the Australian market. It also outlines some important considerations for anyone looking to acquire an Islamic Finance product. Although Islamic Finance providers are likely to have other products (superannuation, investment options, etc.), the focus of this guide will be on financing.

This document does not aim to endorse any particular Islamic Finance provider or product. Rather it is designed to better equip people who would like to explore Islamic Finance offerings in an informed way.

The Islamic Finance Models

Following is a brief description of the 3 Islamic Finance models currently discussed in the Australian context. The first and second are already implemented by Australian Islamic Finance providers, and the third is being advertised by IBA Group for when they begin operation.

Musharakah

Musharakah refers to a partnership. The partnership for our purposes is one related to the purchasing of a product. You and I may decide to enter a partnership for the purpose of purchasing a house. I pay 60% and you pay 40% of the purchase price. We then each own portions (shares) of the house equivalent to our investment.

Islamic finance providers may use a concept called *musharakah mutanaaqisah* (diminishing partnership). This allows the client to gradually purchase the shares in the property that is owned by the finance provider.

Breakdown

Assuming all checks and approvals have been completed:

- You identify a property.
- You purchase a 20% stake in the property.
- The Islamic Finance provider purchases an 80% stake in the property.
- You and the finance provider are partners in the ownership of the property, and you pay rent equivalent to the share of the property owned by the finance provider and gradually purchase their shares, until you own the entirety of the property.
- As your share of the property increases and the share of the provider decreases, your rent paid is reassessed to reflect the new percentage of ownership.

Ijarah

Ijarah relates to the purchase of a service or benefit, such as labour, rent, or usage rights. In previous times, this was predominantly related to the provision of labour, but due to industrialization, commoditization, and demand for desired land has extended to other



things too, including the leasing of office equipment, vehicles and real estate.

Islamic finance providers have adopted a form of *ijarah* that has been commonly used in Australia for office equipment, furniture and vehicles, called rent-to-buy. The Arabic equivalent is *Ijarah Muntahiyah Bittamleek*. The finance provider leases the vehicle to you for a period of time, at the end of which you can purchase the vehicle for a nominal amount. With *Ijarah Muntahiyah Bittamleek*, the provider engages you as a *wakeel* (agent) who purchases the property on its behalf. This is done to avoid paying fees associated with the transfer of ownership twice. You then pay the equivalent of leasing a property to the value of the amount financed for an agreed term (usually up to 30 years), by the end of which the Islamic Finance provider relinquishes the property to you for a nominal fee.

Breakdown:

Assuming all checks and approvals have been completed:

- You identify a property.
- You, as an agent for the finance provider purchase the property.
- You will own the legal title for the property, to avoid double stamp duty.
- The Islamic Finance provider will maintain ownership of the property until the final payment is made. Then it will transfer ownership to you.
- Payments are made as part of a lease agreement relative to the contribution of the provider.

Murabahah

Murabahah is an arrangement between 3 parties: the client (you) wants to buy a car. The seller (the car dealership) is unable to offer the car under terms that are suitable to the client. The Islamic Finance provider purchases the car from the seller in one transaction, and then sells it to the client at a markup in a separate transaction under terms that are suitable to the client.

Breakdown

Assuming all checks and approvals have been completed:

- You identify a property.
- You inform the Islamic Finance provider about the property you intend to purchase.
- You agree on a purchase price.
- The finance provider purchases the Property.
- The finance provider sells the property to you over an extended period at profit.

Below is a comparison table between the three above-mentioned Islamic Finance models. You will notice that despite their differences they all have stipulations aimed at preserving the interests of both the Islamic Finance provider and the client.



Islamic Finance Product	Ijarah	Musharakah	Murabahah
Relationship to provider	Agent/ renter	partner	buyer
Payments	Rent	Rent + provider's shares	Installments
Default outcome	Sell the house, must purchase the provider's remaining interest in the property	Sell the house, must purchase the provider's remaining shares	Sell the house, pay the outstanding balance.

How does this differ from a conventional mortgage?

The main difference is that with a conventional mortgage you are purchasing a loan, whereas with the three mentioned models of Islamic finance you are purchasing a product or benefit. This avoids the *riba* problem as you are not exchanging money at interest. The Islamic finance institutions instead make a profit on the sale of the product to you in the case of *murabahah* and *musharakah*, or through the lease agreement in the case of *ijarah*.

Riba and trade are not the same, but they have enough similarities that those who engage in *riba* claim it is the same as engaging in trade. Allah states in the Quran:

((الَّذِينَ يَأْكُلُونَ الرِّبَا لَا يَقُومُونَ إِلَّا كَمَا يَقُومُ الَّذِي يَتَخَبَّطُهُ الشَّيْطَانُ مِنَ الْمَسِّ ذَلِكَ بِأَنَّهُمْ قَالُوا إِنَّمَا الْبَيْعُ مِثْلُ الرِّبَا وَأَحَلَّ اللَّهُ الْبَيْعَ وَحَرَّمَ الرِّبَا فَمَنْ جَاءَهُ مَوْعِظَةٌ مِنْ رَبِّهِ فَاتَّبَعَهَا فَلَهُ مَا سَلَفَ وَأَمْرُهُ إِلَى اللَّهِ وَمَنْ عَادَ فَأُولَئِكَ أَصْحَابُ النَّارِ هُمْ فِيهَا خَالِدُونَ)) - سورة البقرة 275.

Those who take *riba* (usury or interest) will not stand but as stands the one whom the devil has driven crazy by his touch. That is because they have said: "Sale is but like *riba*.", while Allah has permitted sale, and prohibited *riba*. So, whoever accepts the advice from his Lord and desists (from indulging in *riba*), then what has passed is allowed for him, and his matter is up to Allah. As for the ones who revert back, those are the people of the Fire. There they will remain forever – Al Quran 2:275.

Similarly, there are other stipulations in a contract that may appear permissible but may not be. Make sure you are aware of the fine print and can ask about these stipulations.

Below is a basic comparison table between the home finance offerings of the Islamic Finance Providers that I am aware of in Australia. I have listed:

- Which Islamic Finance model they use
- Minimum deposit for home finance
- Where they draw their finance funding from



Provider	Finance Model	Min. Deposit	Funding base
Ijarah Finance https://ijarahfinance.com.au/	Ijarah ¹	10%	Banks, finance houses, etc. ²
MCCA https://mcca.com.au/	Ijarah	10%	MCCA income fund, third party funders ³
Hejaz https://www.hejazfs.com.au/	Musharakah	20%	
Amanah https://amanah.com.au/	Ijarah	10%	Non-bank lender
ICFAL https://icfal.com.au/	Musharakah ⁴	20%	Member funded
IBA Group https://www.ibagroup.com.au/	Ijarah, Murabahah	TBC	

Below is a table listing the available finance products for each Islamic Finance provider:

	HOME	RURAL	VEHICLE	COMMERCIAL
AMANAH	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
ICFAL	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
HEJAZ	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
MCCA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
IJARAH FINANCE	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
IBA GROUP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
NAB ⁵	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Advice for those considering an Islamic Finance Institution

Shariah compliance: It is important for Islamic Finance providers to allow for ongoing religious oversight of their finance offerings. This should be regular and should keep up with any legislative changes and any changes made to the Islamic finance offering. Providers will

¹ Ijarah Finance uses a Murabahah model for their vehicle finance offering.

² Ijarah Finance states that they do not pay interest to their funders as they are not in a lender-borrower relationship with them. See questions 13 and 14: <https://ijarahfinance.com.au/faqs/>.

³ MCCA has stated that it can deal with conventional funders in a Shariah compliant way.

⁴ ICFAL uses a Murabahah model for their vehicle finance offering.

⁵ NAB (the National Australia Bank) was added because they appear to have an Islamic Finance offering. I couldn't find it on their website, but there was an article which which lauded their shariah compliant commercial finance offering.



generally list their advisory board members with a short bio for each on their websites. They will also list the Islamic Finance regulatory bodies that their offerings comply with (such as AAOIFI and IIFM).⁶

Transparency: We need transparency both in the interpretation of the terms and in relation to the finer points of the contract. Providers will generally have a FAQ section on their websites which gives more insight into their offerings, and will provide a means to get in touch, whether via phone, email or live chat.

Other considerations

- **What if my conventional bank has a finance offering that meets the conditions for an Islamic finance product?**

This is possible. Although the terminology may differ, conventional finance providers may have offerings that meet the conditions for Shariah compliance. Do your research and try to reach out to an Islamic Finance expert to see if it meets the criteria.

- **What if my conventional bank states that it has an Islamic Finance product, or states that some of its offerings are Shariah compliant?**

Ask them if their product has been endorsed by a reputed Islamic Finance authority. It is possible for an individual to do the due diligence but if you are not an expert in Islamic Finance then it is possible to miss something. Interest is not the only problem to consider with regards to a contract.

- **Do the Islamic Finance providers discussed in this guide charge late fees?**

Most of them do. It's a good idea to ask them about it for a conclusive answer and if so, why they do. The providers who state this clearly on their websites mention that they only charge the requirement for administration of the delayed payment, and do not take any of the late charge as profit. Any money paid in addition to the administration is donated as charity.

In Sha Allah (God-Willing) this guide is helpful for those considering engaging with an Islamic Finance provider. Please reach out if you have any questions about the guide or any suggestions for improvement. We are hoping to produce a yearly guide in this area in shaa Allah.

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26 November 2021

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⁶ See Appendix A for a brief description of the more common regulatory bodies and advisory firms.



Appendix A

Common Islamic Finance Standards and Accreditation Authorities, advisory firms

This is not an exhaustive list. Although these bodies are mentioned on the Websites of some of the Islamic Finance providers, the nature of the relationship and the extent of the oversight is often not clear. Below is a brief description of each, taken from their respective websites:

AAOIFI: The Accounting and Auditing Organization for Islamic Finance Institutions (AAOIFI), is a leading international not-for-profit organisation primarily responsible for development and issuance of standards for the global Islamic finance industry. It has issued a total of 100 standards in the areas of Shari'ah, accounting, auditing, ethics and governance for international Islamic finance. It is supported by a number of institutional members, including central banks and regulatory authorities, financial institutions, accounting and auditing firms, and legal firms, from over 45 countries. Its standards are currently followed by all the leading Islamic financial institutions across the world and have introduced a progressive degree of harmonisation of international Islamic finance practices.⁷

IFSB: The Islamic Financial Services Board (IFSB) is an international standard-setting organisation that promotes and enhances the soundness and stability of the Islamic financial services industry by issuing global prudential standards and guiding principles for the industry, broadly defined to include banking, capital markets and insurance sectors. The IFSB also conducts research and coordinates initiatives on industry related issues, as well as organises roundtables, seminars and conferences for regulators and industry stakeholders.⁸

IIFM: IIFM is a global standard-setting body of the Islamic Financial Services Industry (IFSI) focusing on standardization of Shari'ah-compliant financial contracts and product templates.⁹

Amanie: Amanie Advisors is a leading Shariah advisory firm specializing in Islamic finance solutions covering a wide range of services including Shariah advisory and consultancy, training and research & development for institutional and corporate clientele focusing on Islamic financial services.¹⁰

⁷ <https://aaoifi.com/?lang=en>

⁸ <https://www.ifsb.org/>

⁹ <http://www.iifm.net/>

¹⁰ <https://amanieadvisors.com/>





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