

As the world and its cultures become more and more enmeshed through immigration and trade, it is exciting to watch how often one culture takes in aspects of another as its own.

One of the most obvious examples of this is food. Take the popularity of hamburgers and Frankfurters in the western world. Both are German foods. So, when a German butcher from Frankfurt thought a sausage resembled his Dachshund dog, the Hot Dog was born.

And money is just as susceptible as food to cultural exchange. And, in Australia, very recently, Shari'ah compliant finance is showing that it, too, is gradually insinuating itself into the financial landscape.

Much of the positive regard now being focused on Shari'ah compliant finance has come from analysis that shows how sturdy this form of lending was in withstanding the Global Financial Crisis. In London and New York share markets are down one third from their highest levels, but the Dow Jones's Islamic financials index rose 4.75 per cent in the last September quarter and lost only 7 per cent compared with the previous year.

Islamic finance has not only shown that it can tough it out when there is a crisis of confidence, but investors are now starting to realise that it is also well positioned to grow substantially – faster, in fact, than other banking products, at 15 to 20 per cent a year.

A recent forecast in the Economist estimated that Islamic assets under management have a worth of \$US700 billion (\$1000 billion) worldwide, and, according to a Moody's Investors Service Report, the total value could exceed \$4 trillion by 2012.

This is very exciting for a system of lending that has been around since the time of the prophet Mohammed, and entered the modern financial world as a small banking experiment in villages of rural Egypt at the start of the 1970s.

The Shari'ah system requires the creditor and the lender to share in the profits and losses of any venture and prohibits transactions based on interest and excessive speculation. Both parties involved in a lending transaction must take shares of the risk involved and it is this quality that imbues the system with greater strength, tending, as it does, to reduce excessive lending by doubling the assessment of risk to the two parties involved.

Property is where Shari'ah compliant funds have a highly useful application, particularly as this area of the market will undergo a considerable correction following on from the current crisis. Investors who take advantage of undervalued properties can expect good returns through leasing and rental income, but, there are critics who suggest that Islamic finance institutions rely too heavily on property and may be hit badly if the situation worsens and the value plummets. In any case, the hit will be nowhere as hard as the impact of the recent collapse, and with responsible banking, where both the lender and the borrower are risk averse, the prospect of such a hit is unlikely.

What's exciting about recent development related to Shari'ah finance, in Australia, is the opening of a Masters Program on Islamic Banking and Finance at La Trobe University in July this year.

Australia's own Muslim population is quite small, but, the Australian Government has been quick to realise that our nation is located in a part of Asia that is heavily populated with Muslims, and, by promoting Islamic finance, it will likely be able to share in the wealth and jobs associated with the growth predicted for Islamic finance.

Of course, if it wanted to encourage the spread of Islamic finance even further, the Federal Government should work with the State Governments to make regulatory changes that avoid double taxation or unequal tax treatment for Islamic financial products.

The brightest star in Islamic finance, in Australia, for the past 18 years, the Muslim Community Co-operative of Australia is this country's largest Islamic finance institution with around 8,000 members and an annual turnover of more than \$200 million that is available to both Muslims and non-Muslims.

The Co-operative's aspirations are high as it hopes to be Australia's first Islamic bank, a situation former Federal Opposition leader, John Hewson, believes likely in the next five years. Speaking at a recent conference on Islamic Finance Dr Hewson said that he expects Australia not only to have one or more Islamic banks but that it should also emerge as the 'dominant Islamic Financial centre in the Asia Pacific region.'

Western financial arrangements have evolved into the methods of operation that currently exist over a long period of time. It's important to realise that the system of evolution is a continual one with new arrangements being added all the time. Certainly the pain caused after the recent collapse, particularly in the United States, will see some structural reform introduced to reduce the human suffering that occurs every time the financial system undergoes a cyclical correction.

Of course, Shari'ah compliant finance will not take over from the current banking system, but, as all cultures evolve and absorb aspects from one culture to another, there is every chance that Islamic finance will continue to develop, particularly in this part of the world, into a stable alternative that offers its own brand of benefits.

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