

## Religious co-operative an ethical alternative

Katherine Jimenez, *The Australian*, 9 September 2009

**IT'S known as the Muslim Community Co-operative (Australia). You may not have heard of the co-operative or what it does but in the coming years you will, possibly banking with it or even investing with it as an ethical investor.**

The co-op has big aspirations in Australia, including potentially becoming the nation's first Islamic bank.

MCCA, established in 1989, is owned by its 7500 members. Its main business has been as a sharia-compliant investment and finance house. Under sharia rules, all investments must be compliant with the principals of Islamic law and, as such, investment in companies involved in areas such as alcohol, gambling and pornography is prohibited. Investments must also be in physical assets.

The co-operative has about \$22million under management in 100 per cent sharia-compliant investments.

Last month, MCCA added another piece to its stable, launching Australia's first retail sharia-compliant mortgage income fund.

MCCA chief executive Chaaban Omran describes it as essentially a mortgage fund. "The fund should provide a steady stream of income where the return would be close to about 3 per cent to 4 per cent," Omran says. "However, the significance of this return is that it is 100 per cent halal; that is, it is sourced from sharia-compliant assets."

During the next three years, management aims to encourage all of its members to move its assets across to the fund.

At the same time, MCCA is keen to attract ethical investors. An ethical investor is someone who stays away from investments that defy their own moral code of conduct, such as not investing in tobacco or gambling.

For ethical investors who don't want to invest in tobacco or weapons, "this will appeal to them", Omran says. "Sharia compliance, like ethical investments, is linked to a moral code of conduct in doing business."

Funds that are invested would be used to provide sharia-compliant finance in Australia, MCCA says.

Omran says opening the fund was the first step towards getting a banking licence. In three years, he says, its investors will be asked to consider demutualising the co-operative, with the ultimate aim of establishing MCCA as an Islamic bank.

Omran says the potential for Islamic banking in Australia is enormous. For one, he says, "MCCA sees conventional banking and wealth management institutions offering Islamic windows. This means that a customer can walk into any branch and, depending on their risk profile and requirements, decide between conventional and sharia-compliant products, potentially have two tellers or two sets of shelves stocked with product disclosure

statements. The global market in this window is worth \$US1 trillion and is growing at a rate of about 15 per cent to 20 per cent, so if Australia can get, say, a 5 per cent slice in the next few years, then this would be a good starting point."

He is equally up-beat about the potential for Islamic superannuation in Australia.

"If set up correctly from scratch, rather than rebadging existing funds, it could be worth up to \$1.3 billion from Australian Muslims alone," Omran says. "Naturally the market is expected to be larger once offered to all Australians, as in the model of ethical investments."

### **What is MCCA's investment philosophy?**

It is to provide sharia-compliant products where there is a pure focus on asset-based transactions, mainly in quality residential property. MCCA will target individuals who are seeking an alternative investment to keeping their money in the banks, where the interest is considered prohibited by sharia law. Further, the fund will provide finance towards residential properties to customers who have a good stable employment record, who have a minimum of 20 per cent deposit and want to be a part of a model that is the next level above ethical investing. The fund takes the view that in the long-term property will produce a steady return free from fluctuations generally exhibited by the global debt and stock markets.

### **What are the fees?**

There are exit fees in case investors decide to withdraw in less than six months. If there are more than two redemptions a year, the fee is \$50.

### **What investment advantages do sharia-compliant products offer non-Muslims?**

Sharia-compliant products always ensure that there is an underlying asset involved in the transaction, hence moving away from the traditional cash-based model. These underlying asset transactions could be where a property is purchased in partnership rent-to-own or murabahah (cost plus profit sale) style product structures.

### **What is the potential of the sharia-compliant investment products in Australia?**

If we were to use British Islamic banking as a case in point, that market is considered to be worth pound stg. 500m in five years; funds are being channelled to Britain from all over the world, namely through the GCC (Gulf Co-operation Council).

The GCC is a trade and economic union made up of six Arab states of the Persian Gulf, which includes the United Arab Emirates and Bahrain.

Here in Australia we know of an overseas investor who would be happy to fund the next office tower of, say, \$1bn, providing the deal is done in a sharia-compliant manner.

Infrastructure products are likely to take off in a big way first followed by small retail finance products, thereby leading to a fully fledged Islamic bank in Australia.

Hopefully it would be MCCA's Islamic Bank or perhaps it will be MCCA in conjunction with a local major bank.

### **How did Islamic banks perform during the global financial crisis?**

Islamic banking and finance fared very well during the GFC. They were left almost unscathed because they are not attached to the debt markets. They continued to profit from their asset-based transactions.

They enjoyed higher asset, deposit, equity and profit growth than conventional banks. This has provided a catalyst for economic stability in the respective economies.

### **What do you see as the main themes that will dominate markets in the next 12 months?**

Main themes around the markets are to establish economic stability. We are debating whether the stimulus packages so far have had the desired result.

The reality is that this is too soon to make the call and stopping now could be premature.

It is unfortunate that to resolve the global debt issue that governments around the world have had to resort to more debt. Clearly this is not a sustainable long-term solution and we will all be paying the price for this in the near future by higher interest rates, volatile fluctuations in inflation and higher unemployment.

House prices will drop once interest rates start rising. It will be a constant cycle, and Islamic banking and finance may just be what Australia needs to curb this turbulent horizon.

### **How do you screen your stock selections?**

We run a managed discretionary account invested in stocks.

We have a sharia advisory board that constantly reviews the criteria and provides feedback and rulings about companies that may have businesses that engage in permissible and impermissible trade.

### **With MCCA being a co-operative, is it able to offer better deals to investors?**

The co-operative and the income fund will deliver similar products; however, each entity is regulated by a different governing authority. But the fund has the edge over the co-operative.

Whereas in the co-operative the board of directors can make a decision on the final dividends to be paid to shareholders, distributions, on the other hand, need to be paid in full to the unit holders.

This means the return in the fund is likely to be higher.