POTENTIALITY OF ISLAMIC BANKING IN NIGERIA BEYOND CRITIQUES’ POINTS OF VIEW

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Abstract

This paper aims to highlight the potential of Islamic banking in Nigeria as against the claims by its critiques. Islamic banking is a system of banking that prohibits the giving and receiving of interest in all transactions. It is seen as a better alternative for Nigerian citizens, particularly those who intentionally tend to avoid themselves from dealing with conventional banking activities due to its acceptability of interest. High demands and frequent requests for setting up Islamic banking from many individuals and groups, the Central Bank of Nigeria (CBN) has agreed to provide a legal framework for the establishment and operation of Islamic banking in Nigeria. In 2012, Islamic banking commenced with two types of banks, one is full-fledged Islamic banking and another is just as a window. The introduction of Islamic banking faced some great challenges and criticism from various parties particularly the religious authorities. The study employed a qualitative research approach using the content analysis method as a research design. Document analysis was used for the data collection process. Meanwhile, the process of data was analysed using descriptive and inductive approaches. The result shows that all the claims made by those who are anti-Islamic banking carry no weight and therefore, prospectus benefits of the industry are worthwhile to the entire nation. These findings provide some significant implications for Islamic banking institutions in Nigeria.

Keywords: potentiality, Islamic banking, Nigeria, banking system, Islamic bank, Islamic finance.

1. INTRODUCTION

Banking is an important intermediary and is vital in the economic structure of any country. The essential services a bank provides include receiving, collecting, transferring, paying, exchanging, lending, investing or safeguarding money for its customers. Islamic banks operate on Islamic principles of profit and loss sharing and other approved ways of investment. It entirely resists the interest that is the origin of all exploitation and is responsible for large scale of inflation and unemployment. An Islamic bank is committed to doing away with divergence and establishes justice in the economy, exchange, commerce and industry, build developmental infrastructure and create employment opportunities. The essence of establishing Islamic banks in Nigeria is to curb the problems of financial inclusion of people, reduce excess liquidity and boost growth and development of the economy (Dogarawa 2013).

Nigeria has an estimated population of over 170 million, a strong banking industry and a highly receptive and agile capital market. With the increasing wave of popularity and success of Islamic finance across the world, Nigeria aspires to be the hub of Islamic finance of Africa. Equally, the introduction of non interest banking in Nigeria by the apex bank is seen as another major turning point in the history of
banking operation in the country. Unfortunately, this move was greeted with resistance from all and sundry—religious groups, industry experts with astounding years of practice in conventional banking, and the gullible public. The key issues of concern, especially among the religionists were that the attempt by the CBN was meant to Islamize the Nigerian banking industry and deprive non-Muslims some form of financial inclusion (Yunusa & Nadhirah 2015).

Some other critics challenge the specific features of the operations of the bank wondering how a banking system will operate without charging interest on its transactions. Other issues were to do with the capacity of the regulatory institutions in ensuring effective regulation and ensuring a risk free management system in the Non-interest Islamic Finance Institutions (NIFIs) at the same time achieving good corporate governance standards—honesty, transparency and accountability. Some people doubt the capability of the NIFI to cope in a predominantly non Shariah compliant environment (Aliyu 2011). Therefore, this study will examine the purpose and prospects of Islamic banking industry in Nigeria. To meet this goal, this article discusses the purpose and essence of Islamic banking in Nigeria. Subsequently, this article analyzes the prospects and benefits of Islamic banking in Nigeria. Finally, this article ends its conclusion with discussion and findings.

2. BACKGROUND OF ISLAMIC BANKING IN NIGERIA

Non-interest Banking (NIB) sometimes referred to as interest-free banking has interestingly become an important part of the global financial system. The Islamic banking system which emanates in the last few decades in the ancient city of Egypt, has been globally accepted and practiced not only in Muslim dominated countries but also in countries with few Muslim inhabitants. The system has continued to develop due to its justice and understandable principles that cater for the needs of both Muslims and non-Muslims communities who want pursue their banking activities devoid of interest (Dogarawa 2013).

Unjust and exploitative interest charges, unreasonable uncertainty and speculation for profit maximization in the conventional banking system made the structure of financial intermediation in many parts of the world witness a radical shift with the emergence of the Islamic system which is solely based on the principles of Islamic law (Aliyu 2012). Another reason may be related to the incessant economic turmoil in the past and the on-going financial crisis in many countries that bedevilled economic development. It is noteworthy to state that the stronger resilience shown by Islamic Financial Institutions (IFIs) during the 2007-2008 financial crisis compared to its conventional counterpart caused policy makers and academics in many parts of the world to broaden their quest for soliciting and allowing the alternative structure to reign (IMF 2010; Dogarawa 2013).

In view of this, Hassan & Dridi (2010) explains that since the Islamic banking and finance industry has become so necessary and beneficial to some countries, there is a growing need for many others especially those within teeming Muslim populations to embrace the system. Although Nigeria is one of the richest countries in Africa in terms of natural resources and income from particularly oil sales that contribute billions of dollars to the country’s revenue income, the country has been previously rated one of the twenty poorest countries in the world. This rate relates to the poverty incidence and financial exclusion of its people that affect about 70% and 43% of the population, respectively (Zaki 2011; Sanusi 2011).
The Islamic system of banking and finance is well known for its strict prohibition of interest, denouncing uncertainty and speculation. It strongly emphasizes the active partnership between investor and entrepreneur. It also proves to be capable of fostering economic development and stimulating non-inflationary growth through the formation of mutual cooperation in its fundamental principles of risk taking and profit and loss sharing which give birth to social progress and distributive justice. The system is more concerned about its viability, soundness of business and productivity to be pooled and invested as compared to its conventional counterpart which focuses more on creditworthiness and the size of the collateral and rate of return (interest).

The non-interest (Islamic) system of banking is a form of specialized banking like merchant banking, investment banking or microfinance banking that could be used as a positive stimulus to the banking sector. It is also other means of attracting the much-needed foreign investment to develop infrastructure in Nigeria. In view of these enormous features and beneficial impact of Islamic financial institutions to the masses and to economic development in general, Islamic banking became necessary in Nigeria in order to provide everybody with the opportunity to participate in the financial inclusion programme of the government. The CBN used its autonomy power in March 2009 to release a draft framework for the regulation and supervision of non-interest banks in Nigeria. This action was also in response to the increasing number of investors and banks and other financial institutions desiring and requesting to offer non-interest products and services (CBN 2011; Momodu 2013).

3. PROSPECTS AND BENEFITS OF ISLAMIC BANKING IN NIGERIA

By proper implementation of Islamic banking and widespread operation and people’s participation in non-interest banking activities there would be meaningful implications for the national economy and the general well-being of Nigeria’s citizens. Non-interest system helps achieve economic growth by diversifying the supply of venture or risk capital and consequently, encourages new project owners to actively partake in the realm of production due to more participation in the risk-taking process. That is the area where conventional banks are unable to make a remarkable impact owing to their high-interest rates and little or no support given to entrepreneurs (Aliyu 2012). Furthermore, besides employment opportunities, the customised nature of NIB services and the variety of its products have the potential of engaging jobless, but economically active youth in productive activities and many educated people who are unemployed. Existing conventional banks that may wish to open more windows or subsidiaries of NIB will recruit new staff that should complement their existing workforce.

3.1 Towards the Economic Development

There are some significant and outstanding benefits of free-interest financial institution to Nigeria’s economy. The research made an outlook for the potential opportunities to be realized when Islamic banks are fully operational in the country. Mopping up excess liquidity in the Nigerian economy is also one of the major implications of the perceived Islamic banking system in the country. Liquidity management is of great concern to the Central Bank of Nigeria. It is on record that part of reasons why CBN finds it difficult (to some extent) to facilitate the growth and development of the economy is the existence of liquidity outside the banking system in some parts of the country. The traditional (conventional) banking is not highly patronized due to its interest-based system which contravenes the belief of must
people, Muslims and Christians alike. Meanwhile, the Islamic bank is bedevilled with challenges. This results in excess liquidity outside the banking system, hence the problem of liquidity control and management. With Islamic banking in Nigeria, a greater number of these monies outside the banking system will be linked and channelled back to the system and therefore, control would be more efficient (Ofurum 2008).

Moreover, the major feature of Islamic banking is its strict prohibition of interest payment. This characteristic is very crucial as it gives capital to entrepreneurs on free interest schemes. Nigerians have for long been faced with disturbing high-interest charges by conventional commercial and microfinance banks in the country. The interest-based system has over the years discouraged Nigerian businessmen, particularly young entrepreneurs from going into production. Iqbal and Molyneux (2005) after identifying the various products of Islamic banking confirmed that the menu of available financial products renders several advantages.

Islamic financial institutions give emphasis on the soundness and profitability of the investments to be financed because the allocations of funds are based on profit and loss sharing. This system gives maximum weight to the outcome of the investment. Therefore, it is likely to be more efficient and profitable than the allocation based on an interest that prioritizes credit worthiness and the ability to pay.

A system based on profit sharing would be more stable compared to its counterpart that is guaranteed interest rate on capital. In the latter’s case, the bank is obliged to pay a stipulated return on its obligations (deposits) irrespective of their fate, should economic conditions deteriorate. In the former (profit sharing), the return paid on the bank’s obligation depends solely on the returns of its portfolio of assets. Consequently, the cost of capital would adjust itself automatically to suit changes in production and other business conditions. Furthermore, any shock that might befall the obligation’s side of the balance sheet becomes automatically absorbed. This flexibility not only prevents the failure of the enterprise seeking funds, but also ensures the existence of a necessary harmony between the firm’s cash flow and its repayment obligations, an element which enable the financial system to work successfully (Okeke 2012).

According to Adewusi (2001), financial inclusion is the provision of a broad range of high quality financial products (such as savings, credit, insurance, payment and pensions) which are relevant, appropriate and affordable to serve the needs of the general population, especially the low income segment. He further argued that financial inclusion is a key to tackling the ‘poverty trap’ in Nigeria. Although CBN intends to grossly reduce the number of financial exclusion by the year 2020, the emergence of NIBs on the scene will surely help in meeting the target by dousing the apathy among non-bank public to accept the banking services that recognises their religious values and beliefs (Aliyu 2012; Dogarawa 2013).

Islamic banking will help the Nigerian government and corporate organisations to have direct access to Islamic development funds available in the international community to finance infrastructural projects that will bring about more rapid development of the country.

3.2 Towards the Individual Benefits

Islamic banking assures an equitable distribution of resources in the economic system of the society. This is as a result of its principle of profit and loss sharing that
ensures justice to all parties involved. A contract based on the interest could amount to injustice to the lender based on the outcome of the business. When loss is incurred on the business, the borrower bears it and, therefore, he must repay the lender. This becomes injustice on the part of the borrower as he takes the losses all alone (the loss of capital, profit and labour). Moreover, when the excess profit is incurred on the business, the borrower will have all of it, repaying only the principal plus the predetermined return (interest) to the lender. This is an injustice to the lender.

However, the Islamic banking system eliminates that injustice and through profit and loss sharing in which the borrower and lender corporate and share whatever benefits incurred to a certain pro rata degree. This system instigates a banking process based on a partnership between labour and capital. Each partner contributes significantly to the success and profitability of the business, knowing that that the outcome of the ventures is shared between them. Sharing modes are possible for productive enterprises that involve real life businesses that increase the quantity, improve the quality or enhance the usability of real goods and services. By doing so, the businesses generate returns that can be distributed between the entrepreneur and the financier (Okeke & Ojukwu 2012).

Another essential attribute of Islamic finance which conventional banks lack complements economic development. The entire staff as well as the guiding principles of Islamic banking must adopt a pattern of behaviour that is consistent with their commitment to moral and ethical standards as laid down by the Islamic religion which also correspond with social morality as manifested in other faiths like Christianity. The immediate and most important outcome of the moral and ethical commitment to Islamic banking is developmental in nature. Islamic banks restrict their financing to only business enterprises, goods and services that are useful to the society and humanity as a whole. The banks do not finance harmful goods such as alcohol, beverages, tobacco, and swine trade or any morally unacceptable services like casinos, pornography etc. On the same issue, Sanusi had said: “there is a growing preference for ethical investment, products and services recognised by both Muslims and non-Muslims. Islamic banking is considered compatible with the moral orientation and belief of both classes of people” (Aliyu 2012).

The existence of Islamic banking promotes competition in the financial system that is geared towards providing customers with efficient and reliable services. Both Islamic and conventional banks would give more emphasis on how to attract customers in rendering their services to people (Sanusi 2011).

4. DISCUSSION AND FINDINGS

Regarding the findings of this study, the purposes of Islamic banking in Nigeria are enormous. The issue of poverty incidence and financial exclusion existing among million Nigerians are enough to be given rapt attention for a lasting solution as no country would ever succeed in such circumstances. The study has indicated what benefits Islamic banking is in a position to provide. For instance, Nigerians whose cultural and religious backgrounds necessitate them to becoming financial excluded can gladly use Islamic bank and it therefore serves as a remedy to their problems. As for the claim that interest free banking has a bad fortune for Nigeria, the benefits and prospects outlines in the findings of this study are enough to defeat that assertion. The diversification of venture and production that ultimately result economic growth,
employment creation and give Nigeria direct access to Islamic development fund in the international community are grossly possible through the customised nature of non interest banking services in the country. Therefore, the purpose and benefits of Islamic banking to Nigeria are intact, very well relevant and really supercede the speculations entail otherwise.

CONCLUSION
Although Islamic banking has come to stay in Nigeria, there have been some bad insinuations spreading about its purpose and benefits towards the citizens and economic activities in the country. This study has shown concern especially about a claim that CBN was meant to Islamize the Nigerian banking industry and deprive non-Muslims some form of financial inclusion. Some other critics challenge the specific features of the operations of the bank wondering how a banking system will operate and succeed without charging interest on its transactions. Purpose and essence of Islamic banking in Nigeria were briefly enumerated which include the issue of recurrent poverty and financial exclusion of various communities whereby prospects and benefits of the industry to the masses and to the economic development were also given brief elaboration. Mopping up excess liquidity outside banking activities, eradication of joblessness and increase of productivity are some of the benefits. Finally, the paper has discussed about the result of the findings.

REFERENCES


