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# Phobia of the Introduction of Ethical Financing through Islamic Banking System in Nigeria: Respondents' Perceptions on Business and Economic Suitability

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## Abstract

*This research work aimed at studying the business and economic suitability of the introduction of alternative ethical finance through Islamic banking system in Nigeria as being consistent with modern economies. As Islamic banking system is working in a number of countries, then, Nigeria shouldn't be a battle ground between Muslims and Christians mostly because it carries the toga of Islam thereby ignoring the beneficial social goals inherent in the Islamic alternative modes of ethical financing and investments. The issue of interest is a philosophical question which has to do with the core concept of 'is money a commodity that can be traded on its own or not? The central issue is that the contemporary financial system is exploitative, unjust, discriminating, unstable and crisis generating. The sampling method adopted for the study was stratified random sampling technique. The study was conducted with 480 respondents in Abuja and responses elicited from questionnaires administered. The instrument used for data collection was questionnaire and data analysis made used of simple percentage and ANOVA was adopted for hypothesis testing. Data obtained was analyzed with inferential statistical technique. ANOVA was employed to test each hypothesis at 99 per cent confidence level. Results were analyzed through descriptive statistics and hypotheses tested using ANOVA at 0.01 level of significance. Thus, this paper believes that the Islamic banking provides financial solutions that are not only concerned with the growth of money but the ethical means by which money can be used to generate wealth. The paper also believes that with the establishment of Islamic banking system in Nigeria therefore will relatively remedy the problems of interest banking system that are making unemployment and redundancy to becoming order of the day. This study suggested that the introduction of Islamic banking system in Nigeria might promote a balance between the social and economic aspects of human society, the self and social interests and between the individual, family, society and the State. It can effectively address issues like income distribution and poverty alleviation, which capitalism has not been able to address and at the global level, it will rid the basis of instability, so making the world a happier place with harmony among followers of various religions.*

**Keywords:** Conventional banking, Ethical finance, Islamic banking, Nigeria, Phobia.

## Introduction

Islamic finance is catching attention fast in both developed and developing countries (e.g. Denmark, England, Egypt, Iran, Pakistan, South Africa, Sudan, Saudi Arabia, Indonesia, Bahrain, Turkey, Qatar, Kuwait, Malaysia, etc.).

It is acknowledged and acclaimed by the World Bank and the International Monetary Fund as a credible idea to faster economic growth especially in the third world. Islamic financial institutions (banks) exist in most cases side by side with the conventional (interest based) banks (Naiya, 2001). Islamic banking and finance is being practiced in over 75 countries around the world, with about 550 Islamic financial institutions in the field. A number of international institutions and regional financial centres are playing a crucial role in the standardization of Islamic finance products and thus enhancing its credibility. Almost all multinational conventional finance groups are offering Islamic financial products through specially created subsidiaries or windows. It is a healthy sign of good and ethical business in future that will increase the prosperity and peace of mind of millions of people who were previously either keeping away from the conventional banking system or feeling guilty due to the involvement of interest in their transactions, otherwise prohibited in all revealed religions (Ayub, 2007).

However, Nigeria is indisputably one of the most diverse nations in the world with over two hundred and fifty ethnic groups, and multi-religious entities as well. Hence, with the introduction of the Islamic banking system there have been controversies as well as anxiety across the nation as to whether or not the ethno-religious diverse Nigeria could accommodate the neo-alternative financial institution which bares the nominal emblem of one of the powerful religious groups in the nation-Islam. Some view it as an attempt by the then CBN Governor to Islamize the nation via the banking sector while to others, it means an outrageous move by Sanusi Lamido to project Islam to a position that will make it overshadow other religions in the nation. Nevertheless, a good number of non-Muslims from across the nation have seen the Islamic banking system philosophy as a welcome serendipity that would transform the nation's economy. The mixed reactions of the people escalating lingering, and the echoes are not far-fetched (Bello, 2011).

Many Muslims are not interested with the operation of the conventional interest-based banking system which is against the spirit of Islam. The conventional banks are seen by Muslims as being as

institutions that do not operate in line with the dictate of Allah. However, other Nigerians have astutely and sagaciously aired their opinions (Adebayo, 2010). Herein, consider Sri Lanka; despite Muslim population being just eight percent of the total population, considerable growth has been reported in the past few years with the establishment of HSBC Amanah, Ceylinco and other Islamic Banking institutions (Dorothy Decker, n.d cited in Bello, 2011).

The current raging debate on Islamic banking was apparently centred on parochial religious and ethnic sentiments; the objective aspects of it are yet to be explored. There is the need to look at its viability, or otherwise, its specialized banking operations in relation to the nation's developmental goals, as this paper intend to do.

### **Rationale behind the Institutionalization of Islamic Banking System in Nigeria**

The purpose of the introduction of Islamic Finance in many countries has been to serve as an alternative financial solution to meet the needs of the people. Nigeria is a country with a population of over 150 million with about 50% as Muslims. There has always been a demand among Muslims for financial products and services that conform with their beliefs and the development of viable alternatives to conventional finance would create a level playing field in which Muslims can also access a vast range of financial services without compromising their religious beliefs. Furthermore, Islamic Finance can create cross-border trade and investments as foreign investors seeking to invest in Islamic products and services will find investment outlets to meet their needs thereby creating access to foreign exchange and positioning Nigeria on the map as an international financial centre. Customers (Institutional Investors and foreign investors) with an investment appetite can also benefit from Shari' ah-compliant funds as well as Sukuks, which are increasingly becoming common in global markets as a result of their impressive growth rates. Islamic Finance will undoubtedly create job opportunities as a lot of specialized skills will be needed to develop the industry and expand its growth thereby contributing significantly to the reduction of unemployment rate

in the country (Oluwatosin, 2017).

Evidently at the take-off of Vision 2020, our nation's Financial System was in a shambles. Nigeria's erstwhile Governor of Central Bank, Professor Chukwuma Soludo (in a paper he delivered on FSS 2020, at the Abuja International Conference Centre, on the 18th of June 2007) said, before the financial industry reforms he introduced in 2004, Nigeria's financial system could not deliver on its defined roles and was characterized by low aggregate banking credit to the domestic economy (20% as percentage of GDP): that it was engulfed in a systemic crisis; the nation's banks were continuously resorting to Central Bank for bailouts, as they had inadequate capital base; the structure of the industry was oligopolistic, with ten out of 89 banks accounting for over 50% of total banking system assets; poor corporate governance; low banking/population density (with a bank branch serving 30,432 people); a payment system that encouraged cash-based transactions; the nation's insurance industry was also weak and undercapitalized; pension funds were largely absent, and the Stock Market was shallow (Muhammad, 2011).

Not long ago, the world witnessed a crisis that created doubt in the foundation of capitalism. As it abates, the world economy had witnessed a long period of economic slowdown, with nothing less than \$3 trillion as bailouts and injections of liquidity to reduce the intensity of the crisis (Folami, 2011). Herein, Soludo went on to restructure the system for competitiveness and also consolidated the banking industry by increasing bank capital base from U.S \$15 million to U.S \$200 million, implemented through mergers and acquisitions, and/or injection of fresh capital that brought down the number of the banks from 89 to 24. Wholesale banking came into being with some banks acquiring other financial institutions such as stockbrokerages and insurance firms in order to offer one-stop financial services (Muhammad, 2011).

The emergence of stronger banks offered ground for fast-tracking the vision through a road-map policy called Financial System Strategy 2020 (FSS 2020) aimed at making Nigeria the financial supermarket of African economies by 2020. Lagos was proposed to be developed into a financial hub,

a world commercial nerve centre like London, New York, Hong Kong, Tokyo, Frankfurt etc that would offer onshore financial and capital market services; this would facilitate the position of Lagos to function as a centre for intermediation of financial services between Western Europe, North America, Middle East and Asia (Muhammad, 2011). The Central Bank of Nigeria recently joined other countries like Turkey, Jordan and Malaysia to come up with specific regulations for the establishment of Islamic banks, with the difference that Nigeria has opted for non-interest banking just like Turkey which refers to it as "Special Finance House". This gave sign of relief to the Muslims who were not satisfied with the transaction of the conventional banks, following the replacement of the Banking Law in Nigeria (Banking Act of 1962) with the 1991 Banks and other Financial Institutions Decree (BOFID), which came with the necessary framework for the establishment of Profit and Loss Bank in Nigeria (Adebayo, 2010 cited in Abdulkadir and Murtala, 2016).

The duo of Prof. Charles Chukwuemeka Soludo (former Central Bank of Nigeria governor) and Malam Sunusi Lamido Sunusi (the then Central Bank of Nigeria governor) share the same philosophy as they both believe the Islamic banking system can contribute to the revolutionization of the nation's banking sector and create more employment opportunities. Moreover, Prof. Soludo was said to have singlehandedly orchestrated the introduction of the Islamic banking system whereas Mal. Sunusi came and galvanized it (Bello, 2011).

Meanwhile, the House of Representatives have approved the operations of non-interest banks in the nation after the then CBN governor, Malam Sunusi Lamido Sunusi, appeared before the general house and explained the nitty-gritty of the operations of the banks. Overwhelmed by his explanation, the House presided over by the deputy speaker, Emeka Ihedioha, gave the governor a resounding ovation and did not ask the governor even a single question. The governor maintained at the session that people from the South-East had been patronizing Islamic banks outside the country and specifically cited Enugu State that had borrowed money from the Islamic Development Bank (IDB). He further said that out of the 10 companies in Nigeria that had

obtained loans from the banks, “nine are owned by Christians” (Bello, 2011). In Africa, Nigeria is far behind South Africa, which for several years has Islamic financial institutions licenced and operating successfully. There are Islamic banks in Senegal, Guinea, Niger, Egypt, Kenya and Tanzania and other countries like Uganda are in the process of setting policy framework to enable Islamic banking (Ubok, 2011).

Islamic principles of economics and finance, nowadays, have already proved their ability to attract policymakers and practitioners from all over the world to develop the edifice of an efficient financial system on this basis. From the dawn of the 21st century, Islamic finance has been developing so vigorously that it has evolved from a nascent industry to a global market, where Muslim and non-Muslim are working together and learning from each other for the development of relevant products and services. It has passed the significant milestones of existence, recognition by the global financial authorities and most recently in delivery of sophisticated and lucrative financial services with competitive pricing and sufficient care for Shari’ah compliance (Ayub, 2007). Islamic banking system is not by any means an entirely a new phenomenon when it comes to banking activities. However, the distinction is in the prohibition of payment and acceptance of Riba (interest) and control in the kind of business clients’ money is lent for investment. That’s about it (Kabir, 2011).

All of this was achieved within just 25 years. Until the early 1970s, Islamic banking was an academic dream, of which few people were aware, even educated Muslims; now it has become a widely known practical reality. It made headway in the 1980s as a new system of financial intermediation, in spite of an unfavourable environment and without the help of the auxiliary or shared institutions needed for its successful operation. Its recognition around the world relates to its workability and viability. It has also attracted the attention of mega international financial institutions, regulators like the Federal Reserve Board, FSA of England, international financial institutions like the IMF and the World Bank and prestigious centres of learning like Harvard and Rice Universities in the United States and the

London School of Economics, Loughborough and Durham Universities in Britain, International Islamic Universities in Malaysia and Pakistan and a number of other institutions in Saudi Arabia and Egypt (Ayub, 2007).

The development of standard-setting bodies and global facilitators like the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), the Islamic Financial Services Board (IFSB), the International Islamic Financial Market (IIFM) and the Liquidity Management Centre (LMC) is providing recognition for Islamic finance and enhancing its credibility to both customers and regulators. Bahrain, Malaysia, Saudi Arabia and Dubai have been serving as its hub for about the last two decades. Now, London and Singapore are also striving to become centres for Islamic finance. Britain’s then Chancellor of the Exchequer Gordon Brown told the Islamic Finance and Trade Conference held in London in June 2006 that he wants to make London a global centre for Islamic finance by offering regulatory and tax regime measures to support the creation of Islamic finance products.<sup>23</sup> Demand for Islamic finance is on the rise, both in Muslim majority and Muslim minority countries. In the UK, for example, the Islamic Bank of Britain (IBB) is working as a full-fledged Islamic bank with seven branches (planned to increase to 12 branches by the end of 2007). The first customer to open an account in the Leicester branch of IBB was a non-Muslim who travelled over 100 miles because of the ethics and transparency offered by an Islamic bank. Besides this, the European Islamic Investment Bank (EIIB), HSBC Amanah, Alburaq (a subsidiary of Arab Banking Corporation), Lloyds TSB, ABC International Bank Bristol & West Building Society, KPMG, Clifford Chance, Norton Rose, Dawnay Day and 1st Ethical are among those offering services also to non-Muslim customers. In Malaysia, about 40% of Islamic banks’ clients are non-Muslims. In the US and North America, a large number of institutions are providing Islamic financial services, mainly to the Muslim community ( Ayub, 2007).

## Materials and Method

This study was carried out with a strong view of determining the business and economic suitability of

alternative ethical banking system in Nigeria. A total of 480 questionnaire administered was effectively assessed to quantitatively measure the perceptions and views of respondents from both Muslims and non-Muslims alike. The rationale behind selecting both Muslims and non-Muslims is to have divergent ideas across the study area. The study area is Abuja the capital city of Nigeria, which has the population close to 780,000 people. It is a key political and economic center of the country, an important cultural and transportation hub. It is a planned city with mixed and very diverse community, with multicultural and quite highly educated society. The latitude of Abuja, Nigeria is 9.072264, and the longitude is 7.491302. Abuja, Nigeria is located at Nigeria country in the cities place category with the groups coordinates of 90 4' 20.1504" N and 70 29' 28.6872" E. The questionnaire was validated for its contents and face validity by the financial and Islamic experts. Further, experts in the field of test and measurement and language validated the questionnaire which ensures its consistency, language appropriateness and clarity. The sampling method adopted for the study was stratified random sampling technique. The instrument used for data analysis was simple percentage and ANOVA was adopted for hypothesis testing. The interview strategy could not be adopted since the number of respondents was rather large and cannot be managed with finite time and cost. Case

study is a good strategy, but was not selected after considering the time needed to complete the research and weak possibility of generalization. Experiment research was not selected due to its unsuitability to this research, which is not on natural science.

**Results and Discussion**

This research study was exploratory in nature and it analyzed the respondents' perceptions on the introduction of Islamic banking system in Nigeria. The study glance at typical of the mutual distrust that has permeated and defined the socio-cultural relationship between Nigerians, an issue as serious as economic policy degenerated to primordial concerns based on religious differences. The study was conducted with 480 respondents in Abuja and responses elicited from questionnaires administered. Such questionnaires were keyed into the system and the Statistical Package Social Sciences (SPSS) applied on the data. Hypothesis was generated for logical proof of complex social phenomena and this hypothesis was tested using ANOVA.

**Operational Hypothesis**

**HO:** There is no significant difference between offering conventional and Islamic banking systems in providing financial solutions that are ethically style to generate wealth.

**Table Analysis of Variance for Groups on Choice of the Banking Systems**

Groups- ED, EN, MD, MN				N- 480- (120 each group)			
Hypo	Problem area	Groups	Sum of Squares	DF	Mean Square	F	Level of Sig.
IVA.2	Choice of banking System	Between Groups	25302.10	3	8434.03	119.94	Significant at 0.01
		Within Groups	33471.81	476	70.319		

Table value at 0.05(df-3, 476) =2.63; Table value at 0.01(df-3, 476) =3.82

**Analysis and Interpretation**

The above table is representing the statistical scores of ANOVA for the fact that Islamic banking system provides alternative ethical means to generate wealth and conduct businesses. It is common knowledge that the contemporary conventional system has generated inequality at alarming levels, even in developed countries like the US and Britain. Similarly, as some numbers of emerging economies are showing impressive growth rates,

but economic growth under neo-liberalism is not serving the welfare function; rather it is enhancing poverty because the benefits do not trickle down by themselves, due to distortions created by vested interests in a free market functioning without proper surveillance, disclosure and transparency that, in truth, reinforces skewed income distribution patterns. Emerging economies in another divide like China, one of the fastest growing economies with a growth rate in double digits, is facing the same problem.

China is also facing the same problem of inequity and a widening gap between the haves and the have-nots, despite the highly impressive performance of macroeconomic indicators. The crises seen in conventional economies have nowadays provided an opportunity to Islamic economists to have a critical look at the present state of the situations and avoid repeating similar mistakes.

As per table 1 above calculated 'F'- value is 119.94, which is higher than the table value (3.82) at the 0.01 level of significance. With the respondents' responses, the results from this study suggest that the Islamic banking system can provide business and financial solutions that are not only concerned with the growth of money but the ethical means by which money can be used to generate wealth. The result of this finding are congruent with the opinion in Oran (2012) cited in Islahi (2015) which stated that during and after the 2008 global financial crisis, excessive lending and risk shifting in conventional finance, in addition to interest (riba), excessive risk (gharar), gambling (maysir), speculations (mujazafah), were the main reasons behind the business and financial crisis. The capitalist system was noted to have an inherent tendency of frequent crises. In their opinions, the risk-sharing and Islamic economic system, based on ethical values, presents an alternative to avoid occurrence of such crises.

In the contemporary world, this paper shared a perspective that the best example for Nigeria and its policy makers to learn from their experience to turn the economy around possibly will be the Malaysia incident. The trickle-down theory (TDT) adopted in Malaysia during 1957–1970 failed miserably and resulted in the tragedy of 13th May (1969) race riots in the country. Then the Malaysian government adopted a policy which applied the core value of Islam, i.e. justice with fairness, which has contributed significantly to the country's miraculous achievement in the last three decades. Although the government could not fully apply the Sharia principles, it adopted a pragmatic policy (New Economic Policy) that had the twin objectives of eradicating poverty and restructuring society to ensure justice with fairness. This policy of higher growth with distributive justice emerged as a direct response to the failure of the growth alone development policy (TDT) pursued

during the 1960s. Success at the macro-level did act as a contributory factor to compensate the failure of some institutions and values at the micro-level.

## Conclusion

To sum up all therefore, it's obvious that this present study analyses the Islamic banking system as an alternative ethical finance and thereby evaluating its contemporary economic suitability in Nigeria and more or less proffers healthy perspective on how a given country can manage its emotional controversy generated by the introduction of an Islamic banking system. For Nigeria, if willing and ready to explore a possible remedy to its ailing economy therefore the introduction of Islamic banking system may be considered a welcome development, besides diversifying the financial system, the introduction of a viable financial product/sector like Non-Interest banking is bound to create more jobs, engender new skills and attract additional sources of capital to improve our power sector, health, roads, education, etc. the overall recommendation of this paper is that at the end, this study recommended that, if Islamic banking system is adopted in the contemporary economic system especially in Nigeria, so it can promote a balance between the social and economic aspects of human society, the self and social interests and between the individual, family, society and the State. It can effectively address issues like income distribution and poverty alleviation, which capitalism has not been able to address. At the global level, it may be helpful in eliminating the sources of instability, thus making the world a happier place with harmony among followers of various religions.

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