

THE SURVIVAL OF ISLAMIC BANKING VIS-À-VIS NON-INTEREST BANKING IN NIGERIA, AN OVERVIEW

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ABSTRACT

This Paper Examines and gives an Overview of the Survival of Islamic Banking vis-à-vis Non-Interest Banking In the Nigerian Economy, its background and Origin, a review on non-interest banking system in Nigeria compared with other countries, arguments from different analyst on Non-interest banking System, the implication of statutory auditor, the implication, the role of auditor, the laws and guidelines guiding non-interest banking in Nigeria, differences between Islamic banking system and conventional banking System, its benefit, timing, profit sharing and problem.

KEYWORDS: Non-interest Banking, Islamic Banking, Statutory Auditors, Guidelines, Conventional Banks, Nigerian Economy, Overview, Benefits and profit sharing.

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INTRODUCTION

Islamic banking refers to a system of banking or banking activity that is consistent with Islamic law (*Shariah*) principles and guided by Islamic economics. Islamic banking as "a non-interest form of banking which transacts banking business, engages in trading, investment and commercial activities, as well as providing financial products and services in accordance with the principles and rules of Islamic jurisprudence, non-interest banking has its origin in both Christian and Islamic scriptures, quoting from Quran 2vs275, Leviticus 25vs36-37, Deuteronomy 23vs19" Thou shall not lend upon usury to thy brother; usury of money, usury of victuals, usury of anything that is lent upon usury", and Ezekiel 8vs33. Islamic banking operates in 45 countries encompassing most of the Muslim world, along with Europe, North America and various offshore locations. Non-interest banking was not a new development, pointing out that the system operates in countries such as Pakistan, Egypt, Britain and the United States. The broad aim of this paper is to introduce knowledge of Non-interest banking system and its implication for economic growth in Nigeria, as well as draw some useful insights on Islamic banking in Nigeria. Unfortunately, these recent developments are matched by a dearth of Non-interest banking knowledge in Nigeria. Secondly, there is dire need for banking policy makers to be fully enlightened on what Islamic banking is all about and the plausible insights of non-interest banking in Nigeria, as this will enable them brace up for the tasks and challenges that lie ahead.

LITERATURE REVIEW

The newly introduced non-interest banking system vis-à-vis Islamic banking system in Nigeria, can lead to financing of religious fanaticism and terrorism, says economic experts. Nigeria has, and continues to suffer from religious fanaticism and sectionalism. With the financial systems still suffering from the consequence of, amongst other factors, weak supervision, the CBN and other regulatory bodies to be charged with supervising Non-Interest Financial Institutions (NIFIs) must be well prepared and trained. Failure in proper regulation of NIFIs might not only lead to financial losses but perhaps financing for religious fanatics and terrorism. "The idea of non-interest banking was conceived during the reign of the former governor, Charles Soludo, and Mr Sanusi continued from where he stopped because governance is a continuous effort.

Some people think it would polarize the country. Should we say that the United States is unaware of what non-interest banking can do? What about the United Kingdom, Luxembourg, Kenya, Uganda, and even South Africa? How many countries have been Islamized through non-interest banking? We should allow it to work.

Islamic banking as "a non-interest form of banking which transacts banking business, engages in trading, investment and commercial activities, as well as providing financial products and services in accordance with the principles and rules of Islamic jurisprudence. Non-interest banking was not a new development, pointing out that the system operates in countries such as Pakistan, Egypt, Britain, United States, Luxembourg, Kenya, Uganda, and even South Africa. The basic elements of trust and financial partnering are the things that account for the uniqueness of non-interest banking. This uniqueness, challenges the fundamental principle of financial intermediation associated with conventional banking.

Now Let's remove our minds from whether non-interest banking or the Sharia of its component is constitutional or not. Those in the legal profession are qualified to tackle that aspect. But the question on the lips of many is if it will be a more prudent way to banking, and more importantly, the beginning of better relationship between firms in the economy and banks.

The argument in some quarters is that the banking crisis that almost crippled the economy did not emanate from banks that have religious inclination, but was as a result of banks with little or no interest about the firms they were lending to. According to analysts, banks will be more prudent when they know that their ability to continue in business depends on the success of the firms they give loans to. Their thinking is that the issue of non-performing loans will be a lot less, since the chief executive or any executive director will not grant loans on the basis of closeness, but on professional level.

The implication is that firms which do business with non-interest banks will grow, and more people will be employed, thus will also impact positively on the nation's economy.

John Okolo, an analyst based in Lagos, told Business Day that if religion is shut out of the matter, this can be the beginning of new things happening to the nation's economy. According to him, so long

there are no religious undertones in the central bank's decision; proper retail banking is just about to start.

Kingsley Moghalu, CBN deputy governor said, when more people embrace banking, it will be easier for Nigeria to be among the top 20 nations by 2020. He said the apex bank has been developing concepts that will grow banking population in the country.

According to him, when the central bank came out with the concept of international banking, national banking and regional banking (under the commercial banks category), the purpose was to ensure those at the grass roots have access to banking services through regional banks.

Again, under the specialised banking model, Moghalu explained that the introduction of micro finance banks was another attempt to ensure more Nigerians embrace the banking system. In a bid to make the non-interest banking more inclusive, the central bank issued a new guideline to cater for non-Muslims.

"The new guidelines are the outcome of the review of the earlier guidelines issued, based on the recommendations of various stakeholders. The new guidelines clarify the contextual definition of non-interest banking, which is not restricted to Islamic banking, but also includes other form of non-interest banking not based on Islamic principle.

GUIDELINES

The Central Bank of Nigeria (CBN) recently, issued a new guideline for the operation of non-interest banking in Nigeria. This is in accordance with the provisions of Banks and Other Financial Institutions Act (BOFIA) which clearly provides for the two variants of non-interest banking," This is in accordance with the provisions of Banks and Other Financial Institutions Act (BOFIA) which clearly provides for the two variants of non-interest banking," This ensures that discrimination on any grounds in the participation by individuals or institutions as promoters, depositors or other relevant parties in any transaction regarding a non-interest financial institutions, whether based on Islamic or other model, is strictly prohibited". Another significant review is the removal of any reference to 'Shariah Council' which has been changed to 'Advisory Council of Experts,' whose responsibility is to advise the CBN on the appropriateness of relevant financial products to be offered by the institutions.

“For the avoidance of doubt,” the CBN said, “Section 23 (1) and section 66 of the BOFIA 1991, (as amended) explicitly provide for the licensing of Non-Interest Banks (NIBs). The CBN is obliged, by law, to issue licenses to appropriate entities for the establishment of NIBs provided they meet the regulatory requirements for licenses.

“In view of this, the CBN is open to receiving and evaluating applications for licensing of non-interest banking institutions based on other principles rather than the Islamic variant and will soon issue separate guidelines for non-interest banking under other principles,” the CBN further stated. The new guidelines, according to the apex bank, are the outcome of the review of the earlier guidelines issued, based on the recommendations of various stakeholders. The capital base required by CBN for National Islamic Banks is N10 billion and N5 billion for regional Islamic Banks. Islam banking cannot charge any fixed return in advance but rather participate in the yield resulting from the use of fund. Unlike a commercial bank which is basically a borrower and lender of fund.

DIFFERENCES BETWEEN ISLAMIC AND CONVENTIONAL BANKS

A. Prohibition of Interest

Islamic banks neither charge nor pay interest on loans. Their lending is principally of the murabaha (cost-plus or mark-up) mode.

B. Emphasis on Islamic Principles of Morality

Islamic banks operate in accordance with the rules of Shariah known as Fiqh al-Muamalat (Islamic rules on transactions).

C. Emphasis on Collateral

One of the main selling points of Islamic banking, at least in theory, is that, unlike conventional banking, it is concerned about the viability of the project and the profitability of the operation but not the size of the collateral.

D. Certainty of Deposits and Returns

For Islamic banks, there tends to be a wider variation of rates of return. Furthermore, while conventional banks guarantee deposits and their rates of return, Islamic banks, working on the principle of profit and loss sharing, cannot guarantee any fixed rate of return on deposits.

E. Liquidity Risk

Due to their specialization in equity and trade financing, Islamic banks tend to have higher levels of liquidity risk than their conventional counterparts.

Benefits

Outlining the benefit of this banking system, People with good projects and ideas but who have no funds to put their ideas into use can strive better in an Islamic economy than conventional setting. This is because Islamic banks undertake direct projects and participate in the management of projects. The poor do not have to get collaterals before they can assess funds from an Islamic bank.

"When people get sick of mortgages and soaring interest rate, the alternative they have is Islamic bank. Since a country cannot do without taking loan. What former President Olusegun Obasanjo and Ngozi Okonjo-Iweala did after paying our debt was to go to Islamic Development Bank (IDB) to get a loan because they have learnt a lesson on the kind of effects interests have on loan taking."

He bemoaned what he called the bastardisation of religion in Nigeria, which he said might affect the proper running of the Islamic bank when it takes off.

On his part, Prof. Adebayo highlighted the main concerns that many Nigerians have concerning Islamic banking, which he said began in Dubai with the establishment of the Dubai Islamic Bank, and later the Islamic International Development Bank. He identified the timing and the multi-religious setting of Nigeria as the main reasons why there is mounting opposition against the banking idea.

Timing

He said: "There are two issues: one is the timing. It is not that Islamic banking has not been there. The issue is that the process of licencing is coming at a time when we are talking about *Boko Haram* and other crisis in the country. And people feel that it is an addendum. Every free society is run on basic laws and principles. When you break those laws and principle, trust is affected. And when you break trust and the law of love, crisis results. So, people feel when the Islamic banking comes into operation fully some people may start burning the conventional banks on the excuse that they charge interest.

"The peculiarity of the nation is another issue fuelling the controversies on Islamic banking. We are people with diverse ethno-religious set up. We are peculiarly packaged. We have a huge population and in such situation people react differently to issue such as Islamic banking. That is why when you want to introduce that kind of banking in a complex nation like ours, it is good to discuss it well and have a clear picture of what it is supposed to be. We copy many things from outside, but when it gets here we operate another version".

He expressed optimism that the idea would work if the right attitude and steps are taken.

Providing what can be described as the legal viewpoint to the discussion, I would say that the non-interest banking is constitutionally recognised. However, the problem is the term "Islamic banking", which he said is not written in the banking Act.

Let me say that constitutionally speaking, Islamic banking is allowed. That finds favour in the provision of the constitution as well as in the provisions of Banks and Other Financial Institution Act BOFIA of 1991, particularly sections 9, 23 and 53 of the BOFIA. But there is nowhere in the BOFIA Act of 1991 where mention is made of the word "Islamic banking". What rather we have there is "non-interest banking". I want to believe that we are all here because of the word "Islamic banking". If that is not there, probably there won't be all this noise. The noise is motivated by the fact that Nigeria is a multi-religious country. There are those who are already asking for the Christian version of it, or even traditional banking.

"Again, there is another issue. For example, the constitution talks about secularity, which simply means religious neutrality. If we go to Section 10 of the constitution, there is recognition of the neutrality of religion. In other words, no government or its agencies should promote any religion. But again, that is not correct. We have the government sponsoring pilgrims to their various holy lands".

If any other group apart from Muslims go ahead and establish non-interest banking. Then those in authority should ensure that the position of the constitution on the name is strictly adhered to.

Profit Sharing

"The Islamic banking has its origin in the Islamic realm. This type of banking discourages charging of interest on loans but encourages sharing of profits and losses. The basic difference between the Islamic and the traditional banking is that the former emphasises trust and financial partnership. The essence of trust there is the person who gets the loan comes at the end of the day to declare the true amount of profit made, not over emphasising or over blowing the cost. And in terms of financial partnering, what is done is that at the end of the day we come together to share the profits and losses, the framework of which must have been agreed on. But traditional banking does not care whether the business for which you have got loans for succeeds or fails. What matters to the bank is getting the money, both the principal and the interest, back. The Islamic banking is not as harsh as that. There is that principle of equity in it," he said.

He, however, expressed fear about the practicability and sustainability of Islamic banking in Nigeria where default and distress in the banking system are extant, adding that issues such as capital flow and monetary policy would need to be seriously addressed.

Problems

Islamaphobia (hatred for Islam).

Some people hate to hear anything about Islam. Whenever any issue is raised about Islam, they oppose it without bothering to know what it entails.

Ignorance

some people have no knowledge of what the Islamic banking is all about ,all they know is that the Islamic banking has to do with sharia law and sharia law has to do with cutting of hands.

Religion

Some people also think it will affect the religion of Nigeria, thereby turning it into an Islamic country, thereby leading to financing of religious fanaticism and terrorism

Employment

Some people also feel that only the muslims would get to enjoy the benefit of employment leaving Christians losing out of the benefits of the new banking model under the specialised banking department so they feel Islamic banking should not be introduced in Nigeria.

Islamic Banking

Yes, Islamic Banking itself is a problem because of its name but we should note that, there is no where in Bofia that we have such name Islamic banking, what we have there is non-interest banking.

Timing

Now in Nigeria we hear about the crisis going on e.g. Boko-Haram. Now wouldn't be a good time to implement such system because if it is being implemented the people responsible for the crisis happening today would still go around burning other conventional banks claiming that they charge interest on loan unlike the non-interest banking system.

Implication for statutory Auditor

- If the auditor is not equipped with the necessary skills and knowledge in the area of Islamic banking (non-interest banking), the output of the assignment might not be as good as may be expected from an experience auditor.
- If the auditor is not vast in the Shariah rules and principle, there is no way the auditor can express an opinion as to whether the financial statements are prepared, in accordance with Shari'a Rules and Principles and the accounting standards of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) was created in 1990. One of the main goals of this organization is to design and disseminate accounting and auditing standards that can be applied internationally by all Islamic institutions

Role of Auditor

Islamic Banking Institutions (Islamic Banking Institution (IBI) means Islamic commercial bank, Islamic banking subsidiary or an Islamic banking) should introduce a system of internal Shariah audit, so as to ensure that the goals and objectives of Shariah compliance are achieved, having regard to the following guidelines:

1. Internal Shariah Audit of IBI may form part of the regular internal audit or as a separate unit depending upon size of operations of the IBI. The primary objective of the Internal Shariah Audit is to ensure that the management of the IBI is discharging its responsibilities in compliance with Shariah rules and principles.
2. The internal Shariah auditors shall have direct and regular communications with all levels of management and Shariah Advisor. No scope limitation and restriction of access to information, documents, reports etc. shall be placed on Internal Shariah auditors.
3. . The Internal Shariah Audit report shall also include recommendations for potential improvements and corrective actions to be taken. Any disputes/difference of opinion between management and Internal Shariah auditors on matters relating to Shariah interpretation shall be referred to the Shariah Advisor of the IBI for decision.
4. The report of the Internal Shariah Audit shall be placed before the SA for advising the appropriate corrective action and then before the Audit Committee of the IBI for consideration and appropriate remedial action as advised by the SA.

CONCLUSION

I feel we Nigerians should give Islamic Banking Trial in our beautiful country so we can as well enjoy other benefits being enjoyed by other countries practicing non-interest banking System otherwise called Islamic Banking System. It is a tool for economic growth, economic development and upliftment in our society and economy today. Even the leaders up in the hierarchy see and know this but because of their selfish interest they wouldn't like to see this new system implemented because those who should be more informed about the issue are the ones fuelling the controversies associated with the proposed idea. Nigerians have no cause to worry because there are two models: one based on Islamic system and the other on non-Islamic system. Any other system that thinks it is interested,

using the same principle, is free to participate. Nigerians should not see the bank as a ploy to impose Islam on everybody, saying that, contrary to the subsisting information in some quarters, neither Chukwuma Soludo nor Sanusi Lamido initiated the idea. We shouldn't put any religious sentiment because both Christian and muslims serve the same God, so we should worry about the benefits and contribution this new system would add to the economy. Nigerians should allow the sleeping dog to lie, by implementing this system, as Islamic banking system otherwise called non-interest banking system is not meant for certain people but for everybody to enjoy from the benefits as discussed above.

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