



Islamic Banking in Nigeria: Prospects and challenges

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The Context: Nigeria

- Nigeria is located in West Africa
- It has an estimated population of 140 million people
- It is estimated that half of the population consider themselves Muslims
- About 48.5% of the population consider themselves Christians
- About 1.4% follows other religions
- Muslims are predominant in the North and Christians are predominant in the South

Conventional Banking in Nigeria

- Colonial Origin:
 - 1894: Establishment of Bank of British West Africa (later renamed Standard Bank and now First Bank of Nigeria Plc)
 - 1899: Anglo-African Bank (later renamed Bank of Nigeria)
 - 1917: Colonial Bank (became Barclays Bank in 1925 and later Union Bank of Nigeria)
 - 1948: British and French Bank (now United Bank for Africa)
- 1914: Locally owned banks started operating

Background to Islamic Banking in Nigeria

- The Banking Act of 1969
 - Allowed for the establishment of “conventional banks”
- Repealed by Banks and other Financial institutions Act 1991 (as amended)
 - S61: Allow for establishment of profit and loss sharing (PLS) banking
 - Bank which transacts investment or commercial banking business and maintains a profit and loss sharing accounts
 - This seemingly accommodate ‘Islamic banking’
 - S21(1) exempts PLS from providing information relating to lending and deposit interest rates

Tentative Steps to Islamic Banking

- Two licences granted in 1992
- Habib Bank (later named Bank PHB) offered a 'non-interest banking window' in 1999
- 2003: Jaiz Bank Plc

CBN 2010: Guidelines on Shariah Governance for Non-Interest Financial Institutions (NIFIs) in Nigeria

- A flawed approach
 - Defined NIFI as ‘Islamic/Shariah’ banking leading to confusion
 - State that all non-interest banking product must be Shariah compliant
 - Insists that all NIFIs must establish a “Shariah Advisory Committee”
 - The question of exclusion/discrimination

CBN 2011: Guidelines for the Regulation and Supervision of Institutions offering Non-Interest Financial Services in Nigeria

- **A better approach**
- **Recognises the plurality of NIFIs**
 - **NIFIs include but not limited to Islamic banking**
- **Expressly prohibits “discrimination on grounds of faith or ethnicity or any other grounds” (16.2)**
- **Allows conventional banks to operate Islamic banking window and/or subsidiary**

Non-permissible Transactions

- Charging of interest
- Transactions involving uncertainty or ambiguity relating to the subject matter, terms and conditions
- Gambling
- Speculation
- Unjust enrichment
- Exploitation/unfair trade practices
- Dealings in pork, alcohol, arms and ammunition, pornography
- Other incompatible transactions

Relevance

- Large presence of Muslims in the country
- Social responsibility
 - Large number of poor people
- Compliment conventional banking operations
- Potential to provide an alternative to conventional banking
- Open up the possibility of exploring other models of banking

Key Challenges

- Perception of non-Muslims
- Constitutional matters?
- The role of the CBN
 - Grappling with limited success to supervise conventional banks
- Enabling legal framework
- Availability of adequate Shariah governance institutions: Supervision
- Availability of capital
- Profitability