

**THE ROLE OF ISLAMIC BANKING AND CHALLENGES IN
GLOBAL FINANCIAL CRISIS: IN NIGERIA**

BY

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APPROVAL PAGE

I hereby certify that this project (research project) is the original product of my research findings. This project has been carefully supervised, read and approved having satisfied the necessary conditions for the award of Masters Degree in the Faculty of Management Sciences, Department of Business Administration, Usmanu Danfodiyo University Sokoto and is approved for its contribution to knowledge.

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DEDICATION

I dedicate this project to my beloved parents for bringing me up, my family for the support and assistance they gave me, and my supervisor for the assistance, guidance and understanding given to me in the course of my research work.

Above all, glory and thanks to Almighty Allah and his noble Messenger for making me what I am today.

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CHAPTER ONE: INTRODUCTION

1.1 Introduction

Islamic banking or interest free banking as it is alternatively called is a banking system based on the principles of profit and loss sharing by all the stake holders. Islamic banking concept owes its origin to the Islamic concept of money. In Islam money does not in itself produce interest or profit, and is viewed as a medium of exchange and not as a commodity. Already Ribah (interest) is prohibited in Islam. The status of Islamic bank in relations to its clients is that of partner – investor and trader. Whereas, in conventional banks of the West the relationship is that of creditor or debtor.

Islamic banking will be based on the universally recognized principles of *Shirakah* (partnership). That is, the whole system of banking in which the holders, the depositors, the investors and the borrowers will participate on a partnership basis i.e through the application of the external principle of *Mudarabah* – labour and capital combine as partner for work.

In their actual operation, Islamic banks use various techniques and method of investment such as *Mudarabah* contracts, under which a financier provides capital and the *Mudarib* (labour partner) provides

his technical know – how and skill, and the profit is shared between the partners according to an agreed percentage. Islamic banks are also involved in *Mudarabah* (cost plus) contracts, under which banks purchase a certain commodity according to its client's specifications and give delivery on the basis of sharing on an agreed ratio profit.

Islamic banks are also involved in dealing with foreign exchange markets and other banking services operations, such as letters of credit and letters of guarantee. Islamic banks may also provide various non – banking services such as, trust business, real estate and consultancy services. The concept of Islamic banks and their operational techniques will be discussed in detail in the preceding chapters. The first reason why we need Islamic banking is because; Allah has prohibited any form of interest on loans and allowed lawful trade and profit from the business. In the other hand the conventional banks which was introduced to us by Europeans, their mode of operations is principally dependent on interest. They advance loan in which the recipient must refund with an increment. But Allah has prohibited such types of loan. He created us and brought us into this world while we were unconscious of anything. He provides to us the air we breathe, the water we drink, the food we eat and the clothes we clad our nudity. Whenever we are in hardship or fall sick or are

experiencing a disaster we turn unto him, we seek refuge from Him. At the end we will surely return unto Him. Did He then create us to turn deaf ears to what He has forbidden us? Allah has prohibited such transaction in one of the places where he says:

“O ye who believe fear Allah and give up what remains of your demand for Usury if ye are indeed believers, if ye do it not, take notice of a war from Allah and his messenger” Qur’an chapter 2:278-279.

Certainly, we are in problem if we are to continue transacting with interest without replacing it with Islamic banking. That is an act of disobedience to Allah. The prohibition is not only to those that advance loans with interests, but including those that borrow and refund with interests and all those that assist them. “The curse of Allah is upon who collects interest (Ribah), the person given it, and who write it and witness it. He says those are all the same” 850 (Bulugul – Maran).

Non – interest banking was introduced in the Nigerian financial sector by ex Habib Nigeria bank plc, now known as Keystone bank ltd. The system is alternatively called interest free banking or “Islamic banking” is the wider context comprising of the people of the book who belief in the followings:

I. Oneness of God

II. The Holy book revealed to mankind and

III. All the prophets (peace be upon them) sent by Allah (SWT).

But if the term Islamic is confined to the religion of the followers of prophet Muhammad (peace be upon him) only, then this name does not appear to be proper as it is not only the holy book of Qur'an which prohibits, but also the Christian holy books have also advised followers to shun away from interest.

1.2 Stating the Intention of the Research

The issue of establishing Islamic banking (bank based on Islamic law (*Shari'ah*)) in Nigeria is not a new issue in the Nigerian financial system. Various efforts have been made to see it come through by some concerned Nigerian Muslims and non - Muslims but faced all sorts of challenges and oppositions due to differences in culture and religion, and as a result of lack of awareness of the system. With all these challenges and oppositions, a careful consideration of the Nigeria banking law led to the promulgation of Decree No. 46 of 1992 which provides avenue for each community to establish community banking which can operate based on its own customs and tradition. This prompted the establishment of Haraka Islamic Community Bank (H. I. C. B) in Sokoto (Malami, 2009). This bank operated strictly on the basis of Islam but did not record any

successful achievements due to lack of adequate personnel, low capital base, nonchalant attitude of staff and inadequate awareness of the system e. t. c.

However, modern Islamic banking in Nigeria evolved as far back as 1991 with the enactment of the Banks and Other Financial Institution Decrees. Section 23 and 61 of this Decree recognize profit and loss sharing banks. However, there were no significant achievements due to lack of compliance with Central Bank of Nigeria requirements by potential investors. In 1996, Central Bank of Nigeria approved the defunct Habib Bank Plc to open an Islamic banking window which was not successful due to lack of full - fledged Islamic banking in the country. Furthermore, in 2004 Ja'iz International demanded approval for the establishment of full - fledged Islamic bank which was given Approval – in – Principle (AIP) upon meeting the mandatory capital requirement. In line with the struggle to have Islamic banking, in 2005 Financial System Strategy launched a blue print to engineer Nigeria's transformation into the 20 largest economies in the world by the year 2020. Among its initiatives regarding Money Market is to create Islamic banking in Nigeria. More so, in 2008 the Islamic Finance Working Group was founded and was highly supported by Enhancing Financial Innovation and Access (EFInA), NDIC,

NAICOM, PENCOM, DMO, CBN observer e. t. c. In addition, the CBN joined the Islamic Financial Service Board (IFSB) as a full – council member in 2009, and issue the draft framework for the regulation and supervision of Islamic banking in Nigeria for stakeholders’ comments and suggestions in that same year. In line with the opinions of the stakeholders, the Central Bank of Nigeria released the new banking model which designated Islamic banks among the specialized banks in 2010. The NDIC also released a draft framework for Islamic Deposit Insurance Scheme for comments and suggestion from stakeholders. Despite all the hurdles of establishing Islamic banking in Nigeria, the CBN joined 11 other Central Banks and 2 multilateral organizations to form the International Islamic Liquidity Management Corporation (IILM) to be based in Malaysia. And finally, in 2011 the Central Bank of Nigeria released the framework for the regulation and supervision of Islamic banking in Nigeria and gave Approval – in – Principle (AIP) to some potential investors upon meeting the mandatory requirement of the CBN (Sanusi, 2011).

It has however been discovered from various studies (see for instance Iqbal et al, 1998; Iqbal, 2001, Dusuki and Aboizaid, 2007; Ariss and Sarriddine, 2007; Njamike, 2010; Malik et al, 2011; Sanusi, 2011;

Abduh And Omar 2012; Farahani and Dastan 2013; Hassanudin et al 2013) that the establishment of Islamic banking in any country be it Muslim or Non – Muslim countries faces a number of challenges which Nigeria is not an exception. These challenges could be institutional or operational, but there are not without remedies. It is also accepted that a lot of studies have been conducted in this area of finance in most Muslim and few Non – Muslim countries. This became more pronounce after the recent Global Financial Crisis in which most Islamic banks were not affected (Nijzink, 2009). But to my greatest surprise there are still few studies in the case of Nigeria. Even where they are, they failed to carry every Nigerian along irrespective of religious differences which prompted this study. Since Nigeria is on the line of establishing Islamic banking due to the benefits accruing to it which cut across all aspects of human undertakings, she should bear it in mind that these benefits are not without hurdles. In line with these, this study seeks to achieve the objective of assessing the challenges that the introduction of Islamic banking in Nigeria may face. To do this, this study will give a thoroughly explanation of Islamic banking and its modes of operation, and finally, it will provide solutions to possible challenges of Islamic banking in Nigeria. This study will be an eye opener to the central government of Nigeria, Central Bank of Nigeria, the judiciary,

existing financial institutions, and Nigerians irrespective of religious differences.

1.3 Statement of the Problem

The failure to provide a stable, monetary and banking framework has been one of the major factors that bring about economic ills all over the world. This led to the poverty of large proportion, economic and social injustices, as well gross income inequalities, instability in inflation rate, and erosion of the real value of monetary assets and other abnormalities.

Though the entry of Islamic banking into the field of local and international financial markets has been well recognized, it has yet to cross many hurdles before it can claim to be an institution capable of handling the needs of the world financial markets. Its initial success may be partly due to the fact that there is a niche market for Islamic funds, and partly to its ethical and intrinsic values. To sustain and develop the system, Islamic banks have to strive to solve all problems, which stand in the way of their growth and survival. Based on the above assertion, this study tends to assess the challenges that Islamic banking in Nigeria may face and provide solutions.

1.4 Research Questions

Research question are the question that are raised in order to find answers or solve the problem(s) under study for the purpose of this project. The following are the questions that need to be answered:

- i. What are the potentials of Islamic banking system?
- ii. How do Islamic banks operate?
- iii. What are the positions of Islam on interests/Usury?
- iv. What are the difference in products and services of the banks?

1.5 Objective of the Study

The main objective of this research is to determine the way Islamic banks operate and identify the problems facing their survival. Other objective includes:

- To identify the potentials of Islamic banking system.
- To examine the position of Islam on interest/*Usury/Riba*.
- To differentiate between Islamic banking system and the conventional banking system.
- To discuss some of the products/facilities provided by the banks.

1.6 Significant of the Study

So many writers have wrote about Islamic banking system and also have contributed immensely to the field of Islamic banking system, but not withstanding my own research work will try to build on that and provide solutions to the problems facing Islamic banking in a systematical way.

The significance of this study may be that, the findings will help in the following ways:

1. The study will provide an extensive explanation of Islamic bank which serve as an alternative to the widely practiced conventional banking system, which is usurious in nature and hamper human income growth in an exploitative nature to Nigerians.
2. This study will bring Muslims closer to what is seen as divine banking which is free of interest; clearing their doubt and exposing them to the practice that is accepted by their religion.
3. The study is particularly important to students of banking and finance, and anybody who reads through it as it adds more to the existing knowledge in the field of Islamic economics, Islamic banking and finance and Islamic business transaction.

4. The non-Muslim who may spare their time to go through this study would understand and gain knowledge on how these banks operate and know that, the bank are not specifically meant for Muslims alone but all benefit from the research work, because they will be exposed to the origin, evolution, survival as well as the problem faced, prospects anticipated and recommended solutions which will clear doubt on the successful operation and existence of the banks.
5. The existing Islamic banks would also benefit from this work because they would see how other Islamic banks at different countries operate and the problems facing them, how they became immune to the current global financial crisis which they can use as proactive means of handling these problems.

1.7 Scope and Limitation of the Study

However, in spite of the fact that there are different opinions regarding interest in banks, this work covers the opinion of most scholars that view banks interest as *Riba (Usury)*. It also covers the practice of Non-interest banking or profit and loss sharing banking (PLS) as it is sometimes called in Muslims dominated countries such as Iran, Sudan, Pakistan etc, as well as the practice and operations in countries that are mixed where Muslims and Non-Muslims are fifty-

fifty or even those countries where Muslims are the minorities. These categories include; Germany, the United State, United Kingdom and even Nigeria.

The area of Islamic banking system is very wide. But, this research work is only restricted to issues like Riba, Mudarabah, Ijarah, etc, that forms the basic fundamental services and facilities provided by the Islamic banking system that is not applicable to the conventional banking system, and also emphasizes on the edge it has over the conventional banking system that gives rise to the present world economic crisis.

CHAPTER TWO: LITERATURE REVIEW AND THEORITICAL FRAMEWORK

2.1 Introduction

Conducting research work of this kind, a review of related literature is necessary. This is in support of the fact that there must have been other certain works done in the area under study which will serve as valuable braces of information to put the present work on course, and to serve as arch light in further investigation. Concept of Islamic banking would be better understood if literature on the evolution, rational behind its existence, scholastic and Islamic view of the institution. The chapter discusses the conceptual framework of Islamic banking which covers definition of Islamic banking, the concept of Riba, Basic principles of Islamic banking, modes of operation in Islamic banking, justification of Islamic banking system in Nigeria, and Literature Review.

2.2 The Concept of *Riba* (interest)

Riba which is the same thing as interest or usury has been defined differently by different scholars. Some of these scholars see it to mean the same thing, while some try to differentiate it from interest charged in the conventional banking system without winning the

debate. Then what is *Riba*? *Riba* literally means the ‘increase’ or ‘excess’ above the principle on a loan (Abraham, 2008). He goes on to say that *riba* means usury since it is an inherently illegitimate practice which has been condemned in the Qur’an. More so, Seed (1996) in Lawal (2010) defines *riba* as an amount over the principal of a loan paid to the capital owner because of his extension of maturity for his debtor, and deferment of repayment of debt. Furthermore, *riba* literally means excess or increase, and technically as an increase over principal in a loan transaction or in exchange for a commodity accrued to the owner (lender) without giving an equivalent recompense in return to the other party; even increase which is without an equal counter – value. *Riba* is however divided into two: *Riba Al – Fadl* and *Riba Al –Nasiah*. *Riba Al – Fadl* is the type of *riba* that is associated with quality in direct exchange of commodities. It means the quality premium in exchange of low quality with better quality commodities. The concept of *Riba Al – Fadl* refers to sale transactions. While *Riba Al - Nasiah* means an increment on principal of a loan or debt payable. It also refers to the practice of lending money for any length of time on the understanding that the borrower would return to the lender at the end of the period the amount originally lent together with an increase on it, in consideration of the lender having granted him time to pay

irrespective of loss or profit. Interest, in all modern banking transactions, falls under *Riba Al – Nasiah*. In the current banking system, as money is exchange for money with excess and delay, it falls under the definition of *Riba* which has been prohibited in Islam no matter the name you call it. More precisely, *riba* means any positive, fixed, predetermined rate tied to the maturity and the amount of the principal - that is, guaranteed regardless of the performance of the investment (Greuning and Iqbal, 2008). Conclusively, *riba* means an increase or excess of the principle of a loan.

However, Islam prohibits Muslims from taking or giving interest (*riba*) regardless of the purpose for which such loans are given as well as its rate. The prohibition of interest (*riba*) is mentioned in four different revelations in the holy Qur'an. The first revelation emphasizes that interest (*riba*) deprives wealth of God's blessings. The second revelation condemns interest (*riba*), placing interest (*riba*) in juxtaposition with wrongful appropriation of property belonging to others. The third revelation enjoins Muslims to stay clear of interest (*riba*) for the sake of their own welfare. And finally, the fourth revelation establishes a clear distinction between interest and trade, urging Muslims to take only the principal sum and to forgo even this sum if the borrower is unable to repay. It is further declared in the

Qur'an that those who disregard the prohibition of interest (*riba*) are at war with God and His Prophet. More so, the Prophet also condemned not only those who take interest (*riba*) but also those who give interest and those who record or witness the transaction, saying that they are all alike in guilt. Thus, by Islamic bank operating on free interest (*riba*) basis, it satisfies the interest (*riba*) – prohibition rule of Islam which cannot be achieved in the conventional banking system (Ariff, 1988)

2.3 Basic Principles of Islamic Banking

Islamic banking is a unique type of banking system that devoid all forms of transactions that are prohibited in Islam. So for any bank to be classified as Islamic bank, the following basic principles must be adopted for its operations (Greuning and Iqbal, 2008; Abraham, 2008; Islamic Financial Stability Forum, 2010; and Sanusi, 2011):

1. **Prohibition of *Riba* (interest).** Interest which means a fixed predetermined amount in addition to the principal is prohibited in Islam. So for any bank to be called Islamic bank, it must not engage in any interest related transactions, rather, profit and loss sharing transactions.
2. **Prohibition of Speculation (*Gharar*).** The term *gharar* literally means hazard. More so, it means transactions that have

too much risk and are therefore linked to gambling. Since Islam prohibits speculation, a potential Islamic bank will avoid all transactions with excessive risk.

3. **Profit, Loss, and Risk Sharing.** Since interest is prohibited in Islam, the providers of funds and the entrepreneur in an Islamic banking settings share the business risk and profits based on mutual agreement. This act will equitably distribute income, enhance social justice, and alleviate poverty, e. t. c.
4. ***Shari'ah* Approved Activities.** Islamic banking is a banking system that is based on *Shari'ah*. So any transactions that are prohibited by *Shari'ah* in the likes of alcohol, gambling, e. t. c. are avoided in Islamic banking. Islamic banks can only involve in any transactions or activities that are approved by the *Shari'ah* advisors.
5. **Social Justice.** Islam prohibits Muslims from any transactions leading to injustice and exploitation of any kind. So Islamic banks will not engage in any transactions that will lead to exploitation of any party to such transactions.
6. **Compulsory Payment of *Zakat*.** A potential Islamic bank is mandated for the payment of *zakat*. *Zakat* is alms of one – fourth of the total earnings annually for the relief of poverty. This is considered as one of the pillars of Islam. In conclusion,

Islamic banks must contribute to the relief of poverty in the economy.

7. **Overseen by *Shari'ah* (Islamic Law) advisors.** Every Islamic bank will be regulated by experts in Islamic law who will have to audit the operations of Islamic banks and its products to make sure that they comply with *Shari'ah* guidelines.

2.3.1 Conceptual Framework

The conceptual framework section gives a detail explanation of Islamic banking by differentiating it from Islamic banking window; explain the concept of *Riba* (interest), basic principles of Islamic banking, modes of operation, and justifies the establishment of Islamic banking system in Nigeria.

2.3.2 Definition of Islamic Banking

The definitions of Islamic banking revolved around one thing - Islamic law (*Shari'ah*). This can be understood in the following definitions from different scholars in Islamic finance. For instance, Sanusi (2011) views Islamic banking as an alternative form of financial intermediation that is based on the profit motive. That is, Islamic banking is market driven but with a moral dimension based on the Islamic value system. More so, Akram et al (2011) see Islamic

banking as that banking system which is run in accordance with the Islamic laws and the *Shari'ah* board; that guides the institutions. Furthermore, Lawal (2010) defines Islamic banking as a system of banking that is consistent with the principles of Islamic law (*Shari'ah*) and its application through the development of Islamic economies. In addition, Marimuthu et al (2010) define it as the conduct of banking based on *Shari'ah* principles. In the same line, Ghayad (2008) sees Islamic banking as a banking system that operates in accordance with the rules of *Shari'ah: Figh al – Muamalat* (Islamic rules on transactions). In conclusion, Islamic banking is a kind of banking system that operates strictly on the basis of *Shari'ah* (Islamic law).

However, Sanusi (2011) defines Islamic banking window as a business model in which conventional banks offer Islamic banking products and services from their existing network. In short, Islamic banking window refers to a situation whereby a conventional banking system provides some of the Islamic banking products or services. In other words, it can be seen as a banking system that meets up only the profit, loss, and risk sharing principle of Islamic banking for some of its products. A typical example in the Nigeria context was the case of

the defunct Habib Bank Plc which was permitted to provide some Islamic banking products by the Central Bank of Nigeria.

2.3.3 Empirical Review on Islamic Banking

Studies on challenges of Islamic banking have been conducted all over the world in order to enhance the establishment of Islamic banking as well as its operation. However, some of these studies are based on a single country (Jabr, 2003; Saleh et al, 2007; Amin, 2008; Sanusi, 2011; Akram et al, 2011; and Njanike, 2010) while others are based on the general system (Iqbal et al, 1998; Ariss et al, 2007; Shaukat et al, 2011; Iqbal, 2001; Dusuki and Aboizaid, 2007; and Ahmad et al, 2011). Single country studies are studies based on a particular country experience, while general system studies are studies based on the general system of Islamic finance.

Ahmad et al. (2010) analyze the working of *Takaful* in the world and its popularity in the insurance sector in the world. They are of the view that inadequate qualified staff in both conventional insurance and *Shari'ah* finance, lack of awareness, application of International Financial Reporting Standard (IFRS) instead of AAOIFI standard in countries where *Takaful* is new, inadequate short – term financial instruments, lack of financial innovations, inadequate interpretation of what constitute *Takaful*, lack of organization to regulate *Takaful*,

inadequate human resources with the require knowledge, and the disparity in the approach of accounting practices and *Shari'ah* law are the challenges of *Takaful*.

Akram et al. (2011) employed descriptive analysis to examine the growth and development as well as prospects of Pakistani Islamic banking system. The study finds that there is tremendous increase in the sources and uses of Islamic banking funds, indicating growth and development of Islamic banking in Pakistan. In addition, they state that the prospects of Islamic banking in Pakistan depends on the fact that it is a Muslim country, Islamic banking branch network will improve in the future, the increasing interest of conventional banks in Islamic banking activities and functions in Pakistan, and the improvement in Islamic banking performance. However, Akram et al argue that the major challenges of Islamic banking in Pakistan are competition and cultural differences.

Amin (2008), studies e – business from Islamic perspective as well as its prospects and challenges in Malaysian finance. Based on these results, Amin argues that the prospects of e – business of Malaysia depend on government support, Islamic financial system liberalization, economies of scale, the improvement in manpower, and growing users of internet facilities. However, Islamic e – business

challenges are lack of consumer acceptance, pricing in Islamic e – business, the need for complex infrastructure, legal risks issues, and will “chicks” dominate “bricks”.

Ariss et al. (2007) investigate the recent guidelines for risk management and capital adequacy in Islamic banking. The study concludes that the proposed guidelines of Pillar 1 of the Basel II Accord disregard the sources of funds of a conventional bank and assess only the risk of its activities arising from the uses of such funds. This means that the proposed guidelines are bias to Islamic banking system. The study further states that the other challenges of Islamic banking are liquidity risk, lack of wide range of derivative instruments, and complications in measuring *Shari’ah* compliant risk.

Dusuki and Aboizaid (2007) assess the challenges in realizing the *maqaeid al – Shari’ah* in contemporary economics transactions. They conclude that the major challenges are inadequate understanding of *maqaeid al – Shari’ah* and various tools in Islamic law, inability to understand the very aims of *Shari’ah* and its application to modern transactions, and finally circumventing the prohibition of *riba*.

Iqbal (2001) opines that the challenges facing Islamic financial industry are limited set of short terms financial instrument and inadequate medium – to long – term financial instruments, limited coverage of Islamic finance, concentration of Islamic banking, poor risk management and governance framework, and difference between Islamic finance in theory and in practice. The author recommends adequate risk management and diversification of the institution, provision of non – banking financial services, and development of capital markets that are Islamically inclined to improve its activities and functions, and be able to compete favourably.

Iqbal et al. (1998) opine that the challenges hindering Islamic banking are institutional as well as operational challenges. The institutional challenges are poor institutional framework, inadequate legal framework and supervisory policies, poor supervisory framework, disparity in accounting standard, lack of equity institutions, absent of organized secondary financial market, and lack of short term market placement of funds. While the operational challenges are improper financial engineering, lack of teaching, training, research and development in this institution, lack of profit sharing finance, inability to adequately mobilize deposits, competition, and finally globalization.

Jabr (2003), concludes that the challenges and prospects of Islamic banks operating in the Palestinian territories are as follows: Lack of adequate banking law for Islamic banking; Islamic banking marketing mix efforts must be approved by Islamic *Shari'ah*; existence of unproductive money; lack of awareness; lack of operational difference between Islamic and conventional banks; Islamic banking lacks the ability to channel deposits into long - term investment; lack of experience in Islamic *Shari'ah*; excessive short - term financial instrument; unable to make use of *Mudaraba* and *Musharaka* financial institutions; inferior technical resources and technology; Islamic banks are compel to recruit staff trained in traditional banking; inability to differentiate ownership from management; and lack of financial innovations.

Njanike (2010) adopts descriptive analysis to explore the problems and challenges that the introduction of Islamic banking in Zimbabwe may likely face. The study finds that the major problems and challenges in introducing Islamic banking in Zimbabwe are political intervention in the selection of borrowers, financial instability, inability of the government to restore law and order in the country, resistance from the banking community, inadequate infrastructure for information dissemination, inconsistency in policy making and

implementation of the fiscal and monetary authorities, Central bank control and supervision of Islamic banking with unqualified persons in Islamic finance, absence of Islamic interbank, misperception, current political and economic situation, and default culture.

Saleh et al. (2005) adopted ratio analysis to examine the Lebanese experience with Islamic banking since the foundation of the first Islamic bank. They find that lack of public awareness and acceptance, lack of research and development institutions, inadequate manpower, and high competition from conventional banks offering Islamic windows are the major challenges of Islamic banking in Lebanon. While Islamic banking in Lebanon will prosper because of its ability to attract more investment and capital into the country, the vital role it plays in financing and developing telecommunications, agriculture, industry sectors in the Lebanese economy, its long term strategy to increase its customer base, and its current support from the general public as well as private business.

Sanusi (2011) explores the issues and challenges of Islamic banking in Nigeria. The study finds that the challenges of Islamic banking in Nigeria are inadequate manpower, lack of *Shari'ah* – compliant liquidity management instruments, lack of Islamic insurance (*Takaful*), lack of knowledge of accounting and auditing standard

require by Islamic financial institutions, inadequate legal framework, lack of *Shari'ah* scholars knowledgeable in conventional economics, law, accounting, banking and finance, problem of multiple taxation, lack of tax relief on Islamic banking profits, and misperception of Islamic banking in Nigeria.

Shaukat et al. (2011), state that the lack of ultimate authority that governs Islamic financial industry, inadequate qualified human resource in both conventional banking and Islamic laws, illiquidity of Islamic long - term assets with short - term liabilities, lack of *Shari'ah* auditing standard personnel, and shortage of short - term investment products are the challenges of Islamic banking system. They further state that the other challenges facing Islamic banking system are lack of innovation, lack of adherence to local regulatory reporting and operational requirements, lack of transparency and accountability, operating manually, and lack of high quality services.

In short, from both single country as well as general studies on Islamic finance, one can deduce that the importance of adequate human resources qualified in Islamic and conventional settings, financial innovations, awareness, adequate provision of both short – and long – term financial instruments, proper *Shari'ah* regulating

body, adequate legal framework, proper institutional framework e. t. c cannot be over looked in other to improve this institution.

2.4. PROBLEMS OF NON INTERESTING BANKING

These would be presented in detail in the subsequent sub-heading (i.e. problems and challenges of Islamic banking system).

The following are responses of 5 Islamic Scholars interviewed on the Islamic stand on interest/usury and Islamic banking system generally. All of the 5 Islamic Scholars interviewed presented and commented on some Qur'anic verses and prophetic tradition that prohibit usury/interest on loans or savings deposits.

They based their reason from the Holy Qur'an and the prophetic traditions, which are the two fundamental sources of Islamic law, have strictly forbidden interest for its tyranny. The Holy Qur'an has laid down rather strict injunctions with regards to interest on money. These injunctions are repeated over and over with the same forces and emphasis. Sec. the following Surahs (chapters); Surah al-Rum (chapter 30), verse 39; Surah al-Nisaa (chapter 4), verse 160-162; Surah al-Imran (chapter 3), verse 130; Surah-Baqarah (chapter 2), verse 275-281.

Surah al-Rum (chapter 30), verse 39 state

"They which you give in usury for increase through the property of (others) people will

have no increase with Allah; but that which you give for charity, seeking the countenance of Allah (will increase): it is these who will get a recompense multiplied.

Surah al- Nisaa (chapter 4), verses 160-162 it is stated as follows;

"For the iniquity of the Jews we made unlawful for them certain (foods) good and wholesome which had been lawful for them; and that they hindered many from Allah's way. (160)

"That they took usury, though they were forbidden; and that they devoured 'men's wealth wrongfully; - we have prepared for those among them who reject faith a grievous chastisement". (161)

But those among them who are well-grounded in knowledge, and the Believers, believe in what hath been revealed to thee and what was revealed be/ore thee: and (especially) those who establish regular prayer and pay Zakat and believe in

Allah and in the Last. Day: to them shall we soon give a great Reward". (162)

Moreover, in Surah al-Imran (chapter 3) verse 130, it is categorically stated;

"O ye who believe! Devour not usury, doubled and multiplied; but, fears Allah; that ye may (really) prosper "

However surah al-Baqarah (chapter 2) verses 275-281 gives more detailed expression with full force on the issue of usury, thus;

"Those who devour usury will not stand except as stands one whom the Satan by his touch hath driven to madness. That is because they say: "Trade is like usury", but Allah hath permitted trade and forbidden usury. Those who after receiving admonition from 'their Lord, desist, shall be pardoned

for the past; their case is for Allah (to judge); but those who repeat (the offence) are companions of the Fire', they will abide therein (forever). (275)

"Allah will deprive usury of all blessing, but will give increase for deeds of charity: for He Lovett no! any ungrateful sinner". (276)

"Those who believe and do deeds of righteousness, and establish regular prayers and give Zakat, will have their reward with their Lord: on them shall be no fear, nor shall they grieve". (277)

"O ye who believe! Fear Allah, and give up what remains of your demand for usury, if ye are indeed believers ". (278)

"If ye do it not, lake notices of war from Allah and His messenger: but if ye repent ye¹ shall have your capital sums: deal not unjustly and ye 'shall no! he dealt with unjustly. (279)

The five Islamic scholars interviewed made reference with some or all of the above Qur'anic verses and Hadiths to rule that the present day conventional banking is operating based on RIBA (usury/interest) which have been forbidden and prohibited as indicated above.

And this is the reason of global crisis in the world economy. They are all pleased with the idea of Islamic banking, which they know, are operating on interest free and profit and loss sharing basis. They opined that, despite the fact that, even the Islamic banks are not without some degree of problems but are more divinely inclined, and transact legitimate deals, hence, they are better than the conventional-banks, which based their transaction on interest.

The problems of Islamic banks as identified by those interviewed among the customers and staff of Stanbic IBTC bank, the Islamic scholars and based on the existing literatures include:

The preferred investment patterns of Islamic banks have appeared to be a mix of a loan and investment. It is a mix, which has most of the characteristics of a Riba-based loan and flows of the western capitalist system. The system fails to highlight the features of Islamic investment

"If the debtor is in a difficulty, grant him time till it is easy for him to repay. But if ye remit it by way of charity, that is best for you if ye only knew". (280)

"And fear the Day when ye shall be brought back to Allah. Then shall every soul be paid what it earned, and none shall be dealt with unjustly "(281)

The Scholars also presented the following Hadiths:

- i. From Abdullah Ibn Hamzah: The Prophet, Peace Be Upon him said; *"A dirham (lowest denomination of currency) of riba (usury) which a man receives knowingly is worse than committing adultery thirty-six times".*

Bayhaqi has also reported this Hadith with the addition that;

"Hell befits him whose flesh has been nourished by the unlawful. "

- ii. From Abu Hura rah: The Prophet, Peace Be Upon him, said;

"RIBA (usury) has seventy segments, the ' least serious being equivalent to a man committing adultery with his own mother. "

iii. From Jabir: who reported that the Prophet, Peace Be Upon him

"Cursed /he receiver of RIBA, the payer of RIBA, the one-who records it and the two witnesses to the transaction and said: They are all alike (in guilt)."

2.5 Problems and Challenges of Islamic Banking

The emergence of Islamic banking in the World financial arena has recorded great success. But this is not without some degree of problems. The problems of Islamic banks as identified by those interviewed among the customers and staff of Jaiz bank, the Islamic scholars and based on the existing literatures include;

The preferred investment patterns of Islamic banks have appeared to be mix of a loan and investment. It is a mix, which has most of the characteristics of a riba-based loan and flows of the western capitalist system. The system fails to highlight the features of Islamic investment based on risk-sharing and real investment. It does not the guarantee of the capital or its return.

The depth of issue and its continuity is illustrated by the fact that the organizational charts of the banks, which have been drawn from conventional banks do not pay any attention to portfolio management in terms of volume or allocations, so they can absorb all kinds of productive economic activities. The system succeeded in cleansing

activities of riba but has not gone beyond the reality and impact of the riba-based banking system.

Other problems and challenge of the banking can be identified us:

A. Organization and Management Structure

- i. Conventional-banking, over a period of three hundred years, has taken the present shape. Islamic banking has been developed to work in the environment created by this system. To achieve the objectives of Islamic economics, the Islamic bank needs a distinct organization and management structure to suit their purposes.
- ii. The professionals working in Islamic banking system have to face bigger challenges to cope with the new and growing system, to create new ideas and design Shari'ah compatible new instruments to meet the growing needs of the customers.
- iii. Islamic bankers must have a better understanding of industry, technology and the management of the business venture. They also have to understand the moral and religious implications of their investments with the business ventures.

B. Need for Customers Orientation in Islamic Banking

- i. Most of the investment clients do not have proper understanding of shari'ah specially in respect of Riba, Bai and

Shirkah as well as other modes and mechanisms of Islamic transactions. Many of them lack commitment towards Islamic financial transactions. This is a particular case of Bangladesh and other countries where the system is operating.

- ii. Distributive efficiency of Islamic banking is lost, when an Islamic bank shift operation under conventional banking, framework. Any shift from profit and loss sharing modes leads the system to break the direct relationship between the income of entrepreneur bank and depositor.
- iii. Most of the Islamic banks operate on Bai Murabaha, Bai Mu'ajjai and Bai salam nodes of investment, which substitute the pledge and hypothetical modes of conventional banking.
- iv. Mudarabah and Musharakah are the unique and ideal modes of operation of same banking, which do not correlate with or substitute the conventional modes.

These two are yet to be widely introduced in Islamic banks.

- v. Most of the Islamic banks are working¹ along with the interest based banking system. Therefore, it requires close observation of the Shari'ah performance of the bank by any-independent house of authority.

- vi. Islamic banks came into existence in an environment where laws, institutions training and attitude are set to serve the economy based on the principles of interest.
- vii. It is evident from the research findings that Islamic banking could be the most efficient system if it were allowed to operate as a sole system in an economy.

C. Need for Professional bankers

- i. Islamic banks have a high regard of training for their workers to give a broader outlook about Islamic banking for enhancing attitude, skill and knowledge about the system so that they can better serve the community's needs.
- ii. Most of the banks' professionals have been trained in capitalist economics. They lack the requisite vision and conviction to run Islamic banking. Institutional arrangement for their need-based training is very limited.
- iii. Without the basic knowledge of Shari'ah and adherence of clients to the concepts of Halal and Haram (i.e. permitted and forbidden) Islamic banking is difficult.
- iv. Lack of shari'ah knowledge and also because of the application of limited modes of investment such as Bai Murabaha and Bai

Mu'ajjal, clear distinction could not yet made between Islamic banks and conventional banks.

- v. The banker-customer relationship in conventional banking is mainly based on debtor and creditor while in Islamic banking the relationship is based on partners in business, buyers and sellers of goods etc. This concept has not been properly clarified to the customers.
- vi. Majority of the investment clients are pre-occupied with their own business and are interested only in procuring investment facility for their businesses. It is very difficult instill in them the interest for acquiring the knowledge of working principles of Islamic banks. To succeed in establishing Islamic banking, is very important and essential for the Islamic bankers to face and overcome these challenges.

D. Theoretical Research and Knowledge Sharing

- i. The financial products and services related to conventional banking have largely developed over period of centuries while Islamic banking is lagging behind; though it has immense potentiality to develop to meet the growing needs, Islamic banks should take initiatives for developing new and innovative products and instruments.

- ii. Islamic banks are facing challenges to devise instruments and modes to address various needs related to foreign exchange operation.
- iii. Non availability of financial instruments simultaneously consistent with Islamic principles and acceptable to interest based banks including foreign banks is also one of the problems, of Islamic banking.
- iv. Many Islamic banks also lack the necessary expertise and institutional capacity for research and development (R&D) that is not only necessary for the realization of their MI potential, but also for its very survival in this age of fierce competition in the sophisticated markets and the informed public.
- v. Blending of approach of Islamic scholars and academicians with the practicing bankers. Is a pre-requisite for the progress of Islamic banking system, and this is somehow missing.
- vi. There is and will be tendency in the bankers practicing in Islamic banks to mould or modify the Islamic principles to suit the requirement for transactions at hand. Whereas, the main goal of the Islamic banks is to comply totally with the Islamic principles in all their financial Dealings, they will have to get accustomed with carrying out their jobs remaining within the bounds laid by Islamic Shari'ah.

- vii. Islamic scholars active in research on Islamic banking and finance typically have a normative approach, i.e. they are more concerned with what ought to be. A very few of them are knowledgeable about banking or needs of the customers.
- viii. It is essential to establish a combination of the professional bankers' priorities with those of the Islamic, scholars and thinkers.

E. Regulatory Environment

- i. Most of the Islamic banks around the world are working in such an environment. Where governments lack adherence to shari'ah, and lack determination towards gradual islamization of their respective banking systems, as they have made theft commitment in the international forum of-Islamic countries in 1974.
- ii. The relationship between Islamic banks and monetary authorities is a delicate one. The central banks exercise authority over their respective Islamic banks under laws and regulations engineered to control and supervise traditional banks.
- iii. The operations of Islamic banks do not come fully under the jurisdiction of existing civil laws if there are disputes to be handled, civil courts are not sufficiently acquainted with

rationale of the operations of Islamic banking in most of the countries.

F. Asset Management

- i. Due to lack of knowledge in blending assets in respect of risk and uncertainty, Islamic banks cannot capably handle their financial assets.
- ii. Islamic banks cannot freely choose business according to their needs in most of the cases, their operations are not demand-oriented and do not, set flexibly with the conventional structure of economic settings as well as preferences of customers.
- iii. Clients normally do not withdraw a certain portion of the short-term fund at maturity; these funds are used for medium or long term financing. A pre-condition for this maturity transformation is that the bank be able to obtain liquidity from external purees in case of unexpected withdrawals.
- iv. Islamic banks, without having an interest free Islamic money and capital market, have no adequate instruments to meet this pre-condition for effective maturity transformation.
- v. Adequate financial mechanism still needs to be developed, without which financial intermediation, especially the risk-and maturity transformation, cannot be performed properly.

- vi. Many Islamic banks do not have the diversity of products that are essential to meet the growing needs of their clients.

G. Liquidity Management

- i. Many Islamic banks lack liquidity instruments such as treasury bills and other Marketable securities, which could be utilized either to cover liquidity shortages or to manage excess liquidity. This problem aggravated since Islamic banks work under operational procedures different from those of the conventional banks.
- ii. Participation Term Certificate (PTC) and Mudarabah certificates in Pakistan and Government Investment Certificate (QIC) in Malaysia are being practiced with limited scope to meet the liquidity needs of their respective Islamic banks.

H. Failure to Choose Priority Sector

Islamic banks with the rare exceptions did not pay much attention to the development of banking services in some socially desirable directions. The realm of the management of estates, trusts, orphanages etc have remained outside the area of merest of Islamic banks.

I. Use of Advanced Technology

- i. Technological advancements brought dramatic changes in both back and front offices of banking industry throughout the

world with improved products and services. But Islamic banking community, with very few exceptions, is far behind to compete with its conventional counterparts in this regard.

- ii. Given the potentiality of advanced technology, Islamic banks must have to come to terms with the rapid changes in technology, and redesign the management and vision-making structures and above all introduce modern technology in its operations.

J. Publicity, Propagation and Use of Media

Islamic banks have so far ignored the use of media. Even Muslims in many areas remain in dark about Islamic banking that is being practiced in different parts of the world. Sadly, Islamic banks have failed to use the media effectively to publicize their activities. The authorities, concerned in Islamic banks should address these issues on a priority basis.

2.6 Prospects for Islamic Banks

Without doubt, there are good prospects for Islamic 'banks' to develop themselves in terms of concept and techniques and so on. Among these are the growing Islamic awakening and the Ummah's (Islamic nation) trend to return to the Book of Allah and the Sunnah (Prophetic way of living) of His Prophet. This involves a great

commitment of sound and Shari'ah compatible financial transactions and the channeling of considerable financial resources to Islamic banking. This calls for a technical readiness to absorb these resources and to give the assurance to financiers that their funds would be properly invested within the context of Shari'ah. Similarly, the world is complaining about shortages and bottlenecks in real goods and sources. This is indeed a good opportunity for Islamic banks to make efforts to exploit the resources with which the Almighty has blessed this universe, by effective modes of investment. Among the positive aspects which may develop Islamic financial activities is an increased scrutinisation of investments and their conversion liquidities, besides more locus on the attraction of small savings and giving the opportunity to a major sector of the people to acquire Islamic financial instruments for mistake of investment, thus implying an increased availability of savings geared wards investment.

Moreover, tremendous developments in communications, technological inventions and the trend towards a linearization of banking transaction is a good opportunity for Islamic banks to exploit in bringing their customers closer and attracting more customers. This can be achieved by providing distinguished modern services that go beyond the kind of services they presently provide.

In Nigeria, the prospects cannot be under estimated, even though; at present Jaiz Bank and Stanbic bank are the only two existing Islamic Bank. But when Habib Nigeria Bank Limited was operating its Non Interest Banking window, the patronage was fantastic but there are issues around the structure Also when Jaiz International bank Plc a proposed profit sharing bank, issued its Initial Public Offer (IPO) to the tune of 2.5 billion ordinary share of M each at 141 per share in November-December, 2003; the offer was oversubscribed. This indicated peoples' interest on Islamic banking. It was the#25 billion re-capitalization requirements by the Central Bank of Nigeria for all commercial banks operating in Nigeria that put a halt to the successful take off of the bank, but with these present financial meltdown effort is being put in place for the bank to commence its business operations very soon, it is perhaps a known fact that, there are thousands of Muslims, and even the non-Muslims alike who are only transacting with conventional banks in the absence of any alternative or substitute on ground. This is because of their exploitative nature and their incompatibility with the religious injunctions (both Islam and Christianity). Should there be any, they will obviously go 'back to it. So this is a-good opportunity for Islamic banks to step in and prevail, and the rich Nigerian men as well as governments (Federal, Stales or a group of local governments can

come together and make it real (people like Dangotes, Dantatas, Folawiyos and the like can do it.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter deals with the methods of data collection, the population of the study, sampling sample technique and size, method of data collection and method of data analysis, as well as difficulties encountered during the course of data collection.

3.2 Population of the Study and Sample Size

Research population is the aggregate of element from which a sample is selected. The population of this consists of staff of Jaiz Bank Sokoto that directly work under Islamic Banking and the customers of the bank. A sample of 7 staff of the bank who were with the department of Non-interest banking of Islamic Banking of IBTC Bank Plc Sokoto, and 8 customers that enjoyed their services were selected.

Also to form part of this research populations are 5 Islamic scholars whose opinions were sought and analyzed accordingly. Many literatures both published and unpublished also form part of this research population. They include articles obtained by different writers via internet, Newspapers and journal Articles, Textbooks and students thesis and project works.

3.3 Sample Technique and Size

The population of the study determines the sampling procedure to be used for the purpose of this work; a random sampling procedure is used. This is suitable because, it is a system of selection, which gives each individual of the population equal chance of being selected. The essence of this procedure is to avoid subjected bias arising from personal choice.

3.4 Method of Data Collection

In any kind of research work, data can be gathered from one or more of the following method;

- a. Study of the existing documents.
- b. Interview.
- c. Questionnaires.
- d. Observations.

Much emphasis is placed on adequacy of data collected, the timing and its accuracy in order for the research to be able to ascertain the validity of the work. Consequently, methods adopted for this work are those that can give the desired result and information needs. These methods are categorized into the primary and secondary source of data.

i. Primary source of Data: - These are basically those data that are obtained from conducting interviews, structured or unstructured questionnaires. And personal observations. These are data collected explicitly for a specific purpose. The major advantage of obtaining such data is that the exact information wanted is obtained.

For the purpose of this research work interviews were conducted. Some staff and customers of Jaiz Bank and some Islamic scholars were interviewed. First hand data were also gathered from the holy Qur'an and the Hadith (prophetic traditions), which are primary sources of shari'ah. A few Islamic scholars were also interviewed and their opinion as expressed in one preaching or the other was also gathered in this work.

ii. Secondary source of Data:-These are second hand data, which include information from past work, i.e. what some authors have done in the same or similar fields of study that are documented or published. Basically, such data are gathered from internet, Libraries, Seminars, Workshops, and Lectures, print or electronic media etc.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter present interprets and analyzes the opinion of those interviewed, during the course of data collection for this research work. Qur'anic verses and prophetic tradition that prohibit usury would also be presented, and problem of Islamic banking based on the existing literatures and the result of the data gathered during the interview would be presented too. All these and more will be discussed at the end of which summary of findings would be identified.

4.2 Presentation and Data Analysis

A total number of 20 people were interviewed. They include, seven staff of Jaiz Islamic banking department, eight customers of the bank that had at one time or other enjoyed the service of the Non-interest banking window of Jaiz different Islamic scholars were also interviewed.

Simple percentage method has been adopted for the presentation and analysis of the interviews.

These are presented as follows;

Table 4.1: Former Bank before Habeeb Bank

Responses	Number of respondents	Percentages
Jaiz bank	9	75
Others	3	25
Total	12	100

Source: Field Survey 2014

The table above represented the number of staff of Jaiz bank who was consulted by the research for interviews. From the table we can see that, out of the 12 staff consulted, 9 started their banking career with Jaiz Bank

Table 4.2: Working under Non-interest Banking Department

Responses	Number of response	Percentage
I worked there	7	58
I did not work there	5	42
Total	12	100

Source: Field Survey, 2014.

The table above shows the responses of staff of Jaiz Bank when ask whether they worked under the department of non interest Islamic banking of Jaiz 58% of those asked worked under department and 42% of them worked in different department most of them worked there between 1-2 years.

Table 4.3: How would you describe the Level of Customers' Patronage to the Department?

Responses	Number of respondents	Percentages
Very low	-	-
Low	-	-
Moderate	5	1
High	2	29
Very high	-	-
Total	7	100

Source: Field Survey, 2014

Table 4.3 above presented the responses of 7 staff of the department of non-interest banking of Jaiz bank when asked to describe the level of customers' patronage. It can be seen that 71 % of them said the patronage was moderate, while 2 of the interviewees that constitute 29% said the patronage level was high.

This has indicated that there is little patronage from the people which might not be connected to low publication and awareness by the bank due to management's fear of being supporting Islamic Religion especially now Muslims are being seen as wrist in Nigeria.

This is also in conformity of most existing literature reviewed on relevant project at the past.

Table4.4: Level of Preference of packages by customers

Responses	Number of respondent	Percentage
Trustee project financing	-	
joint venture project lancing	-	-
Trade financing	-	-
Total venture	-	-
Hire	-	-
Lease purchase	-	-
Others	-	-
Can not say	7	100%
Total	7	100%

Source: *Field Survey, 2014.*

There were different answers, but all of them said they cannot say exactly but unanimously agreed that patronage was slowly gathering momentum.

Table 4.5: Account opened by customers

Responses	Number of respondents	Percentages
Non-interest current account	7	100
Non-interest saving account	-	-
General purpose investment account	-	-
Special purpose investment	-	-
All of the above		
Total	7	100

Source: *Field Survey, 2014*

The above table showed the responses of the staff interviewed as regards the choice of account by the customers. Seven respondents all said that the customers opened more of non interest current account depending of course on the customer choice;

This will be attributed to the product as majority of the accounts are salary account customers who are looking for banking alternative to conventional banking another reason which may be attributed to the result is that most of the asset products are yet.

To be operational as the bank requires more capital on the department before given out loans as the bank cannot use conventional capital to fund the Non interest Islamic banking products which was registered as end to end Islamic banking.

6. what in your opinion do you think are the problems of non-interest banking/Islamic banking? And what prospects do you foresee for Islamic bank?

The responses of the people interviewed were not much different with that of the customers interviewed; and thus, are very much inconformity with the ones presented in existing literatures. The answer would be presented and discussed after we see the responses given by the customers and the Islamic scholars; as can be seen below;

Eight customer of Jaiz Bank who enjoyed the service of non-interest banking department of the Bank were interviewed by the researchers.

The questions and answers are summarized below:

4.6: Transaction with non -interest banking Department of any bank before

Responses	Number of respondents	Percentages
I had	4	33
I had not	8	67
Total	12	100

Source: Field Survey, 2014

The above table indicated the responses of the customer of other Banks, when asked they have ever conducted any transaction with non interest banking department of the bank. It can be seen that out of the 12 customers asked. 33% of them had at one time or the other conducted transaction with the department, while Poof those asked did not.

8. what kind of relationship did you had with the department?

Table 4.7: Customer Relationship with the department

Responses	Number of respondents	Percentages
Depositor	6	75
Debtor	2	25
Total	8	100

Source: *Field Survey, 2014*

The table above shows the responses of 8 customers that had relationships with department of non-interest banking of Jaiz Bank, 75% of the respondents failed their monies with the bank at their current account provided by the department. But 2 of the interviewees said they collected.

Loan from the department of the bank base on agreed proportion

4.8: Knowledge of Non-Interest Banking Operations

Responses	Numbers of responses	Percentages
Through media	5	62.5
Through friend	1	12.5
Through seminar	1	12.5
Through other sources	1	12.5
Total	8	100

Source: *field Survey, 2014*

Table 4.8 above indicated the sources through which the 8 customers interviewed knew about the Islamic banking operations, 5 of them know about it through media i.e. print and electronic medium, this constitute 62.5% of the respondents while 1 person each representing 12.5% about the system through different sources other than medias indicated above.

And when asked what do you think in your opinions are the problems of non-interest banking/Islamic, banking systems and what prospects do you foresee for them?

Their responses ranged from problems of publicity and use of media, problem of borrowers of pure loan, problems of tool to attract depositors etc.

4.5 Discussions and Implications

During the presentation and analysis of data in this work, it can be seen that number of 20 people were interviewed, so it should be noted that the work is based on the input of their responses. The people interviewed are 7 staff of Jaiz bank, 8 Customers of the same bank and 5 Islamic scholars, their responses in addition to the literatures gathered from the Internet, libraries and the Dailies were presented and analyzed. The implication is that whatever is presented and whichever conclusions to be drawn are based on the stated sources.

The 7 staff were randomly selected out of a total number of 12 initially consulted, 7 were those that worked in Jaiz bank out of which 5 did not work in the department of Non Interest Banking of the Bank. And seven people who constitute 58% of the staff consulted worked in that department. Among the 7 selected, 5 said that the level of customer patronage was moderate, and 2 people who constituted 29% of the respondents said the patronage level was high. They all said that their customers enjoyed different packages provided by the department. Eight; customers were also interviewed. The 8 were selected from the 12 consulted; this is because it was only the 8 customers that had enjoyed the services of the bank. Six of them had deposited their money with the bank, and 2 collected loans from the department. This means that since they participated the practical situation, the 8 customers and the 7 staff made a good choice in first hand information for this research work.

Apart from the 15 selected above, 5 Islamic scholars were also interviewed. They strongly opined that based on the Qur'anic and Hadiths verses, usury is prohibited and forbidden and, they are all in support of Islamic banking system, because the banks are divinely inclined and legitimately transact businesses based *on* the Shari'ah injunctions.

The problems and challenges as well as the prospects of Islamic banks have been discussed in detail. This means that if all the identified problems or most of them can be looked into and solved, the future of Islamic banks will be very fantastic and excellent.

The major implication of this research work is that it concentrated on the two conflicting opinions regarding banks' interest. The first school of thought holds that, the verses and Hadiths prohibiting usury do not refer to interest on money. The term Riba can only be charged on exchange of goods of the same kind not on money. The hadith prohibiting usury made mention of Gold for Gold, silver for silver, barley for barley and salt for salt. It didn't categorically specify money, and the transaction in banks is not like the one the Hadith is talking about. But the second school of thought opined that Riba, usury and banks' interest are the same; and it is based on this latter opinion that this research has been conducted.

However, whether banks' interests are riba or not, is not so much the concern of this research work. The concern of the work is to come out with the way Islamic banks operate and expose the problems and prospects as an alternative to global crisis which was believed to be caused by interest based economic transactions.

4.6 Summary of Findings

The researcher in the course of presentation and analysis of data has been able to make the following observations:

- i. Islamic banks have attractive customer patronage
- ii. There was a sound relationship between the customers (that enjoyed non-interest banking packages, and Jaiz bank
- iii. A significant number of Qur'anic verses and Hadiths have prohibited usury/interest in Islam.
- iv. Islamic banks face a number of problems and challenges which includes; -
 - a. Problem of organization and management structure
 - b. Lack of professional bankers.
 - c. Lack of customer orientation.
 - d. Problem of theoretical research and knowledge sharing
 - e. Problem of regulatory environment.
 - f. Problem of Asset management.
 - g. Problem of liquidity management
 - h. Failure in choosing priority sector
 - i. Use of advanced technology.
 - j. Problem of publicity, propagation and the use of media.
- v. Despite the problems identified the following are some prospects of the bank

- a) The .growing Islamic awakening and the Ummah's trend to return to the book of Allah and the Sunnah of His Prophet is an Indication that Islamic bank will prosper.
- b) As there are' shortages in resources and bottlenecks here and there, the Islamic banks can exploit that opportunity to create and expand their customer base, by providing attractive investments.
- c) Nigeria is a bright and unexploited market for Islamic banks, which when exploited will result in prosperous returns.
- d) Technological innovation provides a great opportunity; for Islamic banks to compete favorably or even beat their conventional counterparts.
- e) Many people only transact business with conventional banks due to the absence of Islamic banks in their respective nations. This indicated that there are greater potentials for the Islamic banking if it will re-position the world economy if it get more banks to participate in the product offering and economist of the world believe that Islamic banking will provide solution to the financial crises faced by the bank as a result of interest based transaction as identified during the last global financial meltdown in the world.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

This research work has revealed the theoretical, practical as well as the conceptual framework of Islam banking system, which operates on interest-free basis. It has been observed that almost all the religions in this world have forbidden interest/usury, on the ground of which Islamic banks have been operating and even competing successfully with their conventional counterparts.

The work indicated prosperous future for Islamic banks as they have been growing in market share, profitability and acceptability'. This is however not without some degree of problems which when left unsolved will hinder the success of the system.

In line with conducting research of this nature a literature survey was adopted where secondary data was reviewed. At the same time, data were also obtained from the primary source where a number of people were interviewed, the result of which is presented in the chapter four of this work and finally at the end of this chapter the researcher will recommend; some ways through which the identified problems would be addressed.

5.2 Conclusion

The discussion in this work makes it clear that Islamic banking is not a negligible or mere temporary phenomenon. Islamic banks are here to stay and there are signs that they will continue to grow and expand. Even if one does not subscribe to the religious functions against the institution of interest/usury, one may find in Islamic banking some potentials and innovative ideas, which could add variety to the existing financial network. One of the main selling points of Islamic banking 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. Islamic banks on a profit sharing basis would finance good projects, which might be turned down, by conventional banks for lack of collateral. It is especially in this sense that Islamic banks can play a catalytic role in stimulating economic development. These being said, the benefit of Islamic banking in a growing economy like Nigeria cannot be over emphasized in line with the federal government desire for a single digit interest to spur economic growth, nothing can be more often than establishing a non-interest financial institution. Islamic banking will also contribute significantly to the overall "development of the country by developing micro credit schemes aimed at improving the overall communities, thereby drastically reducing unemployment rates. There

are also ample opportunities to attract foreign direct investment (FDI) in the country.

In global environment that has become ever more demanding, a setting that is subject to the dominant forces of changes and that is characterized by unstable market conditions, of intermediation. And as Muslim, We are oblique to ensure that an interest free financial system is established within the ummah'(nation). And in the Qur'an it is stated that;

"O ye who believe fear Allah and give up what remain of your demand for usury if we are indeed believers" (Qur' an 2:278).

And in a Hadilh of the noble Prophet (PBUH), He said

"Every servant of Allah will remain standing before Allah on the day of judgment until he answered 4 questions - his life, how he spent it; his knowledge how he acted upon it, his wealth how he got it and how he spent it; and his body and (health) how he used it".

So the best thing in life is to act and behave in an ethical, just and-fair manner. *May* the Almighty guide us aright, Amen.

5.3 Recommendations

Despite various problems and shortcomings, the Islamic banks have the potentiality to expand their activities to bring good to humanities.

Some suggestive measures are appended below;

- i. Education institution should introduce Islamic finance and Banking as well as other related courses to supply need-based manpower for Islamic banks.
- ii. Scope for training, motivation and orientation programmers for Islamic bankers should be widen and strengthened.
- iii. Training needs assessment should be made to cover three different forms of training aspects of an Islamic banker. These include:
 - a. Ideological, which is related to Qur'an and the Sunnah.
 - b. Theoretical, which covers the technical aspects of banking in equipping, an employee with knowledge about Islamic values and way of life.
 - c. Practical.
- iv. Group discussions case study on Islamic economics, banking and finance may be introduced for the officials at different levels of operations on regular basis.

- v. A common web portal may be developed to facilitate clients in providing tips regarding Islamic banking, finance and economics.
- vi. Islamic Banking Diploma Course should be introduced for all Islamic bank and the clients of the Islamic banks should be equipped with knowledge of Islamic banking through discussions, seminars, symposia etc.
- vii. Islamic banks can develop unanimous Shari'ah Manual or guidelines for day to day consultation and motivation.
- viii. The research and development (R. & D) for Islamic banks in countries who they do not have many branches should expand their network even to rural areas.
- ix. Investment of the Islamic bank portfolio should be diversified and Extended for long-term financing under Musharakah and Mudaraba.
- x. Cooperation among Islamic banks should also be extended at national level and throughout the world.
- xi. The central banks of the Muslim countries can help creation of environment for Islamic banking with more responsibilities.
- xii. Uniform accounting system and standards already developed by the accounting and auditing organization for Islamic financial institutions for providing consistency in

accounting treatment of various operation and products of Islamic banks may be introduced by all concerned.

- xiii. New and innovative products need to be designed for financing profit and loss sharing basis and Muslims countries, which have established Islamic banks, if involve themselves with International trade on Islamic principles, could contribute to grow international transactions under interest free system. This will further help in developing an Islamic common market.
- xiv. Islamic banks should improve on the use of media and propagation of their services and products. They should adopt the use of big names in the media houses such as the CNN, BBC, Aljazeera International, Time Magazine, Harvard Business Review, and The Economist and so on.

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USMANU DANFODIYO UNIVERSITY SOKOTO

DEPARTMENT OF BUSINESS ADMINISTRATION,

APPENDIX

QUESTIONNAIRE FOR STAFF

THE ROLE OF ISLAMIC BANKING IN THE GLOBAL

FINANCIAL CRISIS:

I am a post graduate student of the above institution, undertaking a research project on the above subject matter in partial fulfillment of the requirement of the award of master degree in Business Administration (MBA).

Please note that all information supplied will be treated as confidential and shall be used for academic purpose only.

THE QUESTIONNAIRE INSTRUCTION

Please fill in the gaps and the appropriate box [] where applicable

1. Which bank did you work with before the Jaiz bank Nigeria Plc.
 - a. Jaiz bank
 - b. Other Bank
2. Did you work under Non-interest banking department?
 - a. Yes b. No
3. How would you describe the level of customer's patronage to the department?
 - a. Very low b. Low c. Moderate d. High e. Very high

4. Which package among the facility/services provides by the department did your customer prefer more?
- a. Imaan Current account
 - b. Musharaka financing
 - c. Murabaha financing
5. Which account did your customer open more?
- a. Non-interest current account
 - b. Non-interest saving account
 - c. General purpose investment account
 - d. Special purpose investment account
 - e. All of the above
6. What in your opinion do you think are/were the problems of non-interest banking/Islamic banking? And what prospect do you foresee for Islamic banks.

Researcher: Mustapha Tajudeen

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DEPARTMENT OF BUSINESS ADMINISTRATION,

APPENDIX

**QUESTIONNAIRE FOR CUSTOMERS THE ROLE OF
ISLAMIC BANKING IN THE GLOBAL FINANCIAL CRISIS:**

I am a post graduate student of the above institution, undertaking a research project on the above subject matter in partial fulfillment of the requirement of the award of master degree in Business Administration (MBA).

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THE QUESTIONNAIRE INSTRUCTION

Please fill in the gaps and the appropriate box [] where applicable.

1. Did you ever have any transaction with the non-interest banking department of Jaiz Bank Nigeria Plc
2. What kind of relationship did you had with the department?
 - a. Depositor b. Debtor
3. How did you know about the non-interest banking Islamic banking system operations?
 - a. Through media b. Through a friend
 - c. Through a seminar d. Through other sources
4. Are in any way satisfied with the bank services ?

a. Yes b.

5. What do you think the bank should do to improve customer's patronage. Your contribution is highly appreciated. Thank you and remain blessed.

Researcher: Mustapha Tajudeen