

**THE CHALLENGES AND PROSPECTS OF FREE INTEREST BANKING  
POLICY ON THE ISLAMIC BANKING IN NIGERIA**

**BY**

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## **DECLARATION**

I hereby declare that this project has been written by me and it is a report of my research work. It has not been presented in any previous application for the reward of Masters of Business Administration (MBA). All quotations are indicated and sources of information specifically acknowledge by means of references.

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## CERTIFICATION

This project “the challenges and prospects of free interest banking policy on the Islamic banking in Nigeria”, meets the regulations governing the award of Master of Business Administration (MBA) degree, of the School of Postgraduate Studies, Nasarawa State University, Keffi, and is approved for its contribution to knowledge.

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## **DEDICATION**

I dedicate this project work to Allah (SWT) for giving me the grace, wisdom and providence to undertake this programme.

## **ACKNOWLEDGEMENTS**

My gratitude goes out to Almighty Allah (SWT) for granting me good health, guidance and helping me this far in my education.

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## ABSTRACT

*The issue of establishing non-interest banking, bank based on shariah in Nigeria is not new. The bank operates strictly on the basis of Islam, but did not record any successful achievements due to lack of adequate personnel, low capital base, non-challant attitude of staff, and inadequate awareness of the system. The basic objectives of the study include: to determine the operations of the free interest banking system in Nigeria, to determine of the benefits of the non-interest banking in Nigeria and to find out whether the banks operations with the CBN guidelines and standards. The study will be of immense significance as it will give an insight on the need for interest free banking in Nigeria. The researcher adopted the survey and the documentary research designs. The population of the study is the entire population of Nigeria, approximately 180 million. The following recommendations were made and they are as follow: the Federal Government should adopt the non-interest banking system and enhance its operation to be comprehensive like its counterparts, the conventional banking system and the development of adequate regulatory and supervisory framework for the effective operation of non-interest banking*

*in*

*Nigeria*

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background to the Study**

The issue of establishing non-interest banking (bank based on Shari'ah) in Nigeria is not new. 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, due to lack of awareness about 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 traditions. This according to Malami (2009) prompts the establishment of Haraka Islamic Community Bank in Sokoto town. The 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 etc.

However, modern Islamic banking in Nigeria evolved as far back as 1991 with the enactment of the Banks and other Financial Institutions Decrees. Sections 23 and 61 of this Decree recognized profit and loss sharing banks.

However, there were no significant achievements due to lack of compliance with Central Bank of Nigeria's requirement by potential investors. In 1996, the Central Bank of Nigeria (CBN) 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 upon meeting the mandatory capital requirement. In line with the struggle to have Islamic banking, in 2005 Financial System Strategy, (i.e advisory council of experts on economies) launched a blueprint 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 Non-interest banking (Islamic banking) in Nigeria. In 2008 the Islamic Finance Working Group was founded in Nigeria and was highly supported by Enhancing Financial Innovation and Access, Nigeria Deposit Insurance Corporation (NDIC), National Insurance Commission (NIC), National Pension Commission (PenCom), Debt Management Office (DMO), Central Bank of Nigeria among others. 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 suggestions from stakeholders. Despite all the hurdles of establishing Islamic banking in Nigeria, the CBN joined eleven (11) other central banks and two (2) multilateral organizations to form the International Islamic Liquidity Management Corporation (IILM) with headquarters in Malaysia. 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).

## **1.2 Statement of the problem**

The establishment of Islamic banking in any country be it Muslim or non-Muslim faces a number of challenges and Nigeria is not an exception. These challenges could be institutional or operational, but they are not without remedies. According to Nijzink (2009) many studies were conducted on Free Interest Banking (Islamic financial) institutions especially banks after the recent global financial crisis to assess why most Islamic banks were not affected by the crisis. In the wake of this development, Jaiz bank (the first major Islamic bank with 9 branches across Nigeria as at July 2013) became operational. It should however, be understood that specialized banks such as Islamic banks are not without challenges. Accordingly, this study seeks to appraise the free interest banking policy in Nigeria. How is the bank being operated and its comparative advantage vis-à-vis conventional banking system.

## **1.3 Research Questions**

In order to evaluate the operations of the free interest banking system in Nigeria, the following questions are formulated. These questions shall be answered and presented in chapter four of this study.

- i. What are the challenges and prospects of the free interest banking system in Nigeria?
- ii. What is the level of competition of non-interest banks with the conventional banking system?
- iii. What could be said are the benefits of the free interest banking in Nigeria?

#### **1.4 Objectives of the Study**

This research study is on free interest banking policy in Nigeria with particular reference on the Islamic banking in Nigeria seeks to identify the challenges and the prospects of the bank based on its policy framework that established the free (non-interest) banking system in Nigeria.

The specific objectives include;

- i. To determine the operations of the free interest banking system in Nigeria
- ii. To examine the benefits of the non-interest banking in Nigeria
- iii. To find out whether the free interest banking is competing with the other conventional banking system in Nigeria in line with service execution.

#### **1.5 Significance of the study**

The focus of this study is to establish the operational challenges and the prospects of the non interest banking in Nigeria using the policy that established it. It is hope that this research would be of great importance to the Central Bank of Nigeria, the other conventional banking systems, and the free interest banking (Islamic banks) in Nigeria. It will be a scholarly material for other scholar who deems it fit to research in line with the researcher. It will serve as a reference material for students and any other person that would like to make use of it. It will also assist in establishing whether the policy is going to insulate the banks from financial crises.

## **1.6 Scope and limitations of the study**

The scope of this study is on the activities of free interest banking system in Nigeria. The non-interest financial institution (NIFI) is “a bank or other financial institution (OFI), which transacts banking business, engages in trading, investment, and commercial activities as well as the provision of financial products and services in accordance with any established non-interest financial principles”.

The limitations include, the suppression of the need information by the authorities concerned, inadequate literatures on the subject matter, inaccessibility of the Qur'an and the Sunnah to ascertain the free interest banking doctrine.

## **1.7 Definition of Terms**

Arbun: is a non-refundable deposit to secure the right to cancel or proceed with a sale during a certain period of time.

Bai'salam: is pre-paid purchase

Gharar: is uncertainty, speculation

Halal: means permitted according to shari'ah

Haram: forbidden according to shari'ah

Ijara: contract is a leasing contract

Mudaraba: contract is a trustee financing contract, where one party, the financier, entrusts funds to the other party, the entrepreneur, for undertaking an activity.

Qardhasan: is a benevolent loan (interest-free)

Riba: is literally 'excess' or 'increase', and covers both interest and usury.

Musharakah: is an equity participation contract, whereby two or more partners contribute with funds to carry out an investment.



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Conceptual framework**

##### **2.1.1 Free Interest Banking**

According to Central Bank of Nigeria (2013) free interest banking is one of the branches of Islamic finance, which is an ethical system that is based on doctrines derived from the Qur'an and Sunnah. It is built on the cardinal Islamic principles of the prohibition of exploitation/unfair trade practices, uncertainty/speculation, unjust enrichment, gambling and investment in business that are considered unlawful such as alcohol, tobacco, pork related products, ammunition, pornography and any other products, goods or services which do not comply with shari'ah rules and principles of Islamic jurisprudence. Thus, non interest (Islamic) banks are required to conduct their business activities and generate income based on asset-backed and shared profit/loss incurred from investments. The financial products and instruments offered by non-interest (Islamic) banks include: debt and quasi-debt instruments, profit/loss sharing instruments and other fee based services.

The debt instruments in this regard include: Murabaha (cost-plus profit mark-up); Salam (advance payment for goods); Istisna'a (order to Manufacture); Tawarruq (deferred payment) and Qard Hasan (benevolent Loan). Quasi-debt instruments employed comprised Ijarah (leasing), while profits and loss sharing instrument are musharakah, mudarabah and diminishing musharakah (partnership/joint venture).

Other contracts used by Islamic banks for other fee-based services include Waakalah (agency), Tawarruq (monetization or generating cash through purchase/sale activity),

Jua'lah (rendering a service against reward) and Istijrar (repeat sale/purchase arrangement). For credit transactions, Kafalah (guarantee) is used in sale of debts, and Hawalah for assignment of debt. In addition, other fee-based services that are available in the conventional banks could be offered.

The evolution of the non-interest (Islamic) banking in Nigeria dates back to 1991, with the enactment of Banks and Other Financial Institutions Act (BOFIA), which provided for the licenses to qualified applicants on meeting the regulatory requirements.

In 1996, the defunct Habib Bank Plc. opened a non-interest banking window offering limited number of shari'ah-compliant products. However, due to lack of framework for non-interest banking in the country, the attempts did not record any significant success or growth. In 2004, there was a renewed interest for the establishment of full-fledged non-interest banks by investors. An Approval-in-Principle (AIP) was granted to Ja'iz International Plc to establish Ja'iz bank upon meeting mandatory capital and regulatory requirements.

To further entrench non-interest banking into the financial system, Nigeria joined the membership of the Islamic Development Bank (IDB) in 2006. In 2008, the Islamic Working Group was formed and supported by Enhancing Financial Innovation and Access (EFInA). This group brought together stakeholders, market operators interested in offering non-interest (Islamic) finance products to promote financial development in Nigeria. By January 2009, the CBN had joined the Islamic Financial Services Board (IFSB) as a full-council member.

In March 2009, the CBN issued the draft framework for the regulation and supervision of non-interest banks in Nigeria. It also released the new banking model in which non-interest banks were classified under specialized banks by August 2010. Following this, non-interest banks were categorized into national and regional banks. The national non-interest banks, with a capital base of ₦10 billion could operate in every state of the Federation including the Federal Capital Territory (FCT), while the operation of regional non-interest bank, with mandatory capacity base of ₦5 billion, was pegged to minimum of six states and a maximum of twelve (12) contiguous states of the Federation, lying within not more than two geopolitical zones and the Federal Capital Territory.

In October 2010, the CBN joined eleven (11) other central banks and two (2) multilateral organizations to form the international Islamic Liquidity Management Corporation (IILM), based in Malaysia. The IILM had the mandate to provide treasury instruments that were shari'ah compliant to address liquidity management issues of Islamic banks, and its use as open market operations instruments for Islamic financial institutions.

The CBN released the framework for the regulation and supervision of non-interest banking in January 2011 and it was further reviewed in June 2011. Also, approval in principle was granted to two applicants-one for a full-fledged regional authorization, that is; non-interest financial institution and the other is an Islamic window of a conventional bank to operate in line with guidelines on windows/branches issued by the CBN.

Other strategic initiatives put in place by the Central Bank of Nigeria, included:

- i. Extensive capacity building through collaboration with various stakeholders to develop cognate expertise in non-interest banking;

- ii. Development of adequate regulatory and supervisory framework for the effective operation of non-interest banking in Nigeria;
- iii. Promotion of greater cooperation and coordination among relevant regulators and stakeholders that may have important roles to play in the successful implementation of the free interest banking in Nigeria; and
- iv. Sensitizing the general public on the benefits of Islamic finance through conferences, seminars and workshops.

### **2.1.2 The Regulatory and Supervisory Framework for Non-Interest Banks in Nigeria**

The Bank developed guidelines for the regulation and supervision of Institutions offering Islamic Financial Services (IIFS) to provide minimum standards for the operation of IIFS in Nigeria.

The guidelines covered:

- i. Full-fledged Islamic bank or full-fledged Islamic subsidiary of a conventional bank;
  - a. Full-fledged Islamic merchant or full-fledged Islamic banking subsidiary of a conventional bank;
- ii. Full-fledge Islamic microfinance bank;
- iii. Islamic branch or window of a conventional bank;
- iv. Islamic subsidiary, branch or window of a non-bank financial institution;
- v. A development bank regulated by the CBN offering Islamic financial services;

vi. A primary mortgage institution licensed by the CBN to offer Islamic financial services either full-fledge or as a subsidiary; and

vii. A financial company licensed by the CBN to provide financial services, either full-fledge or as a subsidiary.

**(i) Legal framework:** The legal framework that empowers the Central Bank of Nigeria to regulate Institutions offering Islamic Financial Services (IIFS) are in accordance with the non-interest banking principles derived from Section 33 (1) (b) of the CBN Act 2007; Sections 23(1) 52(2); 59(1) (a); 61 of Banks and other Financial Institutions Act (BOFIA) 1991 (as amended) and Section (4) (c) of the regulation on the Scope of Banking Activities and Ancillary Matters, No. 3, 2010. (It shall be read together with the provisions of other relevant sections of BOFIA 1991 (as amended), Companies and Allied Matters Act (CAMA) 1990 (as amended) and circulars/guidelines issued by the CBN from time to time.

**(ii) Licensing Requirements:** A non-interest financial institution under this model is to be licensed in accordance with the guidelines issued by the CBN.

**(a) Commission and fees;** the commission or fees charged by Institutions offering Islamic Financial Services (IIFS) are in accordance with the principles under the CBN guide to bank charges. Thus, the funds received as commission and fees constitute income and shall not be shared with.

**(b) Cross-Selling of products/services and Shared Facilities;** Islamic subsidies, window or branches may operate using the existing facilities or branch network of the

conventional bank. The subsidiary, window or branch must only sell products/services that comply with the principles under the guideline.

**(c) Execution of Services Level Agreements (SLA) in Respect of Shared Services;** conventional banks or other financial institutions with Islamic subsidiaries, branches or windows are to execute Service Level Agreements (SLA) in respect of shared services with their subsidiaries, branches or windows.

**(d) Intra-Group Transactions and Exposures;** all transactions and exposures between on Islamic subsidiary, window or branch of a financial institution and the parent shall be in accordance with the principles and practices under the guidelines.

**(iii) Corporate Governance:** all licensed Institutions offering Islamic Financial Services (IIFS) shall be subject to guidelines on corporate governance for non-interest financial institutions and provisions of the Code of Corporate Governance for Banks in Nigeria both issued by the CBN, as well as all relevant provisions of BOFIA 1991 (as amended) and CAMA 1990 (as amended). All licensed Institutions offering Islamic Financial Services (IIFS) shall have an internal review mechanism that ensures compliance as part of their governance structure.

**(iv) Conduct of Business standards**

**i. Branding:** in line with the provisions of section 39(1) of BOFIA 1991 (as amended), the registered or licensed name of an Institutions offering Islamic Financial Services (IIFS) shall, be recognized by a uniform symbol designed by the CBN. All the sign ages and promotional materials of Institutions offering Islamic Financial Services

(IIFS) shall bear this symbol to facilitate recognition by customers and the general public.

**ii. Approval of Contracts, Products and Services:** All contracts, products and services offered or proposed to be offered by Institutions offering Islamic Financial Services (IIFS) shall be reviewed and approved by each institution's ACE. The introduction of new products/services shall require the prior written approval of the CBN.

**iii. Product Literature:** Institutions offering Islamic Financial Services (IIFS) shall state in its product literature/marketing materials the ACE (indicating names of all the members) that certified the product or services being offered.

**iv. Profit Sharing Investment Account:** Institutions offering Islamic Financial Services (IIFS) ensure that relevant disclosures are made to Profit Sharing Investment Accounts (PSIA) holders in a timely and effective manner and also ensure the proper implementation of investment contracts.

**(v) Prudential Requirements**

All Institutions offering Islamic Financial Services (IIFS) shall:

i. Maintain a minimum Capital Adequacy Ratio (CAR) consistent with the prevailing level prescribed for conventional banks and financial institutions by the CBN from time to time;

- ii. Put in place appropriate policies, strategies and procedures to ensure that they maintain adequate liquidity at all times to fund their operations/obligations;
- iii. Not invest their funds in interest-bearing securities or activities. They are required to invest their funds in eligible instruments for the purpose of meeting the CBN prescribed minimum liquidity ratio. Liquid assets shall be held in line with the provision of section 15 of BOFIA 1991 (as amended), provided they comply with the principles under this model.
- iv. Other Prudential Requirements: all Institutions offering Islamic Financial Services (IIFS) are expected to comply with other prudential requirements on exposure and concentration limits as may be prescribed by CBN from time and standards of best practices.

**(vi) Risk Management:** all Institutions offering Islamic Financial Services (IIFS) required putting in place appropriate policies, systems and procedures to identify, measure, monitor and control their risk exposures. In addition, unique risks faced by IIFS such as displaced commercial, fiduciary, transparency, reputational, equity investment and rate of return risks must be recognized in line with CBN Prudential Guidelines; Risk Management Guidelines issued by the Basel Committee on Banking Supervision; and IFSB Guiding Principles of Risk Management for institutions Offering Only Islamic Financial Services.

**(vii) Anti-Money Laundering and Combating of the Financial Terrorism (AML/CFT):** All IIFS are required to have effective AML/CFT policies grounds in the participation by individuals or institutions as promoters, shareholders, depositors,



employees, customers or other relevant parties in any transaction regarding a non-interest financial institution, whether based on Islamic or other model, is strictly prohibited.

### **2.1.3 Benefits of Free Interest Banking in Nigeria**

- i. The benefits of non-interest banking in Nigeria includes the following:
- ii. Financial inclusion; non-interest banking would add to the vast array of financial services and products offered by financial institutions in Nigeria. The system would provide a strong support for a financial system that guarantees equal access to financial services by all economic actors;
- iii. Islamic finance provides a viable alternative to conventional finance;
- iv. Due to the ethical character of their business, the unique feature of their deposits and the structure of the transactions, non-interest (Islamic) banks are more likely to promote confidence in the banking system;
- v. Employment Generation; it offers multiple benefits for an emerging economy such as Nigeria, particularly in the area of employment generation, and infrastructure financing for critical sectors such as power, road and railways etc;
- vi. It has strong resilience to withstand banking crisis due to its conservative nature to business approach, which is perceived by many as a more risk averse haven devoid of speculations and interest;

- vii. Studies have shown that due to its asset-linked nature, an interest free monetary system promotes monetary stability compared to an interest-based system that is vulnerable to interest rate volatility.

## **2.2 Empirical Literature Review on Free Interest Banking in Nigeria.**

### **2.2.1 Challenges and prospects of the free interest banking in Nigeria.**

According to Audu (2014) the challenges confronting every Islamic banking system the world over could be categorized into institutional challenges and operational challenges. Institutional challenges are those challenges that are unique to Islamic banking institutions while the operational challenges are those challenges confronting the operations of Islamic banking. In the case of Nigeria, the challenges that it may likely face are also categorized into institutional and operational challenges. The institutional challenges that may likely hinder the successful establishment and management of Islamic banking in Nigeria are as follows:

(i) Inappropriate Institutional Framework; the nascent Islamic banking in Nigeria will be hindered by the current institutional framework that supports conventional banking. This is because the current institutional framework is structure in the line of conventional financial system which is against Islamic banking.

(ii) Inadequate Legal Framework; the exiting legal framework in Nigeria is also a major setback to Islamic banking due to the fact that it is design to suit the conventional settings. Islamic banking cannot adequately operate if there is no special legal framework for its institutions. This can be understood from the fact that as Islamic banking operates

on Shari'ah basis, the enforcement of such operations in the court of law is another problem without implementing Islamic laws in Nigerian legal system.

(iii) Lack of Equity Institution; it is generally accepted that the need for long term finance cannot be overestimated in any financial institution.

This is another challenge that Islamic banking in Nigeria may need to address in order to enhance its operations. This is because the existing institutions that provide such facilities operate on interest basis which is against Islamic banking principle. For Nigerian Islamic banking to operate effectively, there should be institutions that will provide long term finance such as bonds and equity on Shari'ah principle.

(iv) Poor Supervisory Framework; Islamic banking in Nigeria may face the challenge of ineffective supervisory framework from the Central Bank of Nigeria as well as the Shari'ah advisory board. This is as a result of the fact that the two bodies may end up contradicting issues instead of complementing each other, and the shortage of Shari'ah scholars as well as Central Bank of Nigeria's supervisors with the require knowledge.

(v) Disparity in Accounting Standard Islamic banking in Nigeria may be challenged by the disparity in their accounting standard as experienced all over the world. However, the existing commercial banking system has similar accounting standard which enable easy supervision and regulation of their operations by the Central Bank of Nigeria. This issue has been reduced by the standard set aside by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). In that case, the Central Bank of Nigeria should prescribe and implement this standard to all potential Islamic banks in Nigeria in order to ease its supervision and regulation.

(vi) Lack of Short-Term Financial Instruments and Institutions; the lack of inter-bank transactions among Islamic banking due to their fewness leads to inadequate short term financial institutions and instruments. Islamic banking is however, in high need of short term institutions and instrument for effectively and efficient operations.

(vii) Absence of Secondary Financial Market; lack of secondary financial markets is another challenge that Islamic banking in Nigeria may likely face. This is because the existing secondary financial markets operate on interest basis which is against Islamic ethics.

### **2.2.2 Levels of competition of non-interest banks with the conventional banking system**

According to Mika'ilu and Audu (2014) the operation of Islamic banking in Nigeria may likely be confronted by the following challenges:

It was discovered that religious and cultural differences is one of the major challenges of Islamic banking in Nigeria as this have to do with the country's multiple cultural and religious belief. This issue is a serious one that needs to be effectively and efficiently resolved if Islamic banking in Nigeria must prosper. This is because of the fact that others with different cultural and religious belief will have a misperception of the institutions that may lead to not accepting the institution by the general public.

It was also revealed that inadequate of financial innovations could be a challenge; as financial markets are changing with time, there is the need to design financial products that will meet the needs and tastes of the users with regards to risk involve in the maturity of the instruments and return from such instruments in any financial institutions which Islamic banking is not an exception. However, there is inadequate financial innovations

or delay in implementing innovated products in Islamic banking due to Shari'ah guidelines requirement. This makes Islamic banking to be relatively rigid to innovations.

Furthermore, is lack of Profit Sharing Finance Islamic banking in Nigeria that it may likely be hindered by lack of profit sharing financial instruments. Islamic banking transactions are divided into fixed charge and profit sharing. The proponents of Islamic banking built up Islamic banking in the hope that it will operate on profit sharing basis. However in practice, profit sharing finance has remained relatively small in the operation of Islamic banking. This is a serious challenge to Islamic banking in the sense that one of the major reason for Islamic banking is to operate on profit sharing basis. The Central Bank of Nigeria should encourage Islamic banking in Nigeria to provide more profit sharing finance.

The study went further to reveal that, the Shari'ah related issues could hinder the operations of the free interest banking system due to the fact that Islamic banking has religious dimension, financial innovations in this institution needs to meet Shari'ah requirements. That is, any new financial products in Islamic banking cannot be adopted until it is approve by the Shari'ah advisory board and also followed by post Shari'ah auditing. However, this act delays Islamic banking ability to take advantage of changing financial environment due to the fact that time has to be wasted before it is finally approve by the Shari'ah board. This act is very vital for Islamic banking in order to protect their clients' confidence in the institution. So Islamic banking should have varieties of financial instruments as well as products that have been approved in advance by the Shari'ah board in order to overcome any delay that changes brought about in the

financial environment may cause in its adopting new products and instruments in the future.

Nevertheless, inadequate human resources was also revealed as an operational challenges to the survival of Islamic banking in Nigeria which highly depends on adequately qualified human resources in teaching, training and research in Islamic Finance with knowledge in both Islamic and conventional finance as well as economics. In the case of teaching and research, only a handful of universities at present can be said to have been teaching as well as conducting research in both Islamic Finance and the conventional settings and other challenges include the, inadequate awareness; Islamic banking in Nigeria will be challenged by lack of information about the objectives, principles, and advantages of Islamic banking in the country. There is a dearth of information about Islamic banking in Nigeria even among Muslims. Majority Muslims only know that Islamic banking is based on non-interest basis, while the majority of the followers of other faiths have little or no knowledge about it at all. This is a serious setback to Islamic banking in Nigeria thereby leading to unnecessary oppositions and lack of public acceptance. The Central Bank of Nigeria is really doing great in this aspect but still needs to carry it to the grass root level, and any potential Islamic banking in Nigeria should also assist in creating awareness to enhance public acceptance of the institution. Even competition was discovered as one of the operation challenges of the Islamic banking is an institution that took the world by surprise in development and growth. Islamic banking is now facing serious competition in the financial system as some conventional banks are now converting to full fledged Islamic banks or providing Islamic banking windows. These banks are more developed in all aspects of financial

transactions that will increase competition facing Islamic banking. In this case, Islamic banking can survive in Nigeria by increasing its efficiency and performance.

### **2.2.3 Benefits of the Free Interest Banking in Nigeria.**

According to Ostlund (1974) who sampled 605 housewives (respondents) in the survey conducted in Boston. The study was phased in to two stages with the aimed of comparing the two results i.e. before and after introducing the products in the market. In both studies consumers personal characteristic were found to be weaker predictors of purchased intention/behavior as compared to the perceived attributes of innovation. It was revealed that the perceptual attributes are generally stronger predictors than personal characteristics of the consumers.

As for Rogers (2003) compatibility is the degree to which an innovation is perceived as consistent with the existing values, past experiences, and needs of potential adopters for benefits of the free interest banking over conventional banking system. Hence Compatibility is the extent to which a new product or service is consistent and compatible with consumers' needs, belief, values, experiences, and habits; skills and work practices of the potential adopters. In reference to Islamic Banking, the concern is how the products and services suite the customers banking needs, belief, values, experience and habit. Islamic banking was to accept deposit and mobilized financial resources through shariah compatible mode which is also considered as compatible with the values. Individuals tend to aligned themselves to ideas which are in accords with their interests, needs and existing attitudes. Rogers (2003) revealed that relative advantage is the degree to which consumers perceived using a new product or service as better than using its

substitutes. The result reveals that relative advantage was an important factor influencing customers' adoption of Internet banking services in the country.

The reality of Islamic banking emergence as an alternative to conventional banking, and its contribution in propelling the development of the global economy has been proven in the international financial outlook (Tahir, Bakar, Ismail, & Wan, 2006). For the past three decades, Islamic banking sector has grown in a large scale with a double digit annual growth rate and recently by almost 20 percent. (Rustam, Bibi, Zaman, & Rustam, 2011).

The institution has witnessed an unprecedented expansion and its impact was observable within the Muslims countries and has extended to all nooks and crannies of the globe. Loo, (2010), Perry and Rehman, (2011), observe that the institution gained momentum and world recognition for its resistance to the global financial crisis that mars the major financial players of the world. This gave the Islamic finance industry opportunity to widen its horizon to new investors (Quadri, 2011). And hence penetrated the western countries where their presence is also remarkable. For instance, in Denmark, United Kingdom, and USA, and in Luxembourg Islamic banking was in operation since 1978 (Perry & Rehman, 2011). The number of Islamic financial institutions is at rise and established in more than 75 countries (Ayub, 2007; Fatai, 2012; Khan and Bhatti, 2008). As at 2005, the total assets managed under the Islamic banks were \$500 billion this figure rose to \$700 billion two years later in 2007. The growth of Islamic finance was estimated at \$1.8 trillion in 2013 and presently anticipated to hit over \$2 trillion by the end of 2014 (Muslimmirrow.com, 2014). Being the core of the Islamic financial system, and also accounting for 80 percent of its total assets, Islamic banking sector's assets are expected to reach \$1.6 trillion by the end of 2014 (Saudigazette.com, 2014). Islamic



banks were indeed successful in the provision of innovative products and services to their customers irrespective of their faith.

For its noticeable achievements, Islamic banking has become attractive so much that many countries are yearning and or struggling to have it in operation like the case of Nigeria from sub-Saharan Africa that have just embraced and started enjoying the system. Being it a newly established phenomena, the Islamic banking in Nigeria needs to be steady and prepared to compete with the historically dominance conventional commercial banks that are in existence for almost a century. There is therefore a need to attract the patronage of the potential customers in the most populous African country containing the one-sixth of the total blacks population (Soludo, 2006), (One in every six blacks is Nigerian) and in which 53 percent are Islamic religion affiliate (Commission, 2007). As such investigating the factors influencing the customers' adoption of the Islamic banking products and services in the country is paramount and timely. It is important to mention here that the banking system is also appealing to non-Muslims, in Malaysia for example, non-Muslims constitutes the majority of the Islamic bank customers (Muhamat, Jaafar, &Azizan, 2011).

Despite the tremendous growth and brighter future of the Islamic banking system, however faced with a great challenge from their conventional counterpart as the total market share of the industry only accounts for one per cent of the total global banking assets (Perry and Rehman, 2011). Hence, studying a consumer behavior and the factors influencing his decision and usage of Islamic banking products and services remained imperative as the strongest determinant of bank profitability has been its market share (Gumel and Othman, 2013) which in turn is determined by customer base of the a bank

(Beckett, Hower, & Howcroft, 2000). And on the other way a high return to the customers motivates them to keep their deposits with the bank while the low return lead to withdrawal of the customers deposit from the bank (Allen & Carletti, 2008). Bank of any nature rely greatly on deposits from its client as the major source of its funds. This is irrespective of being conventional or Islamic. Haron and Ahmad (2000) in their study submitted that since depositors' money remain the major target of banks, and as such the knowledge concerning the factors that influence customers' decision is crucial to the management of the Islamic banks (Haron and Ahmad, 2000).

In the same vein Abduh and Omar (2012) add that recognizing those factors influencing customers' adoption of Islamic banks is vital in enhancing the performance of the bank to increase the number of their depositors. In Nigerian context alike, it was observed that gaining and maximizing customer value emerged as key element to profitability in Nigeria's commercial banking arena which definitely would require the banks to review their products and services offering and delivery approach (cnbcafrica.com, 2014). It was further argue that when important issue of the customers, such as preference and needs were ignored or not been given a due considerations, the difficulty for right decision making by the policy makers regarding promotion, products and services is apparent thereby impacting negatively on the bank progress (Al Qasa, 2013).

### **2.3 Theoretical Framework**

Theoretical Framework is an indispensable part in research, because it is the structure that supports and gives focus to a research. It provides the base for description and prediction of a phenomenon forming a linkage between research problems and relevant theory. The theoretical framework that guides this study is the system theory.

### **2.3.1 The System Theory.**

The perspective of the system theory adopted is specifically based on the Estonian System framework. It allows for the study and analysis of a complete phenomenon, or an issue, its parts or units independently of the whole. In his attempt to define a system, Ludwig (1956) sees it as “a set of elements standing in an interaction”, while Hall and Fagen (1956) as cited in Hassan (2010), regards system as “a set of objects and together with relationships between the object and between their attributes in their interactions.” The two definitions have emphasized the issue of interactions and differed as it concerned the relationship between the element and objects. As for Easton (1965), a system needs not to react to disturbances just oscillating in the neighborhood of a prior point of equilibrium or by shifting to a new one. It may cope with the disturbance by seeking to change its environment so that the exchanges between its environment and itself are no longer stressful; it may seek to insulate itself against any further influences from the environment; or the members of the system may even fundamentally transform their own relationships and modify their own goals and practices so as to improve their chances of handling the inputs from the environment. In these and other ways, a system has the capacity for creative and constructive regulation of disturbances.

Easton (1965) develops this perspective in respect to policy decision and implementation. He used the system theory in the analysis of the political system argues that in order to understand what a system is in its environment, one must ask some questions thus “who are the members of the system? What roles make up the system? How these roles relate to one another and at what point in time? What kinds of people are

occupying the various roles in the system? And what kind of role behavior do they display?”

Understanding the system theory and its basic assumptions enables us to see the free interest banking in Nigeria policy implementation overtime in the banking sector as well a new policy outcome through the various exchanges and interactions that take place between the political, economic, social and other sub-system in the environment. This position is consistent with the nature of our society and the way our banking system policy is carried out by the Central Bank of Nigeria. From this vintage point, public policy is perceived as a response of a political/economic system to forces brought to bear on it from the environment. As presented by Easton (1965), the model has four components. These include the input (which comprises the force generated from the environment, including demands and support, which influence the political system. Input can also include resources such as manpower, money, materials, information and technological innovations. The input in the political/economic system emanates from the environment due to various demands and support for the system. Input consists of demands and supports. Demands and supports are received by the system from the society. A demand, according to Easton, is “an expression of opinion that an authoritative allocation with regard to a particular subject-matter should or should not be made by those responsible for doing so”. A demand implies a four-fold process of growth-from (a) a mass of conscious but undifferentiated wants, (b) through the articulation of recognizable demands, and (c) the formulation of specific issues, to (d) the output stage of binding decisions. Along with the concept of demand there is the concept of over-load, due either because the demands are excessive in quantity, or, though few in

number, very exacting in their nature. The time factor also is very important. Given enough time, a political system may be able to handle a wide range of types and quantities of demands. But the over-load problem can become acute when available time is very restricted and the quantitative levels of current demands are very high.

A system has its own way of reacting to the challenge of demands. It has regulatory mechanisms of its own through which it can either push back the demands or allow them to creep within its boundaries in a considerably mellowed form, through channels and processes which retard its velocity as well as volume. Easton talked of four broad types of regulatory mechanisms:

(1) There is a phenomenon of gate-keeping at the boundary of economic systems, designed to regulate the flow of wants from entering the system and becoming articulated demands. Certain demands can be kept out on one pretext or other- that they are not put forward in a proper demands to be made on economic/political system, that they are not put forward in a proper form, or that, if accepted, they would jeopardize the very existence of the political system and as such their relationship would be self-defeating.

(2) There are certain cultural mechanisms and socio-cultural norms, which establish influential criteria of appropriation for the articulation of political demands. In other words, certain demands can be designated as incongruous with the norms of culture prevailing in a particular kind of society.

(3) The political system can develop a number of communication channels through which demands may be persuaded, or pressured, to scatter themselves so widely as to get considerably diluted.

(4) The political system also has a number of reduction processes by which demands may be forced to convert themselves into specific issues without which, it may be pointed out; they would not be able to feed the conversion process of the political system in a proper way.

Therefore, once the policy outcome is announced, the implementation has started and gradually brings back more demands for conversion into new policies. The new policy (non-interest banking policy) encapsulated in the Central Bank of Nigeria Act 2007.

The second components are the conversion mechanism, which act as the processor of input into output. This include various institutions in the economic/political system that respond to the demands and supports from the environment, with a view to deciding on policies and implementing them. The system theory has an advantage of insight into the totality of the policy process and into interactions between the component parts. This component is consistent with the Central Bank of Nigeria because it is the component that represents the decision making process (body) or where values are authoritatively allocated in the society. The stakeholders include; employees, employers, free interest banks, conventional banks and the Central Bank of Nigeria. It also includes the institutional framework created for the execution of the public policy. Thus, the policy maintains itself partly through its own regulatory mechanisms and partly through the support, specific as well as diffused, which can generate in the society. But the main test

of its effectiveness lies in what it does for society. Here, Easton's concept of outputs comes in.

The third component is the output; this component represents the decisions and actions of the authorities and help in organizing the consequences flowing from the behavior of the members of the applied system for its environment. Policy actions have consequences for the environmental systems, like non-interest banking policy that have its own consequences on the investors and the owners of the funds. Output according to Easton has not only help to influence events in the broader society of which the system is a part, but also, in doing so, they help to determine each succeeding round of inputs that finds its way into the political system. Therefore, output is the final product or tangible results of the conversion mechanism. It combines the decisions made and services emanating from such decisions. This process is described as a feedback loop, and is an important type of response to support stress in a political system.

Feedback constitutes the fourth component. It is a dynamic process through which information about the performance of system is communicated back to it in such a way as to affect the subsequent behavior of the system (society). It is the information feedback on the environment on the performance of the outputs. This component combines all the conditions or circumstances in which the political system operates. These include the political, economic, social, cultural and physical environment. The environment provides the resources needed by the political system as well as the constraints exerted on the system. A Feedback mechanism within the environment links the systems output to its input. Since a system is primarily interested in persistence, this information is essential to the authorities who take decisions for the system (society). The response from the

environment serves as fresh input and the cycle continues, this cyclic process-production of outputs by authorities, response by members of the society to these outputs, communication of information about the response to the authorities, and possible succeeding action by the authorities-has been described as a flow model of the political system-the political process being a continuous and interlinked flow of behavior. Outputs, according to Easton, are not the terminal points-they feed back into the system and thereby shape its subsequent behavior.

Therefore, based on the past policies implemented in the banks sector overtime and the problems arising from efforts in implementing them, which gave birth to the new policy, the system approach here is regard as consistent with the input-output analysis of the political system. This will enable us to discern the emerging challenges of the free banking system policy in Nigeria. The challenges will form the bases of renewed efforts in removing constraints to ensure that the policy achieves its objectives.

### **2.3.2 Advantages of System Theory to the Study.**

There are two distinct advantages in Easton's method of policy's analysis. Firstly, it goes beyond the equilibrium approach and takes note of change and dynamism in the system. Concepts like disturbance, stress regulation, purposive direction, etc. enable one to analyze the processes of dynamism in the system. Easton makes a clear distinction between system maintenance and system persistence. His method being directed towards the study of the systems' persistence rather than to its maintenance only, Easton claims, is definitely oriented towards exploring change as stability. There is continuous exchange going on between the political system and its environments, and the system is constantly engaged in a conversion process, producing outputs and altering the environment.



Easton's analysis claims to take note of the system's adaptive process, as well as of redirection in the form of goals-seeking feedback, though one cannot forget at the same time that the objective of the change is merely to modify or streamline the system with a view to its survival.

The second important advantages of the method are in the field of comparative political analysis. The conceptual framework provided by Easton presents us with a nicely standardized set of concepts and categories, which is logically inclusive and which makes it easier to bring broad and comparable overviews of entire political systems. At least theoretically, the method is not limited merely to comparative study of certain types of political systems or to any specific variety of socio-cultural contexts. Meehan (1976), in Dlakwa (2008), has described Easton's input-output analysis as "undoubtedly the most inclusive systemic approach so far constructed specifically for political analysis by a political scientist.

The basic elements in Easton's conceptual structure are quite simple. He believes that political behavior consists of inter-actions between the different parts of the system acting as members of the system. The concept of system has been defined in a purely nominal or analytical sense. The system, according to Easton, comprises of any set of inter-actions that an investigator finds interesting. He is careful in distinguishing between a concrete system consisting of individual members and an analytical system mentally devised by the investigator and consisting of inter-actions among the behavior of individuals. That such a system operates in an environment which, again, cannot be understood as a concrete thing.

### 2.3.3 System Theory and its Criticism

A number of problems still remain unresolved. Can we deal with abstractions and still talk in terms of a system? Does Easton not have a concrete national system in his mind when he is talking of abstract political system? Is he not evading certain questions by trying to represent his theory in the mystic role of a systems approach? His notion of political life as “a boundary maintaining set of interactions embodied in and surrounded by other social systems, to the influence of which it is constantly exposed” I clearly applicable to all political activities carried on within the framework of the national policies.

According to Meehan (1976), as cited in Dlakwa (2008), Easton does not think of a theory in terms of explanation but in terms of the creation of conceptual frameworks. The result is a highly abstract structure that is logically suspect, conceptually fuzzy and empirically almost useless. Easton’s political system turns out to be an abstraction whose relation to empirical policies is virtually impossible to establish. As for Hannah (1978), as cited in Ikelegbe (1996), Easton has describe this political approach as an Archimedean approach in which we try to look at the earth from a point outside it, and deplored the fact “that we think and consider everything in terms of processes and are not concerned with single entities or individual occurrence. Paul (1978), in Dlakwa (2008), would call it “ the dilemma and the paradox of much of modern social theory”; “ it reveres ‘facts’ (data), but it must look elsewhere for their meaning or significance, and it finds nothing in nature or experience that provides the latter.” Easton is nowhere interested in trying to understand the impact of the system on individuals who constitutes

the system. That according to Easton, it is the interaction which constitutes the system and not individual members.

In the words of Paul (1978), as cited in Dlakwa (2008), Easton “has dissolved the traditional actor in the acid of interaction, but has not attempted aesthetic reconstruction”. What Easton has created is not an actor but just a container. “It seems strange”, writes Paul, “that a theory so respectful of ‘fact’ should be so lacking in substance. Paul describes Easton’s theory as an “empty vision of politics”, and discusses at length “the theory’s lack of substance, the artificial nature of system and its members, the replacement of the actor by container and the disappearance of boundaries as limits of possibility (Dlakwa, 2008).

#### **2.3.4 The Application of the System Theory as the Framework to the Study**

Understanding the system theory and its basic assumptions enable us to see the policy implemented overtime in the banking sector as well as a new policy outcome through the various exchange and interactions that take place between the political, economic, social, business and other sub-system in the environment. Despite the criticism, the position of the system theory is consistent with the nature of our society and the way our policy process is carried out. According to Easton (1965) the political system consists of five units. They are the environment, input, conversion process, output, the feedback loop or mechanism. The input in the political system emanates from the environment due to various demands and support for the system. Once the policy outcome is announced, the implementation has started and gradually brings back more demands for conversion into new policies.

The new policy encapsulated in the banking sector is a new policy outcome. Therefore based on the past policies implemented in the banking sector overtime and the problems arising from efforts in implementing them, which gave birth to the new policy, that is the free interest banking policy; the system approach here is regard as consistent with the input-output analysis of the political system. This will enable us to discern the emerging implementation challenges of the free interest banking policy. The challenges will form the basis of renewed efforts in removing constraints to ensure that the free interest banking policy achieves its objectives.

Free interest banking, like many other organisations, can be viewed as open systems which receive inputs, convert these inputs into outputs and deliver these outputs to stakeholders. Customers fund receive inputs (scarce financial resources in the form of savings and investment funds) and convert these inputs to outputs.

## **2.4 Summary**

This chapter considered the variables and its conceptual bases as it relates to the study, the researcher was able to reviewed literatures and work of other scholars that are related to this study. Here too, the researcher adopted Easton system theory as s framework of the study. This consist of four components as propounded by the theorist, Easton (1965), they are the environment, input-output, conversion process and feedback mechanism this are in consistent with free interest banking policy in Nigeria.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Research Design**

As regard to research design, the study adopted survey and documentary research designs. Survey research according to Kerlinger (1994) is a branch of social science investigation that studies large and small population by selecting and studying samples chosen from the population to discover the relative incidence, distribution and interrelations of the variables. The application of this design was done due to its accuracy in supporting and gearing towards the collection of data and as well as explanations of the variables that is been considered in the study. The study is an appraisal of the free interest banking policy in Nigeria; here the research will evaluate the policy of free interest banking in Nigeria.

#### **3.2 Population, Sample Size, and Sampling Techniques.**

The population of the study is concerned with the whole country- Nigeria-with a current population of over 170 million. This is the population we are studying of course, because it is impossible and impracticable to handle this magnitude of people, science has availed the researcher of techniques for use in such studies. The research shall use an appropriate sampling method to obtain a sample to study upon which we can establish confidence that our finding can be generalized to the whole country. The research used random sampling techniques.

The sample size of this study consist of the six geography political zone, that is the thirty six states and Federal Capital Territory (FCT) where the sample size is drawn through a random sample design. These include the total numbers of the free interest banking in Nigeria which is thirteen (13) with more emphasis on the Ja'iz Bank, Abuja. The sample size of the study is two hundred and fifty (250) respondents, randomly drawn from five hundred (500) sampled populations.

The systematic random technique is used in carrying out the population. It can be taken as an improvement over a simple random sample in as much as the systematic sample is spread more evenly over the entire population.

### **3.3 Method of Data Collection**

The study considered with both primary and secondary data obtain from documentary sources such as journals, text books, official publication, as well as periodicals and magazines, internet and that of the primary sources includes survey.

### **3.4 Procedure for Data Analysis and Model Specification.**

In analyzing the data collected using the questionnaire. The descriptive statistics such as frequencies of respondents and percentages were used for the analysis of the research questions; Descriptive statistics is also employed in analyzing the data collected.

### **3.5 Justification of Methods of Data Collection and Analysis.**

The justification for using survey method in this research is that, it is one of the best methods for gathering large amount of information quickly. It can also allow for the subjects being surveyed remain anonymous and help to eliminate bias in the

interpretation of results, its major attractions are its relatively low cost considering the fact that useful information will be collected about a large number of people from a relatively small number (representative); it was easy to generalize the findings to larger population once representativeness of the sample will be assured; and the flexibility of survey meant that a variety of data collection instruments- observation, interviews, questionnaires, could be used. This allows one instrument to serve as a check or to know whether there is any significant impact on the economic development of Nigeria through the intervention of the free interest banking.

## CHAPTER FOUR

### DATA PRESENTATION AND ANALYSIS

#### 4.1 Data Presentation

A non-interest financial institution (NIFI) is “a bank or other financial institution (OFI), which transacts banking business, engages in trading, investment, and commercial activities as well as the provision of financial products and services in accordance with any established non-interest banking principles”. Non-interest banking, serves the same purpose of providing financial services as conventional financial institutions but in accordance with the principles and rules of Islamic commercial jurisprudence that generally recognizes profits-loss sharing (participatory finance) and outright prohibition of interest. The non-interest financial models are broadly categorized into two: non-interest banking and finance based on Islamic commercial jurisprudence; and non-interest banking and finance based on any other established non-interest principle.

Table 4.1: Sample of the study

Categories of Respondents	Questionnaires Distributed	Questionnaires Returned	Questionnaires Not Returned
Civil servants	100	85	15
Traders	100	75	25
Staff of other banks	20	15	5
Staff of Jaiz banks (Abuja)	30	20	10
<b>Total</b>	<b>250</b>	<b>195</b>	<b>55</b>

**Source:** Field Survey, 2018

#### 4.2 Data Presentation and Results



To generate the primary data, questionnaires were drawn for the sample population of the study which is 250. The detail of the sampling procedure, the different categories of respondents and the method of analysis is explained below.

Table 4.2: Problems with free interest banking system

<b>Responses</b>	<b>No. of Respondents</b>	<b>Percentage</b>
Yes	80	41.02
No	105	53.86
No idea	10	5.12
<b>Total</b>	<b>195</b>	<b>100</b>

**Source:** Field survey, 2018.

Table 4.2 above, shows that 80 of the respondents representing 41.02% of the actual respondents said they have problems with the free interest banking in Nigeria. While, 105 of the respondents representing 53.86% of the actual responses are of the opinion that they do not have any problem with the free interest banking in Nigeria. The remaining 10 of the respondents representing 5.12% of the total response are of the opinion that they do not have an idea about the problem of free banking system in Nigeria.

Table 4.3: Having an account with the free interest bank

<b>Responses</b>	<b>No. of Respondents</b>	<b>Percentage</b>
Yes	55	28.2
No	140	71.80
<b>Total</b>	<b>195</b>	<b>100</b>

**Source:** Field survey, 2018.

From table 4.3 above it could be deduced that 140 respondents which are representing 71.80% of the actual responded did not have an account with the free interest bank in Nigeria. The other opinion sougheed out include; 55 respondents representing 28.2% of the actual response gathered are the only respondents that have an account with free interest banks.

Table 4.4: Types of accounts with free interest banks

<b>Responses</b>	<b>No. of Respondents</b>	<b>Percentage</b>
Saving accounts	40	20.52
Current accounts	100	51.28
Saving and current accounts	55	28.20
<b>Total</b>	<b>195</b>	<b>100</b>

**Source:** Field survey, 2018

Table 4.4 above shows that majority of the respondents do have current accounts with the Jaiz bank (Islamic) as 100 of the respondents said so. This is representing 51.28% of the responses gathered from the field. Meanwhile, 40 of the actual respondents attested that they do have savings account with the non-interest bank and remaining 55 respondents said they do have both saving and currents account with the Islamic (non-interest) bank and this is represents by 28.20% of the actual respondents.

Table 4.5: if yes, in question 4, above, how long

<b>Responses</b>	<b>No. of Respondents</b>	<b>Percentage</b>
1-2 years	85	43.60
3-4 years	90	46.15
5 years-above	20	10.25
<b>Total</b>	<b>195</b>	<b>100</b>

**Source:** Field survey, 2018.

From the table 4.5 above shows that 85 of the respondents holds an account with the free interest bank about 1 to 2 years ago this represents 43.60% of the actual responses. Meanwhile, 90 of the respondents hold an account with the free interest bank in Nigeria for over 3-4 years; this is represented by 46.15% of the actual responds. Furthermore, from the responds collated, 20 of the respondents said they hold an account with free interest bank for over 5 years and this is represented by 10.25% of the total respondents.

Table 4.6: Interest on savings

<b>Responses</b>	<b>No. of Respondents</b>	<b>Percentage</b>
Yes	2	1.03
No	190	97.43
Not sure	3	1.54
<b>Total</b>	<b>160</b>	<b>100</b>

**Source:** Field survey, 2018.

Table 4.6 above shows that 190 of the total responses gathered had it that they do not have interest on savings with the free interest banks this is representing 97.43% of the actual responses. Meanwhile, 2 of the respondents said yes that the free interest banks do give them interest on savings, this representing 1.03% of the actual responses.

For the verification of interest on savings, 3 respondents said they are not sure whether they are receiving interest on savings or not. This is represents 1.54% of the actual responses gathered.

Table 4.7: Do the free interest banks give loans

<b>Responses</b>	<b>No. of Respondents</b>	<b>Percentage</b>
Yes	190	97.43
No	5	2.5
<b>Total</b>	<b>195</b>	<b>100</b>

**Source:** Field survey, 2015.

Table 4.7 above shows that the free interest (Islamic) banking did give loans/credit facilities to customers like the conventional banks. 190 of the respondents said the free interest bank does give loan/credits facilities to their customers. This represents 97.43% of the total response. Meanwhile, 5 of the respondents said they do not know whether the banks give loans to her customers and this represents 2.5% of the actual respondents.

In furtherance of the credit facilities, the non- interest (Islamic) banking and finance based on any other established non-interest principle

Table 4.8: If yes in question 6 above, do you repay the loan with interest

<b>Responses</b>	<b>No. of Respondents</b>	<b>Percentage</b>
Yes	2	1.03
No	193	98.97
<b>Total</b>	<b>195</b>	<b>100</b>

**Source:** Field survey, 2018.

From response gathered and analyzed in the table 4.8 above, 193 of the respondents representing 98.97% of the actual response are of the opinion that they do not repay their loan with interest rather only repay the exact amount collected from the non-interest bank (Islamic). This is in accordance with the Islamic principles and rules of Islamic commercial jurisprudence that generally recognizes profit-loss sharing (participatory finance) and outright prohibition of interest.

It could further be deduced that the 2 respondents that attested to repaying loan with interest may be ignorant of the Islamic banking policy and cardinal Islamic principles of the prohibition of unfair trade practices which do not comply with Shari'ah rules principles of Islamic commercial jurisprudence.

Table 4.9: What service do you like about the free interest banking system?

<b>Responses</b>	<b>No. of Respondents</b>	<b>Percentage</b>
Good Customer relations	60	30.76
Committed and customer friendly	40	20.52
Gives loan without interest	95	48.72
<b>Total</b>	<b>195</b>	<b>100</b>

**Source:** Field survey, 2018.

Observation gathered from the table above do indicated that virtually all the service rendered are all appreciated by the customers as shown; 60 of respondents are of the opinion that they are happy with good customer relationship that exist between the Islamic (non-interest) banks and them (customers) this represents 30.76% of the total response. Meanwhile, 40 of the respondents are of the opinion that they are happy with

the way the bank is been committed to its services and being it customers friendly. This represents 20.52% of the actual response. Furthermore, 95 of the respondents said they are happy with the bank because of its operation that is; giving loans without interest or collateral from their customers. This is represented by 48.72% of the total respondents.

#### **4.3 Discussion of Findings**

Lack of government security and money market instrument could lead to serious liquidity bottleneck for non-interest banks, as the current inter-bank market instruments used by the CBN for monetary policy operations are all interest-based, with no equivalent instruments that are shari'ah- compliant, Lack of deposit insurance scheme for the protection of depositors/investments of non-interest banks against unforeseen hazards and facilitate the growth of the industry.

Lack of comprehensive legal guidelines, especially at the adjudication of conflicts resolution involving Islamic finance contracts, products or entities, inability to access CBN lender of last resort facility, since loans to banks by the CBN when there is liquidity crunch are interests bearing, prohibition from use of money market instruments, and limited but growing markets for Institutions offering Islamic Financial Services (IIFS) products.

Discrimination on grounds of faith or ethnicity or any other grounds in the participation by individuals or institutions as promoters, shareholders, depositors, employees, customers or other relevant parties in any transaction regarding a non-interest financial institution, whether based on Islamic or other model, is strictly prohibited. Therefore, the customers are happy with the Islamic banking system.

Other benefits of non-interest banking in Nigeria include the following:

- i. Financial inclusion; non-interest banking would add to the vast array of financial services and products offered by financial institutions in Nigeria. The system would provide a strong support for a financial system that guarantees equal access to financial services by all economic actors;
- ii. Islamic finance provides a viable alternative to conventional finance;
- iii. Due to the ethical character of their business, the unique feature of their deposits and the structure of the transactions, non-interest (Islamic) banks are more likely to promote confidence in the banking system;
- iv. Employment Generation; it offers multiple benefits for an emerging economy such as Nigeria, particularly in the area of employment generation, and infrastructure financing for critical sectors such as power, road and railways etc;
- v. It has strong resilience to withstand banking crisis due to its conservative nature to business approach, which is perceived by many as a more risk averse haven devoid of speculations and interest;
- vi. Studies have shown that due to its asset-linked nature, an interest free monetary system promotes monetary stability compared to an interest-based system that is vulnerable to interest rate volatility.



#### **4.4 Summary of findings**

The study revealed that there is low level of shari'ah-compliant liquidity management instruments; the tenets of sound Islamic Commercial jurisprudence prohibits the investment of excess liquidity in interest bearing instruments. This prohibition is a source of competitive disadvantage relative to their conventional counterparts,

They do not repay their loan with interest rather only repay the exact amount collected from the non-interest bank (Islamic). This is in accordance with the Islamic principles and rules of Islamic commercial jurisprudence that generally recognizes profit-loss sharing (participatory finance) and outright prohibition of interest. The customers are happy with their service (Islamic) banking system.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

#### **5.1 Summary**

In spite of the limitations encountered at the course of this study, the research work was able to cover some vital areas of interest that have to do with some basic elements of non-interest banking system in Nigeria. In ideal sense, the study has actually achieved its purpose and thus seem as been successful.

To recap the framework of this study, the research was streamlined into chapters which covers chapter one to chapter five, under which the concept of the research topic were critically analyzed. Thus, in summary, chapter one of the study encapsulate the introductory part of the research which predefined the research topic, outlines the background to the study and, or in a well structured statement of problem in it operation and comparative advantage vis-à-vis conventional banking system. This became the major reason for conducting this research with formulated research questions to guide the study through the later chapters.

The chapter two of the research work was built around the theoretical framework and the review of related literatures. In summary, the contexts of the chapter include the introduction of the concept of free interest banking, in addition, the chapter covers extensively, reviews of related research works done by other scholars and system theory was adopted as a theoretical framework for this study.

In the preceding chapter three of the study, the methodology adopted in the research was introduced with the view of depicting the methods of data collection, data analysis

method, the population size, the sampling population and the justification of the data collected in order to ascertain the validity and reliability of the data.

The fourth chapter of the study was used to analyze all the data collected through the administration of the questionnaires with the view to determine individual's perception about the activities of the non-interest (Islamic) banking system in Nigeria. The result of the analysis was statistically analyzed using the simple percentage and table which in conclusion reviews the activities of the non-interest banking in the competitive nature of other conventional banking system. Finally, the study was recapped in chapter five, summarizing all the works done in chapters one to four. In order to satisfy any person who might be interested in reading this research work, there are recommendations for further studies.

## **5.2 Conclusion**

Having conducted this research, it has been obvious that the Nigerian banking system have undergone tremendous reformation through regulatory repositioning. In line with the reforms of the banking sector initiated by the Central Bank of Nigeria (CBN) since 2004, the Bank developed a regulatory and supervisory framework for non-interest banking to boost the Nigeria economy, and promote financial inclusion. This is aimed at meeting the growing demand by investors and banks for non-interest products and services as contained in the Financial System Strategy.

With the introduction of the non-interest banking window, in 2004, there was a renewed interest for the establishment of full-fledged non-interest banks by investors. An Approval-in-Principle (AIP) was granted to Ja'iz International Plc to establish Ja'iz Bank upon meeting mandatory capital and regulatory requirements.

Furthermore, most government agencies and private organizations, individual do opened accounts with the bank; some having two different accounts with the bank because it does not collect interest any or give interest to customers.

### **5.3 Recommendations**

The level of commitment required of the employees and employer of labour in order to boost the operations of the non-interest banking in Nigeria is paramount as this will contributes immensely to the economy development of our Gross Domestic Products (GDP).

Thus, from the findings of the study, the following were suggested for the future improvement of the non-interest banking system and operations in Nigeria as recognized by the Central Bank of Nigeria (CBN) through an Approval in Principle (AIP) that was granted to two applicants-one for a full-fledged regional authorization and the other a window of a conventional bank.

Therefore, it was recommended that the Federal Government should retain the non-interest banking system and enhances it operation to be competitive like its counterparts; the conventional banking system.

- i. There is a need for extensive capacity building through collaboration with various stakeholders to develop cognate expertise in non-interest banking;
- ii. Development of adequate regulatory and supervisory framework for the effective operation of non-interest banking in Nigeria;
- iii. Promotion of greater cooperation and coordination among relevant regulators and stakeholders that may have important roles to play in the successful implementation of non-interest banking in Nigeria; and

- iv. Sensitizing the general public on the benefits of Islamic finance through conferences, seminars and workshops.

#### **5.4 Suggestions for Further Research**

The suggestions for further research on the operations of the non-interest banking system in Nigeria and its comparative advantages vis-as-vis conventional banking system.

There is a need for extension of this study to the public domain, the private/informal sectors in the federation using larger sample to attest if it would replicate the findings of this research.

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