

The Current State Of The Islamic Finance Industry In Nigeria

A View To Determining Its Strengths, Weaknesses and Potential For Growth.

The Islamic finance industry in Nigeria is a relatively new and growing sector that offers financial services and products that are compliant with Islamic law, also known as Shariah. Islamic finance is based on the principles of profit and loss sharing, rather than the charging of interest, which is prohibited by Shariah.

In Nigeria, the Islamic finance industry has been developing in recent years, with a number of Islamic banks and other financial institutions offering a range of products and services. These include Islamic loans, investment products, insurance products, among others.

The past decade has witnessed the evolution and growth of Islamic finance in Nigeria. This growth is attributable to the country's Muslim population, which is estimated to be over 80 million, making it the largest Muslim population in Africa.

The Islamic finance industry in Nigeria is regulated by the Central Bank of Nigeria (CBN), which has established a framework for the operation of Islamic financial institutions in the country. It has also established a Sharia Supervisory Board to oversee and promote the growth of Islamic banking in the country.

The CBN has also worked to promote the development of Islamic finance through initiatives such as the establishment of an Islamic finance desk and the issuance of guidelines for the issuance of sukuk (Islamic bonds). According to a report published by the Central Bank of Nigeria (CBN) in 2020, the Islamic finance industry in Nigeria has been growing in recent years.

The report further noted that the volume of Islamic finance transactions in Nigeria increased between 2015 and 2019, with a total of NGN 174.6 billion (approximately USD 462 million) in transactions recorded in 2019. This represents

a significant increase from the NGN 52.6 billion (approximately USD 141 million) in transactions recorded in 2015.

As recorded by the Islamic Financial Services Board data, the total assets of Nigeria's two fully fledged Islamic banks, the Jaiz Bank PLC, and the Taj Bank reached NGN214.8 billion (USD 564 million) at end of the first half of 2020, or lesser than 1% of the total banking industry assets. Undoubtedly, the industry has seen some developments in the past few years, such as the launch of the first Islamic Exchange in Nigeria and the issuance of the first Islamic Sukuk.

In this appraisal, the current state of the Islamic finance industry in Nigeria can be assessed by evaluating three key areas; strength, weakness, and potentials for growth.

- **Weakness: Challenges Facing the Islamic Finance Industry in Nigeria**

1. **Limited awareness and understanding of Islamic finance and its product offering:**

Islamic banking in Nigeria is still in its infancy. Only a few banks in the country offer Sharia-compliant products and services, making it difficult for consumers to be aware of what Islamic banking is and how it works. This has been a weakness to the Islamic financial institutions to attracting and retaining customers, especially to attracting non-Muslim investors to invest in Shariah-compliant projects. Much outcry has been heard since Nigeria authorized the opening of its first Islamic bank, with people debating what effect this new type of banking will have. As attested by Sanusi (2012), the introduction of non-interest banking has been interpreted from a religious standpoint, which could cause an incorrect view of the policy and strong opposition that may discourage possible investors in the banking sector.

Similarly, there is a lack of awareness about Shariah-compliant products and services among the general public in Nigeria. This is due to the lack of quality and consistent marketing and promotional activities by Islamic banks in the country.

2. Limited product offerings and high cost of Shariah-compliant products and services:

The Islamic finance industry in Nigeria is still in its early stages of development, and as a result, the range of products and services offered by Islamic financial institutions are limited compared to traditional financial institutions. Consequently, the cost of Shariah-compliant products and services is often higher than the cost of conventional products and services. This is because Islamic banks have to incur additional costs in order to comply with Shariah requirements. For example, when an Islamic bank provides financing, it has to share the risk with the customer. This means that the bank has to buy insurance to protect itself against the possibility of the customer defaulting on the loan. The cost of this insurance is passed on to the customer.

In addition, Shariah-compliant products and services often have lower returns than their conventional counterparts. This is because Shariah-compliant products and services are often less risky. For example, Shariah-compliant investments are typically made in businesses that are considered to be halal, or permissible, under Islamic law. This means that they are less likely to be involved in activities that are considered to be riskier, such as gambling or alcohol production.

- **Performance Scale: Strength and Opportunities for Growth of the Islamic Finance Industry in Nigeria**

The Islamic finance industry in Nigeria has made great strides in recent years. In terms of achievements, the industry has successfully established a number of key institutions, including the Islamic Development Bank, the Islamic Bank of Nigeria, and the Nigerian Islamic Finance Association. These institutions have played a vital role in promoting the growth and development of the industry. It is worthy to note that there is no reliable data on the size or growth of the Islamic finance industry in Nigeria. However, anecdotal evidence suggests that the industry is

growing, with an increasing number of financial institutions offering Islamic finance products and services.

In terms of strengths, the industry has a number of key advantages. First, it is supported by a large and growing Muslim population. Second, it has a well-developed regulatory framework. Third, it has a strong track record of delivering high-quality financial services. Finally, it has a strong commitment to ethical and responsible banking practices.

The Central Bank of Nigeria (CBN) has recently begun to encourage the development of Islamic banking in the country. For example, in July 2013, the CBN issued guidelines for the establishment of an Islamic banking window in conventional banks. In April 2017, the CBN issued guidelines for the issuance of Sukuk. The guidelines are based on the Islamic Development Bank (IDB) Sukuk Al-Ijarah Standards. As the industry has grown and developed in Nigeria, there has been an increase in the adoption of Islamic finance products and services. This suggests that there is a demand for these types of financial products in the market.

Potentially, it can provide an alternative source of financing for individuals and businesses, particularly for those who may be excluded from traditional financial systems. Similarly, it can contribute to the country's economic development by providing additional sources of funding for businesses and investment opportunities. The growth of the Islamic finance industry in Nigeria may also increase competition in the financial sector, potentially leading to lower costs and better services for consumers.

In Nigeria, the potential for Islamic finance industry is still huge, given the various possibilities that can be seized. Consequently, the Nigerian government ought to further enhance awareness and knowledge of Islamic finance in terms of its goods and services. Considering the potential for Islamic financial services and products globally, this is even more necessary. In other words, given the potential for Islamic financial services and products around the world, Nigeria has massive potential for growth in this area. To tap into this potential, the Nigerian government needs to improve awareness and understanding of Islamic finance products and services. As suggested by Adzimatunur & Manalu (2021), the Islamic finance

industry exerts a considerable influence on Nigeria's growth and economic progress, making it an integral part of the country's development agenda.

A collaborative effort is needed from the different stakeholders, including regulatory authorities such as the Central Bank of Nigeria (CBN) and Securities and Exchange Commission (SEC), religious establishments, and Islamic banking institutions to spread knowledge about Islamic finance and its advantages for economic growth. This will help dispel any misunderstandings of Islamic banking. This can be properly done through increasing understanding and knowledge of the objectives and advantages of Islamic finance in the economy.

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