Exploring Islamic Economics, Finance, Banking and Insurance in A Developing Economy: Current Trends Review in Nigeria

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Abstract

***Purpose**: This preliminary study examines the ideas, principles and views of Islamic economics, finance, banking and insurance in Nigeria as well explores their potentials as alternative model of management of scarce economic resources, financing, banking and insurance for not only individuals but also for private sector as well as public sectors.*

***Design/Methodology/Approach:** Exploratory and preliminary research.*

***Findings:** The most vital features of Islamic economics, finance, banking and insurance are sharia compliance, risk-sharing, asset-backed financing, wealth distribution, ethical conduct, interest-free transactions, profit and loss sharing, surplus distribution and transparency and fairness.*

Concepts such as Sharia-compliant investment funds, Islamic microfinance, and social finance initiatives have gained traction. Products like Sukuk (Islamic bonds), Islamic mutual funds, and Sharia-compliant investment portfolios have been introduced to the market. Islamic banks offer a range of services including Mudarabah (profit-sharing), Musharakah (partnership), and Ijarah (leasing) financing arrangements. Takaful operators provide different types of coverage, including family Takaful, general Takaful, and investment-linked Takaful plans.

***Practical implications:** Overall, while Islamic economics, finance, banking, and insurance in Nigeria have shown progress, there is still ample room for further development and expansion. Continued regulatory support, product innovation, and awareness-building efforts are expected to contribute to the industry's advancement in the coming years.*

***Keywords**: Islamic economics, Islamic finance, Islamic banking, Islamic insurance and Nigeria*

1.0 Background to the Study

Global Islamic financial assets is expected to exceed $6.7trillion by 2027. Islamic economics, finance, banking, and insurance have been growing in prominence globally. In 2024, the Islamic finance industry was worth around US$4.25 trillion worldwide. Malaysia, Saudi Arabia and Indonesia are top Islamic Finance Development Indicator (IFDI) 2023 countries. US$788 billion total sukuk outstanding in 2023. In Nigeria, this type of finance was worth about $2.9 billion by the end of 2022. Most of it came from sukuk (Islamic bonds), followed by Islamic banks. However, this is only a small part of the global Islamic finance market, suggesting there's room for a lot more growth in Nigeria (Muhammad & Dauda, 2018). There are strategic moves by several countries globally to develop Islamic finance ecosystem (ISRA, 2011). Since Nigeria has a big population, and many people don't have bank accounts, there's a lot of potential for Islamic finance to grow there in the long term.

Islamic finance continues to expand beyond traditional markets in the Middle East and Southeast Asia, with increasing interest from Western countries seeking alternative financial systems (ISRA, 2011). There's a push for innovation in Islamic finance to create new products and services that comply with Shariah principles while meeting modern financial needs (Ahmad *et al.*, 2011).

Islamic economics is grounded in Islamic principles, emphasizing ethical conduct, social justice, and the prohibition of interest (riba). Its key concepts include: All economic activities must adhere to Islamic law (Sharia), which prohibits certain practices such as interest (riba), uncertainty (gharar), and exploitation (Adebayo & Hassan, 2013).

Governments and regulatory bodies are working to develop robust regulatory frameworks to ensure the stability and integrity of Islamic financial markets (Zubair, 1995). There's a growing trend of integration between Islamic finance and conventional finance, with hybrid products and structures emerging to cater to diverse investor preferences. Islamic finance emphasizes ethical and socially responsible investing, aligning with the growing interest in sustainable and ethical finance globally (Darrat, 1988).

Fintech is playing a significant role in the growth of Islamic finance, facilitating access to Islamic financial products and services through digital platforms and innovative solutions. There's increasing emphasis on education and research in Islamic economics and finance to build expertise and foster innovation within the industry (Siddiqi, 2006).

Overall, Islamic economics, finance, banking, and insurance are evolving rapidly, driven by a combination of market demand, regulatory changes, technological advancements, and a growing awareness of ethical and socially responsible investing principles.

Islamic economics, finance, banking, and insurance have been gradually growing in Nigeria. The country has established Islamic financial institutions (IFIs), such as Islamic banks and insurance companies, to cater to the Muslim population's needs, who seek Sharia-compliant financial services. However, the development is still in its early stages compared to conventional finance.

Islamic economics, finance, banking, and insurance are progressively advancing in Nigeria. The country has seen the emergence of IFIs, including banks and insurance companies, to meet the demands of its Muslim population seeking Sharia-compliant financial services. However, compared to conventional finance, the development is still in its nascent stages.

2.0 Conceptual review

2.1 Concept of Islamic economics

Islam is widely acknowledged as a holistic lifestyle, with the Quran and the practices of Prophet Muhammad (SAW), known as the shari'ah, offering guidance for every aspect of a Muslim's life. Islamic economics focuses on how Muslims interact economically with others. It promotes engaging in trade or investing in tangible assets, while discouraging the hoarding of money. It's important to recognize that wealth and money are considered trusts from Allah, intended to be used in ways that align with His will. (Ahmad *et al.*, 2011)

Indeed, Islamic economics places a strong emphasis on ethical and moral principles, guiding Muslims to conduct their economic activities in accordance with Islamic law. It's fascinating how this framework integrates religious beliefs into economic practices, fostering a sense of responsibility and accountability in financial matters (Bombale, 2007).

Absolutely, Islamic economics is deeply rooted in Islamic principles, including fairness, justice, and compassion. It emphasizes ethical conduct in business dealings, prohibits certain practices like interest (riba), and encourages the sharing of profits and risks (Ahmad *et al.*, 2011). This integration of religious values into economic activities aims to promote social justice and equitable distribution of wealth within society. It's indeed a fascinating and unique approach to economics.

Islamic finance promotes risk-sharing between parties, where profits and losses are shared based on mutually agreed terms. Transactions must be backed by tangible assets, promoting real economic activity and discouraging speculation (ISRA, 2011).

Islamic economics emphasizes equitable distribution of wealth and resources, encouraging charity (zakat) and prohibiting hoarding. Business transactions should be conducted with honesty, fairness, and transparency, reflecting Islamic ethical values.

Proponents and authorities in Islamic economics include scholars such as: Ibn Khaldun: A medieval Muslim philosopher and economist, known for his work "Muqaddimah" which includes economic theories based on Islamic principles. Ibn Taymiyyah: A prominent Islamic scholar whose writings cover various aspects of Islamic economics, emphasizing justice and social welfare (Ahmad *et al.*, 2011, p.1764). Muhammad Baqir al-Sadr: An influential contemporary Shiite scholar who developed the concept of Islamic banking and finance based on Islamic jurisprudence (Schaik, 2001). Sayyid Abul Ala Maududi: A 20th-century Islamic scholar and founder of the Jamaat-e-Islami, who contributed to the development of Islamic economic thought Iqbal, Z. (1997) p.42. These scholars and others have contributed to the development and dissemination of Islamic economic principles and theories (Abduh & Chowdhury, 2012).

2.2 Concept of Islamic finance

Islamic finance is a system of finance that operates according to Sharia, which prohibits certain activities such as charging or paying interest (riba) and engaging in excessive uncertainty (gharar). Some key concepts of Islamic finance include: Islamic finance prohibits the payment or receipt of interest (riba). Instead, it emphasizes profit-sharing, risk-sharing, and asset-backed transactions. Transactions in Islamic finance must be backed by tangible assets, promoting real economic activity and discouraging speculative practices. Islamic finance encourages risk-sharing between parties, where profits and losses are shared based on mutually agreed terms. This fosters a sense of partnership and fairness (Muhammad & Salisu, 2019).

Islamic finance prohibits investments in businesses that involve activities such as gambling, alcohol, pork, or any other activities deemed unethical according to Islamic principles. Transactions in Islamic finance should be conducted with honesty, transparency, and fairness, reflecting Islamic ethical values.

Authorities and proponents in the field of Islamic finance include: Muhammad Baqir al-Sadr: An influential Shiite scholar who contributed extensively to the development of Islamic finance theories, particularly the concept of Islamic banking based on Islamic jurisprudence. Muhammad Taqi Usmani: A contemporary Islamic scholar and jurist who has written extensively on Islamic finance, providing guidance on the application of Sharia principles in modern financial transactions (Ahmad *et al.*, 2011). Nizam Yaquby: A scholar and practitioner in the field of Islamic finance, known for his expertise in Islamic jurisprudence and its application to contemporary financial practices. Mufti Muhammad Shafi': A renowned Islamic scholar who provided significant contributions to the theoretical framework of Islamic finance, particularly in the areas of contracts and commercial transactions (Iqbal, 1997). These authorities and proponents have played pivotal roles in shaping the principles and practices of Islamic finance, providing guidance to practitioners, scholars, and institutions operating in this field.

2.3 Concepts of Islamic banking

Islamic banking operates in accordance with Islamic law (Sharia), which prohibits the payment or receipt of interest (riba) and promotes ethical and socially responsible financial transactions. Some key concepts of Islamic banking include:

Islamic banks do not engage in conventional interest-based transactions (Azouzi & Echchabi, 2013). Instead, they operate on profit-sharing, risk-sharing, and asset-backed financing principles. Islamic banks share profits and losses with their customers, fostering a sense of partnership and fairness in financial transactions. Islamic banks provide financing based on tangible assets, ensuring that transactions are backed by real economic value and discouraging speculative practices. Islamic banks refrain from investing in businesses involved in activities deemed unethical according to Islamic principles, such as gambling, alcohol, or pork-related industries. Islamic banks adhere to principles of honesty, transparency, and fairness in all their dealings, reflecting Islamic ethical values (Abdullahi, 2016).

Non-Interest Banking, also known as NIB, aligns closely with Islamic banking principles, representing an alternative approach to traditional banking (Hakimi *et al.*, 2012). It operates based on key principles of Islamic Commercial Law, including the prohibition of interest (riba) in exchange contracts, avoidance of uncertainty or speculative behavior (gharar) in business transactions, and the rejection of gambling (maysir). Additionally, NIB prohibits funding activities deemed unethical, such as alcohol or tobacco production, weapons manufacturing, and adult entertainment establishments, among others (Alao & Alao, 2012).

Authorities and proponents in the field of Islamic banking include: Muhammad Baqir al-Sadr: An influential Shiite scholar who contributed significantly to the development of Islamic banking theories, particularly the concept of Islamic banking based on Islamic jurisprudence (Okeke & Ojukwu, 2012). Muhammad Taqi Usmani: A contemporary Islamic scholar and jurist who has written extensively on Islamic banking, providing guidance on the application of Sharia principles in modern banking practices. (Ahmad *et al.*, 2011). Nizam Yaquby: A scholar and practitioner in the field of Islamic finance, known for his expertise in Islamic jurisprudence and its application to contemporary banking practices. Abdur Rahman I. Doi: An Islamic scholar and author who has written extensively on Islamic banking and finance, providing insights into its principles and practices (Iqbal, 1997). These authorities and proponents have played crucial roles in shaping the principles and practices of Islamic banking, providing guidance to practitioners, scholars, and institutions operating in this field.

2.4 Concepts of Islamic insurance

Islamic insurance, also known as Takaful, operates on the principles of mutual cooperation, shared responsibility, and solidarity among its participants (Yusuf, 2012). Some key concepts of Islamic insurance include: Takaful involves participants pooling their resources together to collectively cover each other against specified risks. Any losses incurred by a participant are shared by the group, in accordance with the principles of mutual assistance. Takaful operations must comply with Islamic principles, ensuring that contracts are free from elements such as interest (riba), uncertainty (gharar), and gambling (maysir) (Billah, 2003).

Takaful funds are invested in Sharia-compliant assets, avoiding investments in sectors such as gambling, alcohol, or pork-related industries. Any surplus generated from the Takaful operations after meeting the participants' claims and expenses is distributed among the participants based on mutually agreed terms, reflecting the principle of equitable distribution of profits. Takaful operators are required to operate with transparency and fairness in all their dealings, ensuring that participants are fully informed about the operations and financial status of the Takaful fund.

Authorities and proponents in the field of Islamic insurance include: Muhammad Nejatullah Siddiqi: A renowned Islamic economist and scholar who has written extensively on Islamic finance, including Takaful. He has provided insights into the principles and practices of Islamic insurance. Dr. Mohd Ma'Sum Billah: An Islamic scholar and practitioner who has contributed to the development and promotion of Takaful globally, providing guidance on its Sharia-compliant principles and operations (Ahmad *et al.*, 2011). Dr. Abdullah Naseef: A prominent Islamic scholar who played a key role in the establishment of the Islamic Development Bank and has been involved in promoting Islamic finance and Takaful globally. Dr. Humayon Dar: An Islamic finance expert and author who has written extensively on Takaful and contributed to its development and promotion through research and education initiatives (Iqbal, 1997). These authorities and proponents have played significant roles in advancing the concepts and practices of Islamic insurance, providing guidance and expertise to practitioners, scholars, and institutions operating in the field of Takaful.

3.0 Theoretical review and underlying theories of Islamic economics, finance, banking and insurance

Interest (riba) is prohibited in Islamic finance due to its exploitation and injustice. Ibn Khaldun (1332–1406): His work "Muqaddimah" critiques interest-based transactions (Suleiman, 2000). Muhammad Baqir al-Sadr (1935–1980): Developed theories on riba and alternatives in Islamic economics. Islamic finance emphasizes risk-sharing and profit-and-loss sharing to promote fairness and discourage excessive risk-taking (Siddiqi, 2006). Muhammad Taqi Usmani: Advocates for risk-sharing models in Islamic finance. Muhammad Nejatullah Siddiqi (Siddiqi, 2006): Promotes the concept of Mudarabah and Musharakah in Islamic finance. Transactions in Islamic finance must be asset-backed, promoting tangible economic activities (Siddiqi, 2006). Ibn Taymiyyah (1263–1328): Advocated for transactions based on tangible assets. Abdur Rahman I. Doi (1934-1986): Provided insights into the importance of asset-backing in Islamic finance. Islamic economics, finance, banking, and insurance must adhere to Sharia principles and ethical conduct. Sayyid Abul Ala Maududi (1903–1979): Emphasized the importance of Sharia compliance in economic activities. Nizam Yaquby : Promotes ethical conduct and adherence to Sharia principles in Islamic finance (Iqbal, 1997).

Islamic economics aims for equitable wealth distribution and social justice. Ibn Khaldun (1332–1406): Discussed the importance of social justice and wealth distribution in economic systems. Muhammad Taqi Usmani (b. 1943): Advocates for Zakat and other mechanisms to promote wealth distribution (Iqbal, 1997).

Takaful operates on the principles of mutual assistance and solidarity, where participants pool resources to cover each other's risks. Muhammad Nejatullah Siddiqi (b. 1931): Discussed the principles of mutual assistance in Islamic insurance (Takaful) (Ahmad *et al.*, 2011). Dr. Mohd Ma'Sum Billah: Contributed to the development and promotion of Takaful globally. These theories have been developed and advocated for by various scholars and authorities over the years, contributing to the principles and practices of Islamic economics, finance, banking, and insurance (Iqbal, 1997).

4.0 Review of current trends of Islamic economics, finance, banking and insurance in Nigeria

4.1 Islamic economics

As of 2023, Islamic finance, banking, and insurance in Nigeria were gradually growing, albeit still in their early stages compared to conventional finance. Nigeria has seen the emergence of Islamic banks, insurance companies, and other financial institutions to cater to the needs of the Muslim population seeking Sharia-compliant financial services. The CBN has introduced regulations and guidelines to govern Islamic finance operations in the country, providing a regulatory framework for the industry's growth (Alao & Alao, 2012).

Islamic financial institutions in Nigeria have been innovating and introducing new Sharia-compliant products and services to meet the diverse needs of customers, including Islamic bonds (Sukuk), Islamic mutual funds, and Takaful insurance (Oladunjoye, 2014). Efforts to raise awareness and educate the public about Islamic finance have been ongoing, with seminars, workshops, and educational programs organized to promote understanding and adoption of Sharia-compliant financial practices. Investments in infrastructure to support Islamic finance activities, such as Sharia-compliant banking systems and legal frameworks, have been made to facilitate the industry's growth (Ayanleye, 2017).

As of 2023, Islamic economics, finance, banking, and insurance in Nigeria were gradually evolving, albeit in their early stages compared to conventional counterparts. Some key developments include:

4.2 Islamic finance

Concepts such as Sharia-compliant investment funds, Islamic microfinance, and social finance initiatives have gained traction. Products like Sukuk (Islamic bonds), Islamic mutual funds, and Sharia-compliant investment portfolios have been introduced to the market. Islamic banks offer a range of services including Mudarabah (profit-sharing), Musharakah (partnership), and Ijarah (leasing) financing arrangements. Takaful operators provide different types of coverage, including family Takaful, general Takaful, and investment-linked Takaful plans. CBN has implemented regulations and guidelines to govern Islamic financial transactions, ensuring compliance with Sharia principles. Continuous innovation has led to the introduction of new Sharia-compliant products and services tailored to meet the diverse needs of customers.

The Securities and Exchange Commission (SEC) is a governmental body responsible for regulating and advancing the Nigerian Capital Market. In accordance with Section 313(6) of the Investments and Securities Act 2007, the SEC has issued regulations pertaining to Sukuk (Islamic Bonds). Sukuk involves investment activities guided by Shari'ah principles and endorsed by the SEC. A core requirement of Sukuk is that it must be asset-backed. These regulations provide guidelines, Shari'ah rulings, and principles that all Sukuk issuers must comply with, and they also include provisions for a Shari'ah adviser. We understand that asset-backed sukuks facilitate risk-sharing in high-risk ventures, provide project flexibility, and encourage public-private partnerships.

Efforts to raise awareness and educate the public about Islamic finance have included seminars, workshops, and educational programs aimed at promoting understanding and adoption of Sharia-compliant financial practices. Investments in infrastructure, such as Sharia-compliant banking systems and legal frameworks, have been made to support the growth of Islamic finance activities in Nigeria.

4.3 Islamic banking

One of the prominent Islamic bank in Nigeria is Jaiz Bank Plc. Jaiz Bank is Nigeria's first full-fledged non-interest (Islamic) bank, established in 2003 and licensed by the CBN in 2011. It offers a range of Sharia-compliant banking products and services to individuals, businesses, and organizations in Nigeria (Alao & Alao, 2012). The authorization of Jaiz International Bank as a fully-fledged Islamic Bank sparked considerable debate, largely stemming from deep-seated fears of tribal dominance in Nigeria rather than doubts about the viability of Islamic banking itself. Any policy with religious connotations would likely face similar scrutiny, irrespective of its faith or potential benefits. Opposition from the Christian Association of Nigeria (CAN) and other Christian groups, who viewed it as an attempt to Islamize the country, hindered the growth of Islamic finance. This opposition led to legal challenges, including one filed in the Federal High Court to nullify Jaiz's license. In response, the CBN revised its guidelines multiple times, some of which contradicted Islamic finance principles. This inconsistency in the regulatory framework has impeded the development of Islamic finance. For instance, the initial draft outlined various Sharia-compliant finance models, but the final version omitted these specifics, leaving banks to interpret and potentially deviate from Islamic finance principles in their product offerings (Abdul-Maliq, 2010).

Other Islamic banks or financial institutions may also exist, but Jaiz Bank Plc is one of the most well-known. Other Islamic banks are Lotus Bank limited, TAJ and Alternative Bank Limited. Therefore, sukuks serve as an effective mechanism for infrastructure financing, as they remove debt from the issuer's balance sheet by allowing investors to own and share in the gains of the financed assets. This presents an appealing capital market instrument for exploration by both corporate entities and governments at various levels.

The non-interest capital markets are poised to play a significant role in the current economic agenda pursued by the administration of His Excellency, President of the Federal Republic of Nigeria, Bola Ahmed Tinubu. Substantial investments in critical infrastructure are essential for the country's economy to achieve its desired scale. Given the high debt-service to revenue ratio, sukuks represent a viable alternative to traditional financing methods."

Prudential requirements are favorably supporting the growth of Islamic banking. The CBN, as the regulator, has implemented more lenient regulatory liquidity ratios for Islamic banks, set at 10% compared to 30% for conventional banks. Additionally, Islamic banks benefit from a 50% discount, known as the "alpha-factor," in the calculation of risk-weighted assets, a privilege not extended to conventional banks. This significantly boosts the capital ratios of Islamic banks, enabling them to expand their market share with fewer capital constraints. For instance, Jaiz Bank experienced a capital ratio increase of 570 basis points by the end of the first quarter of 2022 due to this discount.

The infrastructure for Islamic liquidity management is undergoing development. In 2022, the CBN introduced funding-for-liquidity and intra-day facilities specifically tailored for Islamic banks. However, there are currently no Islamic alternatives available for government treasury bills, commercial papers, or promissory notes. In addition, the takaful share of total insurance sector premiums in 2022 was estimated to be less than 1%, with insurance penetration overall remaining very low at 0.4% in 2021.

4.4 Islamic insurance

The National Insurance Commission (NAICOM), established in 1997, ensures effective administration, supervision, and regulation of insurance business in Nigeria. In line with its mandate, NAICOM issued the Takaful-Insurance Guidelines in 2013 under Section 7 of the NAICOM Act 1997. These guidelines serve as the primary regulatory framework for Takaful-Insurance, outlining requirements and minimum standards to safeguard the interests of consumers/participants. They govern Commercial Takaful-Insurance business operations in Nigeria, encompassing establishment of Takaful-Insurance operating models, governance standards, fund management methods, participant management, operational requirements, capital standards, and reporting obligations for Takaful-Insurance Operators. The guidelines encompass three types of Takaful-Insurance: Mudarabah, Wakala, and a hybrid of Wakalah-Mudarabah.

Noor Takaful Insurance Ltd, a takaful insurance company, was founded and officially licensed by NAICOM in April 2016, becoming Nigeria's inaugural full-service composite takaful insurance provider, fully owned by Nigerian shareholders. It holds a pioneering position in advancing takaful insurance opportunities within Nigeria and operates under the regulatory oversight of NAICOM and the Insurance Act 2003.

In Takaful, individuals and businesses worried about risks contribute regularly, akin to donations, to be reimbursed or repaid to members in case of loss. These contributions are managed by a Takaful operator on behalf of the participants. Takaful, like other Islamic financial products, is based on Islamic Muamalat, which pertains to commercial and civil transactions within Islamic law.

5.0 Conclusion and recommendation

Overall, while Islamic finance, banking, and insurance in Nigeria have made progress, there is still significant potential for further development and expansion in the coming years. Continued regulatory support, product innovation, and awareness-building efforts are expected to contribute to the industry's growth and maturation. The prospects of Islamic economics, banking, finance, and insurance in Nigeria are promising and could contribute significantly to economic and financial growth. Here are some recommendations to harness these opportunities:

Islamic finance can help enhance financial inclusion by providing access to banking and insurance services to segments of the population traditionally underserved by conventional banks. Encouraging the growth of Islamic banking and Takaful insurance could help reduce financial exclusion and promote economic empowerment. Investing in the infrastructure necessary to support Islamic finance operations, such as Sharia-compliant banking systems and legal frameworks, can facilitate the industry's growth and attract both domestic and foreign investment (Abdu *et al.*, 2018).

Increasing awareness and understanding of Islamic finance among both the general public and financial professionals is crucial. This can be achieved through educational programs, seminars, and workshops aimed at promoting the benefits and principles of Sharia-compliant finance. Continued regulatory support from the CBN and other relevant authorities is essential for creating an enabling environment for Islamic finance. Clear and consistent regulations will provide certainty for investors and financial institutions operating in this sector.

Encouraging innovation in Sharia-compliant financial products and services tailored to the needs of the Nigerian market can stimulate demand and diversify the range of offerings available to consumers and businesses. Collaboration between Islamic financial institutions, conventional banks, government agencies, and international development partners can help leverage resources, expertise, and networks to promote the growth of Islamic finance in Nigeria. By implementing these recommendations, Nigeria can harness the potential of Islamic economics, banking, finance, and insurance to foster economic and financial growth, promote financial inclusion, and contribute to overall socioeconomic development.

AUTHORS' CONTRIBUTIONS

This work was carried out by the authors. The two authors read and approved the final manuscript.

COMPETING INTERESTS

Authors declared that no competing interests exist.

DATA AVAILABILITY STATEMENTS

All data used in this study is publicly available and could be retrieved from corresponding author.

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