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# Islamic Banking: A Comparative Survey with Christianity and Conventional Banking

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**Abstract:** Nigeria as a secular state is dominated by Christianity and Islam hence the name Islamic Banking raises curiosity. This study is purely a theoretically based discussion on Islamic accounting, banking and finance in Nigeria. Nigeria is generally recognized and widely referred to as the 'giant of Africa'. Again, she is being recognized and looked upon to be the hub of economic development of the whole of Africa. To maintain this great name, Nigeria has to improve her economy in all ramifications, hence, the issue of Islamic accounting, banking and finance among scholars provided evidence of economic benefits and development in Nigeria and among countries that have Islamic financial institutions (IFIs). The primary characteristics of Islamic Banking are; prohibition of interest, low consumer lending, sharing of risks, sharing of profit or loss and high real sector investing, which seem to be in divergence with the conventional banking concept and practice. The Study adopted a literary review of Islamic and Christian literature on economic matters in relation to their faith/ belief system. The principal information apart from commentaries of scholars are derived from the Holy Bible and the Quran. The concept can also refer to the investments that are permissible under Shariah. This study recommends that both the government and promoters of Islamic accounting, banking and finance should make sincere effort through collaboration that will bring about a more detailed guideline for full operationalization of Islamic accounting, banking and finance in Nigeria.

**Keywords:** Islamic, Mudarabah, Riba, Banking

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## **1. Introduction**

Islamic banking simply refers to a system of banking or banking activity that is consistent with the principles of the shariah (Islamic law) tailored and protected by Islamic economics, given that Islam is a complete way of life that does not separate beliefs and daily activities including any involvement in economic activities. The principle deals with universal appeal and lay emphasis on moral and ethical values in all dealings of human transactions.

In 2012 the Central Bank of Nigeria issued a license to Jaiz Bank Plc to operate as a regional interest free bank in Northern Nigeria. As a result of that, Jaiz bank became the first and the only fully fledged Islamic bank in Nigeria.

Consequently, with the 2005 Banking sector Reform of consolidation, 89 banks that hitherto existed in 2004 became fused into 25 banks as at December 2005 and still reduced to 24 banks in 2009, and 27 banks with Government licenses as

at September 2019. Eight of the banks have International authorization, ten with National authorization, two with Regional Authorization, another two of non interest banks in Nigeria and five Merchant banks.

Incidentally, a lot of consequences followed the Banking Sector Reform of which loss of job became a major issue and of course led to so many socio economic and political challenges, since an idle mind is devil's workshop. According to Aliyu (2012), Islamic banking broke the monopolistic environment of the conventional banks thereby introducing competition in addressing banking activities towards interest, uncertainty and speculation [1]. He made it clear that Islamic banking changed the banking scenario by prohibiting interest, despising uncertainty and denouncing speculation.

According to Khan and Mould (2008) interest is considered as an unjust and exploitative instrument of financing given that the lender is assured a return without doing any work or sharing in the risk while the borrower, in spite of hard work, is not assured of a positive return [2].

Islamic banking has been defined as the business of financial intermediation, mobilizing savings from the public on the basis of partnership and profit and advancing capital to entrepreneurs on the same basis [3]. He added that Islamic banking is a system of banking that complies with the principles of Shariah (Islamic law) and its practical application through the development of Islamic economics. The Central message of Islamic law concerning economics or business is that payment or acceptance of interest fees for the lending and accepting of money respectively is forbidden. The implication is that Islamic financial institutions including banks must operate business and economic transactions on free interest system.

Contemporary situation:- In modern parlance, usury is the illegal practice of lending money at unreasonably high rates of interest. The intent of usury is commonly for the lender gaining an unfair profit from the loan. There seems to be a little complication with the initial understanding of usury referring to interest in general as opposed to the modern understanding of exorbitantly and illegal high interest rates.

According to Deut. 23 vs 19, the Israelites were forbidden from charging usury or interest on loans to fellow Jews but allowed to charge interest on loans to foreigners. The aim of this law is to remind the Jews that helping those in need is something that should be done without expecting anything in return.

It is true that the Bible does not prohibit or condemn the charging of interest it does warn against becoming too concerned with money hence one cannot serve both God and money at the same time. (Matt. 6:24). The Bible adds that the desire to be rich leads to destruction and that the love of money is the root of all evil (1Tim. 6:9-10). Furthermore, the Bible warns people not to take advantage of the plight of the poor (sharks) because those who gouge the needy in the time of their distress will not enjoy their spoils for long (Prov. 28:8).

Among other things Islamic Banking /Financing helps in fostering financial inclusion which is an indication of the extent citizens of a Country can access financial services.

Hence, Adewusi (2011) sees financial inclusion as the provision of a broad range of high quality financial products like savings, credit, insurance payments and pensions that are not only relevant but appropriate and affordable to serve the needs of the entire adult population, especially the low income group [4]. The European Central Bank (2011) concisely describes an Islamic financial system as one that complies with Islamic religious law (shariah) whereas, Filippo, Pierluigi, Stephane, Angela, Lauven, Baljeet, Sergio, Steven, and Sajjad (2013) see Islamic financial system as a feature that brings reconciliation between secular financial system and basic tenets of Islamic faith [5, 6]. Hence Islamic religion does not permit any economic independence outside the faith. Similarly, Olanipekun, Brimah and Ajagbe (2015) add that Islamic finance is a financial service or product principally implemented to comply with the main tenets of shariah (Islamic law) [7]. For Ahmed (1999), Islamic finance has branches as Islamic

banking, Islamic Insurance, Islamic Equity funds, Islamic investment, Islamic venture and Islamic capital leasing [8].

There is need to examine the concept of interest, Riba or Usury under Islamic perspective. The 3 words, interest, Riba and Usury which are used interchangeably mean the same thing.

For Abraham (2008) Riba, interest or usury means the increase or excess above the principle on a loan [9]. He argues that this Riba, interest or usury is considered as illegitimate practice in the Muslim Holy book known as Qur'an.

Furthermore, Lawal (2010) considers Riba, interest or loan to be an amount paid to the capital owner over the principal amount of a loan for deferment of loan repayment and allowance of maturity period [10]. The excess amount is supposed to cater for the time value of money.

In a clearer picture, Gruening and Iqbal (2008) present Riba, interest or usury as any positive, fixed, predetermined rate tied to the maturity and the principal amount without consideration to the investment performance [11].

Highlighting the fundamental Islamic stand on Riba, interest or usury which prohibits Muslims from taking or giving it (Riba, interest or usury) for whatever, purpose, Audia, (2014) categorized Riba, interest or usury under four basic understanding as follows:

1. That Riba, interest or Usury deprives or denies one the wealth of God's blessings.
2. That Riba, Interest or Usury amounts to wrongful appropriation of property belonging to other people.
3. That staying out of Riba, interest or usury promotes the welfare of adherents.
4. That Muslims should take only the principal sum of any trade and even forgo the principal sum if the borrower is unable to repay.

## 2. Christianity Stand Point

The Bible approves usury which is lending with interest but disallows or disapproves it when it comes to the poor. It also argues that one should not lend and charge interest to someone else with whom he or she has a personal relationship such as family or friends. (Deut. 23:20). Again it holds that usury, lending with interest must not be done for unjust gain Prov. 28:8. For specific mention is the caution in Exodus 22v25 that lending with interest (Usury), when it concerns the poor should be restrained. "If thou lend money to any of my people that is poor by thee, thou shalt not be to him as an usurer, neither thou shalt lay upon him usury.

Receiving interest from banks and investments is acceptable as exemplified by the parable of the talents in Matthew 25 vs 27. "thou ought to have put my money to the exchangers, and then at my coming I should have received mine own with usury".

An in depth analysis reveals a sharp contrast between the Islamic treatment of interest and that of Christianity. Essentially, whereas Islamic economics forbids interest, Christianity allows it, though with some exceptions.

### 3. Convergence and Divergence

Islamic banking provides financial services just like conventional financial institutions or banks.

Unlike conventional banks that charge and depend on interest upon funding/financing, Islamic banking recognizes profit and loss sharing and prohibition of interest.

Conventional banks comply only with National Financial Laws where as Islamic banks comply naturally with Islamic laws and then National Financial laws. According to Aburime and Alio (2009) Islamic banking dwells on joint venture whereby profit or loss is shared with the borrower; unlike the conventional one where the borrower is required to pay a predetermined interest on the amount borrowed whether business turns out good or bad [12].

Again, it is necessary to point out that among other things, Islamic banking provides opportunity for risk sharing between the fund provider (investor) and the fund user known as Entrepreneur.

There is no separate banking, financing or Accounting principle and operation for the Christian faith other than the traditional/conventional one largely due to inability in enforcing belief. While Christianity uses persuasion, Islamic faith uses force in inculcating belief systems.

The most important difference between Islamic bank and other banks is that Islamic bank strictly adheres to the norms of Islam, according to which lending with loan interest (usury) is prohibited. All Islamic financial instruments are constructed in such a way as to fulfill this condition and at the same time to profit from their activities.

Usually, a traditional bank (conventional bank) buys and sells cash, while benefiting from loan interest. The Islamic bank also transfers and thrives on similar principles.

The bank opens accounts which accumulate the funds of depositors. Through those means, it finances entrepreneurs. However, instead of the traditional interest, the entrepreneur divides his profits with the bank and the later (bank) in turn with the depositor.

Hence, the remuneration of a bank or a depositor is not initially guaranteed, but arises when a business makes profit. So while the basis of the dominant banking system is fully derived from the economic turnover, loan interest, the basic principle of the Islamic bank is that, since money is not a commodity it cannot grow only when issued in the form of a loan. Consequently, the lender can only profit if the money invested in the economy created a real added value.

Therefore, traditional loans and deposits for which interests are charged are outlawed as well as bonds-interest-bearing securities.

Specific forms of Islamic banking activities include

(a) Musharakah. This is a joint implementation of a project by the bank and an entrepreneur in the framework of this operation, the bank sponsors a certain project. The roots of these operations go back to the caravan trade when some merchants provided goods others delivered them to their destination and sold them. Under Musharakah, the bank carries out financing that is not related to the collection of

projects is as follows. A certain share is allocated to the partner in payment for his work, managerial experience or other participation in the transaction or project. The partner and the bank that provide financing in a ratio proportional to the contribution of each participant to the total costs of the project. Losses are distributed in proportion to participation in financing.

(b) Mudarabah: this is an agreement according to which a client of a bank transfers money to the bank for subsequent investment of this money into a certain project or type of activity. The project received during the implementation of the project is divided in a specified proportion.

Islamic uniqueness lies in the fact that the client knows where his money goes. The bank cannot invest in prohibited activities like the production and sale of alcohol, the organisation of gaming – houses or other unlawful acts. Also Mudarabah excludes interest in pure form.

(c) Murabaha: this involves the financing of commercial transactions, a variety of the contract of sale. The bank acquires a certain product for resale. Such activities do not contradict the Shariah since trade involves some personal involvement and effect. The bank takes over the organisation of sales, storage, transportation etc. for example, the bank acquires goods at its own expense for the customers' order, in this case the bank assumes the entire risk of the trading operation. Later on, the bank results the goods to the customer of a price that includes the extra charge stipulated in the contract. This mark up becomes the income of the bank.

Islamic banking is based on the ethical principles of fairness, transparency and integrity. Non-interest Islamic banks do not give or receive interest, nor finance anything that is harmful to society like; alcohol, tobacco, gambling etc.

Hence, non-interest banking is a financing arrangement through sales on markup, leasing and profit and loss sharing partnership.

### 4. Recommendation

This study recommends that both the government and promoters of Islamic accounting, banking and finance should make sincere effort through collaboration that will bring about a more detailed guideline for full operationalization of Islamic accounting, banking and finance in Nigeria. The guidelines should be very simple, not ambiguous and it should clearly the rules and policies for conduct of the business in line with sharia principles. There is also need for the government to collaborate more with the stakeholders as regards to awareness creation and education of the general public about the benefits of Islamic accounting, banking and finance, its openness to everybody irrespective of religion and culture. The investors should be invited by the government to tap the market of Islamic banking and finance, this implies that both government and the promoters of Islamic banking and finance should invite foreign investors and form a sustainable partnership and alliance that will bring about the growth and expansion of the market which is

in consistent with the sharia law [13].

Islamic accounting, Islamic banking and finance in Nigeria offer a huge investment opportunity for both domestic and foreign investors. All that is needed is for all stakeholders to collaborate in a way that a structured, functional and sustainable Islamic banking and finance model will be formulated and communicated widely so as to gain general acceptability. Also, effective and harmonious relationship and understanding between different religious sects in the country will go a long way in enhancing the growth and development of Islamic accounting, Islamic banking and finance in our nation Nigeria. A mechanism is needed to ensure that Islamic finance is treated on a par with conventional finance, and that Sharī'ah laws of the country's jurisdiction are harmonized and converged. The government should ensure that the commercial law in Nigeria can integrate the Islamic commercial law.

Finally, this study will serve as a guide for all interested investors both in Nigeria and other part of the world for Islamic banking and finance industry. It will equally serve as a reference point for stakeholders in the industry when they are faced with issues and challenges regarding Islamic banking and finance.

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