

Nigeria: Shariah as a business driver in the Islamic financial ecosystem

The Nigerian Islamic finance industry will continue its growth trajectory in 2023–24 on the back of government Sukuk issuance and a policy push but is still likely to remain nascent in the medium term. Nigeria houses the largest Sukuk market in the African region with an outstanding issuance of NGN755.5 billion (US\$979.25 million), albeit small by global comparison. The size of the Nigerian Islamic finance industry was estimated at US\$2.9 billion at the end of 2022, with outstanding Sukuk being the largest segment at 57%, followed by Islamic banks at 42% (total assets) and the remaining 1% between Islamic funds (total assets) and Takaful businesses (total contributions). PROFESSOR DR ABDUSSALAM ISMAIL ONAGUN explores.



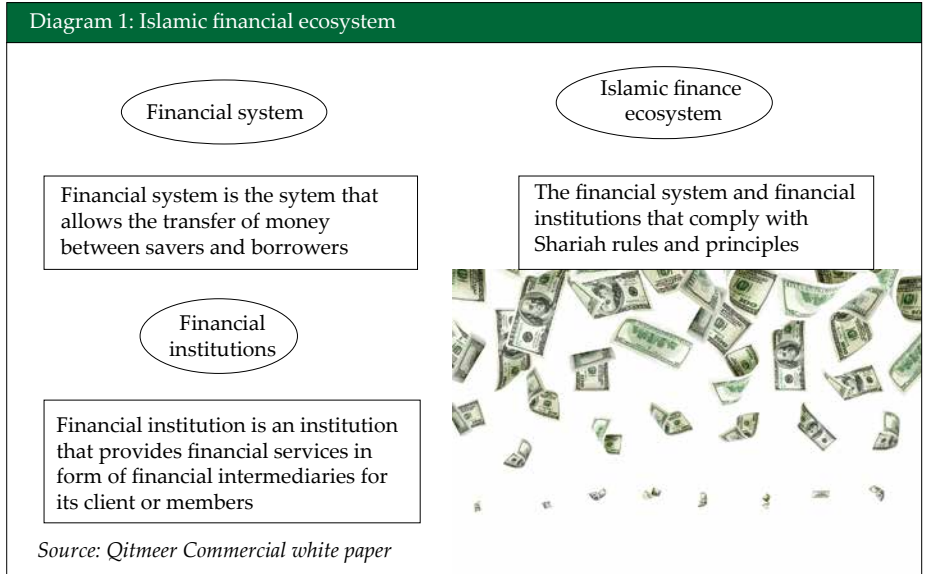
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Islamic banking – referred to as non-interest banking in Nigeria – is growing swiftly from a low base on the back of a strong financing push (including from newly-established Islamic banks), a growing capital base and the government’s more lax prudential requirements compared with those for conventional banks. Challenges include a limited Islamic banking footprint, inadequate number of Shariah expert professionals and low public awareness of Islamic products. The Central Bank of Nigeria (CBN) has issued policies and guidelines for the effective regulation and supervision of non-interest banking, and adopts guidelines and regulatory standards issued by the IFSB.

Takaful undertakings are considered as the second developing and growing segment in contemporary Islamic finance in Nigeria. It is Shariah-justified scheme adapted in the economy as an alternative to conventional insurance. In 1985, the Islamic Fiqh Academy, an organization of Islamic countries, resolved that conventional insurance is Haram (forbidden) for it contains elements of Gharar (uncertainty) and Riba (usury).

However, the Islamic Fiqh Academy approved the use of the mutual form of insurance that conforms to the principles of Shariah as an alternative to conventional insurance. A Takaful undertaking is a business arrangement whereby a Takaful operator manages one or more underwriting funds (Takaful funds) belonging to the Takaful



participants. The National Insurance Commission (NAICOM) in Nigeria has issued policies and guidelines for the effective regulation and supervision of Takaful undertakings. The Takaful undertakings are established on the principles of Islamic laws and regulatory standards issued by the IFSB.

Takaful operations are regulated by NAICOM; however, NAICOM operates a dual insurance system, namely a conventional insurance system operating in tandem with the Takaful insurance system. The supervisory body has adopted elements of the two methods with regulation and supervision, and the African Takaful industry has experienced rapid growth and transformation, especially in the Federal Republic of Nigeria.

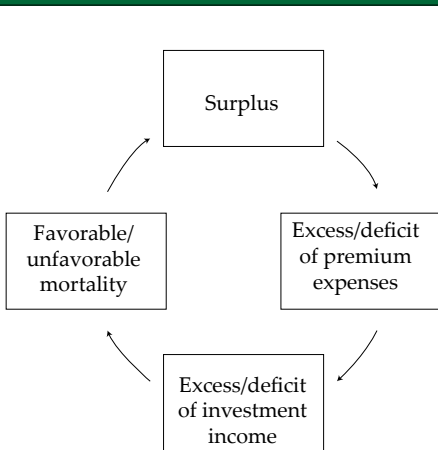
The Shariah business law is a regulatory requirement for the Islamic financial ecosystem. The IFSB standards state that: “Any IIFS [institution offering Islamic financial services] shall have in place a

strategy for Shariah compliance, using various instruments in compliance with Shariah rules and principles”. The Shariah business law can be defined “as the practical divine law deduced from its legitimate sources: the Quran, Sunnah, consensus (Ijma), analogy (Qiyas) and other approved secondary sources of Shariah”. However, the Shariah rulings are the recommendations or regulations related to the acts for the subjects divined by Shariah law.

The Islamic financial ecosystem and Islamic financial institutions comply with Shariah rules and principles. However, the conventional financial system allows the transfer of money not as a commodity between savers and borrowers. The details can be explained in Diagram 1.

The Takaful undertaking is a win-win model of insurance where the Takaful participants who did not make claims are entitled to the surplus. However, the sharing of the surplus is based on the Shariah consideration of the Takaful

Diagram 2: Surplus in conventional insurance



Source: Qitmeer Commercial white paper

business. The term surplus in Takaful is actually the excess contribution over claims payments in the Takaful fund. A surplus in Takaful operations is the total contributions paid by the Takaful participants (insured) less the total value of claims paid (adjusted for any claim recoveries from re-Takaful/reinsurance), less operator fees charged and less reserves for outstanding claims. Surplus in conventional insurance is explained in Diagram 2.

Surplus in Takaful is different to the surplus in conventional insurance and arises from:

- Excess/deficit of premium expenses loading over expenses incurred
- Excess/deficit of investment income realized over expected income, and
- Favorable/unfavorable mortality/morbidity experience over the expected.

In conclusion, Shariah is the business driver of all segments of Islamic financial institutions which include Takaful undertakings. Qitmeer Smart Consultancy can help in providing its professional services and assist in the challenges facing the Islamic finance ecosystem in Nigeria.

The Islamic financial ecosystem remains the best alternative to the conventional financial system as it helps to promote financial inclusion. The Islamic finance industry offers huge untapped potential for growth and prosperity as more and more Muslims and non-Muslims worldwide are seeking better opportunities each day to satisfy their financial needs. ☺

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