

HISTORY, EVOLUTION AND CONTRIBUTIONS OF ISLAMIC BANKING AND FINANCE

By:



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OUTLINE

- Introduction to Banking and Finance
- Islamic banking and Finance
- Historical development of Islamic banking and Finance
- Contribution of Islamic banking and finance to the global economy
- Relevance to the Nigerian Economy
- Challenges
- Conclusion.

INTRODUCTION TO BANKING & FINANCE

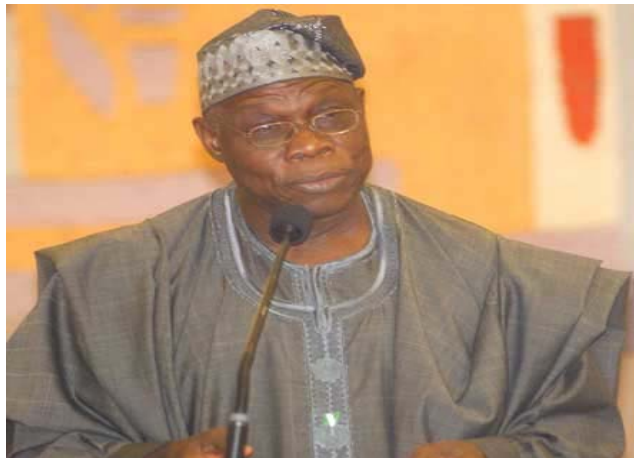
- Banking is an industry that handles cash, credit and other financial transactions.
- A business of financial intermediation between the surplus and deficit side of the economy.
- Much of the return on its investment is made from the differential between its lending and deposit rate of interest.
- Its reserve requirement allows it to hold only 10% of its total deposits and give out the remaining 90% on loan and enjoys DIS.
- It could be retail, commercial, merchant, community, Micro finance, Special, Non-Interest (Islamic) or Central.
- Finance involves banking, Insurance and Capital Market but mostly dominated by banking.

ISLAMIC BANKING AND FINANCE

- The Islamic Banking and Financial Service has been the greatest modern innovation in the world of banking and finance. It is now one of the fastest growing sectors of the financial market.
- It is banking and finance with bias for ethical practices of divine orientation.
- Its products are based on permitted economic and commercial activity as outlined in the Quran and Sunnah within permissible sources of income and prohibited limits.
- It is a universal banking, a composite of financial instruments distanced from *riba* (interest), *maisir* (gambling) *gharar* (uncertainty – futures and hedges) and investment in outlets prohibited in Islam e.g. alcohol, swine, pornography and is focused on distributive justice.

ISLAMIC BANKING AND FINANCE

- It operates on profit and loss basis – lender must share the borrower’s risk to be able to share in his profit.
- Its scope of permissible transaction is wide with few limitations: “the fundamental of transactions is permissibility”
- The limitations are based on preference for public benefit over individual selfish interests.
- It combines profitability with attainment of social justice
- President Obasanjo summarised what IF seeks to avoid:



“All that we have borrowed up to 1985 or 1986 was around \$5 billion and we have paid about \$16 billion yet we are still being told that we owe about \$28 billion.

That \$28 billion came about because of the injustice in the foreign creditors’ interest rates. If you ask me what the worst thing in the world is, I will say it is compound interest”

President Obasanjo of Nigeria, G8 Summit in Okinawa, 2000

HISTORICAL DEVELOPMENT OF ISLAMIC BANKING AND FINANCE

- Despite being seen as a modern phenomenon, IF is as old as the religion itself revealed some 1448 years ago.
- Trade, based on the principles of Islamic commerce, flowed from Gibraltar (Jabal Tariq in Arabic) to the Sea of China in C7th-13th (G/Era).
- Financial Innovations like bill of exchange or letter of credit were well established in state and private commerce and Sakk (cheque) was used as cross-boarder instrument.
- Demonetized Post-Roman Europe used the trade of furs and lumber with the Islamic Caliphate to get desperately needed hard currency in the form of Islamic coinage.

HISTORICAL DEVELOPMENT OF ISLAMIC BANKING AND FINANCE

- Ottoman Empire issued the first Sukuk in 1775 against its future income on tobacco customs levies to fund its budget deficit (Murad Cizakca – 2009)
- Ahmed El-Nagar founded interest free savings bank, in Mt. Ghamr, Egypt in 1963 led to Nasser Social Bank
- Muslim Bank of West Africa (Nigeria) about the same time 1963 but license revoked late 60s- early 70s.
- Had two cases in court: *Nigerian Breweries Ltd. v. Muslim Bank of West Africa* (1963) and *United Nigerian Insurance Ltd. v. Muslim Bank of West Africa* (1972)

HISTORICAL DEVELOPMENT OF ISLAMIC BANKING AND FINANCE

- The Muslim Pilgrims Savings Corporation, (Tabug Hajj) was founded in 1963.
- Philippine Amanah Bank, established 1973 (Gov)
- Dubai Islamic Bank was established 1975 (priv).
- IDB established in 1975
- Kuwait Finance House was established in 1977.
- Faisal Islamic Bank Egypt and Sudan 1977.
- Bank Islam Malaysia, 1983.
- 1st Modern Sukuk issued in Malaysia, Shell, 1990
- International Islamic Financial Market, 2001
- Islamic bank of Britain 2004
- Jaiz International Bank Plc. 2011.

CONTRIBUTION TO THE GLOBAL ECONOMY

- With humble reemergence in the 60s, there are 1,329 institutions in about 70 countries offering IF products.
- About \$2 trillion global Islamic Finance Asset
- It has become the bride International development agencies like UN, World Bank while nations are jostling to be its hub for its potential to reverse the global income and wealth distribution inequality.
- It is driving the current “**global financial order**” – Sustainable Development and Shared Prosperity (*World Bank; IDB, Global Report on Islamic Finance, 2017*)

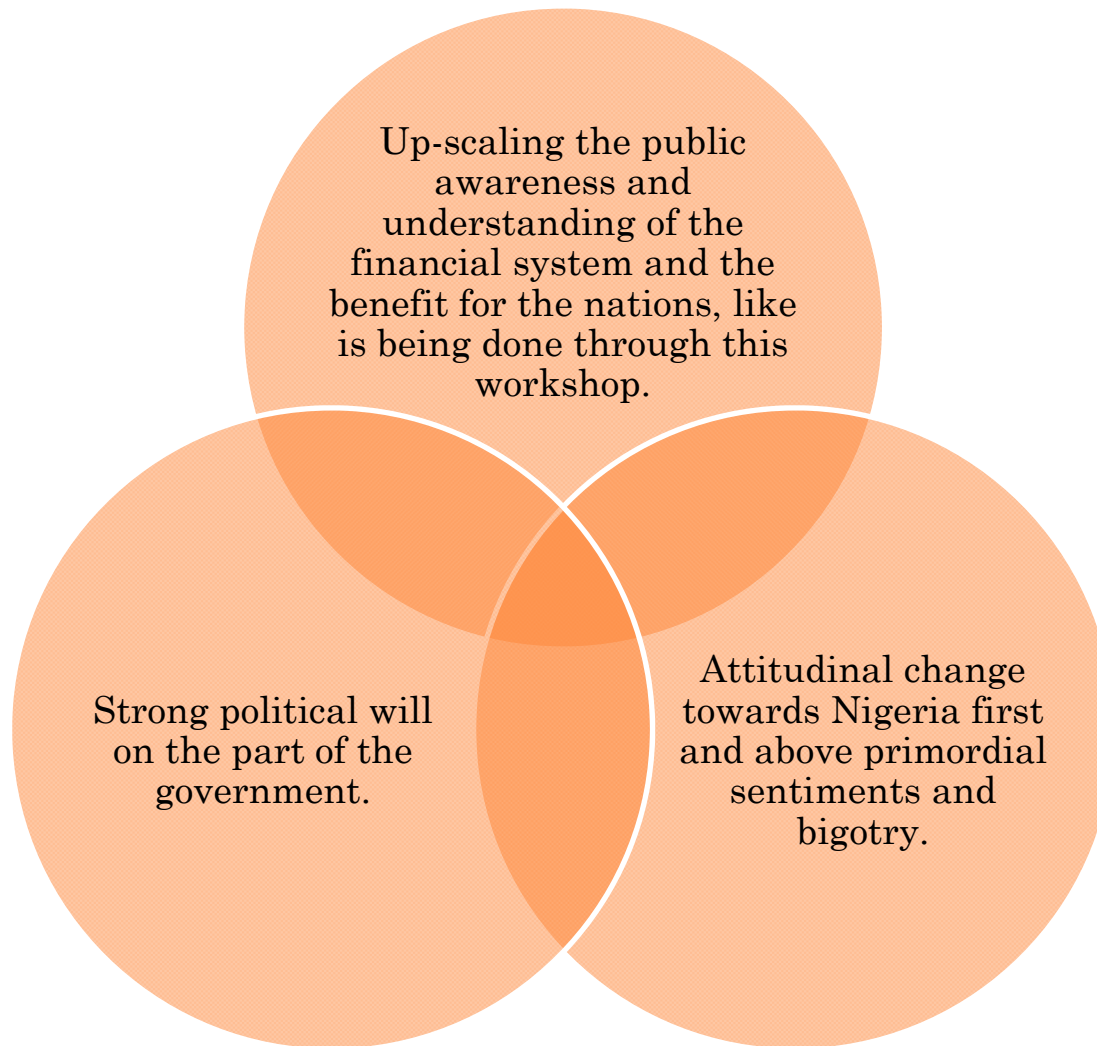
RELEVANCE TO THE NIGERIAN ECONOMY

- It provides outlet for the government economic objective, S. 16 CFRN, 1999.
- It promotes human rights of great percentage of the populace, thereby engendering sense of belonging, s. 38, CFRN, 1999.
- It promotes financial inclusion as against exclusion perpetrated over the years by the conventional banks.
- 74% of the Nigerian adults were unbanked 21% of adults were banked and 5% previously banked.
- about 65% of the cash in circulation in the Nigerian economy is outside of the banking system (EFInA, 2008 and Abikan, 2014).
- It promotes allocation of resources to critical sectors of the economy (Energy, Agric, Manufacturing, SMEs)

CHALLENGES

- Policy related: Initial lack of policy after BOFIA, 1991; and later policy summersault 2004-2005 CBN Reform.
- Perception and attitude related:
 - Inability to rise above the tribal and religious sentiments.
 - * Prof. Charles Soludo was not seen as Islamizing Nig. when he joined IFSB in 8/1/2009 and issued FRSINFSN in March 2009.
 - * Sanusi Lamido was seen as Islamizing Nig. for courageously correcting the error identified by Soludo himself and joining IILMC in 2010.
 - * Godwin Emefiele is not seen as Islamizing Nig. for sitting as current Chairman GB of the 10 nation-board of IILMC.
 - These perception are borne out of attitude of mutual mistrust, a **dismal tunnel** Awolowo predicted Nig. was entering upon the Military takeover of government (R. Joseph, 2008).
- Regulatory related: No substantive law yet in Nigeria.

WAYS OUT



CONCLUSION

Islamic financial system has come to stay on the global financial scene and is impacting positively on real economic development and shared prosperity. Different nations of the world, particularly the less Muslim populated like the UK, USA, Singapore are keying-in to the system and amending their statutes to accommodate it irrespective of its faith base.

That is the surest way to go for any nation that is interested in real economic development and shared prosperity.

Thank you
for
listening.