



**A STUDY OF FACTORS INFLUENCING THE CHOICE
OF ISLAMIC BANKING AMONG NON-MUSLIM
CUSTOMERS IN NIGERIA**

BY

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**A research paper submitted in fulfilment of the requirement
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ABSTRACT

Islamic finance has exhibited immense potentials to transform the global financial landscape in the recent years. With consistent double digit growth over the years, Islamic finance is gaining attention in various countries around the world. In reaction to the trend, Nigeria introduced Islamic banking system to cater for the need of the teeming population and promote financial inclusion among other potential benefits. Consequently, Jaiz bank began operating as the 1st full-fledged Islamic bank offering Islamic banking services devoid of any social or religious discrimination or favouritism. Unfortunately, the impressive growth recorded by the bank since its inception is slowing down in the face of religiously induced sentiments and criticisms championed by certain non-Muslim segments of the society. Interestingly, despite the mischievous propaganda in circulation, non-Muslims still constitute a significant customer base of the Islamic bank. Hence, this research sought to investigate the factors influencing the choice of Islamic banking among non-Muslim customers using the theory of planned behaviour (TPB) as a conceptual framework. Sequel to a survey and data analyses, subjective norm was found to be the most significant factor influencing the choice of Islamic banking followed by perceived behavioural control and attitude respectively. This research adopted convenience sampling in three of Jaiz banks branches located in Abuja, Nigeria's capital city and only used the components of TBP. Therefore, further research may opt to adopt a more structured sampling technique and extend the sample to be more representative of the population and also incorporate some other variables not captured in TPB.

Keywords – Theory of Planned Behaviour, Islamic banking, Nigeria, non-Muslim customers.

خلاصة البحث

يظهر التمويل الإسلامي قدراتٍ هائلة على النمو وتغيير هيكل التمويل العالمي في السنوات القادمة. مع نسب نموٍ مكونةٍ من خانتين طيلة السنوات الماضية، يجذب التمويل الإسلامي الانتباه في جميع أنحاء العالم. في هذا السياق، قدمت السلطات النيجيرية نظام التمويل الإسلامي ليخدم الحاجات التمويلية لفئةٍ كبيرةٍ من السكان ويعزز نسب الاحتواء المالي لهذه الفئة ضمن فوائدها الأخرى التي تترجم من هذا النظام. لذلك، أنشئ بنك "جائز" وهو أول بنكٍ إسلاميٍّ مستقلٍ متجرّدًا من أي انحيازٍ اجتماعيٍّ أو ديني. ولكن للأسف، بدأت نسب النمو التي سجلها البنك منذ إنشائه تتراجع بسبب بعض الانتقادات المدفوعة بدوافع دينيةٍ لدى فئةٍ من غير المسلمين في البلاد. بالرغم من هذه الدعاية المغرضة، وللمفاجأة، مازال غير المسلمين يشكلون نسبةً لا بأس بها من عملاء البنك. لذلك، يهدف هذا البحث إلى تحديد الأسباب التي تحدو بغير المسلمين إلى اختيار البنوك الإسلامية مسترشداً بنظرية السلوك المخطط كإطار عملٍ للمقارنة البحثية النوعية. بعد الاستعانة ببعض الاستطلاعات والتحليلات البيانية، وجد الباحث أن المعيار الشخصي هو السبب الأبرز لاختيار البنوك الإسلامية متنوعاً بالقواعد السلوكية المتصورة والمواقف المتصورة -تباعاً-. أتبع هذا البحث أسلوب العينات الملائمة في ثلاثة فروع من فروع بنك "جائز" واقعةً في العاصمة "أبوجا" وتم التعامل معها في ضوء نظرية السلوك المخطط وحدها. لذلك، لا يزال بإمكان باحثين آخرين أن يتبعوا استراتيجية أكثر شمولية في أخذ العينات لتكون أكثر تمثيلاً للسكان أو يتبعوا استراتيجيةً في التحليل تتجاوز الانحصار في إطار نظرية السلوك المخطط.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a research paper for the degree of Master of Science (Islamic Banking and Finance).

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DECLARATION

I hereby declare that this research paper is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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TABLE OF CONTENTS

Abstract	ii
Abstract in Arabic	iii
Approval page	iv
Declaration	v
Copyright Page.....	vi
Acknowledgements	vii
List of Tables	x
List of Figures	xi
CHAPTER ONE: INTRODUCTION	1
1.1 Background of the Study	1
1.2 Statement of the Problem.....	5
1.3 Research Objectives.....	7
1.4 Research Questions.....	7
1.5 Theoretical Framework	8
1.6 Significance of the Study.....	9
1.7 Scope of the Study	9
1.8 Plan of the Study.....	10
CHAPTER TWO: LITERATURE REVIEW	11
2.1 Introduction.....	11
2.2 History of Islamic Banking.....	11
2.3 Islamic Banking in Nigeria.....	14
2.4 Theory of Planned Behaviour	16
2.5 Conclusion	20
CHAPTER THREE: METHODOLOGY	21
3.1 Introduction.....	21
3.2 Proposed Research Framework	21
3.3 Philosophical Stance and Hypotheses	22
3.4 Research Design	23
3.5 Study Area	24
3.6 Population of Study	24
3.7 Sampling	25
3.8 Data Collection and Measurement of Variables.....	25
3.9 Statistical/Data Analyses	27
3.10 Conclusion	28
CHAPTER FOUR: RESULTS	29
4.1 Introduction.....	29
4.2 Demographic Profile of the Respondents	29
4.3 Reliability Test.....	31
4.4 Descriptive Statistics for Variables	32
4.5 Correlation Analysis for Variables	34
4.6 Exploratory Factor Analysis	38
4.7 Multiple Regression.....	42
4.8 Conclusion	44
CHAPTER FIVE: CONCLUSION.....	46
5.1 Introduction.....	46
5.2 Overview of the Research.....	46

5.3 Limitations and Recommendation for Future Research	49
REFERENCES	51
QUESTIONNAIRE	55

LIST OF TABLES

<u>Table No.</u>	<u>Page No.</u>
3. 1 Measurement of Attitude	26
3. 2 Measurement of Subjective Norm	26
3.3 Measurement of Perceived Behavioural Control	27
3.4 Measurement of Choice of Islamic Banking	27
4.1 Demographic Profile of Respondents	31
4.2 Reliability Statistics	32
4.3 Descriptive Statistics for Variables	32
4.4 Correlation Analysis for Perceived Behavioural Control	35
4.5 Correlation Analysis for Attitude	36
4.6 Correlation Analysis for Subjective Norm	37
4.7 KMO and Bartlett's Test	38
4.8 Communalities	39
4.9 Total Variance Explained	40
4.10 Rotated Component Matrix	41
4.11 Model Summary	42
4.12 Anova	43
4.13 Coefficients	43
5.1 Results of Hypotheses Test	49

LIST OF FIGURES

<u>Figure No.</u>	<u>Page No.</u>
1. 1 Jaiz Bank Indicators	6
1. 2 Theory of Planned Behaviour	8
3. 1 Proposed Conceptual Framework	22

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Islamic finance, especially the Islamic banking sector has maintained an impressive growth over the years since its inception (Islamic Financial Services Board, 2016). The relative stability in the performance of Islamic banks during the 2008 financial crises confirmed the inherent resilience of Islamic banking system being a system that ensures synergy between financial activities and the real sector in addition to emphasis on ethical practices. These unique features are largely responsible for the quest for Islamic financial services among Muslims and non-Muslims alike.

Nigeria has not been left out in this apparent new financial world order. With a population of about 186 million, 50% of whom are Muslims (Central Intelligence Agency, 2016), Nigeria becomes an important market for Islamic banking services. Furthermore, International Monetary Fund (IMF) population projection cited in (National Population Commission of Nigeria, 2016) shows that the population may reach 210 million by the year 2021. Interestingly, the desire for Islamic banking services in Nigeria transcends religious divides as non-Muslims constitute a sizeable portion of the overall subscribers of such services.

In reaction to Goldman Sachs Next 11 (N11) projection which shortlisted Nigeria among countries with good growth potentials to be like the major emerging economies of Brazil, Russia, India, China and South Africa (BRICS), the Central Bank of Nigeria (CBN) unveiled the “Financial System Strategy (FSS) 2020” in 2007 as a blueprint to facilitate Nigeria’s development as Africa’s major International Financial Centre (IFC) by the year 2020. This entailed the introduction of non-interest

banking services to promote financial inclusion (“Financial System Strategy 2020,” 2007). Similarly, the Islamic Finance Working Group was created in 2008 in conjunction with Enhancing Financial Innovation and Access (EFInA). The group brought together key players in the financial sector such as the Nigerian Deposit Insurance Corporation (NDIC), National Pension Commission (PENCOM), Securities and Exchange Commission (SEC), National Insurance Commission (NAICOM), Debt Management Office (DMO) and market operators interested in offering Islamic financial services with a representative of the CBN as an observer to provide an avenue for financial development in Nigeria (Sanusi, 2011). Several other measures have been put in place to facilitate the development of Islamic banking in Nigeria as will be discussed in subsequent chapters.

The consistent growth recorded by Islamic banking is partly due to the dissatisfaction with the conventional banking system in the light of rampant unethical practices involving interest rate manipulations, financial crises, money laundering, bankruptcies and bank-runs which has resulted in loss of confidence in the conventional system (Ariff, 2014). Apparently fed-up by the conventional banking system, former president of Nigeria Mr. Obasanjo made a very powerful statement in the year 2000 at the G8 summit in Okinawa, Japan, implying the need for a better alternative which Islamic banking effectively provides. His statement is quoted below:

“All that we had borrowed up to 1985 or 1986 was around USD\$5 billion and we have paid about USD\$ 16 billion yet we are still being told that we owe about USD\$28 billion. That USD\$ 28 billion came about because of the injustice in the foreign creditors interest rates. If you ask me what is the worst thing in the world, I will say it is compound interest.”

Similarly, Josiah Stamp, a former director of the Bank of England, made a statement implying the need for an alternative banking system since 1937 at a public address in Central Hall, Westminster. His statement cited in (Abdullah, 2016) reads:

“The modern banking system manufactures money out of nothing... Banking was conceived in iniquity and born in sin... If you want to be slaves of the bankers, and pay the costs of your slavery, then let the bankers create money.”

The development of Islamic banking in Nigeria has been impressive. In May 2016, Jaiz Bank, the first and only full-fledged Islamic bank in the country upgraded its regional banking license to a national banking license enabling it to perform Islamic banking business throughout the country. Furthermore, the customer base of Jaiz Bank has been growing consistently over the years since its inception in 2012 going by information contained in the bank’s annual reports’. In 2015, the banks customer deposit base exhibited astonishing growth with current account and investment account deposits growth of 43% and 39% respectively. Likewise, the number of customers provided with financing grew to 1507 in 2015 from 1076 in 2014 (Jaiz Bank Plc, 2015). Interestingly, the customers consist of Muslims as well as non-Muslims. Similarly, Sterling Bank began offering Islamic banking services in 2013 through its Islamic banking window, Sterling Alternative Finance (Sterling Alternative Finance, 2017). Stanbic IBTC Bank also offers Islamic banking products via its Islamic banking window (Stanbic IBTC Bank, 2017).

However, the introduction and subsequent achievements of Islamic banking in Nigeria was not without a struggle, it materialized largely due to the unwavering commitment of the then CBN governor, Malam Sanusi Lamido Sanusi. It is on record that several non-Muslims individually and through their religious organizations made frantic efforts to frustrate the introduction of Islamic banking in the country citing some rather irrational reasons based on sentiments without any substance. The main concerns raised by the antagonists include a perceived variation in the definition of non-interest financial institution between two major legislations; Banks and Other

Financial Institutions Act (BOFIA) 1991 and Non-Interest Financial Institutions (NIFI) guidelines 2011, fear of discrimination against non-Muslims in the services of Islamic banks, violation of the principle of federal character in the composition of CBN *Shariah* Advisory Council and banks Advisory Council of Experts. Similarly, there have been allegations of an Islamization agenda through the introduction of Islamic banking. Impressively, several logical explanations have been given to discredit all the allegations (Olayemi, 2011).

Very recently, there was a renewed commitment by the Christian Association of Nigeria (CAN) to frustrate the development of Islamic banking in the country following the selection of the CBN governor as chairman of the International Islamic Liquidity Management Corporation (IILM), a multi-lateral agency established to provide *Shariah* compliant liquidity management instruments for Islamic financial institutions. As reported in (This Day Live New, 2016), CAN called for the resignation of the CBN governor from the chairmanship position and sought Nigeria to withdraw its membership from the IILM.

However, despite this desperate ploy, the patronage of Islamic banking among non-Muslims remains substantial. Apparently, certain inherent positive factors tend to subdue the propaganda against Islamic banking in Nigeria thereby encouraging patronage even from non-Muslims. In view of the growing customer base of Islamic banking services, it is important to investigate the factors influencing the choice of Islamic banking among non-Muslim customers in Nigeria. Therefore, the goal of this research is to investigate factors relating to the choice of Islamic banking services among non-Muslim customers in Nigeria.

1.2 STATEMENT OF THE PROBLEM

Sequel to the introduction of Islamic banking in Nigeria, critics of the system have taken it upon themselves to discredit it by all means. In their resolve to frustrate the development of this noble system, they resort to using religious sentiments and other emotional appeals aimed at discouraging the patronage of Islamic banks especially among non-Muslims. Incidences such as the most recent move by CAN for example is somewhat absurd in view of the fact that the IILM has in its membership countries with much smaller proportions of Muslim population compared to Nigeria yet they remain active members. Luxemburg for instance, a founding member of IILM, has an overwhelming 87% of its population as Roman Catholics (Central Intelligence Agency, 2017). Similarly, Mauritius, an active member of IILM has only 17.3% Muslims with 48.5% Hindus, 26.3% Roman Catholic and 6.4% other Christians (Central Intelligence Agency, 2017).

The controversy over Islamic banking ought not arise from non-Muslims especially Christians considering several verses of the bible which prohibit interest based transactions such as Deuteronomy 23:19&20, Ezekiel 18:8,13 &17, Exodus 22:25, Luke 6:35, Leviticus 25:36&37, proverb 28:8 and psalm 15:5. Therefore, criticizing Islamic banking on the basis of religious affiliation is unfounded even though Islamic banking goes beyond mere prohibition of interest to include several other guiding principles. Surprisingly, the antagonists still erroneously use religious sentiments in their propaganda despite ample scriptural evidence against the interest based system.

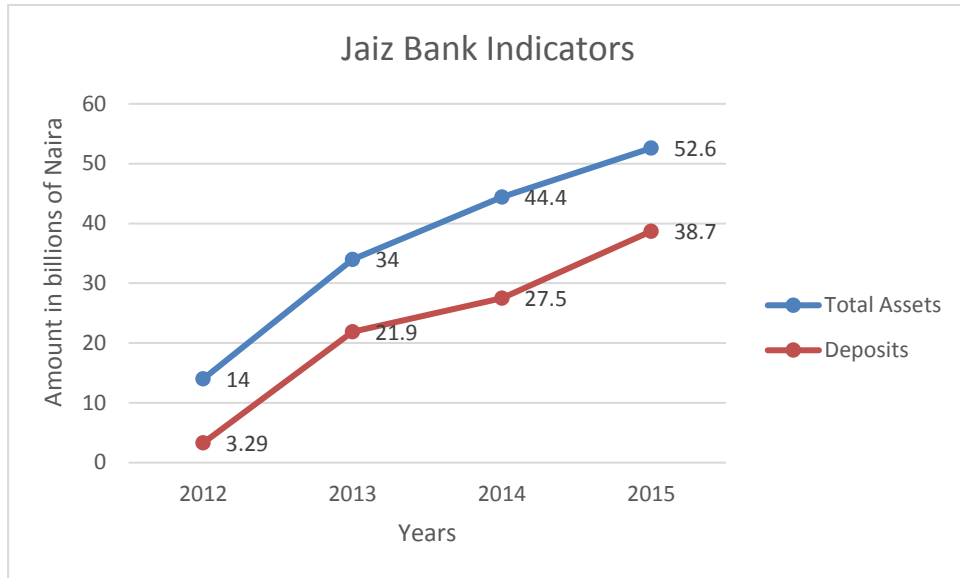


Figure 1. 1: Jaiz Bank Indicators

A comprehensive analysis of Jaiz Bank annual reports for 2013, 2014 and 2015 summarized in Figure 1.1 shows total assets of the bank increasing but at a decreasing from 141% (14 billion in 2012 to 34 billion in 2013) to 30% (34 billion in 2013 to 44.4 billion in 2014) and 18% (44.4 billion in 2014 to 52.6 billion in 2015). The growth in deposits also follows a similar trend with an initial growth of 567% at inception in 2012/2013 to 25% (21.9 billion in 2013 to 27.5 billion in 2014) although a more impressive growth of 41% was achieved in 2015 (27.5 billion in 2014 to 38.7 billion in 2015). These inconsistencies ought not to arise considering the steady increase in the branch network of the bank from only 3 branches at inception to 10 in 2013, 15 in 2014 and 20 in 2015 (Jaiz Bank Plc, 2017).

Possibly, the unending propaganda against Islamic banking is contributing to the slow-down in the banks progress. Therefore, it is important to ascertain the factors influencing the choice of Islamic banking among non-Muslims in order to identify the strengths of the bank as perceived by its non-Muslims customers to encourage potential customers disregard the criticisms and patronize Islamic banking.

The persistent objection by a segment of the Nigerian population poses a great threat to the development of Islamic banking as it requires the support of all stakeholders regardless of religious affiliation since it is non-discriminatory in the real sense. Boycotting such an important emerging financial system by some segments of the society will not do Nigeria any good especially at such a time when the country is aspiring to make significant progress in becoming Africa's major International Financial Centre. Therefore, all hands must be on deck to unravel the causes of the instigated phobia, assess resultant consequences if any and proffer strategies to avoid such attitude in future.

1.3 RESEARCH OBJECTIVES

- To investigate the factors influencing the choice of Islamic banking among non-Muslim customers in Nigeria using the classical Theory of Planned Behaviour as a conceptual framework.
- To ascertain the hierarchy of importance of the variables contained in the Theory of Planned behaviour in the context of choice of Islamic banking among non-Muslim customers in Nigeria.

1.4 RESEARCH QUESTIONS

- What are the factors influencing the choice of Islamic banking among non-Muslim customers in Nigeria?
- What is the hierarchy of importance of the Theory of Planned Behaviour variables in the context of choice of Islamic banking among non-Muslim customers in Nigeria?

1.5 THEORITICAL FRAMEWORK

In this research, the Theory of Planned Behaviour (TPB) will be explored to ascertain the factors influencing the choice of Islamic banking among non-Muslim customers in Nigeria. The theory opines that decision making will depend on three (3) main factors; attitude towards act or behaviour, subjective norm and perceived behavioural control (Ajzen, 2011). The theory predicts that a positive attitude towards an act or behaviour, favourable subjective norms and high level of perceived behavioural control are crucial in making a behavioural intention which in turn leads to a certain behaviour or action. This research will apply the theory of planned behaviour to determine its relevance in the context of choice of Islamic banking among non-Muslim customers in Nigeria. Figure 1.2 gives a graphical illustration of the theory of planned behaviour.

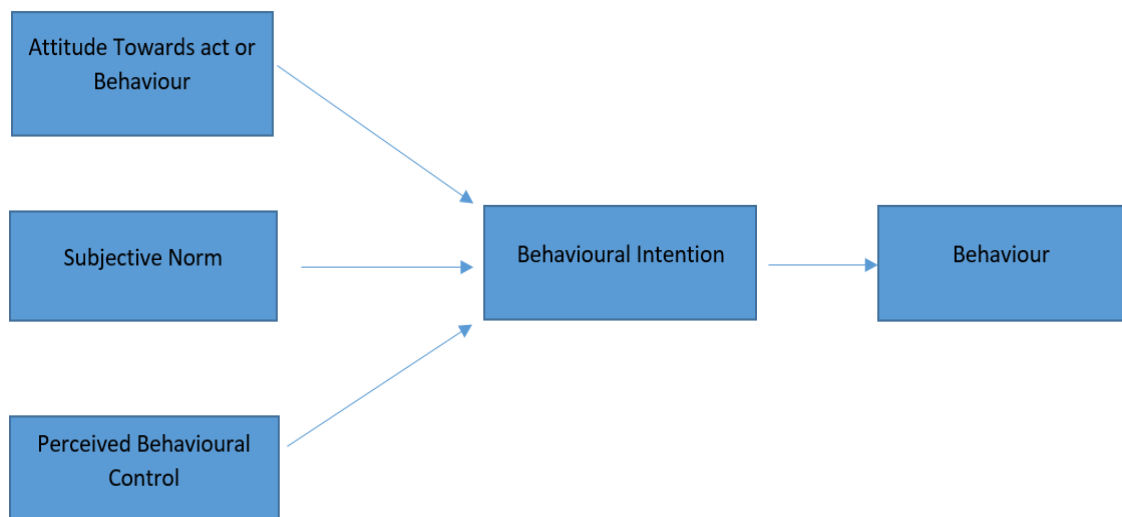


Figure 1. 2: Theory of Planned Behaviour

1.6 SIGNIFICANCE OF THE STUDY

This research is very important because the topic has not been addressed by previous studies. Previous studies tend to focus on Muslim respondents only or general respondents without adequate attention to non-Muslims specifically which this study plans to achieve. Investigating the factors influencing the choice of Islamic banking services among non-Muslim customers in Nigeria will go a long way in providing valuable insights to the regulators regarding non-Muslim customers' perception about Islamic banking. This is very crucial for regulators in making effective policies concerning Islamic banking. Similarly, it is important to the Islamic banks in assessing the efficiency of their services so far with a view to making valuable improvements to their services to maintain existing non-Muslim customers and attract new ones as they seek to increase their customer base. Furthermore, the research is important to the public in clarifying the misconceptions about Islamic banking in terms of perceived discrimination as it focuses on the factors that encourage non-Muslims to participate despite the mischievous propaganda in circulation. This will go a long way in convincing non-Muslims that are still skeptical about Islamic banking.

1.7 SCOPE OF THE STUDY

This research will only cover aspects that are relevant in investigating the determinants of non-Muslim customers' choice of Islamic banking using the Theory of Planned Behaviour. In this regard, relevant variables will be tested to determine their importance to non-Muslim customers in making the decision to patronize Islamic banking. The scope of the research covers the Nigerian market for Islamic banking, particularly, the non-Muslim customers of Jaiz Bank Plc in three (3) of the banks five (5) branches in Abuja, the Federal Capital Territory.

1.8 PLAN OF THE STUDY

This research will be divided into five (5) chapters. Chapter one (1) contains introduction. Chapter two (2) presents a literature review covering similar works done previously amongst other details. Chapter three (3) explains the methodology that will be adopted in carrying out the research. In chapter four (4), findings of the research will be presented and analyzed extensively. Finally, chapter five (5) will feature a discussion of the results and a conclusion based on the findings of the research.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter presents an extensive review of literature relevant to the study of factors influencing the choice of Islamic banking among non-Muslim customers in Nigeria. The chapter begins with a general historical overview of Islamic banking across the globe followed by a summary of the development of Islamic banking in Nigeria over the years. Furthermore, the chapter contains a summary of the theory of planned behaviour with emphasis on each of its components: attitude, subjective norm and perceived behavioural control in relation to this research. The chapter ends with a brief conclusion.

2.2 HISTORY OF ISLAMIC BANKING

Islamic banking concept has been in existence since the early stages of Islamic civilization as the societies pooled resources together and utilized such to finance business activities and private needs on an interest free basis. However, the first formal experience of such banking system was in Mit Ghamar, Egypt in 1963. It operated as a sort of co-operative whereby rural farmers made deposits into a common pool to be utilized in extending interest free loans to members in need. Although a noble arrangement, it was short lived and eventually folded up in 1967. Around the same time, a similar initiative now known as Tabung Hajji was launched in Malaysia as a pilgrims' management fund primarily to provide an avenue for savings and investment for intending Muslim pilgrims (Schoon, 2016). Naseer Social Bank also in

Egypt was eventually established in 1971 as the first institution offering interest free banking services bearing the name 'Bank'. In a similar manner, the bank mobilized deposits from people with surplus and extended interest free loans to those in need primarily for social purposes such as scholarships and small scale enterprise start-up capital (Iqbal & Molyneux, 2005).

In what is regarded as a milestone achievement, the Islamic Development Bank was established in 1975 following a resolution by the conference of finance ministers of the Organisation of Islamic Cooperation (OIC) in 1973 (Ariff, 2017). In the same year, Dubai Islamic Bank was established in the United Arab Emirates (UAE). The development of Islamic banking spread steadily across various countries with Pakistan, Iran and Sudan declaring plans to eliminate the interest based system and replace it with Islamic banking system. Pakistan particularly had shown some signs of willingness to adopt Islamic banking since 1949 when the national assembly passed a resolution declaring Islam as state religion and subsequent constitutional provision in 1973 recognising interest free banking as the banking system of the economy although several factors made actual implementation difficult (Ariff, 2017). Over the years, governments, conventional financial institutions and multinational financial institutions have gradually developed interest in Islamic banking operations (Iqbal & Molyneux, 2005).

What had started as a small informal arrangement has now grown to become an integral part of the international financial system comprising of assets worth USD\$1.5 trillion as at 2015 (Islamic Financial Services Board, 2016). This makes Islamic banking a dominant sector in the Islamic financial system holding about 80% of the USD \$1.88 trillion industry through full-fledged Islamic banks, subsidiaries and windows. Furthermore, Islamic banking has continued to maintain a 100% market

share of the banking industry in Iran and Sudan while expanding across jurisdictions in South America, North Africa, Middle East, Europe, GCC, Asia and Sub-Saharan Africa (Islamic Financial Services Board, 2016).

Notably, the Middle East region holds a significantly large share of the global Islamic finance market while activities are picking up in other regions as well. In Pakistan for example, Islamic banking had grown at an annual average rate of 63% for about a decade as at 2013 (Hanif, 2014). Similarly, much progress has been made in Kuwait and Qatar where Islamic banking accounts for one fifth of total deposits just as Bahrain evolves into a global Islamic financial centre while Malaysia plays a leading role in Islamic securities (Ariff, 2014). As such, Islamic banking is apparently making impressive progress in the middle East and South East Asia while emerging in other parts of the world as well. Although this progress is partly attributable to the global resurgence of Islam, inherent viability of the system plays a major role considering the significant patronage by non-Muslims estimated at about 40% of the clientele of some Islamic banks (Ariff, 2014).

Islamic banking has spread into about 70 countries with global banks such as Citibank, HSBC, Standard Chartered and Barclays Bank offering various Islamic banking products and services (Jaiz Bank Plc, 2015). These banks have been effective in leveraging on their vast experience and resources in exploring the Islamic banking industry through Islamic window operations and Islamic subsidiaries. Notable progress has been made even in non-Muslim majority countries such as the United Kingdom (UK) which has severally disclosed its plans to become the largest Islamic financial centre outside the Muslim world. In this regard, more than 25 institutions reported offering Islamic financial services in the UK in 2015. Similarly, France and Netherlands have disclosed their aspiration to become Islamic finance centres just as