

AN OVER-VIEW OF CBN NON-INTEREST (ISLAMIC) BANKING FRAMEWORK

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Central Bank of Nigeria

Outline

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What is Non-Interest (Islamic) Banking?

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- It is an ethical financial system that is based on sharia principles and rules of Islamic commercial jurisprudence. It is based on the avoidance of:
 - interest;
 - uncertainty or ambiguity relating to the subject matter, terms or conditions;
 - gambling;
 - speculation;
 - exploitation/unfair trade practices.
- dealings in pork, alcohol, ammunition, pornography etc.
- other products, goods or services that are not compliant with sharia rules and principles.





Background to the Development of the Framework

- The development of the framework was in response to the growing interest by investors and banks to establish non-interest banks or windows
- The initiative lies in the context of the FSS 20 2020 vision, which seeks to make Nigeria one of the top 20 economies by the year 2020
- The Central Bank of Nigeria (CBN) Act 2007 and the Banks and Other Financial Institutions Act (BOFIA) 1991 (as amended) recognize and provide for the regulation of Non-interest banks. Section 28 (1)(b) of the CBN Act 2007 and Sections 55(2); 52; 59(1)(a); 32(1); 61; 23(1) of BOFIA 1991 (as amended).



Highlights of Key Sections of the Framework

- The framework leveraged on the regulatory and prudential practices in Malaysia and Bahrain taking into account local peculiarities
- It is called “Non-interest” as against “Islamic Banking” framework in recognition of Nigeria’s religious diversity.

Highlights of Key Sections of the Framework

Contd...

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■ **Licensing Requirement**

- Written application the Governor
- A key requirement is the deposit of a minimum capital of N25 billion or such amount as may be prescribed by the CBN from time to time
- Other details are contained in the Requirements for Banking License obtainable at the BSD or CBN website.

Highlights of Key Sections of the Framework

Contd...

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- **Models of Non-interest Banking**
 - Full-fledged Non-interest banking subsidiary.
 - Non-interest branch of a conventional bank
 - Non-interest window of a conventional bank.



Highlights of Key Sections of the Framework Contd...

■ Financial Instruments

Non-interest banks may transact business using any of the following instruments or financing modes:

- Murabahah, Mudarabah, Musharakah, Ijarah, Salam, Istisna, Wadia, Wakalah, Sukuk
- Any other financing mode or structure that is Shariah compliant and approved by the CBN .



Highlights of Key Sections of the Framework

Contd... :

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- **Window Operations (“Windows”) of Conventional Banks**
 - **Cross-Selling of Products/Services**
 - **Execution of Service Level Agreements (SLAs) in Respect of Shared Services**
 - **Separation of Records**
 - **Publication of Financial Statements**
 - **Conversion of Windows to Subsidiaries**
 - **Closure/Discontinuation of branch or Window Operations .**



Highlights of Key Sections of the Framework

Contd...

■ CORPORATE GOVERNANCE

- Compliance with CBN Code of Corporate Governance for Banks
- Sharia Compliance Review mechanism (Sharia Board or Committee)
- Guidelines for the appointment, operations, qualification, duties and responsibilities of members of the Sharia Committee to be issued .



Highlights of Key Sections of the Framework

Contd...

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- **Disclosure Requirements**
 - **All non-interest banks and windows or branches of conventional banks shall ensure that adequate disclosures are made to all clients in line with FAS 1 and FAS 18 issued by AAOIFI.**

Highlights of Key Sections of the Framework

Contd...

■ CBN SHARIAH COUNCIL

- A part-time advisory committee on non-interest banking to advise the CBN on Islamic laws and principles for the purposes of regulating non-interest banking business.





Highlights of Key Sections of the Framework

Contd...

CONDUCT OF BUSINESS STANDARDS

- **Branding**

- The word “Islamic” not allowed as part of banks’ registered name
- To be identified by a symbol to be approved by the CBN

- **Product Literature**

- Marketing material to customers should state which Shari’a Committee has reviewed the products or services to which the material relates .

Highlights of Key Sections of the Framework Contd...

- **PROFIT SHARING INVESTMENT ACCOUNTS (PSIA)**
 - **Types of Investment Account Holders**
 - Specific or Restricted
 - General or Unrestricted
 - Client agreement



Highlights of Key Sections of the Framework Contd...

AUDIT AND ACCOUNTING REQUIREMENTS

- Compliance with S. 29 of BOFIA, CAMA and relevant CBN circulars regarding the appointment, re-appointment, resignation, rotation, change and removal of auditors of banks .



Compliance with GAAPs issued by NASB, IAS, IFRS and FAS issued by AAOIFI

Highlights of Key Sections of the Framework Contd...

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■ PRUDENTIAL REQUIREMENTS

- Minimum Capital Ratio Requirement
- Liquidity Management

■ Risk Management

- All NIBs to put in place appropriate policies, systems and procedures to manage risk
- Profit Equalization Reserve (PER)
 - An income smoothening mechanism and mitigation tool to hedge against volatility of returns to investment account holders



Highlights of Key Sections of the Framework Contd...

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ANTI-MONEY LAUNDERING AND COMBATting OF THE FINANCING OF TERRORISM (AML/CFT)

- All non-interest banks are required to have effective anti-money laundering ('AML') and combating the financing of terrorism ('CFT') policies and procedures
- Compliance with relevant laws and guidelines issued by the CBN and other relevant regulatory agencies on AML/CFT



PROGRESS BY THE CBN ON ISLAMIC BANKING IN NIGERIA

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- **An 8-man Committee constituted at the BSD to drive implementation**
- **Undertook a study tour of Malaysia in July 2008 as part of the learning process**
- **Developed the Draft Framework, which was issued in March 2009 for comments and inputs by stakeholders. The document is currently being finalized.**



PROGRESS BY THE CBN

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- Secured the support of IDB for technical assistance. Approval expected any time soon.
- As part of the review of BOFIA, draft provisions proposed to strengthen the legal framework for non-interest banking
- An international conference is being planned to create mass awareness in Nigeria.
- The CBN was admitted as a Full member of IFSB in May, 2009



Challenges of Implementation

The key challenges include:

- Dearth of knowledge, skills and technical capacity to regulate, supervise, or operate Islamic banks.
- Lack of adequate legal, regulatory, and supervisory framework.
- The absence of accounting and auditing standards pertinent to Islamic banks
- Lack of Sharia-compatible money market instruments to invest excess liquidity of Islamic banks.





Next Steps

- To hold the international conference tentatively in October 2009.
- To finalize and release the framework as well as commence the licensing of non-interest banks
- To create a dedicated Unit in BSD or a full-fledged department on non-interest banking
- To deepen on-going partnership with IDB, IFSB etc
- Continuous capacity building.

Conclusion:

- Opportunities abound for non-interest banking to thrive in Nigeria.
- In line with its statutory mandate, the CBN will continue to play its role to facilitate the growth and development of the industry.





Thank You



Thank You