



# Integration of Islamic Ethics and Principles in Modern Financial Institutions in Nigeria: Challenges and Opportunities

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## Abstract

The modern financial system has evolved significantly over time, alongside advancements in various parts of the world. This study attempts to examine the integration of Islamic ethics and principles in modern financial institutions in Nigeria with a focus on Shari'ah-compliant practices, risk sharing, and social responsibility. It also discusses the adoption and implementation of Islamic ethics such as *ihsān*, *'adl*, and *'amānah* in financial decision making, including enhanced financial stability, social justice, and sustainability, to explore the extent to which the adoption could benefit the financial institutions and society. The findings from this study revealed the importance of incorporating Islamic ethics in the modern financial system so that its innovations can also improve and benefit society.

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## A. INTRODUCTION

Ethics as a concept is the science of morals and a branch of philosophy that is concerned with human character and conduct. So, ethics is mostly concerned with what is morally right and wrong, and what is morally good or bad. Islamic ethics, therefore, is a moral conduct that defines good character based on the teachings of the *Qur'an* and the *Sunnah*, tailored towards God's pleasure. Ethics in Islam has to do with specific norms or codes of behaviour known as *Akhlaq Islamiyyah*, which provides a framework for moral conduct and character development. This is a radical change from moral values and man-made transactions that are devoid of divine guidance.

In the *Qur'an*, Allah uses the word "*Khuluq*" which is the plural of *Akhlaq*, in reference to the exemplary conduct of the Prophet Muhammad.

وإنك لعلى خلق عظيم (٦٨:٤)

And most surely, you (Muhammad) have the most exemplary Character. (Q68:4).

Other terms that exemplify good ethics include *al-birr*, *al-qist*, *al-'adl*, *al-ihsān* *al-ma'rūf*, among others. While discussing ethics and morality, Juan Campo differentiated between ethics and morality:

Ethics means philosophical reflection upon moral conduct, while Morality pertains to specific norms or codes of behaviour. The question of ethics, therefore, involves such subjects as human nature and the capacity to do good, the nature of good and evil, motivations for moral action, the underlying principles governing moral and immoral acts, deciding who is obliged to adhere to the moral code and who is exempted from it, and the implications of either adhering to the moral code or violating it. Morality encompasses the values and rules that govern human conduct. (Campo,2009,p.214).

Imam Ghazali, according to Muhammed Muneer, views the concept of ethics as a religious science derived from the teachings of *Shari'ah* as the only path for generating ethical theories. (Muneer, 2021, p.23) So, ethics from an Islamic perspective is aimed at maintaining good behaviour by doing good and avoiding immorality. Allah (swt) says:

﴿لَيْسَ الْبَرُّ أَنْ تُولُوا وُجُوهَكُمْ قَبْلَ الْمَشْرِقِ وَالْمَغْرِبِ وَلَكِنَّ الْبَرُّ مَنْ عَامَنَ بِاللَّهِ وَالْيَوْمَ أُلَّا خِرَّ وَالْمَلَائِكَةُ وَالْكِتَابُ  
وَالْبَيِّنَ وَأَتَى الْمَالَ عَلَىٰ حُبِّهِ ذُوِي الْقُرْبَىٰ وَالْيَتَمَّى وَالْمُسْكِنَ وَأَبْنَ الْسَّيِّلِ وَالسَّائِلِينَ وَفِي الْرِّقَابِ وَأَقَامَ الْصَّلَاةَ  
وَأَتَى الْزَّكُوةَ وَالْمُؤْفُونَ بِعَهْدِهِمْ إِذَا عَاهَدُوا وَالصَّابِرِينَ فِي الْبُلْسَاءِ وَالضَّرَاءِ وَحِينَ الْبَأْسِ أُولَئِكَ الَّذِينَ صَدَقُوا وَأُولَئِكَ  
هُمُ الْمُتَّقُونَ﴾ ١٧٧

Righteousness is not that you turn your faces toward the east or the west, but [true] righteousness is [in] one who believes in Allah, the Last Day, the angels, the Book, and the prophets and gives wealth, in spite of love for it, to relatives, orphans, the needy, the traveller, those who ask [for help], and for freeing slaves; [and who] establishes prayer and gives *zakah*; [those who] fulfill their promise when they promise; and [those who] are patient in poverty and hardship and during battle. Those are the ones who have been true, and it is those who are the righteous (Q2:177).

## B. RESULTS AND DISCUSSION

### 1. Ethics and Islamic Financial System in Perspective

The integration of Islamic ethics in modern financial institutions has significantly gained attention in recent years, with the development of Islamic economics and the Islamic financial system, which has grown rapidly along with the spread of Islam. There has been an Islamic banking system as a concept for several centuries. Kharbhari et al opine that the first generation of Islamic banks was developed in Egypt and Malaysia in the 1960s. Though the Egyptian experiment was short-lived, Islamic banks did not start to thrive in many Muslim countries until the mid-1970s.(Kharbhar et al, 2004,p.521-543). Some other countries in Africa, such as Sudan, Tunisia, Libya, Morocco, etc, have also institutionalised Islamic banking in their financial system.

Nigeria joined the membership of the Islamic Development Bank (IDB) in 2006 in order to benefit from the free loans the bank gives to member countries. In 1992, Bank PHB, formerly known as Habib Nigeria Bank, was licensed to commence non-interest banking, but commenced operation in 1999 (Ismail,2010, p.37). However, the first full-fledged Islamic Bank was Jaiz International Bank Plc, which was licensed on 11<sup>th</sup> November, 2011, pending its meeting of the 25.0 billion Naira minimum capital base and banking consolidation requirement. The bank received a regional operating license from the Central Bank of Nigeria to operate in the northern part of Nigeria and received full operations on 6<sup>th</sup> January 2012, with branches in Abuja, Kaduna, and Kano. ([https://en.wikipedia.org/wiki/Jaiz\\_Bank](https://en.wikipedia.org/wiki/Jaiz_Bank)). The first Islamic microfinance bank was commissioned and commenced operation in Lagos in April 2010. There are also ethical mutual funds like Halal fund of Lotus Capital established in 2014, which was the first ethical investing company in Nigeria that is Shari'ah compliant and registered with the Securities and Exchange Commission. (Ismail, 2010, p.38)

Under the Islamic financial system, banking is the business of a financial intermediary receiving savings from the public in the form of a partnership. Owoyeini (2004) observes that Islamic banking is a kind of banking in which depositors are not rewarded at a predetermined rate and the borrower of the money from the bank is not subjected to the payment of a specific rate as interest, irrespective of the outcome of the business, profit or loss. So, central to Islamic finance is the principle that money has no intrinsic value because money is not regarded as a commodity by itself, and as

a matter of faith, a Muslim cannot lend money to or receive money from someone and expect a benefit, but rather the desire to maintain the moral purity of all transactions.

The Islamic financial system is therefore a *Shari'ah-compliant* system opportunity based on Islamic law and principles. The core concept of Islamic banking revolves around fairness, transparency, and ethics in financial transactions. Allah (SWT) made it clear in the Qur'an that Muslims have social responsibilities they owe their fellow human beings in showing mercy and compassion towards them, and this explains the reasons why Muslims must show mercy and make provisions for the indigents among them through the provision of essential needs, and not to overburden them.

وَاللَّهُ فَصَلَّى بَعْضُكُمْ عَلَى بَعْضٍ فِي الْرِّزْقِ فَمَا الَّذِينَ فُصِّلُوا بِرَأْدِي رِزْقُهُمْ عَلَى مَا مَلَكُوا أَيْمَانُهُمْ فَهُمْ فِيهِ سَوَاءٌ أَفَبِنِعْمَةِ

اللَّهِ يَجْحَدُونَ ٧١

And Allah has favoured some of you over others in provision. But those who were favoured would not hand over their provision to those whom their right hands possess, so they would be equal to them therein. Then is it the favour of Allah they reject? (Q16: 71)

It is important to state that the Islamic economic system (*al iqtisad al Islami*) encourages and emphasises the consideration of social, moral, and ethical factors in the distribution of wealth to promote economic and social justice, fairness, transparency, and welfare of the people, which are basic foundations in regulating the economic behaviours of Muslims. The Islamic financial system facilitates lending, borrowing, and investment on risk sharing basis instead of fixed interest. According to Ahmad (2002), Islam prefers a risk-sharing, equity-based, and stake-taking economic system to a debt system to ensure the moral and well-being of the society.

The majority of Islamic jurists, in line with the revelation of the Qur'an and the sayings of the Prophet Muhammad (PBUH) and historical facts, prohibited any transaction that involves interest "ribā" in any form, gambling, as well as "gharar," which is the concealment of the real nature of a business transaction. Allah (SWT) says in the Qur'an.

يَا أَيُّهَا الَّذِينَ ءاْمَنُوا لَا تَأْكُلُوا الْرِّبَوْا أَصْعَافًا مُّضَعَّفَةً وَأَنْقُوْا اللَّهَ لَعْنَكُمْ تُفْلِحُونَ ١٣٠

O you who have believed, do not consume usury, doubled and multiplied, but fear Allah that you may be successful (130).

الَّذِينَ يَكُونُونَ الْرِّبُّوْا لَا يَقُولُونَ إِلَّا كَمَا يَقُولُ الَّذِي يَتَخَبَّطُهُ الشَّيْطَانُ مِنَ الْمَسِّ ذَلِكَ بِأَنَّهُمْ قَالُوا إِنَّمَا الْبَيْعُ مِثْلُ الْرِّبُّوْا وَأَحَلَّ اللَّهُ الْبَيْعَ وَحْرَمَ الْرِّبُّوْا فَمَنْ جَاءُهُ مَوْعِدَةً مِنْ رَبِّهِ فَأَنْتَهُ فَلَمَّا مَا سَلَفَ وَأَمْرَرَهُ إِلَى اللَّهِ وَمَنْ عَادَ فَأُولَئِكَ أَصْحَبُ النَّارِ هُمْ فِيهَا حَلِيلُونَ ٢٧٥

Those who consume interest cannot stand [on the Day of Resurrection] except as one stands who is being beaten by Satan into insanity. That is because they say, "Trade is [just] like interest." But Allah has permitted trade and has forbidden interest. So, whoever has received an admonition from his Lord and desists may have what is past, and his affair rests with Allah. But whoever returns to [dealing in interest or usury] - those are the companions of the Fire; they will abide eternally therein (Q2:275)

*Ribā* as a practice is a system that can cause economic disruption; this is why Allah (SWT) described it as an evil practice. *Riba* or usury can therefore be referred to as the taking of additional origins from the main property or capital in a sinful manner, and this could happen both in buying and selling transaction as well as in lending and borrowing in a manner that is regarded as the "coverage contribution", that is fixing a positive return on loan in advance as a reward for the waiting period. Although Islam is not unmindful of the time value but the time value is not regarded as part of a loan contract but as part of a real transaction.

Islamic scholars categorise usury into two: *Nasiyah* and *fadhil*. *Nasiyah* is an additional loan apart from the principal loan that is required and taken by the original lender who was owed the debt as compensation for the deferred loan he has provided. *Riba al-fadhil* is a *riba* in a sale or exchange contract, which is accompanied by an addition in the form of money or goods. As a religion that teaches compassion and kindness to others, Islam prohibits usury/interest in order to encourage charity, helping others through kindness, in order to ensure equity in commerce. Allah (SWT) says:

وَإِنْ كَانَ ذُو عُسْرَةٍ فَنَظِرْهُ إِلَى مَيْسَرَةٍ وَإِنْ تَصَدَّقُوا خَيْرٌ لَكُمْ إِنْ كُنْتُمْ تَعْلَمُونَ ٢٨٠

And if someone is in hardship, then [let there be] postponement until [a time of] ease. But if you give [from your right as] charity, then it is better for you, if you only knew. (Q2:280)

The holy Prophet (SAW) corroborated the ban on usury by classifying it as one of the major sins (*Kabā'ir*). He says in his Hadith:

اجتنبوا السبع الموبقات قالوا وما هن يا رسول الله ؟ قال الشرك بالله ، والسحر ، وقتل النفس التي حرم الله إلا بالحق ،  
وأكل الربا وأكل مال اليتيم والتولى يوم الزحف وقصف المحسنات والغافلات المؤمنات

Keep away from the seven major sins, the companions asked, What Are they, O messenger of Allah? He said: Associating partners with Allah, magic, taking of life that *Allah* has made sacred, except with justification, consuming the wealth of *ribā*, consuming the wealth of the orphan, fleeing from the battlefield, and accusing chaste women of adultery (Ismail,1997, p.43).

In another hadith, the Prophet says:

لعن الله أكل الربا ، ومؤكله زشاهديه وكاتبه

Allah has cursed the devourers of usury (*ar-Ribā*), the giver, the witness, and the scribe who writes it down. (Sabiq,1995, p.107-108)

Taking usury is prohibited because it promotes inequality and increases the gap between the rich and the poor. *Ar-ribā* can give birth to two major moral evils: it can lead to self-centredness among its devourers, and the givers feel a strong feeling of jealousy, hatred, and resentment for the devourers. *Riba* reduces the poor to abject poverty, and the rich become richer. (Shaarawi,1997,p.1187).

*Gharar* is an Arabic word associated with uncertainty, deception, and risk. It implies an increase in one's wealth by chance rather than productive effort. An example of *gharar* in modern finance includes future and options contracts, which have dates of delivery. *Gharar*, according to Iqbal and Molyneux, has to do with all transactions concerning exchanges in which the detailed or comprehensive implications are not made known to the parties concerned. (Iqbal, 2005, p.14). Based on the necessity to prevent cheating and injustice, *gharar* is therefore prohibited in Islamic law because of the Islamic finance rule that is against any transaction that may likely cause injustice or deceit to any of the parties. Other examples of *Gharaar*, according to Ismail, include gambling, contracts not drawn out in clear terms, derivative transactions (such as forwards, futures, options, and forms of speculation such as short selling and selling something of uncertain quality. (Ismail, 2024)

Allah (SWT) says:

يَأَيُّهَا أَلَّذِينَ ءامَنُوا لَا تَأْكُلُوا أَمْوَالَكُمْ بَيْنَكُمْ بِالْبَطْلِ إِلَّا أَنْ تَكُونَ تِجَارَةً عَنْ تَرَاضٍ مِّنْكُمْ وَلَا  
تَقْتُلُوا أَنفُسَكُمْ إِنَّ اللَّهَ كَانَ بِكُمْ رَحِيمًا ﴿٢٩﴾

O you who have believed, do not consume one another's wealth unjustly but only [in lawful] business by mutual consent. And do not kill yourselves [or one another]. Indeed, Allah is to you ever Merciful (Q4:29).

The Islamic motive behind the prohibition of *gharar* is to protect businesses against transaction that involves high risk, uncertainty, and deceit. It is also to ensure genuine consent in financial transactions and dealings, which can only be achieved through transparency.

With the import of these verses of the holy Qur'an, Islam encourages man to increase property through means devoid of unjust dealings. In order to achieve this, Islam introduces financial and banking systems whose constitutional documents are *shari'ah-compliant* and offer only *shari'ah-compliant* financial products, apart from prohibiting interest risk and speculation. The Islamic financial system encourages fairness, transparency, and ethical investment through financial services such as *Mudārabah*, *Mushārakah*, *Murābahah*, *Zakat*, deposit taking, and *Ijārah* (Leasing).

## 2. Islamic Banking System in Perspective

The Islamic banking system provides a unique approach to the financial system by emphasizing fairness, transparency, and social responsibility. The motive behind the introduction of Islamic banking is to reduce risk due to asset-backed financing by introducing the sharing of profit and loss through *shari'ah-compliant* products, such as *Mudārabah*, *Mushārakah*, *Murābahah*, *Bay' al-Salam*, and *Šukūk*, among others. As for social obligations to clients, the Islamic banking system introduces *Qard al-Hasan* (social benevolent loans), which is a loan payable to individuals or organisations without any interest. Some of the basic channels in Islamic banking are discussed below.

### a. *Mudārabah* Finance

*Mudarabah* is a *shari'ah-compliant* contract between the investors and the bank. *Mudārabah* transaction is derived from a partnership based on risk and profit sharing. The partnership is a collaboration between the investor known as *Rabb al-Māl* and an entrepreneur (*Mudārib*), and the former provides funds for the latter. In this system, the *Mudārib* approaches the bank and shares the investment plan with the bank. The

bank will, upon satisfaction with the terms and conditions, provide financing for the business and share the profit, if any, with the *Mudārib*. Losses, if any, are the liability of the bank, and the *Mudārib* loses only the effort and the expected profit provided the finance user is not negligent (Usmani, 2008, p.41). In this financial transaction, Islam believes there should be a variable reward based on actual return, and depositors are therefore regarded as stakeholders in a profit and loss sharing formula, which would serve as an incentive to both parties for the success of the business venture.

*b. Mushārakah* Finance

This is another method of financing, and it is regarded as a well-established partnership contract in *shari'ah* whereby the customer and the bank together raise the capital, usually the working capital for the venture. The bank and the customer share the profits and losses on an agreed proportion.

*c. Al-Wakālah*

This is a system in which the Islamic bank mobilises resources through the means of *Al-Wakālah*. Legally, *al wakalah* therefore refers to a contract in which a person who has complete legal capacity authorises another to conclude a certain well-defined permissible contract on behalf of that person. An agent (*Wakil*) establishes contractual relations between an *asīl/Muwakkil* and a third party. So, the main purpose of an agency is to facilitate economic exchanges between a principal and third parties, and the authority of the agents is derived from the particular type of agency they undertake. The bank will be paid a certain amount of fees for the services it provides.

*d. Ijārah* Finance

*Ijarah* finance is another *shari'ah-compliant* financial instrument in Islamic banks whereby the bank purchases property and leases it to a customer for a specified period in exchange for rental payment. There are different types of *Ijarah*. These are *Ijārah al-'Amal*, which refers to a contract whereby someone employs a person on wages, and operates *Ijārah*, which is a short-term lease wherein the owner of a property leases his property to someone in exchange for rent and for a specified period. The operating *Ijārah* is not preceded by any agreement between the owner to sell the property to the lessor.

Other forms of *Ijarah* include *Ijarah wa Iqtina'*, which is a kind of *Ijarah* that involves transfer of ownership at the end of the lease period, and *Ijarah muntahiha bitamlik*, which is transfer of ownership to the lessee through sales either by gradual transfer or by payment of a token.

*e. Istisnā' Finance*

*Istisnā'* in Islamic finance is a specialised contract where one party commissions the other to build or contract according to certain agreed specifications, quality, and time frame. It is therefore a pre-delivery and leasing structure mostly used to finance long-term large-scale facilities, and gives room for flexibility in payment for the projects within *shari'ah-compliant* principles. *Istisna'a* is usually used in financing the construction of power plants, manufacturing, and infrastructure. *Istisna'a* provides an avenue to provide viable financing, and its flexibility makes it attractive to businessmen and financiers.

*f. Tawruq Finance*

*Tawruq* finance is a *shari'ah-compliant* finance contract between the bank and the customer for liquid management and short-term financing. *Tawruq* involves a financial transaction where a bank purchases a commodity and sells it to a customer on a deferred payment term.

### **3. Ethics and Social Responsibility in Islamic Finance**

Islamic ethics, social responsibility, and the Islamic finance system are intertwined. Islamic ethics emphasises moral conduct and social justice as integral parts of a believer's life. Ethics and social responsibility from an Islamic perspective are, therefore, in sharp contrast to the Western humanistic theories because Islam offers a better alternative approach and philosophical framework for man's interaction with nature as well as his fellow men (Ahmad, 2002). The moral and ethical principles in the Islamic financial system, which are derived from divine revelations and the teachings of the Prophet Muhammad, are more enduring and absolute.

It is a known fact that some financial institutions are of the view that they should respect local values even if this means a greater tolerance of low standards and corruption. By implication, there is a need for human beings to have a principle that would guide them in carrying out financial and social responsibility. This is because the determination of what is good and what is harmful cannot be left to human reasoning alone due to its limitations. It is because of this limitation that the Holy Prophet Muhammad says that permissible things are clear and forbidden things are also clear. So, human reasoning requires divine guidance, especially to ascertain what is right and wrong. Hence, Ahmad maintains that rational faculties can and should only be used to complement the ethics and morality already defined by *shari'ah* while

Islamic fundamentals such as *Aqidah*, *akhlaq*, and *fiqh* remain unchanged. Their application in secondary areas, such as finance, business, and governance, requires adaptability and feasibility to accommodate space and time, and this will give room for innovative solutions while adhering to core Islamic principles. (Ahmad,2003)

Thus, *Shari'ah* is a set of norms, values, and laws that make up the Islamic way of life. In the *Shari'ah*, there is explicit emphasis that Allah is the law-giver and the nation of Islam is merely His trustee and the entire Muslim should submit to it alone, not only because of its flexibility and relevance in the context of changing times, but because it is divine.

وَمَا كَانَ الْمُؤْمِنُونَ لَوْلَمْ يَمْنَأْ إِذَا قُضِيَ اللَّهُ وَرَسُولُهُ أَمْرًا أَنْ يَكُونَ لَهُمُ الْخَيْرَةُ مِنْ أَمْرِهِمْ وَمَنْ يَعْصِ اللَّهَ وَرَسُولَهُ فَقَدْ ضَلَّ

ضَلَالًا مُبِينًا (سورة الأحزاب: ٣٦)

And it behoves not a believing man and woman that they should have any choice in their matter when Allah and His Apostle have decided on a matter, and whoever disobeys Allah and His Apostle, he surely strays off a manifest straying. (Q 33:36)

Guided by the principles enshrined in Islamic *shari'ah*, the daily interactions and transactions of any person determine his/her relationship with God. Hence, a Muslim's interaction and transaction should be inspired by the values of truthfulness, firmness, uprightness, and respect for Allah's command instead of deceit and corruption.

Essentially, for a prosperous and viable economic system to be achievable, economic agents must internalise the spiritual virtues and values of Islam because individuals imbued with a sense of justice are not expected to abandon their interests and the public interest. Thus, Islam attempts to create a culture that builds individuals and families together into a community, so that a natural infrastructure for providing support and help to those in need is developed by creating a practical platform to demonstrate Islamic principles, ethics, and ideals on financial transactions and interactions.

One of the major issues in the global financial crisis is trust loss, which is a result of flawed incentive structures, inadequate risk disclosure, weak corporate governance, and unethical practices. To restore trust, essentially requires a commitment to robust guidelines that prioritize societal needs and long-term sustainability.

In order to have a holistic approach to integrating the moral and material well-being, the Islamic economic system serves as a practical platform to demonstrate Islamic principles, values, ethics, and regulations on financial transactions and undertakings. According to Beekun (1417/1997 and Mustafa (2013, the Islamic economic system is rooted in the *Shariah* from which it derives its worldviews, principles, values, goals, and policy instruments. The goal and objectives of the Islamic finance and banking system are therefore conceptualized and based on the understanding of human well-being (*Falāh*) and good life (*hayat al tayyibah*), which gives utmost significance and respect to brotherhood and social justice. (Mustafa, 2018, p.350)

Wealth, according to Islamic tenets, is a two-edged sword; it may be a blessing in the hands of the righteous or a curse in the hands of the wicked. This is why Allah enjoins Muslims to acquire wealth through lawful means and to shun embezzlement of public funds, usury, and any form of deceit.

وَمَا كَانَ لِلنَّبِيِّ أَنْ يَغْلِلَ يَأْتِ بِمَا غَلَّ يَوْمَ الْقِيَامَةِ ثُمَّ تُوقَّى كُلُّ نَفْسٍ مَا كَسَبَتْ وَهُمْ لَا يَظْلَمُونَ

And it is not attributable to a Prophet that he should take illegally part of the booty, and whosoever cheats shall bring that forth on the Day of Resurrection, of which he took illegally. Then every person shall be paid in full what he has earned, and they shall not be dealt with unjustly. (Q3:161)

In view of the above, moderation and consideration for the needs of others alongside one's interest become an integral part of the Islamic financial system. To depict the Islamic principle on the financial system, it must be shifted from the principle of self-centeredness to a *taqwā*-centered principle. Thus, Islamic principle requires wealthy people or individuals involved in the financial system to see themselves as stewards holding the property in trust and who will give account on the Day of Judgment.

وَابْتَغْ فِيمَا عَاتَكَ اللَّهُ الدَّارُ الْآخِرَةُ وَلَا تَنْسَ نِصْيَكَ مِنَ الدُّنْيَا وَاحْسِنْ كَمَا أَحْسَنَ اللَّهُ إِلَيْكَ وَلَا تَبْغِ

الْفَسَادُ فِي الْأَرْضِ إِنَّ اللَّهَ لَا يُحِبُّ الْمُفْسِدِينَ

But seek, through that which Allah has given you, the home of the Hereafter; and [yet], do not forget your share of the world. And do good as Allah has done good to you. And desire not corruption in the land. Indeed, Allah does not like corrupters."(Q28: 77)

Another major principle guiding the Islamic banking system is the concept of social justice, which serves as the cornerstone of the Islamic financial system to ensure that the welfare of the people remains the main priority. Unlike the conventional system, the principles of *a shari'ah-compliant* financial system are transparency, justice, compassion, and the welfare of the community.

#### **4. Challenges**

In spite of the great opportunities and benefits offered by the Islamic financial system, the system, though at an infant stage in some West African States such as Nigeria, is faced with many challenges. The first challenge facing the system is inadequate knowledge about the *shari'ah-based* finance system due to a lack of adequate public enlightenment and awareness, even among Muslims. Some opponents of Islamic banking in Nigeria are of the view that Islamic banking or zero-interest banking may not be successful in Nigeria under the arrangement of non-interest banking. They argue that an Islamic bank can only thrive in an environment where people are hesitant to hand over funds to conventional banks.

Sustaining a decent financial system, particularly in a country that is multi-religious like Nigeria, requires the support of the government to enable people to have access to financial literacy. Another challenge is the problem of dominance and competition from the conventional banks. The banks that have been well established consider the introduction and entrance of free interest banks into the banking system as unfavourable for the system, and therefore designed different innovative services and products to lure investors and private persons from patronizing interest-free banks.

Unethical behaviour has become a pervasive problem that has reached an epidemic level in many societies. Thus, unethical behaviour takes many forms, bribery, cheating, corruption, social injustice, greed, and dishonesty in business practices, including banking and, financial sector. These practices undermine Islamic ethical values and have led to the erosion and decline in ethical standards, which the Islamic *Shariah-compliant* finance system tries to guide against.

### C. CONCLUSION

As the era of Islamic economics develops, this paper tries to look at the ways through which modern Islamic finance can contribute to financial development without undermining the principles of Islam. The paper highlights the various financial systems approved in Islam, which cannot be compared to any economic system because it is divine.

The integration of Islamic ethics in the financial system, according to the paper, offers a unique approach to financial development by emphasizing fairness, God's consciousness, justice, and social responsibility, thereby promoting an equitable, transparent, and sustainable financial framework. While it offers unique opportunities and benefits, it also faces some challenges and hurdles, such as limited awareness and regulatory hurdles. Despite the challenges, the opportunities for growth and sustainable development are substantial if Islamic ethical values are embedded in our financial system by leveraging the opportunities provided by the *shari'ah-compliant* financial system for the promotion of a more equitable, stable financial system, economic prosperity, and social well-being.

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