

# Protecting the Interest of Profit-Sharing Investment Account Holders in Islamic Banks: The Nigerian Experience

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**Abstract-** Islamic banks (IBs) have three major sources of funds namely: shareholders' funds, transaction deposits and Mudaraba deposits (by profit-sharing investment account holders-PSIAHs). Shareholders have their interest protected by the IBs' directors, transactional accounts deposits are guaranteed by the banks. PSIAHs on the other hand have no representation on the banks' board and their funds are not guaranteed. They rely on the goodwill of the banks' board of directors and management to protect their interest and share profit (if any) from the investment of their funds and could lose some or all their capital if the banks incur losses. This could give rise to moral hazard and agency problem which put the PSIAHs at a disadvantage that calls for the establishment of corporate governance policies to protect their interest. The objective of this paper is to review corporate governance issues in the management of PSIAHs by IBs and to share Nigeria's experience in the protection of the interest of PSIAHs. It is expected that the Nigerian experience could be a learning point for regulatory and supervisory authorities in other jurisdictions to replicate. The paper contributes to literature on the deposit practices by IBs which has been reported to be scarce.

**Keywords-** profit-sharing investment account holders, PSIAHs, Corporate Governance, Nigeria

## I. INTRODUCTION

Banks serve as intermediaries for the mobilisation of funds from the surplus sector to the deficit sector of the economy through deposits mobilised from their customers [1]. Conventional banks accept deposits as loans from their customers in which they pay interest and guarantee its repayment hence maintaining a single creditor-debtor relationship. Islamic banks (IBs) on the other hand are prohibited from dealing in interest and as such use different contracts to mobilise deposits and maintain numerous relationships with their customers [2]. Reference [3] observed that the general debate in corporate governance parlance has been on one major issue, whether the directors of organisations owe their fiduciary responsibilities to the shareholders of the

organisations only or such responsibilities should be extended to other stakeholders of the organisations. Reference [3] opined further that considering the nature of banks, the fiduciary duties of their directors should be expanded beyond their shareholders to include other stakeholders.

IBs have three key sources of funding their activities namely: equity provided by their shareholders, transaction deposits that are guaranteed by the banks (and as such considered liability to the banks) and investment deposit also known as Profit-Sharing Investment Accounts (PSIAs) [4]. Of all the three sources of funding for Islamic banks, PSIAs are considered the most vulnerable that require special protection. This is because, shareholders have their interest protected by the banks' directors, and transactional deposits (that can be likened to current accounts in conventional banks) that is usually based on the contract qard-(benevolent loan) or wadiah (safe custody) are considered debt and are guaranteed by the bank and repaid on demand, and the law typically provides a governance structure for debt holders in the case of default [5]. Profit Sharing Investment Account Holders' (PSIAHs) on the other hand have no representation on the banks' board to protect their interest, and based on the provision of mudarabah contract that governs PSIAs, their funds cannot be guaranteed by the bank and therefore exposing them (PSIAHs) to the possibility of losing part of all their funds [6].

Another governance challenge in the management of PSIAs by IBs is the measurement and sharing of risk and return between the banks' shareholders and PSIAHs, taking into cognizance the risk appetite of PSIAHs whom are believed to be generally risk-averse compared to shareholders [7]. The policies set by the IBs' board of directors are more likely to reflect the risk-return preference of their shareholders than those of PSIAHs [8]. Given the fact that IBs commingle their shareholders' funds with funds from other sources including PSIAHs' funds raise another important governance issue of the extent to which the banks' investment portfolios reflect their PSIAHs'

preferences. More so, as the IBs strive to maximise their shareholders’ wealth, there is the tendency that the banks may give preference to shareholders’ funds over PSIAHs’ funds in investment in profitable ventures.

Reference [5] observed that the complete absence of corporate governance structure for PSIAHs in IBs raises fundamental governance issues of possible conflict of interest between shareholders and PSIAHs, hence the need for market discipline and full disclosure of information to enable the PSIAHs to take informed decisions to protect their funds and their overall interest. These necessitate having a sound governance framework that would ensure the protection of PSIAHs’ funds and their overall interest. The objective of this paper is to identify the governance challenges that PSIAHs pose on the operation of Islamic banks and to share and highlight the various guidelines issued by the Central Bank of Nigeria (CBN) towards the protection of the interest of PSIAHs in Nigeria. It is expected that the experience could be replicated by Regulatory and Supervisory Authorities (RSAs) in other jurisdictions towards the protection of the interest of PSIAHs in their jurisdictions.

To achieve this objective, the rest of this paper is organised as follows: Section 2 is on banker-customer relationships in Islamic banking and how they differ from conventional finance. Section 3 is on mudarabah deposits (being the underlying contract in PSIAHs), its type, characteristics, and importance to Islamic banks. Sections 4 is on corporate governance in Islamic banks and issues in the management of profit-sharing investment accounts, Section 5 is on Islamic banking in Nigeria while Section 6 is on efforts at protecting the interest of PSIAHs by the Central Bank of Nigeria, while Section 7 concludes the paper.

**II. BANKER-CUSTOMER RELATIONSHIP IN ISLAMIC BANKING**

In conventional banking, the primary relationship that exist between banks and their depositors as cited by [9] in the celebrated case of *Foley v. Hill* is that of a debtor and creditor. When the customer deposits money with the bank (for safe keeping or investment), the customer lends the money to the bank and the bank is obliged to return the money on demand (for current account) or at the expiration of contractual relationship (for investment deposit), hence the customer becomes a lender and the bank a borrower. The relationship is reversed as soon as the customer’s account is overdrawn, the bank becomes the creditor and the customer the debtor and the relationship continues to subsist in that way until the customer repaid back the loan [10].

Islamic banks on the other hand mobilise deposits using different contracts and as such maintain various relationship with their customers. They accept deposit using a contract of guaranteed custody (wadi’ah) or as loan (qard) to be guaranteed and repaid on demand or

through restricted or unrestricted mudarabah [11].

Reference [12] observed that the banker-customer relationships between IBs and their customers are based on the common banking products offered by the banks. For financing purposes, it could take the form of vendor-purchaser (example in a murabaha contract), investor-entrepreneur (example in a in mudarabah contract), principal-agent (example in a wakala contract), lessor-lessee (example in an ijarah contract), transferor-transferee (example in a diminishing musharaka), and between partners in a business venture (example in a musharaka contract). For the deposit account, it can be that of agent-principal (example in a wakala deposit contract), depositor-custodian (example in a wadiah deposit contract), lender-borrower (example in a qard based deposit contract but free of interest), investor-entrepreneur (example in a mudarabah deposit contract) as well as between fellow partners in a joint investment project (example in a musharaka deposit contract).

However, as observed by Muneeza et. al (2011) and cited by [12], all the rights and obligations of a banker and customer in conventional banks are also applicable in Islamic banking. The only point of divergence is that some of the rights and duties of the bank to its customers and vice versa are different from that of conventional banks depending on the type of product and or service that is being utilized.

Reference [13] captures the key differences in the banker-customer relationship that subsist between Islamic and Conventional banks and their customers as presented in the table below:

TABLE1: DIFFERENCES IN BANKER-CUSTOMER RELATIONSHIP BETWEEN ISLAMIC AND CONVENTIONAL BANKS

Product Type	Type of Relationship	
	Conventional Banks	Islamic Banks
Deposit/Liability	Lender-Borrower	Depositor-custodian Lender-borrower (but free from interest) Investor- entrepreneur
Financing/Asset	Borrower-Lender	Purchaser-seller Lessee-lessor Principal-agent Entrepreneur- investor

As could be observed from table above, the basic relationship subsisting between conventional banks and their customers is that of a debtor-creditor and vice versa, whereas IBs have many different relationships between them and their clients. This calls for the establishment of governance framework that would ensure that the interest of each class of customer is taken care of especially PSIAHs because of their unique characteristics as expounded in the subsequent section below.

### III. PROFIT-SHARING INVESTMENT ACCOUNTS: NATURE AND CHARACTERISTICS

One of the major contracts used by Islamic banks in the mobilisation of deposit which clearly distinguishes them from conventional banks is mudarabah deposit also called PSIAAs while the account holders are called [14]. PSIAAs operate under the profit/loss sharing (PLS) scheme where neither capital nor any pre-fixed returns is guaranteed by the bank [15]. Reference [16] observed that the total investment portfolio of Islamic banks is mostly financed by Investment Account Holders' (IAHs') funds, in addition to other sources like shareholders' funds and others. However, the share of PSIAAs in the total deposit of IBs vary across banks from less than five percent (holding only demand and savings deposit) to over 80% in some banks [17]. PSIAAs can be compared to shareholders of companies who receive dividends when the company declares profit or lose part or their entire investment when the company makes a loss [18]. However they do not meet the strict definition of shareholders, because shareholders have the contractual right to vote in general meetings to elect members of the Board of Directors (BOD) of their respective banks and thus have the power to hire and fire senior management through their control of the BODs but PSIAAs lack such powers [19]. Also, unlike shareholders who can sell their shares in the capital market when they are dissatisfied with the operations of the bank, PSIAAs can only withdraw their monies when dissatisfied with the IBs' operations with a possible loss of any profit that would be due to them if they withdraw before the maturity of the contract. In the same vein, PSIAAs do not meet the basic characteristics of depositors because neither their capital investment nor return on their investment is guaranteed by the bank [20]. Reference [20] explained that PSIAAs choose among Islamic banks based on the level of confidence in the bank's competencies and abilities to realize returns from their invested capital, and lack of such confidence will drive PSIAAs to switch to less-opaque Islamic banks. PSIAAs are principals who entrust their resources to an agent (the banks' management) except that the agent is appointed by another principal, that is the shareholders which could give rise to conflict of interest between the two principals [21].

Under mudarabah contract that governs the operations of PSIAAs, all losses on investments financed by these funds (due to credit and market risks) are to be borne by the PSIAAs, while profits realised on those investments are shared between the PSIAAs and the Islamic banks as fund managers of the investments (mudarib) in the proportions specified in the contract. However, any loss due to misconduct and or negligence is borne by the IB [22] and [7].

It is based on the above characteristics of PSIAAs that [23] prescribed that the equity of PSIAAs be

presented as an independent item between liabilities and owners' equity in the statement of financial position of Islamic banks (because it is neither one of the two). The above unique characteristics of PSIAAs makes it imperative for the management of IBs to institutionalise comprehensive corporate governance practices that take into cognizance the specificities of PSIAAs and that would ensure the protection of their rights and interest.

#### A. Types of Profit-Sharing Investment Accounts

Mudarabah account as the underlying contract used in PSIAAs in the mobilization of resources could be either restricted or unrestricted [24, pp.256].

##### i. Restricted Investment Account (RIA)

Restricted Investment Account (RIA) is a mudarabah account whose holders authorize the IB to invest their funds either on mudarabah or wakala basis with certain restrictions as to the type of investment they could deploy the funds into, where to invest (industry or location), how to invest, tenure of the investment and for what purpose the funds are to be invested [25]. RIAs could be likened to mutual funds in conventional finance and are managed separately from other funds of the IBs [19].

##### ii. Unrestricted Investment Accounts (URIAAs)

Unrestricted Investment Accounts (URIAAs) on the other hand is a mudarabah contract whereby the capital providers (PSIAAs) permit the IB as the fund manager (mudarib) to invest their funds as the bank deems fit without any restriction on the type of investment to be undertaken, the location, time, comingling of the funds and so on [24, pp.256]. URIAAs are usually high net worth individuals that are quite sophisticated in investment with high risk appetite.

Under URIA contract, the IB has a wide range of choices as to the type of trade to undertake, with whom to trade and in which location to undertake such trade. Losses if any is borne by the PSIAAs except in proven cases of negligence or breach of contract on the part of the bank as a mudarib.

### IV. CORPORATE GOVERNANCE IN ISLAMIC BANKS: ISSUES IN THE MANAGEMENT OF PROFIT-SHARING INVESTMENT ACCOUNTS

Corporate governance is defined as a set of mechanisms and institutions which are intended to provide efficient monitoring and control over a firm's strategy and operation [26]. It involves a set of relationships between a company's management, its

board, its shareholders and other stakeholders [27]. It provides the mechanism of setting the objectives of a corporation and the means of determining the attainment and monitoring the performance of those objectives. Good governance is essential to the ability of a business to protect the interests of its stakeholders [21]. Good corporate governance practices facilitate access to finance for an organisation especially when the governance structure creates enforceability of the rights of investors and lead to lower cost of capital for an organisation by reducing the risks associated with lending to that organization [28].

From Islamic banks' perspective, the Islamic Financial Services Board in its Guiding Principles on Corporate Governance for Institutions Offering Only Islamic Financial Services (IIFS) [29], observed that a good corporate governance for IBs should encompass the following:

- i. a set of organizational arrangements whereby the actions of the management of the IIFS are aligned, as far as possible, with the interests of its stakeholders;
- ii. provision of proper incentives for the organs of governance such as the Board of Directors, Shariah Supervisory Board (SSB) and management to pursue objectives that are in the interests of the stakeholders and facilitate effective monitoring, thereby encouraging the IIFS to use resources more efficiently; and
- iii. compliance with Shari'ah rules and principles.

The IFSB expounded further that in their effort to create value for their shareholders, IBs should pay attention to the interest of other stakeholders beyond their shareholders. The IBs owe a fiduciary duty to their PSIAHs which could be parallel to their duties to their shareholders.

Reference [28] opined that the unique nature of Islamic finance and the desire to be competitive while still preserving Sharia principles creates a unique corporate governance challenges for Islamic Financial Institutions.

Reference [30] in its briefing on corporate governance observed that the treatment of PSIAHs by Islamic banks raises lots of concern considering the position held by PSIAHs between depositors and shareholders, and that this intermediate position give rise to a number of governance issues for the IBs. For example, the bank may decide to postpone the distribution of profit in any particular year in order to be able to maintain distribution in another period when the assets of the PSIAHs does not perform as expected.

Based on mudarabah contract that underlies the operations of PSIAAs, IBs place PSIAHs' funds in investment pools, and profit (if any) is distributed between the bank and the PSIAHs based on pre-agreed ratio, while loss (if incurred) is borne entirely by the

PSIAHs (except in cases of proven negligence) [31]. This imply that it is the PSIAHs and not the shareholders of the banks that bear the risk of the investment pool. The asymmetry between the extent of PSIAHs' participation in bearing investment risks and of their ability to influence the operations of the IBs also raises another fundamental corporate governance issue [21]. Also, IBs' practice of commingling of shareholders' funds with that of PSIAHs into investment pools raises the possibility of conflict of interest and in differential treatment of the participants of the pools with the shareholders' funds getting preferential treatment in terms of investment in profitable ventures over other participants.

The practice of using Profit Equalization Reserve (PER) and Investment Risk Reserve (IRR) as smoothing mechanisms also raise some governance issues in the management of PSIAAs because it is the IBs that have the sole discretion of determining the basis of computing and the actual amount appropriated into the two reserves without any input from the PSIAHs [19]. The use of PER and IRR to smoothen PSIAHs' returns create a transparency issue because returns on the underlying investments typically appear more stable than they actually are, which makes it difficult for the PSIAHs to monitor the true performance of their funds [32]. Another implication in the use of PER and IRR in income smoothening by IBs is that it leads to lack of transparency and would distort competition among IBs, because PSIAHs may not see the need to withdraw their funds from the banks due to poor performance below prevailing market rates as long as they receive returns (smoothened) that is commensurate with the going market rate [5].

The above governance challenges in the management of PSIAAs by IBs calls for the establishment of good governance guidelines that would ensure the protection of the interest of PSIAHs in Islamic banks.

## V. ISLAMIC BANKING IN NIGERIA

The amendment of the banking law in Nigeria, that is the Banks and Other Financial Institutions Act (BOFIA) in 1991 encouraged the introduction of Non-Interest (Islamic) banks. Section 66 of the BOFIA recognises "profit and loss sharing bank" as a bank which transacts investment or commercial banking business and maintains profit and loss sharing accounts [33]. In 1992 Habib Nigeria Bank as it was then known obtained a license to operate a non-interest<sup>1</sup> (Islamic) banking window but only commenced operation in 1999. However, the operations of the window was short lived, because the parent bank-Habib Bank transformed into Bank PHB after a merger with Platinum Bank in 2005 and was subsequently liquidated in 2011 [34]. In 2011, the CBN issued the guidelines for the regulation and supervision of non-interest (Islamic) financial

institutions [35]. In the same year (2011), the CBN licensed Jaiz bank Plc as a full-fledged non-interest (Islamic) bank and Stanbic IBTC bank as a window (though it closed down the window in 2018). Currently, there are two full-fledged non-interest (Islamic) banks, two windows of conventional banks and three full-fledged non-interest (Islamic) microfinance banks operating in Nigeria [36].

As at December 31, 2019, the total asset<sup>23</sup> of the Islamic banking subsector in Nigeria was N251,059,996,739.43 (approximately USD 662,427,432) up from N159,046,481,000.55 (approximately USD 419,647,707) in the corresponding period in 2018, while the total deposit of the subsector in the same period was N147,592,880,956.43 up from N107,346,430,000.01 in the corresponding period in 2018 of which N68,641,314,851.43 as at December 31, 2019 and N44,311,372,000.00 at December 31, 2018 representing 46% and 41% of the total deposits in 2019 and 2018 respectively were equity of PSIAHs of the four Islamic banks in Nigeria<sup>2</sup> This shows the significance of PSIAAs as a key source of funding for Islamic banks in Nigeria that require putting in place appropriate policies to protect their interest.

## VI. EFFORTS AT PROTECTING THE INTEREST OF PSIAHs BY THE CENTRAL BANK OF NIGERIA

As recommended by [29], that the supervisory authorities should play a role in protecting the interests of PSIAHs with regard to their rights, the Central Bank of Nigeria (CBN) has issued a number of guidelines aimed at protecting the interest of PSIAHs in Nigeria in order to minimise the numerous governance issues associated with the management of PSIAHs funds by Islamic banks in Nigeria as highlighted in the preceding section. Below were the guidelines put in place by the CBN towards protecting the rights of PSIAHs in Nigeria:

### 1. Guidelines for the Regulation and Supervision of Institutions Offering Non-Interest Financial Services in Nigeria

To ensure adequate regulation and supervision of non-interest (Islamic) banks in Nigeria, the CBN issued the Guidelines for the Regulation and Supervision of Non-Interest Financial Institutions in Nigeria [35] in 2011. The guidelines require IBs operating in Nigeria to make adequate and relevant disclosures to PSIAHs about the nature of the contract underlying PSIAAs and the fact that they are to bear any investment risk as well the basis for computing the amounts to be appropriated

to the PER and IRR. Disclosure of adequate information to PSIAHs would minimise the issue of information asymmetry that has been identified by [5] as a serious governance issue in the management of PSIAHs funds by IBs.

### 2. Guidelines on the Management of Investment Account Holders for Non-Interest Financial Institutions in Nigeria

In 2019, the CBN issued the guidelines on the Management of Investment Account Holders for Non-Interest Financial Institutions in Nigeria [31]. The guidelines requires Non-Interest Financial Institutions (NIFIs) to put in place the following provisions among others to protect the interest of PSIAHs of IBs in Nigeria:

- i. Adequate framework that would ensure prudent management of assets funded by PSIAHs' deposits and ensure that they discharge their fiduciary responsibilities in managing the PSIAHs' accounts;
- ii. Sound risk management framework that would adequately identify, measure, monitor and control all the risks faced by the assets funded by the PSIAHs' funds;
- iii. Sound investment policies and strategies that ensure PSIAHs' funds are invested in the right class of assets, which takes into cognizance their risk appetite;
- iv. A well-defined framework for the creation of investment pool as well as the distribution of profits and loss (if any) among participants in the pool and the allocation of expenses to the various contributors to the investment pool;
- v. Sound corporate governance framework that would ensure adequate protection of the rights of PSIAHs, and emphasize the fiduciary responsibility of the NIFI in managing the PSIAAs; and
- vi. Establishment of a governance committee as a board committee, which shall, among other things, ensure adequate protection of the rights of the PSIAHs.

The provisions of the guidelines as enumerated above that requires NIFIs to put in place framework that would ensure that PSIAHs' funds are invested in the right class of assets, which takes into cognizance their risk appetite is line with the recommendations of [7] and [29] who described PSIAHs as having low risk appetite when compared to shareholders and as such would prefer low but stable return than volatile returns.

<sup>1</sup> Islamic Banks in Nigeria are referred to as Non-Interest Banks (NIBs) or Non-Interest Financial Institutions (NIFIs) because BOFIA prohibits banks from using any religious affiliation as part of their names

<sup>2</sup> The information is obtained from the financial statement published at Jaiz bank Plc's website at jaizbankplc.com and from returns submitted by the other three Islamic banks at the CBN EFass platform. The figure was at December 31, 2019

3. Guidance Notes on Disclosure Requirements to Promote Transparency & Market Discipline for Non-Interest Financial Institutions in Nigeria

The CBN had in 2019 adopted three IFSB standards including [37] Standard on market discipline and had thus issued guidance note on disclosure requirements to promote transparency & market discipline for NIFIs in Nigeria [38]. The guidelines aimed at assisting the NIFIs towards implementing the IFSB 4 standard. The guidance note sets out the disclosure requirements with respect to procedure, frequency, and content of information to be disclosed by NIFIs to among others protect the interest of PSIAHs of IBs in Nigeria:

- i. Disclosure of the types of risks facing both restricted and unrestricted PSIAHs based on the bank's investment policies;
- ii. Disclosure of the treatment of assets financed by both restricted and unstructured PSIAHs in the calculation of Risk Weighted Asset (RWA) for capital adequacy purposes.
- iii. Disclosure of the general investment objectives and policies that are offered to both restricted and unrestricted PSIAHs based on the general business strategy and risk-sharing policies of the NIFI
- iv. Disclosure that PSIAHs funds are invested and managed in accordance with Shari'ah requirements
- v. Method for calculation and distribution of profits and the basis for charging of expenses to PSIAHs
- vi. Rules governing the transfer of funds to or from PER and IRR and the actual amounts transferred to or from the two reserves

Disclosure of information to PSIAHs in in line with recommendation of [8] who opined that it is important to disclose sufficient information to PSIAHs as this would assist them to determine whether or not they leave their funds invested with the bank

4. Guidelines on the Practice of Smoothing the Profit Payout to Investment Account Holders for Non-Interest Financial Institutions in Nigeria

In order to regulate and standardize income smoothing practices by NIFIs in Nigeria, the CBN issued the guidelines on the practice of smoothing the profit payout to investment account holders for non-interest financial institutions in Nigeria [39]. The guidelines specified the techniques of income smoothing

permitted for NIFIs in Nigeria and required that whatever technique is to be used by a NIFI must be approved by its Advisory Committee of Experts (ACE)<sup>3</sup> and Board of Directors (BOD).

The guidelines equally require NIFIs to ensure that the PSIAHs are fully aware of and agreeable to the terms and conditions stipulated under the PSIA contract which shall include profit sharing ratio and basis of profit distribution and allocation.

The NIFIs were equally required to clearly state in the investment contract any smoothing practices that they employ and if they expect the PSIAHs to forgo their rights to any portion of income to be appropriated for building up reserves such as PER and IRR. Specifically, the guidelines allow four smoothen techniques with respect to each of the techniques as follows:

- i. Use of Profit Equalization Reserve (PER)
  - The internal policy of using PER as a smoothing technique shall be subject to approval of the bank's ACE and the BOD. The actual transfers to and from the PER shall be subject to ACE and executive management committee's approval
  - The consent of the PSIAHs shall be obtained who shall agree to give up any portion of the reserve as hibah (gift) on the basis of Mubara'at when the Mudarabah contract terminates.
  - The condition that triggers a transfer to PER shall be determined by the executive management and approved by the BOD.
  - The maximum amount of transfer to PER at any point shall be set by the BOD and endorsed by the ACE, subject to CBN approval
  - The balance in PER shall be utilized within a maximum period to be set by the BOD and endorsed by the ACE after which it shall be transferred back to income for distribution to existing PSIAHs and the shareholders.
  - The PSIAHs' portion of PER shall be added to their equity in the liability side of the balance sheet while that of the Mudarib (the bank) shall be reported under shareholders' funds
- ii. Forgoing Part or All of the Mudarib's

<sup>3</sup> Shariah Supervisory Boards of Islamic banks are called Advisory Committee of Experts (ACE) in Nigeria

- Share of Profit
  - A NIFI (as a mudarib, that is fund manager) may forgo or give up part or the entire Mudarib's share of profit earned on PSIAHs' funds, but shall not unilaterally increase its profit-sharing ratio without obtaining the consent of the PSIAHs.
  - The decision to reduce the profit share for Mudarib shall be subject to the consent of the BOD.
- iii. Transfers from Shareholders' Current or Retained Profit
  - A NIFI may after obtaining its BOD's approval and shareholders' consent at annual general meeting make transfer from current or Retained Profit/General Reserve for distribution to PSIAHs on the basis of Hibah (gift).
  - The actual amount to be transferred from current profit and/or retained profit/general reserve for distribution to PSIAHs at any time shall be subject to the decision of executive management committee and the approval of the CBN.
  - Both practices of foregoing part or Mudarib's entire share of profits, and transfer from shareholders' amount of retained profits, shall only occur at the point of profit realisation and distribution, but not a condition precedent to the Mudarabah agreement.
- iv. Use of Investment Risk Reserve (IRR)
  - The internal policy of using IRR as a smoothing technique shall be subject to the approval of the bank's ACE and BOD. The consent of PSIAHs to give up any right they have to the reserve when the Mudarabah contract terminates shall also be obtained.
  - The maximum amount of transfer to IRR at any point shall be determined by the BOD and endorsed by the ACE subject to CBN approval.
  - The balance in the IRR shall be utilized within a maximum period to be determined by the bank's BODs after which it shall be transferred back to income for distribution to PSIAHs.

Fulfilling the above requirements contained in the guidelines towards the management of PSIAHs by Islamic banks in Nigeria is expected to improve the transparency in the management of PSIAHs' funds by NIFIs in Nigeria and could minimise the myriad of corporate governance issues identified by [8], [32] and [5] that occasioned the use of PER and IRR by IBs.

## VII. CONCLUSION

There is dearth of literature on deposit mobilisation

practices by Islamic banks, most of the intellectual work in Islamic finance were geared towards developing Shari'ah-compliant alternative financing products with little attention paid to deposit mobilization by Islamic banks. The current contributes to the literature on corporate governance associated with PSIAHs who are very important source of funding for IBs globally. It highlights the numerous governance issues associated with the management of PSIAHs by IBs globally and shares a number of policies and guidelines issued by the CBN towards protecting the interest of PSIAHs. It is expected that the experience of the CBN would assist regulatory and supervisory authorities (RSAs) in other jurisdictions to implement same policies in order to protect the interest of PSIAHs whom have been described as quasi-equity holders but without representation on the board of the IBs and as such need to be protected by the RSAs.

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