Journal of Islamic Business and Economic Review
Volume 2, Issue 1, January 2019
http://jiber.stebilampung.ac.id

Potentiality of Islamic Deposit Insurance System in Nigeria: A Lesson from Malaysia

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Info Articles

History Article:
Received 26 May 2018
Accepted 3 December 2018
Published 23 January 2019

Keywords :
Islamic Deposit Insurance System; Financial Stability; Nigeria; Malaysia

Abstract

The financial crisis highlighted the need for deposit insurance regimes that effectively protect depositors and promote financial stability. Interest in Islamic deposit insurance is rising, incited by the growth of Islamic banking across the globe. The study examines the potentiality of Islamic deposit insurance scheme in Nigeria, considering Malaysian experience. To achieve its objective, this paper used both analytical and qualitative methods after thoroughly examining many relevant works of literature as well as empirical works. The study finds that Islamic deposits are covered separately from conventional deposits, with separate coverage for Islamic window, trust accounts, sole proprietorship, and partnership. It also provides coverage to various contracts, such as *mudharabah*, *wadi`ah*, *qard* and *murabahah*. Thus, Nigeria can tap the idea in promoting sound financial stability through *Sharī'ah*-compliant deposit insurance scheme. Finally, the paper concludes that to ensure a *Shari`ah*-compliant deposit insurance system, the government supposed to implement a proper approach, which could be different across jurisdictions, in light of differing *Shari`ah* interpretations or views from one jurisdiction to another.

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p-ISSN 2623-0410
e-ISSN 2623-0402

1. Introduction

Deposit Insurance Scheme (DIS) is growing speedily across the globe, especially in developing nations. The prime objective of the system is to lessen or remove the threat of unanticipated financial panic (Demirgu¨c¸-Kunt & Kane, 2012). In recent years, the uprising banking crises have affected most of the countries around the globe. The drift has struck advanced and emerging nations alike, resulting in many systemic crises in many countries across the world (Caprio and Klingebiel, 1999). Ogunleye, (2002) opined that DIS provides a financial guarantee to depositors and defend the banking system from insecurity occasion by loss of confidence. Thus, DIS is a system mostly established by governments and makes it mandatory for banks to register as members and give the compulsory premium. It is a section of the financial system that provides safety nets, aims at promoting financial system stability. Hamisu & Hassan (2017) added that DIS had gained universal substance as a consumer protection scheme for the investors and depositors in the banking sector of nations' economy. However, deposit insurance scheme in Nigeria commences with the founding of the Nigeria Deposit Insurance Corporation (NDIC) in 1988, as a body in charge of insuring the deposits of all banks and other deposit-taking financial institutions approved by the Central Bank of Nigeria (CBN). Also the corporation provides financial and technical assistance to banks in difficulties, in the interest of depositors and in the event of bank failure, it guarantees the compensation of insured.

Moreover, the rapid growth of the Islamic financial institutions across the world indicates the desire for an Islamic edition of the DIS to cover the Islamic banks as well (Hamisu & Hassan, 2017). This is undoubtedly needful to create a level playing ground for both the conventional and Islamic banks. Also, the global financial crisis of 2008 that shocked the conventional financial institutions has caused several parties to begin to value Islamic finance as a promising alternative. The Islamic financial system, which creates better discipline into the economy and links credit expansion to the growth of the real economy, may be capable of minimizing the severity and frequency of financial crises (Arshad, 2011). As part of their safety net arrangement, some of the countries implementing the Islamic banking system also implement Islamic Deposit Insurance (IDI). The IDI aims at protecting insured Islamic deposits in case of failure of any Islamic banking unit which is a member of the system (IADI, 2010). It is, therefore, implemented comprehensively by some countries to ensure that, besides protecting Islamic deposits, other operational aspects of the scheme are in line with *Shari`ah* principles.

In Nigeria, the NDIC has established a separate system for its IDI, with a separate Islamic deposit insurance fund managed in accordance with *Shari`ah* principles. The characteristics of Islamic and conventional deposit insurance are in general alike, the major difference between the two is that the former operates in accordance with *Shari`ah* principles (Hamisu, 2014). Therefore, while the regulators or deposit insurers have to ensure that the IDI scheme can function effectively, they also have to ensure the *Shari`ah* compliance of the operational aspects of the scheme (IADI, 2010). Arshad, (2011) argued that establishing an Islamic deposit insurance system could be beneficial to a country that practices Islamic finance. As a result, it provides a comprehensive safety net within the Islamic financial industry that ensures the protection of profit sharing investment accounts (PSIA) where the conventional deposit insurance system fails to do so.

The notion of deposit insurance in the Islamic financial industry is quite new. Few countries have implemented Islamic deposit insurance, and little has been written about its development and implementation (Arshad, 2011). This study contributes to the scarce literature on IDI by examining the potentiality of IDI in Nigeria considering Malaysian experience.

2. Literature Review

2.1 The Concept of Deposit Insurance Scheme

(DIS)

Deposit insurance schemes are key elements of broader financial safety nets established with the aim of supporting financial stability and protecting small savers from a loss in the event of bank failure. Demirguc¸-Kunt & Kane, (2012) maintained that the United States was the pioneer country to set up the scheme. Thus, after decades of discussion, federal deposit insurance was enacted in 1933 in the midst of a banking crisis. The purpose of the system was to protect small depositors and restore confidence in the liquidity of bank deposits (Golemba, 1960). After a few decades of its coming up, the nonappearance of failure with large institutions champions an illusion that DIS is an inexpensive way of preventing banking crises. Modern theorists consider DIS as a complex principal-agent contracting predicament that comprises banks, depositors, supervisors, politicians, and taxpayers (Calomiris, 1996). However, if supervisors of the bank performed well, then banks will be recapitalized or close down before considerable losses can assemble. But if they perform poorly, then DIS can inflict huge costs, both on taxpayers and regarding severe financial and economic interruption from a banking crisis.

Moreover, two opposing views emerged in economic theory concerning the effectiveness of DIS. One of the opinions is considering DIS as policy tools to minimize the possibility of bank runs (Hoggarth et al., 2005). The second view asserts that DIS persuades moral hazard inducements that persuade banks to raise the risk of default owing to their restricted burden or the promise that depositors' money is guaranteed (Angkinand, 2009). Given the opposing theoretical underpinnings, it is crucial to explore empirical evidence mostly conducted on the effectiveness of DIS due to a lack of necessary data.

Demirguc¸-Kunt and Detragiache (2002)` study was considered the pioneering work that links between DIS and financial crisis. The study uses the World Bank's new cross-country database to generate data from 61 countries for the period between1980–1997 and estimate a model of banking crises. They include some variables to control for economic conditions. Their findings revealed that explicit DIS could raise the probability that a nation will be affected by a banking crisis, especially, when its DIS symbolize features that intensify moral hazard. They, however, concluded that the significance of deposit insurance to bank vulnerability is momentous in reduced institutional settings, except that this outcome is a counterbalance in countries whose institutional and regulatory environment is steady. This was supported by Barth, Caprio, and Levine (2001) study after them, create a cross-country database that assess disparity in systems for regulating and supervising commercial banks.

Müslümov (2005), analyzed the impact of DIS on the financial performance of commercial banks in Turkey. He declared that his result confirmed the moral hazard hypothesis. He discovered that banks show remarkable boost in foreign exchange risk situation and decrease in capital adequacy in relation to their benchmark following the introduction of the full DIS. The increased in risk-taking is considered as a manifestation of moral hazard conduct by banks. He concluded that the entire DIS warp the incentive arrangement of commercial banks and therefore avert the appropriate execution of the market discipline apparatus and show the way to extreme risk-taking. Recently, Angkinand (2009) utilized a cross-sectional time-series analysis to determine the effect of banking rule on the output cost of banking crisis in 35 developed and emerging market nations for the period 1970 to 2003. His findings pointed out that a high coverage by DIS is linked with quite small output losses of crises, most likely due to DIS stopping bank runs once a crisis occurs.

Furthermore, to ascertain how explicit DIS adds to financial development, Cull, Senbet and Sorge (2000) using time series data considered 58 countries. They found that unambiguous DIS impact positively on economic activity and its precariousness only in the existence of well-built institutional development. They, however, affirmed that, if DIS does not comprise a regulatory system that can be able to surmount all weaknesses in the institutional environment, unsteadiness is promoted, and following financial development is debilitated. Similarly, Cecchetti and Krause (2000) examined a cross-section of 49 countries. The findings of the study revealed that DIS slow down the progress of nonbank financing mechanisms. Moreover, countries that put in place extensive DIS for banks tend to have smaller capital and financial markets and a lesser amount of publicly traded firms per capita.

2.2 Islamic Deposit Insurance System (IDIS)

The recent growth in the global Islamic Financial Services Industry (IFSI) indicates a critical need for financial safety nets as it emerges into a multi-trillion dollar industry with the recorded systematic achievements by the Islamic banking sector in several jurisdictions (Najeeb & Mustafa, 2016). The Islamic Deposit Insurance System (IDIS) is an agreement to protect insured depositors in opposition to the loss of their insured Islamic deposits placed with Islamic Banking Institutions (IBIs) in the event of the failure of an IBI (Arshad*,* 2011*).* It is put into practice in countries where Islamic deposits are offered to the public (IADI, 2010). In the light of these, therefore, the position for an IDIS has been the consideration of the public interest (*maslahah*).

Although a great number of countries implemented Islamic finance, not many have launch IDIS. This is as a result of, the small size of IDIS compared to entree deposits in the in the general financial system, or a short of transparency as to the insurability of profit-sharing investment accounts (PSIAs; they tend to form the bulk of total Islamic funds). Therefore, the global financial community is less alerted to the reality of IDIS and has yet to be persuaded that it can proffer support to the overall financial system stability (IADI, 2010).

A study carried out on IDIS by the Islamic Deposit Insurance Group showed that, out of the nine countries that have implemented Islamic banking system but are yet to put in place an IDI system, seven show their interest in doing so, i.e., Brunei, Djibouti, Kenya, Pakistan, Palestine, Qatar, and Syria. Similarly, Hong Kong and Lebanon did not show any interest. The study also wanted the view of the respondents on the latest development and rising concern in the financial sector that may have shock on IDIS. At the macro level, the respondents, by and large contribute to the view that the recent global financial crisis has had a shock on Islamic finance and IDIS worldwide. Even though Islamic finance is run based on real asset and profit and loss-sharing, Islamic financial institutions (IFIs) may still be uncovered to possible risks owing to the increased globalization of the Islamic financial market and its incorporation with the global financial system.

As a result of the prospective exposure for the IFIs, the respondents have the same opinion that protection for Islamic deposits has turn into progressively more important. This has place force on the regulators to put in place IDIS schemes in their individual countries to inspire confidence in the public regarding deposits and support the strength of their financial systems. On a further note, IDIS may possibly persuade customers' choice concerning the place they keep or invest their funds. As regards the protection of the depositors' funds, preference is given to insured IFIs than uninsured ones. Another respondent believed that IDIS is a key way for some nations that depend on external finances to generate surplus petrodollars from the Middle East.

At the micro level, one of the respondent predicts that matters might come up in view of ascertaining the insurability of Islamic deposit products obtainable under various *Shari`ah*-based contracts, the insolvency procedure for a bank with an Islamic banking window, and the handling of new deposit products relative to the preference of payments. Amid the new drift and emerging issues, the respondents have the opinion that collaboration among regulators is critical in mounting an efficient IDIS scheme.

2.3 *Shari`ah* Requirements for Islamic Deposits Insurance System (IDIS)

The fundamentals of the entire Islamic financial transactions is that they must be free from prohibited rudiments in Islam, i.e., interest (*riba*), uncertainty *(gharar*), and gambling (*maisir*). These prohibited rudiments are undoubtedly stated in the Holy Quran and the Sunnah of the Holy Prophet Muhammad (PBUH). Islam forbade the collection and given out interest (*riba*). The factor of interest could as well be present in deposit insurance when the deposit insurer is concerned with the interest-based dealings or activities. This can take place as the deposit insurer protects deposits, invests the deposit insurance funds, lends to troubled banks, and get external finances (when in deficit), in which all these activities are based on interest.

However, all transactions together with deposit insurance may possibly have an element of uncertainty. Meanwhile, *Shari`ah* scholars make a distinction of two categories of uncertainty: allowed and forbidden under *Shari`ah*. In addition, *Shari`ah* forbids ambiguity, while, for instance, its existence is extreme, which could show the way to unwarranted losses for one party or disagreement between the transacting parties (IADI, 2010). The uncertainty elements exist in deposit insurance in respect of the breakdown of a bank. Nonetheless, such improbability may perhaps not be forbidden because it is inescapable and naturally entrenched in deposit insurance (IADI, 2010).

Moreover, the fundamental objective of *Shar`ah*, has been to support and look after the well-being of all human beings and prevent any damage that may influence their welfare (Najeeb & Mustafa, 2016). Ibn al-Qayyim, an Islamic jurist, elaborated that.

'*Sharīʻah is founded upon wisdom and the realization of people's interests in this life and the hereafter. Sharīʻah is the embodiment of justice, mercy, benefit, and wisdom. Thus, any issue that deviates from justice to injustice, from mercy to its opposite, from benefit to harm and from wisdom to folly is not part of the Sharīʻah even if it is inserted in it based on some interpretations*". (Ibn Al-Qayyim, 1991, 3:11)

On this note, DIS aims to support financial stability and stop bank failures, and thus essential tools to guard an economy from losses in output and depositors from missing their funds. Therefore, the fundamental objective of such schemes complies with Sharīʻah, and these can be categorized under "protection of wealth" among the five necessities of Maqāṣid al-*Sharīʻah*. Therefore, deriving conclusions from the *Quranic* verse and *ḥadīth* of the Prophet. For instance, the Quran says in Chapter 2, Verse 188: "*Do not consume one another's wealth wrongfully…..*" The verse categorically prohibits the unjust consumption of the wealth of others and bans any form of misappropriation and misuse of people's wealth.

In an authentic ḥadīth narrated in Muslim, the Prophet said: "*Everything pertaining to a Muslim is inviolate to another Muslim: his blood, his property, and his honor*" (Muslim, n.d., 4:1986, ḥadīth no. 2564). The *ḥadīth* of the Prophet particularly prohibits any form of transgression or harm to be inflicted upon the private property of an individual.

3. Approaches in Designing Islamic Deposits System (IDIS)

There are numerous approaches that a government could implement in designing a *Shari`ah*-compliant deposit insurance system. These approaches include; government regulation, adoption of a *Shari`ah*-based contract and a combination of contract and government regulation.

3.1 Government Regulation

In the nonexistence of a *Shari`ah*-compliant approach, government execute the deposit insurance system through giving out precedence to the socio-economic benefits of the scheme above the way it is carried out. This particular observation is reinforced by the fact that there is almost no any option to deposit insurance as a means to satisfy the lawful need for deposit protection. In view of this, the government regulation approach accepts the subsistence of all prohibited elements that are intrinsic in the deposit insurance mechanism. However, Islam upholds this type of initiative from the government to set up deposit insurance in accordance with the Islamic concept of *siasah syar'iyyah,* which means any action taken by the government in the public interest (*maslahah*).

3.2 Adoption of a *Shari`ah*-based Contract

Islamic deposit insurance scheme applicable contracts include *Kafalah bil ujr* (guarantee with fee) and *Tabarru`* (donation). Under *kafalah bil ujr*, the deposit insurer utilized this contract to form a relationship between an IBI, as guaranteed party, and the deposit insurer, as guarantor. Therefore, as consideration for the guarantee, the IBI reimburse a fee to the deposit insurer in the form of annual premiums and, if the IBI fails, the deposit insurer will take the obligation of reimbursing insured depositors.

However, due to the fee element associated with this contract it creates a debate about its adoption in any financial transaction. Although on one hand, some classical Shari`ah scholars believed that charging a fee for a guarantee is not permissible, based on the argument that the contract is voluntary in nature. On the other hand, some *Shari`ah* scholars recognize the need to allow it, based on the current needs of the community. Furthermore, getting a premium in deposit insurance as a fee is necessary, because it is used to support the operations of the IDIS. In addition to compensating insured depositors in the occasion of a failure, the fund is as well required to cover the deposit insurer's operating and development costs. One more reason for the need to collect premiums is that it is not practicable to implement an IDIS that is exclusively financed by the government or by private funds. Deposit protection through blanket guarantee could be expensive to the government, and consequently, place a direct or indirect financial burden on the public

The second applicable contract under IDIS is *Tabarru`* (donation) which is seen as the voluntary transfer of ownership of an asset or its usufruct from one party to another without specifying any counter value. Moreover, in case of the donation contract operated under IDIS, an IBI accept to disburse premiums as donations or voluntary contributions to a fund (deposit insurance fund). The deposit insurer, who acts as a manager of the fund, will utilize the fund to compensate depositors of any IBI that experienced a failure. This particular type of contract is appropriate for a deposit insurance system in which membership is not compulsory.

Furthermore, the deposit insurer can also put together the element of mutual cooperation (*ta'awuni*) and the donation contract to form a new contract called *tabarru' ta'awuni*. Under such a contract, all IBIs in the scheme be in agreement to make voluntary contributions (in the form of premiums) to protect depositors of any IBI that undergone a failure. Since the two elements of *tabarru'* and *ta'awuni* are the main features of *takaful*, the deposit insurance system operating under such a contract is referred to as "deposit *takaful*"

3.3 Combination of *Shari`ah*-based Contract and Government Regulation

Under this combined approach, the deposit insurer will initially discover the most suitable contract, i.e. the contract whose conditions go with some or most of the deposit insurance operations. Any portion of the operations that is not in line with the conditions will be deal with by government regulation. For example, the government has appraised and resolves to implement a *takaful* contract for its IDIS. Since a *takaful* contract involves voluntary contributions or premium payments from the IBIs, the government could issue a regulation making premium payments mandatory.

4. Banking regulation in Malaysia: Overview

Luk, foong and Heung (2018) in their Banking Regulation Guide provides a high level overview of the banking regulations in Malaysia. According to the authors, there are many large banks in Malaysia with commercial and investment banking capabilities that are able to offer their clients a full suite of banking and financial services. However, all commercial banks must be incorporated under the Companies Act 2016 (CA) in Malaysia. Commercial banks are allowed to provide Islamic banking services, subject to the prior written approval of Bank Negara Malaysia (BNM). A commercial bank providing Islamic banking services is also subject to the Islamic Financial Services Act 2013 (IFSA) to the extent that its provisions relate to the Islamic banking business that the bank is approved to carry on.

Islamic banks in Malaysia provide retail and wholesale services based on approved Islamic principles. The range of Islamic financial products offered in Malaysia includes:

i. Current deposits and savings deposits under the concept of *Wadiah* (guaranteed custody).

ii. Equity or partnership financing under the concepts of *musyarakah*, *mutanaqisah* and *mudarabah.*
iii. Lease-based financing under the concepts of *al-ijarah*, *al-ijarah muntahia bi al-tamlik* and *al-ijarah thumma al-bai.*
iv. Sale-based financing under the concepts of *istisna`, bai` bithaman ajil, bai` salam, murabahah* and *musawamah.*
v. Fee-based activities under the concept of *wakalah*.

4.1 Corporate governance

The Malaysian regulatory framework imposes a high standard of corporate governance on licensed banks. The prior written approval of BNM is required for appointments of the chairman, director, chief executive officer (CEO) or senior officer of a licensed bank. Bank Negara Malaysia (BNM) also has rigorous "fit and proper" tests under its Fit and Proper Criteria guidelines (dated 28 June 2013) as well as the new Corporate Governance guidelines issued by BNM on 3 August 2016. These guidelines are applicable to, amongst others, banks, investment banks, Islamic banks as well as "financial holding companies" (companies approved by BNM to hold more than 50% of the shares of a licensed person such as a commercial or an investment bank).

4.2 Liquidity and capital adequacy

4.2.1 Role of International Standards

Bank Negara Malaysia (BNM) implements the Basel Accords developed by the Basel Committee on Banking Supervision through its guidelines. At present, all major elements of the Basel II capital framework, including the Internal Ratings-Based approach for credit risk as well as the Pillar 2 and Pillar 3 components, have been put in place. BNM has announced a gradual phase-in of the standards under Basel III for implementation in Malaysia. The implementation began in 2013 and will be completed in 2019.

However, for Islamic banking, Malaysia is host to the Islamic Financial Services Board (IFSB), an international prudential standard-setting body for Islamic finance to ensure the soundness and stability of the Islamic financial services industry. The Islamic financial services industry, which includes Islamic banking institutions, is robustly guided by the standards published by the IFSB.

4.2.2 Liquidity Requirements

Bank Negara Malaysia (BNM) can impose prudential standards on a bank relating to liquidity under the Financial Services Act 2013 (FSA) and the Islamic Financial Services Act 2013 (IFSA) to ensure the safety and soundness of the bank or the integrity, professionalism and expertise in the conduct of its business. BNM has issued guidelines known as the Liquidity Coverage Ratio and Statutory Reserve Requirement, which contain the applicable liquidity requirements. Islamic banks are subject to a similar set of guidelines. The Liquidity Coverage Ratio (LCR) is a quantitative requirement which seeks to ensure that banking institutions hold sufficient high-quality liquid assets (HQLA) to withstand an acute liquidity stress scenario over a 30-day period at both the entity and consolidated level.

4.2.3 Leverage Ratio

A banking institution must comply with the policy requirements set out by BNM in its policy document. *Leverage Ratio* (issued on 8 December 2017) at the following levels:

I. Entity level, referring to the global operations of the banking institution (that is, including its overseas branch operations) on a stand-alone basis, and including its Labuan banking subsidiary.
II. Consolidated level, which includes entities covered under the entity level requirement, and the consolidation of all its subsidiaries (except for insurance and *takaful* subsidiaries).
III. SPI level (referring to a licensed bank or licensed investment bank that has been approved under the FSA to carry on Islamic banking business), as if it were a stand-alone banking institution.

However, a banking institution is required to maintain a minimum leverage ratio of 3% at all times and is encouraged to publish the quarter-end leverage ratio positions for entity and consolidated levels on a quarterly basis.

4.2.4 Capital Adequacy for Banks

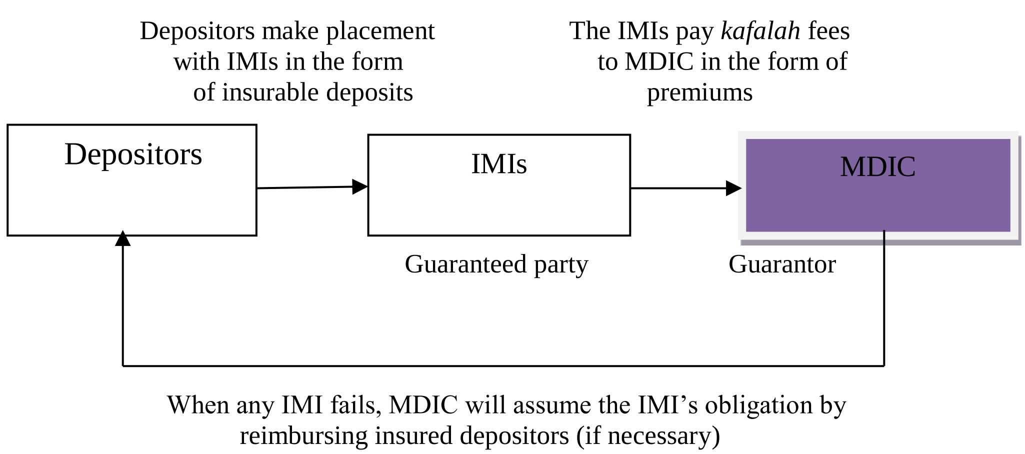
The minimum capital funds that have to be maintained by commercial banks and investment banks. Domestic bank (by itself or in aggregation with its related corporation that is a licensed investment bank) is to maintain RM2 billion, locally incorporated foreign bank maintain RM300 million and stand-alone investment bank should have RM500 million.

In addition, each banking/financing institution within the banking group must comply with the minimum regulatory capital requirement imposed under guidelines known as the Capital Adequacy Framework (Capital Components) and Capital Adequacy Framework for Islamic Banks (Capital Components) issued by Bank Negara Malaysia (BNM), which are generally based on the Basel III capital adequacy requirements. Under these requirements, all banking and financing institutions must maintain a minimum risk-weighted total capital ratio of 8% at all times. Where BNM specifies in writing a higher minimum capital adequacy ratio for a financial institution with regard to the specific risk profile of the financial institution, the financial institution must hold and maintain the specified ratio.

4. Malaysia's Approach in Implementing IDIS

Malaysia put into practice a dual deposit insurance system subsequent to the accomplishment of a dual banking system. The country introduced a separate deposit insurance systems for Islamic and conventional deposits in September 2005 following the passing of the Malaysia Deposit Insurance Corporation Act 2005 (MDIC Act). The IDIS work separately, but in parallel with the conventional system, and together are administered by Malaysia Deposit Insurance Corporation (MDIC). To make sure a Shari`ah-compliant scheme, MDIC implement a contract-based approach, where operation are based on a contract of guarantee with fee (*kafalah bil ujr*). Moreover, the contract has been authorized by the Shari`ah Advisory Council of Bank Negara Malaysia (BNM).The following diagram (Chart 1) shows the mechanism of the guarantee with fee contract for Malaysia's deposit insurance system.

Chart 1: The Malaysian Deposit Insurance Mechanism



In the agreement, the prominent features of the IDIS in Malaysia are as follows:

4.1 **Funding and Premium Assessment**

In Malaysia, the operations of the IDIS are financed by premiums collected from the IBIs, encompassing Islamic banks and Islamic banking windows of commercial banks. Annual premiums are evaluated based on the quantity of insured Islamic deposits held as at 31 December of the preceding year. From 2005 to 2007, the IBIs' premiums were assessed on a flat rate basis. In 2008, MDIC set up a differential premium system, whereby the IBIs are mandated to pay annual premiums based on their respective risk profiles. IBIs with high risk profile pay higher annual premium rates than those with lower risk profile

4.2 Coverage

Malaysia Deposit Insurance Corporation (MDIC) offers the same insurance protection for Islamic and conventional deposits. Thus, Islamic deposits enjoy different and separate protection from conventional deposits. As such, Islamic deposits that are qualified to be insured include savings, demand and investment deposits accepted in *mudharabah* (profit-sharing) and non-*mudharabah* contracts (e.g.*wadiah*, *qard*, and *murabahah*). Subsequent to the completion of the Government Deposit Guarantee in October 2008, deposits in custody of IBIs have the benefit of coverage over and above the one offered by the explicit deposit insurance system, and deposits in custody of guaranteed institutions are also protected until the end of 2010.

4.3 Management of Islamic Deposit Insurance Fund

Islamic Deposit Insurance Fund (IDIF) is vested with the responsibility of maintaining and administering of the Premiums less permissible expenditures separately. More so, MDIC maintained separate accounting records and arranged separate financial statements for the Islamic and for the conventional deposit insurance systems. In addition, MDIC is mandated to invest in Shari`ah-compliant instruments. Presently, it is only allowed to invest in those issued or guaranteed by the government or BNM. Allowable expenditures, on the other hand are those incurred in *Shari`ah*-compliant activities only. However, when MDIC interfere in the affairs of a distressed IBI, MDIC is obligated by its constitutional mandate to resolve the breakdown in such manner as to reduce the costs to the financial system. Under the scheme, there is no blending of funds or cross-subsidization between the Islamic and conventional deposit insurance funds. In a situation when available funds are inadequate to perform its mandate, MDIC would have access to government and market funding, which would be structured according to *Shari`ah* requirements.

4.4 Payment and Priority of Payments

In an effort to preserve buoyancy in the financial system, MDIC is mandated to pay back insured depositors of a failed IBIs speedily, and according to law, it should not be more than three months from the time of a winding-up order. All losses incurred by MDIC in the process of achieving its commitment to insured depositors are to be charged to the IDIF. Moreover, the precedence of claims granted to depositors influences the level of resolution costs acquired by MDIC. Meanwhile, in line with the provisions of the MDIC Act, depositors automatically interchange their rights and interests, nevertheless, simply to the degree of any deposit insurance payment made. However, regarding Islamic deposits, the priority of payments is based on the underlying contracts of the deposits, whereby non-*mudharabah* deposits are given priority over *mudharabah* deposits.

5. Lessons for Nigeria

The Economist intelligence unit (2009) expressed Malaysian achievements and landmark /steps used as follows:

1. The global financial crisis: Learning from the Malaysian experience: The experience gathered

from the Asian currency crisis in Malaysia recommended that there could be a lot of lessons to be learned for other regions of the world especially in the way and manner that the country handled the period of the crisis.

2. Islamic finance in Malaysia: There are two critical factors that distinguish the Islamic finance sector in Malaysia: first, it is comprehensive. Second, it liberalized, which offer good prospects for building relations with other parts of the world.

3. A shift in underlying assets: In Malaysia, there had been a shift from real estate with regard to infrastructure financing and other long-term investments. The Malaysian experience had been looking at increasing Islamic finance in its broadest sense across financial markets, the banking sector, takaful, equity, and debt capital markets, as well as other types of services.

Regarding Islamic deposit insurance system, the Nigerian government should follow the footsteps of Malaysia as follows:

i. Proper *Sharī*`ah governance must be put in place to ensure that the operations of an Islamic deposit insurance system comply with the *Sharī*`ah principles. There is a need to have a *Sharī*`ah body or an expert who can advise the board of directors and the management on issues related to *Sharī*`ah. The management must develop relevant policies and procedures to support the operations of the system as well as the process to validate and monitor *Sharī*`ah compliance matters

ii. There are also the need to provide sufficient *Sharī*`ah-compliant investment tools to manage and invest funds that are collected on an ex-ante basis. Islamic deposit insurers face difficulties in investing surplus deposit insurance funds, as Islamic instruments are limited

iii. Another important issue that needs to be addressed in developing and implementing an effective Islamic deposit insurance system in Nigeria and which can be learn from Malaysia is that relating to the sufficiency and enforceability of the legal and regulatory framework. Thus, the need to come up with a robust legal and regulatory framework that is in line with the Sharī`ah requirements.

iv. Criteria for *Shari`ah* adviser's selection should be set out and properly implemented. Also, these *Shari`ah* advisers should have clear responsibilities and objectives.

v. Both the regulators and operators should establish a unit in their organization to handle the issue of a comprehensive documentary like that of Malaysia.

vi. The regulators and operators should partner with the research institute and individual researchers in the area of products development, services quality, customers services, and any other issues that are having something to do with growth and development of the industry.

6. CONCLUSION

Islamic finance at the global level has attained a further landmark by the introduction of IDIS in countries that have put into operation Islamic banking. IDI aspire to care for Islamic deposits and support the stability of the financial system. On the other hand, the number of countries establishing IDIS schemes is still small relative to the figure of countries executing Islamic banking system, as revealed in the literature. The choice of Malaysia to serve as a lesson stemmed from the fact that among all the countries practicing Islamic banking, Malaysia was the first to extend deposit insurance coverage to such non-interest financial institutions. Besides, the Malaysia Deposit Insurance Corporation had achieved remarkable success in operating a dual Deposit Insurance System (DIS) that comprises a DIS for conventional deposit-taking financial institutions and DIS for Islamic Financial institutions and/or conventional banks operating a subsidiary Islamic bank or window for

Islamic products/instruments.

In light of the rapid growth of the global Islamic banking industry and the greater awareness of the importance of equal protection for Islamic deposits, IDI is anticipated to thrive, with the rise in the number of countries implementing it. In this respect, since deposit insurance is legislation in Nigeria, the importance of developing skilled manpower, enlightening and ensuring stakeholders' awareness and confidence in IDIS is paramount. The corporation needs to adopt an appropriate *Shari`ah*-compliant approach, maintain ethical standard as well as ensure compliance with the framework for non-interest deposit insurance, for a successful implementation and application of a dual window DIS in Nigeria. Furthermore, NDIC can also cover takaful operators in Nigeria, as obtained in Malaysia where researches indicate that MDIC provides protection to takaful operators and part of the regulations that should be supported and encouraged.

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