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Islamic Banking System in Nigeria: Challenges and Gains from Its Operation

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Abstract

In contrast to traditional banking systems, this study assesses the challenges facing the Islamic banking system and the gains accrued to its operation from the point of view of the Nigerian economy. The staff and stakeholders of the selected Islamic banks in Nigeria were the focus of structured questionnaires and interviews conducted as part of a mixed-method research approach. Secondary data came from industry reports, academic journals, and government regulations. A sample of 450 staff from the banks was selected using a stratified sampling method. The study used descriptive and inferential statistical techniques to analyze the data. Findings discovered inadequate public knowledge, a lack of Sharia-compliant investment opportunities, and regulatory shortcomings are some of the main issues noted. Despite this, Islamic banks play a vital role in Nigeria's efforts to reduce poverty, promote ethical investing, and promote financial inclusion. The results also show that Islamic banks are superior at managing credit risk. These results provide policymakers and Islamic financial institutions with doable suggestions for raising public awareness, creating thorough regulatory frameworks, and extending financial inclusion initiatives.

Keywords: Challenges, Gains, Islamic Banking System, Nigerian Economy.

1. Introduction

As part of Nigeria's larger initiatives to diversify its financial environment, Islamic banking has become increasingly popular in the nation. A significant turning point in the evolution of fully fledged Islamic banking in Nigeria was the founding of organizations such as Jaiz Bank in 2012 (Idris & Okonkwo, 2022). By providing interest-free loans and other goods aimed at underprivileged populations, these banks place a high priority on financial inclusion (Adebayo, 2023). Islamic banking provides an alternative to conventional funding by abiding by Sharia law, allaying worries about the inherent unfairness of interest-based systems. In addition to promoting social and economic advancement, these values offer a competitive alternative to traditional banking's hegemony. Islamic economics, which seeks to establish a fairer and just society, is the foundation of Islamic finance. It places a strong emphasis on moral values, such as risk-sharing, the ban on interest (Riba), and investing in morally and socially conscious businesses (Demirguc-Kunt & Klapper, 2013). This strategy is in line with the larger Islamic objective of establishing a fair society in which all establishments, including the financial sector, enhance human well-being.

It is commonly known how important it is to comprehend the elements driving the implementation of Islamic banking (Olawale, 2022). The actual adoption rate has been lower than expected, despite the early excitement of Muslim conventional bank clients (94.5%) to adopt Islamic banking (Adebayo et al., 2023). Even while Islamic banking has grown quickly all over the world, its market shares of % in Nigeria in 2023 is still low (Bambale, 2012). Nigeria's financial system is dominated by conventional banks, which have a larger reach, sophisticated infrastructure and vast branch networks (Fatai, 2012). Nevertheless, because of their high interest rates and strict lending conditions, these banks frequently turn away lowerincome groups which present an opportunity for Islamic banking to grow and assist marginalized communities (Demirguc-Kunt & Klapper, 2013). Notwithstanding its promise, Nigerian Islamic banking confronts a number of obstacles, including as a lack of public awareness, regulatory gaps, and infrastructure limitations (Kareem et al., 2024). Serving Nigeria's sizable Muslim population (53%) and its sizable unbanked population (74%, or 64 million people) (Mustapha et al., 2018) call for addressing these issues.

This study examines the benefits and challenges of Islamic banking in Nigeria, with a focus on profit-sharing finance. While the research centers on Nigerian Islamic banks, its findings may not be directly applicable to countries with different economic, cultural, and regulatory frameworks. The study aims to enhance understanding of the obstacles faced by Nigerian Islamic banks and the advantages they offer compared to conventional banks. By analyzing profit-sharing finance, financial inclusion, equality, and sustainable economic growth, this research provides valuable insights for Islamic financial institutions, policymakers, and scholars. The findings will help improve risk management, customer engagement, and service delivery while informing balanced regulations that promote inclusive financial systems. Ultimately, the study highlights how Islamic banking contributes to poverty reduction and economic equity by fostering financial inclusion and sustainable financing models for the benefit of society.

Prior studies have concentrated on specific facets of Islamic banking like customer satisfaction or product offerings. For instance, Garrett (2011) concentrated on Islamic finance relevant to ACCA qualification; Fakiyesi (2011) focused on Islamic banking and the Nigerian financial system; Fatai (2012) worked on whether or not Islamic banking can work in Nigeria; Bambale (2012) evaluated the performance of Islamic financial system in Nigeria; Muhammad and Dauda (2018) worked on how Islamic finance promoted economic growth in Nigeria, Ledhem and Mekidiche (2020) determined the association between economic growth and financial performance of Islamic banks; Olawale (2022) compared customer satisfaction in Islamic and conventional banks, Idris and Okonkwo (2022) conducted a comparative analysis of the risk management frameworks of conventional and Islamic banks in Nigeria; Adebayo (2023) investigated the relationship between Islamic finance and poverty alleviation in Nigeria; Suleiman and Amina (2023) worked on sustainability practices of Islamic financial institutions in Nigeria, and Kareem et al. (2024) examined the financial inclusion rates under dual financial systems in Nigeria. However, the studies that have examined the challenges and gains from operating Islamic banking system in Nigeria are rare in literature, hence this study.

However, Nigeria's distinct economic, risk management, financial inclusion practices and regulatory setting of Islamic banks in Nigeria which are frequently ignored in the reviewed studies. In addition, little is known about the difficulties Nigerian Islamic banks face, their socioeconomic contributions especially in rural areas and their role in promoting financial inclusion and reducing poverty. This study addressed these identified problems and the existing gaps by asking the questions that what challenges do Nigerian Islamic banks face? What are the gains from operating Islamic banks in Nigeria? In what ways do Islamic banks in Nigeria foster financial inclusion and risk management? This research provided workable answers to these research questions to advance knowledge on the gains of Islamic banking in Nigeria and the challenges facing it in order to boost the functions of banking operation. T this study therefore investigated the challenges facing Islamic banking in Nigeria and gains from its operation and, determines the risk management and financial inclusion practices of Islamic banks in Nigeria.

2. Literature Review and Hypotheses Development

Challenges Facing Islamic Banking in Nigeria

Islamic finance is an emerging sector, coping with obstacles like low awareness and distribution networks. But given the growing Muslim population and the demand for financial inclusion, these banks are well-positioned to expand, especially with the Central Bank of Nigeria's (CBN) encouraging regulatory environment (Muhammad & Dauda, 2018). Nigeria's Islamic finance journey started in 1991 when the Banking and Other Financial Institutions Decree recognized profit-sharing banks (Demirguc-Kunt & Klapper, 2013). Nigeria's second regulated Islamic bank is TAJ Bank, which was established in 2019. It emphasizes financial inclusion and ethical banking (Kareem et al., 2024). In its Shari'ah-compliant financial services, Lotus Bank, which was founded in 2021, places a strong emphasis on innovation and technology in its Shari'ah-compliant banking services (Kareem et al, 2024). A more recent addition, The Alternative Bank, specializes in sustainable and moral banking (Ledhem & Mekidiche, 2020). These banks follow Islamic law and refrain from making investments in sectors like gambling, alcohol, and pork (Adebayo et al., 2023). Islamic bonds, or sukuk, provide an investment choice that complies with Sharia law (Kareem et al., 2024).

There are a number of obstacles preventing Islamic banking in Nigeria from reaching its full potential. The lack of professionals knowledgeable about Islamic banking concepts is a major issue (Adebayo, 2023). According to Benhayoun et al. (2014), this lack of knowledge also applies to accounting and auditing standards, where comprehension and application of Shari'ah-compliant principles are crucial. Additionally, a major barrier is the lack of a thorough legal system specific to contracts and conflicts involving Islamic finance (Kareem et al, 2024). The scarcity of Shari'ah-compliant liquidity management tools is another significant obstacle (Fakiyesi, 2011). The ability of Islamic banks to successfully manage their funds and compete with normal banks is hampered by this limitation. Furthermore, Islamic banks are exposed to greater risks due to the lack of Islamic insurance (Takaful) and a deposit protection program designed to guide against risks (Fatai, 2012). Finally, interest-based procedures, which are incompatible with Islamic values, are frequently used in the Central Bank's traditional function as a lender of last resort (Suleiman & Amina, 2023). According to Muhammad and Dauda (2018), this restriction limits Islamic banks' ability to obtain vital liquidity support during difficult financial times.

Notwithstanding these obstacles, Nigerian Islamic banking has a number of possible advantages. By giving underprivileged groups, especially Muslims who might favor interest-free banking options, greater access to financial services, it can promote financial inclusion (Olawoyin, 2019). By offering alternate funding options that promote investment and entrepreneurship, it can also boost economic growth (Abdu et al, 2018). Furthermore, by lowering the likelihood of financial crises linked to excessive debt and speculative activity, Islamic banking can support social stability (Demirguc-Kunt & Klapper, 2013). By promoting socially conscious investments that uphold Islamic values, it is consistent with ethical investment principles (Adeel et al, 2015). Lastly, it has the potential to generate employment in the financial industry and associated fields (Mustapha & Idris, 2015)

Gains from Operation Islamic Banking in Nigeria

Despite the obstacles in the early stages of the establishment of Islamic banks, Habib Bank plc was launched as a non-interest banking window in 1996. However, the lack of a legislative framework resulted in only modest success (Eze & Chiejina, 2011). When Jaiz Bank was founded in 2003, it was Nigeria's first non-interest bank. It provides services like savings, investments, and Shari'ah-compliant loans and functions according to Islamic financial principles. It is a pioneer in this field and is openly traded on the Nigerian Stock Exchange (NSE) (Kareem et al, 2024). All these banks provide non-interest loa to Nigeria up till these moments. The Financial System Strategy (FSS) launched in 2005 aimed to attract the unbanked population and position Nigeria as a major financial hub (Idris & Okonkwo, 2022). However, Islamic banks' operations were constrained by the prevalence of traditional interest-based banking (Kareem et al, 2024). To encourage the growth of Islamic finance in Nigeria, a working committee on the subject was established in 2008 (Suleiman & Amina, 2023). In 2009, the CBN published a framework for the regulation and oversight of non-interest banks and became a member of the Islamic Financial Services Board (Eze & Chiejina, 2011). In 2010, CBN also unveiled a new banking model that divided non-interest banks into national and regional groups according to capital needs (Garrett, 2011). A draft framework for an Islamic Deposit Insurance program was made public by the NDIC (Olawale, 2022). To address liquidity management concerns in Islamic banking, the CBN joined the International Islamic Liquidity Management Corporation (IILM) in 2010 (Fakiyesi, 2011). An important turning point in the growth of Islamic finance in Nigeria was reached in 2011 when the CBN published the complete framework for the regulation and oversight of non-interest banking (Fatai, 2012).

Islamic banking is based on a number of fundamental ideas. The ban on Riba, or interest, is a fundamental tenet. Islamic banks prioritize risk-sharing through collaborations like Musharakah (joint ventures) and Mudarabah (profit-sharing) in place of interest-based transactions (Adebayo et al., 2023). According to Demirguc-Kunt and Klapper (2013), it forbids the charging and earning of interest, or Riba. Gharar, or contracts with high risk or ambiguity, is avoided in Islamic finance. Gambling and speculation, or Maysir, are forbidden in Islamic finance. Profit-sharing arrangements like Mudharabah, in which one party contributes capital and the other offers management and skills, are encouraged by Islamic banking (Kareem et al., 2024). Through initiatives like Musharakah, in which the bank and the client join in a project and split revenues and losses, the banking system promotes equity involvement (Garrett, 2011). This banking system makes use of cost-plus financing, like murabahah, in which the financier purchases an asset and resells it to the client for a profit.

Islamic banking uses leasing agreements, such Ijarah, in which a financier buys an asset and leases it to a client. Deferred payment sales, like Bai' Muajjal, where products are sold on credit with installment payments, are used in Islamic banking (Fatai, 2012). Finally, the Islamic banking system issues Sukuk, or Islamic bonds, which stand for ownership of assets or projects (Fakiyesi, 2011). Customers' trust and empathy are increased by the banking system's adherence to moral standards and open procedures (Olawale, 2022).

Islamic banking supports Nigeria's financial inclusion and economic growth by offering alternative financing choices and encouraging moral and socially conscious investment practices (Suleiman & Amina, 2023). Because of this, it holds promises for developing a financial system that is more ethical, sustainable, and inclusive (Olawale, 2022). Because Islamic banks adhere to Sharia law, which forbids high-risk speculative transactions, they exhibit better credit risk management (Idris & Okonkwo, 2022). However, because Sharia laws restrict access to some financial products, they can have liquidity issues (Idris & Okonkwo, 2022). Notwithstanding these obstacles, interest-free loans and customized products offered by Islamic finance might make a substantial contribution to the fight against poverty (Adebayo et al., 2023).

Islamic banks' emphasis on social equality, ethical finance approaches, and financial inclusion make them more successful at reaching underserved communities, especially in rural locations (Kareem et al., 2024).

By giving people and businesses access to necessary financial services, financial inclusion empowers them and can support economic growth and sustainability (Suleiman & Amina, 2023). the role that Islamic banks play in advancing financial inclusion in contrast to traditional banks, which largely cater to affluent and metropolitan populations. A comparison between Islamic and conventional financing reveals important differences. Sharia-compliant Islamic profit-sharing financing (IPSF) forbids gambling, interest, and ambiguous contracts (Suleiman & Amina, 2023). By focusing on risk-sharing, moral behavior, and the ban on interest, it provides an alternative to traditional finance. and speculative activities (Ledhem & Mekidiche, 2020).

Theoretical Framework

The three main hypotheses that underpin the study are the Risk-Sharing Principle, Profit and Loss Sharing (PLS), and Risk Premium. The emphasis on fair risk sharing and moral responsibility in Islamic finance is supported by these theories. According to Harry Markowitz (1952) and William Sharpe (1964), the Risk premium theory explains why investors want greater returns on riskier investments. Investment choices and portfolio management are heavily influenced by this notion. Critics counter that, particularly in dynamic markets, previous data could not be a reliable indicator of future risk-return relationships. Furthermore, conventional models like CAPM frequently ignore qualitative risk variables and make assumptions about efficient markets that might not be accurate in practical situations. This theory is pertinent to the research because it offers a framework for contrasting risk compensation practices in conventional and Islamic finance, allowing for an assessment of how they affect stakeholder behavior and socioeconomic results, especially in Nigeria. Muhammad et al. (1985) went into detail on the Profit and Loss Sharing (PLS) Theory, which advocates equity-based financial arrangements that prioritize risk-sharing above debt. PLS tools like Mudarabah and Musharakah promote fair wealth distribution and sustainable economic practices by bringing capital providers' and entrepreneurs' financial interests into alignment.

However, obstacles such a lack of strong legal frameworks, information asymmetry, and uncertain returns may prevent it from being widely adopted. This theory is essential to the study because it looks at how profit-sharing-based Islamic banking models support ethical finance, poverty reduction, financial inclusion, and sustainable development in Nigeria.

According to Muhammad et at. (1983) and Muhammad et al (1985), the Risk-Sharing Principle requires that risk and profit be shared in financial transactions. Financial results and investment performance are aligned by tools like Mudarabah and Musharakah, which encourage moral and sustainable behavior. Although this idea sets Islamic finance apart from traditional systems, obstacles such as information asymmetry and a lack of institutional capacity may make it difficult to put into practice. This theory is used in the study to evaluate how Nigerian Islamic banks manage systemic risks and match stakeholder interests with more general socioeconomic objectives, especially when it comes to encouraging ethical investing and financial inclusion. When combined, these theories offer a solid framework for examining the special qualities and advantages of Islamic banking. The study illustrates the applicability of these ideas in advancing a more sustainable and equitable financial system in Nigeria by recognizing the objections and real-world difficulties.

Empirical Review

Olawale (2022) examined the level of customer satisfaction in Nigerian Islamic and conventional banks. According to the SERVQUAL model, Islamic banks demonstrated exceptional assurance and empathy, which increased client happiness and trust. However, because of their sophisticated operations, traditional banks did better in terms of tangibles and reactivity. According to the study, both systems can be made better by resolving their shortcomings and maximizing their benefits. Idris and Okonkwo (2022) examined Nigerian Islamic and conventional banks' approaches to risk management. They discovered that while conventional banks managed liquidity risk better, Islamic banks had lower credit risk because of their adherence to Shariah. The operational risk levels of the two systems were comparable. The study suggests that by learning from one another, both kinds of institutions might enhance their risk management techniques. by learning from each other's strengths.

Suleiman and Amina (2023) investigated Nigerian Islamic financial organizations' sustainability policies. Through programs like Zakat and ethical investing, they discovered that these institutions place a high priority on social sustainability. But they don't emphasize environmental sustainability, especially when it comes to renewable energy. According to the study, regulatory agencies must support sustainable practices, and Islamic financial institutions ought to give environmental sustainability top priority. The potential of Islamic money to alleviate poverty in Nigeria was investigated by Adebayo (2023). By offering interest-free loans and Shariah-compliant products, Islamic finance considerably reduces poverty, according to the study. Recipients reported higher living standards and salaries. The report suggests extending the reach of Islamic finance to disadvantaged communities and incorporating it into national initiatives to reduce poverty. Under a dual financial system, Kareem et al. (2024) investigated Nigeria's financial inclusion rates. Although rural areas continue to be underserved, they discovered that the coexistence of Islamic and conventional systems improves financial inclusion.

3. Methodology

This study used a quantitative approach, utilizing questionnaires for data collection. This approach is in line with the goals of the study and the type of data that was gathered. The employees of three selected Islamic banks operating in Nigeria were the study's focus. Jaiz Bank plc, TAJ Bank Limited, and Lotus Bank Limited were the three banks that were chosen. The study’s population is made up of one thousand and fifty (1,050) staff of the three selected Islamic banks in Nigeria comprising 700 staff employees of Jaiz Bank (Nigerian Exchange Group plc in 2023), 200 employees of TAJ Bank Limited (CBN, 2023) and 150 employees of Lotus Bank Limited employs (CBN, 2023). A stratified sampling technique was employed to select the sample of 450 employees. This strategy is in line with earlier studies on Malaysia's adoption of Islamic retail banking (Kareem et al., 2024). The employees of the Banks were given the questionnaires in order to learn more about the difficulties Islamic banks in Nigeria confront and to find out how customers feel about their offerings. Every copy of the questionnaire that was provided was filled out completely and sent back.

Respondents at the chosen banks received structured questionnaires both in-person and electronically (E-mail). The survey was separated into three parts: Table 1 contained demographic data to determine the respondents' religion and branch location; Table 2 contained closed-ended questions 1–12 that addressed the difficulties the banks faced and the advantages of Islamic banking over traditional banking; and Table 3 contained open-ended questions 1–3. The questionnaire items were adapted from Fatai (2012), Bambale (2012); Muhammad and Dauda (2018), Ledhem and Mekidiche (2020), Olawale (2022), Idris and Okonkwo (2022), Adebayo (2023); Suleiman and Amina (2023) and Kareem et al. (2024) among other researchers. Responses were measured using a four-point Likert scale with SA (Strongly Agree) =4, A (Agree) =3, SD (Strongly Disagree) =2, and D (Disagree) =1. To guarantee the precision and dependability of the results, the questionnaire underwent extensive validity and reliability tests. Descriptive statistics like mean and standard deviation, frequency distribution, Skewness, Kurtosis as well as inferential statistics involving Cronbach's Alpha reliability tests were among the statistical methods used for data estimation.

4. Results and Discussion

Responses to questionnaire items were used in this study to evaluate data and provide findings for discussion on the closed and open-end research questions.

Table 1: Demographic Statistics of Respondents

Variables	Description	Frequency	Freq. %	Mean	SD	Skewness	Kurtosis
Religion	Muslim	281	62.4				
	Christian	169	37.6				
	Total	**450**	**100**	1.38	0.49	0.516	-1.742
Branch	North	311	69.1				
Location	South	139	30.9				
	Total	**450**	**100**	1.31	0.46	0.830	-1.317

Source: Data Analysis, 2025.

Important details about the respondents' geographic distribution across branch locations and religious affiliations are revealed by the demographic study of the respondents in Table 1. When it comes to religion, the data shows that the majority of respondents—62.4%—identified as Muslims, and 37.6% as Christians. This means that 450 people have taken the survey. With a mean value of 1.38 and a standard deviation of 0.49, the statistical measures indicate a modest bias in favor of the Muslim demographic. Additionally, a somewhat positive skew is shown by the skewness value of 0.516, which implies that the Muslim share is marginally greater than the Christian demography. The distribution is flatter than the typical bell curve, with a less noticeable apex, according to the kurtosis of -1.742. When looking at the branch locations, the data shows that 30.9% of respondents were based in the southern region, whilst a noteworthy 69.1% of respondents were based in the northern region. The preponderance of respondents in the northern region is highlighted by the mean value of 1.31 and the standard deviation of 0.46, which support this regional skew. A right-skewed distribution is further highlighted by the skewness of 0.830, which indicates how common responses are from the north. A flat distribution is also suggested by the kurtosis value of -1.317, which points to a wider regional coverage.

Table 2: Reliability Test

Cronbach's Alpha	N of Items
0.997	12

Source: Data Analysis, 2025.

Cronbach's Alpha was used to evaluate the survey instrument's reliability in Table 2, yielding an exceptional coefficient of 0.997 across 15 questionnaire items. This outcome shows remarkable internal consistency, demonstrating the excellent reliability of the data collection tool. The survey items are closely related and may reliably assess the desired constructs without a great deal of variability or inconsistency in the responses, as indicated by such a high coefficient. This high reliability gives the analysis based on the gathered data credibility and guarantees the durability of the results.

Table 3: Responses on Open-End Research Questions

S/N	Question
I	In your opinion, what are the most pressing challenges facing Islamic banks in Nigeria. How can they be addressed?
Ii	How would you describe the contributions of Islamic banks to Nigeria's socioeconomic development?
Iii	In your view, how do Islamic banks manage financial risks and promote financial inclusion in Nigeria?

Source: Data Analysis, 2025.

The respondents' answers to open-ended questions in Table 3 show that they identified several important issues, such as the general public's ignorance about Islamic banking practices and principles. Regulatory barriers were also noted, most notably the lack of a strong legal foundation to enable Sharia-compliant banking. Another factor mentioned as a hindrance to expansion and diversification was the scarcity of investment choices that conform to Islamic values. Respondents acknowledged the important contributions made by Islamic banks despite the difficulties. These include their role in reducing poverty with customized financial products and services, their advocacy of ethical investment practices, and their advancements in financial inclusion by serving underrepresented regions. It was decided that these contributions were necessary to promote sustainable economic growth. The answers also highlighted how well Islamic banks manage risks by offering inclusive financial products and using Sharia-compliant risk-sharing procedures. These procedures were seen to be crucial for fostering the financial industry's long-term viability and stability.

Table 4: Response on Close-End Research Questions

SN	Adapted Questionnaire Items	Response SA (%)	A (%)	SD (%)	D (%)	Sum (%)	Mean	Std Dev.
	Challenges Facing Islamic Banks in Nigeria							
1	Islamic banks face significant challenges due to inadequate public awareness of their operations.	324 (70.3)	113 (24.5)	2.8 ()	2.8 (2.9)	450 (100)	3.66	0.64
2	The legal and regulatory framework in Nigeria is insufficiently developed to support Islamic banking.	312 (67.7)	116 (25.2)	- (-)	22 (4.8)	450 (100)	3.65	0.57
3	Limited availability of Sharia-compliant investment options hinders the growth of Islamic banks.	375 (81.3)	62 (13.4)	- (-)	13 (2.8)	450 (100)	3.78	0.59
4	Islamic banks encounter difficulties in competing with conventional banks in Nigeria.	324 (70.3)	113 (24.5)	- (-)	13 (2.8)	450 (100)	3.66	0.63
	Gains Contributed by Islamic Banks to Nigeria's Socioeconomic Development							
5	Islamic banks have significantly enhanced access to financial services for underserved populations in Nigeria.	324 (70.3)	113 (24.5)	- (-)	13 (2.8)	450 (100)	3.66	0.63
6	Islamic banking practices have promoted ethical investment and	324 (70.3)	113 (24.5)	- (-)	13 (2.8)	450	3.66	0.63

	corporate social responsibility in Nigeria.							
7	The introduction of Islamic banking has fostered economic inclusion and growth in Nigeria.	324 (70.3)	113 (24.5)	- (-)	13 (2.8)	450 (100)	3.66	0.63
8	. Islamic banks have contributed to poverty alleviation and job creation in Nigeria.	324 (70.3)	113 (24.5)	- (-)	13 (2.8)	450 (100)	3.66	0.63
	Risk Management and Financial Inclusion in Islamic Banks							
9	Islamic banks in Nigeria effectively manage risk through Sharia-compliant financial practices.	324 (70.3)	113 (24.5)	- (-)	13 (2.8)	450 (100)	3.66	0.63
10	Islamic banking products are designed to reduce financial risks for their clients.	324 (70.3)	113 (24.5)	- (-)	13 (2.8)	450 (100)	3.66	0.63
11	Islamic banks actively promote financial inclusion among low-income groups in Nigeria.	324 (70.3)	113 (24.5)	- (-)	13 (2.8)	450 (100)	3.66	0.63
12	Risk-sharing mechanisms used by Islamic banks encourage sustainable financial practices.	324 (70.3)	113 (24.5)	- (-)	13 (2.8)	450 (100)	3.66	0.63

Source: Data Analysis, 2025.

Table 4 shows the responses to the closed-ended study questions that Nigeria's Islamic banking operations are not adequately supported by the country's legal and regulatory environment. With a mean score of 3.65 and a standard deviation of 0.57, the respondents' responses were consistent, with almost 67.7% strongly agreeing on this problem. With 81.3% of respondents strongly agreeing, the scarcity of Sharia-compliant investment possibilities was identified as a major obstacle. With a mean of 3.78 and a standard deviation of 0.59, this issue highlights the necessity of diversified and legal investment opportunities to support growth. The respondents also emphasized the difficulties Islamic banks confront in competing with traditional financial establishments. Approximately 70.3% of respondents strongly agreed that market share and growth are impacted by this competition. With a mean score of 3.66 and a standard deviation of 0.63, the replies confirm that this challenge is widely acknowledged. Most respondents showed consistent opinions, with a mean score of 3.65 and a standard deviation of 0.57. About 67.7% strongly agreed with this issue. A major obstacle identified was the lack of Sharia-compliant investment opportunities, with 81.3% strongly agreeing. This issue, with a mean score of 3.78 and a standard deviation of 0.59, highlights the need for diverse and legal investment options to drive growth. Respondents also pointed out the challenges Islamic banks face in competing with traditional financial institutions. Around 70.3% strongly agreed that this competition affects market share and growth. With a mean score of 3.66 and a standard deviation of 0.63, the responses confirm that this challenge is widely recognized.

Islamic banks have received recognition for their achievements in several fields. The favorable effects of Islamic banking on financial inclusion, ethical investments, economic growth, and poverty alleviation were firmly agreed upon by a noteworthy 70.3% of respondents. The responses to these features are consistent, with a mean of 3.66 and standard deviations between 0.63 and 0.64. This shows that stakeholders generally recognize these improvements. Another common issue in the replies is the effectiveness of Sharia-compliant procedures in managing risks and promoting financial inclusion. About 70.3% of respondents agree that Islamic banking practices support sustainability and reduce financial risks. These practices include risk sharing and offering inclusive financial solutions. The related responses, with a mean of 3.66 and a standard deviation of 0.63, confirm their strength.

Discussion of Results

The findings from this study identified a few significant obstacles and the advantages of Islamic banking in Nigeria. Among the challenging facing the Islamic banking system are a lack of knowledge about Islamic banking concepts and a dearth of Sharia-compliant investment opportunities. These findings support Islamic banks' socioeconomic contributions such as financial inclusion, risk management practices and poverty reduction, which aligns with Adebayo's (2023) findings that interest-free loans raise living standards. These findings are consistent with those of Kareem et al. (2024), who saw comparable difficulties in rural areas. The results from this study on regulatory shortcomings is consistent with findings made by Suleiman and Amina (2023) and Fakiyesi (2011), who both underlined the necessity of complete frameworks to enable Islamic banking. The findings from this study align with the findings of Ledhem and Mekidiche (2020), demonstrating that ethical investment practices in Islamic banks contribute to the advancement of sustainable financial practices. Similarly, the comparative analysis of risk and liquidity management supports the conclusions of Idris and Okonkwo (2022), revealing that while Islamic banks face constraints in liquidity management, they demonstrate strong credit risk management due to their risk-sharing mechanisms. By emphasizing financial inclusion, particularly among marginalized populations, this study also reinforces Olawale's (2022) findings, which highlight the higher level of customer trust in Islamic banks. Furthermore, Islamic banks' commitment to ethical investments and adherence to sustainable development principles reflect the global shift toward ethical finance, as identified by Demirguc-Kunt and Klapper (2013).

5. Conclusion and Recommendations

This research concludes that in Nigeria, Islamic banking presents a viable substitute for traditional systems, especially when it comes to advancing ethical finance and financial inclusion Despite challenges such as low public awareness, regulatory loopholes, and limited Sharia-compliant investment opportunities, Islamic banks significantly contribute to economic growth and poverty reduction. This study makes numerous contributions by integrating quantitative and qualitative findings to emphasize the twin responsibilities of Islamic banks as agents of socioeconomic development and ethical finance. The results offer policymakers, financial regulators, and Islamic banking organizations practical advice on how to promote a more sustainable and equitable financial system in Nigeria.

The research recommended that the managers of Islamic banks should expand the range of products they offer by creating cutting-edge financial instruments that will create hybrid financial models which will forester unity among Muslim and Non-Muslim in Nigeria. They should provide public education campaigns a first priority to increase their banks acceptability, build trust and clarify Islamic banking procedures to increase patronage. They should also be using technology by offering reasonably priced financial products via digital banking platforms to extend services to underserved and rural areas. To fully realize the potential of Islamic banking in Nigeria, their stakeholders should address issues such as public awareness and regulatory impediments. By putting these tactics into practice, Islamic banks can overcome present obstacles, promote long-term expansion, make a substantial socioeconomic contribution to Nigeria and establishing themselves as an essential component of the nation's financial system.

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