



NIGERIAN JOURNAL OF ACCOUNTING RESEARCH

**A Publication of The Department of Accounting,
Ahmadu Bello University, Zaria-Nigeria**

Vol. 12, Number 2, December, 2016

<https://njar.org.ng/>

EFFECT OF SHARI'AH REVIEW AND FATAWA ON PRODUCT DEVELOPMENT OF NON INTEREST FINANCIAL INSTITUTIONS IN NIGERIA

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Abstract

The objective of the study is to evaluate the effect of Shari'ah Review and Fatawa on product development of Islamic banks in Nigeria. The data is survey in nature while primary data was employed using questionnaires to collect data. Multiple regression was used as a tool of analysis. It was found that Shari'ah review significantly affects product development positively. This implies that the more Shari'ah review is conducted the better the product development process. Fatawa on the other hand has a positive but not significant effect on product development in this study. This implies that as significant impact could be anticipated in the long-run based on improved method of issuing fatawa during product development of NIFIs in Nigeria. It is therefore recommended that Shari'ah review should be upheld by Shari'ah advisors while increasing tight controls so that economic objectives do not overshadow Shariah compliance. The process of issuing fatawa on the other hand should be revisited by scholars to harmonise the way fatawas are issued while Advisory Committee of Experts (ACE) should ensure that products maintain the form, essence, spirit and implications of Shari'ah before issuing fatawa since fatawa is indispensable.

Keywords: *Shari'ah Review, Fatawa, Product Development, Islamic banks.*

1. Introduction

Non interest banks (Islamic banks) provide products and services, and undertake commercial transactions and business operations according to Islamic law (Shari'ah). These products must follow due processes of product development where the products are screened by Shari'ah advisors in a Shari'ah Advisory Committee (SAC) to certify that the products conform to Islamic principles. Among other roles, the committee undertakes Shari'ah review, provide fatawa (opinions) and carry out ex-post Shari'ah review (after the product offering stage) on every new product. According to Greuning and Iqbal (2008), among regulatory arrangements, this committee is the most noteworthy in relation to Shari'ah governance because they screen and approve all the different stages of product development before a product is let out to the market. The stages of product development include identification of product structure, identification of product contract, product risk exposure and product commercial value (Lahasansa & Hassan, 2012).

The committee could also play an important role in helping to build up new products and procedures to position the institution to adapt to industry trends and customers' expectations especially with high demand for Shari'ah-compliant financial services. However, products that are either not approved by SAC or are approved but later found to be contrary to Shari'ah principles will result in negative perceptions and damaging observations about an Islamic bank.

Given the strategic importance of Islamic banks in Nigeria, as providers of alternative financial products and services, the need to evaluate the role of their Advisory Committee of Experts (ACE) (as it is referred to) in product development cannot be overemphasised. This is because Islamic banking has now become part of the country's financial system and institutions offering Islamic financial products and services and so are expected to strictly comply with the principles of Shari'ah in all their activities under the guidance of their ACE.

In Nigeria, despite the presence of ACE in all the three NIFIs so far licensed, it is observed that the banks are increasingly reporting non permissible income. Regardless of the fact that such income is set aside compulsorily for charitable purposes, the amount, which is on the increase, indicates that non Shari'ah compliant activities occur in the operations of the banks or during product development. For example, Jaiz bank in 2013 recorded a sum of four hundred and sixty six million, for hundred and three thousand (466,403,000) non halal funds. It again transferred five hundred and two million naira (502,000,000) (Jaiz, 2014:64) non-Shari'ah compliant income to Jaiz foundation for charity in the year

2014, and six hundred and forty nine million naira (649,000,000) (Jaiz, 2015:88) in 2015.

Despite the fact that these sums of money are set aside compulsorily for charitable purposes, it is an indication that non Shari'ah compliant activities is increasing in the bank which create a need for investigation into the role of Advisory Committee of experts (ACE) as checkers of such activities. The increasing non permissible income in the bank as well as the other banks over the years has attracted attention of investors, depositors, policy makers and researchers as to whether the activities of the banks are Shari'ah compliant and whether the ACE plays its spelt-out role in product development. This is because as noted by Ahmad (2014), use of products that dilute/breach Shari'ah principles can be costly to Islamic banks. In the short-run, any revenue from the transactions that are not Shari'ah compliant is excluded from the income of the bank and donated to some charitable cause. Thus, Shari'ah noncompliance can affect the income and profitability of banks adversely. In the long-run, dilution of Shari'ah principles can negatively affect the perception of stakeholders about the Islamic financial practice causing a serious loss of trust and credibility. The question that needs to be answered therefore is to what extent does the Shari'ah committee play its role in product development process of NIFIs in Nigeria? Specifically, to what extent does Shariah review and fatawa affect product development of NIFIs in Nigeria?

Studies have been conducted on the role of Shari'ah committees in Islamic financial institutions in some parts of the world using different aspects of Islamic banking operations and with few focusing on product development. This study is therefore motivated by the dearth of studies in this area despite the fact that Islamic banking in Nigeria has entered into its fifth year.

The main aim of this paper is to examine the effect of Advisory Committee of Experts' roles on product development of NIFIs in Nigeria. The specific objectives are to:

- i. examine the effect of Shari'ah review on product development of NIFIs in Nigeria.
- ii. determine the impact of fatawa on product development of NIFIs in Nigeria.

In line with the stated objectives, the following hypotheses are formulated:

H0₁ Shari'ah review has no significant effect on product development of NIFIs in Nigeria.

H0₂ Fatawa has no significant impact on product development of NIFIs in Nigeria.

Other sections of the paper are as follows: Literature review is covered in section 2 and methodology of the study in section 3. Section 4 analyses the result of findings while conclusions and recommendations are presented in section 5.

2. Literature review

2.1 Product Development

Product development is a specialised activity undertaken to improve an existing product or to introduce a new product in the market. It is also done to improve earlier features or techniques or systems. Jakobsen and Andreasen (1994) described the development of competitive new products as a prerequisite for many companies' success.

According to Lahasansa and Hassan (2012) designing a proper structure to develop an Islamic banking product depends on whether a Shari'ah advisor understood the rules governing the contract from the first instance because that is what will help the Shari'ah scholar to advice appropriately in structuring a product. Consideration of risk exposure is an important part of product development. There is no valid reason to expend financial engineering effort on products that have a high risk level, and do not attract investors. In addition, it is prohibited to expose capital to high risk that may damage the asset and lead to a financial crises as a result of that product (Lahasansa & Hassan, 2012). Product development covers both pre-product approval, that is process of product structuring and developing prior to introduction in the market and post-product approval process that is, process after the product has been offered to customers and transactions have been carried out (Wardhany & Arshad, 2012).

Product development is an extremely challenging and complex process and especially in Islamic financial product development, product developers must be careful in designing their products so that they are Shari'ah compliant, if not, in an attempt to win customers, they may jeopardise the Islamic ethical objectives of Shari'ah. Innovation is usually risky, and firms may invest considerable time and money in new product ideas with no guarantee that they will ever become commercially viable especially with Muslim customers who sought for Shari'ah compliant products from the onset but are presented with partially Shari'ah compliant ones. This is because from the onset, Islamic banking and finance aims to establish a real economy, endeavours to trade in real assets and have returns

that commensurate with risks (Soualhi, 2015). When these customers realise that some products are partially Shari'ah compliant, they may opt out.

Presenting Shari'ah compliant financial products to the market to meet up customers demands is one of the key deliverables of every Islamic financial institution. The institution must ensure in this regard that the product development process is robust and comprehensive so that possibilities of the product to be nullified on Shari'ah grounds is minimised. Generally, during the product development process Shari'ah non-compliance may arise which could result from improper structuring of products from the beginning, lack of internal research in comprehending the appropriate Shari'ah concepts, and distortion of the product while presenting it at issuance or marketing stage of the product. Managing a Shari'ah-based institution has to be a continuous process. The IFI must acknowledge this and understand that it needs to have in place sufficient and correct measures and controls, including risk-mitigating instruments that could address or mitigate Shari'ah non-compliance instances (SGF, 2010).

In view of the aforementioned, the IFIs are expected to refer all Shari'ah issues related to its end to end product development design and process to the Shariah Committee. The requirement for an advice or a decision for effective deliberation by the Shari'ah Committee is that it should be made in a comprehensive manner. This will include documents used, explaining the process involved, and other relevant information. The Shari'ah Committee have to certify all new products and should be supported by relevant fiqh literature, evidence and reasoning. On its part, the Shari'ah committee is expected to deliberate rigorously the process and inspect the legal contracts and other relevant documents associated with the products or transactions (SGF, 2010). According to the CBN (2011) all products, contracts and services presented by NIFIs or proposed to be offered by them should be first reviewed and approved every member of the institution's ACE. The product needs to be both Islamically acceptable and economically viable. All doubts and confusions regarding the structures should therefore be cleared with the Sharia'h scholars as the development progresses. Prior written approval of the CBN shall be required before the introduction of new products or services to the market. Again, the names of members of ACE who certified the product or services being offered in a NIFIs shall be stated in its product literature or marketing materials.

2.2 Advisory Committee of Experts

In order to have integrity and to satisfy the ethical expectations of their customers, most Islamic banks have developed a control process in the form of in-house religious advisers, usually known as Shari'ah advisory committees. The

membership of the committee is drawn entirely from very knowledgeable Shari'ah Scholars (Gambling, Jones & Karim, 1993).

Ethical underpinning and the existence of Shariah committees in Islamic banking are the main difference between Islamic banks and conventional banks in terms of governance. Working under guidance of Shari'ah committees, management of Islamic banks have opportunity to raise operational issues with Shari'ah scholars who can examine them in the light of Islamic rules and principles and give specific rulings (Usmani, 1998).

According to IFSB (2009) "Shari'ahscholars", refers to persons who are engaged professionally by IFI to provide expertise in the Shari'ah compliance process. While the word "scholar" connotes a person who is learned and expert, in the context of the IFI, it is actually referring to a more specialised level within Islamic commercial laws rather than Shari'ahmore widely or other areas of Islamic studies. That specialisation in addition is committed towards providing expert opinions in the form of Shari'ahpronouncements/resolutions related specifically to Islamic financial services and usually not directly to the general public or businesses more widely.

Islamic banks based on the approval of their regulatory authorities appoint recognized Islamic scholars as members of the Shari'ah board, to rule on whether new products or services are Shari'ah compliant, and also to audit day-to-day operations of a bank. Clear governance challenges arises within banks, because of the existence of a religious authority, particularly when the opinions of its management and board, with their focus on financial results, deviate from those of the Shari'ah committee (Al-Sadah, 2007).

The role and responsibilities of Shari'ah committees typically include: advising the boards of directors; providing input to Islamic financial institutions on Shari'ah matters to enable firms to comply with Shari'ah principles; setting Shari'ah related rules and principles and overseeing compliance to ensure that policies and procedures prepared by Islamic financial institutions are in conformity with Shari'ah and issuing verdict (fatwa) to create confidence with respect to Shari'ah compliance (Safieddine, 2009).

The members of a Shari'ah committee are appointed by the bank's shareholders or in some cases nominated by the board of directors and appointed subject to the approval of the apex bank. They have the right to attend the annual general meeting of the bank, and perform all or some of the following duties (Karim, 1990):

- a) Design and approve the bank's contracts for its basic activities and issue religious rulings in response to requests by the staff.
- b) Advise the external auditors and the management of the bank on the accounting treatments, which require departure from generally accepted accounting principles in order to comply with Shari'ah precepts.
- c) Ensure that the bank's practices conform to the spirit as well as the letter of Islamic teaching.
- d) Prepare a religious (compliance) report as part of the annual report, in which it attests whether the bank's operations are in conformity with the Shari'ah.

The functions of a Shari'ah committee, which are usually spelt out in the articles of association of the bank, lie in two main areas. These are *ex ante* compliance (e.g., the checking of contracts in advance of their use and *ex post* compliance). The *ex ante* is usually conducted by an Internal Shari'ah Review (ISR) comprising Shari'ah staff which are appointed by the management or in some cases by the Shari'ah committee. Usually members of the committee are not employees of the bank while, the ISR is a full time staff of the bank. However, the SAC has a right of access to any source of information and, at the end of the financial year; it issues a special report that is published with the external auditor's report (Al-Sadah, 2007).

According to CBN (2015:5), It shall be the duty and responsibility of the ACE to:

- a) Be accountable for all Shari'ah decisions, opinions and views provided by it;
- b) Advise the NIFI's board and management on jurisprudence-related matters so as to ensure the institution's compliance with principles of Islamic Commercial Jurisprudence at all times;
- c) Review and endorse policies and guidelines related to the principles underpinning non-interest (Islamic) finance. This shall include a periodic review of products and services to ensure that operational activities and transactions of the institution are made in accordance with those principles.

- d) Endorse and validate relevant documents for new products and services to ensure that they comply with the principles of Islamic Commercial Jurisprudence. These include: terms and conditions contained in forms, contracts, agreements or other legal documentation used in executing the transactions; and the product manual, marketing materials, sales illustrations and brochures used to describe the product or service.
- e) Ensure that the necessary ex-post considerations are observed after the product offering stage, namely the internal Shari'ah review processes and Shari'ah compliance reporting. This is in order to monitor the NIFI's consistency in compliance with the principles of this model and effectively manage Shari'ah non-compliance risk that may arise over time.

The Shariah review function refers to regular assessment on Shariah compliance in the activities and operations of the Islamic Financial Institutions by qualified shariah officer(s), with the objective of ensuring that the activities and operations carried out by the IFI do not contravene with the Shariah (SGF, 2010:22).

Shariah review is an examination of the extent of an IFI'S compliance in all its activities, with the Shariah. This examination includes contracts, agreements, policies, products, transactions, financial statements, reports and circular (Shafii, Salleh & Shahwan, 2010). The purpose of the examination of adequacy of the Shariah review control system is to ascertain whether the system provides reasonable assurance whether Islamic Financial Institutions (IFI) is effective and efficient in meeting the objectives of Shariah compliance. The examination of the effectiveness of the system is to ensure that the system is functioning as intended. Hence effective planning, organizing and directing of the processes by the reviewers is necessary to determine whether reasonable assurance for the accomplishment of Shariah compliance objectives as well as other goals exist.

The duties of the ACE are challenging. Members can take days deliberating on a single issue in order to arrive at a sound decision. In case of indecision, Central Bank of Nigeria (2015) mandated that where there is conflict of opinion among members of the ACE concerning a Shari'ah ruling, the board of directors of the NIFI shall refer the matter to the Financial Regulatory Advisory Committee of Experts (FRACE), which shall have the final authority on the matter. Again, even those ACE that have credible and competent scholars as members, their roles remain largely advisory, as they have no power to enforce or ask the bank authorities to enforce the committees' decisions, if they have chosen not to, for whatever reason. In other words, they may lack the power to oversee the implementation of any resolution adopted by them. It is therefore important that

the board of directors assist Shari'ah advisors with all they require by enforcing the duties expected of the Islamic banks towards the ACE in order to achieve the goal of Shari'ah compliance which was the reason for meeting together in the first place of both the bank and its customers.

Another important role of the Shari'ah committee is providing opinions (fatawa) during the product development process. A fatwā is an Islamic legal pronouncement, issued by an expert in religious law (mufti), pertaining to a specific issue, usually at the request of an individual or judge to resolve an issue where Islamic jurisprudence (fiqh), is not clear. Typically, such uncertainty arises as Muslim society works to address new issues that develop because of technological and societal advancement (Hisham, 2016:1). At present time, all Islamic banks have had their own Shari'ah committees or boards which oversee and verify conformity of the bank's practice with Shari'ah law. There is no set of rules and guidelines regarding Shari'ah interpretations (Malik, Malik and Mustapha, 2011).

Lahasansa and Hassan (2012) emphasised on adopting the following standards by Shari'ah advisors when issuing fatawa. Consideration of the Islamic primary source and secondary sources, that is, the Qur'an and Sunnah of the Prophet (SAW), issuing fatawa through a valid examination of legal Islamic sources, processing fatawa according to the requirement of ijtiḥad in Islamic jurisprudence, ensuring that the fatawa is fully complied with in the case that has been raised by the mustafti (Inquirer) and mainstreaming the opinion of the majority of the Muslim jurists.

Other safety processes to ensure the accuracy of the fatawa issued include consideration of the arguments of the minority of muslim jurists, consideration of the various Shari'ah opinions which enhance Islamic finance, postponing issuing fatawa in the future when the case presented needs further research. In addition, the scholars should maintain the middle way in fatawa and apply justice and fairness. Applying maqasid al-Shari'ah in fatawa is also essential while referring to legal maxims in supporting Shari'ah rulings. There should be adequate knowledge of Islamic finance so that hidden prohibited elements can be fished out when issuing fatawa.

Again, it is a part of the duties of the Shari'ah scholars to assess products (ex-post considerations with internal Shari'ah review process) by reviewing the work carried out by Shari'ah audit in order to ensure compliance with Shari'ah matters. This is in line with the IFSB (2009) which mandated that the mechanism for obtaining Shari'ah rulings from Shari'ah scholars, applying fatawa and monitoring

Shari'ah compliance shall cover both ex ante and ex post aspects of all financial transactions carried out by the IFI. This is done by ensuring Shari'ah compliance of the contracts and later, the performance of obligations under the contracts. IFSB (2009) directed that it should also cover operations of the IFI including aspects such as Shari'ah compliant review, investment policies, disposal of non-Shari'ah compliant income and charitable activities. This connotes a greater duty of not only endorsing and approving the bank's products but ensuring its compliance through directing, supervising and importantly reviewing its operations.

2.3 Review of Empirical Studies

A considerable number of studies have been carried out on the role of Shari'ah advisors in Islamic banking product development mostly in Asia (Muda & Jalil, 2007; Ahmed, 2011; Lahsasna & Hassan 2012; Laldin, 2012; Wardany & Arshad, 2012; Ahmed, 2014; Rini, 2014; Mollah & Zaman, 2015). A common gap in all these studies in addition to the fact that they are foreign based is that with the exception of the studies of Rini (2014) and Mollah and Zaman (2015), they are merely position papers which lack empirical analysis. Even the two empirical studies have not been able to fill the gap as desired.

For example, Rini (2014) investigated the effect of the role of Shari'ah Committee and audit Committee on financial reporting quality. Questionnaires were distributed on Shari'ah committee role with two dimensions; control over process of product development and control over bank activity. Thus, the study partly examined the effect of the Committee's role in product development on financial reporting quality not its role in the stages and processes of product development itself that is generally considered more important to the survival of any financial intermediary. Though the study was apt and somewhat recent, it concentrated on the outcome of operations of Islamic banks rather than the process of its operations. This means that, the study ignored the primary role of the Committee, which is to ensure that products and services are developed, marketed and transacted in compliance with Shari'ah principles.

The study of Mollah and Zaman (2015) empirically tested the effect of Shari'ah Committee's supervisory and advisory role on performance of Islamic banks across twenty five countries. Though the study enjoys the benefit of using cross country data, which is rare in most Islamic finance literature, it fails to include the role of the Committees in product development within the context of both their supervisory and advisory roles. It is noteworthy that in the face of global competition and ever-changing customers' demands for new products and

services, the role of Shari'ah Committees in product development should be considered too important to be ignored.

3. Methodology

This study will employ survey and correlation research design because the survey concerns itself with accessing of thoughts, opinions and feelings through questionnaires while the correlation explain the association between the dependent and independent variables of the study. The research is a cross-sectional survey because it is carried out within a defined population at a particular point in time. The subjects are contacted at a fixed point in time and relevant information is obtained from them (Ross & Vaughan, 1987).

The population of the study consist of all members of ACE of Jaiz and Sterling Banks in Nigeria and staff of the Shari'ah unit and risk management unit of the bank. The ACE members in Jaiz bank are six (6) in number while the Staff of the Shariah audit unit and risk management unit are sixteen (16) in number. Others are ACE members in Sterling Bank whom are three (3) in number and ten (10) Shariah unit staff. Altogether, it gives a total of thirty five respondents. Out of the 35, only 27 questionnaires were filled and returned. Due to the small size in number of the target population, the study utilised all of them using a census approach.

Multiple regression analysis was adopted to measure the relationship between the dependent variable product development proxied by Product development; and the independent variable role of ACE proxied by Shari'ah review and fatawa. The model is as follows:

$$PD = \alpha + \beta_1 SR + \beta_2 FTW + e$$

where PD = Product Development, SR = Shari'ah Review, FTW = Fatawa, α = Intercept, β_1, β_2 = Coefficient of SR, FTW, e = Error Term.

The research instrument was subjected to both validity and reliability tests. Experts vetted the instruments while making observations and corrections. Both construct and face validation were undertaken and the researcher effected their corrections and observations in the final draft of the questionnaire. Reliability tests were carried out using the Chronbach's alpha (See appendix).

4. Analysis of findings and discussions

The data analysis was undertaken by converting qualitative data comprising using a five point likert scale ranging from 1 (strongly disagree) to 5 (strongly agree), into quantitative data by way of coding. The data analysis commenced with a

descriptive statistics showing the mean, standard deviations and correlations in table 1.

Table 1: Descriptive Statistics

Table 1
Means, Standard Deviations and Correlations among Study Variables

Variables	M	SD	1	2	3
1 Shariah review	4.008	.401	(.804)		
2 Fatawa	3.997	.471	.347	(.884)	
3 Product development	4.042	.400	.668**	.286	(.714)

Note: **. Correlation is significant at the 0.01 level (2-tailed), N = 27

Entries in parenthesis represent reliability coefficients

From the results of table 1 above, the mean of the dependent and independent variables are 4.042, 4.008 and 3.997 which all lie within the normal range. The standard deviations of the dependent and independent variable are 0.400, 0.401 and 0.471 indicating that the level of variability in the observation within the variables is not high. The reliability tests for the dependent variable product development produced a value of 0.714 while that of the dependent variable Shari'ah review and fatawa produced a result of 0.804 and 0.884 respectively. From the values of the Chronbach alpha, one can conclude that the instrument is very reliable.

Furthermore, table 1 above shows the correlation values between the dependent and the independent variables of the study. Correlation shows the relationship between the dependent and independent variables while describing the strength and direction of the relationship. As can be inferred from the presented result, product development positively and significantly correlates with Shari'ah review with coefficient values of 67% which is significant at 1%. This implies that the interaction between product development and Shari'ah review is highly significant because the result reveals that Shari'ah review to a great extent determines the effectiveness of product development. On the other hand, the relationship between product development and fatawa is positive but insignificant with a coefficient of 29%. This connotes that the association between product development and fatawa though positive, does not determine the effectiveness of product development to a great extent.

Table 2: Regression results

Table 1

Results of Regression Analysis

	Beta	t-value	p-value	Findings
Shariah review	.647	4.008	.001	Rejected
Fatawa	.061	.380	.707	Accepted
F	9.811			
Sig.	0.001			
R Square	.450			
Durbin-Watson	2.257			

Note: Dependent variable: Product development

**p<.01, *p<.5

The F-stat value of 9.811 which is significant at 1% indicates that the Product development and Role of Advisory committee of experts' model is significantly fit. This indicates that the independent variable was properly selected, combined and used. It implies that any change in ACEs role, would influence product development significantly.

The table above also presented regression result of the dependent variable (product development) and the independent variables of the study (Shari'ah review and fatawa). The cumulative R² overall value of 0.450 which is the multiple coefficient of determination gave the proportion of the total variation in the product development explained by the independent variables jointly. Hence, it signified that 45% of the total variation in product development is based on Shari'ah review and fatawa.

The findings reveal specifically that Shari'ah review significantly impacts product development positively at 1% (t=4.008, p=.001, β=.647). This infer that for every unit increase in Shari'ah review, there is a corresponding improvement in product development by 0.647. While in the case of fatawa, it has a positive impact on the product development though not at a significant extent as revealed by their coefficient values (t=.380, p=.707, β=.061). The result show that for every increase in fatawa, product development improves by 0.061. This implies that a significant impact could be anticipated in the long-run based on improved method of issuing fatawa during product development of NIFIs in Nigeria.

According to AAOIFI (1999), the main reason for the requirement of Shari'ah review for IFI is to make sure that all the activities carried out by the IFIs are truly

in compliance with the Shar'iah rules and regulations as reflected in the fatwas, rulings and guidelines issued by the Shariah boards. The result of this study has further proven the agency role of the Shari'ah committee. It shows the importance of the ACE in achieving effective product development that would meet maqasid al Shari'ah. The objectives of Shari'ah may not be achieved if management are left to choose between Shari'ah goals and economic benefits. Kasim, Htay and Salman (2016) contend that problems with current Shari'ah governance practices are mostly due to fatawa variation and limited support from IFI management in discharging their full responsibilities such as their involvement in the Shari'ah review process and audit.

By the result of this study, it has proven that Shari'ah review and fatawa role has a positive impact on product development. The result therefore provide evidence to reject the first null hypothesis which states that Shari'ah review has no significant effect on product development of NIFIs in Nigeria. The result also provide evidence to fail to reject the second null hypothesis which states that fatawa has no significant impact on product development of NIFIs in Nigeria.

5. Conclusions and Recommendation

From the results above, we have seen that Shari'ah review is a very vital aspect of product development which has been supported by literature. According to Shafii, Salleh and Shahwan (2010), the examination of the effectiveness of the system is to ensure that the system is functioning as intended. Hence effective planning, organizing and directing of the processes by the reviewers is necessary to determine whether reasonable assurance for the accomplishment of Shari'ah compliance objectives as well as other goals exist. Because Shari'ah compliance is expected during product development so as to produce a Shari'ah compliant product, the processes of Shari'ah review has proven in this study to be critical and must be upheld in Islamic banks. Fatwa unfortunately has proven to be insignificant but the coefficient however shows a positive contribution. The fatawa coefficients are positively related to product development even though it is not significant, indicating that fatawa influences product development (positively). It is therefore recommended that:

1. The Advisory Committee of experts should uphold Shari'ah review during product development and increase tight controls so that economic objectives do not overshadow Shariah compliance. This in turn will minimize non halal income which will consequently boost shareholders and depositors confidence to deal with the NIFIs as both providers and users of funds.

2. The process of issuing fatawa on the other hand should be revisited by scholars to harmonise the way fatawas are issued while Advisory Committee of Experts (ACE) should ensure that products maintain the form, essence, spirit and implications of Shari'ah before issuing fatawa since fatawa is indispensable. This could boost the impact of fatawa in the long run.

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Appendices

RELIABILITY

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/VARIABLES=PD01 PD02 PD03 PD04 PD05 PD06 PD07 PD08  
/SCALE('ALL VARIABLES') ALL  
/MODEL=ALPHA  
/STATISTICS=DESCRIPTIVE SCALE  
/SUMMARY=TOTAL.
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Reliability Statistics

Cronbach's Alpha	N of Items
.714	8

RELIABILITY

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/SCALE('ALL VARIABLES') ALL  
/MODEL=ALPHA.
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Reliability Statistics

Cronbach's Alpha	N of Items
.804	19

RELIABILITY

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/MODEL=ALPHA.
```

Reliability Statistics

Cronbach's Alpha	N of Items
.884	21

Effect of Shari'ah Review and Fatawa on Product Development of Non Interest Financial ...

Descriptive Statistics

	Mean	Std. Deviation	N
Shariah_Review	4.0077	.40130	27
Fatawa	3.9972	.47055	27
Product_Development	4.0417	.39982	27

Correlations

		Shariah_Review	Fatawa	Product_Development
Shariah_Review	Pearson Correlation	1	.347	.668**
	Sig. (2-tailed)		.076	.000
	N	27	27	27
Fatawa	Pearson Correlation	.347	1	.286
	Sig. (2-tailed)	.076		.149
	N	27	27	27
Product_Development	Pearson Correlation	.668**	.286	1
	Sig. (2-tailed)	.000	.149	
	N	27	27	27

** . Correlation is significant at the 0.01 level (2-tailed).

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.671 ^a	.450	.404	.30867	2.257

a. Predictors: (Constant), Fatawa, Shariah_Review

b. Dependent Variable: Product_Development

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.870	2	.935	9.811	.001 ^b
	Residual	2.287	24	.095		
	Total	4.156	26			

a. Dependent Variable: Product_Development

b. Predictors: (Constant), Fatawa, Shariah_Review

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	1.250	.689		1.815	.082		
Shariah_Review	.645	.161	.647	4.008	.001	.880	1.137
Fatawa	.052	.137	.061	.380	.707	.880	1.137

a. Dependent Variable: Product_Development