

# Marketing Strategy of Non-Interest (Islamic) Banking Services in Nigeria.

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## **Abstract:**

*This paper examined the concept of marketing strategies of non-interest (Islamic) banking services in Nigeria against the Central Bank of Nigeria (CBN) guidelines, which provides the policies regulating the operations of the non-interest financial institutions and banks in Nigeria. This is expected to promote the idea of competition with the conventional banks, and expand financial inclusion locally, while increasing international participation of the country in the global Islamic economy. The paper conceptually reviews some literatures pertaining to marketing strategies, particularly of the non-interest banking product and services. It suggests that the issue of Islamic banks marketing strategy is still a developing phenomenon, especially in Nigeria. Nevertheless, aside some few areas of ethical uniqueness, marketing strategy is generic and compatible between conventional and Islamic banking services. Although, the basic functions of banks in the economy of every Nation is commonly financial intermediation, and converting resources from the surplus zones to deficit zones of the economy with primary motive of making some financial gains. However, the strategies of achieving these objectives vary significantly, particularly between conventional and Islamic banks. Therefore, this study examines the non-interest banking services in Nigeria with a view to provide ways of refining and strengthening the marketing strategies of these banks. Thus, the paper will help non-interest banks to create greater awareness of their offerings, in order to improve on their market share and visibility in the banking industry, particularly in Nigeria being the focal area of this study.*

**Keywords:** Islamic Banking, Marketing Strategy, Non-interest Banking Services.

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## **I. Introduction**

In recent years, the global economy has turned its interest to non-interest banking otherwise called “Islamic banking” sources of finance to boost various sectors of manufacturing, production of goods, infrastructural developments and enhancement of different service categories. Indeed, Islamic banking has witness significant growth worldwide, with the surge in the quest for product and services that are regarded as ‘Halal’(ethical) consumer goods and services among the growing number of Islamic communities and even non – Muslims populace. At the same time, the emerging curiosity in Islamic or non-interest finance has also pushed scholars and practitioners to lunch research into other areas that share some synergy, such as Islamic businesses and Islamic marketing. In other word, the existence of huge number of Islamic societies globally, led to steady increase of interest in formulating a competitive marketing strategy aimed at capturing the banking needs of this market segment.

## **II. Literature Reviews**

In response to the challenge of capturing the banking, financial and marketing strategies of this growing market segment, each country adopts a suitable method that conform with the norms of its citizen. Hence, this proactively mitigates inherent risks and provides effective processes of assessing the safety, as well as the soundness of all non-interest financial institution’s operations as they struggle to favourably compete with the conventional banks. Though, monitoring the management practices and compliance with extent laws and regulations that governs these institutions. For instance, in Nigeria the Banks and Other Financial Institutions Act BOFIA, 1991 (Abiah & Wabekwa, 2012;(Central Bank of Nigeria, 2017; Sanusi, 2011), as quoted in guidelines for the establishment of Non-Interest Micro Finance Banks, (Central Bank of Nigeria, 2017), unequivocally prohibits the inclusion of the word “Islamic” as part of any licensed or registered names, except with written

permission of the Governor of Central Bank of Nigeria”. This is contrary to what is obtained in Malaysia, where the act even defined “Islamic financial institution” to mean a financial institution carrying on Islamic financial business” (Laws of Malaysia Act 701 Central Bank of Malaysia Act 2009, 2009). This corroborate the paradigm shift in marketing strategy where companies begun to show concern on the society they habituate, hence identifying with the ethics, environment, laws and all the community traits (Abdul-Talib & Abd-Razak, 2013; Ghazali & Mutum, 2016; Kotler & Armstrong, 2014)

Furthermore, the global economic and financial crisis that hit the world in 2007 and 2008 had led many countries into recession. The Nigerian economy was not an exception, hence banks suffered heavy losses and unprecedented deficiency of capital and liquidity in the system. Thus, the Central Bank of Nigeria articulated and embarked on aggressive reforms of the financial institutions in general aimed at reinvigorating the banking system. Accordingly, the reform introduced among other things specialised banking such as microfinance banks and non – interest banking. The introduction of these specialised banking services consequently promotes new competition with the conventional banks, increases financial inclusion and facilitates the trending global participation in non-interest banking in the international financial markets by the Nigerian banks.

Meanwhile, the commencement of non-interest banking and other non – interest financial services ushered a new phenomenon and perspective that provides the practice of some Islamic ethical values in banking practices. The banks so far established in Nigeria under this principle were Jaiz Bank Plc in 2012, Taj Bank Plc in 2019 and recently Lotus Bank Plc in 2021. However, some few conventional banks have opened non-interest banking windows such as Suntrust Bank, Sterling Bank etc. This clearly indicates that these banks would be competing with both conventional commercial banks and the non-interest banks themselves in the same market. Similarly, this suggests that the Nigerian banking system has steadily evolve, resulting in the development of some phenomenal and monumental changes in marketing strategies by these financial institutions.

Although the competitive challenge is huge, but the potentials in this market is also great, owing to the estimated 200 million people in the country and the percentage of the Muslims communities out of this number is also significant (Clifford Obiyo, 2008). This essentially means non-interest commercial banks must articulate their product and services and come up with discerning marketing strategies to differentiate what they offer to their customers. Accordingly, (Hamid & Nordin, 2001) suggest that the basic difference between non-interest banks and conventional banks lies in the fact that the non-interest banking operate on an equity-participation system in which a predetermined rate of return is not guaranteed, whereas the conventional banking operation is based on both equity and debt systems that are driven by interest. On the other hand, although marketing strategies is said to be generic, there are some unique ethical values that could be attributed to non-interest banking.

This research will conceptually study the non -interest banking products and services with special emphasis on marketing strategies of non-interest banking services. It will also suggest ways of strengthening the non-interest marketing strategies of products and services, as well as provides some ethical guides on other marketing activities. It is hope that this conceptual paper will help management of non-interest banks to create more awareness of their offerings, in order to improve on their market share and visibility in the banking industry, particularly in Nigeria being the focal area of this study.

### **Non-Interest (Islamic) Banking Products and Services**

This paper suggests that in order to produce good marketing strategies for the non-interest banks, a clear understanding and appreciation of the exclusive characteristics and features of these products and services and its offerings to investors, customers and business people in general is required. Although, overall banks are financial intermediaries but then the key distinguishing factor here is the permissibility of the products or service packages, which must be designed in accordance with Islamic principle and laws. Hence, non-interest banks are basically allowed to form contracts based on trading, participating and supporting principles that encourages equity-participation system (Che-Ha et al., 2017; Junaidi Junaidi, et al, 2022).

The trading arm consist of products such as sales contracts with a predetermined costs and profits (*Murabahah* contracts), a deferred payment sale contracts that includes a mutually agreed profit margin by the contracting parties (*Ajil* sale contracts), a forward contract with payment made in advance for goods to be supplied at a later period (*Salam* Contracts), a lease contract agreement for the use of assets on agreed price and duration (*Ijarah* contracts), a deferred contract with either a future payment and delivery or an immediate payment and future delivery (*Istisnah* contracts) and assets repurchase contracts agreement (*Inah* contract) ((Che-Ha et al., 2017; Islamic Banking Financing Institute of Malaysia, 2004; Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), 2015; Junaidi Junaidi, et al, 2022). These are principles for trading contracts based on concepts that have legitimacy in non-interest banking, which cut across small scale and daily trading businesses in consumer goods, manufacturing and services.

Another form of business dealing is the participating contracts, where agreement is made between two or more parties who undertake to jointly finance projects or run a partnership business with the mutual agreement to share profit or losses in an agreed sharing ratio (*Musharakah* contracts). This is similar to profit and losses

sharing agreement in partnership of two parties with one contributing the capital, while the other contribute managerial skills (*Mudarabah* contracts). However, the difference in participating contracts (*Musharakah*) the profit is shared according to agreed sharing ratio, while losses is shared based on amount of capital contributed to finance the ventures. On the other hand, partnerships (*Mudarabah*) involving capital providers and entrepreneurs the sharing of profit is also according to agreed sharing ratio, but in the event of losses the capital providers bear it all.

In addition to these, non-interest banks also provide support guarantee services such as third-party guarantees (*Kafalah*), agency contracts (*Wakalah*) that allowed non-interest banking institutions to charge fees and commissions, and accept assets as collateral security (*Rahn*) for debts. Similarly, non-interest banks accept saving and current accounts deposits (*Wadiah*) which does not attract interest. However, a form of reward or gift (*Hibah*) may be given to the depositors of such fund, provided is not a condition precedent or stipulated as a condition for keeping such deposits (Che-Ha et al., 2017; Ghazali & Mutum, 2016; Junaidi Junaidi, et al, 2022).

These basic knowledges and understanding of some features and characteristics of non-interest banking product and services, gives insight to the non-interest banks to provide segmented and competitive marketing strategies for their product offerings. Hence, research by Che-Ha, et al. (2017) has shown significance of strategic market segmentation to improve performance of non-interest banks. For instance, marketing strategies employed for young group of target customer who are digitally and technologically savvy and have low income, will be attracted in products and services in the range of savings and current account deposits (*Wadiah*). On the other hand, established businesses with capacity to do partnership (*Musharakah*) could have a more robust marketing strategies that encompasses all conventional and digital marketing tools. More so, digital marketing has brought a new paradigm shift to universal economic outlook of businesses and changed the communications between product and services providers and their consumers. This is evident in the growing digital technology, artificial intelligent machines, social media and smart means of communications that are restructuring marketing strategies of both conventional and non-interest banks the world over (Aziz & Rahman, 2022; Gabriel & Kolapo, 2015; García et al., 2019; Nuseir & Refae, 2022; Roumieh et al., 2018).

### **Marketing Strategies of Non-Interest Banking Services**

The emergence of non-interest (Islamic) banking brought great opportunities and challenges for marketing activities and strategies, in the banking industry generally Nigeria in particular (Arfan & Athroz Arfan, 2021). Though, selecting the right marketing mix that will drive the best brand recognition for these banks, and support organisational visibility, performance as well as ensure business profitability is paramount in the short-term and long-term vision of the banks. Hence, wrong marketing mix that focus on profit and materialism can put short term corporate interest before some acceptable social responsibility factors recommended by non-interest banking principles.

Thus, marketing activities of non-interest banks must reflect Islamic values, hence all elements of deceptions in terms of products or services, pricing, packaging, promotions and advertising to the target consumers must be based on the principle of Islamic ethical values. In other word, the marketing strategies employed must demonstrate elements of honesty, trustworthiness, fairness, equity and justice. In addition, it must put maximum value to the customers and shareholders of the banks, leaving the customers satisfied, developing a good marketing relationship, and ensuring sustainable growth for the banks (Aziz & Rahman, 2022; Rahmayati, 2021; Shabbir, 2015; Shah, S. A., Bhutto, M. H., & Azhar, 2021).

To start with for non-interest banks to develop and gain prominence in the banking industry particularly in Nigeria, they must have some suitable and effective marketing strategies that could be able to provide high quality products and services. Accordingly, at the top of these marketing strategies is the ability to sustain innovation (Afifah & Kurniawati, 2021; Che-Ha et al., 2017; Shabbir, 2015). Hence, innovation is regarded as a basic ingredient of growth, success and survival of today's dynamic business environment. Moreover, for the purpose of this study innovation means attaining premier position for new or enhanced products, services, technique, apparatus, or promotional activities that is unique to non-interest bank's internal operations or market, which also gives competitive edge to the bank against its competitors. It is obvious that only banks that pay special attention to innovation will succeed, grow and prosper in business (Shabbir, 2015), regardless of the recent gloomy economic atmosphere of increasing inflation and forecasted global recession. Indeed, it is expected that non-interest banks will continue to use innovation as an effective marketing strategy, and tailor services that would stand out against competition, guarantee increased market share and growth.

Similarly, the dynamic business world of innovation has brought digital technology as a driving force, turning around conventional marketing techniques obsolete (Kingsnorth, 2022). Though, digital technology also introduced digital marketing strategy as a new approach to customer engagement (Abdul-Talib & Teong, 2019; Kingsnorth, 2022; Nuseir & Refae, 2022). Likewise, digital marketing strategy provide great opportunities for the non-interest banks to achieve competitive edge and drive brand recognition desired to attain maximum performance. Scholars such as (Anzola-Román et al., 2019; García et al., 2019; Nuseir & Refae, 2022; Sawicki,

2016) have overtime, attempted to defined digital marketing strategy as ability to explore digital technology to connect prospective customers with products and services provided by organisations through electronic commerce channels i.e. online marketing via internet. Although, this definition is based on conventional marketing theory, the non-interest banks would have to integrate the same with the principles of Islamic beliefs and cultural requirements (Roumieh et al., 2018). Hence, this suggest that non-interest banks must avoid all forms of deceptions and exaggerations in their marketing communications and ensure honesty and fairness in all marketing strategies and practices (Ghazali & Mutum, 2016). In this way, all forms of non-interest banking product and services such as Musharakah, Mudarabah, Murabahah, Ijarah etc. will maintain the exclusive characteristics and features of Islamic banking and values.

A contemporary perspective to marketing strategy by most organisations is the use of social media to reach out to target markets (Gabriel & Kolapo, 2015; Rahmayati, 2021; Roumieh et al., 2018). This strategy has allowed some conventional banks such as Zenith Bank Plc a leading commercial Bank in Nigeria, to create a WhatsApp artificial intelligence (AI) application called Zenith Intelligent Virtual Assistant 'ZIVA' that enable customers direct interface with some of the bank's services. This also enable the bank to resolved customer's complaints without human interference, understand and quantify customers' needs and sensitivities. Therefore, this is also an opportunity for non-interest banks to explore in order to reap the benefits of social media with its distinctive ability to penetrate valuable target markets for short- and long-term customer relationship (Nuseir & Refae, 2022).

### **III. Conclusion**

This study seeks to conceptually examined marketing strategies of non-interest (Islamic) banking products and services. It further suggests that marketing strategy in most non-interest banks is a developing phenomenon, particularly in Nigeria.

Our analysis of the subject, shows that marketing strategies of non-interest banks requires the selection of the right marketing mix that drives brand recognition and ensure profitability. However, this must be done with adequate reflection to Islamic ethical values. These ethical values eliminate deceptions and establish honesty, truth, equity and justice in all aspects of marketing activities. Overall, the modern marketing strategy for non-interest banking product and services irrespective of its category i.e. trading, participating or supporting products and services must sustain innovation as a basic component of growth, digital technology to connect customers with the organisations and their services, as well as embrace social media to reach out to its short-and long term target markets.

It is obvious that this study has contributed to growing number of articles and literatures on marketing strategies of non-interest (Islamic) banking. The significance of innovation, digital technology and social media in contemporary marketing has also been highlighted. However, the study is conceptual, consequently limited by abstract and academic analysis. Hence, it is proposed that future research might use empirical method to further make more scientific and informed analysis, for the benefits of non-interest bank's management, academics and other stakeholders in banking business.

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