A CASE STUDY ON THE RISK MANAGEMENT MODEL OF AN ISLAMIC BANKING IN JAIZ BANK: AN INSTITUTIONAL PERSPECTIVE

UMAR MOHAMMED TELA

UNIVERSITI SAINS MALAYSIA

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by

UMAR MOHAMMED TELA

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ACE	Advisory Committee of Experts
AMCON	Asset Management Corporation of Nigeria
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
BOD	Board of Directors
BOFIA	Banks and Other Financial Institutions Act
BOFID	Banks and Other Financial Institutions Decrees
CAS	Casualty Actuarial Society
CBN	Central Bank of Nigeria
CCO	Chief Compliance Officer
CCT	Conditional Cash Transfer
CRO	Chief Risk Officer
DFID	Department for International Development
DMO	Debt Management Office
EFInA	Enhancing Financial Innovation and Access
ERM	Enterprise Risk Management
FSS	Financial System Strategy
IAH	Investment Account Holders
ICT	Information and Communication Technology
IDB	Islamic Development Bank
IFC	International Financial Centre
IFSB	Islamic Financial Services Board
IILM	Islamic Liquidity Management Corporation
IRR	Investment Risk Reserve
MENA	Middle East and North Africa

NAICOM	National Insurance Commission
NDIC	Nigeria Deposit Insurance Corporation
NSIP	National Social Investment Programme
PENCOM	National Pension Commission
PER	Profit Equalisation Reserve
UAE	United Arab Emirates
UK	United Kingdom
US	United States

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KAJIAN KES MODEL PENGURUSAN RISIKO PERBANKAN ISLAM DI JAIZ BANK: PERSPEKTIF INSTITUSIONAL

ABSTRAK

Pengurusan risiko yang efektif adalah penting untuk keselamatan dan pertumbuhan bank, sama ada bank konvensional atau bank Islam, dan relevansinya telah meningkat seiring dengan berjalannya waktu, terutama setelah berlakunya krisis besar. Walaupun pengurusan risiko adalah bidang yang sangat penting dalam konteks perbankan Islam, namun ia masih menjadi bidang kajian yang kurang dikaji, terutamanya di negara membangun seperti Nigeria. Kajian-kajian terdahulu mengenai amalan pengurusan risiko telah memberi tumpuan kepada konteks bank konvensional, dengan sedikit penumpuan diberikan kepada bank Islam. Produk Bank Islam adalah berdasarkan pembahagian keuntungan dan jualan, yang tidak mengandungi faedah seperti produk bank konvensional. Bank Islam adalah terdedah kepada risiko-risiko yang lebih khusus berbanding dengan bank konvensional kerana produk dan operasi perniagaan mereka memerlukan pematuhan kepada prinsip-prinsip Shariah. Mengambil kira terbatasnya kajian mengenai pengurusan risiko dalam perbankan Islam, kajian ini telah menyelidiki isu-isu berkaitan penggunaan pengurusan risiko dengan memberikan penumpuan khusus kepada bank Islam. Secara lebih khusus, kajian ini bertujuan untuk memberikan pemahaman dan analisis yang mendalam mengenai amalan/model pengurusan risiko dalam perbankan Islam, dari sudut bagaimana ia mempengaruhi operasi dan prestasi perbankan. Untuk mencapai objektif ini, kajian ini menggunakan pendekatan kajian kes kualitatif dengan memberikan penumpuankepada sebuah bank Islam di Nigeria, Jaiz Bank Plc (Jaiz Bank), sebagai organisasi kes. Analisis data dilakukan menggunakan analisis tematik. Teori Institusi

digunakan sebagai lensa teori untuk menyelidik bagaimana tekanan institusi mempengaruhi proses institusionalisasi model pengurusan risiko di Jaiz Bank. Hasil kajian dianalisis dan diinterpretasikan dengan menggunakan pendekatan isomorfisme institusi. Hasil kajian menunjukkan bahawa institusionalisasi model pengurusan risiko di Jaiz Bank lebih banyak dibentuk oleh penerapan prinsip-prinsip Islam dan keperluan peraturan Bank Pusat Nigeria (CBN). Sebagai sebuah bank Islam, Jaiz Bank beroperasi dengan prinsip-prinsip Shariah yang memerlukan bank untuk beroperasi dengan cara yang konsisten dengan nilai-nilai dan etika Islam. Selain itu, model pengurusan risikonya dibentuk oleh keperluan peraturan Bank Pusat Nigeria. CBN menetapkan syarat bagi bank-bank yang beroperasi di Nigeria untuk mempunyai rangkaian pengurusan risiko yang kukuh dan juga mematuhi prinsip-prinsip *Basel Accord* untuk memastikan keselamatan dan kestabilan sistem kewangan serta untuk mencapai legitimasi. Kekuatan normatif dari pihak berkepentingan bank seperti norma-norma, kepercayaan, dan harapan pelanggan membentuk institusionalisasi model pengurusan risiko Bank untuk mencapai legitimasi dengan menyelaraskan model pengurusan risiko dengan prinsip-prinsip hukum Shariah dan standard pengurusan risiko antarabangsa. Namun, tidak terdapat kekuatan mimetik di Jaiz Bank, di mana bank tidak cuba untuk meniru atau mencontohi amalan pengurusan risiko terbaik bank lain dalam sektor perbankan. Hasil kajian ini menyumbang kepada badan literatur yang sedia ada dengan meningkatkan pemahaman tentang amalan pengurusan risiko dalam konteks bank Islam. Kajian ini juga memperluaskan literatur dengan mengungkapkan bagaimana kekuatan institusi mempengaruhi sesebuah bank Islam untuk menjadi isomorfik dengan konteks institusionalnya.

A CASE STUDY ON THE RISK MANAGEMENT MODEL OF AN ISLAMIC BANKING IN JAIZ BANK: AN INSTITUTIONAL PERSPECTIVE

ABSTRACT

Effective risk management is critical for the safety and growth of banks, whether conventional or Islamic banks, and its relevance has grown over time, especially in the aftermath of the great crisis. Although risk management is an area of significant concern to the Islamic banking setting, it remains an under-researched field of study, particularly in developing countries like Nigeria. Previous studies about risk management practices have focused on the conventional setting, with little emphasis on Islamic banks. Islamic banks have partnership and sale-based products, which are not interest bearing as in the conventional system. Islamic banks face more unique risks to manage than those traditionally shared with conventional counterparts due to their products and business operations, which require them to be Sharia compliant. Given the limited literature on Islamic banking risk management, the current study has explored the issues surrounding the application of risk management outside of the conventional banking environment. More specifically, the study aims to provide an in-depth understanding and analysis of Islamic banking risk management model in terms of how it is implicated in banking operations and performance. To achieve these objectives, this study adopts a qualitative case study research approach by focusing on a Nigerian Islamic bank, Jaiz Bank Plc (Jaiz Bank), as a case organisation. Data analysis is performed using thematic analysis. Institutional Theory is employed as a theoretical lens to probe into how institutional pressures influence the institutionalisation process of the risk management model in Jaiz Bank. The research findings are analysed and interpreted using institutional isomorphism. The findings

establish that Jaiz Bank's institutionalisation of the risk management model was largely shaped by its adherence to Islamic principles and the regulatory requirements of the Central Bank of Nigeria (CBN). As an Islamic bank, Jaiz Bank operates on the principles of Sharia, which require the bank to operate in a manner that is consistent with Islamic values and ethics. In addition to this, its risk management model is shaped by the regulatory requirements of the CBN. The CBN mandated banks operating in Nigeria to have robust risk management frameworks in place and also adhere to the principles of the Basel Accords to ensure the safety and soundness of the financial system and to attain legitimacy. Normative forces from the bank stakeholders such as the customers norms, believes, and expectation shaped the Bank's institutionalisation of its risk management model to achieve legitimacy by aligning its risk management model with the principles of Sharia law and international risk management standards. However, there are no mimetic forces at Jaiz Bank, where the bank does not try to copy or imitate any best risk management practices of other banks in the banking sector. The study’s findings contribute to the existing body of literature by enhancing our understanding on the risk management practices in Islamic banks. The study further expands the literature by showing how the institutional forces influence an Islamic bank to become isomorphic with its institutional context.

CHAPTER 1

INTRODUCTION

1.1 Introduction

Banks are crucial organisations that assist individuals, (other) business organisations, and the government in carrying out socio-economic activities. These institutions primarily serve as a medium that bridges the gap between surplus and deficit units of the economy. Banks help organise savings into valuable and productive investment and serve as the primary sources of funding for micro, small, medium, and large business enterprises. Banks play a pivotal role in developed and developing economies, where access to the capital market is difficult for most borrowers (van Greuning & Bratanovic, 2003). Besides, a crucial role is also played by banks in pooling savings together from diverse sources and serving the borrowers with those savings/funds to inject into the economy to lubricate means of production (Nzotta, 2004). This function of pooling savings from the surplus unit to lacking units of the economy enables the creation of wealth, and subsequently, economic development (Duho et al., 2020; Edirisuriya et al., 2019).

However, banking operations revolve around various risks. These risks include credit risk, liquidity risk, operational risk, insolvency risk, interest rate, and foreign exchange risk. All banks (either conventional or Islamic banks) are not immune to these risks, and therefore, there is a need to establish a sound risk management system to deal with risks appropriately. Managing these risks enables banks to attain the ultimate goals of their existence, which are profitability and shareholders value. Hence, banks' success and survival mainly dependent on how adequate it can respond to risks.

An effective risk management is necessary in this case as it enables bank's stability, strength, and sustainability (Duho et al., 2020; Harb et al., 2021).

Although many have written about the risk management practices in the conventional banking systems (Adeleye et al., 2004; Aebi et al., 2012; Bazih & Vanwalleghem, 2021; Calomiris & Carlson, 2016; Claudia et al., 2018; Dičevska, 2012; Dong & Wang, 2020; Ippolito et al., 2016; Lin & Han, 2021), such practices are gaining more attention and interests amongst Islamic banks throughout the world (Abu Hussain & Al-Ajmi, 2012; Aldoseri & Worthington, 2016; Alhammadi, Archer, & Asutay, 2020; Elgharbawy, 2020; Hafez, 2015; Hassan, 2009; Hassan, Khan, & Paltrinieri, 2019; Rahahleh, Bhatti, & Misman, 2019; Rehman, Benamraoui, & Dad, 2017; Sobhy & Megeid, 2017). Islamic banks have similar risks with those in conventional institutions. Islamic banks also have unique risks in addition to the ones that are shared with conventional setting. These include the reputation risk, Sharia non-compliance risks, and fiduciary risk, among others. These risks must be managed in ensuring the Islamic banks achieve its financial results with a high degree of reliability and consistency. It is against this background the present study intends to explore, which is risk management model within the context of Islamic banking with a particular reference to Islamic banking practices in Nigeria. The emphasis will be on comprehending the practical implementation of the model (or ERM), i.e., the framework or guidelines, in the day-to-day operations of the banking.

The current chapter will present the background of the study and highlight the motivation for conducting the study. It discusses the problem statement, the purpose, and formulation of the research questions. In the end, the chapter concludes with the significance of the study to various stakeholders within and outside the research domain.

1.2 Background of the Study

Financial institutions in general, and banks, in particular, play an important role in the economic activity of any country (Hussien, 2016; Suwardi & Tohang, 2017). Banks provide several financial services such as accepting deposits, lending money, processing payments, issuing checks and bank overdraft, offering safety deposit boxes for documents and items, and offering investment advice, among others (Sobhy & Megeid, 2017a). The common aim among these activities is that, all are aimed at transferring financial resources from the surplus unit of the economy to the deficit unit (Gualandri et al., 2009; Nyoka, 2013; Werner, 2016). As a major player, banks facilitate the socio-economic activity of individuals, government, and business organisations to success, by providing them with sufficient liquidity from the excess units of the economy, and channelling the liquidity/funds into productive use to earn dividends or interest, thereby raising the economy's overall efficiency. Banks perform their mediating role of bridging the gap between the economy units with surplus cash and a unit lacking cash. This function of intermediation would facilitate capital formation to lubricate the economic means of production. Hence, banks are called financial intermediaries, and their healthy existence is highly crucial to pool funds from the sources with abundance, and to channel the funds for suitable investment that promotes a country’s economic growth and development (Boukhatem & Moussa, 2018). However, previous literature has maintained that banks are exposed to various risks such as financial and non-financial risks (Gestel & Baesens, 2008; Ghosh, 2017; Nahar et al., 2016; Noman et al., 2015; Rajaraman & Vasishtha, 2002). The financial risks are those associated with banks’ financing, such as credit risk, interest rate risk, liquidity risk, market risk and foreign exchange risk (Wanjohi et al., 2017). In contrast, the non-financial risks are operational risk, regulatory, and legal risk, among others (Aldoseri & Worthington, 2016).

Risk is the likelihood or possibility that an unwanted, unpleasant or unwelcomed event may occur, which could be detrimental or capable of damaging an original investment (Steen, 2015; Wang et al., 2010). It is the possibility of financial loss or occurrence of any negative event, which may cause unwanted situations (World Bank, 2013), such as customer's default to repay loan facility (credit risk), inability to meet customer's financial demands (liquidity risk), cyber-crime, flood disaster, fires, among others. Risk is often connected with uncertainty as the event may likely happen or not (Aven & Renn, 2009). Any uncertainty that can cause a potential hazard to a business's life cycle is termed risk (Liu et al., 2010). Organisations cannot operate without taking a risk because it has become a crucial part of any business establishment in which businesses grow through risk-taking activities and decisions (CBN, 2014), and taking risk enables substantial gain and increases the prospect of business growth (Ajibo, 2015; Naldi et al., 2007; Neneh, 2012; Panigrahi, 2018; Tileagă et al., 2013). Similarly, the business environment is full of risk and managers are not relieved from managing risk (Najubudeen, 2011), as risk is available in every department of organisation and level of management, and it is influenced by internal and external factors (World Bank, 2013). Thus, it is fundamental for business managers to identify, understand, monitor, analyse, and control risks, using an effective risk management process.

The global economic landscape has witnessed significant moments marked by international financial crises, exposing weaknesses in systems and challenges in managing risks. Two pivotal events that have left a lasting influence are the 1998

Currency Crisis and the Enron Scandal. The 1998 Currency Crisis, originating in East Asia, brought economic imbalances, currency devaluations, and significant issues to countries like Thailand, Indonesia, and South Korea. This crisis highlighted the interdependence of global financial markets, emphasizing the need for strong financial systems and effective risk management. Lessons learned from this crisis provide valuable insights into the fragility of currency regimes, the impact of speculative pressures, and the importance of coordinated international responses.

Similarly, the Enron Scandal serves as a landmark example of corporate governance failures and the consequences of inadequate risk management. Enron's collapse in 2001 underscores the critical role of transparency, ethical conduct, and robust internal controls in mitigating risks within financial institutions. The Enron case stands as a reminder of the importance of these factors in maintaining financial stability and integrity.

Risk management is necessary for any business operation, particularly in banks, because banks are exposed to various threats while pursuing their business objectives (Mokni et al., 2014a). Failure to adequately manage these risks exposes banks not only to losses, but may also threaten their survival as business entities, thereby leading to bank distress or failures. Thus, risk management is the identification, assessment, and prioritisation of these risks, followed by the coordinated and effective application of resources to reduce, monitor, and control the probability and/or impact of disastrous events (CBN, 2014). It is the process by which organisations identify key risks, obtain clear and reliable mitigating measures, deciding on which risks are to be avoided or reduced, and by what means followed by establishing techniques to monitor and supervise the resulting risk position. The rationale behind doing this (risk management) is to uncover potential challenges before becoming a genuine problem, and therefore, the business will embark on implementing plans, policies, and procedures to manage those risks. Hence, an effective risk management programme assists banks in avoiding potential risks before they occur (CBN, 2014).

The financial crisis that occurred a few years ago (2007-2009) exposed the weaknesses of financial institutions in terms of regulatory oversight, poor risk management, and lack of disclosure (Mollah & Zaman, 2015). This crisis has forced banks to take a critical look at the devastating effect of risks and how it should be managed appropriately. Risk management in the financial sector is crucial (Mourouzidou-Damtsa et al., 2019), since the ultimate goal of the institution is to maximise revenues and shareholders' value (Tileagă et al., 2013).

Iqbal and Mirakhor (2007) argue that a sound and effective risk management practice helps banks decrease their exposure to risks and enhance their competitive position. That is, the practice will not only lessen or limit the bank's exposure to losses but also improve their performances (Andersen, 2007; Duho et al., 2020; Hussain & Al-ajmi, 2012), especially on the bank's own profit. Hence, it is essential for banking institutions to employ adequate risk management strategies to enable them identify, measure, monitor, manage, and report the various categories of their risks. The process of risk management is a structured and consistent approach used to understand the potential risk factors and evaluation of consequences and uncertainties associated with those risk factors identified. The information obtained based on such evaluation enables the selection for the best plan of action to address the identified risks.

A balanced and effective economic system is a function of an effective risk management system for the survival and growth of financial institutions in any parts of the world. The importance of risk management in these institutions globally has been on an increasing trend over time due to numerous reasons, particularly following the global economic crises (Akram & Rahman, 2018; Rehman et al., 2018). A sound system of risk management is not only important for reducing the effects of risks on the banking sector but also for safeguarding the sector from falling into financial crises (Aebi et al., 2012). Applying and practising risk management can help banks to protect the interests of their stakeholders, build their trust, and increase their confidence that each risk can be handled carefully (Alazzabi et al., 2023).

In Nigeria, the banking industry is subject to oversight from several regulatory bodies, both locally and internationally. At the national level, the CBN plays a pivotal role as the primary regulatory authority. The CBN formulates and implements monetary policies, ensuring the stability and soundness of the banking sector. Internationally, the banking industry aligns itself with global standards set by the Basel Committee on Banking Supervision. Nigerian banks adhere to Basel III standards, contributing to enhanced financial stability and effective risk management.

Specifically, within the domain of Islamic finance, the Islamic Financial Services Board (IFSB) holds significant influence. The IFSB is an international standard-setting organization that focuses on guiding principles for the supervision and regulation of Islamic financial institutions worldwide. Islamic banks in Nigeria align their operations with the IFSB's standards, emphasizing their commitment to Sharia-compliant practices.

The Basel Accords and The IFSB are the two international regulatory organisations that play an important role in promoting risk management practices in the banking sector (Al-Tamimi & Al-Mazrooei, 2007; Chattha et al., 2020; Rashid et al., 2022). The Basel Accords, which are named after the city in Switzerland where they originated, are a set of regulatory standards developed by the Basel Committee on Banking Supervision that promote international banking standards in order to ensure the stability of the banking system. The Basel Accords provide a comprehensive framework for banks to manage their capital and risk, including providing guidance on capital adequacy and risk-weighted assets. It is believed that the guidelines would enable banks to adopt adequate risk management practices in order to increase their resilience in providing banking services in a risky environment (Al-Tamimi & Al-Mazrooei, 2007). However, the Basel Accords could not adequately address the types of risks available in the Islamic banking institutions due to the uniqueness of their business model and risk characteristics (Abdullah et al., 2011; Ghandour, 2017). As a result, a separate risk management framework was required to provide a wide-ranging risk management approach that can accommodate the uniqueness of Islamic banking risks exposure (Ariss & Sarieddine, 2007). Recognising this scenario and the importance of risk management practices in Islamic banks, the IFSB issued a guideline comprising 15 risk management principles to complement the Basel Accords proposed standards. The IFSB is an international standard-setting body that provides guidance and standards for the Islamic financial services industry. The IFSB promotes risk management practices in the banking sector through its standards, which cover the areas of risk management, capital adequacy, liquidity management, and corporate governance. IFSB considers the distinctive characteristics of the Islamic financial industry that the Basel Core Principles do not take into account (Bitar & Tarazi, 2019). Hence, the IFSB replicated and amended Basel Accords to establish a set of guidelines called the Core Principles for Islamic Finance Regulation. These guidelines are built on the Basel Base Accords standards and have been extended to deal with the characteristics of Islamic banks (Bitar et al., 2020).

It was discovered that applying only the Basel Accords standards to Islamic banks would not be sufficient enough to mitigate the risks associated with Islamic banking (Chattha et al., 2020), because the Basel Accord standards are primarily designed to address the risks associated with traditional banking such as credit and market risks. Islamic banking has its own set of unique risks, which are not covered by the Basel Accords standards. These risks include the need for Sharia compliance, the potential for moral hazard due to the lack of involvement of third parties, and the potential for liquidity risk. These risks need to be addressed for Islamic banking to achieve the same level of security and stability as traditional banking.

In June 2011, the CBN issued an exclusive directive to Islamic banks to put in place the necessary policies and procedures to monitor and control their risk exposures, as part of its effort to promote risk management practices. Moreover, the directive also required the banks to establish a risk management framework that acknowledges the specificities of risks in Islamic banks. It is believed that the CBN’s directives combined with both the Basel Accord standards, and the IFSB's risk management guidelines will go a long way in enhancing risk management practices in Islamic banks in Nigeria. However, all the said principles and guidelines are merely general guidelines for action and do not provide a detailed plan of what banks should do. As a result, each bank has to develop its own risk management framework to manage its various risk exposures.

The Nigerian Islamic banking sector represents a dynamic and evolving segment within the country's financial landscape. With the increasing significance of Islamic finance worldwide, Nigeria has adopted the principles of Sharia-compliant banking to meet the financial requirements of its Muslim population and contribute to the diversification of the financial services industry. Islamic banking in Nigeria operates in accordance with the principles of Islamic law (Sharia), which forbid the payment or receipt of interest (*usury*) and advocate for ethical and socially responsible financial practices. The establishment of Islamic banks in Nigeria is a response to the demand for financial services that adhere to Islamic principles, attracting both Muslim and non-Muslim clients seeking an alternative banking system. The CBN has played a crucial role in regulating and promoting Islamic finance institutions in the country. Institutions that offer Islamic financial services operate alongside conventional banks, providing a range of products such as Islamic savings accounts, *Murabaha* (cost-plus financing), *Mudarabah* (profit-sharing), and *Sukuk* (Islamic bonds). As the Nigerian Islamic banking sector continues to mature, it becomes increasingly important to address key issues such as risk management, regulatory frameworks, and the integration of Islamic finance principles into mainstream financial practices. Addressing key issues related to Islamic banking institutions would not only promote the provision of Sharia-compliant financial services but also enhance the country's economy, a factor that the majority of previous studies in Nigeria have failed to consider.

Like any other conventional bank in Nigeria, Jaiz Bank faces diverse risks that pose threats to its long-term success. These risks include credit, liquidity, market, operational, and reputational aspects. It is crucial to establish an efficient risk management system to mitigate these risks and prevent potential losses. Being a participant in the Nigerian banking sector, Jaiz Bank is obligated to adhere to the regulations and directives set forth by the CBN. In alignment with the CBN’s directive, which mandates banks to formulate and execute a comprehensive risk management framework, Jaiz Bank has embraced the enterprise risk management (ERM) model to address its risk exposure.

Within the scope of this study, the term 'risk management practice' is operationalized to refer to the implementation of the risk management model or ERM in the bank. Therefore, these two terms (risk management model and ERM) can be used interchangeably throughout the study. The implementation encompasses the systematic processes, strategies, and methodologies employed by the bank to identify, assess, mitigate, and monitor risks across various dimensions. Specifically, the study focuses on translating the theoretical framework of an ERM model into tangible actions and procedures within the context of the examined entity, shedding light on the intricacies of its implementation and its impact on effective risk management.

Poverty and unemployment have been major issues in Nigeria as 63% of the total population are poor multidimensionally (MPI, 2022). In addition, unemployment remains one of Nigeria's most pressing macroeconomic issues today in the wake of the global recession of 2008 and the GDP reduction caused by the COVID-19 pandemic of 4% in 2020 (World bank, 2020). More people are looking for work as population growth outpaces economic growth. The World Bank highlighted that since the 2015–2016 economic slump, the increase in unemployment has been particularly severe. With the COVID-19 health cum financial crisis, mounting inflationary pressures, supply-chain bottlenecks, and now international tensions over the Russia/Ukraine war, it has gotten much worse, causing the worst recession in forty years to hit in 2020. The graph below illustrates the rate of unemployment in Nigeria from 2007-2021. See Figure 1.1 below:

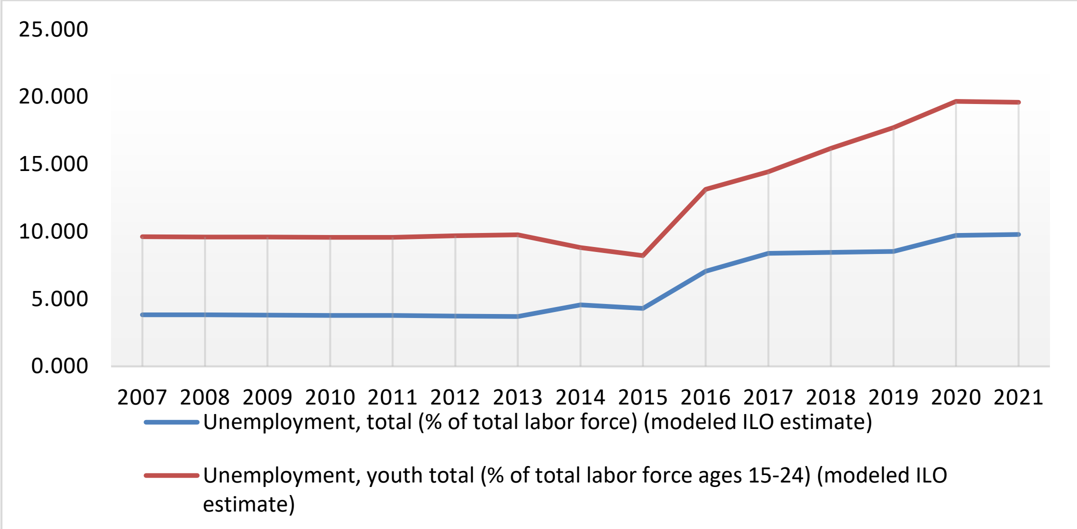

Figure 1.1 Rate of unemployment in Nigeria from 2007-2021 (Data from the world development indicators).

The World Development Indicators show that from 2007 to 2021, poverty and unemployment levels in Nigeria have increased significantly. In 2007, the unemployment rate was 3.8 percent of the total labour force unemployed during the period of the crises. The unemployment rate before the financial crisis in Nigeria was lower than after the crisis. During the pre-crisis period, the Nigerian economy was relatively stable. However, after the financial crisis, the economy of Nigeria was negatively affected due to factors such as decreased investment, rising inflation and weakened government policies. By 2021, unemployment had increased to 9.7 per cent of the total labour force. This rising unemployment rate could be partly influenced by the level of risk in the country's banking industry. The banking industry in Nigeria is known for its high risk due to various factors, including weak oversight, poor governance, and inadequate systems, and procedures. Banks, which are taking on too much risk can create instability in the financial system and cause a lack of confidence among investors. This lack of confidence can decrease private investment, leading to a decrease in job creation and economic growth. Similarly, when there is an increase in risk in the financial system, it can lead to an increase in loan defaults, which can also decrease lending, business layoffs and job opportunities.

Several efforts have been made by both the present and the past governments to alleviate poverty and unemployment in Nigeria. For instance, in 2016, the President Muhammadu Buhari has launched the National Social Investment Programme (NSIP) to provide social protection to the poor and vulnerable in the country. The programme includes a Conditional Cash Transfer (CCT) programme, a School Feeding programme, and a N-Power volunteer programme, which collectively target about 10 million citizens. The CCT programme provides monthly cash transfers to poor households, while the School Feeding programme provides meals to school-aged children in public primary schools. The N-Power volunteer programme provides jobs to unemployed youths. Similarly, President Buhari has taken several other steps to reduce poverty, including increasing access to credit to small businesses, launching a rural-focused agricultural initiative to create jobs, increasing access to electricity to reduce costs, and investing in education and skills developments. The government has also implemented various tax incentives to encourage investments in the manufacturing and agricultural sectors to create jobs. Despite all these efforts to reduce poverty and unemployment, the rate has remained increasing. This suggests that more needs to be done because Nigeria has suffered from a long history of corruption, conflict, and economic mismanagement, which has hindered its economic growth and ability to adequately address poverty.

The banking industry can play an important role in this fight by providing financing to small businesses and entrepreneurs, creating micro-finance programmes, and offering financial literacy programmes. The banking industry is critical for the economic development of any country, and this is especially true for Nigeria. As

Africa's largest economy, Nigeria heavily relies on its banking sector to finance its economic activities. The banking industry plays an important role in facilitating economic growth by providing access to financial services, making loans, and providing access to capital markets. By strengthening the banking industry and its risk management practices, Nigeria can ensure that the banking sector is able to provide the necessary financial services and capital to the economy. This will, in turn, enable businesses to expand, create jobs, and stimulate economic growth. A strong banking industry and effective risk management practices will help protect the financial system from systemic risks, which includes mitigating the risk of financial instability, fraud, and mismanagement of funds. Strengthening the banking sector and its risk management practices will also help ensure that it remains stable and resilient in the face of economic shocks, such as in times of recession or financial crisis. Therefore, strengthening this industry via adequate risk management practices is essential to the economic development of Nigeria.

The COVID-19 pandemic, caused by the novel coronavirus SARS-CoV-2, has had profound and far-reaching effects on global health, economies, and daily life. Since its emergence in late 2019, the virus has prompted widespread disruptions, leading to lockdowns, travel restrictions, and changes in social behaviour. These measures, essential for curbing the spread of the virus, have inevitably influenced various aspects of research and data collection. In the sphere of academic and business research, COVID-19 has necessitated significant adaptations to traditional methodologies. The imposition of social distancing guidelines and limitations on physical interactions posed unprecedented challenges to researchers, particularly those engaged in fieldwork.

Despite the constraints posed by COVID-19 restrictions, access to the bank was facilitated through contacts provided to the researcher by a friend, thus enabling the necessary permissions for the face-face data collection. Moreover, the use of phone calls and WhatsApp played a significant role in maintaining communication with participants. These platforms not only allowed for the continuation of interviews but also proved to be valuable tools in navigating logistical issues arising from the pandemic. Upon returning to Malaysia from the field, the adaptability of remote communication methods proved essential in ensuring the successful completion of the data collection process.

1.3 Problem Statement

Banks are the major actors of any financial system (Kabir, 2013), where they play a vital role in every economy (Abdullahi, 2018; Ajayi, 2017), and their success or failure will have a positive or negative impact on the economy (Ajayi, 2017). Previous studies (Chaplinska, 2012; Gropp & Köhler, 2012; Mileris, 2012) have revealed that poor lending quality, undue credit expansion, and inadequate risk management by banks are the fundamental reasons behind the recent global financial crisis. As indicated by Ajayi (2017), financial institutions have been distressed due to their growing level of non-performing loans (NPL), coupled with weak risk management practices. In the same vein, Jenkinson (2008), Hussien (2016) and Ghenimi, Chaibi, and Omri (2017) maintain that due to their business nature, banks are prone to a variety of risks including the credit risk, market risk, interest rate risk, liquidity risk, foreign exchange risk, and operational risk among others. These risks must be managed adequately in order to avoid business failure as well as to ensure business continuity and profitability (Hunjra et al., 2022). Thus, risk management is crucial to every business operation, particularly the banking industry, where risks are abundant.

The banking industry in Nigeria has been affected by the growing concern of deteriorating credit quality due to a significant decline in global oil prices, the equity market indices, and the devaluation of its currency against the global currencies. A decline in global oil prices affects the credit quality of the banking industry because Nigeria’s heavily reliant on oil exports. The decline in prices can significantly impact its economy. The decrease in oil prices would lead to a decrease in the country's income and, in turn, a decrease in its ability to meet its debt obligations. This would cause Nigeria's credit rating to decline, making it more difficult for the country to access credit, and increase the cost of borrowing. When the equity market indices are up, it indicates a healthy and expanding economy, which results in more borrowing from the banks and more deposits from the public, leading to higher profits for banks, as they can lend out more money and collect higher interest rates.

On the other hand, when the equity market indices are down, borrowing and deposits will drop, leading to lower profits for the banks. Likewise, a devaluation of currency entails declines in the value of the domestic currency relative to foreign currencies. This leads to a decrease in the purchasing power of the domestic currency, thereby making it more difficult to pay off current debt obligations. This can lead to a decrease in foreign investments as investors view the devalued currency as riskier. It can also increase the cost of imports, as goods become more expensive to purchase from abroad, hurting the economy.

In the same vein, the accumulation of non-performing loans by banks. i.e., the borrower’s incapability to repay their obligations may have a significant impact on its liquidity. When a bank has an NPL, it means that a borrower has not been making payments on the loan for an extended time. As a result, the bank cannot recover the money it lent out, and the loan is classified as non-performing. This can cause a drop in the bank's liquidity because the bank cannot use the loan amount to fund other activities such as lending, investing, and providing liquidity to customers. The bank may need to dip into its own reserves to cover the shortfall in liquidity. This can also have a ripple effect on the bank's other activities as it may need to make fewer loans, reduce its investments, or provide less liquidity to customers. Such situation often creates a barrier to further lending, and also negatively impact the bank's performance in terms of profitability and efforts to meet the liquidity need of their customers (Misman et al., 2015). However, this situation has pushed the Nigerian government to establish an institution known as Asset Management Corporation of Nigeria (AMCON).

AMCON was founded in July 2010 by the Federal Government of Nigeria to address the recurring challenges associated with NPLs bedevilling the Nigerian banking industry. The establishment of AMCON was motivated following the creation of an Asset Management company in Malaysia in the late 1990s. The CBN sent a team of officials to visit Malaysia to study the country's system of financial regulation (Alford, 2012). AMCON was founded to serve as an instrument of transformation for the Nigerian banking sector. The main purpose of AMCON as indicated by Alford (2012) and Amaechi, Amaechi and Adeyemo (2017) was to:

i) Resolve issues related to NPL in Nigerian banks by purchasing the loans, so that the banks should have a clean and clear statement of financial position.

ii) Recapitalise the rescued banks in order to strengthen and safeguard the banks, among others.

Similarly, other efforts made by the CBN (CBN) were the recapitalisation policy of July 2004, which was aimed in ensuring the effectiveness and performance of financial institutions. The introduction of Prudential Guidelines in 1990 and the establishment of Nigeria Deposit Insurance Corporation (NDIC) in 1988 were all among the efforts undertaken by the Nigerian government to provide a safety net for depositors' funds.

However, despite all these efforts by the CBN to curtail the inadequacies of financial institutions in the country, the proportions of NPLs continued to be ascending regularly (Ajayi, 2017). Similarly, the major reasons identified to have been causing challenge/ financial distress to banking industry in Nigeria is attributed to poor risk management practice by banks (Ajayi, 2017; Ayodele & Alabi, 2014; Ejoh et al., 2014; John, 2018; Olalekan et al., 2018; Olukotun et al., 2013; Ozemhoka & Abieyuwa, 2014; Ugoani, 2018; Zidafamor, 2016); Oluwafemi, 2014; Sobodu & Akiode 1994, NDIC, 2008). The Nigerian banking industry has been accused in the area of risk management due to various challenges emanating from banking operation. It has become a common phenomenon in the Nigerian banking institutions to grant and prolong loans and advances to friends and family members, directors, relatives, and other close associates without necessarily adhering to due processes (such as customer's credit worthiness assessment). Ordinarily, banks' due processes are put in place to guide the bank's undertakings in all aspects of their operations. However, in Nigeria, unsecured loans are easily and fraudulently granted by members of the board and management to themselves, and loans with a high probability of default are deliberately made to their friends and relatives by relaxing the credit standard (Ajibo, 2015). Loans and advances are extended to various categories of stakeholders without minding of their negative consequences. The recovery process of such loans might be difficult, and this would result into bad debts, thereby leading banks to financial distress.

Another issue in the Nigerian banking institution relates to the operational risks. These risks are the direct or indirect shortfalls arising from inadequate or failed internal procedures, such as the systems, the workforce, or the external threats. The incidence of operational risks, such as the prevalence of forgeries and acts of fraudsters, has been another growing concern (Ajibo, 2015; Ayodele & Alabi, 2014; Zidafamor, 2016). It has been evident that some management officials in the Nigerian banking sector are either ill-informed or unaware of the abundant risks inherent in the banking operation or have totally abandoned the policy guidelines meant to protect the banks from potential losses (Ayodele & Alabi, 2014). Hence, debilitating behaviour is undesirable and should not be encouraged as it may lead business to failure.

Previous studies (Ajayi, 2017; Akram & Rahman, 2018; Alam & Musukujjaman, 2011; Ayodele & Alabi, 2014; Hegde & Subramanian, 2016; Masood, Suwaidi, & Thapa, 2012; Nazir & Daniel, 2012; Nwite, 2015; Oke & Wale-Awe, 2017; Rahman, Ibrahim, Tohirin, Muhammad, & Suryaputri, 2016; Rehman et al., 2017; Sobhy & Megeid, 2017; Swartz, 2013) have analysed risk management. However, most of these studies tend to focus on risk management practices within the conventional setting (Aebi et al., 2012; Calomiris & Carlson, 2016; Cebenoyan & Strahan, 2004; Claudia et al., 2018; Lee, 2015; Matthews, 2013; Ratnovski, 2013). Similarly, in the existing literature, studies on risk management practices in the Islamic banking is under-researched domain (Rehman et al., 2018). Those available were dominant in either the USA, the UK, Asian and or Middle east particularly, where the religion of Islam is predominantly practiced (Abdullah, Shahimi, & Ghafar Ismail, 2011; Ali & Naysary, 2014; Hassan, 2009; Smaoui, Mimouni, Miniaoui, & Temimi, 2020), and with much emphasis on a comparative study of risk management between Islamic and non-Islamic banks. Few studies were conducted to consider risk management practices in developing countries like Nigeria. Even among the few studies particularly in Nigeria, the emphases were dominant on exploring determinant, development, and prospect of Islamic banks in Nigeria (Abdullahi, 2016a; Alao & Alao, 2012; Ezeh & Nkamnebe, 2020a; Sa'id, 2020; Saiti et al., 2019; Umar et al., 2019). The closely related literature in the local context focused on comparative study (Abubakar, 2014; Adewale & Yatoo, 2017; Mohammed, 2016; Muhammed, Abdullahi, & Adamu, 2018).

Therefore, the present study distinguishes itself from prior research through its focused exploration of risk management practices in Islamic banking, considering both common and specific types of risks unique to Islamic banking. This adds a unique dimension compared to studies that may not consider the specificities of Islamic finance. Moreover, the study takes into account institutional factors such as regulatory and cultural elements relevant to Islamic banking in the Nigerian context, which can significantly influence risk management practices. By combining institutional theory, documentary and thematic analysis in the context of risk management practices in Islamic banking, the study aims to provide a comprehensive understanding of the dynamics involved in ensuring effective risk management within an Islamic bank. While existing studies offer general insights into risk management practices, the current study focuses on a more targeted examination within the framework of Islamic banking, shedding light on the distinctive challenges and practices within this sector. The emphasis on in-depth qualitative interviews with key stakeholders further sets this study apart, offering a rich understanding of the practical dimensions of risk management in Islamic banking institutions.

The study of risk management in Nigerian Islamic banking is justified by the unique characteristics and challenges faced by these institutions operating within the Nigerian financial landscape. Islamic banking operates under Sharia principles, and understanding the intricacies of risk management in this context is crucial for several reasons. Firstly, it contributes to the broader field of risk management by providing insights into how institutions navigate financial, and non-financial risks while adhering to Islamic principles. Secondly, given the increasing prominence of Islamic banking globally, understanding its risk management practices becomes essential for policymakers, practitioners, and scholars. Thirdly, Nigeria represents a diverse and dynamic financial environment, and studying risk management in Islamic banks within this context offers a detailed perspective that can have implications beyond the specific region. Ultimately, this study fills a significant gap in the literature, offering a comprehensive understanding of risk management practices in Islamic banking institutions in Nigeria.

As a new phenomenon, Islamic banks in Nigeria have evolved into a highly competitive environment surrounded by conventional institutions (Ezeh & Nkamnebe, 2020). Since Islamic banks are facing intense challenges from competitors (especially those in the conventional sector), they need to manage their competitors and risks while providing financial inclusion in the economy. Islamic banks operate with a variety of products such as *Murabahah* (cost-plus sale), *Musharakah* (joint venture), *Mudarabah* (profit and loss sharing), *Bay-bi-thaman ajil* (credit sales), *Ijarah* (leasing contract), *Salam* (sales contract) *Qard-Al-Hasan* (interest-free loan or benevolent loan), among others (Schoon, 2016; Siddiqui, 2008; Tatiana, Igor & Liliya, 2015).

These products, however, triggered different risks and challenges to their operations. Hence, Islamic banks are being surrounded by different risks. Some of these risks are similar with those in conventional banks, while others are unique and specific to only Islamic banks. The risks that are similar with conventional banking risks include the liquidity risk, the credit risk, the interest risk, the market risk, the foreign exchange risk, among others (Hassan, 2009). Consequently, these risks must be appropriately managed by Islamic banks as their success and survival are being determined by how adequate they can manage these risks and their factors (Hassan, 2009).

Hassan and Dicle (2007) observe that Islamic banks are lacking the necessary expertise in risk management techniques. The argument sometimes made is that the current practice Islamic banking is more skewed towards a model that replicates conventional products, making them merely Sharia-compliant, rather than providing real alternatives as originally envisioned. More worrying to users is that Islamic banking has also been challenged in some quarters as not adhering to Sharia at all (Securities Commission Malaysia, 2013). Similarly, other insights in the literature have also maintained that the operations of Islamic banks are not distinguishable from their counterparts in the conventional banking system (Beck et al., 2013; Chong & Liu, 2009).

Full-fledged Islamic banking in Nigeria began in 2011, going by the government official record (CBN, 2011), and it started its operation in the subsequent year, 6th January 2012. Jaiz Bank was the first full-fledged Islamic bank that secured a license to conduct business in Nigeria. The bank now operates with over 600 employees and over 43 branch offices across the country (Jaiz Bank, 2021). Choosing Jaiz Bank as the case organisation for this study is due to the fact that it is the first full-fledged Islamic bank in the country with years of experience in Islamic banking and has accumulated vast experience in risk management. The researcher finds it appropriate and necessary to obtain in-depth information on their risk management practices using a model to answer the research questions.

It was recently that another bank called Taj Bank secured a regional licence to operate in Nigeria with only three branch offices across the country. This is not suitable for this kind of exploratory study considering its years of experience in Islamic banking, while smaller banks operating on a smaller scale and lacking in terms of resources and infrastructure of larger banks, making them more vulnerable to risk. As such, the risks associated with a small Islamic bank are generally lower than those associated with larger banks.

Jaiz Bank, as an Islamic bank, forms an important part of the Nigerian financial system. It provides an alternative to conventional banking that is based on Islamic principles. The bank focuses on ethical practices and investments in socially responsible projects. It offers a range of services tailored to the Nigerian population's needs, such as Islamic mortgages, insurance, and investment options. Jaiz Bank also helps in promoting financial inclusion, as it provides access to financial services to those who may be excluded from traditional banking services due to their cultural beliefs, such as avoiding the use of interest or usury; thus, Nigeria would be able to attain economic stability and development by encouraging savings and investments.

Consequently, providing financial services to people often comes with a variety of risks, and the current study explores the bank’s risk management practices via a model and by doing so, one can gain insights into the bank's approach to managing risks. It can also provide insight into the bank's policies and procedures for ensuring that risks are adequately managed. The bank's stakeholders can gain insight into how the bank manages its risks, thereby enabling them to build confidence in their decision to use the services of the bank. Moreover, it can help to inform the development of risk strategies and solutions that can be used to protect the bank from potential losses.

Thus, this study has developed the research objectives to address the above concerns in the following section.

1.4 Research Objectives and Questions

While the main research objective of this study is to explore the risk management model of Jaiz Bank in dealing with various types of risks and risk factors, the specific objectives that this study intends to achieve are:

a) to explore the risks faced by Jaiz Bank and their significance to its banking operations;

b) to analyse the appropriateness of the risk management model adopted/developed by Jaiz Bank (in terms of how it is implicated in the banking operations and performance);

c) to examine how institutional pressures have shaped the institutionalisation process of the risk management model in Jaiz Bank; and

d) to unravel the forms of organisational responses that have ensued from the institutionalisation process of the risk management model in Jaiz Bank.

This study seeks to provide answers to the following specific research questions.