

POTENTIALS OF AN ISLAMIC PENSION FUND ADMINISTRATION SCHEME IN NIGERIA

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Abstract

This study explores the potential of an Islamic Pension Fund Administration Scheme in Nigeria by determining public perceptions about the scheme. A qualitative approach was used to carry out the study in the year 2020 using a Questionnaire with-open ended questions for gathering qualitative data through face to face interviews. A sample of thirty responses was used for thematic analysis. Analysis revealed Nigerians had a positive perception and are willing to participate in an Islamic pension scheme when it becomes available. A recommendation for further research was suggested. The study did not focus on Takaful which is an Islamic insurance product that will replace payment of annuities in Islamic pension funds, and the geographic scope was limited to the Federal Capital Territory. Islamic Pension Fund Administration scheme is a product not available in the Nigerian financial system. The conventional Pension Scheme is bedevilled with many problems; all investments carried out by the pension fund administrators are not screened in any way for shariah compliance. This study explores the potentials of solving these issues.

Keywords: *Islamic Finance, Islamic Pension, Islamic Pension Scheme, Pension Fund Administration, Pension.*

DOI: 10.31039/jgeb.v2i6.60

1. Introduction

In 2019 the Islamic Finance Service Industry (IFSI) received a dual shock from the volatile change in oil prices and the COVID 19 pandemic. However, despite all these and other issues, a global growth of 11.4% was recorded and estimated at US\$ 2.44 trillion (Islamic Financial Services Board, 2020).

Globally the Islamic banking and finance industry is currently growing and becoming more popular after four years decline in growth rates. The industry has registered an annual growth of 6.58% in 2018 and total value estimated at US\$2.591 trillion. In monetary terms a net increase of US\$160 billion in the global stock assets. As at 2019 Nigeria is ranked 29th on the Islamic Finance Country Index (IFCI) but recorded three places drop from its 23rd position in 2018 (Global Islamic Finance Report, 2019).

Islamic Pension Fund Administration is an Islamic Finance product not available in Nigerian financial system; the conventional Contributory Pension Scheme initiated by the Pension Reform Act 2004 is the only option available since participation is compulsory. Section one of the Pension Reform Act 2004, provides that the arrangement shall affect all workers of the public service and in case of the private sector an Organisation in which there are five or more employees (Musa, 2020).

The new pension reform act 2014 is a radical departure from the previous provisions of the pension scheme. The new Act provides for both employers and employees to contribute a certain percentage to the Fund monthly. The management of pension fund is divided among different pension fund administrators and custodians (Musa, 2020).

The conventional Pension Scheme is bedevilled with many problems especially the fact that all investments carried out by the pension fund administrations are not screened in any way for shariah compliance. People who are interested in investing their money in shariah compliant or ethical products have been denied the opportunity. The recent emergence of Islamic Finance products in Nigeria has provided the platform for other Islamic products like the Islamic Pension to be launched into the Nigerian market.

The Regulation on Investment of Pension Fund Assets, (2017) provided for pension fund administrators to invest their funds in Sukuk, Non-interest compliant Instruments, Non-interest (Shariah) compliant Investment Funds registered by the Securities and Exchange Commission (SEC), Non-interest compliant debt Instruments and Non-interest compliant Money Market Instruments. The Regulation described Non-interest compliant Instruments as financial securities and specialist investment funds in compliance with shariah principles as approved by the advisory council of experts as constituted by the Central Bank of Nigeria (CBN) and SEC (National Pension Commission, 2017) .

Religious scriptures have forbidden the receiving and paying of interest due to the unjust nature of the transaction, Greek and Roman philosophers share the same view. Third world countries have suffered a lot due to their inability to pay up loans from international financial institutions. This eventually leads to underdevelopment of economies (IIBI, 2010).

In recent times excessive financial transactions with high interest rates have led to a global financial crisis where economies world over including Europe were rolling in and out of recession; Some economies had to receive bail out from other countries and institutions to survive and restart the economic cycle (Johnson & Moon, 2012).

The existing conventional financial system is operating a system of exclusion thereby creating a gap where you find groups of unbanked people due to their beliefs; however Islamic Finance will create an avenue for these people to receive such financial services; and these will include Pension Administration (Manjoo, 2010).

The general aim of this study was to explore the potential of an Islamic Pension Fund Administration Scheme in Nigeria; the study investigated public perceptions about Islamic Pensions to ascertain if Nigerians are willing to participate in an Islamic Pension Scheme. This was guided by the research question; who are those eligible to participate in the Islamic Pension Fund Scheme?

The significance of the research is on the fact that awareness will be created about the operations of the Islamic Finance industry generally and specifically the Islamic Pension Fund Administration Scheme in Nigeria. At the long run this will provide an avenue for financial inclusion and public enlightenment. The study drew on the perceptions of the public as to who can benefit from such a financial product, if available to all or restricted to a particular group of people.

Other sections are organised as follows; the literature review, methodology, analysis, results and discussions, conclusion and finally recommendations.

2. Literature Review

2.1. Conceptual Framework

The conceptual framework of this study is on how public perceptions about Islamic pension influences the practice of Islamic pension fund administration scheme in Nigeria; some vital characteristics of Islamic pension system are discussed.

2.1.1. Pension Industry

The Pension Industry has witnessed research work in the area of Conventional pension fund administration but Islamic Pension is a recent phenomenon being developed and is inadequately researched, this forms the basis of the research. According to Manjoo, (2010) Pension systems are designed for protection of individuals against unknown financial risks of an uncertain life expectancy or longevity. Pensions and annuities make provision for periodic monetary payments to any person who is retired from employment due to; age, disability, or completion of service period. These payments generally continue for the remaining natural life of the pensioner, and in some cases to a widow or other heir.

2.1.2. Pension in Islam

Pension models in the Islamic world have existed since the time of the companions Umar ibn Khattab (RA), Uthman ibn Affan and Abu Ubadah (RA). Others are the baitul mal and Islamic social system of waqf and during the Ottoman Empire (Manjoo, 2010). According to Al-sharif (2005) Umar ibn Khattab usually spent his nights going around the street of Medina to find anyone needing help or assistance. Provisions were made for the support of the poor, needy, aged and disabled among Muslims and non-Muslims. They were all provided for from the public treasury (Baitul mal) and from Zakah funds. It was suggested during the time of Umar (RA) to carry out a census so that the people can get their yearly income systematically. This later included infants both male and female. During the Caliphate of Uthman ibn Affan (RA), he spent generously for the welfare of Muslims as he used to before becoming the, Caliph and he continued with the policies of Umar (RA).

Pensions are in line with the maqasid of shariah that covers life, family and wealth. However, some haram elements such as annuities and nominees which are not in line with the Islamic

law; these need to be changed in the legislation and current pension models in practice (Manjoo, 2012).

2.1.3. Modern Islamic Pension

In Recent times HSBC Life Amanah Pension Fund in 2004 was the first Bank in UK to offer retirement pension fund which meets the Shariah requirements. The design was to ignore certain shares in some sectors that deal with tobacco, alcohol production/distribution, pork products, and interest-based services. This was modelled after similar Islamic Pension funds that are existing (Muhammad & Sani, 2017).

In Kenya a business licensed as Takaful Insurance Africa offers Pension fund services and became a huge breakthrough for the Muslims community in Kenya. They have since then abandoned interest-based pension schemes Ciuri, (2013) (as cited in Muhammad & Sani, 2017).

According to Manjoo (2012), UK pension law has been developed to shift towards creation of a Shariah compliant fund under the National Employment Savings Trust (NEST). This fund is to cater for British Muslims' retirement savings needs. The concept of a funded Pension is a new concept in Islamic History; it needs to be analysed to find out the intricacies involved with the creation of such work-related pension plan i.e. issues that require to be addressed earlier to establish a shariah compliant pension fund. Islamic pension funds are operated in different forms or types by Islamic Pension Fund companies. Some examples are Employer based funds, Voluntary Pension Funds, Mutual Pension Funds and Self Invested Personal Pension.

2.1.4. Zakah on Pension

On whether Zakah is due on a retirement pension; Shayk Ibn Uthaymeen stated “we think that no zakah is due on the money that deducted from the salary for the pension, because the person can only withdraw it if he meets certain conditions, so it is like a debt that is owed by one who is in financial difficulty, and there is no zakah on debt that is owed by one who is in financial difficulty. But if he takes possessions of it , then to be on the safe side, he should pay zakah for one year on it. There is nothing wrong with taking it because it is in return for what the state took of his earnings and saved it for him until it was needed.”

2.2. Theoretical Review

The selected theory of study is stakeholder theory as introduced by Edward Freeman (1984) to improve on the shareholders theory. The main thrust of the theory is stakeholders involved in a business must be considered through wealth maximisation and not profit maximisation for shareholders or owners alone. These stakeholders are managers, personnel, creditors, customers, competitors, providers, community, and government (Kusi, Gyeke-Dako, Agbloyor, & Darku, 2018; Murphy & Smolarski, 2020).

However, the Islamic stakeholder theory, proposes a society completely considered a stakeholder and accountability of corporations to the stakeholder community is a necessity (Murphy & Smolarski, 2020). Islam provides a tiered, multi-fiduciary stakeholder approach and distributes what stakeholders in business receive according to their inputs. Their responsibilities are morally anchored by shariah thoughts of trust, fairness, balance, justice, generosity and excellence (Beekun & Badawi, 2005).

Murphy and Smolarski, (2020) in their study “Religion and CSR: An Islamic “political” model of corporate governance” using literature review underpinned the study using stakeholder theory. The study proposed the inclusion of core stakeholders into the board of corporations i.e. Non-governmental organisations and shariah scholars. The stakeholder theory relates to the current study directly because corporations from national and multinational perspectives consider employees as a part of stakeholders because they also serve as agents of the owners depending on their level of responsibility. The need for staff welfare in terms pension contributions is no longer necessary but compulsory for both parties. This will best be achieved if stakeholder wealth is maximised in the corporation.

2.3. Empirical Review

In a study by Musa, (2020) titled “Determinant of Pension Reform Act of 2014 in Nigeria”; the Study used 246 respondents in Abuja, and regression analysis to interpret data. The findings were pension contributors’ decision-making process is positive and has a significant effect on the 2014 pension fund reform Act for workers in Abuja. The second finding is Retirees’ standard of living is negative and has a significant effect on the 2014 pension fund reform act. It recommended for pension scheme to be continued by employers for their employees; however, there should be a focus on retirees’ standard of living in the implementation procedure. The study considered conventional contributory pension system; the Islamic

pension system was not mentioned at all. Hence this study focuses on the Islamic pension model.

In another study by Rahman, (2015) titled Zakat on retirement and pension plans using descriptive and analytical methods found a consensus among jurist and scholars to pay zakah on pension upon receipt after retirement. However, voluntary pension contributions are subjected to payment of zakah annually. This study was conducted in USA and only focused on payment of zakah on contributory or retirement pension benefits; the issue of an Islamic oriented pension scheme was not studied or discussed. Hence, this study is assessing the potentials for an Islamic Pension Scheme.

Manjoo, (2012) in his study the UK legal reforms on pension and the opportunity for Islamic pension funds using historical developments and highlights of fiqh issues found that aligning an Islamic pension model with conventional pension requires adjustments of some fiqh issues for the fund to become Islamic and suitable. It concluded that the modern-day Islamic pension deposit is a new experience in the Muslim circle, and the issue is hardly focussed on. The study was conducted in the UK; however, this study is considering the Islamic pension model in Nigeria.

3. Methodology

Qualitative research is typically concerned with subjective assessment of participants opinions, attitude and behaviour (motives). Interviewing techniques are usually used for gathering data and are not usually subjected to rigorous quantitative analysis (Kothari & Garg, 2014). This study gathered data using questionnaires through face to face interviews conducted in 2020.

Participants responses were used for qualitative data analysis. Micro soft Excel was used to organise qualitative data for thematic coding and analysis, as responses were received i.e. progressive focusing. Whenever a novel area of study is being advanced and explored, it is practical to focus on logical description as the objective of the study. This will enable the understanding of the features to concentrate upon for later descriptive studies (Sambo, 2010).

A, sample size of thirty responses was used drawn purposefully from the workers population in Abuja the Federal Capital Territory due to the diverse nature of the city; individuals from all the six geographical zones of Nigeria are present. Most of the people living in this area are

either employed by the public service or private sector and hence eligible as pension contributors. The simple random sampling technique was used for the selection of participants.

The study was carried out by administering a questionnaire to facilitate an in-depth exploration of the type of clientele or if Nigerians are willing to participate in Islamic pension fund administration scheme. Semi structured Questionnaires are easy to analyse and people tend to feel more comfortable using them as people are more likely to have had experience with them; using written Questionnaires lessen Interviewer bias since there is uniform question presentation and are administered face to face for building rapport and eliciting an accurate response from the participant.

Verification strategies were adopted for the development of a clear path for analysis to guarantee trustworthiness or rigour essential for the qualitative data used in the study. Generalisations during the rigorous processes led to relating findings to existing theories for purpose of achieving a theoretical significance of the study.

4. Analysis, Results and Discussions

The qualitative data was gathered from 30 respondents and the following table shows these demographics.

Table 1: Respondents Data

S/N	Description		Frequency	Percentage
1	Age	18 - 30	4	13
		31 – 45	18	60
		46 - 50	3	10
		51 - 60	5	17
		61 & above	-	-
			30	100%
2	Gender	Male	26	87
		Female	4	13
			30	100%
3	Geographical Region	North East	7	23

		North Central	12	40
		North West	3	10
		South East	5	17
		South South	1	3
		South West	2	7
			30	100%
4	Sector of Employment	Public	23	77
		Private	7	23
			30	100%
5	Religion	Christianity	8	36
		Islam	22	64
			30	100%

Source: Author's computation, 2020.

Comments

Table 1 shows 60% of the respondents were within the 31 – 45 age group, 87% of the respondents were males, 73% were from Northern Nigeria. 77% of the respondents were from the public sector, while the private sector was 23%. Finally, 36% of the respondents were Christians, while 64% of them were Muslims. The dominant age group shows that more youths participated in the study, with a majority from the North and were predominantly government workers or employees.

Qualitative analysis is a complete and detailed description of data from the questionnaire on the views of the respondents'. The qualitative analysis was on verbatim responses received from the respondents' comments in answer to the open ended question in the questionnaire. It is important to note the comments do not represent the views of all respondents but of the individual maker of the comment.

The question in section B presents the statement "I am eligible to participate in an Islamic Pension Fund Administration Scheme" to find out their perceptions about Islamic Pensions scheme. The following verbatim comments were selected from the responses of participants;

"I do not know nor am I aware of the terms of qualification that can make me eligible," 31-45yrs, Male, South East, Public Sector, Christianity

“Well, I don’t mind and would appreciate it if I could be a beneficiary of such a scheme but would expect industry standard management and assurances of or guarantee of security of my investment.” 31-45yrs, Female, North Central, Public Sector, Islam

“The Islamic Pension Fund is open to all members of the public irrespective of religion.” 31-45yrs, Male, South West, Public Sector, Christianity

“Because as a Muslim, anything Halal must be our priority and we must encourage things like that.” 31-45yrs, Male, South East, Private Sector, Islam

“Since I am just reading or hearing about it, I will need to read more to know if I am eligible to participate.” 31-45yrs, Male, South West, Public Sector, Christianity

“Like the Islamic banking also I believe even non-Muslims can equally benefit immensely.” 51-60yrs, Male, North East, Public Sector, Islam

“It will be very wise and important to introduce the Pension Scheme.” 31-45yrs, Male, North Central, Public Sector, Islam

“I believe as a muslim faithful it is obligatory for me to enroll into any Islamic pension scheme as soon as it is made available and this is as a result of the prohibition of interest or usury in Islam.” 31-45yrs, Male, North East, Public Sector, Islam

“I simply can’t distinguish between this scheme and the other. To me, it makes no difference since I don’t have the control over the areas where they will invest the money.” 51-60yrs, Male, North Central, Public Sector, Islam

The comments from respondents in answer to the question; “I am eligible to participate in an Islamic Pension Fund Administration Scheme” contained the following themes;

Table 2: Themes from Question

S/N	Themes	Frequency	Percentage
1	I will participate	8	26
2	Support Islamic financial system	8	26
3	Non Muslims can benefit	3	10
4	Sufficient and urgent service	1	3
5	A highly welcome initiative	1	3
6	Benefit of humanity	2	7
7	Better option for Muslims	1	3
8	It makes no difference	1	3
9	No interest to participate	1	3
10	I don't know	4	13
11	Neutral	1	3
Total		31	100

Source: Author's computation, 2020.

Comments

Table 2 shows respondents' were almost unanimous on issue of eligibility to participate in an Islamic Pension Scheme, consisting of 78% of the respondents. Their comments indicated themes that centred on the will, support, compatibility and efficiency of such a scheme. This further indicates the respondents have a high expectation from the Islamic Pension Scheme. Only 19% of the respondents stated that they had no knowledge about the eligibility criteria of the Islamic pension or interest to participate. Another 3% maintained a neutral position which may likely represent a negative perception, making a total of 22%. This shows a positive perception about the Islamic Pension Scheme due to the fact that most of the respondents' view it as a product available to the public and, therefore an inclusive financial system.

5. Discussions

The question was designed to find out the participants perception of Islamic Pensions as regards eligibility to benefit from the scheme. Some respondents stated that they do not know the terms that qualify them to participate while others want to benefit from the scheme. Another group wants to ensure the leading industry standards, management, assurances or possibly guarantee of investments to be returned, this could have been due to participant limited knowledge that returns or profits cannot be guaranteed under Islamic principles of finance.

A few stated that all its activities must be halal and open to all and that they will encourage participation in such a scheme. Others view it as an avenue to support the Shariah compliant

financial system and therefore contribute to the development of Islam. According to a group of respondents' usury and interest is not involved in the scheme hence the motivation to derive benefits from the scheme and wanting to participate. The comments that indicate a negative perception towards Islamic pensions are mostly from inadequate enlightenment, the few who perceive it as not meant for them is close to insignificant.

The finding shows the vast majority of the respondents have a positive perception of the scheme due to religious reasons. This supports the findings in Kasri, Haidlir, Amin, and Prasetyo (2017) where 70% of the respondents want to participate in an Islamic pension fund plan. Muhammad and Sani, (2017) also found a majority may opt for a Shari'ah Compliant Pension fund when available. Demand occurs by marketing and religious beliefs which have led to high demand of Islamic pension fund in Indonesia (Kasri et al., 2017). Even though there is no factual statistics that show the demand for Islamic pension by British Muslims; there is a potential from the population of British Muslims (Manjoo, 2012). This general idea of demand for Islamic pension falls in line with the communal and societal interests of individuals as stakeholders; hence the connection with stakeholder theory.

6. Conclusion

The study explores the potential of an Islamic Pension Fund Administration Scheme in Nigeria by determining public perceptions about the scheme. The study found Nigerians had positive perception and are willing to participate in an Islamic pension scheme when it becomes available due majorly to their religious beliefs.

The study did not focus on Takaful which is an Islamic insurance product that will replace payment of annuities in pension funds and the geographic scope was limited to the Federal Capital Territory, Nigeria.

The proposed Islamic pension model is a concept that does not involve uncertainty and interest according to Islamic shariah and hence, the potentials for the Islamic Pension Fund Administration Scheme as an alternative system that will promote financial inclusion.

It is recommended to develop the Islamic Pension industry together with the Islamic Insurance (Takaful) industry so that viable takaful alternatives may be used at the decumulation phase of pension funds instead of the conventional annuities from Insurance companies which are not shariah compliant.

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