

Study and Analysis of an Islamic Finance Window in Algeria - Requirements for Separation of Conventional and Islamic Bank Activities at the Housing Bank Level

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دراسة وتحليل نوافذ التمويل الإسلامي في الجزائر-

متطلبات الفصل بين أنشطة البنك التقليدية والإسلامية على مستوى بنك الإسكان

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Abstract:

The objective of the article is to analyze the levels of separation between the Islamic window and its classic bank during the activity. Through an empirical study within the window of the Housing Bank, we will provide elements of answers to our problem. The purpose of this article is to look at the practical details of Islamic activity in windows, while emphasizing the levels of separation between the traditional bank and its Islamic window.

First, we carry out a diagnosis of the Islamic banking system in Algeria which is made up of two Islamic banks and conventional banks with Islamic products. In the following, we will present the Housing Bank and the establishment of its Islamic window, while emphasizing the accounting separation of the window, the separation of the information system and the work of the Shari committee.

Keywords: Islamic window; Islamic products; conventional banks; Sharia standards.

Jel Classification Codes : G21 ; E43.

ملخص:

الهدف من هذا المقال، هو عرض المتطلبات والخصائص العملية للنشاط البنكي على مستوى النوافذ الإسلامية، مع التأكيد على مستويات الفصل بين عمليات البنك التقليدية ونوافذه الإسلامية. أولاً، نقوم بتشخيص النظام المصرفي الإسلامي في الجزائر الذي يتكون من بنكين إسلاميين وبنوك تقليدية بمنتجات إسلامية.

فيما يلي، يتم عرض تجربة إنشاء الشباك الإسلامي لبنك الإسكان، مع التأكيد على الفصل المحاسبي للنافذة، وفصل نظام المعلومات، وعمل لجنة الشريعة.

الكلمات المفتاحية: النافذة الإسلامية، المنتجات الإسلامية، البنوك التقليدية، معايير الشريعة.

الترميز الاقتصادي (JEL): G21 ; E43

I- Introduction

Today, the opening of Islamic windows has become a global phenomenon that extends to all Islamic and Western countries, hence the importance of our study. In Algeria, several banks have already taken the initiative, others wish to integrate it as soon as possible.

However, it seems relevant to raise questions about the degree of respect for the principles of Islamic finance by these classic banks not only during the creation of the window but also during the Islamic activity within the window, in particular in terms of the separation of the two activities: classical and Islamic, which is an essential condition even recently required by the regulations of the Bank of Algeria 18-02. This separation reassures customers and gives legitimacy and credibility in terms of Sharia compliance for the window.

In this perspective, our article will be conducted, trying to answer the questions that challenge us on the levels of separation within banks around the world, but more particularly at the level of our study bank, Housing Bank, which exercises Islamic activity in Algeria in parallel with its conventional activity since 2015.

This leads us to pose the problem which is articulated as follows:

How do these conventional banks separate the two activities: classical and Islamic? And what are the separation levels respected by the Housing Bank?

In order to deal with the subject and provide answers to the problem, a descriptive analysis method was adopted. This approach is based on the observation of Islamic activity within Housing Bank, during the period 2015-2018, while trying to find explanations for our questions.

I I.Theoretical Framework

1. Diagnosis of Islamic finance in Algeria

It was not until the 1940s that the financial system experienced some experience in the practice of Islamic finance in Malaysia, Pakistan and then in Egypt (Causse-Broquet, Geneviève, 2012, P 18).

in 1963 Ahmed Al Naggar took his cue from the German cooperative bank and created the first interest-free savings bank, the Mit Ghamr Saving Bank in Egypt (Fakhri Korbi, 2016, P 18).

Algeria remains behind in terms of Islamic funding. At the beginning of 2019, we only have two fully Islamic banks: Al Baraka Bank and Al Salam Bank, which share 2% of the market share dominated by public banks which control 83%. Of the 17% of the shares of private banks, the two Islamic banks hold between 15% to 17%. This is why, several conventional private banks such as AGB and Housing Bank... or public like BDL or BADR have opened Islamic windows to market Sharia-compliant products and thus compete with the two existing Islamic banks.

According to the managing director of Al Salam Bank, Islamic finance constitutes barely 2% to 3% of the overall turnover of the banking market. "The public sector represents 87% of the market and the 20 licensed private banks share the remaining 13%. The private sector is maturing, even though it is already actively involved in financing the economy. As for Islamic banks, their presence on the market is relatively recent and they do not manage to cover the whole territory (TSA, 2018).

The Director of Credit and Banking Regulation at the Bank of Algeria, announced that in the country 31% of the money supply, or 4,500 billion dinars, found outside the banking circuit.

According to our analysis, the low penetration rate of Islamic finance in Algeria may be due to several parameters:

- ◆ The doubt of some customers regarding the degree of respect for the principles of Islamic finance by banks.

- ◆ The absence of a clearly specified legal and regulatory framework.
- ◆ A third of the money supply circulates outside the banking circuit.
- ◆ The current banking system inherited from colonization a conventional banking system, which remains well entrenched in the country.

Several pricing methods for Islamic banking products have emerged over the years but most Islamic banks use money market interest rates (such as LIBOR) with narrow margins reflecting intense competition (Abdul Ghafar Ismail, 2008).

Thus the central banks determine the minimum capital / deposits ratio in order to maintain the confidence (Bouguerra Yamouni assia, Boulaïoun Rezkia, 2012, P 20).

2. Insights on Islamic Banks in Algeria

Literally, the word "Riba" means, in Arabic, increase. This term has been recognized throughout history as the value of anything, large or small, stipulated in the loan agreement or in an economic transaction subject to payment in addition to the principal. Today, this payment is known by the voice: interest (Ruimy Michel, 2008, P 13).

Although Islamic finance was introduced to Algeria as early as 1991 by Al Baraka bank of Algeria, its progress did not go as expected including only a second Islamic bank existing in the market today, Al Salam Bank.

2-1. Al Baraka Bank Algeria

Al Baraka Bank of Algeria (al baraka bank of Algeria Report, 2018), is the first mixed-capital banking institution (public and private). It was created on May 20, 1991 with a capital of 500,000,000 DA. Its shareholders are the Bank of Agriculture and Rural Development of Algeria (BADR) and the Dallah Al Baraka Group (Saudi Arabia). Governed by the provisions of Law No. 03-11 of August 26, 2003 relating to Currency and Credit, the Al Baraka bank of Algeria is empowered to carry out all banking, financing and investment operations, in accordance with Islamic Sharia.

Al Baraka bank offers five types of financing products, namely: Murabaha, Ijara, Salam, istisna and moussawama. As it has financing resources such as: demand deposits, savings accounts and cash vouchers.

Balance sheet total stood at 270,996 million Algerian Dinars at the end of 2018, thus recording an increase of 22,363 million Algerian Dinars corresponding to + 8.99% compared to 2017 and 28.83% compared to 2016.

Equity is totaled 27,429 million Algerian Dinars compared to 24,546 million Algerian Dinars in 2017, thus recording an increase of 2,883 million Algerian Dinars corresponding to + 11.75% compared to 2017 and 3,117 million Algerian Dinars corresponding to + 12.82% compared to 2016.

Resources (Deposits) reached an amount of 223,995 million Algerian Dinars, thus recording an increase of 16 billion Algerian Dinars corresponding to + 7.69% compared to 2017 and + 31.59% compared to 2016.

Financing increased by 16,783 million Algerian Dinars corresponding to + 12.02% compared to the previous financial year, to reach 156,460 million Algerian Dinars at the end of 2018, thus recording an increase of 45 749 million Algerian Dinars corresponding to + 41.32% compared to the financial year 2016.

The off-balance sheet amounted to 61,124 million Algerian Dinars, against 72,108 million Algerian Dinars in 2017, thus recording a decrease of -10,984 million Algerian Dinars corresponding to - 15.23% compared to 2017 and - 4.81% compared to 2016.

Net banking income stood at 11,850 million Algerian Dinars, compared to 8,669 million Algerian Dinars for fiscal year 2017, i.e. + 36.69% and 8,539 million Algerian Dinars for fiscal year 2016, thus recording an increase of 3,311 million Algerian Dinars, so + 38.77% compared to 2016.

Net profit is stood at 5,167 million Algerian Dinars compared to 3,548 million Algerian Dinars at the end of 2017 and 3,984 million Algerian Dinars in 2016, thus recording an increase of 1,183 million Algerian Dinars over the past three years, so a rate 29.70% of increase.

2-2. Al Salam bank Algeria

Al Salam Bank Algeria was approved by the Bank of Algeria in September 2008. It is characterized by its commitment to respect the principles of sharia in all its transactions. The structure of the bank consists of two main parts: Commercial activity, where the bank is closer to customers. And, Support and organization of departments that affect the bank internally.

Al Salam Bank Algeria finances investment projects as well as operating and consumption needs under Sharia-compatible contracts such as: Moucharaka; Moudharaba; Ijara; Mourabaha foreign trade, placement and investment operations; etc.

Balance sheet total reached 85,775 million Dinars at the end of 2017. An increase of 111% compared to 2015. And, Net profit stood at 1,181 million Dinars at the end of 2017 against 1,080 million Dinars at the end of 2016, recording a growth of 9.4%.

We note that the net result of Al Baraka Bank is more important than that of Al Salam Bank. However, the latter has achieved growth in the past two years, unlike Al Baraka Bank. It should be noted that these two banks do not have the same characteristics in terms of size or age. Hence the difficulty of drawing up a comparison. By comparing this table with that of Al Baraka Bank, we note that Al Salam Bank achieved greater growth in terms of total balance sheet between 2015 and 2017 than its competitor.

3- The opening of Islamic windows in Algerian banks

Algeria has experienced in recent years the establishment of several Islamic windows within conventional banks. Public banks missed the first launch of Islamic products which was initiated by private banks such as the Gulf Bank Algeria (AGB), Housing Bank and Trust Bank.

Despite the absence of a legal and regulatory framework for Islamic finance, 22% of the loans granted by AGB in 2013 were Islamic (saafi, 2018). Likewise, Housing Bank and Trust Bank Marketed Sharia-compatible products and met the financial needs of a class of customers who wished to respect religious principles.

In addition to these private banks, CNEP-Bank launched its first Islamic product in 2015, the "Rasmali savings book". As well as the BDL which in turn launched in 2016 the "El Badil savings book", a product without interest rate (M.R./APS, 2019).

By definition, an Islamic window can be a department or division or even a separate finance company created by a conventional financial institution that offers Islamic products and services to clients who prefer Islamic finance to conventional finance (Global Islamic Finance, 2014, P 110).

In the same sense, Mohammad Samaun defined Islamic windows as being departments within conventional banks responsible for setting up and managing Islamic banking operations, on the basis of the principle of sharing profits and losses, while isolating them from conventional banking operations (Mohammad Samaun, 2008, P 3).

3-1. Adjustments to the legal framework

Certainly, the development of Islamic finance in Algeria is conditioned by the presence of a specific legal framework for crowdfunding products. However, Islamic banks as well as windows in conventional banks have marketed Islamic products for years in Algeria, despite the absence of a regulatory framework.

The official journal of the Algerian Republic, published on December 9, 2018, included the Regulation n ° 18-02 of November 4, 2018 laying down the conditions for the exercise of banking operations under crowdfunding. The purpose of these regulations is to define the rules applicable to so-called "participatory" products that do not give rise to the receipt or payment of interest (ministry, 2018).

According to this text, the operations of crowdfunding include operations of reception of funds, investment, financing and investment, which do not give the reception or payment of interest, namely, the Mourabaha, the Moucharaka, Moudharaba, Ijara, Istisna'a, Salam, and deposits in investment accounts.

The regulation defines an Islamic window by naming it "crowdfunding window" by "a department within a bank or an approved financial institution, which exclusively provides crowdfunding services and products, subject of this regulation" (ministry, 2018).

To market Islamic products through a conventional bank, the regulation required compliance with certain conditions. We now present some basic guidelines that an Islamic window can work on (Global Islamic Finance, 2014, P 111):

- ♦ The window must be financially independent from other departments and branches of the bank or financial institution.
- ♦ The accounting separation between the window and the other activities of the bank, is concretized by the independence of the customer accounts of the window compared to the rest of their customers' accounts.
- ♦ The existence of an accounting section or a financial department specific to the window, including the establishment of a balance sheet showing the assets and liabilities of the window as well as a detailed statement of income and related expenses.
- ♦ An organization and staff exclusively dedicated to the Islamic window in order to ensure its independence from the parent bank.

Pending its entry into force, the four public banks, BDL, CNEP, BADR and BNA, are preparing to embark on Islamic finance by aligning themselves with the new conditions of Regulation 18/02 (huffpostmaghreb, 2019).

AAOIFI standards, commonly called "Financial Accounting Standards (FAS)", are mandatory in several countries such as Bahrain, Jordan, Kyrgyzstan, Mauritius, Nigeria, Qatar, Oman, Pakistan, Sudan, Syria, United Arab Emirates and Yemen (AAOIFI, 2019).

II. case study Housing Bank Algeria

In this part, we will present the Housing Bank by highlighting the stages of the creation of its direction of Islamic products.

1. Housing Bank Algeria

Housing Bank Algeria is a subsidiary of Housing Bank Jordan. It is a joint stock company which relies on start-up share capital of 2.4 billion Algerian dinars. It was approved by the Algerian Currency and Credit Council in October 2003. Its head office is located at 16 Rue Ahmed Ouked, Dely Ibrahim Alger, and registered in the commercial register in Algeria under number 02B0021864, on 03/26 / 2003.

The capital is distributed as follows: the housing bank for trade and finance/Jordanian (85%), Libyan Arab foreign investment holding Company-Algeria (15%) (housingbankdz, 2020).

2. Housing Bank's Islamic window

The Islamic window of the Housing Bank is a branch specialized in the marketing of Islamic products. It was created in 2015 and named "the Directorate of Islamic Products". Its headquarters are located at the Bank's General Management in Dely Brahim.

The idea of creation: Following the need and the growing demand of customers wanting to benefit from Sharia-compatible products, the Housing Bank embarked on Islamic finance by integrating a new management in 2015 which supports the supply of Islamic products and services. This approach was less and less easy for the Housing Bank since it had the authorization to market Islamic products, said specific by the Bank of Algeria, since 2009.

Strategy: When it was set up, the founding members of the window developed a strategy in which respect for Sharia compliance of the operations carried out by the window is essential.

Among the essential points highlighted by the strategy are the following:

- ◆ Carry out simple operations that comply with Sharia law.
- ◆ limit the number of customers (currently the window only has 49 customers).
- ◆ The offer of Islamic products will be intended for companies only and not for individuals in order to properly manage and control this new activity and to avoid provisions for doubtful customers.
- ◆ Count on window equity to finance Islamic activity. This is to limit customer deposits because they generate costs such as management costs, investment costs ... this strategy is adopted out of the window because it does not have a liquidity problem since the traditional bank easily provides it with funds of need in the form of Qard Hassan.
- ◆ Build customer loyalty by offering them quality services in terms of transparency and Sharia compliance.
- ◆ Diversify the areas of activity of clients such as foreign trade and the industrial which generates large commissions for the window.

Market research: The founders of the Housing bank window believed that the market was buoyant, which is why they did not do market research. We present a list of clients who switched from a classic profile to an Islamic profile after opening the window.

Like the conventional bank, the Islamic window receives deposits and grants financing and takes stakes in projects or companies. However, the bank or the Islamic window carries out a much more active intermediation between the providers of capital and the applicants for funds insofar as it can also be a promoter for projects or an active partner with client companies (Guéranger, François, 2009, P 204).

In this case, bank managers may be tempted to use their leverage to influence SSB members, this is commonly called "Fatwa Shopping" or "Sharia à la carte advisory" (Wafik Grais, 2006, P 9).

3. Islamic window products

Currently, the Islamic window of the Housing Bank offers four Islamic products: Mourabaha, Salem, Istisna'a, and El Ijara.

Each product is presented by a contract which contains all the details of the operation between the window and the client.

For example, the El Salem contract defines the two contracting parties as well as the conditions of the operation such as: the object, the capital, the date and place of delivery, late payment penalty, etc. In the case of the Mourabaha contract, the profit margin imposed by the window is determined in two cases.

4. Islamic window indicators key evolution:

In the following, we present the activity report of the Islamic window for the period from 01/01 to 31/12 of 2018, accompanied by the most important financial indicators, compared to the same period of the year last.

According to the director of the Islamic products department, the profitability of the window is higher than that of conventional banking, for several reasons:

- ◆ The window provides for an increase in the rates for financing from the start due to the absence of late penalties.
- ◆ Often, there are anticipations of payment by the customers, so the window collects all the margin even the unexpired before the due date.

After the launch of the Islamic window, part of the Housing Bank client chose to switch to an Islamic profile. The composition of the window portfolio is as follows:

It should be noted that the bad debt ratio of the window has been zero since the launch of Islamic activity in the bank, that is to say since the first quarter of 2015. The activities of the Islamic window during this period are as follows:

- ◆ Prepare monthly reports on the activities of the Islamic window and submit them to senior management, along with the most important financial indicators.
- ◆ Conduct field visits to attract high net worth customers.
- ◆ Remotely monitor financial records at the branch level and ensure that they contain the necessary documents.
- ◆ Extract reports in coordination with the information systems department.
- ◆ Participate in the configuration of the new FINACLE system.
- ◆ Train agency staff in the principles of Islamic finance.
- ◆ Prepare files for Islamic financing.

III- case study of an Islamic financing implementation

1- setting up financing Islamic Steps

The implementation of Islamic financing within the Housing Bank goes through several stages:

Step 1, the client must have an Islamic profile in the bank. You should know that the difference between an Islamic account and a traditional account in the Housing Bank is that the latter exercises neither the value date nor the delay penalty for the Islamic profile.

Step 2, the deposit of the file at the agency level: currently, at the level of the agencies of the Housing Bank, there is not a separation in the staff, so the charge staff take care of two aspects: Islamic and classical. It should be noted that this will soon change following regulation n ° 18-02 of November 4, 2018 which requires staff dedicated to the Islamic window at the agency level. The charge staff deals with the case and gives a prior opinion to the agency director.

Step 3, the agency sends the file to the commercial department for an opinion. We also emphasize that the commercial direction is a common direction between the conventional activity and the classical activity.

Step 4, The credit risk management department processes the file through a technical and economic study by analyzing: the balance sheet, turnover, client morals, guarantees, etc. This study is closed by a table indicating the strengths and weaknesses of this funding. The risk management department is a joint department between Islamic activity and traditional activity in the Housing Bank.

Step 5, If the amount of funding requested is less than 200 million dinars, the funding decision is taken by the Housing Bank in Algeria (locally). The decision committee in Algeria is composed of four members: The Director General (DG), The Deputy Director General (DGA), The commercial director, and The director of Islamic products.

Thus, the Housing Products Department of Islamic Products is a centralized branch of conventional banking. Consequently, the decision-making is made by the management team of the conventional bank following a financial study of the file and the client's solvency.

The role of the director of Islamic products is to propose the type of Islamic financing suitable for the operation such as El Salem, Mourabaha ... etc.

Step 6, If the amount exceeds 200 million dinars, the decision is made by the board of directors of the Housing Bank in Jordan.

Step 7, The customer will be notified by the commercial management (common management) of the decision: favorable or unfavorable opinion. As well as the conditions to be respected. If the customer agrees, he begins by presenting the guarantees. The Islamic Products Department provides the customer with a credit authorization. The Islamic Products Department is preparing a financing agreement and guarantees.

2- Simulation

In this section, we will present the procedures for setting up Mourabaha financing at the Housing Bank, while emphasizing the principle of separation between Islamic activity and classical activity at the agency, information system and accounting.

Purpose of financing: Mourabaha short term for purchase of raw material for a client who benefits from a financing line up to 10 million dinars.

Installation conditions are: Amount of funding: 1 million dinars, Duration: 4 months, Repayment frequency: monthly, and the Margin rate: 1.5% (over the entire financing period).

3- Verification and validation of the request

At the agency: Following the client's request, the project manager checks the following documents: The bill, Order and promise to purchase, The funding request, The limit of the customer's financing line, and the Personal contribution. Then he sends a notification to the direction of Islamic products by email attached to the above documents.

Processing of the request at the Islamic window: the direction of Islamic products checks the conformity of the request and the documents under two aspects: Sharia compliance aspect, and the Risk aspect: the destination of the funds.

The window communicates the agreement for the financing to the agency, as well as the conditions of establishment and the rate of margin which must be determined according to the needs of the client and respecting the requirements of the traditional bank in term of return.

4- Implementation on the information system

The Islamic window of the Housing Bank uses the Islamic module of the FINACLE information system. Registration of merchandise subject to financing: this process is carried out by the project manager at the agency level, who has at his disposal a detailed manual on the registration of Islamic products.

Step 1 (Administrative): go to the MATDS (Maintain Asset Transaction Details) menu on FINACLE to add the details of the operation. While, the system gives a reference for the goods. Where, the agency manager must validate this registration of the goods in the system. This first step does not generate any accounting entries (administrative management).

Step 2 (Accounting Registration): Go to the PSC menu for purchase and sale of active goods. And Debit the account "Islamic supplier Mourabaha" of 1 million DZA, it is an internal account of the bank dedicated to the purchase for operations related to Mourabaha (It is the window that buys the goods), and Credit the supplier account for 1 million DZA. The agency manager validates the transaction in the system. This step generates an accounting entry.

Step 3 (Opening the financing account): Go to the OIFA menu to open an Islamic financing account for the client. And, save: details on the customer, reimbursement method, margin rate, etc. The project manager requests the agreement of the risk management department (this is a joint department between the two activities). Once the risk management department validates the transaction, the system generates an accounting code without an accounting entry.

Step 4 (Release of funding): Unblocking the funding account made via the HLADISB menu. This is the disbursement of funds accompanied by an accounting entry: Debit commitments account: principal + margin = 1,015,000 DZA, Credit margin account of 15,000 DZA, Credit "Islamic supplier Mourabaha" account of 1 million DZA.

The director of the agency checks the release. Thus the account of the window "Islamic supplier Mourabaha" is cleared.

Thereafter, the system automatically generates: The amortization table, Promissory note chain, Mourabaha financing contract.

In fact, the accounting entries recorded in this operation will be processed in annexed financial statements separate from the conventional bank.

5- The balance sheet and the income statement annexed to the Islamic window

According to AAOIFI accounting standards, the Mourabaha contract is defined as “a sale with a predefined profit margin. Its main feature is that the seller must inform the buyer of the price at which the asset was bought and of the profit he intends to make by selling it ”(Syed Alwi Mohamed Sultan, 2012, P 35).

The Islamic window of the Housing Bank uses accounting chapters (including all classes) completely separate from the accounts of the traditional bank, thus 70560 is the accounting chapter for the three Islamic products of the window:

- ◆ 70560 001: Mourabaha short term.
- ◆ 70560 002: El Salem short term.
- ◆ 70560 003: Mourabaha medium term.
- ◆ 70560 004: Istisna'a.
- ◆ 70560 005: El Salem medium term.

Regarding the charges, the window calculates the charges of the support directorates linked to Islamic activity such as the foreign trade directorate, the risk management directorate and the commercial directorate ... etc. by multiplying the overall expenses of these departments by the ratio of the turnover achieved from the window to the total turnover of the bank.

In order to respect the principle of accounting separation, the window establishes annexed financial statements such as an annexed balance sheet and an annexed income statement.

At the conventional banking, we find consolidated financial statements where there is only one account for each item which concerns the whole bank and which groups together the overall activity without making any distinction with Islamic activity.

The **attached balance sheet** of the Housing Bank window contains the active and passive elements of Islamic activity. We find in the assets of the balance sheet the following main item:

- ◆ Loans and receivables from customers: which represents the sums still owed by customers of the Islamic window on the date of drawing up the annexed balance sheet.
- ◆ Debts to customers: these are the deposits of customers of the window.
- ◆ Debts represented by a security: securities in the form of cash vouchers.
- ◆ Funds for general banking risk: these are the window provisions.
- ◆ Participation of the bank in financing: funds granted by the traditional bank in the form of Qard Hassan.
- ◆ The result of the window exercise.

The **annexed income statement** traces all of the expenses and income of the Islamic window for a given period. The main income statement balances of the Housing Bank window are as follows:

- ◆ Net banking income: this is sort of the window's turnover. Calculated on the basis of the difference between Profits and similar products + Commission on products and Profits and similar costs + Commission on charges.
- ◆ Gross operating income: is the difference between the net banking income and general operating expenses.
- ◆ Operating profit: corresponds to the gross operating profit from which are deducted provisions, loss of value and bad debts.
- ◆ Pre-tax profit: in general, it corresponds to operating profit.
- ◆ Net income from exercise: is the profit from the window if it is positive, or the loss from the window if it is negative.

According to a study on the comparative analysis of accounting standards applied to Islamic finance (Rachid El Oud, 2016, P 819).

6- Window Sharia Comity

In a meeting with the director of the Islamic window of the Housing Bank, we asked him about the role of the Sharia committee within the window, he replied by saying: "We believe that Sharia control is done automatically by window staff who have the conscience and the moral obligation to abide by the rules of Islamic finance, in other words, self-monitoring".

Currently, the window does not have a separate Sharia Board. Indeed, when the window opened in 2015, the founding team imagined certain situations which it could be faced in the future during the Islamic activity, then it called on an external Sharia adviser to respond to all possible questions in order to have a written reference.

The absence of an internal Sharia committee at the window level does not cast doubt on its legitimacy. Indeed, the direction of Islamic products wants to respect the principles of Sharia through its staff who are trained in Islamic finance and who process operations carefully to follow the principles of Sharia.

It is important to note that the window has never claimed late payment penalties from its customers, even though they are stipulated in the contracts. This is on the one hand, to maintain a relationship of trust with its customers, and on the other hand, to apply the principles of Sharia.

7- Limits of Islamic activity in the window

We will now present the obstacles that limit the proper functioning of Islamic activity in the window.

First, we believe that the absence of a well-defined regulatory framework that addresses all aspects of Islamic activity is hampering the development of Islamic finance in Algeria. In this regard, the new regulations of the Bank of Algeria (Regulation No. 18-02) took into account the marketing of Islamic products through Islamic windows, as it required accounting and organizational separation from traditional banking without giving details on the forms or structures of separation. Note that this regulation is not followed by adjustments in the tax law.

Regarding the separation of the Islamic window from the classic Housing Bank, it is clear that this principle is not respected at all levels:

At the commercial agencies of the bank, there is not a separation of the counters for Islamic operations, so the charge staff deals with both activities at the same time.

The question of separation also arises at the decision-making for Islamic activity, which ultimately falls to the director general of the decision committee which is part of the classic bank. The director of the Islamic window sometimes encounters difficulties in convincing the decision committee because the logic of reflection of the members of the classic bank is different from the Islamic logic. For example, for Islamic financing, the window communicates a margin rate for the entire duration of financing, on the other hand, in the classical logic they give the interest rate per year.

Through our study of the practical case, we found that several directions of support for Islamic activity intervene in the process of setting up Islamic funding. The foreign trade department, the risk management department and the commercial department are common departments which are part of traditional banking, so the total independence of the window is not applied.

Another limitation that we consider important is the absence of a Marketing partner for Islamic products. While this is part of the window's strategy for having a manageable client portfolio, it hampers the growth of Islamic activity in the Housing Bank.

Generally, most Islamic windows fail to communicate their products for two reasons (Global Islamic Finance, 2014, P 116):

- ◆ When they create their own team responsible for marketing Islamic products and services and then end up competing with the traditional bank (parent bank), hence the conflict.

- ◆ When the bank decides to use the existing classic sales team to market Islamic products, the latter does not take this initiative seriously.

According to GIFR, the two strategies are incorrect. The best model is that the Islamic window uses a combination of dedicated experts and existing sales teams to penetrate this segment.

IV- Conclusion

At the end of this article, we note that Islamic finance has been practiced by several banks in Algeria for several years already. However, this practice was not recognized by the Bank of Algeria as an activity of Islamic finance but rather as a marketing of specific products by certain banks.

Today, thanks to regulation 18-02 of the Bank of Algeria which introduces the conditions for the exercise of bank operations under crowdfunding, the latter will be generalized in several conventional banks in Algeria.

In this regard, the Housing Bank started Islamic activity 4 years ago, which gives it a head start in terms of Sharia's experience and compliance with the new competing banks. Indeed, there are three basic caves considered by the Islamic window of the Housing Bank:

- ◆ Accounting separation.
- ◆ the separation of the computer system.
- ◆ Sharia control of operations.

These three fields are currently respected by the direction of Islamic products which wishes to make other separations in the future such as counters or agencies dedicated to Islamic finance.

Throughout this article, we have provided answers to the problem and to the secondary questions that we asked ourselves. Our main hypothesis was to check whether the window applies total separation from the traditional bank. From a study of the Islamic window of the Housing Bank, we can say that there is a separation of resources in the form of Qard Hassan from conventional banking.

Thus, the window has an Islamic module in the information system to separate its operations from the classical system. Regarding accounting, the window communicates annexed financial statements and then everything will be consolidated at the level of conventional banking. On the other hand, the separation of staff is not fully respected by the bank, especially at the branch level where the same project managers are responsible for both activities.

Our assumption about the role of the Sharia committee within the bank is true because it controls and monitors Islamic operations in terms of Sharia compliance. Finally, decision-making at the Housing Bank window rests with the general manager of the conventional bank even with regard to the implementation of Islamic financing. It is the board of directors that chooses the destination of the profits from the window, either distributing them to the shareholders, for the capital increase, using them for conventional financing or reinjecting them into the window. Thus, we reject the latter hypothesis.

Following our study at the Islamic window of the Housing Bank, we suggest the following recommendations:

- ◆ Establish services dedicated to Islamic activity at the level of support departments.
- ◆ Establish an internal Sharia committee which permanently ensures Sharia compliance of operations.
- ◆ Carry out other separations, namely agencies dedicated to Islamic finance and a local decision-making committee.
- ◆ Integrate participatory products such as El Moudharaba and El Moucharaka, and not be limited to Mourabaha and El Salam funding.
- ◆ It remains necessary to develop the size of the window and strengthen its client portfolio in order to compete with other Islamic banks.

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Appendix:

Table (1): evolution of key indicators of Al Baraka Bank Algeria 2016-2018 (million dinars)

year / Indicators	Balance sheet total	Equity	Deposits	Financing	Off-balance sheet	Net-banking income	Net profit
2016	210 344	24 312	170 137	110 711	64 210	8 539	3 984
2017	248 633	24 546	207 944	139 677	72 108	8 699	3 548
2018	270 996	27 429	223 995	156 460	61 124	11 850	5 167

The source: 2018 annual report of Al Baraka Bank of Algeria, [Online], <https://www.albaraka-bank.com/wp-content/uploads/2019/11/rapport-2018-fr.pdf>, (Consulted the 04 mars 2020).

Table (2): evolution of key indicators of Al Salam Bank Algeria 2013-2017 (million dinars)

year / Indicators	2013	2014	2015	2016	2017
Balance sheet total	39 551	36 309	40 575	53 104	85 775
Equity	12 617	14 000	14 301	15 381	16 553
Net profit	1 267	1 383	301	1 080	1 181

The source: 2017 annual report of Al Salam Bank, [online], <https://www.alsalamalgeria.com/pdf/Rapport-Annuel-ASBA-2017-AR.pdf>, (Consulted the 04 mars 2020).

Table (3): the margins applied by the Bank according to the duration of the financing

In case of	One month	Two months	Three months	Four months
monthly payment	0,75%	1.15%	1.5%	2%
payment in one due date	0,75%	1.15%	2.25%	3%

The source: Internal document of the Housing Bank.

Table (4): Islamic window indicators key evolution 2017-2018

Year	2017	2018	Difference	%
granted Total funding	19 582 635 663	19 527 246 979	- 55 388 683	0 %
Outstanding	7 358 014 905	6 332 912 953	- 1 025 101 952	- 14%
obtained Turnover	468 560 895	613 010 841	144 449 946	+31%
achieved Turnover	751 944 387	757 913 700	5 969 313	+ 1%
margin Profit	617 239 501	624 175 071	6 935 570	+ 1%
Number of clients	57	59	2	+ 4%

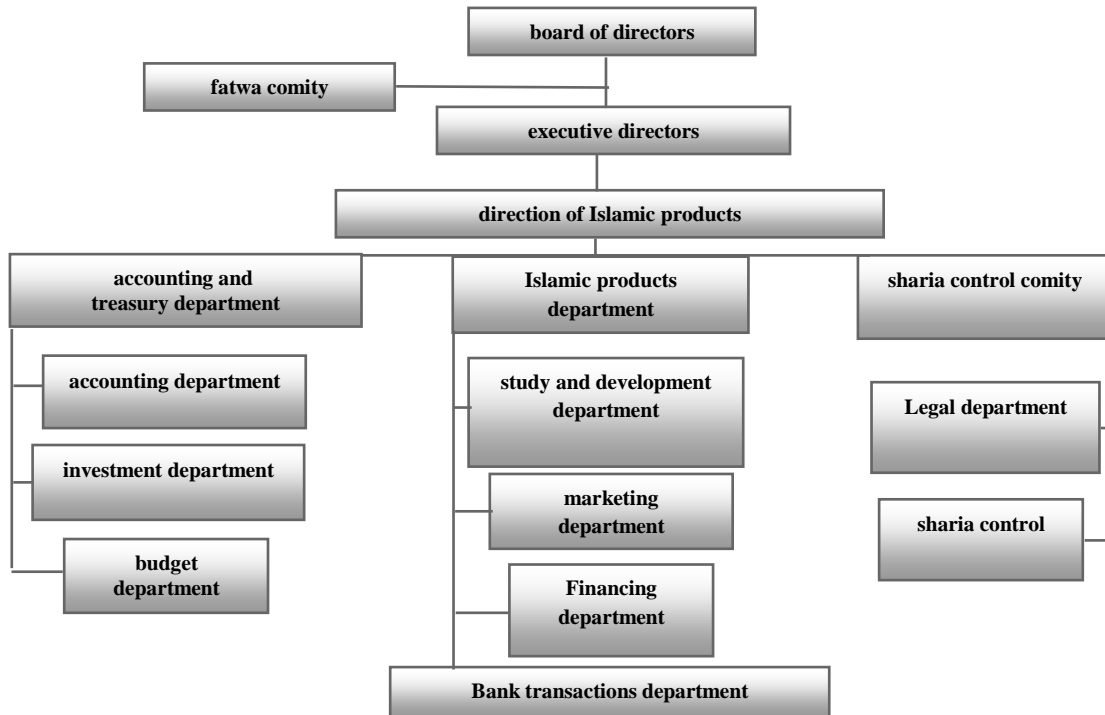
The source: Internal document of the Housing Bank. (DA).

Table (5): Islamic window client's portfolio Composition of the Housing Bank

client's portfolio	new clients	change to Islamic funding	change to an Islamic profile
Composition	59%	5%	36%

The source: Internal document of the Housing Bank.

Figure (1): Housing Bank Islamic Window Flowchart



the Source: Internal document of the Housing Bank.

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