

## The suitable marketing plan's direction for Islamic banking windows in Algeria

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### **Abstract:**

This paper highlights the necessity of turning the direction of marketing Islamic banking windows from the aim of attracting local savers and monetary mass of the parallel side, to the real aims and purposes of Islamic banking and the wide range of solutions offered by Islamic banking instruments in Algeria. It points out also the necessity of joining efforts to narrow the gaps of awareness and the misconceptions about Islamic banks and windows, especially that worldwide countries are shifting to Islamic banking. Thence, a fallacious marketing direction would mislead the development plan and increases the trust issues of customers.

**Keywords:** Islamic windows; Islamic banks; Marketing; Algeria.

**Jel Classification Codes:** M3, G21.

## **INTRODUCTION**

Addressing the misconceptions about Islamic banking is a must in an era where every sort of information is accessible, and large ways of diffusing information are as well in the service of spreading awareness. From its inception, the concept of Islamic banking is often understood as a financial system which solely bans dealing with *Riba* (interest), and that it is only based on a set of prohibitions. Yet, for the latter, all financial transactions in Islam are permissible, except what has been prohibited by a shariah text (from primary or secondary sources), and this, for highly valuable reasons and purposes. As for usury, its ban is a small fact about Islamic banks, yet a very moralistic principle among the set of principles which Islamic economy in general and Islamic finance and banking in particular are based on.

It is necessary in a way or another, to let people know about the other crucial characteristics, principles and purposes of Islamic banking, and to detail each Islamic banking product, from both religious and economic perspectives. Highlighting the aims of this ethical financing type and pointing the linkages between Islamic financial system and real economy would serve the aforementioned necessity, especially that traditional banks, even in the western countries are shifting to Islamic banking through several mechanisms and for multiple aims.

Many countries are following suit by opening Islamic windows in both state-run and foreign banks, and Algeria is among them. Several questions turn around the requirements of opening these windows, their shariah compliance issues, and the real aims behind adopting this type of financing in traditional banks, and the list is still long. Therefore, the challenges are many, they encompass changing mental image, giving the right information in the right time through the right way of communication, in order to lessen the gap of awareness about Islamic banking products. Thereupon, marketing aspect in this endeavor is necessary, and is a key driver to Islamic banking development, but the question is:

- **Are traditional banks applying the suitable marketing plans for Islamic windows in Algeria?**

In order to answer our study's principal question, we devise the research into four main chapters as follows: the **first** one about shifting from conventional banks to Islamic banking and the **second** on Islamic windows as they are part of Islamic banking. The **third** about Marketing Islamic windows requirements; followed by a **fourth** one as an overview on Islamic windows worldwide. And the **fifth** about Algeria's way of marketing Islamic windows.

### **1. SHIFTING TO ISLAMIC BANKING**

The transition from traditional banking to Islamic banking is one of the most important challenges facing conventional banks and takes different forms. The process is related to each bank's internal and external conditions and demands a well-studied plan from all sides; such as legal, administrative and shariah compliant requirements. The aims of the conversion from traditional to Islamic banking differ also, and the level of changes too.

Some banks go for a total change, while others tend to transform an existing traditional branch to Islamic one, or even open a window of Islamic banking transactions, where they offer to customers Islamic banking products alongside traditional ones. This chapter is about detailing the general concept, the main reasons of shifting or conversion, and the most important requirements in first section, then detail the total shifting to Islamic banking, and the partial shifting by defining the Islamic windows concept.

### **1.1. Shifting to Islamic banking: concept, reasons and requirements**

The process of changing/the concept of conversion process from conventional banking into Islamic banking varies from one conventional bank to another in accordance with the different incentives. Therefore, it is essential to define the vital incentives that prompt conventional banks to convert themselves into Islamic banking (Abudirbala & Mukhtar, 2019, p. 103). A set of requirements have also to be fulfilled to meet that aims and achieve the compliance with Islamic banking purposes.

#### **1.1.1. Concept of shifting process**

Shifting process is known as the transition from traditional banks which are based on interest rate to Islamic banks which are based on the principle of profit and loss sharing, by eliminating the usury aspect from banking transactions. Part of this definition is correct but never sufficient. It is actually offering shariah compliant products and services, which are known as formulas or contracts of Islamic banking. These products are related to the principles and purposes set forth in Shariah and aim at protecting the macro purposes. Achieving justice is behind each formula.

According to (Rostom, 2014, p. 14) in her doctoral thesis about shifting to Islamic banking, has defined the process of conversion as the desire of traditional banks to provide Islamic services and products, either completely or partially alongside traditional ones for many belief, economic and social reasons in addition to the profitability aspect of banks.

The total and partial shifting will be discussed later on, but the concept in general is to move from traditional banking status to Islamic banking status through a set of procedures and conditions. The activities of the banks thereby, are subject to the rules and principles of Islamic financial transactions.

#### **1.1.2. Reasons of shifting or changing or conversion**

Many banks are changing to Islamic banking and offering shariah compliant products to the customers for many reasons and for different aims, the most important valuable reason must be the religious aspect, where comes the motivation to stop practicing activities prohibited in Islam such as usury and speculation. The second reason, is the economic efficiency of Islamic banks by explaining first the reasons of prohibition economically, explaining the desires of elimination misdistribution of wealth in society, and the impacts of adapting this type of financing on economic indicators such as reducing inflation and achieving financial stability. Also, the call for shifting to Islamic banking is also due to the fact that Islamic monetary system is about real investments, real assets and is real economy oriented and linked.

The social and economic environment are full of problems resulting from dealing with interest (*Riba*), the desire of getting rid of these problems is increasing, and in the parallel

side, there is a desire to achieve real economic development, the solution is to base on real tangible investments and real economic activities. Islamic finance and banking aim at financing these socio-economic projects and impact positively the three main dimensions of sustainable development; economic, social and environmental.

Another unavoidable reason is the maximization of profits and the aim of attracting more capital in order to acquire a larger share in the banking market. This is the most known reason and almost all aims turn around this point. Islamic banking work represent an important opportunity in the market to attract customers refusing dealing with traditional ones, and therefore shifting to it may increase the deposits of traditional banks in case of both partial and total conversion.

Last but not least, simulating the success achieved by Islamic banks worldwide, is also one of the incentives, given the continuous development that is witnessing the global Islamic finance industry. The competitive aspect is equally important since this industry is a fast growing one. Nonetheless, the global financial crisis of 2008 which negatively affected the banking sector especially, Islamic banks succeed at keeping its stability and could avoid the damages with minimal losses, and therefore has highlighted the role of Islamic banking and finance compared to conventional banks and capital markets. Also, in Western countries where there are Muslims, there is a need to establish Islamic banking for them, especially that they are increasing in number.



**Source:** by authors based on the previous paragraphs.

### 1.1.3. The conversion requirements

The process of transforming from conventional to Islamic banking involves diverse administrative, legitimacy, legal and general requirements. Numerous researchers, who investigated the transformation into Islamic banking, indicate certain requirements that ought to be fulfilled to attain the successful conversion; the following are the most relevant: (Abudirbala & Mukhtar, 2019, p. 103)

**Fig.2. Requirements of shifting to Islamic Banking**



**Source: (Abudirbala & Mukhtar, 2019, p. 103)**

In general, establishing a window for Islamic transactions in conventional banks requires fulfilling three types of requirements:

- a. Legal requirements:** the decision of approving the opening of an Islamic window, obtaining the approval from the Central Bank, studying the legal aspects of the conversion process.
- b. Sharia requirements:** appointing a specialized Sharia Fatwa and Supervisory Board, internal Sharia auditors, canceling all transactions that are forbidden in Islamic law, and separating legal and illegal financial resources.
- c. Administrative requirements:** changing the status of the bank (a dual banking model), appointing a committee to manage the transformation process, determining the efficiency of employees and preparing them for the Islamic banking work.

It is necessary also to identify, clarify the message of the Islamic banking within the workers of the windows, from one hand, and from the other hand, to set a plan of marketing suitable to Islamic banking products that will be available in the Islamic windows. It is imperative then, to provide training programs for employees, and holding seminars and conferences that contribute at spreading awareness about Islamic finance and banking, since this industry is knowledge based one.

Nonetheless, the accounting system must fit the nature of dealing with Islamic banking operations in term of resources, uses and the variety of investments and financial tools. In this endeavor, the standards of the Accounting and Auditing Organization for Islamic Financial Institutions (AAIOFI) that are compatible with international accounting standards are applied.

### **1.2. Types of shifting to Islamic banking: total and partial shifting**

There are mainly two types of conversion to Islamic banking, the first one is about turning the traditional bank into a full-fledged Islamic bank, while the second consists on

transforming an existing traditional bank into an Islamic one, or establishing a new one, in addition to offering Islamic banking products in traditional banks. A brief definition of each one is given below, and a scheme of the most common ways of shifting is then shown.

**1.2.1. Total shifting to Islamic banking**

This type of transformation takes place by substituting the banking work as whole, so that the traditional bank turns entirely to work in accordance with the rules of Islamic shariah. It is possible that the total transformation is the result of a decision issued by the government, where the political authority announces its intention to Islamize the financial and monetary system, so it issues a decision to implement the principles of Islamic Sharia and thereof stop dealing with for example interest and other prohibited transactions. We can cite the cases of Iran, Pakistan and Sudan as examples of total shifting of financial system in 1982, 1983 and 1985 respectively.

The total conversion can also result from a decision issued by a bank’s management, where the bank announces its intention to complete the transformation according to a declared time plan and specific steps, during which banking products are replaced by Islamic ones and the total transactions must be shariah compliant ones (Mustafa, 2006, p. 94).

**1.2.2. Partial shifting to Islamic banking**

This type of shifting, a conventional bank transforms one of its branches with a full capital to an Islamic branch or establishes a new Islamic branch Sharia as a micro-model of an Islamic bank that is financially and administratively independent. Or another option is available; offering Islamic banking products alongside traditional ones through what is called Islamic windows. If ever the experience of branches or windows is successful, the bank may gradually change its work to Islamic banking. This type was adopted at the global level, such as the establishment of Citi bank as a specialized Islamic financing unit in 1980 before it opened an Islamic branch with independent capital in Bahrain in 1996 named Citi Islamic Investment Bank (CIIB), as a fully owned subsidiary of Citicorp Banking Corporation. Below a scheme of the main approaches of shifting that banks choose, and which are generally in accordance with each bank’s aims.

**Fig.3. Approaches of shifting from traditional to Islamic banking**

<b>The approache of :</b>	A total transformation of the entire banking system units
	-Completely transforming a traditional bank to Islamic bank
	-Transformation of a traditional branch into an Islamic branch
	- <b>Establishing Islamic windows</b> within traditional branches and banks
	-Developing Islamic banking products
	-Offering Islamic financing and investment tools.

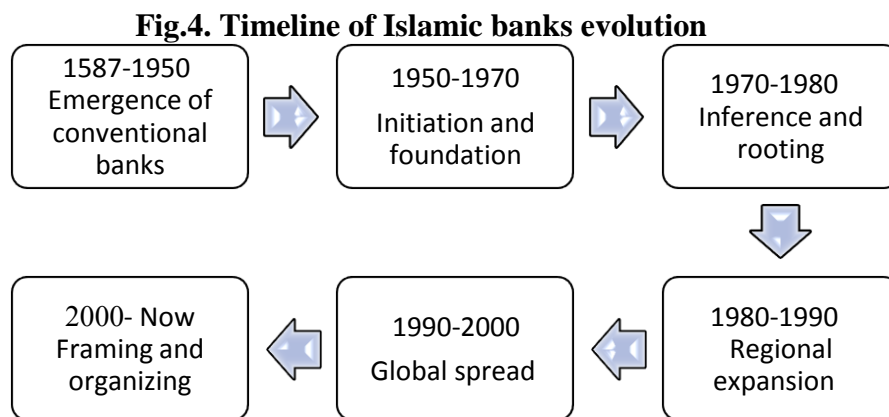
**Source:** by authors based on (Rostom, 2014)

**2. ISLAMIC WINDOWS AS PART OF ISLAMIC BANKING**

Islamic economics is the knowledge and application of injunctions and rules of the Shariah that prevent injustice in the acquisition and disposal of material resources in order to provide satisfaction to human beings and enable them to perform their obligations to Allah and the society. (Zaman, 1984, p. 50)

**2.1. Islamic banking concept and characteristics**

Islamic finance industry encompasses various financial institutions, some in the monetary market, and others in capital market. Islamic banks dominate the global assets of the industry with 70% according to the Islamic finance development indicator 2021 (Refinitiv, 2021, p. 8). In Islamic banking, there are no loans -except *Qard hassan* (zero-interest loans for special cases)-, but rather financial instruments (Islamic banking products) suitable to several financial transactions and needs. It is worthwhile mentioning this point as it is generally understood that Islamic banks are the banks which only ban dealing with interest. Once again, the concept of Islamic banking is much broader from the principles to the purposes. Below, a timeline of the main phases of the evolution of Islamic banks since the emergence of traditional banks in 1587 to the legal framing and currently shariah ruling for Islamic banks.



Source : (Al-Obaidi, 2015, p. 39)

Economic activity should be so conducted as to avoid injustice in acquisition and disposal. The principles which prevent injustice are contained in the Shariah. The Shariah comprises of two things: injunctions and rules. The first signify the do's and the don'ts in the Qur'an and the Sunnah while the second signifies those set of principles which the fuqaha have derived from the first (injunctions). Some instances of these principles are as follows: No harm is to be done, nor any to be borne; or 'profits go with liability'; or 'dire necessity permits the unlawful'; or 'it is better to remove the harm than to acquire benefits'; or 'everything that is not prohibited is lawful' etc. (Zaman, 1984, p. 50)

Islamic banking is characterized with a set of principles that distinguish its work from conventional one. Ownership, the ability to grow and the linkages of all financing operations with real results, financing goods and services through partnerships, sales and leasing contracts in order to strengthen the link between the monetary economy and the real economy, the prohibition of usury for the aim of earning profits through real financing operations, the

prohibition of speculation (*Gharar*) so to not exaggerate at taking risks (for the only aim of speeding up and facilitating the profits), are among the important principles of Islamic banking and finance. It is also forbidden to trade in debt, i.e., selling debt for debt.

In Islamic finance, it is imperative to turn resources towards real long-term assets and avoid fake transactions that prevent real economic development and lead to inflation. In addition, the Islamic system includes a set of values and ethics such as transparency, facilitation, solidarity, responsibility, and the good governance, which combined work to achieve security and stability for customers. Moreover, the profit and risk sharing contracts enhance accountability, responsibility of all parties; institutions, customers, banks and investors.

Overall, the achievements made by Islamic banks and financial institutions came as a result of the principles, foremost:

- Ensuring investment intermediary/financial intermediary, by a set of participatory contracts, towards halal investment;
- The direct linkage to real economy, a real economy-oriented type of financing;
- Deserving the rewards by sharing risks in lieu of risk transferring, and the principle of profit and loss sharing (PLS);
- In addition to not dealing with bank interest (Riba) giving and receiving;
- Linking economic development to social development
- Sharia supervision, and all the injunctions and rules comprised in Sharia.

## **2.2. Islamic windows concept**

According to the Islamic Financial Services Board (IFSB, 2021), Islamic windows are defined as “that part of a conventional financial institution (which may be a branch or a dedicated unit of that institution) that provides both fund management (investment accounts) and financing and investment that are Shariah-compliant, with separate funds. It could also provide Takaful or Retakaful services”.

They are also defined as the sub-parties that emerged from traditional financial institutions, and there has been a lot of controversy about their work, whether they are independent from their main institutions (Al-Obaidi, 2015, p. 71). These windows may be the first step of the transition from traditional banking to Islamic banking, few have done this, while other institutions are progressively establishing these windows to attract more customers. The reason why, the concept of Islamic windows stays between supporters and opponents.

An Islamic window is a separate department within a conventional bank, which operates under strict guidance by an independent Sharia Advisory Board (comprising Muslims scholars of repute, credibility and due social recognition) to develop and offer Islamic financial products to the clients that demand such products. An Islamic Window may offer its products and services through conventional branches or dedicated Islamic branches of the conventional bank.

## **2.3. Supporters’ vs opponents to Islamic windows**

Some scholars hold the view that conventional banks do not comply with the Shariah in regards to the basics on which these banks are established on in the first place and therefore



it is not possible for these banks to comply with it in their funds, branches or windows. They also buy the view that the funds of these conventional banks are drawn from non-permissible earnings and any investment of these funds into Islamic products is not permissible. (Shahed-Akbar, 2014)

According to the same study (Shahed-Akbar, 2014), and contrary to the above, there is a group of scholars who advocate this type of investment as long as the conditions stipulated by Shariah are fulfilled. Their view stands on two very important facts: Firstly, money itself is not unlawful, but becomes prohibited through the way it is procured. Secondly, capital employed by the parent companies of Islamic banks may not be entirely from prohibited sources. The paid-up capital is normally sourced from individuals and permissible government and private organizations; hence, it is likely that the funds originated only from permitted sources. It is to be mentioned here that the initial capital of Islamic banks is confirmed as being from permitted and Halal sources

It is worthwhile noting, that the presence of Islamic windows can negatively affect the establishment of new Islamic banks or the desire of conventional banks to transform completely into Islamic banks later, as these Islamic windows are sufficient. The supporters of the first group note also that opening Islamic windows inside conventional banks can confuse the minds of customers and employees and thus lead to the misapplication of Islamic banking.

A third group may exist (Al-Sharif, 2003, p. 28), those who say that Islamic windows should be dealt with out of necessity, they believe that there are exceptions in certain cases in which it is permissible for conventional banks to open Islamic windows, and the argument of this view is based on that if a Muslim needs some banking services and does not find an Islamic bank to deal with, the ruling of the compelled person can be applied. The reality of dealing with Islamic windows only for necessities, will lead, from the perspective of this third group, to a quicker and full switch to Islamic banks.

### **3. MARKETING ISLAMIC WINDOWS REQUIREMENTS**

Marketing forges linkages between Islamic financial institutions including all operators of this industry, and customers from the potential to the loyal one. It is about setting the best plans to promote the right products fitting customers' needs. Marketing aspect then, is as important in Islamic banks and windows as developing suitable products.

#### **3.1. Marketing in banking sector**

According to (Wilson, 2006, p. 6), the concept of Marketing embraces selling, advertising and public relations, but its total sphere is much broader. The aim of marketing is identifying, anticipating and satisfying customer requirements profitably. Realizing marketing objectives goes through an important process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services.

The bank marketing is a specialized field of the marketing and it has emerged following the extensive development of the general marketing and following the appearance, development, separation, delimitation, deepening and specialization of services marketing. There is a powerful competition on the market of bank services, the customers have become more critical and less fastidious, being better informed about the monetary and financial issues, but also better advised for this purpose. Therefore, many banks admitted the need to

develop and implement professional and efficient bank marketing in the relationship with customers (Catalina, 2010, pp. 1165-1166). The stages of the bank marketing evolution are the following:

**Table 1. Bank marketing evolution**

<i>Period of time</i>	<i>Bank marketing state</i>
During the 70s	- Not really focusing on marketing, market oriented. Then extremely expensive advertisement campaigns; - Keeping customers without attracting new ones.
During the 80s	-Developing programs to support the business, -Promoting marketing on a large scale: establishing and organizing the offer of products/services to satisfy the existing needs; promoting and orientating the products/services towards responding to the considered requirements of the business. -They focus on the perennial value of the customer, pursuing the winning of new customers.
During the 90s	-Banks creating some superior products/services, assurance of the customer needs' satisfaction, -Establishing lasting relationships.
During the 21 <sup>st</sup> century	-Adapting the banking institution's activity to the environment requires a continuous tracking of the structural quantity and quality changes in a dynamic environment; -The need to integrate their current actions to their long-term objectives which were previously determined by the bank marketing policy
To successfully achieve the purpose of the marketing process, the banks should:	-Perform analyses on matching customers' needs with the offered products/services. -Identify the profitable markets and all the actors of these markets -Creating new products/services and diversify them according to the consumers expectations, and defining a suitable strategy -Creating a lasting competition advantage, focusing on customers orientation and loyalty development -Establishing clear communication strategies.

**Source:**(Catalina, 2010, p. 1167)

The bank marketing considers that the bank institutions must involve themselves to a great extent in the complex study of the customers, and must try to keep a permanent and efficient communication in order to know better their preferences and demands. (Catalina, 2010, pp. 1165-1166). Banking products are distinguished by the fact that they are complex and abstract, especially Islamic banking products. Most of the customers do not easily understand what the financial services consist in, what benefit they bring and how they can be distinguished from one another.

### **3.2. Marketing Islamic windows requirements/necessities**

As for Islamic banks, it is also difficult to convince clients to trust them and their ability to genuinely implement Islamic Shariah law without manipulation or fraud, it is challenging, as it is the case with addressing the misconceptions about Islamic banking products and spreading awareness about differences, principles, aims and purposes of Islamic banking and

finance. Also, even if Islamic windows now have gained a considerable level of trust, however, there still exist a sense of suspicion and mistrust about the genuineness of Islamic windows of conventional banks among customers.

The challenges facing Islamic banking in general and Islamic windows in particular then, must be faced. Better measures of communication must be taken, and more suitable marketing plans have to be set. Some of the main pillars that banks should focus on realizing and therefore communicating them to customers are as follows:

- Conventional banks established separate division within the bank under which their Islamic windows were opened. It is highly important to point out this.
- This independent division within the bank, have to be supported by appointed religious bodies (Shariah Supervisory Committees) to supervise their operations, authorize and inspect their financial products and operations. The presence of a shariah supervisory committee is a crucial point to mention.
- The bank should disclose the compliance of its operations, the complete separation of funds, deposits, accounts, books and records, to its customers via its annual reports, prospectus, websites and other promotional materials. (Shahed-Akbar, 2014)
- It is necessary also to clarify that the management of the bank is committed and dedicated to run its business according to the principles governing Islamic banking.
- The AAOIFI and IFSB are internationally recognized body for Islamic banking practitioners and the collective personal reasoning (Ijtihad) of the AAOIFI and IFSB are highly important for uniformed practices of Islamic banking globally. Countries have to follow these standards and have to mention this point in order to avoid confusion, misunderstanding, and ambiguity of Islamic banking references and ensure clarity of transactions.
- And to organize adequate training programs and workshops for all level of staffs starting from the senior management to branch level staffs. From one hand to ensure that employees have the proper knowledge on Islamic banking principles and transactions, and from the other hand to gain customer's trust regarding the employees.

Thereupon, the bank should deal with its challenges in such a way that will enable its customers to understand the issues arise in their minds and help them to clear confusion from their minds. Otherwise, mistrust and misunderstanding prevailing in the minds of some section of customers will make Islamic banks look un-Islamic or in some cases similar to conventional counterpart (Shahed-Akbar, 2014).

#### **4. AN OVERVIEW ON ISLAMIC WINDOWS WORLDWIDE**

In regard to the permissibility, there are countries that allow only Islamic Windows and not full-fledged Islamic banks (Ethiopia), and other countries that do not allow Islamic Windows, like Malaysia (for retail banking), Lebanon and Qatar. (Azmi, 2015) and we can add Turkey too, as it has recently closed a window in a Takaful company, and does not permit yet the establishment of Islamic windows in its conventional banks. In Oman, windows are allowed only through standalone branches.

In most of the rest of the countries in the world where Islamic banking exists, conventional banks are allowed to open. Recently Pakistan, which allows both Islamic windows and fully-fledged Islamic banks, made it a requirement that bank has to obtain written approval from State Bank of Pakistan before opening each Islamic window and

provide the regulator with additional details on staffing, training and marketing arrangements. Bangladesh has now decided not to allow any new Islamic banks or Islamic windows of conventional banks until the formation of a Central Shariah Supervisory Council (Shahed-Akbar, 2014).

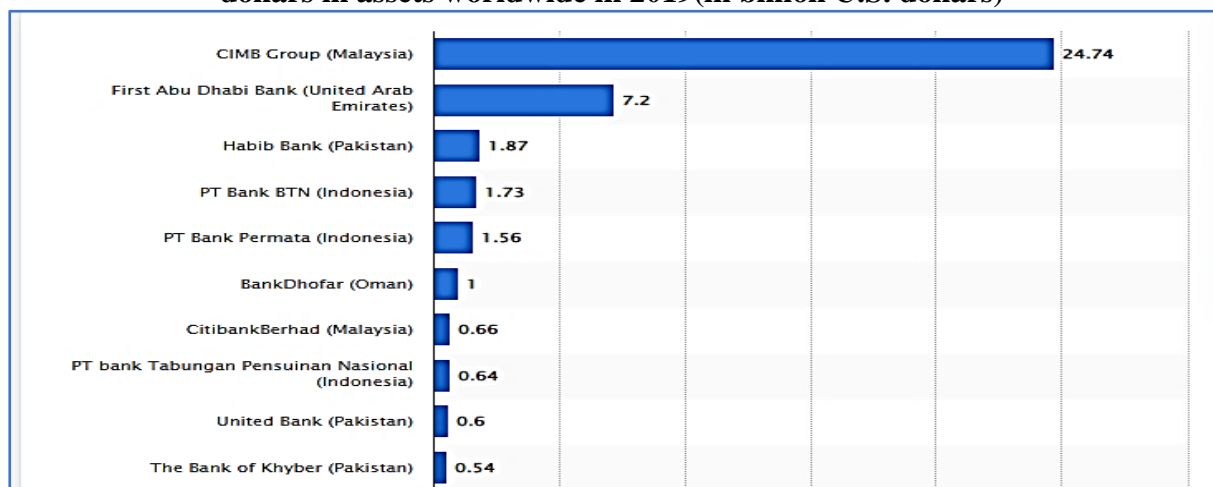
**Table 2. Selected Aggregated Structural on Islamic Banking Indicators 2013-2022**

Indicators	Curr	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022Q1
Total assets	USD B	1 167,7	1 281,6	1 332,2	1 530,8	1 684,4	1 191,8	1 326,6	1 505,5	1 696,0	1 549,1
Total <i>Shariah</i> -compliant financing (excluding interbank financing)	USD B	752,8	809,6	854,3	999,0	1 020,5	823,0	902,9	1 020,8	1 151,0	1 061,8
Total funding/liabilities	USD B	1 066,8	1 180,9	1 239,5	1 400,7	1 548,9	1 065,8	1 145,8	1 299,4	1 449,0	1 338,9
Number of Islamic banks	<i>n.a</i>	169	171	175	182	190	161	154	181	176	133,0
<b>Number of Islamic banking windows</b>	<i>n.a</i>	<b>83</b>	<b>85</b>	<b>85</b>	<b>83</b>	<b>83</b>	<b>84</b>	<b>133</b>	<b>233</b>	<b>291</b>	<b>291,0</b>
<b>Number of branches in Islamic banks</b>	<i>n.a</i>	28 717	28 790	29 858	29 904	29 718	9 471	13 674	14 225	15 869	11 364,0
Number of employees in Islamic banks	<i>n.a</i>	350 100	364 485	390 126	386 554	389 253	170 956	293 622	311 918	340 961	210 765

Source: (IFSB, 2022)

According to (Hasan & Risfandy, 2021, p. 195), the Islamic window banks began in Malaysia when the Central Bank of Malaysia or Bank Negara Malaysia (BNM) introduced the “Interest-Free Banking Scheme” in 1993, which allows conventional banks to offer Islamic banking products to customers. This scheme has proven successful in Malaysia and has brought Islamic banking assets to 8% of Malaysia's total banking assets in 2012. In Indonesia, the Islamic windows were established after the issuance of Law no. 10 of 1998. With a more explicit legal basis, several conventional banks have established Islamic window banks because commercial banks can diversify their revenue by operating in Islamic, conventional, or both ways. Conventional banks then, started Islamic windows.

**Fig.5. Fastest growing Islamic windows among banks with more than 500 million U.S. dollars in assets worldwide in 2019(in billion U.S. dollars)**



Source: (Puri-Mirza, 2020)

Islamic banking windows are in a constant development and are increasing worldwide, each country has to be studied in its side, if it's not each bank. In 2019, the first Abu Dhabi

Bank in the United Arab Emirates had the highest growing Islamic windows rate of about 136 percent and its assets amounted to about 7.2 billion U.S dollars.

## **5. ALGERIA'S WAY OF MARKETING ISLAMIC WINDOWS**

About Algerian case, in response to the high demand of Islamic products and in order to attract the savings of operators who refuse dealing in usurious products, Algeria has kept pace with worldwide conventional banks by opening Islamic windows and branches. There are for now, two foreign full-fledged banks in Algeria offering Islamic banking products, besides Islamic windows in several public (state-run) and private (foreign) banks.

It is worthwhile mentioning that the Central bank of Algeria did not give any approval for establishing new Islamic bank since 2008, and that there are no initiatives of establishing a total Islamic financial institution. Islamic windows are still in their infancy steps, but the marketing of these sub-parties is pretty directed to a false way, which is insisting on communicating the aspect of attracting local savings as a main aim behind establishing Islamic windows. It is a fact and a reality, but the plan needs to be addressed according to the real effectiveness and purposes of Islamic economics as whole.

### **5.1. Legal framework of Islamic banking in Algeria**

It has been stated that domestic financing provided by the Islamic banking sector in the Middle East and North Africa contributes to the economic growth. This means that the more developed the Islamic financial system, the better the economic growth will be. Gulf countries that have strong financial systems are encouraged to continue to promote Islamic banking, while countries with slow economic growth can develop their Islamic banking by adopting and drafting laws and regulations that promote the development of the Islamic financial sector (South Ural State University, 2020).

There were many calls and demand to regulate and to set an adequate framework for Islamic banking in Algeria, until two regulations and one instruction were put in place. **The first regulation 18-02 on participative banking** included rules for banks operations related to **participative** banks. Encompassed only 12 articles, yet considered as the first step towards establishing a legal framework for this industry. It has pointed out the necessity of obtaining a prior license from the central bank of Algeria and a certificate of conformity of the activities of Islamic windows. This regulation did not mention the necessity for Islamic windows in conventional banks, to have a Sharia supervisory board, nor did mention the qualified body to obtain a certificate of conformity from it. Also, did not address solutions to the central bank's relationship with Islamic banks and institutions. It provided then, only a list of which Islamic banking products to use, under "participation banking" name.

**The second regulation 20-02 on Islamic banking**, explicitly called **Islamic banking**. The new requirements in this regulation comparing to the previous one, are that:

- Banks and financial institutions wishing to provide Islamic banking products are required to have precautionary ratios that conform to regulatory standards.
- Obtaining the certificate of conformity for the product from the National Sharia Board for Issuing Fatwas in the Islamic Financial Industry has been mentioned.

- As well as adding deposit accounts to the seven products mentioned in Law 18-02 (*Murabaha, Musharakah, Mudarabah, Ijarah, Istisnaa, Salam*, Investment Account Deposits).
- Also, the obligation of establishing a Sharia supervisory board for the bank or financial institution was mentioned in Article n°23.

There two regulations are followed by a single **instruction 03-2020**, which explains the products of Islamic banking and specific procedures and technical characteristics for their use by banks and financial institutions.

## 5.2. Islamic banking in Algeria: key components

Algeria has 30 banks, including seven public institutions, and more than 20 foreign institutions, particularly from the Gulf countries and Europe. The banking system is dominated by six public banks. These six banks control a significant share of the market. They collect 87% of deposits and grant 89% of the loans, reflecting the low level of competition in the banking system. Moreover, the country has a parallel market that was estimated at US\$271 billion in the first half of 2020.

### 5.2.1. The two Islamic banks in Algeria

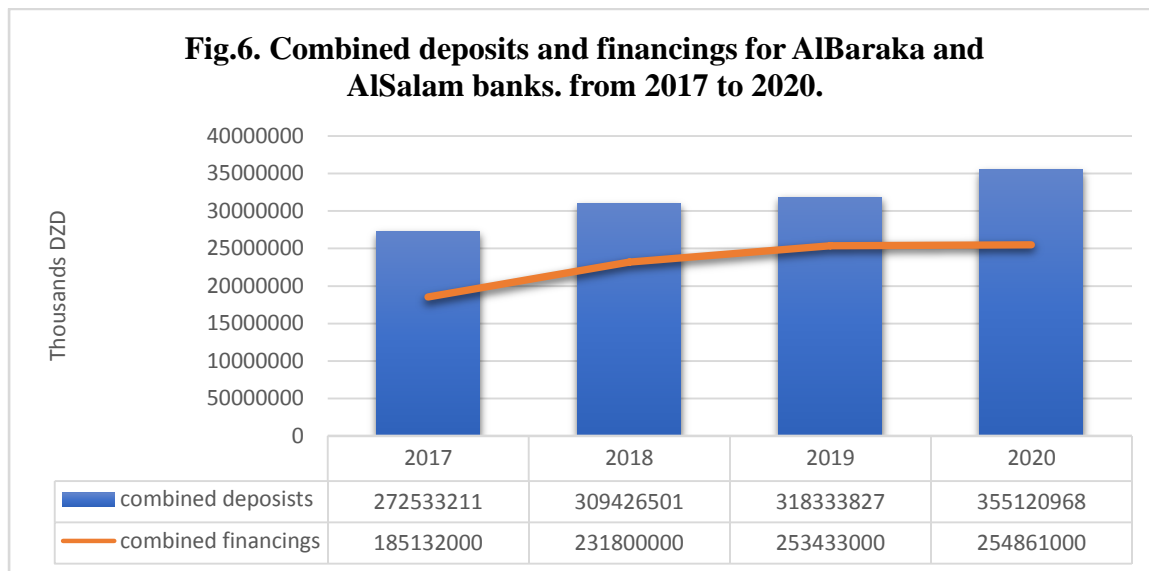
There are two foreign banks in Algeria offering Islamic banking products and receiving deposits on the basis of Islamic banking, in addition to offering several banking services. Al Baraka Bank, is the first full-fledged Islamic bank established in 1991, by Al Baraka Group Bahrain (44.1%) and Bank for Agriculture and Rural Development -Algeria- (55.9%). Followed in 2006 by Al Salam bank which was established by an Emirati capital and started operating in 2008.

**Table 3. Key components of Al Baraka bank and Al Salam bank from 2017 and 2020(Thousand DZD)**

Year	Bank	Deposits	Financings
2017	AL BARAKA BANK	207891000	139677000
	AL SALAM BANK	64642211	45455000
2018	AL BARAKA BANK	223995000	156460000
	AL SALAM BANK	85431501	75340000
2019	AL BARAKA BANK	214542000	157850000
	AL SALAM BANK	103791827	95583000
2020	AL BARAKA BANK	221873000	153089000
	AL SALAM BANK	133247968	101772000

**Source:** Annual reports of the two banks.

We can notice that deposits and financings for both banks, were constantly developing since the beginning (1992 Al Baraka, 2008 Al Salam). We started in this study from 2017 to be in accordance with the available years for Islamic windows in the next section. Also, year 2020, in all economic fields, was an unprecedented year that witnessed coronavirus pandemic, which is affected all sectors.



**Source:** by authors based on previous table.

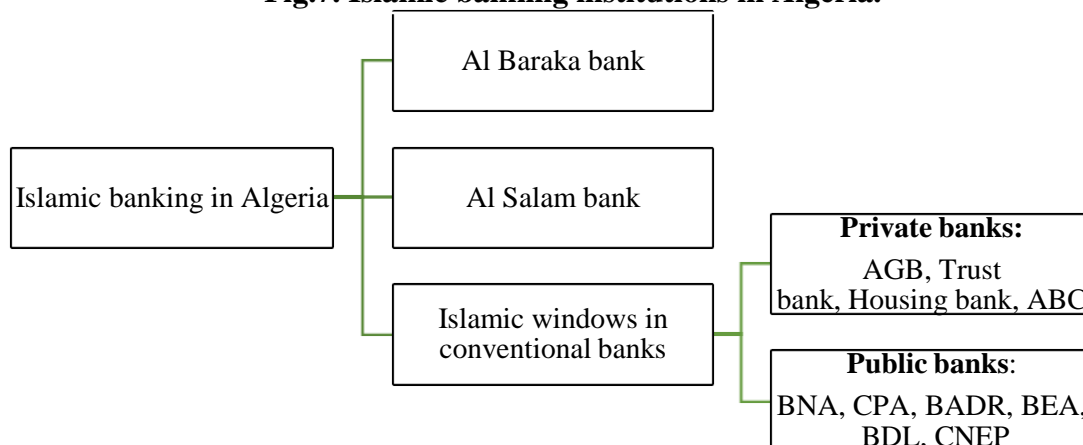
The two banks operating in Algeria, together their financings don't exceed 260 000 millionDZD end of 2020. The deposits in the two banks are increasing, which may represent a good sign for Islamic banking in the country. Unfortunately, the two banks represent only 2% of total Islamic banking. It was necessary to look for other plans, especially in the absence of any initiative to establish a full-fledged Islamic bank or a total Islamic financial institution. Instead, another step has been taken by Algerian decision makers; which is opening new Islamic windows in state-run banks, in addition to the existing Islamic windows in private banks. They are now increasing in number, and the aim behind this step is widely communicated.

### **5.2.2. Islamic banking windows in Algeria**

Algeria is currently looking to attract local savers through the introduction of Islamic finance. Before three years, Islamic banking products were formerly offered in Algeria only by foreign banks, but now and in order to combat the economic blow from Covid-19 and the resulting collapse in oil prices (ICD-REFINITIV, 2020), the Central Bank of Algeria in August 2020, has approved the integration of Islamic banking products into local banks (state run banks or public banks). According to (Nacer, 2022), in his book about experience of Islamic banks in Algeria, he stated that the idea of opening banking windows is due to three main reasons; the failure of the national loan for economic growth and the voluntary tax adherence and then, the fact that most of the monetary mass circulate outside the banking system, in the parallel market. This latter is the crucial part of this study, given that "attracting local savers" has been mentioned several times with Islamic windows establishment.

Therefore, the National Bank of Algeria (BNA), with the approval of the High Islamic Council (HCI), has officially launched its Islamic finance activity through the marketing of Sharia responsive products, thus allowing a substantial share of the funds used in the parallel market to incentivize Algerians to open accounts in banks and move out of the informal economy and back into the formal financial system (Niang, Diagne, & Diallo, 2020). The global scheme of Islamic banking in Algeria is then, as follows.

**Fig.7. Islamic banking institutions in Algeria.**



**Source:** by authors based on previous paragraphs.

As previously mentioned, there were actually Islamic windows in foreign or private banks in Algeria operating since more than a decade. Below, some of these institutions:

- Gulf Bank Algeria AGB was established in 2004 and opened its first window in Algiers in 2008 and then expanded its Islamic activities in the country, and relying heavily on Murabaha and Salam.
- Trust Bank Algeria, started in 2003, and opened the first Islamic window in 2014, but started operating actually in 2016. The window relies mostly on installment sale, Salam and Ijarah.
- Housing Bank for Trade and Finance Algeria, started in Algeria in 2003, opened its first Islamic window in 2015, relies on Murabaha, Salam, and Qard Hassan.

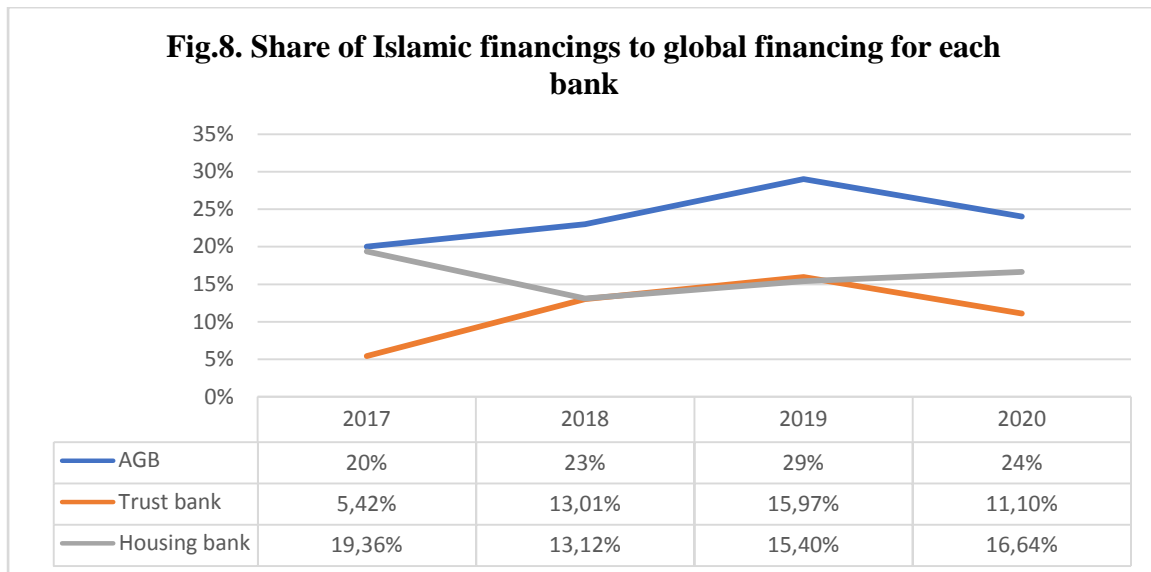
**Table 4. Islamic windows financing to global financing for each bank(thousand DZD)**

Year	Bank	Islamic financing	Global financing	Share of Islamic financing to global financing
2017	AGB Algeria	30765060.2	153825301	20%
	Trust bank Algeria	2751900,55454	50715739,24038	5.42%
	Housing bank Algeria	7358010	37997410	19.36%
2018	AGB Algeria	38945363.64	169327668	23%
	Trust bank Algeria	8208295,81077	63094671,52374	13.01%
	Housing bank Algeria	6332910	48244530	13.12%
2019	AGB Algeria	44562711.09	153664521	29%
	Trust bank Algeria	9316315,54563	58320920,60454	15.97%
	Housing bank Algeria	6451800	41887044	15.40%
2020	AGB Algeria	40000000.00	169135315	24%
	Trust bank Algeria	6602000,76896	59490850,91078	11.10%
	Housing bank Algeria	6572220	39494550	16.64%

**Source:**by authors based on annual reports of AGB, Trust bank, Housing bank Algeria, and (Nacer, 2022, pp. 349-361)



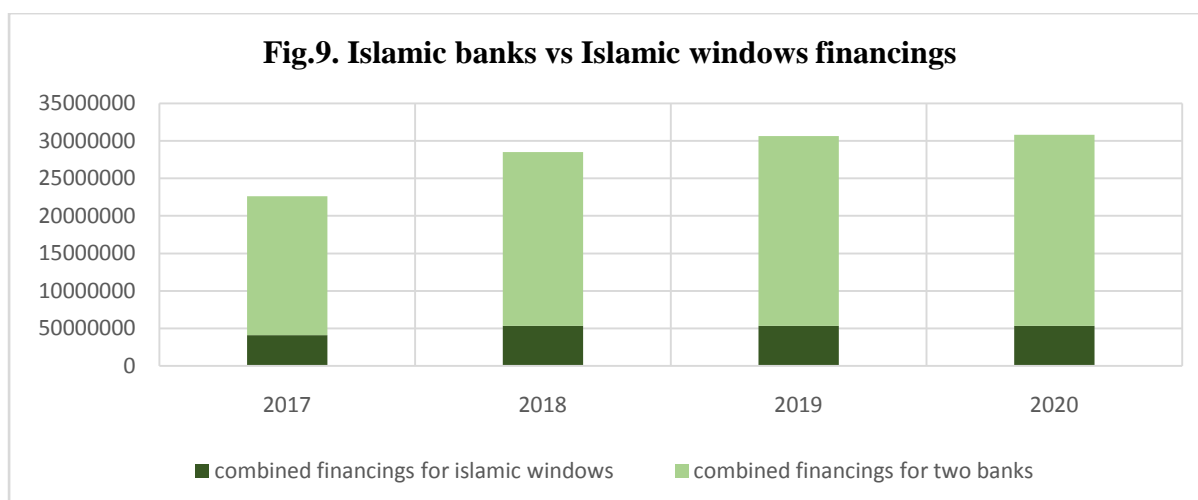
It was not possible for us to study the Islamic windows in state run banks given that they are still new. For private banks, only data from 2017 till 2020 is available. The share of Islamic financings to global financings for AGB, Trust bank, and Housing bank in the scheme below.



**Source:** by authors based on previous table.

The share of the contribution of Islamic financings to the global financings for the three banks of the study varied from almost 6% to 29%. The situation is expected to be better given the initiatives made by Algerian decision makers since 2020 about setting a legal framework, under which Islamic institutions work. The possibility of competition with public Islamic windows may lead at increasing the efforts of promoting suitable financial instruments, hopefully in accordance with customers' needs.

In this endeavor, formulas used in those three banks are Murabaha, Salam, Qard Hassan, Ijarah, Installment sales. The demand on these formulas can be the real reason that led to only using them by banks. Yet, people ignore the use of other formulas, due to a lack of suitable marketing plans. Customers are getting information directly from the banker, who is solely charged of helping the customer with the suitable formula for his need/ demand. If better, the banker explains the process and the procedures of that one instrument of financing, but not about all the possible ways to go through or the wide range of instruments available in the window or the Islamic bank. Communication on this level is limited.



**Source:** by the authors based on previous tables.

For instance, and not categorically, Islamic windows in conventional banks are increasing the share of Islamic banking in the country. As shown in figure 9, the financings of only three banks' windows are representing almost 1/6 of the two Islamic banks financings (combined- Al Baraka bank and Al Salam bank). The list of other Islamic windows is still long and most of them are in their infancy. But, a full shift or the establishment of new Islamic banks and institutions is still necessary for the development of this industry in the country.

## 6. RESULTS AND DISCUSSION

- Among the requirements of establishing Islamic windows, the necessity of having an independent Shariah supervisory committee consisting of prominent scholars who are highly qualified to issue Fatwas on financial transactions and have considerable experience with knowledge of modern financial dealings and transactions.
- This committee should of course freely give opinions and endorse all the contracts, dealings, transactions and investment activities through monitoring and supervising contracts transactions, and procedures.
- Referring to experts in the field reinforces trust between the bank and customers. The fact of being supervised by a shariah committee need to be communicated in the marketing plan, in addition to the financial independence of Islamic banking windows from the main bank/financial enterprise.
- Even if it is a technical procedure that concerns banks, customers need to be aware that the deposits, financings and assets of Islamic banking windows are completely separated from conventional ones, which should be done through maintaining separate accounts and funds. So, the committees of Islamic banking experts determine the products' suitability offered from one side, and must periodically report what has been done from another side, to be communicated in banks reports.
- In addition to the above mentioned, banks should follow and comply with the standards set out by AAOIFI and IFSB in their operations, reporting and audit. Conforming to these standards will help Islamic windows to avoid confusion, misunderstanding, and ambiguity and ensure clarity and awareness about Islamic banking practices.

- Along with this, there should be sufficient trained Islamic bankers in management. Adequate training should be arranged for all level of staff's starting from the senior management to branch level staff's.
- Bank should arrange regular training program and workshop on Islamic banking principles and other related issues. It is to be ensured that employees having proper knowledge of buying and selling in investment operations of Islamic banking are recruited at branch level. Thereupon, the management has a crucial role, cause if the bankers are not committed to implement the real principles and policies, Fatwas of contracts will sound fictitious, and such acts will mislead the credibility of Islamic banks as whole.
- Algeria has two full-fledged Islamic banks, and with opening the windows in public banks, besides private ones, is increasing the demand on Islamic banking products from one side and needs time to attract deposits. The main aim was to attract local savers from the parallel side, a fact sure, but need to be addressed into the real purpose of Islamic banking. Algeria then is not applying the suitable marketing plans for its Islamic windows, nor for Islamic banks. The direction of marketing plans should be turned into increasing the awareness about Islamic finance and banking, the use of the products, the multiple solutions offered and available with Islamic banking products, especially in case of projects.
- The demand on debt-based contracts may be the reason of the high use of Murabaha and Salam from both Islamic banks and Islamic windows in Algeria. Yet, Islamic institutions take the responsibility of letting customers and people know about the availability, the use, and the how of each Islamic financial instruments, given the lack of awareness about this type of financing.
- A clear image; the right information in the right time through the best way of communication, may change the mental image and win over minds refusing to deal with Islamic banks and windows due to what they think they know. The gap of awareness, once again, need to be addressed through knowledge and marketing, especially that this industry is a knowledge based one.

## **7. CONCLUSION**

Finally, in addition to what we have discussed in the context and the results of this study, research and financial institutions must work together to narrow the financial and awareness gaps and provide the needed resources, expertise and knowledge. Collaborations here are the best tool, between Islamic financial providers themselves, and between them and conventional financial institutions, along with academics, researchers and regulators. This would lead to a wide range of avenues, and would direct the focus to setting the suitable and effective marketing plans- in lieu of focusing on spreading the idea of attracting local savings as the main aim of Islamic banking- and therefore develop Islamic banking in the given country. While trying to adopt Islamic windows in countries with minority Muslims as to facilitate for customers the access to financial transactions and dealing with banks in accordance with Sharia principles and purposes, even if Islamic banks are not only and exclusively for Muslims, rather a right preserving, a harm prohibiting, and a justice ensuring type of financing for all human beings.

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