

The Islamic windows in the Algerian public banks - A study of the Algerian National Bank's experience-

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Abstract:

This comprehensive study offers valuable insights into the intriguing realm of Islamic windows in Algerian public banks, with a specific focus on the Algerian National Bank's pioneering initiative. Despite the nascent nature of Islamic windows at the bank, this innovative approach has proven remarkably successful in attracting a substantial share of individuals' financial resources. The bank's proficiency in offering a diverse package of Sharia-compliant services and its active involvement in financing various projects have been key drivers of its achievement.

However, the study also highlights areas for improvement. The Islamic windows' preference for low-risk formats, particularly the Murabaha structure, has led to a dearth of participation and sale-based financing formats. Addressing this limitation could unlock a wider range of opportunities for financial inclusion and growth.

Keywords: Islamic windows, Law 18-02, Law 20-02, Algerian National Bank, Murabaha.

JEL Classification Codes: : G21, G28, O16, G32, Z12.

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Introduction:

Algeria's experience in Islamic banking began in the last quarter of 1991 with the establishment of a specialized bank called “Banque El Baraka”. Seven years later, another private Islamic bank, “Banque Al Salam”, was established. Subsequently, Gulf Bank Algeria also adopted Islamic banking by opening an Islamic window in 2011, alongside its conventional counterpart. Additionally, both Trust Bank and Housing Bank, private banks, opened banking windows within their branches. However, these banks operated under the same legal and regulatory framework as their conventional counterparts, contradicting Islamic banking practices' unique nature.

The limited scope of Islamic banking in Algeria, especially when adopted by private banks that only captured a small share of the Algerian banking market, prompted the monetary authorities to review the regulations governing Islamic banking in the country. The initial step was taken with the issuance of Law 18-02, which aimed to regulate Islamic banking through various provisions. Nevertheless, Law 18-02 had some deficiencies that hindered its implementation, leading to the quick issuance of a new law, Law 20-02. This new law repealed the previous one and provided the legal and regulatory framework for Islamic banking activities by banks and financial institutions in Algeria, allowing them to open Islamic windows within their branches.

Following this development, the banks in Algeria, including public banks, embarked on opening Islamic windows. The Algerian National Bank was among the pioneers, becoming the first public bank to launch Islamic banking in Algeria. Subsequently, other public and private banks followed suit. After about three years since the inception of this experiment, did the Islamic windows' activities at the Algerian National Bank witness significant growth?

To answer this question, the following hypothesis is proposed:

The activities of the Islamic windows at the Algerian National Bank have experienced noticeable growth.

Importance of the Study:

The significance of this study lies in the ability of Islamic banking windows in Algeria to attract liquidity from outside the banking sector, catering to individuals seeking products compliant with Islamic principles and utilizing these funds to finance economic development.

Study Objectives:

The primary objectives of this study are as follows:

- To identify the nature of Islamic banking windows.
- To delineate the legal and regulatory framework of Islamic banking operations in Algeria.
- To analyze the Algerian National Bank's experience in adopting Islamic windows.

Study Methodology and Tools:

This study adopts a descriptive-analytical methodology, presenting and analyzing the specific concepts related to the study. Additionally, it reviews and analyzes practical data to assess the development of Islamic banking at the Algerian National Bank. Various references have been utilized, including journals, official reports, the bank's website, and official newspapers.

Literature review:

- Study by Laounia BENZEKKOURA - "Islamic Windows experience in Algerian legislation": Published in the Journal of Economics and Management in 2020, this study explores the incorporation of Islamic legal precedents to strengthen Islamic banking in Algeria. The research highlights the Algerian government's efforts to introduce legislation governing the establishment of Islamic windows within traditional banks. The transformation started with participatory banking under system 18-02 and continued with the introduction of Islamic banking in the new system 02-20, which outlined the concepts and descriptions of Islamic financial products. Moreover, it was found that the activation of Islamic banking within these windows is subject to a directive from the Bank of Algeria. This study's findings underscore the government's commitment to fostering Islamic banking and its potential to promote financial inclusion and stability in the Algerian banking landscape.
- The study by Embarek Khatoui and Mounir Leslous - "Islamic windows in Algerian public banks - between challenges and requirements for success": Published in the ELWAHAT Journal for Research and Studies in 2020, this research investigates the challenges and prerequisites for the successful transformation of traditional Algerian banks into Islamic banking institutions through the implementation of Islamic windows. The authors adopted a

survey approach, focusing on three public banks operating in the Ghardaia province: BDL, CNEP, and BADR. The study's findings emphasize the critical role of a dedicated legal framework for Islamic banking and the establishment of a Shariah supervisory body to oversee Islamic banking operations. Additionally, the research highlights the significance of developing a pool of qualified human resources in Islamic banking to ensure its long-term sustainability and efficiency. This study serves as a valuable guide for policymakers and banking executives seeking to integrate Islamic windows within traditional Algerian banks effectively.

- The Study by Youcef Souiah and Brahim Refafa - "An analytical study of the adoption of participatory financial windows in Algerian public banks according to the banking reforms of 2018-2020": Published in the Journal of Economics and Management in 2023, this research focuses on the recent experiences of Algerian public banks in implementing participatory financial windows. The study provides an analytical understanding of the integration of Islamic-compliant financial products in alignment with the banking reforms of 2018–2020. Notably, this research tests the partial switch to Islamic banking through the introduction of participatory windows. The study reveals that the entry of participatory windows and the banks' willingness to embrace Islamic banking can have a positive and significant impact on the Algerian banking and financial sectors, ultimately benefiting the overall economy.

Firstly. The Conceptual Framework of Islamic Banking Windows:

In recent years, both Islamic and non-Islamic countries have witnessed a growing trend among traditional banks to open Islamic banking windows. Through these windows, banks offer Islamic financial products that compete with those of dedicated Islamic banks, attracting individuals who prefer dealing with such services.

1. The Concept of Islamic Banking Windows:

Researchers have presented various perspectives in defining a comprehensive concept of Islamic banking windows. However, they generally encompass the distinctive characteristics of this type of window. Some define it as: "A spatial domain opened within the conventional banking space to conduct Islamic banking operations, within the framework of contractual banking, aimed at providing specific Islamic financial services and products under the supervision of the state's monetary authority." (Bahih , 2020, pp. 343-344)

The Islamic Financial Services Board defines it as: "A part of a conventional financial institution that offers services in fund management (investment accounts), financing, and investment, by the principles and rules of Islamic law." (Islamic Financial Services Board, 2007, p. 26)

Others also consider it: "Independent departments within conventional banking institutions, with a legislative body responsible for approving and monitoring their products." (Khudair , 2021, p. 451)

Furthermore, it has been described as: "An independent section within a conventional bank, through which Islamic banking services and products are provided. This section is overseen by a specialized Shariah authority, responsible for ensuring compliance with Islamic principles. The section must operate independently from the bank's other activities and operations." (Rustom , 2014, p. 27)

Based on the above, Islamic banking windows can be defined as one of the available approaches for traditional banks to offer Islamic banking services. This involves creating financially independent units within their branches or main offices. These units are required to be subject to the oversight of a specialized Shariah authority to ensure their compliance and adherence to Islamic principles.

Some customers of Islamic Windows are new while some others are the old customer of the conventional bank and they switch their accounts from conventional to interest-free accounts through Islamic Windows. (Bendaoudia & Kamoumia, 2022, p. 289)

2. Characteristics of Islamic banking windows:

Based on the foregoing, Islamic banking windows are characterized by the following key features:

- **Compliance with Islamic Shariah:** Their operations and activities must adhere to the principles of Islamic law, subject to the supervision of a Shariah authority.
- **Spatial and Financial Independence:** Islamic banking windows operate independently in terms of location and finances while remaining administratively connected to the traditional bank.
- **Attracting Non-Interest-Based Customers:** The primary aim of establishing these windows within traditional banks is to attract customers who prefer non-interest-based transactions and compete with dedicated Islamic banks. They also offer a diverse range of financial

products and services, aiming to maximize profits and increase the bank's market share.

- **Easier Control by the Traditional Bank:** The traditional bank has greater control over Islamic banking windows established within its branches compared to independent Islamic branches.
- **Diverse Financing Formats:** Islamic banking windows offer various financing formats, including Mudarabah, Musharakah, Murabahah, and Ijarah, each with different risk levels, guarantees, and pricing. In contrast, traditional branches typically offer only interest-based loans, albeit under different names and terms.
- **Investment Accounts Based on Shariah Contracts:** Investment accounts in Islamic banking windows are structured based on Shariah-compliant contracts, such as Mudarabah, whereas in traditional branches, the relationship with clients is creditor-debtor.
- **Financing through Investment Deposits:** When in need of financing, the traditional bank deposits an investment account with the Islamic banking window, subject to profit and loss sharing, similar to any other depositor.
- **Integration of Services:** Islamic banking windows in traditional banks serve as a way to offer a combination of Islamic banking services alongside conventional banking services provided by other departments. (Falak & Salmi , 2018, pp. 167-168); (Khudair , 2021, pp. 451-452); (Belabas, 2013, p. 60)

3. Motivations behind the traditional banks' adoption of Islamic windows:

The motivations for traditional banks to open Islamic windows at their branches can be traced to their desire to achieve a range of advantages, which we enumerate as follows: (Nadi & Maghtat, 2021, p. 404)

Traditional banks fear a decline in demand for their products, especially after the resurgence of Islamic banks due to the growing religious awareness among a wide segment of Muslims, who wish to deal with Islamic banks to avoid involvement in usury.

Conventional banks aspire to expand their banking activities and offer various financial products, including Islamic ones, by opening Islamic windows. This serves as a mechanism to attract Muslim capital and attract investments seeking Islamic banking financing.

Traditional banks seek to attain higher gains and returns compared to what they have been achieving, particularly as interest rates have

experienced a noticeable decline in recent years. Meanwhile, the returns on financing operations in Islamic banks have increased, leading to a positive impact on the success of the Islamic banks and financial institutions' experience in providing various Sharia-compliant products.

Some traditional banks view the process of opening Islamic windows at their branches as a preliminary step toward fully embracing Islamic banking. This means that after mastering the provision of Islamic products, the bank will completely transition into an Islamic bank.

Secondly. The development of laws regulating the activity of Islamic windows in Algeria:

The expansion of Islamic banking in Algeria necessitates the establishment of a legislative and legal framework to regulate its operations. This prompted the monetary authorities in Algeria to formulate systems that consider the distinctive nature of Islamic banking and differentiate it from its conventional counterpart, which previously governed Islamic banks and their entities. This endeavor materialized through the issuance of two fundamental regulations and a clarifying directive, which can be summarized as follows:

1- Islamic Windows under Law 18-02:

The rules for conducting banking operations related to participatory banking were announced by banks and financial institutions through Law 18-02, dated November 4, 2018. This law, consisting of 12 articles, establishes and regulates the operations of participatory banking.

The primary aim of this law is to define the rules applied to participatory products that do not involve the collection or payment of interest. It also sets the conditions for obtaining a license from the Bank of Algeria for financial institutions and banks in Algeria that seek to offer such products. Additionally, it specifies the participatory products, including Mudarabah, Musharakah, Murabahah, Ijarah, Istisna'a, Salam, and deposit accounts for investment. The law emphasizes the financial independence of the participatory finance division from other departments and branches of the bank or financial institution. (The Official Gazette of the People's Democratic Republic of Algeria, 2018, pp. 20-22.)

Despite being the first legal framework that attempted to regulate Islamic financial banking operations, Law 18-02 had several shortcomings, notably: (Qandouz & Qa'alul, 2020, p. 31)

The use of the term "participatory products" to refer to Islamic banking products, might not be clear to many.

The lack of clear identification of the qualified national authority responsible for issuing compliance certificates for financial institutions and banks licensed to conduct participatory banking operations (Article 4).

However, this law faced difficulties in implementation due to various reasons, including political changes in the country, which led to presidential elections at the end of 2019. Subsequently, the global economy entered a major struggle with the COVID-19 pandemic, coupled with a significant decline in oil prices, impacting the country's economic balance.

2- Islamic Windows under Law 20-02:

Law 20-02 was enacted on March 15, 2020, and it defines the banking operations related to Islamic banking and the rules for practicing them by banks and financial institutions. This law replaced and invalidated all provisions of the previously mentioned Law 18-02 (Article 23).

Law 20-02 substantially addressed the shortcomings of Law 18-02 and provided more precise details on Islamic banking, including the following key points: (The Official Gazette of the People's Democratic Republic of Algeria, 2020, pp. 33-35.)

Identification of the operations related to Islamic banking and the rules applicable to them, as well as the conditions for obtaining prior approval from the Bank of Algeria.

A clear definition of permissible Islamic products with detailed explanations for each, such as Mudarabah, Musharakah, Murabahah, Ijarah, Istisna'a, Salam, and deposit accounts. These products must be accredited and compliant with Islamic principles and receive certificates from the National Sharia Authority for Islamic Financial Industry.

The requirement is to establish a Sharia Supervisory Board within each bank or financial institution, consisting of at least three members appointed by the General Assembly, to ensure the compliance of products with Islamic principles.

Financial and administrative independence for the Islamic banking division within a bank or financial institution, alongside the independence of deposit accounts for Islamic banking customers from other customer accounts.

Clear disclosure of all pricing information, terms, and account features for depositors.

With the introduction of Law 20-02, Algeria has made significant strides in regulating Islamic banking operations more comprehensively and effectively.

3- Islamic Banking Products under Directive 03-2020: The scope of Directive 03-2020, issued by the Bank of Algeria on April 2, 2020. This directive introduced products related to Islamic banking and specified the procedures and technical features for their implementation by banks and financial institutions. It consisted of 60 articles, with the first article providing a definition of Islamic banking products as stated in Article 04 of Regulation 20-02, along with the conditions for their application by banks and financial institutions and the determination of the procedures and technical features for their implementation. The second article, on the other hand, focused on the provisions outlined in Article 14 of Regulation 20-02, which emphasizes that prior to submitting a license application to the Bank of Algeria for marketing Islamic banking products, the bank or financial institution must obtain prior certification for compliance with these products and the guarantees related to Islamic Sharia provisions, delivered by the National Sharia Board for Islamic finance industry.

The remaining articles provided detailed coverage of all Islamic banking products, defining and specifying their conditions, types, such as Murabaha and Murabaha for resale, and their participatory forms: fixed and diminishing, as well as unrestricted and restricted Mudarabah. It also included Ijarah in its operational and terminating forms, as well as Salam and parallel Salam, Istisna, and parallel Istisna, along with all the necessary procedures that must be adhered to. (.bank-of-algeria., 2022)

Thirdly. Analysis of the Islamic Windows Activity of Banque Nationale d'Algérie:

Banque Nationale d'Algérie (National Bank of Algeria) is considered the first public bank licensed to market products compliant with Islamic Sharia principles. The bank obtained a license to market Islamic banking products on July 30, 2020, and subsequently launched its Islamic banking activity on August 4, 2020, by the provisions of the Algerian Central Bank Regulation No. 02-20.

To regulate this activity, the bank established a Sharia Audit and Compliance Unit, along with a Sharia Supervisory Committee. Additionally, it set up the Directorate of Islamic Banking to oversee the commercial operations related to Islamic banking.

1- Evolution of the number of Islamic windows, branches, and Islamic products at Banque Nationale d'Algérie:

By the end of 2020, the number of Islamic windows reached 64, distributed across the bank's branches throughout the country. (BNA, 2022) An exclusive agency solely dedicated to Islamic banking was added in Hussein Dey, Algiers, by the end of 2021, (Banque Nationale d'Algérie, 2020, p. 14) bringing the total number of Islamic windows to 68 by the end of July 2023. There are now 10 branches exclusively catering to Islamic banking.

In the fiscal year 2020, Banque Nationale d'Algérie introduced nine Sharia-compliant products, which include various accounts and financing solutions:

- Islamic Current Account
- Islamic Demand Deposit Account
- Islamic Savings Account
- Islamic Savings Account for Youth ("Al-Qasr")
- Unrestricted Islamic Investment Account
- Car Murabahah
- Real Estate Murabahah
- Equipment Murabahah
- Ijarah (Leasing) for Equipment. (Banque Nationale d'Algérie, 2020, p. 14)

In 2021, new Islamic products were launched by the bank's Islamic windows, namely:

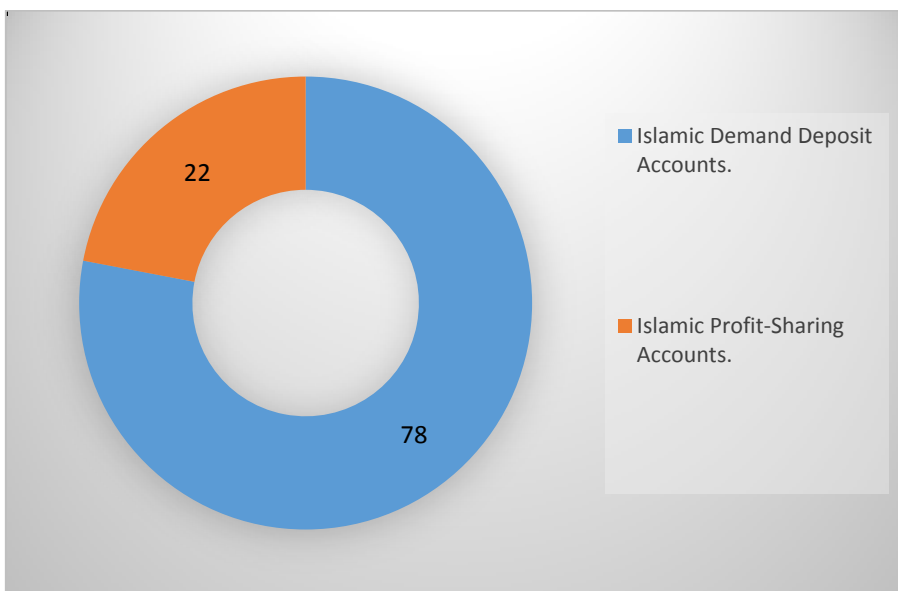
- Ijarah Muntahia Bittamleek (Leasing for Equipment)
- Ijarah Muntahia Bittamleek (Leasing for Real Estate)
- Islamic Service Packages for individuals, professionals, and institutions.

2- Islamic Resources and Islamic Accounts for Islamic Windows and Branches of Banque Nationale d'Algérie:

Banque Nationale d'Algérie made efforts to attract Islamic resources, and in 2020, it was estimated that it attracted 2,675.70 million Algerian Dinars of Islamic resources. This figure increased to 8,986.30 million Algerian Dinars in 2021, representing a significant increase of 6,309.45 million Algerian Dinars, which is approximately a 235.85% rise. (Banque Nationale d'Algérie, 2021, p. 27)

Among the Islamic accounts, the demand deposit accounts (without profits) constituted the largest proportion compared to their profit-sharing counterparts. This indicates individuals' preference for keeping their funds in Islamic accounts without exposing them to risks while ensuring the possibility of accessing them at any time.

Figure N° 01: the distribution of Islamic resources (demand deposit accounts and profit-sharing accounts %).



Source: (Banque Nationale d'Algérie, 2021, p. 27)

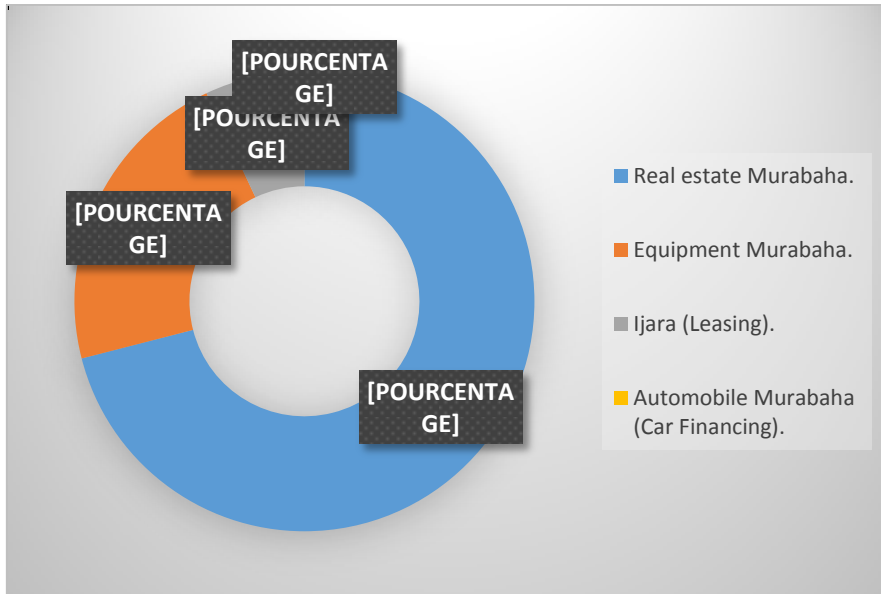
The portfolio of Islamic customer accounts reached 14,875 accounts at the end of 2021, compared to 3,897 accounts at the end of 2020, representing an increase of 10,978 accounts, which is a growth rate of 281.20%. This performance is primarily attributed to a significant rise in the number of Islamic savings accounts, which reached 5,603 accounts (an increase of 236.81%), followed by current accounts with 4,294 accounts (a surge of 359.03%). (Banque Nationale d'Algérie, 2021, p. 27)

Through its Islamic windows, Banque Nationale d'Algérie provided its banking account holders with the opportunity to benefit from Islamic bank cards linked to their accounts. In 2021, a total of 6,354 new Islamic bank cards were issued, comprising 2,634 classic bank cards, 3,410 savings cards, and 310 business cards. (Banque Nationale d'Algérie, 2021, p. 26)

3- Islamic Financing for Islamic Windows and Branches of Banque Nationale d'Algérie:

The volume of Islamic financing increased from 101.54 million Algerian Dinars in 2020 to 1,385.42 million Algerian Dinars in 2021, reflecting a positive inflow of 1,283.88 million Algerian Dinars, which represents a remarkable growth rate of 1,264%. This substantial increase was exclusively directed toward the private sector.

The financing was mainly divided between real estate Murabaha, accounting for slightly more than three-quarters of the total amount in 2020, and equipment Murabaha, which represented approximately one-quarter. Additionally, a new type of financing, known as Ijara financing, was introduced in 2021 and accounted for a smaller portion of the overall financing.

Figure N° 02: the distribution of Islamic financing.

Source: (Banque Nationale d'Algérie, 2021, p. 27)

Conclusion:

Over the past three years, Algerian monetary authorities have successfully established a legal and regulatory framework to expand the scope of Islamic banking products, leading to traditional banks seeking licenses to open Islamic windows.

- The experience of Islamic windows at Banque Nationale d'Algérie is relatively young and its success or failure is yet to be fully determined. However, based on achieved indicators, it is possible to anticipate and envision the future of these windows, highlighting both strengths and areas for improvement.
- The significant increase in Islamic deposits at Banque Nationale d'Algérie, with a remarkable growth rate of 235.85% between 2020 and 2021, reflects strong liquidity attraction.
- A substantial rise in the number of customer accounts, with a growth rate of 281.20% between 2020 and 2021, demonstrates a high potential for dealing with these Islamic windows.
- An increase in Islamic financing at Banque Nationale d'Algérie between 2020 and 2021, indicating rising demand for Islamic financing.

- Almost complete reliance on the Murabaha financing mode, neglecting other Islamic financing methods.

To address the weaknesses, the following proposals are suggested:

- Amend the monetary and credit law and introduce regulatory provisions in line with the nature of Islamic banking.
- Expand the range of Islamic banking products, especially those based on Musharakah and other non-Murabaha contracts in Islamic window financing.
- Clearly define and promote the Islamic banking products offered by Islamic Windows through the bank's website and official events such as academic conferences organized by universities.
- Coordinate between the regulatory bodies for Islamic banking and the higher Shariah authority regarding products and transactions, avoiding emulation of conventional products and merely adding a Shariah-compliant label.

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