

## Assessing the readiness of traditional Algerian banks to convert to Islamic banking –A case study of Tiaret-

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### Abstract:

Increasing competition between conventional banks and Islamic banks in the Islamic and Western worlds, and the superiority of the latter, which made the traditional ones move towards providing services that comply with the provisions of Islamic Sharia. Its banking system, and it has made many modifications to it, was one of the imperatives dictated by the changes in the banking arena to keep pace with the developments of the banking industry, is the transition to Islamic banking activity, and this is evidenced by the Official Gazette No. 73 of the year 2018, which stipulated the transformation of banking to Islamic banking.

Therefore, this study aims to clarify everything related to the transition from traditional banking to Islamic, in addition to highlighting the readiness of Algerian traditional banks to transform into Islamic banks.

**Keywords:** conventional banks - Islamic banks - banking transformation - Tiaret state.

**JEL Classification Codes:** E44, E58, f47

ملخص:

زيادة المنافسة بين البنوك التقليدية والبنوك الإسلامية في العالمين الإسلامي والغربي وتوفيق هذه الأخيرة ما جعل التقليدية منها تتجه نحو تقديم خدمات تتفق وأحكام الشريعة الإسلامية، من هنا برزت ظاهرة التحول في الأعمال المصرفية من التقليدي إلى الإسلامي والدولة الجزائرية كغيرها من الدول سعت إلى تطوير منظومتها البنكية، وقد قامت بالكثير من التعديلات عليها فكان من الضرورات التي تملها المتغيرات على الساحة البنكية لمواكبة مستجدات الصناعة المصرفية هو التحول إلى النشاط البنكي الإسلامي ويتجلى ذلك من خلال الجريدة الرسمية العدد 73 من سنة 2018 والتي نصت على التحول المصرفي إلى المصرفية الإسلامية.

لذلك تهدف هذه الدراسة إلى توضيح كل ما يخص التحول من العمل المصرفي التقليدي إلى الإسلامي، وإبراز

مدى جاهزية البنوك التقليدية الجزائرية للتحول إلى بنوك إسلامية.

**كلمات مفتاحية:** البنوك التقليدية – المصارف الإسلامية – التحول المصرفي - ولاية تيارت.

تصنيفات JEL: E44, E58, f47

## **1. Introduction**

The banking sector plays a fundamental role in economic and social life and is one of the most important criteria for the development of states and societies. Banks and financial institutions emerged a long time ago, initially in primitive forms like the societies that contained them but soon evolved as societies developed. As the technological development of the world in general and the banking field in particular increased, as well as the increase of the number of branches and bank dealers, in addition to the social awareness and religious morals, which prevented and prohibited usury transactions imposed by traditional banks, Islamic banks emerged.

The 1970s and 1980s were marked by the spread of many Islamic banks and financial institutions, as well as a growing interest in transactions that adhere to the principles of Islamic law. Hence, there was a need to establish banking and financial institutions that are dedicated to the implementation of Islamic law and serve as the foundation for the development of an integrated Islamic economic system based on prohibiting the dealing with interest in terms of purchase and sale. Therefore, the trend was towards the establishment of Islamic banks that would handle and invest financial resources in a manner consistent with Islamic law. The practical reality of Islamic banks in attracting more customers has been demonstrated by their legitimate credibility and transparency in banking transactions, as they have become a strong competitor to traditional banks around the world. This will pose a major challenge to traditional banks, which have moved towards opening windows and branches of Islamic transactions or becoming Islamic banks. The phenomenon of bank conversion appears in replacing transactions contrary to Islamic law with transactions consistent with its provisions, primarily the avoidance of usury (taking and giving it), which is seen as a challenge to decision-makers when formulating the conversion plan that takes several aspects into account, including the size of the converted bank, the financial and accounting system, the form and mode of conversion, alternative Islamic products, the cost of their modification, the adjustment of regulations, policies, and procedures to the new regulatory framework and the implications thereof in case the conversion succeeded or failed.

In light of this, which has generated Islamic banks all over the world, Algeria is far behind this procession that is experiencing a rapid movement. Recently and officially, however, Algeria's tendency to open the door to Islamic banking has emerged through Regulation No. 02-18 dated 04/11/2018, published in the Algerian Official Newspaper, issue 73/2018, which sets forth rules for the practice of banking operations relating to participatory banking by banks and financial institutions active in the Algerian banking system.

### **Research problem:**

Based on the foregoing, we have had many pertinent questions about the existence of favorable conditions and requirements for the conversion of Algerian banks in general, including their active branches in Tiaret state, from the traditional banking system to the Islamic banking system. Therefore, we developed the problem as follows: **“Are traditional banks in Algeria adequately prepared to turn their activities to Islamic banking?”**

To facilitate the answer to this key question, we divided it into the following sub-questions:

- What is the meaning of traditional banks’ conversion to Islamic banks?
- What are the mechanisms and requirements for turning traditional banks into Islamic banking?
- To what extent Algerian commercial banks can become Islamic banks, whether totally or partially?

### **Research importance:**

This study addresses a subject of utmost importance at present, as there is considerable debate in the social and economic environments about Islamic banking transactions and the conversion of traditional banks to operate according to Islamic law provisions. The field study is also of great importance in identifying shortcomings to save effort, time, and costs to reach the goal of converting traditional banks to Islamic banks at the lowest cost and in a short time.

### **Research goals:**

The purpose of this research is to achieve the following objectives:

- Presenting the general framework of traditional banks conversion to Islamic banks.
- Learning about the reality and prospects of Islamic banking in Algeria and the possibility of traditional Algerian banks’ conversion to Islamic banks.

### **Research structure:**

In the light of the above, this study will be divided into three chapters:

**First chapter:** The conversion of traditional banks to Islamic banks

**Second chapter:** It addresses the mechanisms and requirements of the conversion .

**Third chapter:** It addresses the Algerian banking system between the reality and prospects of the transition to Islamic banking and the problems it faces.

### **Literature review:**

**Raiz Riazuddin, 2011, "challenges of transforming riba-based government debt to shariah-compliant instruments in Pakistan."paper for presentation in the 1st international center of islamic busineses, riphah international university, islamabad, 8-9 February 2011.**This study aimed to identify the obstacles that faced

the Pakistani government when converting its economic system to an Islamic system, and the most important of these obstacles are the problems resulting from the transformation of usurious government loans into government loans compatible with the provisions of Islamic Sharia. Its loans from usurious loans to Islamic loans are greater than the challenges faced by traditional banks when converting their tools to tools compatible with the provisions of Islamic Sharia. Therefore, the researcher recommended the need to permanently get rid of the local loans that the Pakistani government borrowed from the Central Bank with the need to issue Islamic financial tools, and that In order to be able to lead and direct the monetary policy of the state, the researcher also suggested replacing part of the long-term local government loans with sukuk, in addition to the need to determine a standard rate of return for Islamic financial instruments.

**Mustafa Ali Abu Hamira, and Nouri Muhammad Wasusi, 2010, “The Transformation of Conventional Banks in Libya Towards Islamic Banking - An Applied Study on the Bank of the Republic, Trade and Development -”** Paper presented to the Second Islamic Financial Services Conference, Tripoli, Libya. The researchers aimed in this study to show the extent to which conventional banks in Libya can convert towards Islamic banking and what are the requirements for the transformation. Those who have knowledge of Islamic banking. The researchers concluded that 76.6% of the study sample agreed to convert all traditional commercial banks (public and private) to Islamic banks, and that 82.3% of the sample members had the desire to liberate the Libyan society from interest-based banking, and the researchers also found that 73.3 %of The sample members believe that a feasibility study for the transformation process must be prepared and approved by the Central Bank of Libya, and that the management of the traditional bank has the will and determination to transform, and to continue the process to the end without stopping. For this, the researchers recommended the necessity of establishing a central administration at the Central Bank of Libya to monitor and supervise the transformation processes, and also the necessity of rehabilitating the national elements working in various banks to work in Islamic banking and marketing its services and products.

**Abdel-Kader Brich and Mohamed Hammou, 2009, “Transformation of Conventional (usurious) Banks to Islamic Banking – Luck and Possibilities of Success –”.** Research presented to the International Forum on: The Crisis of the International Financial and Banking System and the Alternative of Islamic Banks, Prince Abd-el-Kader University of Islamic Sciences, Algeria. This study was based on four sections. In the first section, the researchers focused on Islamic banks in terms of their origins and characteristics. In the second section, the researchers presented the transformation of traditional banks towards Islamic banking at the Arab and global levels. In the third section, the researchers explained the controls of the transformation process with presentation of problems and effects. in the last section of the study, the researchers concluded that the success achieved by Islamic banks led to motivating a number of traditional banks to offer Islamic banking - in various forms - in order to preserve their customers and gain a share of

this growing market. The researchers also showed that the increase in the intensity of competition with the entry of traditional Arab and foreign banks into the Islamic banking labor market - with all that these banks are characterized by enormous capabilities and self-strength - it will provide Islamic banks with additional elements for success, for this the researchers recommended the need to work on the continuous expansion and diversification in Islamic banking services in addition to the importance of increasing coordination and expansion of joint investments between the units of the conventional and Islamic banking system, with the aim of creating a suitable climate for coexistence and laying strong foundations for cooperation relations between the Islamic banking system and its traditional counterpart. The researchers also stressed the need to standardize the supervisory standards for Islamic banks to be a basis for miscellaneous accounting provisions, in accordance with the accounting standards approved globally and adapting them to be compatible with the principles of Islamic Sharia.

## **2. Theoretical concepts about traditional banking conversion to Islamic banking**

conversion means the transition from one situation to another and from one state to another (Mustafa, 2006, p. 209). It also means a change in character, form, or function. In religion, conversion means the fact of changing one's religion or beliefs or the action of persuading someone else to change theirs (Hassanin, 2009, p. 138).

**2.1 Terminological definition:** It is to move from being legitimately corrupt to being legitimately valid.

### **Definition of traditional banking conversion to Islamic banking:**

First definition: We mean by conversion the transition from the status of traditional interest-based banking to Islamic banking based on the principle of shared profit and loss and the replacement of usury with what God has allowed concerning banking transactions, involving the achievement of justice among clients in the light of the purposes of Islamic law (Mohammed, 2009, p. 3).

Second definition: The licit origin of conversion is derived from the principle of repentance, return to God, and cessation of usury in terms of taking and giving it. This can be achieved through the bank's sincere desire to repent to God and replace its prohibited transactions with banking transactions in accordance with Islamic Sharia provisions (Mohammed M. I., 2006, p. 29).

Third definition: Meriem Said Rustom defined it as: "The desire of traditional banks to provide Islamic services and products, either entirely through making all traditional banking operations licit, or partly through the provision of Islamic products and services in addition to traditional products and services for many reasons, including ideological, social, commercial, and profitable banking reasons." (Rustom, 2015, p. 14).

**2.2 Reasons and motives for the conversion of traditional banks to Islamic banking:** (Lexico dictionary, 2022) The reasons can be limited to:

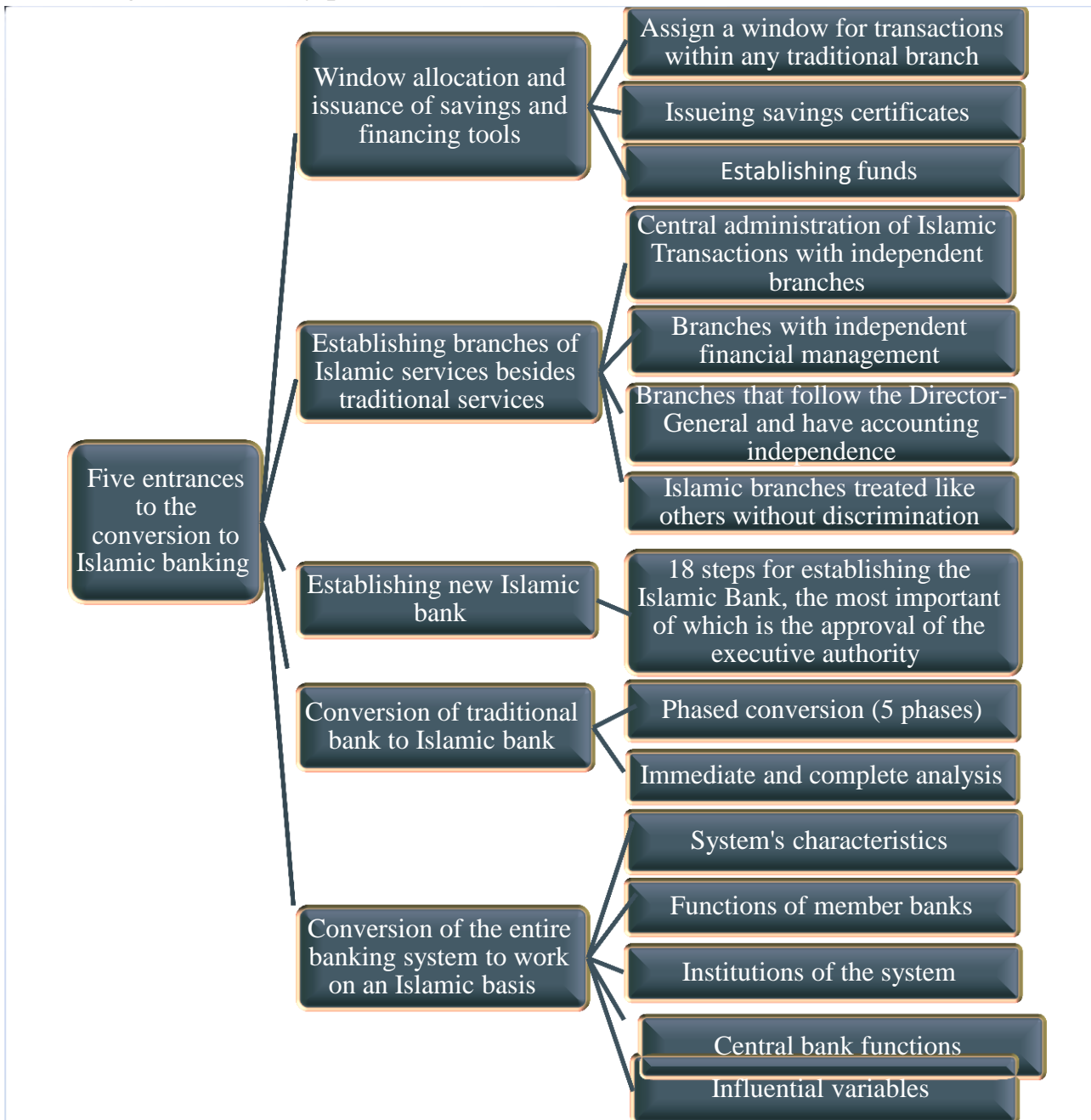
✓ Cessation of acts against Sharia law (Islamic law)

- ✓ Combating inflation and eliminating the misallocation of wealth in society
- ✓ Seeking to maximize profits
- ✓ Sources of conversion for Islamic banking
- ✓ The bank's internal entity calling for conversion
- ✓ The legal authority of the state calling for conversion:
- ✓ Mechanisms for converting traditional banks to Islamic banking

**Methods and forms of conversion to Islamic banking:**

The figure below shows five entry points for the conversion of traditional banks to work according to the provisions of Islamic law:

Fig 01: five entry points for the conversion of traditional banks to work



Source: (Nasser A.-G. , 2004, p. 335)

### **3. Principles or controls for traditional bank conversion to Islamic banking and the resulted implications**

#### **3.1 Principles or controls of the conversion (conversion requirements)**

The conversion of traditional banks to Islamic banking requires them to adhere to its philosophy, foundations, and activities. Therefore, the nature of the fundamental difference between the two systems imposes on the process of conversion certain principles and controls that ensure its success and meet many of the following requirements:

**General requirements: which depend on the following:**

#### **a. Preparation of a strategic conversion plan with a clear and well-defined vision:**

Prepare a specific and officially announced schedule, approved by banking experts, for ending dealing with usury or any other Islamic prohibition by gradually converting the Bank's traditional branches to Islamic branches until the time specified previously.

#### **b. Gradual application:**

Experience has shown that the bank conversion from traditional to Islamic cannot be carried out successfully overnight. The immediate political decisions of the transition do not work, since banking work is naturally interrelated and multilateral with individuals, internal and external institutions, and regulators. This entanglement is governed by different legal relationships that cannot be dealt with at once (Ibrahim, 2006, 94-96).

**c. Continuity and irreversibility:** The decision to move towards Islamic banking, which was taken by the officials of the traditional bank, and declares this to society, makes it imperative for them to continue with this trend according to the stated plans .

**3.2 Legal requirements:** which are the legislative actions to be committed to by the Bank before the conversion project:

- a. Issuing a license from the General Assembly of the traditional bank approving the bank's conversion to an Islamic bank after meeting with all shareholders and convincing them of the feasibility of the conversion project, thus discussing the requirements for conversion and the fundamental amendments to the articles of incorporation (Atiyat & Salem, 2009, p. 95)
- b. In all transactions, the contract must expressly state that usury will not be dealt with and that sharia provisions will not be violated.
- c. Changing the name of the bank in the new contract of incorporation, as well as its method, activities, objectives, etc.

- d. Obtaining the official approval of the Central Bank, which may set conditions on the traditional bank that should be adhered to, including:
- The Bank conducts a feasibility study of the conversion process and develops a sequential time plan and various procedures.
  - Prepare a committee to follow up on actions and steps and prepare clients for the banking conversion project by conducting informative campaigns.
  - Forming a regulatory body and committing to the minimum level of capital.
  - Applying structural adjustments to the converted bank and training employees in the nature of the new work.
  - Assign the Legal Affairs Administration of the Traditional Bank to study the legal aspects of the conversion process to Islamic banking, its legal implications and any obstacles to the process.

**3.3 Sharia-based requirements:** The religious requirements that the traditional bank must adopt when deciding to convert in order to reach transactions compatible with the Islamic belief (Safar, 2005, p. 48)

**3.4 Administrative requirements:** Following the realization of legal and religious requirements, it is necessary to fulfill the administrative requirements. Administrative procedures in the Bank are one of the most important areas contributing to the effectiveness and success of the conversion, which in turn reflects the functional performance of the human resources that contribute to the process (Atiyat & Salem, 2009, p. 104). The administration of the traditional bank must therefore prepare and equip human resources to meet the new transformation.

#### **4. The Algerian banking system between reality and the prospects for the Islamic banking conversion (Case of Tiaret)**

The Algerian banking scene is dominated by public banks through their networks and agencies distributed throughout the country, while private banks are mainly located in the north of the country. The Algerian banking system (according to the decision No. 22-01 of 02 January 2022, issued in the Official Newspaper No. 04 of 15 January 2022, containing the list of banks and the list of financial institutions accredited in Algeria) consists of 19 banks and eight financial institutions, including two Islamic banks. Hence, the share of Islamic banks in Algeria remains low and modest, as most of the Algerian banking market is controlled by public banks, taking 87% of deposits and financing. Private banks compete for the remaining percentage, including Al-Baraka Bank and Al-Salam Bank, which are the only banks to date engaged in Islamic banking.

The Islamic banks in Algeria operate under the same laws that regulate the banking market (Cash and Credit Act) without discrimination and without regard for the privacy of the banking services and products they provide, but they have achieved



positive results in the form of double profits and increased capital. Although the monetary authorities accept the privacy of Islamic banking transactions, particularly with regard to contracts and products designed according to the Islamic rules in dealing with customers, and do not object to their provision of such services, it is difficult for them to operate freely and efficiently, as many acts are linked to laws on cash, loan, commercial law, taxation, etc.

Although the Islamic banks in Algeria are recent (Al-Baraka Bank and Al-Salam Bank), they have far more potential to develop and spread than has been achieved in the Algerian banking market (Moussaoui, 2018, p. 216)

#### **4.1. Prospects of Islamic banking in Algeria:**

The prospects for the experience of Islamic banks in Algeria can be perceived in the light of international changes and globalization as follows (Nasser, 2001, 14-15).

- The great success and expansion of Islamic banks at the global level, which now number around 300 banks make Algeria a candidate for more of these banks, especially international holding companies, such as Al-Baraka International Group, because of their extensive experience in the field. Perhaps the closest to this expectation is the International House of Islamic Money Group (Dar al-Maal al-Islami Trust). While internal initiatives remain unlikely because they lack sufficient experience. This is encouraged by the expansion of investment fields in Algeria and the result is real competition in this area. In addition, the last beneficiary of this experience is the Algerian citizen and economy.
- The Algerian authorities' recent interest in Islamic Banking has resulted in the opening of Islamic windows in some of Algeria's traditional banking agencies across the national territory. Further, the state encourages the creation of Islamic bank products in order to attract the money supply outside the banking system.
- If the number of Islamic banks in Algeria increases, both as new names or new branches, the problem of dealing with the central bank will be more acute. Here, laws for these banks could be enacted, as has happened in some countries. If the so-called International Association of Islamic Banks is reactivated as an international Islamic central bank, the control could be divided between it and the Bank of Algeria.
- International banks operating in Algeria can exploit this popular awareness and willingness to deal with Islamic banks in opening branches for Islamic financial transactions, as Citibank has done in Egypt.
- The continued development of banking techniques makes it imperative for Islamic banks to keep pace with this development in line with the provisions of Islamic Sharia by relying on qualified frameworks in the economy, finance, and Sharia. It is something that has yet to reach the Bank of Al-Baraka, especially if we know

that the Bank has a single Islamic control instead of an Islamic control body (Howariya, 2017, p. 318).

## **5. Problems and constraints, conditions and requirements for the success of Islamic banking in Algeria**

### **5.1. Problems and constraints of Islamic banking in Algeria:**

Islamic banks, although few in Algeria, are in a public environment that carries a lot of opportunities and at the same time is a source of many problems and difficulties, the most important of which are:

- a. The absence of a body that unites fatwas, as well as the recent experience of transactions carried out by Algerian Islamic banks, leading to distracting the ideas of bank officials. This is due to a range of problems, including:
  - a. They are subject to the same laws and regulations as traditional banking (without regard to their privacy) (Nasser, 2010, p. 310).
  - b. Lack of cooperation with sharia-based bodies by Bank administration officials, which allows for the existence of Islamic irregularities by Bank employees that ultimately lead to senseless virtual Islamic control.
  - c. Algerian Islamic banks suffer from a severe shortage of qualified frames and personnel to carry out the banking work based on Islamic grounds. Among the problems that prevent them are:
    - The availability of frames with banking experience but no knowledge of Islamic sharia provisions and the availability of Islamic specialists who are weak in modern banking transactions.
    - Lack of adequate training courses, such as in Islamic banks operating in the Middle East or the Gulf.
- b. One of the most important challenges facing Islamic banks is the financial and savings aspect with which Islamic banks operate. Possible problems include:
  - a. The nature of the work of Islamic banks is not adequately understood by its clients in Algerian society, who see some of the bank's revenues as usury-based income (Nasser, 2001, p. 14)
  - b. It is difficult for these banks to obtain the liquidity they need in their activity because the provisions adopted by them, which are based on Islamic law, do not allow them to resort to the money market to cover their requirements through the contracting formulas they use with traditional financial institutions that deal with usury interests.
  - c. Algerian Islamic banks deal more with fixed-return financing formulas such as Murabaha, at the expense of unstable return formulas such as speculation and sharing, for several reasons, including their customers' preference for the former at the expense of the latter.

d. Among the issues that affect Islamic branches, which worry many clients, is that Islamic branch funds are mixed with those of the main bank and other traditional branches (Abdou, 2009, p. 53)

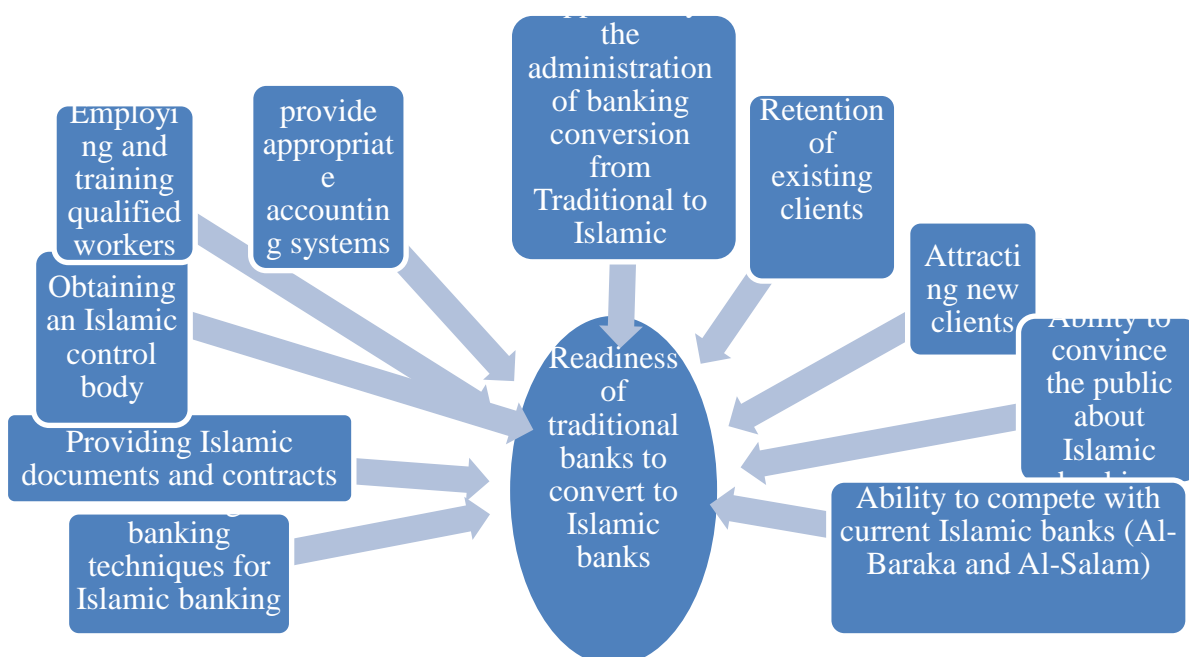
**5.2. Conditions and requirements for the success of Islamic banking in Algeria:**

Banking work cannot be converted in accordance with Islamic law overnight, as there are many factors and variables that affect the right conversion. These factors may be linked to those responsible for managing the banking system in Algeria as well as those responsible for managing traditional banks, or to the nature of the legal and regulatory environment for banking, as well as to the banking market and its clients. There are other factors and obstacles, such as the non-spread of its branches geographically, the lack of profit-making commercial nerve to attract top clients, and the high risk facing Islamic banks concerning credit and finance policy. Other special requirements are administrative, legal, and legislative. (Moussaoui, 2018, p. 222)

**6. Experimental :A field study to assess the readiness of traditional banks in Tiaret state to convert to Islamic banks.**

The operational or procedural framework is to express conceptual content in a way that makes it measurable or assessable. In order to clarify the dimensions and mechanisms of the concept of readiness, we consulted a group of experts in banking in addition to our previous knowledge through our specialty (Finance and Banks), including the module of Islamic Banking. We also checked dozens of specialized works, in addition to what is presented in this study. Ten criteria have been monitored to assess the readiness of the banking transition from traditional to Islamic banking.

Fig.02: Criteria for assessing the readiness of traditional banks to become Islamic banks.



Source: made by the researchers

### **6.1.The temporal and spatial frame of the study:**

This study relied on a questionnaire to assess the readiness of traditional banks in Tiaret state to convert to Islamic banking, lasting about a month from 2019 across the entire territory of Tiaret State.

**Data used:** To address the analytical aspects of our topic, 100 final copies of the questionnaire were distributed to 100 employees in the banking sector across the entire territory of the state of Tiaret and were examined at the moment of its distribution to explain the content of the questionnaire items and the purpose behind this study, and to clarify the questions and phrases included in the questionnaire and the way to answer them (see appendix)

### **Presentation and analysis of questionnaire results:**

The extent to which traditional banks are ready to convert to Islamic banks is determined by an analysis of participants' assessment at the level of banks understudy in Tiaret. The result of this research was as follows:

#### **a. The average of traditional banks readiness in Tiaret to convert to Islamic banks:**

This study showed that the average obtained of the traditional banks' readiness in Tiaret state to convert to Islamic banking is:

<b>Readiness average = 7.1765</b>
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#### **b. Method of calculating readiness through questionnaire results:**

In order to obtain the readiness value of the traditional banks in Tiaret state for conversion to Islamic banking, described above, three basic steps have been taken:

**First step:** Data obtained from the questionnaire were unloaded into the computer in the form of variables numbered from 1 to 10 (X1, X2... X10). Through the SPSS program, using the Principal Component Analysis Technique and the Factor Analysis Method, weights (coefficients) of the ten variables were obtained through the output of the Principal Component Analysis Technique shown in the following table:

**Table 01:** the output of the Principal Component Analysis Technique

Variables	Component
	1
Variable X1	,778
Variable X2	,859
Variable X3	,905
Variable X4	,823
Variable X5	,872
Variable X6	,911
Variable X7	,813
Variable X8	,836
Variable X9	,766
Variable X10	,894

**Source:** The results of data analysis obtained from the questionnaire by the Principal Component Analysis Technique.

**Component matrix:**

The table above shows that all 10 variables have been reduced to a single principal component or factorial axis, which explains what is more than 71% of the full information (total variance explained), which we call “Readiness component to convert to Islamic banking in Tiaret State.” Concerning the values received, they reflect the values of the 10 variables coordinates that express the dimensions of readiness on the factorial axis expressing the general concept of readiness. We will therefore consider those values as weights, degrees of significance, or coefficients of the various variables, given the general concept of readiness.

**Table 02:** weights (coefficients) of variables (dimensions of readiness)

$X_i$	X1	X2	X3	X4	X5	X6	X7	X8	X9	X10
$P_i$	0.778	0.859	0.905	0.823	0.872	0.911	0.813	0.836	0.766	0.894

**Source:** The results of data analysis obtained from the questionnaire by the Principal Component Analysis Technique

Where:  $X_i$  represents the variables (dimensions of readiness).  $P_i$  represents the weights of variables or coefficients of variables.

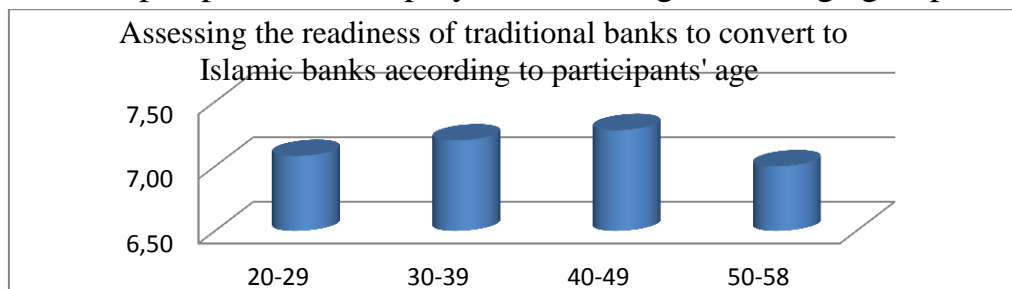
**Second step:** At this stage, the average of readiness for each member of the sample has been calculated using coefficients or weights that differentiate variables according to their degree of significance and their impact on the phenomenon of “Traditional banks readiness to convert to banks operating under Islamic Sharia in Tiaret state,” which we obtained through the results of data analysis obtained from the questionnaire using the principal component analysis technique. The results of the individual evaluation were different, which shows the overall (multidimensional) assessment of this readiness according to each participant.

**Third step:** It is the last step through which the overall average of readiness (collective assessment) has been extracted. The weighted arithmetic average<sup>\*1</sup> of readiness has been obtained, i.e., the overall average of readiness of traditional banks in Tiaret state to convert to banks operating under Islamic law provisions in all their transactions, estimated at 7.1765 of 10.

**c. Analysis of the overall average of readiness: 7.1765/10(see the appendix)**

The overall assessment of readiness estimated at: 7.1765/10 is a strong and good value, obtained through the values of the 100 questionnaires for the 10 variables that were subjected to the principal factor analysis technique, which in turn gave ten coefficients according to the significance and impact of each variable in this readiness, at the rate of one factor per variable. These coefficients granted the possibility of calculating the individual average of each questionnaire, through which the value of the overall average of readiness would be calculated. In order to determine its objectivity, we undertake the following studies:

Fig.03: Assessing the readiness of traditional banks to convert to Islamic banks from the perspective of employees according to their age group

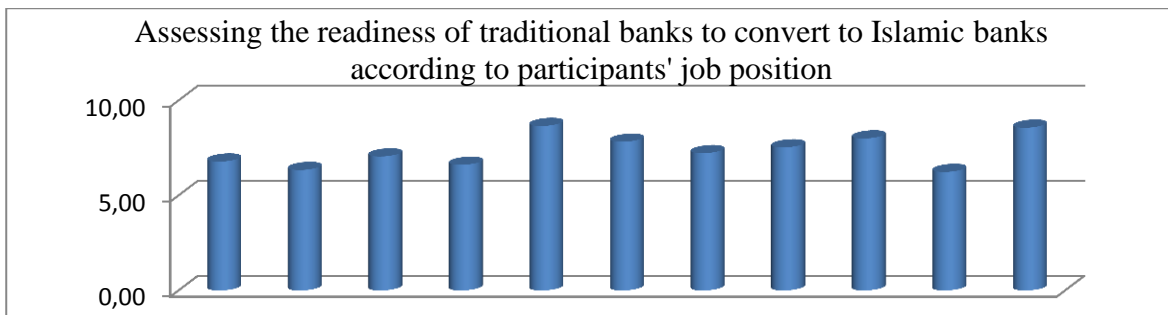


**Source:** The results of data analysis obtained from the questionnaire by the Principal Component Analysis Technique

From the above figure, it is noted that the highest average of readiness assessment was 7.28 for the 40-49 age group, followed by 30-39 with 7.20, 20-29 with 7.08, and finally 50-60 with 7.00. By reading these averages, we find that they are all above 7 and very close, which confirms that all age groups agree on almost the same average concerning their banks' readiness to convert in accordance with Islamic banking. Age differences among the sample members did not affect the overall average of traditional banks' readiness in Tiaret state to become Islamic banks.

Fig.04: Assessing the readiness of traditional banks to convert to Islamic banks from the perspective of employees according to their job position

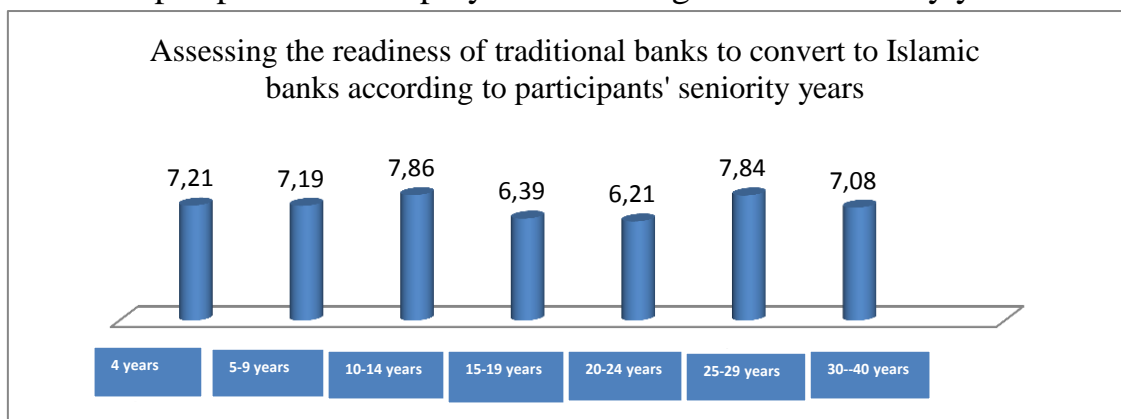
<sup>1</sup> Weighted arithmetic average of readiness  $\sum = \text{individual averages}/\text{number of views}$



**Source:** The results of data analysis obtained from the questionnaire by the Principal Component Analysis Technique

The category of multi-service agent received an average of 7.83 and 7.53, followed by an average of 7.23 by the agent in charge of loans and operations, an average of 7.05 for the cashier's position, and the final averages of readiness assessment were 6.79, 6.61, 6.34, and 6.24, respectively, by the employees of each of the following positions: in charge of studies, business manager, head of service, and finally deputy director. By reading these ten averages, three of them are above eight, four (the majority) are above seven, two are close to seven, and two values are above six. The most important jobs are in the range of seven and eight. This confirms that, despite their differing perspectives, the different members of the sample agree that the readiness of their banks' understudy to convert to work according to Islamic Sharia provisions is significant. The different jobs occupied by the participants did not affect the overall average of traditional banks' readiness in the state of Tiaret to become Islamic banks.

Fig.05: Assessing the readiness of traditional banks to convert to Islamic banks from the perspective of employees according to their seniority years

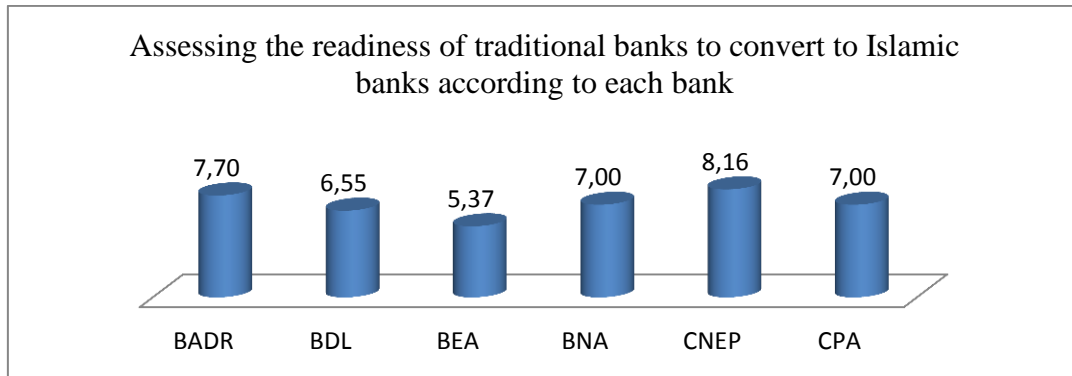


**Source:** The results of data analysis obtained from the questionnaire by the Principal Component Analysis Technique

From the above figure, the highest average is 7.86 for seniority from 10 to 14 years, followed by 7.84 for seniority from 25 to 29 years, then 7.21 and 7.19 for participants with less than one year of experience up to 9 years of seniority. Participants with seniority ranging from 30 to 40 years gave an average of readiness of 7.08, followed by 6.39 and 21 for those with seniority ranging from 15 to 24 years.

Reading these averages, we all find them to be significant values, confirming that seniority has no discernible influence on assessing the readiness of the banks in question to convert to Islamic banking. It appears that all members of the sample, despite their different seniorities in banking work, are unanimous in their belief that their banks in Tiaret state are ready to make the transition.

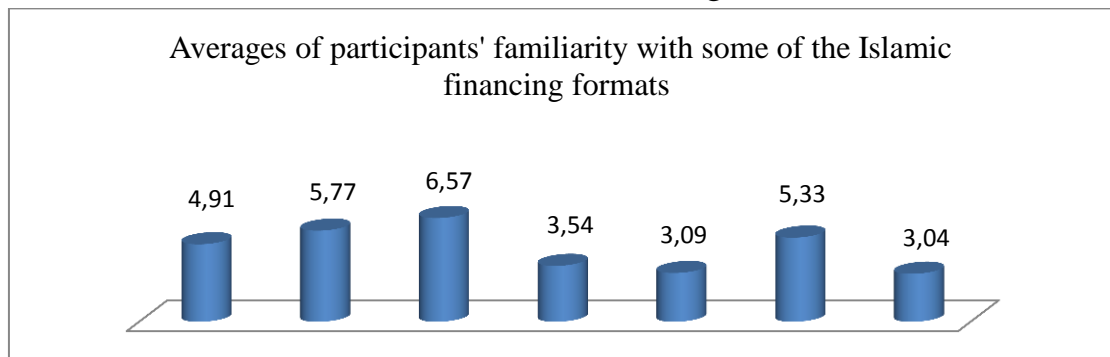
Fig.06: Assessing the readiness of traditional banks to convert to Islamic banks from the perspective of employees according to each bank's employees



**Source:** The results of data analysis obtained from the questionnaire by the Principal Component Analysis Technique

According to the figure above, the highest average recorded was 8.16 for CNEP participants, followed by a 7.70 average for BADR sample members, a 7 for BNA and CPA participants, a 6.55 for BDL staff, and a 5.37 for BEA. Reading these averages, we find all of them to be around 7, and the difference between them is small, confirming that all of the banks' staff has agreed that their banks are ready to convert to Islamic banking. The difference in banks did not affect the overall average of readiness. It is worth mentioning that CNEP and BADR have taken the lead in terms of conversion readiness, while the last one was BEA due to the small sample of this bank estimated at 7% of the sample study.

Fig.07: Assessing the extent to which the participants in question were familiar with some of the Islamic financing formats



**Source:** The results of data analysis obtained from the questionnaire by the Principal Component Analysis Technique

According to the above figure, the highest variation recorded was for Al-Murabaha formula (Cost-plus financing) at 6.57, followed by sharing formula at 5.77,



and 5.33 for the rental formula, while the speculation formula was 4.91. The averages of Bai Silm formula (sale for forward buying) 3.54, Al-Istisn'a 3.09 (ordering to make), and Al-Muzara'a 3.04 (crop sharing) were in the last rank with values greater than 3 out of 10. This shows that there is an inconsistency between the results of close-total readiness and a lack of cognitive level of participants concerning some Islamic finance formats. However, it can be said that the bank employees in question have a fairly average or acceptable level of knowledge regarding Al-Murabaha formula, which ranks first cognitively, followed by sharing, rental, and speculation formulas, which are the most important and used in Islamic banking transactions. The rest of the formulas, which are Bai Silm, Al-Istisn'a, and Al-Muzara'a are below average, as it is less important and less widespread than their predecessors.

## **8. Conclusion**

Through this study, we have reached the following findings:

- Traditional banks in the state of Tiaret are ready to convert to Islamic banking. Only the will of the Bank of Algeria (the Central Bank), which has direct authority over these banks, is required for the banks' entry into this activity.
- According to the field study, the human resources of these banks have been trained but insufficiently and need additional support to expand their knowledge and increase their familiarity with all the requirements for applying Islamic banking.
- The conversion of traditional banks to operate following the provisions and requirements of the Islamic Sharia is a legitimate and Islamic obligation. It requires the radical withdrawal of usury transactions and their replacement by Islamic transactions in all formats and methods. It includes all banking activities, contracts, accounting, administrative and regulatory aspects, the qualification of workers, as well as methods of dealing with the Central Bank and other banks. This requires the progressive conversion approach because it is the appropriate form to ensure that the goal is fully reached.
- The process of converting traditional banks to Islamic banking has different forms, ranging from total or partial conversion, depending on the legal and Islamic circumstances of the banking environment, as well as the culture of Islamic banking society.
- The success of Islamic banking depends on two things: the provision of legal, administrative, accounting, and Islamic requirements; and the willingness and readiness of the authority and society to abandon the usury system that is based on taboo interests. This requires the existence of an Islamic control body to ascertain that transactions are Sharia-compliant and avoid the confusion of Halal with Al-Haram.
- The limited number of Islamic banks operating in Algeria is due to the recent banking laws.

### **Recommendations:**

- The need to benefit from other countries' experiences in converting traditional banks to Islamic banking, including its advantages and disadvantages in terms of designing the conversion plan and choosing the appropriate form for the Algerian banking environment.
- The Bank of Algeria should move quickly towards filling the legislative vacuum for Islamic banking, which could contribute to the transformation of traditional Algerian banks, even partially through Islamic windows and branches, or encourage the establishment of new Islamic banks.
- Activating the process of turning traditional banks into Islamic banks. In addition, the state should pay attention to the creation of Islamic banks.
- Undertake a profound reform of the Algerian banking system and create the necessary means to enable it to adapt to the provisions of Islamic law.
- Establishment of training centers for employees, developing seminars and conferences and opening postgraduate disciplines on Islamic banking.
- The Bank of Algeria must change its policy towards Islamic banks and work on a policy consistent with their distinctive nature.
- Subject the control body to banking training to keep pace with developments in contracts and transactions.

Promote cultural awareness of Islamic banking in Algerian society by intensifying declarations to explain the danger of usury interests.

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## Appendix:

### Overall rate of readiness

N	C1	C2	C3	C4	C5	C6	C7	C8	C9	C10	X1C1	X2C2	X3C3	X4C4	X5C5	X6C6	X7C7	X8C8	X9C9	X10C10	ΣCI	ΣXICI	MOY
89	0,778	0,859	0,905	0,823	0,872	0,911	0,813	0,836	0,766	0,894	7,78	8,59	9,05	8,23	8,72	9,11	8,13	8,36	7,66	8,94	8,457	84,57	10,00
90	0,778	0,859	0,905	0,823	0,872	0,911	0,813	0,836	0,766	0,894	7,78	8,59	9,05	8,23	8,72	9,11	8,13	8,36	7,66	8,94	8,457	84,57	10,00
91	0,778	0,859	0,905	0,823	0,872	0,911	0,813	0,836	0,766	0,894	7,78	8,59	9,05	8,23	8,72	9,11	8,13	8,36	7,66	8,94	8,457	84,57	10,00
92	0,778	0,859	0,905	0,823	0,872	0,911	0,813	0,836	0,766	0,894	7,78	8,59	9,05	8,23	8,72	9,11	8,13	8,36	7,66	8,94	8,457	84,57	10,00
93	0,778	0,859	0,905	0,823	0,872	0,911	0,813	0,836	0,766	0,894	5,446	0	0	6,584	3,488	0	2,439	5,016	5,362	1,788	8,457	30,123	3,56
94	0,778	0,859	0,905	0,823	0,872	0,911	0,813	0,836	0,766	0,894	3,89	5,154	8,145	6,584	5,232	7,288	0	5,016	4,596	5,364	8,457	51,269	6,06
95	0,778	0,859	0,905	0,823	0,872	0,911	0,813	0,836	0,766	0,894	5,446	8,59	9,05	8,23	7,848	7,288	5,691	6,688	6,894	8,94	8,457	74,665	8,83
96	0,778	0,859	0,905	0,823	0,872	0,911	0,813	0,836	0,766	0,894	6,224	6,013	8,145	6,584	5,232	5,466	6,504	5,852	6,128	6,258	8,457	62,406	7,38
97	0,778	0,859	0,905	0,823	0,872	0,911	0,813	0,836	0,766	0,894	2,334	2,577	5,43	6,584	4,36	4,555	4,065	5,016	6,894	7,152	8,457	48,967	5,79

98	0,778	0,859	0,905	0,823	0,872	0,911	0,813	0,836	0,766	0,894	5,446	7,731	8,145	6,584	4,36	5,466	4,065	6,688	4,596	8,046	8,457	61,127	7,23
99	0,778	0,859	0,905	0,823	0,872	0,911	0,813	0,836	0,766	0,894	7,002	7,731	7,24	7,407	6,976	7,288	6,504	7,524	6,894	8,046	8,457	72,612	8,59
100	0,778	0,859	0,905	0,823	0,872	0,911	0,813	0,836	0,766	0,894	7,78	8,59	9,05	8,23	8,72	9,11	8,13	8,36	7,66	8,94	8,457	84,57	10,00
<b>Overall rate of readiness</b>																						<b>7,1765</b>	

**Total Variance Explained**

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	7,176	71,765	71,765	7,176	71,765	71,765
2	,627	6,268	78,032			
3	,502	5,018	83,051			
4	,479	4,795	87,845			
5	,361	3,612	91,458			
6	,268	2,677	94,135			
7	,242	2,420	96,554			
8	,138	1,380	97,934			
9	,112	1,118	99,052			
10	,095	,948	100,000			

Extraction Method: Principal Component Analysis.

Source: prepared by researchers by using SPSS

**Sample distribution**

Readiness assessment	rate%	Fi	bank
7,70	34%	34	BADR
6,55	20%	20	BDL
5,37	7%	7	BEA
7,00	15%	15	BNA
8,16	14%	14	CNEP
7,00	10%	10	CPA
<b>10/</b>	<b>100%</b>	<b>100</b>	<b>Tot</b>

**Descriptive Statistics**

	Mean	Std. Deviation	Analysis N
VAR00001	6,9700	2,66839	100
VAR00002	6,9100	2,83590	100
VAR00003	7,1200	2,70159	100
VAR00004	7,4900	2,48427	100
VAR00005	7,0200	2,72653	100
VAR00006	7,2200	2,63074	100
VAR00007	7,0500	2,71686	100
VAR00008	7,2700	2,31750	100
VAR00009	7,3100	2,66551	100
VAR00010	7,4000	2,64766	100

Source: prepared by researchers by using SPSS