

# Evaluating the Activity of Islamic Windows in Algerian Public Banks: A Comparative Study between the Window of the National Bank of Algeria and Bank Al Salam Algeria

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**Abstract:** This study aims to evaluate the performance of Islamic windows in Algerian public banks in comparison with Islamic banks operating in the country's banking sector. To achieve this, a comparative study is conducted between the Islamic window of the National Bank of Algeria and Bank Al Salam Algeria covering the period from 2020 to 2021. Despite the Islamic window being opened only recently in 2020, this study found that the National Bank of Algeria has been able to offer Islamic services and products, attract resources, and provide financing. However, the activity of Al Salam Bank Algeria surpasses that of the National Bank of Algeria in several services and products.

**Keywords:** Islamic window, Islamic bank, Islamic finance, Islamic products, National Bank of Algeria, Bank Al Salam Algeria.

## 1. Introduction

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Many Arab and Western countries are adopting Islamic banking due to its ability to withstand various crises and risks by relying on business principles derived from Islamic law. Since 2020, Algeria has made efforts to Transition to Islamic banking by issuing regulations and guidelines that allow conventional banks to offer Islamic banking services through the establishment of Islamic windows. Several banks in Algeria, especially public ones, have introduced Islamic banking services within their conventional branches.

### 1.1. Research Problematic

How effective was the National Bank of Algeria's Islamic window in gaining market share compared to Bank Al Salam Algeria during 2020-2021?

To answer this question, we ask the following sub-questions:

-How did Islamic banking and Islamic windows originate in Algeria?

-Which financial services and products does the National Bank of Algeria's Islamic window offer that differ from those of Bank Al Salam Algeria?

-Has the National Bank of Algeria's Islamic window attracted deposits compared to Bank Al Salam Algeria during the 2020–2021 period?

-Does the Islamic window of the National Bank of Algeria contribute more to the financing of the Algerian economy than Bank Al Salam Algeria during the 2020-2021 period?

#### *1.2. Research Hypotheses*

-The National Bank of Algeria's Islamic window offers a different range of financial services and products compared to its counterpart at Bank Al Salam Algeria.

-The Islamic window of the National Bank of Algeria attracted more deposits than Bank Al Salam Algeria during the period from 2020 to 2021.

-The National Bank of Algeria's Islamic window provided greater financing across all Islamic financing modes than Bank Al Salam Algeria during the same period.

#### *1.3. Research Aims*

-Focus on the current state of Islamic banking practices in Algeria.

-Identify the Islamic windows operated by the National Bank of Algeria and Bank Al Salam Algeria.

-Highlight the activities of the Islamic window of the National Bank of Algeria and those of Bank Al Salam Algeria during the period 2020-2021.

#### *1.4. Research methodology*

Descriptive, analytical, and comparative approaches were employed in conducting the applied study.

## **2. Islamic banks and Islamic windows in Algeria**

Islamic banking services are currently available in Algeria, through a number of public and private banks .

### *2.1. Establishment of Islamic banking in Algeria*

Islamic banking in Algeria began in 1991 with the establishment of Al Baraka Bank Algeria, which is considered the first Islamic bank within the Algerian banking system.

The idea of establishing Al Baraka Bank Algeria originated in 1984 through discussions between the Algerian Bank of Agriculture and Rural Development and the Al Baraka International Group. As a result of these discussions, Algeria secured a \$30 million loan from the International Islamic Bank for Foreign Trade to support the financing of foreign trade. The fourth Al Baraka Group seminar, held in Algeria in November 1986, further explored the concept of founding Al Baraka Bank Algeria.

The second Islamic bank, Al Salam Bank Algeria, was established through collaboration between Algeria and the United Arab Emirates, and it received official approval in 2008.

In addition to these two banks, several foreign conventional banks operating in Algeria also offer Islamic financial services. These include Gulf Bank Algeria, Trust Bank Algeria, and the Arab Banking Corporation.

Starting in 2020, following the issuance of Regulation No. 20-02 on March 23, 2020, - which defines banking operations related to Islamic banking and sets the rules for its practice by banks and financial institutions-, Algerian public banks began establishing Islamic windows. ( Ben Zakka & Charron, 2022)

### *2.2. Motivations for Opening Islamic windows in Algerian conventional banks*

Islamic windows generally refer to divisions within conventional banks that are tasked with offering Islamic products and services. (Khatwi & Benmoussa, 2021)

These Islamic windows enable traditional Algerian banks to: (Bouhidir, 2021).

-Attract funds that are hoarded outside the Algerian banking system and post offices, channeling them into the formal banking circuit.

-Provide Islamic banking services in adequate volume and geographic coverage, as Islamic banks in Algeria remain limited in reach and are primarily concentrated in major cities.

-Support the success of Al Salam Bank and Al Baraka Bank, the two Islamic banks currently operating in Algeria.

-Mobilize new financial resources for the various financing activities conducted through these windows.

### 3. The study sample

#### 3.1. Al-Salam Bank of Algeria and the Islamic banking windows within the National Bank of Algeria

The study examined a sample comprising Al-Salam Bank of Algeria and the Islamic banking windows within the National Bank of Algeria.

**3.1.1 Al Salam Bank Algeria:** Al Salam bank is a foreign, multifunctional, multiservice Islamic bank that offers a wide range of sharia- compliant banking services. It operates under Algerian law and conducts all its activities in accordance with the principles of Islamic Sharia.

Authorized by the Bank of Algeria in September 2008, the bank commenced its operations with the objective of providing innovative and modern banking solution tailored to the Algerian market.

The bank seeks to meet the evolving needs of the Algerian banking sector through a clear strategy aligned with the country's economic development goals.

Its operations are overseen by a Sharia Board composed of prominent scholars specialized in Islamic jurisprudence and economics. (بنك السلام الجزائر)

**3.1.2 National Bank of Algeria:** The National Bank of Algeria was established on June 13, 1966. It operates as a full-service bank, carrying out a wide range of banking activities, including financing the agricultural sector.

In 1982, the bank was restructured into a specialized institution known as the Agricultural Bank and Bank for Rural Development. Following the enactment of Law 90-10 on money and credit, the National Bank of Algeria was designated as a legal entity authorized to conduct all operations related to resource mobilization, lending, and payment instruments management as part of its regular banking function. (البنك الوطني الجزائري)

On July 30, 2020, the bank was granted an Islamic banking license and began offering a wide range of savings and financing products in compliance with Islamic Sharia principles. (البنك الوطني الجزائري، الصيرفة الإسلامية)

#### 3.2. Islamic financial services provided by BNA and Al Salam Bank

Both banks offer a range of Islamic financial services, including as account opening, sharia- compliant financing, and digital banking solutions.

**3.2.1 Bank accounts:** As shown in the table below, both the National Bank of Algeria and Al Salam Bank Algeria allow individuals and institutions to open various types of accounts.

Table .1. types of accounts offered by the National Bank of Algeria and Al Salam Bank Algeria

| Accounts                | Al Salam Bank        | BNA                  |
|-------------------------|----------------------|----------------------|
| <b>For individuals</b>  | Check account        | Check account        |
|                         | Investment account   | Investment account   |
| <b>For institutions</b> | Current bank account | Current bank account |
|                         | Investment account   | Investment account   |

Source: (Bna(مصرف السلام الجزائر) )

Both banks offer individuals the same basic types of accounts: checking and investment. However, Al Salam Bank Algeria provides a more diversified range of investment accounts, including:

- **The “Oumniyati” investment booklet :**

The Oumniyati Investment Booklet is a simple and secure savings tool available to all Individuals. It allows customers to invest freely in a Mudaraba-based structure, with the

flexibility to withdraw funds at any time. Profit are calculated and credited to the account on a quarterly basis.

- **HADIYATI investment booklet:**

The Hadiyati investment booklet is a demand account that can be opened for the name of another person as a gift on any occasion, it operates based on the Mudaraba contract and enables the beneficiary to earn profits, which are calculated and credited to the account on a quarterly basis.

- **SIYAHATI investment booklet:**

**The Siyahati** investment booklet is a sharia-compliant savings approved by the Bank's sharia board, it allows the account holder to benefit from travel services through installment payments in cooperation with one of the bank's approved travel agencies or an agency of his choice. Travel benefits can also be transferred to another person. The product operates a Mudaraba contract, and the profits are calculated and distributed quarterly.

- **Sayidati investment booklet:**

An investment product approved by the bank's Sharia Board, exclusively designed for women. It enables them to invest their savings based on the Mudaraba principle, with profit returns distributed every three months. Participants also enjoy various gifts and exclusive privileges.

- **OMRATI investment booklet:**

A savings product approved by the Bank's Sharia Board based on the Mudaraba principle. It allows the account holder omrah through installment payments with one of the bank-t approved travel agencies, and to benefit from a of 10,000 DZD discount for each Omrah paid in cash. Omrah Privileges can also be transferred to another person. Profit returns are distributed every three months.

- **HIRFATI investment booklet:**

The "Hirfati" service allows customers to open a savings account and access short- and medium-term microfinance to support their projects. It includes micro Takaful insurance coverage provided by Al Salama Insurance Company. The program is managed by incubators approved by Al Salam Bank Algeria, and is structured according to the principles of Mudaraba, Qard Hassan and Ijarah Muntahia Bittamleek (lease ending with ownership).

- **DIRASATI investment booklet:**

An investment product approved by the bank's Sharia Board, designed to help parents finance their children's education fees at private schools and institutions of their choice. Customers can also finance the education of more than one child, within the allowable financing limits.

Profits are distributed every three months in accordance with the Mudaraba principle.

- **Investment bonds:**

An investment deposit structured according to the Mudaraba principle and approved by the bank's Sharia Board. It generates profits that are calculated and distributed every three months.

- **Investment account:**

A term- based Mudaraba account that generates profits, which are distributed in accordance with the bank's terms and conditions, based on the investment period and amount.

**The National Bank of Algeria offers CIINR** an unrestricted Islamic investment account based on the Mudaraba principle, which entails profits and loss sharing between the bank and the depositor. Funds deposited in this account are invested in sharia- compliant project financing.

Profits are shared annually between the bank and the account holders according to a pre-agreed distribution ratio, and calculated at the end of each financial year.

**In terms of institutional banking,** both banks offer commercial current account for businesses and organizations. However, when it comes to investment accounts, Bank Al Salam provides an investment account specifically designed for institutions, while the National Bank of Algeria offers an unrestricted Islamic investment account (CIINR).

*Diversifying the range of bank accounts is considered one of the most effective*

strategies for attracting customer deposits. Al Salam Bank has made significant investments in this area by innovative account offerings tailored to the needs of the Algerian population. Notable Examples include the Siyahati account for tourism and the Omrati account for omrah, both of which have attracted a large number of customers.

3.2.2. *Financing products:* Both Al Salam Bank Algeria and the National Bank of Algeria offer a range of Sharia-compliant financing solutions for both individual and corporate clients, as shown in the table below:

Table .2. Financing products offered by the National Bank Algerian and Al Salam Bank Algeria

| Financing products | Al Salam Bank    | BNA                                     |
|--------------------|------------------|-----------------------------------------|
| For individuals    | Installment sale | Murabaha for the purchase of cars.      |
|                    | Ijarah           | real estate Murabaha                    |
|                    |                  | Murabaha for the purchase of equipment. |
|                    | Rental credit    | Ijara                                   |
| For institutions   | Murabaha         | Exploitation Murabaha                   |
|                    | Ijara            | Investment Murabaha                     |
|                    | salam            |                                         |
|                    | Musharaka        |                                         |
|                    | Istisna'a        |                                         |

Source: (Bna(مصرف السلام الجزائر) )

Al Salam Bank Algeria offers consumer installment financing for individuals to purchase cars, motorcycles, household appliances, and furniture. Its real estate financing products include Ijarah and Musharaka structures, which can be for the construction, extension, purchase, lease, or renovation of houses, as well as for the acquisition of public housing (LPP, LPA, or LSP).

The National Bank of Algeria, on the other hand, offers Murabaha-based financing to individuals for the purchase of cars, real estate, and equipment.

Al Salam Bank Algeria offers institutions a range of financing options for acquiring transportation and civil engineering equipment, as well as for working capital, real estate, and trade financing. These financing products are structured under Murabaha, Ijarah Muntahia bittamleek, Musharaka, and Salam contracts. Additionally, Al Salam Bank Algeria provides lease-based financing for acquisition of equipment, public works and construction machinery, transportation vehicles, medical equipment, and real estate through its Lisbro scheme.

The National Bank of Algeria offers two sharia-compliant financing modes: Ijara and Murabaha. The Ijara structure is used to finance equipment and vehicles, while the Murabaha structure covers the financing of raw materials, semi-finished and finished products required for business operations, as well as investments for acquiring real estate, vehicles, and equipment essential for business activities.

*In terms of financing products, Al Salam Bank offers a diverse portfolio of sharia-compliant financing solutions, each tailored to meet customers' specific needs. In contrast, the National Bank of Algeria provides only one or two financing modes, thereby limiting customer choice.*

3.2.3 *Digital Financial Services:* Regarding digital financial services, the National Bank of Algeria provides only general information on its website, where individuals and businesses

can learn about Islamic banking principles, services and products( available at: <https://www.bna.dz/financeislamique/ar>).

In contrast, Al Salam Bank Algeria offers a comprehensive range of digital services, including online banking, mobile banking, foreign trade platforms and Wimpay payment solution.

- **The Remote Banking Service - Salam Mubasher- :**

The Salam Mubasher remote banking platform provides with 24/7 access to a wide range of banking operation through the website: <https://www.alsalamalgeria.com/ar>

**For individuals: customers can** view account activity and track electronic transactions, download and print statements, order checkbooks, monitor financing facilities, view time deposits, transfer funds between accounts, and apply for a bank card.

**For corporate clients:** Al Salam Bank offers a Premium Package that enables institutions to view account balances and transaction ,access SMS notification service, manage cheque dispute, Search account transactions, Download and print account statements and bank statements, Request checkbook, Track financing facilities and fixed deposits, transfer funds between accounts, access transaction execution report.

Additionally, the Gold package provides enhanced premium services, including account consolidation and electronic tax clearance.

- **Salam Smart Banking - mobile application-:**

The Salam Smart Banking mobile application enables customers to perform the following operations via smartphone or tablet: Check account balances and view recent transactions, search and sort recent transactions, simulate funding options, convert currencies, and contact the bank directly.

- **Foreign Trade Platforms:**

Al Salam Bank offers two platforms for conducting foreign transactions:

- Pre-settlement platform: To process pre-settlement requests for imports.
- Documentary credit platform: to complete forms for opening documentary credits for imports.

through the portal: <https://e-portail.alsalamalgeria.com/>,

- **Pay by Scan:**

The pay by scan service enables consumers to make quick by scanning a QR code provided with the merchant, consumers can also transfer funds, check account balances and view transactions history.

For organizations this service allows corporate clients to make fast and secure payments directly from their smartphones.

*Al Salam Bank has made significant investments in digital banking services. The bank leverages financial technology (fintech) to provide innovative applications and platforms that allow customers to access banking services efficiently and conveniently, in line with ongoing technological advancements.*

#### **4. Evaluation of Islamic banking activities – National bank of Algeria and Al Salam bank algeria:**

The National Bank of Algeria provides Islamic banking services through Islamic windows, whereas Al Salam Bank Algeria offers them through its branches.

##### **4.1 Branches and Islamic banking windows**

AL Salam Bank Algeria offers its services through branches distributed across the national territory, while Islamic banking is provided through dedicated windows at the National Bank of Algeria, the number of these windows is shown in the table below for the period 2020-2024:

Table .3. Islamic banking branches and windows of Al Salam Bank Algeria and National Bank of Algeria ( 2020-2024)

|                      | 2020 | 2021 | 2022 | 2023 | 2024 |
|----------------------|------|------|------|------|------|
| <b>Al Salam Bank</b> | 18   | 20   | 23   | 23   | 24   |
| <b>BNA</b>           | 64   | 64   | 64   | 64   | 68   |

Source: (Bna(مصرف السلام الجزائر))

As shown in the table, Al Salam Bank Algeria had 24 branches in 2024, while the National Bank of Algeria had 68 branches distributed across the country.

Although Bank Al Salam Algeria was established in 2008, it has not opened as many branches as the National Bank of Algeria, which started offering Islamic banking services in 2020 through dedicated Islamic windows.

The large number of Islamic branches of the National Bank of Algeria is attributable to its long-standing presence in the Algerian banking system and its extensive network of branches across the country. The establishment of Islamic branches is closely linked to the bank's existing branch network.

In contrast, the limited number of Bank Al Salam Algeria branches reflects its recent entry into the Algerian banking system and its gradual expansion throughout the country.

#### 4.2 Captured resources

Both Al Salam Bank Algeria and the National Bank of Algeria are working to increase their captured resources. The table below shows their volumes of these resources for the period 2020-2021:

Table .4. Captured resources of the National Bank Algerian and Al Salam Bank Algeria (2020-2021) (Thousands DZ)

|                      | 2020      | 2021      |
|----------------------|-----------|-----------|
| <b>Al Salam Bank</b> | 110488355 | 150762167 |
| <b>BNA</b>           | 2675850   | 8986300   |

Source: (Bna(مصرف السلام الجزائر))

The resources obtained by Bank Al Salam Algeria during the period 2020 -2021 were significantly higher than those of the National Bank of Algeria. This is because Bank Al Salam Algeria is relatively new to mobilizing resources in an Islamic banking framework.

According to the table, Bank Al Salam Algeria's resources increased by 40,273,812 thousand Algerian dinars in 2021, representing a 36% growth compared to 2020. This increase was driven by growth in current, term, and savings accounts, which rose by: 57%, 29%, and 68%, respectively.

The National Bank also recorded an increase in its Islamic resources, totaling 6,309,450 thousand Algerian dinars in 2021, representing a 235.7% growth from 2020, largely due to an increase in demand accounts by 5,281,080 thousand Algerian dinars.

*Bank Al Salam Algeria's strong ability to attract resources is attributable to two main factors. First, it has offered Islamic banking for a longer period than the National Bank of Algeria. Second, it has diversified the types of deposits available to customers.*

#### 4.3 Islamic financing provided

Both banks offer a variety of financing products, which saw an increase in volume, as shown in the table below:

Table .5. Islamic finance offered by the National Bank of Algeria and Al Salam Bank Algeria (2020 - 2021 ) (Thousands DZ)

|                      | 2020      | 2021      |
|----------------------|-----------|-----------|
| <b>Al Salam Bank</b> | 101771998 | 153615910 |
| <b>BNA</b>           | 101540    | 1385420   |

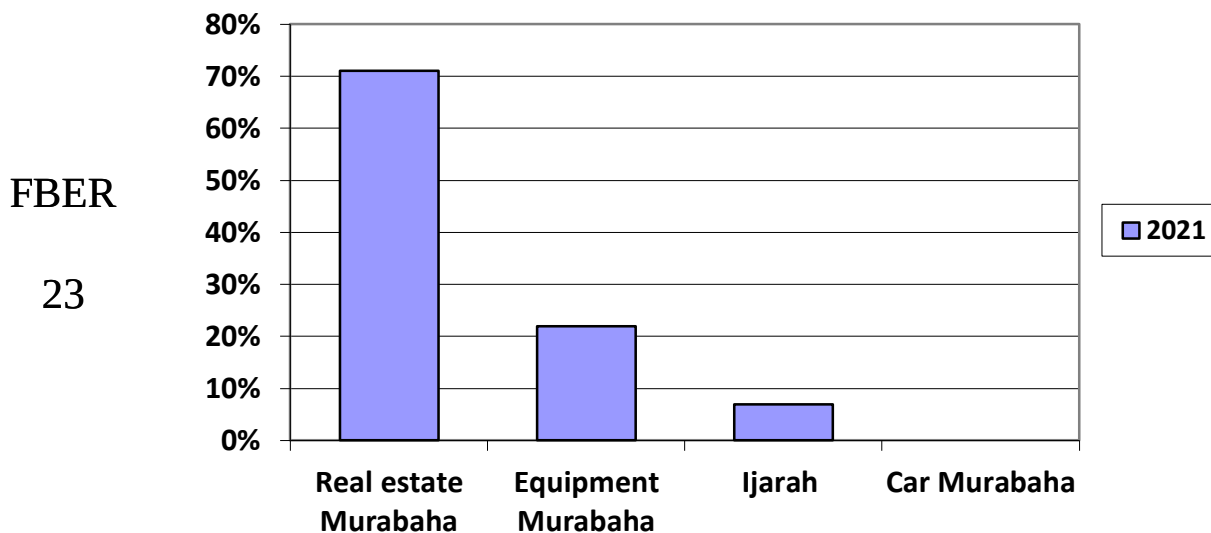
Source:(Bna(مصرف السلام الجزائر) )

Between 2020 and 2021, financing Islamic volumes for Bank Al Salam Algeria and the National Bank Algerian increased. Bank Al Salam Algeria recorded an increase of 5,184,391,200 thousand Algerian dinars in 2021, representing a 51% growth compared to 2020. This increase was allocated towards the private and public sectors, as well as to individual clients.

Meanwhile, the National Bank of Algeria also experienced a significant increase in the volume of Islamic financing in 2021, reaching 128,388 thousand Algerian dinars - a 1,264% rise from 2020 – primarily directed to the private sector.

The Bank's Islamic finance portfolios are structured into the following formats:

Figure .1. Distribution of Islamic Financing at the National Bank of Algeria

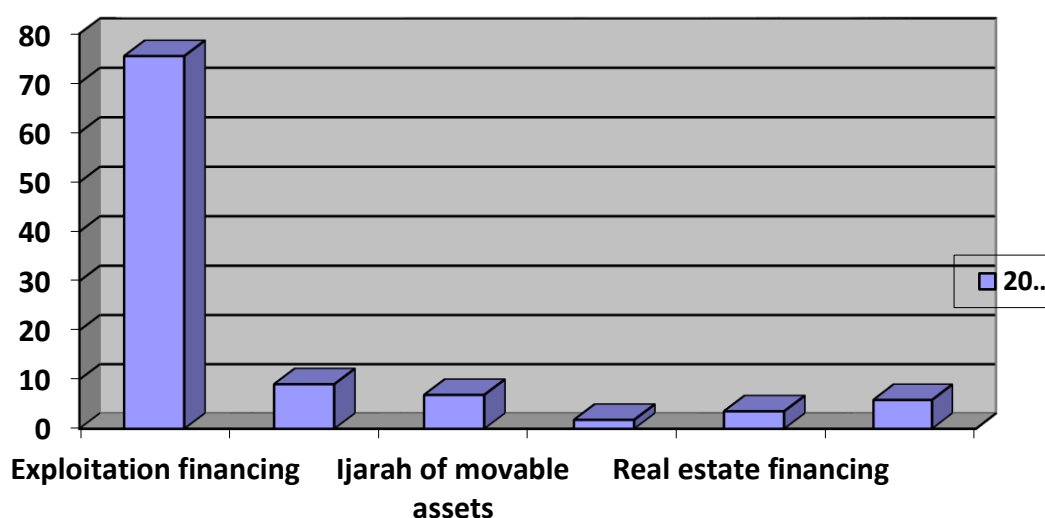


Source: (Algeries, 2021)

The National Bank of Algeria primarily engages in real estate murabaha, which accounted for 71% of its islamic financing portfolio. Equipment murabaha represented 27%, while ijara accounted for 7%. No financing was recorded in the car murabaha category.

Bank Al Salam Algeria's financing portfolio is diversified, as shown in the figure below:

Figure.2.Distribution of Islamic Financing portfolio at Bank Al Salam Algeria



Source: (Algeria, 2022)

As shown in the figure, Bank Al Salam Algeria offers a range of Islamic financing products, including Exploitation Finance, Investment Finance, Movable Assets Ijarah, Real Estate Ijarah, Real Estate Finance, and Consumer Finance. However, the bank's portfolio is primarily concentrated in Exploitation Finance, which accounts for 75% of its total financing activities.

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*The high financing volume of Bank Al Salam Algeria is attributable, on the one hand, to its longer experience in offering Islamic banking compared to the National Bank of Algeria, and, on the other hand, to the diversity of financing options available to its customers.*

## 5. Conclusion

Since 2020, the National Bank of Algeria has been offering Islamic financial services and has actively worked to develop and expand them in compliance with Sharia law.

The results of the study were as follows :

- Although the National Bank of Algeria's experience with Islamic banking is relatively recent, it has offered a wide range of Islamic financial services through 68 windows.
- Compared to the Islamic windows of the National Bank of Algeria, Bank Al Salam Algeria is regarded as a pioneer in Islamic banking in Algeria due to its diversified services and products, particularly electronic ones. Therefore, *the first hypothesis is refuted.*
- The Islamic windows of the National Bank of Algeria attracted a significant volume of deposits, estimated at 8,986.3 million dinars in 2021. However, this amount does not surpass that of Al Salam Bank Algeria, which recorded an estimated 15,076,216.7 million dinars in the same year. Therefore, *the second hypothesis is rejected.*
- Al Salam Bank Algeria offers financing solution covering the entire operational and investment cycle of organizations, whereas the Islamic windows of the National Bank of Algeria focuses exclusively on investment financing.
- In 2021, Al Salam Bank Algeria provided 15,361.59 million dinars in financing, while the Islamic windows of the National Bank of Algeria provided 1,385.42 million dinars. *This further supports the rejection of the the third hypothesis.*

Finally, we recommend that the National Bank of Algeria:

- Diversify its range of Islamic financial products and intensify marketing campaigns for Islamic banking services.
- Provide Financing solutions that cover both the operational and investment needs of customers.

- Introduce new types of deposits products tailored to customers' needs, based on market research and customer segmentation.
- Develop electronic platforms and mobile applications to deliver Islamic banking services more efficiently and conveniently.

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