

Towards a regulation of Islamic insurance in Algeria**Mohammed Himrane¹, Hocine Hassani²,**¹ University of Jijel (Algeria), Email address, m_himrane@univ-jijel.dz² University of Chlef (Algeria), Email address, h.hassani@univ-chlef.dz**Received: 07 /06 /2021 ; Accepted: 01 / 11 /2020 ; Published: 06 / 30 /2021****Abstract :**

The takaful practice in Algeria is different from the one applied in other Muslim countries. In fact, Algeria still does not have a Shariah complaint framework.

The study adds remarkable value to the current literature by exploring Islamic insurance in this country, which lacks available data and information on takaful. In addition, the recommendations provided should also be used as a road map to stakeholders in takaful industry, given the fact that the Algerian policymakers are being called upon to succeed their centrally important role of implementation a takaful legal framework.

Keywords: Takaful, Salama Insurance, Finance, Islamic Finance, Insurance, Algeria.

JEL classification codes: G22, G23.

الملخص :

تختلف ممارسة التكافل في الجزائر عن تلك المطبقة في الدول الإسلامية الأخرى. في الواقع ، لا تزال الجزائر تفتقر إلى إطار قانوني مقتبس من الشريعة الإسلامية.

ان الدراسة تضيف قيمة هامة إلى الأدبيات الحالية من خلال استكشاف التأمين الإسلامي في هذا البلد ، الذي يفتقر إلى البيانات والمعلومات المتوفرة حول التكافل. بالإضافة إلى ذلك ، ينبغي أيضًا تعزيز استخدام التوصيات المعروضة كخارطة طريق للفاعلين في صناعة نشاط التكافل ، بالنظر إلى أن صانعي السياسة الجزائريين مدعوون للنجاح في دورهم المحوري في تنفيذ إطار قانوني للتكافل.

الكلمات المفتاح: التكافل ؛ التأمين الاسلامي ؛ التسوية القانونية، الجزائر.

تصنيف JEL: G22, G23

1. Introduction

Takaful (Islamic insurance) continues its growth steadily and rapidly throughout the world. This type of insurance attracted especially the region of the Middle East and North Africa (MENA). Although the Algerian takaful market is promising, it has not managed to grow.

In Algeria, Islamic insurance started in 2000 with the company Salama insurance. After two decades, the company is still the unique takaful provider in Algeria. It has recorded a turnover of 50.5 million USD in 2018 (Ministry of Finance, 2018). In fact, one of the reasons of the weakness of takaful in Algeria is the fact it is not yet endowed with an institutional framework that is dedicated to takaful activity.

The absence of such a regulatory framework constitutes an impediment for the growth of the activity. Truly, a legal framework is the basis for any evolution of the industry of Islamic insurance in any country.

Recently, a new dynamic emerged as the oil-dependent country has been struggling since 2014 with low oil prices. In this respect, the authorities are looking for new funding sources to compensate the oil revenue losses.

Concerning the regulation of insurance sector, a takaful bill had been discussed for two years before being approved by the National Insurance Council in the year of 2017. The final copy is between the hands of the Ministry of Finance. Later, it should be presented into parliament by the beginning of the second half of 2020, in the hope of enhancing the dynamic of Islamic insurance market, protect the interests of insured persons, ensure consistency with Shariah rules and promote transparency to safeguard the interests of insured persons.

Unlike Islamic banking, takaful has experienced limited discussion in the literature related to Islamic finance issues. This paper studies Algerian Islamic insurance which is still an unexploited topic in the literature. Through this exploration of Islamic insurance in Algeria, the current study discusses and evaluates for the first time the efficiency and growth of takaful in Algeria.

The new takaful regulation which has not been yet issued due to the political changes in Algeria would encourage possibly conventional companies to adopt Islamic insurance and enable them to open takaful windows within their companies. These windows are full-fledged internal departments responsible for managing a Sharia-compatible company, with a clear separation from conventional insurance activities.

The underlying question that will be addressed is: ***What is the present state of takaful industry in Algeria through the only takaful company in the country, Salama Insurance?***

The aim of the article is to analyze in detail the global takaful practices in Algeria. The paper may be used as a tool to support the policy makers to strengthen institutional framework of Islamic insurance. It will also help takaful insurers in sharing strategies to stimulate takaful sector directed to Algerian people.

The paper was structured according to the following sections: the first section treated the introduction. The second section exposed a literature review of studies dealing with Islamic insurance and separate regulations for takaful; and the third section presents the methodology adopted. The section four analyzes takaful insurance in Algeria. After presenting the study case with detailed performances and discussing the challenges of takaful industry in Algeria, the last section focuses on some concluding remarks.

2. Literature review: development of takaful

2.1 Generalities on takaful

Islamic insurance is different from conventional insurance. Khan (2015) defines it as a risk transfer contract between policyholders and insurance agents where the former, through a premium, transfer their risks to the latter. Takaful is also defined as an Islamic alternative to traditional insurance where customers get an investment return plus the surplus (Khan *et al.*, 2011).

More importantly, the goal of takaful is to guarantee certain fairness between all insurance parties and support policy holders in difficult and uncertain situations (Hussain and Pasha, 2011). Seemingly, for Islamic insurance stakeholders, looking for gains is not their primary *raison d'être*. Indeed, one major characteristics of Islamic insurance is that the contracting members are requested to show sincerity, and as the act of takaful is completely lawful, they perceive it as a religious act, that makes them closer to God.

However, takaful system does not function without an Islamic scholar's board that certifies Islamic products. Instead, this body is needed as it is responsible for developing Sharia compliant products and guaranteeing that the firm's activities are conducted in compliance with the board's approval (Boulanouar and Alqahtani, 2016).

The takaful potential was also developed in Western countries as a large Muslim community is targeted. Similarly, the World Bank has launched an initiative called "Universal Access to Finance" (Jaseem and Zamir, 2017, P. ix), whereby it supports and promotes takaful sector around the world.

In practice, total assets of takaful were USD 46 billion in 2018, covering 47 countries (IFDR, 2018). The global Islamic insurance industry has recorded an average annual growth of 16% (IFSB, 2018). The global Islamic insurance market attained US\$ 21 Billion in 2018 and is expected to achieve US\$ 44 Billion by 2024, growing at 12.8% during 2019-2024 (IMARC, 2019). This evolution was triggered mostly by the important effort of takaful industries in the regions of Gulf Cooperation Council countries, Central Asian countries and South East Asia. Furthermore, the number of Islamic insurance companies worldwide has exceeded 300 companies in 2018 against 133 companies in 2006 (IFSB, 2019).

However, the rapid development of takaful insurance industry still represents a very small part of the total Islamic financial services. Indeed, the percentage of the collected assets by takaful insurance companies did not exceed 1.5% in 2018, which is very weak compared to Islamic banking activities (71.7%), Islamic Sukuk (24.2%) or Investment Funds (2.8%) (Ministry of Finance, 2018).

2.2 The Insurance market in Algeria

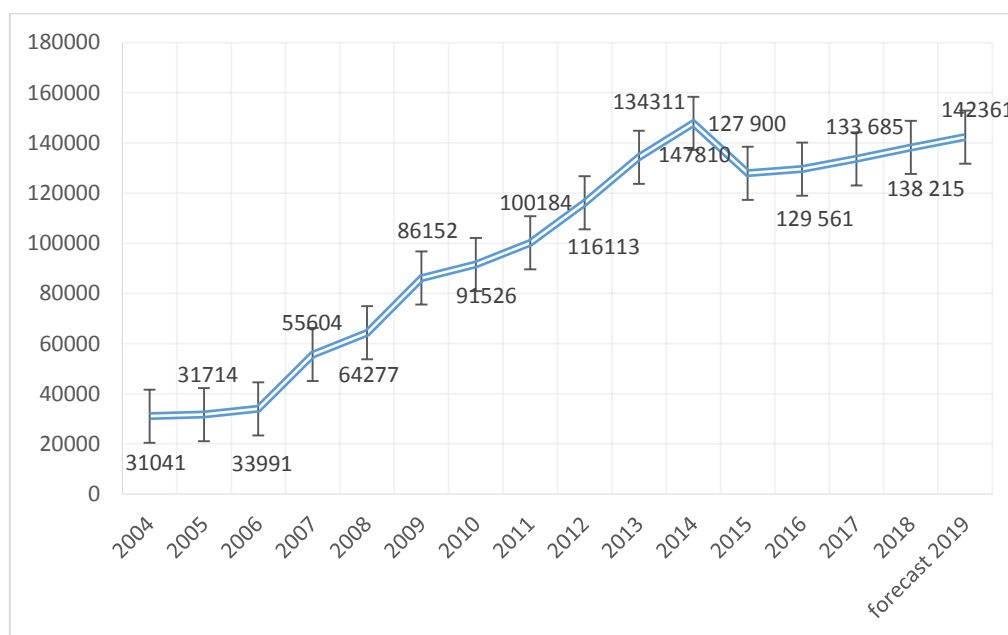
Algeria is an African nation located on the northern coast. Since 2011, it has become the largest nation in Africa in terms of land area (2,381,741 km²). The current population of Algeria is about 41 million people. However, the economy depends strongly on hydrocarbon industry which represents over 93% of Algerian exports.

The traditional insurance market in Algeria is characterized by a very weak insurance culture. Most of the insurance products are compulsory, such as civil liability insurance of motor

vehicles, fire insurance for institutions and natural disaster insurance started since 2003 after Bab El Oued's flood in Algiers in 2001 and Boumerdes's earthquake in 2003.

Although the reduction of growth rate from 10% in 2014 to 2.2% in 2015, the insurance market in Algeria had been increasing till 2014 (Ministry of finance, 2017). The turnover value of 53 billion dinars recorded during 2007, would grow to 142 billion dinars by 2019 with a growth rate of 10% in most cases. It is worth mentioning that the maximum rate of 26% was reached in 2008. In fact, the insurance market in Algeria has grown continuously over the last years. This growth was mainly due to the increase of car insurance premiums by about 20% annually after the increasing number of cars in Algeria. The figure below summarizes the evolution of turnovers for the insurance sector in Algeria during the period 2004-2018.

Figure 1. Development of Algerian insurance market during the period 2004-2019



Source: Reports of Algerian Ministry of Finance for the years concerned.

The increasing growth of Algerian insurance sector is partly due to the radical reforms undertook since 1996, following the issuance of the order 95/07, by which the insurance industry was liberalized and the monopoly state abolished (because there were 8 public companies) by opening the market for local private and foreign investments. Therefore, it is noticed a rise of insurance companies between 2000 and 2019 from 14 to 23. These companies are divided between insurance companies for damages (58%), insurance companies of persons (29%) and specialized companies (including the reinsurance company and some cooperatives) (13%).

Regarding takaful, its growth has prompted an interest, especially in the MENA countries, and the majority of countries where Islamic finance was introduced, specific takaful regulations have been developed.

However, for the case of Algeria, the insurance law n°06/04, published on February 20, 2006 is not suitable for Islamic companies, as it stipulates companies to be either cooperatives (not

seeking profit) whereby they are represented by participants, or conventional companies (seeking profit) whereby they are represented by shareholders. Moreover, whatever there are Islamic or not Islamic, companies must be subjected to the same principles. It implies accordingly that takaful companies must be submitted to the obligations of both conventional law and shariah. As complex compliance certainly leads Islamic insurance companies to support more financial and administrative costs than conventional ones, it would certainly make them less competitive.

2.3 Studies related to Takaful

Research findings encourage more stakeholders to be aware of the benefits of takaful products to increase the demand on Islamic insurance products. For example, a study carried out in Pakistan by Ali *et al.*, (2019) discusses factors affecting customer intention regarding Islamic insurance. Besides, another research conducted in Indonesia by Nugraheni and Muhammad (2019) examines the scope of innovations available regarding Islamic insurance activities, taking into account both geographical and demographic factors.

In the Maghreb, the first study conducted was in Tunisia – Algeria's neighbour– which examines the preferences of customers to purchase takaful services, allowing to identifying the reasons leading to decision making. The customers show their willingness to adopt takaful products (Echchabi *et al.*, 2014).

Another study of Boulanouar and Alqahtani (2016) investigates whether the takaful regulations in Saudi Arabia would reduce the asymmetry of information case. The authors find that the market is not capable of separating the Sharia compliant from conventional insurance. Furthermore, a research conducted in the Gulf Cooperation Council region by Khalid Al-Amri (2015) analyses the firms' takaful performance. The performance is observed to be moderately cost efficient, with good opportunities for companies to make improvements in their cost management.

From a macroeconomic point view, Muye and Hassan (2016) demonstrate a significant positive impact of Islamic insurance on economic development for a set of 22 states from 2004 to 2012, by applying the difference Generalized Method of Moments (GMM) estimation technique.

In the same way, in Pakistan, the first empirical research that analyses the takaful practices from managerial and regulatory perspectives shows that internal controls and reporting standards had low level of observance inside Islamic insurance agents. The customer investigation showed that more than 90 percent do not know anything about the concept of takaful (Akhter and Hussain, 2012).

On the other hand, an empirical study among Muslims living in a non-Muslim country - the UK, carried out by Tahani (2013) investigates the possibility of real demand on takaful services. The most participants in the study agree to employ the word takaful in their communication in order to enlarge the scope of this Islamic activity within subscribers.

It is worth noting that some recent articles have focused on the topic of family takaful (Islamic Life Insurance). For example, Sherif and Sadia (2017) use a sample of fifteen countries from the MENA to ensure that the correlation between family takaful demand and dependency rate, Muslim population education, female life expectancy and Islamic banking deposits is positively significant. Whereas, male life expectancy, financial development and inflation, affect negatively the same demand.

From a legal point of view, the study of Khan (2018) seeks to understand the problems of family takaful operations in Bangladesh. The absence of governing guidelines for takaful

companies causes several operational problems for family takaful. Therefore, all stakeholders should work on a separate law for takaful in the country. Indeed, this industry needs support from them along with Islamic scholars. Similarly, the study of Abdullah and Yaacob (2012) aims to examine the Shariah and legal matters associated to the practical and theoretical aspects of takaful industry in Malaysia. The study suggests possible recommendations for the future evolution of takaful insurance in this country.

2.4 Separate Regulations for Takaful

Basically, in order to grow globally, the takaful industry needs standardized regulations. An adequate regulatory framework will have a positive effect on takaful. Khan and Bhatti (2008) observed, in the United Arab Emirates (UAE) and Malaysia, a major improvement for Islamic insurance businesses after establishing specific legal frameworks. Similarly, Ramady (2011) witnessed that the main insurance evolution took place in the countries that have obligatory insurance. In the same way, it was noticed an indirect effect of legal uncertainty on globally Islamic insurance (Ahmad et al.,2010).

In reality, most international organizations agree that there is no single model that regulates the management of takaful companies. Each country must issue a law regulating its takaful industry. In this regard, the prominent countries have issued independent laws to regulate the industry. In Malaysia, both the first law on Islamic insurance and the first takaful company were established in the same year in 1984. Malaysia is known for her duality in running its insurance system. Today, all its insurance activities are organized under two acts published on Mar 22nd, 2013: the Islamic Financial Services Act (IFSA) 2013, and the Financial Services Act (FSA) 2013, respectively act 759 and act 758 (Ahmad and Lukman, 2017). Given its strong and structured legal system, this country is qualified as the most important takaful market around the world (Hamim, 2017).

In Pakistan, for the conduct of Islamic insurance services, the government has issued the new takaful Rules in 2012 (Statutory Rules and Orders (S.R.O) 877(I)/2012 dated 16th July, 2012). Every takaful stakeholder is subject to the Rules of 2012 and to the Insurance rules of 2017 (S.R.O. 89(I)/2017 dated February 9 th, 2017) (JGI,2018).

In this respect, Indonesia with the population of 242 million in 2011, is the first-largest country in the Islamic world. Its new insurance law about takaful was introduced in 2014 (Thanasegaran and Shaiban, 2014) where it favored full-fledged takaful entities, instead of window operations. The law requires conventional insurance firms to spin off their Sharia divisions.

In Bahrain, the Central Bank is responsible for the regulation of Islamic insurance. One of the main objectives of the new takaful rules of 2015 was to accelerate the application of takaful activities, and foster competition among companies across the country.

In the same way, in Sudan, thanks to Faisal Islamic Bank, the first Islamic insurance company was introduced in 1979 (Anwar, 2008). However, the supervision and control law of insurance operations in this country was issued in 1992, whereby all commercial insurance companies were obliged to convert into Islamic companies.

Similarly, the United Arab Emirates, in its turn, has two acts: one is designed to conventional insurance, and the second is related to Islamic insurance. To improve the overall takaful legal framework, the Insurance Authority has issued financial regulations for the industry since 2007. These regulations were further revised in 2015 (Zarrouk et al., 2017).

In the Maghreb region, Tunisian takaful insurance benefited from a specific regulatory framework in 2014, and Morocco modified its insurance code in 2016 by introducing a new regulatory framework governing takaful activity.

On the other hand, some Asian countries such as Afghanistan, Azerbaijan, the Maldives, Singapore, Sri Lanka and Thailand have also reviewed their legal systems to develop takaful insurance services in the hope of providing more support to Islamic finance.

In addition, Western countries have also exhibited their interest in takaful markets by enacting different level of regulations relating to takaful. This is the case of European countries, USA, Canada, etc.

Table 1. Regulatory framework for takaful in some countries

Nature of insurance legal framework	Countries
Separate regulations for takaful	Bahrain, Egypt, Indonesia, Iran, Jordan, Kuwait, Libya, Malaysia, Morocco, Pakistan, Qatar, Sudan, Tunisia, Saudi Arabia, UAE.
Conventional insurance legislation only	Algeria

Source: the authors' work

3. Methodology

This study examines takaful in Algeria, an African and a Muslim-majority country. Algeria could not develop its takaful industry like most other MENA countries.

Through a case study of the only takaful company in the country, Salama Insurance, the paper tries to develop an analytical contribution. Accordingly, data were collected from Salama company and the Algerian finance ministry. In fact, the study analyzed the challenges facing this Islamic company activating in a non-Islamic legal framework. In addition, the study analyses the content of the takaful legal project and its influence on takaful products in Algeria. Indeed, it examines the potential development of the market along with the regulatory risks, adding some policymakers' recommendations.

In fact, in Islamic finance literature there are just a few studies dealing with takaful and mostly analysing single cases in different countries. Therefore, more research needs to be done in this specific area.

Several insurance provisions were collected and analyzed thoroughly and presented in the study. The paper examines the major problem facing Salama, consisting in the current legal framework and its non Shariah compliant principals. Accordingly, the study attempts to suggest possible recommendations for the future growth of takaful industry in Algeria. The efforts are directed to implement an independent platform for Islamic insurance and to reorganize the insurance sector with the promulgation of the next law aimed at promoting national market.

3. Case study of Salama Company

4.1 Salama Performance

Currently, Salam insurance Algeria is still the only operator to be established in the country, since its creation in 2000. It is a subsidiary of Salama-Islamic Arab Insurance, headquartered in Dubai. It possesses more than 200 points of sale and six regional offices. Until 2011, Salama

offered products in general takaful and family takaful. The 06-04 law of 2011 has required the separation of life and non-life activities. This new provision has pushed Salama to offer only general takaful products and is projected to set up a specialized subsidiary in family fakaful. The portfolio of Salama consists of 70% individual risk and 30% corporate risk. The company's clients are now exceeded 500 000.

Table 2. Salama turnover performance (Unity: 106 DZD)

Year	2011	2012	2013	2014	2015	2016	2017	2018
Salama Turnover	2797	3277	4015	4491	4707	5019	4787	4930
Annual growth	10%	11%	23%	12%	5%	7%	-5%	3%

Source: Insurance Direction reports 2012-2018, Ministry of Finance -Algeria

Table 2 shows that the best turnover growth rate of 23% was reached in 2013. Salama's market share which was 3.03% in 2014 reached 3.56% in 2018 (see Table3). Despite this ratio looks very weak, it remains interesting, in the way that the turnovers are increasing annually. The average rate during the period 2011 to 2018 is 8.25%.

Accordingly, the absence of an Islamic legal framework is considered as a major constraint of the weak performance of the takaful market in Algeria.

Table 3. Comparison between Salama and the market performance (Unity: 106 DZD)

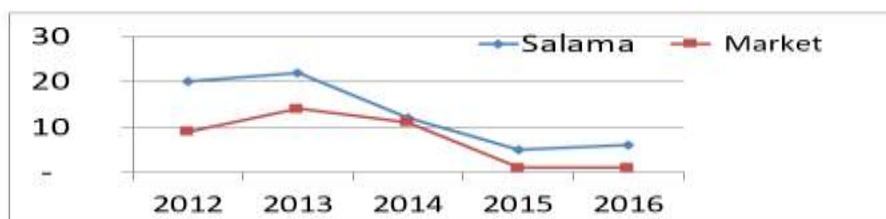
	2014	2015	2016	2017	2018
Salama Turnover	4 491	4 707	5 019	4787	4930
Salama Turnover Evolutions	12%	5%	7%	-5%	3%
Market Turnover	147810	127 900	129 561	133 685	138 215
Market Turnover Evolution	10%	-13%	1%	3%	3%
Salama Share (% market)	3.03%	3.68%	3.87%	3.58%	3.56%

Source: Insurance Direction reports 2012-2018, Ministry of Finance -Algeria

In 2018, Salama's turnover reached nearly 5 billion DZD (46.3 million USD). It holds 3.56% of the global market and 16% of the private sector market in 2018. Since 2013, Salama has been ranked seventh in the market and second in the private sector.

For the sake of our analysis, it is worth mentioning that the oil price shock of 2014 had a major impact on the Algerian insurance sector. Although the oil crisis, the company recorded better evolutions than those of the market in the entire period (2012-2018). For example, the company recorded a growth rate of 5% in 2015, whereas the market growth has been negative.

Figure 2. Comparison between the turnover growth of Salama and the market



Source : General Direction of Salama, 2017

Despite the improved political and economic situation over the last two decades, the share market of takaful had stopped at around 4% till mid-2014. This proportion is very weak compared to Kuwait (45%), Qatar (26%) and Malaysia (21%). However, this is despite the fact that during these last years, Algerian economy has suffered important foreign currency devaluation against US Dollar.

Meanwhile, the average growth rate of Salama for the period 2012-2016 is 13%, while the average growth rate of the market is 7%. It means that more than 5 points were in favour of Salama.

Figure 3. Salama Investments and their returns in 2018

Investments in 2018

Revenue of investments in 2018



Source : General Direction of Salama, 2017

Salama's investments reached 6.3 billion DZD in 2018 and an overall income of 167 million DZD. However, with an inflation rate above 4%, the average rate of return of 2.63% in 2018 and 1.64% in 2018 are estimated very low.

In reality, the insurance companies in Algeria have to respect the current legislation which determines them the nature of investments they make. According to the government, the purpose of this regulation is to ensure some financial guaranties in favor of insurance companies. The state values (treasury values) and the term deposits represent the most important required investments by law.

Figure 3 shows that the most important part of Salama's investments is made in treasury values. This is because the insurance law requires the placement of 50% of the regulated liabilities in treasury values. Undoubtedly, these legal constraints pose big problems to takaful companies as the latter don't deal with interest transactions. Therefore, Salama truly finds itself punished twice as, on the one hand, the investment is very important (35% in 2018), and on the other hand, even the revenues coming from such an investment (38% in 2018) are also important, they are non-Sharia compliant. This means that Salama will be unable to reimburse its participants from such treasury interests because Islam prohibits interests and so many Muslims avoid using the investment in treasury bonds.

However, the other branches, which are not associated with interest such as real estate, are less profitable. As long as there is no placement opportunity conform to Sharia, Salama is always searching for other investment opportunities outside Algeria. Regarding the revenues which are inconsistent with Islam, they are exploited in multiple areas (tax payments, expenses payments, etc.).

Table 4. The distribution network of Salama in 2018.

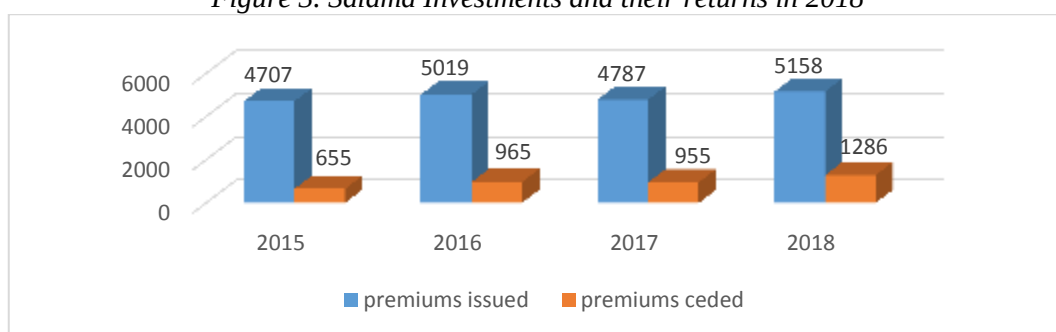
	Market	Salama	Rate
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General Agents	1090	177	11%
Direct Agencies	113	89	7%
Brokers	38	5	13%
Bancassurances	750	50	7%
Total	3011	271	8%

Source: General Direction of Salama, 2019

According to Table 4, Salama holds 271 agencies accounting for 8% of the global market distribution network in 2018. A strong demand by applicants as general agents is noticed but the Salama is very observant on the professional and behavioural capacities (ethical) of agents. In this respect, a permanent learning course on the technical and ethical aspects of takaful industry is provided to distributors.

Figure 3. Salama Investments and their returns in 2018



Source: General Direction of Salama, 2019.

On the other hand, Figure 4 allows us to deduct that Salama Company has recorded a cession ratio of 14% in 2015 and 19% in 2016 and 2017. This ration has grown in 2018 to reach 24%.

In fact, one obstacle facing takaful sector is about re-takaful matter. Unluckily, we should note that the lack of Retakaful (reinsurance) in the domestic market and its weakness in the international market have affected Salama Company. The reinsurance activity in Algeria is controlled by the Central Reinsurance Company (CRC) whose activity does not comply with Islamic rules. The Algerian law requires all insurance companies to reinsure at least 50% of their risks in the CRC. The mandatory cession of 50% is even paid by Salama which is the obligation in its policy portfolio that is transferred to the CCR, because all Insurers are compelled to cede 50% of their portfolio to the state-owned insurer.

4.2 The Constraints facing Salama Company

Unfortunately, for accomplishing the duties of certification, supervision, solvency and control, Salama Company is subjected, as conventional companies, to the same provisions of the insurance law n°06/04. But excepting for Sharia compliance duty where Salama is subjected to self-control by her Sharia board, pending the establishment of a national Shariah board.

In this situation, the absence of a regulatory framework (clarification of the rights and obligations) poses problems to the operator, in particular, for many raisons:

- Management of technical surpluses: lack of regulatory provisions which gives total freedom to the takaful operator and Sharia Board: total or partial distribution of technical surplus.
- Transparency regarding the insured people in terms of compliance with sharia in commercialized products and investments made by Salama.
- Qard al hassan (interest-free loan) management: the contract, the parties, etc.

Finally, the problems that prevent Algerian takaful from expanding can be summarized in four points:

- Islamic reference: no framework exists, although the practices of Islamic insurance are different.
- Compulsory conventional insurance: the public is constraint to subscribe in some types of conventional Insurance (such as medical insurance for salaried employees) and do not have the right to change the public company.
- Inefficiency of Islamic insurance: The figures show that Islamic insurance is less efficient and the gap is wide between conventional and Islamic insurance.
- Lack of academic studies and research institutions: there are still insufficient intellectual efforts to solve the problems listed above.

Although Salama is facing short and long term constraints, it remains strong and resilient in face of a profound domestic financial crisis and an inappropriate legal framework

4.3 The challenges of Takaful Industry in Algeria

Salama Company is expected to face serious challenges in its functioning in the future. One is the Algerian economic slowdown (households would face difficulties in generating substantial income which helps to cover risk costs), and also the weakness of the notion of risk culture among Algerian individuals. On the other hand, the lack of retakaful companies may hinder the promotion of Takaful in Algeria. As Salama is unable to cover all risks alone, it needs to transfer risks to other re-takaful companies.

Meanwhile, the tendency in Algeria towards takaful would contribute to increasing the culture level of insurance and mobilize further savings and protect economic sectors in order to support the economic development in Algeria. In reality, the Local Development Bank (BDL) is in talks with an insurance company for the establishment of a new entity specialized in takaful insurance. If this initiative comes to materialize, the market will count a second company able to offer Islamic insurance products with Salama insurance.

Indeed, takaful has become a need for the society as the Algerian insurance market is still regarded as having a big potential. In this context, some promotion strategies to be made by Salama are needed to raise the public understanding and awareness of the existing Islamic insurance services. Salama Company needs also to develop its technical skills to offer more investment portfolios and services (e.g. catastrophic risks). It also needs to improve the quality of services and offer good value for money in order to be an insurance competitor (Kwon, 2007).

Given that the whole Algerian insurance system functions with conventional principles, it is so hard to Algerian people to keep experiencing an opposition between the requirements of faith and the obligations of insurance law.

As far as the legal framework is concerned, the interest of a new regulation is necessary. The only takaful operator in Algeria, Salama Company, has highlighted the need to evolve in a legal environment where all its activities would be consistent with Islamic principles.

Luckily, a legal framework has been prepared to be introduced in the coming months into the Insurance Law 06-04 as an additional chapter to enable takaful Insurance contracts to cover all risks that comply with Islamic principles. The new regulation, which has been under study for almost two years, is quite comprehensive and will support takaful insurance companies operating in Algeria.

With the introduction of a new regulation, Algeria will enable conventional operators to make also their entry to the alternative niche. Indeed, the new regulatory framework would encourage more companies to offer Islamic services to target the fast growth in the Algerian populations and increase the demand on takaful products. Therefore, Salama Company should be prepared to meet an intensive competition mainly from public sector.

Undoubtedly, the new takaful regulatory framework is intended to produce new growth within the industry by attracting more customers to the market as well as by leading competition among operators. Indeed, it exists potential for Islamic insurance companies to deeply penetrate the Islamic insurance field. Efficient services and various product offerings are the main factors to attract more Islamic insurance subscribers.

Unfortunately, Salama has to wait some other months for the takaful law. A draft law is now in the hands of the executive authority, and includes areas, such as customer protection, company governance, market behavior and licensing.

5. Conclusion

Algeria has introduced its takaful operations in 2000 through Salama Company. The growth of this company is expected to be more important given that the promotion of takaful insurance in the society becomes among the critical priorities of the government.

The study asserts that takaful in Algeria diverges from takaful activities of most countries by not holding a Shariah legal framework. On other words, the most noticed point concerning takaful in Algeria is the fact that the insurance matters are examined on the basis of conventional insurance models. Thus, there is still no specific rules for Islamic insurance in the country.

Currently, Salama is expecting a suitable takaful regulation in the near future to support the promotion of the activities and therefore increase its market share. A robust legal framework is an essential requirement for the prosperity of Salama insurance which would render it more competitive. Indeed, successful experiences of takaful worldwide have begun with the emergence of a separated regulatory framework.

It is extremely essential for Salama to understand correctly the expectations and the sensitivity of the Algerian people to follow the necessary steps. A reasonable Shariah framework would push the growth of the Islamic insurance sector which is really regarded as having a big potential.

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