

Islamic digital banking in algeria- reality and challenges-

Pr.Soraya Boutarfa¹, Pr. Boutoura Fadila², Dr.Boutarfa Aouatef

¹Université Echahid Cheikh Larbi Tebessi-Tebessa, e-mail:

soraya.boutarfa@univ-tebessa.dz ;

² Université Echahid Cheikh Larbi Tebessi-Tebessa, e-mail:

fadila.boutoura@univ-tebessa.dz ;

Boutarfa.aouatef@univ-guelma.dz

Published:30/06/2024

ملخص: في ورقة البحث هذه سنلقي الضوء على

الصيرفة الرقمية الإسلامية في الجزائر، لقد تأخرت الجزائر كثيرا في مجال تفعيل الصيرفة الإسلامية، حيث تأسس أول بنك إسلامي وهو بنك البركة سنة 1990، وتأسس بنك إسلامي ثان في السلام سنة 2008، بتأخر دام 28 سنة. بالإضافة إلى فتح العديد من النوافذ الإسلامية في البنوك الخاصة منذ سنة 2010، كبنك AGB، وبنك Trus، وبنك House، وذلك بهدف توسيع مجال التمويل الإسلامي. ومن أجل توسيع مجال التمويل الإسلامي، سمحت السلطات الجزائرية للبنوك العمومية بتقديم منتجات مالية إسلامية بفتح نوافذ إسلامية منذ سنة 2020، ومن شأن فتح النوافذ الإسلامية أن يزيد من مساهمة المنتجات الإسلامية في تمويل الاقتصاد الجزائري وخلصت نتائج الدراسة إلى أن فتح النوافذ الإسلامية في البنوك العمومية الجزائرية يساهم في توسيع مجال الصيرفة الإسلامية في الجزائر من خلال تحفيز البنوك التقليدية المنافسة على تقديم الخدمة، ومن خلال تحليلنا فإن بنك البركة له مساهمة مميزة في التمويل الإسلامي في الجزائر، في حين تظل مساهمة البنوك الخاصة ضئيلة.

الكلمات المفتاحية: الصيرفة الإسلامية: البنوك الإسلامية: النوافذ الإسلامية: الخدمات المالية: الواقع والتحديات: الجزائر.

Abstract :

in this research paper, we will shed light on Islamic digital banking in Algeria. Algeria has been very late in the field of activating Islamic banking, so that the first Islamic bank Al-Baraka was established in 1990, and a second Islamic bank was established in Al-Salam in 2008, with a delay of 28 years.

in addition to opening many Islamic windows in private banks since 2010, as AGB bank, Trus bank and house bank, In order to expand the field of Islamic finance In order to expand the field of Islamic finance, Algeria authorities allowed public banks to offer Islamic financial products by opening Islamic windows since the year 2020. the opening of Islamic windows would increase the contribution of Islamic products in financing the Algerian economy

The results of the study concluded that opening Islamic windows in Algerian public banks contributes to expanding the area of Islamic banking in Algeria by motivating competing traditional banks to provide the service, Through our analysis Al Baraka Bank has a distinct contribution to Islamic financing in Algeria, while the contribution of private banks remains minimal,

Keywords: Islamic banking; Islamic Banks; Islamic windows; Financial Services; Reality and challenges; Algeria.

1. INTRODUCTION

Although Muslims have practiced Islamic financial rules since the fifth century, the first study on Islamic finance did not appear until the mid-twentieth century (Mawdudi, 1961; Siddiqi, 1983). Political influence in countries such as Pakistan and the development of Islamic banking ideas among Muslim economists have contributed to a growing literature on Islamic finance. In the past two decades, many Muslim and non-Muslim researchers have conducted investigations into Islamic banking .

Today Islamic banking is one of the fastest emerging trends in many different parts of the world. It has been proven that the banking system is able to survive and is able to withstand the effects of the economic and financial crisis. In addition, Islamic banking is very acceptable also by the important conventional banks in non-Islamic countries. The experience of the Islamic financial industry in Algeria has passed for about 3 decades, beginning with the banking reforms carried out by the public authorities in Algeria through the Monetary and Loan Law, which opened the way for local and foreign private banks, this allowed the opening of Al-Baraka Islamic Bank in 1990, and the second bank was opened in 2008, which is Al-Salam Bank, then many private banks opened windows offering Islamic financial products. Recently, and the desire of the Algerian authorities to expand the field of Islamic finance in Algeria, as well as in order to attract active funds in the informal economy, and to enable individuals who are reluctant to traditional loans, opened the way for public banks to open Islamic financial windows that provide Islamic financing .

- **Studies importance:** This topic is very important now days, Where the volume of Islamic finance in the world witnessed a great development. Also, the great interest of the Algerian authorities recently in expanding the financial industry in the economy by opening Islamic windows in public banks.
- **Study's goals:** This study aims at analysing the development of Islamic banking in Algeria. The research uses a single country study (Algeria) because it has a unique experience in relation to Islamic finance. The economy of Algeria is also unlike those of other Middle

Eastern and North African nations (Abed and Davoodi, 2003). Besides, Algeria has adopted a distinctive approach in liberalising its financial market.

- Learn about islamic finance in Algeria ;
- search for the Contribution of islamic banks to financing algerian economy;
- Highlighting the importance of opning islamic windows in private and public banks.
- **Research methodology:** In order to address all the various aspects of the topic, the “descriptive analytical approach” will be followed, which is based on the description and analysis of the phenomenon in question, depending on the available data and statistics for the purpose of reaching the desired results from the research.
- **Previous studies:** Given the theoretical and practical importance of islamic industry to finance many economies around the world, many researchers have enriched this topic. Here is a summary of some scientific contributions in this field:
 - **The study of (Abdelhafid Benamraoui, 2008)** entitled "**Islamic banking: the case of Algeria**" The purpose of this paper is to provide a detailed analysis of the Islamic banking in Algeria following the financial liberalisation initiated in the 1990 s. It seeks to examine the performance of the sole bank offering Islamic financial products in Algeria, Banque Al Baraka d'Algerie. The study also aims to analyse the methods adopted by the bank to improve the allocation of its financial resources and to boost its earnings (Benamraoui, 2008 , p. 13)
 - **The study of (Abadli, H Wafa, A & Habiba, A 2020)** entitled "Islamic banking in Algeria- Reality and Challenges-". This study aimed to find out the reality of Islamic banking and the requirements for its activation in the Algerian banking . The percentage of Islamic finance in the banking market does not exceed 2%. The study concluded that the Islamic financial industry in Algeria faces several obstacles and challenges that limit its

development, which necessitates the provision of many requirements that allow achieving its effectiveness . (- Abadli & ., Wafa, A., & habiba, a, 2020, p. 32)

- **The study of (Zirek,S & Allali,S 2019)** entitled " Reality of Islamic Banking in Algeria- Field study". This study examined the reality of Islamic banking in Algeria, and concluded that the volume of transactions in Islamic banking in Algeria remains limited, because of many administrative, legislative and regulatory obstacles that make Algeria unable to provide an environment for practicing Islamic banking (zirek, 2019, p. 12)
- **The study of (TALAM,Z & Rafes,F 2021)** entitled "Prospects of Islamic finance in the Algerian market, in light of the adoption the Islamic banking by the Bank of Algeria". This research seeks to monitor the reality of Islamic finance in the Algerian market, by presenting and analyzing the various statistics related to this activity, with an attempt to show its position during the period 2016-2018, and to identify the difficulties and challenges faced. The study concluded that this financing activity in the Algerian market still suffers from many obstacles and faces a number of legislative challenges, which requires the intervention of public authorities to enact supportive laws and provide an appropriate environment compatible with the nature of Islamic financial activity (TALAM, 2021, p. 12)
- **The study of (Benzekka ,S & cherroune,A 2022)** entitled " The reality of Islamic banking in Algeria –Evaluative analytical study- ". This study aimed to highlight the reality of Islamic banking in Algeria by learning about the development of Islamic banking practice in Algeria, presenting the legislative and regulatory framework governing its work, noting its main indicators. The study found that Islamic banking in Algeria knows limited success. With the opening of Islamic windows at the level of public banks based on the 20-02 system, Islamic banking activity is expected to grow in the next few years.

- **The study of (Ayache, Z Boumaza, E & fanazi, F. Z 2020)**, entitled "Evaluating the contribution of Islamic banks active in Algeria in financing national investment- a case study of AL Baraka and AL Salem banks". This study aimed to identify the reality of banking work in Algeria and to know the contribution of Islamic banks in financing national investment through the Al Baraka and Al Salam Islamic banks. The study found a diversity and high volume of financing provided by Islamic banks to customers, but the percentage of Islamic finance's contribution to financing national investment remains not good, and it depends more on debt formulas than on participation formulas. (ayache, 2020, p. 05)
- **The study of (Bezzaouya Abdelhakim, 2024)** entitled "Evaluation of Islamic finance in Algeria -Case study of Islamic banks and windows" This study aimed to The study aims to provide a detailed analysis of the Islamic finance in Alegria, and evaluate its development. Where Algeria witnesses in the field of Islamic banking only two banks (Al-Baraka Bank and Al-Salam Bank) , in addition to opening many Islamic windows in private banks since 2010, as AGB bank, Trus bank and house bank, In order to expand the field of Islamic finance, Algeria authorities allowed public banks to offer Islamic financial products by opening Islamic window. Through our analysis, we concluded that Al Baraka Bank has a distinct contribution to Islamic financing in Algeria, while the contribution of private banks remains minimal, and the opening of Islamic windows would increase the contribution of Islamic products in financing the Algerian economy (Abdelhakim, 2024, p. 06)

2. Digital banking services: Most frequently, they include all the traditional banking services that are available 24/7 on mobile phones, computers, and compatible smart devices, without the need for a customer's presence in the bank branch:

- Obtaining bank statements
- Cash withdrawals
- Transfer money
- Checking/savings account management
- Opening a digital bank account
- Loan management
- Bill payments
- Cheques management
- Transaction records monitoring

Obviously, digital banking software makes all traditional services easier to access, understand and manage.

This approach allows us to test digital banking risk concepts before moving parts of the old legacy business to the new system. Notable examples include Goldman Sachs' Marcus, RBS' Bó, and State Bank of India's YONO, which gained more than 26 million customers and reached profitability within 18 months (<https://sdk.finance/what-is-digital-banking/>, s.d.)

3. working Digital Banking

Digital banking combines technology with banking services to simplify and safeguard the customer journey. It merges automation, artificial intelligence and strong security protocols to deliver an adaptable banking experience

3.1 Core Components: Digital banking is centred around elements that define its operation. Online platforms and mobile applications enable users to manage their finances. Application Programming Interfaces (APIs) allow external services to link with bank systems, enhancing flexibility. Chatbots and AI-driven virtual assistants provide assistance and automate routine tasks. Moreover process automation reduces the need for involvement speeding up processes and minimizing mistakes.

3.2 Technological Infrastructure: The technological framework of banking is complex and sophisticated, with collaboration between fintech and digital banking playing a crucial role in driving innovation and improving services. Cloud computing offers flexible solutions, while machine learning algorithms analyze data to anticipate user needs and enhance service provision. APIs facilitate seamless communication between financial systems, enabling fintech and digital banking to work together to deliver enriched service

offerings. This collaboration also leverages technologies like facial recognition and advanced authentication to ensure security while optimizing the user experience.

- **Security Measures**

Security is of importance in digital banking operations. Biometric authentication methods like recognition ensure stringent access control measures are in place. Data encryption safeguards information during transmission while multi-factor authentication (MFA) guarantees authorized individuals can access data.

- **Digital Banking Services:**

The way people interact with banks has been transformed by digital banking services, making it more convenient and accessible through apps and websites.

- **Payments And Transfers:**

Digital banking has made payments and transfers effortless. Customers can transfer funds, pay bills, and make transactions on their phones.

These services often come with contactless payment options and rewards for debit card transactions. Features like overdraft protection and real-time updates help users stay on top of their checking account balances to avoid ATM fees or other charges.

- **Loans And Credit**

Applying for loans and managing credit has been greatly simplified by digital banking. Users can easily apply for loans, mortgages or credit lines using apps or online portals. Digital tools provide eligibility checks and real-time updates on the loan approval process.

- **Investment Services**

Investment services play a role in enhancing the banking experience by empowering users to manage their investment portfolios through mobile applications. Customers can easily buy stocks, bonds, mutual funds or other investment products. Real-time data analysis tools aid customers in making

decisions, while automated investment advisors offer recommendations based on individual user profiles.

Furthermore, many digital banking platforms provide retirement planning tools to simplify tracking 401(k) or IRA contributions and projections. Users receive updates and notifications regarding market fluctuations and investment performance, which streamlines investment management.

- **Financial Management Tools**

Digital banks offer a variety of financial management tools designed to assist users in managing their finances. These tools often include budgeting functionalities, spending analysis tools and the ability to set savings goals.

They automatically sort out expenses from checking and savings accounts, offering insights without requiring monitoring.

Individuals have the option to establish alerts for spending thresholds and monitor their advancement towards objectives directly through their smartphones. Additional features like automated transfers to savings accounts and previews of maintenance fees also improve user satisfaction

4. Digital Banking Vs Traditional Banking

Digital banking has transformed how people interact with financial institutions. Unlike traditional banks, digital banks operate exclusively online. Traditional Banks offer physical branches where customers can conduct transactions in person. These institutions also provide online services, but their primary methods are face-to-face interactions. Digital Banks are purely online, providing services through mobile apps and websites. They have no physical locations, reducing overhead costs.

The Benefits Of Digital Banking For Consumers Digital banking brings a variety of benefits to customers, emphasizing its convenience, cost-effectiveness and improved user autonomy.

- **Convenience And Accessibility**

Digital banking offers convenience and accessibility. Customers can manage their bank accounts from anywhere and at any time using either a computer

or a mobile device. This round the clock access means they are no longer restricted by banking hours or physical locations.

Mobile banking applications allow users to carry out transactions, check their account balances, and handle their finances effortlessly. This flexibility is especially advantageous for individuals with schedules. Moreover, online banking often includes features like deposit capture and online bill payments, reducing the need for in-person visits.

- **Time-Saving**

One of the time saving benefits of digital banking is the elimination of time consuming visits to physical banks. Tasks that previously required being physically present—such as transfers, deposits and bill payments—can now be swiftly completed online within minutes.

This efficiency also applies to services like loan applications and account management, which can be processed quickly and digitally. By automating tasks and enabling the setup of recurring payments, consumers save time while simplifying financial management processes.

- **Enhanced Financial Monitoring**

Digital banking enhances the monitoring of finances by offering real time access to account details. Users can keep track of their spending habits, check account balances and receive notifications for transactions.

This instant feedback assists individuals in managing their finances. Swiftly identifying any suspicious transactions. Various online banking platforms provide budgeting tools and financial planning options complemented by aids such as graphs and charts. These features empower users to make financial choices and stay abreast of their financial well being.

- **Cost Savings**

Cost savings represent another advantage of digital banking. Users can enjoy minimized transaction charges, higher interest rates on savings accounts and

lower loan interest rates. Moreover the elimination of paper statements and face to face visits reduces expenses related to postage, printing and travel. These savings can add up over time delivering advantages to users of digital banking services.

- **Personalization And Control**

Digital banking platforms frequently provide tailored services that grant users control over their undertakings. Advanced algorithms analyze user information to deliver recommendations for saving, investing and spending. Numerous platforms allow users to establish objectives and monitor their progress towards achieving these goals. Customized dashboards and alerts keep users up to date. Empower them to make financial choices. The extensive level of customization and personalized services give consumers a sense of control over their well being.

- **Financial Inclusion**

Digital banking plays a role in enhancing access for all. By leveraging technology digital banks can reach out to rural communities that may lack access to traditional banking services. This accessibility allows individuals to perform banking tasks, such as opening accounts or transferring funds, without facing obstacles. The rise of banking has extended these benefits to remote areas, promoting a more inclusive financial environment.

- **Integration With Other Financial Services**

Another key benefit of digital banking is its integration with other financial services, making choosing a digital banking platform an important consideration. A platform that connects seamlessly with third-party services like investment options, insurance products, and budgeting aids can significantly enhance the user experience.

This integration enables consumers to oversee various aspects of their finances through a single interface. For instance, users can monitor investments, pay insurance premiums, and track expenses all within one app. When thoughtfully chosen, a digital banking platform simplifies financial management and provides a clearer, more comprehensive view of one's financial standing

5. Islamic finance formulas in algeria :

Islamic banks around the world offer many Islamic financial products to

finance their customers, which are compatible with the principles of Islamic law. We will define it and identify the products offered by Islamic banks and windows in Algeria which respect the rules of Islamic law are:

- **Ijarah:** This product is often used to purchase vehicles such as: cars and other means of transportation, where the bank buys the car for the customer, and the customer pays a monthly rent, and ownership is transferred to the customer when he finishes paying the cost of the car plus the amount of profit.
 - **Murabaha:** It is a contract for the sale of goods, where the customer instructs the bank to buy the goods from a third party, where the bank takes a profit margin on the cost of the goods. This product is also used for business financing.
 - **Musharakah:** It is a partnership contract between the bank and the client and they share profit or loss in a way that the loss is shared between the partners in the proportion they invested their capital, but the profit is shared in a predetermined proportion with mutual consensus.
 - **Elisstissnar (Manufacturing contract):** Is similar to regular financing for working capital. All features are similar to a Murabaha except that the actual delivery of goods happens at a later date after the receipt of all due payments (Abdelhakim, Bezzaouya, 2024, p. 23)
 - **Bairo Elssalam (Foreword sale):** It is a contract in which the buyer and the seller agree to use the term 'Bairo Elsslam' as the main condition in their contract in advance where they specify the goods quality, quantity, price ...etc . and which may be delivered at a future date in exchange of an advance price fully paid at the time of contract.
6. **The Algerian banking industry:** Modern banking began in Algeria in the mid-nineteenth century. The French authorities established many commercial and merchant banks to facilitate the financing of commerce. Those banks operated only in major cities; they did not serve rural areas. Some projects acquired credit

through issuing, deposit and merchant banks; people's banks funded small firms; and the Caisse de Credit Agricole Mutuel served the financial needs of the agricultural sector. After independence, many European investors left Algeria. This had negative implications on the national economy as whole and on the banking sector in particular. Credit to the public and private sector declined dramatically because of the fall in the amount of deposits held at French commercial banks and credit institutions. To improve the mobilisation of financial resources and to obtain control over the national banking sector, the Algerian financial authorities established several state-owned banks and nationalised almost all foreign banks. Both measures led to the creation of a state-owned banking sector and to the disappearance of foreign players. The main roles of state-owned banks were collecting deposits at low interest rates and financing government expenditures and state-owned enterprises. This meant that interest rates on deposits and loans were negative in real terms. Banks were also forced to lend to particular sectors of the national economy such as agriculture and real estate. The central bank provided the commercial banks with liquidity by rediscounting their bills at fixed rates.

7. . **Islamic finance in Algeria through banks and Islamic windows** : Islamic finance in the Algerian economy includes only two Islamic banks, "Al Baraka Bank and Al Salam Bank," in addition to opening Islamic windows in many foreign and national banks, all of which work to provide Islamic financial products.
- **Al Baraka Bank:** It is considered the first Islamic banking institution established in Algeria in 1991 with a capital of 500,000,000 DZD, and in 2017 it reached 15,000,000,000 DZD, with 18 branches across various regions of Algerian territory⁸ . It is a bank between the Algerian partner, "the Bank of Agriculture and Rural Development" 44% and "the Saudi partner "Al Baraka Banking Group" 56%.⁹ (Khatwi, m., & benmoussa, (2021, p. 88)

- **Al-Salam Bank:** It is the second Islamic institution to be established in Algeria. The bank officially began operations until early October 2008, although it obtained approval from the authorities for its establishment on October 17, 2006. Salam Bank is estimated at 72 billion Algerian dinars, 100 -The capital of Al. 10 million dollars, to become the largest private bank operating in the North African region (Bendjebbes, y. , 2022, p. 231)
- **AGB Bank:** this bank was established on December 15, 2003 but it started its activity until March 2004 with a capital of 10 billion DA. Three foreign banks contribute to the bank: Burgan Bank, Bank of Kuwait, and Tunisian International Bank. This bank provides traditional financial services, and since 2010 it has adopted the provision of Islamic financing formulas for individuals and institutions by opening Islamic windows.
- **Trust bank:** Trust bank started its activities in April 2003, With a private capital of 750 million DA, Which currently has a value of 13 billion dinars, This bank provides traditional financial services, but recently started to provide Islamic financial services, as murabaha and ladder, and in 2018, it launched the lease formula. ¹
- **House bank:** House Bank is a joint stock company between the Jordanian Housing Bank for Trade and Finance 21% and the Libyan Arab Foreign Investment Holding Company 15%. It was established in Algeria in October 2003, and the bank's Islamic windows were established in March 2015. (Hamla, 2022, p. 165)

8. CONCLUSION

Islamic finance in Algeria is improving and increasing in general, despite the existence of only two Islamic banks, and many Islamic windows that have been opened at the level of private banks. However, the percentage of Islamic financing remains very small compared to the volume of financing provided by conventional banks. And the recent efforts of the Algerian authorities to open Islamic

windows that offer Islamic financial products would increase the percentage of Islamic financing directed to revitalize the economy. It should also be considered to establish more Islamic banks in a subsequent stage, which are able to compete with the traditional banks in the Algerian banking system.

References

- (s.d.). Récupéré sur <https://sdk.finance/what-is-digital-banking/>.
- Abadli, h., & ., Wafa, A., & habiba, a. (2020). Islamic banking in Algeria" Reality and Challenges,.
- Abdelhakim, B. (2024). 2024 Review MECAS V°20 / N°1 / June .
- Abdelhakim, Bezzaouya. (2024). Evaluation of Islamic finance in Algeria -Case study of Islamic banks and windows, Review MECAS V°20 / N°1 / June.
- ayache, z. e. (2020). .Evaluating the contribution of Islamic banksactive in Algeria in financing national investment-. Al-Manhal Economic Journal,.
- Benamraoui, A. (2008). ,Islamic banking: the case of Algeria, International Journal of Islamic and Middle Eastern Finance and Management.
- Bendjebbes, y. . (2022). (2022, MARCH). The reality of the Islamic banking industry in Algeria- Al Salam Bank Case Study 2017-2020. Journal of Economic Integration , pp. 231-232.
- Hamla, A. &. (2022). Islamic banking in Algeria between reality and challenges. International Journal of Economic Performance ,.
- Khatwi, m., & benmoussa. ((2021). Khatwi, m., & benmoussa, Islamic windows as a mechanism to activate Islamic. Journal of Economic Additives , .
- TALAM, Z. &. (2021). Prospects of Islamic finance in the Algerian market, in light of theadoption the Islamic banking by the Bank of Algeria. (112, Éd.) Algerian Journal of Globalization and.
- zirek, s. &. (2019). Reality of Islamic Banking in Algeria- Field study.