

**The reality of the Islamic banking industry in Algeria
- Al Salam Bank Case Study 2017-2020 -
واقع الصناعة المصرفية الإسلامية في الجزائر - دراسة حالة بنك السلام 2017-2020 -**

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Abstract:

The study aims to shed light on the reality of the Islamic banking industry in Algeria through exploring legislation and regulations that have been enacted for the purpose to improve the Islamic banking industry, in addition to studying the case of Al Salam Bank, which is considered as one of the most important Islamic banks in Algeria in terms of providing Islamic financial services, we explored and analyzed data and financial indicators obtained during The period extending from 2017 to 2020, the study concluded several results among which that the Islamic banking industry in Algeria is still weak, although there is a desire on the part of project owners for this type of financing.

Keywords: Islamic banking industry, Islamic banks, Islamic banking industry tools, Salam Bank

JEL Classification Codes: M31, M37.

ملخص:

تستعرض هذه الدراسة واقع الصناعة المصرفية الإسلامية في الجزائر من خلال ما ورد في التشريعات واللوائح المنصوص عليها لتعزيزها ودعمها ، إضافة إلى دراسة حالة مصرف السلام الذي يعتبر أحد البنوك الإسلامية في الجزائر ، من خلال قراءة وتحليل البيانات والمؤشرات المالية التي تم الحصول عليها خلال الفترة الممتدة من 2017 إلى 2020 ، وخلصت نتائج الدراسة إلى أن الصناعة المصرفية الإسلامية في الجزائر لا تزال محدودة إلى حد كبير رغم وجود رغبة من جانب أصحاب المشاريع لهذا النوع من التمويل .

كلمات مفتاحية: الصناعة المصرفية الإسلامية ، البنوك الإسلامية ، أدوات الصناعة المصرفية الإسلامية ، بنك السلام

تصنيفات JEL: M31، M37.

INTRODUCTION:

In the economy of any country, the financial system plays an important role, which consists of credit facilities and the provision of loans to the production process. Most of the banks operating in many countries of the world depend on the interest system (Gherbi. 2018, P 01), today Islamic banking is one of the fastest emerging trends in many different parts of the world(, Muhammad Asif, Anjum, 2012, P 09). 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.

In Algeria, although it is an Islamic country, the share of the Islamic banking industry is small and does not represent more than 1 % From banking activity, (Gherbi. 2018, P 01) .on this basis the current economic challenges in Algeria is based on seriously considering an alternative Islamic financing model inspired by the religious principles and values of Islam(Hichour, Taitous. 2021, P 55)

From the previous purpose, and within the general objective of the study and defining the parameters and purpose of the study, the question in this regard is :

“What is the reality of the Islamic banking industry in Algeria?”

Through the problem, the following hypotheses were formulated:

- The development of the Islamic banking industry in Algeria is very slow compared to other Arab countries.
- Al Salam Bank is trying hard to strengthen then the Algerian banking system, even though its share in the economy is weak.

The main objective of this research is to explore the reality of the Islamic banking industry in Algeria due to the developments that have taken place in the legislation and financial systems in order to work with them and to shed light on one of the Islamic banks operating in Algeria, namely Al Salam Bank by studying the data and indicators during the period extending from 2017 to 2020.

In this research, we follow the descriptive and analytical approach by looking at the reality of the Islamic banking system in Algeria and then analyzing the economic role played by the Salam Bank in light of the monopoly of the traditional banking system, by using statistics to study the annual reports of the financial statements, analyze and compare them, and formulation of results.

In order to identify the aspects of the problem and to fulfill the purposes of the study, this study was divided into two main axes, the first part addresses the Islamic banking industry in general by providing a conceptual framework and the most important Islamic financing tools and its development in the world, the second parts we explored to the reality of the Islamic banking industry in Algeria, And evaluate the experience of the Algerian Salam Bank.

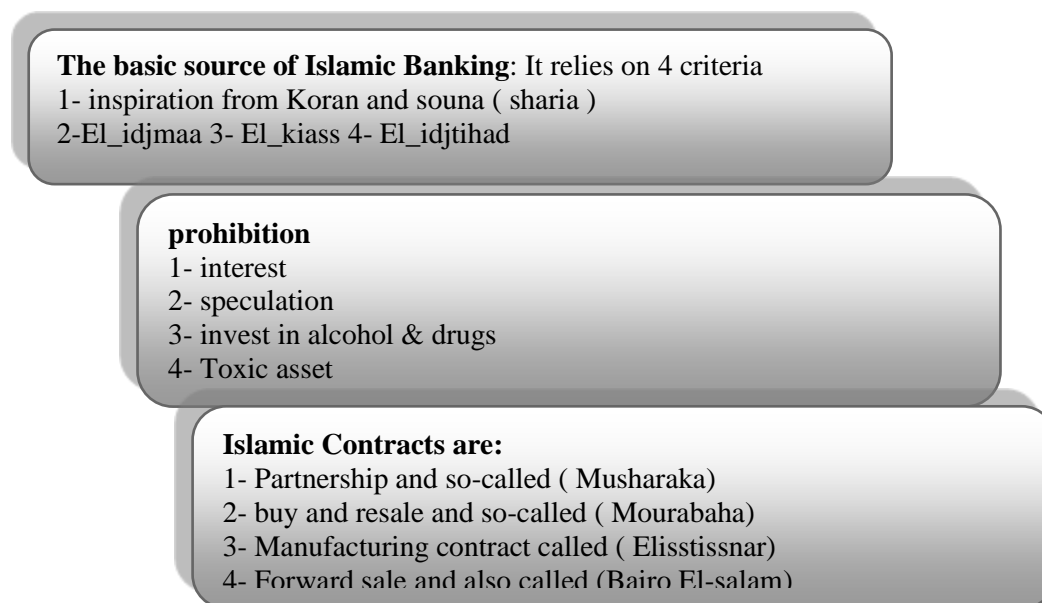
1. The concept of the Islamic banking industry and its development

1- 1 / The concept of the Islamic banking industry

The Islamic banking industry, or rather Islamic banking, is a Shariah-compliant banking system (Islamic law) In this way, an important part of the system is the prohibition of collecting usury (interest or usury)(Mahmoud, 2017, p 01), and it is considered as an alternative system to the traditional banking system due to the low risk of its investment tools. (Medani, 2020, p 94)

And through the chart below, we found that Islamic banking prohibits speculation and interest according to the religion of Islam. Moreover, Islamic banking doesn't enter in any prohibited transactions or investments such as investing in the alcohol or drug sector. They also avoid toxic assets and prefer to invest in real and permanent assets. (Sissani, Tagrerout 2019, pp 26-27)

Fig (1)) : Principles and foundations of the Islamic banking industry



Source: Sissani Midoun, Tagrerout Med, 2019, Global Islamic finance assets: analysis of the Islamic banking in Algeria, Studies and Scientific Researches. Economics Edition, No 30 , Alegria ,p 27.

1-2/Different Islamic banking products

1-2-1- Ijarah:

This product is mostly used for the purchase of vehicles like cars, delivery vans, etc. the bank purchases the vehicle for the client, and the client pays monthly rentals. When the cost of the vehicle plus the profit amount is paid by the client, the ownership is transferred to the client.

1-2-2- Murabaha:

It is a contract to sell the goods with a mark-up profit on the cost of the goods. The client instructs the bank to purchase the goods from a third party. The bank then sells the goods to the client at the price that includes cost plus the profit. This product is also used to finance the business

1-2-3- Musharakah:

it is a partnership contract between the bank and the client in which both the partners invest their capital in a project in a proportion. 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 (Salman, Huma 2018, pp 156)

1-2-4 - 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.

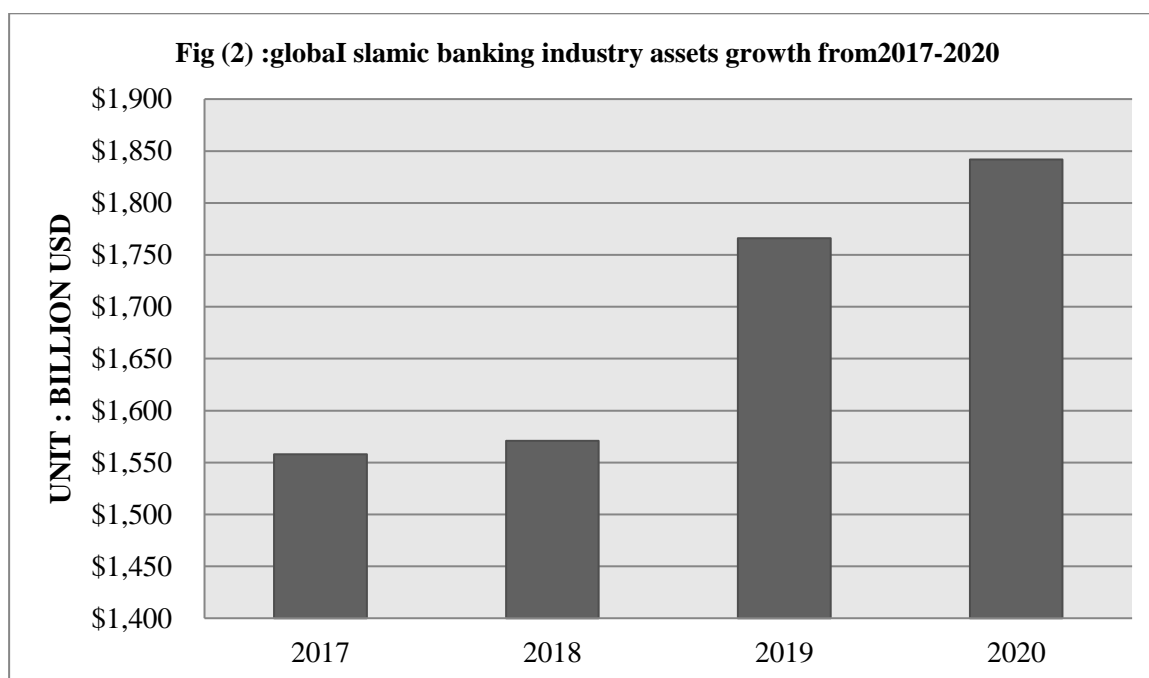
1-2-5 -Bairo Elssalam (Foreword sale) :

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. Moreover, the objects of this sale must be goods and cannot be gold, silver, or currencies based on these metals. (Sissani, Tagrerout 2019, p27)

1.3 global Islamic banking industry assets growth from2017-2020.

In recent years, the Islamic banking industry has witnessed radical and profound transformations that have enabled it to appear on the global financial scene strongly by acquiring high levels of growth, in light of the increasing demand for this type of financial services that provide financing, investment, deposit and insurance channels that are compatible with the provisions of Islamic Sharia. (Chattha and others 2019, p25)

This is as shown in the following graph:

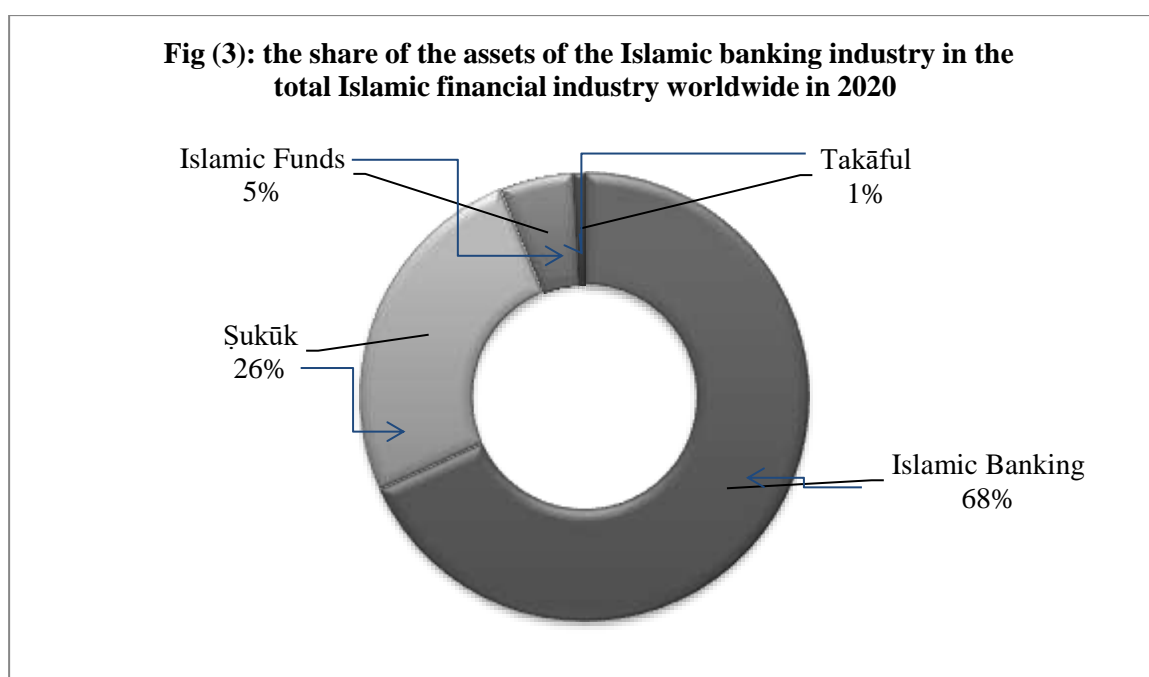


Source: Prepared by the student according to the report of Islamic financial services industry 2021

During the year 2019, the global banking services sector witnessed an improvement in the growth of its assets by 12.7 % Which is equivalent to 1.766 billion dollars compared to 2018, which grew by 0.9 % Which is equivalent to 1.571 billion dollars, and this improvement is due to an improvement in the assets of the Islamic banking industry in some countries, especially the Gulf Cooperation Council countries, which witnessed two major mergers of Islamic banks to strengthen competition and attract and enhance stable deposits.

As for the year 2020, the Islamic banking industry witnessed a significant decline in the growth of its assets by 4.3% This is equivalent to 1.842 billion dollars compared to 2019, and the main reason for this decline is the spread of the epidemic COVID-19, as many Islamic banks across the world worked to focus more on maintaining the value of their assets without their growth, for fear of the exacerbation of the epidemic crisis and its survival for a longer period, in addition to the decline in oil prices and production outputs during the first quarter of 2020, in addition to fluctuations What is happening in the exchange rates, especially the strong countries in the field of Islamic banking, such as Iran and Sudan.

The following figure shows: the share of the assets of the Islamic banking industry in the total Islamic financial industry worldwide



Source: Prepared by the student according to the report of Islamic financial services industry 2021

We note from the figure that the assets of the Islamic banking industry alone control a percentage of 68.3 % During the year 2020, of the total assets of the Islamic financial industry at the world level, and this is due to the great expansion by traditional banks, both local and international on the world of the Islamic banking industry through many ways and methods, some of which opened Islamic windows, and some of them opened Branches and departments specialized in Islamic banking, including those who provided banking services of an Islamic nature side by side to traditional banking services, and there are those who wanted a complete transformation directly to Islamic banks or a gradual transformation.

2. The reality of the Islamic banking industry in Algeria

The openness of the Algerian banking system to Islamic banking will enable Algeria to benefit from what Islamic banks offer in various fields, especially since Algeria is in a stage of growth that needs all that supports this growth and development, given the role and great importance of Islamic banks in achieving economic and social development, it requires the monetary authorities to create a climate conducive to their work, Islamic banking in Algeria is based on the work of banks and branches of Arab Islamic financial institutions and the windows of local banks, as follows: (Bouaita and others 2020, p366)

2-1 Aspects of the development of the Islamic banking industry in Algeria:

Algeria's experience in the field of Islamic banking goes back to the beginning of the nineties of the twentieth century when the first Islamic bank (Al Baraka Bank) was established on 05/20/1991 (Arab Monetary Fund, 2021, p04), is a mixed capital banking institution (public and private). with a capital of 500,000,000 DA. Its shareholders are the Bank of Agriculture and Rural Development of Algeria (BADR) and the Dallah Al-Baraka Group (Saudi Arabia). Governed by the provisions of Law No.03-11 of August 26, 2003, relating to Currency and Credit, the Al Baraka bank of Algeria is empowered to carry out all banking, financing, and investment operations, in accordance with Islamic Sharia.

Al Baraka bank offers five types of financing products, namely: Murabaha, Ijara, Salam, istisna, and moussawama. As it has financing resources such as demand deposits, savings accounts, and cash vouchers. (Azzaoui, Bedrouni, 2020, p377)

Al Salam Bank is the second Islamic establishment to be established in Algeria. Having been approved by the authorities on 17 October 2006, the Bank did not officially start operations until early October 2008. And we will address him in more detail by evaluating his experience by reviewing various financial statements and indicators during the period from 2017 to 2020 (beztouh, 2020, p358)

The volume of Islamic assets in Algeria in 2013 amounted to more than 3 billion\$, or about 2.4% of total banking assets, banks operating under Islamic law are growing faster than traditional banks in Algeria, it recorded a growth rate of 15% in 2013, the assets of Al Baraka Bank of Algeria amounted to 2.01 billion\$, the assets of ABC Islamic Bank 0.66 billion\$, and the assets of Al Salam Bank about 0.41 billion\$.

The Islamic windows were adopted in Algeria based on the system 18-02 on 26 Safar 1440 / November 4th, 2018, where the financial transactions practices rules which are related to participatory banking were clarified

The Bank of Algeria has based twelve (12) articles through this system on how to apply the participatory banking within Islamic windows at the level of traditional banks, where it was based on an initial experience on three traditional banks.

- The Algerian popular loan (CPA)
- Reserve bank CNP bank
- Local development bank DBL (Benzekkoura, 2020, p 09)

This system contained the following important items:

offered article 01 it to the importance of the system in defining the rules applicable to the so-called “shared” products that do not It has defined the participatory exchange operations that banks can offer into seven products, which are Murabaha, Musharaka,

Mudaraba, Ijarah, Istisna', Salam, and deposits in investment accounts, which are subject to all Article. Legal and Regulatory Provisions Related to Banks (article11).

As for the matter of article 02, She referred to banking operations related to joint exchange, as she defined them as The operations of receiving deposits, utilizing funds, and financing and investment operations that result in the collection and payment of interest,

As stipulated by this system in Article 03 Obtaining a prior license granted by the Central Bank to provide banking products Islamic banking by banks and financial institutions by opening young people to provide participatory banking services. ...to the rest of the articles that aim to organize the participatory banking work. (Regulation No. 18-02, p 20)

the system 20-02 dated 15/03/2020 issued in the Official Gazette No. 16, 2020

The provisions and articles of This system were canceled after the issuance of the most important law concerned with Islamic banking in Algeria, which is the system 02-20 issued in 2020/03/15 Defining Banking Operations Related to Islamic Banking and the Rules for Their Practice by Banks and financial institutions, and this system contained 22 of the most important articles:

Banks and financial institutions that wish to offer Islamic banking products must adhere to precautionary ratios that comply with regulatory standards (Article 03), and the total of banking products related to Islamic banking has been defined through (Article 04) and defined each service from (Article 05 to Article 12).

And before obtaining any license from the Central Bank to market Islamic products, (Article 13), banks and financial institutions must obtain a certificate of conformity of those mentioned products to the provisions of Sharia presented by the National Fatwa Authority (Article 14)

A bank and a financial institution must establish a Sharia supervisory board that consists of at least 03 members.

(Article 15) As for the rest of the articles, it shows the necessity of administrative, financial, accounting, and executive independence for the Islamic net's accounts from the rest of the accounts of banks and its affiliated institutions. (Regulation No. 20-02, p 32)

2-2 Evaluation of the Algerian Salam Bank experience:

2-2-1:the concept of AL SALAM bank Algeria

Al Salam Bank Algeria is a universal bank that operates in accordance with Algerian laws and adheres to the rulers of Islamic Sharia in all his dealings. The establishment of the Salam Bank-Algeria was announced on June 08, 2006, and it is a commercial bank established

According to the Algerian law, with social capital of 2.7 billion Algerian dinars, which was raised in 2009 to 10 billion Algerian dinars.

Also, during the year 2020, the capital of the bank was raised to 15 billion Algerian dinars in compliance with the regulations of the Bank of Algeria No. 03-18 of November 04, 2018, relating to the minimum capital of banks and financial institutions operating in Algeria.

The bank's activity was launched on October 20, 2008, and its network currently consists of 18 distributed branches.

national territory The financing methods of Al Salam Bank Algeria, like other Islamic banks, are divided according to the contracts used, Where we find the contracts of

compensation (peace, installment sale, forward sale, Murabaha of the purchase order, Istisna, Ijarah ended ownership), and contracts of participants (speculation, participation, farming ...).

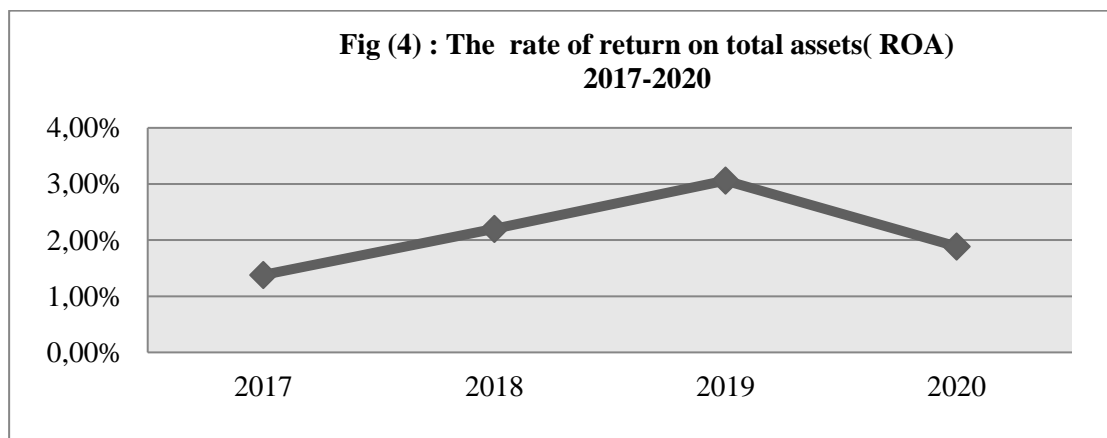
Al Salam Bank provides corporate and individual services; the first includes: banking operations (current account, free checkbook, automatic money transfer service), foreign trade (collection policies, documentary transactions, undertakings, and bank guarantee letters), and methods of financing through each of the following contracts (Murabaha contract for a purchase order, lease contract, peace contract, Mudaraba contract, Musharaka contract, Istisna'a contract, etc.), and the second includes: Banking (current account, free checkbook, and ATM), and investment accounts (Omniyet Savings Accounts, Investment Account), and services (e-payment card "Aamina", deposit boxes "aman"), it also offers a range of other banking services including ATMs and automatic payment tools spread across many vital areas, and remote banking services, and Swift email service "swifti", online payment service (E-Amina) (Al Salam Bank, 2020).

2-2-2 Study of profitability and liquidity indicators for the Algerian Salam Bank

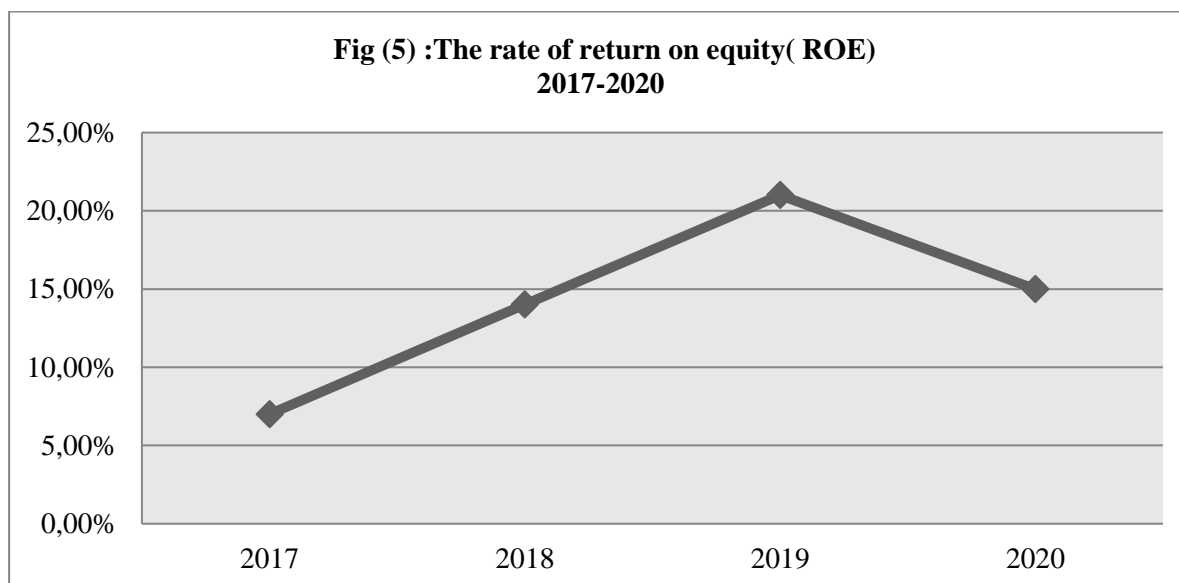
In order to be aware of all aspects of the subject, we have studied some profitability and liquidity indicators of the bank, through the financial statements for the year 2017 to 2020

2-2-2-1 Profitability indicators:

We will rely in our study on two important indicators to evaluate the bank, which is the rate of return on total assets (ROA) and the rate of return on equity (ROE).



Source: Prepared by the student according to the report of the Bank of Peace 2020



Source: Prepared by the student according to the report of the Bank of Peace 2020

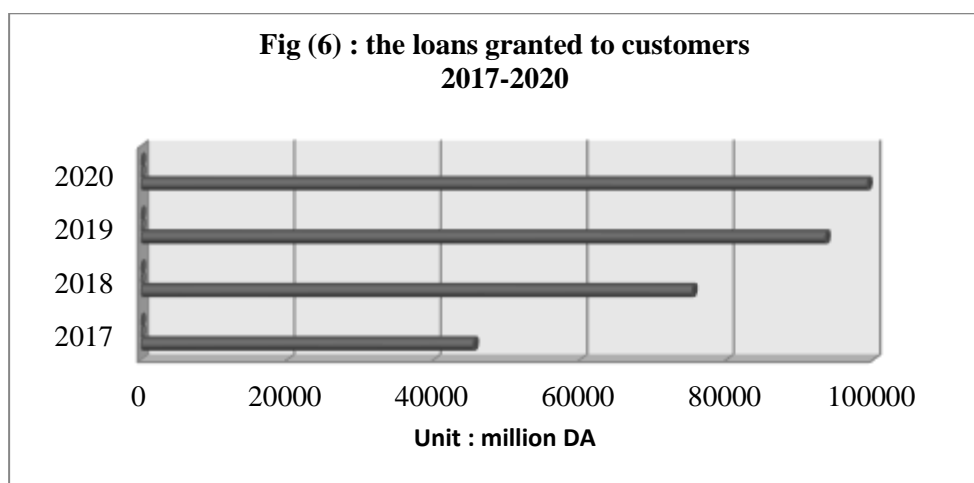
Through the special graph No. 01 (ROA) We note that the return is in continuous growth, reaching 0.86% in 2019 compared to the years 2018 and 2017.

As for the special chart No. 02 (ROE), it also witnessed a growth in its rate during 2017, 2018, and 2019, but at a steady pace of 07 % This growth is due to the bank's good use of its resources and customers' demand for the various services it promotes, and this also reflects operational efficiency.

As for the year 2020, we notice that the criteria for profitability(ROA) and (ROE) its growth rate declined to 1.17% and 6%, respectively, compared to 2019, and this is due to the spread of the COVID-19 epidemic that the whole world knew and worked to freeze the various activities of banks, including Al Salam Bank.

2-2-2-2 Liquidity indicators:

We will rely in our study on two indicators, which are the growth rate of loans, as well as the growth rates of customer deposits.

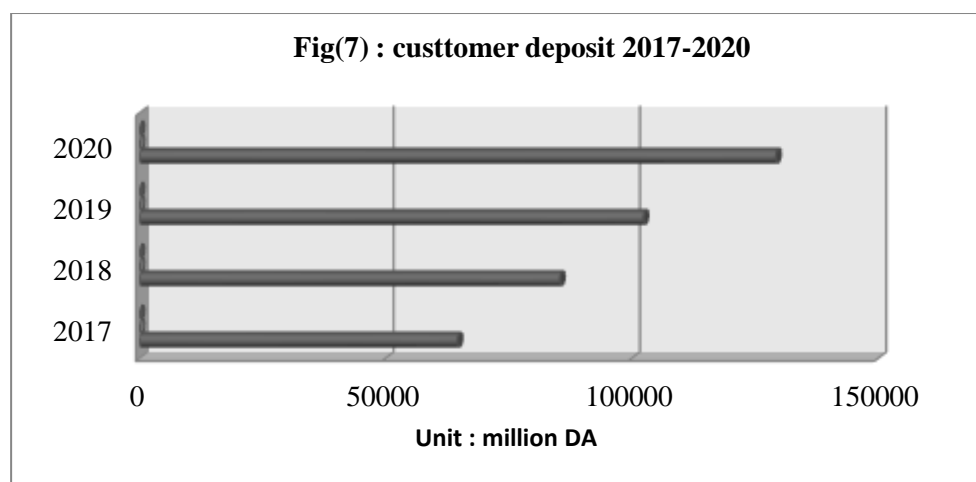


Source: Prepared by the student according to the report of the Bank of Peace 2020

Through graph No. 03 mentioned above, we find that the loans granted to customers grow from year to year, as the year 2019 reached 93510 million Algerian dinars, which is equivalent to an increase of 24% compared to the years 2018 and 2017.

This is due to the bank's financing and operational policy with which it operates in order to attract customers and its understanding of peaceful services that comply with Islamic Sharia, the jurisprudence of customers, to deal with these services without the need for usury.

As for the year 2020, it is the year of the epidemic COVID-19, where we note through the curve the bank's decline in granting loans to reach an average of 6% compared to the year 2019 and this is due to the bank's fear of not returning customers to loans and falling into a liquidity crisis.



Source: Prepared by the student according to the report of the Bank of Peace 2020

And through graph No. 04, we note that customer's deposits with the bank are in continuous development from year to year, as the year 2020 amounted to 129,320 million Algerian dinars, which is equivalent to 26% of their growth compared to previous years, and this is also due to the fact that customers want to obtain On Islamic banking services away from usury, in addition to the diversity of Islamic products offered by the bank and the role of the media, which has a role in polarization, in addition to operational efficiency.

After studying and analyzing the various financial data and indicators of Al Salam Bank and in the presence of several obstacles, we find that it is working hard to prove its presence in the banking and financial arena in Algeria through the various services it provides in terms of quality and price.

Conclusion:

Despite the efforts of the Algerian government to enact laws and legislation that serve the Islamic banking industry, especially in the last three years, by issuing regulations that allow banks and financial institutions to practice Islamic banking in accordance with the principles of Islamic law, However, the share of Islamic banks in the Algerian banking market is still remarkably modest, as public banks own 87% in terms of financing, while the rest of the banking institutions competed for the percentage the remaining adult 13%, and the shares of Al Baraka Bank and Al Salam Bank compete with a percentage not exceeding 17% (Bank of Algeria

reports for the year 2018, p92), and this is due to a lack of experience These banks and their lack of affiliation with large groups such as international banks, in addition to the volume of assets traded in the parallel economy. And for the success of these banks and the development of the Islamic banking industry in Algeria, it is necessary to reconsider the relationship of the central bank with non-Islamic banks by establishing laws that serve Islamic banks alone without other bank's enacting laws that are separate from the monetary and loan law 90/10 and 03/11, which are far from Islamic law The activation of the financial institutions that complement the Islamic banks by activating the financial market through the issuance of Islamic bonds and the establishment of Islamic investment funds, in addition to the establishment of Takaful insurance institutions and the merging of endowment institutions. These things all guarantee an increase in the share of the Islamic banking industry. in Algeria In addition to absorbing the cash mass circulating in it outside the official economy, by activating the role of the national media with the legitimacy of Islamic windows for clients in order to attract their money and invest it outside the parallel economy in accordance with Islamic Sharia.

The success of the Islamic banking industry in Algeria also depends on:

- ✓ Use of the high technologies in Islamic banks
- ✓ The rationalization of the Algerians' point of view towards Islamic banks.
- ✓ Provide a legal environment that allows the work in accordance with Islamic rules.
- ✓ Opening the capital of this type of bank for public subscription by 50% and 50% of the contributions of the state sectors such as the Ministry of Religious Affairs and the major productive companies of the state.
- ✓ Digitization of Islamic banking through using safer and more secure technology in this sector to protect all partnerships.
- ✓ Training of experts in the field of Islamic banks.
- ✓ Allowing the Islamic banks to invest and share international investments.
- ✓ Benefit from the experiences of leadership Islamic banks at the international level.

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