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A study of banking risks in light of the opening of the participatory windows - a case study of Algerian banks -

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Abstract:

This research aims to study banking risks in light of the opening of the participatory windows in the Algerian banks, where the analytical approach was used for the data and statistics of the Algerian commercial banks, and the laws and legislations that stipulated the method of dealing with participatory financial products,

The results represented in commercial banks adopting different methods in reducing banking risks resulting from dealing with participatory financial products, in addition to other methods to avoid banking risks, as well as methods represented in facing banking risks.Bank risk, commercial banks, participatory financial products

Keywords: banking risks.; commercial banks; participatory financial products.

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1. INTRODUCTION

Bank financing is the classic and familiar source for obtaining financing in Algeria. For this reason, the Algerian banking system must adopt new and diversified financing methods by launching participatory financial products that comply with the provisions of Islamic Sharia, and which are approved by Algerian traditional banks based on the Bank of Algeria system No. 02-18 of November 04, 2018, which was amended and repealed by Regulation No. 02-20 of March 15, 2020, which defines banking operations related to Islamic banking and the rules for its practice by banks and financial institutions. As the Central Bank of Algeria, based on this system, authorizes commercial banks to offer eight Islamic banking products, by opening the windows of Islamic banking.

The problem of the study: What is the extent of the banking risks through activating the participatory financial products in the Algerian commercial banks?

This research aims to identify the banking risks associated with participatory financial windows products, and the ways to monitor them as well as the methods of control by the traditional banks that opened this kind of windows. In addition to identifying the specifics of the eight participatory financial products adopted by Algerian public banks. Hence the scientific importance of this topic so that it contributes to the scientific rooting of banking risks in light of the opening of participatory financial windows.

This research paper is based on a descriptive analytical approach where theoretical concepts of risks related to participatory financial windows have been described, Analysis of some of the data related to participatory financing formulas in Algerian public banks, especially those that have opened participatory financial windows such as the Algerian National Bank, the Agricultural and Rural Development Bank, the Algerian Popular Loan.

2. Generalities about banking risk

2.1 Definition of banking risk:

Risk is defined as the opportunity to incur harm, damage, or loss, Sources of risks The nature of the relationship between the investor and the Islamic bank is represented in profit and loss sharing, and therefore risk sharing, which is one of the most important reasons why the investor is one of the most important sources of risk for Islamic banks. These risks can be divided into (Al-Masry, 2012):

- Risks that may arise due to the lack of ethical specifications in the investor client: The relationship between the bank and the client must require a certain amount of ethical qualities in the investor, such as: honesty, honesty, punctuality, and these ethical qualities represent a basic pillar of investment success. , as losing them or losing some of them raises the percentage of risks in the investments of Islamic banks, which affects the rights and obligations, such as forgery, manipulation of revenues, and procrastination in payment.
- Risks that may arise due to the investor’s lack of administrative and technical competence and practical experience: it is necessary to have administrative and technical capabilities and practical experience with the investor in the field of his project or investment activity, and the lack thereof affects the efficiency of the project and increases the possibility of its loss, and this results in a high The risk level in this project.
- Risks that may arise due to the unsound financial position of the investing client: These risks are represented in the possibility of the investor client’s inability to fulfill the bank’s financial rights in the future, represented in the value of the granted financing and the bank’s share of the realized profits. These risks arise if they are The client's financial obligations are greater than his actual capabilities or resources, i.e. when his total net financial position is indebted, and this is what is meant here after the safety of the financial position of the investing client.

2.2 Methods for controlling the risks of participatory financial products

It goes through the following stages (Belkacemi, 2020, p. 102):

-The stage of contracts and purchases: In this stage, the necessary public forces, tools, machines, tools, factory buildings, facilities, raw materials and all components of public utilities are mobilized.

-The stage of the actual construction and start of production for the trials: This phase includes the completion of the construction process, the conduct of the initial tests, the start of the trials, and the determination of the best balanced performance in time and costs.

-Operational stage: The operating stage is not considered one of the stages of the project. The word project ends at the start of operation. We can then call it “the facility” or “the company.” At this stage, it was added to know the sequence in the process cycle as a whole, and the same in the post-investment evaluation process.

3. Participatory financial products in Algeria

Participatory financial products are one of the forms of Islamic financing that Algeria has tended to settle in Algerian banks, by allowing the opening of Islamic windows approved by the Bank of Algeria system (20-02) specific to banking operations related to Islamic banking and the rules exercise it. According to Article (9) of this system, licenses were granted for eight financial products within the framework of the mechanism of opening Islamic banking windows in traditional Algerian banks.

3.1 Participatory window products that depend on representation contracts:

These products are represented in the Mudaraba contract and the Musharaka contract.

3.1.1 Mudaraba Contract:

The mudaraba formula is based on the pairing of capital and labour, thus combining those who own money and those who have work experience (Buhaih, 2020). As this contract is based, in essence, on the first party providing its money and the second party providing its expertise, and it is a very suitable form for establishing and organizing small and emerging projects (Khadija Khalidi, 2016, p. 245).

Banking form of Mudaraba contract:

According to Article 07 of Regulation (20-02), the Algerian legislator defined the approach contract as a financial product as a contract under which a bank or financial institution, named (money lender) provides the capital necessary for the contractor who provides his work in a project in order to achieve profits.

It is also possible to divide Mudaraba in terms of the number of participants into bilateral and collective Mudaraba, so that this financing formula can take several forms, which are as follows (Othma, 2007, p. 344):

- Collective speculation with multiple owners of money: It is in which the owners of capital are identified and the speculator is unique.
- Collective speculation with multiple speculators: It is in which speculators are determined only, and in which the owner of the capital is sole.
- Collective speculation with multiple parties: It is in which there are multiple parties to speculation, and they are the owners of capital, the bank and the speculators.

3.1.2 Partnership Contract

The formula of partnership financing, is among the basic formulas in the types of Islamic financing, which highlights the idea that the Islamic bank or the Islamic window in the conventional bank is not just a financier, but a participant of those dealing with it Banking form of the partnership contract (Khadija Khalidi, 2016, p. 166):

-According to Article 06 of the Regulation (20/02), the Central Bank defines the product of participation as a contract between a bank or a financial institution and one or more parties, with the aim of participating in the capital of an institution or in a project or in commercial operations in order to achieve profits.

-Participation or financing by partnership entails that the bank contributes to the capital of the project and becomes a partner in the ownership of this project, as well as in its management, management and supervision, and a partner in everything that results in profit or loss in the agreed ratios (Al-Masry, 2012, p. 141) .

Characteristics of the implementation of the partnership contract: The most important thing about this contract is in its procedures as follows (03/2020, 2020, page 03):

-Clarity of the shares of each partner, especially the value of the in-kind contributions in the contract.

-The necessity of specifying all procedures related to the dissolution of the partnership and the distribution of its assets in the capital.

-The distribution of profits is expressed in percentages, not arbitrary amounts, and the bearing of losses is proportional to the contributions of each partner.

-The management and management of the company is attributed by agreement between the partners, either assigning one of them or appointing a manager from non-partners.

3.2 Participatory window products that depend on warranty contracts

These financial products are represented in Murabaha contracts, Ijarah, Salam and Istisna contracts.

3-2-1 Murabaha Contract:

Islamic Murabaha is selling at an increase over the first price, and Murabaha sale is one of the basic and Islamic types of sales (Gharb, 2009, p. 07).

Murabaha bank formula:

Based on Article 05 of Regulation (20-02), Murabaha is a contract whereby the bank or financial institution sells to a customer a known commodity, whether movable or immovable, owned by the bank or financial institution, at the cost of its acquisition with the addition of a profit margin agreed upon in advance and according to the terms and conditions Payment agreed upon between the parties.

The common Murabaha contracts are that the commodity is in the possession of the seller present, so he sells it with the capital and an increase. However, the matter in the field of banks is not to accumulate commodities in the bank’s stores so that he sells them after that for

Murabaha and after bargaining. Rather, it is only an intermediary in the exchange, as the idea presented in this The field is called Murabaha for the person ordering the purchase, i.e. the buyer's request from the bank to buy a specific commodity with specific specifications, on the basis of a promise from it to purchase those commodities needed for him by Murabaha, with a profit margin according to his financial ability and ability (Ayachi, 2019, p. 309)

Characteristics of executing Murabaha contracts: Murabaha and Murabaha contracts are for the purchase orderer with the following (03/2020, 2020, page 01):

- The ability of the bank to delegate the customer to choose and buy the commodity subject of the contract.

The requirement of the bank to undertake a unilateral purchase of the commodity in question.

- The bank obtains a security deposit called "margin of seriousness" from the customer, with the possibility of recovering it at the time of the conclusion and implementation of the contract.

Enable the bank to deduct an amount from the security deposit in the event that any actual damage resulting from the purchase orderer's failure to honor his commitments is proven.

Table 1: The reality of Murabaha window products approved by Algerian public banks, For the period 2020-2021

concerned banks	Number of banking agencies	Approved Murabaha financing formulas	Financing activities
Algerian National Bank BNA	59 banking agencies spread over 44 states	Murabaha Real Estate	A formula concerned with financing the purchase of real estate designated for the establishment and expansion of the project.
		Murabaha to buy cars	A financing formula for the acquisition of utilitarian

			cars for the owners of institutions.
		Murabaha for the purchase of equipment	Financing the purchase of the means and equipment used in the project's activity.
Bank of Agriculture and Rural Development BADR	12 banking agencies spread over 12 states	Murabaha for public deals	Financing future institutions to complete or supply public projects.
		Murabaha for transportation	The formula for financing the acquisition of various means (trucks, transporting workers, utility vehicles(...
		Murabaha for professional equipment	Financing the owners of professional workshops and traditional crafts.
		Murabaha Exports	Financing formula in the framework of foreign trade activities.
		Murabaha for raw materials	Financing the acquisition of various raw materials during the establishment of the institution.
		Murabaha for agricultural production	Financing agricultural projects of various types and activities.
		Murabaha for works	Funding formula for various major completion works and various construction and reconstruction activities.
Algerian popular loan CPA	30 banking agencies	Murabaha real estate	Financing the acquisition of various raw materials during

	spread over 19 states		the establishment of the institution.
		Murabaha processing	Support and financing to obtain equipment and supplies for the establishment or expansion of the activity.
		Murabaha car	Financing the acquisition of utilitarian cars for institutions and even tourism for individuals.

Source: Prepared by researchers based on the websites of Algerian public banks

3.2.2 The lease contract:

the lease means a contract for a known permissible benefit for a specified period

The banking formula for The lease contract: It is one of the contemporary tools in Islamic banking, approved by the Bank of Algeria in Article 08 of its system (20-02) and defined as:

A lease contract puts at the disposal of the customer and on the basis of rent a movable or immovable commodity owned by the bank for a specified period in return for the payment of a rent specified in the contract.

Leasing operations take two forms; Operating lease and lease-to-own

Operating lease: It means that the lessee does not own the goods leased by the bank.

Characteristics of the implementation of the lease contract: According to the instructions of the Bank of Algeria No. 03/2020, this type of contract has implementation characteristics as follows:

Concerning the goods that are not damaged due to the tenant's use of them

Clarity of the rent amount and how to determine it

Determining the lease term and its effective date

Table 2: The reality of leasing window products approved by Algerian public banks, For the period 2020-2021

concerned banks	**Approved Leasing financing formulas**	**Number of banking agencies**	**Financing activities**
Algerian National Bank BNA	Real estate lease ending with ownership	59 banking agencies spread over 44 states	Financing all real estate rental operations for professionals and institutions with their ownership at the end of the contract implementation period
CNEP	Ownership lease	40 banking agencies spread over 40 states	A financing formula for leasing various means, equipment and machines used in establishing projects, as well as leasing shops.

Source: Prepared by researchers based on the websites of Algerian public banks

3.2.3 Salam contract:

Salam, in the definition of jurists, is meant to be an immediate deferred sale. The deferred is the sold commodity described in the liability, and the immediate is the price

Salam banking formula: This type of financial product is approved by the Algerian banking system through Article 09 of Regulation (20-02) as a contract through which the bank or financial institution that plays the role of the buyer purchases a commodity that is delivered to him at a later date by his customer in return for payment Immediate and cash.

There is also a parallel form of the Salam contract called “Parallel Salam”; Where this contract takes place when the bank concludes another Salam contract with a third party independent of the first contract, in order to sell a commodity identical in specifications to the commodity subject of the first contract, delivered at a later date at an agreed price to be paid immediately and in cash

Characteristics of the implementation of the peace contract: This contract is distinguished from other Islamic contracts by the following executive procedures Not requiring the seller to have the commodity subject of the contract.

Clarity and identification of the brand of the goods sold.

Mandatory payment of the price by the buyer to the seller, and payment is made in cash in most cases.

The contract shall include all the details of the agreement between the two parties.

3.2.4 Istisna contract:

Istisna is considered a pioneering method for operating the dynamics of the economy, as it has a close relationship with the production and industrial apparatus in particular Banking form of the Istisna' contract: From the point of view of the system (20-02) mentioned above in Article 10, Istisna' is a contract whereby the bank undertakes to deliver a commodity to its customer who is in charge, or to purchase at a factory a commodity that will be manufactured according to specific characteristics agreed upon between the parties. , at a fixed price and according to the payment modalities agreed upon in advance between the two parties.

Istisna'a can take another form called "parallel Istisna'a" and is represented by the bank's conclusion of a second contract with the product factory that is the subject of the Istisna' contract

Characteristics of the implementation of the Istisna contract: its most important technical characteristics in terms of implementation are explained as follows

The independence of the Istisna contract from the parallel Istisna contract.

Determining the Istisna'a price, payment methods, cases of termination, and responsibility for delivery of the commodity at the time of the conclusion of the contract.

The bank cannot conclude a contract with a manufacturing establishment in which the owner owns 33% or more of its capital.

The possibility of the bank requiring guarantees that comply with the applicable legislation.

4. Results:

The methods of controlling banking risks under the partnership products are:

4.1 Methods of risk control in the study phase: Risk audit assessment. One of the methods of controlling financing risks at the stage of studying the file, as it is not possible to control risks except after identifying the size and type of risk, and therefore its rejection or acceptance, as well as determining the most appropriate methods of control in the event of its acceptance, and the process of risk assessment, which can be expressed by measuring this Risk by relying on future data and information, in the light of which it is possible to predict the degree of this risk and to hold studies and guarantees, diversification, After the bank has finished determining the size and type of risk in financing using the accurate assessment method, the bank will know the impact of this financing on the overall risk and the possibility of reducing it through diversification.

4.2 Methods of controlling risks in the negotiation stage: allotted investment.

It is a method through which Islamic banks can control the risks of a certain financing process, especially in the case of Murabaha financing, and it is intended for the customer to leave balances with the bank as deposits until the end of the payment, and this allocated investment helps the bank to control liquidity risks.

Warranties: The customer seeks to achieve investment goals as soon as he obtains financing from the bank, but the latter will not finance it unless he obtains a guarantee, and this is a preventive measure that the bank secures against risks in the future.

Insurance : One of the methods of controlling the risks of granting financing is that the bank asks the customer to insure in favor of the bank against the risk of non-payment with the insurance company, so that if the customer does not pay on the due date, the bank gets the appropriate compensation from the insurance company, and the bank may pay installments Insurance for the insurance company, provided that it bears the cost of financing.

Charters restricted in contracts: One of the most important methods of controlling financing risks used by Islamic banks is to stipulate in contracts many covenants according to which the customer is obligated to perform actions and refrain from other actions during the contract period, which helps to strengthen the bank's position vis-à-vis both the customer and his other creditors.

4.3 Methods of controlling risks after granting financing.

Effective follow up: Effective follow-up aims to ensure the proper functioning of the institution or the client in his work, and that there are no developments that affect his ability to pay and thus follow up on the collection of installments on the specified dates.

Follow-up efficacy:

The financing process is a revolving, moving process, and the main gap that is generated at the end of the bank's responsibility is the failure to keep abreast of the client's situation periodically, while perfecting the follow-up of the client stage by stage leads to remedying the negative effects of the investment decision gaps and reduces the financing risks, and gives a successful opportunity for collection. And that any negligence in this area results in negative consequences for the banks in their relationship with the customer, and they bear legal responsibilities

4.4 Wise handling of troubled cases.

Troubled debt represents a serious problem facing Islamic banks in their business, as it leads to the freezing of a significant part of these banks' funds as a result of the inability of clients who obtained them to pay their installments and returns, and exposing the granting bank to losses that may exceed the return on the alternative investment opportunity. Considering:

The personality element is one of the important elements when judging the client's eligibility and eligibility to obtain financing for the first time, as well as when removing him from his stumble. Certain, and that the customer did not use the bank's money for personal items, "whenever that encourages the bank to enter into a default treatment."

It is necessary to find out the reasons for the stumbling block and the agreement of views in this regard between the customer and the bank.

Availability of an accurate information base on the situation, which requires the bank to:

- Update the client file in terms of updating queries.
- Availability of up-to-date financial statements.
- Availability of a recent assessment of some assets that may play an important role in solving the problem.
- Availability of information on the exploited production capacity and the problems of automated equipment.
- Availability of data on the organizational structure and its shortcomings.
- Availability of data on the marketing position.

Availability of sincere intentions between the client and the bank to solve the problem, the customer should not hide some data that may play an important role in the decision-making process and finding a solution to the problem, such as:

- Some personal property.
- Results of some negotiations to sell it.
- Ongoing attempts to attract support funding.

That the bank understands the psychological state of the customer, which results from the default state.

5. CONCLUSION

The importance of participatory products in Algerian commercial banks is:

The importance of the share product is highlighted in the following:

- Mobilizing savings and repurposing it in the form of investment funds to create participatory projects.

- Establishing the logic of solidarity takaful financing through organized group ways, that reduce the severity of the financing risks.

Ensuring efficiency in managing project operations by benefiting from the experiences of banks participating in these projects.

- The emergence of an effective control relationship for financing investments during the keenness of all parties to achieve the objectives of the project.

- Ensuring a fair distribution of returns and profits among the partners, which may ensure self-financing and, consequently, the expansion and sustainability of the institution.

The importance of the Murabaha window in financing start-ups: The importance of Murabaha sales, as it is a financing method for owners of small projects and innovative ideas, is as follows:

- Providing the financing incentive due to the simplicity of this method, as it can be applied between projects that do not have official accounting books, thus facilitating the establishment and establishment phase of the emerging institution.

- Increasing the purchasing power of the founders of emerging projects and facilitating their access to raw materials to establish the project with the required specifications.

Avoiding the risks of traditional usurious and compound interest, which lead to a weak financial position for emerging institutions.

- The increase in the price is clear in the sales contract and before the contract is executed, which makes it easier for startup entrepreneurs to choose the best selling offers available to them.

- The short and medium term of Murabaha contracts that help the bank in the rapid turnover of its funds and the refinancing of other emerging institutions in various fields, which ensures financial sustainability.

The importance of the mudaraba product in relation to the financing process through the following:

- Using the capital available to the owners of money by the experienced and creative people in ideas.

Reducing the risks arising from the difficulty of financing, especially in multilateral collective speculative contracts, where the logic of crowd funding is established.

Providing greater opportunities for the emergence of new and contemporary economic activities, especially those specialized in the field of technology.

Removing all financing obstacles to value-added entrepreneurial projects, due to the absence of all costs

The importance of the rental window is as follows:

Enable project owners to rent equipment, technological supplies and advanced machines that are in line with their investment activity, whatever its type or specialization.

- Ensure the full operation of the means of production available to the start-up enterprise.

Providing financial liquidity to startup entrepreneurs by obtaining full financing for capital assets.

The importance of stair nets is as follows:

Providing raw materials for emerging projects with the required specifications and marks.

- The commercial and marketing benefit that accrues to the small and emerging enterprises after production.

Providing cash liquidity to emerging institutions through banks purchasing their products with a parallel ladder contract for the benefit of other customers.

- Indirect financing advantages resulting from agreements with major companies and distributors through banks.

The importance of the Istisna’a nets is as follows:

- Encouraging industrial projects, local crafts and all creative ideas in various fields of industry.

Establishing a stable and continuous financing relationship between the banking system and the production system.

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