

## IMPEDIMENTS TO THE APPLICATION AND SUCCESS OF ISLAMIC WINDOWS IN ALGERIA

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**Abstract.** The study aimed to identify strategies for overcoming the challenges that hinder the advancement of Islamic banking windows in Algeria. It focused on examining the nature of Islamic windows, the relevant Sharia-compliant provisions that support or oppose them and the prerequisites for their establishment. The findings revealed that Islamic banking windows in Algeria face numerous obstacles that restrict their expansion within the banking sector. Advancing traditional banks and fostering a robust Islamic economy through these windows necessitate the establishment of appropriate legal, administrative and human resource frameworks.

**Keywords:** Islamic windows, traditional banks, Islamic banking.

### ƏLCƏZAİRDƏ İSLAM BANK PƏNCƏRƏSİNİN TƏTBİQİ VƏ QARŞIYA ÇIXAN MANEƏLƏR

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**Xülasə.** Məqalədə Əlcəzairdə İslam bankçılığı pəncərələrinin inkişafında qarşıya çıxan problemlərin aradan qaldırılması üçün strategiyaların müəyyən edilməsinə həsr olunmuşdur. Burada İslam pəncərələrinin mahiyyəti, onları dəstəkləyən və ya onlara qarşı çıxan müvafiq şərait müddəaları və onların yaradılması üçün ilkin şərtlər araşdırılmışdır. Tədqiqatlar göstərdi ki, Əlcəzairdə İslam bankçılığı pəncərələrinin bank sektorunda genişlənməsini məhdudlaşdıran çoxsaylı maneələr vardır. Ənənəvi bankların inkişafı və bu pəncərələr vasitəsilə güclü İslam iqtisadiyyatının təşviqi müvafiq hüquqi, inzibati və insan resursları çərçivələrinin yaradılmasını zərurətini yaradır.

**Açar sözlər:** İslam pəncərəsi, İslam bankları, ənənəvi banklar, İslam bankçılığı.

### ПРЕПЯТСТВИЯ ДЛЯ ПРИМЕНЕНИЯ И УСПЕХА ИСЛАМСКИХ ОКОН В АЛЖИРЕ

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**Резюме.** Исследование было направлено на выявление стратегий преодоления проблем, препятствующих развитию исламских банковских окон в Алжире. Оно было сосредоточено на изучении природы исламских окон, соответствующих положений, соответствующих шариату, которые поддерживают или противостоят им, и предпосылок для их создания. Результаты показали, что исламские банковские окна в Алжире сталкиваются с многочисленными препятствиями, которые ограничивают их расширение в банковском секторе. Развитие традиционных банков и содействие развитию надежной исламской экономики посредством этих окон требует создания соответствующих правовых, административных и кадровых рамок.

**Ключевые слова:** Исламские окна, традиционные банки, исламский банкинг.

## 1. Introduction

Following the crises in the traditional banking system, the shift towards Islamic banking has gained significant importance due to its proven successes in financial management and the mobilization of financial resources aimed at fostering development across various sectors.

The practice of Islamic banking has not been confined to specialized Islamic banks but has also extended to traditional banks offering Islamic financial services through Islamic windows. Since the late twentieth century, numerous traditional banks have introduced Islamic windows, leading to their widespread adoption globally.

Algeria has been among the countries that embraced Islamic banking within traditional banks by establishing Islamic windows. Experts view this initiative as a vital financing alternative and a preliminary step towards transitioning to a full-fledged Islamic banking system, particularly amidst the declining efficacy of the traditional banking model.

Despite the efforts of the Algerian government to promote the establishment of Islamic windows, several challenges persist, primarily related to the legal framework and human resource development.

In light of the above, this study raises the following question:

## 2. What are the obstacles to the establishment of Islamic windows in Algeria?

### *Access to Islamic windows*

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### *2.1. Definition of Islamic windows*

It is widely recognized that the foundation of Islamic banking transactions stems primarily from Islamic banks, which strictly adhere to the principles of Islamic Shariah and ensure compliance with its guidelines [1, p.210]. However, an alternative approach known as Islamic windows has emerged as one of the most significant mechanisms through which traditional banks adopt and offer Islamic banking services.

According to the Islamic Financial Services Board, an Islamic window is defined as “a division or specialized unit within a conventional financial institution that provides fund management services (investment accounts) as well as financing and investment services in compliance with the principles of Islamic Shariah” [2, p.59].

System 02-20 defines an Islamic window in Article 17 as a dedicated structure within a bank or financial institution exclusively responsible for offering Islamic banking services and products. This structure operates with financial independence from other divisions of the bank or financial institution [3, p.3].

In general, Islamic windows refer to a model in which the parent bank designates a specific section or unit within its traditional branches to provide Islamic banking services alongside the conventional services offered by the branch [4, p.164].

### ***2.2. Creation of Islamic windows***

The first Islamic windows were introduced in Egypt in 1980 when the Bank of Egypt established its initial branch, expanding to 29 branches by 2004. Similarly, the Arab Bank launched an Islamic window in Jordan under the name of the Arab Islamic Bank in 1998, while the Cairo Bank established Islamic windows in various Palestinian cities in 1996. Over time, this phenomenon has evolved from a localized initiative to a global trend, with major banks and conventional financial institutions in Western countries adopting Islamic windows [5, p.147].

### ***2.3. Characteristics of Islamic windows***

Islamic windows in Arab banks possess distinct characteristics that set them apart from the traditional branches of these banks. The most notable features include the following:

- The operations and activities of Islamic branches are strictly governed by the provisions of Shariah, whereas traditional branches are essentially based on practices that involve interest, which contradicts the principles of God;
- Many Islamic branches are subject to a legal observer or a Shariah oversight body, a feature that is not applicable to traditional branches.

The most significant forms and methods of investment in Islamic branches include profit-sharing arrangements, joint ventures, cost-plus financing and leasing. In contrast, traditional branches typically rely on a single approach-granting interest-based loans-despite variations in their forms and terminology.

Investment accounts in Islamic branches regulate the relationship between the branch and the client based on a profit-sharing contract, adhering to principles of shared risk and reward. Conversely, in traditional branches, the relationship between the branch and the client is defined as one between a creditor and a debtor.

If an Islamic branch requires additional funding, the main bank provides an investment deposit, which, like all other deposits in the system, is subject to both profit and loss [6, p.14].

## **3. Islamic windows in traditional banks**

Islamic windows operate within the banking framework of traditional banks. Opinions regarding the legitimacy of these windows are divided between supporters and opponents, each presenting their own arguments. Establishing Islamic windows in traditional banks requires meeting a set of specific prerequisites.

### ***3.1. Legitimacy of Islamic windows***

Debates often arise regarding new issues that are not explicitly addressed by existing laws, particularly the establishment of Islamic windows within traditional banks seeking to engage in Islamic banking activities. Scholars hold differing views on this matter, with some supporting the concept and others opposing it, each presenting their respective arguments. Some scholars argue for exceptions in specific cases. This discussion will outline the key arguments from both perspectives:

#### *3.1.1. The view in favour of the establishment of Islamic windows in traditional banks*

The proponents have based their view on the fact that the opening of Islamic windows by traditional banks would be:

- Acknowledgment of the economic feasibility and sustainability of Islamic banking.
- Recognition of the practicality and applicability of Islamic banking models in real-world scenarios.
- The opportunity to leverage the expertise of traditional banks in developing Islamic banking products and cultivating human resources for the broader Islamic banking sector.
- A preliminary step toward the potential transition (“Islamization”) of these banks, either partially or fully.
- A significant advancement for Islamic banking if a traditional bank, particularly a large and well-established one, transitions into a fully Islamic bank.
- Promotion of mutual coexistence and collaboration between Islamic and conventional banking systems, fostering harmony rather than competition [7, pp.15-16].

#### *3.1.2. Opposition to the establishment of Islamic windows for traditional banks*

Against them based on their view on the following reasons:

- Concerns that this approach might compromise the perceived purity of Islamic banking practices in the minds of both employees and clients.
- Concerns about the challenges of integrating two distinct banking systems under one institution, potentially leading to operational inefficiencies or failure.
- Fears that this approach may hinder or delay the establishment of fully independent Islamic banks [8, p.95].

#### *3.1.3. Those who deal with Islamic windows of necessity*

According to proponents of this view, there are exceptions in certain instances where traditional banks may establish Islamic windows. Their arguments are as follows:

In the absence of Islamic banks, the Islamic ruling permits engaging with Islamic windows under the principle that, in such circumstances, strict adherence to Shariah principles should not become excessively burdensome. However, if Islamic banks are available,

traditional banks with Islamic windows should transition to fully Shariah-compliant institutions.

In the absence of Islamic banks, engaging with Islamic windows is considered preferable to dealing with traditional banks that do not offer Islamic banking services or activities.

Furthermore, limiting interactions with Islamic windows to cases of necessity may accelerate the complete transformation of traditional banks into fully Shariah-compliant Islamic banks [9, p.166].

### ***3.2. Requirements for opening Islamic windows in traditional banks***

The establishment of an Islamic transactions window within traditional banks requires the fulfillment of the following prerequisites [10, pp.153-154]:

#### ***3.2.1. Legal requirements***

The legislative measures to be adhered to include:

- Issuance of a licensing decree by the General Assembly of the traditional bank, approving the establishment of an Islamic window and addressing the necessary amendments to the founding contract.
- Securing approval from the Central Bank, in compliance with the conditions and regulations established for such initiatives.
- Assigning the Department of Legal Affairs to examine the legal aspects of the transformation process, identify potential legal implications and address any possible legal obstacles.

#### ***3.2.2. Legitimacy requirements***

The legitimacy requirements are as follows:

- Appointment of a specialized legal advisory and oversight body to supervise the establishment and operation of the Islamic window.
- Appointment of internal forensic auditors to ensure the objectives of internal legal compliance are effectively implemented.
- Elimination of all forms of transactions that contradict the principles of Shariah.
- Clear segregation of lawful financial resources from those deemed non-compliant with Shariah.

#### ***3.2.3. Administrative requirements***

Once the legal and legal requirements have been met, the opening of an Islamic window requires the following administrative procedures [8, p.105].

- Amending the bank's contract and statute to make it legitimate.

- The Management Committee appoints the transition process.
- The initial preparation of all workers for the nature of Islamic banking work.
- Conducting specialized training programs for personnel, focusing on Shariah-compliant contracts, Islamic financing methods and the standards established by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

#### **4. Steps to establish Islamic windows in Algerian banks**

There are several basic steps that must be taken to adopt Islamic windows in Algerian banks, as follows:

##### **4.1. Bank of Algeria's agreement**

The bank or financial institution must submit a file to the Bank of Algeria requesting prior authorization to market Islamic banking products. This file should include the following documents [11, p.34]:

- A certificate of conformity with the provisions of Shariah issued by the National Legal Commission, reflecting the advisory opinion of the Islamic Financial Industry.
- A detailed product specification card.
- The opinion of the appropriate control officer of the bank or financial institution, in accordance with the provisions of Article 25 of Regulation No. 11.08 from the 3rd of 1433 AH Congress (2011).
- The procedures to be followed to ensure the administrative and financial independence of the Islamic Banking Network.

##### **4.2. Legal obligation**

Compliance with legal standards is one of the most critical factors for the success of any bank seeking to engage in Islamic banking activities. Once a Shariah oversight body is appointed, the monitoring of the operations of Islamic windows, as well as the nature of the products and services they offer, is significantly enhanced. In such cases, the Islamic window holds a legitimate obligation, serving as a fundamental standard and requirement. A compliance officer plays a crucial role in ensuring that operations are conducted appropriately, thereby contributing to a positive perception of Islamic banking activities. (*Footsteps and Ben Musa, "Islamic Windows as a Mechanism to Activate Islamic Banking in Algeria"*) [12, p.94].

##### **4.2.1. The product conforms to the provisions of the Islamic Shariah**

Before submitting a license application to the Bank of Algeria for the marketing of Islamic banking products, the bank or financial institution must obtain a certificate of conformity for the product with the provisions of Islamic Shariah from the National Legitimacy Commission, based on the advisory opinion of the Islamic Financial Industry [11, p.34].

#### *4.2.2. Establishment of an Algerian oversight body*

In conducting Islamic banking operations, the bank or financial institution must establish a Supervisory Authority composed of at least three members appointed by the General Assembly. This authority operates independently from the bank, as its appointment is mandated by the General Assembly. Its primary responsibility is to examine and assess the conformity of the Islamic window's operations with the provisions of Islamic Shariah. The authority relies on various opinions, guidelines, and instructions it issues, ensuring these are documented in a report submitted to relevant stakeholders both within and outside the bank.

Legal scrutiny is initially internal, meaning it is conducted by an administrative body within the bank. In line with governance principles, this body holds the same managerial level as internal technical auditing. Consequently, it typically reports administratively to the board of directors while providing technical advice to the advisory body [12, p.95].

### **5. Obstacles to the development of Islamic windows in Algeria and ways to overcome them**

Islamic windows in Algeria face challenges in expanding their presence within the banking sector, despite significant efforts by the Algerian government in recent years.

#### *5.1. Difficulties in opening Islamic windows in Algeria*

The Algerian government has actively promoted the establishment of Islamic windows through various initiatives. However, several obstacles persist, particularly regarding the human resources and legal frameworks, hindering the broader development of the Islamic banking sector in the Algerian economy. These challenges include:

##### *5.1.1. Legal obstacles*

Islamic financial institutions in Algeria are subject to the same regulatory framework that governs traditional financial operations. This uniform approach renders the Algerian financial environment unsuitable for the effective functioning of Islamic financial institutions, given the fundamental differences that distinguish their operational systems from those of traditional financial institutions [13, p.353].

Despite the enactment of Regulation 20.02, which aimed to define banking operations related to Islamic banking and establish applicable rules-thereby repealing Regulation 18.02 that previously defined such operations under the term “participatory” - the legislative framework for the Islamic banking industry in Algeria continues to lack clarity. Specifically, the regulation fails to provide a comprehensive and precise definition of Shariah-compliant contracts, instead referring to them as “products” without assigning them a clear basis in Islamic law.

Article 5 of Regulation 20.02 also makes reference to traditional profit structures rather than adopting the composite profit mechanisms commonly used in Islamic banks, such as those involving purchase orders. Additionally, Article 6 of the same regulation defines participation as merely achieving profit, with no reference to the potential for loss borne by the parties involved. This omission overlooks a fundamental principle of participation contracts: the mutual sharing of profit and loss based on the equity contributions of the parties involved, which is a cornerstone of such agreements [14, p.110].

#### *5.1.2. Human constraints*

Islamic windows in Algeria face a significant challenge due to a shortage of qualified and specialized personnel in the field of Islamic banking. Most employees in these windows are recruited from traditional banks based on their experience within conventional financial systems. However, their training and expertise in traditional banking make it difficult for them to adapt to the unique principles and philosophy of Islamic banking [15, p.106].

#### *5.1.3. System- and policy-related constraints*

Experience indicates that many banks seeking to offer Islamic banking alongside traditional banking often overlook two critical aspects [16, p.20]:

- The inability of the existing accounting systems, which are designed based on conventional principles, to adequately address the unique requirements of Islamic banking.
- The slow implementation of technical systems and procedures necessary for Islamic banking operations, resulting in lengthy and complex processes as well as relatively weak customer service performance.

#### *5.1.4. Relationship of legitimate bodies with the administration of the Bank*

This includes the interactions between the Shariah supervisory bodies and the bank's day-to-day executive management, the Board of Directors and the Contributors' Association. The key issues are as follows [17, p.932]:

- Dependence and Lack of Independence: One of the primary concerns raised about Islamic windows is their lack of independence, as they remain an integral part of traditional banks. This dependency discourages the establishment of more standalone Islamic banks, limiting the development of the Islamic banking sector.
- Mixing of Funds: A significant concern for Shariah supervisory bodies is the potential mixing of funds between Islamic branches, the central bank and other traditional branches. In many cases, excess liquidity from Islamic windows is transferred to the central bank, which utilizes it in interest-based transactions. This raises compliance issues and undermines the Shariah principles that Islamic windows are expected to uphold.

## ***5.2. Ways to overcome obstacles and address problems***

To advance the operations of traditional banks and guide them toward contributing to a robust Islamic economy through Islamic windows, the Algerian monetary authorities must create a conducive environment for their growth. Addressing the previously mentioned constraints requires considering the following aspects as potential solutions:

### ***5.2.1. Banking regulation***

The establishment and regulation of Islamic windows depend on the enactment of laws and regulations governing their operations. This includes the legal framework for their establishment, oversight and relationship with the central bank. The issuance of specific legislation for Islamic banks and their operations facilitates the regulation of banking activities in accordance with Islamic law, while also defining the mechanisms and provisions required for their implementation [18, p.108].

### ***5.2.2. Organization of the relationship with the Bank of Algeria***

Banks offering Islamic banking products in Algeria, like other Islamic banks operating under a unified legal framework, face challenges in their relationship with the Bank of Algeria and the mechanisms for regulating Islamic windows. These challenges include issues related to the legal reserve ratio, the role of the Bank of Algeria as a lender of last resort and the calculation of certain ratios governed by prudential rules.

One significant issue is the capital adequacy or solvency ratio, as outlined in Regulation No. 14-01 issued on September 25, 2014. This regulation defines the solvency ratios applied to banks and financial institutions, requiring calculations based on global standards set by the Basel Committee in its third agreement. These models, designed for uniform application across all banks in Algeria, do not account for the unique nature of Islamic windows, which operate in accordance with the principles of Islamic law [12, p.932].

### ***5.2.3. Training and legal education for the human component working in Islamic banks***

The awareness of Islamic bankers, along with their comprehensive understanding of Islamic financial transactions and the foundational principles of Islamic investment forms and financial services, is vital. This knowledge supports the establishment of an educational and training center specializing in Islamic banking sciences, aimed at preparing, training and graduating qualified banking professionals.

If establishing such a center is not feasible in the near term, a dedicated department could be created within the Higher School of Banks in Algeria. Additionally, Islamic banks in Algeria could establish specialized in-house training centers to develop local talent. In this context, the experiences of leading Islamic institutions, such as the Islamic Research and Training Institute of the Islamic Development Bank in Jeddah and the Islamic Economic Centre

of the International Islamic Bank for Investment and Development in Cairo, can serve as valuable models [19, p.77].

#### *5.2.4. Administrative management*

Traditional banks in Algeria should establish a dedicated administrative body within the structure of the central bank to manage Islamic windows or networks. This administrative unit would operate as part of the bank's organizational framework, encompassing branches supervised by well-qualified and trained personnel with expertise in providing Islamic financial services. Furthermore, periodic training courses on these services should be offered to enhance staff capabilities, instead of relying on employees who lack sufficient knowledge of the Islamic financial products and services offered by Islamic banks.

### **6. Conclusions**

Islamic banking services are offered not only by specialized Islamic banks but also through Islamic windows within traditional banks. While these windows have contributed to the development of Islamic banking globally, they have not achieved the desired level of success in Algeria due to numerous challenges that have hindered their growth.

The study led to several key findings, summarized as follows:

- Islamic windows operate within traditional banks to provide Shariah-compliant banking services.
- These windows are distinguished by the presence of a Shariah supervisory body that oversees and ensures compliance with Islamic principles in their operations.
- The successful operation of Islamic windows requires meeting specific prerequisites to enable the effective marketing of Islamic banking products.
- Islamic windows in Algeria face significant challenges-legal, administrative and human that limit their expansion within the banking sector.
- Developing the operations of traditional banks and transitioning them toward a robust Islamic economy can be achieved through the effective implementation of Islamic windows.

### **7. Recommendations**

Based on the findings, the following recommendations are proposed:

- To issue specific laws in the Islamic Republic of Algeria that allow for the organization of banking operations in accordance with the provisions of Islamic law, as well as define their mechanisms and application provisions.
- To reduce the obstacles to the functioning of Islamic windows to enable their effective operation.
- To use information campaigns to promote Islamic windows, raising awareness among individuals who avoid dealing with interest and attracting them to increase savings and investments.

– To train bank personnel through the establishment of specialized centres to enhance their understanding of Islamic banking mechanisms.

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