

Islamic Digital Bank and Economic Reforms: Case Study of the Islamic Digital Bank

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ABSTRACT

In this research paper, we will shed light on the Islamic digital bank and the requirements for its establishment. The current economic take-off and the information revolution have prompted the emergence of digital banks, but they have faced legislative challenges that accompany this type of bank in some countries due to the weakness of the technological factor and the lack of digital infrastructure. In this paper, we will also discuss the environment of the digital banking system in Algeria in light of the recent economic reforms, which led to the emergence of Islamic banking; which facilitated banking procedures, but the introduction of digitization in Algerian Islamic banks has enhanced the effectiveness of banking operations. Through this, we will try to address the reality of the Algerian Islamic digital bank in light of the economic reforms to complete banking operations digitally.

Keywords: Digital bank, Islamic bank, Islamic banking, economic reforms, digitization, banking system.

1. INTRODUCTION

The banking system globally is witnessing an unprecedented revolution in the use of information and communication technologies that have created a digital gap between countries that own modern technologies and have changed banking operations and transactions, making the market for financial products and services grow rapidly in terms of number and size in light of the exceptional circumstances witnessed in the previous year, as this change allowed the creation of digital banking opportunities in emerging fields and markets around the world, and gave wide categories of dealers the ability to benefit from financial services at lower costs. Regarding the Islamic banking sector, we find that building a banking technology infrastructure constitutes an important incentive for Islamic digital banks to make up for the slowdown in growth that they have recently witnessed, affected by the weak economic and financial growth caused by the Covid 19 pandemic. With the advancement of technology and the emergence of Web 2.0 and the emergence of multimedia and new applications for information and communication in the new millennium, digital banking services have revived in digital Islamic banking, and with the recent increase in interest from Gulf countries such as Saudi Arabia, Qatar and Kuwait, it is expected that this sector will sweep more countries in the world that have begun to license and approve the establishment of Islamic digital banks. From which we chose the Algerian experience by shedding light on the Algerian Islamic Bank, Bank Al Salam, as a model in a field study.

1.1 The problem of the chapter

Based on our discussion of it, we will try to raise the following problem: What is the reality of the Algerian Islamic digital bank and what are the challenges of its development?

1.2 Previous studies

We tried to collect some previous studies that have a direct relationship to the mechanisms of the work of digital Islamic banks in light of economic reforms, especially digital Islamic banks or the study community for the purpose of benefiting from them, and they benefited from this scientific balance.

1-A study by Ibtisam Makhzari, Mahmoud Sahnoon and Abdel Hamid Mahri (2020) entitled: "Islamic electronic banking between reality and ambition, the Egyptian experience of Dubai Islamic Bank as a model." This study aims to try to sum up the reality and prospects of Islamic electronic banking with a case study of Dubai Islamic Bank, as Islamic electronic banking has recently witnessed great popularity, especially after the spread of the Covid 19 pandemic by providing various financial services over the Internet, which has had a positive impact on the global banking system. The same study concluded that the idea of the contribution of Islamic electronic banks to strengthening the presence and development of

the Islamic financial industry in Arab countries, especially in Dubai, faces many challenges, most notably those related to determining the real volume of liquidity and the spread of electronic financial crimes.

2- Murad Boudaya's study (2019), entitled: "Islamic Digital Banks: A Purposeful Vision" In this study, the researcher attempted to present the objectives framework for the work of digital Islamic banks as a measuring tool to show the extent to which digital banks are suitable by nature and their challenges for Islamic banking, in order to contain the reality and anticipate the future of Islamic banking work according to what the objectives of Islamic law require to preserve money, while being keen to derive the most important challenges that stand in the way of the spread and prosperity of these banks and activate their contribution to economic and social development in the country. The results of the study showed that digital Islamic banks are one of the pillars of economic and social development in various countries of the world, due to their contribution to national income, creating added value, absorbing unemployment and contributing to employment.

3-Study by G.Saranya and P.Rajan: Under the title "Digital banking services: customer perspectives", the researchers in this article were interested in identifying the factors affecting digital banking services on customer satisfaction, through a theoretical reading of the subject first, then through a field study using the questionnaire method and analysis through the SPSS program conducted on a sample of 100 users of digital banks in India. The researchers concluded that the banks under study lack more robust and reliable systems to reduce failed transactions and transaction errors in ATMs, mobile banking services and final points of sale. The same banks also need to create an application that can be used to improve digital banking services and facilitate information and communication technology skills. It is worth noting here that the previous studies above are interested in presenting the framework of digital banks and Islamic digital banks and the challenges of their development.

4-Lei Wu a, Dongli Yu b, Yongbin Lv c,(2023): Digital banking and deposit: Substitution effect of mobile applications on web services, The objective of this study is to scrutinize the influence of digital transformation on the scale of bank deposits in the banking industry. One potential explanation for this phenomenon is that the advent of m-banking can lead to a decrease in the inclination of customers to actively seek out services on the web. In addition, the effect of m-banking on deposit is subject to considerable regional variation, which is influenced by the level of internet and mobile technology adoption. This implies that technological infrastructure and access to digital resources play in shaping the success of m-banking as a transformative financial service.

5- José António Porfírio, José Augusto Felício, Tiago Carrilho,(2023): Factors affecting digital transformation in banking, This study analyzes the perceived impacts of Digital Transformation (DT) in the banking industry, identifying the factors that most affect banking performance and business volume. Based on the opinion of some board members and the perceptions of 50 bank employees, ground theory is used and fsQCA is applied to identify the factors and configurations between Employees, Internal, and External factors that influence the impact of DT on the performance of Portuguese banks.

Research is developed at a micro level putting in evidence the holistic comprehension of the DT process and concluding on the importance of flexibility and management capacity to potentiate the impact of DT in banking, highlighting the crucial importance of the employees' skills and stakeholders' digital experience to bypass drawbacks to its potential and contributing to improve management and human resource policies to address DT in the banking industry.

6- Tuire Kuisma a, Tommi Laukkanen a, Mika Hiltunen (2007),^b Mapping the reasons for resistance to Internet banking: A means-end approach, Although Internet banking has been widely adopted in developed countries, there is still a group of customers resisting the services. In other words, Internet banking, although proven to be a successful innovation, has still not become adopted by the laggards, and hence, has not met all the expectations of banks. Therefore, the purpose of this paper is to identify the reasons for consumer resistance to Internet banking. The special interest is to explore resistance among those bank customers who already have valid contracts for Internet banking but prefer to pay their bills via ATM. The objective is to identify those characteristics generating resistance to Internet banking and their connections to values of individuals. In order to achieve the objective, 30 Finnish bank customers were interviewed in-depth using the means-end approach and the laddering interviewing technique. The findings indicate both functional and psychological barriers arising from service-, channel-, consumer- and communication-related means-end chains inhibiting Internet banking adoption. The contribution of the paper lies in achieving a more profound understanding of consumer resistance to Internet banking, and further, in offering suggestions and practical advice for service providers' decision-making.

7-Payam Hanafizadeh et al,(2012), Mobile-banking adoption by Iranian bank clients, This study provides insights into factors affecting the adoption of mobile banking in Iran. Encouraging clients to use the cell-phone for banking affairs, and negative trends in the adoption of this technology makes it imperative to study the factors affecting the adoption of mobile banking. Accordingly, this study builds a comprehensive

theoretical model explaining mobile banking adoption. By incorporating 361 bank clients in Iran, eight latent variables of perceived usefulness, perceived ease of use, need for interaction, perceived risk, perceived cost, compatibility with life style, perceived credibility and trust were examined. It was found that these constructs successfully explain adoption of mobile banking among Iranian clients. Adaptation with life style and trust were found to be the most significant antecedents explaining the adoption of mobile banking.

8-Sabah Abdullah Al-Somali et al (2008), An investigation into the acceptance of online banking in Saudi Arabia, Although a regional leader, Internet banking in Saudi Arabia is yet to be fully utilised as a value-adding tool to improve customer relationships and achieve cost advantages. The aim of this study was to identify the factors that encourage customers to adopt online banking in Saudi Arabia. The research constructs were developed based on the technology acceptance model (TAM) and incorporated some extra important control variables. The model was empirically verified to examine the factors influencing the online banking adoption behaviour of 400 customers. The findings of the study suggests that the quality of the Internet connection, the awareness of online banking and its benefits, the social influence and computer self-efficacy have significant effects on the perceived usefulness (PU) and perceived ease of use (PEOU) of online banking acceptance. Education, trust and resistance to change also have significant impact on the attitude towards the likelihood of adopting online banking. The implications of the findings are discussed and suggestions for future research are presented.

10-Soumia Khoualef (2024), The research entitled: "The mechanisms of work of Islamic banks in light of economic reforms, a case study of the Algerian Islamic Bank - Al-Salam Bank as a model" aims to: To clarify this topic by using a case study approach by representing the research community in Algerian Islamic banks and choosing a representative sample represented by Al-Salam Bank as a "model". One of the most important tools used in the research is the questionnaire as a tool for obtaining information and data. In the field research, statistical analysis was used using the statistical program SPSS and in the quantitative study of the research topic. One of the most important results reached through the research, which shed light on the Islamic Bank of Algeria, "Al-Salam Bank as a Model.

From this standpoint, we can say that our research paper is unique in examining the reality and prospects of Islamic digital banks in general and at the level of the Islamic digital bank, Al Salam Bank, in particular, as one of the leading models of Islamic digital banks in Algeria.

1.3 The main hypothesis of the research

After the initial readings and reviewing previous studies related to the subject, we try to answer the question posed, which is the following hypothesis:

- The importance of Islamic digital banks lies in the diverse range of digital products they offer through applications, and the resulting benefit to customers, especially in terms of saving time, saving on transportation, in addition to reducing the costs of financial transactions.
- As for the requirements for establishing Islamic digital banks, it can be said that these banks, including Al Salam Bank, are subject to the requirements for establishing traditional Islamic banks with the addition of an appropriate environmental system for digitizing financial transactions.

1.4 The importance of the research

Our choice to research the importance of Islamic digital banks. And the requirements for their establishment have a great place at the level of the financial industry internationally, since the digital transformation of Islamic banks constitutes one of the strategic options for financial policy for a significant group of countries globally, due to the electronic services these banks provide via the Internet and the profits compared to banks that are not compatible with the provisions of Islamic legislate.

1.5 Research objectives

Through this research, we seek to achieve a set of objectives as follows:

- 1- Defining the mechanisms of work of digital Islamic banks.
- 2- Highlighting the most important economic reforms in Algeria
- 3- The extent of the effectiveness of the mechanisms of work of Algerian Islamic banks in light of the economic reforms in Algeria.
- 4- Highlighting the mechanisms of work of the Algerian digital Salam Bank in light of the Algerian economic reforms.
- 5- Surveying the objectives of the digital bank through its functions.
- 6- Digital banking policy and the mechanisms followed in providing loans.
- 7- Highlighting the most important mechanisms and digital banking operations used
- 8- Identifying the tasks of the digital bank and the new technologies used.

1.6 The methodology followed and the division of the research

In general, this methodology can be defined as "a method of analysis based on sufficient and accurate information about a specific phenomenon or topic through a known period or periods of time in order to obtain practical results that have been interpreted in an objective manner and in a manner consistent with the actual data of the phenomenon.

In this study, we relied on the case study methodology, which is considered one of the methods that focus in human and social research on a case study, highlighting it and generalizing its results.

Our study comes within this framework in terms of the case study, which is to highlight the Algerian Digital Islamic bank and study the person in charge of the bank's affairs and clarify the problem of our study represented in the reality and prospects of the digital Islamic bank in light of economic reforms? A case study of the Algerian Islamic bank - Al Salam Bank as a model - the subject of the study?

2. Theoretical Framework

1 The emergence of digital banks

The beginnings of the emergence of digital banks, also referred to as new or competing banks, go back to the financial crisis that broke out in 2008, and its repercussions on the economies of countries and their financial systems, in addition to the spread of the Covid-19 pandemic since the end of 2019, which provided a new vision for the financial and business markets in the world, and a better, more significant and professional banking experience represented in the provision of new banks, competing banks and non-banking institutions of different types of digital banking services, and through this we will discuss the concept of digital banks, their importance, advantages and disadvantages.

2.1 The concept of digital banks

A digital bank is defined as a bank that accepts deposits and practices other related financial services activities, through electronic means, or primarily digitally instead of actual interaction with customers (Abu Dhabi Global Market Digital Banking Licensing Guide, 2015, p. 2). While some believe that the digital bank includes many banking activities that can be carried out from anywhere, it is a bank that seeks to develop banking services by providing products and services to customers; It is mainly based on electronic services such as ATMs, telephones, the Internet, and mobile phones. These banks are also known as electronic banks, virtual banks, home banks, electronic banks, remote line banks, new banks, competitive banks... (Saranya.G, 2018, PP306-307). Accordingly, it can be said that digital banks are based on virtual platforms and an information environment through which the customer manages his accounts and completes his banking activities related to the bank via the Internet (Boudaya, 2019, p. 127). Digital or competitive banks are also known as a financial technology company that has its own banking licenses and can provide banking services in a flexible manner. (Al-Naqbi, 2021). Based on the above definitions, in an attempt by researchers, it can be said that digital banks are financial institutions that do not have a specific institutional structure, and therefore they are a virtual space through which they provide their banking services electronically.

2.2 The importance of digital banks

The importance of digital banks is evident in that they are financial institutions that provide important opportunities to achieve better equipment for competition and survival in the market within the framework of what is known as comprehensive and faster service at the lowest costs, as the same banks allow their customers to manage their financial operations and financial accounts themselves.

Accordingly, the existence of the digital bank is linked to its ability to transform into a site for correct information, and is thus considered an institution for advice, to open up business horizons, for investment opportunities and their management, for fast financial service at the lowest costs and a space for distinguished management of customer needs, no matter how different they are. In this regard, resorting to digital banks is considered a resort to providing banking services in a short time by a limited number. From employees at a lower cost, considering that the digital bank saves the cost of the bank's physical presence (headquarters, employees, expenses, branches..), but it should be noted that the savings in the cost of providing the service does not depend on the bank itself, as this does not establish between it and non-digital services, so digital banks are based on another main rule, which is that the savings in the cost of the service is a shared return between the bank and the customer (Park, 2010, pp. 64-65)..

2.3 Economic reforms

2.3.1 Technically

Economic reforms are the steps and procedures adopted by the state to correct an economic situation, or adapt to the economic systems in the local and international economic environment, to implement the economic policy pursued by the state.

2.3.2 Procedurally

Algerian economic reforms are the steps and procedures adopted by the state in the field of Islamic banking, by opening approximately 11 Islamic banks in addition to independent banks, including the Islamic Salam Bank under study.

3. The experience of the digital Al Salam Bank

Al Salam Bank Algeria was established in 2006 and is a leading bank that owns 23 branches in various regions of Algeria, and provides banking services and products that are compatible with the provisions of Islamic Sharia, including: commercial financing, foreign trade, personal financing, real estate financing, and investment accounts.

3.1 Technical card on digital financing at Al Salam Bank

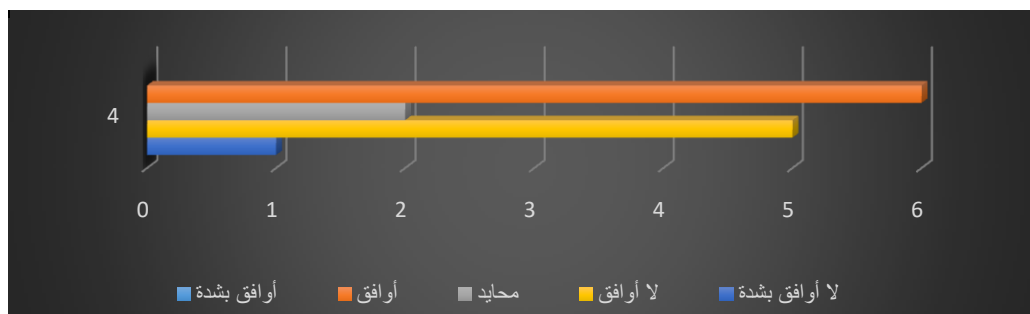


Source: <https://www.diardzair.com.dz/>

Table 1. Fiscal and monetary policy under economic reforms adapts to Islamic digital banks in Algeria.

Is Fiscal and monetary policy in light of economic reforms adapting to digital Islamic banks in Algeria?	Repetition	Percentage%
I strongly agree	/	/
I agree	6	42.9 %
Neutral	2	14.3%
I Do not agree	5	35.7%
Strongly disagree	1	7.1%
Total	14	100%

Source: Prepared by the researcher based on the study tool



Source: Prepared by the researcher based on the study tool

It is noticeable from the previous table that the responses are divided in terms of approval and disapproval. Perhaps this is due to the great disparity in the visions and perceptions of the study sample members about the suitability of the financial and economic reform policy in Algeria to the needs of Islamic banks operating in Algeria. This may stem from the different effects observed by the study sample members of the fiscal and monetary policy in force in Algeria on Al Salam Bank.

Table 2. Obstacles facing the effectiveness of Islamic digital banks in Algeria.

What are the obstacles facing the effectiveness of Islamic digital banks in Algeria?	Repetition	Percentage%
Application of "shareaa "Supervision to Islamic Banks- Adding Islamic Financing Formulas	1	14.3%
Allowing Banks to open foreign currency exchange offices	1	14.3%
Changing some laws related to the Algerian digital bank	1	14.3%
Legal and legislative systems	1	14.3%
Generalization of Islamic Banks In a Algeria	1	14.3%
Changing the structure of monetary policy and enacting laws that adapt to Islamic banking	1	14.3%
Fragile banking system and lack of mutual trust between the customer and the bank	1	14.3%
Total	14	100%

Source: Prepared by the researcher based on the study tool

The previous table shows an equal distribution of the responses of the study sample members to the question "What are the obstacles facing the effectiveness of Islamic banks in Algeria?" Perhaps this disparity in the responses is due to the fact that the Algerian banking system is tainted with many problems that together lead to the generation of difficulties for Islamic digital banks operating in the country. Therefore, it is not possible to improve the reality of Islamic banks in Algeria by focusing on one aspect only, but it is necessary to look at the obstacles surrounding Islamic digital banks from a comprehensive perspective. A comprehensive vision contributes to understanding the obstacles and challenges facing the effectiveness of Islamic digital banks in Algeria.

Table 03: Digital Islamic banks in Algeria in light of the Algerian economic reforms

Table 03: Digital Islamic banks in Algeria in light of the Algerian economic reforms	Repetition	Percentage%
Digital Islamic banks in Algeria in light of the Algerian economic reforms		
Pinneer in Islamic Banking	1	10%
Work remotely	1	10%
Continue to apply Islamic banking	1	10%
Digital banking facilities	1	10%
All Algerians Should go to such banks	1	10%
The leading bank in the field of Islamic banking	1	10%
Digital banking	1	10%
Striving for exlence with the highst standards	1	10%
Opening the way for private Islamic digital banks to invest in Algeria	1	10%
Always in the lesd	1	10%
Total	10	100%

Source: Prepared by the researcher based on the study tool

It is noticeable from the previous table that the answers of the study sample members regarding the proposed solutions for the effectiveness of Islamic digital banks in Algeria in light of Algerian economic reforms varied. Perhaps this diversity of opinions is due to the multiplicity of possible images for

improving the levels of performance and efficiency of the work of Islamic digital banks operating in Algeria. That is, the organizational and financial development of Algerian Islamic digital banks requires the adoption and implementation of comprehensive organizational strategies, based on a vision, mission and objectives.

4. CONCLUSION

The term digitization has recently gained a lot of attention in various countries of the world due to the current secretions of the Fourth Industrial Revolution, and the resulting increase in competition and development of technology, which provides a new impetus towards developing their societies, by focusing the efforts of these countries on digitizing their economy, financial system and Islamic banks, which helped them spread and expand further beyond their geographical borders and acquire new customers.

4.1 Results

After addressing the various aspects of the subject, we were able to extract the following results:

1. Islamic digital banks are financial institutions that do not have a specific institutional structure, and therefore they are a virtual space through which they provide their banking business electronically, provided that they comply with Islamic law, which allows them to complete their various transactions from anywhere in the world and as quickly as possible.
2. The establishment of Islamic digital banks is subject to the Sharia controls of non-digital Islamic banks, in addition to the necessity of providing an appropriate legislative environment to ensure the smooth running of various financial services, fulfilling a set of professional and technical conditions related primarily to obtaining activity licenses from professional bodies, providing the necessary financial, human, and material resources, in addition to determining the policies followed to manage various banking risks and combat corruption and electronic financial crimes and studying possible alternatives.
3. Al Salam Bank is considered the first Islamic digital application launched by the bank from Algeria by creating technologies available in the world of banking, thus contributing to saving a lot of costs, effort and time for its customers, as the introduction of this digital financing platform into service was the result of the fruits of many studies on a set of Sharia and legal requirements and various capabilities necessary to ensure the correct launch of the bank and its continuity.

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