

Takaful Insurance Companies between Facing Challenges and Success Factors in Algeria after the issuance of Executive Decree 21-81.

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Abstract

This research paper aims to identify the most important internal and external challenges facing Takaful insurance companies in Algeria, which were established after the issuance of Executive Decree No 21-81 issued on 02/28/2021.

And to highlight the success factors that the latter should rely on in facing challenges, which is represented in building a clear strategy through which it seeks to achieve its goals by relying on modern technological means, and is based on the principles of transparency to win the trust of customers through reports issued by its management.

Keywords: insurance, solidarity, success factors, challenges

Introduction

The insurance market in Algeria was strengthened after the issuance of Executive Decree No. 21-81 on 02/28/2021, which established companies and opened opportunities for practicing Takaful insurance. It also paved the way for international insurance companies to invest in this market.

Despite the issuance of the aforementioned decree, there are still some shortcomings in the executive procedures faced by these companies, along with organizational, administrative, and qualification challenges.

Moreover, there are natural challenges that pose significant risks to the solvency of these companies, and their losses cannot be predicted. Examples of such challenges include floods, fires, hurricanes, and earthquakes. The floods of Bab al-Wadi in 2000 and the Boumerdes earthquake on 5/21/2003 caused significant material and human losses.

Similarly, the summer fires of 2022 in Algeria resulted in severe damage to agricultural crops and fruit trees.

These incidents were exacerbated by the issuance of Ordonnance No. 03-12 issued on 08/26/2003, which relates to compulsory insurance for natural disasters

(Cat-Nat). It aimed to compensate those affected by establishing a fund specifically for this purpose.

However, it did not make it mandatory for self-employed individuals to obtain insurance, despite the fact that this group represents the largest in terms of size and number. This situation highlights the need for revisiting the legislative aspect of the matter.

Great losses occurred due to the 2023 Turkey earthquake, which destroyed thousands of buildings and claimed hundreds of lives. This event has heightened the interest of insurance companies both internationally and locally, as they recognize the risks that pose a threat to their financial solvency. Consequently, a conference was organized for African insurance companies from May 27-31, 2023, with the objective of finding solutions to face natural challenges.

In order to maintain Financial solvency (1-2), Takaful insurance companies should adhere to the conditions and rules that govern the industry. Additionally, they can enhance their protection by adopting European solvency standards and considering reinsurance options with reinsurance companies that demonstrate high financial efficiency. This approach will provide an added layer of financial security and strengthen their ability to manage risks effectively.

The importance of the study

Stems from the internal challenges and the economic and natural changes that the Takaful insurance industry in Algeria is currently facing. Understanding and analyzing these challenges is crucial for the industry's growth and sustainability. By conducting a comprehensive study, valuable insights can be gained regarding the specific obstacles and opportunities within the Algerian Takaful insurance market. This knowledge can then be used to develop effective strategies, policies, and solutions to overcome the challenges and adapt to the changing economic and natural landscape. Ultimately, the study aims to contribute to the industry's development and ensure its ability to meet the evolving needs of customers in Algeria.

The aim of the study

This study aims to shed light on the most significant challenges faced by companies and windows within the Takaful insurance industry, particularly those established after the issuance of Executive Decree 21-81 on 02/28/2021 in Algeria. The study seeks to identify and analyze these challenges in order to provide a comprehensive understanding of the industry's landscape. Additionally, the study aims to explore the success factors that contribute to the growth and prosperity of Takaful insurance entities operating within the Algerian market. By examining both the challenges and success factors, the study aims to offer

valuable insights and recommendations to enhance the performance and effectiveness of Takaful insurance companies in Algeria.

Study problem

This study seeks to answer the following question: "What are the success factors and the main challenges facing Takaful insurance companies in Algeria, after the issuance of Executive Decree No. 21-81?".

1. Success Factors of Takaful insurance companies in Algeria

Companies and windows of Takaful insurance companies in Algeria are seeking to find a niche alongside the traditional insurance companies that have dominated the Algerian insurance market since independence, accompanied by the hope of success through Executive Decree No. 21-81.

The Sharia Supervisory Board in these companies and windows plays the role of accompaniment and support to find solutions and alternatives to the legal and Sharia challenges they face. Their role also lies in the stability of these windows and companies on the principles of Islamic law, in addition to adopting a clear strategy by the company's management, which is characterized by high-quality products while maintaining credibility in its dealings with partners.

1.1 Definition of Takaful insurance

The concept of Takaful referse to a cooperative and solidarity-based system that aims to distribute risks and calamities among the insured individuals. This is achieved by pooling the combined premiums from the insured, which is then used to provide compensation for any incurred losses or calamities. The Takaful system promotes the sharing of risks and fosters a sense of community and support among the insured participants (Muhammad Ezzedine, 2019, p. 32).

It is a contract through which the insurance company commits to providing financial compensation to the insured (guardian) or the designated beneficiary in the event of losses, as specified in the contract's guarantees.

This contractual system operates based on the principle of netting, aiming to collaborate in mitigating damages arising from unforeseen risks. Regulatory bodies participate by employing technical methods grounded in statistical foundations and rules in the implementation of these contracts. Their role is to effectively manage and respond to emergency risks " (Al-Zarqa, 1984, pp. 30-33).

The legal jurists have held differing opinions regarding the permissibility of insurance, with the majority considering it a prohibited contract. They argue against obtaining any form of compensation from the insured party. Their stance is based on the belief that such transactions involve unlawfully taking people's money and resemble gambling and betting (Kaouther,, 2021, p. 3).

This group further contends that the concept of insurance contradicts the principles of a guarantee without a price. They assert that it is inappropriate for one person to request another to guarantee something for a certain price, as it entails deception and resembles gambling. Moreover, they argue that if a guarantor is aware of the item's expiration date, they cannot be considered a true guarantor. Additionally, the party seeking the guarantee will be dissatisfied if the value of the insured item decreases (Zouambi Djihad, 2023, p. 203).

The second group is indecisive with regard to the permissibility of insurance. They argue the importance of distinguishing between conventional insurance contracts and Takaful insurance contracts. This distinction is considered necessary, although efforts should be made to eliminate the need for it eventually.

On the other hand, the third group allows insurance in all its forms, as long as it is free of usury. They view insurance as a cooperative contract, whereby if the insured survives the coverage period, he can get compensation up to the amount he paid. In the event of the death of the insured, his heirs are entitled to receive the amount of compensation.

As a result of this dispute, Takaful insurance emerged as an alternative to traditional insurance. Jurists differed in their definitions of Takaful insurance, but it can be defined as follows:

Takaful insurance is a cooperative system based on solidarity that aims to distribute risks among all participants. The aim is to provide compensation to those affected by sharing the burden among the insured individuals collectively. In Takaful insurance, the insured individuals unite as a unified entity that collectively assumes risk and ensures that those affected receive adequate compensation, thus reducing the individual burden on any one participant.

It is also defined as an agreement among individuals exposed to specific risks to mitigate the damages resulting from those risks.

This is achieved through the payment of contributions based on the principle of donation, which are collected in an insurance fund that operates as a legal entity with independent financial liability. The funds from this pool are then utilized to provide compensation for damages incurred by any participant due to the occurrence of the insured risks (Akhter, 2010, p. 4).

These operations are regulated by specific regulations and documented procedures (AAOIFI, 2023, p. 685). Some also consider it a contract between two or more parties, so that each of the parties provides money to the party or to the other parties with the intention of donating first and making a profit second, and this is intended to cooperate and achieve benefit for the parties to the contract or for one of them, as it is one of the conditions for cooperation by netting and achieving benefit between the parties with the presence of an adjective Compensation, and the profit comes as a follower, not intended for itself.

The Takaful Insurance Corporation manages the participants' fund and invests the collected funds in it in exchange for an agency commission in accordance with the provisions and principles of Islamic Sharia (Al-Qudah, 2010, p. 4).

1.2 Takaful insurance in the Algerian insurance law

The practice of Takaful insurance in Algeria was enabled through the implementation of Article 103 of the Finance Law No. 14-19 in 2020. Subsequently, Executive Decree No. 21-81 was issued on 02/23/2021, which outlined the conditions and procedures for the practice of Takaful insurance. This decree is regarded as a significant practical measure that supports professionals in the sector, allowing for the establishment of new Takaful insurance companies or the inclusion of Takaful insurance windows within existing conventional insurance companies.

The key principle of Takaful insurance, based on donation, is implemented with a clear distinction between the technical, accounting, and financial aspects, in line with the principles of Islamic Sharia. These regulatory measures provide a solid framework for the growth and development of the Takaful insurance industry in Algeria (Insurance Takaful, 2021, p. 8).

The Sharia Supervisory Board of Takaful Insurance Companies in Algeria consists of three legally qualified members. They are appointed by the General Assembly for a period of three years, renewable once. Its primary responsibility is to monitor and supervise all operations related to the company's Takaful insurance, ensuring compliance with the principles of Islamic Sharia. It expresses its opinions and takes decisions based on its experience and understanding of the principles of Islamic law, and its decisions are binding on the company.

In addition, the company is required to appoint an auditor to examine the various insurance operations it conducts. This ensures that the company's practices comply with regulatory requirements and ethical standards.

The decree also created a national Sharia board for fatwas dedicated to the Islamic financial industry. This committee plays an important role in providing reliable rulings and guidance on matters related to Islamic finance, including Takaful insurance. It serves as a central authority for issuing fatwas and ensuring consistency and compliance within the Islamic financial sector in Algeria (aminul, 2013, p. 4).

The Algerian legislator defined Takaful insurance by Executive Decree No. 21-81 dated Rajab 11, 1442 AH, corresponding to February 23, 2021, amending Law 06-04, which specified its conditions and how to practice it, as: “a contractual system” in which the participating natural or legal persons are summoned, by paying a donation called a contribution to form the subscribers’ fund (participants’ account), and the processes and procedures related to the Takaful insurance

business are compatible with the principles of Islamic Sharia” (Insurance law, 2006, p. 15).

Article No. 04 of Decree 21-81 outlines the conditions and procedures for practicing Takaful insurance in accordance with the provisions of Article 203 of Ordinance 95-07 of January 25, 1995, as amended and supplemented. It allows for the establishment of a dedicated Takaful insurance company that exclusively conducts Takaful insurance operations related to damages and persons. Alternatively,

Takaful insurance can be practiced through a "window" within a traditional insurance company. In the case of a "window," the company is required to maintain separate accounts for the Takaful insurance activities, distinct from the accounts used for conventional insurance operations. This separation ensures the clear distinction and proper management of funds associated with Takaful insurance activities (Executive Decree No 21-81, , p. 4).

Based on the above, it can be emphasized that Takaful insurance is a system in which the participants donate their contributions to provide relief for the harm that they may suffer.

Takaful insurance is a contract that follows the principles of Islamic Sharia. It serves as an alternative to traditional insurance contracts, which are often seen as deceptive or lacking in transparency. Takaful insurance can be viewed as a donation contract on the condition of compensation, or as a cooperation and solidarity contract between the participants in the insurance process.

The existence of conditions for donation, cooperation and solidarity within the Takaful insurance contract is an acknowledgment by the subscriber when entering into the insurance process.

1.2 Principles and characteristics of Takaful insurance

Takaful insurance is characterized by the principle of mutual donation between the insurance company and subscribers. This principle aims to enhance cooperation and solidarity among the parties involved in the insurance process. It is a basic principle that distinguishes Takaful insurance from traditional insurance systems. Participants contribute and donate to support and help one another, emphasizing the values of cooperation and solidarity within the framework of Takaful Insurance. These principles promote the collective responsibility and shared benefits that are fundamental to Takaful insurance, and foster a sense of community and mutual support among all participants in the insurance process.

1.3.1 Principles of Takaful insurance

Takaful insurance is based on several principles that differ from traditional insurance, which are as follows:

1.3.1.1 Solidarity and cooperation

Takaful insurance promotes a sense of solidarity and cooperation among its participants. The system encourages individuals to support and assist one another in times of need, fostering a spirit of mutual assistance and community support.

1.3.1.2 Social justice

Takaful insurance strives to achieve social justice by ensuring fair distribution of wealth and benefits among its members. The system aims to provide financial protection and assistance to those who require it the most, helping to address inequalities and promote a more equitable society.

1.3.1.3 Transparency

Takaful insurance emphasizes transparency in the distribution of wealth and the management of funds. Participants have the right to be informed about how their contributions are managed, and there is a commitment to openness and accountability in the financial operations of Takaful insurance (Kaouther, 2021, p. 5).

1.3.1.4 Linking deposits and investments

Takaful insurance connects deposits and investments to real assets, such as tangible assets or ethical investment opportunities. This approach encourages the industry to preserve its gains and continue developing, even during challenging economic periods.

By adhering to these principles, Takaful insurance promotes a sense of fairness, community support, and responsible financial practices, aligning with the ethical values and principles of Islamic finance (Bahathy, 2010, p. 2).

The convergence between the status of the insured and the insurer can only be found in Takaful insurance companies. Participants in Takaful insurance can play a collective role and be members of the company's management simultaneously. This integration of roles is a distinctive feature unique to Takaful insurance companies.

Furthermore, Takaful insurance companies ensure the separation between shareholders' funds and participants' funds. This separation is achieved by maintaining two separate accounts, one for shareholders' funds and the other for participants' funds. This separation guarantees transparency and accountability in fund management, in accordance with the principles of Islamic Sharia and the specific requirements of Takaful insurance (Muhammad Ezzedine, 2019, p. 167).

1.3.2 Characteristics of Takaful insurance

Takaful insurance is characterized by the distribution of insurance surplus among the participants. In addition, participating members have the opportunity to contribute to the administrative aspects of the operations.

In Takaful insurance, the concept of risk sharing is fundamental. Participants pool their contributions into a collective fund, which is used to cover any potential losses or claims. If there is a surplus in the fund after deducting expenses and claims, it is distributed among the participants in a manner that reflects their contribution and the level of risk they have undertaken (al-Qudah, 2019, p. 3).

Furthermore, Takaful insurance encourages active participation from its members. This means that participating members can have a say in the decision-making processes and governance of the Takaful Company.

They can also participate in various administrative activities and have the opportunity to voice their opinions and contribute to the overall management of the company.

This participatory and cooperative nature of Takaful insurance sets it apart from conventional insurance models, where the insurance company retains any surplus and the policyholders do not have a direct role in the administrative aspects of the operations. Takaful insurance emphasizes transparency, mutual cooperation, and shared responsibility among its participants (Ishraq, 2017, p. 3).

1.4 Success factors for Takaful insurance companies in Algeria

Takaful insurance companies are available on several factors for the success of Takaful insurance in Algeria

1.4.1 Commitment to the principles of Islamic law

Providing insurance products and services compatible with Islamic law and avoiding activities that contradict Islamic values are among the most important factors for the success of Takaful insurance companies in Algeria.

1.4.2. Government support

Government support is considered one of the most important factors that support the success of Takaful insurance companies in Algeria by creating an Islamic financial market, taking some tax exemptions to encourage the establishment of companies or opening windows to practice this industry locally and internationally while ensuring equal opportunities between traditional and Takaful insurance companies (Mekhlouf, 2023, p. 112).

1.4.3. Diversification of products and services

Providing a wide range of insurance Takaful products that cater to the diverse needs of customers is crucial. This includes all Takaful insurance products such as life, health insurance, car insurance, property insurance, and other relevant cooperative insurance offerings.

1.4.4. Developing and diversifying Takaful insurance

products Diversifying insurance products, which include health insurance, life insurance, property insurance, vehicles of all kinds, and various workshops and free professions, and providing them with high quality according to a clear strategy with applicable goals is one of the factors that help in the success of Takaful insurance.

1.4.5 Customer Service

Giving priority to customer service is vital for Takaful insurance companies by promptly responding to customer inquiries, and providing transparent information about various products and general conditions (Bakhouya, p. 125)

1.4.6 Risk Management

Risk assessment and experience in contract underwriting management are among the most important factors for the success of Takaful insurance.

1.4.7 Brokers and general agents

Brokers and general agents are among the basic elements that contribute to the success of the company's work by relying on them to promote Takaful insurance products.

1.4.8 Seeking help from international Islamic institutions and bodies

It is possible to seek help from international Islamic institutions and bodies and specialists in framing the insurance process in accordance with the principles of Islamic law.

1.4.9 Respect for the legal and regulatory framework

The application of laws and regulations is one of the most important requirements that must be maintained for a strong relationship with the regulatory authorities in addition to the clarity of the management strategy adopted by the company's

management, which helps to ensure the trust, credibility and stability of the industry.

1.4.10 Financial stability

Financial stability and the practice of investing according to a scientific strategy while preserving capital reserves are among the most important factors for the long-term success of Takaful insurance companies in Algeria, which are sufficient factors to enhance their competitiveness, attract a larger customer base, and achieve sustainable growth.

1.4.11 Internal and external regulation

Internal and external regulatory bodies are working to strengthen supervision over all insurance and Investment contracts. and on administrative procedures and various transactions and their compliance with the provisions of Islamic Law.

1.4.12 Transparency and credibility

Publishing regular reports and ensuring their accessibility to all parties involved in the insurance process is considered one of the most important factors in guaranteeing the quality of work and providing trust and credibility to beneficiaries and investors. It improves the image of cooperative insurance companies and helps them achieve their desired goals.

1.4.13 Applying the principles of governance and financial solvency

The application of the principles of governance and financial solvency is one of the most important success factors on which Takaful insurance companies in Algeria should be based (Lutfi s, 2011, p. 781).

1.5 Takaful insurance companies approved after Executive Decree No. 21-81

Takaful insurance companies were approved following the issuance of Executive Decree No 21-81. This decree provided the necessary framework and regulations for the establishment and operation of Takaful insurance companies in Algeria. With the enactment of this decree, Takaful insurance companies became legally recognized entities in the insurance market of Algeria. They were granted the authority to offer Takaful insurance products and services to individuals and businesses in accordance with Islamic principles.

Executive Decree No. 21-81 played a significant role in strengthening the insurance market in Algeria by expanding the range of insurance options available to the public. It allowed for the introduction of Takaful insurance as an alternative to conventional insurance, catering to the needs of those who prefer insurance products that align with their religious beliefs and principles.

The approval of Takaful insurance companies under this demonstrated the Algerian government's commitment to promoting diversity and inclusivity in the insurance industry, as well as encouraging the growth and development of Islamic financial services in the country. Takaful insurance companies and windows which were established after the issuance of the Executive Decree No. 21-81 include the following:

- **Algerian General Insurance Company**

It is a public company specialized in damage insurance, established through the executive decree of May 30, 2022, with a capital of insurance companies and public banks (SAA, CAAT, CAAR, and CASH. BNA, CPA, CNEP, BEA, BDL, BADR).

The company is licensed to market all products licensed to conventional insurance companies, which are Takaful insurance for civil liability, Takaful insurance for cars and land vehicles (other than railways), Takaful insurance for accident services (Prestations indemnitaires), Takaful insurance for travel assistance, Takaful insurance for Railway carriages, Aircraft Hull Takaful, Marine Vehicle Hull Takaful, Cargo Transport Takaful, Fire, Explosion and Natural Factor Takaful, Residential Takaful, Self-Professional Risks Takaful, Decimal Civil Liability Takaful and Takaful Insurance For general civil liability (land and air vehicles).

- **United Algeria for Family Takaful**

It also supported the insurance sector in Algeria by establishing the first life insurance company under the name (EL DJAZAIR EL Moutahida Takaful familial), a joint stock company (SPA) specialized in Takaful operations, which can insure the following products: It leads to paying off the debt owed by its owner in the event of death or disability, Hajj Takaful savings that help participants to perform Hajj, Takaful life insurance that includes group insurance against physical accidents, individual Takaful savings, Takaful reinsurance (Approval, 2022).

- **A window for family Takaful reinsurance (Retakaful Familial)**

A window specialized in family Takaful reinsurance was approved for the Central Conventional Reinsurance Company (CCR) pursuant to Decree No. 27 supplementing the decree issued on April 6, 1998.

- **The Gulf Insurance Group (L'Algérienne des assurances GIG)**

It was approved to open a Takaful insurance window for damages in addition to the traditional insurance for damages (cna, 2022).

- **The Mediterranean Insurance Company (GAM)**

The Company announced the first window to practice Takaful insurance in addition to conventional insurance (Rapport CNA, 2022).

While the insurance company (Trust) did not obtain accreditation to practice Takaful insurance, as for the Alliance Insurance Company, and according to the statement of its General Manager, Mr. Khelifati Hassan, the company appointed a committee of experts to prepare for the launch of the “Family Takaful Window for Takaful Insurance” project to insure people in partnership with a foreign dealer (Khelifati, 2021).

2. Challenges of Takaful insurance companies in Algeria

The Takaful insurance industry worldwide faces great challenges, especially in the current circumstances of political, economic and security instability that the world in general and the Arab and Islamic region in particular are witnessing.

The economic situation was further complicated by the health crisis (Covid 19), which is still suffering from the effects of the global economy until today, which greatly and deeply affected the Algerian national economy in general, the insurance sector in particular, and Takaful insurance companies in particular, given that they are in the establishment stage.

In addition to the natural challenges such as earthquakes, floods, fires...etc., and to the internal challenges related to the poor composition of the human element, and the failure to keep pace with technological development and others that would affect the effective performance of these companies.

2.1 Natural challenges

Natural disasters are considered one of the most important challenges facing insurance companies in general and Takaful insurance companies in particular, and the losses they cause at the level of individuals and property cannot be predicted, such as the fires that swept large areas of crops, trees and animals in the summer of 2022 in Algeria. And the earthquakes that hit Turkey in the year 2023, destroying many buildings and losing thousands of lives and other losses that caused destruction in many countries of the world.

The 49th Conference of the African Insurance Organization, held in Algeria on May 27-31, 2023, adopted a strategy to confront the risk of natural disasters for African countries by reviewing legislation in this field, and according to the statement of the Algerian Prime Minister at an international forum under the slogan “Earthquake Risk Reduction, Governance and Foresight”, Where he confirmed that the national strategy for managing the risks of natural disasters has been updated, which replaces the law of 04-20-2004 related to natural disasters with advanced means that are in line with technological development in various fields (Federation, 2023).

2.2 Technological challenges

The rapid technological development is one of the challenges of the era faced by the Takaful insurance companies, which requires them to modernize this industry in line with the requirements of the technological reality to enable customers to communicate easily, and this would help in promoting their products through the various available means, and providing services Such as remote subscription or remote smartphone insurance payment, which makes it more open to society (Kaouther, 2021, p. 15).

2.3 The lack of clarity of the taxes policies

The lack of clarity of the taxes policies applied to the Takaful insurance companies with the lack of clarity of the added value of some subscribers and shareholders.

2.4 Applying the provisions of Islamic law

Takaful insurance companies face the challenge of applying the provisions of Islamic law to their transactions while adhering to the insurance laws of each country (saeed, 2019).

2.5 Depositing a percentage of the profits

Takaful insurance companies face the challenge of compulsorily depositing 50% of the profits of insurance companies in the treasury, as bonds still hinder the process of separating traditional insurance funds from Takaful insurance, which impedes the application of the provisions of Sharia in its correct form (Talhi Kaouther, 2021, p. 6).

2.6 Sharia supervision

Due to the newness of the Takaful insurance industry in Algeria, Sharia supervision is still in its infancy, as it lacks the technical and professional qualification of the human element, which is considered the first guarantee for the realization of the Takaful insurance system in its correct form, which in turn transfers this culture to the subscribers through daily dealings in selling Various products of the Takaful Insurance Company.

The Algerian legislator, through Articles (15, 16, 17, 18, 19, 20), detailed the role and tasks of the Sharia Board and guaranteed it independence in making the decisions it deems appropriate, and the practical reality remains the testing ground for it (Executive Decree No. 21-81., 2021, p. 9) .

2.7 Absence of a financial market for Islamic finance

The absence of a financial market for Islamic finance in Algeria is one of the biggest challenges facing the industry in general and the Takaful industry in particular (Abdel-Haq Bada, 2021, p. 12). Insurance companies that invest in their insurance in accordance with the principles of Islamic Sharia (Nassef , 2023, p. 10).

Conclusion

Takaful insurance has been achieved in Algeria by establishing companies and windows through the Finance Law 2020 and Executive Decree No. 21-81 issued on 02-28 2021. These companies existence within the Algerian insurance market was backed by a set of success factors. However, there many challenges preventing this industry from spreading in the Algeria.

Recommendations

In the light of this research paper, we recommend the following:

- Adopting the technological factor in introducing this industry and its products.
- Establishing trust by improving service, and delivering information in a timely manner to the parties participating in the insurance process.
- Developing a common database between companies and windows practicing Takaful insurance activity.
- Coordination among the Takaful insurance companies.
- Training qualified personnel to meet the expectations of the industry.
- Enabling Sharia bodies to supervise independently.
- Issuing laws to separate traditional insurance from Takaful insurance.

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