

Digital banks in Algeria: a comparative study on the mechanisms of establishment and conditions of practice

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Abstract:

This article analyzes the modern legal framework for digital banks in Algeria, focusing on Regulation No. 24-04 issued by the Bank of Algeria. The study examines the establishment mechanisms, which mandate a minimum 30% local banking shareholding and prohibit foreign branches, emphasizing the purely digital nature of these institutions. Furthermore, the article discusses operational and supervisory conditions, particularly cybersecurity requirements and the mandatory "Exit Plan." Through a comparative study with Egyptian legislation and international experiences, the article concludes that the Algerian legislator has adopted a conservative model aimed at ensuring financial stability and transferring traditional banking expertise to the digital environment. It recommends reviewing capital requirements to further encourage innovation.

Keywords: Digital Banks, Bank of Algeria, Regulation 24-04, FinTech, Comparative Study, Licensing and Authorization, Cybersecurity, Monetary and Banking Law.

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INTRODUCTION

The financial and banking sector has witnessed a radical transformation globally, driven by the technological revolution and digital transformation. Digital banks, which provide their services exclusively through electronic channels and platforms, are one of the most prominent features of this transformation. In the context of its endeavor to keep pace with these developments and enhance financial inclusion, Algeria issued a special regulatory framework for these banks, represented in Regulation No. 24-04 dated October 13, 2024, issued by the Bank of Algeria, relating to the special conditions for licensing the establishment, approval, and practice of digital bank activity .

As for the importance of the study and its methodology, this study derives its importance from the fact that it deals with a modern and important legal framework that represents a turning point in the Algerian banking scene. Its importance lies in analyzing new legal texts and providing a comparative reading that highlights the extent to which Algerian legislation is compatible or dissimilar to international standards.

The main problem of this study revolves around: What are the mechanisms and conditions set by the Algerian legal system (Regulation 24-04) for establishing and practicing digital banking activity, and how do these conditions compare to the systems applied in leading regional and international experiments?

Sub-questions arise from this problem, including:

- 1 What is the legal condition of the digital bank in Algeria, and what are the most important conditions for its establishment?
- 2 What are the governance and technological risk management requirements imposed by Regulation 24-04 on digital banks?
- 3 What are the similarities and differences between the Algerian regulatory framework for digital banks and its counterparts in Egypt and the European and Gulf experiences?

The study relied on the analytical approach to deconstruct and analyze the texts of Regulation No. 24-04, and the comparative approach to compare the Algerian conditions and mechanisms with the legal experiences in both

the Arab Republic of Egypt (as a pioneering regional experience) and the European and Gulf experiences (as international standards).

This study is divided into three main sections:

- The first section: The conceptual and regulatory framework for digital banks in Algeria.
- The second section: Conditions for exercising activity and oversight in Algerian law.
- The third section: a comparative study with regional and international experiences.

Chapter I: The conceptual and regulatory framework for digital banks in Algeria

Regulation No. 24-04 represents an advanced regulatory step aimed at integrating financial technology into the traditional banking system. This system came in implementation of the provisions of Monetary and Banking Law No. 23-09 issued in June 2023, which granted the Monetary and Banking Council the authority to license the establishment of digital banks .

First main title: Legal definition of digital bank

Article 2 of Regulation 24-04 gave a clear and specific definition of the digital bank, stipulating that: In the concept of this regulation, “digital bank” means every bank that provides banking services and products exclusively through digital channels, platforms, or supports, relying on modern technologies in the framework of carrying out its activities.”¹

This definition emphasizes the purely digital nature of the bank, which distinguishes it from traditional banks that may provide digital services but still rely on physical branches. This definition entails an explicit prohibition on digital banks from opening traditional agencies and branches, which was confirmed by Article 7 of the law, which only allowed the provision of special services through its own network of banking robots or the use of those belonging to other banks.

Second main title: Conditions for establishing a license

Regulation 24-04 imposed a set of essential conditions to ensure the establishment of strong and reliable digital banks. These conditions aim to

protect the local banking system and enhance national expertise in this field.

A. Legal form and social headquarters: The digital bank must take the form of a joint-stock company, and its social headquarters must be designated for administrative purposes in Algeria, with the obligation to house its operational platform and its copies in Algeria (Article 6) . More importantly, Article 4 explicitly prohibited the establishment of a digital bank in the form of a branch of a foreign bank, a restriction intended to promote domestic direct investment in the sector.²

B. Mandatory contribution requirement: This condition is one of the most prominent features of the Algerian system, as Article 5 stipulates that among the shareholders in the digital bank must be a bank subject to Algerian law that has experience in the field of online banking services, and this bank must own no less than 30% of the capital, without the individual share of each shareholder from the other shareholders and related parties reaching this percentage. This condition ensures the transfer of banking and supervisory expertise to the new digital entity.

C. Capital requirements: Regulation 24-04 referred in its Article 3 to Regulation No. 01-24, which specifies the conditions for licensing the establishment of a bank and a financial institution, and to Regulation No. 02-24 relating to the minimum capital for banks and financial institutions operating in Algeria. Under Regulation 02-24, the minimum capital for banks operating in Algeria is 20 billion Algerian dinars (about 148 million US dollars), which applies to digital banks unless a later regulation is issued that specifies a lower capital.³

Chapter II: Conditions for exercising activity and oversight in Algerian law

Regulation 24-04 not only set the conditions for incorporation, but also set strict controls for carrying out the activity, focusing in particular on managing technological risks and adhering to precautionary rules.

First main title: governance requirements and technological risks

1. Dual licensing and accreditation process : The licensing process takes place in two basic stages (Articles 8 and 10):

- Licensing the establishment: The licensing application is submitted to the President of the Monetary and Banking Council, and includes a complete file whose content is determined according to an applied educational framework, and must include an estimate of the knowledge and experience of the founders in the field of risks related to the approved digital model (Article 9) .

- Accreditation: After obtaining the license to establish, the application for accreditation is submitted to the Governor of the Bank of Algeria. The applicant (founders) must submit a report that includes an evaluation of all elements of the basic infrastructure, technological security, and information security, and the degree of effectiveness of those systems and their ability to support the bank's activities safely, and ensure continuity of activity .⁴

2. Mandatory external experience report

Article 10 emphasized the necessity of the infrastructure and technological security assessment report being prepared by an independent external expert office and an approved reviewer in this field This condition represents a strong guarantee of the impartiality of the evaluation and emphasizes the paramount importance that the Bank of Algeria attaches to cybersecurity in the digital business environment.

3. Exit Plan

Article 13 is one of the most important articles that reflects the proactive outlook of the Algerian supervision, as it stipulates that digital banks must have an exit plan that addresses scenarios of partial or complete cessation of their activity, while providing adequate risk assessments and an estimate of the expected total duration of cessation . This measure aims to protect depositors and the financial system in the event that the digital bank fails or ceases activity.⁵

Second main title : precautionary rules and practice controls

1. Subject to traditional rules and precautionary restrictions

Article 12 emphasized that digital banks are subject to the same precautionary rules and conditions applied to traditional banks . However, the article added special restrictions commensurate with the nature of digital banks, most notably:

- Lending restrictions: The deposits of a single customer and related parties must not exceed a maximum of 1% of the bank's total deposits, and this ceiling applies after one year from the date of the start of the bank's activity .

- Preventing large loans: Not granting loans to large enterprises, with the exception of loans owed to small and medium enterprises, as specified in the applicable legislation .

2. Capital raising incentives

Article 12 granted an incentive to committed digital banks, as it stipulated that they could be exempted from the above-mentioned conditions after five (5) years have passed from the date of the beginning of their activity, provided that they obtain a license from the Bank of Algeria, and that they raise their capital to no less than 150% of the minimum capital of digital banks . This incentive encourages digital banks to grow rapidly and strengthen their financial position.⁶

Chapter III : Conditions for exercising activity and oversight in Algerian law

The third section: a comparative study with regional and international experiences

An in-depth legal study requires comparing the Algerian regulatory framework with other experiences, especially in countries that preceded Algeria in regulating this sector, such as Egypt, Saudi Arabia, and the European Union.

First main title: comparison with the Egyptian experience

The Central Bank of Egypt issued rules for licensing and supervising digital banks in July 2023, based on the provisions of the Central Bank and Banking Sector Law No. 194 of 2020 . The comparison between the Algerian and Egyptian systems shows fundamental similarities and differences, as shown in the following table:

Comparison	Algerian regime (Regime 24-04)	Egyptian system (2023 rules)
Minimum capital	20 billion Algerian dinars (about \$148 million) (referred to 02-24)	2 billion Egyptian pounds (about 40 million dollars) for basic services, and 4 billion pounds to finance major companies
Contribution requirement	An experienced Algerian bank must own at least 30% of the capital	The majority shareholder must be a financial institution with a history of not less than 30% of the capital
Legal form	A local joint stock company, and prohibiting its establishment as a branch of a foreign bank	Local joint stock company
Physical services	Explicit prohibition of opening traditional agencies or branches (Article 7)	Explicit ban on opening traditional branches
Cyber security requirements	Mandatory independent external expert report to assess infrastructure and technological security (Article 10)	Mandatory submission of IT plans and cybersecurity strategies

Similarities: The two systems agree in focusing on banking expertise by requiring the contribution of an experienced traditional financial institution (minimum 30%), and in emphasizing the purely digital nature by prohibiting physical branches.⁷

Differences: The fundamental difference is in the required capital, as the minimum in Algeria (referring to the public system) appears to be much higher than its counterpart in Egypt, which may pose a greater challenge to investors in Algeria. The Algerian system also emphasizes the Algerian

nationality of the joint-stock bank, while the Egyptian system emphasizes experience regardless of the nationality of the joint-stock financial institution.

Second main title : Comparison with Gulf and European experiences

1. The Gulf experience (Saudi Arabia and the Emirates)

Gulf experiences are characterized by greater flexibility in licensing models and precise capital determination:

- Kingdom of Saudi Arabia: The Saudi Arabian Monetary Agency (SAMA) requires that the digital bank take the form of a local joint stock company . Emphasis is placed on the proposed business model and the ability of the founders to provide technical and financial expertise.

- United Arab Emirates: Requirements vary by financial region. In the Abu Dhabi Global Market (ADGM), a deposit-accepting digital bank license requires a capital of US\$10 million, an amount much lower than the Algerian and Egyptian requirements, reflecting a more attractive model for startups .⁸

2. The European experience (France and the European Union)

The European framework is based on the “Passporting” system, which allows a bank licensed in a member state to carry out its activities in all European Union countries. European digital banks (Neobanks) rely on one of two main models:

- Full Credit Institution License: requires high capital (usually a minimum of €5 million) and is subject to strict supervision by bodies such as the ACPR in France

- Electronic Money Institution (EMI) or Payment Institution (PI) license: This is the most common among emerging digital banks, and requires much less capital, but it cannot accept customer deposits or grant loans on the same scale as full-fledged banks .⁹

Comparative conclusion: It turns out that the Algerian system tends towards the conservative model that imposes strict conditions (banning foreign branches, mandatory local contribution, high capital), compared to the Egyptian model, which focuses on capital and experience, or the European model, which provides multiple licensing paths (EMI/PI) to

encourage innovation.

CONCLUSION

The issuance of Regulation No. 24-04 represented a decisive step in regulating the digital banking sector in Algeria, confirming the Bank of Algeria's commitment to keeping pace with digital transformation while maintaining the stability of the banking system.¹⁰ The system established a legal framework that focuses on the purely digital nature of the bank, emphasizes local expertise through the obligatory contribution of an Algerian bank, and imposes strict supervisory controls regarding the technological infrastructure and risk management (exit plan).

Results

1 The Algerian regime adopts a narrow definition of the digital bank, requiring it to be a purely local entity (no foreign branches) and completely digital in nature (no physical agencies).

2 The mandatory contribution requirement for an Algerian bank with experience (30% minimum) is a mechanism to ensure the transfer of traditional banking expertise to the digital environment.

3 The accreditation process in Algeria is characterized by strictness, as it requires an independent report from an external expert office to evaluate cybersecurity and infrastructure, in addition to the obligation to submit an exit plan.

4 Compared to the Egyptian experience, the two systems are similar in terms of the contribution requirement, but the Algerian system imposes a higher capital (referring to the general system) and stresses the prohibition of foreign branches.

5 Compared to European and Gulf experiences, the Algerian system adopts a more conservative model, as it does not provide alternative licensing paths (such as EMI/PI) with less capital, which may limit the entry of small startups.

Recommendations

Based on the results of the study, the following recommendations can be made:

- Clarifying capital requirements: It is recommended to issue a regulatory system that specifies a special and appropriate capital for digital banks, which is less than the capital of traditional banks, to enhance the attractiveness of the market and encourage investment in financial technology.

- Activating the applied instructions: Expedite the issuance of the applied instructions referred to in the system (Article 8) to accurately clarify the content of the licensing file and the evaluation mechanisms.

- Study multiple licensing models: Consider the possibility of adopting tiered licensing models (such as a payment institution or electronic money license) to encourage innovation and start-ups in the field of financial technology, while maintaining strict oversight.

Future research could expand on studying the impact of System 24-04 on financial inclusion in Algeria, analyzing the practical challenges of implementing cybersecurity requirements and an exit plan, in addition to studying the legal adaptation of digital Islamic banking services under this system.

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