ISLAMIC BANKING SYSTEM. THE CASE OF THE KINGDOM OF SAUDI ARABIA

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Motto:„*Al-ghunm bil-ghurm!*[1]"

Abstract

As know already for the past 15 years, despite of the global financial crisis Saudi Arabia is one of the world's fastest growing banking markets. This can only mean that the commercial banks that are operating in this environment have an advantage due to their position within the Kingdom of Saudi Arabia and are likely to be more efficient in the near future then their European counterparts

As it was expected, due to their atypical growth during the financial turmoil, many researches have been done in this context on a regular basis, to outline the factors contributing to this unusual situation. These researches now represent the basis for governments, economists and other users in fetching the information on the current and future scenario of the banking sector of this country.

We have focused on this issue in order to evaluate the different factors affecting its growth, and to know their impact on the economy of the Kingdom, and how the future is envisaged based on the current growth patterns of the industry.

Key words: Islamic banking, interest risk, profitability, banking control regulation.

JEL Classification: G21

Introduction

The motivation of choosing this paper comes from the willingness to show within the actual context of the global financial crises, a totally different banking system specific to Arab States. This difference might be the reason why the Arab States weren't influenced so much by the financial crisis and maybe the existing banking system here will be a model for the other states, including Europe or other continents.

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[1]Anyone can win if he agrees to assume responsibility for and bear the losses

The words from the motto represent the principle that underpins the functioning of the Islamic banking system. This is differentiated from the conventional type due to a much higher level of the degree of correlation between risks incurred by Islamic credit institutions and profitability, especially in the context of the current global financial crisis.

The lack of interest, the desire to minimize uncertainty and speculation, the contribution to achieving economic wellbeing, these are other features that shape the originality of Islamic banks. Some of these factors put their mark on the risk and profitability, especially the ones that reflect the transposition of existing religious Sharia principles' in the Qur'an and in the financial system. Musharakah, Murabaha, Ijarah, Imam, Hasan, Qard. These are arrangements for financing and investment in the banking system which not only has the role of an intermediary, but it also is the direct participant to economic development.

Why present the Islamic banking[2] system in the Kingdom of Saudi Arabia? Political stability, capital market liberalization, the implementation of the rules laid down in the Basel II, the growth rates of deposits in the two-digit level, assets and loans to these credit institutions. Here are some of the reasons that have led to the focus on the Islamic banking system in the Kingdom of Saudi Arabia, the country where 100% of the total number of inhabitants are Muslim! Other competitive advantages of this State are represented by increasing the liquidity available to the general public amid rising trend followed by the price for a barrel of oil.

This structure is one that highlights the features of the Islamic banking system in the Kingdom of Saudi Arabia in terms of risk and return associated with credit institutions which are guided by the principles set out in religious Sharia. Thus, it is illustrated how the financing arrangements, investment and saving exercise their influence on risk and profitability that characterize Islamic banking system from this Kingdom.

1.Islamic Banking

1.1. How the Islamic religious principles influence the risks the new Islamic Bank in the Arab States assumes?

Have they any implication on profitability which characterizes these financial institutions? Here are some questions for which the answer can only be "Yes", given the fact that the main feature of Islamic banking is the sharing of profit and loss, between the financial institution and its customers, which means that both parties assume a number of risks that must be taken into consideration in order to achieve a rate of return as high as possible. This trait is highlighted especially by means of religious principles that underlie the Islamic banking system set out in the Qur'an and Sharia.

[2]Ahmad, Z. – Islamic Banking: State of the art, http://www.irti.org/irj/portal/anonymous/irti_search_en?SearchType=quick, pp. 7

1.2. The uncertainty and speculation

One of these principles is freedom from Gharar[3] in operations, transactions or contracts concluded by Islamic banks. For any of these principles to be in accordance with the rules of Sharia, it is necessary that the subject and their price is determined prior to the actual deployment of the operation. Islamic religious principles prohibit hedge operations (Maysir). If you have these interdictions one would be able to consider *that* they are characterized by a low risk, which is a false statement. This is due to the fact that credit lending and offer of Islamic products come without saving to protect against credit risk, liquidity risk and market risk. It all comes down to the religious principles which represent the guides that do not allow the use of derivative products as well as options, swaps, forward contracts, futures contracts. *This is also a feature that makes a difference between an Islamic Bank and a European.*

1.3. The influence of the absence of the interest risk and profitability of the Islamic banking system-specific

The most important principle is the prohibition of the payment of interest (riba). The concept of the Muslims is that there is no difference between interest and usury, so that Islamic banking institutions may not charge interest on the loans that they grants, and neither do they pay interest on deposits made by their clients, the interest being shown in the Koran, in contrast with the donation and trade (al-bay): "Allah allows trade, but prohibits usury!" (Sura 2, Verse 275, Qur'an).

What is the reason underlying this principle? Justice must be done! This means that your capital must assume a portion of the risk associated with them because he sought to make profit. According to followers of Islam, the banking system based on the existence of interest is inequitable because one supplier has the certainty that capital will be paid at a fixed rate of return, while the recipient of these funds bears the whole risk. Also, the use of interest by an Islamic Bank would be tantamount to its revenue growth as a result of a reduction in those reviews, seen especially through verse, Surah 4: "they take interest although it is banned and grow their wealth at the expense of property of others! They do not believe, Allah has prepared for them a chastisement terrible!"

Unlike the people who use the products of the Islamic banks', general depositors, expect to receive an interest income associated with default rates, fixed or varied according to an interest rate reference, with their conventionally saving. In turn, these benchmark rates can present volatilities, which cannot be predicted

[3] In the Arabic language is the equivalent of excessive Gharar uncertainty in relation to be covered by a contract or its price, giving it a speculative character. Thus, one of the parties to the agreement obtains a profit which is not appropriate because it is obtained at the expense of the loss suffered by the other party.

"What I'll do with usury in order to increase your wealth at the expense of people's wealth will not increase from Allah, but those who do alms, desiring to fulfill the will of God, will be bent!" Verse 39, Sura 3.

with precision and whose occurrence is determined by changes involved at the macroeconomic level or at the level of the sectors of activity. Thus, there is a probability that the bank should not be able to honor obligations to clients. Unlike conventional banks, Islamic ones have led depositors to realize that it's saving products profitability is influenced by changes that take place at macroeconomic level and that its value will be one that will at a minimum be equal to the profitability generated by real investment. Due to the fact that the latter can be null or negative, even in the Islamic banking system deposits are not guaranteed.

Because Islamic banks depositors assumes much higher risks than those of conventional banks, the level of profitability for saving products that comply with Sharia is one superior interest at rates that are paid in cash reviews by conventional banks operating in the Kingdom of Saudi Arabia.

1.3.1. Musharakah

If you do not receive interest on credits and it is not allowed to offer interest on deposits received, what other tools of lending and saving does the Islamic Bank use to be able to work and make a profit? Achieving an equivalent for "joint venture"!

This is the manner of financing names used by credit institutions to lend by the Islamic banks from which they obtain additional income. It is used mainly for financing business "start-ups", the Bank becomes a partner of the entrepreneurs by holding a percentage of the total number of shares. Where the company will conduct business that will allow obtaining profit, out of which a part of it, fixed in advance with the Bank, at the end of the contract, will be awarded to the banking institution. Part of the profit which corresponds to the Bank shall be determined by applying the percentage to the gross profit, negotiated and not the net profit. The percentage provided for in the financing agreement and applied to the result obtained by the company differs from the ratio of the capital invested by the Bank and the company's share capital, settling according to the way in which the Islamic Bank will be involved in the operation and management of the company where it holds participating interests.

Another unique feature of this financing is represented by the fact that the contribution to the capital brought up by the Bank and the client shall be made in cash. This is another difference in comparison with a European Union bank.

What will happen with Islamic banks if the financing of customers was granted on the basis of the principle of Musharaka and investment proved to be an unprofitable? In order not to deal with such issues, Islamic banks will diversify its client portfolio to which funding has been granted on the basis of this principle, so that if some of them are facing losses, there is are a lot more substantial profits to gain which would enable the Bank to meet its obligations to depositors.

1.3.2. Ijarah

Another way that Islamic banks in the Kingdom of Saudi Arabia grant funding to their customers is Ijarah, the equivalent of leasing in Western finances. To be in accordance with the Sharia, the contract is signed and the rate cannot be increased unilaterally by lessor. What happens if a debtor delays the payment records? Islamic Banks are prohibited to levy penalties. Thus another difference in comparison with a credit institution from a EU country. Instead, within the contract a clause is inserted which stipulates that the debtor, if he does not comply with his obligations, is required to donate a sum of money to a charitable fund of the Bank. The amount to be donated is determined on the basis of the amount due and the duration of the delay. Also, the lessor may not terminate the contract unilaterally.

Another way through which Islamic banks provide funding is resulted by combining the principles of Ijara and Musharaka. How can one person use these principles? Where there is a lack of the necessary amount for a certain purchase of assets or for setting up a company, he will receive funding from the World Bank, a credit institution having the status of co-owner, one that it will gradually lose, with the passage of time. How is this possible? The customer shall pay the Bank a fee because it is allowed to use an asset that is owned entirely by him and periodically will purchase a certain proportion of shares held by the World Bank. Thus, after a period of time, determined in agreement with the World Bank, he will become the sole owner of the asset or company in question. This way of financing is often used in relation to loans granted by banks to customers wishing to purchase a home. The value of the rents paid by the client over time varies, being dependent on the shareholding owned by the World Bank. The World Bank will sell from time to time some of the cash and securities held at a price set by an appraiser.

1.3.3. Mudarabah and Wakala[4]

Are the principles related to the involvement of the Bank with its clients, and the Division of profits and losses. Here are the most important features of the Musharaka, some of which are no longer found in contracts that are based on the principle of Mudarabah. If the Bank had the quality of Musharaka purveyor of funds within this role Mudarabah is owned by the customer, the one who needs saving products, and not lending. Under this contract, the Bank is exposed to less risk due to the fact that it has a mission to put the cash to the customer in order to obtain a rate of return as high as possible, with the certainty that it will return and it will be a part of the profit. Musharaka, Mudarabah is also characterized by the existence of a contract based on a partnership between the client (rabb al-mal) and the Bank (mudarib)[5].

Unlike the Musharaka, the client does not get involved in the management of liquidity, this is only the banks mission. The way in which banking institution invests client's money leads to the dealing with the losses, they will not be generated by the

[4] It is considered that the Islamic Bank recorded losses highlighted the fact that he has taken in vain efforts to capitalise on the client and that liquidity has never been able to get profit.

[5] Ibn Quadamah, Al-Mughni, 5: 167

mudarib, but only by the rabb al-mal. There are however exceptions. The Bank will be forced to compensate the customer where he is able to give evidence of neglect or acted in its interest and at the expense of the customer. Although in appearance, the risks associated with the products offered by saving by the Islamic banks are higher than those in the conventional banking systems, it should be noted that the loss is recorded in a certain period covered by profits that are obtained in the following periods.

Because saving products are based on the principle of Mudarabah which comply with Sharia, the manner in which the Division of profits is made between the client and the Bank has to be established from the moment of signing the contract to lay the Foundation for the partnership. Part of the profits will return to the Bank and must not be fixed depending on the invested capital. Mudarib is not entitled to receive any fee for the period of the contract.

Wakala is another way of attracting the resources of the Islamic banks, they have the role of agent (wakil), being forced to fructify the availability of reviews at a rate of yield fixed in agreement with them. Where the yield is higher than that required by the depositor, the difference, rests entirely with the Bank.

Usually Islamic banks customers have preferred to place their funds in deposits that work as Mudarabah, over 80% of total resources raised from depositors being found in this type of saving and investment. It should be noted, however, that the evolution of the share of funds in total deposits Mudarabah is on a downward trend.

1.3.4. Murabahah

Were Mudarabah and Musharakah, Wakala is used by banks in Islamic ways of investing the resources attracted, Murabahah is financing for clients, natural persons or legal entities, who are facing shortage of liquidity. What operations are conducted under the Murabahah? An Islamic Bank buys an asset in order to resell it to his client at a higher price than that of the purchase, the difference representing the profit. Profit from the banking institution can be established as a fixed amount or as a percentage of the purchase price of the asset. Additional costs incurred by the Bank as well as those concerning transport and customs duties may be included in the price charged to the debtor. Because such a way of financing corresponds to the principles of Sharia, it is necessary for the asset to be physically there at the time when the transaction takes place. Also, the Bank must be the owner of the asset in question when it resells it to the customer.

The customer can pay the duty towards the Bank through the repayment of the loan rates, with established dates or periods in which these payments must be made, thus contributing from the moment of signing the agreement. Its value cannot be changed, even in situations where the customer is unable to pay the debt to the Bank; some borrowers will intentionally use delays for the payment, being aware of the benefit of this clause. Therefore, Islamic banks are more exposed to credit risk as opposed to the conventional credit institutions. In order to protect themselves against credit risk they are able to ask the client to issue a mortgage in their favor, thus the common mortgaged will coincide with the purchased one. Banking institutions may also accept guarantees from third parties.

The downside for Murabahah is constituted by the fact that it cannot be issued on the basis thereof to trade securities on the secondary market due to the fact that the Act signed by the borrower would highlight its debt, so the amounts to be paid by him to the third party would be in the same currency and would amount to a transfer of money, to be released only at par to meet Islamic standards.

1.3.5. Imam

Imam is a way of financing through which those who do not have sufficient resources to produce goods or construct buildings, are forced to buy the raw material to do this. Goods resulting from the manufacturing process don't have to be delivered at a fixed time, but it sets a time limit within which they must be produced or manufactured. Thus, on this basis transactions can be carried out with goods that do not yet exist.

What is the role of banks in financing schemes? Natural or legal persons are in a contract with the Bank of Imam, which attaches in parallel, funding of this type to the manufacturer required by the customer, the profit then coming from added margin over the price paid to the producer or manufacturer. To protect themselves against the risk of Islamic banking, credit institutions are allowed to charge the customer warranties. This is way of financing also the Governments for the construction of bridges, roads and highways. Imam is the least used way of funding by the Islamic banks, the ratio of the value of its assets and that of total loans granted being the smallest.

1.3.6. Qard al-Hasanah

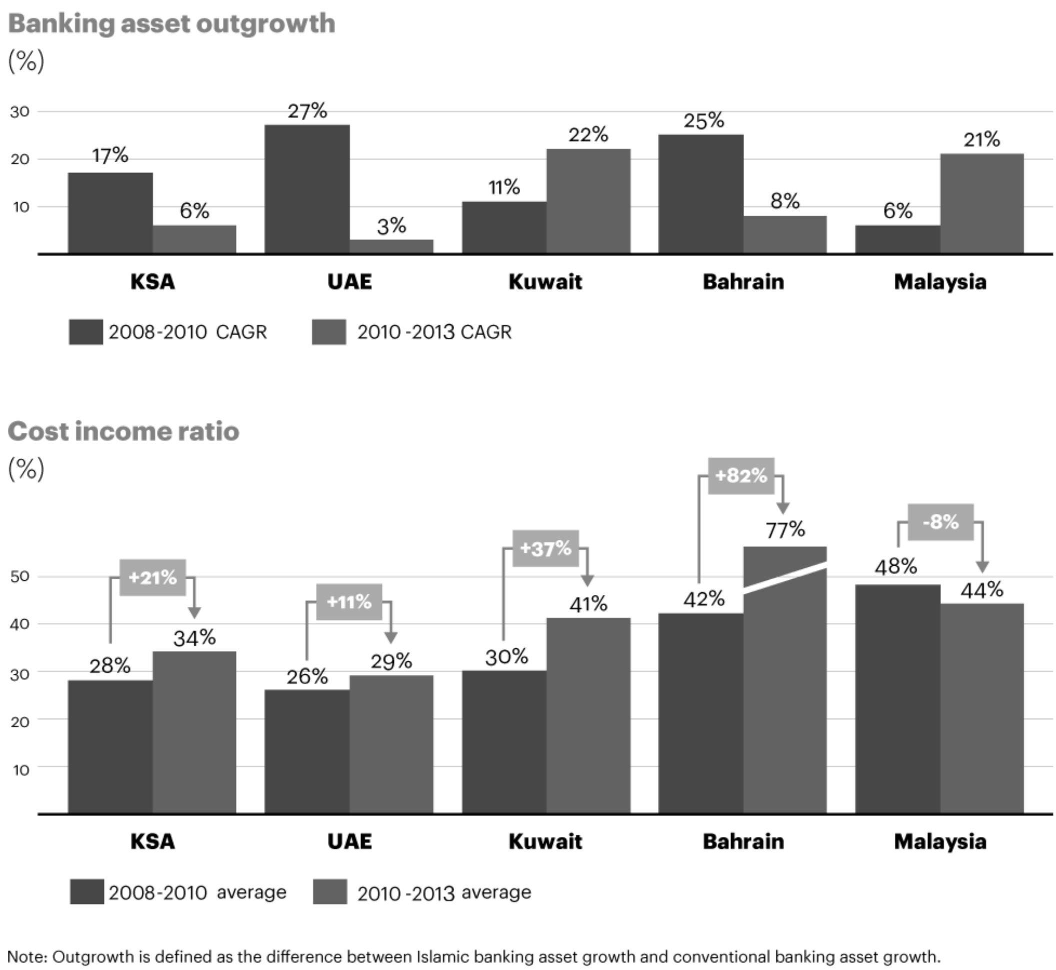
This is another way of financing through which Islamic banks granted loans without interest and without having to establish partnerships with borrowers who are forced to pay the principal and administrative costs related to the management of the loan, which was granted. Those who can benefit from this type of loan are those who want to build houses, but also, cooperatives, micro-enterprises and farms that operate in the agricultural industry. There is a similarity between this way of financing and that used by the Greemen Bank of Bangladesh, dubbed the "poor man's Bank".

2. Islamic banking and financing within the Kingdom of Saudi Arabia

Dubbed the Islamic banking and finance (IBF), the growth associated with this system has been considerred for the past 15 years as the trend setter in terms of global economic growth. It has gathered momentum to become a significant benchmark of the financial landscape in the twenty-first century, for all nations worldwide. Over the recent years we have seen a increasingly 'Western' character of IBF which has shown that various economic geographical and social theories might conceptualize its development. Having witnessed double- digit growth rates for the past years, many the Islamic banks have prooved once again their capacity in surpassing their conventional counterparts in the European Union. On a superficial glance, the Islamic banking industry is on the up-ward path and there seems to be enough space for growth as they rarely exceeds a third of total market share.

A closer look, however, the figures suggest that the market dynamics are changing, also due to the try to recover from the global financial crisis. Two key indicators should be cause for reflection in the Islamic banking industry: growth rate and profitability.

Chart 1: Growth rates and profitability



Source: www.alahli.com

As it is visible from the figures above, the growth of Islamic banks is now slowing down, although not stopping or reversing as in conventional banks in most markets, soon, growth could match the general market, thus suggesting that the Islamic banks may have to change the way they have been performing their operations.

Although the Islamic banks have generally had a lead on growth this is not valid for profit. Profitability is still under the influence of regional economic crisis and this has resulted in declining profit margins over the past five years.

Thus the Islamic banking system has to start to tackle the issues of more sophisticated leveraging and the fact that they need to seek greater efficiency across the value chain by not purely emulating a conventional bank's offering .

2.1 Saudi Arabian Monetary Agency

As SAMA is the Central Bank of Saudi Arabia, within the most important and main functions of it we can mention the issuing of the national currency (the Saudi Riyal), promoting price and exchange rate stability, supervising of the commercial banks of the country, managing foreign exchange reserves and ensuring the growth and soundness of the financial system, operating a number of cross-bank electronic financial systems such as SPAN, SARIE, and SADAD.[6]

When established, the Kingdom of Saudi Arabia did not have a national monetary system. As a curious case only foreign currencies were used as a medium of exchange but they were circulating together with Saudi silver coins. At that point there were no banknotes issued by the state and the banking operations were conducted by foreign bank branches. As it became obvious the first and most important task of the SAMA was to develop a Saudi currency and issue it on the market. On a second level SAMA also promoted the growth of the national banking system by encouraging citizens to use and trust the national baking system. In March 1961, Saudi Arabia converted to the Saudi Riyal, in accordance with Article VIII of the Articles of Agreements of the International Monetary Fund. As the economy flourished, all along the 1970s and early 1980s, the SAMA also focused on controlling the inflation by expanding the banking system and by also managing foreign exchange reserves. Since them SAMA’s priorities have been to introduce financial market reforms and policies to streamline the banking sector.

2.2 Kingdom of Saudi Arabia – banking system

Under the supervision of SAMA Saudi Arabia has managed to face with strength the global financial crisis, and to manage its impact by implementing decisive steps, and even if not every aspect of the banking system was triumphant the

[6] Hertog, Steffen (2007). "Shaping the Saudi state". Int. J. Middle East Stud. 39: 539–563.

industry as a whole has weathered the crisis relatively well. The banking system now is well capitalized and as has a proof of future confidence in dealing with severe temporary shocks. However the link between this system and the oil price decline can put a large strain on the ability to face any challenge. The country has now turned its focus on developing strategies and policies to further strengthen the bank resolution regime, but also on the fact the independence of bank supervision would be desirable.

It is important to mention some values forecasted for 2013, even as they are forecasted for some important indicators within a national economy:

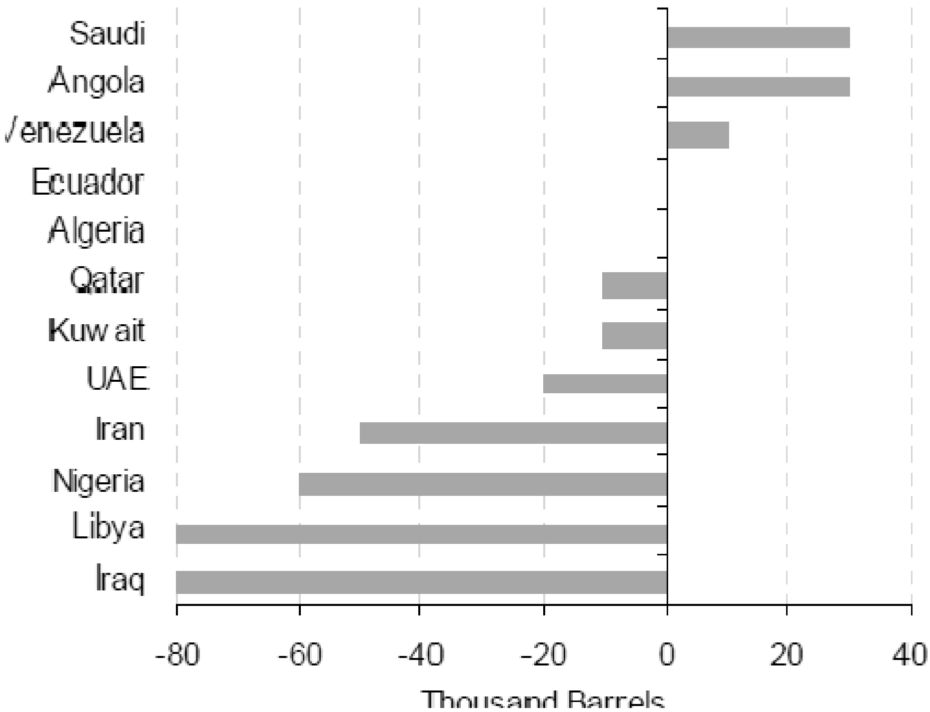
- Real GDP Growth Rate for Oil Sector: -3,1% and for non-oil sector 7,6%
- population 30,1 million
- population growth rate 3,0%
- GDP/capita (expressed in USD) 24,127.9
- CPI Inflation 4,5%,
- Oil Exports in USD billion 324,6
- Non-oil Exports in USD billion 42,2
- Merchandise Imports, USD billion (135,2)
- Total Revenues/GDP for Central Government 39,6%
- Total Expenditures/GDP for Central Government 32%
- Budget Balance/GDP 7,6%, Break Even Oil Price 72,8.

Regarding the financial sector, also regarding SAMA the figures forecasted for 2013 appear as follows:

- USD/SAR Exchange Rate 3,75,
- Growth in Broad Money (M3) 8,1%,
- Growth in Credit to the Private Sector 8,1%,
- Average 3M SAR Deposit Rate 1,0%,
- Average 3M USD Deposit Rate 0,4%,
- Spread in Basis Points, SAIBOR-LIBOR 60.0.

The following charts (their interpretation was used through the Saudi Economic Review, April 2013) can come as a proof for the strong banking system from KSA, especially when talking about NCB.

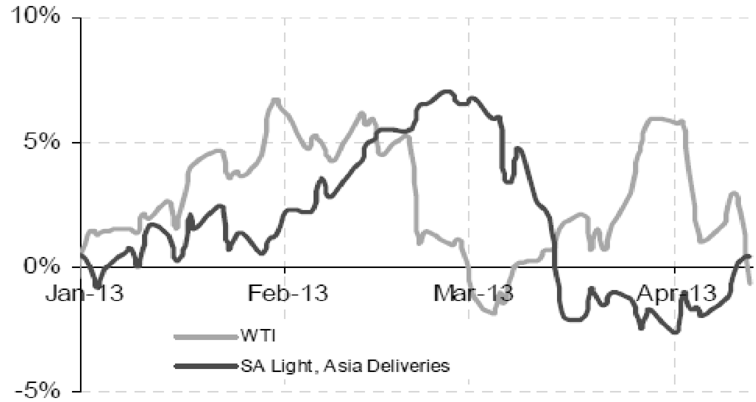
Chart 2: OPEC'S Monthly Oil Production Changes



Source: OPEC Survey (in Saudi Economic Review, April 2013, NCB Monthly Views on Saudi Economic and Financial Developments)

On the supply side, rising oil demand is also likely to be met by supply. It is expected that OPEC oil production averaged 30.4 mmbd in March; nearly 1.15 mmbd lower than March 2012. This drop reflects continuing global economic slowdown and competition from other sources, especially, US shale oil. Saudi Arabia increased its production to 9.18 mmbd in March. Iraq continued its recent production surge, rising by more than 70,000 mmbd in March despite continuing infrastructure and security problems. Kuwait's oil output, on the other hand, because of maintenance, declined slightly to 2.9 mmbd in March. Iran oil production fell to 2.68 mmbd, the lowest level seen this year, and exports to its major buyers, including China, South Korea, and Japan, dropped by 250,000 mmbd in March, as sanctions took its toll.

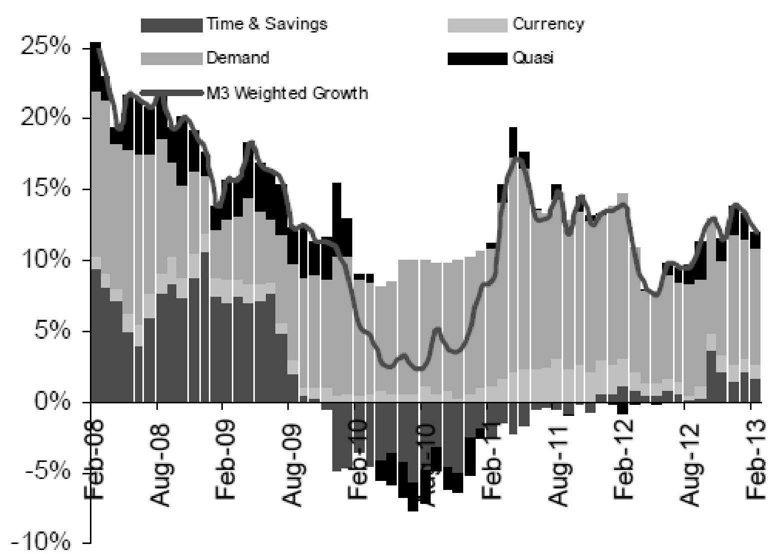
Chart 3: Oil Price Developments, YTD



Source: Thompson Reuters (in Saudi Economic Review, April 2013, NCB Monthly Views on Saudi Economic and Financial Developments)

Since the beginning of the year, however, demand has been declining month by month, attributed largely to weaker regional demand in Asia. China's oil demand growth this year seems modest by recent standards, but emerging economies' oil demand overall is strong, as Q2 non-OECD oil demand is expected to match that of the OECD for the first time.

Chart 4: Money Supply, Contribution

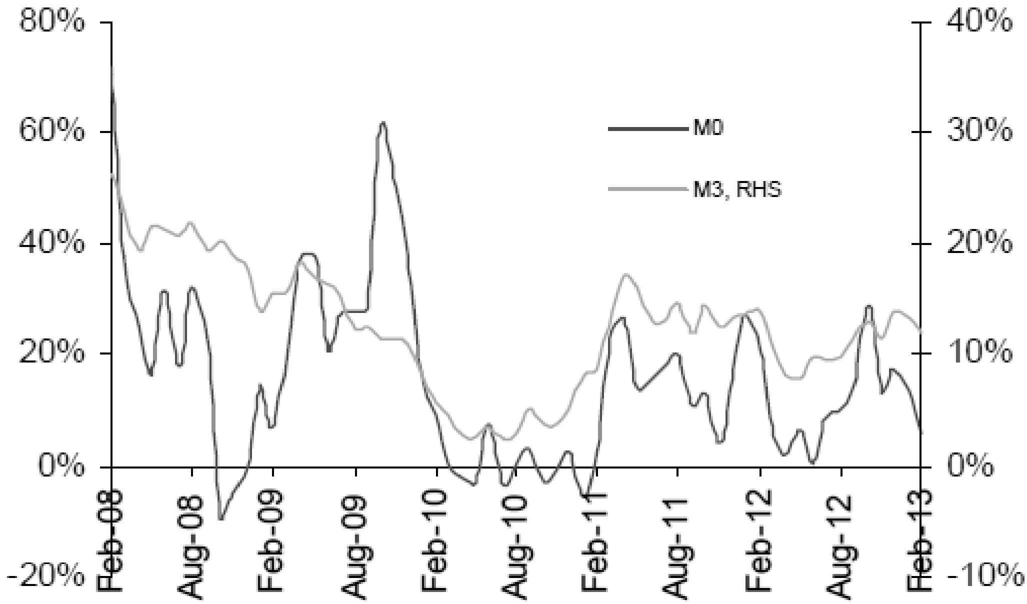


Source: SAMA, NCB Estimates (in Saudi Economic Review, April 2013, NCB Monthly Views on Saudi Economic and Financial Developments)

As for the inflation, the annual inflation rate remained stable at 3.9%. Foodstuff is one of the influential categories in the benchmark inflation rate as Saudi is import oriented.

In February, food prices maintained its upward trend since December 2012, increasing by 5.5% Y/Y. Most of the increase is due to the rise in the fruit and nuts category by 11.5% Y/Y, meat and poultry category by 6.9% Y/Y. Additionally, the bread and cereal category rose by 6.3% Y/Y as a result of the increasing prices of Indian rice (basmati) in response to the high demand from several countries following their preferences' switch to import Indian rice instead of Pakistani rice. Rental prices continued their decelerating trend which lowered the category's inflation rate to 2.9% Y/Y during February in anticipation of codifying of the mortgage law.

Chart 5: Growth in Monetary Aggregates



Source: SAMA, NCB Estimates

Although broad money (M3) edged slightly lower than the all-time high recorded in December, M3 posted an annual growth of 12% during the month of February reaching SAR 1.39 trillion. Representing the largest share of broad money, demand deposits have witnessed a growth of 15% on an annual basis to reach SAR 769.5 billion during February. Time and savings deposits decelerated to an annual growth of 6.6% during February as opposed to January's 9% rise, reaching SAR 324.6 billion.

As a common feature with the other National Banks, SAMA or NCB from KSA have the role of controlling the banking system. All banks are required to appoint two auditors duly registered in Saudi Arabia, and to post certain statutory reserves. Banks have to send monthly reports to SAMA. The Banking Control Regulation specifically requires SAMA to lay down general principles to regulate certain specific matters, provided they are approved by the Ministry of Finance and National Economy. SAMA also has the authority to require any information from any bank and to conduct audits; the latter requiring the approval of the Ministry of Finance and National Economy.

Subject to the approval from the Council of Ministers, the Ministry of Finance and National Economy has the authority to exempt a bank from the provisions of the Banking Control Regulation; provided that such exemption is in exceptional circumstances and for a limited period.

The authority which is responsible for reviewing an application for a banking license is SAMA. This is common for the NCB from EU countries, too. However, it is the Ministry of Finance and National Economy which grants such license after approval from the Council of Ministers. The Banking Control Regulation lays down basic requirements for obtaining a banking license. SAMA has also the responsibility for regulating the bank once it has been incorporated. The Banking Control Regulation also lays down the regulatory requirement of a deposit reserve ratio being maintained together with an obligation for banks to increase their capital and reserves in the event deposits exceed the prescribed amount. As required by most central banks, the Banking Control Regulation obligates each bank to maintain a deposit with SAMA, and provides SAMA with the flexibility of increasing or decreasing such deposits within a narrow band. Furthermore, banks are prohibited from extending to any one entity a loan or credit facility exceeding in total 25% of the total reserves and paid-up capital of the bank. In addition certain other activities, such as providing credit facilities to other banks, are prohibited. Certain other activities, such as merging with another bank, are prohibited unless written permission is obtained from SAMA and subject to fulfillment of the terms and conditions laid down by SAMA.

Conclusions

From an economic point of view, the banking system of KSA are very strong regardless of the global financial crises which is affecting worldwide countries' economic solidity, with worst results as the bankruptcy of the countries in question (case of Cyprus, Ireland etc.)

Following the results presented we can say that what makes the banking system from KSA stronger and keeps all the banks coordinated is religion. It is the cornerstone for all Muslims and it is „leading" their steps even when we talk about social life, family, working environment. Maybe some countries have to use KSA as a benchmark and to follow a series of religious principles for their activities thus they will find themselves in position of winning in the end.

Thus from the above study it becomes clear that the Saudi Arabia Banking sector under the supervision of the SAMA is on a positive upward trend. Due to the financial crisis, not even KSA, considered one of the strongest economies of the world due to their growth percentages was unable to remain untouched by the worldwide financial turmoil going on. However the Saudi Banking sector is clearly one system that has made a profit when others have failed.It has become obvious for the outside world that Saudi Arabian banks are currently operating in a high efficient environment, however even with these great results it is also clear that tere is room for Saudi banks to increase their efficiency.

Founded in 1952, SAMA really played an active role in the banking field, following Al-Riyadh bank's bad debt problem. In 1964 it started to act as a bank regulator and showed its effective role. SAMA played also an important role between 1975 and 1982, the period known as „Saudisation". The result of "saudisation" was that 60% of the market share became owned by Saudi citizens. But the most important feature that makes SAMA stand out from other National Central Banks is that it is a national bank, and commercial, too.

All these attributes of SAMA have resulted in the well working banking system that is currently in place in the KSA, a model to be followed by other nations across the world.

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