

Growth and Potential of Islamic Banking in GCC: The Saudi Arabia Experience

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Abstract

Islamic banking in Saudi Arabia is gaining momentum day by day due to its political and economic conditions. This country is one of the pioneers in the field of Islamic banking in the world. But still Malaysia and United Arab Emirates are leading in the world as far as Islamic banking is concerned. The banking sector in Saudi Arabia is flexible which always encourages Islamic banking for implementation. The banks in Saudi Arabia are either fully Islamic or have Islamic banking windows and branches. Al Rajhi Bank of Saudi Arabia has created a history by becoming the safest Islamic banks in GCC. This paper has tried to highlight the present status of Islamic banking in Saudi Arabia and has also thrown light on some important issues which indicate that it has a potential market in Saudi Arabia. The paper has also highlighted how Saudi Arabian banks will be totally Islamic in future.

Keywords: Islamic Banking, Saudi Arabia, Monetary Agency, Islamic Finance

1. Introduction

Saudi Arabia has a modern banking industry with 12 commercial banks². Saudi banks provide retail and corporate banking, investment services, brokerage facilities, and derivative transactions in addition to credit cards, ATMs and point-of-sale transactions. There are also banks in the Kingdom that provide Islamic banking services. Islamic banking is a system of banking that is consistent with the principles of Islamic law (Shari'ah). It prohibits usury, the collection and payment of interest and trading in financial risk. Saudi Arabia also has a thriving stock market. The total value of shares traded annually is some SR 60 billion [US \$16 billion]. The Tadawul All-Share Index (TASI) of the Saudi stock market is one of the most highly capitalized stock exchanges in the Arab world. TASI was also one of the first exchanges globally to set up a full electronic clearing and settlement system with immediate transfer of ownership. The banking and finance sector is overseen by several government agencies. The Ministry of Finance supervises economic policies. The Saudi Arabian Monetary Association (SAMA) manages fiscal policy, issues the country's currency, the Saudi Riyal and oversees the nation's commercial banks. The government has also established five specialized credit institutions to provide loans to citizens for development projects in agriculture, industry and construction

1. The Saudi Industrial Development Fund (SIDF),
2. The Saudi Arabian Agricultural Bank (SAAB),
3. The Real Estate Development Fund,
4. The Public Investment Fund and
5. The Saudi Credit Bank.

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² Sources: Saudi Arabia Monetary Agency

6. History of Banking in Saudi Arabia

Until the mid-twentieth century, Arabia had no formal money and banking system. To the degree that money was used, Saudis primarily used coins having a metallic content equal to their value (full-bodied coins) for storing value and limited exchange transactions in urban areas. For centuries foreign coins had served the local inhabitants' monetary needs. Development of banking was inhibited by the Quranic injunction against interest. A few banking functions existed, such as money changers (largely for pilgrims visiting Mecca), who had informal connections with international currency markets. A foreign bank was established in Jiddah in 1926, but its importance was minor. Foreign and domestic banks were formed as oil revenues began to increase. Their business consisted mostly of making short-term loans to finance imports, commercial trading, and businesses catering to pilgrims. The government issued a silver riyal in 1927 to standardize the monetary units then in circulation. By 1950 the sharp increase in government expenditures, foreign oil company spending, and regulation of newly created private banking institutions necessitated more formal controls and policies. With United States technical assistance, in 1952 the Saudi Arabian Monetary Agency (SAMA) was created, designed to serve as the central bank within the confines of Islamic law. The financial system has developed several layers intended to serve a number of multifaceted economic, exchange, and regulatory roles. At the apex was SAMA, which set the country's overall monetary policy. SAMA's functions also included stabilization of the value of the currency in an environment of openness with respect to exchange transactions and capital flows. The central bank used a number of monetary policy instruments for this purpose, including setting interest rates for commercial banks, which have been kept close to comparable dollar rates, the management of foreign assets, and the introduction of short- and medium-term government paper for budgetary and balance of payments purposes and to smooth fluctuations in domestic liquidity. SAMA also regulated commercial banks, exchange dealers, and money changers and has acted as the depository for all government funds; it paid out funds for purposes approved by the minister of finance and national economy.

SAMA's charter stipulated that it would conform to Islamic law. It could not be a profit-making institution and could neither pay nor receive interest. There were additional prohibitions, including one against extending credit to the government. This latter prohibition was dropped in 1955, when the government needed funds and SAMA financed about one-half of the government's debt that accrued in the late 1950s. From 1962 to 1983, the budget surplus did not require such action and all the government's debt was repaid. In 1988 SAMA was once again required to bolster government reserves, which had been sharply reduced to finance fiscal deficits, through the sale of Government Development Bonds. These bonds had varying short- and long-term maturities, with yields competitive with international interest rates. As a result of persistent government deficits, the stock of these bonds had grown to well over SR100 billion in 1991. Most of these bonds were placed with autonomous government institutions; however, close to 25 percent were purchased by domestic commercial banks. In 1966 a major banking control law clarified and strengthened SAMA's role in regulating the banking system. Applications for bank licenses were submitted to SAMA, which submitted each application and its recommendations to the Ministry of Finance and National Economy. The Council of Ministers set conditions for granting licenses to foreign banks, however. The law also established requirements concerning reserves against deposits. Several restrictions continued to inhibit SAMA's implementation of monetary policy. It could neither extend credit to banks nor use a discount rate because these measures were forms of interest. SAMA had little flexibility in setting reserve and liquidity requirements for commercial banks. Its primary tool for expanding the credit base consisted in placing deposits in commercial banks. (OT)

By the 1980s, new regulations were introduced, based on a system of service charges instead of interest to circumvent Islamic restrictions. As of the early 1990s, banks were subject to reserve requirements. A statutory reserve requirement obliged each commercial bank to maintain a minimum of noninterest-bearing deposits with SAMA. Marginal reserve requirements applied to deposits exceeding a factor of the bank's paid-in capital and reserves. Moreover, banks had to hold additional liquid assets-- such as currency, deposits with SAMA beyond the reserve accounts, and Government Development Bonds--equal to part of their deposit liabilities. SAMA used two other instruments to manage commercial bank liquidity. The Bankers' Security Deposit Account (BSDA) was a short-term instrument with low yield, rediscountable with SAMA and transferable to other banks. In November 1991, SAMA issued the first treasury bills, which were short-term, usable for both liquidity management and government deficit financing, and designed gradually to replace the BSDAs. Twelve private commercial banks operated in the kingdom, providing full-service banking to individuals, and to private and public enterprises. Eight of the banks were totally Saudi-owned. Four were joint ventures with foreign banks.

In 1975 the government adopted a program of Saudi participation in ownership of foreign banks operating in the kingdom. In December 1982, the last of the foreign banks merged with a Saudi bank. The commercial banks operated more than 1,000 branches throughout the country and a widespread network of automated teller machines. The range of bank activities grew markedly during the 1970s and 1980s. Beyond providing credit and deposit facilities, they engaged in securities trading, investment banking, foreign exchange services, government finance, and development of a secondary government bond-treasury bill market. For years money exchangers remained an anomaly in the Saudi banking system. They had operated for centuries in Arabia, particularly for pilgrims to Mecca. Most were family businesses, some of which had grown very large since World War II, conducting most kinds of banking activities in many areas of the country. Although licensed, the money-exchange houses remained largely unregulated. Most money exchangers operated under sound business practices; however, a series of fraudulent and speculative practices in the 1980s prompted SAMA to establish regulations for money-exchange houses. One of the larger such operations was converted to a commercial bank in 1987. Because commercial banks favored short-term lending to established firms and individuals, the government created special credit institutions to channel funds to other sectors and groups in the economy. The Saudi Arabian Agricultural Bank was formed in 1963 to provide development financing and subsidies to the agricultural sector. The Saudi Credit Bank was formed in 1971 to provide interest-free loans to low-income Saudis who could not obtain credit from commercial banks. The Public Investment Fund was created in 1973 to help finance large public ventures. The Saudi Industrial Development Fund was established in 1974 to provide interest-free, medium- and long-term financing of up to 50 percent of the cost of a private sector project. The Real Estate Development Fund, also founded in 1974, was designed to encourage private sector residential and commercial building, partly through interest-free loans to low- and medium-income Saudis for up to 70 percent of the cost of a home.

The government budget provided almost all the funds for these specialized credit institutions and continued to increase their capital requirements until the mid-1980s, when budgetary problems necessitated cutbacks. For the most part, these funds were self-financing during the latter half of the 1980s. A significant departure from such self-financing was the government's substantial subvention to the Real Estate Development Fund in 1991 to allow a one-year moratorium on payments, which was a gift by King Fahd to his citizens. The Saudi financial system also consisted of three autonomous government institutions, included because of their significant role in providing financing for budgetary shortfalls, deposits with SAMA, and foreign currency holdings. These included the Pension Fund, the General Organization of Social Insurance, and the Saudi Fund for Development. For much of the 1980s, the stock exchange, created in 1983, was largely viewed by domestic investors as a vehicle for long-term investments. Since the Persian Gulf War, this situation changed markedly because the exchange has attracted investors seeking shorter-term investments. Share prices and trading volumes have grown sharply and by early 1992 had reached unprecedented levels, sparking fears of overvaluation. The official stock market index, which had remained relatively dormant in the late 1980s, and had dropped from 108.7 at the end of 1989 to 98.0 in late 1990, roughly doubled to 187.7 by the close of 1991. The value of shares traded grew from SR135 million at the end of 1990 to SR1.8 billion by the first quarter of 1992. The number of shares traded doubled from 15 million for the whole of 1989, to 29.2 million in 1991.

Three factors propelled this level of stock market activity. First, following the Persian Gulf War, confidence in the Saudi economy spurred by high oil prices and greater confidence in the regional geopolitical situation prompted domestic investors to repatriate foreign funds. Second, low international interest rates, combined with similar returns of domestic savings rates, increased the attractiveness of the stock exchange. Third, the number of companies trading on the exchange increased markedly as they attempted to boost domestic investment following several years of depressed economic conditions. Moreover, the tight government budget prompted some public enterprises to obtain capital on the domestic financial markets rather than from the state. The Saudi stock exchange was not open to foreign investment and only shares of Saudi companies could be traded. The exception to the former rule was the right of citizens of GCC member states to purchase Sabic shares from 1984. In 1991 the Arab National Bank, partially funded by Jordanian capital, received permission to launch a stock fund, of which foreigners might purchase a portion. Despite growth in the stock market, the percentage of shares traded as a percentage of total market value of shares outstanding has been estimated as no more than 5 percent, very low by international standards.

This lack of market depth resulted from the high proportion of shares owned by institutions rather than individuals and the concentration of ownership in a few hands³.

7. Banks in Saudi Arabia⁴

1. The National Commercial Bank:
2. The Saudi British Bank
3. Saudi Investment Bank
4. Alinma bank
5. Banque Saudi Fransi
6. Riyad Bank
7. Samba Financial Group (Samba)
8. Saudi Hollandi Bank
9. Al Rajhi Bank
10. Arab National Bank
11. Bank AIBilad
12. Bank AlJazira

Out of these banks following are Islamic banks in Saudi Arabia. a brief history and its functioning is also explained to highlight the growth and success of these banks.

- **The National Commercial Bank:** The National Commercial Bank (NCB) also known as AlAhli Bank is the first Saudi Arabian bank, the largest bank by asset in the Arab world and one of the pioneers in Islamic Banking and finance in the world. It was formed in 1953 by Royal Decree as a general partnership, resulting from the merger of Saudi Arabia's largest currency houses: Saleh and Abdulaziz Kaki, and the Salem bin Mahfouz Company. The two businesses joined to form the first officially recognised Saudi bank. In 1979, NCB became the first Saudi bank to launch a mutual fund, and has led innovations in real estate and auto finance. Since then, the bank pioneered the development of many Shariah compliant financial services that now meet the needs of more than 3.5 million customers. In 1997, NCB was converted to a joint stock company and, since 1999, shareholding has been divided between two government institutions – the Public Investment Fund and the General Organization for Social Insurance – along with a number of Saudi investors. NCB has grown to become one of the largest banks in the Arab world, with total assets exceeding SAR 377 billion, and customer deposits standing at SAR 300.6 billion upto 2013⁵.
- **The Saudi British Bank (SABB):** SABB is a Saudi Joint Stock Company with a strong track record and a heritage that stretches back more than 30 years. Established on 12 Safar 1398(H) (21 January 1978), SABB formally commenced activities on 26 Rajab 1398(H) (01 July 1978) when it took over the operations of The British Bank of the Middle East in the Kingdom of Saudi Arabia. SABB is an Associated Company of the HSBC Group, one of the world's largest banking and financial services organisations with over 10,000 offices in 83 countries and territories across Europe, the Asia-Pacific region, the Americas, the Middle East and Africa⁶.
- **The Saudi Investment Bank:** (SAIB) is a Saudi Arabian joint stock company established by Royal Decree No. M/31 dated 25 Jumada II 1396H, corresponding to June 23, 1976. The Bank began operations in March 1977. The shareholders of SAIB, a publicly listed company, include J. P. Morgan Chase, Mizuho Corporate Bank - formerly, The Industrial Bank of Japan, Saudi public and private institutions as well as Saudi Individuals⁷.
- **Alinma Bank:** is a Saudi joint stock company formed in accordance with Royal Decree No. M/15 dated 28 March 2006 and Ministerial Resolution No. 42 dated 27 March 2007. The bank was established with share capital of SAR 15 billion, consisting of 1.5 billion shares with a nominal value of SAR 10 per share. The Alinma head office is located in Al-Anoud Tower on King Fahad Highway in the Saudi capital, Riyadh⁸.

³<http://countrystudies.us/saudi-arabia/44.htm>

⁴Sources: Saudi Arabia Monetary Agency

⁵<http://www.alahli.com.sa/en-us/about-us/corporate-profile/Pages/AIAhli-History.aspx>

⁶<http://www.sabb.com/1/2/sabb-en/about-us/about-us>

⁷<https://www.saib.com.sa/en/about-saib/saib-overview>

⁸https://www.alinma.com/wps/portal/alinma/lut/p/c5/04_SB8K8xLLM9MSSzPy8xBz9CP0os3hzf2cLDy93A0t3d1c3A0931xd3_yBfI28XY_3g1Lz40GD9gmxHROBKIPoz/

- **Riyad Bank:** is one of the largest financial institutions in Saudi Arabia, ranked third in assets. It was established in 1957. The Saudi government owns 51% of the shares of the firm. The company is regulated by the Saudi Arabian Monetary Association⁹.
- **Banque Saudi Fransi:** (BSF) is a Saudi Arabian Joint Stock Company established by Royal Decree No. M/23 dated June 4, 1977. The Bank is affiliated with *Credit Agricole Corporate and Investment Bank* that holds an equity interest of 31.1%. Credit Agricole CIB is a fully-fledged member of the *CréditAgricole Group*, the second largest bank in France, and seventh amongst banks of the Euroland by total equity. As of April 2014, the Bank has capital strength of 12,053,571,670 SR¹⁰.
- **Bank Aljazeera:** Bank AlJazira (BAJ) is a Joint Stock Company incorporated in the Kingdom of Saudi Arabia and formed in June 21, 1975. BAJ commenced its business on October 9, 1976 with the takeover of The National Bank of Pakistan's (NBP) branches in the Kingdom of Saudi Arabia. BAJ is recognized as one of the leading Shari'ah compliant fast growing financial institutions in Saudi Arabia, client-driven and service-oriented Saudi Financial Group which provides individuals, businesses and institutions with innovative Shari'ah compliant financial services through professional and dedicated staff. BAJ began a restructuring process in 1992 with subsequent increases in capital in 1992 and 1994. The increased capital has come entirely from the Saudi shareholders, which resulted in significantly diluting NBP's shareholding¹¹.
- **Al Rajhi Banking & Investment Corporation:** Founded in 1957, Al Rajhi Bank is one of the largest Islamic banks in the world with total assets of SR 288 billion (US\$ 76.8 bn), a paid up capital of US\$4.3 billion and an employee base of over 8,400 associates. With over 50 years of experience in banking and trading activities, the various individual establishments under the Al Rajhi name were merged into the umbrella 'Al Rajhi trading and exchange corporation' in 1978 and it was in 1988 that the bank was established as a Saudi share holding company. Deeply rooted in Islamic banking principles, the Sharia compliant banking group is instrumental in bridging the gap between modern financial demands and intrinsic values, whilst spearheading numerous industry standards and development.

With an established base in Riyadh, Saudi Arabia, Al Rajhi Bank has a vast network of over 500 branches, over 100 dedicated ladies branches, more than 3,600 ATM's, 28,000 POS terminals installed with merchants and the largest customer base of any bank in the Kingdom, in addition to 130 remittance centers across the kingdom. The first men's branch was opened in Aldirah in 1957, with the first ladies branch being opened in AlShmaisi in 1979.

- **Samba Financial Group (SAMBA):** Samba came into being through a Royal Decree in 1980 and has now expanded into one of the foremost financial institutions in the Middle East. In 2010, Samba opens its branch in Qatar, becoming the first Saudi bank to establish a presence in Qatar with core operations including corporate and investment banking¹².
- **Saudi Hollandi Bank:** the first operating bank in the Kingdom of Saudi Arabia, was founded in 1926. Originally it was known as 'The Netherlands Trading Society', and operated out of one office in Jeddah. Its main business at the time was providing financial services to Haj pilgrims from Indonesia. As it was the only bank in the Kingdom at the time, it acted as the central bank, keeping the Kingdom's gold reserves and receiving oil revenues on behalf of the Saudi Arabian government. In 1928 the Saudi Riyal, a new silver coin commissioned by Late King Abdulaziz, became the Kingdom's first independent currency. The Netherlands Trading Society office in Jeddah had the honour of assisting the government with the launch of the local currency¹³.
- **Bank Albilad** is a Saudi joint stock company, established vide Royal Decree 48/M on 21/9/1425H (corresponding to 4 November 2004) with a corporate capital of 4,000,000,000 Saudi Riyals. It is full fledged Islamic bank and has headquarter at Riyadh¹⁴.

⁹<https://www.riyadbank.com/en/about-us>

¹⁰<http://www.alfransi.com.sa/en/article/about-us/profile.html>

¹¹<http://www.baj.com.sa/about-us.aspx?page=corporate-profile&id=139>

¹²<http://www.samba.com/en/about-us.html>

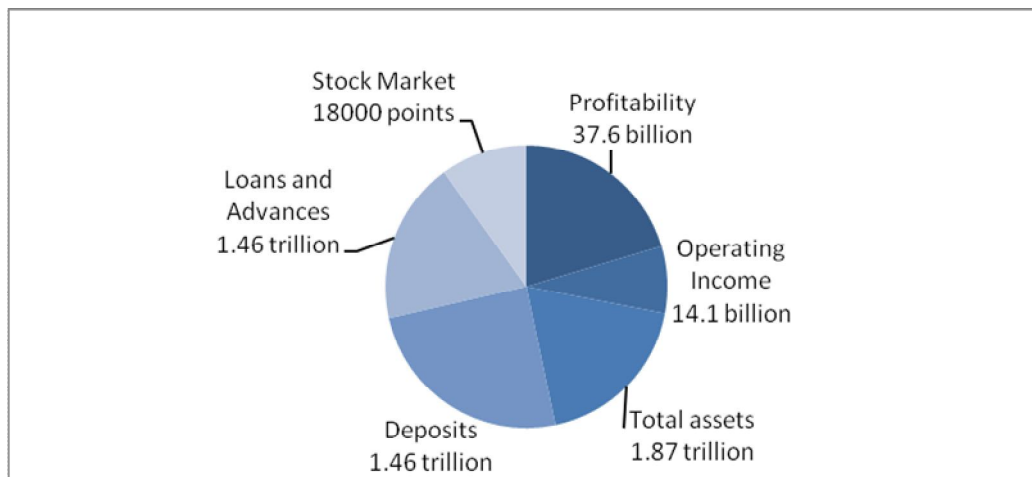
¹³<http://shb.com.sa/en/about/AboutSHB/Overview.aspx>

¹⁴<http://www.bankalbilad.com/sites/en/Pages/About.aspx>

- **Arab National Bank** was established in 1979, by Royal Decree M/38, taking over the existing operations of Arab Bank in the Kingdom of Saudi Arabia. ANB, a Saudi Listed Joint Stock Company, now ranks amongst the 10-15 largest banks in the Middle East. Headquartered in the capital city of Riyadh, the Bank is supported by Regional Offices in Jeddah and Khobar, and has a branch in London. Over the past 35 years, ANB has been committed to live up to its brand promise of being "A Friend Indeed"¹⁵.

8. Recent Performance of Islamic Banks in Saudi Arabia

Saudi Arabia, with "positive" ratings, is the largest economy in the Gulf Cooperation Council (GCC). The strong fundamental performance of Saudi banks appeared to have continued during 2013. Unaudited 2013 results show increasing trends of major factors like revenue generation, assets growth and net profitability. Such positive indications are vital to foster the regional economic growth. Recently published reports by Fitch, Moody's, Standard & Poor's (S&P) and other major international rating agencies also affirm a stable outlook for the Saudi Arabian banking system. Sound supervisory role by regulating bodies (SAMA, CMA, IOB etc), ideal operating environment, strong operational efficiency, sound funding dynamics, solid deposit base, strong loss-absorption capacity and continued growth in business activity are prominent features of the Saudi Arabian banking system, which are collectively rated as 'stable' by international rating agencies. Again Samba Financial Group is included among the world's 50 safest banks¹⁶. Al-Rajhi Bank and Riyad Bank also qualified for inclusion in the list but did not make the ranking owing to their total assets. Al-Rajhi Bank has meanwhile been awarded as the best Islamic financial institution. Al-Rajhi Bank is the largest Islamic bank globally and boasts the largest branch network in Saudi Arabia¹⁷. Most of Saudi banks are also considered to be the safest/biggest in the MENA region. Saudi banks, however, strengthened their financial position further showing a remarkable performance during 2013.



- **Profitability:** Saudi Arabia's 12 major banks generated a total profit of SR37.6 billion in 2013, reflecting a year-on-year growth of 7.18 percent.

Al-Rajhi Bank and the National Commercial Bank (NCB) represented nearly 41 percent of the consolidated net profit. The National Commercial Bank's profitability rose by 21.65 percent while Al-Rajhi's net profit declined by 5.67 percent. The National Commercial Bank also managed to retain a healthy level of special commission income. At the end of 2013, its top line climbed to SR10 billion reflecting a growth of 11.3 percent. Among other players in the sector, Saudi Investment Bank's bottom line grew by 41.1 percent from the SR 912 million recorded in 2012. It reported a net income of SR 1.29 billion for 2013. The higher profitability can be attributed to increase in operating income and the decrease in operating expenses.

- **Operating income:** Core operating profitability of all the banks improved significantly. Al-Rajhi Bank remained major contributor, representing a total operating income of SR14.1 billion for 2013, a yearly increase of 0.94 percent.

¹⁵<http://www.anb.com.sa/aboutus.asp>

¹⁶Global Finance reported in its annual ranking for 2013.

¹⁷Fitch Ratings

Riyad Bank and Samba have also been able to record a total operating income of over SR7 billion for 2013, exceeding the previous year's values by 4.24 percent and 4.59 percent respectively. On growth basis, Alinma Bank remained at top, posting a substantial operating income of SR2.28 billion for 2013, up 24.81 percent from SR1.8 billion a year earlier. Saud Investment Bank, with SR2.02 billion and a growth of 17.13 percent, ranked second.

- **Total assets:** Twelve commercial banks' consolidated value of total assets grew exceptionally to SR1.87 trillion, recording a growth of 9.33 percent over the preceding year's figure of SR 1.71 trillion.

All Saudi banks reflected a positive growth in total assets, where the National Commercial Bank (NCB) representing the largest share of SR377 billion (+9.27 percent), around one-fifth of the sector's aggregate value. On the other hand, the Saudi Investment Bank topped on percentage basis, achieving 36.28 percent higher value of total assets in 2013 to SR80.5 billion, compared to SR59.07 billion recorded in 2012.

- **Deposits:** Deposits of the 12 commercial banks reached SR1.46 trillion by the end December, 2013, a handsome increase of 10.16 percent over the SR1.32 trillion of 2012, mainly due to deposit mobilization and the expansion of branch networks by banks.

Major contributions in terms of deposits were made by NCB, representing SR300.6 billion or nearly one-fifth of the aggregated deposits value. NCB's deposits grew by 9.71 percent in 2013. Al-Rajhi Bank reported customer deposits SR231.6 billion compared with SR221.4 billion of end-2012, an increase of 4.6 percent. The Saudi Investment Bank showed an impressive 41.15 percent growth in deposits for 2013, reaching at the level of SR57 billion. Alinma Bank, with SR42.8 billion and a growth of 32.75 percent, ranked second in term of year-on-year growth.

- **Loans and advances:** Saudi banks continued to expand their lending activities. The sector recognized a 12.41 percent increase in loans and advances. The aggregated value reached SR1.13 trillion by end of December 2013 versus nearly SR1 billion a year earlier. The National Commercial Bank represented a funding of SR187.7 billion at the end of December 2013, contributing 17 percent of the overall value.

Saudi Investment Bank reported total financing portfolio outstanding on Dec. 31, 2013 amounting to SR47.57 billion, representing a yearly increment of SR 13.5 billion or 39.7 percent.

- **Stock market:** At the Saudi Stock Market, the banking sector has been marching relentlessly higher since the start of 2013. The sector supported Tadawul's rally which logged its highest 5-year level. The sector's index also achieved its highest 5-year level during the fourth quarter of 2013, crossing the 18,000 points mark.

It accumulated 3,220 points or 22 percent for the entire year. Saudi Arabia's benchmark stock index achieved a return of 25.5 percent during 2013, closing at 8,535.6 points. Bank Al-Bilad outdid rest of the banking issues, marching higher roughly 65 percent to SR 35 at the end of 2013. The Saudi Investment Bank and the Saudi Hollandi Bank followed it, soaring up 58 percent and 54 percent respectively. A large number of investors continued to engage in speculation of banking stocks and took the advantage of high returns by providing a substantial liquidity. Its total turnover 6.4 billion shares worth 132.8 billion were liquidated at Tadawul during 2013. This turnover reflects a relative market share of 10 percent in terms of liquidity and 5 percent in terms of volume¹⁸.

9. Conclusion and Suggestions

Islamic banking system has developed in the world because of its unique features. The features present in this system are not found in any other banking system especially the strong moral and ethical framework. The Islamic financial system is community-oriented, and one of the basic goals of Islamic financial institutions is to achieve socio-economic justice (Hassanuddeen, 2009). Islamic banking assets with commercial banks globally are set to cross US\$1.7t in 2013, suggesting an annual growth of 17.6% over last four years. There is a noticeable slowdown caused by two major developments.

¹⁸<http://www.arabnews.com/news/514691>

First, the continuing economic and political setbacks in some of the frontier Islamic finance markets; and second, the large scale operational transformation that many of the leading Islamic banks initiated about 18 months ago, which continues to consume focus and investment¹⁹. Muslim people everywhere want Islamic Banking especially in Saudi Arabia. Islamic banking which used to be a myth in some parts of the world several years ago is not only in vogue but is gaining rapid popularity these days. Now customers prefer to invest in Islamic banks in Saudi Arabia compared to conventional banks. In Saudi Arabia, Not only a number of foreign and local banks are doing good business in Islamic banking but even the conventional banks have been tempted to open special Islamic banking windows and branches. The best example of popularity of Islamic banking in Saudi Arabia is of Al Rajhi Bank. This bank is very famous in Saudi Arabia and leading in GCC. In Saudi Arabia, almost all banks provide Islamic Banking services. Some banks are fully Islamic and some provide Islamic banking windows or branch banking facility. Al Rajhi Bank, Alinma Bank, Bank AlBilad, Bank AlJazira etc. are full fledged Islamic banks, while as other are also dealing with Islamic finance based principles directly or indirectly. Among these banks Al Rajhi tops the rankings of Safest Islamic Banks in the GCC and is ranked among the top Islamic banks²⁰.

Safest Islamic Banks in the GCC							
Rank	Institution	Fitch	Moody's	S&P	Points	Asset size (\$mn)	Country
1	Al Rajhi Bank*	A+	A1	A+	18	71,302	Saudi Arabia
2	Al Hilal Bank	A+	A1	N/R	17	8,746	UAE
3	Kuwait Finance House*	A+	A1	A-	16	52,288	Kuwait
4	Abu Dhabi Islamic Bank*	A+	A2	N/R	15.5	23,326	UAE
5	Qatar Islamic Bank	A	N/R	A-	12.5	20,105	Qatar
6	Qatar International Islamic Bank	A-	A3	N/R	11	7,845	Qatar
7	Dubai Islamic Bank	A	Baa1	N/R	11	25,964	UAE
8	Bank Aljazira	A-	A3	N/R	11	13,605	Saudi Arabia
9	Sharjah Islamic Bank	BBB+	N/R	BBB+	8	4,987	UAE

Sources: Global Finance Report

From the table above, it is clear that Al Rajhi Bank of Saudi Arabia is leading in the world as far as safest Islamic banks are concerned. This gives a green signal of having lowest risk to investment in Saudi Arabia. With the establishment of Islamic Development Bank in 1973 and then establishment of many Islamic finance centers in Saudi Arabia, now this country is in race as far as development of Islamic banking is concerned. The following 9 indicators for prospects of Islamic banking are positive and are briefly explained as:

- Customers: Every customer prefers Islamic banking while investing in banks.
- Regulators: the political system of the country is such which always welcomes Islamic system.
- Accounting, Auditing, Taxation and Information Support Systems: all these support systems are prevailing in Saudi Arabia
- Shariah Compliance: this is the need of the country
- Human skill development: for this purpose, may number of big institutions have been developed by the government.
- Product Innovation and Development: these are prevailing in Islamic banks
- Inclusion of Islamic values and integrity: whole country prefers these values and therefore support and implement
- Legal framework: very preferable and encouraging Islamic banking
- Shareholders and Investors: this is a developed country so investors are eager to invest a huge amount.

¹⁹ world Islamic Competitiveness Report 2013-2014 by Ernst and Young

²⁰<https://www.gfmag.com/magazine/february-2014/ranking-gccs-safest-islamic-banks>

Taking these things in to consideration, Islamic banking has huge potential for development of Islamic banking in Saudi Arabia. Although full-fledged Islamic banks have developed very recently in the world but its progress in Saudi Arabia is tremendous. It is because the market here is such where Islamic values are more important than anything else. But if we take profitability of Islamic banks in Saudi Arabia into consideration, it is also huge. It is expected that within few years every bank in Saudi Arabia might be fully Islamic and conventional banking will come to an end in Saudi Arabia. For this purpose Saudi economists are developing the economic models adopted by Malaysia and United Arab Emirates. As these two countries have become largest Islamic finance markets in the world. Although Saudi Arabia has competitive advantage to develop the Islamic financial system because of its Islamic laws and regulations as well as easy license for the establishment of Islamic banks. But still there is a lack of experts and Islamic educational institutions, for which ministry of higher education should take appropriate steps to establish more and more specialized institutions of Islamic finance.

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