

# Islamic Banking In Saudi Arabia: Financing Instruments

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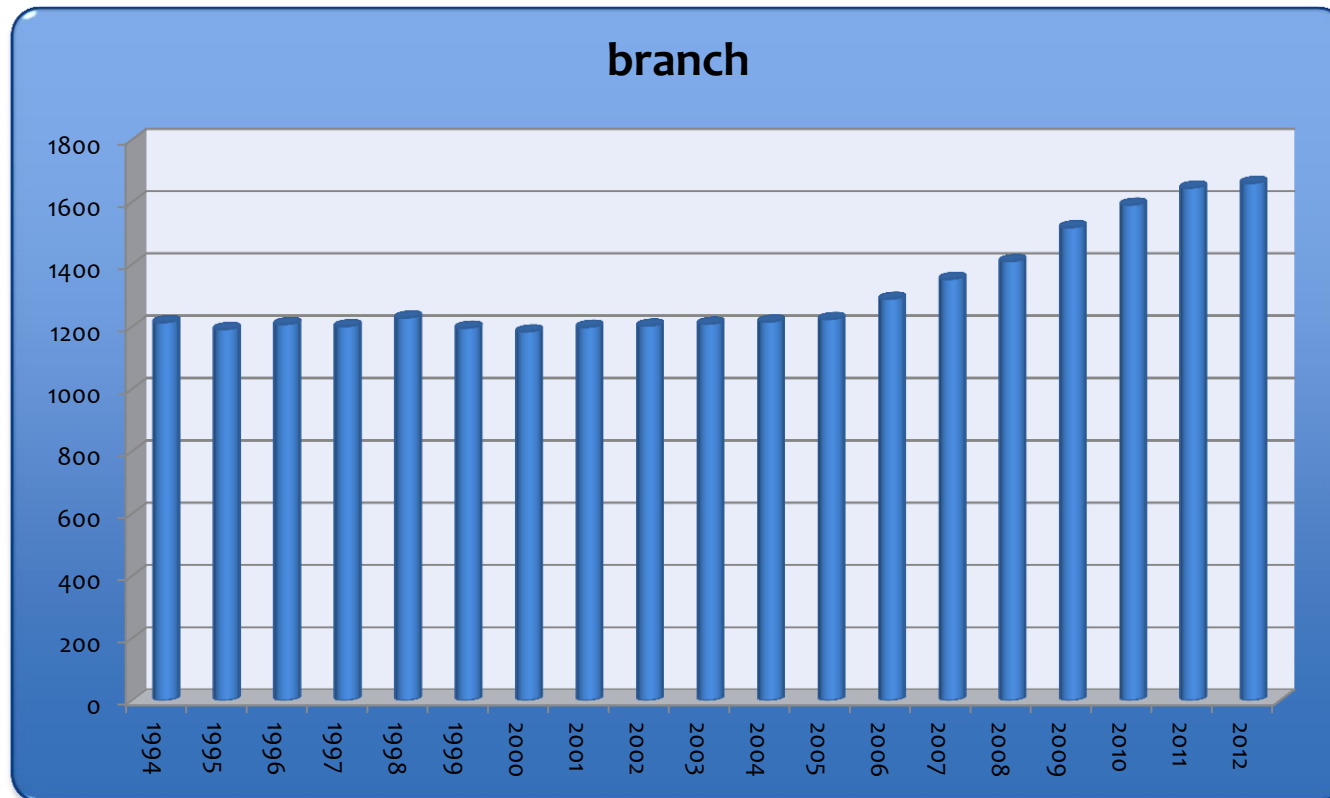
|                        |           |
|------------------------|-----------|
| <b>Saudi Banks</b>     | <b>12</b> |
| <b>Non Saudi banks</b> | <b>11</b> |

## Classification of Saudi Banks

|                     |          |
|---------------------|----------|
| <b>Islamic</b>      | <b>4</b> |
| <b>Conventional</b> | <b>8</b> |

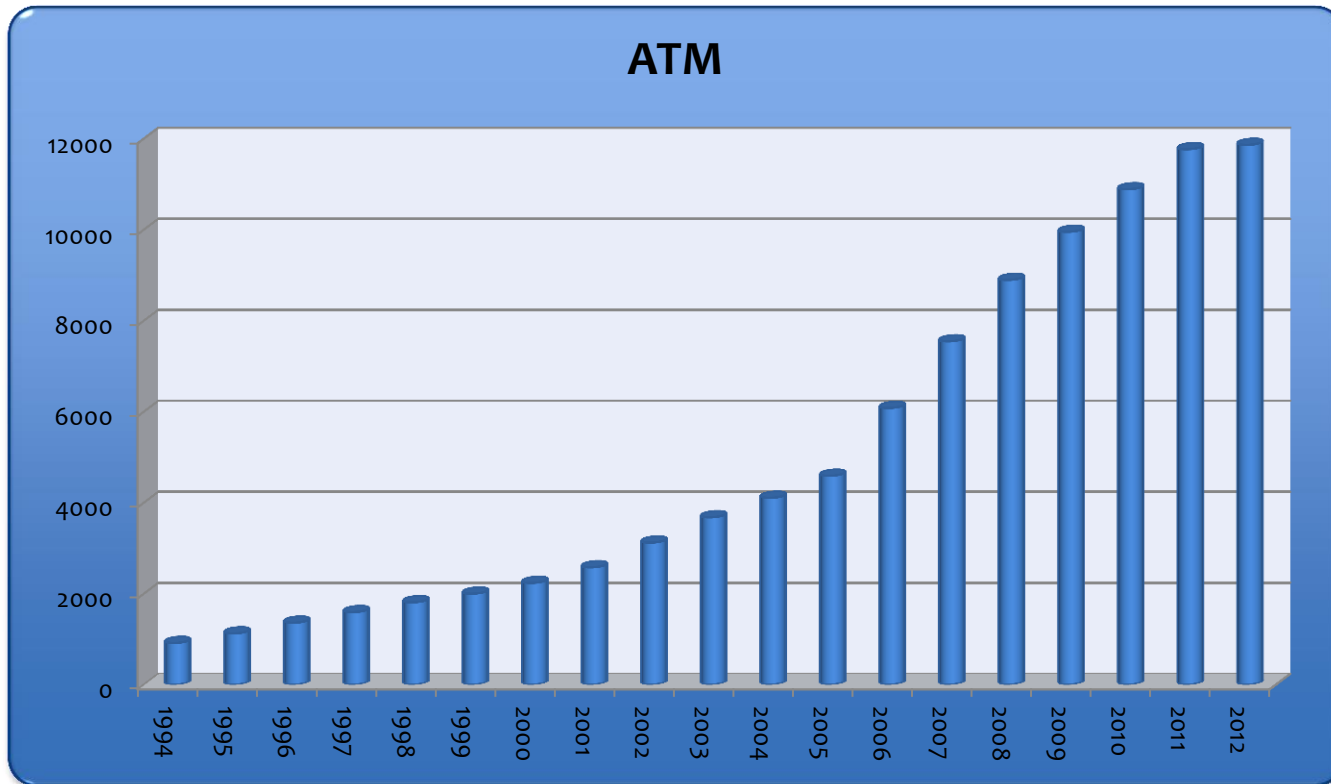
# Banking in Saudi Arabia

## History and Development



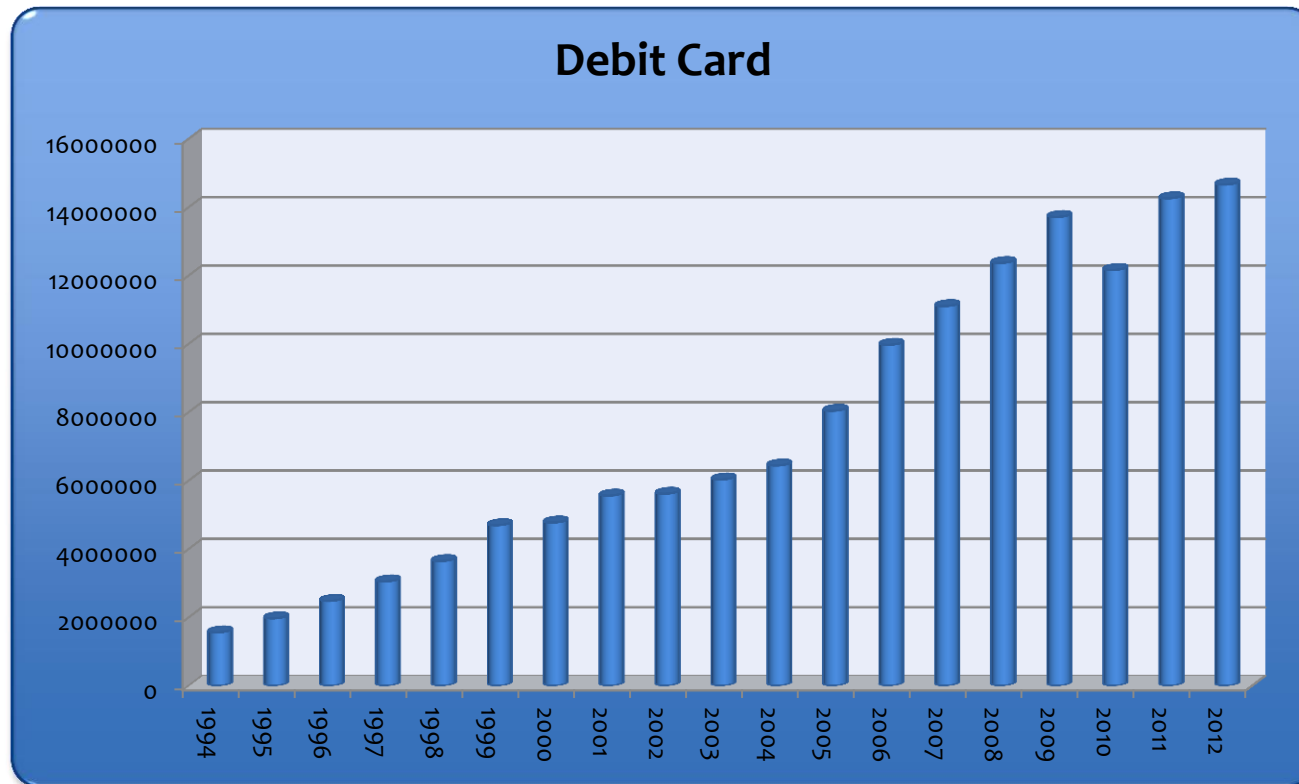
# Banking in Saudi Arabia

## History and Development



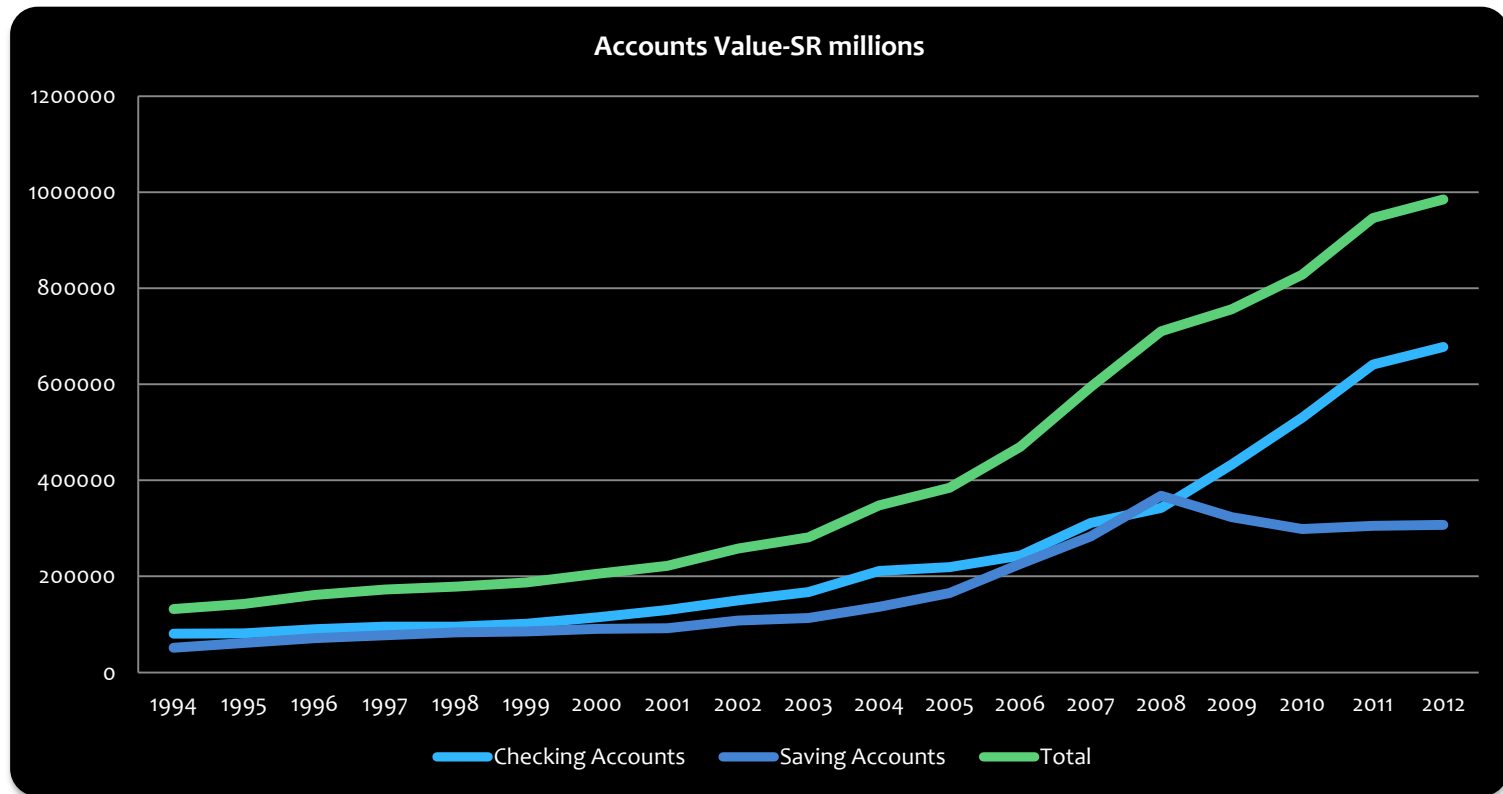
# Banking in Saudi Arabia

## History and Development



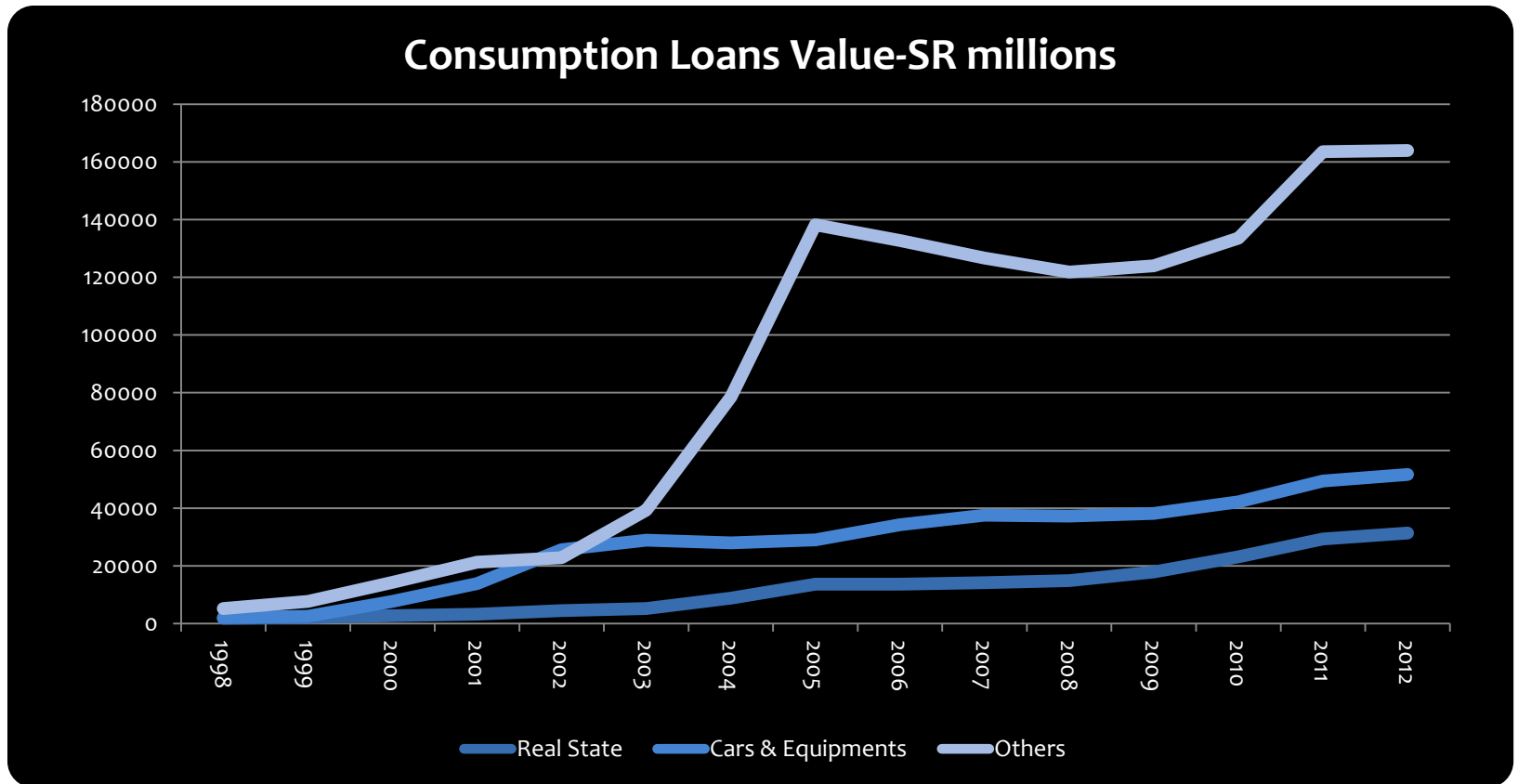
# Banking in Saudi Arabia

## History and Development



# Banking in Saudi Arabia

## History and Development





# Islamic Banking in Saudi Arabia

- \* Despite possessing the ingredients, qualification, and the high position in the Islamic world, and despite the great wealth and the domestic demand, still Saudi Arabia is still absent from the competition to be the capital of Islamic banking.
- \* Many have put the blame on Saudi Arabian Monetary Agency (SAMA) and the Ministry of Finance.
- \* Islamic banking is not officially recognized.



This may be the reason for this:

- \* Lack of initiative of the supervisory authorities, namely the Ministry of Finance and Monetary Foundation to promote this sector and protect it from deviation and enhance its credibility before the world
- \* Weakness of the credibility of Islamic financing instruments as a result of the similarity of Islamic financing to interest-based financing mechanism.
- \* The lack of uniform legislative committee for Islamic banking to determine the pillars and regulations of the Organization of Islamic banking, as well as determine which products can be classified that are compatible with Islamic banking.
- \* Weak academic interest in Islamic banking and the lack of support for the advancement of related research in Islamic.

# Individual Financing.

- Buying Joint-stock companies shares.
- Auto Financing
- Real Estate Financing

## Rules and Regulations

Customers must have their salaries transferred electronically to their bank account.

Only government employees and some large companies are given the opportunity to have individual loans.

Markup percentage rate depends on predefined classifications from the bank.

# Buying Joint-stock companies shares

- Financing instrument that enable individual customers to buy joint-stock companies shares and repay the value of these shares by monthly installments.
- This method would allow individual customers to sell the purchased shares instantly and get the cash money.
- The selling price for these shares is marked up based on percentage value above the current market price of the shares.
- The customer is then given the opportunity either to keep the purchased shares or sell them in the stock market.

# Auto Financing

- Similar process to buying stock shares.
- The objective of the customer is purchasing a new car, while in the previous process, the objective is getting the cash money.
- The customer repays the price of the car to the bank plus predetermined profit margin by monthly installments compatible with the customer's monthly salary.

# Real Estate Financing

Almost an identical to auto financing,  
except:

- Markup rate is greater.
- Loan extends from 10 to 20 years.

Down payment is required

# Calculation method

All banks apply the simple interest formula to calculate the total amount of loan, then divide the total amount by the number of months.

Example:

Loan amount is 100000.

Profit margin percentage rate is 2%.

Number of financing years is 5.

The total loan with profit margin is  $100000 * (1 + 2\% * 5) = 110000$ .

Monthly installments equals  $110000 / 60 = 1833.33$

# Islamic Banking

## Conclusion