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ANALYSIS OF PERFORMANCE OF ISLAMIC BANKS IN SAUDI ARABIA

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ABSTRACT

Islamic finance has emerged as an effective tool for financing development worldwide, including in non-Muslim countries. Major financial markets are discovering solid evidence that Islamic finance has already been mainstreamed within the global financial system and that it has the potential to help address the challenges of ending extreme poverty and boosting shared prosperity. The aim of this research is to investigate analyzing the performance of Islamic banks in Saudi Arabia. The research performed quantitative method in which 5 banks (Alinma, Aljazira, Alrajhi, Albilad, and Saudi Investment Bank) were taken in for analysis and ROA and ROE were performed. The analyses information for this study is obtained from the Tadawul Stock Exchange knowing their total assets and liabilities. The results were different for each bank and hence their performance was varying in comparison to each other. This study shows that Alrajhi Bank has performed better than other Islamic banks in Saudi Arabia.

INTRODUCTION

Islamic law positions that “lending money in return of interest payments as a relationship that favors the financier, who charges interest at the expense of the borrower is haram” [1]. Because according to Islamic law money is a measuring tool for value and not an asset. The law also states that one should not be able to receive income from interest money given by the borrower. Deemed *riba*, such practice is forbidden under Islamic law as it is considered exploitative [2, 3]. Accordingly, Sharia-compliant finance (halal, which means permitted) consists of profit banking in which the financial institution shares

in the profit and as well as loss of the enterprise or the investment. The most essential guideline is the banning of the interest (*riba*) [4, 5].

The idea of the Muslims is that there is no contrast amongst interest and usury, with the goal that Islamic banking system organizations may not charge interest on the credits that they gives, and neither do they pay interest on the deposits made by their customers. This implies that your capital must expect a part of the risk related with them since he tried to make benefit. As per supporters of Islam, the banking system framework in light of the presence of interest is unjust in light of the fact that one provider has the conviction that capital will be paid at a settled rate of return, while the beneficiary of these assets bears the entire hazard [6].

Additionally, the interest of enthusiasm by an Islamic Bank would be commensurate to its income development because of a diminishment in those audits, Dissimilar to the general population who utilize the results of the Islamic banks, general investors hope to get a premium pay related with default rates, settled or shifted by a loan cost reference, with their customarily sparing. Thusly, these benchmark rates can display volatilities, which can't be anticipated. In the Arabic dialect is what might as well be called unnecessary "*Gharar*" vulnerability in connection to be secured by an agreement or its value, giving it a theoretical character. The instance of the kingdom of Saudi Arabia with accuracy and whose event is controlled by changes required at the macroeconomic level or at the level of the parts of movement [6]. Since Islamic banks contributors expect considerably higher dangers than those of traditional banks, the level of gainfulness for sparing items that conform to Sharia is one predominant enthusiasm at rates that are paid in real money surveys by ordinary banks working in the Kingdom of Saudi Arabia [6].

Named the Islamic keeping money and back (IBF), the development related with this framework has been considered for as far back as 15 years as the innovator as far as worldwide financial development. It has assembled energy to wind up a huge benchmark of the banking system in the twenty-first century, for all countries around the world. Over the current years an increasingly 'Western' character of IBF which has demonstrated that different monetary geological and social hypotheses may 218 Islamic saving money frameworks. The instance of the kingdom of Saudi Arabia conceptualizes its improvement. Having seen twofold digit development rates for the past years, numerous the Islamic banks have proved by and by their ability in outperforming their customary partners in the European Union [7]. The Islamic saving money industry is on the progressing way and there is by all accounts enough space for development as they seldom surpass 33% of aggregate piece of the overall industry. A more critical look, be that as it may, the figures propose that the market elements are changing, additionally because of the attempt to recuperate from the worldwide money related emergency. Two key markers ought to be causes for appearance in the Islamic saving money industry are development rate and benefit [7].

Saudi Arabian Islamic banks that are working in the focused condition are probably going to be more effective in not so distant future in the world. The

Saudi banking an account industry has delighted in a consistent development and security amid the most recent decade. Recent trends additionally show that Saudi banks are sound and very much prepared to withstand any global melt down due to their Islamic banking system which is interest free. However, there is have to discover the determinants influencing such execution from smaller scale level to full scale level, covering the bank specific, industry specific and large scale monetary specific factors over a more extended period [7].

The Saudi banking system is very remarkable contrasted with the conventional banking system. It is under strict control forced by SAMA (Saudi Monetary Agency) and has a few recognized attributes. Saudi banks for example, give a mix of traditional banking an account and Islamic banking. They are also funded by low cost demand deposits, and have difficulties to diversify credit risk. Exact research on bank productivity in the Arabic promontory is as yet restricted rather than different districts such Europe and the USA [8]. Therefore, this research identifies the banks performance in Saudi Arabia through their ROA and ROE.

METHODOLOGY

The methodology is considered the first step to conducting research and identifies the main problems to be solved. It formulates the questions required to research and also develops the hypotheses and selects the sample groups. Therefore, it is helpful on collecting and analyzing data for the research [9]. It also describes the methods used in the research in order to collect more data about the topic to find answers about research questions which will support the research and make it realistic.

The current of the research tested the performance of Islamic banks by collecting data from Tadawul Stock Exchange knowing their total assets and liabilities. The research carried out graphical analysis of the information. These study variables are ROA (Return on Assets), ROE (Return on Equity) and Performance. The research goals are that performance of each bank is tested based on the ROA and ROE of the banks using total assets and total liabilities of the Islamic banks in Saudi Arabia. ROA and ROE are very important for any company to function well. If their percentage is high enough, then the performance will be excellent.

Data collection tools

In this research, an analysis has been performed using Microsoft Excel to collect primary data from the different Islamic banks in Saudi Arabia.

Primary data

It refers to the data which has been collected for the first time for specific data research [10].

Secondary data

Secondary data refers to the data that has been gathered by the previous research. It could be classified as book, peer reviewed, journals and the articles published. The different data has been collected from different Islamic banks for the purpose of analysis of their performance.

Sample size

Sampling is the subset of selecting a group of people from the population to observe and investigate in order to help the researcher to have a view about people's perspectives. Population sampling is a small group of people selected to answer relevant questions for the research. The sample is 5 Islamic banks in Saudi Arabia namely Alinma, Aljazira, Alrajhi, Albilad, and Saudi Investment Bank.

Data collection

The data was collected by finding information of these banks from the Saudi Stock exchange index (Tadawul) website for each of these banks.

Data assessment

The data were assessed by finding out ROE and ROA of different banks and evaluating their performance based on the generated results from the Excel.

Result And Discussion

The results and analysis section performed analysis of the performance of the following Islamic banks in Saudi Arabia by studying the effect of ROA and ROE as well as determining the performance of bank industry. The research considered 5 Islamic banks in Saudi Arabia, such as Alinma, Aljazira, Alrajhi, Albilad, and Saudi Investment Bank; by analyze the results using the information presented from the Tadawul Stock Exchange.

The graphs in Figure 1 and Figure 2 show the ROA and ROE of Alinma bank respectively. The ROA and ROE of Alinma bank has been substantially increasing showing that their performance is improving every year but on small levels. The bank has the ability to generate profits and is efficient.

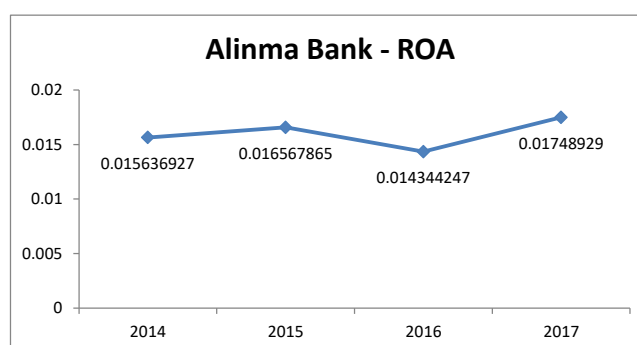
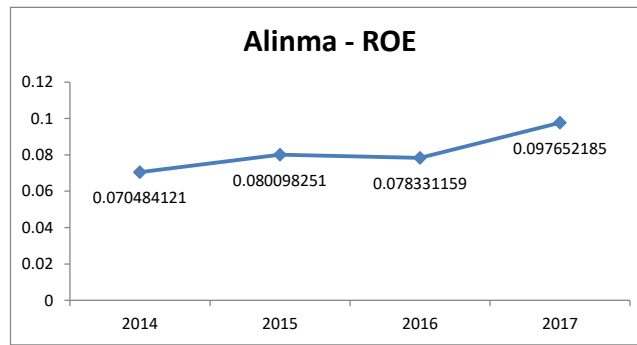
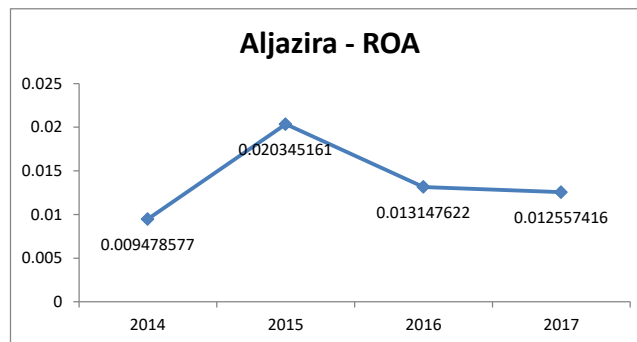
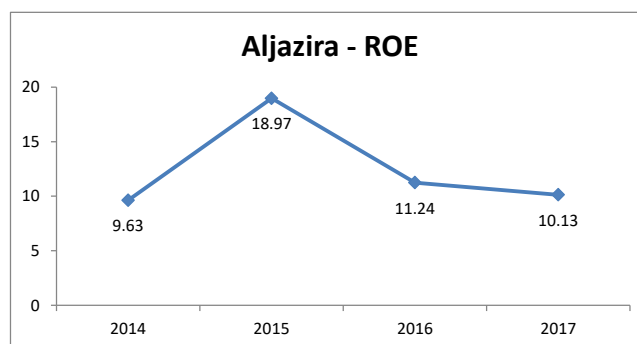


Figure . ROA graph of Alinma Bank**Figure 2.**ROE graph of Alinma Bank

The graphs Figure 3 and Figure 4 show the ROA and ROE of Aljazira bank respectively. The ROA and ROE of Aljazira bank has decreased after 2016 showing that their performance is declining tremendously showing that they are suffering. The bank has the ability to generate profits but it is reducing ever since after 2016.

**Figure 3.**ROA graph of Aljazira Bank**Figure 4.** ROE graph of Aljazira Bank

The graphs Figure 5 and Figure 6 show the ROA and ROE of Alrajhi bank respectively. The ROE of Alrajhi bank has decreased and then increased showing that their performance is varying over the years. The bank has the ability to generate profits but it is variable but still performing better than Aljazira.

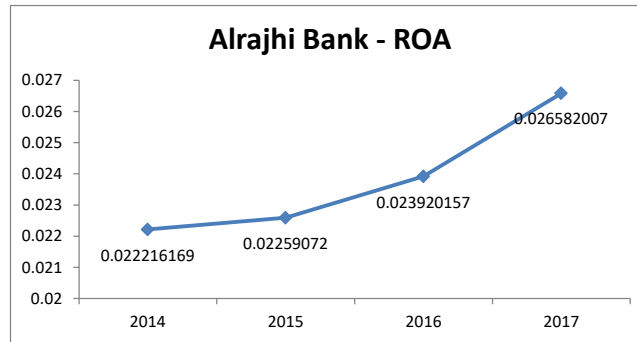


Figure 5.ROA graph of Arajhi Bank

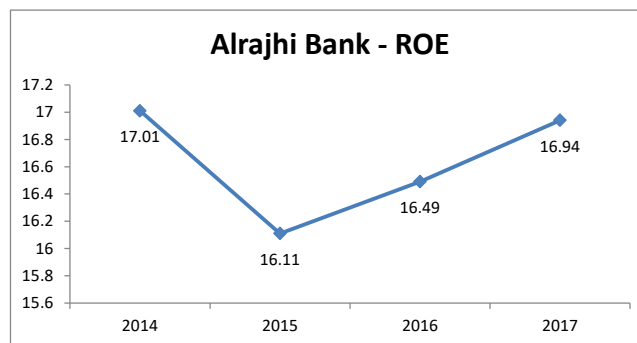


Figure 6.ROE graph of Arajhi Bank

The graphs Figure 7 and Figure 8 show the ROA and ROE of Albilad Bank respectively. The ROA and ROE of Albilad bank has decreased showing that their performance is declining over the years. The bank has the ability to generate profits but it is declining and needs improvement in the performance.

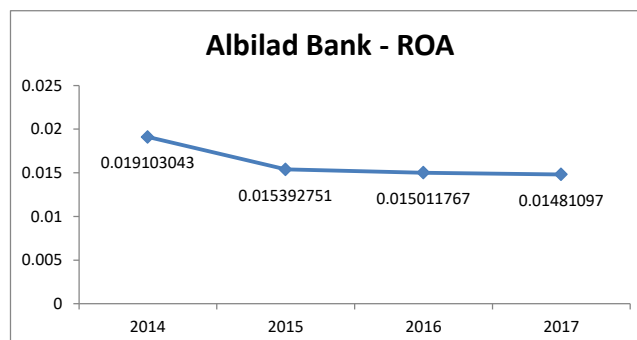


Figure 7 ROA graph of Albilad Bank

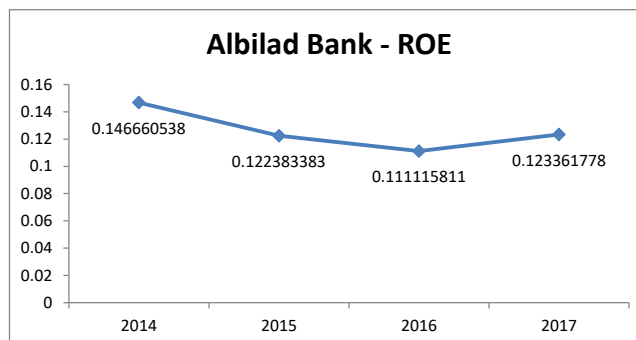


Figure 8 ROE graph of Albilad Bank

The graphs Figure 7 and Figure 8 show the ROA and ROE of Saudi Investment bank respectively. The ROA and ROE of Saudi Investment bank has been decreasing and then increasing showing that their performance is varying over the years. The bank has the ability to generate profits but it is different every year.

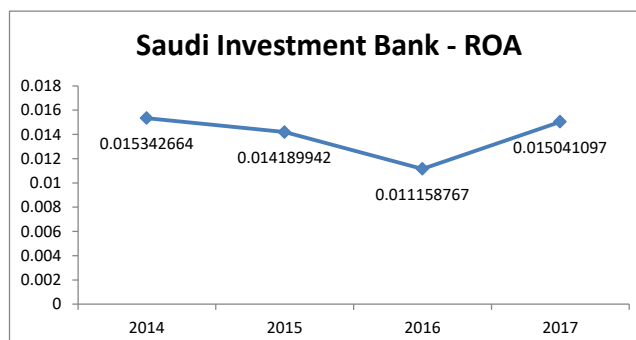


Figure 9 ROA graph of Saudi Investment Bank

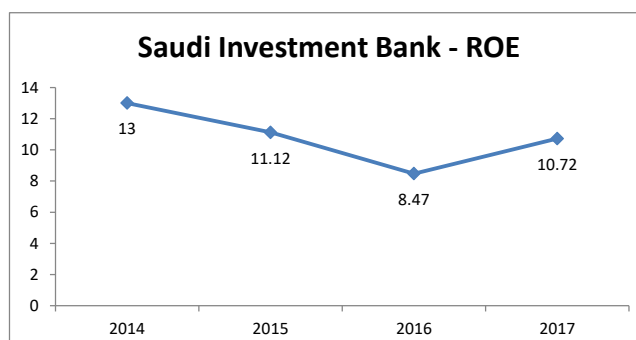


Figure 10.ROE graph of Saudi Investment Bank

Islamic banking has been developing with time. People are becoming aware of these terms and looking out for the Islamic banks as an option to their financial transactions. A key purpose for imposing Islamic laws and ethics is to promote social justice; Islam and social justice are inseparable, and it's a key concept of the Islamic finance industry Therefore, the finance which is interest free and gives you better and convenient options to have a quality of life and fulfill our needs without paying anything extra than what is borrowed.

Islamic finance is equity-based, asset-backed, ethical, sustainable, environmentally- and socially-responsible finance. It promotes risk sharing, connects the financial sector with the real economy, and emphasizes financial inclusion and social welfare. Islamic bank operates on the basis of profit and loss sharing.

CONCLUSION

Islamic Banks in Saudi Arabia has shown tremendous amount of progress and future potential in the presence of conventional banks. The market shares and profitability is better than conventional banks and it is also forecasted that in coming decades the Islamic banking will be having an upper hand in the region due to the trust of customers and more products coming into its line. The findings concluded that the Islamic banks in Saudi Arabia have been performing well and are able to generate profits. Al Rajhi has performed better than all the other banks.

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