

PalArch's Journal of Archaeology of Egypt / Egyptology

HOW IS THE ISLAMIC BANKING AND ISLAMIC ZAKAT APPLIED IN SAUDI ARABIA

Shahad Mousili¹, Tahar Tayachi²

^{1,2} College of Business, Effat University, Qasr Khuzam St., Kilo. 2, Old Mecca Road. P.O.BOX
34689, Jeddah 21478, Saudi Arabia.

Email: [1sgmousili@effatuniversity.edu.sa](mailto:sgmousili@effatuniversity.edu.sa), [2ttayachi@effatuniversity.edu.sa](mailto:ttayachi@effatuniversity.edu.sa)

Shahad Mousili, Tahar Tayachi. How Is the Islamic Banking and Islamic Zakat Applied in Saudi Arabia -- PalArch's Journal of Archaeology of Egypt/Egyptology 18(13), 443-450. ISSN 1567-214x

Keywords: Islamic Banking; Saudi Arabia; Economy

ABSTRACT

Islamic banking in Saudi Arabia is gaining momentum day by day due its political and economic conditions. This country is one of the pioneers in the field of Islamic banking in the world. 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. My research will show the status of Islamic banking in Saudi Arabia, and some important issues about it. Islamic Banking shows the impact this approach has made on conventional banking, and why it's such a big player in the current market. It offers a unique look at various aspects of this field, including the salient features of Islamic banking that distinguishes it from non-Islamic banking, the development of the regulatory bodies and supervisory agencies that support the Islamic banking system. It also explores the nature of risk in Islamic banking. **CCS Concepts • Information systems**

INTRODUCTION

Islamic Banking shows the impact this approach has made on conventional banking, and why it's such a big player in the current market. Islamic banks have several distinct characteristics as compared to conventional banks [1]. Specifically, Shari'ah provides religious guidelines to which Islamic banks must adhere. Shari'ah also provides strictures regarding the allocation of resources, the distribution of income and wealth, accounting, and financial reporting [2].

Islamic banking is one of the world's fastest growing financial sectors, according to industry estimates. It has attracted more attention in the aftermath of the global financial crisis as investors are increasingly looking for

alternative, ethical ways of investing. This has also intensified a debate within the industry on whether it should move further away from conventional banking, designing products based more directly on Islamic principles [3].

The Islamic financial accounting standard, which is related to provisions and reserves, requires the use of dynamic provisioning. Subsequently, Islamic banks are more inclined to set-up an allowance for loss provision to absorb any future losses. Thus, the use of Islamic standards leaves little discretion to managers to manipulate accounting earnings [4]

The relative financial strength of Islamic banks is assessed empirically based on evidence covering individual Islamic and commercial banks in 18 banking systems with a substantial presence of Islamic banking. We find that (i) small Islamic banks tend to be financially stronger than small commercial banks; (ii) large commercial banks tend to be financially stronger than large Islamic banks; and (iii) small Islamic banks tend to be financially stronger than large Islamic banks, which may reflect challenges of credit risk management in large Islamic banks. We also find that the market share of Islamic banks does not have a significant impact on the financial strength of other banks [5].

Islamic banking is primarily an equity-based system featuring zero-based interest, share economy, equity participation, joint ventures, mutual funds, leasing, innovation and a promising rate of return. Islamic banking replaces interest-based intermediation with profit and loss sharing (PLS) and interest-free intermediation [6].

Islamic banks can use fewer risk-hedging instruments and techniques than conventional banks and traditionally have operated in environments with underdeveloped or nonexistent interbank and money markets and government securities, and with limited availability of and access to lender-of-last-resort facilities operated by central banks [7]

Islamic banking fundamentals can be summarized as following: The employed money has to be from Halal sources, all investments have to avoid Riba, Revenues have to be distributed between the shareholders and investment management, Poor people have some share as well from revenues through Zakat and the auditing process in the bank is based on the Islamic rules [8].

Islamic system of finance is a system with the aim to accomplish the education of Holy Qur'an as contrasting to gathering utmost income on financial assets. Islamic financial system has certain Islamic principles, and these ethics are the major concerns of Islamic system of finance. Standards of Islamic Law are created by Shariah & all dealings of Islamic system of finance governed by Shariah and Fiqah [9].

Saudi Arabia has a modern banking industry with 12 commercial banks; Saudi banks provide retail and corporate banking, investment services, brokerage facilities, and derivative transaction in addition to credit cards [10], ATMs and point of sale transaction. 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; it prohibits usury, the collection and payment of interest and trading in financial risk. 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 currency, the Saudi riyal and oversees the nation's commercial banks.

Thus, this study will show the status of Islamic banking in Saudi Arabia, and some important issues about it. Islamic Banking shows the impact this approach has made on conventional banking, and why it's such a big player in the current market. It offers a unique look at various aspects of this field, including the salient features of Islamic banking that distinguishes it from non-Islamic banking, the development of the regulatory bodies and supervisory agencies that support the Islamic banking system. It also explores the nature of risk in Islamic banking

ISLAMIC BANKS IN SAUDI ARABIA

The Kingdom of Saudi Arabia is home to a number of dedicated Islamic Banks, as well as Islamic window operations offered through conventional banks. Some of the listed banks provide only Investment or Wholesale banking, whilst others are more retail focused.

- 1- Samba, Saudi Arabia
- 2- NCB, Saudi Arabia
- 3- Al Rajhi Bank, Saudi Arabia
- 4- Riyadh Bank, Saudi Arabia

ISLAMIC BANKING IN SAMBA

Murabaha

By far the most popular form of Islamic financing today, Murabaha involves the purchase of a given asset by the bank at the request of a client, and then selling it to the client at a price which includes the purchase cost and a pre-agreed markup. Murabaha financing differs from conventional financing techniques in a very fundamental way; it involves the financing of physical assets. The bank shares in the risk of ownership. Rather than simply advancing money to a client, the bank itself buys the goods from a third party at the request of the customer. The bank then sells it to the customer for a pre-agreed price, on deferred payment basis. This work will use the quantitative method which aims to quantify data and generalize results from a sample to the population of investigation.

Murabaha Customer Finance

Samba offers a Murabaha-based financing facility which provides direct liquidity for businesses to help them meet their growing needs. Approved by the Shariah Supervisory Board, the Murabaha Customer Finance (MCF) helps meet working capital and capital expenditure requirements for your business using Islamic principles

Ijara

Under the terms of an Ijara transaction, a financial institution (bank) buys an asset from a manufacturer and then leases it to the customer (or lessee) for an agreed period of time, in return for pre-agreed rental payments. During this pre-determined period, the title to the underlying assets remains with the bank, while the actual possession of the asset is with the lessee. During the life of the asset, the risk of ownership remains with the bank, while the lessee is liable for any misuse of the asset.

Istisna

Istisna refers to a contract for the acquisition of goods by specification where the price is paid at the time of contract, or paid gradually in accordance with the progress or on completion of a job. This kind of contract is commonly used by Islamic institution (Bank) as an agreement with a client to finance its various manufacturing and construction needs. The bank takes care of paying the contracted developer or builder in full or as specific stages of the work is completed. The client then pays the bank as per agreed payment plan.

Al Khair Islamic Ssd

Samba Al Khair Islamic Structured Deposits offer a smarter way to make your deposit live up to its potential and unlock its true value. It combines various references which could provide opportunities to enhance potential returns. If the chosen reference achieves agreed performance benchmarks, a customer could enjoy higher returns. Features and Benefits of Al Khair Islamic SSD. Samba's award-winning Treasury team is constantly looking for the most promising market references to guide the growth of your money to the highest potential.

The terms and conditions on which your deposit can earn a return are defined when you start participating in the deposit. It is important to understand this thoroughly as it tells you how your deposit performance will be determined. Samba Islamic Structured Deposits terminated before maturity date will not enjoy the principal protection benefit.

ISLAMIC BANKING AT NCB

Shariah Compliant Business Banking

Islamic banking is a form of modern banking based on Islamic legal concepts. It complies with the principles of Shariah law, and encourages risk sharing, instead of supporting financing based on a fixed pre-determined return. NCB Corporate Banking supports the main needs of our corporate customers, with Islamic banking solutions ranging from structured finance and trade services to cash management products.

Murabaha: Shariah Compliant Financing

Murabaha is a sale contract between the bank (as the seller of goods) and the client (as the purchaser), based on the disclosure of the initial price to the

customer NCB purchases goods on the spot at the customer's request, and then sells them back him on credit at a mutually agreed marked-up price.

Musharaka: Profit-And-Loss Sharing

Musharaka, which literally means 'sharing', is a contract of partnership where two or more parties jointly contribute capital to a venture and share the resulting profit and loss. This type of financing could be considered typical equity financing whereby the bank and the customer agree on a partnership and define their roles and contribution up front.

Ijara: Convenient Leasing Options

NCB offers their corporate customers the ability to lease equipment or property. This form of leasing is called Ijara, and it is similar to conventional leasing whereby the contract builds in the option to buy the goods at the end of the Ijara period Musharaka, which literally means 'sharing', is a contract of partnership.

Tawaruq: Buy and Sell Commodities

NCB provides their corporate customers with Shariah compliant financing based on Tarawuq principles. Traditional Tawaruq involves purchasing goods on deferred payment in order to sell them in the market for a lower cash price. The current Tawaruq system employed by Islamic banks is based on the same concept using a different mechanism. In a Tawaruq deal, the business must know exactly the type, quantity, and the final price of the commodity being purchased. In a Tawaruq transaction, the bank cannot repurchase the commodities sold as that would be considered and, in a sale,', which is prohibited by Shariah Law. Therefore, NCB acts as an agent on behalf of the business and sells the commodities to a third party.

ISLAMIC BANK IN AL RAJHI

Al Rajhi Bank aims to achieve rewarding revenues through providing banking products and services that do not contradict with the Bank's commitment to the principles of Shariah law as a basic framework for all its business dealings.

Fundamentals Of Al Rajhi Bank Practices

Shariah laws as seen by the Shariah Board govern dependence on Sharia the practices of the bank. As a result, all products and services are delivered in the context of Islamic teachings with a focus on work ethics.

Prohibition of Ribah the prohibition of Riba is the fundamental basis of all Islamic money transactions whether taking, giving, assisting or the witnessing of it. Therefore, Riba transactions are to be prohibited and refused, directly or under any name Islamic banking is a form of modern banking based on Islamic legal concepts.

Source of Money Growth is Effort and Work This means that money is not the only source of money growth nor shall money generate money. Rather, Work and effort should, for example, intellectual effort must play a role in the

productive process, and in other words the development process must be achieved through a relationship between capital and labor. However, this should not exclude wealth gained without effort, such as gifts, inheritance or charity. These gains, in fact are not guaranteed and effort still has to be made in order to manage these gains and guarantee a regular income. Otherwise, this wealth will be depleted through zakat. Therefore, those who put efforts forward deserve and are entitled to a reward. On the other hand, people who do not put any effort should not expect or be entitled to any return

ISLAMIC FINANCE IN AL RIYAD BANK

Financing in a fully Shari'a compliant manner to access a range of benefits. Riyad Bank Islamic Finance offers the most advanced banking facilities, which are fully governed by the Islamic law. Islamic Finance from Riyad Bank is governed by two fundamental principles. These are sharing of profit and loss and more importantly the prohibition of collecting interest payments. What differentiates Islamic Banking and makes it better is that the bank operates by the moral and ethical standards lay down by the Islamic law, therefore is righteous form of banking.

Tawaruq

The Bank sells a commodity it owns to the customer for a price at a pre-agreed margin, then the customer (buyer), if he wishes, authorizes the Bank to sell the commodity to a third party and credit the proceeds of sale to his account.

Murabahah

This is an Islamic compliant financing tool where the bank acquires a commodity required by the customer before selling it to the customer for a price at a pre-agreed margin.

Ijarah

The Ijarah financing process involves the Bank granting a lease on an asset it owns to a (business) customer in consideration of a prefixed rent with the promise of ownership.

Musharakah

It is a financing method where the Bank shares the capital required with the customer for the purchase of commodities, equipment, machines or properties for a specified period of time under a joint-venture contract, entered by and between both parties. At the end of contract, the joint venture is liquidated and the partners share profits/losses.

Istisna'a

Is an Islamic model of financing whereby the Bank (manufacturer) manufactures the product whether that's a building, mobilization, etc. upon the request of the (business) customer, in his capacity as the "Istisna'a seeker", and subject to the, terms and conditions, specifications, quantities and prefixed

price. The Bank then employs a contractor/supplier to make or supply the required product. When the job is finished, the Bank takes delivery of the finished product from the contractor/supplier, pays the agreed price, and then delivers the product to the customer at the prefixed date.

CONCLUSION

Islamic banking 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 socioeconomic justice. The continuing economic and political setbacks in some of the frontier Islamic finance markets, second the large-scale operational transformation that many of the leading Islamic banks which continue to consume focus and investment. Muslims people everywhere want Islamic banking especially in Saudi Arabia. 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. Some banks are fully Islamic and some provide Islamic banking window or branch facility.

REFERENCES

- Mansoor Khan, M., & Ishaq Bhatti, M. (2008). Development in Islamic banking: a financial risk-allocation approach. *The Journal of Risk Finance*, 9(1), 40-51.
- Quttainah, M. A., Song, L., & Wu, Q. (2013). Do Islamic banks employ less earnings management? *Journal of International Financial Management & Accounting*, 24(3), 203-233.
- Farook, S., Kabir Hassan, M., & Lanis, R. (2011). Determinants of corporate social responsibility disclosure: The case of Islamic banks. *Journal of Islamic Accounting and Business Research*, 2(2), 114-141.
- Ben Othman, H., & Mersni, H. (2014). The use of discretionary loan loss provisions by Islamic banks and conventional banks in the Middle East region: A comparative study. *Studies in Economics and Finance*, 31(1), 106-128.
- Aliyu, S., & Yusof, R. M. (2017). A Panel Survival Analysis for Islamic Banks. *International Journal of Economics, Management and Accounting*, 25(2), 381.
- Rajhi, W., & Hassairi, S. A. (2013). Islamic banks and financial stability: a comparative empirical analysis between MENA and southeast Asian countries. *Région et développement*, 37(1), 1-31.
- Čihák, M., & Hesse, H. (2010). Islamic banks and financial stability: An empirical analysis. *Journal of Financial Services Research*, 38(2-3), 95-113.
- Ahmed, E. R., Yahya, S. B., & Islam, M. A. (2013). The relationship between bank orientation and Shubuhath: a study on Islamic banks in Malaysia. *Economics, Management and Financial Markets*, 8(2), 95.
- Ali, L., Ali, A., & Khwaja, H. (2013). Comparison of Islamic and Conventional Banking on the Basis of Riba and Services: A case study

of Peshawar Region. *International review of management and business research*, 2(3), 837.

Hossain, M., & Leo, S. (2009). Customer perception on service quality in retail banking in Middle East: the case of Qatar. *International Journal of Islamic and Middle Eastern Finance and Management*, 2(4), 338-350.