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### THE ROLE OF BANKS IN FINANCIAL SYSTEM IN SAUDI ARABIA

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#### ABSTRACT

Banking has always played a great role and is also considered as the backbone of the economic development of a country. Banking provides the financial assistance to the private, public sector and the government of a country. The quick or rather faster economic growth is seen by those countries that have a stable financial sector in the country. The aim of this research is to create awareness with regard to the Economic Growth in Saudi Arabia and to generate exposure on the social satisfaction towards banking in Saudi Arabia. This research is important because, this study will analyze the perception of Saudi society towards Banking. This research highlights the extent to which the Saudi society is satisfied with the banking and the economic growth of Saudi Arabia. In the methodology of this research a quantitative approach is used. The target population is the population of Jeddah. Survey method will be used in order to collect results. Survey from 100 research participants is to be collected. The results of this study show that Saudi banks have contributed to providing social life by creating more employment opportunities, improving children's education levels and promoting neglected sectors.

#### INTRODUCTION

Banks have always been playing a significant role towards the development of a country's economy. Saudi Arabia contains 18 percent of the world's petroleum reserves and is also ranked as one of the largest exporter or petroleum all across the world. The oil and the gas sector of Saudi Arabia accounts for 50 percent of the gross domestic product of the Kingdom and also accounts for about 70 percent of the export earnings of the country. Apart from the natural resources of Oil, gas and petroleum, the Arabian Peninsula also comprises of iron ore, gold and copper. According to Algahtani [1] bank has played a major role in raising the economy of the country. Not only they

keep the money secure but also offer loans. A bank can generate more profits by using a percentage of its deposits to lend to other consumers. If a bank pays 2% on bank deposits but also gives money to the companies and consumers at 6%, then it can make greater profits on its deposits. Bank has to keep enough liquidity to meet the customer demands of those customers who wants to withdraw the money.

According to the study conducted by Valickova et al. [2], the impact of the banking sector on the economic development in the developing countries or the less developed countries is less strong and it is also reducing globally after the era of 1980s. a healthy banking sector is a pre-requisite for the sustainable economic development. The research conducted by Hamza and Khan [3], displayed that, the stable financial sector and the higher performance of the banks means profitability and stability in the financial industry. When the profitability of the banking sector means that the bank performs better, in other words, it means that more capital is available for investment. “The more efficient the financial sector becomes; it is likely that country's scarce resources can be directed to their most productive use and with this the economic growth reaches to its full potentials.” [4]

There is a growing importance and attention being given to the financial sector structure in the recent years. The banking sector of a country with a good economy has played a crucial role in gathering the funds from the savers and then directing them to those in requirement of investments. According to the research done by Javaid et al. [5], the financial system and specifically the banking system is an important part of the infrastructure for the strong macroeconomic and the monetary policy performance at the national level. The research done by Claessens and Feijen [6] displayed that; the financial industry with the help of its different banking systems allows the greater investments and larger productive allocation of the money which can guide to the greater income growth. The banking industry plays a crucial role in the economic growth of an economy of a country.

In the recent years, the banking systems have undergone great changes with the regulatory structure and the external factors. According to Nouaili et al. [7], amongst these restructuring of the banking industry, yet they continue to be the major characters of the economic growth of a country. The association between the banking sector performance and the economic growth has always stayed a debatable topic. Every economy has the differing economic development which totally depends on its role of financial sector in that country's economy. This is due to the difference in the economic environment of every country and various banking policies of the country. However, there are some analysts that argue that, the financial institutions are a method available for a nation to promote its economic growth [8].

The sustainable economic growth is the important part of every economy. The economic development is the harmonious welfare of human beings in a society. According to the research conducted by Claessens and Feijen [6], the human capital along with the technology and capital are the important factors that govern the economic growth of a country. The research done by Claessens

and Feijen [6] further explains that, the human capital is divided in to two parts, education and health. The impact of education and health on the economic development are governed by different micro and the country level researches.

The growth in the financial and the banking sector leads to the development in the economic growth in any economy with the help of the financing economic growth. According to Schumpeter [9], “financial intermediation especially bank helped inch up productivity of the economy and bank is an essential instrument for innovation and development in any developing and underdeveloped country.” By obtaining the data from the developing and the industrial nations, Calderon and Liu [10] found that, bidirectional causality amongst the financial growth and economic growth and the research done by them also suggested that over long period of time financial depth has important contribution through the causal relationship in the developing nations.

According to SAMA [11], the Saudi economy has recorded a great amount of growth in the year 2010 as the global economic recovery increased the prices of the oil and greater fiscal spending by the government increased domestic demand and accelerated the development in the non-oil GDP. The actual budget recorded a surplus of SAR 87.7 billion or 5.4 percent of GDP during 2010 in comparison to a deficit of SAR 86.6 billion or 6.2 percent of GDP in the last year. Furthermore, the ratio of public debt to GDP reduced from 16.1 percent during 2009 to 9.9 percent during 2010. The existing account of the balance of payments documented a surplus for the twelfth year successively amounting to SAR 250.3 billion or 14.9 percent of GDP during 2010. Therefore, the link amongst the economic growth and the financial development has been an important subject of the empirical and the theoretical researches for different years. These researches have focused on the importance of having a developed financial system to assist economic development [12]. Furthermore, stock market index has anticipated positive but unimportant impact in the long run but unexpected and unimportant impact in the short run. Lastly, the growth of industrial production has expected positive and important impact on economic growth either in the short or long run. In addition, the domestic bank credit to the private sector has importance and the positive impact on the economic development in the long run but can have a negative impact in the short run [13].

Over the years, the economic growth of Saudi Arabia had increased rapidly. The value generated from exports was 294,544 million dollars during 2018, the value generated from the petroleum exports was 194,358 million dollars during 2018, the current account balance was 72,337 million dollars during 2018, the proven crude oil reserves contained 267,026 million barrels and the marketed production of natural gas was 118,000 billion cubic meters [14]. On the other hand, the financial sector in Saudi Arabia has also played a significant role towards contributing in the economic growth of the country. The finance in Saudi Arabia is provided by the commercial banks and the governmental funding. The commercial banks play a key role in offering a credit to the public sector, semi-private sector and different private sectors such as the agriculture, mining, energy and the service sectors [15]. The

commercial banking system of Saudi Arabia provides the credit card and the debit card facilities for the customers for various purposes such as the health care, education, real estate, merchandise and much more. On the other hand, the governmental funds comprise of the Saudi Agricultural Development Fund, Saudi Credit and Saving Bank, Public Investment Fund, Saudi Industrial Development Fund, and Saudi Real Estate Development Fund [15].

One of the main factors of the financial sector or the banking sector is Saudi Arabia is the Islamic Banking sector. As KSA is a Muslim nation which follows the Shariah law as the guideline for many rules and policies for life as well as the business. One of the important factors of the Islamic banking system of Saudi Arabia is that, it is generally non-interest banking system as taking interests on loans is not practiced by the banks according to the Islamic law. The profits for the Islamic banks are produced by the equity participation. It is estimated that nearly 30% of the Islamic banking business in the GCC takes place in KSA making it a hub for the market [12].

The main aim of the government funds is to develop the economic prosperity of the country. The share of the commercial banks credit offered private sector, semi-private sector and the governmental sector in Saudi Arabia constitutes more than 75% of the total credit in Saudi Arabia. The credit from the governmental funds is range from 3% to 4%. The credit card facilities in the kingdom did not cross 1% of the total credit. Therefore, it is understood that, the credit provided to the private sector, semi-private sector tends to dominate the credit market activities in Saudi Arabia. The total commercial bank facilities, integrating the consumer loans, credit cards, private sector credit, semi-private sector credit, and public sector credit, represent almost 96% of the total credit market share in Saudi Arabia [1]. Therefore, this study determines the role of banks and their contribution to the Economic Growth in Saudi Arabia. This study also aims to create awareness with regard to the Economic Growth in Saudi Arabia as well as to generate exposure on the social satisfaction towards banking in Saudi Arabia.

## **METHODOLOGY**

This research follows the applied method of a research that has been carried out in the banking sector and its connection with the economic growth of the country. This research is not basic in nature as there are no major theories being developed through this research. This research however adds to the research of financial sector of Saudi Arabia as there are fewer studies that had addressed this topic. This research is specific towards Saudi Arabia in explaining the role of banks towards the economic growth of KSA.

### ***Research Method***

There are two important types of research methodologies namely qualitative and quantitative research methods.

### ***Qualitative Research***

The qualitative research is the part of the research methodology which uses the naturalistic research approach in order to determine the in-depth data and information. The qualitative research involves the studies of facts and figures. The qualitative research is not based on any form of numerical data or the statistical figures. This type of research asks the question of “Why” instead of “What” for any research subject or the research phenomena. The qualitative research is also based on the direct experiences of the humans. The qualitative research focuses on applying the multiple systems of study for investigating the human phenomena. Some of the common examples of the qualitative research are biography, case study, historical analysis, discourse analysis, ethnography, grounded theory and phenomenology. These were some of the critical examples of the qualitative research approach [16].

### ***Quantitative research***

Unlike the qualitative research, the quantitative research is based on the study of more numerical data and statistical data and information. The quantitative research methods make the use of the standardized approaches in order to fit the varying opinions and the experiences from different people into a limited number of predetermined response categories to which the numbers are allotted. Surveys, experiments, interviews, questionnaire etc. are some of the significant examples explaining the data collection methods through the quantitative approach. These methods hold the ability of gathering the numerical data by the use of mostly close ended questions. The close ended questions help in determining the accurate research results. The quantitative research is more controlled form of the research. The statistical data collected from the quantitative research results in a broad, generalizable set of results [17].

### ***Research Approach***

The research pattern or the research approach of this research is applied, quantitative and deductive. The deductive approach is based on the research when the research topic is shifted from the generalized matter to the specific matter. This research is general explaining the banking systems and their role towards the economy but are specific towards the banking sector of Saudi Arabia [18].

### ***Data Collection Methods and Tools***

In the research methodology of this research, a quantitative approach is adopted. The data is collected by the methods of survey. The survey methods allow to reach the different populations. In the survey of this research, a survey questionnaire was designed and then sent for approval in the DGSR department of Effat University, Jeddah. Once the survey was approved, the online web platform “Google Forms” was used in order to design the survey. The survey questionnaire comprised of both open ended and the close ended questions as they produce the accurate and precise desired results.

### ***Sample Selection***

The sample selection allows targeting the desired population for the survey by using various sampling methods. The sampling method used in this research is the convenience sampling method. The convenience sampling methods allows targeting specific population and not everyone in the population has the 100 percent probability of being selected [19]. Hence, through the convenience sampling methods, only the employees belonging to the banking companies such as SABB, ALAHLI, ANB, ALINMA and ALRAJHI were targeted and surveyed. The survey was conducted by using survey channels such as emails and personal surveys through iPhone and iPad.

### ***Research Process***

The survey was conducted during the month of November 2019. There had been numerous visits to different banks in order to survey the employees belonging to the bank. There was no specific age group through the data had to be collected. The survey participants included both male and female. The approx. time taken by each survey was 10 minutes. The survey was conducted during the official hours of the employees in the bank. Furthermore, it was a challenge to select the people and to convince them for taking part in the survey.

### ***Data Analysis***

The data collected from the research survey is to be analyzed using the numerical percentages and the statistical graphs that are automatically generated by using the Google forms. The data is simplified in to the easier versions and then presented in the results and discussion section of this research.

### ***Ethical Consideration***

Before the collection of data through the methods of survey, the research participants were informed of the aims and objectives of the research. Moreover, they were provided with the participant's ethical consent form. This form ensured the participants are giving their consent or their approval for the survey. The research participants were further informed how their participant can be of a great importance as it could benefit this dissertation project. The research participants were ensured that their private data will not be leaked. The survey was conducted at a climate of comfort.

## **RESULT AND DISCUSSION**

The survey results are divided into two parts, namely demographic information and economic benefits.

### ***Demographic Information***

Table 1 tabulates the demographics data of the participants in the survey. There are 68% of the research respondents were female and 32% of the

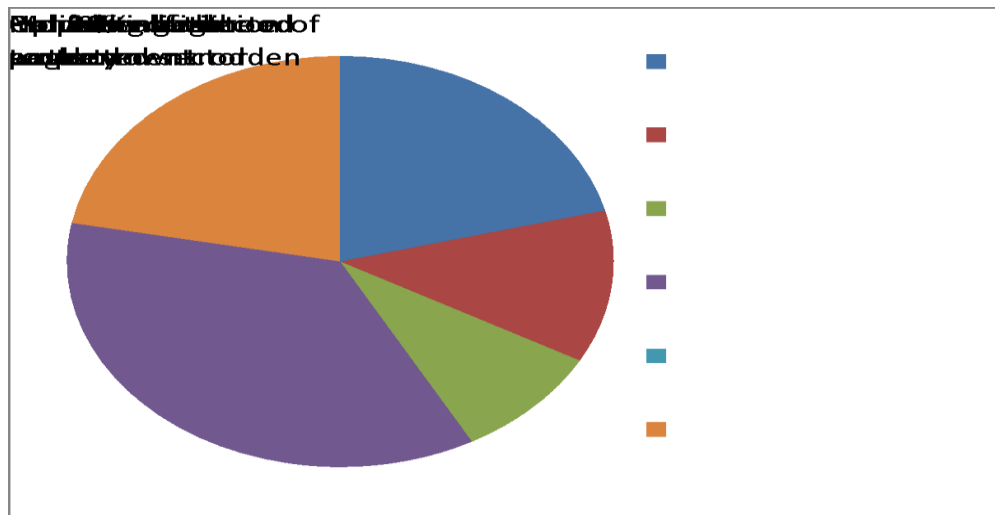
research respondents were male. About 80% of the research respondents belonged to the age group of 20-30 years and 17% of the research respondents belonged to the age group of 31-40 years, also only 3% from the age group of 41-50 years. Regarding the participant's occupations, about 63% of the research respondents said that they work in a company and 32% chose "other". Besides that, there are 39% of the research respondents said that they work in the educational sector, 8% of the research respondents said that they work in the Medical Sector and 20% of the research respondents said that they work in the Banking and financial sector.

**Table 1.** Demographics Data

Categories	Criteria	Percentage (%)
<b>Gender</b>	Male	32
	Female	68
<b>Age</b>	20-30	80
	31- 40	17
	41-50	3
	51-60	0
<b>Occupations</b>	Work with a Company	63
	Own a Business	2
	Both	3
	Other	32
<b>Career fields</b>	Telecom	6
	Pure IT	2
	Banking and Financial Services	20
	Medical	8
	Education	39
	Others	25

### *Economic Benefits*

Figure 1 illustrates that 36% of the research participants reported that, the banking system in Saudi Arabia affects the Saudi Society and Economy by providing livelihood to the downtrodden, 22% of the research participants reported that, the banking system in Saudi Arabia affects the Saudi Society and Economy by generating more employment.



**Figure 1.** How does banking system in Saudi Arabia affect the Saudi Society and the Saudi Economy to Grow?

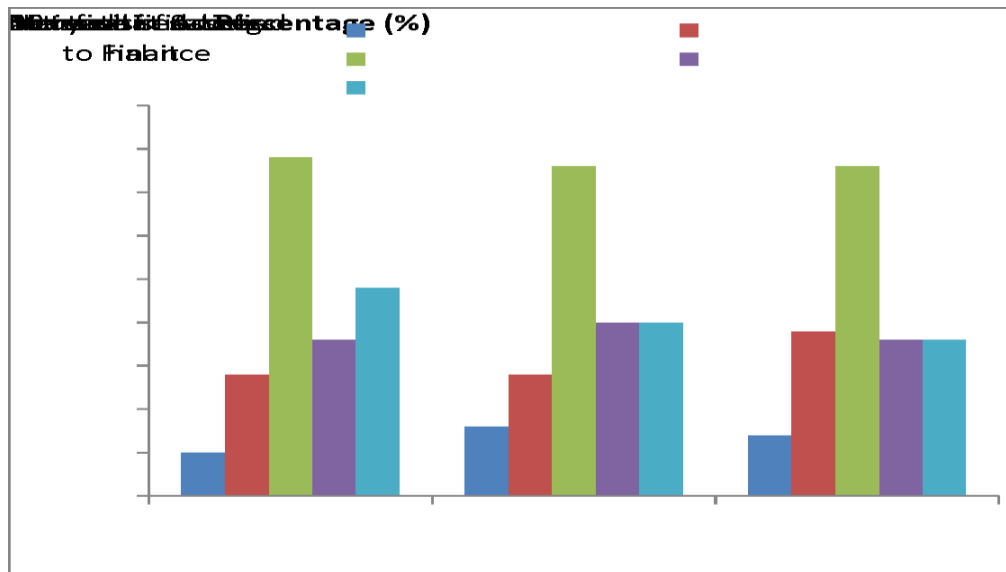
Moreover, there are 21% of the research participants reported that, the banking system in Saudi Arabia affects the Saudi Society and Economy by helping in the alleviation of property, 12% of the research participants reported that, the banking system in Saudi Arabia affects the Saudi Society and Economy by uplifting the neglected sector and 9% of the research participants reported that, the banking system in Saudi Arabia affects the Saudi Society and Economy by the inclusion of the neglected sector.

Figure 2 demonstrates the respondent’s feedback on the benefits provided by the Saudi Arabia Bank program. Majority of the respondents about 39% of the research participants were somewhat satisfied with the access to finance. There are 24% and 18% of the research participants were very satisfied and satisfied with the access to finance respectively. Besides that, only 5% and 14% of the research participants were not satisfied and neutral towards the access to the finance respectively.

Next, Figure 2 illustrates majority of the participants about 38% were somewhat satisfied towards their savings habits. The participants who were satisfied and very satisfied towards their savings habits marks the same figure about 20%. There are 8% and 14% of the research participants were not satisfied and neutral towards their savings habits.

Furthermore, about 38% of the research participants were somewhat satisfied towards their increased assets. Participants who are satisfied and very satisfied with their savings habits all expressed the same number about 18%. There are also 7% and 19% of the research participants were Not Satisfied and Neutral towards their increased Assets respectively.



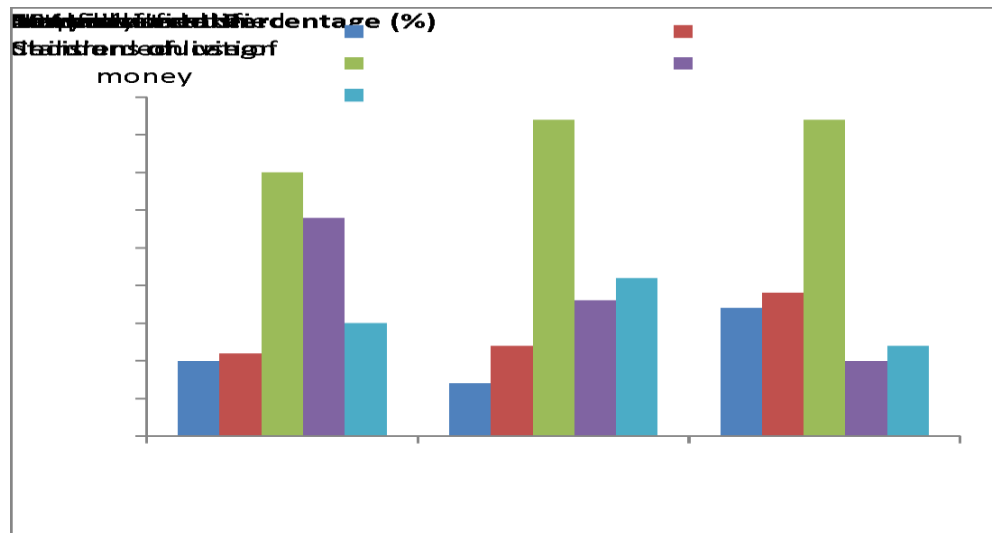


**Figure 2.** Benefits provided by the Saudi Arabia Bank program

In Figure 3, majority of the research participants about 35% were somewhat satisfied with their ability of decision making with regards to their money. Also, there are 29% and 15% of the research participants were satisfied and very satisfied with their ability of decision making with regards to their money respectively. Only 10% and 11% of the research participants were not satisfied and neutral with their ability of decision making with regards to their money respectively.

In term of improvement in the standard of living, majority of the research participants about 42% were somewhat satisfied by improved standard of living, followed by 12% of the research participants were neutral towards improved standard of living. There are 18% and 21% of the research participants were satisfied and very satisfied by improved standard of living respectively. Only 7% of the research participants were not satisfied by improved standard of living.

For improvement in children’s education, majority of the research participants about 42% were somewhat satisfied by the improvements in children’s education. While, there are 17% and 19% of the research participants were not satisfied and neutral towards the improvements in children’s education respectively. Also, there are 10% and 12% of the research participants were satisfied and very satisfied by the improvements in children’s education respectively.



**Figure 3.** Advantages of choosing a Saudi Arabian bank plan

**Overall Discussion**

Banks play a major role towards enhancing the economy of a country. After obtaining the survey results from 100 research participants belonging to different working sectors of Jeddah, it can be said that, the participants had a great understanding of the Saudi Arabia’s financial system and its contribution. Majority of the research respondents had given more prevalence (36%) to the provision of livelihood and downtrodden as a result of the Banking sector of Saudi Arabia. Followed by, generating more employment (22%) and reducing the poverty levels of the country (21%).

The findings of this research also suggest that, the banking programs are benefitting the Saudi society by granting more access to finance (42%), enhancing saving habits of the public (40%), ability of financial decision making (44%), increased Assets (36%), improvement in the standard of living (39%) and improvement in the children’s education (22%). Hence the sequence of the greater prevalence to the lesser prevalence given to the social issues with regards to the effect of the Saudi Banking system on the society and economy is ability of financial decision making, more access to finance, enhancing saving habits, improvement in the standard of living, increased Assets, as well as improvement in the children’s education.

**CONCLUSION**

Banks have always played a significant role towards enhancing the economic conditions of the country. Banks are an integral part of the financial systems of a country. A well-regulated financial condition of the country regulates the economic condition of that country. The banks in Saudi Arabia are improving with every passing that, they are offering different facilities to their customers such as providing educational loans and other loans so that people take out the most of their services and improve their lifestyles. The aim of this research is to examine the role played by the Saudi Banks on the growth of the economy of Saudi Arabia. Hence, in this research, the perception of the Saudi society was analyzed on how they perceive the contributions of the Saudi financial

system towards the growth of economy. The findings of this research suggest that, the Saudi banks are contributing towards providing the livelihood of the society by generating more employment, improving the children's education and uplifting the neglected sectors. The findings of this research also suggest that, the financial systems of Saudi Arabia are also helping the general public by enhancing their decision-making skills, providing them with financial assets and improved saving habits.

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