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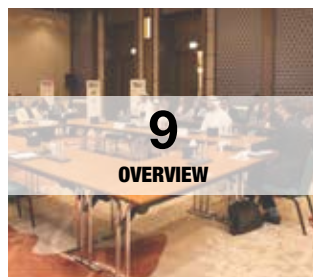
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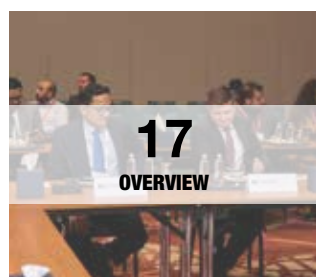
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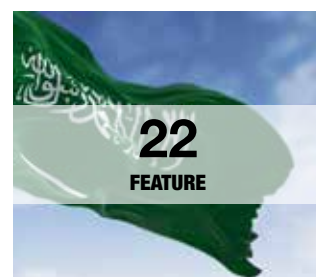
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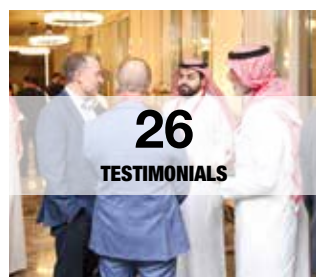
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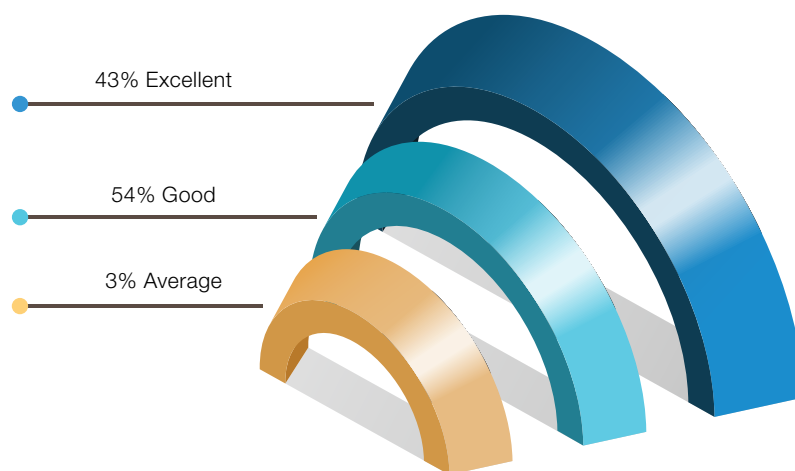
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Key Recent Developments in Shariah Compliant Financial Services in Saudi Arabia

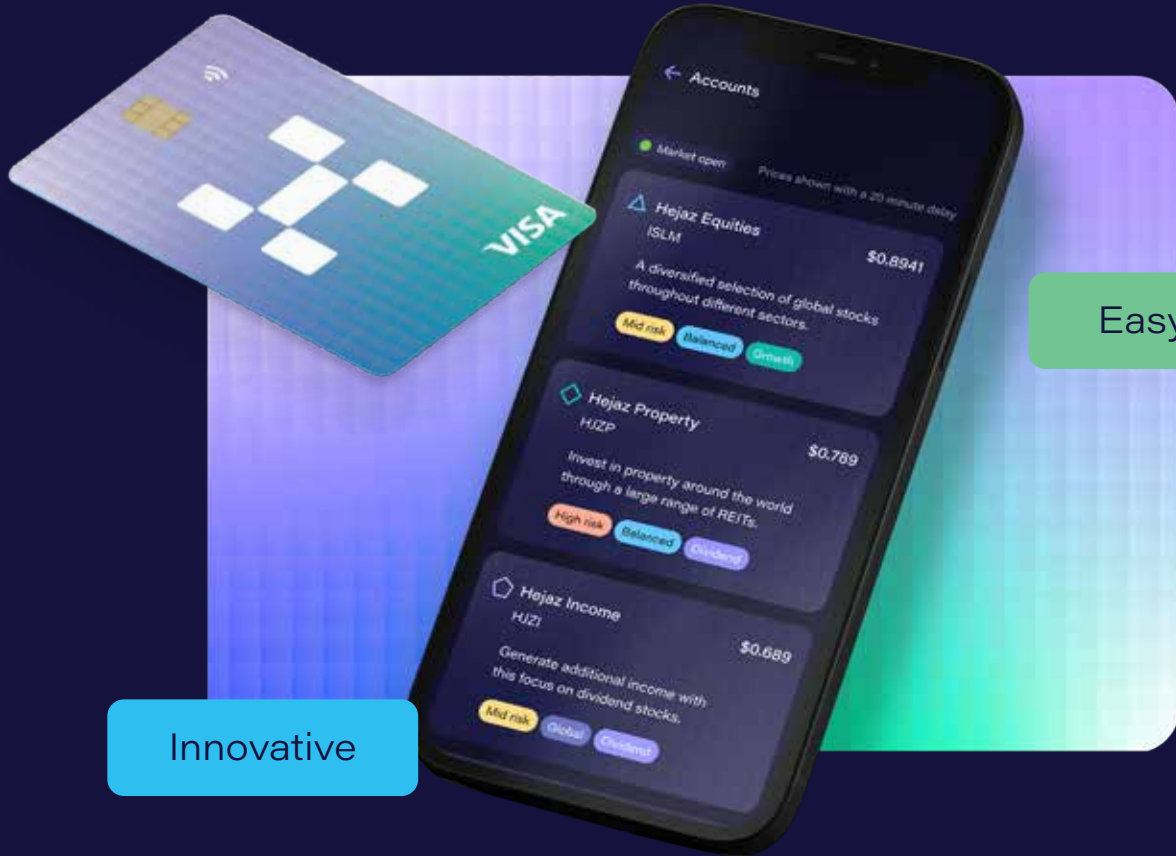


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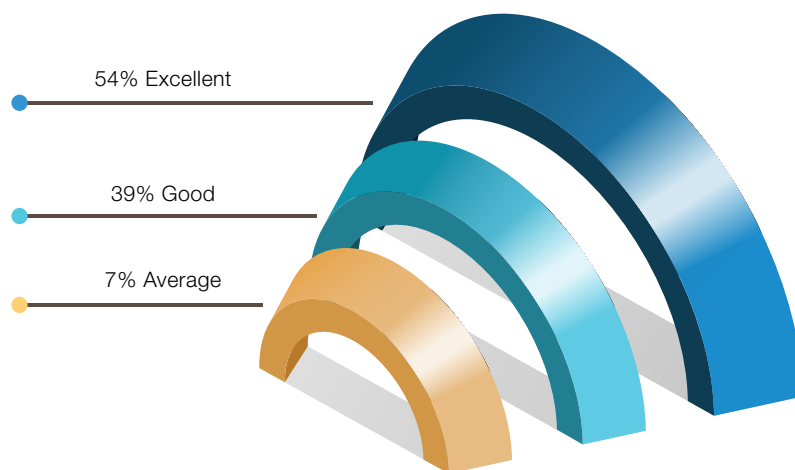
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Global Insights from South Africa: Shariah Compliant Strategies for World-Class Investment Performance



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OVERVIEW

Saudi Arabia: International participation key in realizing Vision 2030



Since Saudi Arabia opened its doors to the international markets, equipped with its ambitious trillion-dollar Vision 2030, it has been the star of the show, grabbing global headlines and interests. The commercial opportunities are palpable – the question is, how does Shariah compliant capital factor into this tremendous growth story? In the first of the IFN KSA Dialogues 2024 which gathered international and domestic experts to a high-level Chatham House discussion in Riyadh, experts shared their two cents. VINEETA TAN reports.

Shifting gears

The Saudi economy has changed dramatically over the last decade – the Kingdom is aggressively reducing its oil dependence and pouring significant resources in diversifying into the real economy.

“Oil represents the major export of the country and it represents 87% of the budget while the private sector is also contributing 42% to the GDP, which is a very positive thing in terms of diversification,” noted one expert.

This drive for diversification has led to huge capital market developments including various groundbreaking policies and regulations including the Civil Transactions Law, which unifies the Shariah principles and makes a coherent set of legal principles that the market participants can work with.

“I think recent developments, especially on some recent simplification of debt issuance, have made us excited from the buy side, given the fact that interest rates or policy rates are going lower. We think there is a lot of liquidity coming into Saudi Arabia, especially from the domestic front, and we are looking forward for 2025 to be more fruitful than this year,” shared one industry participant.

Such legal certainty and progress have indeed laid the foundation for a booming Sukuk market.

“The Capital Market Authority is extremely active in moving away from private placements and is opening up the capital markets to the public sector, pushing corporates to go to the wider market and offer Sukuk to a broader and more diverse range of investors including the retail segment,” observed a market participant, adding: “We have a number of national and regional champions who are looking to change this economy and diversify and set grounds for Vision 2030 – this cannot be done through banking alone. We need strong capital markets.”

The question is: how do we continue to deliver for Vision 2030? That is a story of growth and diversification.

“We have built a strong private placement market for Sukuk and we have opened up the public market for Sukuk. But, there are new guys coming into the scene: the private credit guys and the asset managers, who come here to do deals. We need to look at how they can add to the story and how they can help build that vision,” commented another expert.

Some believe the participation of large investment houses is key to bolstering the appeal of Islamic investments.

“As Islamic countries, if we can influence large investment houses to allocate a portion of their portfolio toward Shariah investment assets, this will help Islamic countries, members of the OIC, to access fully compliant solutions.”

Another echoed: “As Saudi is a surplus economy, we have a good amount of funds to inject into Blackrock and other global investment managers but we need to make it vice versa. Players in the market led by the likes of Public Investment Fund, Blackrock and investment companies like Jadwa need to make new investment funds to attract international players.”



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OVERVIEW



Shariah issue

As far as Islamic finance is concerned, Saudi Arabia has grown leaps and bounds.

“Alhamdulillah, within Vision 2030 and the Financial Sector Development Program, Saudi Arabia has achieved a high percentage of Shariah compliance and Islamic finance goals in the market,” remarked one participant. “But we need to increase the percentage from 75% to 100%, for the banks.”

While the growth has been impressive, there are still issues, mainly with the lack of appropriate instruments to ensure optimal market dealings.

“When dealing with the Saudi and international market, there is still a treasury gap. When it comes to treasury and money market products, some Saudi banks apply a conventional way when they deal with international banks,” shared one dealmaker.

Several dialogue participants highlighted that international investment managers in general are still not keen on Islamic structures.

“In Switzerland, we have at least US\$300 billion of long-term Muslim savings. How much of that US\$300 billion is invested according to Shariah? I would say zero,” said one investment manager, who relayed a personal experience with another international investment firm: “These guys manage US\$50 billion of Saudi money and they cannot come up with a solution for the Saudi clients who demand to invest according to Shariah.”

There is a clear missed opportunity.

Foreign investment is key

Current market appetite for US dollar instruments over Saudi riyal ones is also a hurdle.

“Tadawul-listed firms, with a global presence, tend to issue Sukuk in the dollar market,” said one dealmaker. “Before we attract foreign investors, there must be a clear strategy on the development of products and instruments to ensure foreign investors will come and invest in Saudi Arabia.”

Experts noted that while foreign investors are generally comfortable with credit issuers from Saudi Arabia, they still prefer dollar solutions.

“The yield differentials between the dollar government Sukuk and riyal government Sukuk are not much more attractive. I think that’s why foreign investors tend to stay in the dollar at the moment,” shared another expert, who further expounded: “Before we can attract more investors into the corporate space, we need to increase the foreign participation in the Saudi government Sukuk so that we can have a more meaningful yield curve relative to the US dollar credit curve.”

Foreign participation in the sovereign Sukuk program has been increasing, but the levels are still low – from 2% to 6% in Q3 2024. In comparison, Indonesia and Malaysia have managed to attract about 20-30% foreign participation for their government Sukuk programs, which has helped to create a credit curve, subsequently aiding with price discovery for corporate Sukuk.

Industry players noted that it is a challenge attracting foreign capital into the local debt capital market, but they are confident that they are moving toward the right path next year.

“Saudi Arabia is a terrific market and I think the Saudis are just now realizing how to sell to global markets and are in the process of learning how to extend their image to the rest of the world. I think we’re going to see a lot of foreign investment here in the competition for capital.”



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Driving Growth – Saudi Arabia's Islamic Financial Markets

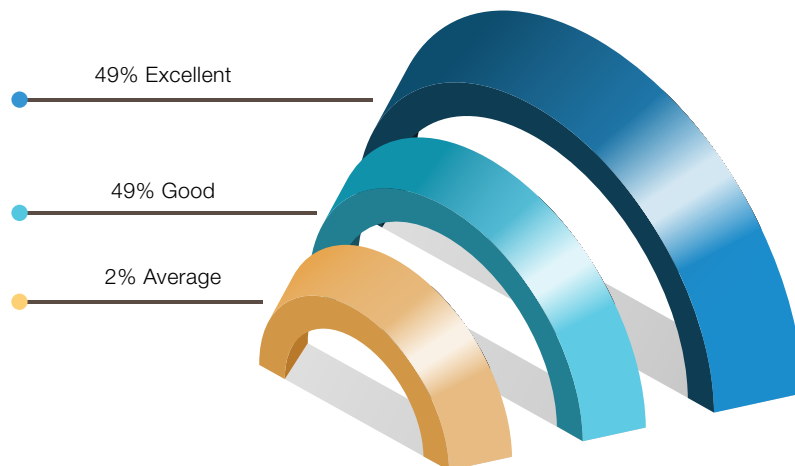


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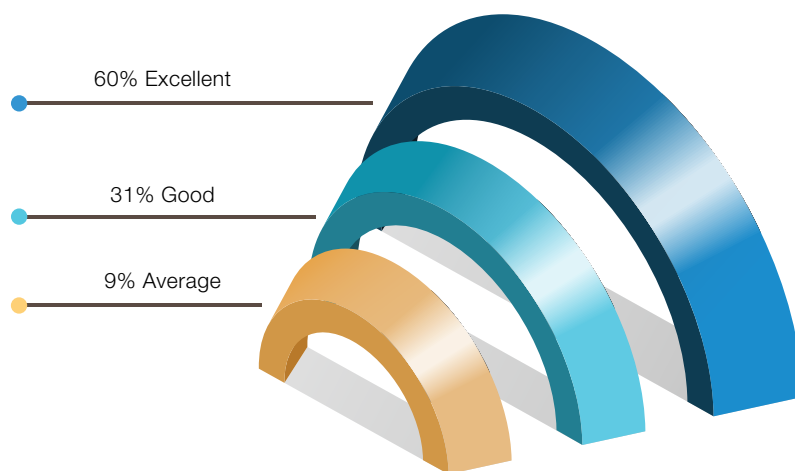


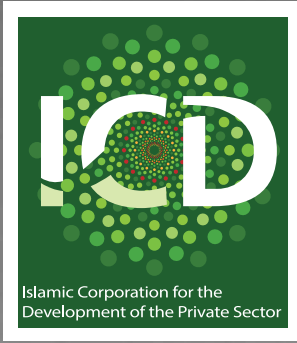
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Digital Banking in KSA – Challenges and Opportunities



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OVERVIEW

Savings and retail – Lynchpin of Saudi Arabia's Islamic asset management



In our last cover, we provided first-hand insights from local and international experts on how the industry could capitalize on Saudi Vision 2030 to the benefit of the Kingdom and Islamic finance. This week, we offer opinions of experts shared at the second dialogue session of the IFN KSA Dialogues 2024. VINEETA TAN summarizes the Chatham House proceedings.

Changing appetite

As discussed in our last cover story, Saudi Arabia's capital market has undergone a major transformation thanks to the Kingdom's robust diversification drive which has led to an explosion of Shariah compliant financial investment instruments.

However, investment managers note that the penetration of mutual funds and structured products in the Kingdom is still below the global average, for both Islamic and conventional vehicles.

Real estate and relatively more recently, Sukuk, have been the preferred asset classes of the Saudi affluent. There are nonetheless signs of change.

"What we're seeing is the next generation of these families have a different understanding of risk return benefits and opportunities for diversification, so we're seeing much more demand for private equity and also higher risk, higher return opportunities within the venture capital space like fintech," observed an investment manager.

This growing demand sophistication has also culminated in the emergence of new asset classes and players in Saudi Arabia such as exchange-traded funds and technology-facilitated platforms such as robo-advisors.

Power of one

Experts have identified several undercurrents of change ushering a new chapter for the Kingdom's Islamic asset management industry, however,

everyone at the table acknowledged the fintech wave which has swept the Saudi Arabia as a significant actor of change.

"A key driver is definitely the accelerated digital transformation, which has resulted in the growth of fintech companies which numbers over 200," said one participant and echoed by the rest. "When it comes to regulations, the support from SAMA and Tadawul in establishing digital platforms has been instrumental."

What this technological transformation has unlocked is the previously untapped individual consumer market.

"The retail segment will change the nature of the mutual fund industry," opined one expert.

Another expounded: "Saudi Arabia does not have a savings culture unlike in the US where children are taught to save. Mutual funds may be a common investment product here but fintech has enabled new asset classes and avenues such as crowdfunding and robo-advisory."

Indeed, fintech has been successful in linking fund seekers with regular consumers at home and practitioners believe that if this trend continues, with proper structure and due diligence, this will also help the Shariah compliant investment appeal in the next few years.

However, one practitioner observed that despite the progress Saudi Arabia has made as an industry in this respect, opportunities are still being missed.

Take for example a government initiative introduced last year to promote a savings culture among Saudis – it is one whereby for every SAR100 (US\$26.67) contributed by a child, the government will contribute an equal amount.

"However, apart from a handful of financial institutions, none have taken advantage to mobilize that particular capital. We talk about industry growth being driven by technological advancement and regulatory enhancements but the industry is still not ready to take advantage of current opportunities as a whole," the practitioner lamented.

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OVERVIEW



Power of private credit

The transformative nature of private credit in Saudi Arabia's investment landscape cannot be denied.

"Private credit is revolutionary as traditionally in Saudi Arabia, banking held near monopoly when it came to credit. However, SMEs have generally slipped through the cracks – this is where private credit can come in and it is one area where the exposure of Shariah investors could be increased," opined one investor.

More importantly, access to private capital is a critical component of a well-functioning financial ecosystem. Private equity not only provides investors with greater diversification, it also provides SMEs, the lifeblood of economic growth, with capital for growth, subsequently fueling job creation, innovation and the economy.

"You still do not get a lot of international asset managers coming into this space here regionally, despite them raising significant funds internationally with a lot of dry powder. Regional and global investors are nevertheless showing increasing confidence in the Saudi Arabian private debt market," observed one investor. "The question now becomes: what strategies can an asset manager develop for private credit?"

Private credit challenges

While private credit has gained serious momentum, a lack of Shariah understanding, according to experts, has led many traditional alternative managers to largely ignore the Islamic finance space. The remedy will depend largely on demand and supply factors.

"If we could get large investors such as sovereign wealth funds and high net-worth family offices to publicly announce an allocation toward Shariah compliant private equity and act as cornerstone investors for these smaller emerging funds, this would boost the sector," believes one investment manager.

There is also the issue of screening or evaluating private credit opportunities.

"There are a lot of enhancements for public equities – the screening criteria on equities is clear but when it comes to private equities, let it be standalone companies or funds, there is a huge need to develop screening criteria of these financial instruments in a way that would suit the requirements of the Muslim investor. In many funds today, in particular, hedge funds, there is no transparency," remarked an investor.

There is also the legal ambiguity when it comes to lending under the ambit of private credit when one is not a bank.

"The Abu Dhabi Global Market is leading the way – it recognizes private credit as an asset class and authorizes it under certain conditions. I think this is something that should be adopted here either by the Saudi Central Bank or the Capital Market Authority," said one regional investment manager.

Promising future

Saudi Arabia's financial and investment industry continues to grow from strength to strength, bolstered by its ever-improving regulatory architecture (as discussed last week) and investment managers are optimistic that these pro-business government interventions will continue to benefit its investment sector.

"The Saudi government, and governments in the GCC, generally listen to the asset managers on their constraints and ambitions to help the industry. One key development is the government's strategic move encouraging sovereign wealth funds such as the Public Investment Fund to make it a condition, in their interaction with asset managers, to have the latter raise locally and also deploy funds locally. This creates a multiplier effect," explained one manager.

The co-investment scheme by National Development Fund (NDF) is also a "gamechanger".

"The work done by NDF over the last couple of years is incredible. They identify needs for co-investment, and they deploy blended finance solutions which could take the form of concessional lending, for example. And that will create space for asset managers or private investors to come in and meet their risk-reward profiles," said one expert.

Then, there is the recently introduced GCC fund passporting scheme.

"I think it is pretty revolutionary particularly from the Islamic asset management perspective because it simplifies the regulatory processes of offering funds in different GCC markets, it avoids duplications and generally will facilitate the entry of international asset managers," commented a practitioner.

One only needs to look at the rush of international asset managers, including the heavyweight BlackRock, into the Kingdom to know that the global community is keen on Saudi opportunities. Even Indonesia's Hajj fund, Badan Pengelolaan Keuangan Hajj (BPKH) has established its foothold in Saudi Arabia with the intention of investing in the country.

It is learned that BPKH, which is already managing some direct investments in the country, is in the process of securing a license from the CMA to establish a close-ended private real estate fund.

However, for all the bells and whistles that Saudi has presented, market participants believe at the end of the day, it boils down to being a superior product.

"You can't offer a Shariah compliant product with a weaker performance and expect it to sell just because it's Shariah compliant. It needs to be on par or better than the conventional product, then people will gravitate toward Shariah compliance."



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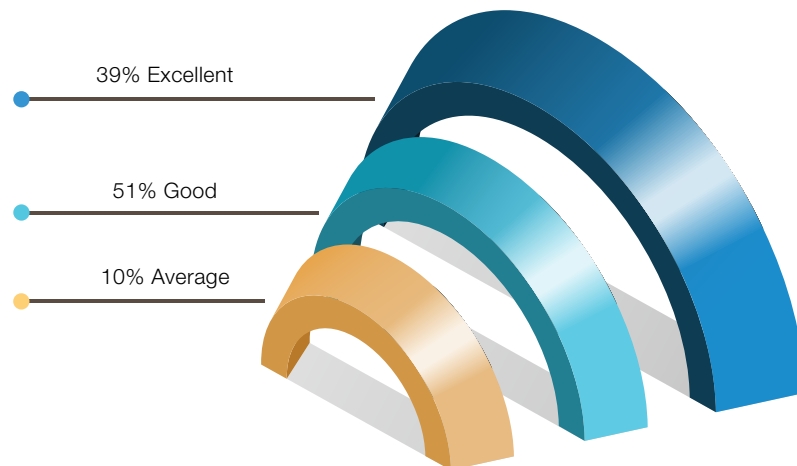


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FEATURE

Saudi Arabia: Growing demand for Sukuk and Islamic fintech

The Kingdom of Saudi Arabia remains the leading Islamic banking and finance jurisdiction in the world, with its Shariah banking sector holding a 74.9% share of the country's total banking assets, amounting to SAR2.5 trillion (US\$666.21 billion) as at Q3 2023. NESSREEN TAMANO writes an overview of the Saudi Islamic finance landscape.

Regulatory landscape

A single regulatory framework governs both Islamic and conventional banking in the Kingdom, which generally follows Shariah law but has no dedicated regulation for Shariah banking. All banks have their own Shariah boards to ensure compliance.

The Saudi Central Bank (SAMA) regulates the banking and finance sectors and has an Islamic Finance Division, while the Capital Market Authority (CMA) oversees the Saudi capital market under the Capital Market Law. The Insurance Authority was established in 2022 and took over from the central bank to supervise the insurance sector, which is fully Islamic.

Banking and finance

There are 11 local banks licensed by SAMA, four of which are full-fledged Islamic — alrajhi bank, Bank AlJazira, Alinma Bank and Bank Albilad — while the rest operate Islamic banking units.

Some notable mergers have taken place in the banking sector in the past few years. Saudi British Bank and Alawwal Bank merged in 2020, resulting in Saudi Awwal Bank. In 2021, Samba Financial Group and National Commercial Bank completed their merger to become Saudi National Bank, which then announced its plan to convert all its retail branches into fully Islamic banking units.

Three Shariah compliant digital banks have been established in the country: Saudi Digital Bank, formed in 2021 by a consortium of Saudi entities including tech company Al Moammar Information Systems Company; and D360 Bank, which received its license in 2022 and is backed by the Public Investment Fund as a key investor. STC Bank, which was previously digital wallet stc pay, this year secured regulatory approval for its beta launch.

The Kingdom also has a thriving Islamic fintech scene, with 16 fintech companies licensed by SAMA, all of which provide Islamic solutions (if not full-fledged Shariah compliant), as of this writing.

Capital market

The CMA has a parallel market to the main market of the Saudi Exchange, which opened up in 2019 to foreign companies wishing to be listed on the exchange, and the Kingdom is also featured in the MSCI and FTSE Russell Indices.

Saudi Arabia debuted its sovereign Sukuk in 2017, that year's largest issue size at US\$9 billion. It issues local Sukuk monthly under its Saudi riyal-denominated Sukuk program. The finance ministry early this year launched Sah, the first savings Sukuk product in the Kingdom which has closed 10 successful rounds at December 2024.



The Saudi Islamic capital market is thriving, with regular issuances from the corporate sector including banks, as well as notable issuances by the government. Most recently, the finance ministry launched a three-tranche Sukuk offering worth SAR64.1 billion (US\$17.08 billion), immediately after an international Sukuk issuance worth a total of US\$5 billion, as part of the government's economic diversification drive.

The Kingdom accounted for 24% of global Sukuk issuances, second to Malaysia which held a 40% share of the market, as of May 2024, according to Moody's Investors Service.

Asset management

Saudi Arabia remains home to the largest number of Islamic funds worldwide, holding 34% of total Islamic fund assets under management. According to the CMA, there are 751 investment funds in the country, including 17 REITs and six exchange-traded funds.

Takaful

The Saudi insurance sector is the largest Takaful market in the world with 30 licensed insurance operators, accounting for more than 87% of total contributions along with Malaysia and the UAE, according to the IFSB.

It is, however, a highly concentrated market, and insurers in the country are pressured into merging to enhance capability. In recent years, three mergers were completed: AlJazira Takaful Taawuni with Solidarity Saudi Takaful; Walaa Cooperative Insurance Company with Metlife, American International Group and the Arab National Bank for Cooperative Insurance; and Gulf Union Cooperative Insurance Company with Al-Ahlia Cooperative Insurance Company. At least three other proposed mergers were announced last year.

Outlook

The Saudi government and the regulators continue to drive the development of the Islamic banking and finance industry, both locally and regionally, with new initiatives for market players and stakeholders. The past two years have also seen the country fully embrace and support the Islamic fintech sector, with new companies focused on digital Sukuk and Islamic digital investments securing permits and licenses. This strong backing only reaffirms the Kingdom's goal of becoming a global Islamic finance hub.

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- > ABN AMRO Clearing Bank
- > Adaptive Solutions
- > ADP Law
- > Ahli United Bank
- > AIC
- > Al Fardan Corp
- > Al Ghazzawi & Partners
- > Al Marbae & Partners Law
- > Al Rajhi Ekhwan
- > Al Shamekh Company
- > Al Tamimi & Co
- > Al Yamamah University
- > Alalameia Group
- > AlBaraka Forum For Islamic Economy
- > Aldhafra
- > Alfannar
- > Alinma Bank
- > Al Jazirsh
- > Alvarez & Marsal
- > Amalo
- > Amwal
- > Arab National Bank
- > ArabWeeks
- > ARCOM
- > AREIT Investment Holdings
- > Argam
- > AS&H Clifford Chance
- > Athyaf Louzan
- > Badan Pengelola Keuangan Haji (BPKH)
- > Baker McKenzie
- > Bank Tabungan Negara (Persero)
- > Batic Law
- > Bawasiq
- > Bayan Credit Bureau
- > BlackRock
- > Bloom Business Strategies
- > BSA Law
- > Bursa Malaysia
- > Chad Smart Business
- > Council of Health Insurance
- > CPG International
- > Dar Al Taqareer
- > DAR Group
- > DaVita

ATTENDING COMPANIES' LIST

- > DDCAP Group™
- > Demeter Investment
- > Edrak
- > Eiger Trading
- > Ektisab Law Firm
- > Eversheds Sutherland
- > Evolution Consulting
- > Family Homes Funds
- > Finpal
- > Foreign, Commonwealth & Development Office
- > Franklin Templeton
- > G Tech Co
- > Gahwa Time
- > G-enviro
- > Greenberg Traurig
- > Gulf Islamic Investments
- > Hamad Bin Khalifa university
- > Hejaz Financial Services



- > Herbert Smith Freehills
- > HSBC
- > ICLA Legal & Corporate Services
- > Idaman
- > IdealRatings
- > Inex Infratech Solutions
- > Islamic Development Bank
- > Islamic Finance Research Institute of Ghana
- > Italian Embassy
- > Jadwa Investment
- > Jeraisy Group
- > Joud consulting
- > K&L Gates
- > Kabbani Consultants
- > Kalima Communications
- > Kantor Jasa Akuntan Irza Sjafrial Nusjirwan (KJA ISN)
- > Khoshaim & Associates
- > King & Spalding
- > King Saud University
- > Kirkland & Ellis
- > Kitabisa
- > Latham & Watkins
- > Logofeel
- > M M Makinta & Co
- > MarIncorp
- > Ministry of Finance, Saudi Arabia
- > Miraipod KK
- > Mishkat Ventures
- > Mobily
- > Moody's Ratings
- > Morgan Lewis & Bockius
- > Morison Menon Chartered Accountants & Partners
- > MUFG Bank (Malaysia)
- > Multiple Benefits for Markting

ATTENDING COMPANIES' LIST

- > Nabadh Investment
- > National Center for Privatization & PPP
- > Nemara International Group
- > NHC
- > Northern Trust
- > Nucleus Software
- > Obafemi Awolowo University
- > Old Mutual Investment Group
- > Oria Technology
- > Osool & Bakheet Investment Company
- > Osool Law
- > Othman Altamimi & Co
- > Phi Wallet
- > QInvest
- > Road & Bridge International
- > S&P Global Ratings
- > Saint Johns Investment
- > Sarh Developments
- > Saudi Awwal Bank
- > Saudi Central Bank (SAMA)
- > Saudi Credit Bureau
- > Saudi Electricity Company
- > Saudi Networks Engineering
- > Saudi Real Estate Refinance Company
- > Saudi Venture Capital Investment Company
- > Seamen Holding
- > SEDCO Capital
- > Shadez Infotech
- > Sidra Capital
- > SMSA
- > SNB Capital
- > SRC
- > Standard Chartered Bank
- > SunTrust



- > SZABIST University
- > Tejoury
- > Tepco Group
- > Tetra Dimensions
- > The Arab Energy Fund
- > The Corporate Group
- > Thought Machine
- > Tiepco
- > Tijari Global Western
- > Ubhar Capital
- > UBS / Credit Suisse
- > University of Bolton
- > Urbas Middle East
- > US Embassy
- > V2R
- > Vemi Ventures
- > Vision Invest
- > White & Case
- > WinVeston Capital
- > WK Private Office
- > Worley Parson
- > Yahma Middle East
- > Young Leader's Hub
- > Zamakhchary & Co
- > ZIC Parastatal Organisation (Under President Office Ministry of Finance and Planning Zanzibar)

TESTIMONIALS



"I've always been satisfied with IFN's Dialogues. They focus on the subjects near and dear to the audience, not straying to esoteric or irrelevant matters. The speakers are really masters of their craft. It's thrilling to learn from them. The organizers made everything seamless. Looks easy, but in fact, so hard. Another solid event."

• SAFA INVESTMENT SERVICES

"Very interesting and very useful."

• KJA ISN



TESTIMONIALS



“The event drew a diverse audience, featuring engaging discussions and exceptional participants. Many thanks to the organizers for their hard work in making this event a success.”

• DD CAP GROUP

“Topics discussed next year could include who is buying Sukuk; how private credit is impacting the deal flow and what to do to maintain the relevance of the industry given the impact of private credit. The session was effective and the clarity and relevance of speakers’ contributions were good. Additionally, the formulation of conclusions and takeaways from the session were equally good as well as the keynote address.”

• WHITE & CASE

