الأكاديمية المالية

THE FINANCIAL ACADEMY

# PROFESSIONAL CERTIFICATE OF RETAIL BANKING FOUNDATIONS

## A learning curriculum issued by the Financial Academy

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**This learning curriculum includes 10 chapters and constitutes the main reference to pass Retail Banking Foundations Professional Exam.**

In the name of Allah,
the Most Gracious, the Most Merciful

Welcome to the learning curriculum issued by the Financial Academy. This book is designed to qualify candidates for Retail Banking Foundations Professional Exam set in Financial Academy.
This book is a learning guide and FA made an enormous effort to ensure the accuracy of the content. 
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The questions included in the content of this educational book are designed to serve as a means to help the advanced test taker review various topics covered in the curriculum and to enhance learning chapter by chapter. These questions should not be considered as "experimental" test questions, nor should they be viewed as indicators of the level of questions that will appear in the corresponding exam for this educational material.

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# Index


Chapter One: The Structure of Retail Banking Sector in the Kingdom of Saudi Arabia 01

The book begins with an introduction to the structure of retail-banking sector in KSA, definition of banking system, classification of institutions in banking sector, in addition to types of such banks. The chapter also clarifies general features and regulatory frameworks of retail banking sector, as well as the impact of international conventions' rules and standards on such sector. At the end of the chapter, we outline emergence and development of the banking sector in KSA.

Chapter Two: Retail Banking Products and Services in the Kingdom of Saudi Arabia 14

This chapter provides an overview of retail banking products and services in KSA, payment systems, technical services in such sector including Saudi Payments and ATMs.

Chapter Three: Principles of Responsible Financing 57

This chapter deals with the concept of responsible financing and provisions related thereto, and quantitative methods for assessing a customer›s creditworthiness and repayment capacity. Protection of bank customers is a strategic objective that the Saudi Central Bank (SAMA) has always pursued by encouraging banks to provide the required level of fair treatment, honesty and financial inclusion.

Chapter Four: Principles of Islamic Sharia and its Impact on Retail Banking Services 68

This chapter provides an overview of the Islamic banking sector, and the difference between it and traditional banking. Then it identifies the activity of Islamic banking through the operations of Islamic windows. The chapter also deals with the infrastructure institutions and bodies of the Islamic banking industry. Finally, it clarifies the tools and formulas of Islamic financing, the concept of Islamic bonds (sukuk) and securitization operations.

Chapter Five: Principles of Effective Customer Service in the Retail Banking Sector 86

This chapter outlines the basic principles for effective customer service, skills required for customer service staff, as well as managing customer relations properly, identifying their problems, and seeking a solution that satisfies parties.

Chapter Six: Principles of Protecting Bank Customers 101

This chapter identifies and describes the financial protection of customers in KSA, and clarifies SAMA's strategic objectives, which include providing the customer who deals with financial institutions with fair treatment with transparency, honesty and faithfully, as well as access to financial services and products with ease, affordability and high quality. This chapter outlines the key requirements of bank customer protection principles and responsibilities of customers toward their bank.

Chapter Seven: Business Conduct Rules 115

This chapter highlights business conduct rules in the banking sector, as ethical aspects of banking business are the common factor in the banking industry, reflecting good reputation of such banks, and failure to apply such aspects will certainly discredit the bank.

Chapter Eight: Compliance Principles and its Impact on the Retail Banking Sector 126

In this chapter, we will review the concept of compliance function, the supervisory role of compliance officer, factors to be considered for an appropriate regulatory compliance structure, as well as the key regulatory compliance processes and procedures. This chapter also explains Compliance Rules for Banks Operating in Saudi Arabia, as well as Compliance Manual.

# Index

Chapter Nine: Defining and Describing the Concept of Fraud and Its Impact on Retail Banking Services 141

This chapter identifies and describes the concept of fraud and its impact on retail banking. Financial crimes – in general – and financial fraud – in particular – are among the most serious crimes currently being committed, due to its grave impact on the financial sector and the economy in general. One of the most serious financial crimes is fraud that can be committed through banks. Therefore, bank staff and risk and compliance officer shall ensure that all potential financial crimes that could be committed by or through their bank are identified and detected, to manage the associated risks.

Chapter Ten: Anti- Money laundering and Counter-Terrorism Financing in the Kingdom of Saudi Arabia 160

This chapter addresses money laundering as one of the main issues that pose serious threats to the banking industry. This chapter also introduces the different methods of money laundering, and the necessary procedures of reporting suspicious money laundering or terrorist financing activities. The chapter also highlights KSA efforts in combating money laundering and terrorist financing.

Glossary of Terms & Abbreviations 177

Multiple-choice questions (MCQ) 194

Curriculum Map 220

Studying this book may take up to 70 hours.

# Chapter One

## The Structure of Retail Banking Sector in the Kingdom of Saudi

This chapter includes 8 questions out of 100 questions in the exam

# Introduction:

This chapter deals with the structure of the Saudi banking sector, commercial banks, banking system in general, and the role of such banks in the economic, financial and social areas, as well as the main services and products provided by commercial banks. In addition to SAMA's role in supervising and controlling banks of all types.

## 1.1 Structure of KSA Banking Sector:

Learning Objective

1. To be familiar with KSA financial services system, structure and components of that system, the parties involved and role of each party.



### 1.1.1 Nature and Components of the Banking System:

The banking system refers to those banks, through which banking operations are conducted. The banking system does its part in the economy by providing credit to organizations and individuals requiring so. The banking system of any country comprises a number of banks with different types according to their specializations and role in such country. Such diversity is attributable to the precise specialization, and the desire to establish independent financing structures to fulfill customer and society needs. Banks are commonly classified globally as follows:

| Bank classification by | | | |
|---|---|---|---|
| Nature of Operations | Islamic Windows | Nature of Business | Legal Position |
| Traditional Banks | Central Banks | Commercial Banks | General Banks |
| Sharia -Compliant Banks | Commercial Banks | Industrial Banks | Private Banks |
| Digital Banks | Investment Banks | Agricultural Banks | Mixed Banks |
| Islamic Windows | | Mortgage Banks | |

Figure (1.1) Classification of Banking Institutions

A. Classification By Legal Position:

**1. Public Banks:**

A type of financial institution where the state owns its entire capital, serving a specific economic sector and exclusively conducting banking operations related to that particular economic activity. These banks do not accept deposits as part of their activities and fundamental system. They cater to essential sectors such as real estate, agriculture, industry, or housing, contributing to the national economy. Short-term investment is not among the objectives of these banks.

**2. Private Banks:**

These are banks owned by individuals, whether they are natural persons or legal entities not affiliated with governmental bodies. They manage the affairs of the bank and bear all its legal and financial responsibilities. These banks are typically designed for high-income individuals or those with substantial assets. The term specifically refers to advanced services provided on a personalized basis, often through specialized banking advisors. The minimum required amount to open an account in such banks varies from one bank to another. They are also subject to the supervision and oversight of the central bank.".

**3. Mixed Banks:**

Banks jointly owned and managed by the state, individuals and organizations. In order to maintain control over these banks, The state owns a proportion of the capital allowing it to oversee and direct such banks in line with the state's financial and economic policy.

### B. Classification by the nature of business conducted by banks:

**1. Commercial Banks:**

Banks that deposits represent the main source of its funds. Such banks accept depositors' money to be due upon request or after a specified period. These are banks primarily specialized in providing banking services to corporations, particularly small and medium-sized enterprises (SMEs). Further, such banks grant traders, businessmen and industrialists short-term loans with various guarantees. Banks like these are an ideal option for companies to open a bank account, obtain any type of loan, or transfer money abroad. Such banks provide complementary facilities for the account of its clients, including: collecting commercial papers, discounting bills of exchange, purchasing and selling of foreign currencies, opening letters of credits, issuing letters of guarantees, purchasing and selling of securities, collecting coupons, and other facilities.



**2. Industrial Banks:**

Banks contributing to the industrial development, such as the Saudi Industrial Development Fund.

**3. Agricultural Banks:**

Banks dealing with the agricultural institutions, such as the Agricultural Development Fund.

**4. Mortgage Banks:**

Banks providing all housing and real estate facilities, such as the Real Estate Development Fund.

### C. Classification By Source of Fund:

**1. Central Banks:**

Banks that have been established by the state in order to supervise direct and control the banking system. Central banks reserve the right to issue the currency and keep the state's liquid assets: such as gold and foreign currencies. The Central Bank is the apex body of the banking system, as it supervises the banking activity in general, oversees the credit policy of the country, issues banknotes, and maintains the stability of its value. Further, the Central Bank is considered the "Government Bank" as it renders banking services in favor of the government. It also assists the government in drawing up monetary and financial policies, maintains bank accounts, enforces setoff procedures.

**2. Commercial Banks**

Banks whose sources of funds are comprised of partner-owned capital and rely on deposits made by individuals and institutions for investment or current account purposes.

**3. Investment Banks:**

Banks that issue securities of companies, and government bonds so that companies guarantee coverage of shares and bonds offered to the public during its offering for public subscription.

### D. Classification By Nature of Operations:

**1. Traditional Banks:**

Public commercial banks whose business are not limited to Sharia-compliant activities.

**2. Islamic Sharia-compliant Banks:**

These are banks whose transactions and banking services align with the principles and financial rules of Islamic Sharia.

**3. Islamic Windows:**

These are specialized and non-independent sections within conventional banks that focus on the study of Islamic financial products offered by the bank under the supervision and scrutiny of the Sharia Committee.

**4. Digital Banks:**

These are banks that primarily conduct banking activities through digital channels such as the internet and mobile applications. Digital banks are new financial sector services operating electronically through the internet, eliminating the need for traditional bank branch visits. They aim to facilitate banking operations and services for customers, leveraging technology in the Kingdom of Saudi Arabia to enhance financial inclusion and reduce reliance on cash.

### 1.1.2 The Structure of Banking Sector in the Kingdom of Saudi Arabia:



KSA's banking system consists of: The Saudi Central Bank (SAMA) and commercial banks. The banking sector was organized according to Banking Control Law, issued by virtue of Royal Decree No. M/5, dated 22/02/1386 AH. The Council of Ministers issues licenses for the establishment of banks under recommendations of Minister of Finance, after being reviewed by SAMA.

## 1.2 General Features of Retail Banking Sector and its Transactions:

Learning Objective

2. To be familiar with basic principles of effective competition in a stable and advanced financial system, and to be able to describe the market and customers of each sector within the banking system.

### 1.2.1 Definition of Banking Service:

Banks provide many banking services to their customers, which facilitates completion of their business activities and commercial, industrial and service transactions. It also makes it easier for them to make their transfers and complete their work and tasks quickly and accurately, such as collecting checks, opening credits, granting bank guarantees and foreign exchange operations, in addition to carrying out many burdens on behalf of customers... and other services. The banking service is defined as: "an activity or set of activities whose essence is intangible, to be provided by the bank to its customers in order to satisfy their needs and desires". Provision of such services may, and may not, be related to a tangible product but does not give rise to transfer of ownership.

### 1.2.2 Characteristics of banking services provided by banks:

There are many characteristics of banking services provided by banks, including:

**1. Lack of a unique identity:**

Services provided by banks are nearly similar or identical. Therefore, the bank will seek to establish a distinct identity by paying attention to its position, reputation and qualification of its staff, improving advertising efforts, and even through innovating new products to deal with fierce competition in addition to attracting more customers.

**2. Intangible banking services:**

Banking services provided by banks are considered intangible, like all services, which places a greater burden on the bank to show their relevance and utility to customers, since all aspects related to the service is often not clear to the customer except after direct contact with the bank and realization of the benefit.

**3. Variety and diversity of services:**

Banking services are generally characterized by its variety and diversity, thus, banks have to provide a wide range of services to meet diverse and interrelated needs: such as: financing and credit needs and other banking services.

**4. Demand fluctuations:**

The banking sector is one of the economic sectors that face demand fluctuations (e.g. decrease in demand for credit services during recession). Future demand for banking services cannot be accurately predicted, as the customer takes the lead in taking advantage of banking services.

**5. Balance between expansion and risks:**

The growth and expansion in banking services should be determined against risks that could arise from such expansion, as the bank is an institution that perform its business based on mutual trust with its customers.

**6. Linking to country's economic and monetary policy:**

Banks are more linked than other institutions to the country's economic policy, they are affected by each other. Based upon the state's economic status, the central bank makes a series of decisions, using a range of methods and instruments (e.g. exchange rates, interest rates, credit market, liquidity and reserve ratios, etc.) to directly or indirectly affect banks' policies.



### 1.2.3 Concept and Types of Banking Services Distribution Channels:

Distribution channel in banking business refers to any mean that could properly deliver the banking service to customers, in a manner that increases use of such channel, which in turn raises the generated revenue. Success of the bank depends on the choice of distribution channels to provide its banking services in a suitable manner to meet the customer needs and desires, as distribution channels can be divided into direct and indirect channels, as follows:

**1. Direct Banking Services Distribution Channels, namely, Bank's Branches:**

These channels considered one of the most important distribution channel, through which all banking services required by the region, its customers are made available and appropriately served. Since the branch operates in a fixed location, it is necessary to select the branch location carefully to be suitable for serving current and future customers.

**2. Indirect Banking Services Distribution Channels:**

Development and expansion of banking services has led to the use of intermediaries in some banking services. Indirect channels are as follows:

- **Automated Dealing Units**: such units are used for conducting transactions in areas where branches are difficult to be established, or when banks are closed, as well as to ease the pressure on branches for normal bank operations.
- **Banking Agency**: The bank assigns some individuals or companies to provide specific banking services on behalf and in the name of the bank, when it has a shortage of labor or branches, or a deficiency in the banking services distribution network system.
- **Clearing System**: Banks and its branches settle their debts with other banks automatically through SAMA with respect to transactions with its clients, according to a set of accounts for each bank with the other.
- **Provision of High-Tech Banking Services**: Modern processes conducted through both computers and mobile devices (mobile phone, tablet.... Etc.). The customer can use the Internet or phone banking to carry out different transactions without visiting a branch. In this regard, SAMA launched an initiative titled "Saudi Fintech" within the framework of the Saudi Financial Sector Development Program (FSDP), to be an incentive to develop the financial services technology industry in KSA by turning KSA into a destination for financial technology innovation. Fintech is an abbreviation of the term "Fintech", which contains two words: "Financial + Technology", which means the use of new technology in financial services. Saudi Fintech endeavors to support development of the infrastructure required by the Fintech industry, and to build the skills and knowledge necessary for the growth of Fintech activity, as well as to support entrepreneurs at every stage of their development.

# 1.3 Regulatory Framework and Rules Governing the Banking Sector:

Learning Objective

3. To be familiar with main sources of regulations and laws related to financial services, as well as the role of the regulatory (SAMA).

According to the Saudi Central Bank Law issued by virtue of Royal Decree No. M/36 of 1442 AH, SAMA bears the responsibility for soundness and functionality of the banking system across KSA in general, and among the system' users and contributors.



## 1.3.1 SAMA Objectives, Duties and Responsibilities:

- **SAMA Objectives:**

According to Article 3 of the Saudi Central Bank Law, the Bank aims at:

1. Maintaining monetary stability.
2. Promoting the stability of, and enhancing confidence in, the financial sector.
3. Supporting economic growth.

- **SAMA's Functions, Powers and Competencies**:

In accordance with Article 4 of the Saudi Central Bank Law, the Bank may exercise the following functions, powers and competences:

- Issue and regulate cash (including: minting, printing and issuance of the national currency, and offering, withdrawal, cancelation, management and protection of the same) and other related works, without prejudice to the provisions of the Saudi Arabian monetary law.
- Control and supervise financial institutions in accordance with the relevant laws.
- Issue regulations and instructions related to financial institutions and their business.
- Formulate and manage monetary policy and regulate the foreign exchange market.
- Manage and invest foreign exchange reserves.
- Serve as Government Bank and Government Adviser in Monetary, Banking and Financial Matters.
- Establish, develop and operate infrastructure for national payments, settlement and clearing systems, issue rules, instructions and licenses, and monitor and oversee payment, settlement and clearing systems within its area of competence.
- Establish, develop and operate financial technology platforms, issue rules, instructions, licenses, and monitor and supervise the same.
- Develop instructions and procedures to protect customers of financial institutions.
- Take appropriate procedures and measures to reduce the commission of offenses connected with financial institutions.
- Formulate and manage safeguard policies and take the necessary actions and measures for financial institutions, and take the necessary actions and measures to contribute to facing domestic, regional and global economic and financial turmoil and crises.
- Represent and participate in regional and international organizations, bodies, forums and conferences in which it participates as a member.
- Cooperate and exchange expertise with other central banks and their counterparts and regional and international organizations, as well as with specialized expertise inside and outside KSA.
- Develop professional tests and requirements relating to financial institutions and their work.
- Prepare research and studies and publish statistics in its field.
- Establish affiliates and contribute to the establishment of companies that perform activities related to the nature of its business.

- Propose draft laws relating to financial institutions and the financial sector, and propose amending existing ones.

• **Activities that SAMA is Prohibited to Engage in**:

In accordance with Article 4 of the Law of the Saudi Central Bank, SAMA shall not undertake any of the following actions:

1. Engaging in or contributing to business or having an interest in any commercial, industrial or agricultural project, except as necessary to achieve its objectives.
2. Buying or owning real estate except for what SAMA needs to do its business, or for the purpose of diversifying foreign investments.
3. Financing and lending government.
4. Financing or lending any person of a natural or legal capacity. Financial institutions are excluded for the purpose of managing liquidity or facing crises by a decision of the governor of SAMA, in accordance with the rules set by SAMA's Board of Directors.



### 1.3.2 Regulations for banks operating in KSA:

SAMA monitors banks operating in KSA, whether national banks or branches of foreign banks. SAMA controls such banks since license application is submitted and continues throughout their operations. The following are the regulations governing the business of commercial banks in KSA in accordance with the Banking Control Law, Issued with number (M/5) on 22/2/1386 H:

**1. Licensing:**

Article 3 of the Banking Control Law requires bank to address the application for the grant of licenses to SAMA which will study the application and submit its recommendations regarding the issuance or denial of the license to the competent authority.

**2. Determination of specific ratios:**

According to the Banking Control Law, certain ratios have been set to guarantee the rights of customers and depositors, as follows:

• Article 6 stipulates that the deposit liabilities of a bank shall not exceed fifteen times its reserves and paid-up or invested capital.

• Article 7 requires that every bank shall maintain with SAMA a statutory deposit of a sum not less than (15%) of its deposit liabilities. SAMA may vary the aforesaid percentage provided that it shall not be less than (10 percent) nor more than (17.5 percent). Every bank shall maintain a liquidity reserve of not less than 15 percent of its deposit liabilities. SAMA may increase the aforesaid percentage up to 20 percent.

**3. Establishment of General Regulations:**

In accordance with Article 16 of the Banking Control Law, SAMA may, with the approval of the Minister of Finance, issue general rules to regulate the following matters:

• The maximum limits of total loans that can be extended by a bank or banks.

• The prohibition or limitation of specified categories of loans or other transactions.

• Fixing the terms and conditions, which banks, should take into consideration when carrying out certain types of transactions.

• The cash margins to be obtained by bank against specified categories of credits or guarantees.

• The minimum ratio to be observed between the limits for loans and the collateral for such loans.

• Fixing the assets to be maintained by each bank within the Kingdom.

**4. Appointment of auditors:**

Article 14 of the Banking Control Law requires that every bank shall annually appoint two auditors from amongst the approved list of auditors registered with the Ministry of Commerce, to submit a report that includes the auditor's opinion on the balance sheet and profit and loss account.

**5. Submission of periodic data to SAMA:**

The banks shall submit periodic data to SAMA to monitor the financial situation of banks. Therefore, Article 15 of the Banking Control Law stipulated that every bank shall furnish SAMA by the end of the following month with a consolidated monthly statement of its financial position. Every bank shall also furnish SAMA within six months, a copy of its annual balance sheet and profit and loss accounts certified by its auditors.

**6. Inspection of banks:**

Article 18 of the Banking Control Law stipulated that SAMA may, with the approval of the competent authority conduct an inspection of the books and accounts of any bank in its premises. The bank staff must produce all the required books and records of accounts and other documents relating to the bank.

**7. Credit Control:**



In order to protect banks and depositors' money, banks should not concentrate credit in a particular category, but rather distribute credit among a large number of customers. Therefore, Article (8) of the Banking Control Law stated that "No bank shall grant a loan or extend a credit facility, or give a financial guarantee with respect to any natural or juristic person for amounts aggregating more than 25 percent of the Bank's reserves and paid-up or invested capital. SAMA may, in the public interest, and subject to such conditions as it may impose, increase this percentage up to 50 percent."

Further, Article (9) of the Banking Control Law indicated that "No bank shall grant a loan or extend credit facilities, or issue a guarantee or incur any other financial liability on the security of its own shares."

Article (9) also stated that no bank shall grant, without security, a loan or credit facilities in respect of: Member of its Board of Directors or its Auditors; Establishments not taking the form of joint-stock companies in which any member of its Board or Auditor is a partner or a manager, guarantor or has a direct financial interest; Bank officials or employees for amounts exceeding a four-month salary.

**8. Prohibition of Banks from Practicing Certain Business:**

Banks are prohibited from engaging in business incompatible with the bank's operations. Article (10) of the Banking Control Law stated that "No bank shall undertake any of the following activities:

- To engage in the wholesale or retail trade including the import or export trade.
- To own stocks of any other joint-stock company in excess of (10%) of the paid up capital of such a company provided that the nominal value of these shares shall not exceed (20%) of the bank's paid-up capital and reserves.
- To have any direct interest, whether as a stock-holder, partner, owner, or otherwise, in any commercial, industrial, agricultural or other undertaking unless within the limits referred to in Paragraph (4) of this Article.
- To acquire or lease real estate except in so far as may be necessary for the purpose of conducting its banking business, housing of its employees or for their recreation or in satisfaction of debts due to the Bank, or in special and justifiable circumstances and with the approval of SAMA, and the value of which shall not exceed (20%) of its paid-up capital and reserves.
- To purchase, without the approval of SAMA, stocks and shares of any bank conducting its business in the Kingdom."

**9. SAMA's Written Approval to Engage in Certain Business:**

Article (11) of the Banking Control Law requires any bank to obtain a written approval from SAMA before carrying out the following activities: "modifying the composition of its paid-up or invested capital and reaching an agreement to merge with another bank; Acquiring shares in a company established outside the Kingdom; Ceasing to carry on banking business; Opening branches in the Kingdom or branches by national banks outside the Kingdom."

**10. Measures Applicable in Case a Bank Violates the Rules and Regulations:**

Article (22) of the Banking Control Law states that "If SAMA finds that a bank has failed to comply the rules and regulations governing banking business in the Kingdom, it may, with the approval of the Minister of Finance and National Economy, take one or more of the following measures:

- Appoint one or more advisers to advise the bank.
- Order the suspension or removal of any director or officer of the bank.
- Limit or suspend the granting of credits or the acceptance of deposits.
- Require the bank to take such other steps, as it may consider necessary.

SAMA shall also impose the penalties stipulated in Article (23) of the Banking Control Law on any bank that violates the provisions of such Law.



### 1.3.3 Impact of International Rules, Standards and Conventions on the Banking Sector:

The banking sector in any country seeks to adhere to the international banking regulations and legislation and to adopt the international standards that regulate such sector. This is because of the following:

- Ensuring that there are established standards in areas of common interest: this includes setting capital standards, standards of investor protection, in addition to promoting market integrity.
- Facilitating cross-border commercial and financial business, which is the main objective of some commercial and financial agreements.

Given the lack of a specific international regulatory framework whereby international legislation and standards can be enforced, the signatory states of international initiatives and agreements are required to adopt and formally incorporate the agreed standards in their legal system so as to be in force. KSA has strengthened its economic position as one of the major players affecting the global economy by signing cooperation agreements with international organizations, including: the Gulf Cooperation Council, as well as accession to WTO, in addition to trade agreements: (agreements for promotion and protection of investment, double taxation treaties, in addition to cooperation agreements in the commercial, economic and technical fields). SAMA is a member of the Bank for International Settlements (BIS), and the primary mission of BIS is to serve central banks in their quest to achieve monetary and financial stability, enhance international cooperation in such areas and act as a bank for central banks. BIS hosts the secretariat of the Basel Committee on Banking Supervision, with which it played a major role in the establishment of the 1988 Basel Accords, the 2004 Basel II Framework for Action and most recently the Basel III Convention.

## 1.4 Evolvement of KSA Banking Sector:

Learning Objective

4. To be familiar with the emergence and development of the banking system in the Kingdom of Saudi Arabia.

### 1.4.1 Evolvement of the Saudi Banking System:

KSA has known the exchange system for hundreds of years, as it was stationed in Jeddah, Makkah and Madinah, with the aim of exchanging different currencies brought by pilgrims and Umrah performers during Hajj and Umrah season.

- The Saudi Central Bank was established in the name of Saudi Arabian Monetary Authority (SAMA) in the Era of King Abdulaziz, may Allah bless his soul, (by virtue of two Royal Decrees issued on 25/07/1371 AH (20/04/1952 AD). The first Decree No. (30/4/1/1046), provided for establishing the Saudi Central Bank, its venue in Jeddah, and opening branches in cities and places as deemed necessary. The second Decree No. (30/4/1/1047), provided for the approval of the Charter of the Saudi Central Bank, attached to the decree, and ordering its implementation. SAMA started its operations in Jeddah on 14/01//1372 AH (04/10/1952 AD).

• Since its inception, SAMA deals with the banking affairs of the Government (the Central Bank), in addition to its role in supporting the national economy through its aforementioned functions.

Within eight and a half years of SAMA's establishment, KSA had transformed from bimetallism (i.e. gold and silver), to banknotes.



### 1.4.2 Evolvement of KSA Banking System:

One of the duties that SAMA gave immediate attention following its inception was to foster the growth of the banking system, as there were no Saudi banks at that time and banking business was mostly practiced by foreign banks. Against the expansion of economic activity, the need for banking services increased greatly, so SAMA enabled opening more banks in the Kingdom. Desiring to enrich the national character within the banking system, and promoting the capital base, SAMA, during 1396-1402 AH (1976-1982 AD) initiated a program for the Saudization of foreign banks where they were required to transform into joint-stock companies offering its stocks for public subscription, provided that the majority of the ownership rights are held by Saudi stockholders.

SAMA, in cooperation with commercial banks, established a number of cutting-edge payment and settlement systems, including Automated Clearing Houses (ACH) and (MADA) that supports ATMs, POS terminals and the automated trading system (TADAWUL). Such systems were linked together through the Saudi Arabian Riyal Interbank Express (SARIE) system, which commenced live operation in Muharram 1418 AH (May 1997). SARIE system provides settlement for clearing operation centers, the trading system and ATM system, and allows banks to make and receive payments directly from their accounts with SAMA instantly, as well as to carry out transactions entries for the beneficiary's account, in addition to transferring funds on the same day.

These technical developments helped a lot in improving the quality of customer service, cutting costs, enhancing efficiency and strengthening controls, and also created an advanced and safe technical base to achieve a quantum leap in digital banking and financial services.

### 1.4.3 Digital Banks in the Kingdom of Saudi Arabia:

According to the Additional Licensing Guidelines and Criteria for Digital-Only Banks in Saudi Arabia issued by SAMA on February 2020, a digital bank is defined as:

"A bank that conducts a banking business mainly through digital channels (e.g. the web and mobile applications).

#### 1. Licensing Conditions for Digital Banks:

"To apply for a Digital-only Bank license in Saudi Arabia, the following conditions must be met:

A. Digital-only Bank should be set up as a locally incorporated joint-stock company.

B. Promoter should have:

- experience and knowledge in the financial industry;
- appropriate technology-related experience and knowledge; and
- financial capacity to support setting up the Digital-only Bank.

C. An applicant must possess a team with adequate expertise to discuss relevant aspects of the application."

#### 2. Business Plan:

"An applicant is required to present a clearly articulated business plan, covering as a minimum:

- The IT infrastructure plan and innovative technologies that will be rolled out;
- The financial projections;
- The targeted segment (with the underlying study and analysis); and

• The proposed products and services in line with the targeted segments."

3. Capital and Liquidity Requirements:

"An applicant is required to submit an Internal Capital Adequacy Assessment Plan (ICAAP) and an Internal Liquidity Adequacy Assessment Plan (ILAAP) along with the application. SAMA will assess the adequacy of capital of applicants on a case-by-case basis considering the scale, nature and complexity of the operations as proposed in the Business Plan, ICAAP and ILAAP of the applicants."

4. Physical Presence:

An applicant must maintain a physical presence for its Digital-only Bank in Saudi Arabia to be its principal place of business (i.e. head office). A Digital-only Bank is not expected to establish physical branches; however, on exceptional basis, SAMA may require a Digital-only Bank to establish costumer service centers in order to facilitate customer interaction, enquiries or complaints."

5. Technology and Cybersecurity Risks:

- "Applicant should consider information systems security, resilience and availability, being key components of a Digital-only Bank. The selection of appropriate technologies and security arrangements should be aligned to the proposed banking products and services.
- SAMA requires compliance with all relevant requirements, such as (but not limited to) SAMA's Cybersecurity Framework and BCM Framework. In addition, SAMA requires applicants to consider other relevant regulations, (e.g. from National Cybersecurity Authority) when designing and implementing the Technology and Cybersecurity framework of the proposed Digital-Only Bank.



6. Independent Assessment:

"SAMA may require the applicant to appoint a qualified and experienced third-party entity ("Assessor") to perform assessments on the specific technical areas such as: the technology/cybersecurity and AML/CFT arrangements. Such assessment will be performed over following phases:

- The Design Phase: After submission of the application to SAMA, the Assessor should perform an assessment of the adequacy of the governance, proposed processes and systems of the proposed design. SAMA requires the applicant to submit a report on the proposed design phase assessment along with a plan on the closure of observations/issues (if any). The applicant should remediate all key observations/issues to the satisfaction of SAMA.
- The Implementation Phase: Prior to commencement of operations, the Assessor should perform a detailed assessment. SAMA requires the applicant to submit a report on the implementation phase assessment in accordance with the approved design along with a plan on the closure of observations/issues (if any). The applicant must remediate all key observations/issues to the satisfaction of SAMA prior to obtaining SAMA's approval to go-live."

7. Prudential and Supervisory Requirements:

- Digital-only Banks will be subject to the same set of prudential requirements as with other banks.
- In addition, due to the nature of business operations, all (or most) of the data are expected to be in an electronic format. The design of technology solutions in a Digital-only Bank should allow for easy and quick access to complete and accurate information needed for SAMA to perform its supervisory duties."

8. Governance:

Digital banks must adhere to the key principles of governance applicable to banks operating in the Kingdom of Saudi Arabia.

9. Risk Management and Supervision:

Digital banks must demonstrate to the central bank that their proposed policies for risk management and supervision are sufficient and suitable for implementation.

10. Compliance and Anti-Money Laundering/Terrorist Financing:

Specific controls to combat money laundering and terrorist financing, in line with the targeted digital services, must be included in the licensing application.

### 11. Outsourcing Tasks to a Third Party:

Expected external outsourcing operations for processes, employees, and essential systems must comply with the outsourcing requirements set by the Saudi Arabian central bank.

### 12. Exit Plan:

An exit plan must be presented in case there are difficulties achieving the intended business objectives. This plan should be clear, outlining the steps to manage customer funds and existing business operations.

### 13. Customer Protection:

The principles of customer protection, as issued by the Saudi Arabian central bank, apply to digital banks. This should be included in the licensing application, specifying the necessary arrangements and channels to adequately protect and support customers throughout all banking service stages.

# Chapter One

## Revision questions:

## Answer the following questions and check your answer in the corresponding section:

1. Mention types of banks in terms of nature of business (At least 4 types).

   Answer Reference: Section 1.1.1

2. What are the functions of the Central Bank?

   Answer: A reference: section 1.1.1

3. Briefly explain the concept of banking services provided by banks and their characteristics?

   Answer: A reference: Section 1.2.1 and 1.2.2

4. What is the difference between central banks and commercial banks?

   Answer: A reference: section 1.1.1

5. Briefly explain SAMA's tasks and responsibilities in supervising and controlling the banking system?

   Answer: A reference: Section 1.3.1

6. Briefly explain the key regulatory rules for banks operating in the Kingdom of Saudi Arabia?

   Answer: A reference: Section 1.3.2

7. Explain the importance and impact of international rules, standards and agreements on the banking sector?

   Answer: A reference: Section 1.3.3

8. What is meant by digital banks? Explain the most important criteria and guidelines for requesting a license for digital banks?

   Answer: A reference: Section 1.4.3

# Chapter Two

## Banking Products and Services in the Kingdom of Saudi Arabia

This chapter includes 25 questions out of 100 questions in the exam

# Introduction:

This chapter addresses and explains some of the banking products and services provided across the retail banking sector, as well as the different types of accounts opened according to the type of customer within KSA, in addition to how to deal with each type.

## 2.1 Main Features of Retail Banking Products and Services:

Learning Objective:

1. To be familiar with the main features of retail banking products and services, as well as the target groups.

Banks carry out different operations, commonly known as "Banking Transactions" or "Banking Operations" including opening accounts (Current and Saving), depositing, financial intermediation between lenders and borrowers, contributing to financing foreign trade by opening letters of credit, providing guarantees, bank's letters of guarantees, in addition to dealing in stocks, foreign exchange and renting safe deposit boxes, as well as rendering other financial services such as credit cards, electronic finance, money transfers, and other services.



### 2.1.1 Retail Banking Services:

• Accounts: **There are four main types of commercial bank accounts**:

1. Current Accounts:

Accounts involve transactions between banks and another party. Such party may be a natural person (individuals) or legal person (companies, agencies and other banks). Balances of current accounts may be:

- amounts payable upon demand of such party. Those who have a current account can issue checks for purchases without holding cash. The bank provides the account holder with a monthly account statement indicating the balance and transactions that took place during such month.
- Some balances of such accounts may be debit represented in amounts payable by such party to the commercial bank (cash with correspondents and branches of other banks).

Current accounts held by commercial banks are a major source of funds for such banks because they do not receive interest in most cases; however, some banks offer variable interest on their open current accounts. Commercial banks are therefore seeking to attract large deposits of individuals and entities in the form of current accounts. All banks train their employees on intense marketing strategies to persuade people to open current accounts. Therefore, commercial banks are eager to increase their branches to be close to places of residence and work of a vast number of customers or to be close virtually through means of modern technology. Such banks also provide competitive and diverse banking services to customers with easy and simple procedures, and strive to meet customer's needs instantly.

2. Saving Accounts:

Commercial banks strive to encourage customers to save by opening saving accounts with some advantages, such as paying a specific annual interest rate that does not exceed 3% for sums that customers keep in savings accounts. The value of interest the customer receives is determined by the value of sums s/he keeps, the period for which such amounts are kept, and the annual interest rate promised by the bank based upon customers' deposits. Saving accounts are used to attract small savers and develop saving awareness among a large segment of society.

3. Fixed Deposits Accounts:

Commercial banks seek to gain savings of all kinds, by providing various deposit accounts for individuals, so that customers can choose their suitable type of such deposit accounts. Some customers, who do not need a certain amount of cash for a specific period, deposit and invest such amounts to obtain interest over such period. Therefore, they deposit such amounts in a fixed deposit account in exchange for a certain interest, which is often higher than the interest of saving accounts. The reason is that the owner of saving account can withdraw at any time. Contrarily, the depositor cannot withdraw its amount before the agreed date. For a commercial bank to produce such interests at higher rates, it invests such funds in a profitable manner that covers the value of such interests paid to customers.

4. Call Deposits:

Call deposits differ from fixed deposits as the customer, in the case of call deposits, has the right to withdraw the funds deposited with the bank when needed, after serving a notice to the bank before withdrawing the deposit with a certain period, usually a week or less (Common period is 24 or 48 hrs). Interests on the balance of such deposits is lower than the rates of time deposits.

- **Automated Teller Card**:
  A card that enables the account holder to obtain cash from Automated Teller Machines (ATMs) without the need to visit the bank, at all times. Customers can make withdrawals, if they have sufficient balance. There is a daily withdrawal limit on such cards. ATM card also enables the accountholder to carry out direct debit purchases from his account for the benefit of stores without actual cash through points of sale available at such stores provided by payment-specialized companies, with a daily limit also for purchases through POSs. Further, ATM cards has become provided by banks in an electronic form through their e-applications.
- **Credit Cards:**
  Some banks provide credit cards to their customers, such as Visa, American Express, Master Card, which is card issued by banks in cooperation with international credit card companies. The card is used by the cardholder to obtain in advance, under the issuer's guarantee, cash, goods, services or other benefits from commercial establishments that accept such card locally or internationally, and then the debt is paid thereafter or according to other arrangements. There are also prepaid cards in which the customer determines the amount through which he wants to spend by depositing in the card balance, through a prior transfer from his current account to the account of such cards, which may be in more than one currency so that the customer chooses the currency he wants to transfer the amount to.
- **Consumer finance**:
  Financing provided to the beneficiary to meet his living needs, including personal financing - car financing - home renovations - financing the purchase of goods and services for the purpose of consumption.
- **Standing Order**:
  This is an instruction or set of instructions scheduled by the customer, specifying an amount and a predetermined date for the monthly deduction to a designated beneficiary without the need to access electronic channels for the transfer process or visit a branch.
- **Money Transfers and Issuance of Bank Checks**:
  The customer can thereby transfer any amount of money to any destination and buy foreign currencies, bank checks.
- **Saving Box**:
  Safety deposit boxes are secure safes that allow customers to keep their precious and valuable belongings or important documents in a secure area within the bank branches.

### 2.1.2 Corporate Banking Services:

The necessities of companies differ from individuals due to the great difference between nature of business of both individuals and companies. While an individual may have one (current) or two accounts (current and investment) at most with the bank, the company might have several accounts according to nature of services obtained from such bank. Such services include:

1. Current Accounts in Local Currency:
The company uses the account in all domestic purchases and payments, as well as to deposit checks and cash received.
2. Current Accounts in Foreign Currency:
Service that allows companies to open a bank account in any currency based on their needs, manage their funds, and handle payments in foreign currencies without the need for conversion to or from the Saudi Riyal.
3. Opening Documentary Letters of Credit:
Most of import and export operations are conducted through banks and documentary LC is one of the means whereby a trader can import goods from overseas.
4. Finance:
This service is considered one of the key and essential services provided by banks to companies. The majority of companies often seek to expand their operations or achieve more of their developmental goals. Therefore, resorting to financing is a primary objective for many companies.
5. Investment:
Investment management in commercial banks involves receiving funds from companies looking to grow their wealth and undertaking the task of "mobilizing" those funds. This can involve purchasing assets, stocks and bonds, real estate or precious metals, as well as various forms of investment funds. The goal is to achieve the maximum material investment benefit for the companies.
6. Payment of Staff's Salaries:
A service that enables companies to swiftly and easily transfer the salaries of their employees on a specified date each month to their employees' accounts in all local banks.
7. Short-term Investment of Excess Liquidity:
A service provided to companies looking to invest surplus funds not allocated for operational purposes in order to achieve quick additional gains and profits.



### 2.1.3 Diverse Banking Services:
Such services involve various operations, the most important of which are outlined below:
1. Bank Transfer:
The process of transferring a cash amount from one bank account to another by way of deposit. The transfer process is based on an order from the customer to its bank including the transfer amount, name, account number and location of the receiver. The bank's transfer process may be conducted through the same bank if the transferor and receiver have an account in the same bank, which is called internal transfer, or through two different banks when both parties have accounts in different banks, which is called external transfer.
2. Letter of Guarantee:
Letter of guarantee is a contract whereby a person guarantees fulfillment of an obligation, by undertaking to fulfill creditor's obligation if the debtor himself does not fulfill such obligation. The guarantor may, after fulfilling the debt, recourse to the guaranteed debtor against what he has paid. Participation in tenders is a key reason for using such LGs, while the description of such LGs varies according to the stage the tender is going through as follows:

- Bid or Tender Bond: Such guarantee is issued to participate in tenders and expires after being fulfilled or upon awarding, whichever is earlier. The bank shall pay its value when the bidder (if awarded) fails to sign the contract. Further, the guaranteed amount represents 5% of the value of undertaking or tender.
- Performance Bond: The usual guaranteed amount is 10% of the undertaking. Such guarantee is issued against an assignment or waiver of the obligee's dues to the bank.
- Advance Payment Bond: The project owner may reserve a specific portion of obligee's dues, and could issue a guarantee against payment of such reservations.

3. Transfers and Checks Service:

**A. Outward Transfers and Sold Checks**:

All banks are permitted to provide outward transfers and sold checks, except for accounts of their customers. In fast (express) remittances, the customer number is sufficient for customers using such service only, provided that the bank shall, for new members, indicate the personal details of customers on the form dedicated for such service, and record such data in a separate file, including specimen signature and a valid ID certified by such customer and by the bank employee, according to requirements of relevant rules. Further, the bank shall base the customer number on his ID and shall consider the supervisory aspects with respect to accounts on the remittance system, such as freezing, validating IDs, matching names, in addition to limit of dealing with active customers. The bank shall therefore link the membership account with transactions control systems. Inward Transfers and Purchased Checks:

**B. Inward transfers and checks are to be accepted in the following cases**:

- If the transfer or check is sent from a bank account to a beneficiary (natural or legal) in a branch of such bank, the transfer or check can be encashed to the beneficiary or its legal representative.
- If the transfer or check is sent from a local bank to another, it must be directed from sender's account to receiver's account.
- If the transfer is coming from outside KSA in the name of beneficiary, such transfer is not to be encashed except through a bank account.

Chapter Two

## 2.2. Rules for Bank Accounts:

Learning Objective:

2. To be familiar with Rules of Opening Bank Accounts issued By SAMA and Operation thereof.

According to the recent update of the Rules for Bank Accounts issued by SAMA on May 2023 AD, some terms can be defined as follows:

- Bank Account: An accounting record maintained by a bank licensed to operate in Saudi Arabia. Such a record is generated under a contract called "Account Opening Agreement" between the bank and the accountholder (the Customer) or its representative. The Agreement sets out the rights and obligations of each party including accounting entries posted by the bank in accordance with the applicable regulations and the acceptable rules and practices agreed upon under the account opening agreement, other agreements signed by the two parties, and other instructions given by the accountholder to the bank.
- Freezing of Account: A temporary suspension of withdrawal/transfer or the like from a bank account/relationship due to the expiration of the customer's ID; non update by the customer or his representative of KYC data (Know Your Customer – KYC) or violation of any provision of the Account Opening Agreement.
- Bank Verification: Placing the bank official stamp or the like in addition to the bank employee signature and stamp on a copy of a document or ID card to confirm that it is a copy of the original.
- Minor: A male or female under the age of 18 Hijri years.
- Curator: A person appointed by a Guardianship Deed issued by the competent courts to be a guardian of a minor.
- Guardian: The father of a minor or a person appointed by the court under a Guardianship Deed.
- Custodial Person: A person appointed by the court under a Custody Deed authorizing him/her to receive the allowances provided by public or private entities to a child in his/her custody.

The deed must clearly state the custodian's right to receive payments and allowances for the dependent.

• Legally Incompetent Person: A person not allowed to manage his/her money under a court deed that proves the lack or loss of mental capacity.

### 2.2.1 Opening of Bank Accounts:

1. Customer ID:

• The bank must obtain copies of all required documents and compare them with their originals. All copies of documents must also be stamped to confirm their authenticity.

• The bank must obtain customer's signature on the photocopy of his/her ID. The bank must ensure that no transaction shall be carried out for any customers before examining the customer's ID and verifying its validity.

• The bank must identify and examine persons authorized to sign for bank accounts.

2. Documentation Requirements to Open a Bank Account:

**A. A true photocopy of ID for natural or juristic customer**.

**B. The standard form of the current account agreement for individual and legal entity clients**: The Saudi Central Bank has issued a unified form for opening a current bank account for individual and legal entity clients. This form is standardized for all banks operating in the Kingdom under Circular No. 42024518 dated 16-04-1442 H. It includes, at a minimum, the following:

- Personal information: Name, nationality, ID type, ID number, issue and expiry date, national address, and contact numbers.
- Employment information: Employer's name, job title, and date of employment.
- Financial information: Type and amount of primary income, expected transaction volume on the account, purpose of opening the account, account type, ownership information, and board of directors' details.
- Terms and conditions of the agreement between the parties (the bank and the account holder) with the client's acknowledgment in a designated space.
- Signature form and a copy of the personal ID.
- Information and identity of the guardian/custodian/agent.

**C. Client Declaration**:

- That the client is not prohibited by law from dealing with, and that all the information provided is accurate and reliable. The client acknowledges the terms and conditions of the account opening agreement.
- That the client is responsible to the relevant authorities for the funds deposited personally or by others into the account, whether the client personally transacts with the funds later or not, and whether the client is aware or unaware of the deposit, as long as the client did not officially report the existence of such funds in the account.
- The commitment to updating personal information when requested by the bank or at intervals (specified by the bank), not exceeding five years, and providing a renewal of identification before its expiry.
- The bank's right to freeze the account or restrict certain amounts in case the bank suspects the account's use or if the amounts are suspected to be the result of financial fraud.
- That the client is the actual beneficiary of the account, and verification of such.

3. Rules for Remote Opening of Bank Accounts for Natural Persons:

• Remote opening of bank accounts may not be provided to customers who have an existing bank account with the same bank.

• The service may be provided for nationals (holding ID), and residents (holding Iqama "Residence Permit"), Allowing temporary residents (with a duration of 90 days) to open a bank account.

• Customer identity shall be verified by relying upon documents, information and data from a reliable source. (Responsibility of identification rests upon individual banks).

- Risks associated with such accounts shall be assessed, policies and procedures for mitigating the associated risks shall be established periodically, and preventive measures to mitigate risks commensurate with the risk assessment results shall be developed and implemented.
- There should be a clear and safe mechanism to activate ATM cards for bank accounts.

4. Account Information Card:

The bank must provide the customer (using any appropriate means) with account information, including the customer's name, account number and IBAN as evidence of opening the account.

5. Opening Bank Account without a Deposit:

The bank must agree to open an account for any customer without requiring him/her to deposit any amount. If no amount is deposited within a period of 90 days, then the account should be closed. Government accounts shall be excluded from such closure, as included in the approval of the Ministry of Finance to open such accounts with depositing any amounts throughout any period specified by the Ministry.

6. Service for the Visually Impaired and Illiterate:

- The bank is required to open an account for any visually impaired or illiterate customer upon request, providing them with an ATM card and a checkbook if requested. Visually impaired or illiterate customers have the right to access any of the bank's services, including phone and internet banking.
- Both the visually impaired and illiterate customers are provided with readers to guide them through the bank procedures, documents, and required paperwork.
- Both the visually impaired and illiterate customers are required to provide a thumbprint and a personal seal as a model for their signature. If either of them wishes to use a manual (hand-written) signature as a model, they are allowed to do so.



7. Foreign Currency Accounts:

Customers may open accounts in any available foreign currency. They may deposit and withdraw funds in a foreign currency. If such foreign currency is not available, payments can be made in Saudi riyal. Normal fees and expenses involved in such transactions will be borne by the customer.

8. Multiple Bank Accounts:

The customer may have more than one account at the same bank, provided that all accounts bear one Customer Information File (CIF) number. Using the same account number for a new customer is not permitted.

9. Presence of Customer:

No account should be opened for new customers without their presence at the bank. The exception is being made to cases where there are powers of attorney explicitly authorizing the opening of bank accounts and containing the personal information of both parties. Furthermore, this rule (the presence of customer) shall also be applied when updating Know Your Customer (KYC) details for the account.

10. Time Period for Opening the Bank Accounts:

Banks shall open bank accounts for natural and juristic persons, for whom no approvals from bank's concerned departments are required, within one business day if they meet all bank requirements and within two business days for those who need approvals. The applicant must be informed in writing of any missing or additional requirements upon application.

### 2.2.2 Rules for Opening Accounts for Natural Persons:

1. Natural Persons Residing in Saudi Arabia:

Natural persons are allowed to open accounts and use services provided by banks operating in Saudi Arabia pursuant to conditions regulating such services, as follows:

**A. Saudi natural persons**:

- **Male and female citizens:** Male and female citizens may open bank account by presenting their national ID (or family register for minors).
    - **Saudi natural persons exempted from personal photographs**: No accounts shall be

opened by a national ID containing a statement on exempting its holder from providing personal photo, unless SAMA receives from the Ministry of Interior an official letter to this effect and informs the bank thereof.

• **Minors:**

Bank accounts may be opened for minors as follows:

- The bank account shall be opened through the guardian, curator, or custodial person.
- The account shall be in the name of the minor, while it is operated by the guardian, curator or custodial person.
- The bank shall receive a copy of the custodianship deed issued by the competent court for the curator, or a copy of the guardianship deed where the guardian is not the father, or a copy of the custody deed for the custodial person.
- The bank shall obtain and verify the data of the family register to which the customer's information is added, as well as the national identity information of the guardian, curator or custodial person.
- When the minor reaches the age of (18) Hijri years and is still incompetent, the bank must receive a copy of the legal deed that proves the minor's condition as well as a copy of the guardianship continuation deed for the guardian or a copy of the custodianship deed for the curator.
- Exceptionally, a mature minor (15) according to the Hijri calendar, possessing a national ID, can open and operate an account on their own. However, the consent of a legal guardian or custodian is required to open the account, and a checkbook will only be issued after reaching the age of (18) according to the Hijri calendar.

• **Bank accounts of people with disabilities:**

Bank accounts may be opened for who cannot write or sign, subject to the following conditions and requirements:

- A copy of the person's national ID or Iqama must be submitted to the bank.
- The bank should approve the customer's seal instead of the personal signature on all documents and bank transactions.
- Withdrawals from the account require the personal presence of the customer at the bank branches. In the event that a customer requests services such as an ATM card, electronic banking services, telephone banking services, a checkbook, or a combination of these, the customer will be provided with these services. In this case, the customer must complete a sealed acknowledgment and commitment, endorsed by two employees of the branch, one of whom is the branch manager or their deputy, affirming that these services are under their responsibility.
- Procedures should be introduced, if necessary, to the customer by two of the branch's employees (one of them should be the branch manager or his deputy). Such employees should sign on each transaction, contractual relationship, or deposit or withdrawal document.

• **Legally Incompetent Person**: A bank account may be opened for a legally incompetent person by his/her legal representative who shall be the one authorized to sign for and operate such account. The legal representative must present the original documents supporting the authority given to him/her, along with the originals of his/her own personal identification documents as well as those of the legally incompetent person.

• Prisoners: Bank accounts may be opened for prisoners if they approach banks escorted by officers of the General Directorate of Prisons. The bank must obtain from the accompanying officers a letter by the prison management in the city where the prison is located. The letter should be addressed to the bank branch, indicating the prisoner's name and ID or Iqama number and the desire of the prisoner to open a bank account. The bank is responsible for assigning the first teller at the branch or the person in charge of customer services or any higher-ranking official to accompany the security vehicle outside the branch premises. This individual is tasked with meeting the prisoner, completing the account opening procedures, and enabling the customer to carry out operations and services provided by the bank. The prisoner is also allowed to manage and operate their account through the same procedures. In the case of a female prisoner, a prison management letter may be accepted as identification if an official identity document is not presented.

- **Children with special circumstances**:

These are children with unknown parents born in the Kingdom, children born out of wedlock, children deprived of parental care or one of them due to death, marital separation, the imprisonment of the mother, or her suffering from a severe, incurable, or contagious physical or mental illness, or any similar reason preventing her from providing proper care for her child. They reside in the housing facilities under the Ministry of Human Resources and Social Development, such as nurseries, social care institutions, exemplary education institutions, and charities dedicated to the care of orphans, or with foster families certified by the Ministry of Human Resources and Social Development. They are Saudi nationals, issued birth certificates, and provided with national identity documents upon reaching the age of fifteen according to the Hijri calendar.



Bank accounts for these children are opened based on a letter from the Director-General of Orphans Care or the Director-General of Social Affairs at the Ministry, accompanied by a copy of the child's birth certificate, authenticated as a true copy by the institution, the ministry, or the bank if presented to them. Withdrawals from the account can only be made with a letter from either of two authorities: either the ministry's representative for social development or the ministry's assistant representative for care affairs.

For children residing with foster families, when these families apply to open an account for the child, the account can be opened in the child's name after obtaining a certificate from the Ministry, issued by the Director-General of Orphans Care or the Director-General of Social Affairs in different regions of the Kingdom. This certificate specifies the child's name, the fostering family, the names of the citizens, their spouses, and a verified copy of the birth certificate. Additionally, the family's identity document and personal information are required. The account can be managed by the family for deposits and withdrawals until the child reaches the age of eighteen. The national identity document is accepted when the child reaches the age of fifteen according to the Hijri calendar, serving as an alternative to the birth certificate.

**B. GCC Natural Persons**:

The bank may open accounts for GCC natural persons, after obtaining a copy of the customer's national ID, his/her address in Saudi Arabia (proved by a service invoice, residential lease agreement, real estate ownership deed–or an original copy thereof, or a testimony by a Saudi person stating that the customer resides in the mentioned address), and his/her address in his/her home country. A GCC natural person is allowed to authorize a Saudi person or a another GCC citizen to open and operate his/her bank accounts.

- **Bank accounts for heirs**:

In the event that the bank receives an official notification of the account holder's death or confirms the occurrence of the death, the bank is required, in accordance with relevant regulations, to implement the following controls:

- Transfer the account title to an account named "(Heirs ............)" or open a new account with this name.
- Accept a probate certificate (or a true copy) as proof of identity to continue the existing account or open a new account for the balances.
- Adopt the probate certificate number as the account's identity, with its date being the date of issuance and the place of issuance being the court that issued the certificate.
- The authority to sign for the heirs may be either collectively or individually, and the bank is required to document the personal information of the heirs, as well as the authorized agents and the legitimacy of the agency/agencies in the account file with the bank, and

obtain copies of their identification documents.

- The account's validity is determined for a period of one year from the date of appointing the authorized agents, with the account being updated annually.
- Checks may be issued for these accounts, but the issuance of ATM cards or credit cardsis not allowed.

• **Judicial Guardian: Bank accounts for judicial guardians are opened after fulfilling the following conditions, documents, and procedures**:

- A copy of the judicial decision appointing the judicial guardian and specifying their powers.
- A copy of the identification document for the judicial guardian.
- A copy of the judicial guardian's license unless appointed by relevant authorities.
- A copy of the documents related to the place under guardianship dispute, issued by the judicial authority (such as the probate certificate if the dispute involves an inheritance or the founding contract and its annexes if the dispute involves a company).

**C. Expatriates in Saudi Arabia:**

• Expatriate holding residence permit (Iqama):

The bank may open bank accounts for expatriates holding residence permits (Iqama) after obtaining a copy of Iqama. Such Iqamas might be issued by the Passport Department against the applicable fees or free of charge, such as Iqamas issued to students of universities, students of military colleges, and students of institutes, who obtained scholarships or training approvals, or might be issued by the Protocol Affairs at the Ministry of Foreign Affairs or the like. In addition, the bank should obtain the expatriate's address in Saudi Arabia as well as his/her address in his/her mother country.

• **Expatriate Dependents (whose Iqamas include a statement indicating that they are dependents and are "not authorized to work")**:

The bank may open bank accounts for expatriate dependents whose Iqamas indicate that they are dependents and not authorized to work in Saudi Arabia. The bank shall comply with instructions related to expatriates' bank accounts. If the bank suspects that the bank account is being used for illegal purposes or it finds out that the deposited funds are from the work of those dependents and not from their families, then the bank must inform the Saudi Arabia Financial Investigation Unit (SAFIU).

• **Expatriate with a temporary (90-day) work visa in his/her passport**:

Bank account may be opened for expatriates whose employers are individuals, institutions, official entities, or companies in order to transfer or deposit their salaries and financial entitlements during the temporary residence period.

• **Expatriates with a visit visa to carry out certain assignments for entities in Saudi Arabia**:

A bank account may be opened in Saudi riyal for an expatriate holding a government visit visa to carry out certain assignments for a government or quasi-government entity or for any other juristic entity contracting with a government or quasi-government entity in Saudi Arabia, for an expatriate holding a business visit visa (provided for employees of companies and institutions), or for an expatriate holding scientific or professional visit visa and the like.

• **Foreign Pilgrims:**

A foreign natural person having a Hajj identification card issued by the Ministry of Hajj and Umrah, pilgrim guiding institutions, or others, permitting him/her to perform Hajj, is not allowed to open bank accounts.

• **Expatriates working in Saudi Arabia without Iqama**:

No bank account may be opened for an expatriate working under (monthly or annual) employment contract for any entity in Saudi Arabia without a valid Iqama. In this case, an explicit approval from the Ministry of Interior must be obtained for each case and should then be communicated to the bank through SAMA along with any applicable procedures.

• **Valid Iqama Holders Without Passport**:
Bank accounts may be opened and maintained for expatriates having valid Iqama including the word "without" next to the "nationality", by providing their Iqama only. No passport, copy or number thereof, shall be required.
• **Expatriates Having Saudi Passports**:
No bank account may be opened by presenting a Saudi passport issued to some expatriate individuals. Such an expatriate must present a valid Iqama, and the validity of his/her Saudi passport shall not be required. However, where the expatriate has no identification document except his/her Saudi passport, the approval of SAMA shall be obtained for opening the account. Such approval shall include a reference to the approval of the Ministry of Interior. Once the account is opened, SAMA shall be provided with the number of the account and address of the expatriate. The bank shall classify this type of accounts as of high risk to be subject to continuous monitoring.

**D. Tribe members: Displaced tribes/Ar Rub' al-Khali tribes**:
The bank may open accounts for those tribal individuals residing in Saudi Arabia, and the validity of their accounts should be linked to the validity of their Iqamas. The bank must obtain the individual's Iqama which has a statement in the "nationality" space that reads "tribe members", "displaced tribes", or "Ar Rub' alkhali tribes". The supervisory and control requirements implemented on expatriates residing in Saudi Arabia, stated herein, shall apply to this category of customers.



**E. The Beluchis and Turkistanians**:
Bank accounts may be opened for Beluchis and Turkistanians by presenting a valid Iqama. The bank should not require such customers to present the original passport or a copy thereof. Before opening a new account, updating an existing one or effecting any other banking transactions, the bank shall require the customer to identify his/her address in Saudi Arabia and submit an employment letter. Such letter should be authenticated by the Chamber of Commerce or the official organization the customer is employed under its supervision. If the customer does not work and his/her Iqama has no employer mentioned, he/she shall be required to present a letter from the mayor of the area (district, governorate or town) where he/she lives, duly authenticated by the police station of the area of such mayor. In addition, the addresses mentioned in such letter should be clear enough to allow easy access to him/her when necessary. Such requirements shall be updated annually.

**F. Expatriate stewards and stewardesses of the national airlines, expatriate ship crews and the like**:
Bank accounts may be opened by presenting a valid visa included in the passport. The visa should be checked against the identification card provided to such individuals by their employers. The bank account validity shall be identical to the validity period of visa or renewal period thereof.

**G. Bank accounts for employees of enterprises wishing to pay employee salaries through prepaid electronic records**:
The bank may allow its customers to pay the salaries of their employees through prepaid electronic records. In doing so, the bank must comply with the provisions of the Regulatory Rules for the Prepaid Payment Services in the Kingdom of Saudi Arabia.

**H. Credit cards for non-resident foreigners employed by resident Saudi companies:**
The bank may issue credit cards to a selected, limited category of non-resident foreigners employed by a limited category of major Saudi companies having relationship with the bank. Such employees should have jobs that necessitate moving from a place or country to another (such as private airline pilots, stewards and stewardesses), and they do not have residence cards for any country where they go, including Saudi Arabia. The Saudi company hiring such employees is responsible for covering their local and international transportation expenses by credit cards
The bank must adhere to the following conditions:

- Issue credit cards for employees of the Saudi-based company they work for.
- The company should have a good credit reputation and financial standing.
- All individuals for whom credit or debit cards are requested should be employees of the company, and the required documents proving this must be provided.
- The company must guarantee the responsible use of the issued cards by its employees and bear any consequences arising from their use.
- The company is obligated to settle all card dues, not the employees to whom the cards are issued.
- The credit limit for each card should not exceed the limit set by the bank for other customers, depending on their card category.
- The bank and the company must operate under a formal agreement before issuing these cards.
- The bank should be provided with the signed agreement between the company and its employees, outlining the responsibility for issuing and using these cards.

2. Natural persons outside Saudi Arabia:

**A. Saudi citizens residing outside Saudi Arabia:**

Saudi citizens residing outside Saudi Arabia for study, medical treatment or official work (such as in embassies, consulates, or multilateral organizations) may open bank accounts upon the following:

- Providing a copy of the passport.
- Providing a copy of the national ID.
- Submitting a specimen signature.
- Completing the account opening form or authorizing a Saudi citizen to open the bank account.
- Obtaining verification of such documents from the Saudi embassy or consulate in the foreign country.

**B. GCC nationals not residing in Saudi Arabia:**

Bank accounts may be opened for GCC nationals who are not residing in Saudi Arabia, directly by themselves or by a Saudi or GCC citizen authorized by a power of attorney. The bank should obtain the following documents from such individuals:

- Photocopy of Personal ID
- A copy of the valid passport (if any)
- An employment letter from the entity for which he/she works, or from his/her personal business.
- A completed account opening form.
- A specimen signature.

Such documents shall be obtained by the employees of the local bank directly or by the correspondent GCC bank in the GCC country where such individual resides. The GCC bank shall authenticate all documents obtained, and all deposit, withdrawal and transfer transactions shall be effected through the correspondent bank. Receiving such documents and effecting deposit, withdrawal and transfer transactions are also possible through a correspondent bank in the GCC country where the GCC citizen resides. No cash deposits by third party shall be accepted.

**C. Non-Saudi and non-GCC natural persons not residing in Saudi Arabia:**

The bank shall not open an account in Saudi riyal or in any foreign currencies, or any other account, for non-Saudi and non-GCC natural persons not residing in Saudi Arabia unless written approval from the Ministry of Interior or the Ministry of Foreign Affairs is received through SAMA. If so, the account may be opened by the passport of the individual.

### 2.2.3 Supervisory and control rules on bank accounts:

1. Electronic Record:

For the purpose of setting up a unified electronic database for bank accounts, all banks shall establish an electronic registration system, as a basis for opening, operating, and following up bank accounts as follows:

**A. Saudi natural persons:**

- Banks must have in place an electronic record for all Saudi nationals having, as a minimum, the following:
  - The full name (first, second, third and family name) as shown in the ID.
  - Civil Registration
  - ID expiration date
  - Full address in KSA and contact details
  - Employer (if any)
- Information used shall be based on the national ID, family register for minors, or birth certificate for people of special circumstances staying at housing centers of the Ministry of Human Resources and Social Development and shall be obtained from reliable sources.



**B. GCC natural persons:**

- Banks must have in place an electronic record for all Saudi nationals having, as a minimum, the following:
  - The full name (first, second, third and family name) as shown in the ID.
  - ID number
  - ID expiration date
  - Nationality
  - Address and contact information.
  - Employer (if any)
- Information shall be obtained from the national ID and from reliable sources, or a family register, palace record, or birth certificate for residents with special circumstances at the accommodation branches under the Ministry of Human Resources and Social Development should be obtained from reliable sources.

**C. Non-Saudi natural persons:**

- Banks must have in place an electronic record for all Saudi nationals having, as a minimum, the following:
  - The full name (first, second, third name and family/surname) used in passport or Iqama (residence permit)
  - Nationality
  - Iqama (resident permit) number and its expiration date.
  - Full address in KSA and contact details
  - Employer (if any)
- For persons holding Iqama cards with five-year validity period that is given to some tribe members, the full name, number and validity date of the card shall be written.
- No accounts may be opened for expatriates holding Saudi passports except with the approval of the Ministry of Interior through SAMA.

2. Requirements for Inspection Purposes:

Banks shall use an electronic search system to perform the routine search according to information required in the electronic records under each category. Such search shall cover all transactions, relationships, products and services offered to customers in addition to express transfers and investment deposits.

3. Freezing of Bank Accounts Upon Expiration of Identification Documents:

As a rule between banks and customers, the relationship must start and continue under valid identification documents and IDs for all transactions, whether those covered by the definition of bank account in Chapter I or other contractual relations or account related services.

**a. Saudi natural persons:**

Banks are required to freeze all accounts of Saudi natural persons upon the expiration of their documents unless the client provides a renewal or a valid national identity document as an alternative to any expired document. The bank can verify the client's identity renewal without their presence at the bank by using a reliable and independent source, documenting the verification. The following are the approved documents for this category to open or continue their bank accounts:

National ID Document: The account is frozen 90 days after the ID expiration date, and the account can only be reactivated upon ID renewal.

Family Register for Minors: The account opened for a minor is frozen based on the family register after five years from the account opening date or five years from the account update date. The minor does not need to be present; their guardian or custodian is sufficient. The bank must inform the guardian or custodian 90 days before the minor reaches 15 years of age to update the client's account information and obtain the national ID document details of the minor.

Birth Certificate for Individuals with Special Circumstances: The account is frozen when the minor reaches the age of fifteen. The account can be reactivated upon the submission of a valid national ID document or a letter from the Ministry of Human Resources and Social Development requesting the continuation of the account until the minor reaches the age of eighteen.

**b. Non-Saudi natural persons:**

Banks shall freeze all accounts and transactions of all non-Saudi natural persons after (90) days of the expiration. After (180) days of the expiration of the ID, the account balance shall be transferred to a unified account created by the bank for such cases. After 5 years from the date of last transaction/dealing carried out by the customer in his/her account, the balance shall be transferred to the suspense account created for unclaimed accounts and all outstanding obligations of the customer during and after this period shall be met. The accounts of expatriates must also be closed upon their final exit.

### 4. Updating the customer's ID:

Customer identification must be established at the outset of relationship. As a measure of control, banks must require all their customers to update the database of their accounts with the bank according to the cases and the periods provided in these Rules. The updating process must include the customer ID, personal information, national address, financial information including personal information of the customer's authorized representatives/agents and information of the beneficiary of legal persons. Banks shall establish permanent procedures and policies.

### 5. Inoperative Accounts:

Accounts, relationships and transactions shall be considered non-moving after two calendar years from the date of the last financial transaction carried out by the customer, his/her authorized representative, or his/her heirs. The purpose of this Rule is to keep accounts active, save the customer assets (money) that have not been used for recorded debit transactions or documented correspondences during the period specified, The Rule also supports communicating with customers, returning the rights to their owners upon request immediately after the completion of documents and necessary procedures.

Durations, periods and requirements for dealing with inoperative accounts:

- **Active accounts**:

  Transactions are considered active if the customer, their authorized agent, or their heirs have not executed any financial transaction (withdrawal or deposit, depending on the nature of the relationship) within the last twenty-four months, either recorded or reliably documented.

- **Dormant accounts**:

  Accounts shall be considered dormant after (24) calendar months from the date of the last recorded debit transaction carried out by a customer or his/her authorized agent or registered heirs or the last reliable and documented correspondence. The requirements for dealing dormant accounts are as follows:

- Activation of dormant accounts shall be subject to double supervision with higher authority, one of which includes the branch manager or the branch operation manager.
- Withdrawal and transfer transactions on a dormant account shall only be accepted in the presence of the customer (natural person), the customer's legal agent holding a deed allowing him/her to operate the account, the agent of the customer's heirs.
- Dormant accounts shall be allowed to accept all deposits, domestic and international transfers and dividends made by another person other than the account holder. The account status shall not be changed from dormant to active due to carrying out such transactions.
- This shall be applied to all customers, including those who have other active accounts. Banks are required to contact customers and inform them of the action to be taken on his/her account before completing five years if such customers have other active accounts. Customers shall also be asked to activate the account by carrying out a transaction.



• **Unclaimed accounts:**

Requirements for dealing with unclaimed accounts: Accounts shall be considered unclaimed after completing five years (60 months), including the dormant phase, from the date of the last recorded debit transaction or reliable and documented correspondence, and the bank becoming unable to reach the customer after using all methods of contact. Requirements for dealing with unclaimed accounts are as follows:

- Banks shall transfer the balance of the account within the month following the five-year period to the bank's suspense account created for unclaimed accounts.
- Such accounts shall be classified in the suspense account to be easy to deal with and manage according to the different communication policies and procedures and supervision aspects.
- Unclaimed accounts shall be allowed to accept all deposits, domestic and international transfers and dividends made by another person other than the account holder.
- Banks shall completely conceal the customer signature and balance from the branch screens during this phase. Supervision on such accounts shall be limited to the Head Office.
- If the customer visits the bank to activate the account or withdraw the balance, the customer may open a new account to which the outstanding balance in the bank's records can be transferred, or may receive the balance by check or bank transfer after confirming the identity of the customer; legal agent; the agent of the customer's heirs or the person authorized to manage and operate the account (as the case may be).
- Balances of such accounts shall be recorded as liabilities in the bank balance sheet. Banks shall not take any action regarding the balances regardless of the balance limit, the subsequent period and the account type.
- Banks may close accounts with a balance of SAR (100) or less. However, all customer data and balances shall be kept in the suspense account. If the account holder visits the bank to claim the balance later, the balance shall be returned.

• **Abandoned accounts**:

Accounts shall be considered abandoned after completing the periods specified in this paragraph from the date of classifying the accounts as unclaimed, and the banks becoming unable to reach the customer after observing the account movements and his/her other transactions with the bank and using all methods of contact according to the communication policies and procedures provided in the Rules. The periods of such accounts shall be as follows:

• **Unclaimed for a period of ten years:**

(total of 15 years as of the last transaction) for current accounts, saving accounts, investment deposits, balances of deceased persons and credit amounts in credit cards.

- Unclaimed for a period of five years (total of ten years as of the last transaction) for bank transfers, safe deposit boxes, retained earnings, unpaid amounts and profits due to customers on their investments, shares; bonds and title deeds of properties pledged against banking facilities that are fully paid by their owners, but they do not contact the bank to regain their ownership, amounts held against letters of guarantee and letters of credit as of their expiry date, leasing finance settlement accounts, prepaid services accounts, and other amounts due to customers and accruals related thereof.

Requirements for dealing with abandoned accounts:

- Banks shall change the account status to abandoned within the month following the completion of the periods specified.
- Such accounts shall be under direct supervision of an authorized official from the bank senior management.

6. Implementing the "Know Your Customer" (KYC) principle and anti-money laundering and counter-terrorism financing requirements:

Banks shall fully apply the KYC principle, provided that the primary purpose of the application is for the bank to be fully aware and have a complete picture of the customer and the nature of his/her activities and transactions, prior to or during the business relationship or the process of opening the account, or prior to carrying out a transaction to a customer with whom it has no business relationship, by assessing the risks that the customer may impose on the bank and the level of such risks. The identification of customers and assessment of risks shall be made while ensuring the fulfillment of all statutory requirements of opening accounts or starting a business relationship.



7. Curators, Legal Agents, Custodians and Authorized Persons (Natural or Juristic):

Banks shall ascertain the nature of the relationship for natural curators, legal agents, custodians and authorized persons when opening accounts and check the validity of the documents submitted.

8. On-Going Monitoring of Accounts and Transactions:

Banks should have appropriate systems in place to monitor the customer's transactions and activities and identify any suspicious or wrong behavior. Manual transaction monitoring is not sufficient and banks shall invest in developing electronic systems in accordance with the best standards in monitoring and information security and protection to continuously monitor customers' transactions.

9. Disclosure of and Enforcement on Bank Accounts, Balances and Relationships:

Taking into consideration the Central Bank's instructions regarding providing governmental and non-governmental entities with documents, information, and data related to customer bank accounts, disclosure of balances, accounts, and banking relationships, and enforcement actions (such as freezing and compulsory deduction) shall be carried out by order of the Central Bank based on requests from duly authorized entities.

- Execution on banking relationships includes freezing, compulsory deduction, issuing checks, and transferring amounts from a bank customer's account.
- Procedures for disclosing balances, accounts, and banking relationships and enforcing them at all stages shall be treated with utmost confidentiality, and receipt of these requests shall be limited to the Central Bank, except as otherwise exempted by its issued instructions.
- Banks are obligated to execute requests for disclosing balances, accounts, and banking relationships and enforcing them in accordance with the form, method, and deadlines specified by the Central Bank.

10. Providing Services to Customers with Disabilities and Giving them Priority:

- The bank should give the optimum priority and care to customers with disabilities in a way that facilitates the procedures of providing banking services thereto.
- The bank is required to provide the issuance of electronic banking documents in both Arabic and English upon the client's request. These documents include:
- Bank Certificate: Proof of an existing relationship between the bank and the client, including the account number, opening date, and the balance as per the client's request.

- Debt Statement: A document indicating the client's outstanding debt to the bank, the amount, and the remaining balance.
- Account Statement: A statement showing the account balance and transactions during a period specified by the client.
- Clearance Certificate: A document issued by the bank confirming the absence of any financial obligations towards the client.
- Account Number Certificate.
- International Bank Account Number (IBAN): Proof of the client's International Bank Account Number (IBAN).

### 2.2.4 General Rules for Operation of Bank Accounts:

- The bank account shall be operated originally by the account holder or other persons authorized by the account holder and approved by the bank. Where applied, the authorization remains valid until the account holder notifies the bank of its cancellation, it expires (after five years), or the authorized person's ID expires and no renewed ID is presented to the bank. The authorization for operating and cancelling the bank account shall be granted through a power of attorney or an authorization letter prepared at the bank. E-services may be used to verify the authorization.



- Saudi individuals (whether account holders or authorized to operate the account) are not allowed to operate bank accounts, encash personal checks, make transfers, or carry out any other credit transactions to their order or to the order of a third party unless their valid national IDs are registered in the bank's automated system. The exceptions to this rule are customers of bank branches at airports, who are traveling abroad; in such case, the customer is required to present his/her passport and boarding pass, and the bank branch shall in turn check customer's name against documents submitted.
- The authorization to operate bank accounts on behalf of juristic entities shall be granted by competent individuals who are permitted to give such authorization. The official approval for such authorization shall be granted by the concerned public or private entity. The approval may come from the board of directors, the partners, the employer, any person designated by the owner (or the person in charge) of the entity, a party determined in the agreement concluded between the bank and the concerned entity, or other parties as per the jurisdiction.
- Any authorization granted by a Saudi individual to a non-Saudi or a non-GCC individual to operate his/her personal accounts shall not be accepted by the bank. The only exception is when a Saudi individual authorizes his/her non-Saudi wife/husband, father, mother, son or daughter, provided that the authorized person has a valid Iqama.
- **Rules Pertaining to Deposit in Bank Account**:
  - **Bank Teller Deposits:**

  Banks must give equal importance to cash and check deposits in accounts corresponding to the importance of withdrawals from those accounts. As a minimum control requirement, the complete personal data of the depositing client must be provided and signed. The bank should also consider the amount and nature of other information that it must collect from depositors based on the type and nature of each deposited amount, its volume, and its frequency in various circumstances, as well as the depositor's relationship with the account holder or the nature of their business. The bank should apply the following principles and examples:

    1. When an individual makes a deposit personally in their own name or in the name of another individual or legal entity, other than in a bank account for which they are the account holder or for another natural or legal person, the bank must collect the personal data of the depositing individual. This includes their ID number, full name, address, phone number, and signature

2. In the case of an individual making a deposit on behalf of a legal entity (such as a foundation, company, shop, or any other entity) that they do not own or are not authorized to manage its accounts, the bank must fulfill the following requirements in addition to those mentioned in the previous case:

a. Purpose of the deposit on the deposit slip.

b. Name of the principal depositor (legal entity) and the representative's name and details as outlined above, recorded on the deposit form, and not limited to the company's name and representative alone.

c. The depositor (natural person) must provide a power of attorney from the principal depositor (legal entity).

**- Deposit via Cash Acceptance Machines (CAM) and Automated Teller Machines (ATM):**
Deposit via Special Deposit Card at ATMs:

• Banks are allowed to issue smart cards specifically designed for cash deposits through the bank's ATMs, using only the assigned Personal Identification Number (PIN).

• All natural or legal persons have the option to unlock their frozen accounts, due to the expiration of their identification or failure to update their information, through a single transaction. This is conditional on the client submitting a written request using a form provided by the bank. The procedures outlined in the bank's account freezing instructions will be applied, with the client required to submit a written request using a form provided by the bank. The procedures specified in the bank's account freezing instructions will be applied.

• In case the account, after being opened, faced problems as to verification of the banking relationship, and it was not possible to resolve these problems, or the relationship with the bank is used for other purposes, then the bank should close the account and return the balance of the fund to the source. If the verification problems are related to suspicious transactions conducted by the customer (Money-Laundering/ Terrorist-Financing or the like), the bank shall enforce the relevant instructions set forth in Rules Governing Anti- Money Laundering & Combating Terrorist Financing, including reporting.

• If the account is opened, the customer deposits funds into it and then reduces his/her balance to zero, and the account has remained inactive or with zero balance for 4 years, the bank shall then close the account after verifying that it has no related commitments or obligations. Prior to account closure, the bank shall send one month's notice to the customer. Another notice shall be sent to the customer upon account closure. The bank must document and keep all notices sent in the customer's file. Further, the bank shall include terms on bank account closure in the main body of the account opening agreement or add such terms as an attachment appended thereto if it is difficult to modify the account opening agreement.

## 2.3 Commercial Papers in the Kingdom of Saudi Arabia:

Learning Objective:

3. To be familiar with commercial paper, check provisions and their legal features, and to identify certain cases of checks to determine how to deal with each case in accordance with local customs and applicable banking rules.

### 1.3.2 Types, Characteristics and Functions of Commercial Papers:

Commercial Papers are instruments written according to specific negotiable forms, representing a right to a specific sum of money payable on mere sight, or after a definite or determinable time. Commercial Papers are customarily recognized as a payment instrument instead of money.
The Saudi Law of Commercial Papers determines three types of commercial papers namely: bill of

debt, promissory note and check. The Law did not specify a definition for each type of such papers, like most foreign laws, leaving this task to legal scholars and judicial rulings.

- **Main Characteristics of Commercial Papers:**
  - They are negotiable between people by way of endorsement or direct handling.
  - They represent a due amount, as such papers involve payment of a specific amount out of the total due amount in a specific time for the benefit of another payee.
  - It presents a debt due on demand, or after a period of time, so that its bearer can deposit it in a bank to collect its value.
- **Commercial Paper Functions:**
  - It is a way to conclude a payment agreement, to transfer money to a specific party.
  - It is a payment tool, to settle debts between traders.
  - It may be a credit instrument, as it involves a maturity date.

### 2.3.2 Bill of Debt:

Chapter Two

Bill of debt includes an order from the drawer to the drawee to pay an amount of money to a third party. Bill of debt involves three parties: drawer, drawee and the payee, and is produced in the form of a payment order.

According to Article (1) of Law of Commercial Papers, bill of debt includes the following data:

a. The word (bill) is written on the body of the instrument and in the language in which it was written.
b. Unconditional order to pay back a specific sum of money.
c. Name of the person to pay back (drawee).
d. Due time.
e. Place of payment.
f. Name of the one to be paid for.
g. Date and place of creating the bill.
h. Signature of the person who created the bill (the drawer).

**The check short of the data on the aforementioned article is not considered a bill, except in the following circumstances (Article 2):**

- If the bill were short of the due time datum, it shall be paid when viewed.
- If it were short of the payment place datum or the drawee's domicile datum, the place written beside the name of the drawee shall be considered the place of its payment and the domicile of the drawee.
- If it were short of its creation place datum, it shall be considered created in the place of the name written beside the name of the drawer.

### 2.3.3 Promissory Note:

A written instrument in a form specified under the Law, in which one party (maker or issuer) promises in writing to pay a specific sum of money to the other (the payee). Such instrument constitutes only two parties, the issuer (drawee) and the payee. Acceptance is not required in promissory notes because maker of promissory notes himself/herself promises to make the payment, and therefore conditional guarantee is not accepted. Such instrument is produced in the form of a promise to be fulfilled.

The Law of Commercial Papers addressed the promissory note in four Articles (87-90). According to Section II Article (87) of such Law, the promissory note includes the following data:

A- The condition or phrase (order document) written in the text of the document and in the language in which it was written.
B- An undertaking not subject to a condition to pay a specific amount of money.
C- Due date (maturity):
If the order document lacks a maturity date, it does not lose the obligation to be fulfilled

upon inspection.

D- Place of payment (maturity):

Usually, the place of payment is the domicile of the drawer, and if no place of payment or domicile of the drawer is mentioned, the place of creation of the document is considered the place of payment and the domicile of the drawer.

E- Name of the payee or the person to whose order the payment should be made.

F- Date of creation of the document and the place of its creation.

G- Signature of the drawer (creator of the document).

### 2.3.4 Check:

A draft editor according to a specified format defined by the system involves an order from a person called the drawer to the drawee (who is a bank) to pay a certain amount of money upon presentation to the drawer himself, a specific person, his order, or the bearer, each of them referred to as the payee.

#### 1. Issuance Requirements and Provisions of Check:



Banks prepare forms for the check and provide them to their customers. Each "check paper" shall include name of the customer and number of his account with the bank. As for the rest of data (i.e. check issue date, beneficiary name, amount withdrawn from the bank and place of drawer's signature), shall be left blank for the customer to fill in personally. The following mandatory data shall be included in the check:

a. The word "check" is written on the content of the instrument in the language in which it was written.

b. An unconditional order to pay a specific sum of money at sight, issued by the drawer to the drawee, the matter that involves a specific amount of cash. In addition, the order must be unconditional, because nature of the check as a fulfillment instrument is like cash, which shall be payable at sight. Thus, checks involve an order to pay a specific amount of money, which shall be unconditional or dependent on occurrence of an event, otherwise the instrument is no longer a check.

Therefore, it is not valid for a check to include a phrase like "Pay the amount we agreed upon" or "The balance in my account" because this does not indicate the due amount, which is inconsistent with nature of cash transactions. However, if such phrase does not mean suspending the payment on a binding condition such as "his salary payable for January 2016", which may not invalidate the check and shall be considered a declaration of check amount or the reason for issuance.

Check amount in words and figures: the amount written in figures may differ from the amount written in words, in such case, the amount written in words shall prevail. If the amount is written several times (more than once) in words and figures, the lower amount shall be considered according to the Law.

c. Name of the party liable to pay (the drawee): the check must indicate the drawee bank, and if the check is produced without such indication, it shall be invalid and non-disbursable.

d. Place of payment: if the check does not include place of payment, it must be payable at the domicile of the drawee.

e. The date and place of the cheque's creation are crucial elements according to the system. A cheque without a date is rejected. It's worth noting that the validity of the cheque is either 7 or 9 months, depending on whether it was created within the Kingdom (7) or outside it (9). The significance of the date lies in its role as the starting point for calculating the expiration, determining the drawer's eligibility at the time of cheque creation, and confirming the availability of funds for payment.

As for the place of creation, it is the location where the cheque was issued. If the place is not specified, it is considered to be where the drawer's name is mentioned. Consequently, the cheque does not lose its value if it lacks a place of creation (as long as the place is indicated alongside the drawer's name).

f. Signature of the drawer: the check shall carry the drawer's signature. An instrument shall not be considered as a check if it was short of such signature, as it thereby lacks a main element. The check shall carry the signature of its drawer, expressing its willingness to fulfill the amount of such check.

The customer shall sign the check exactly like its specimen signature with the bank on specimen signature card. The check may be signed by the drawer's authorized representative.

The check may be signed by way of signature, stamp or both. As for fingerprinting, the bank official shall be present for ratifying such fingerprint (SAMA's instructions require signing by customer's fingerprint and stamp). The signature must be at the end of the check and nowhere else. It should be noted that if a check does not indicate name of the payee (beneficiary), it should be considered for the order of its bearer according to the Law.

**Based upon the aforementioned, the parties to a check may be determined as follows:**

a. **Drawer**:



The person who issues the check and the bank accountholder from which the check is to be paid. The check must include the drawer's signature, which is one of the main data that must be indicated in a check. Otherwise, the check has no legal validity.

b. **Drawee**:

a. The bank where the check can be presented by the drawer to pay its value to the beneficiary (payee).

c. **Payee**:

The person to whose order the check was issued (also called "Creditor"). The name of the payee shall be clearly written to prevent any identification issues when the check is presented to the bank for payment. Such name shall be included in the order phrase (i.e. "to the order of" or "to the permission of") on the check, whether before or after the payee's name.

1. Presenting the check and its payment:

• The check is due paid once viewed and every statement in violation of that is considered none. In addition, if the check is presented for payment before the specified date, it shall be paid on the day of its presentation.

• If the check is drawn to two places with different calendar, its issuance date shall be matched to the day equivalent to the payment place calendar.

• The drawee shall pay the value of a check even if its presentation date has passed. In addition, the drawer's objection to paying the check is accepted before its presentation date has passed only in case of its loss, or the bankruptcy of its bearer, or something making them not liable. If the drawer has passed away or has gone bankrupt, or has lost their liability after issuing the check, this does not absolve them of their responsibility.

• If several checks have been presented all at once and the concurrent consideration is not enough to cover them all, the dates of its drawing shall be taken into consideration. If all the checks presented were cut from the same checkbook, and bear the same issuance date, then, the numerically preceded check has the upper hand.

• If it is conditioned that a check be paid in the Kingdom with a currency not circulated therein, the payment of its sum shall be paid on the date of the check presentation with the currency circulated in the Kingdom according to its price on the day of payment. If the payment has not taken place on the day of presentation, then the bearer has the option of demanding either the sum of the check in the currency circulated in the Kingdom according to its price on the day of presentation or on the day of payment. If the check has been presented for the first time after the passage of its presentation day, then, it shall be gone by the price of the day on which the presentation day has ended and the commonly recognized laws in the Kingdom in terms of the oreign currency circulation shall be followed. However, the drawer may determine on the check the price according to which the sum due to be paid is calculated. Further, if the sum of the check is determined by a currency bearing the same name but its value in the issuance country differs from its value in the payment country, then this means currency of the payment country. When a case in which the check cannot be cashed is applied, an objection sheet is issued to be delivered to the check holder, and there is no procrastination for any reason. A model for the objection to the check is prepared by SAMA and must be attached upon return of check to the clearing house or to the customer submitting the check, for each check. All the information and data of the Drawer to be recorded in the objection paper must be fulfilled before it is delivered to the beneficiary so that it does not impede the course of justice in dealing with such cases.

The Law of Commercial Papers states: "The drawee shall pay value of a check even if its presentation date has passed, except in case of its loss, or the bankruptcy of its bearer, or something making them not liable". The cases in which the check is considered lost are:

1) If the drawer's check is lost before delivering so to the beneficiary (payee).
2) If the issuer lost the bank check before handing so to the beneficiary (payee).
3) If the beneficiary lost the check – personal or bank check – before receiving its value from the bank.



In case the drawer customer informed the bank that he lost a check previously issued to a beneficiary, such customer may present an objection, regarding payment of the lost check, including check number, date, amount, name of beneficiary, and circumstances of its loss. The objection must further include customer's acknowledgment that the bank may, when it ensures that the check is in possession of the principal beneficiary and not endorsed for other party, such beneficiary submitted such check to the bank for payment on its presentation date. Such check fulfils the formal conditions and carries the drawer's valid signature and check's value was available in the account of such customer (drawer). Consequently, the value of such check shall be released directly to the beneficiary without referring to the drawer. Such objection shall include a reminder to such customer of the provisions of Article (118) of the Law of Commercial Papers.

## 2. Endorsement:

The check is a negotiable instrument, so the beneficiary may therefore transfer the check value for the benefit of another person, and this assignment is tantamount to ownership transfer and varies according to the form of the check:

- As for nominative check, or check that contains the expression ("not to order") or any other statement that implies non-endorsement (e.g. "not endorsed"), the right in such check shall be transferred through assignment.
- As for check is for its bearer – the right in such check shall be transferred delivery or handling from one to another without taking any other procedures.
- As for order check/ to the order of a beneficiary – such check shall be circulated by endorsement. For a check to be endorsed, the following shall be fulfilled:
  A. The order shall be mentioned in the check.
  B. The endorser shall sign on the check.
- Types of Endorsement:

  **a. Blank Endorsement:**

  The principal beneficiary signs on the back of the check without indicating name of the endorsee. Such endorsement is thereby called blank endorsement (uncommon/not preferred in KSA).

  **b. Special Endorsement:**

  If the name of the endorser is mentioned, it thereby becomes a special endorsement. Such endorsement is the most common within KSA.

  **c. Restricted Endorsement:**

  If the customer deposited a check in his account to be encashed, which is drawn from another bank, endorsement of the beneficiary is called restricted endorsement. The purpose of such endorsement is to collect value of the check and deposit the same in customer's account.

The teller shall, in verifying an endorsement, observe the following:

- If the check's beneficiary involves more than one person (e.g. two), then each of them must sign on the back of the check unless one of them is authorized on behalf of the other. In this case, the beneficiary must sign once for himself and again as a representative for the other person.
- If the endorsement is specific to a person by stating only a word or account, it shall be deposited in this account or disbursed to that person only, such person shall not be entitled to endorse this check again.

### 3. Crossed Check:

A check that is crossed with two parallel lines with a gap between them. The purpose of drawing these two lines is to draw the attention of the drawee bank to refrain from paying the amount of the check unless presented by a bank or from a customer of the drawee bank, depending on whether the crossing is general or private.



The purpose of check crossing is to reduce the risk of its loss or theft. Therefore, the Law required that the payment of the crossed check should be made to one of the banks, not to an individual or another person. In simple terms, the check amount may not be collected except through a bank so it is difficult for someone who finds the check, in case of loss or theft, to collect its value by himself, and even assign a bank to collect its amount. The reason is that the bank may pay the value of such checks only for the account of its customers whose identities are confirmed, and may not accept to collect the check amount for the account of others, unless after verifying identity of the check holder.

Only the check drawer or holder may carry out the crossing process, which takes one of the following two forms, special or general:

a. Special Crossing:

The check includes name of the bank in-between the two parallel lines. In such case, the drawee must not pay value of check except though the bank indicated between the two lines.

b. General Crossing:

Crossing shall be considered general if the space between the two lines left blank or included the word "bank" or other word that have the same meaning. Below are some of the most important Crossing provisions:

• General crossing may be converted to special, by writing a specific bank name in-between the two lines.

Private crossing may never be converted to general.

• Deletion of lines or name of the bank between them shall not be considered.

• The drawee may not pay a public crossing check except to one of its clients or a bank.

• Private crossing check may not be paid except through the bank whose name is written between the two lines and to the customer of such bank if the latter is the drawee.

• The bank whose name is written between the two lines may entrust another bank to collect value of the check.

• The bank may not obtain a crossed check value except from one of its customers or from another bank, nor to collect its value for the account of other persons other than the indicated.

### 4. Check deposited to the account:

According to Article (113) of the Law of Commercial Papers,

• it is allowed for the drawer of the check or its bearer to condition not pay it in cash though putting on the face of it the phrase "Account deposited" or any other phrase giving the same meaning.

• Deletion of such a statement (to deposit in the account) is irrelevant.

## 2.4 Payment Systems and Technical Services in the Saudi Banking Sector:

Learning Objective:

4. To be familiar with electronic banking services such as: The Saudi Arabian Riyal Interbank Express (SARIE), SWIFT system, and the rules for transfer via the Internet or the phone.

### 2.4.1 Saudi Payment Network:

"MADA" is the new version of the Saudi Payment Network (SPAN), which was established in 1990 and served as the only automated payment network in the Kingdom of Saudi Arabia. Today, MADA has become the upgraded version of e-payment system within the Kingdom and operates according to international standards to reconnect all ATMs and POS terminals throughout the Kingdom with a central payments network, which, in turn, re-directs transactions pursued to the card issuer. This system allows wide local, regional and global acceptance; it is integrated with GCCNET, international credit card companies such as Visa, American Express (AMEX) or MasterCard. SAMA requires all banks to issue debit cards that are fully compatible with MADA. All services are provided to the end customer, free of charge, regardless of ATM used, operator of that ATM, or issuer of customer's card. and hence the bank's customer can use ATMs of other banks.

MADA enables citizens and residents who are customers of Saudi banks to withdraw cash from anywhere within the Kingdom, regardless of the bank that owns the ATM (be it the customer's bank or otherwise) and regardless of ATM location.

MADA also lessens the burden of replenishing ATMs with cash, where the main computer held by SAMA ("SWITCH") conducts interbank operations and banks do not have to settle operations with each other.

ATMs specifications:

- Cash withdrawal and balance inquiry.
- The maximum limit for withdrawals is SAR 5000 per day.
- The number of operations is unlimited.
- Network services are provided to customers free of charge.
- All banks are MADA members.
- These specifications are in conformity with specifications of International Organization for Standardization (ISO).

### 2.4.2 Saudi Arabian Riyal Interbank Express (SARIE) System:

The Saudi Arabian Riyal Interbank Express (SARIE) system commenced live operation in 18/01/1418 AH. SARIE is one of the most sophisticated systems of payment and banking settlements, and a culmination of a decade of great achievements seen by the Kingdom of Saudi Arabia in the field of e-banking. SARIE system, which is designed in accordance with concept of Real-Time Gross Settlements (RTGS), is a breakthrough in the field of e-banking and commercial transactions in the Kingdom. It constitutes the infrastructure upon which a number of advanced financial payments and settlements systems rest, including: the Automated Clearing House (ACH), a system for automatic check clearing, the Saudi Payment Network (SPAN) which connects ATM networks. It also uses MADA, Electronic Funds Transfer at Point of Sale (EFTPOS), and securities settlement system (Tadawul).

The technological shift and modern banking services brought about by SARIE system in the Saudi banking sector is a distinctive milestone in the history of development of payment system in the Kingdom since the first Saudi metal riyal was firstly minted in the era of the late King Abdulaziz in 1346 AH. The logo of SARIE system has been inspired by that Riyal representing the payment system development in the Kingdom of Saudi Arabia.

**Main Objectives of SARIE:**

− Conduct electronic funds transfer ensuring that funds are delivered to the beneficiary immediately.
− Provide advanced banking services and products.
− Eliminate financial risks, and substitute the need for carrying cash for the purpose of transferring funds from one bank to another.
− Reduce costs of banking services.
− Enhance financial performance, and regulate payments in the banking sector.
− Lay technical and procedural foundations for future developments: such as e-commerce.

### 2.4.3 Digital Formulation of Customer Accounts in the Saudi Banking Sector (IBAN):

The Saudi banking sector has begun to work according to the new formulation of bank customers' account numbers to become in conformity with the international formulation of bank account numbers (IBAN), which stands for the International Bank Account Number.

This formulation is based on the internationally recognized standards for bank account number (ISO 13616 Standard), which provides international standardization for coding and number of digits of account number, to enable technical and operational systems at banks to read and interpret these numbers easily, and then process fund transfers without errors. This is coupled with a simultaneous processing during the multiple stages that the fund transfers go through both locally and internationally. IBAN technology and formulation help to use the straight through processing, which enhances efficiency of banking services rendered to customers and improves its performance, shortens the period for procedures in each transfer, and standardizes number of digits of bank account in KSA to be a standard number of digits for all banking sector customers regardless of customer's bank.



### 2.4.4 Electronic Funds Transfer at Point of Sale (EFTPOS):

EFTPOS allows customers to make e-payment when purchasing goods from stores. The payment is made using a digital card, which the cashier inserts into a terminal at the store. That terminal is linked to the main computer at SAMA, which is connected to other computers in each bank. When customer's card is inserted, the amount payable for his purchases is debited from his account held with his bank and credited to store's account instantly and automatically.

Point of Sale Specifications:

- Accept ATM cards.
- Verify the password and signature in every transaction.
- The amount of transaction is unlimited but it may not be more than customer's balance or SAR 60,000, whichever is less.
- The amount is directly debited from the customer's account.
- The permitted transactions are: sale, balance inquiry, and refund.

### 2.4.5 SWIFT System:

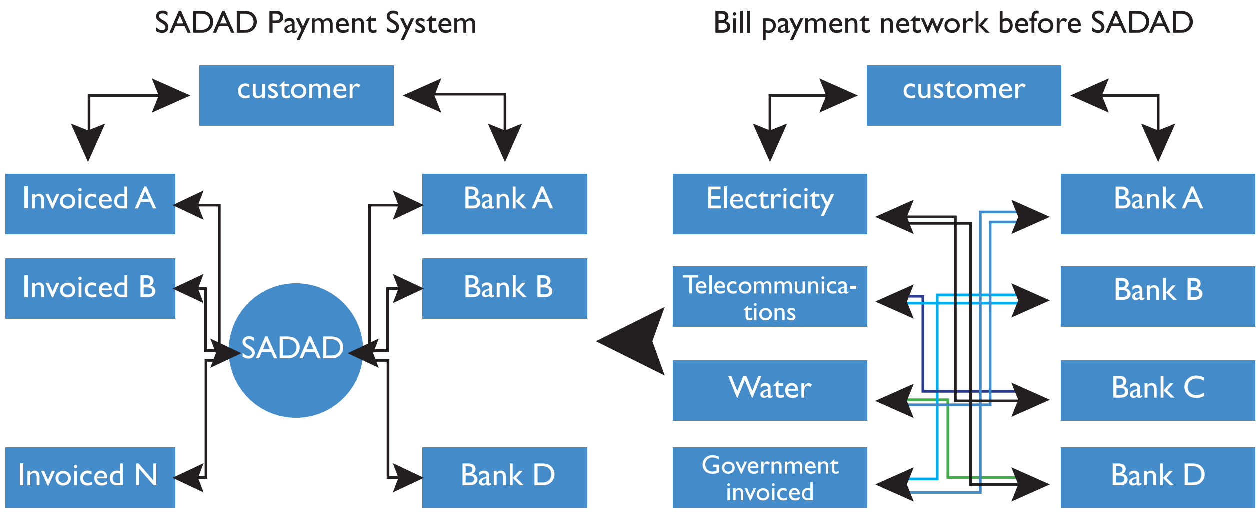
SWIFT provides its users with secure communication through an electronic network covering all over the world. SWIFT is designed to replace mail, cables and telex in the conduct of bank correspondence. SWIFT facilitates sending and reception of various types of transfers, payment orders and other correspondence between banks or money transfer centers in a documented and secure manner.

Swift Advantages:

− Standardize method of exchanging interbank transfers and messages internationally.
− Fast transfer: the process takes less than 20 seconds.
− It is secure and confidential for exchanging interbank messages automatically.
− It allows each bank to have access to its deposits easily and conveniently, wherever it is.
− Cost of fund transfers and messages is low.

## 2.4.6 SADAD Payment System:

SADAD Payment System is one of SAMA's systems. It is a central system for displaying and paying bills and other payments electronically in the Kingdom of Saudi Arabia. Its primary mission is to facilitate and accelerate payment of bills and other payments through all banking channels in the Kingdom: (bank branches, ATMs, phone banking and online banking).




Before SADAD, Payment of bills in the Kingdom was an onerous job for banks; it was impractical and slow. SAMA has required all Saudi banks to accept payment of bills across all its branches by any person, whether that person is a customer of that bank or not. Such person does not have to be a customer of the bank to which the bill is paid, and the banks used to cover some of these costs by retaining the amounts paid for a period of 7-30 days.

Having conducted a study on the mechanism of bill payment in the Kingdom, SAMA found that about 60-70% of bills are currently paid in cash in bank branches, and due to large number of bills in the Kingdom, banks incur high costs whether at the level of front office, payment processing, IT or validating bills. Moreover, consumers spend long times at banks' payment offices to pay their bills.

Given that local banks provide payment services to the Saudi Telecom Company and Saudi Electricity Company through direct linking with their systems, other entities (governmental and non--governmental) desired to benefit from these arrangements. This desire was met with opposition from local banks, with a few local banks rendering some limited services to governmental and non-governmental bodies in order to have the head start in providing these services and attaining some limited benefits.

In view of these facts, the need emerged for a central system that ensures operational efficiency and equality for all parties, and to attend to these challenges, and to be a well-established foundation for any future developments. Hence, SAMA developed its vision for building this system that makes the electronic solution easier for all parties by abridging multiple links to a single link, whether for banks or billing companies. SADAD serves as a mediator between two parties; it guarantees financial regulation and distribution of costs and benefits, so SADAD will surpass services provided by the current systems, as it provides a mechanism for paying different bills to various entities and includes a mechanism for direct payment reporting. This would encourage users to switch to electronic channels, because it will offer a broader list of payment services in a regulatory and marketing plan encouraging beneficiaries to switch to these banking channels.

### 2.4.7 Online Banking:

Online banking services allow bank customers to conduct transactions online securely on a website managed by the bank and to access online banking facilities. To benefit from this service, the customer must register with the bank and select a password. Then opens the bank website, selects Online Banking, and logs in using his username and password.

### 2.4.8 Phone Banking:

Phone banking is an interactive voice response service. It is the technology that allows customers to interact with the bank system via phone keypad, or speech recognition app, and then the customer may use customer inquiries service by following the steps. SAMA required all banks to provide: 1. IP address for all e-transactions. 2. Caller number for all transactions conducted via phone banking.

### 2.4.9 ATMs:

The automated teller machine (ATM) is an automated communication device that provides bank customers with access to financial transactions in public places without visiting a bank branch.
In modern ATMs, identity of customers is validated by inserting a plastic ATM card with a magnetic strip or a plastic card with a smart chip that contains a unique card number and some security information; such as the expiration date, then the customer should authenticate by entering his password.
Using ATMs, customers can access their bank accounts in order to withdraw cash, know their account balances or pay their bills. ATMS must be provided with the utmost technical support, and replenished with the amount of cash expected to be withdrawn by bank customers around the clock, 365 days a year, especially at the times of holidays and salary payment.



## 2.5 Financing products provided by banks to individuals:

Learning Objective:

Understanding the financial products offered by banks to individuals (credit cards, consumer (personal) financing, and mortgage financing).

The financial services offered by banks and financial companies in the Kingdom of Saudi Arabia vary according to the requirements and needs of customers. In response to the increasing demand from customers for banking services and products, and in line with technological advancements in the banking sector, banks have competed to provide the best banking services to customers at competitive and reasonable prices. Additionally, they have expanded their offerings to include social service programs that have tangibly contributed to improving the living standards of a large number of community members.
The client's objectives for obtaining financing vary based on their specific purposes. These objectives may include long-term investment, commercial purposes (such as funding operational activities), or financing for consumer needs or real estate. This chapter reviews the most important financial products and services offered by banks and financial companies in the Kingdom of Saudi Arabia for individual customers. Among the key services provided by banks and financial companies in the Kingdom of Saudi Arabia for individual customers are the following:

| Individual Financing | Types of Financing | | Corporate Financing | | | |
|---|---|---|---|---|---|---|
| Credit Cards | Consumer (Personal) Financing | Mortgage Financing | Small and Medium Financing | Zero-Interest Financing | Corporate Financing | Project Financing |
| - Credit Card<br>- Prepaid Card<br>- Monthly Discount Card | - Cars<br>- Furniture<br>- Education<br>- Health<br>- Travel | - Completed Housing (all types)<br>- Incomplete Housing (skeleton)<br>- Land<br>- Off-Plan Sale<br>- Commercial Real Estate (with specific conditions) | Beyond Individual Financing Scope | | | |
| | **Financing Formats**<br>- Murabaha<br>- Ijarah | **Financing Formats**<br>- Murabaha (Islamic financing method)<br>- Ijarah<br>- Istisna'a (sale off-plan)<br>- Musharaka | | | | |



**Notes**

- Credit cards comply with the terms and conditions of Islamic Sharia through the card's operating terms and conditions.
- In mortgage financing, the funder may provide two Islamic formats in the financing process, meaning the financing format could be (manufacturing + leasing) or (participation - leasing).

**Credit Cards:**

A credit card is a card that enables its holder, both domestically and internationally, to obtain cash, goods, or services from commercial establishments in advance. The cardholder is then required to settle the amount due on the card later or according to the agreement. This definition does not include other types of cards such as discount cards, debit cards, and prepaid cards.

Examples of credit cards include Visa, MasterCard, American Express, etc. The acceptance of purchase and cash withdrawal transactions is subject to a predetermined credit limit agreed upon between the customer and the card issuer. The customer is required to settle the amount due later (when the card statement is issued) either in a single payment or by paying the minimum amount. The customer has the option to pay the minimum of 5% or any amount higher than the minimum from the total amount due.

**Consumer Financing:**

This type of financing is granted to individuals to meet their needs. Often, this financing is secured by the borrower's salary, deposits, or the assignment of other regular incomes, as outlined in the guidelines for consumer financing issued by the Central Bank in July 2014, with the first update.

**Real Estate Financing:**

Real estate financing is provided to clients for the purpose of constructing residential and commercial units, purchasing them, acquiring residential land and developing it, and other related activities. The Saudi Central Bank has issued an update to the standard forms of individual real estate financing contracts in both the Murabaha (profit-sharing) and Ijarah (lease) formats, dated Jumada Al-Akhira 1441H. The Saudi Central Bank emphasizes that all real estate financiers must adhere to these updated forms and refrain from entering into any contracts that violate these standard forms or make any modifications to them after this date. Detailed explanations of these forms will be provided later in this chapter.

### 2-5-2 Credit Card Concept:



| | |
|---|---|
| Credit Card | As previously defined, it is a "card issued by banks in collaboration with international card companies. The cardholder uses the card to obtain in advance – under the guarantee of the issuing entity – cash, goods, services, or other benefits from commercial institutions that accept this card locally or internationally." |
| Charged Card | A card similar to a credit card, except that it requires the cardholder to pay the full amount due upon receipt of the statement or on the specified due date indicated in the statement. |
| Prepaid Card | The use of such cards is widespread, relying on the principle of maintaining a specified financial amount for the card and using it accordingly. |

• Some terms can be defined as follows:

- **Cardholder**: The cardholder can be a natural person or a legal entity and may be:

• The primary cardholder or applicant obtaining a credit card or monthly discount card issued by the card-issuing entity.

• A cardholder or applicant obtaining a card agreeing with the issuing entity to assume all obligations arising from the issuance of a credit card or an additional monthly discount card for a specified person, who is considered the primary cardholder.

- **Card Issuer**: An entity authorized to issue credit cards, monthly discount cards, or prepaid cards.

- **International Card Companies**:
Refers to payment system operators such as Visa, MasterCard, American Express, UnionPay, Diners Club, or similar entities.

- **International Card Companies**:
Refers to payment system operators such as Visa, MasterCard, American Express, UnionPay, Diners Club, or similar entities.

- **Card Limit**:
The total available credit limit on a credit card or monthly discount card under the credit card agreement or discount card agreement.

- **Credit**:
Credit is the right to defer the repayment of a debt or bear a debt with delayed repayment. Credit is extended by the card-issuing entity based on the following:

1. The card issuer's examination and organization of recurring transactions.
2. The card-issuing entity may, from time to time, impose a fee on outstanding unpaid balances.
3. The available limit for the cardholder by the card issuer during the agreement period will be based on what the cardholder pays for card obligations.

- **Cash Withdrawal**:

Cash withdrawal is a process carried out by the credit card or monthly discount cardholder using the card. The cardholder receives a cash advance in the following situations:

• Withdrawing cash from an ATM.

• Withdrawing cash from any other source.

• Executing a transfer transaction.

• Any other form of cash withdrawal as specified by the card issuer.

- **Profit Rate:**

The profit rate applies to the credit service provided under Sharia-compliant contracts. It refers to the rate used to achieve profits, expressed as the Annual Percentage Rate (APR).

- Annual Percentage Rate (APR):

The Annual Percentage Rate (APR) is the discount rate where the present value of all payments and installments due on the cardholder (representing the total amount due on the cardholder) equals the present value of all available credit payments to the cardholder.

- **Deferred Cost**:

All applicable commission fees, profit and non-commission recurring fees that must be paid by the cardholder. It can be fixed or a variable percentage of the outstanding balance in the credit card account.

- Default:

The cardholder's failure to comply with the terms and conditions of the credit card or discount agreement, resulting in the cardholder not paying the monthly installment for a period of 90 calendar days from the due date.

- Grace Period:

The date or period during which the credit amount provided for purchase can be repaid without incurring commission or profit fees due to the calculation of periodic commission or profit rates. If there is no grace period, this should be disclosed. If the length of the grace period is variable, the card-issuing entity discloses the days or the minimum number of days in the grace period, if the disclosure specifies a range or minimum.

### 1. Card Issuance Procedures:

- When evaluating a card application form, the issuing entity should:

1. Verify the accuracy of the financial and personal information provided in the card application form.
2. Assess the applicant's ability to repay any outstanding debt.
3. Determine the amount that the applicant can afford to repay.

- The minimum total annual income (salary) should be (SAR 24,000) for bank customers and (SAR 30,000) for non-bank customers when applying for a new card.

- The card-issuing entity is responsible for ensuring that the entities printing the cards adhere to the standards set by the Saudi Central Bank and international card companies.

- In the event of the rejection of a new credit or monthly discount card application or the issuance of a new, replacement, or additional card for a new or existing applicant, the card issuer must specify the reasons for rejection through a documented means of communication within one week from the date of the rejection decision.

### 2. Cardholder Rights and Responsibilities:

• The cardholder has the right to terminate a credit card or monthly discount card agreement if they do not agree with the amendments or changes. This can be done by notifying the issuing entity of the desire to terminate the agreement within (14) days of receiving the change notice through a secure means of communication. All outstanding balances on the card account must be settled.

• The cardholder must provide the card-issuing entity with updated information, address details, and promptly inform the issuing entity through a documented means of any changes in contact information.

• The card-issuing entity may allow the cardholder to make cash withdrawals using credit cards or monthly discount cards, up to a maximum of 30% of the credit card limit, considering the maximum daily withdrawal limit from ATMs according to the regulations of the ATM's location.
• The cardholder has the right to cancel a credit card or monthly discount card agreement within (10) days of receiving the credit or monthly discount card, and the card-issuing entity cannot impose any fees during this period unless the card is activated.
• The issuing entity should send SMS notifications to the cardholder in the following cases:
  - When making debit transactions, specifying the merchant's name, transaction date, and amount deducted, along with the available card balance after the deduction.
  - When making credit transactions on the card account, specifying the depositor's name, transaction date, and credited amount, along with the available card balance after the deposit.
  - Lifting holds on pre-authorized amounts.
• Card-issuing entities are not allowed to increase the deferred cost on the outstanding balance due to late payment or default.
• Late payment fees should not exceed (SAR 100), provided that the total fees do not exceed the outstanding balance.
• The card-issuing entity must notify the cardholder of the amounts due and demand payment within (90) days from the date of the transaction as a maximum. Deductions from the cardholder's account after this period are not permitted without the prior documented consent of the cardholder.
• The due date for amounts owed on credit cards or monthly discount cards should be the same date every month, and amounts paid until midnight on the due date should be treated as paid without delay. Card issuers are not allowed to impose late payment fees unless the cardholder has been granted a grace period of at least (21) days to settle the amounts due.
• Cash withdrawal fees should not exceed:
  - SAR 75 for each cash withdrawal transaction of SAR 5,000 or less.
  - 3% of the transaction amount for each transaction exceeding SAR 5,000, with a maximum fee of SAR 300.
• Card-issuing entities are not allowed to charge fees for transfers between the cardholder's current account and the credit card or monthly discount card account within the same bank.

### 2.5.3 Consumer Financing Concept:

Learning Objective:

To understand the principles of consumer financing.

**Principles of Consumer Financing:**

Consumer financing refers to loans granted to individuals by financial institutions for non-commercial purposes, meaning outside the scope of the borrower's business or primary profession. It generally includes personal loans, overdraft facilities, auto financing, credit card loans, and other related activities. Within this definition, loans provided for the purpose of purchasing goods and services for entertainment, consumption, or other personal needs are encompassed. For example, buying furniture, household items, covering vacation expenses, or education. Consumer financing also includes funding for property renovation, despite excluding mortgage loans.

The Saudi Arabian Central Bank has issued the first update to the regulations governing consumer financing. The key features of the updated regulations include:

1. Transparency and Disclosure: Establishing a minimum requirement for information to be provided in consumer financing contracts, including:

- Disclosure of consumer financing products. Among the consumer financing regulations that financiers must adhere to are:
- The announcement of the financing entity must include its name, logo, and any distinctive information, such as contact details. The advertisement should explicitly state the name of the advertised product, the clear annual percentage rate (APR) for the benefit of the consumer, and should not include other rates such as the cost of delay.
- The financier must provide the beneficiary with a written disclosure statement outlining the required information. It is preferable for the disclosure statement to be part of the consumer financing contract or loan application, and may be attached to the contract documents.
- Exchange of information between financiers and beneficiaries: The lender must provide the borrower with accurate and complete information regarding the financing agreement. Both the borrower and the guarantor must accurately and fully respond to any requested information.
- Products based on the principle of avoiding interest: Documentation covering the purchase and sale of goods must adhere to the requirements of the Sharia Committee in the bank.
- Financiers must provide customers with complete documentation covering loan agreements, repayment programs, and borrower acknowledgment letters.
- Financiers must record the purpose of all personal loans and take measures to ensure they are used for the intended purposes.

2. Customer Information Confidentiality:

Personal information obtained from beneficiaries, guarantors, or any other persons regarding the conclusion and management of financing agreements must be kept confidential. Processing of beneficiary data is only allowed for evaluating their financial situation and their ability to repay the agreed-upon financing.

The Saudi Credit Bureau (simah) operates a central database to register the credit information of beneficiaries and guarantors. Banks must refer to the database before making any commitment to the borrower or guarantor. Personal data obtained should only be used for assessing the financial situation and repayment ability of the borrower and guarantor.

3. Information to be Included in Consumer Financing and Related Guarantee Agreements:

- Names and addresses of the contracting parties, such as the financier, beneficiary, and guarantor.
- The annual percentage rate (APR) for the commission and the lending commission rate, calculated and specified at the time of the financing agreement. The true cost of borrowing and the ability to compare should be disclosed. The APR includes all mandatory costs associated with any consumer financing and should be displayed in notifications or related informational materials.

• The financing contract must stipulate the use of the diminishing balance method in distributing the cost of the term over the maturity period. This means that the cost of the term should be proportionally distributed among the installments based on the remaining balance of the financing amount at the beginning of the installment period.

• Fees and administrative service costs obtained by the financing entity from the beneficiary must not exceed (1%) of the financing amount or (5,000) five thousand riyals, whichever is less.

• A statement of account in the form of a repayment schedule, if the agreement involves the repayment of the principal, and a statement of due installments, times, and conditions associated with repayment as well.

• A statement outlining the times and conditions for repaying borrowing commissions or profits, as well as recurring and non-recurring fees associated with them, if fees or commissions need to be paid without repaying the principal.

• Early repayment procedures or partial repayment and their terms, and any fees, if applicable, that beneficiaries must pay to exercise this right. The financing entity must accept any repayment under the financing contract before its due date as a partial payment equivalent to one installment or its multiples.

• Terms, conditions, and procedures that will apply, and fees that will be paid if the borrower exercises the right to withdraw from the credit or makes partial payments, late payments, or deferred payments. In the event of contract termination under Article 10-1, the financing entity may not impose any term costs or fees or claim any commissions from the beneficiary unless the conditions specified in paragraph 10-1 (a) or (b) apply, which are:

(a) Withdrawing any part of the financing amount.

(b) Using a credit card or any other means to obtain goods or services for which financing will be provided under the financing contract.

- In the case of secured financing, a description of the asset securing the financing must be provided. Beneficiaries must commit to retaining the relevant asset, which guarantees the financing, in an appropriate manner until it is available to the funder in case of default.

- Right of Withdrawal: Except for transactions based on the principle of avoiding interest, the beneficiary has the right, within a period not exceeding ten working days, to cancel acceptance of the consumer financing agreement without providing any justifications. This period starts from the day the consumer financing agreement is concluded. The beneficiary exercising the right of withdrawal must return to the funder the cash amounts received under the financing agreement. Additionally, the beneficiary must pay the applicable commission or profit for the period during which the credit was withdrawn, calculated based on the agreed-upon annual percentage rate for the commission. No other compensation for withdrawal may be claimed, and any prepayment made by the borrower under the financing agreement must be refunded without delay.



### 4. Annual Percentage Rate for the Commission, Lending Commission Rate, and Profit Rate:

- Annual Percentage Rate (APR) or Profit Rate: Standards have been set for calculating the Annual Percentage Rate (APR), an internationally recognized indicator for disclosing the actual cost of financing. It includes all costs and administrative fees. The APR must reflect all mandatory expenses or unavoidable costs associated with a transaction, as presented in advertisements or other means. For products compliant with the principle of avoiding interest, a similar methodology must be used for calculating the APR, taking into account relevant cash flows, similar transactions, withdrawals, repayments, and other unavoidable fees. The APR calculates the total cost of financing for the borrower, including all unavoidable costs, except fees due to the borrower's failure to comply with any conditions specified in the financing agreement. The APR is calculated on the assumption that the financing agreement will remain valid for the agreed-upon period, and both the lender and the borrower will fulfill their obligations under the agreed-upon terms and conditions.

- Financing Commission Rate: The financing commission rate can be fixed or variable. The borrower must be notified in writing or by any reliable means of any changes to the financing commission rate. This notification should include the new Annual Percentage Rate for the commission, the new total financing commission rate set by the lender, and the new debt consumption schedule if applicable.

- Profit Rate: The profit rate applies to all types of lending granted under contracts based on the principle of avoiding interest. It represents the rate used to earn profits on invested amounts and is expressed as an annual percentage rate.

• **Consumer Financing**:

The financing entities (debt seller) should process the customer's request for debt conversion by completing the specific forms for converting consumer financing debt within a period not exceeding one working day from the date of receiving the request.

## 5. Unfair Conditions:

A consumer financing agreement or a guarantee agreement is considered unfair if its purpose or result is to prejudice the economic interests of the borrower or otherwise in substance or form, especially if any of the following conditions are applied:

- Changing any contractual fees, compensations, or charges other than the financing commission rate or the profit rate.
- Introducing conditions that allow changes to the financing commission rate or profit rate that would prejudice the beneficiary.
- Establishing a system involving a variable financing commission rate or profit rate unrelated to the net financing commission rate or proposed profit rate when the financing agreement was concluded.
- Obligating the borrower to deal with the same lender to refinance the remaining value or finance the last installment of a financing agreement for the purchase of movable property or a service.
- Obligating the beneficiary, excluding trading margin, as a condition for withdrawal, to leave the borrowed or granted amounts as a whole or in part, or use them in whole or in part to establish a deposit or purchase securities or other financial instruments unless the borrower obtains the commission rate for the same deposit, purchase, or guarantee as the agreed annual percentage rate.
- The borrower or guarantor is not required to sign a check guaranteeing the full or partial repayment of the amount due.

Chapter Two

### 2..5.4 Real Estate Financing:

Concept and Nature of Real Estate Financing:

According to the Real Estate Financing System issued by Royal Decree No. (M/50) dated 13/8/1433 H, and its executive regulations issued on 10/4/1434 H, some terms can be defined as follows:

- Real Estate Financing: "Granting credit for the beneficiary to own housing."
- Real Estate Financing Contract: "Deferred payment contract for the beneficiary to own housing."
- Rights of Real Estate Financing Contracts: "Cash flows, mortgages, guarantees, and other rights arising from real estate financing contracts."
- Real Estate Financier: "Commercial banks and real estate financing companies licensed to engage in real estate financing activities."
- Beneficiary: "An individual receiving real estate financing."
- Consumer: "Anyone receiving real estate financing services."
- Primary Market for Real Estate Financing: "The market where the origination, settlement, and servicing of real estate financing loans by real estate financing institutions take place, represented by commercial banks and licensed real estate financing companies."
- Secondary Market for Real Estate Financing: "The market where the rights of the real estate financier arising from primary market contracts and securities secured by real estate mortgages are traded, where investors in the secondary capital market purchase these assets from various real estate financing institutions."

The real estate financing process goes through the following stages:

1. The buyer obtains the necessary financing to purchase a home from the mortgage provider in the primary market, against the mortgage of the property being financed.
2. The mortgage provider sells mortgage loans to specialized institutions to obtain the necessary financing. Alternatively, the mortgage provider may request mortgage-backed securities from securitization companies in exchange for a fee, holding and selling them as needed.
3. In the case of specialized institutions buying mortgage-backed securities from the secondary market and transforming them into mortgage-backed securities, they resell them to investors who wish to hold them, paying the value to the intermediary brokers in these securities.

Article 11 of the Real Estate Financing System stipulates that mortgage providers can refinance through the following:

- Mortgage refinancing companies licensed by the Saudi Central Bank.
- Issuing securities in accordance with the provisions of the Capital Market Law after obtaining a letter from the Saudi Central Bank stating no objection.

### 1. Procedural requirements for documenting mortgage:

The Saudi Central Bank, banks, financial institutions, and financing companies are obligated to follow procedural requirements for documenting and registering mortgages according to registration forms specified by the Ministry of Justice. The procedural requirements include:

- The presence of the present or its representative with a power of attorney authorizing the required procedures.
- The presence of the representative of the real estate financier (bank or financing company) with a power of attorney authorizing the required procedures.
- The mortgagor must be a licensed bank or financing company, and the real estate financier must have a valid license from the Saudi Central Bank to engage in real estate financing.
- The mortgaged property must be owned by the mortgagor, and it is permissible for the mortgaged property to belong to a specific guarantor who provides a property to be mortgaged for the benefit of the debtor.
- The mortgaged property must be identified, existing, or potentially existent, making it eligible for sale.
- The real estate financier must provide evidence that the contract between them and the mortgagor does not contradict the principles of Islamic Sharia, based on a letter from the Sharia Authority approving the financing product, and not the approval of each contract individually.
- The discharge and mortgage termination should be carried out in one procedure, according to the directive of the Ministry of Justice No. 13/T/6973 dated 19/1/1439H, for correcting previous mortgage transactions.
- The process should follow the templates prepared by the Saudi Central Bank and the Ministry of Justice.

In June 2020, the Central Bank issued instructions for the provision of individual real estate financing product:

These instructions aim to establish the minimum provisions that financial institutions must adhere to when offering individual real estate financing products. This is intended to assist clients in making informed decisions when applying for real estate financing, while also safeguarding the rights of parties involved and enhancing the safety of the real estate financing sector. These instructions apply to banks, financial institutions, and real estate financing companies under the supervision of the Saudi Central Bank.

Banks, financial institutions, and financing companies must adhere to the following when providing individual real estate financing products:

1. When a client applies for a real estate financing product, the financier must request and study the necessary information to understand the client's financial circumstances. This is essential to form a clear picture of the client's ability to meet the obligations resulting from the required financing. The financier should not offer real estate financing if the results of the client's ability study do not align with the financier's credit policies.
2. Provide an explanation to the client about the proposed real estate financing product, outlining the terms and conditions of the intended financing contract, especially the risks associated with the product. This explanation and discussion should be conducted by a responsible and qualified employee, addressing all client inquiries. The explanation should be in a language the client understands, presented in a simple and clear manner, and the financier must document the provision of this explanation. The financier cannot offer real estate financing unless it is confirmed that the client understands the terms and conditions of the required financing and any accompanying risks.

3. The financier must present to the client a real estate financing offer valid for no less than fifteen business days from the date of delivery to the client. The offer can be presented to the client in either paper or electronic form, according to the client's preference. The offer must include all the data and documents in the same format and structure as the real estate financing contract to be signed. The offer must include the following documents:

- Real estate financing contract and its attachments.
- Disclosure form for real estate financing offers according to the accompanying format (Illustrative Form - A).
- Declaration form accepting credit risks for variable-cost real estate financing according to the accompanying format (Illustrative Form - B) for real estate financing products with variable costs.

The financier must document the client's receipt of these documents, whether presented in paper or electronic form, and enable the client to obtain these documents from the financier's premises. The client may choose to consult others for opinions and advice. The financier cannot enter into any real estate financing contract unless these documents are provided to the client and the client is able to take them from the financier's premises.

4. Before the expiration of the offer, the financier shall engage a qualified credit advisor with sufficient knowledge of individual real estate financing products. The advisor should provide the client, either in person or over the phone, with a clear explanation of the proposed real estate financing, including its risks, terms and conditions, and the repricing mechanism (if applicable). The advisor must transparently and clearly answer all client inquiries on these matters. The credit advisor must not be the same employee who communicated with the client before the offer was presented or who made the offer. Documentation of communication with the credit advisor is an essential requirement for contract completion, and this communication should be documented using voice recording or by the client signing a form confirming the consultation with the advisor. The financier is not allowed to enter into any real estate financing contract unless the credit advisor has provided the required explanation to the client, answered all inquiries, and documented this process.

5. There should be a waiting period of no less than five business days from the date the client receives the real estate financing offer. This allows the client time to review the offer, speak with the credit advisor, and consult with whomever they choose. The financier must encourage the client not to take any action regarding the property during the five-business-day period, such as making a down payment or providing earnest money. The financier is not allowed to enter into any real estate financing contract before the expiration of the waiting period.

6. Banks and real estate financing companies are prohibited from entering into any real estate financing contract for individuals unless the requirements mentioned above are fulfilled and documented in the financing file.

(Financial Institution Logo)

Individual Mortgage Financing Proposal Form

Client Information

| | | | |
|---|---|---|---|
| Client Name | | Offer Submission Date | |
| National ID or Resident ID | | Offer Expiry Date | |
| Mobile Number | | Request Reference Number (File Number) | |
| Total Monthly Income | (SAR) | Net Available Monthly Income | (SAR) |
| Total Credit Obligations to Monthly Income Ratio (Before Financing Approval) | (%) | Total Credit Obligations to Monthly Income Ratio (After Financing Approval) | (%) |

| Financing Details | | | |
|---|---|---|---|
| Financing Amount | (SAR) | Financing Type (Ijarah / Murabaha / Istisna'a / Other) | |
| (+) Term Cost Amount | (SAR) | Annual Percentage Rate (APR) | (%) |
| Property Appraisal Fees | (SAR) | Down Payment Amount | (SAR) |
| Insurance | (SAR) | Contract Duration | (Months) |
| Any Other Fees or Costs | (SAR) | Number of Installments | (Payment) |
| | (SAR) | Monthly Payment Amount (Installment / Rent) | (SAR) |
| | (SAR) | Term Cost Type (Fixed / Variable) | |
| | Fixed Portion (%) Variable Portion (%) | Fixed Term Cost | (%) |
| | (SAR) | Initial Period Duration | |
| | (SAR) | First Recalculation Date for Payment Values | (Months) |
| **Client's Signature acknowledging understanding of the difference between (Fixed / Variable) Term Costs** | | Final Payment Amount | |
| | | Additional Notes | (SAR) |

| Property Details | |
|---|---|
| Property Type (Apartment / Villa / Land / ) | Property Value |
| City | Neighborhood |
| Title Deed Number | Title Deed Issuance Date |
| Title Deed Issuance Location | Property Number |
| Land Area | Built-up Area |
| Property Readiness for Residence | Number of Rooms |
| Property Age | Property Developer's Warranty Period |

Note: Reviewing this form does not substitute for reading the entire financing contract and its annexes, and does not exempt from the obligations stated therein

| | |
|---|---|
| Client's Signature upon receipt and acknowledgment that the credit advisor has answered all inquiries (Signing does not imply approval of the financing contract) | Signature of the Authorized Person from the Financing Institution and Seal (Signing is binding for financing based on the provided information unless misleading information is discovered or the client's circumstances change) |

* Include the statement (Not Applicable) if the paragraph does not apply to the financing contract

Illustrative Form (B):

Acceptance of Credit Risk for Variable Rate Mortgage Financing

I, the undersigned (customer's full name in handwriting), acknowledge that I have applied to (printed name of the lender) (the Lender) for a mortgage loan under the (mortgage financing format) and that the Lender has provided me with a comprehensive explanation of the (mortgage financing format). The Lender clarified the terms and conditions of this financing agreement and explained the risks associated with the (mortgage financing format), addressing all my inquiries, particularly:

1. The Lender explained to me that the cost of the variable term associated with the (mortgage financing format) is variable, meaning it may increase or decrease during the contract period. The agreed-upon installment payment will change either upwards or downwards. The Lender informed me of examples illustrating that the installment amount may significantly increase (for example, the agreed-upon installment in the contract: 3,500 SAR, may become 5,500 SAR, or may become 7,500 SAR). The Lender also explained to me the mechanism for recalculating the cost of the term in terms of the reference rate and the dates for recalculating the cost of the term.
2. I reviewed a disclosure model presenting the mortgage financing, indicating the percentage of the cost of the term associated with the (mortgage financing format), the minimum monthly installment amount throughout the contract period, and the maximum amount that the monthly installment may reach.
3. The Lender presented me with a mortgage financing proposal, including clear copies containing all the data from the mortgage financing agreement and its attachments, the disclosure model for presenting mortgage financing, and this declaration form. I have taken these documents for review outside the Lender's premises and to present them to anyone I wish to seek opinions and advice. The validity of the offer did not exceed fifteen working days.
4. The Lender, acting as a credit advisor, communicated with me and provided me with a comprehensive explanation, either by phone or in person, of the mortgage financing format. The Lender clarified the terms and conditions of this financing agreement and explained the risks associated with the mortgage financing format, answering all my inquiries.

After thoroughly reviewing all the details of the property offer and the mortgage financing terms, and comprehending them in a manner that denies ignorance, and after studying all my commitments and considering all future possibilities and the associated burdens and obligations beyond those I bear prior to signing the contract, I hereby, of my own free will, accept the obligations arising from this type of real estate financing upon signing the contract and all its annexes.

### 2.5.5 Disclosure Rules for Financial and Savings Products:

These rules aim to enhance transparency in the market regarding the Annual Percentage Rate (APR) for various products offered by banks to individuals, small and micro-enterprises, as well as those offered by financial companies to individual clients, as specified by the Saudi Central Bank. This will enable individual customers, small enterprises, and micro-enterprises to compare these rates among different financing and savings products offered by banks and financial companies.

1. Scope of Application:

Applicable to all banks and financial companies licensed by the Saudi Central Bank within the Kingdom of Saudi Arabia and subject to its supervision.

| | |
|---|---|
| Annual Percentage Rate (APR) | The discount rate is the rate at which the present value of all installments and other due payments to the beneficiary is equal to the present value of the total amount due for repayment by the beneficiary. This represents the available financing amount for the beneficiary on the date when the financing amount or its first installment becomes available to the beneficiary, in accordance with Article 81 of the Executive Regulations of the Financial Companies Monitoring System. |
| Annual Equivalent Rate (AER) | The rate used to calculate savings or an investment product that incorporates compounding interest/profit throughout the year. It is computed on the assumption that any interest/profit paid is included in the principal balance, and on the next due date, interest/profit is paid on the slightly increased balance due to the addition of the interest/profit paid to the principal balance. |
| Credit Card Purchase Rate | The rate applied to transactions (cash or credit) conducted through a credit card. The rate is applied to outstanding balances at the end of the billing cycle. |
| Loan Amount | The financing amount recorded in the public budget allocated to the client. |
| Due Amount | The contractual maturity for the financing recorded in the public budget granted to the client is the final repayment date for loan and financing products when the principal amount and all due interest/profit are payable. The contractual maturity for savings products is the final repayment date for savings products when the principal deposit and due interest/profit are payable to the client. |
| Monthly Installment Amount | The monthly installment amount that the client is required to pay to the bank or financial company until the complete repayment of the financing. |
| Minimum Repayment Amount | The minimum amount that a customer can pay on a credit card to avoid late payment penalties. The minimum is calculated as a percentage of the outstanding balance, plus any applicable fees. |
| Months to Repay | The remaining number of months if the customer pays the minimum amount to settle the credit card balance each month. |
| Property Market Value | The agreed-upon price between the buyer and the seller in a business transaction, following the fulfillment of evaluation criteria set by the bank. The agreed-upon price may not necessarily be equal to the current market price or another purchase offer amount for the property. |
| Loan-to-Value Ratio | The financing ratio provided by the bank or financial institution to the value of the purchased property, defined as the market value of the property. |
| Repayment Type | The amount deposited with the bank in savings or investment products. |
| Early Repayment Fees | ees that the customer is required to pay to the financing entity for early repayment of the financing before the scheduled maturity date of the credit facility, also referred to as prepayment penalties. |
| Deposit Amount | The amount deposited with the bank in savings or investment products. |

### 2.5.6 Disclosure Requirements:

A. Banks and financial institutions must disclose detailed and clear information about all financial and savings products (if any) for individuals on their website, channels, and marketing materials according to disclosure schedules.

B. Banks and financial institutions must disclose detailed and clear information about all financial and savings products (if any) for small and micro-sized enterprises on their website, channels, and marketing materials. This includes disclosing the price range for each product according to disclosure schedules.

C. If disclosure schedules cannot be included in some channels and marketing materials, such as print publications, it is prohibited to include or refer to any prices or competitive advantages in a misleading manner for the consumer. Instead, the website should be referenced for further details about the product.

D. A calculator must be developed for each financial or savings product showing the price and periodic installments based on consumer inputs. If this is not feasible, multiple examples of prices based on the financing or savings amount, duration, and consumer category must be disclosed, with at least three examples.

E. A dedicated calculator for credit cards must be developed to calculate the annual percentage rate and all fees and charges that the consumer will incur monthly. It should also specify the type and credit limit of the appropriate card based on consumer inputs. Financing limits, fees, and charges must comply with relevant regulations and other regulatory requirements.

F. Any rates, percentages, or ratios that do not comply with disclosure schedules and calculator results on the website should not be used in marketing campaigns.

G. The calculation process and pricing-influencing factors must be explained for transparency. For example, if variable interest/profit rates are used, they must be mentioned and clarified.

H. Disclosure of the minimum or maximum limit for products that cannot have a fixed price should be made. For example, savings products where the price is linked to the average amount in the customer's account.

I. If a disclosure requirement in disclosure forms does not apply to a product, it must be stated as "Not Applicable" with a logical justification.

J. For real estate finance products with multiple features, banks and financial institutions must develop a mortgage calculator on their websites, considering the inputs specified in the disclosure rules for other printed materials. Additionally, one example for each type must be used.

K. A written disclaimer must state that the disclosure, whether through disclosure schedules or the calculator, is illustrative, and prices may change for some customers if there are influencing factors such as the consumer's credit history.

L. Where applicable, disclosure schedules and calculators for financial and savings products (if any) should be consolidated on one page on the bank or financial institution's website under an icon labeled "Financial and Savings Product Rates," with direct access to that page by placing the icon at the top right of the homepage for easy consumer access. This is in addition to adding disclosure schedules and calculators on the page describing each product.

M. Prices must be reviewed periodically, at least monthly, with any adjustments reflected in disclosure schedules and calculators within one business day. The last update date should be mentioned at the top of the page.

### 2.5.7 Individual Disclosure Forms

Banks and financial institutions must use the examples below to illustrate the minimum information that should be included in individual disclosure forms. Additional information may be included beyond the minimum requirements mentioned in this section.

**A. Various Types of Financial Products**

Disclose various types of financial products included in the public budget, such as financing, without the need to disclose products outside the public budget.

Example: Term Financing

| Loan Amount | Term in Years | Annual Percentage Rate | Monthly Installment Amount |
|---|---|---|---|
| 100.000 | 5 years | 5.5% | 1.901 |

**B. All Types and Categories of Credit Cards**

Example: Platinum Balance Transfer Credit Card

| Annual Percentage Rate | Credit Card Purchase Limit | Minimum Repayment Percentage | Months Until Balance Repayment |
|---|---|---|---|
| 19% | 17% | 5% | 60 month |

*For banks and financial institutions: Clearly disclose all elements of the annual percentage rate, fees, and distinguish between the fees and expenses borne by the consumer and those incurred monthly in advance on the outstanding amount in the contracts.

*If the minimum monthly payment is made, it will take approximately 60 months to fully repay the amount, considering the compounded interest/profit added each month.



**C. Residential Real Estate Financing**

Example: First Home Purchase*

| Property Market Value | Term in Years | Fixed or Variable Interest Rate | Annual Percentage Rate (APR) | Maturity in Years | Repayment Type | Monthly Installment Amount | Prepayment Fees |
|---|---|---|---|---|---|---|---|
| 500.000 | 90% | Fixed Interest Rate | 4.5% | 25 years | Principal and Interest/Profit | 19.378 | Profit from Three Future Installments |

*For banks and financial institutions: Disclose in the mortgage calculator the repayment period for off-plan and self-construction sale products.

**This includes the initial interest/profit rate, fixed interest/profit rate at the beginning of the mortgage for several years (and the follow-up rate), and the interest/profit rate that will be used after the initial interest/profit rate period ends (e.g., using a fixed rate for several years and then using a variable rate such as the three-month Saudi Interbank Offered Rate (SAIBOR) + 20 basis points.

**D. Leasing Products for Each Type of Asset**

Example: Vehicle Financing

| Type of asset | Financing amount | Maturity in years | Annual interest rate | Monthly installment amount | Remaining value |
|---|---|---|---|---|---|
| Car | 200.000 | 5 years | 5% | 60 month | 20.000 |

E. Savings for Each Category and Type of Product

Example: Fixed-Term Deposit (Two Years)

| Minimum deposit amount | Maturity in years | Equivalent annual rate | Number of withdrawals allowed in the first year | Number of withdrawals allowed in the second year |
|---|---|---|---|---|
| 20.000 | Two years | 1.5% | - | 2 |

• Mortgage Debt Transfer:

a. The financing entities (debt seller) shall process the customer's request for transferring mortgage debt by completing the specific forms for transferring real estate financing within a period not exceeding three business days from the date of receiving the request.

b. The financing entities (debt seller) shall complete the customer's request processing within a period not exceeding five business days from the date of receiving approval from the financing entity (interested in purchasing the debt) to transfer the mortgage debt.

• Real Estate Financing Percentage:

The real estate funder is not allowed to grant credit in any form of financing exceeding (70%) of the value of the property subject to the real estate financing contract. The Saudi Central Bank has the authority to adjust this percentage according to prevailing market conditions. In accordance with Circular No. (391000048362) issued on (04/1439H), the Saudi Central Bank has decided to increase the maximum financing percentage, raising it from (85%) to (90%) of the value of the first home for citizens only. Banks and financial institutions will continue to provide real estate financing at (70%), and real estate financing companies at (85%) for the second home and beyond, for all beneficiaries.

• The supported financing program, provided in collaboration with the Real Estate Development Fund, aims to ease the down payment burden required by financing entities when purchasing property through real estate financing. In this program, the financing percentage is increased to (95%) under the following conditions:

• The beneficiary must meet housing support conditions, including having a family, being over 25 years old, not owning a residence, and the property's purchase price not exceeding 850,000 Saudi Riyals.

# Chapter Two

## Revision questions:

## Answer the following questions and verify your answers in the corresponding section:

1. Briefly explain the differences between current accounts, savings accounts, and term deposit accounts.
   Reference: Section 2-1-1
2. Name three banking services for companies and institutions.
   Reference: Section 2-1-2
3. What is the difference between an electronic debit card and a credit card?
   Reference: Section 2-1-1
4. What are the procedures for opening remote banking accounts for individuals?
   Reference: Section 2-2-1
5. What are the types of commercial papers, illustrating their key features?
   Reference: Section 2-3-1
6. Briefly explain the differences between a promissory note and a check.
   Reference: Section 2-3-2 and Section 2-3-4
7. Name three main objectives of the "Sarie" system.
   Reference: Section 2-4-2
8. What is the difference between the primary market and the secondary market as real estate finance markets?
   Reference: Section 2-5-1
9. What are the procedural requirements for documenting and registering a real estate mortgage?
   Reference: Section 2-7-2
10. What is the difference between a credit card and a monthly deduction card?
    Reference: Section 2-5-2
11. State the necessary periods for executing the transfer of consumer finance debt.
    Reference: Section 2-6-2
12. Explain the six points that must be applied before granting a real estate finance product.
    Reference: Section 2-7-2
13. Regarding disclosure rules, inform the client about:
    - The percentage of real estate financing to the value.
    - The market value of the property.

    Reference: Section 2-7-3
14. Mention the necessary periods for executing the transfer of real estate finance debt.
    Reference: Section 2-7-5

# Chapter Three

## Principles of Responsible Financing

This chapter includes 6 questions out of 100 questions in the exam

# Introduction:

This chapter deals with the concept of responsible financing and provisions related thereto, and quantitative methods for assessing a customer's creditworthiness and repayment capacity. Protection of bank customers is a strategic objective that the Saudi Central Bank (SAMA) has always pursued by encouraging banks to provide the required level of fair treatment, honesty and financial inclusion.

## 3.1 Principles of Responsible Financing for Individuals

Learning Objective::

3.1 Principles of Responsible Financing for Individuals

### 3.1.1 Nature of Responsible Financing:

The Saudi Central Bank issued a circular titled "Principles of Responsible Financing for Individuals" in the month of Ramadan in the year 1439 Hijri, that aims at encouraging responsible financing that meets the actual requirements of clients, particularly those related to obtaining housing and assets rather than consumable items. It also aims at enhancing the financial integration through the provision of the suitable financing for all categories of the society and consider the deductibles within the range that the client can tolerate. These principles also aim to ensure fairness and competitiveness among financiers, preserving the effectiveness of the procedures and mechanisms followed by banks and financing companies.

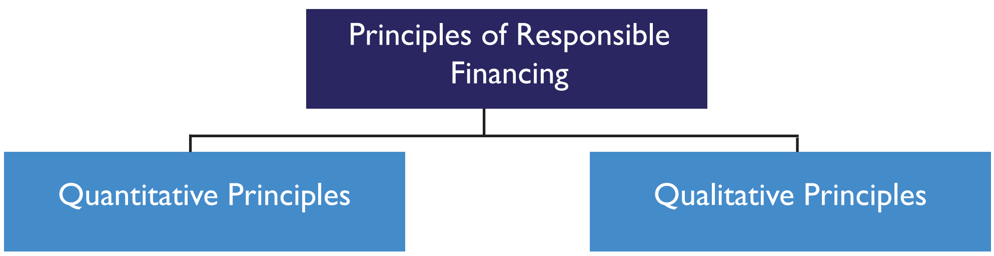



Figure (3.1) Principles of Responsible Financing for Individuals

Some of the terms are defined as follows:

- Financier: Banks and finance companies subject to the supervision of the central bank licensed to engage in one or more financing activities.
- Individual Customers: Natural person who obtains finance or applies to the financier for finance or to whom the finance is directed.
- Finance Amount: The maximum or total amounts available to the customer under the finance contract.
- Term cost: The term value determined for the beneficiary under the finance contract, which can be expressed in a fixed or variable annual percentage of the finance amount provided to the beneficiary
- Changing term cost: The term cost is determined based on a clearly defined index or a reference rate, which is fixed in the finance contract and changes by the index.

• Total amount payable from the beneficiary: The finance amount in addition to all costs to be performed by the customer in accordance with the provisions of the finance contract, including term cost, fees, commissions, administrative services costs, insurance, and any expenses necessary to obtain the finance, excluding any expenses that the customer can avoid such as costs or fees owed to the customer as a result of breaching any of its obligations contained in the finance contract.

• Monthly credit obligations: The total amounts payable by the customer according to the credit report issued by the licensed credit information company and the customer's personal declaration, calculated on a monthly basis.

• Total salary: The monthly base salary (after deduction of retirement or insurance benefits (plus all fixed allowances given to the employee by his employer on a monthly basis.

• Total monthly income: The average monthly amount obtained by the customer from any monthly, annually or other periodic source of income, including gross salary or other income including any periodic allowances or bonuses, asset rental returns or any other investment returns, or otherwise, which can reasonably be verified.

• Disposable monthly net income: The remaining amount of the customer's total monthly income for expenditure, investment or saving after deducting current or expected future basic expenses, and monthly credit obligations, and it is calculated on a monthly basis.

• Debt Ratios: The ratios of monthly credit commitments for the client to the total monthly income of the client, calculated in accordance with the provisions and conditions stipulated in the quantitative principles of responsible financing.

• Deduction: Deduction from the total salary of the customer or from his monthly pension.



### 3.1.2 General Provisions of Responsible Financing:

• These principles apply to all financiers and control all financing activities addressed to clients which contain all credit products and programs addressed to individuals including but not limited to personal financing, vehicle financing, credit cards and real estate financing.

• The financier shall draw the appropriate internal controls and procedures to guarantee the continued compliance with these principles, regulations, bylaws and other relevant instructions, and shall give special attention and keenness for documenting information and documents provided by the client in order to give the same an acceptable degree of reliability.

• If the financier assigns some of relevant works to third parties, he shall insure their compliance with these principles and their non-violation of the terms of these principles, regulations, bylaws and other relevant instructions

• The financier shall take necessary actions towards his employees' full understanding of these principles and compliance to apply them and to share the same with clients and making them aware thereof. He shall also take into consideration when preparing incentive programs for his employees to abide by these principles and not to draw programs leading to no responsible financing and not to suffice with the reliance on number or value of the granted financing.

• The financier shall maintain sufficient records to prove his compliance with these principles, regulations, bylaws and other relevant instructions.

## 3.2 Qualitative Principles of Responsible Financing:

Learning Objective:

Getting familiar with the qualitative principles of responsible.

1. The financier shall adopt a scientific approach and clear transparent and written standards to evaluate credit worthiness of the client and his capability of repayment. The board of directors of the financier shall approve these standards and procedures, revise them annually and update them when needed. The financier shall apply these procedures before granting the financing and endorse the same in the financing file.

2. The financier shall examine the credit record of the client after his approval, in order to verify his financial solvency and his ability to sustain the monthly credit obligations and his credit behavior and shall endorse the same in the financing file. The financier shall ask a written disclosure from the client for any other credit obligations shouldered by him such as employer's loan or loans from friends or relatives or other obligations, whether existing or expected and shall endorse the same in the financing file.



3. The financier shall subject all of his clients for evaluation of the ability to tolerate the monthly credit obligations, particularly in circumstances when the deductibles of client are close to the maximum limits stated herein. The evaluation of the ability of enduring the monthly credit obligation basically depend on evaluation of the net monthly income available for the client that can be used in meeting his monthly credit obligations.

4. The financier shall use financial forms and tools to measure the ability to tolerate monthly credit obligations and extent of the appropriateness of the financing to needs and circumstances of the client. Such types of forms are based on the basic expenditures customary to the various categories of clients. The minimum basic expenditures include the following groups:

- Food expenses which the number of dependents affects.
- Housing expenses (rent) and services which depend on whether the client is the owner or a lessee of his house.
- Domestic labor charges.
- Education expenses which the number of dependents affects.
- Health care expenses, which are affected by the number of dependents
- Transportation and telecommunication expenses.
- Insurance expenses for the individual himself and his dependents as the state may be.
- Any forecasted future expenses or costs.

Further, the company shall verify the existing monthly credit obligations through licensed credit bureaus, and financing provided by the employer, friends, relatives, or other sources of funding, which are repaid through monthly, semi-annual, or other installments.

5. The financier shall guarantee balancing between the efficiency and effectiveness in the financial forms and tools used for measuring the tolerance. The information and data available to the financier as well as the lawfully available public statistical sources may be utilized. The contents of these forms and tools shall include the following as a minimum:

- The mechanism of calculating and analyzing the total monthly income.
- The mechanism of calculating and analyzing the monthly credit obligations
- The mechanism of calculating and analyzing the basic expenditures. including:
  - List of essential expense indicators in comparison with verified data.
  - Ability to adjust essential expenses according to income levels.
  - Ability to modify essential expenses based on the number of dependents.

## 3.3 Quantitative Principles of Responsible Financing:

Learning Objective:

Getting familiar with the quantitative principles of responsible.

1.The conditions for compliance with the calculation of the monthly credit obligations of the client shall be adhered to as follows:

- The monthly credit obligation for the credit card shall be equal to the minimum limit of the repayment of the credit ceiling for each credit card issued for the client.
- The monthly credit obligations shall include all the credit obligations towards the financiers and the specialized government lending institutions as well as any other credit obligations, Such as loans from the employer, friends and relatives, or other forms of alternative financing.
- Before granting the changing credit cost financing, the financier shall add an assumed margin on the credit cost upon granting the financing when calculating the monthly credit obligations for this financing, in order to confront risks of change in the credit cost.
- After granting the financing, the financier shall be responsible for exceeding the ratio of enduring credit obligations of the client beyond the limit allowed hereunder, unless such exceeding is the result of change in the credit cost. If such a thing takes place, the financier shall reschedule repayment periods of the financing and the financier may not then calculate a credit cost that lead to exceeding these limits.
- The monthly credit obligations for financing wherein all the instalments are not equal and calculated by the assumption that the monthly instalment is fixed at the monthly average level of all instalments, regardless whether the financing is payable through equal instalments or requires payment of a final payment.

2. The conditions of calculating the total monthly income of the client in the following manner shall be complied with:

- Shall be calculated within the total salary which shall be documented through any means by the employer.
- From the other income, half of the monthly average of amounts obtained by the person from any income source whether being monthly, annual or other periodical period, Including allowances or bonuses paid periodically, returns from asset rentals or investments, corporate profit distributions, or the like, which can be verified based on the statement of account of the client for at least two years or by virtue of official documents proving their continuity.
- Governmental subsidies obtained by the client such as citizen account program or social security may not be calculated within the total monthly income of the client, however, the governmental subsidies provided by the Ministry of Housing or the Real Estate Development Fund may be calculated within the total monthly income of the client for the real estate financing products.

3. Deductible ratios for consumers depending on their total monthly income must be subject to the following restrictions:

| Restrictions: | Total Monthly Income Less or equal to SAR 15,000 | Total Monthly Income Greater than SAR 15,000 and less than SAR 25,000 | Total Monthly Income Greater or equal to SAR 25,000 |
|---|---|---|---|
| 1. The monthly credit obligations resulting from the financing and associated only with the monthly deduction | 33.33% from the total salary of the client | 33.33% from the total salary of the client | 33.33% from the total salary of the client |
| and the retired | 25% from the total salary of the client | 25% from the total salary of the client | 25% from the total salary of the client |
| 2. The monthly credit obligations other than the monthly credit obligations resulting from the real estate financing shall not exceed | 45% of the total monthly income of the client. | 45% of the total monthly income of the client. | The monthly credit obligations resulting from finance are subject to the policies of the credit finance company. The company must assess ability of its customers to sustain monthly credit obligations in accordance with these principles. |
| 3. The monthly credit obligations resulting from the financing shall not exceed | 55% of the total monthly income of the client. However, in the case of real estate finance clients who benefit from the Ministry of Housing or the Real Estate Development Fund, The monthly credit obligations resulting from the financing shall not exceed 65% of the total monthly income of the client. | 65% of the total monthly income of the client. | |

• The term of financing shall not exceed 5 years or 60 months as of the date of financing, excluding the real estate financing and credit cards.
• SAMA may review and amend periodically the ratios mentioned above, taking into account the soundness and stability of the financial system and the forecasts for economic growth.

## 3.4 Debt Collection Regulations and Procedures for Individual Customers:

Learning Objective

4. Getting familiar with debt collection regulations and procedures for individual customers.

Debt Collection Regulations and Procedures for Individual Customers issued by SAMA on Rajab 1438 AH aim at governing the mechanism of debt collection and communication with retail consumers and their guarantors in a manner that enables creditors to follow clear and specific procedures while protecting the rights of all relevant parties. According to such Regulations, some terms can be defined as follows:

• Individual Customers: Any natural person who obtains financing from a creditor.
• Creditor: Banks and finance companies supervised by SAMA.
• Debt Collection: The process of collecting amounts payable by a retail consumer on due dates by a creditor.
• Default: The non-payment of a retail consumer of the monthly installments agreed upon in the finance contract for three consecutive months or more than five separate months throughout the finance period.
• Third Party: An entity contracted by a creditor to provide, on its behalf, any services which used to be provided by the said creditor or to provide a new service to be launched. Such entity can act as a unit or subsidiary of the creditor or operate independently.
• Complaint: Any expression, written or verbal, entailing dissatisfaction with the provided services, whether such dissatisfaction is justified or not.
• Documented means of communication: A recorded, verifiable means of communication that can be retrieved in written or electronic format.
• Compelling Change in Circumstances: Any event that causes an uncontrollable change in a retail consumer's circumstances, including without limitation: the inability to work (partially or totally), retirement (compulsory), and loss of a job or some fixed allowances given to employees by employers monthly.
• Voluntary Change in Circumstances: Any event that causes a change in the circumstances of a retail consumer on their own volition, including without limitation: Retirement (voluntary) and change of jobs.
• Guarantor: Any natural or juristic person who guarantees or promises to guarantee the fulfillment of any financing extended to a retail consumer, according to a written acknowledgement, in the event that they become unable to do so.
• Solidarity: Two or more persons purchase a property through a solidarity contract, and installments are due in equal or unequal proportions as agreed upon.

### 3.4.1 Controls of Communication with Retail Customers:

A creditor must apply due diligence when communicating with a retail consumer before seeking recourse in competent judicial authorities, while observing the following:

1. Authenticated means of communication that a creditor has the right to use when communicating with a consumer or their guarantor are limited to:
   - E-mail.
   - National address.
   - SMS messages.
   - Phone calls.
2. The communication message must include at minimum:
   - The creditor's name and the department concerned with the collection of defaulted payments.
   - Working hours of the concerned department and/or the third party.
   - Name of the employee, the creditor and/or the third party if a consumer is contacted through a phone call.
3. A creditor must commit to the following:
   - The number of attempts to contact a consumer through their phone number must not exceed ten attempts within a period of 30 days. The retail consumer should have the ability to call back the same number used by the creditor in attempting to reach them.
   - All phone calls received from or made to a retail consumer must be documented and records thereof should be maintained for no less than ten years from the date of the phone call. A retail consumer must be notified at the beginning of the phone call that it is recorded.
   - Enable customers to assess their satisfaction upon completion of a phone call (outgoing or incoming) and automatically document it.
   - Establish necessary standards to ensure employees' commitment to providing customers with accurate information professionally about their current delinquency status and the regulatory procedures that the financing entity is entitled to take.
   - Do not provide the customer with inaccurate or irregular information regarding the consequences of non-payment.
   - Avoid communicating with the customer using envelopes labeled with words indicating that they contain information about delinquent debt collection or the like.
   - Protect customer financial and personal information, maintain its privacy, and only use it for specific and legitimate professional purposes with the customer's consent.
4. In the event that a retail consumer objects to the due amount of payment, a creditor shall:
   - Document such objection, and submit a complaint of the retail consumer as per SAMA's instruction in this regard.
   - Provide the retail consumer with the estimated period for resolution of their complaint, provided that it does not exceed the statutory period set for resolution of complaints.
   - Not communicate with the retail consumer to remind them of defaulted payments until the complaint has been resolved.
   - Advise the retail consumer of the escalation mechanism in place and direct them to the relevant entity in the case of dissatisfaction with the result of resolution and desire to escalate the complaint.
   - Develop a policy for the analysis of complaints and objections, along with their patterns, to address their root causes.
   - Develop work procedures with relevant departments that cover service level agreements and escalation mechanisms to ensure that retail consumers' objections and complaints are resolved within the statutory period, provided that the mechanism is documented electronically.
5. The department concerned with debt collection and communication and/or the third party must be subject to review and audit by both the internal audit and the compliance departments at the finance company on an ongoing basis in order to ensure the soundness of procedures followed and their conformity with relevant regulations and instructions.

### 2.4.3 Debt Collection Procedures:

1. As a creditor, a bank must not:
   - Deduct any amounts from a retail consumer's accounts without a judicial order or ruling or without the retail consumer's prior consent, or if provided otherwise in the finance contract.
   - Block accounts or balances of a retail consumer, even if temporarily, without a judicial order or ruling.
   - Deduct more than one monthly installment for each loan within a single pay cycle, unless there is a judicial order or ruling or prior consent is obtained from the retail consumer.
   - Deduct or withhold a monthly installment before the due date agreed upon.
   - Withhold or deduct end-of-service gratuities payable to retail consumers, unless a judicial order or ruling was issued in this regard.
2. A creditor must set the date of deduction in accordance with the monthly payday, provided that such date is specified in the payment schedule or as may be agreed upon with the retail consumer through any of the authenticated communication means.
3. A creditor must deduct the monthly installment on the agreed date of deduction. If it is proved that a creditor does not comply with the agreed date of deduction, they shall extend the finance period by a similar term to be added at the end of the period, without any term cost or additional fees, and notify the retail consumer of the same through authenticated communication means.
4. A bank, as per requested by a retail consumer, must reschedule the debt when a compelling change in the circumstances of the retail consumer is proved, without granting any new loan, charging extra fees or changing the term cost. A bank must carry out the rescheduling within a period not exceeding 30 days from the date the individual customer is provided with the necessary documents. This excludes asset-backed finance contracts.
5. A bank, as requested by a retail consumer, must reschedule the debt in the case that voluntary changes in a retail consumer's circumstances are proved, with the potentiality to change the term cost without charging additional fees. Debt rescheduling must be carried out within a period not more than 30 days from the date the necessary documents are supplied by the individual customer. This excludes asset-backed finance contracts.

### 3.4.3 Procedures for Dealing with Defaulting Consumers:

1. A creditor must be entitled to take legal actions against any defaulting retail consumer at the competent judicial authorities, and such retail consumer must be notified in the event of default for more than three consecutive months or five separate months throughout the finance period, Ensure that the final attempt to contact the customer is made through the national address.
2. Upon the issuance of a judicial order or ruling against a defaulting retail consumer, a creditor must comply with the said order or ruling, unless both parties (creditor and retail consumer) agree otherwise (for example without limitation, settlement of debt between both parties, debt rescheduling, etc.).
3. A creditor must take in to consideration the circumstances of any defaulting individual customer that was issued an enforceable judicial ruling against them in favor of the creditor, when providing the necessary guarantees by making available the option of debt rescheduling, with the potentiality to change the term cost without charging additional fees.

4. For a contract concluded on 01/10/2018, a creditor must exempt the individual customer from payment of the amounts due under the finance contract in the event of death or total disability. Such exemption shall come into effect, at most 30 days from the date of receipt of the relevant documents. This excludes commercial finance contracts and cases of death or total disability arising from:

- Deliberate self-injury or suicide attempt.
- Natural disasters.
- Rulings issued by courts or competent judicial authorities.
- Consumption of alcohol, narcotics or illegal drugs.
- Participation, or training to participate, in dangerous sports or competitions such as horse or car racing.
- Job-related death or injury.
- Damage directly or indirectly caused by nuclear weapons, ionizing radiations, war, invasion, acts of foreign enemy, hostilities, warlike acts, or acts of vandalism and terrorism committed by person(s) working individually, on behalf of, or in relation with any terrorist organization.

5. A creditor must not impose delay penalties or debt collection fees in excess of the amount due as they should, at most, equal the value of a single installment throughout the finance period.

6. A creditor must ensure that a retail consumer fully understands the potential risks on non-compliance with the terms and conditions pertaining to finance products.

7. Before offering a finance product, a creditor must evaluate the creditworthiness of the retail consumer and ascertain their ability to fulfil their payment obligations throughout the contract period. Such creditor must also take into account the retail consumer's ability to make the final payment, if covered in the finance contract, in addition to potential changes to their credit status (e.g. voluntary / compulsory retirement, unstable allowances).

# Chapter Three

## Revision questions:

## Answer the following questions and check your answer in the corresponding section:

1. What are the objectives of Responsible Financing?

   **Answer: A reference: section 3.1.1**

2. Mention three of financing activities subject to principles of Responsible Financing?

   **Answer: A reference: Section3.1.2**

3. Mention three examples for the basic charges of financing client?

   **Answer: A reference: Section 2.3**

4. Mention three of conditions for calculating monthly credit obligations of the client.

   **Answer: A reference: Section 3.3**

5. Mention three of conditions for calculating the total monthly income of the client?

   **Answer: A reference: Section 3.3**

6. Mention restrictions that govern deductibles for clients whose total monthly income is SAR 15,000 and less.

   **Answer: A reference: Section 3.3**

7. The finance company must apply due diligence to communicate with customers before seeking recourse in competent judicial authorities. Explain the controls of banks' communication with finance customers?

   **Answer: A reference:  section 3.4.1**

8. Explain in brief the procedures of collecting from customer accounts, clarifying the activities that banks are prohibited to do as finance entities?

   **Answer: A reference: Section 2.4.3**

# Chapter Four

## Principles of Islamic Sharia and its Impact on Retail Banking Services

This chapter includes 11 questions out of 100 questions in the exam

# Introduction:

This chapter provides an overview of the Islamic banking sector, and the difference between it and traditional banking. Then it identifies the activity of Islamic banking through the operations of Islamic windows. The chapter also deals with the infrastructure institutions and bodies of the Islamic banking industry. Finally, it clarifies the tools and formulas of Islamic financing, the concept of Islamic bonds (sukuk) and securitization operations.

## 4.1 General Features of the Islamic Banking Sector:

Learning Objective:

Getting familiar with the general features of the Islamic banking sector, and how it differs from traditional banking.

### 4.1.1 Concept of Islamic Banks:

By researching laws and regulations organizing the business of banks along with SAMA decisions and circulars, we did not reach a specific definition of an Islamic bank. Rather, such laws and regulations indicated the duties and business of financial institutions and controls for establishing banks in addition to nature of their business without a clear definition of the concept of an Islamic bank. Literatures defined Islamic bank with several definitions, among which we mention, for example, the following:

- An Islamic bank is defined as "a monetary financial institution that carries out financial and banking business and services, attracts cash resources and employs them effectively to ensure their growth and achieve the maximum return therefrom in a manner that realizes the objectives of economic and social development within the framework of the provisions of Islamic Sharia."
- In the first paragraph of Article V, the Agreement establishing the International Association of Islamic Banks defines Islamic banks as: "Banks or institutions whose Articles of Association and Bylaws stipulate that their adherence to the principles of Sharia and prohibits interest whether by giving or obtaining".
- The Islamic bank was also defined as "Financial institution that plays the role of financial intermediary between the two categories of savers and investors within the framework of the Shariah speculation formula based on the principle of profit and loss sharing, and the Sharia rule that gain is linked to the bearing of expenses, as well as its performance of banking services within the framework of Sharia contracts, and in a manner that contributes to economic promotion and social development in the environment where it operates.

From the previous definitions, several points can be drawn, though the most significant are:

- Islamic banks are financial institutions and part of an integrated banking system, but they apply the principles of Sharia in their functions and activities, unlike traditional banking activities.
- Islamic banks are not only an intermediary between savers and investors, but rather work to realize the Islamic economy principles in terms of developmental role and to achieve the social return along with the economic return in addition to reaching the highest levels of social solidarity.
- Islamic banks promote investment operations and share in risk and return, whether profit or loss, and removing hardships from Muslims through financial systems that comply with Shariah requirements.

Based on the foregoing, an Islamic bank definition can be provided including the distinguishing elements as follows:

"An economic financial institution that abides by the provisions and purposes of Islamic Sharia in mobilizing and utilizing resources in accordance with financing and investment formulas that comply with Sharia requirements and in a manner that serves the objectives of economic and social development in the Islamic society."

### 4.1.2 Characteristics of Islamic Banks:

Islamic banks are financial institutions to collect and use funds within the framework and purposes of Islamic Sharia. Despite the similarity between Islamic and traditional banks in terms of banking nature, Islamic banks have distinguishing characteristics, the most significant of which are:

#### 1. Observance of Provisions of Islamic Sharia:

The core of Islamic banks' business is to fully comply with the purposes and controls of Sharia, considering that Islamic banks are part of the Islamic economic system, which is governed by all Islamic values and principles. This characteristic causes Islamic banks to consider Sharia directives in all their activities.

#### 2. Prohibition of Interest-based (Usury or Riba) Transactions:

This characteristic in Islamic banks' business is the key pillar of financial transactions and activities. Avoiding usurious transactions is the basis of financial transactions that are compatible with Shariah regulations. From a jurisprudential point of view, Riba has two types: Debt Riba and Sale-Based Riba, and they can be defined as follows:

- Debt Riba: The conditional increase that the party providing the capital (Rab al-Mal) receives from the debtor on his capital in return for a specified period that they agree to specify. The interest, whether debit or credit, simple or compound on which the financial transactions are based, is considered Riba (usury) as it is in excess of the principal of debt in exchange for the term of payment.
- Sale-Based Riba: Riba in the six categories that came in the prophetic hadith, which are: Gold, silver, wheat, barley, dates, and salt. If a thing is sold for its like with an increase in one of them without return, then it is called Riba al-Fadl, but if the thing is exchanged for the like or otherwise with the delay of delivery of one of them, then it is called Riba al-Nasi' ah. In order to avoid Sale--based Riba, equality and instant exchange (Taqabud) are required in exchanging one item for another, but if the exchange is between two different items, it is possible not to be equal, but the condition of instant exchange remains applicable.

The economic objective of prohibiting both Debt Riba and Sale-based Riba is linking the financing process to the production and circulation of goods and services, thus both production and circulation become a beneficial and effective economic activity.

#### 3. Profit and Loss Sharing:

The basis on which Islamic banks are dealing is profit and loss sharing, in application of the Sharia rule that gain is linked to the bearing of expenses, meaning that the right to obtain profit is linked to risks and possibilities of losses, and given that the bank and the customer are partners who have the right to share the profit (gain) as much as they are willing to bear the loss (bearing of expenses).

#### 4. Sharia Supervision:

The organizational structure of Islamic banks includes a Sharia committee, which is completely independent from the executive departments and plays the role of fatwas. There is usually a special department that monitors and reviews the executive business conducted to ensure that all the bank's departments comply with the fatwas and Sharia decisions issued by the Sharia committee. Such department is called in some banks Sharia Audit Committee, and in other banks Sharia Compliance or Sharia Supervision. Its task is also to review the procedures, manuals, and forms approved by the Committee.

### 4.1.3 Similarities and Differences between Traditional and Islamic Banks:

Traditional and Islamic banks are similar in some transactions and legal positions before supervisory bodies. We hereafter explain similarities, and present in brief points other key differences in business methodology, policy and objectives.

### 1. Similarities in Banking Services:

Some people may choose Islamic banking transactions as completely different from all traditional banking transactions. Although this is considerably a true fact, however there are some areas in which traditional and Islamic banks match, summarized as follows:

- All banks are subject to the supervision and control of central banks subject to instructions thereof, whether with regard to sources of funds, employment or investment.
- All operating banks, whether traditional or Islamic, provide interest-free banking services that are permitted by the principles of Islamic Sharia, e.g. account opening and transfers.
- All banks, both traditional and Islamic, aim to preserve and invest money.

### 2. Differences between Traditional and Islamic Banks in Affairs and Application:

Business methodology of each of the two systems is completely different from, where the traditional bank is subject in its work to legal controls without acts of Sharia controls, while the core Islamic bank business is to adhere to Sharia controls and priorities. The following table summarizes the key differences between traditional and Islamic banks:

| Comparison | Traditional Banks | Islamic Banks |
|---|---|---|
| General Concepts | | |
| Core Activity | Receive deposits and grant loans (trading in debt), which raises money and finances projects and individuals for a specified interest. | Receive deposits and extend finance (in compliance with Shariah controls), as they raise funds and finance projects and individuals for a certain profit. |
| General Objectives | Maximize shareholders' equity by borrowing money from savers and lending it with a margin that represents the bank's profit, focusing on risk and profitability factors in all dealings. | Maximize shareholders' equity through profit and loss resulting from conducting Sharia-compliant business. |
| Professional Controls | Manage assets and liabilities at the best possible profitability on an economic basis through interest rate. | Manage assets and liabilities with the best possible profitability on economic bases that are regulated by Sharia principles determined by the bank's Shariah Committee. |
| Sharia Supervision | No Shariah Supervisory Committee | There must be a Sharia Committee that issues fatwas on new matters, together with an oversight unit that monitor Sharia implementation. |

| | | |
|---|---|---|
| Bank Resources in General | • Deposits for investment by lending<br>• Equity<br>• Banking Service Fees | • Profits from legally invested deposits.<br>• Equity<br>• Banking Service Fees |
| Financial Mediation between Client and Bank | Conducted as a lender and borrower | Conducted as a lender and borrower while avoiding Riba, and may be made through agency. |
| Financial Mediation between Client and Bank | Manage assets and liabilities at the best possible profitability on an economic basis through interest rate. | Manage assets and liabilities with the best possible profitability on economic bases that are regulated by Sharia principles determined by the bank's Shariah Committee. |
| Financial Activities | A debtor-creditor relationship between the depositor and the bank on the one hand and between the borrower and the bank on the other hand, and interest rate represents price of debt and reflects the opportunity cost of money. | A debtor-creditor relationship between the depositor and the bank on the one hand, while avoiding Riba, and between the borrower and the bank on the other hand, arising from deferred sales, and the profit price is determined according to indicators. |
| Required Guarantees | Mortgage, commercial, personal, securities, commercial papers and others | Does not differ from traditional banks, provided that securities and guarantees are Shariah-compliant. |
| Deduction and Collection of Bonds | Available for usurious interest | Available by deduction of debt against the item/object. |
| Preferred Stock | Issues fixed interest preferred stocks. | No preferred stocks issued. |
| Money Investment | The vast majority of traditional banks' investments are directed to loans, and they receive interest in return. | nvesting according to Shariah-approved investment formulas, often by granting financing in a Sharia-compliant manner |

Chapter Four

| | | |
|---|---|---|
| **Profitability** | | |
| Return: | Interest, which is the return on money borrowed by the project, and has a specific value that must be paid on specific dates, whether the project generated profits. | Profit, which is the return on finance operations, which is often through deferred sales, and thus the bank guarantees the return where the value of the commodity arises as indebtedness to the customer. |
| Key differences between interest and profit | Benefit generated from project costs. | Profit generated from finance operations. |
| Distribution of Profit and Loss between the Bank and Savers | There are no losses but a sure profit, distributed according to the prevailing interest rate, with the possibility of credit losses. | There are no losses resulting from projects, as the bank guarantees its right by financing the customer in the form of Murabaha or Tawarruq, with a possibility of credit losses. |
| **Forms of Finance** | | |
| Forms of Finance | Lending and borrowing. | Forms of Murabaha, Musharaka, Mudaraba, Salam, Istisna', Ijarah, Sharecropping Partnership (Muzara'ah), Irrigating Partnership (Musaqat), and others.<br>Fits small, medium and large sized projects. |
| **Risk Management** | | |
| Risks | Borne by the borrower because the lender has collateral. | Borne by the financier due to indebtedness, and it may be borne by the bank when using Musharaka. |
| Risk Ratio based on the Type of Finance | Less because the lender has collateral against his loan. | Higher due to the nature of finance forms, and presence of risks related to dealing in commodities. |

Table (2.1): Differences between Traditional and Islamic Banks

## 4.2 Islamic Window Operations:

Learning Objective:

4. Getting familiar with the activity of Islamic banking through the operations of Islamic windows.

Islamic windows are an initial step for traditional banks to practice Islamic banking, as they have contributed significantly to the Islamic financial industry, in proportion to the traditional banks that have not yet decided to fully convert to the Islamic banking ecosystem, and wish to maintain existing customers, and attract more new customers who refuse to engage in the traditional banking activity.

### 4.2.1 Concept of Islamic Windows:

The Islamic Financial Services Board (IFSB) defines Islamic windows as "Part of a traditional financial institution that invests and finances in accordance with the Shariah approach." It may be a specialized unit or a branch of the institution, but it does not enjoy legal independence."

The basic idea of Islamic windows is that they are considered complete or stand-alone windows, with regard to financial intermediation, and such windows invest institution assets in consistency with the provisions of Islamic Sharia, while separating their assets from the funds of traditional parent institution.



### 4.2.2 Advantages of Establishing Islamic Windows:

Traditional banks can establish Islamic windows affiliated thereto in case they are Sharia-compliant. Islamic windows have many advantages, including:

- Opening Islamic windows is a method used in traditional banks to get rid of banking transactions that are not compatible with the provisions of Islamic Sharia.
- Benefiting as much as possible from traditional banks due to their long experience in the banking field, in a way that supports the Islamic banking sector and thus develops and improves its performance effectively.
- Success of Islamic windows is considered a good incentive and impetus for the managements of traditional banks to completely transform later.
- Some countries suffer from difficulties in opening and licensing Islamic banks, and therefore Islamic windows are considered good and alternative solutions that could contribute to bridging this gap.
- The presence of Islamic windows within traditional banks encourages the coexistence of two different banking systems instead of confrontation between each other, and this was an incentive for Islamic banks to provide the best.
- Recognition by traditional banks of the importance of Islamic banking, and the credibility of Islamic financing forms as well as Islamic banking as a whole.

### 4.2.3 Governance of Islamic Window Operations:

Article (17) of the Shariah Governance Framework for Local Banks and Banks Operating in Saudi Arabia issued by SAMA on (February 2020 AD) states that: "When engaging in Islamic banking activity through Islamic window operations, the bank shall ensure that adequate internal control systems and tools are in place to properly separate Shariah-compliant assets and finance sources from those assets and finance sources that are not compliant with the Shariah principles and rules. This is in addition to the other requirements of this framework." When practicing Islamic banking activity through Islamic windows operations, the bank must comply with the following requirements:

1. "The bank shall keep a separate accounting records for Islamic banking operations and ensure that these records are properly maintained."
2. "The bank shall prepare separate financial statements for its Islamic banking operations along with its periodical financial statements at least on a monthly basis."
3. "An internal audit is required at least once a year to assess the bank's compliance with the requirements mentioned in the previous two paragraphs."

## 4.3 Organizations Supporting Islamic Banking Business:

Learning Objective:

3. Getting familiar with the supporting bodies of the Islamic banking industry.

The regulators and those in charge of the Islamic banking industry have managed to establish a group of non-profit organizations to support the process of Islamic banking, the most significant of which are:

### 4.3.1 Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI):

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) is an international not-for-profit organization that prepares and issues financial accounting, auditing, control and business ethics standards, as well as Sharia standards for Islamic financial institutions. AAOIFI also organizes a number of professional development programs in an effort to raise the skills of human resources working in the Islamic banking sector and to develop controls and governance in such institutions.



AAOIFI was established in accordance with the Agreement of Association which was signed by Islamic financial institutions on February, 26, 1990 in Algiers. Then, it was registered on 27 March, 1991 in the State of Bahrain. AAOIFI is supported by institutional members including central banks, Islamic financial institutions, and other participants from the international Islamic banking and finance industry worldwide.

### 4.3.2 General Council for Islamic Banks and Financial Institutions (CIBAFI):

CIBAFI initiated its business at the end of 2001, and is affiliated with the Organization of Islamic Cooperation (OIC). CIBAFI is an international non-profit organization with an independent personality. CIBAFI has 130 members, i.e. Islamic banks and financial institutions. CIBAFI Articles of Association adhere to the provisions of Islamic Sharia, and practically all activities are carried out in accordance with the provisions of Islamic Sharia.
CIBAFI objectives are to protect the Islamic financial services industry and maintain the integrity of its approach and process at the theoretical and practical levels, and to introduce Islamic financial services and disseminate concepts, rules, provisions and information related thereto. CIBAFI also seeks to promote cooperation among its members, and to contribute to the growth of the Islamic financial services industry by fostering research and product development, ensuring their technical and legal quality, and upgrading human resources.

### 4.3.3 Islamic Financial Services Board (IFSB):

The Islamic Financial Services Board (IFSB) was established in Malaysia on (November 2002 AD). IFSB includes 188 members representing central banks, the International Monetary Fund, the World Bank, the Islamic Development Bank, the Asian Development Bank, and many professional institutions. The Saudi Central Bank (SAMA) is an IFSB founding member. Key objectives of IFSB include:

- Drafting disciplined and transparent standards for Islamic financial services in line with the principles of Islamic Sharia.
- Providing Islamic financial institutions with effective supervisory controls, and develop tools and procedures to increase the efficiency of operations and manage risks.
- Cooperating with similar institutions that oversee the development of standards that maintain the integrity and robustness of international monetary policy and the financial system.
- Encouraging cooperation between members of various countries to develop the Islamic financial industry by paying attention to research, publishing scientific studies, and establishing an information base for Islamic banks and financial institutions.
- Facilitating training and development of individual skills in areas related to effective controls in Islamic banking and financial industry.

### 4.3.4 International Islamic Financial Market (IIFM):

IIFM is a global non-profit organization established as an institution supporting Islamic capital and money market in the Islamic finance industry. IIFM aims to play its role in developing primary and secondary markets and meet Islamic banks' needs in terms of liquidity and Islamic banking products

### 4.3.5 Islamic International Rating Agency (IIRA):



IIRA is one of the oldest Islamic rating agencies that was established by certain Islamic banks and credit rating agencies led by Islamic Development Bank. IIRA aims to serve the Islamic financial and banking sector. It is an agency specialized in rating Islamic banks and financial institutions and determining extent of their reliance on traditional international financial institutions.

## 4.4 Tools and Forms of Financing:

Learning Objective:

4.4.1 Getting familiar with the nature of Islamic finance tools and forms, and exploring the provisions of different types of such forms i.e. definition and legal controls to be observed by Islamic banks.

Islamic finance has become an inevitable economic reality, as it has proved itself in the global financial market, through its ability to meet the needs of a large segment of investors, whether governments, companies or financial institutions. Islamic jurisprudence has presented various forms of finance, which can be briefly described as follows:

### 4.4.2 Definition of Murabahah:

Murabahah is a contract whereby an Islamic bank sells to its customer a known type of asset at cost plus an agreed profit margin. Islamic banks use Murabahah to meet finance requirements such as financing raw materials, machinery and financing short-term trade. To clarify the principle of Murabaha, the customer applies to the bank to finance limited needs e.g. merchandise, raw materials, machinery and others. The customer sets specifications for the commodity he wants to buy in terms of price, type and the like. Then the Islamic bank, after being convinced of the feasibility of the project, informs the customer of the amount of his profit in excess of the price of the commodity. If an agreement is reached, the bank buys the commodity and then sells it to the customer at the price that was agreed upon.

This type of Murabaha is called Murabahah on Order of Purchase, where the Islamic bank simply concludes a contract with its customer to sell assets that it had purchased at the customer's request at a cost price plus an agreed profit margin based on a promise from the customer. It is worth noting that the goods will be in the ownership of the bank before they are sold to the customer based on Murabahah.

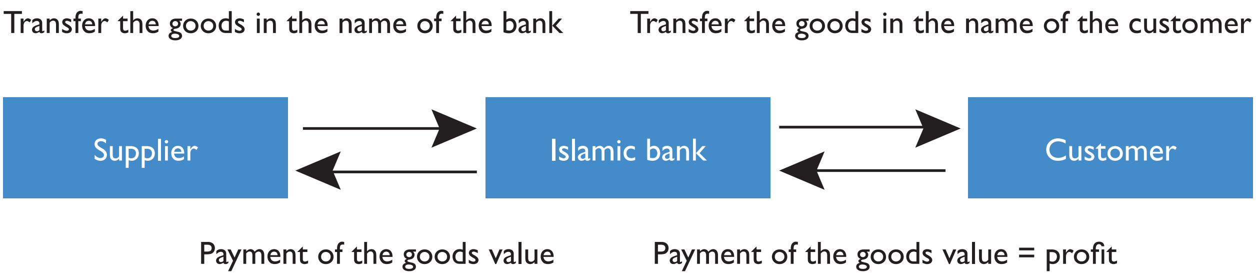



Table (4.3): Murabahah Process

The previous figure shows that the bank purchases the goods from the supplier and then the customer purchases them from the bank at an agreed price, which is paid on a deferred basis. The goods are transferred in the name of the customer at the time of their purchase from the bank, and the customer submits a guarantee to the bank, usually mortgaging the goods in favor of the bank. The process of Murabaha is known in this case as Murabahah on Order of Purchase.

### 1. Stages of Murabaha Sale Process:

Murabahah Sale on Order of Purchase is one of the most important financing methods applied by Islamic banks at all, due to the guaranteed profit and short term (in most cases). Murabaha sale is carried out according to the following steps:

A. Promise Stage: It starts from the customer's request to purchase the commodity until the bank purchases it.

B. Ownership Stage: It starts from the bank's purchase of the commodity until it is sold to the customer.

C. Sale and Payment Stage: It starts from the bank selling the commodity to the customer until the end of his payment of the installments



## 4.4.3 Ijarah:

Definition and Types of Leases (Ijarah):

Ijarah is the ownership of usufructs in return for rent. There are several types of Ijarah, including:

1. Operational-Cum-Financing Ijarah: An agreement whereby a specific asset is leased or used by a lessee in exchange for the latter making periodic payments for a limited period of time in the contract to the owner of the asset (the lessor).
2. Ijarah Muntahia Bittamleek: A form of Ijara contract that offers the lessee an option to own the asset at the end of the Ijarah period, either to purchase the asset for a nominal price, to pay the market value, or under a gift contract, or to pay the Ijarah premium during the Ijarah period, provided that the promise is made separately and independently of the basic Ijarah contract, or a gift contract is concluded pending the fulfillment of all Ijarah obligations, and the ownership is transferred directly upon fulfillment.
3. Ijarah Mawsufah fi al-Dhimmah (Contract for an unidentified asset undertaken by the lessor to be delivered according to the agreed specifications): A contract on a permissible benefit, related to the lessor's liability, for a known period, with a known consideration. This form is often used to finance services or objects that will be established in the future. Ijarah Mawsufah fi al-Dhimmah is characterized by giving the lessor the right to receive the rent in advance as a down payment before handing over the asset.

The mechanism of Ijarah contract can be explained as follows:

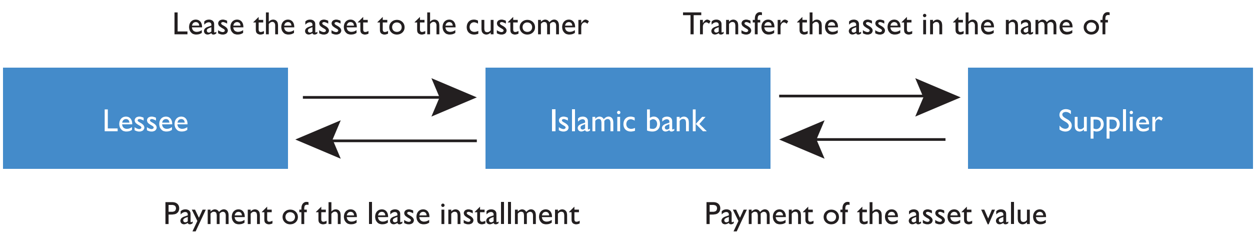



Table (4.4): Ijarah Contract Mechanism

We can conclude from the above figure that the bank purchases the asset from the supplier, and then the bank, in turn, leases the asset to the customer in return for regular installment payments where the asset remains in the name of the bank. In the case of Ijarah Muntahia Bittamleek, the asset is transferred in the name of the customer, either gradually over the term of the contract or upon expiry of the contract.

**Lease-Based Financing**

One of the financing formats employed by Islamic finance is lease-based financing, specifically known as "Ijarah Mawsufah Fi Dhimmah." In this arrangement, the financier (bank) and the client (lessee) agree that the financier will construct a property, such as a villa, according to the lessee's specifications. After completion, the lessee agrees to lease the property, and upon completing the payments, ownership is transferred according to an agreed-upon ownership structure. This is termed as a lease described in liability because the benefits obtained are tied to the liability of the lessor. Some contemporary jurists define it as the sale of future benefits at a current price or as a commitment to benefits.



The reason for resorting to this format and considering it one of the most important types of financing is its ability to provide flexibility for lessees and meet the needs of a large segment of them by executing the transaction—whether it involves real estate or other assets—based on:

- Specifications desired by the client.
- Value delivered to the client in installments.
- Client ownership of the asset after completing the payments.

These three elements are crucial for lessees. As for the financier, this format ensures the greatest guarantee for debt preservation, including:

- Being the true owner of the asset.
- Ownership not transferring to the lessee until full payment of installments.
- The financier benefits from receiving installments from the lessee, even if the execution is not completed.

Key Differences Between Murabahah and Ijarah Financing

| Asset Ownership | Murabahah | Ijarah |
|---|---|---|
| Asset Ownership | The original (whether a car or real estate) transfers ownership to the client, and it is pledged (especially real estate) to the financing party. After fully repaying the debt, the pledge is released. | Ownership of the asset remains in the name of the financing party until the complete repayment of the financing amount. |

| | | |
|---|---|---|
| Profit Margin | Fixed duration of financing | A variable unless the parties agree otherwise |
| Installments | Fixed (in terms of both number and value) | The value of the variable unless the parties agree otherwise |
| Insurance | Borne by the financing party | Borne by the financing party |
| Maintenance | The client bears it, whether it is or essential maintenance operational | The client bears operational maintenance, while the financing party bears the major maintenance |
| Early Repayment (Full/Partial) | Allowed | Allowed |
| Property Transfer (after full repayment of financing amount) | The collateral is released by the financing party, and the asset becomes unencumbered. | Ownership is transferred according to the agreement in the contract, either as a gift or after the final installment payment |



### 4.4.4 Al Tawaroq:

Concept and Types of Tawarruq:

Tawarruq means purchasing a commodity on a deferred price either in a form of Musawamah or Murabahah, later selling it to a third party other than the initial seller from whom the customer purchased it with the objective of obtaining cash. There are two types of tawarruq namely:

1. Individual Tawarruq (Tawarruq al-al-Fiqhi):

It is the Tawarruq that faqihs have studied, and Islamic Fiqh Council of Muslim World League defined it as: "Purchasing a commodity on a deferred price and later the buyer sells it to a person other than the seller for immediate cash." In light of this definition, it is clear that this process of Tawarruq is characterized by:

- In terms of contractual relationship: Having three different parties.
- In terms of Shariah contract controls: Existence of two separate contracts without understanding or collusion between parties.
- In terms of purpose and intent: Obtaining cash.

2. Organized Tawarruq (Tawarruq al-Munazzam):

Tawarruq that is provided by Islamic banks as banking finance to their customers within the framework of arranged and organized procedural and contractual mechanisms and steps, which make it easier for the customer to obtain cash through a process of tawarruq in which the bank is an additional intermediary party. This type can therefore be called organized, institutional or bank tawarruq. In this type the bank:

A. Purchase a commodity defined by the original seller in large quantities - usually on a weekly basis - without prior promise of purchase from the customer.

B. The bank then sells such purchased commodity or specified quantities to the customer at a fixed price (in a form of Musawamah or Murabahah).

C. At a later stage, the bank sells such commodity, which has become owned by the customer, to whomever wishes to purchase it in cash on the client's authorization.

### 4.4.5 Istissnaa Contract:

1. Definition of Istisna'a:

Istisna'a contract is an agreement with a customer to sell or purchase an asset that may not have been established yet, provided that it is manufactured or built according to the specifications of the final buyer and delivered to him at a specified future date at a predetermined sale price. Istisna'a is used in banks in mortgage finance and project finance, and it is often accompanied by an Ijarah Mawsufah fi al-Dhimmah contract, or a parallel Istisna'a contract, where the bank enters into an Istisna'a contract with the customer and enters into a parallel Istisna'a contract with a contractor. The following figure illustrates the process of Istisna'a:

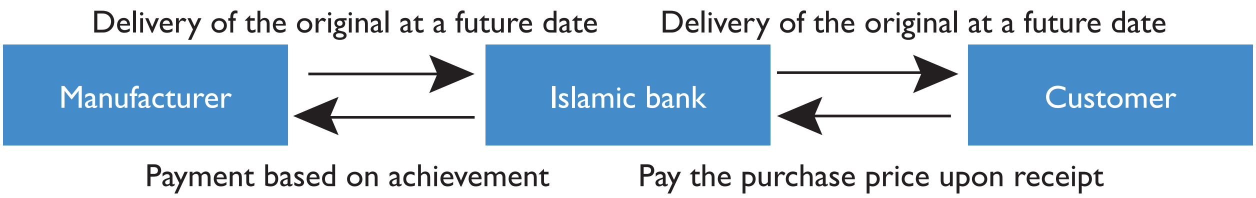



Table (4.5): Mechanism of Istisna'a Process

2. Elements of Istisna'a Contract:

Istisna contract is based on specific pillars, i.e. the customer, the manufacturer, the subject-matter, the price, and the form.

- Customer: The customer who asks the bank to manufacture an item for him according to a contract between them.
- Manufacturer: The bank that executes the customer's request.
- Subject-Matter: The item that is agreed upon by both the customer and the manufacturer, and valued at a known price.
- Price: The value of a manufactured commodity agreed between manufacturer (sani) and cu-tomer (mustasni).
- Form: It is the form of the offer and acceptance by the bank (sani) and customer (mustasni) on the manufactured item

### 4.4.6 Musharaka:

- **Concept of Musharaka**

An agreement or contract between the Islamic bank and the customer to contribute to the capital in equal or varying proportions to finance the establishment of a new project or development of an existing one, or to own a real estate, or a movable asset. It may be on a decreasing basis so that the customer purchases the bank's share increasingly (Diminishing Musharakah). Participation in profits generated by the project, real estate or assets is carried out in accordance with the terms of partnership agreement. The mechanism of such partnership activity can be explained as follows:

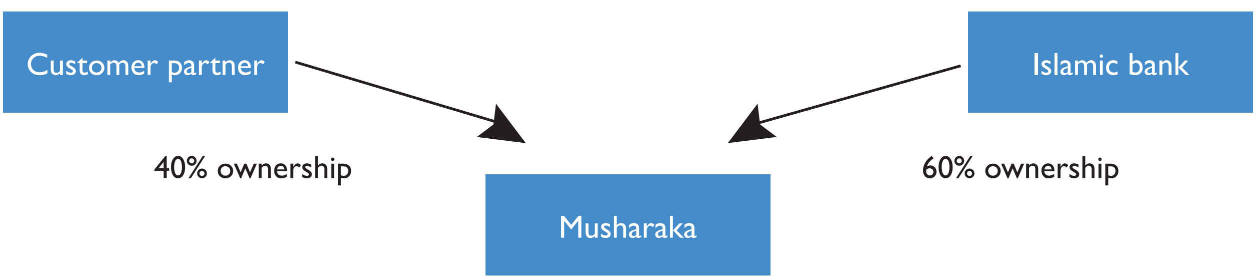



Table (4.1): Partnership (Musharakah) Mechanism

In partnership activity, both the bank and the client contribute to the capital of the project in equal or different proportions. In the case of diminishing musharakah, the customer purchases the bank's share in the project later gradually over the term of the contract. The "sale and purchase" is independent of the partnership contract and should not be stipulated in such contract.

• **Types of Musharakah in Banking Business:**

Banks apply musharakah formula in any of the following ways:

A. Fixed Musharakah: The bank has partnership with one or more natural or legal persons in a commercial, real estate, agricultural, service project or other various fields of investment, through joint financing in the project (i.e. participation in capital), and each of the partners is entitled to his share of the proceeds of such project. The accounting for profits and losses shall be after the end of the financial period agreed upon by the two parties. Further, the share of each party in the capital and profit remains the same as long as the company exists, and this percentage does not change except under a new contract.

B. Diminishing Musharaka or Ijarah Muntahia Bittamleek: Where the bank contributes to the capital of a company operating in any business sector with one or more partners, and each of the parties to this company deserves its share in the profit according to what is agreed upon in the contract, while the Islamic bank promising to waive part or all of its share in the capital, by selling its shares or its share in the capital to such partners, provided that the partners, in turn, also commit to purchasing such share and replacing the bank in ownership, with payment of the consideration in one go or in installments according to the agreed terms.

### 4.4.7 Mudarabah

• **Concept of Mudarabah**

A finance method practiced by Islamic banks is Mudarabah, which is described as an investment process based on an agreement between two parties, namely, the owner of the capital (Rab al-Mal) and the mudarib or the entrepreneur (i.e. the party concerned with investing the money). In which Rab al-Mal contributes capital to an institution or activity managed by the employer in his capacity as a Mudarib (or entrepreneur).

The profits generated are distributed according to the terms of Mudarabah contract, and Rab al-Mal bears the loss solely, unless such losses are due to the mudarib's misbehavior, negligence or breach of the contracted terms. The following figure illustrates the nature of Mudarabah contract:

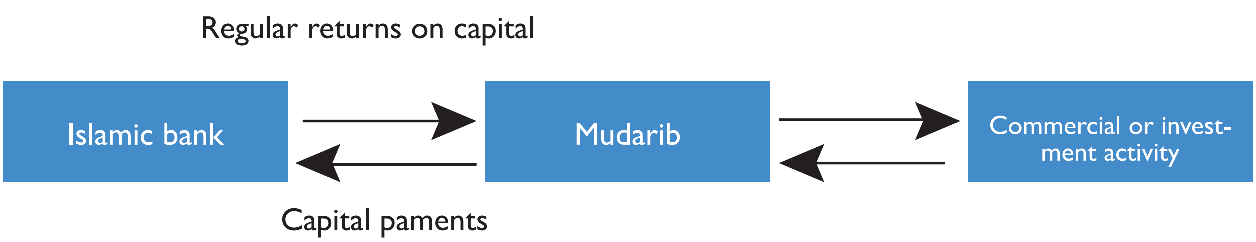



Table (4.2): The Nature of Mudarabah Contract

From the above figure, it is clear that the mechanism of Mudarabah contract is where the bank providing the mudarib with capital necessary for a specific activity, and the latter does not contribute the capital, but rather its role is limited only to managing the project in return for a wage that is taken as a percentage of the project's profits and the remaining profits are paid to the bank. In the event that the project incurs losses, the bank shall bear all amounts unless they are caused by negligence on the part of the mudarib.

On the other hand, there are currently in some Islamic banks investment accounts according to the Mudarabah formula (called a Mudaraba Term Deposit Account "MTDR") that allow customers to enter into all or some of the bank's business, and the customer is Rab al-Mal and the bank is a Mudarib, and the bank obliges the customer for a specific period in which he is not allowed to cancel. If the customer desires to cancel, so he loses all or part of the profit of the previous period, and the percentage of profit distribution is determined based on their agreement when contracting and based on the period and the amount paid, provided that it is known at the time of contracting, and the bank uses such account in its activities. Further, such contracts do not guarantee capital to the client.

• **Types of Mudarabah:**

Considering its terms, Mudarabah is divided into two types: Unrestricted Mudarabah and Restricted Mudarabah, as follows:

A. Unrestricted Mudarabah: A contract in which the capital provider (Rab al-Mal) permits the Mudarib to administer a Mudarabah fund without any restrictions. In this case, the Mudarib has a wide range of trade or business freedom on the basis of trust and the business expertise he has acquired. An example of unrestricted Mudarabah is when the capital provider says, "Do business according to your expertise". However, such unrestricted business freedom in an unrestricted Mudarabah must be exercised only in accordance with the interests of the parties and the objectives of the Mudarabah contract, which is making profit. Therefore, the actions of the Mudarib must be in accordance with the business customs relating to the Mudarabah operations: the subject matter of the contract.

B. Restricted Mudarabah: A contract in which the capital provider (Rab al-Mal) restricts the actions of the Mudarib to a particular location or to a particular type of investment as the capital provider considers appropriate, but not in a manner that would unduly constrain the Mudarib in his operations. In other words, Rab al-Mal allows the Mudarib to make investments that are subject to specific investment standards or certain restrictions. An example of this is the size of the exposure to sectoral or sovereign risks.



### 4.4.8 Al-Qard al-Hasan (beneficial loan):

• **Concept of Al-Qard al-Hasan:**

A contract between two parties, one the lender and the other the borrower, under which money belonging to the lender is paid to the borrower, provided that the latter (the borrower) returns it or a similar amount to the lender at the agreed time and place.

• **Elements and Conditions of Al-Qard al-Hasan:**

- A loan is concluded by offer and acceptance by the word "loan" or "credit" and everything that leads to their meaning in terms of saying or doing.
- The lender shall be required to be eligible to donate.
- The borrower is required to have the capacity to act.
- The loan location is required to be known valuable assets.
- The borrower gets the lent money, and such money shall be what he owes. Such a loan must be returned at the place of delivery.

## 4.5 Islamic Sukuk (Bonds) and Tawarruq Processes:

Learning Objective:

4.5.1 Be familiar with the concept of Islamic sukuk and the difference between them and stocks and bonds, in addition to understanding the processes of Tawarruq and its Shariah provisions.

### 4.5.2 Concept of Islamic Sukuk:

Sukuk are the Islamic alternative to traditional bonds, as they are Sharia-compliant instruments. Sukuk are becoming increasingly popular as a source of finance, especially in Islamic countries,

more than traditional bonds, given the inherent advantages of both issuer and investor.
Sukuk can be defined as: "Securities of a negotiable duration proving ownership of its holder of a periodic income-generating asset". Sukuk are distinguished financially from other securities traded in the markets by the following:

- It has low-risk (as compared to stocks), as their trading price is low and the holder can therefore obtain liquidity from selling the same in the trading market at any time without loss.
- It has a predictable income (as compared to stocks), the periodic income earned by sukuk holders is derived from an asset or investment that generates fixed cash flows such as periodic rents in sukuk whose issuance is based on leased assets, or other types of sukuk for which regular income has relatively stable sources to make it predictable.
- Sukuk holder's refund of his capital expires at the end of the period specified for sukuk. In practical applications, this is not based on guarantee (i.e., Sukuk source guarantees capital), but because of the nature of investment and issuance structure, with the exception of cases of infringements and negligence.

### 4.5.3 Traditional Instruments, Shares and Bonds:

Shares are the main securities in the capital structure of shareholding companies. Shares are the company's property documents. Shareholders are the owners of the company that issues such Shares. Shares of public joint stock companies are traded in organized markets (i.e. financial markets). The supply and demand forces affected by information about the company and the general situation of the economy determine the market share price. The periodic return of shareholders depends on the results of the company's activity. Shares are purchased to obtain that return, as well as to benefit from the increase in share price in the market, both of which are difficult to predict accurately, making share prices vulnerable to fluctuations. Share investment is therefore described as high risk.

Chapter Four

Traditional debt bonds are negotiable securities for documenting a loan with interest. The security holder is the lender and the issuer is the borrower. They are issued by companies, governments and banks. Capital (nominal value) and interest is secured by the issuer. The relationship between the holder and the issuer is a creditor-debtor relationship.
The difference between instruments and bonds as well as shares can be illustrated by the following

| Compariso | Instruments | Bond | Ordinary share |
|---|---|---|---|
| Security type | Revenue sharing | Debt instrument | Equity instrument |
| Proceeds | Joint profit | Percentage and annually | Unlimited profit |
| Right to vote | No right to vote | No right to vote | Right to vote |
| Payment priority in case of liquidation | Priority | Priority | After paying off all debts and preferred shares |
| Due date | Defined | Defined | Undefined |

Table (4.2): Comparison of instruments, bonds and ordinary shares

### 4.5.4 Islamic Tawarruq (securitization):

The process of issuing sukuk is called securitization, and it's called Tawarruq, and they are all have the same meaning. The term "Tawarruq" is used in the traditional economy, and is limited to securitization of debt (traditional Tawarruq), while the term "securitization" is used in the Islamic economy, and has a broader and comprehensive meaning, encompassing securitization of monetary debt (financial assets) and commodity debt (in-kind assets).

A distinction can be made between traditional and Islamic Tawarruq, in accordance with the resolution of the Council of the International Islamic Fiqh Academy of the Organization of Islamic Conference, held at its nineteenth session (2009), on the subject of Islamic Sukuk (Tawarruq), as follows:

- **Traditional Tawarruq**: Means the conversion of debt into equitably tradable securities (bonds), which represent interest-bearing debt to the bearer from its issuer, such bonds cannot be issued or traded legally.
- **Islamic Tawarruq**: The issuance of financial documents or certificates of equal value, representing common shares of the ownership of assets (items, benefits, rights or a mixture of items, benefits, money and debt) that is actually existing or will be created from the proceeds of the subscription, and issued in accordance with a Shariah-compliant contract and governed by its provisions.

Main differences between traditional and Islamic Tawarruq can be illustrated by the following:

- Investors in Islamic (negotiable) sukuk have real assets, whether items, benefits or services.
- Investors in Islamic sukuk bear all risks associated with the asset, as a profit and loss-based company.
- Islamic sukuk invested in debt-generating formulas cannot be traded, such as: Murabaha Contracts.

# Chapter Four

## Revision questions:

## Answer the following questions and check your answer in the corresponding section:

1. What are the characteristics of Islamic banks? (Mention at least three characteristics)

   **Answer: A reference: Section 4.1.2**

2. "Traditional and Islamic banks agree on some legal transactions and positions before regulatory bodies," explain this phrase, clarifying the areas in which traditional and Islamic banks agree?

   **Answer: A reference: Section 4.1.3**

3. Mention three differences between traditional banks and Islamic banks regarding profitability.

   **Answer: A reference: Section 4.1.3**

4. Explain how Islamic banking activity can be practiced through the operations of Islamic windows?

   **Answer: A reference: Section 4.2**

5. Mention the most important bodies supporting Islamic banking?

   **Answer: A reference: Section 3.4**

6. What's the difference between permanent participation and participation ending with ownership?

   **Answer: A reference: section 4.4.2**

7. Discuss in brief the concept and types of Mudaraba and the Shariah-compliant terms and controls of Mudaraba contracts?

   **Answer: A reference: Section 4.4.3**

8. Explain n brief the Shariah conditions and controls for Murabaha during its various stages?

   **Answer: A reference: section 4.4.4**

9. What's the difference between an operating Ijarah and an Ijarah -to-own?

   **Answer: A reference: section 4.4.6**

10. Explain what is meant by Tawarruq and its types and the Shariah controls of Tawarruq?

    **Answer: A reference: section 4.4.7**

# Chapter FIVE

## Principles of Effective Customer Service in the Retail Banking Sector

This chapter includes 7 questions out of 100 questions in the exam

# Introduction:

This chapter provides an overview of the basic principles of customer service by identifying skills of effective communication with all kinds of customers and modern technologies to meet customers' needs. Moreover, it deals with provision of services and products in the best possible way and according to the best modern scientific methods to tackle problems and reach the best agreements for the benefit of customers. In addition, this chapter clarifies the need to work on increasing customers' financial awareness of nature of banking products and services provided by banks.

## 5.1 Skills of Customer Service Employees:

Learning Objective:

1. Be familiar with skills of effective communication with customers and modern technologies to meet customers' needs, in addition to establishing robust business relationships.

Customer satisfaction can be achieved if an employee is able to fulfill certain conditions for quality service standards. Customers expect the service provider to have a good understanding of his job duties, mastery of its professional and behavioral skills as well as interpersonal skills including customers and beneficiaries. Therefore, bank's employee in charge of customer service shall be one of the highly-selective employees after passing many interviews and specialized tests, not only in his knowledge of bank's business, activities, products and technical information, but also in behavioral skills, so that the bank can ensure that the employee is an honorable person to deal with customers. Customer Service Employee is the mirror of bank in front of its customers, and the official ambassador and spokesman of the bank. If the employee's method and mission are in line with his own responsibility in representing the bank, this would be a positive indicator of bank's success, attracting more customers and retaining existing ones.



### 5.1.1 Skills of Rendering Quality Service to Customers:

Quality service is represented in integrity, honesty, courtesy, good treatment, accurate provision of information, speedy performance and achievement and maintaining customers' secrets. Therefore, Banks's Employee shall master multiple skills in order to succeed in rendering excellent services to customers. The most important skills are as follows:

**A. Technical skills:**

To master the professional approach of work aspects, requirements, conditions and duties, together with a good knowledge of nature of work in the bank such as procedures and conditions of banking services that fit nature of each customer.

He shall be familiar with Banking Control Law in force in KSA, SAMA Law, and Rules Regulating Money Exchange Business in KSA, in addition to local economic, financial and monetary conditions. He shall keep pace with the global regulatory environment; especially that KSA ratified many international covenants and treaties governing the banking business, so that the bank employee can meet customers' inquiries in all work-related areas.

Below are some of basic issues that Exchange Center's Employee shall be familiar with:

- Prices
- Conditions
- Rates calculation method
- Payments determination method
- Services and products provided by exchange centers, including their procedures, prices and conditions

In order for the employee to acquire professional knowledge, s/he shall have an urgent own desire to acquire knowledge and realize the following sources of knowledge:

- Senior Co-workers.
- Service Provision Policies & Procedures.
- Training Programs.
- Publications to Customers.
- Future Projects.
- Constant perusal of everything related to money exchange centers.

**B. Behavioral Skills:**

Behavioral skills of customer services' employees are represented in recognizing needs, desires and expectations of customers and beneficiaries. These skills start with how to receive and welcome customers and beneficiaries and choosing decent words when dealing with them, in addition to smiling and being acquainted with them. Choosing decent phrases leaves a good impression on customers, smiling and cheerfulness while dealing with them attract them, however; the concept of Customer Care goes beyond and extends to knowing and meeting their needs quickly. The person who hesitates or is busy collecting his papers while ignoring customers or puts them on hold or the like makes customers upset. The employee shall make customers feel he is willing to help them, tackle their problems upon dealing with the bank and fulfill promises.

**1. Dealing in Tactful Manner and Meeting Needs:**

Dealing in Tactful Manner means that the employee is positive towards customer, talks to him in a moderate calm tone and avoid arguing with or oppose his opinions. Employee shall show interest and listen carefully to the customer and not be distracted from him.



**2. Understanding and Resolving Customers' Complaints Quickly and Effectively:**

The employee shall tackle customers' complaints honestly, effectively and accurately. In order for the employee to retain customer and gain his confidence, s/he shall be honest, understand and work to meet his needs and tackle his complaints quickly. Employee shall contact the customer to ensure that the complaint is resolved and the customer is satisfied with employee's performance in tackling any problem that the customer may face throughout utilization of bank's services.

**3. Being Patient and Restraint:**

The employee shall be patient upon dealing with customers to be able to carry out his work well and satisfy his customers. Employee shall also control his emotions, and not be frustrated about customers' behavior.

**4. Collecting Existing Customers' Information:**

- Customer's position at the bank.
- Sector to whom the customer belongs.
- Knowing their moods.
- Facilities granted thereto, together with guarantees and conditions.

**5. Collecting Competing Banks' Information on:**

- Points of Strength and Weakness.
- Services and products provided by these centers.
- Prices of services and products in these centers.
- Sectors served by these centers.

### 5.1.2 Employee's Role towards Customer:

Employee's role towards customer or beneficiary is to:

- Welcome the customer.
- Observe customer's emotional aspect.
- Listen to customer and understand his/her need.

- Give customer accurate and sufficient information.
- Help customer achieve what he wants.
- Provide alternatives if the employee was unable to fulfill customer's first request.
- Convince customer of the product or service appropriate with his needs.
- Employee to always put himself in the customer's shoes to estimate his position and feelings.
- Ensure customer satisfaction.
- Follow-up customer's request until completion.

## 5.2 Customer's Expectations from Customer Service Employees:

Learning Objective:

2. To be familiar with how to survey customers' expectations in terms of quality to enhance customers' satisfaction.

In order to retain customers, we shall work to define and know their expectations and factors affecting them to render quality services commensurate with customer's expectations. The concept of Service Quality is reflected as "it is the quality of services provided whether expected or perceived that is expected by the customer or being recognized in real practice and the main determinant for customer satisfaction or dissatisfaction; as it is considered a main priority that lead to enhancing the quality of its services." To be familiar with customer's expectations, we shall keep constant contact with customers through methods helping to do so, in addition to knowing customer's satisfaction with services provided by measuring such satisfaction from time to time to determine and address the defect in service provision process.



### 5.2.1 How to Achieve Customers' Expectations:

Banks can manage their customers' expectations through commitment to their promises about the services they provide in addition to relying on effective communication with their customers. To that end, it is necessary to focus on the following factors:

1. Ensuring realistic promises:

This means that banks' promises shall reflect what they actually offer, and not to give a false promise. In order for the center to ensure coherence between promises and actual performance of service, the following shall be observed:

- Know reactions to promotional campaigns before being carried out by surveying customers' opinions about the service provided to ensure validity of promises to be made in campaigns.
- Carry out periodic research aimed at evaluating the impact of bank's promotional campaigns on customer's expectations.

2. Constant Contact with Customers:

The aim of constant contact with customers is to understand their expectations and concerns, explain nature of exchange center's services and avoid potential problems upon rendering services. In order for the bank to provide services that go beyond customers' expectations, it shall excel in providing the service, so that the customer can realize the skill of service providers. This provides an opportunity for the bank to work on increasing the degree of customer confidence in its services by finding out a way to provide services that distinguishes it from other competitive banks in the market.

### 5.2.2 Customer Satisfaction Assessment System:

By assessing customer's satisfaction, the bank can utilize opportunities for improvement, achieve effectiveness of its procedures, define customers' expectations, identify their views on services rendered and positively work for retaining its customers. In addition to:

- Receiving and analyzing customer's complaints.
- Conducting customer satisfaction research.
- Communicating with old customers.
- Testing quality of services rendered.

## 5.3 Principles of Customers Retention:

Learning Objective:

3. To be familiar with the main elements of customer rights regarding products and services of banks

In order to retain customers, the attention of banks' officials should be paid to quality of services provided, as it has an important role in retaining existing customers and attracting new ones. To achieve so in rendering bank services, the following steps shall be followed:



### 5.3.1 Customers Care:

This can be realized through the following positive attitudes:

- Emotional and mind willingness of bank's employees to receive customers and their desire to render service to them.
- Good appearance, smiling and positive spirit towards customers, regardless of their gender, age and appearance.
- Full accuracy in mentioning specifications about the service without exaggeration.
- Notifying customers that the center they are dealing with is the best bank as to quality of services.
- Emphasizing that the bank's whole focus is on customers and rendering services to them.

### 5.3.2 Fulfilling Customers Desires According to Their Needs:

Creating a desire and determining customer's needs depend on service provider's skills. The relevant basic requirements are to:

- Properly present benefits of services rendered and focus on their characteristics.
- Provide customer with the opportunity to inquire about all matters he wants to know and service provider to be willing to reply to such inquiries objectively and accurately.
- Focus on the humanitarian aspects upon dealing with customers, such as welcoming customers, smiling and realizing importance of meeting customers' current and future needs.

### 5.3.3 Convincing Customer and Addressing His Objections:

Convincing the customer requires the service provider to make customer convinced when providing services as well as addressing objections raised by customer upon contracting. There is a set of rules that can be relied upon in responding to customer objections, the most important of which are:

- The service provider shall observe the rule that the customer is always right when dealing with customers.
- The service provider shall be a good listener to customer, show interest and write down customer's opinions and observations.

•The service provider shall not make customer feel defeated in the discussion, which could lead to failure of contracting.

### 5.3.4 Ensuring Customers Will Keep Dealing with Bank:

Customers' continuous dealing with the bank and customers' loyalty can be ensured through some marketing services, including:

- Continuous communication with customers, especially post-sale service.
- Paying attention to customer's complaints and comments, and taking measures to address such complaints.
- Compensating customers for losses resulting from complaints.

### 5.3.5 Customer Waiting Time Management:

The amount of time that a customer spends waiting for a service or completion of his transaction negatively affects his assessment of actual performance and quality of services rendered by the bank. Therefore, the bank shall shorten the waiting time to the least time possible and work on investing customers' waiting time in a way that makes them busy with something useful over that period. This can be achieved, for instance, by setting up screens to follow up securities trading or placing newspapers, magazines or informational brochures for customers to be acquainted with the bank.

### 5.3.6 Addressing Errors in Service Performance:



Addressing service performance errors is an opportunity for bank to render services that exceed customer expectations. If the bank addressed an error in rendering the service immediately, it would help the center convert negative points into positive ones for its benefit. Thus, the customer would become more interested in the service over error addressing phase than his interest at first when the service was rendered.

Putting in place a good system to address service performance deficiencies makes customer feel satisfied and improves customer's awareness of quality of service itself. For putting in place a system for addressing service problems, the following components shall be available:

- Identify service issues by tracking customer complaints, conducting customer-related research and following up service provision process and procedures.
- Tackle problems effectively by preparing and qualifying employees and repairing elements that lead to failure in service performance.
- Learning through error addressing, i.e. the bank shall learn from remedial situations it goes through to avoid falling into the same errors again. This requires searching for causes of malfunction, working to rectify them, modifying service performance monitoring system and making available an information system that counts and follows-up problems.

## 5.4 Foundations of Effective (Distinguished) Service:

Learning Objective:

4.To be familiar with the main elements of customers' responsibilities in terms of banks' products and services.

The word "Distinguish" refers to certain differences that distinguish one employee from another, while the concept of Distinguished Service refers to evaluating the service in a way that goes beyond customer's expectations.

### 5.4.1 Foundations of Excellence:

Customer service foundations are defined in three elements that constitute a base of distinguished service, namely:

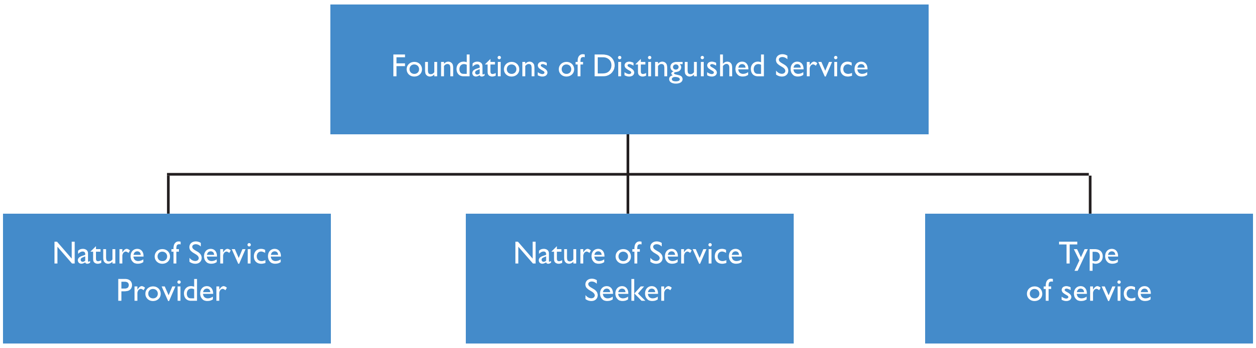



Figure (5.1) Foundations of Distinguished Service

- **First Basis: Type of service:**

The type of service provided is the start point from which those responsible for developing that service proceed. The service that represents a great importance from the part of applicant shall be matched with the same degree of importance on the part of those responsible for rendering such service, especially if they are desirous to excel in performance and delivery of services.

- **Second Basis: Nature of Service Seeker:**

Cultural, social and educational changes of service seekers constitute main features that govern their behaviors upon dealing with service providers, and hence criteria for adjudging excellence and effectiveness of service performance. Therefore, banks desiring to attain a high level of excellence and effectiveness shall consider cultural, social and educational variables of service seekers as the main driver for developing services they provide.

- **Third Basis: Nature of Service Provider:**

Cultural level, appropriate educational qualification and training contribute to preparing service providers to render service to its seekers with certain level of excellence and effectiveness that contributes to satisfying service seekers' needs and thus achieving customer satisfaction.
Therefore, banks shall be accurate upon selection of service providers according to controls that allow their skills and abilities to match requirements for occupying such jobs.

### 5.4.2 Marketing as Basis of Distinguished Customer Care and Service Performance:

Marketing activity is to show excellence in:

1. Excellence in Product (Service):
   - Different types and forms of services.
   - Developing and improving procedures for rendering these services.
   - Creating a log/ serial number system.
   - Appropriate time of service provision.
   - Development/excellence of services.
   - Searching for new uses of services.
   - Adding non-local banking services.
   - Safety of procedures for rendering service to realize confidentiality and security.
2. Areas of Marketing Excellence in Location:
   - Rendering services in different places.
   - Incorporating branches.
   - Convenient locations of bank' branches.
   - Available branches in service areas, e.g. parking spaces.

- Appropriate furnishing of branch/exterior appearance.
- Appropriate strategies for men and women.
- Working times to suit different circumstances.
- Appropriate bank's internal organization.
- Safety methods for building and customers.
- Providing an adequate healthy environment, in addition to first aid medical care to customers.
- Preparing an internal customer guideline containing: (Organizational Structure, Locations of Departments, Procedures for service provision and Required documents).
- Appropriate place to render services to the disabled people.
- Making available a special place to serve VIP customers and organizing their entry by cards or through special door.
- Providing all administrative services to customers in service provision places, such as (photocopying, phone, and fax).
- Appropriate physical configuration of service provision place (recreational environment).
- Internal organization of work inside the exchange center.

3. Areas of Excellence in Pricing Bank Services:

- Rendering the service at the lowest possible cost.
- Rendering free banking services.
- Applying special rates policy.
- Distinguishing VIP customers in the field of service pricing.

4. Areas of Excellence in Promotion:

To meet customers' needs from the bank through the following:

- Quality of service, including fulfilling promises, individual job retention, ongoing performance, accuracy and speed of delivery.
- Availability of services needed.
- Adequate equipment and supplies.
- Reassurance, including the ability to create confidence and security to customers.
- Cleanliness and good appearance. Ease of dealing inside the bank.
- Empathy, including actions that reflect respect, care and showing personal concern.
- Response, including employee's desire and willingness to help and carry out service timely.

## 5.5 Mechanisms for Dealing with Customers' Complaints:

Learning Objective:

5. To be familiar with mechanisms for effective dealing with customers' complaints.

Banks aim to satisfy their customers to gain their loyalty and avoid negative impacts of losing customers. Therefore, it is necessary to identify the unsatisfied customers and reasons for dissatisfaction. Customers' complaints are among the instruments used to identify reason for customer's dissatisfaction with services provided, where the complaint is defined as:

"Every verbal, written, telephone communication, direct or via a medium, through which the customer shows dissatisfaction."

This is in accordance with the guidelines for establishing Customer Care Management in banks, March 2023.

According to this definition, we conclude that the customer uses several methods to express dissatisfaction according to the place where the transaction takes place. The main reasons for customers' complaints are:

• Failure to provide the service as promised in terms of timing, behavior, or communication patterns, causing problems for the customer.
• Low credibility or confidence in bank as a result of employees' poor skills or inability to understand customer's needs.
• Customers' resist change, as banks may change their policies, procedures, work regulations, or conditions and requirements for obtaining a service, causing problems towards the customer in addition to customer's refusal to such change.
• Emotional status of customer or service provider, as the customer or service provider may encounter undesirable circumstances that may affect his emotional status, affecting his response to the other party, which may cause problems in dealing between both parties.
• Discrimination between customers in terms of time, method or way of obtaining the service.
• Lack of customer's awareness and information.
• Failure of service rendered to meet customer's expectations.

To address customer complaints, the central bank issued principles and rules for protecting the clients of financial institutions in 2022. The seventh principle focuses on the handling of complaints, highlighting its significance by obligating financial institutions to establish suitable mechanisms for customers to file complaints. These mechanisms should be clear and effective. Financial institutions are also required to examine complaints, follow due processes, and take necessary actions to address them fairly and efficiently, providing optimal solutions promptly in accordance with relevant regulations and instructions. This is to be achieved through:

- Providing multiple channels for receiving complaints, inquiries, and requests, allowing customers to submit complaints easily and at any time through toll-free hotlines, branches, the website, smartphone applications, and email.
- Establishing a clear process for handling complaints in the financial institution's premises, all branches, its website, and smartphone applications.



The complaint and inquiry processing mechanism should include the following:

a. Procedures for submitting complaints and/or inquiries.

b. Documentation of complaint and/or inquiry receipt, providing the customer with a main reference number and the specified processing period via a text message to their registered mobile phone with the financial institution.

c. Providing the customer with the relevant department responsible for handling complaints and/or inquiries, enabling the customer to communicate with the financial institution when needed to follow up on the complaint and/or inquiry.

d. Documenting the communication channel used with the customer and retaining records for a minimum of five years.

e. Processing complaints and/or inquiries directly within the financial institution in accordance with instructions from the central bank.

f. Providing the customer with detailed results of the complaint and/or inquiry processing along with the necessary supporting documents through an authenticated channel, in addition to responding to their inquiries clearly and with high quality.

g. In the event of the customer's dissatisfaction with the resolution of their complaint and their desire to escalate it, they should be provided with the procedure for escalation to a higher level within the financial institution or directed to the relevant authority as they wish.

The financial institution must develop performance indicators to measure the direct processing of incoming complaints, including customer satisfaction measurement and the quality of complaint handling. The results of these indicators should be reported quarterly to the highest executive position in the financial institution. The financial institution must also provide a toll-free phone number within the kingdom for customers to contact from landlines or mobile phones, as well as a phone number for contacting from outside the kingdom for submitting complaints and inquiries.

These contact details should be published on the main page of the financial institution's website and other channels.

Some customers may refuse to lodge complaints to the bank despite being unsatisfied with services provided for the following reasons:

- Customer's belief that complaints do not change anything.
- Customer's belief that he will waste time.
- Customer's belief that his culture and nurturing do not allow him to disclose what his thoughts, especially when concerned persons are around.
- Customer's belief that this behavior will make others feel that he is arrogant or it is just a capricious.
- Customer's belief that changing the banks easier than lodging a complaint.

## 5.6 Effective Customer Relationship Management:

Learning Objective:

6. To be familiar with modern techniques and methods to effectively solve problems facing customers in different situations.
7. Enhance customer's awareness of services provided by banks.



Given the development of modern technologies, means of communication, information industry and e-business solution services, and in a market where customer's loyalty is a challenge to customer service employees due to various options available for customers; the challenge has expanded not only in searching for new customers, but also in understanding and realizing requirements of and retaining existing customers. This gave rise to modern technologies that aim to provide complete solutions to banks employees' efforts and implement decisions that depend on current and potential customers and their response to services offered by these banks.

Many banking products and services are of a similar nature, but differ in nature of its management and list of goals that they seek to achieve. Customers are one of the important factors and main pillars in every commercial or service business. Without customer, there are neither goals to achieve nor ideas and strategies to apply. In order to promote, expand and maintain customers' base, strategies must be developed to realize this goal by incorporating an administrative branch that cares for customers called Customer Relationship Management.

Moreover, there is no doubt that competition and its ferocity became the prominent feature in the business world nowadays. Hence, it was necessary for banks to search for advantages and strengths that help them win this competition. Accordingly, banks' knowledge of their customers and their preferences is one of the most important competitive advantages that banks can own. Hence, importance of customer relationship management is recognized.

Customer Relationship Management is defined as: "A comprehensive strategy and integrated system to identify the most profitable customers, understand their requirements, desires and priorities, and work on satisfying so through effective communication with them and analyze their data in order to enhance their loyalty and profitability". Below are the most important CRM objectives:

- Increase rates of customers' retention, loyalty and profitability.
- Provide information and inputs for marketing research and strategic plan by studying customer's trends and making assumptions about their future transactions.
- Attract new customers.
- Standardize bank's marketing vision and approve points of agreement on bank's important strategic concepts.

• Personalize interactions with customers.

### 5.6.1 Initial Contact with Customer:

The initial contact with customers represents the starting point of actual service provision. In many cases, this may only take a few seconds while rendering the service, but it is very important; as success in rendering the existing service may depend on that stage.

The initial contact stage is to be acquainted with customer and draw customer's attention to provide the service he requests or offered to him. Accordingly, it forms customer's first impression about the bank and its services in general, and about service provider personally. Most customers at this stage and before requesting the service may focus on the following:

• Service Provider's appearance, self-confidence, personal hygiene, elegance in addition to dealing and speaking simply.

• Service Provider's way of meeting customers, and extent of desire to render the service.

• Service Provider's method of drawing customer's attention.

The employee should know: What does the customer want from the employee? What does the customer need? What does the customer think of? How does the customer feel? Is the customer satisfied? The customer happy?

### 5.6.2 Knowing Customer's Requirements and Needs:

Knowing customers' needs is one of the most important processes that we shall pay attention while dealing with customers. It helps service provider to present his services in line with these needs; thus, becomes an approach to the concept of Distinguished Service.



How to Discover and Identify Customers' Needs:

The following points should be observed in order to identify customers' needs:

• Professional questions are the best way to identify customers' needs; you will thereby discover customers' benefits from service or product.

• You should market yourself before marketing your service, if customer feels comfortable and accepted employee's personality, he will listen well to employee.

• Good listening and making customer feel importance of his words would make customer confident, thus being familiar with his needs.

• Use of open-ended questions for the customer to collect information that gives customer the opportunity to express wishes and thoughts, which helps employee to make a dialogue that leads to knowing customer's clear and latent needs.

• Use closed-ended question to confirm the conclusion.

• 80-90% of dialogue shall be dedicated to customer because you want to explore his wishes and needs, some of which are latent.

• Service provider can discover motives of his customers through his experience with them. Since customer's repeated interactions with the bank identifies his behavior. Service Providers' experience in dealings with a customer may reveal customer's preference to complete the service as soon as possible; then, the service provider shall work on satisfying customer's expectations to ensure considering bank's services as distinguished ones.

• Many service providers resort to published data to find out customers' motives, and they may hence resort to the following:

- Published research on theories of motivation and how to discover them.
- Specialized scientific journals addressing customer behavior theories.
- Research conducted by different organizations to understand customers' motivations.
- Advertisements made by different organizations, which may clearly identify potential motives of many customers.

### 5.6.3 Services provided to persons with disabilities:

SAMA issued Circular No. 41039051 dated 03/06/1441 A.H., regarding the instructions of services provided to persons with disabilities in financial institutions with the aim of establishing the principle of justice among all groups of society without discrimination in any way in the rights of any group. Achieving financial inclusion and allowing all groups of society access to financial products and services. The circular provided the following definitions:

- Person with disability: Any person who has a prolonged deficiency in physical, mental, intellectual or psychological functions that prevents him from effectively performing his/her daily tasks in the community on an equal basis with others.
- Disability: The presence of one or more visual, hearing, mental, physical and motor disabilities, learning disabilities, speech and language disorders, and other disabilities requiring special care.

Instructions for services provided to persons with disabilities are as follows:

1. Disabled Persons Care Unit:

The financial institution shall establish an administrative unit for persons with disabilities and ensure that adopted policies and procedures of the financial institution include the requirements and needs of persons with disabilities and that services are provided readily and easily.

2. Built environment:

The financial institution shall provide the appropriate built environment for persons with disabilities at all headquarters and branches in a manner that allows access and use of buildings and facilities and use of services provided without any difficulties or complications.

3. Disability verification:

The financial institution may use all available means to verify the existence of disability, such as access to approved medical reports or documents proving type and condition of the disability, or by examining the case only once.

4. Products and Services:

The financial institution shall establish a policy and procedures that ensure the equality of persons with disabilities with all segments of society, enabling them to access products and services and manage their financial affairs. The financial institution is committed to the following:

- Providing agreement and contract templates with individuals with disabilities in accordance with the available means depending on the disability, such as printing in Braille "in prominent numbers and letters" for visually impaired individuals.
- Assigning one of the institution's employees to read the essential terms and conditions of agreements and contracts concluded with persons with disabilities, such as the blind and visually impaired.
- Assigning one of the institution's employees to assist persons with disabilities in filling out forms, requests, and contracts.

5. Self-service and electronic services devices:

The financial institution shall allow persons with disabilities access to self-service and electronic services for as follows:

- Providing self-service devices with compatible tools for the use of persons with disabilities, and announcing locations of such devices in available ways.
- Developing electronic services to accommodate use of persons with disabilities, including but not limited to awareness-raising materials for persons with hearing disabilities and the blind.

6. Transparency and fairness in dealing with persons with disabilities:

- Advertising and Marketing
- The financial institution shall update marketing policies to provide inclusion of persons with disabilities to benefit from provided products and services.
- The financial institution shall provide explanations appropriate to persons with disabilities regarding provided products and services.

- Commitment to justice and equality in dealing with persons with disabilities:
- The financial institution is prohibited from excluding or restricting persons with disabilities access to any financial services for any reason without the legal basis.
- The financial institution is prohibited from engaging in abusive practices with persons with disabilities and must treat them with respect and justice without discrimination.

7. Education and financial awareness for persons with disabilities:

Financial Institutions shall develop appropriate programs and mechanisms to develop the knowledge and skills of persons with disabilities, raise their knowledge and awareness, and enable them to understand main risks of financial products and services, help them make informed decisions, as well as direct them to the right place to obtain information when they need.

### 5.6.4 Solving Customers' Problems:

Complaints that may be received by a bank differ from one customer to another. At first, you should recognize that there are basic rules for rendering services, the most important of which are:

- Customer (Service Applicant) is always right.
- Excellence in rendering services depends mainly on making customer fully satisfied.
- Complaints are normal issues and should not hence be resisted.

Accordingly, the service provider who maintains continuous relationships with his customers will have a significant opportunity that such customers will request this service again from him personally. Therefore, customers' feeling of satisfaction and friendliness is very valuable to service provider, as it is the guarantee of his continues success.



Addressing customers' complaints requires identifying causes of customers' complaints and applying effective methods while addressing such complaints. There are many reasons for customers' complaints, some of which are attributed to bank, some are attributed to service provider, and others are attributed to customer himself/herself.

- Examples of First Type: Issues in relation to bank's procedures.
- Examples of Second Type: Service Provider's personal mistakes.
- Examples of Third Type: Customer is not aware of service's benefit realized after being rendered, or effort exerted to completely render such service in that way.

However, customers who feel lack of care do not always make their complaints publicly, as a small percentage of them are those who report their problems that may be addressed to their satisfaction, but they anticipate other problems to occur. Otherwise, if customers' problems are not tackled, they will join the majority of those who do not report their problems at all, which constitutes a serious problem.

The sensitivity of services provided by a bank to a customer makes customers' complaints a nuisance for service provider; therefore, service provider works hardly not to listen "There Is a Complaint" from his superior.

### 5 .6.5 Disclosure of Information:

SAMA issued Circular No. 67/68631 dated 15/11/1440 AH, regarding licensing disclosure instructions with a view to informing customers about the information of financial institutions that enable them to know the regulatory and supervisory bodies subject to them, by requiring financial institutions to disclose the data and licenses necessary to enhance customer and investor confidence. The instructions include compliance with the following:

1. Financial institution's correspondence, office publications, e-mail, website, phone applications, commercial guides, media advertising, etc. shall have margins that state they are licensed and subject to central bank's supervision and control.
2. Declared name of financial institution must be identical to the name in which the license was issued.

3. The licensed financial institution shall state in its correspondence and other documents (such as contracts and agreements) the following information:

- Name, type, head office and commercial registration number of the financial institution.
- License authority and number.
- It is subject to the supervision and control of SAMA.
- National address.

4. If all data required in the advertisements cannot be disclosed, it is sufficient to state that the financial institution is subject to the supervision and control of SAMA.

# Chapter Five

## Revision questions:

## Answer the following questions and check your answer in the corresponding section:

1. Which skills are necessary for banks' employees to render excellent services to customers?

   **Answer: A reference: Section 5.1.1**
2. Which factors should bank focus on to meet customer expectations?

   **Answer: A reference: Section 5.2.1**
3. Explain how the exchange center can retain its customers.

   **Answer: A reference: Section 5.3**
4. What are the foundations of excellent customer service?

   **Answer: A reference: Section 5.4.1**
5. Mention three reasons for customer complaints?

   **Answer: A reference: Section 5.5**
6. Mention three points to be paid attention to identify customer needs.

   **Answer: A reference: Section 5.6.2**
7. Which rules should be observed when dealing with customer complaints?

   **Answer: A reference: Section 5.6.4**

# Chapter Six

## Principles of Protecting Financial Institutions’ Customers

This chapter includes 11 questions out of 100 questions in the exam

# Introduction:

This chapter identifies and describes the financial protection of customer in KSA, and clarifies SAMA's strategic objectives, which include providing the customer who deals with financial institutions with fair treatment with transparency, honesty and faithfully, as well as access to financial services and products with ease, affordability and high quality. This chapter outlines the key requirements of bank customer protection principles and responsibilities of customers toward their bank.

## 6.1 Financial Customer Protection in the Kingdom of Saudi Arabia:

Learning Objective:

1. Getting familiar with SAMA's role in protecting customers of financial institutions, and the Financial Customer Protection Implementation Model.



SAMA is the regulator and supervisor of licensed financial institutions (FIs), which are authorized to operate in KSA, (including banks, financiers, leasing and real estate companies, insurers, money exchangers and credit information companies).

Since issuance of its charter in 1952 and the issuance of the Banking Control Law in 1966, SAMA has been a strong advocate of the protection of customer interests and ensuring that customers are dealt fairly and honestly by FIs. SAMA's role developed gradually with the expansion of the financial sector. In 2005, SAMA was designated as the regulator for the insurance sector under the Cooperative Insurance Law. In 2012, SAMA became responsible for controlling and supervising financing institutions; therefore, the role thereof in the area of enhancing customer protection has been extended. As the Saudi Arabian financial sector evolves and grows, SAMA will continue to review these developments and issue appropriate regulatory instructions to develop the principles of client protection. Among SAMA strategic objectives for the customer who deals with financial institutions to obtain a fair treatment with transparency, honesty and trust, as well as to receive financial services and products easily at an affordable cost and high quality. Financial Consumer Protection Implementation Model can be illustrated as follows:

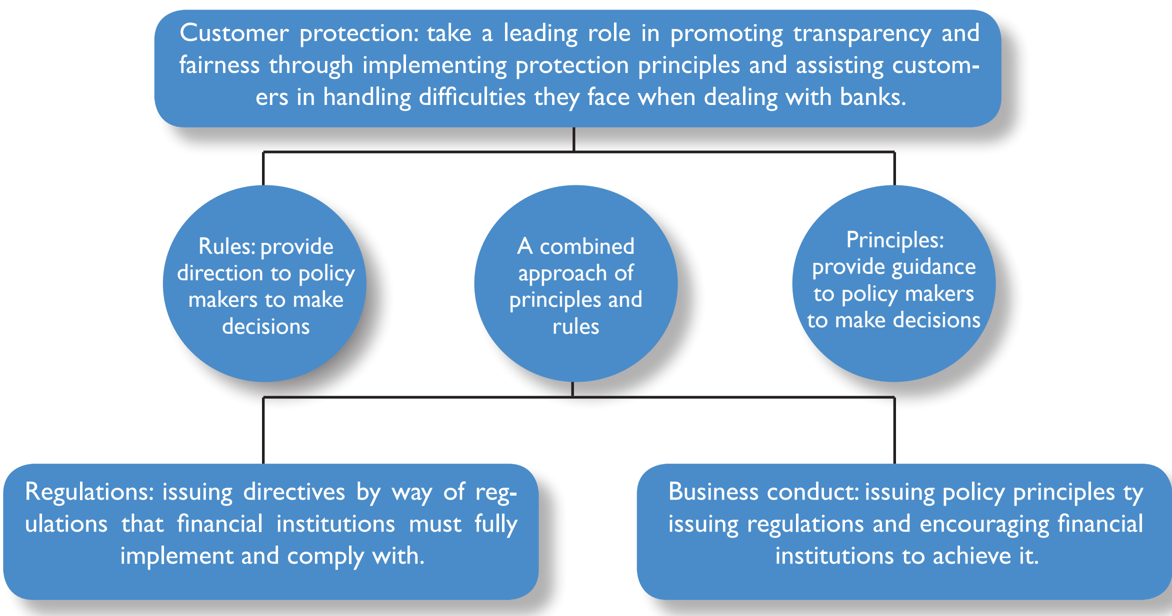



Table (6.1): Financial Customer Protection Implementation Model

The model describes SAMA's mechanism to protect FIs customers within KSA, and its leading role in promoting transparency, fairness and ease of access to financial products and services for customers. SAMA sets out the conduct expected from FIs through the previous and current Codes of Conduct, and future instructions and ensures FIs compliance with such controls.

## 6.2 Principles of Protecting Bank's Customers

Learning Objective:

1. Recognizing the role of the Saudi Central Bank in protecting the clients of financial institutions, and the model for implementing financial protection for the client.

Protection of bank customers is a strategic objective that the Saudi Central Bank (SAMA) has always pursued by encouraging banks to provide the required level of fair treatment, honesty and financial inclusion. Customer protection principles help to achieve the desired goal, given application of such principles to all SAMA-licensed activities. These principles are binding on banks and complementary to SAMA instructions and controls. They shall be applied to all transactions with customers.

### 6.2.1 General Principles:

In 2011, G20 developed a set of high-level principles on customer's financial protection. These principles are complementary to existing financial regulations, especially those regulations relevant to the protection of customers.




Table (6.2): General Principles of Protecting Bank Customers:

**Principle 1: Equitable and Fair Treatment**

Financial institution should deal fairly and honestly with customers at all stages of their relationship, so that it is an integral part of the culture of a financial institution. Care should also be made and special attention given to the low-income, low-educated, old, special needs customers of both genders.

**Principle 2: Disclosure and Transparency:**
Financial institution should provide up-to-date information about products and services provided to customers. This information should be clear, easy-to-understand, accurate, non-misleading, and easily accessible, in particular its key terms and features. It should include rights and responsibilities of each party, quotation and commissions of the Bank, fines, risks, and the mechanism for either party to end the relationship and relevant consequences, as well as any information on alternative products and services rendered by such Bank.
**Principle 3: Financial Education and Awareness:**
Financial institution should develop appropriate programs and mechanisms to help current and potential customers promote their knowledge and awareness, and enable them to understand main risks, make informed choices, as well as direct them to the right place for assistance when they need.
**Example:**
The banks and FIs shall provide awareness campaigns to customers thereof, for protecting them, for example: SMS served to them regarding nondisclosure of the secret number and the banking information. In addition, banks shall provide awareness campaigns through its branches, including the issuance of a manual for protecting the bank customers, which shall be likely available within all branches.
**Principle 4: Behavior and Work Ethic:**
Financial institution should work in a professional manner for the benefit of clients throughout their relationship Where the financial institution is the primary entity responsible for protecting the interests of its clients. The financial institution must also provide the necessary human resources to achieve the aforementioned, execute its operations, and serve its clients in all regions of the Kingdom. It should provide suitable centers to serve its clients and authenticated channels for communication with them.
**Principle 5: Protection against Fraud and Misuse:**
Financial institution should protect and monitor customer deposits, savings, and other similar financial assets through the development of control systems with a high level of efficiency and effectiveness to mitigate fraud, embezzlement or misuse.
**Example:**
Many banks applied a developed method to verify the identity of clients using e-services, including, but not limited to: Binary Verification Code, where the user is identified by requesting a secret number for logging in, and serving the code to the client's mobile.
**Principle 6**: Information Privacy Protection:
Customers' financial and personal information should be protected by financing company through high-level control systems that include appropriate mechanisms that define the purposes for which the data may be collected and processed, in addition to compliance with requirements of SAMA's circulars.
**rinciple 7: Complaints Handling:**
Financial institution should provide adequate mechanisms for customers to file complaints. This mechanism shall be fair, clear and effective, through which complaints are followed up and handled without delay, according to SAMA's rules.
**Principle 8: Competition:**
Customers should be able to search, compare and where appropriate, switch between products, services and providers easily and clearly at a reasonable cost, The financial institution is also required to provide the best products, services, and prices that meet the needs and desires of the client. It should promote innovation and maintain the quality of services and products.

**Principle 7: Complaints Handling:**
Financial institution should provide adequate mechanisms for customers to file complaints. This mechanism shall be fair, clear and effective, through which complaints are followed up and handled without delay, according to SAMA's rules.
**Principle 8: Competition:**
Customers should be able to search, compare and where appropriate, switch between products, services and providers easily and clearly at a reasonable cost, The financial institution is also required to provide the best products, services, and prices that meet the needs and desires of the client. It should promote innovation and maintain the quality of services and products.
**Principle 9: Support services:**
Banks should ensure that the outsourced entities are complying with the requirements of these Principles, working in the best interest of their clients, bearing the responsibility for their protection. Financial service providers are responsible for the actions taken on behalf of the customers, as provided for in the instructions issued by SAMA.
**Principle 10: Conflict of Interest:**
Financial institution should have a written policy on conflict of interest, and ensure availability and enforcement of this policy to detect potential conflicts of interest. In case a conflict of interest arises between the Bank and a third party, this should be disclosed to the customer.

### 6.2.2 Customer Responsibilities:
Banks shall promote responsibilities of customers by on-going customer education and awareness programs as well as initiatives launched by each bank for their own customers. Customer responsibilities include the following:
1. Be honest with the information you provide:
Always give full and accurate information when you are filling in any Bank's documents. Do not give false details or leave out important information.
2. Carefully read all the information provided by Bank:
Consumers should read all details that highlight the obligations incurred in return for a financing product or service and make sure they understand such obligations and are able to commit to their conditions.
**Example:**
Many clients attempt to refer to banks to obtain finances to by consumables, such as a car, however, rush to buy may lead such clients to agree for the finance agreement with the bank, without being aware of such clauses, or without being aware of the future bank obligations arising from the approval on such clauses. This may cause the clients to incur future financial risks.
3. Ask questions:
It is important to ask questions to Bank employees about anything that is unclear or a condition that you are unsure about. The staff will answer any questions in a professional manner to help customer in decision-making.
4. Know how to file a complaint:
Bank will provide customer with details on how to file a complaint and the timeframe for their response. The customer may escalate the complaint to higher levels, if appropriate.
5. Use the product or service in line with the terms and conditions:
Do not use the product or service, except in accordance with terms and conditions associated with them, and after making sure of your complete understanding.
6. Avoiding risk:
Some financial products or services carry risks and Bank should clearly explain these to customer. Customer shall not purchase a product or service where he feels that the risks do not suit financial situation.

**Example:**

Some financing products provided by banks to clients thereof involve long-term financial obligations on the client. As an example, real-estate loans. Therefore, banks grant the client a period of 5 days to revise the financing contract.

7. Apply for products and/or services that meet your needs:

When making a request for a product or service, you should make sure that it suits your needs. You should disclose all financial obligations with all parties.

8. Report unauthorized transactions to your bank.

Upon discovering unknown transactions on his account, the customer must inform the Bank immediately.

9. Do not disclose your banking information:

Under no circumstances should you provide any details on sensitive personal to any other party.

10. Talk to your bank if you are encountering financial difficulties:

Talk to your bank to seek advice if you encountered any financial difficulties and become unable to bear the minimum installment limit (e.g. personal finance, credit cards). By talking to your bank, you can discuss possible alternative repayment arrangements that will enable you to discharge your responsibilities.

11. Update your information:

You should keep your personal information updated, including contact information, and when so requested by the Bank.

12. Your mail addresses.

Customer shall provide bank with his/her mail (be it regular mail or an e-mail) and contacts when so requested by the bank s/he deals with. Accordingly, customer shall not use other addresses that do not belong to him, as this can lead to disclosure of his/her financial information.



13. Power of Attorney:

Be careful when dealing with Power of Attorney in your financial transactions.

14. "Do Not Sign Uncompleted Forms:

The customer shall make sure that all required fields and numbers are completed in a form that is presented to him for signing or initialing. The customer shall not sign empty or partially completed forms.

15. Review all information:

Customer shall review all information filled in transactions forms to ensure no errors are made in the account number or amount. Signature is an approval and agreement of the document content.

16. Keep copies of your documents:

The bank should provide you with a copy of your signed contracts and document, and shall keep them in a safe place.

### 6.2.3 Key Commitments:

This section includes details about the obligations and regulations of banking services that support the General Principles of Customer Protection.

**A. Terms and Conditions:**

- Up-to-date terms and conditions should be provided to customers through the channels available from the bank and in accordance with the customer's preference, by way of a general terms and conditions booklet or by individual brochures. Customers should be encouraged to read these terms and conditions before committing to a product or service.
- A bank should communicate any changes in terms and conditions at least 30 business days in advance of any such changes being implemented.
- All terms and conditions should be written in the application form for product or service that the customer is filling out in clear and understandable Arabic language, in a manner that is non-misleading with a translation available in English if requested.

• A bank should include specific warning statements in all terms and conditions, stating clearly the potential consequences for the customer if he uses the product or service in a manner contrary to the agreed conditions in the application form.

**B. Fees, Charges and Pricing**

1. A bank will only deduct the approved fees, charges and commissions that are detailed in the SAMA Banking Tariff Regulations. "All new fees, charges and commissions imposed by the bank against services and products should be approved by SAMA."

2. "A bank should provide consumers with a copy of the schedule of fees, charges and commissions when they provide a product or service, when signing a contract or as requested by a consumer at any time."

3. "A bank should inform the affected consumers of any changes in fees and charges, including any fees and charges imposed by a third party, 30 business days in advance of any such changes being implemented."

4. "A bank should clarify to consumers the methodology for calculating fees and commissions and the amount of profit earned by the bank for the products and services held by those consumers."

5. "A full breakdown of any accumulated fees and charges deducted from the final closing balance should be communicated to the consumer within five business days of closing the consumer's account or transferring to another bank."

6. "Consumers should be advised in contracts and application forms that any fees or charges (greater than SAR 500), which are required from the consumer in order to avail of a bank product or service, will be evenly distributed without amortization over the projected lifetime of the product or service and will not be deducted in one full payment, unless the consumer confirms by signed agreement that they wish to do so."

7. "If the consumer decides not to proceed with the banking product or service within 10 days of signing the contract, a bank should refund an appropriate portion of any fee or charge which has been deducted."

8. "A bank cannot impose a transaction or payment fee or charge on any transfers or payments between a consumer's accounts with a bank, including credit cards issued from that bank."

9. "A bank is required to provide written justifications to consumers for fees, charges and commissions deducted for the products and services held."

10. "A bank should notify their consumers that any ATM card withdrawals outside of KSA could result in additional withdrawal fees as per SAMA schedule of fees and charges."

**C. Data Protection and Confidentiality:**

• The bank shall protect customer data and maintain its confidentiality, whether kept by the bank or a third party.

• The bank shall provide a safe and confidential environment across all banking channels to ensure confidentiality and privacy of customer data.

• The bank shall maintain confidentiality of customer information except in the following cases:

- When disclosure is required by the competent authority (e.g. Ministry of Interior, Courts etc.).
- When disclosure is made under customer's written consent.

• The bank should have appropriate work procedures and effective controls to protect customer information and to identify and remedy any current or future breaches.

• The bank employee – full-time or part-time – and employees of third parties shall sign Customer Data Protection Form. The bank should ensure that such employees have no access to personal information of customers, and that such access is granted to the authorized employees only. This shall be applied to all current and former staff members of the bank.

**D- Communication through Advertising and Marketing:**

In continuation of the Central Bank's ongoing efforts to protect clients of financial institutions and enhance the principles of disclosure and transparency in the financial sector, aiming to increase the trust of those dealing with financial institutions, and to establish the minimum standards and procedures that financial institutions must adhere to when advertising financial products and services, SAMA issued guidelines for advertising products and services offered by financial institutions in Circular No. 44064343 dated 13/08/1444 H. Advertising is defined as: "A commercial message that promotes, through any means, whether directly or indirectly." Such means can be visual, auditory, or readable. These guidelines and procedures are summarized as follows:

- Financial institutions are required to exercise necessary care when advertising products and services in terms of content and method, avoiding the use of misleading or inaccurate methods and refraining from exaggerating the presentation of features. Additionally, all numbers and phrases should be easy to understand, with clear and readable font (including those in the upper and lower margins).

    • Arabic should be the primary language used in advertising financial products and services, with consideration given to advertisements targeting non-Arabic speakers.
    • Financial institutions must meet the minimum requirements for advertising, including:
        1. The name, logo, and contact information of the financial institution.
        2. The name of the product or service being advertised.
        3. The fundamental terms and conditions.
        4. The targeted customer segment.
        5. All amounts of fees and commissions related to the use of the service or product, including value-added tax (VAT), with a complete explanation of fees in insurance documents.
        6. The minimum transactions or requirements necessary to benefit from the product or service.
        7. Explanation of shorthand symbols.
        8. In advertisements for financial products, clear disclosure of the Annual Percentage Rate (APR) and the financing duration. Avoiding advertising any other rates for the cost of deferral, clarifying whether the deferral cost is fixed or variable, especially in the case of advertising mortgage financing products.
        9. The advertisement should indicate that the financial institution is subject to the supervision and control of the Central Bank.
    • In the case of promotional offers, financial institutions must include a clear mechanism for customers to benefit from these offers, along with clarification of the start and end dates of the offer.
    • If the advertised product or service is priced in foreign currencies or is affected by foreign exchange rates, the advertisement must contain the statement, "The price of the product/service may be affected by changes in foreign exchange rates," in clear and readable font.
    • When providing a product or service for free, financial institutions must clearly specify this and identify the beneficiary.
    • Financial institutions should be mindful not to damage the reputation of the financial sector, harm the interests of other financial institutions, or disrupt the principle of competition.
    • Customer consent, either in writing or electronically, is required if they wish to receive advertisements. Customers also have the right to refuse easily and conveniently.
    • Advertisements are binding on financial institutions, and the specifications announced must be included in the contract, agreement, or document.
    • Advertisements should be made through official and reliable channels or through a licensed third party. Financial institutions must ensure the third party's compliance with these guidelines and instructions, bearing responsibility if they fail to comply.
    • Developing an advertising policy, ensuring its implementation, and updating it at least once every three years.

• The compliance department or its equivalent should review and approve advertising materials in writing before publication.
• The financial institution is responsible in case its advertisement contains any violations.
• The Central Bank has the authority to withdraw non-compliant advertisements within one business day of notifying the financial institution of the violation.
Financial institutions are prohibited from the following when advertising:

1. Presenting an offer, statement, or claim that is untrue or formulated with expressions that may directly or indirectly deceive or mislead customers.
2. Making an advertisement that violates intellectual property rights or uses an imitation trademark.
3. Using the name and logo of the central bank in their advertisements.
4. Creating an advertisement that may cause confusion with other products, services, or names.
5. Undermining public order, public morals, or insulting the values and customs of society.
6. Indicating in the advertisement an incitement to commit crimes or racial discrimination.
7. Advertising services or products that are illegal.
8. Using images representing the face or appearance or any part of the face or appearance of a circulating paper, metal, or plastic currency in Saudi Arabia without obtaining approval from the relevant authorities.
9. Using personal information and data related to customers in advertising materials without obtaining their written consent.
10. Sending any advertisements for insurance or credit products that are not suitable for individual customers under the age of eighteen in the Hijri calendar.

**E. Account Opening and Closing:**

• A bank should accept and fulfil all requests to open new accounts, where the customer has completed all of the required documents and meets conditions required to complete the account opening process, with the exception of the cases provided for in the rules of opening and operating accounts issued by SAMA.
• A bank should not unreasonably delay the opening of a bank account for a customer by engaging in delaying tactics.
• A bank should inform customers of decision by the bank to close a customer's account 60 days in advance of the account being closed and the reasons for this. In cases of fraud or embezzlement by a customer, a bank can immediately close or block an account without communicating with the customer.
• A bank should not require a customer to have a minimum deposit to open a bank account. However, a bank has the right to close an account if the account balance is zero for a period of 90 days from the date that the account is opened.
• A bank should inform a customer of consequences of opening and operating a bank account. This should include a formal process of ensuring that customers are fully aware of consequences of granting access to their bank accounts to third parties.

**F. Account Transferring:**

• A bank should have an account transfer pack available in each branch and on its website, containing the following information:
• A description of the account transfer process, including procedures to be followed by the customer to transfer their account to another bank.
• The process to open the account, including a list of requirements, which the customer should fulfil in order to open the account.
• An 'Account Transfer' form which includes the following:
- The date to transfer the account.

Chapter Six

- Consent to close the account in the old bank and transfer any balances to the designated account at the new bank.
- Customer's consent to transfer relevant information details from the old bank to the new bank.
- Banks are required to process the customer's request to transfer the account within a period not exceeding one business day from the date of receiving the request.

• The bank must provide a final account statement and a letter confirming no outstanding obligations for the customer wishing to transfer their account from one bank to another, within 7 business days from the account closure.

**G. Bank Cards, Credit Cards and Point of Sale (POS):**

• A bank will only provide a new ATM card on written request from the customer or from an authorized person. A replacement card can be issued before expiry date or as requested by the customer.

• A bank will ensure that cards are issued and delivered to the customer named on the card, or to an authorized person, in accordance with SAMA circulars.

• A bank will provide appropriate electronic channels and free-phone to assist customers to easily report loss, theft or misuse of their cards.

• A bank should fully investigate problems, complaints and claims from customers, regarding incorrect transactions or any difficulties encountered when using any 'Automated Teller Machine' (ATM) or 'Point of Sale' (POS) and take corrective action in accordance with SAMA circulars related to this.

• A bank should not issue a credit card or over credit limit except upon the written request of the customer, according to regulations and circulars issued by the bank relating to credit cards and debit cards.

• A bank should not discriminate regarding the issuance of credit cards to customers and the approval or rejection of a request for a credit card should be based on the customer's financial position and their ability to repay. The Bank shall not be entitled to discriminate and to refuse to issue the credit card to any category of adult customers on other grounds.

• A bank should inform customers of the importance of protecting ATM cards, credit cards, secret numbers and chequebooks. The customer should be informed of the procedures for reporting cases of theft, loss and fraud.

• A customer will be responsible for any transactions made on their credit card before they reported the loss of their card to the bank. The issuing bank is responsible for any fraudulent transactions (transfer of credit card information) without the knowledge of the card holder, whether made before or after the cardholder informs the bank, except in cases which the bank proves the cardholder's responsibility for these transactions.

• Banks shall ensure that none of its merchant clients implements any additional charges on or passes them to credit/debit cardholders when making payments at POSs to cover the merchant service charge. Banks are also responsible for monitoring merchants' deposits to ensure that they are proportionate to the nature of such merchants' business. In addition, banks are responsible for providing training to workers at stores on the use of POSs, while providing them with operational guidelines to be complied with.

• Merchants (i.e. travel agency, car rentals, gold and jewelry stores) shall not charge additional fees on top of the cost of products or services if customers use credit cards (i.e. Visa, Master Card, American Express) or MADA debit/prepaid cards for making purchase payments at POSs.

• A bank will advise customers of the transaction limits that apply at POS and ATM at time of issue, reissue of cards, or when these limits change.

• A bank should inform customers to avoid choosing easy secret numbers for banking services or numbers associated with personal dates and encourage them to change these numbers periodically

**H. Internet and ATM Banking Services:**

- A bank should take appropriate measures to ensure that all online banking channels are safe and secure. A customer will be compensated for any direct losses incurred as a result of poor security controls for these channels.
- A bank should provide a free phone line to help customers to easily report suspicious or unusual transactions or unauthorized access to their data or accounts.
- A bank should inform customers of all transactions on their accounts (debtor or creditor operations) as they happen, by sending a free SMS to mobile phone. They should apply more than one evidence of identity verification for electronic services and advise customers regarding electronic fraud in accordance with SAMA circulars.
- A bank should verify that all ATMs and other electronic services meet needs of customers and lead to facilitating the completion of banking transactions according to the latest technologies available.
- A bank should process the claims associated with the transactions executed through automated teller machines in accordance with instructions and circulars issued by SAMA in this regard.
- A bank should conduct periodic maintenance of all ATMs, to include verification of operation and availability at all times, preferably replacing ATMs that have been serviced for more than nine years.
- A bank should use modern and advanced techniques in monitoring the performance of ATMs remotely.
- A bank should use undamaged notes and withdraw damaged notes from circulation, especially when replenishing automated teller machines.

**I. Customer Finance:**

- Banks are committed to personal finance controls and other relevant regulations and circulars issued by SAMA.
- Before agreeing to grant a loan or any other type of finance facilities for a customer, a bank should assess the status of customer's credit rating and ensure their ability to repay the loan amount based on the customer's current situation.
- A bank will deduct the installment on the date agreed upon with the customer and in line with the date of deposit of the customer's salary account with the bank.
- Each bank branch should have a designated credit counselor to assist customers who wish to obtain finance or credit cards.

**J. Issuing a Termination Letter:**

Financial institutions are required to fulfill the customer's request for issuing a termination letter - regardless of its purpose, including salary transfer – in case there are no existing or outstanding financial obligations on the customer. This should be done within a period not exceeding one business day from the date of receiving the request, and seven business days for customers holding a credit card and/or monthly discount card, except in cases where judicial decisions have been issued.

K. Employees:

- A bank will ensure that employees who have direct interactions with customers should do the following:
  - Competently, efficiently and professionally discharge their duties and provide the banking services they are entrusted to provide.
  - Display good behaviors and deal professionally when providing service to existing or prospect customers at all times.
  - Have full knowledge of best banking practices so that they can help customers.

• A bank should ensure that its employees have access to training and achieve the required levels of competency by enrolment in specialized programs for professional accreditation that qualifies them to deal with customers.

**L Foreign Exchange Transfers:**

• A bank has the right to impose fees on customers for the transfer of funds outside the Kingdom. These fees should be a fixed amount as a percentage of the transferred amount. Any beneficiary bank fees should be included, as well as any fees imposed by the correspondent bank. The customer should be informed of the amount of all fees before confirming the transfer of funds.

• A bank will be responsible for validating the payment instructions, specifically the International Bank Account Number (IBAN), and Bank Identifier Code (BIC), before completing the transfer of the funds.

• Before completing the transfer of funds, a bank should advise customers of the expected arrival time that the funds would be with the beneficiary and fees or charges deducted and the net amount that will be paid to the beneficiary.

• A bank should advise a customer within two business days of return of funds by a correspondent bank. The funds returned should be credited to the customer's account as soon as received from the correspondent. Where the customer is not an account holder, the returned funds should be available in cash or by cashier's cheque within two business days.

• A bank should explain to the customer that making an ATM cash withdrawal for international currency outside the Kingdom is subject to the required currency exchange rate as at the date of the withdrawal transaction.

• A bank should ensure that where an advertised product or service is denominated or priced in a foreign currency, or where the value of an advertised product or service may be directly affected by changes in foreign exchange rates, the advertisement contains the following warning statement: "This product/service may be affected by changes in foreign currency exchange rates".



**M. General Provisions:**

• Bank should provide a hard copy of the 'Banking Customer Protection Principles' to new banking customers, or to existing customers who take out a new product or service.

• A bank will provide a copy of the following documents within seven business days, or as otherwise formally agreed with the customer, based on the customer request:

- A copy of the original application for any product or service.
- A copy of the up to date terms and conditions.
- A copy of the credit contract, including security and guarantee documents.

• Banks should take humanitarian reasons into consideration when dealing with customers who have emergency financial difficulties.

• A bank should advise its customers who have financial difficulties and try to help them to overcome these difficulties before proceeding with legal action against them.

• A bank will display the branch hours of business on a fixed notice at the main entrance to each branch and on their website and the branch should open and close in accordance with the advertised hours of business.

• "Banks, along with their personnel, shall not discriminate current and future consumers differently in a biased or unfair manner in their various dealings (including those involving finance products) based on their race, gender, religion, color, age, disability, marital status or any other forms of discrimination."

### 6.2.4 Errors and Complaints:

1. Errors:

• A bank is not entitled to benefit from any amounts due to an error, the sum should be returned to the affected customer's account immediately and without waiting for the customer to register a claim.

• Where a bank discovers an error, or is informed of an error by a customer making a complaint or a claim, then the bank should refund all other customers who are proven to be affected by a similar error. This should be completed within 60 business days of the original error being identified. The bank should issue a communication to all affected customers, advising them of the error and the steps being taken for corrective action, including the amount of the refund to the customers' accounts.

• A bank should ensure the continuity of banking systems to meet customers' needs at all times, and to provide alternatives when a defect or malfunction occurs.

A bank is not entitled to benefit from any amounts due to an error, the sum should be returned to the affected customer's account immediately and without waiting for the customer to register a claim.

• Where a bank discovers an error, or is informed of an error by a customer making a complaint or a claim, then the bank should refund all other customers who are proven to be affected by a similar error. This should be completed within 60 business days of the original error being identified. The bank should issue a communication to all affected customers, advising them of the error and the steps being taken for corrective action, including the amount of the refund to the customers' accounts.

• A bank should ensure the continuity of banking systems to meet customers' needs at all times, and to provide alternatives when a defect or malfunction occurs.

2. Complaints:

• A bank should comply with rules and regulations for complaint handling as issued by SAMA and should acknowledge receipt of customer's complaint and send them a complaint reference number to their mobile telephone for follow up.

• A bank should clearly display their complaints procedures in all of their branches and on their websites and provide a hard copy to a customer if requested.

•A bank's complaints procedures should include the following:

- bank's website or through any other appropriate channel made available by the bank.
- The bank's Department in charge of investigation of complaints.
- The official name and phone number to be used by the customer when they need to follow up a complaint.
- The expected time period for the bank to respond to the customer with a decision on the complaint that would not exceed 10 business days from the date of registration of the complaint.
- The bank should communicate with the customer regarding the complaint within one week from the date of receipt. If the complaint is not resolved in one week, the bank will communicate and update within 10 business days to advise how long it is expected that resolution will take.
- A bank should document the channel used to communicate with the customer and retain details.

• A bank should provide the information required by a customer who wishes to escalate their complaint within a bank or to a third party as a result of being dissatisfied with the result of their complaint and direct them to the appropriate third party relevant for their complaint.

# Chapter Six

## Revision questions:

## Answer the following questions and check your answer in the corresponding section:

1. In 2011, G20 developed Principles on Financial Customer Protection, mention three of these principles.
   **Answer: A reference: Section 6.2.1**
2. Mention three of banking customers' responsibilities
   **Answer: A reference: Section 6.2.2**
3. What are the cases of excluding bank's responsibility for maintaining confidentiality of customer's information?
   **Answer: A reference: Section 6.2.3 C**
4. What is the information to be provided in advertising for any service or product associated with payment of fees?
   **Answer: A reference: Section 6.2.3 D**
5. What are the obligations and regulations that the bank shall comply with, regarding bankcards, credit cards and POSs?
   **Answer: A reference: Section 6.2.3 G**
6. What are obligations and regulations that the bank shall comply with regarding customers' complaints?
   **Answer: A reference: Section 6.2.4**

# Chapter Seven

## Business Conduct Rules

This chapter includes 4 questions out of 100 questions in the exam

# Introduction:

The Conduct is the activity expressed by the individual through his relations with the persons around him. Rules of Conduct are a set of principles and standards designed to ensure integrity, transparency and accountability in all matters which pertain to bank's activities and transactions, including employees and customers.   Such ethical aspects in the banking field are a common factor among all banks and reflection of the good reputation of such banks. In case of any failure to implement these ethical aspects, this failure shall definitely lead to damage of bank's reputation.

## 7.1 Code of Conduct Objective:

Learning Objective:

1. To Be Familiar with Objective and General Framework of the Code of Conduct.

Code of Conduct is a set of ethical standards and controls governing employee's behavior in implementation of their works. Business ethics were needed due to interaction of many parties (Shareholders – Stakeholders – Chiefs– Employees– Customers) in the business process, provision of various services and products along with conflict of their interests, goals and requirements. Therefore, it was necessary to set a number of ethical criteria to regulate such relationship in order to meet all parties' needs, maintain their rights and define their duties and responsibilities.
Code of Conduct in the banking field defines the manner in how business runs on a daily basis, and focuses on the ethical aspects of banks' employees, and these aspects regulate relationship with customers. The main purpose of Code of Conduct is to protect customers and maintain the financial system reputation in the Kingdom. Banks shall therefore force all employees to be characterized by these ethical and professional aspects while violation of such aspects may lead to dismiss of the violating employee.
On the other hand, rules of job conduct aim to establish job discipline, transparency, integrity, objectivity, efficiency, loyalty and effectiveness in the conduct of bank's employees in the course of performing their assigned duties and job tasks. The rules also aim to instill the morals in the employee and incite the employee to distance himself from suspicions that could cause damage job's dignity and prestige. These rules also aim at directing the employee to the necessity of rendering quick and high-quality services to customers as well as investors at the highest standard of professionalism and neutrality, and in such a manner that does not prevent encouraging beneficiaries of bank's services to report any violations of these rules by bank' employees. consolidation of these behavioral and ethical rules would realize the vision and mission of the bank and consolidate the concept of rational management and enhance employees' job performance and behavior and reward the diligent and hardworking employee in addition to holding the defaulting employee accountable and improving image of bank.

## 7.2 Code of Conduct and Work Ethics in Financial Institutions

Learning Objective:

2. Getting familiar with Code of Conduct and Work Ethics in Financial Institutions.
3. Description of policies involved in the Code of Conduct at Banks.

The purpose of the Code of Ethics and Professional Conduct in Financial Institutions issued by SAMA in August 2019, is to enhance the ethical values and principles in the Financial Institutions and promote discipline, integrity, transparency, objectivity, efficiency and loyalty in employees when performing their duties and tasks. Promoting ethical principles will help achieving the vision and mission of the Financial Institution, protecting its reputation, ensuring staff compliance with the principles of prudent behavior, achieving the concept of good governance, enhancing staff performance and professional behavior, dealing with good and poor performance of employees, and improving the image of the Financial Institution in general.

According to Code of Conduct and Work Ethics in Financial Institutions, some terms can be defined as follows:

- **Work Ethics**: A set of ethical standards, rules and behavior that an employee has to comply with and show toward his/her work, colleagues and the society as a whole.
- **Professional Behavior**: Carrying out job duties with honesty, objectivity and integrity and working continuously to achieve the objectives of the Financial Institution. It also means that practices conducted by employees shall be within their entrusted powers. Employees shall perform their duties in a manner that is free from negligence, and shall not violate laws and instructions, jeopardize the public interest or seek to achieve personal interest.
- **Stakeholders**: Any person with an interest in the Financial Institution, such as shareholders, creditors, customers, suppliers and any third party.
- Insider Information: Any information, data, figures or statistics, whether verbal, written or electronic, obtained or accessed by any of the Financial Institution Staff by virtue of his/her work nature or because of being an employee at the Financial Institution and which is/are not available to the public.
- **Conflicts of Interest**: A situation in which the objectivity and independence of any of the Financial Institution Staff are adversely affected when performing his/her tasks by a personal, actual or potential, material or non-material interest that may relate to him/her personally or to one of his/her personal relationships. This situation also includes when the employee's performance is negatively influenced, directly or indirectly, by his/her personal considerations or after obtaining information related to a decision

Code of Conduct and Work Ethics in Financial Institutions issued by SAMA covered the following

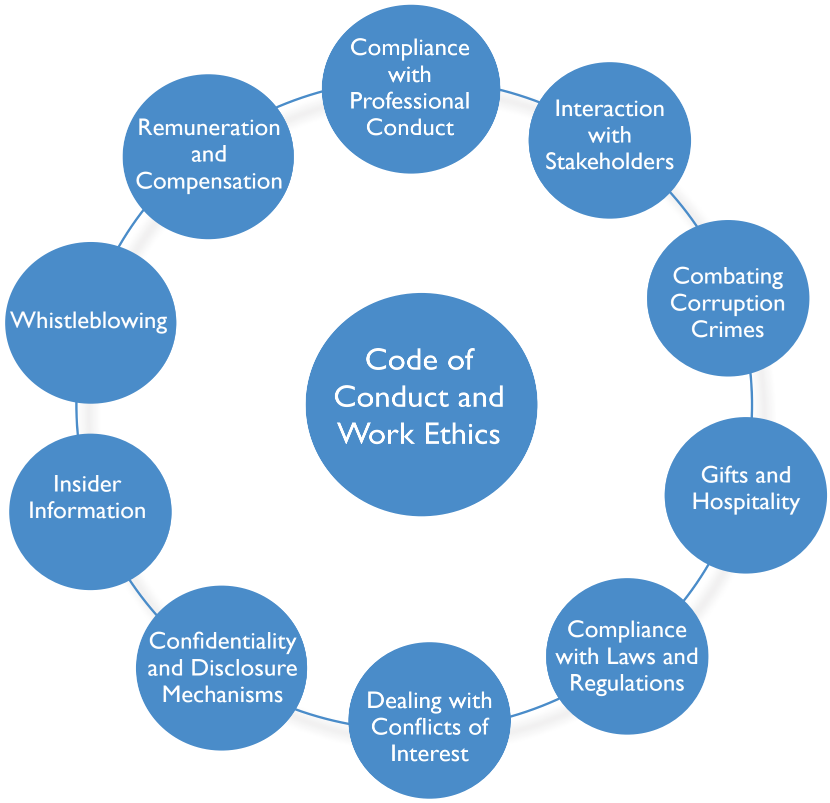



Figure (7.1) Code of Conduct and Work Ethics

### 7.2.1 Compliance with Professional Conduct and Public Decency Laws:

The Financial Institution Staff shall:



• Demonstrate and have the highest ethical standards and characteristics, including, transparency, integrity, honesty and good morals in all dealings with colleagues and Stakeholders.
• Avoid any conduct that discredits the profession inside or outside the workplace, during or not during working hours, avoid any conduct that violates public decency or morals, avoid discussions on politics, religion and sectarianism and avoid incitement and all forms of racism.
• Not hinder work progress, strike or incite such actions.
• Perform duties accurately and objectively in a manner that serves the business interests, and improve the required skills through continuous learning and training.
• Protect and not damage the reputation of the Financial Institution by publishing information, statements or comments of its own using different media channels or communication means.
• Not waste time at work during official working hours, additional hours or official tasks and dedicate it for performing and completing tasks.
• Maintain the confidentiality of business information and not disclose any information that may damage the interests of the Financial Institution if disclosed, whether during working at the institution or after leaving the job.
• Understand and adhere to the laws and not bypass, violate or neglect them.
• Maintain an appropriate standard of dress and comply with the public decency laws in accordance with the Saudi laws during official working hours, training courses and all events in which the employee represents the Institution.
• Obtain a prior approval from the Financial Institution to publish information, statements or comments of its own using different media channels or communication means.
• Commit to optimal and permitted use of the IT infrastructure and technical resources owned by the Financial Institution without hindering the workflow.

### 7.2.2 Interaction with Stakeholders:

Stakeholders are of great importance to the Financial Institution and must be treated in a manner that achieves transparency, integrity and cooperation using the highest professional standards. The stakeholder policy developed by the Financial Institution sets out the general principles and guidelines for its relationships with Stakeholders through:

1. Ultimate Objective: The Financial Institution should be the Stakeholder's most trusted partner, and provide the best experience by making the business easy and fast.
2. Engagement: The Financial Institution should be a constructive partner for Stakeholders by providing clear and honest advice and giving the necessary information about products and services to make sound decisions.
3. Response: The Financial Institution should deal with the complaints and feedback received from Stakeholders immediately, effectively and fairly in accordance with the applicable laws and regulations to achieve the highest professional standards.
4. Enhanced Trust: The Financial Institution shall provide stakeholders with clear, understandable, accurate and updated information within the framework of mutual trust in all services and dealings, and shall ensure timely delivery of stakeholder services.

### 7.2.3 Combating Financial and Administrative Corruption

To combat money laundering, terrorist financing and suspicious transactions, financial institution staff must abide by the following:

- Commit to the implementation of the Anti-Money Laundering Law and the Law on Terrorism Crimes and Financing, and SAMA's relevant instructions.
- Perform the duties and tasks with honesty, integrity, accuracy and professionalism.
- Not engage in any criminal, money laundering or terrorist financing activities.
- Immediately report all suspicious transactions carried out by Stakeholders or the Financial Institution Staff by the concerned department to the AML/CTF department, which in turn reports such transactions to the Financial Investigation Unit at the Presidency of State Security.
- Not carry implication to inform Stakeholders or staff that their activities that have been reported, will be reported to competent authorities or under investigation by the Financial Institution are suspected.



As for bribery and corruption, the financial institution staff must abide by the following:

- Report any suspicion of corruption or bribery to the competent directors or departments in the financial institution.
- Not exercise nepotism, cronyism or any forms of favoritism at work, which may adversely affect the confidence of the financial institution's clients.
- Not show any sign of moral or administrative corruption whatsoever, or use any suspected or illegal means to accomplish tasks.
- Not abuse job powers and report any abuse to the competent departments in the Financial Institution.

### 7.2.4 Gifts and Hospitality:

The Financial Institution Staff shall:

1. Not request or accept any gifts, invitation, service or anything of material or non-material value whether for himself/herself or his/her personal relationships from natural or legal persons that have or seek to have a relation with the Financial Institution, which may directly or indirectly affect the objectivity of the Financial Institution Staff in implementing their tasks.
2. Understand that any employee violating, participating or assisting in violating the laws related to requesting or accepting gifts and invitations will be held accountable for such actions.

3. The acceptance of the gift shall be subject to the following:

- The gift shall not be cash, loan, share or financial derivative.
- The gift and its value shall be according to the usual practices followed in a particular event, such as trophies.
- If the gift is a fee discount or exemption, it shall be related to an invitation to attend a conference or meeting that enhances knowledge, positively reflects on the business of the Financial Institution and does not result in a conflict of interest.
- The gift shall not be presented due to the recipient's position or work at the Financial Institution.
- The person presenting the gift shall not have private or public interest that he/she wishes to get from the Financial Institution or one of its staff.

4. The gift recipient shall submit a written disclosure form to the compliance department directly after receiving the gift in the following cases:

- If the gift has a value and can be sold.
- If the gift is perishable and of a value exceeding SAR 1000.

5. The Financial Institution Staff shall not offer gifts, grants or invitations to those who personally have business relationships with the Financial Institution, unless offered by the competent department as per the approved policy on this regard.

6. Gifts and grants that may damage the reputation of the Financial Institution shall not be accepted or requested.

### 7.2.5 Compliance with Laws, Regulations, Instructions and Policies

Adherence to rules, regulations, instructions and policies is one of the most important bases and factors of success for the Financial Institution that helps maintaining its reputation and credibility. The Financial Institution Staff shall be aware of, comply with and understand the applicable laws, regulations, instructions and policies related to the work and tasks assigned, which shall also be applied without violation or negligence. In addition, any dealing that may violate such laws, regulations, instructions or policies shall not be carried out in the name of the Financial Institution.



### 7.2.6 Dealing with Conflicts of Interest:

To protect the Financial Institution and Stakeholders, the staff shall be responsible for identifying any potential or actual conflict of interest that may adversely affect the Financial Institution and/or Stakeholders. In cases where a conflict of interest is not possible to be prevented, the Financial Institution shall properly manage such conflict through a set of controls, policies and procedures.

### 7.2.7 Confidentiality and Disclosure Mechanisms

Information is an important asset to the businesses of the Financial Institution and information protection is an important factor for its success and continuity. In addition, all information related to the Financial Institution's Stakeholders or Staff shall be the property of the institution. The Financial Institution shall prepare a set of controls and procedures for the destruction of unused or damaged documents and devices.

### 7.2.8 Use and Leakage of Insider Information for Market Manipulation:

Financial Institution staff shall not engage in any act, or participate in or encourage the performance of any conduct that may give false idea of any investment, price or value of something by using or leaking Insider Information to obtain personal benefits for their own or for third parties.

### 7.2.9 Whistleblowing

The Financial Institution shall provide effective methods of communication to receive reports of actual or potential violations. Financial Institution Staff shall report any suspicious activities carried out by employees who have Insider or Confidential Information. In addition, cases of fraud or attempted fraud, money or business paper loss, potential violation of the laws, regulations, instructions or policies of the Financial Institution or unusual transactions that the reporting employee believes that they do not conform with the financial status of Stakeholders shall be reported as well through the different reporting lines provided.

### 7.2.10 Remuneration and Compensation

The Financial Institution may provide benefits to employees outside the scope of the official job contract concluded in order to incentivize them to achieve the best results in accordance with the remuneration and compensation policy prepared by the institution, taking into consideration the following:

- Ensure sound and effective risk management through an effective management structure to set objectives and share them with employees.
- Ensure effective remuneration and compensation risk management by developing a policy to ensure that remuneration and compensation are not only given to specific category of employees.
- Comply with the Financial Institution business strategy, values, priorities and long term objectives.

• Consequences of Non-Compliance with the Code of Conduct and Work Ethics:

The Financial Institution shall ensure the application of the Code of Conduct and Work Ethics in the institution, monitor and control any violation thereof, develop and update the Code according to these principles and impose penalties for violations according to the relevant rules and instructions, and under the work organization law and penalties of each Financial Institution.



## 7.3 Employees' Commitment towards Each Other:

Learning Objective

4. Getting familiar with the obligations of bank employees towards each other.

The employee must respect his directors and colleagues at work, and to act in tactful, diplomatic, wise, objective neutral and impartial manner during addressing them orally, thus in conformity with requirements of social tradition and professional practices.

### 7.3.1 Dealing with Directors and Officials:

• Adhere to the implementation of directors' orders, directives and instructions in accordance with the administrative hierarchy, and if those orders and instructions were in violation to laws and regulations, then the employee shall inform his director in writing about such violation, and shall not implement these orders and instructions unless they are confirmed by the director in writing., and in such case, employee must inform CEO about the violation. In all cases, the employee should refuse to carry out instructions if their violation constitutes an offense or a misdemeanor or a felony punishable by the Penal Code or any other legislation, and inform the Director so.

- To deal with directors and superiors with respect and not to try to gain any preferential treatment through the methods of flattery or deception or through mediation and nepotism.
- Not to deceive or mislead the directors and to refrain from hiding any information related to his work in order to influence the decisions or to obstruct the work. Employee must co-operate and provide his directors with his opinion, advice and expertise in all objectively and honestly and to put at their disposal the information in his possession for the benefit of work.
- Inform the director of any violation or breach, or difficulties encountered within the scope of work.
- Inform the immediate director/superior, who was recently appointed, in a complete and accurate manner of all subjects and documents, including the outstanding matters to ensure continuity and progress of business.

### 7.3.2 Dealing with Colleagues

- Deal with respect, courtesy and sincerity with co-workers, and maintain proper and friendly relations with the colleagues without discrimination, and respect their privacy and refrain from exploiting any information about their private lives with a view to harm them.
- Cooperate with his colleagues and to let them share his opinions in a professional and objective manner, and to provide colleagues with assistance wherever possible to solve the problems they are facing within the scope of work and try to instill the positive trends among colleagues to help promoting the performance of work and improving the environment
- Refrain from any unethical acts or practices which violate public morals and proper conduct and a man respects the "woman" as a colleague and business partner and vice versa

### 7.3.3 Dealing with Subordinate

The Head of the Department shall:

- Develop the capacities of his subordinates and help and motivate them to improve their performance and to be a good example for his subordinates by complying with the prevailing laws, regulations and instructions.
- Transfer knowledge and experience which the Head gained through his career to his subordinates and to encourage subordinates to increase exchange of information and transfer of knowledge among them.
- Supervise subordinates and hold them accountable for their actions and objectively and impartially evaluate their performance, and seek to provide training and development opportunities to the subordinates in accordance with the relative regulations and instructions.
- Reject any pressures from a third party that may result in dealing with his subordinates in a preferential manner.
- Respect the rights of his subordinates and to cooperate with them in a professional manner without any discrimination.
- Observe that the directives addressed to subordinates shall be in writing, in case the Head of Department receives a written note from his subordinates indicating that his orders or directives are in violation to the regulations.



## 7.4 Bank's Commitment towards Employees:

Banks shall create a proper working environment that provide all employees with all requirements that enable them to achieve their job ambitions, in conformity with the following:

- Inform the staff and be familiar with the rules of job behavior and its core values and inform the staff that the correct and proper moral conduct is a duty and obligation and is considered as a part of the way by which they carry out their work.
- Deal with the employees in fairness and equity without any unjustified discrimination.

• Create safe, fair and proper working conditions for the employees to meet the basic needs and their personal and practical requirements.
• Promote the spirit of initiative and innovation among the employees, and provide the mechanisms that encourage employees to submit the proposals pertaining to the improvement and development of the various aspects of work in the bank.
• Encourage the employees for connections and communications open for meaningful discussion that focus on the positive sides to solve the related issues that attract their attention while performing their job functions and to try to find the adequate solutions for them.

### 7.4.1 Disciplinary Sanctions:

If the employee committed a violation to the applicable laws, rules, instructions and decisions at the bank and this Code of Conduct or in respect of their application, or if the employee embarked on an act or action the nature of which is to prejudice the responsibilities and powers entrusted thereto or obstructing or disrupting his or her duties, employee would be punished by the sanctions set forth in the applicable HR Manual of Policies and Procedures.

### 7.4.2 Reporting and Inquiry

If the employee got any suspicion that there is something illegal or was requested to do anything which the employee believes to be illegal and inappropriate or may lead to conflict of interest in a direct or indirect manner, or use funds for illegal purpose or suspicion of money laundering or terrorist financing and conflicts with the content and document of the Code of Conduct in the money exchanger, and it involves violation of the laws, regulations, decisions and procedures applied in the bank, employee shall raise this issue as quickly as possible with the immediate director, and if not possible, submit the matter to the concerned Head of Department or to the CEO of the bank, who in turn takes appropriate action, either by referring the matter to the Legal Affairs in the bank or the relevant committee to investigate the matter, and this is done confidentially and without delay. The employee who knows about an issue even though it is not related to the employee, employee shall raise this issue, provided that:
• Employee should have a proof (or proofs) about to the issue raised, whether criminal or prohibited activities.
• Employee believes that there is abuse or promiscuous behavior or an obvious violation.
• Such matters would be raised in good faith.

If it were found that there is bad faith involved in such reporting, then the employee who made the report shall assume all the responsibilities arising from such action.
Department should encourage all staff at all administrative levels to do not hesitate to inquire and ask for advice with regard to the application of Code of Conduct and work performance and deal with others from Immediate Director or Senior Director.

### 7.4.3 Agreement with the Customer:

Sale transaction involves six main phases and the employee in the bank should understand such phases and be well prepared for each phase requirements along with information and skills. These phases are as follows:

1. Searching for Prospective Customers:

This is the start point of sale transaction. Three conditions shall be met for the customer to be a Prospective Customer:
• Need to purchase the banking service.
• Able to pay.
• Has the power to take the purchase decision.

Contact, friends and others shall be considered an important source that helping the bank or reach prospective customers.

### 2. Reach and Meet the Customer:

Upon reaching the Customer, the main objective or the service provider is to:

- Attract attention.
- Highlight benefits arising from the service.
- Complete the sale transaction.

Employee of the bank shall be required to previously prepare to obtain information about the customer main information, banking services expected to be needed. in addition to provide certain booklets, information and brochures used during rendering the service to the customer.

### 3. Present the banking services to the Customer:

Actually, customers did not purchase the banking services itself, but they purchase benefit and solutions for their financial and banking issues. Therefore, marketing managers in the money exchanger should link the characteristics and specifications of banking service with the consequent advantages and benefits.

### 4. Answer the Customers' inquiries:

Employee of the bank shall use courtesy and try to follow a positive way to answer the Customers' inquiries, as well as asking questions in a manner that cause the customer answers his/her questions.

### 5. Complete sale transaction

When the banking service is well-presented and rendered, customer shall be convinced of the answers to any questions raised concerning this service, which will lead to complete the sale transaction in order to obtain the banking service.

### 6. Follow-up:

This considers a necessary phase if the employee desires to ensure the customers satisfaction and repeat transaction with the bank. this phase includes completion of aspects related to working hours and contract terms.

## 7.5 Board Directors Code of Conduct



Board shall develop a Code of Conduct and ethical values policy in the bank that will take the following into account:

- Ensure that each board member, executive management and employees of the bank will exert due diligence and loyalty towards the bank and any matter would maintain the bank interests and maximize its values, in addition to give the bank interests priority more that the personal interests.
- Board member represents all shareholders in the bank and comply with the matters that would achieve the bank and shareholders interest and consider the other stakeholders.
- Establish the compliance principle for all board members and senior executives with all relevant laws and regulations.
- Prohibit the board member or executive member from exploiting his/her position to achieve a personal interest.
- Making sure that the bank assets and resources are used only for recognizing the bank purposes and objectives and not to exploit these assets and resources to achieve personal interests.
- Develop accurate, robust and clear rules to regulate the authority and timing of access of the bank internal information in a manner prevent the use of such information by the board members and executive management or disclose the same to any person, except for according to the limits stated or required by law.

# Chapter Seven

## Revision questions:

## Answer the following questions and check your answer in the corresponding section:

1. What is the objective of Business Conduct Rules?

   **Answer: A reference: Section 7.1**

2. Briefly explain Code of Conduct and Work Ethics in Financial Institutions?

   **Answer: A reference: Section 7.2**

3. "Rules of the job conduct provide for the necessity that all employees of the bank would enjoy high professional efficiency". Discuss this phrase and explain the Values of Professionalism to the Conduct Rules.

   **Answer: A reference: Section 7.2.1**

4. Briefly explain how to combat financial and administrative corruption?

   **Answer: A reference: Section 7.2.-3**

5. Explain how the employee deals with the immediate directors and officials?

   **Answer: A reference: Section 7.3.1**

6. Explain how banks can provide proper work environment for the employees to achieve their job ambitious.

   **Answer: A reference: Section 7.4**

# Chapter Eight

## Compliance Principles and its Impact on the Retail Banking Sector

This chapter includes 7 questions out of 100 questions in the exam

# Introduction:

This chapter reviews the concept of compliance, the importance of compliance department the role of Compliance Officer in banks. The factors to be considered when taking a decision pertaining to the appropriate regulatory compliance structure as well as main operations and procedures of compliance.

## 8.1 Compliance in Financial Institutions:

Learning Objective:

1. To be familiar with the concept of Compliance.
2. To be familiar with the significance of compliance in banking sector.

Compliance with laws, regulations and instructions is one of the most important factors for the success of FIs. Compliance protects the reputation and credibility of financial institutions; protects shareholders and depositors, and provides them with safeguards against legal sanctions. Failure to comply with the application of laws, regulations and instructions undermines reputation and integrity of bank and to be liable to penalties and fines, in addition to potential loss of its customers and effect on its profits. Compliance is a comprehensive and multi-aspect responsibility involving all parties in FI. It starts with BOD and senior management and ends with all employees, each according to the powers and tasks entrusted to him.

To that end, Basel Committee on Banking Supervision released an agenda on Compliance and the Compliance Function in Banks. It covered the main principles for compliance with laws and defined a framework for effectiveness of compliance, responsibility of those in charge, their independence and duties, as well as the manner and limits of support to be provided by BOD and the Executive Management.

To support culture and applications of compliance in Saudi FIs, The Saudi Arabian Central Bank issued compliance principles for banks in September 2020 to help banks operating in KSA to cope with international applications aiming to establish a robust and effective compliance.



### 8.1.1 Concept of Compliance:

Compliance refers to ensuring application and implementation of financial instructions, procedures and transactions in accordance with regulations, rules and instructions issued by regulatory and supervisory authorities in charge of the Financial Sector. Compliance requirements come from different sources and can take different forms, and be originated from legislation, supervisory and regulatory authorities such as (SAMA, CMA and Companies Law), Basel instructions, standards, practices and agreements between the bank and customers.

Implementation of Compliance requires regulation and arrangement, not only due to large and increasing number of laws and requirements issued by regulatory authorities, but also due to variety and complexity of such requirements. Accordingly, the comprehensive and optimal compliance management is based on supporting compliance in all documentary and transaction stages of all products and services provided by banks.

### 8.1.2 Compliance function definition:

An independent function that identifies, assesses and provides advice, monitors and reports on risks of the Bank's non-compliance related to its exposure to legal and administrative penalties, financial loss or what may undermine the Bank's reputation due to its failure to abide by the regulations and controls or sound standards of conduct and professional practice. This function shall be applied by Compliance Departments. Given the significance of compliance function's

responsibilities and requirements, it requires direct and full support from senior management, as well as assigning qualified and specialized human resources to discharge such responsibilities.
Compliance function in banks is one of the fundamentals and factors for their success due to the essential role it plays in maintaining their reputation, credibility, interests of shareholders and depositors, and protecting them from penalties as a result of performing or participating in the following:

- Accurate planning and organization in cooperation with senior management to establish the principles of Sound Management Concept in order to realize and create an environment of compliance in business management.
- Prevention of risks, especially regulatory, reputation and financial penalties risks.
- Advise on the risks of non-compliance within the Bank and work with senior management to include compliance in policies, procedures and action steps for all products and services rendered.
- Establish mechanisms and frameworks to ensure prevention of crimes, in particular, its responsibility for combating money-laundering and terrorism financing operations.
- Consolidate relations with regulatory entities, and safeguard values and professional practices in banking work.

### 8.1.3 Significance of Compliance in Banking Sector:

Success of FIs depends on their credibility, integrity and respect for instructions, regulations and ethical standards. Failure to comply with implementation of instructions, regulations and ethical standards leads to:

- Bank's reputational and integrity risk.
- Bank to be probably liable to legal penalties and fines.
- Probable loss of customers and effect on profits and sales as a result of such reputation being affected and to be liable to legal penalties and fines.

In order to maintain reputation and integrity, all banks shall fully comply with implementation of all instructions, guidelines and regulations issued by regulatory and supervisory authorities, in addition to applicable ethical standards throughout performance of their business, whether in KSA or in any of the countries where they operate.

- Customer Benefits: Principles of Customer Protection - Consumer Finance.
- Corporate Governance Benefits: Control and effectiveness of bylaws and determination of responsibility at all levels.
- Financial Benefits: Increased efficiency, decreased operating expenses, non-payment of fines or legal expenses, increased loyalty of customer, and accordingly increased profits.
- Reputational/Regulatory Benefits: Regulatory authorities' satisfaction with bank's capability and compliance with instructions and regulations, fewer customer complaints and customer's satisfaction with bank's compliance with bank's tariff and instructions that primarily serve the customer.

In order to reach the highest levels of compliance, all types of risks shall be primarily avoided by finding out and taking steps and procedures to ensure control of risks, upon occurrence, as well as implementation of corrective steps that would mitigate all probable risks and issues. This means safeguarding bank's shareholders, employees and customers against potential damage and entrenching values of ethics, integrity, accountability and robust leadership, where culture of compliance constitutes a major role.

### 4.1.8 Non-Compliance Risk:

The term "Compliance Risks" is defined as risks leading to statutory, legal sanctions, material financial loss, or damage to reputation a bank may suffer as a result of its failure to comply with all applicable laws, regulations, rules, circulars, instructions and codes of conduct applicable to its activities. Consequences and implications of non-compliance on banks can be summed up as follows:

- Fines and financial loss.
- Reputational damage and lack of competitiveness.
- Loss of customers as well as loss of market share.
- Engaging in complicated judicial cases with regulatory authorities.
- Loss of licenses and failure to obtain such licenses and approvals from regulatory authorities.
- If regulatory authorities detected legal violations at any bank, non-financial implications may arise, such as:
- Inability to obtain regulatory authorities' approval for acquisition or merger with other FIs
- Regulatory and supervisory authorities' inspection of all transactions at the bank, other than legal violations.
- Reduction of share price of exchange center or company in financial markets.
- Failure to attract new customers or qualified employees due to deterioration or downgrade of the exchange center

## 8.2 Compliance Department and Compliance Officer:

Learning Objective:

3. To be familiar with significance of FIs operations to follow up specific procedures for realization of compliance.
4. To be familiar with responsibilities of bank's employees towards compliance.

Compliance Department is a supervisory department established in order to assure the Board of Directors that the executive management and all departments in the bank abide by enforcing all instructions issued by the supervisory and regulatory authorities and the company's management itself, in addition to Banks compliance with the rules and regulations governing the work and rules of ethics and professional conduct.



### 8.2.1 Organizational Status of Compliance Department:

Compliance Department shall have a formal status within the bank to grant it the appropriate standing, and independence. Compliance Department shall report directly to BOD and shall have full powers, including for example: Accessibility to all information and documents, no matter how confidential they are, and appointing a senior management-wide Executive Director to discharge duties of Compliance Department, in addition to appointing qualified and certified human cadres to help the executive director to ensure implementation of required duties, thus in addition to financial and technical support. This shall be set out in the bank's compliance policy or any other official document, which shall be communicated to all staff throughout the bank.

It shall be noted that there will be a difference in organization of Compliance Department's functions according to several considerations, including: size and organizational structure of bank, quality of products and services provided, geographic activity and the number of branches and target segments of customers. Banks which own extensive networks of branches, deal with large numbers of customers and provide diverse services are therefore exposed to greater risks compared to other banks of smaller activities and number of branches. Whatever the difference, Compliance Department's organization and functions shall be consistent with the strategy and structure of the bank's risk management.

Compliance Department's regulatory document shall at least include the following items:

a. Compliance Department's role and responsibilities.

b. Standards and measures necessary to ensure independence.

c. Compliance Department's relationship with other risk control departments and Internal Audit Department.

d. Compliance Department's capability of obtaining the necessary information to assume its responsibilities.

e. Compliance Department's authority to conduct necessary investigations for any potential violations of compliance policy.

f. Compliance Department's adherence to report directly to BOD, Audit Committee and Senior Management.

g. Direct accessibility to GM, CEO, BOD and Audit Committee.

### 8.2.2 Principles of Compliance Department:

Given the significance of Compliance Department's responsibilities and requirements, Compliance Manual for Banks Working in Saudi Arabia issued by SAMA defined the following set of principles on which Compliance Department is based:

#### 1. Independence:

The compliance management must be completely independent from executive management, meaning "the independence of compliance management from external interference by other departments in performing compliance tasks." The concept of independence includes four elements interrelated as follows:

A. The compliance unit should have an official status within the bank.

B. The head of the compliance unit in local banks should be an executive at the first administrative level, and in the branches of foreign banks, a first-level executive subordinate to the branch's top executive, with overall responsibility for managing the compliance risks at the bank.

C. Members of the compliance unit, especially the head of compliance, should not be placed in a functional position that involves any potential conflict of interest between their compliance-related responsibilities and any other responsibilities that the functional position may entail.

D. All members of the compliance unit should have the right and authority, within the scope of their functional duties, to access and obtain all information, records, files, and communicate with bank employees to the extent necessary to fulfill their responsibilities.



#### 2. Resources:

Compliance Department's function requires that it shall have all resources necessary to carry out its responsibilities effectively. The specialized skills of compliance staff with respect to laws, rules and standards can be acquired through ongoing learning and training. Therefore, it is essential that resources of compliance function are adequate and suitable to ensure:

- Ideal control of risks that may emerge in bank.
- Compliance staff shall have the necessary qualifications, experience and personal qualities that enable them to carry out their compliance duties.
- Compliance staff should have a full understanding of compliance laws, rules and standards and their impact on bank's operations.

Responsibility for providing necessary financial, human and technical resources rests with the chairman of board or his deputy.

### 8.2.3 Compliance Officer:

#### 1. Qualifications, Characteristics and Capabilities of Compliance Officer:

Compliance officer should be highly competent and have vast experience in banking business as well as the ability to understand compliance monitoring.

A. Qualifications:

Whoever is entrusted with the responsibility of a compliance department should have, as a minimum, the following qualifications:

- Hold a university degree or a relevant professional certificate.
- Extensive banking experience.
- Expert knowledge of all bank's related transactions, instructions and laws.
- Experience and capability in developing and applying relevant policies and procedures, including the capacity to train employees in the area of compliance with regulations.
- Good command of Arabic and English.
- Experience in administrative supervision, control, and audit.
- Good knowledge of AML/CTF mechanisms.

B. Personal Characteristics:

Compliance officer must have the following personal characteristics:

- Integrity and honesty.
- Attentive mentality.
- Neutrality and autonomous opinion.
- Good conduct and courtesy.
- Persuasion and confrontation

C. Personal Capabilities:

Compliance officer should have the following leadership and technical capabilities:

- Ability to deal with all departments of the bank, solve problems and take proper actions when issues arise from a conflict between practical plans and statutory restrictions, or a conflict with by-laws of the bank.
- Capacity to plan and organize in order to establish communication channels and provide advice necessary for the purposes of developing compliance plans.
- Exceptional communication capabilities to build and maintain good relations with the bank's departments and control and supervisory bodies.

## 2. Roles of Compliance Officer:

BOD shall appoint an executive director to discharge compliance duties in order to assist BOD and senior management to ensure application of compliance rules and addressing of non-compliance issues. Compliance Director shall have sufficient powers and support so as to perform his responsibilities and assume the following responsibilities:



- Provide advice and guidance on application and optimal interpretation of applicable laws and regulations.
- Develop regulatory compliance policy and provide guidance on development and implementation of internal policies and procedures covering controlled activities.
- Provide training and raise awareness for management and employees regarding applicable regulatory compliance requirements.
- Implement and maintain regulatory compliance monitoring program to provide senior management with reasonable assurance that relevant business departments are adequately managing the underlying control risks.
- Provide senior management with and report regular and accurate information to BOD, in addition to communicating critical matters, violations and concerns.
- Coordinate with other control and risk management functions such as Internal Control, as well as coordinating business carried out by those functions.
- Determine future aspects of development and change in the regulatory environment and their potential impact on bank's business.
- Support senior management in establishing and maintaining good relations with regulatory authorities. Compliance Director usually serves as the focal point of contact with regulatory authorities

− Assist in the development of a robust internal compliance culture by promoting advantages of regulatory compliance function, ethical approach and robust cultural standards in all business conduct within the bank.
− Review all forms and contracts used by all bank's departments, as well as marketing and advertisements materials to ensure conformity with Compliance rules and instructions.
− Review all bank's existing and new products and services and ensure conformity with all SAMA's instructions.
− Cooperate with all exchange center's departments, external auditors and SAMA regarding rules and instructions contained in relevant reports and ensure that necessary corrective measures are taken.
− Coordinate on compliance between SAMA/exchange center and all bank's departments, internal and external auditors.
− Prepare and present a comprehensive annual report to Board Chairman, Audit Committee, Compliance Committee and SAMA.

## 8.3 Compliance Rules for banks Operating in KSA:

Learning Objective:

5. Getting familiar with compliance rules, which banks must ensure their application and observance.

According to Compliance Manual issued by SAMA, below are compliance rules which the bank shall ensure application thereof and compliance therewith:

1. Supervisory, controlling and financial laws and regulations applicable to the banking sector and their rules of application, circulars and instructions, such as:
   - The Banking Control Law and Rules for its Enforcement.
   - Anti-Money Laundering Law and its Implementing Regulations.
   - Currency Law and Anti-Forgery Law
   - Guidelines and Instructions related to bank operations and financial statements.
   - Safety and Security Manual.
   - AML/CTF Manual
   - Anti-Fraud and Financial Embezzlement Law
   - Internal Control Guidance Manual.
   - Guide of Secure online Banking Services.
   - Requirements for Appointment in Senior Positions.
   - Controls for Addressing Complaints.
   - Currency Reproduction Controls in Saudi Arabia.
   - License Disclosure Instructions.
   - Minimum requirements to be met in banks' headquarters.
2. Laws, Regulations and Rules issued by other competent Government authorities such as Companies Law, Capital Market Law, Foreign Investments Law and Regulations and companies by-laws, etc.
3. Principles issued by the Basel Committee on Banking Supervision pertaining to Compliance, any other papers, reports, resolutions or recommendations issued by the Financial Action Task Force (FATF).
4. Banks' by-laws issued by BOD and Executive Management.
5. Code of Ethics and Professional Conduct.

It shall be recognized that Compliance Department may not be directly responsible for ensuring the application of all compliance rules indicated above; its role shall be confined to the application of rules related to non-compliance; and to inform the bank's departments of rules which have no connection with compliance risks and it shall ensure their inclusion in the policies and procedures of those departments, and monitor and report any breaches of such rules.

## 8.4 Compliance Responsibilities in Bnaks:

Learning Objective:

6. Be familiar with inspection of main operations and procedures which fall within regulatory compliance's responsibility.
7. Provide examples of major compliance issues facing bank's employees.

Compliance starts at top levels of the bank. Good compliance will be most effective when bank's BOD and senior management set good example in business and compliance. Good compliance requires constant emphasis by senior management that a culture based on high standards of honesty and integrity needs to prevail in the bank. It shall be observed that Compliance is not only confined to Compliance Department's employees but it is the responsibility of every individual employee in the bank and must be an integral part of the bank's business and operational activities.

### 8.4.1 Responsibilities of BOD regarding Compliance:

1. Supervision and Compliance Risks Management:

In pursuance of its responsibilities, the bank's board of directors is responsible for overseeing and managing the company's compliance risks. To that end, the board should do the following:

A. Approve the bank's compliance policy.

B. Approve a formal document establishing a permanent and effective compliance function.

C. Assess the compliance program at least once a year to determine the effectiveness of the bank's implementation of compliance.

2. Effective Compliance Policy:

A compliance policy pursued by a bank will not be effective unless it promotes the compliance culture, define staff's responsibilities and penalties in case of negligence, and levels that should be reached; and unless the board of directors undertakes the following:

a. Supports values of honesty and integrity throughout the bank.

b. Establishes overall and comprehensive commitment to compliance with all relevant laws, rules and standards which should be included in the core of the bank's policy.

c. Ensures that an appropriate policy is in place to manage compliance risks.

d. Provision of adequate resources to the entity entrusted with compliance function.

e. Granting the entity entrusted with compliance function enough independence.

f. Periodically reviewing and independently monitoring the activities of the entity entrusted with compliance function by the Internal Audit Department.

g. Ongoing supervision of the efforts made for the implementation of the provisions of the Compliance Manual and the level of performance that has been realized through periodic reports, and assessment of the activities of the compliance department, and identifying weaknesses, and efforts made in training.

3. Delegation of Responsibilities and Tasks:

The board may delegate these tasks to an appropriate committee of its members or to an existing committee in which one of its directors participates (e.g. Audit Committee).

### 8.4.2 Responsibilities of senior Management Regarding Compliance:

The senior management of the bank means CEO, MD, General Manager and head of the branch for bank's branches.

#### 1. Effective Management of Non-Compliance Risks:

The bank's senior management is responsible for the effective management of the company's compliance risks. The senior management must confirm that all bank 's employees are accountable for their actions, and that appropriate remedial or disciplinary actions will be taken in case of non-application of compliance policy.

#### 2. Support and Implementation of Compliance Policy:

The bank's senior management is responsible for supporting all compliance policies in terms of application and supervision, as well as reporting to the board of directors on how compliance risks are handled.

#### 3. Responsibility for Cascading Compliance Policy:

The bank's senior management is responsible for cascading compliance policy approved by the Board. Such policy should include the following:

a. Compliance principles to be complied with by management and staff.

b. Ample explanation of procedures and processes by which compliance risks are to be identified and managed at all levels of the bank.

c. High level of transparency and clarity, making it possible to differentiate between general standards and procedures to be followed and applied by all personnel and special rules and procedures the application of which is confined only to a certain group of employees.

#### 4. Control and Reporting:

Senior management should, with assistance of compliance department, undertake the following:

A. Identify and assess main compliance risks facing the bank and develop corrective plans in case of any shortcomings in applying compliance.

B. Report to the board of directors or compliance committee of the board promptly on any material compliance failures or shortcomings.

#### 5. Support of Compliance Function (Department):

As a prerequisite for compliance, the senior management shall:

a. Establish and support a permanent and effective Compliance Department enjoying appropriate powers and responsibilities to apply and monitor Compliance functions.

b. Set all necessary measures to ensure that all levels and administrative functions in the bank can always rely on compliance department.

c. Create a climate of confidence and consistency in the relationship between the compliance department and other departments within the bank, and to develop necessary procedures and coordinate to facilitate such objective.

d. Select efficient compliance Director and staff and provide them with appropriate training.

SAMA Circular No. (42010693) dated 25/02/1442 AH indicated that all financial institutions must take necessary measures to amend their internal policies to ensure all employees in leadership positions must obtain the financial institution's approval and obtain SAMA's no-objection before approving nominations, assignment, re-assignment, appointment or re-appointment at any public or private entity, or assuming any other responsibilities e.g. membership in Boards of Directors, committees, or the like. SAMA clarified that the scope of application of Circular instructions concerns occupants of leadership positions in Senior Management only, and not including the Board of Directors.

### 8.4.3 Responsibilities of Compliance Department:

According to Basel Committee's instructions and Compliance Manual issued by SAMA, Compliance Department shall assume the following specific responsibilities:

1. Assisting Senior Management in Applying Compliance:

The bank's management shall be responsible for applying compliance. Therefore, Compliance Department's responsibility is to assist the senior management in the effective management and dealing with non-compliance risks encountered by the exchange center through the following:

- Drafting a compliance policy and getting such policy approved by the Board of Directors.
- Prepare compliance program that details responsibilities and duties of compliance directors.
- Determine regulatory requirements for each department at the bank, create a database and classify them by departments, products and services.
- Creating a database of all rules and regulations in force in all countries where it operates, classify and categorize them.
- Communicating with business administrations, senior and executive management and inform them of statutory requirements on an ongoing basis to ensure their understanding and comprehension of such rules and regulations as well as their readiness to implement the same.
- Prepare follow-up programs to ensure that bank's departments implement such regulations and instructions.
- Detect, discuss violations and agree with the violating departments on corrective plans.
- Follow up on resolving all non-compliance issues detected by regulatory authorities and Audit Department.

2. Organization:

Not all compliance responsibilities are necessarily carried out by "Compliance Department". They may be carried out by employees from all departments of bank. Compliance Director shall supervise the work of such employees by providing training and awareness raising programs for all exchange center's employees, in addition to training them on all manuals and instructions issued by regulatory authorities.

3. Consultations:

Compliance Department shall advise the senior management on compliance laws, rules and standards, and keep them informed of the latest developments in the country, region and internationally. This advisory function shall ordinarily involve Compliance personnel working closely with bank's departments and supporting them in the daily operations.

4. Guidance, Education and Training:

The creation and dissemination of a compliance culture within the bank is an essential pillar for efficient and effective application of compliance. Compliance Department shall therefore assist senior management in:

- Preparing an educational, awareness raising and training program on compliance for all senior management members, directors and employees who can be entrusted with application of compliance.
- Preparing a written manual to bank's employees on appropriate implementation of compliance laws, rules and standards.

5. Identification, Measurement, Assessment and Follow-up of Non-Compliance Risk:

Compliance Department shall, on a pro-active basis, identify, document and assess non-compliance risks associated with bank's activities as follows:

**a. Identification of Risks:**

Compliance Department shall, on a pro-active basis, identify, document and assess non-compliance risks associated with the bank's activities (legal, reputation and strategy risks or others). This includes the development of new products, services, business practices, new types of business or customer relationships or material changes in the nature of such relationships. This also includes preparing a log of potential risks resulting from failure to implement instructions and laws and define probability of such occurrence and impact on the bank.

**b. Measurement of Risks:**

Compliance Department shall consider ways to measure compliance risk (e.g. performance indicators) in terms of quantity and quality and use such measurements to enhance non-compliance risk assessment. Data processing technology software can be used in developing performance indicators that may be indicative of potential compliance problems (e.g. an increasing number of customer complaints or a rise in fraudulent cases, etc.)

**c. Assessment of Risks:**

Compliance Department shall assess the appropriateness of the bank's compliance policy, as well as policies and procedures manuals, promptly follow up any identified shortcomings, and, where necessary, make proposals for amendments, and urge departments to make amendment proposals.

**d. Monitoring Risks:**

Compliance Department shall continuously monitor and test compliance by testing sufficient samples and submitting reports on quality and appropriateness.

## 8.5 Compliance Manual for Banks Operating in KSA:

Learning Objective:

8. Getting familiar with Compliance Manual for Banks Working In Saudi Arabia and aspects to be taken into account when preparing compliance manuals.

According to the Compliance Principles for Banks and Commercial Banks operating in the Kingdom of Saudi Arabia, issued in September 2020, the Compliance Policy refers to the policy adopted by the bank's board of directors and the head of the foreign bank branch. It outlines and clarifies the comprehensive responsibilities of compliance, the authority of compliance management, the core principles, pillars, and methodology that the bank follows to manage non-compliance risks.

When preparing the Compliance Policy, the following aspects must be considered:

- The Compliance Policy should encompass the compliance requirements set and adopted by the bank in its internal policies. It should articulate the responsibilities of compliance, the role of the compliance management at the center, and the duties it is entrusted with. It should also outline its relationship with other supervisory units and various business sectors of the bank. Additionally, the policy should elucidate the methodology the bank follows to maintain its license.
- The Compliance Policy should describe the role played by the compliance management and the scope of its regulatory rules. This includes the code of professional conduct that the bank's employees are expected to adhere to continuously. This involves systems of dealing, conflict of interest resolution, complaint handling, investment practices, confidentiality, and prevention of bribery.
- The policy must be continuously updated and made available to all employees on the internet.
- All new employees are required to sign an acknowledgment stating that they have read and understood the Compliance Manual and are prepared to implement its provisions.

## 8.6 FIs Governance in KSA:

Learning Objective:

10. To be familiar with governance principles of FIs operating in KSA.
11. SAMA and CMA's role in promoting the general frameworks of effective governance for financial sectors

The Central Bank issued the core principles of governance for financial institutions subject to the supervision and regulation of the Saudi Arabian Central Bank in June 2021, in line with internationally recognized best practices. The members of the Board of Directors of any bank must apply such Principles, in addition to understanding the related risks. They should ensure that capital adequacy ratios and provisions are commensurate with the size of risks and levels of liquidity and lending, thereby maintaining rights of depositors and other stakeholders.

### 8.6.1 Importance and Benefits of Governance of Financial Institutions:

Corporate governance has become one of the most important concerns in the business world. Corporate governance is a key element in improving economic efficiency and growth, as well as enhancing investor confidence. Corporate governance involves a set of relationships between company management and its Board of Directors, shareholders and other stakeholders.

Corporate governance is concerned with the way in which business and affairs of financial institutions are managed by Board of Directors and senior management, particularly regarding the following:

- Setting bank's strategy and objectives.
- Maintaining the interests of clients, shareholders and investors.
- Promoting disclosure and transparency.
- Non-conflict of the bank's activities with the rules, regulations and instructions of the supervisory and regulatory authorities.

FIs Board members should realize that working in the banking sector is different from working in other sectors, due to the following reasons:

1- The financial sector has high-ratio, more complex risks and more difficult to understand for investors and sometimes Board members.

2- The financial institution bears obligations towards its clients, and size of such obligations as well as risks when handled by weak internal control systems may lead to financial crises.

Corporate Governance Principles of banks and FIs aim to assist banks in enhancing their general frameworks for effective governance and management, in addition to assisting Board members and senior management in supervising activities of FI, whether a bank or exchange center. Good governance principles bring many benefits, the most important of which are:

- Improving operational efficiency and assisting in decision-making process.
- Attracting foreign investments.
- Building or restoring confidence among key stakeholders.
- Enhancing relationships with borrowers.
- Increasing the financial markets stability and contributing to economic growth and employment.

### 8.6.2 Key Principles of Governance in FIs:

According to the core principles of governance for financial institutions subject to the oversight and supervision of the Saudi Arabian Central Bank, issued by the Central Bank in June 2021, Principles of Corporate Governance have gained international importance after the issuance of guidance instructions on corporate governance by a number of competent entities and organizations, which have been accepted as an international benchmark. These entities include:

- Basel Committee on Banking Supervision (BCBC).
- Organization for Economic Co-operation and Development (OECD)
- Islamic Financial Services Board (IFSB)
- The World Bank (WB)
- International Association of Insurance Supervisors (IAIS)
- Committee on Payments and Market Infrastructures (CPMI)

The main principles of governance can be briefly reviewed as follows:

1. Qualifications of Board Members:

Board members should be qualified to perform the tasks entrusted to them. They should have a clear understanding of their required role and be able to exercise sound and objective judgment on all affairs of the bank. They "collectively" should have a mix of professional, practical and man agerial skills, financial experience, high reputation and competence, integrity and ability to oversee, follow up and direct the bank to achieve its strategic goals.

Board members should possess a high level of knowledge, experience and skills, in addition to continuous desire to learn and develop. Qualifications of the members should include the following character traits:

A. Leadership: A member should have leadership skills and the ability to delegate powers, leading to enhancing the performance and applying the best practices in the field of effective management.

B. Independence: The ability of the member to be neutral and objective in decision-making without undue influence from management or from other external entities.

C. Competence: It is reflected by the level of education, training, skills and desire to continue learning, as well as diversified experience of no less than ten years in different areas related to management, economics, accounting and banking.

D. Guidance: The ability to provide strategic guidance, long-term planning and a clear future vision.

E. Financial Knowledge: The ability to read and understand financial statements and reports as well as ratios used to measure performance.

F. Health: The member should be in good health and be able to carry out his duties.

2. Composition, Appointment and Board Affairs:

The Board should set out and ensure clear lines of responsibility and accountability at all levels of the bank. There must be a strict separation of responsibilities at the level of the senior management. Board members shall choose a non-executive Director as the Chairman of the Board of Directors, who must ensure a fair representation of independent and non-independent Directors according to the bank's size and activities.

3. BOD responsibilities:

BOD shall oversee the business of the bank, including approving and overseeing the implementation of the bank's strategic objectives, and approving risk strategy, corporate governance rules and principles of professional conduct. BOD is also responsible for supervision of senior management. Board members shall carry out the tasks and responsibilities entrusted to them by ensuring that adequate policies and procedures for supervision and control of the bank's performance are in place.

### 4. BOD Committees:

BOD shall set up an appropriate number of committees according to FI size and activities, in order to be able to perform its duties in an effective manner and obtain opinions and advice from specialists in these committees. Among the special committees that BOD shall establish are:

A. Audit Committee: It is responsible for ensuring compliance with laws and overseeing the bank's transactions, and it should ensure that a control system is in place and the financial data reported are accurate and fair.

B. Nomination and Compensation Committee: Shall be concerned with searching for and recommending nominees for selection as executive and non-executive Directors, determining an incentives system and approving of compensation.

C. Executive Committee: BOD shall determine powers and responsibilities of this committee.

D. Risk Management Committee: Shall be concerned with assisting BOD in supervising credit risk management and assuming other related responsibilities that may be assigned thereto by the Board.

### 5. Rights of Shareholders:

The corporate governance principles followed should protect and facilitate the exercise of shareholders' rights, contribute to providing effective channels for communication with shareholders and ensure the equitable treatment of all shareholders, including minority holdings, encourage greater shareholder participation at the meetings of the Ordinary General Assembly, and present proposals relating to the bank's performance and enhance the development of its operations.

### 6. Disclosure and Transparency:

The disclosure and transparency principle shall be applied on all operations and activities of the bank. BOD shall publish all financial and non-financial information which concerns depositors, shareholders, investors, market dealers; such information shall be provided to regulatory and supervisory entities and other concerned parties.

In addition to the aforementioned key principles, SAMA issued over the past years a set of guidelines and instructions related directly or indirectly to principles of corporate governance, including Internal Controls Guidelines, KYC principle, AML/CTF laws and rules, Anti-Fraud Regulation and a Code of Professional Conduct for employees. Board members and executive management should read and ensure compliance of the bank with all instructions and guidelines issued by SAMA and other relevant bodies, whether local or international.

# Chapter Eight

## Revision questions:

## Answer the following questions and check your answer in the corresponding section:

1. Explain what is meant by compliance in financial institutions?

   **Answer: A reference: section 8.1.1**

2. "Compliance function in FIs is one of the fundamentals and factors of success" Explain the Phrase and Clarify the Role of Compliance Function in Preserving Reputation of bank and Interests of Customers and Shareholders.

   **Answer: A reference: Section 8.1.2**

3. Briefly explain risks of non-compliance and its impact on bank?

   **Answer: A reference: section 8.1.4**

4. What are the principles that must be adhered to when establishing a compliance department for a bank?

   **Answer: A reference: Section 8.2.2**

5. Explain the role of compliance officer to ensure application of compliance rules?

   **Answer reference: 8.2.3 Paragraph (2)**

6. List the responsibilities of the Board of Directors and the Executive Management regarding compliance?

   **Answer: A reference: Sections 8.4.1 and 8.4.2**

7. Explain How Compliance Department Identifies, Measures, Evaluates and Follows-up Non-Compliance Risks in banks.

   **Answer: A reference: section 8.4.3**

8. Explain significance and benefits of corporate governance of banks.

   **Answer reference: Section 8.6.1**

9. Briefly explain the main principles of governance in financial institutions?

   **Answer reference: Section 8.6.2**

# Chapter Nine

## Defining and Describing the Concept of Fraud and Its Impact on Retail Banking Services

This chapter includes 8 questions out of 100 questions in the exam

# Introduction:

Financial crimes in general and financial fraud in particular, are among the most serious crimes committed nowadays due to its negative effects on the financial sector and the economy in general. One of the most serious types of financial crimes is the ones that can be committed through banks on products, services, distribution channels and other activities provided by the bank. Therefore, banks' employees and Risk and Compliance Officer shall ensure identification of all potential financial crimes that may be committed by or through their bank, so that they can manage the associated risks.

## 9.1 Basic Concepts of Fraud in Retail Banking Sector:

Learning Objective:

1. To be familiar with the definition of fraud and its examples in the financial services sector.
2. To understand fraud indicators and common misconceptions.

### 9.1.1 Definition of Financial Crimes:

There is no single internationally agreed upon definition of financial crime, and the term is defined differently in various countries. In some contexts, it is widely defined as any crime that results in financial loss, but it is more common to refer to crimes that have a special connection with the financial sector, for example:


Figure (9.1) Types of Financial Crimes in Banking Sector



The continuous development of banking services, expansion in technologies used and acceleration of technology development in the banking sector has provided a fertile ground for financial crime and its perpetrators. Along with this development, various types of financial crimes have grown. It is very clear, from the degree of fraud risks faced by banks and their customers with regard to the financial cost and harm to their commercial integrity, that banks shall make every appropriate effort to reduce their exposure to fraud.

### 9.1.2 Definition of Fraud:

Fraud is one of the challenges facing financial institutions. It hinders performance, wastes scarce resources, and harms the institution's reputation and competitiveness. Financial fraud is any action aimed at gaining illegitimate advantage by exploiting technological, documentary, relational, social, functional, or regulatory means, intentionally neglecting or exploiting weaknesses in systems or control standards, whether directly or indirectly.

The actual loss of banks due to fraud is usually connected with liquid assets, such as cash and securities". Fraud is not necessarily limited to obtaining cash money and tangible benefits.
Fraud definition as stated in the dictionary is "a deliberate distortion of a fact to entice someone to waive something valuable or a legal right".
This definition includes a financial gain in addition to other benefits, such as the right to have access to or obtain information by deceit or any other dishonest conduct. Whether the loss is material or related to an intangible benefit such as intellectual property rights, fraud usually involves a loss to the bank, its shareholders or customers and an attempt to hide this loss.
Fraud can also be defined as "the act of deception with the intent to obtain an illegal benefit". This definition includes:

- Theft or deliberate misuse of banks' assets.
- Any suspicious or fraudulent act
- Miscalculation or generating false data to obtain a benefit (e.g. an employee asking for undue bonus, or a supplier providing false invoices for settlement).
- Giving or accepting gifts with the intent to influence decisions or actions of another person.
- Exploitation of the name or authority of a bank for personal benefits.
- Destruction, deletion or misuse of records.
- Unauthorized disclosure of information obtained during the course of work with the bank.

Types of fraud do not stop at monetary-related benefits, but extends to money, goods, information and even services. Benefits could be current or future, and may be obtained through another person such as relatives or friends.
Financial frauds may be committed by persons working outside (third parties), inside (employees) banks, or through conspiracy, involving accomplices (employees) working in favor of others (third parties). Various surveys conducted over the past years have indicated that the main threat facing financial institutions, come mostly through internal fraud, i.e. Well-informed persons, particularly employees or managers, as they have access and knowledge of systems.

### 9.1.3 Causes of Fraud:

There are many reasons behind prevalence of fraud, inter alia:

- Absence of religious ethics and morals of the perpetrator.
- Desire to gain easy money and high profitability through such acts.
- Weakness of sanctions law applicable to fraudsters.
- Lack of personnel qualified enough to detect fraud.
- Measures taken against commercial frauds take so long.
- Fragile oversight and inspection systems.
- Wrong justifications for fraud acts.



### 9.1.4 Seriousness of Financial Frauds and Importance of Combating:

Fraud is one of the most serious crimes on the financial and banking systems, especially after being committed in an organized manner through wide networks, threatening almost the economic and commercial relations among big businesses around the world. This urged European countries to call for necessity of respecting economic business ethics by officials and entrepreneurs, as well as the need to set an ethics charter to mitigate such crimes, particularly after the spread of corruption, bribery, material and managerial frauds. Fraud crimes are also attributed to the following:

- Rapid development of fraud techniques, as the rise of e-transactions in banks and exchange centers have increased fraud operations through computers.
- The increasing losses caused by fraud, as there are crimes that led to collapse of large financial institutions and caused heavy losses. Accordingly, most countries was forced to develop preventive policies to confront such crimes, since if such crimes are detected post facto, it is difficult to return the defrauded funds, which caused heavy losses.

## 9.2 Most Common Types of Fraud in in Retail Banking Sector:

Learning Objective:

> 3. To be familiar with all types and forms of fraud in money exchange and transfer centers

Financial fraud is one of the major risks facing societies in countries all over the world, though differencing in unethical and illegal methods, techniques, results or practices (e.g. theft, bribery, fraud and manipulation) afflicting society in different ways. There are many types of fraud in banks, which can be categorized as per many aspects as follows:

- Means used to commit fraud (material or electronic fraud).
- Fraudster (outside or inside exchange centers, conspiracy between employees and third parties).

### 9.2.1 Types of Fraud According to the Means Used:

1. Material Fraud (Traditional):

Types, nature, and forms of fraud vary as per the provided service. A bankrendering various and numerous services to its customers may easily encounter fraudulent acts committed through material ways. Generally, all services and operations carried out by banks may be exposed to fraud. We touch on main services rendered by financial institutions and common fraud operations it may encounter:

**a. Credit Card Fraud:**

Credit card frauds succeed due to fewer chances of arresting its perpetrators and impunity. However, the innovation of "Chip and PIN" technology in many countries has enhanced card security at POSs in many jurisdictions, but it entailed increased cases of "card-not-present fraud". There are many different types of credit card fraud schemes, including selling cards to thieves, unauthorized use of credit cards by family members and email interception fraud.

- Unauthorized use of a lost or stolen card:

  Fraudulent act usually appears during the hours while the card is lost or stolen before most victims call to report the loss. Victims increasingly do not realize that their credit cards have been used fraudulently until they receive their monthly statement.

- Skimming and Pasting:

  Any single or multi-symbol number is cut from the card surface and other symbols are affixed to the card surface. This is done to place a completely different, but correct, account number or to change the name on the card.



**b. Documentary Letter of Credit (LC) Fraud:**

Most documentary credit frauds originate from international trade and contracts. Beneficiaries of documentary credits may commit fraud by using forged or fraudulent documents submitted to the issuing bank along with a payment request. However, the documents must comply with the terms of the letter of credit agreement. This fraud fundamentally relies on widely accepted practices in trade finance to facilitate global trade, particularly in the field of maritime finance.

**c. Accounting Fraud:**

Falsification of accounting is the intentional preparation of financial statements for an account, where its perpetrator knows well that it is falsified. In most common jurisdictions' laws, falsification of accounting is considered a form of fraud. Falsification of accounting has drawn more attention following Enron's financial accounting scandals. Enron (2002).

## 2. E-Fraud:

State-of-the-art technologies utilized in banking sector have improved performance and enhanced productivity. Simultaneously, such technologies triggered new forms of crimes arising from exploitation of such evolution, notably, manipulation and fraud in banking operations with the intent to misappropriate funds of certain persons who deal with banks.

It might be said that fraud has further been facilitated by the wide spread of cheap and easily obtained PCs and other relevant technologies of high capabilities. The current documents' technologies, such as scanners, laser printers, different Xerox copying machines and programs, have allowed the commitment of forgery acts that are difficult to be detected. Using the internet for banking activity also exposes banks to new risks. Skillful fraudsters, who use latest technologies and deeply know the underlying deficiencies of internal control procedures at banks, represent an increasing danger of cybercrime.

**A. E-Transfer Interception Fraud:**

Common e-transfer fraud activities include:

• Dishonest Bank Employees

Authorized personnel who have access to validated account credentials can transfer funds in an illegal way, as well-informed staff can electronically transfer funds to themselves or to interested parties.

•Cracking System Password:

Authorized persons who have access to sensitive account credentials and daily codes for a specific period may conduct illegal transfers through unauthorized access.

• Fake Authorization:

Illegally obtaining or forging verbal and written authorization of banks' officials and customers, as perpetrators forge orders to transfer funds to their own accounts while the original recipient's account is actually in the name of another person.

• Unauthorized Access and Broadcast Signals Intrusions:

Unauthorized persons gain access to e-transfer rooms and equipment, and may intercept and switch the actual broadcast.

B. Prevent and Detect E-Transfer Fraud:

Banks shall ensure application of the following preventive measures when transferring funds through e-transfer:

• Provide customers with unique keys as required to authorize or request completion of e-transfers.

• Maintain and update lists of employees authorized to carry out e-transfer transactions, especially when some employees are separated.

• Review audits for incoming and outgoing e-transfer transactions, and record details of officials responsible for each part of such transactions.

• Review all e-transfer transactions at the end of each day to ensure that main transfer instructions are properly followed.

• Ensure contacting the commercial banks to which funds have been transferred to validate request for balance transfer. If commercial banks are contacted over the phone, used phone numbers shall be the same as the original numbers that customers specify when opening their accounts, and not phone numbers specified by callers who request to complete transfers.

• Not to conduct e-transfer based only upon instructions sent by fax, but shall be verified again by calling the original phone numbers previously specified by customers when opening their accounts, and not numbers specified by callers who request to complete transfers.

• Match all accounts involved in e-transfer by bank employees who are not engaged in such e-transfer process.

• Ensure that internal e-transfers manual is only available to authorized persons, and is secured when not in use.

- Record all incoming and outgoing calls with respect to e-transfers instructions.
- Examine IDs of persons applying for e-transfer as well as relevant employees to assess risks accordingly.
- Ensure that banks' employees do not disclose sensitive information over the phone except after validating caller identity and authorization based on customer's data file.
- Separate duties of e-transfer staff who send/receive balance requests, and they shall not validate the transactions. Such employees shall not check the accuracy of transactions.
- Train employees on appropriate internal control, fraud combating techniques and importance of information protection.

### 9.2.2 Types of Fraud According to Fraudsters:

Fraud operations vary based on fraudster, whether from inside or outside the bank, as follows:

- Frauds committed by persons from outside the bank.
- Frauds committed by persons working in banks (employees).
- Conspiracy by banks' staff in favor of third parties.

#### 1. External Fraud (Frauds Committed by Persons from Outside Banks):

External or as commonly referred to as "Consumer Fraud" is a fraud committed by individuals from outside banks (usually professional criminals). There are several forms of external:

- Counterfeiting or forging documents, including IDs, ATM or credit cards.
- Forging signatures and stamps.
- Forging cash money.
- Entering inappropriate directions and data in PCs.
- Transfer of money to illusory customers.
- Obtaining through fraud documents or benefits that a receiver has no right to obtain.

#### 2. Internal Fraud (Frauds Committed by Persons Working in Banks):

Such operations are carried out by employees of the bank, whether senior managers or subordinate staff. It was found that subordinate employees in most cases deceive for personal reasons such as the desire to gain money. On the other hand, senior employees or senior managers deceive in a more complex way and for reasons related to banks. For instance, the bank may go through a difficult or critical period, so they try to change numbers in the balance sheet to better values so as to enhance the bank's reputation to keep running center's business and save their jobs.
Frauds committed by banks' employees may include the following:

- Robbing banks' assets, commonly by embezzling from the petty cash.
- Using forged transfer orders through PCs and transfer of amounts from customers' accounts to their accounts or partners.
- Practicing non-delegated powers by a perpetrator (i.e. employee) by knowing signatures of all officials in the bank and exploiting such signatures to conduct some operations that do not fall within his/her powers in order to forge his/her officials' signatures.
- Accepting bribes, gifts or secret commissions to provide benefits or ignore applicable measures.
- Misusing and leaking information available for an employee in an illegal form.
- Accounting fraud by intentionally making wrong entries every day or preparing forged financial statements, while the perpetrators are aware of such forgery.

#### 3. Conspiracy of Banks' Employees with Third Parties.

Such conspiracy has many forms, but generally, it may be defined as any cooperation between banks' employees and a third party, which enable the latter to know secrets or work-related information of such bank. Then, such third parties exploit such information to achieve a fraudulent objective against such bank.

## 9.3 Fraud Combating and Prevention Techniques:

Learning Objective:

4. To be familiar with techniques to combat fraud and the role of banks to combat fraud.
5. To look into modern tools and techniques to prevent fraud in banks' operations.

The Saudi Arabian Central Bank issued the Anti-Financial Fraud Guide for banks and financial institutions operating in the Kingdom of Saudi Arabia in August 2020. This guide replaces the embezzlement and financial fraud prevention guide and supervisory guidelines issued in 2008. It is essential for every bank to develop a comprehensive plan to combat fraud, addressing all aspects of fraud. The Anti-Financial Fraud Guide proposes nine essential conditions for the development of an effective fraud prevention plan for Saudi banks, based on a review and adoption of the best international practices in this field. The suggested nine conditions are as follows:

1- The Strategy of Fraud Combating and Control Policy.
2- Regulatory Framework and Responsibility Structuring
3- Assessment of Fraud Risk
4- Promoting Awareness of Fraud
5- Control Procedures
6- Control & Follow-up Process
7- System of Notification of Fraud
8- Investigation Standards
9- Code of Conduct and Disciplinary Measures

The bank shall bear the responsibility of developing and following up procedures, standards, systems and operations necessary to meet such requirements properly, as a part of continuous operation for such bank to combat fraud. The following parts briefly address and set specific guidelines for each requirement:

### 9.3.1 The Strategy of Fraud Combating and Control Policy:

Each bank shall have a comprehensive and integrated written policy for fraud combat and control. This policy shall draw all procedures and measures appropriate for bank concerned, along with a wide range of complementary anti-fraud procedures. The policy must adopt the risk management method to combat and control fraud. The main purpose of the policy is to promote awareness and compliance among employees, determine bank's departments in charge of combating and controlling fraud, and applying the various aspects of combating and controlling fraud plan.

Application Guidelines:

- The bank must lay down and promulgate a written policy for fraud combat and control; and it should be circulated to its staff.
- This policy must clarify objectives behind fraud and corruption combat, policies and procedures thereof.
- The policy can be presented in one document or in a set of booklets, instructions, circulars, and guidelines which generally explain the elements of bank's strategy.
- The policy must be based on bank's risk analysis in terms of its internal and external environment and it should adopt the method of risk management.
- The policy must be comprehensive and integrated to cover bank's essential functions and activities without any conflict between independent elements.

- The policy of fraud combat must define in details the members of the fraud combat committee, its business scope and purposes. The committee consists of senior officers from bank's various departments.
- Executive officials must set a good example of integrity regarding compliance with the essence and provisions of the policy of combating and controlling fraud. They must also realize that they are responsible and accountable that would help in thwarting fraud and encouraging notification of any violation of acceptable standards.
- The bank must designate sufficient staff members and resources to ensure the success of the policy of combating and controlling fraud.
- All employees must be aware of their responsibilities regarding the combat, detection, and notification of fraud.
- It is necessary that the operational levels participate in drafting the policy of fraud combat to determine potential areas where corruption may take place and how it can be minimized.
- The policy of combating and preventing fraud must be updated in so far as to reflect developments in the bank and its operational environment. For this purpose, the policy must be periodically reviewed, at least every two years; or whenever changes occur in the operational environment which may weaken the capacity of such policy to combat and control fraud.

### 9.3.2 Regulatory Framework and Responsibility Structuring

A comprehensive and effective regulatory framework as well as a structure of responsibilities must be developed to execute the comprehensive policy of fraud control approved by bank, partially by application of sound domestic control systems. A fraud control committee must be formed to lay down the policy, coordinate and follow up its application, and provide the necessary support to its chief executive. All levels of management must be involved in the implementation of this policy.

**Application Guidelines:**

- The regulatory responsibility for adopting the bank's comprehensive fraud-combat strategy and each of its elements must be clearly determined and bank's management and employees must be informed so.
- There must be an independent committee concerned with fraud combat and control in banks, to undertake the following:
  - Lay down, coordinate and follow up the policy of fraud detection and investigation.
  - Clearly define responsibilities for fraud control process.
  - Apply a straightforward mechanism for notification of fraudulent acts.
- Roles and responsibilities of all employees must be documented clearly in the policy for combating and controlling fraud, together with procedures to be followed when suspecting a fraudulent act.



**A comprehensive and effective regulatory framework to implement the policy of fraud combat and control shall consist of:**

**A. Management Responsibilities**

The bank's management is responsible for fraud combat. Therefore, it clearly bears the responsibility for laying down and determining the regulatory responsibility for fraud combat and prevention.

**B. Fraud Control Committee:**

A fraud control committee plays a major role in setting a policy to combat fraud; and should ensure that policies, measures and procedures included in the comprehensive strategy for fraud control are applied effectively, provided that the mission of fraud combat and control shall not be confined to this committee. Rather, all levels of management and employees must be properly involved in developing and continually following up fraud-combat policy.

**C. Fraud Investigation Unit:**

The Fraud Investigation unit's role shall be to investigate potential fraud cases against bank.

This responsibility shall include collecting and presenting the necessary evidence to support administrative, disciplinary, or other measures such as prosecution and recovery of the funds subject of the fraud operation.

**D. Combating and Detection:**

It should be ensured that an effective system is in place for controlling fraud, which should firmly control risks of fraud by detecting, tracking and controlling fraudulent acts to take prompt actions to reduce the potential fraud losses and maintain confidentiality.

**E. Employees' Responsibilities:**

In compliance with bank's fraud-control policy, employees must familiarize themselves with the concepts and responsibilities of fraud control. The staff shall take sound financial, legal and ethical decisions during their daily duties and responsibilities and accept the responsibility of fraud control in their field of work.

### 9.3.3 Assessment of Fraud Risk:

Fraud is part of the operational risk. To ensure whether the management has the necessary information to address fraud, a periodical structural review must be conducted to assess fraud risk, including all functions and operations of bank.This review must address both internal and external fraud risks, and determine the level and nature of exchange center's exposure to fraud risks.Thus, the management can decide the anti-fraud measures it deems necessary.

Application Guidelines:

The assessment of fraud risk must be reviewed periodically and it should include all functions and operational units in the bank, provided that this review should address both internal and external fraud risks to determine the level and nature of bank's exposure to such risks. The fraud risk assessment process usually goes through several stages, as follows:

- Determining the major jobs at the bank.
- Assessment and classification of the general nature of each work field and to what extent it is susceptible to fraud.
- Identification the specific forms of fraud risk in each field.
- Assessment of the possible occurrence of specific risks in light of the counter factors, such as internal controls.
- Assessment of the potential impact on bank as a result of the occurrence of specific risks.
- Suggestion and development of strategies to minimize or eliminate specific risks.
- Risk minimization can be decreased by assigning a certain person, committee or a specific group inside bank to be responsible for each strategy.
- Detailed timetable must be found for each item requiring a certain measure.
- Process of fraud risk assessment must be recorded and documented properly for future reference and accountability purposes.

### 9.3.4 Promoting Awareness of Fraud:

Management should realize that an employee's contribution to fraud prevention is fundamental, and most cases of fraud will not be discovered or monitored without the cooperation of employees.To increase employee awareness and enhance the bank's commitment to combating corruption, there is a need for a series of ongoing initiatives to present fraud prevention, detection, and reporting issues to all employees.Training on monitoring and combating fraud should be a mandatory component of employee training. On the other hand, there is a need to raise awareness among customers that fraud against the bank is unacceptable, and perpetrators of fraud will be reported to the relevant authorities.

**Application Guidelines:**

**A. Promotion of Employee's Awareness**

To draw the attention of all employees to the issue of combating, controlling and notifying of fraud, a cohesive awareness program should be established. Such program shall consist of mind-sets to promote awareness of fraud. It shall utilize, as possible, real-life examples from actual cases, whether in bank or other banks.

**B. Promotion of Customer's Awareness**

A customer plays an important role in helping detect and combat external fraud. To this end, he should support and provide information on fraudulence acts by promptly notifying of such crimes. Annual reports and newsletters would help the customer to be always informed of the status quo. Periodical information and advertising campaigns can also be used to inform the public of the types of fraud against banks and the ways of detecting them.

**C. Promoting Awareness of Concerned Parties:**

Bank should always enhance the understanding of concerned parties with whom contracts are made that code of conduct, bank's policy of combating and controlling fraud and other bank's policies and standards regarding fraud and corruption are instruments used to promote justice, integrity.

### 9.3.5 Internal Control Procedures:

Internal controls are the main instrument for combating fraud. Therefore, sound internal control regulations should be set within a framework of a written documented comprehensive policy and rules of procedure to lessen opportunities for committing fraud acts. The strategy for combating and controlling fraud should also be integrated with the inclusion of operational procedures and rules governing activities of all departments, cash handling facilities, jobs and employees.

Controls are measures used to minimize risks at work to the lowest level. They are designed to prevent, detect and redress mistakes in due course through applying the instructions related to the following:

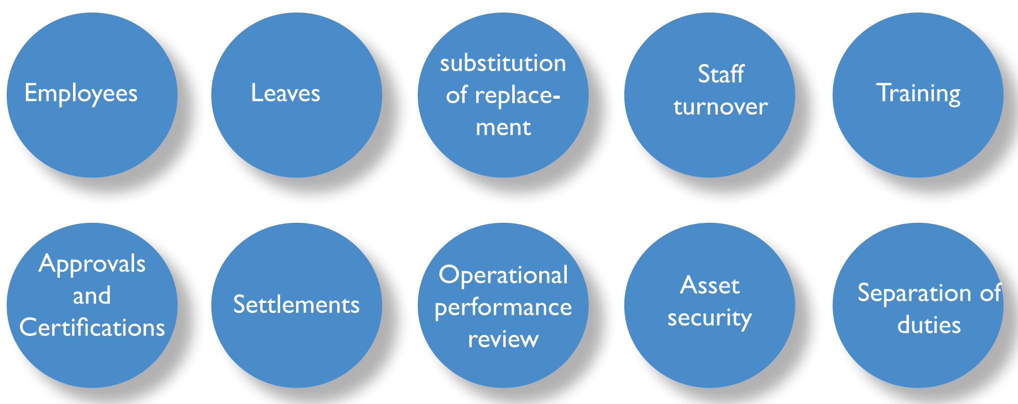



Figure (9.2) Elements of Internal Control Procedure Application



**Controls can be classified as follows:**

A. Preventive controls: to prevent the occurrence of unfavorable incidents: passwords.

B. Detection controls: to detect and remedy unfavorable incidents which have already occurred.

C. Guidance controls: to urge and encourage occurrence of preferred measures (e.g. Policies, procedures and code of conduct).

**Application Guidelines:**

Sound internal control regulations within a framework of a comprehensive written documented policy and clear comprehensive rules of procedure should be put into effect to lessen the opportunities for fraud acts. The strategy of comprehensive internal control should be closely integrated into the operational documents governing all departments.

**The following guidelines aim at emphasizing information on internal control procedures:**

**A. Principles of Effective Internal Control:**

Written effective internal controls shall govern the following:

- Restricted and monitored access to risky areas.
- Actual maintenance and safeguarding of valuable assets.
- Proper authorization and definition of levels of approval for all employees.
- Efficient separation of duties, especially in financial and accounting areas, and delivery and taking-over of cash or securities.
- Record of all transactions, incidents, suspected transactions and findings of investigation.
- Extraordinary or unexpected findings of investigation.
- Notification methods.
- Accountability for results at all levels.

**B. Employment Practices:**

Statistics show that the greatest risk of fraud faced by a bank is usually posed by its employees, either in or without cooperation with outsiders. The integrity of the employee is considered a prerequisite for the success of any control system. Test of integrity before contracting with an employee should be strictly made so as to have reliable and trustworthy employees. Before contracting with a new employee, it is important to ensure that he has not already been involved in fraud or embezzlement acts in a financial firm inside or outside the Kingdom, by reviewing information presented by the applicant, and making sure of its validity.

It is necessary to follow honest and ethical behaviors regularly. The following behavioral and social attitudes may be considered to detect individuals who may conduct fraudulent acts:

- Unjustified enrichment and sudden change in the style of living.
- An employee who always works after the official work hours.
- Loss of original documents and substituting them with their copies.
- Overuse of correction fluids.
- Hesitation about leave-taking.
- Refusal of promotion
- Rapid resignation of a new employee.
- Insistence of some suppliers, contractors or customers on dealing with a certain employee.

Follow-up and control methods should include the following:

- Confidentiality agreements
- Obligatory leaves
- Change of an employee's duties schedules and tasks at unexpected intervals.
- Checking accounts of an employee who is on leave.
- Employees who are relatives should not be allowed to work together, particularly in financial, accounting, cash handling or securities areas.



**C. Separation of Duties:**

This principle basically requires that jobs entailing performance of operational tasks must be separated from those entailing the enforcement of controls and supervision. Similarly, control of assets must be separated from control of documents related to these assets. The following examples are collected from different areas of work to clarify the principle of duty separation:

- The task of payroll must be separated from the other tasks of personnel affairs.
- Trading transactions at the front offices must be separated from those at the back offices. Although traders are required, for instance, to observe limits, they must be strictly controlled by the back or the middle office.
- The tasks of ordering purchase of consumable materials and equipment, and storage control must be separated from the task of keeping records and authorization to pay.

**D. Dual Control:**

As security measures (such as the use of keys, warning systems and security of cash locations) must be subject to strict dual control technologies. There must be a procedure to recover keys and other methods of entry on a periodical basis. Measures must be made on a periodical basis to ensure the replacement of keys, passwords and other instruments of dual watch.

**E. The Policy of Gifts:**

Since an employee is prone to bribery by the gifts, a written policy must be set for preventing this. This policy shall generally prohibit the employee from the following:

- Accepting any gifts, enticement or inappropriate entertainment for providing lawful or unlawful service.
- Revealing confidential or restricted official information for any enticement.
- Abusing his previous and current jobs to get differential prices for private transactions.

Cash Handling (Delivery and Takingover):

There is a number of risk exposure cases in the area of cash handling which are governed by a set of procedures. Exposure to cash risks includes activities that are related to the following:

- The cash handling procedure to tellers at the bank's branches, and to other employees working in the field of cash handling must be clear and consistent.
- The guidelines related to the seals of the teller, keys and access controls shall be followed up and evaluated regularly to ensure their ongoing effectiveness.
- Places designated for tellers shall be closed, and persons authorized to enter those areas shall be specified

SAMA Circular No. (42052701) dated 17/07/1442 AH emphasized strengthening the procedures for examining banknotes, and ensuring that all competent officers take utmost care to verify their integrity, inform security authorities immediately in case of any suspicion of any banknote, and notify SAMA thereupon.

SAMA also highlighted, through Circular No. (67/55896) dated 09/06/1440 AH, that all banks shall read and abide by the regulations and instructions on movement of cash, and the provisions of Security Safety Manual as well as the requirements for vehicles to transport cash and items of value that exceed SAR 200,000. The Circular also indicated that whoever is proven to have transferred funds or received cash transferred illegally will be subject to legal penalties.

**F. Conflict of Interests Management:**



Banks shall set and implement policies and measures to prevent and solve conflict of interests. These measures shall be documented in the employee's booklet and code of conduct. Conflict of interest arises when the banks' employees fall or seem to have fallen under the influence of personal interests during their work. Areas of potential conflict of interests shall be determined as part of assessing the risk of fraud. Areas of work at the bank where conflict of interest can occur include the following:

- Appointment of employees.
- Bids and purchases.
- Work without payment and part-time jobs.
- Gifts, benefits and entertainment.
- Dealing in securities.

**G. Protection of Intellectual Property:**

Banks and its customers' data shall be protected. The places in which these data are stored shall be protected against any internal or external risks, and only those who need such data shall be permitted to have access to them. In addition, access to those data shall be controlled by entry systems via keys, cards and secret numbers.

For security reasons, data and contingency policies stored on back-up discs and other hardware media must be stored in safe locations.

H. Information Systems Security:

The policy of combating and controlling fraud shall include a methodology or code of conduct for using computers. This security policy shall determine the standards of using computer hardware and software at banks, and it shall include instructions about using banks' internet, e-mail and permission to have access to the internet.

Proper instruments shall be used for security management to ensure integrity and confidentiality of information. "Integrity" means, in this context, that the information is accurate and protected against accidental or deliberate modification. "Confidentiality" means that the information is only accessible to those who are authorized to know it.

### 9.3.6 Follow-up Process:

The management should ensure that an independent and reliable follow-up process is in place. Internal follow-up and control activities should be enhanced by regular support from independent external evaluators, such as external auditors.

**Guidelines:**

The management must observe notes in the reports of external auditors to fix deficiencies of the control, follow-up and ensure its implementation.

**The below guidelines aim at raising awareness of follow-up procedures:**

**A. Internal Follow-up:**

Following up the internal controls shall begin immediately when the board of directors, managers and supervisors start their daily activities in the areas of supervision, inspection, control and guidance. Internal auditing represents a point of continuous focus on internal controls and periodical control of all aspects of work in banks. The internal auditor should review the adherence of the bank to approved policies and regulations and laws in force. The more the size of business, its risk, its complexity, or its geographical expansion, the more is the need for experienced, professional and skillful internal auditors with technical capabilities at the level of the relevant sectors.

It should be noted that the internal auditors could not automatically prevent fraud. They principally work as supervisors responsible for ensuring that accounting standards are being applied, the administrative procedures are implemented properly, and the bank complies with local regulations and laws. Therefore, the task of developing the work plans and operational procedures to deal with potential fraud must be entrusted to the risk management, with the help of Internal Audit and other concerned departments such as Compliance Unit. Compliance Officer is expected to give directions regarding compliance with laws and regulations related to fraud to be followed in the bank's business and procedures.

**B. External Follow-up**

External audit offices shall undertake the responsibility of evaluating the effectiveness of bank's internal controls, while SAMA assesses the effectiveness of internal control systems at banks as part of its examination program. Evaluation by external evaluators is essential to provide an independent and neutral confirmation of the effectiveness of the internal operational controls, validity of management systems, accounting controls and correctness of financial information.

**C. The Policy of Following up Control and Combat of Fraud:**

The fraud control committee must follow up implementation of the policy of combating and controlling fraud. The results of this follow-up must be reported to the senior management and the board of directors. The following performance measures represent examples of major statistical indicators, which can be used to follow up the effectiveness of banks' measures to control fraud:

- Extent of the difference between risks assessed by banks and risks assessed by external bodies.

• The difference between the effectiveness of controls evaluated by banks and those evaluated by external bodies.
• Number of big-suspected fraud cases and the number of such cases that have not arisen during the assessment of fraud.
• Number of working days from the beginning of addressing fraud cases to the time when the addressing has ended.
• Number of times of recovery of funds in comparison to the number and value of alleged fraud cases referred to investigation.

Fraud Control Committee shall provide the executive management with regular reports on statistical operations listed above and update this information at least on a quarterly basis.

### 9.3.7 Notification of Fraud System:

An official system shall be put into effect for internal notification of actual or suspected fraud. All staff must be clearly informed of the structure of the system and procedures for dealing with the notification of fraudulent acts. Mechanisms should be developed to facilitate and encourage customers or the public in general to notify about cases of suspected fraud internally and externally. An official policy must be applied to external notification of certain authorities such as SAMA and competent security authorities.

**Guidelines:**

Arrangements required will be affected by the size and structure of the bank (e.g. number and locations of branches). An accurate concentrated summary on arrangements of fraud notification should be prepared for distribution to all staff and should be published regularly on bulletin boards and in internal newsletters. Staff must be trained on the following:

• How should they act if misconduct is seen at the work site?
• What are the available internal notification mechanisms and how they work?
• What are the preventive measures to protect those using notification mechanisms?
• What are the available external notification channels?

The following guidelines aim to enhance fraud notification procedures:

**A. Channels for Notification:**

Employees' complaints and notification reports must be submitted, in general, to their immediate superior. The superior, on his part, shall submit it directly to the senior management. If the superior is the complainant, there should be an alternative channel to raise a secret report directly to the concerned member of the senior management.

**B. Protection of Notification**

Proper mechanisms and policies must be developed for supporting reporters and protecting them against reprisals as a result of their notification of fraudulent activities. This message must be delivered to employees clearly and regularly through newsletters and other means of internal communication.

**C. External Notification**

Each bank needs to set a clear official policy and detailed procedures for notification of fraudulent acts and corruption to SAMA and concerned security authorities. Notification of SAMA by a bank does not lessen its responsibility to refer fraud cases to the police or other competent security authorities such as the Financial Investigations Unit (FIU), if necessary.

As per SAMA Circular No. (41/27210) dated 05/01/1440 AH, regarding the obligation to report embezzlement and financial fraud, Security authorities and SAMA shall be informed when any fraud or embezzlement occurs in order to ensure appropriate measures are taken as soon as possible to avoid any financial losses. The Circular also indicated that the principle of transparency shall be adopted in dealings between financial institutions and relevant authorities, and fraud report form shall be filled out, while SAMA Banking Control Department shall be provided with a copy thereof.

**D. Receipt of Customers' Reports:**

Mechanisms must be developed to facilitate and encourage customers and the public in general to notify of suspected fraud cases, and external fraud. Banks shall consider the best method of how to receive complaints and reports on fraud from customers. To this end, banks can make use of their web sites.

### 9.3.8 Investigation Standards:

Staff at operation departments and those responsible for internal investigation must be provided with clear formal guidelines and procedures to ensure treatment and investigation of fraud efficiently once detected. The roles and duties of the investigation organ shall be clearly defined and explained. The standards set in force in this connection by banks must ensure rapid and efficient investigations so that in every case of suspected fraud, a decision can be taken quickly.

**Guidelines:**

The management should maintain a record of all known cases of fraud discovered and investigations conducted. The management must develop systems to follow up investigation, report its current status and results of its progress, and continuously update such systems. The management shall use reports to follow up the investigations. It is supposed that the senior management or the Fraud Control Committee should receive programmed and regular reports on status and progress of the investigations.

**The following guidelines aim at enhancing investigations standards:**

**A. Receiving a Notification of Alleged Fraud:**

The responsibilities of the person who receives a notification of suspected or discovered fraud should be defined clearly in banks' guidelines for controlling and combating fraud. All details of the notification or suspicion shall be recorded as soon as possible. Details to be registered shall include the following:

- Date and time of the notification, incident or suspicion.
- Name of the notifier, incident or suspicion.
- Nature of the notification.
- Circumstances and location of the alleged crime as well as name(s) of the accused.
- Amount of money subject of the alleged fraud.

**B. Initial Evaluation of fraud:**

The purpose of the initial evaluation of suspected fraud is to determine whether there is a ground for the notification or suspicion and the best measures to be taken. Based on the information available, necessary decision must be taken regarding the measures to be taken. The decision shall be one of the following conclusions:

- The complaint is groundless and no further measure is needed.
- The case must be referred to the Unit for Investigating Fraud Acts at exchange centers for further investigation.
- The case needs SAMA's advice, the police or any competent legal authority to judge whether the crime has been committed or not.

**C. Updating of Case Reports:**

Report on a particular case must be updated if any significant change occurs in the case or on a quarterly basis, whichever is earlier. Banks shall be responsible for updating reports of the case. Banks are not required to conduct any subsequent updating when the file is closed. Reports of the closed case must be kept for a period of five years at offices of Banks. SAMA must be informed of the closure of any case.

***D. Application of the Investigation Plan:***

Effective and efficient investigation in an act of significant fraud is a complex one, requiring specialized expertise and resources. It may need a working team of several specializations, such as information technology, accounting and law, to cooperate with the police. It is therefore important that the investigation be conducted by officials with required skills and knowledge whose skills must be continuously enhanced through training and professional development.

**E Evidence Protection:**

It is very crucial to make sure that any form of evidence must not be lost or destroyed during the early stages of investigation. A record of locations and entities from which evidence is obtained must be maintained. The original documents must be protected and maintained in a safe place; such important documents must be replaced with copies thereof and kept in official files. When assessing aspects of computer fraud, priorities of the investigation team must be to protect the hardware and the network, which may have been accessed by the accused, in order to ensure continuity of operations and services, protect storage media, codes and other items that may be used as evidence.

**F. Recovery of Proceeds of Fraud**

Recovering proceeds of fraud and other losses can be pursued through criminal prosecution or through other channels, such as administrative or disciplinary measures. Control systems must be reassessed after the fraudulent act to avoid its recurrence.

### 9.3.9 Code of Conduct and Disciplinary Measures:

Banks shall develop an appropriate code of conduct and circulate it to employees and customers. A clear message must be sent that fraud will not be tolerated with and its perpetrators shall be subject to disciplinary measures. In this regard, the code of conduct will constitute a starting point, supported by specific standards and policies, and create a climate of ethical conduct inside banks.

**Guidelines**:

Different codes of conduct or minimum codes of conduct and disciplinary procedures can be set to cover the bank as a whole. However, such codes of conduct must be applicable to particular situations in certain departments or sections.

The following guidelines aim to promote codes of conduct and disciplinary measures:

**A. Codes of Conduct:**

Setting and distributing codes of conduct could help in identifying the behavioral and ethical standards required at banks. They must reflect and describe the integrity of banks' employees, their ethical values, and competence; personal and professional behavior expected of all staff; philosophy of bank and its operational system, the means on basis of which the management of bank determine powers and responsibilities, and the way in which it develops the competence of its members; attention paid by the board of directors to these standards and its guidance thereto.



**B. Disciplinary Standards:**

The employee's booklet must specify disciplinary measures to be taken by exchange centers against employees who are convicted of fraud.

**C. Standards Applicable to Temporary Staff and Employees of External Outsourcing Entities:**

The same standards applicable to bank's management and staff must apply to temporary staff and other employees of external entities with which banks are outsourcing. When it depends on external human and technical resources to perform certain services, the bank shall make sure to monitor employees of contracted firms and evaluate their performance to determine if there is a risk of fraud, and take necessary measures to combat and detect such fraud. Therefore, in outsourcing with external parties, Legal Department at bank must ensure that procedures, guidelines and instructions of SAMA in this regard are taken into consideration.

## 9.4 Anti-Financial Fraud Unit:

Learning Objective:

6- Identify the nature and tasks of the Anti-Financial Fraud Unit.

According to the Anti-Financial Fraud Guide for banks and financial institutions operating in the Kingdom of Saudi Arabia, issued in August 2020, banks establish an independent administrative unit to combat financial fraud and follow an organizational structure for compliance management.,

### 9.4.1 Tasks of the Anti-Financial Fraud Unit:

The Anti-Financial Fraud Unit generally handles the combat and resolution of all matters related to financial fraud, and among its key tasks are:

1. Proposing the bank's strategy to combat financial fraud and regularly evaluating it at least every two years.
2. Proposing policies, evidence, and procedures related to combating financial fraud and the unit's tasks, ensuring their efficiency, including at least:
    - Mechanisms for exchanging information with other relevant banks on fraud operations without violating confidentiality.
    - Procedures for dealing with accounts and frozen amounts suspected of being linked to financial fraud operations.
    - Procedures to be followed before and during the investigation process involving employees.
    - Mechanisms for preserving and seizing evidence according to best practices.
    - Empowering customer service employees (frontline staff) with the necessary authority to take appropriate action upon receiving any financial fraud report.
3. Benefit from recommendations and updates issued by international organizations and best practices related to combating financial fraud.
4. Participate in raising awareness about methods of financial fraud.
5. Utilize an automated surveillance system to detect and limit both internal and external fraudulent operations, regularly measure the system's effectiveness, and commit to updating scenarios in line with developments in the methods used in financial fraud operations.
6. Apply enhanced due diligence measures outlined in the Anti-Money Laundering and Terrorism Financing Guidance Manual, tailored to the nature of financial fraud cases.
7. Participate in assessing fraud risks for banking products and services with relevant departments.
8. Develop necessary procedures to continuously monitor parties contracting with the bank, especially those assigned sensitive tasks, and ensure their compliance with the bank's policy to combat financial fraud.
9. Establish a database containing all details of actual and suspected cases of financial fraud.
10. Handle investigations into cases of financial fraud committed by bank employees at all management levels, and seek assistance from experienced entities when needed.
11. Immediately report any confirmed financial fraud operation in which the bank is involved to law enforcement, whether it resulted in financial losses or not.
12. Notify the central bank within a maximum of three working days about:
    - Any new fraudulent method or phenomenon resulting in or not resulting in financial loss.
    - Any internal fraud operation.
13. Prepare a separate report for each case of financial fraud, including at least (incident origin, relevant parties, involved departments, corrective measures, losses if any, methods used).

### 9.4.2 Human Resources and Training:

The human element is a fundamental tool in the process of combating financial fraud, and the bank's selection of competent human resources, coupled with supporting them through suitable training programs, contributes to the seamless integration of the financial fraud prevention process. In this regard, the bank must commit to the following:

- Provide the necessary human resources to ensure that the Anti-Financial Fraud Unit performs its tasks efficiently and effectively.
- Establish requirements and standards that employees of the Anti-Financial Fraud Unit must meet to ensure the unit fulfills its assigned tasks.
- Identify the needs and appropriate training and qualification programs related to combating financial fraud.
- Regularly train and qualify personnel of the Anti-Financial Fraud Unit in relevant fields.
- Strive to obtain relevant professional certifications for the personnel of the Anti-Financial Fraud Unit.
- Train customer service employees (frontline staff) to ensure their ability to take appropriate action upon receiving any financial fraud report.
- Implement specialized training programs in financial fraud prevention tailored to each category of employees based on their roles and responsibilities.

# Chapter Nine

## Revision questions:

## Answer the following questions and check your answer in the corresponding section:

1. What is meant by fraud in Retail Banking Sector?

   **Answer: A reference: Section 9.1.2**

2. Mention some reasons behind widespread of fraud.

   **Answer reference: Section 9.1.3**

3. "State-of-the-art technologies utilized in banking sector have improved performance, enhanced productivity and increased electronic fraud" Do you agree with that statement? Clarifying the difference between material and electronic fraud.

   **Answer: A reference: Section 9.2.1**

4. What is the difference between external and internal fraud in banks? Give examples.

   **Answer: A reference: Section 9.2.2**

5. Explain how to develop and apply a strategy to combat fraud in banks?

   **Answer: A reference: Section 9.3.1**

6. Explain guidelines for developing comprehensive, effective regulatory framework to combat fraud in banks.

   **Answer reference: Section 9.3.2**

7. Explain how to promote awareness of fraud banks?

   **Answer: A reference: Section 9.3.4**

8. "Internal controls are the main instrument for combating fraud" Do you agree with that statement? Explaining how to implement internal control systems to reduce possibility of fraud activities.

   **Answer reference: Section 9.3.5**

# Chapter Ten

## Anti- Money Laundering and Counter- Terrorism Financing in Banking Sector

This chapter includes13 questions out of 100 questions in the exam

# Introduction:

This chapter deals with Money Laundering and Terrorist Financing as one of the most critical issues that pose a real threat to banks, given increasing rates of crime and resulting funds. SAMA is responsible for integrity and effectiveness of banking system in discharging duties towards system's users and contributors.

## 10.1 Anti-Money Laundering Operations:

Learning Objective:

1. Understanding the nature of money laundering operations, stages, risks and methods of combating them in banks.

### 10.1.1 Definition of Money Laundering:

Money laundering is defined as:

"The commission of any act or attempted commission intended to hide or disguise the true origin of funds acquired unlawfully, contrary to religious or legal principles, and to make them appear legitimate."

The first article of the Anti-Money Laundering System, issued by Royal Decree No. (M/20) dated 05/02/1439H, defines money as: Assets, economic resources, or properties, regardless of their value, type, or method of ownership, whether tangible or intangible, movable or immovable, and documents, bonds, papers, transfers, and letters of credit, in any form, including electronic or digital systems.

This law defines proceeds of crime as: The funds directly or indirectly obtained or acquired from or through the commission of a sanctioned offense, whether within or outside the Kingdom, in accordance with Sharia or laws in the Kingdom, including any funds transferred or converted wholly or partially into properties or investment proceeds.

Financial Institution (FI): Any KSA-located establishment conducts one or more of the financial activities or transactions. The Implementing Regulations of this Law specifies financial activities carried out by this establishment for the benefit of or on behalf of a customer.

In accordance with Article (2) of Saudi AML Law, it shall be considered to have committed a money laundering offence who conduct any of the following acts:

1. Converts, transfers or conducts any transaction on funds that the person knows being proceeds of crime or from illegitimate or illegal source;
2. Acquires, possesses or uses funds that the person knows are proceeds of crime or from illegal source;
3. Conceals or disguises the true nature, source, movement, ownership, place, or manner of disposition of funds or proceeds that the person knows being proceeds of crime or illegal or illegitimate source;
4. Participation by means of agreement, or providing assistance, or abetting, or providing counseling, advice, or facilitation, or collusion, cover-up or the attempt to commit any of the acts provided for in this Article.

According to Article 3 of the Anti-Money Laundering System, a legal person (entity) is considered to have committed a money laundering offense if it engages in any of the acts listed in Article 2 of the system. This is without prejudice to the criminal responsibility of the heads and members of the boards of directors of financial and non-financial institutions, their owners, employees, auditors, or any natural person acting on behalf of or for the account of the entity.

### 10.1.2 Objectives of Money Laundering Processes:

By laundering funds acquired in an illegal way, criminals aimed at:

- Changing original nature of these funds.
- Making it more difficult to know source of funds.
- Making it more difficult for Security Authorities to track such funds.
- Re-utilizing such funds to make them seem as legitimate and acquired from legal source.
- Reintegrating and investing such funds in legitimate economic business.

### 10.1.3 Stages of Money Laundering:

ML often involves a series of operations that are usually difficult to separate from each other. However, ML operations usually go through three stages as follows:

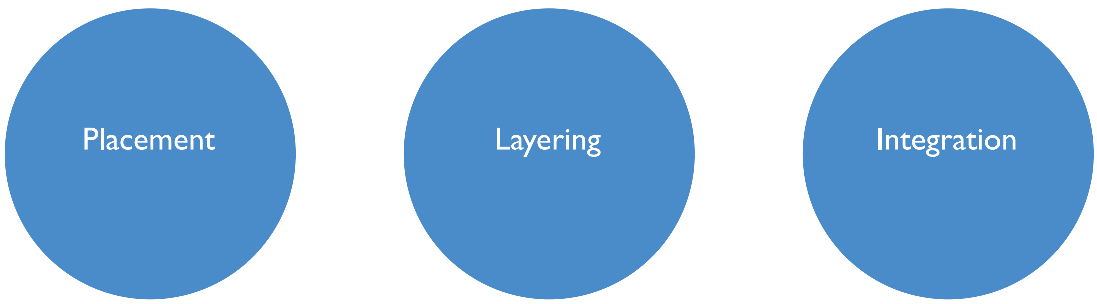



Figure (10.1) Stages of Money Laundering Processes

- **Stage 1: Placement**

This stage is confined to placing funds acquired from an illicit source into the financial system, usually through banks and money exchange and transfer centers. This is realized through cash deposits, purchase of monetary instruments for cash, currency exchange, purchase of insurance contract, cheque cashing services, the retail economy (through cash purchases), and Cross-border cash transfer.

**This stage may include the following procedures or processes:**

– Fragmenting a large amount into smaller amounts and depositing them directly into bank accounts.

– Transferring cash across borders and depositing it in foreign financial institutions or using it to purchase expensive goods, e.g. (high-value artworks, antiques and precious stones) that can be resold against checks or bank transfer.

– Establishing cash-based businesses and using them as a cover for dealing in illegal funds.



- **Stage 2: Layering**

Layering is the stage of concealing the illicit source of funds in order to block tracing of funds by conducting complex transactions to be concealed. These transactions are often a complex series of movements that transfer funds across several countries, making it difficult to identify the original source of funds. This stage consists of a set of processes, such as:

– Bank transfers of funds from one account to another, sometimes from or to other financial institutions or other jurisdictions.

– Transfer of deposited cash into monetary instruments (e.g. traveler's cheques, resale of valuable goods and prepaid products, investment in real estate and legitimate business).

– Placing money into investments e.g. stocks, bonds, or life insurance; with the aim of hiding or concealing the ownership of assets.

– Using shell companies or other entities. Using fake banks and e-transfers.

– Wire transfers, including cross-country payments.

– Opening multiple current and deposit accounts and move funds between them.

• **Stage 3: Integration**

Integration is the final stage of Money Laundering processes, whereby laundered money is integrated back into the legitimate economic system, making it appear to be legitimate assets.

- – Utilizing laundered money in seemingly normal operations to suggest the legitimacy of such money, for example: A money launderer may choose to invest his money in real estate, financial projects, or luxury related assets.
- – In integration, it becomes more difficult to distinguish between Legitimate funds and illegitimate funds, with a favorable opportunity for a money launderer to increase his wealth gained from crime and illegal sources.
- – In general, it is difficult to determine the integration of illicit funds into the normal economic cycle unless there is a clear discrepancy between the volume of employment and business or investments of person or company and wealth, assets and income of such person or company.
- – Placing real estate purchased with illegal money as collateral for loans.

## 10.1.4 Methods (Types) Used in Money laundering:

Learning Objective:

> 2. To be familiar with various types, applicable ML methods and ways together with its examples in banks

Various ML/TF techniques or methods are usually referred to as typologies. Study of Typologies is a useful instrument for in-depth research on a particular issue in order to provide overview and knowledge of overlapping risks arising from ML and how to address them. ML-Related Typologies include but not limited to:

- • Alternative Transfer Services (Remittance, Promissory Note, Etc.): Informal means of fund transfer that rely on trust-based fund transfer networks. These are illegal transfer means that may be utilized for ML/TF to transfer funds without tracing, as well as to obscure identity of those controlling the funds.
- • Smurfing (Composition and Breaking Up): Smurfing involves numerous transactions (deposits, withdrawals and transfers), and often includes various people, large numbers of low-value transactions and sometimes numerous accounts as such to avoid FI obligations of reporting financial transactions that exceed a certain threshold.
- • Currency Exchanges: This method is utilized to assist smuggling funds among countries or to exploit poor reporting requirements applicable by currency exchange houses and to minimize risk of detecting such transaction, including purchase of traveler's cheques to transfer funds between countries.
- • Currency Smuggling (Transportation): This is realized through moving currencies in a covert way across borders to avoid transaction or cash disclosure procedures.
- • Use of Credit Card: Credit cards are widely used as a secure means of indirect spending of funds acquired from criminal source. Credit cards can be obtained in the name of individuals or institutions, and can be used only based on signature matching, or increasingly on an indirect basis without face-to-face interview, such as via telephone or online without verifying the identity at a point of usage. Credit card bills can therefore be paid using funds generated from crime proceeds deposited in banks other than card issuers.
- • Purchase of High-Value Assets, such as (Property, cars, shares… etc.): Proceeds of criminal activities are invested in high-value easily negotiable goods to take advantage of low reporting requirements in a manner that obscures source of crime proceeds.

• Use of Wire Transfers (Electronic): This can be realized by transferring funds electronically between banks and often to another country to avoid detection and confiscation.
• Trade-based Money Laundering: This usually involves manipulation of invoice and use of trade finance methods and commodities to avoid financial transparency laws and regulations.
• Abuse of Non-Profit Organizations (NPOs): This can be realized by raising funds for terrorism purpose, obscuring source and nature of funds to finance terrorism.
• Investment in Capital Markets: This can be realized by obscuring source of crime proceeds though purchase of negotiable instruments, while relatively low reporting requirements are often leveraged.
• Use of Shell Companies/Corporations: This is a technique to obscure identity of persons controlling the funds and to leverage relatively low reporting requirements.
• Use of Offshore Business: Including Trust Service Providers to obscure identity of persons controlling the funds and to keep monies away from control procedures applicable by domestic authorities.
• Identity Theft / Fake IDs: in order to obscure identity of those involved in ML/TF.
• Utilization of specified non-financial businesses and professions (Lawyers, Accountants, Brokers… etc.): in order to obscure identity of beneficiaries and source of illicit funds. Such Services may also include corrupt professionals who offer specialized money laundering services to criminals.

## 10.1.5 Risks of Money Laundering:

Learning Objective:

3. To be familiar with ML Risks and Negative Effects.

1. Economic Effects:

**a. National Economy:**

− Weaken the ability of government authorities to implement economic policies efficiently.
− Weaken the stability of foreign exchange market given severe fluctuations in money movement as well as cash inflows and outflows
− Cause distortions in distribution of resources and wealth into economy.
− Impede State's economic development in addition to decreasing real investment opportunities. Money launderers aim to incorporate shell economic entities in order to conceal their crimes.
− Cause damage to privatization and control of money launderers -criminal organizations over public institutions because of their large financial capacity.
− Decline of State's tax revenues due to tax evasion by money launderers.
− Have negative impact on state's reputation from international community perspective, reflecting on its international financial relations.

**b. Banking:**

ML processes threaten financial and banking stability given that financial and banking institutions are at a risk of lack of confidence and loss of reputation, as well as possible crash of financial markets that receive illicit funds.

2. Social Effects:

• **Higher Unemployment Rates**:
Ml operations are closely related to the spread of unemployment in society; The smuggling of funds abroad through banking and other channels and their laundering leads to the transfer of part of national income to other countries, and then the countries from which the capita

transferred are unable to spend on investments necessary to provide job opportunities for citizens, and thus face the risk of unemployment.

• Lower Standard of Living:

ML operations affect the distribution of income on members of society, increase poor people, widen the gap between them and the rich, causing shrinking of the middle class, which leads to negative social effects as a result of poor income distribution, which leads to an imbalance in the social structure and exacerbates the problem of poverty and a low standard of living.

− Higher Crime and Corruption Rate:

− Weakening of financial institutions (Collapse of the European Union Bank, the Bank of Credit and Commerce scandal, collapse of Barings Bank in 1995).

− Risks to state's reputation (Limits global investment opportunities and deprives the state of donor support).

− Corruption of society morals (Drugs, prostitution, bribery, illegal arms trafficking, etc.), and thus raising social costs (Treatment of addicts, etc.).

• Emergence of ML-Specialized Gangs:

The spread of ML operations in a specific area leads to formation of a specialized criminal gang that produces other gangs and buys and recruits the weak-spirited. This could lead to formation of a criminal organization that destabilizes security and tranquility and increases the crime rate in general.

3. ML Political Risk

• Breaching and Corrupting Government Structures:

This illegally acquired money may also affect the political structure and its representatives, especially in countries with economic and political instability, where it finances electoral propaganda aimed at taking over parliamentary functions, which pushes money launderers to parliaments whose main job is to lay down legislation and monitor government actions. They influence the work of such councils to serve their interests, and gain parliamentary immunity, so they are safe from criminal accountability.

### 10.1.6 Penalties for ML Offenses:

• Article (25) of the Anti-Money Laundering Law stipulates that:

If the supervisory authority finds that FIs, DNFBPs, and NPOs or any of their directors, board members, executive or supervisory management members failed to comply with any provision of this Law, its Implementing Regulation or relevant decisions or circulars, or any violation referred from other competent authority, the supervisory authority may impose one or more of the following measures:

1. Issue a written warning;
2. Issue an order to comply with a specific instruction;
3. Issue an order to provide regular reports on the measures taken to address the identified violation;
4. Impose a monetary fine of up to SAR 5.000.000 per violation;
5. Ban individuals from employment within the sectors for which the supervisory authority has competences for a period to be determined by the supervisory authority;
6. Restrict the powers of directors, board members, executive or supervisory management members, and controlling owners, including appointing one or more temporary controllers;
7. Dismiss or replace the directors, members of the Board of Directors or of executive or supervisory management;
8. Suspend, restrict or prohibit the continuation of the activity, business or profession or of certain business activities or products;
9. Suspend, restrict or revoke the license; The supervisory authority should inform the General Director of Financial Intelligence about the actions taken or imposed sanction.

• Article (26) of the Law states that "Whoever committing a crime of money laundering shall be subject to imprisonment for a period up to ten years and no less than two years, as well as a fine not exceeding five million riyals or both".
• Article (31) of the Law states that "...any legal person that commits a money laundering offense shall be punished by a fine of no more than 50 million riyals and no less than the equivalent of the double of full value of the funds that were the objects of the offense...A legal person may also be prohibited permanently or temporarily from engaging in certain licensed activities... or by closing its offices that are permanently or temporarily associated with the commission of the crime or by winding up its operations."

## 10.2 Terrorist Financing Processes:

Learning Objective:

4. Getting familiar with the nature, stages and risks of terrorist financing operations and difference between terrorist financing and money laundering.

### 10.2.1 Definition of Terrorist Financing:

The Counter-Terrorism and Financing Crimes System provided the following definitions regarding terrorism financing:

• Terrorist Crime: Any act committed by the perpetrator, individually or collectively, directly or indirectly, intended to disrupt public order, undermine societal peace, jeopardize the nation's unity, endanger the basic system of governance or some of its provisions, harm any state facility or its natural, economic, or financial resources, attempt to compel one of its authorities to perform or refrain from any act, or harm any person or cause their death, when the purpose is to intimidate people or compel a government or international organization to perform or refrain from any act, or the threat of carrying out acts that achieve the mentioned purposes or incitement thereto.
• Terrorism Financing Crime: Providing funds for the commission of a terrorist crime or for the benefit of a terrorist entity, in any form stipulated by the system, including funding terrorist travel and training.
• Terrorist: Any natural person—whether inside or outside the Kingdom—committing one of the crimes stipulated in the system, or endorsing, participating, planning, or contributing to their commission, by any means, directly or indirectly.
• Terrorist Entity: Any group composed of two or more individuals—inside or outside the Kingdom—aiming to commit one of the crimes stipulated in the system.



### 10.2.2 Stages of Terrorism Financing:

Typically, TF operations go through three stages, as follows:

1. Collection of funds:

Collect funds to support and finance terrorist operations or persons to carry out terrorist acts. At this stage, charities and non-profit organizations may be abused by terrorists to collect and launder funds destined for terrorism.

2. Transfer of funds:

Transfer of funds to terrorists within or outside the fund collection area. At this stage, banks, finance companies, or the alternative transfer method may be used to move funds across borders .... etc.

3. Use of funds:

Place funds at the terrorists' disposal to cover operational expenses, subsistence, personal and medical expenses, purchase of travel tickets, purchase of weapons and ammunition, combat training, etc...

### 10.2.3 Why terrorist Financing is dangerous:

- It contradicts with the principles of religion, customs, and the values of truth and goodness.
- Security destabilization that may lead to mass destruction.
- Displacement and political asylum, economic sabotage and impeding economic growth.
- Inciting strife between sects (religious, tribal, partisan, etc.)
- Spread of murder and violence and increased crime rates.

### 10-2-4 CTF Requirements:

In accordance with the Law of Combating Crimes of Terrorism and its Financing, financial institutions and non-profit organizations shall:

- Identify and understand the risks of terrorist financing, assess them, document them, and continuously update them. Provide risk assessments to relevant regulatory authorities upon request, considering a wide range of risk factors, including those related to clients, countries or geographic regions, products, services, transactions, or delivery channels.
- Take due diligence measures, defining their scope based on the level of terrorist financing risks associated with clients and business relationships. Strict due diligence measures should be applied when terrorist financing risks are high. Financial institutions, designated non-financial businesses and professions, and non-profit organizations must:
- Apply strict due diligence measures to business relationships and transactions with anyone coming from or residing in a country identified by them or by the permanent committee for combating terrorism and its financing as a high-risk country.
  Financial institutions should implement measures to mitigate high risks as specified by regulatory authorities.
- Develop and implement policies, procedures, and controls effectively to combat terrorist financing with the aim of managing and reducing specific risks.
- Take appropriate measures to mitigate risks arising from entering into a correspondent relationship with other financial institutions, as specified in the anti-money laundering system.
- Continuous monitoring and examination of transactions, documents, and data it owns. Additionally, it is required to audit all complex and unusually large transactions and any unusual transaction patterns that lack clear economic or legitimate purposes.
- Immediately and directly report any suspicious operations to the General Financial Investigations Management, providing a detailed report including all available data and information about these operations and related parties.
- It is prohibited to alert the client or any other person that a report under the system or information related to it has been or will be submitted to the General Financial Investigations Management, or that a criminal investigation is pending or underway. This does not include disclosure or communication among managers and employees, communication with lawyers, or communication with competent authorities.
- Retaining all records, documents, and data, including due diligence documents, for all financial transactions, commercial deals, and cash transactions, whether domestic or international, for a period of not less than ten years from the date of the transaction's completion or account closure. Additionally:
- The public prosecutor, in cases deemed necessary, may compel financial institutions to extend the retention period for records, documents, and data to the extent necessary for criminal investigation or prosecution purposes.
- The retained records and documents must be sufficient for data analysis and financial transaction tracking and should be kept available for relevant authorities upon request.

## 10.3 ML/TF Difference:

In accordance with Anti-Money Laundering and Counter Terrorism Financing (AML/CTF) Guide issued by SAMA on RABI' I 1441 AH, Transactions related to terrorism financing are distinguished from those related to money laundering as follows:

1- Small transactions, including bank transfers and currency exchange, can be used to finance terrorist activities.

2- Terrorists can be financed using funds obtained legitimately, making it difficult for the financial institution to determine the stage in which legitimate funds become funds used to finance terrorist operations. Terrorists can derive their financing from legal and/or illegal sources. Terrorist financing sources can be categorized as follows:

- **Financial Support**: This finance could be in the form of charitable donations, community solicitation and other fund raising initiatives, which may come from entities or individuals.
- **Illegitimate Sources**: This finance is often derived from criminal activities such as money laundering, fraud and other financial crimes.
- **Legitimate Sources**: This form of finance may fully or partially originate from legitimate business activity.

3- Goals and objectives where the aim of money laundering is profit, while the terrorist financing does not aim at profit, but rather aims to pressure or exercise violence to reach political or other objectives

## 10.4 Suspicious ML/TF Transactions:

Learning Objective:

5. To be familiar with international bodies' initiatives and role in AML/CTF.
6. To look into internal control laws procedures that can help protect banks against ML/TF risks.

A suspicious financial transaction is a transaction entailing procedures that are very similar to operations that have been conducted and proven to involve ML/TF, or procedures that a bank's employee believes being illogical, unjustified, unconvincing, contradicting customer's normal behavior, or the nature of normal accounts transactions.

### 10.4.1 Indicators of Suspicious ML Transaction:

The presence of one or more of these indicators does not necessarily imply money laundering or terrorist financing. However, it should raise certain concerns and warrant further investigation and scrutiny. Some of the key indicators include, but are not limited to:



- Customer refrains from providing moneychanger with the necessary data according to Know Your Customer (KYC) guidelines, or provides false or misleading information.
- Customer asks moneychanger about laws, instructions and limitations contained therein to obtain adequate information and to avoid legal violations regarding ML.
- Customer breaks the whole or a part of the deal once being informed that due diligence procedures and KYC rule should be followed if such deal exceeds a specific financial limit.
- Customer submits suspicious ID documents.
- Customer prepares to buy a deal at a price higher than market price, or to sell it at a price lower than market price, and does not pay attention to commissions deducted by the financial institutions.
- Customer offers money or precious gifts to the banks' employees and attempts to convince them not to verify IDs and other documents.
- Providing the employee of the financial institution with a permanent address of residence located outside the bank service area or beyond the country's jurisdiction.

• Customer cannot be reached through contact information provided by him/her.
• Customer brings to the bank, a person controlled by another, or an elderly person accompanied by someone who has no relation thereto when making the transaction.
• Transactions and value thereof are not commensurate with the financial condition or nature of customer's business.
• Transactions that involve individuals or institutions with a history of ML activities or other criminal acts.
• Transactions that are anonymized or cannot be validated.
• Unjustified large amounts of cash are disbursed to customers whose business activity usually involve cheques and other payment methods.
• Small denominations are exchanged with large denominations without convincing reasons.
• Several big cash transactions are carried out within a short time by the customer personally or through another person on his/her behalf at the bank or its branches.
• Customer offers big cash involving counterfeit or obsolete banknotes.
• Amounts, which in total constitute big cash, are transferred (daily or weekly).
• Remittances received that include instructions from the sender to convert its value into cheques and to be posted to a particular person.
• Remittances of large amounts are received or transferred from/to States that do not fully apply FATF recommendations or have fragile AML/CTF Laws.

### 10.4.2 Procedures of Reporting Suspicious Transactions:

Reporting on a suspected operation or activity is crucial to enhance the ability of relevant authorities to utilize financial information in combating money laundering, terrorism financing, and other financial crimes. Therefore, it is imperative to comply with reporting to the General Directorate of Financial Investigations on all suspicious operations under the Anti-Money Laundering and Counter-Terrorism Financing systems, their executive regulations, and instructions issued by the Saudi Arabian Monetary Authority.

The system also requires the preparation of a detailed report on these operations, including all available data and information about such operations and related parties. This report should be provided to the General Directorate of Financial Investigations. To achieve this, the following should be considered:

A- Every employee, upon discovering or suspecting a money laundering or terrorism financing operation, is required to report it to the Internal Money Laundering Control Unit or the Compliance Officer at the bank.

B- The General Directorate of Financial Investigations should be notified using the approved form provided by the General Directorate. The report should, at a minimum, include the following information:

- Names of individuals or entities suspected of engaging in transactions, along with information about their identity, addresses, and phone numbers.
- Statement regarding the suspected operation, its parties, circumstances of discovery, and its current status.

C- Specify the amount involved in the suspected operation and the bank or investment accounts associated with it.

D- Reasons and grounds for suspicion relied upon by the reporting employee.

The financial institution provides a technical report on reported cases to the General Directorate of Financial Investigations, which includes the following:

1- A statement of the account or transactions conducted on the contract over the past six months.
2- The documents obtained to implement due diligence measures.
3- A technical report on the study of the suspected account or contract.

Financial institutions must take the following actions after the reporting stage:

1- Retain records and copies of the report, technical report, and attachments for future reference.

2- Monitor the activities of the reported client, and if their suspicious activities persist and there is no information from the General Directorate of Financial Investigations, a reinforced report should be submitted to the General Directorate regarding them.

H- Monitoring the request from the General Directorate of Financial Investigations to obtain data on all reports. If a financial institution has a strong suspicion of money laundering or terrorism financing - and has compelling justifications and reasonable grounds to believe that the client may become aware of a suspicion if due diligence measures are applied - the institution may, at its discretionary authority, decide not to apply due diligence measures. In this case, it is required to report a suspicious transaction to the General Directorate of Financial Investigations. The report should include reasons and justifications for not applying due diligence measures. The Central Bank issued circular number (67/39504) on 26/06/1440هـ, confirming the reporting of accounts whose transactions do not align with the income and salaries of their owners. This is aimed at monitoring the movement of bank accounts for foreign labor and reporting on accounts that do not align with the income and salaries of their owners, in accordance with the guidelines and procedures set by the Central Bank. Therefore, the Central Bank emphasizes to all banks and financial institutions the continuous notification of the General Directorate of Financial Investigations at the State Security Presidency in the presence of any financial suspicion, following the rules of anti-money laundering and terrorism financing for banks issued by the Central Bank. Additionally, continuous monitoring of customer transactions is emphasized.

### 10.4.3 Procedures of Dealing with Suspected Customers:

Some of the main actions to be taken against the suspected customers are:

1. Internal control procedures in exchange centers concerning "KYC" principle:

Rules Governing Anti-Money Laundering & Combating Terrorist Financing for financial institutions operating in the Kingdom of Saudi Arabia, exchange centers and branches of foreign banks operating in KSA issued by SAMA, set "KYC" rules as follows:

KYC principle is intended to enable financial institutions to form a reasonable view to know the true identity of each customer with an appropriate degree of confidence, and to know the types of business and transactions the customer is likely to undertake with the bank. There are three types of data that shall be collected and verified in establishing a new banking relationship with any customer, which are:

- Personal Data: Such as, name, age, DOB, POB, nationality, ID type, number and expiration date, actual address, P.O box, key contacts, email address and academic qualifications.
- Job Information: Employment status, specialization, employer, profession, job title, date of employment, address, phone number, fax and email.
- Financial Information: Source of income, monthly income, additional income, and ways of receiving income

2. Tipping Off Suspected Customers:

AML Law and its implementing regulation prohibit banks and their employees from alerting customers involving suspicious transactions or activities. Pursuant to AML Law, of a suspicious transaction is sent to General Directorate of Financial Investigations and further inquiries concerning the customer are required, extreme caution should be exercised so as not to tip off the customer about the report. The employee shall continue dealing with the reported customer in the usual manner and not to alert customers or other parties related to the suspicions transactions. Otherwise, such employee will be deemed committing a crime that may promote to imprisonment (not exceeding two years), and/or a fine (not exceeding SAR 500,000).

### 3. Failure to Report Suspicion:

Employees at banks shall also be aware that, pursuant to KSA's laws and regulations, failure to report suspicious transactions is a crime punishable by imprisonment (not exceeding two years) and/or a fine (not exceeding SAR 500,000).

However, this does not mean that every opinion or small transaction shall be reported, as ML/TF reporting officer at bank shall be responsible for conducting a full investigation against all circumstances of transactions before sending a suspicious transaction report to General Directorate of Financial Investigations.

### 10.4.4 AML/CTF Department (Unit):

Banks, Under the Anti-Money Laundering and Counter-Terrorism Financing System and Instructions., shall establish an independent and dedicated ML/TF Control and Reporting Unit (MLCU), with adequate staff who shall be trained, familiar with compliance function and shall be all Saudis. MLCU and its staff shall have sufficient authority, necessary independence to discharge its functions effectively, including access to customer information, such as identification data, transaction records and other relevant data that enable the officer to discharge his/her functions effectively.

MLCU, or Compliance Officer in bank, will have the following functions and responsibilities:

- Monitoring all transactions for the purpose of detecting suspicious activities.
- Receiving and examining suspicious transactions reports from all departments at bank, as well as collecting and analyzing information to take the appropriate action.
- Reporting to General Directorate of Financial Investigations when suspicions have been determined, supported by a detailed technical report on any suspected case.
- Developing automated programs for controlling transactions to detect suspicious transactions that may involve ML/TF activities.
- Developing internal policies, plans, procedures and controls through submission of proposals for facilitating application of the same, as well as creating a state-of-the art automated system in the area of anti-money laundering.
- Supporting Compliance Department in its task of verifying that the established rules and regulations related to AML/CTF requirements are applied.
- Providing MLCU with qualified and trained staff and ensuring ongoing training with the aim of enhancing their knowledge to latest information on ML/TF.
- Preparing periodic reports regarding MLCU activities supported by statistical data for those activities, recommendations and proposals made for their development.
- Responding to all SAMA's circulars and requests relating to customer accounts statements and developing the appropriate mechanism to ensure that the required information is prepared in the proper timeframe.
- Building a database comprising all data relating to money laundering and terrorist financing matters, such as the suspicious cases reported.
- Engaging in operations of the Banking Committee against Financial Crimes and Money Laundering.
- Assisting in promotion of awareness and training of bank's staff, as well as raising awareness of various customers.

## 10.5 KSA's AML/CTF Initiatives:

Learning Objective:

7. To understand operations and procedures to be conducted by banks' specialists, as well as compliance with AML/CTF legislations.

The past few years have seen rapid and far-reaching developments in the financial sector involving a comprehensive and coordinated fight against money laundering and terrorist financing. Consequently, KSA has adopted a variety of initiatives involving legislative and other measures that are responsive to international developments in this concern. The most important among these initiatives may be summed up as follows:

- Issuing the Anti-Money Laundering Law and Implementing Regulations thereof, under Royal Decree #M/39 dated 20/06/1424 AH. Then issuing a new AML Law and Implementing Regulations thereof under Royal Decree #M/31 dated 11/05/1433 AH. Then this law was updated again in 1439 AH.
- Issuing a Combating Terrorism and Financing of Terrorism Law promulgated under Royal Decree #M/16 dated 24/02/1435 AH.
- Establishment of the Financial Intelligence Unit (FIU) In accordance with Article 11 of Saudi AML Law issued under Royal Decree #M/39 dated 20/06/1424 AH, the Financial Intelligence Unit (FIU) began its work on 06/08/1426 AH, with its headquarters in Riyadh. Currently, it is an administrative unit affiliated with the Presidency of State Security and reports to His Excellency the President of State Security. Then, the unit's name was changed to the General Directorate of Financial Intelligence under the Anti-Money Laundering Law of 1439 AH.
- Establishing the Permanent Committee for Anti-Money Laundering: The committee comprises representatives from various government entities to study all matters related to money laundering, address them, and develop necessary steps to implement recommendations from the Financial Action Task Force (FATF) while monitoring their execution. The committee is headquartered at the Saudi Arabian Monetary Authority in Riyadh, and it is chaired by His Excellency the Governor of the Central Bank.
- Establishing the Permanent Committee for Combating Terrorism and its Financing, under the auspices of the State Security Presidency.
- A mechanism has been established for implementing international decisions issued by the relevant Security Council regarding the fight against money laundering or terrorism financing.
- Circulating UN lists to freeze financial assets, and taking immediate measures to freeze the assets of those who are on the lists, in case that there are any accounts or balances of those persons /organizations.
- Adopting the FATF 40 recommendations related to AML/CTF, provided that the application of these recommendation is in accordance with the regulations in force in the Kingdom.
- Organizing and permanent participation by the Kingdom in international conferences and forums related to AML.



### 10.5.1 Issuance of Anti-Money Laundering Law:

Below are some of the main points addressed in AML Law:

The Law criminalizes money-laundering acts and has defined offenses, responsibilities and penalties for violation, aimed at preventing these crimes.

A system to combat money laundering and its executive regulations apply to all banks and currency exchange centers. All financial institutions are required to establish appropriate policies, systems, procedures, and controls related to customer identification, principles of customer knowledge, due diligence, risk assessment, and appoint qualified and specialized personnel to combat money laundering and terrorist financing. An executive officer should be appointed for this purpose. The institutions must monitor large and complex cash transactions, report suspicious financial transactions, provide continuous specialized training, and maintain records to prevent and combat money laundering activities.

In accordance with AML Law, FIs may neither carry out any financial, commercial or similar operations under anonymous or fictitious names, nor open or deal with fictitious accounts. They must regularly verify the identity of the client, on the basis of official documents of juristic person at the beginning of dealing with such clients or when conducting any transaction with them directly or on their behalf. Such institutions must verify the official documents of legal entities, that indicate name and address of the entity, name of its owners, managing directors, and should apply CDD and other actions as stated in the Implementation of the Regulations.

FIs, Designated Non-Financial Businesses, Professions (DNFBPs) and Non-profit Organizations (NPOs) shall fully comply with instructions issued by regulators such as MOJ, MCI, SAMA, CMA, HRSD and MOIA, concerning application of KYC principle and CDD, which shall include as a minimum:

- Ongoing verification of all permanent or walk-in customers dealing with FIs, DNFBPs and NPOs by accessing valid IDs originals approved under the law, as follows:

1. Saudi Nationals:
   - Customer's National Identification Card or family record.
   - Customer's residential address & place of work and work address.
2. Individual Expatriates:
   - A residence permits (Iqamah) or a five-year special residence permit or a passport, or a National Identification for Gulf Cooperation Council (GCC) nationals or a diplomatic identification card for diplomats.
   - Customer's residential address & place of work and work address.
3. Legal Persons: licensed companies, institutions and stores:
   - Commercial register issued by MCI.
   - Licenses issued by MOMRA for service enterprises and private stores.
   - Articles of Association, if any
   - ID card of the Saudi owner of the licensed business or service enterprise to make sure that the dealer name recorded in the Commercial Register or license is matching his/her name, and to check other details and validity of ID card.
   - A list of business owners, whose names listed in the AOA and amendments thereto, if any, and a copy of their IDs.
   - A list of persons authorized by the owner who are qualified to operate accounts as provided for in the Commercial Register, or through a POA issued by the notary public, or by a proxy prepared by the bank, and a copy of their IDs.
4. Resident Companies:
   - A copy of commercial register issued by MCI.
   - A copy of the AOA and annexes thereto.
   - A copy of commercial activity license.
   - A copy of the identification card of the manager in charge.
   - A POA issued by the notary public or a private authorization by the person(s) who, under AOA, has the power to authorize signatories.
   - A copy of business owners' IDs, whose names are listed in AOA and amendments thereto.

- Applying Customer Due Diligence (CDD) as per Relative Importance and Risks:

FIs, DNFBPs and NPOs shall apply CDD measures in accordance with relative importance and risks.

- Applying Enhanced Due Diligence (EDD) to Customers and Operations:
  - − Promoting EDD measures and procedures for customers, business relations and high-risk operations, as weak due diligence measures are inadmissible in case of suspicious ML/TF activities or high-risk circumstances.
  - − Identifying customers and beneficial owner, verifying their legal status for all natural persons (customers) who have the ultimate ownership or control, or who conduct transactions through proxies before opening the account or starting business with any of FIs, DNFBPs and NPOs.
  - − Determining natural persons who have an actual ownership or control on the customer, including persons exercising full control over legal persons.
  - − Updating and verifying customer data and applying in place due diligence procedures when doubts arise against accuracy or adequacy of previously obtained data at any stage throughout the deal with a customer or beneficial owner, or in case of suspicious ML/TF activity, regardless of the limit of transaction value.
  - − Verifying whether the customer is acting on behalf of another person, and taking necessary measures to identify and verify such person, paying particular attention to accounts and business relations conducted through proxies. FIs, DNFBPs and NPOs should develop appropriate risk management systems, and determine whether the current/new customer or beneficial owner were, are or may pose a political risk in the future. They should also act appropriately to determine source of funds of customers and beneficial owners who are classified as political risk individuals, and should classify such relations under high-risk relations that require approval of the senior management, as well as continuous and intensive follow-up on such business relations.
  - − FIs, DNFBPs and NPOs, dependent on intermediaries or third parties, shall apply specific elements of due diligence to be able to obtain the necessary due diligence information immediately from third parties. They should also take adequate steps to ensure that third parties will provide, upon request and without delay, copies of identification data and other relevant documents, and a proof that such parties are regulated, controlled, have due diligence procedures in place, and their States adequately apply AML international requirements. Moreover, they shall be ultimately responsible for identifying and verifying customers' ID. Agents such as lawyers, accountants, brokers, or the like, shall not invoke non-disclosure of customers' secrets upon completeness of ID data as referred to above.

### 10.5.2 Specialization in General Administration for Financial Investigations:

General Administration for Financial Investigations receives suspicious transactions reports relating to ML/CT issues. FIU analyzes and redirects these transactions and prepares reports to the relevant authorities to take appropriate actions against money laundering, terrorist financing and other financial crimes. Previously, MOI FIU, for instance, was a unit then transformed into a general department. General Administration for Financial Investigations is an independent unit that carries out the following:

- − Receive reports from FIs, DNFBPs, NPOs and other government entities with respect to suspicious ML transactions.
- − Analyze and publish reports and send suspicious transaction reports and other information relating to ML activities.
- − Build databases including all received reports and information. Such databases are respectively updated while maintaining confidentiality of information.
- − Request and exchange information with the relevant authorities and take the necessary actions for compacting ML
- − Request, exchange and share information with foreign FIUs with regard to compacting ML.
- − Prepare forms used by FIs and NPOs to report suspicious transactions.

− Collect and analyze information around suspicious transactions reports. FIU may also hire experts and specialists from the relevant authorities, as it deems appropriate.
− Notify FIs and NPOs of the feedback on the final decision regarding the report.
− Participate in preparing awareness-raising programs concerning AML in coordination with Anti-Money Laundering Permanent Committee.
− Coordinate with FIs regulators to set the proper means for ensuring compliance of such FIs with applicable laws, regulations and instructions with respect to AML.

# Chapter Ten

## Revision questions:

## Answer the following questions and check your answer in the corresponding section:

1. What is meant by money laundering?
   **Answer reference: section 10.1.1**
2. What are the stages of money laundering?
   **Answer reference: Section10.1.3**
3. Clarify some of methods used in money laundering operations.
   **Answer reference: section 10.1.4**
4. Explain in brief the economic and social impact of money laundering.
   **Answer Reference: Section 10.1.5**
5. Clarify some of suspicious money laundering transactions indicators, and does the existence of one or more of these indicators necessarily mean existence of money laundering activity?
   **Answer reference: section 10.1.1**
6. Explain in brief reporting procedures of suspicious money laundering transactions.
   **Answer reference: Section 10.4.2**
7. What are functions and responsibilities of MLCU in banks?
   **Answer reference: section 10.4.4**
8. Explain ML/TF Difference.
   **Answer reference: Section 10.3**
9. Explain in brief KSA's AML/CTF Efforts and Initiatives?
   **Answer reference: Section10.5**

# Glossary of Terms & Abbreviations

# Glossary of Terms & Abbreviations

Banking System:

Means a set of banks where banking transactions are conducted, particularly such credit institutions.

Public Banks:

Means banks that the state owns, possesses all its capital, and supervises its business and activities such as the Saudi Arabian Monetary Authority (SAMA), the Real Estate Development Fund, the Agricultural Development Fund, the Saudi Industrial Development Fund and the Social Development Bank.

Private Banks:

Means banks owned by persons, whether natural or legal, who run its affairs, and assume all its legal and financial responsibilities. According to the Saudi banking system, the legal form permitted for the establishment of a commercial bank is the "public joint-stock company".

Mixed banks:

Means banks jointly owned and managed by the state, and individuals or organizations.

Commercial Banks:

Banks that deposits represent the main source of its funds. Such banks accept depositors' money to be due upon request or after a specified period. Further, such banks grant traders, businessmen and industrialists different short, medium or long-term loans with various guarantees.

Industrial Banks:

Banks contributing to the industrial development, such as the Saudi Industrial Development Fund.

Agricultural Banks:

Banks dealing with the agricultural institutions, such as the Agricultural Development Fund.

Mortgage Banks:

Banks providing all housing and real estate facilities, such as the Real Estate Development Fund.

Central Banks:

Banks that have been established by the state in order to supervise direct and control the banking system. Central banks reserve the right to issue the currency and keep the state's liquid assets: such as gold and foreign currencies.

Investment Banks:

Banks that issue securities of companies, and government bonds so that companies guarantee coverage of shares and bonds offered to the public during its offering for public subscription.

Traditional Banks:

Public commercial banks whose business are not limited to Sharia-compliant activities.

Sharia-Complaint Banks:

Banks that operate according to Islamic Sharia's rules and provisions.

Islamic Windows:

Specialized, non-independent divisions of traditional banks, interested in offering Sharia-compliant products and services.

Banking Service:

"an activity or set of activities whose essence is intangible, to be provided by the bank to its customers in order to satisfy their needs and desires".

Banking agency:

The bank assigns some individuals or companies to provide specific banking services on behalf and in the name of the bank, when it has a shortage of labor or branches, or a deficiency in the banking services distribution network system.

Clearing System:

Banks and its branches settle their debts with other banks automatically through SAMA with respect to transactions with its clients, according to a set of accounts for each bank with the other.

Digital Banks:

"A bank that conducts a banking business mainly through digital channels (e.g. the web and mobileapplications)."

Current Accounts:

Accounts involve transactions between banks and another party. Such party may be a natural person (individuals) or legal person (companies, agencies and other banks).

Saving Accounts:

Saving Accounts offer customers some advantages such as: a defined annual interest of no more than 3% on the amounts retained by customers at saving accounts and the amount of interest acquired by the customer shall be determined based on the amounts held therein.

Fixed Deposits Accounts:

Accounts where customers deposit and invest certain amount of cash to obtain interest over the period in which he/she do not need such amounts. Therefore, they deposit such amounts in a fixed deposit account in exchange for a certain interest.

Call Deposits:

Call deposits differ from fixed deposits as the customer, in the case of call deposits, has the right to withdraw the funds deposited with the bank when needed, after serving a notice to the bank before withdrawing the deposit with a certain period, usually a week or less (Common period is 24 or 48 hrs.). Interests on the balance of such deposits is lower than the rates of time deposits.

Automated Teller Card:

A card that enables the account holder to obtain cash from Automated Teller Machines (ATMs) without the need to visit the bank, at all times. Customers can make withdrawals, if they have sufficient balance. There is a daily withdrawal limit on such cards.

Credit Cards:

Some banks provide credit cards to their customers, such as Visa, American Express, Master Card, which is card issued by banks in cooperation with international credit card companies. The card is used by the cardholder to obtain in advance, under the issuer's guarantee, cash, goods, services or other benefits from commercial establishments that accept such card locally or internationally, and then the debt is paid thereafter or according to other arrangements.

Standing Order:

It is a command or set of commands scheduled by the client, specifying an amount and a specific date for monthly deduction on behalf of a beneficiary, without the need to access electronic channels to complete the transfer process or visit the branch.

Transfers and Issuance of Bank Checks

The customer can transfer any amount of money to any entity and can also purchase foreign currencies, banking and traveler cheques.

Saving Box:

Some banks provide their customers with saving boxes to keep important documents and jewelries.

Current Accounts in Local Currency:

Company uses the account in all local purchases and payment as well as to deposit cheques and transferred cash.

Current Accounts in Foreign Currency:

Company can, if needed, open an account in USD or GBP and other main foreign currencies to meet its requirement of these currencies such as payment of a foreign credit or foreign transfer.

Documentary Letter of Credit:

Majority of exports and imports are made via banks while documentary letter of credit is one of the means whereby dealers can import their commodities from foreign countries.

### Finance:
This is one of the main services rendered by the bank to companies and commercial institutions, as a company often suffers from insufficient cash for several reasons, thereby requesting a loan from a bank in order to finance its transactions and projects.

### Bank Transfer:
A process involving transfer of a cash amount from a bank account to another via entry and the transfer depends on an order issued by a customer to his/her bank indicating transfer amount, remittee name, account number and address.

### Collection:
Customer often entrusts his/her bank with collection of his/her entitlements and this is very common in the trade field, as the customer may find him/herself holding a number of commercial instruments.

### Letter of Guarantee:
Letter of guarantee is a contract whereby a person guarantees fulfillment of an obligation, by undertaking to fulfill creditor's obligation if the debtor himself does not fulfill such obligation. The guarantor may, after fulfilling the debt, recourse to the guaranteed debtor against what he has paid.

### Bid Bond:
Such guarantee is issued to participate in tenders and expires after being fulfilled or upon awarding, whichever is earlier. The bank shall pay its value when the bidder (if awarded) fails to sign the contract. Further, the guaranteed amount represents 5% of the value of undertaking or tender.

### Performance Bond:
The usual guaranteed amount is 10% of the undertaking. Such guarantee is issued against an assignment or waiver of the obligee's dues to the bank.

Advance Payment Bond:

The project owner may reserve a specific portion of obligee's dues, and could issue a guarantee against payment of such reservations.

### Bank Account:
An accounting record maintained by a bank licensed to operate in Saudi Arabia. Such a record is generated under a contract called "Account Opening Agreement" between the bank and the accountholder (the Customer) or its representative. The Agreement sets out the rights and obligations of each party including accounting entries posted by the bank in accordance with the applicable regulations and the acceptable rules and practices agreed upon under the account opening agreement, other agreements signed by the two parties, and other instructions given by the accountholder to the bank.

### Freezing of Account:
A temporary suspension of withdrawal/transfer or the like from a bank account/relationship due to the expiration of the customer's ID; non update by the customer or his representative of KYC data or violation of any provision of the Account Opening Agreement.

### Bank Verification:
Placing the bank official stamp or the like in addition to the bank employee signature and stamp on a copy of a document or ID card to confirm that it is a copy of the original.

### Minor:
A male or female under the age of 18 Hijri years.

### Curator:
A person appointed by a Guardianship Deed issued by the competent courts to be a guardian of a minor.

### Guardian:
The father of a minor or a person appointed by the court under a Guardianship Deed.

### Custodial Person:
A person appointed by the court under a Custody Deed authorizing him/her to receive the allowances provided by public or private entities to a child in his/her custody.
### Legally Incompetent Person:
A person not allowed to manage his/her money under a court deed that proves the lack or loss of mental capacity.
### Deposit via ATM:
Deposit via ATM using ATM card and pin code only.
### Electronic Record:
For the purpose of setting up a unified electronic database for bank. All banks shall establish an electronic registration system, as a basis for opening, operating, and following up bank accounts.
### Active accounts:
Accounts shall be considered active if a debit transaction is carried out by a customer or his/her legal agent before a period of (24) months is completed.
### Dormant Accounts:
Accounts shall be considered dormant after (24) calendar months from the date of the last recorded debit transaction carried out by a customer or his/her authorized agent or the last reliable and documented correspondence.
### Unclaimed accounts:
Accounts shall be considered unclaimed after completing five years (60 months), including the dormant phase, from the date of the last recorded debit transaction or reliable and documented correspondence, and the bank becoming unable to reach the customer after using all methods of contact.
### Abandoned accounts:
Accounts shall be considered abandoned after completing the periods specified in this paragraph from the date of classifying the accounts as unclaimed, and the banks becoming unable to reach the customer after observing the account movements and his/her other transactions with the bank and using all methods of contact according to the communication policies and procedures provided in the Rules.
### Know Your Customer (KYC):
Banks shall fully apply the KYC principle, provided that the primary purpose of the application is for the bank to be fully aware and have a complete picture of the customer and the nature of his/her activities and transactions, prior to or during the business relationship or the process of opening the account, or prior to carrying out a transaction to a customer with whom it has no business relationship, by assessing the risks that the customer may impose on the bank and the level of such risks. The identification of customers and assessment of risks shall be made while ensuring the fulfillment of all statutory requirements of opening accounts or starting business relationship.
### Bill of Debt:
An order issued by the drawer and addressed to the drawee bank to pay a certain amount to a third party.
### Promissory Note:
An instrument that is executed according to a form designated by Law and involves a promise by the note's issuer to pay a definite sum of money to another person (Note's Payee/ Beneficiary).
### Cheque:
An instrument executed according to a form designated by Law and involves an order by the drawer to the drawee (bank) to pay, upon sight, an amount to the drawer or a certain person or a cheque bearer and each is called a "Beneficiary".
### Drawer:
Drawer is the person who issues a cheque and the account holder to whom the cheque is drawn.

Drawee:

The bank where the check can be presented by the drawer to pay its value to the beneficiary (payee).

Payee:

Payee is the person to whom the cheque is issued (Debtor).

Blank Endorsement:

The principal beneficiary signs on the back of the check without indicating name of the endorsee. Such endorsement is thereby called blank endorsement (uncommon/not preferred in KSA).

Special Endorsement:

If the name of the endorser is mentioned, it thereby becomes a special endorsement. Such endorsement is the most common within KSA.

Restricted Endorsement:

This occurs when a customer deposits in his/her account a cheque for collection drawn on another bank.

Crossed Check:

A check that is crossed with two parallel lines with a gap between them. The purpose of drawing these two lines is to draw the attention of the drawee bank to refrain from paying the amount of the check unless presented by a bank or from a customer of the drawee bank, depending on whether the crossing is general or private.

Special Crossing:

The check includes name of the bank in-between the two parallel lines. In such case, the drawee must not pay value of check except though the bank indicated between the two lines.

General Crossing:

Crossing shall be considered general if the space between the two lines left blank or included the word "bank" or any other word of the same meaning:

The Saudi Arabian Riyal Interbank Express (SARIE) system:

commenced live operation on 18/01/1418. SARIE is a state-of-the-art payment and settlement system. SARIE system, designed on the concept of REAL TIME GROSS SETTLEMENT (RTGS), has revolutionized electronic banking and commerce in the kingdom of Saudi Arabia.

Digital Formulation of Customer Accounts in the Saudi Banking Sector (IBAN):

The Saudi banking sector has begun to work according to the new formulation of bank customers' account numbers to become in conformity with the international formulation of bank account numbers (IBAN), which stands for the International Bank Account Number.

SWIFT System:

SWIFT network enables users to exchange international payments, statements and other banking information and orders.

SADAD Payment System:

SADAD Payment System is one of SAMA's systems. It is a central system for displaying and paying bills and other payments electronically in the Kingdom of Saudi Arabia. Its primary mission is to facilitate and accelerate payment of bills and other payments through all banking channels in the Kingdom: (bank branches, ATMs, phone banking and online banking).

Phone Banking:

Phone Banking is an interactive voice response service, which enables customers to interact with the Bank's system via phone keyboard or speech recognition.

Online Banking:

Online banking services allow banks' customers to conduct financial transactions on a secure website run by the bank, in order to access online banking facilities.

### Automated Teller Machine (ATM):
The automated teller machine (ATM) is an automated communication device that provides bank customers with access to financial transactions in public places without visiting a bank branch.
### Real Estate Finance:
Extending credit to a borrower for the purpose of owning a dwelling
### Real Estate Finance Contract:
A deferred payment contract extended to a borrower to own a dwelling.
Mortgage Finance Contract Rights:
Cash flows, mortgages, collaterals and other rights arising under a mortgage contract.
### Real estate financier:
Commercial banks and real estate finance companies licensed to engage in real estate finance activity.
### Beneficiary:
A natural person who obtains real estate finance.
### Consumer:
Persons who are targeted by real estate finance services.
### Real estate finance primary market:
"The market in which real estate finance loans are originated, settled and served by real estate finance entities, which are the commercial banks and real estate finance companies licensed to involve in real estate finance activity,"
### Real estate finance secondary market:
The market in which the real estate financier's rights arising from primary market contracts, and mortgage-backed securities, are traded, where investors in secondary capital purchase those assets from various real estate finance entities.
### Lessor:
A joint stock company licensed to offer finance lease, including commercial banks.
### Lessee:
A person holding the right to use the leased asset under a contract
### leased asset:
Any asset that can be leased whether real estates, movables, rights, services and intangible rights such as intellectual property rights.
### Producer:
Producer of the leased asset.
### Suppler:
Supplier of the leased asset.
### Credit card:
A card issued by banks in cooperation with international card companies. The card is used by the cardholder to obtain in advance, under the issuer's guarantee, cash, goods, services or other benefits from commercial establishments that accept this card locally or internationally, and then the debt is paid thereafter or according to other arrangements.
Charge card:
A card similar to credit card, except that it obliges the holder to pay the full amount due upon receiving the account statement or on the due date specified in the statement of account.
### Cardholder:
The cardholder can be a natural or legal person, and may be:
- The card holder, or an applicant for a credit or charge card issued by the card issuer or
- The card holder, or an applicant for a card who/which has agreed with its issuer to settle all obligations resulting from the issuance of an additional credit or charge card to a specific person, who/which is considered the main cardholder.

### Card issuer:
An entity licensed to issue credit or charge cards.
### International card companies
The operators of payment systems such as Visa, MasterCard, American Express, UnionPay, Diners Club or other similar companies.
### Card Limit:
The total credit limit available in the credit or charge card under the credit / debit card agreement.
### Credit:
The trust which allows one party to defer the payment of a debt or to assume a debt with deferred payment. The credit is extended by the card issuer as follows:
- The card issuer studies and organizes recurring transactions.
- The card issuer may charge a commission from time to time on the outstanding balance.
- The card limit set for the cardholder by the card issuer during the term of agreement will be made available according to payments made by the cardholder against the card dues.
### Cash Withdrawal:
A cash withdrawal made by a credit or debit cardholder using the card. The cardholder shall be considered as a recipient of a cash advance in the following cases:
- Withdrawing cash from an ATM.
- Withdrawing cash from any other source.
- Cash transfer
- Any other form of cash withdrawal as determined by the card issuer.
### Profit Rate:
Applies to the credit service provided under Shari'a compliant contracts, means the rate used to generate profits and is expressed as annual percentage ratio (Annual Percentage Rate (APR).
### Annual Percentage Rate (APR):
The debit rate at which the present value of all payments and installments owed by the cardholder (representing the total amount payable by the cardholder) equals the present value of all credit payments available to the cardholder.
### Term cost:
All applicable commission or profit fees, and recurring fees other than commission and profit fees that are payable by the cardholder. This can be a fixed or float percentage of the outstanding balance in the credit card account.
### Default:
The cardholder's failure to comply with the terms and conditions of the credit or debit card agreement, which results in the cardholder's non-payment of the monthly installment for a period of (90) calendar days from the due date.
### Grace Period:
The date or period during which the amount of credit made available for the purchase can be paid without incurring commission or profit fees calculated based on a periodic commission or profit rate. In cases where there is no grace period, a statement to that effect shall be made. If the length of the grace period varies, the card issuer shall disclose the days or minimum days in the grace period, in case the disclosure is limited to the extent or minimum.
### Financier:
Banks and finance companies subject to the supervision of the central bank licensed to engage in one or more financing activities.
### Customer:
Natural person who obtains finance or applies to the financier for finance or to whom the finance is directed.

**Finance Amount:**
The maximum or total amounts available to the customer under the finance contract.
**Term cost:**
The term value determined for the beneficiary under the finance contract, which can be expressed in a fixed or variable annual percentage of the finance amount provided to the beneficiary.
**Changing term cost:**
The term cost is determined based on a clearly defined index or a reference rate, which is fixed in the finance contract and changes by the index.
**Total amount payable from the beneficiary:**
The finance amount in addition to all costs to be performed by the customer in accordance with the provisions of the finance contract, including term cost, fees, commissions, administrative services costs, insurance, and any expenses necessary to obtain the finance, excluding any expenses that the customer can avoid such as costs or fees owed to the customer as a result of breaching any of its obligations contained in the finance contract.
**Monthly credit obligations:**
The total amounts payable by the customer according to the credit report issued by the licensed credit information company and the customer's personal declaration, calculated on a monthly basis.
**Total salary:**
The monthly base salary (after deduction of retirement or insurance benefits (plus all fixed allowances given to the employee by his employer on a monthly basis.
**Total Monthly Income:**
The average monthly amount obtained by the customer from any monthly, annually or other periodic source of income, including gross salary or other income including any periodic allowances or bonuses, asset rental returns or any other investment returns, or otherwise, which can reasonably be verified.
**Disposable monthly net income:**
The remaining amount of the customer's total monthly income for expenditure, investment or saving after deducting current or expected future basic expenses, and monthly credit obligations, and it is calculated on a monthly basis.
**Deductibles ratios:**
Ratio of customer's monthly credit obligations to its total monthly income.
**Deduction:**
Deduction from the total salary of the customer or from his monthly pension.
**Finance Client:**
Any natural person who obtains financing from a creditor.
**Finance entity:**
Banks and finance companies supervised by SAMA.
**Collection:**
The process of collecting amounts payable by a retail consumer on due dates by a creditor.
**Default:**
The non-payment of a retail consumer of the monthly installments agreed upon in the finance contract for three consecutive months or more than five separate months throughout the finance period.
**Third party:**
An entity contracted by a creditor to provide, on its behalf, any services which used to be provided by the said creditor or to provide a new service to be launched. Such entity can act as a unit or subsidiary of the creditor or operate independently.

**Complaint:**
Any expression, written or verbal, entailing dissatisfaction with the provided services, whether such dissatisfaction is justified or not.

**Documented means of communication:**
A recorded, verifiable means of communication that can be retrieved in written or electronic format.

**Compulsively change of customer circumstances:**
Any event that causes an uncontrollable change in a retail consumer's circumstances, including without limitation: the inability to work (partially or totally), retirement (compulsory), and loss of a job or some fixed allowances given to employees by employers monthly.

**Voluntary Change in Circumstances:**
Any event that causes a change in the circumstances of a retail consumer on their own volition, including without limitation: Retirement (voluntary) and change of jobs.

**Guarantor:**
Any natural or juristic person who guarantees or promises to guarantee the fulfillment of any financing extended to a retail consumer, according to a written acknowledgement, in the event that they become unable to do so.

**Solidarity:**
Two or more persons purchase a property through a solidarity contract, and installments are due in equal or unequal proportions as agreed upon.

**Islamic Bank:**
"An economic financial institution that abides by the provisions and purposes of Islamic Sharia in mobilizing and utilizing resources in accordance with financing and investment formulas that comply with Sharia requirements and in a manner that serves the objectives of economic and social development in the Islamic society."

**Debt Riba:**
The conditional increase that the party providing the capital (Rab al-Mal) receives from the debtor on his capital in return for a specified period that they agree to specify. The interest, whether debit or credit, simple or compound on which the financial transactions are based, is considered Riba (usury) as it is in excess of the principal of debt in exchange for the term of payment.

**Sale-Based Riba:**
Riba in the six categories that came in the prophetic hadith, which are: Gold, silver, wheat, barley, dates, and salt. If a thing is sold for its like with an increase in one of them without return, then it is called Riba al-Fadl, but if the thing is exchanged for the like or otherwise with the delay of delivery of one of them, then it is called Riba al-Nasi' ah.

**Islamic Windows:**
Part of a traditional financial institution that invests and finances in a manner consistent with Islamic Sharia, and it may be a specialized unit or a branch of the institution, but it does not enjoy legal independence.

**Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI):**
An international not-for-profit organization that prepares and issues financial accounting, auditing, control and business ethics standards, as well as Sharia standards for Islamic financial institutions.

**General Council for Islamic Banks and Financial Institutions:**
CIBAFI is affiliated with the Organization of Islamic Cooperation (OIC). CIBAFI is an international non-profit organization with an independent personality. CIBAFI has 130 members, i.e. Islamic banks and financial institutions. CIBAFI Articles of Association adhere to the provisions of Islamic Sharia.

### Islamic Financial Services Board:

IFSB was established in Malaysia on (November 2002 AD). IFSB includes 127 members representing central banks, the International Monetary Fund, the World Bank, the Islamic Development Bank, the Asian Development Bank, and many professional institutions.

### International Islamic Financial Market (IIFM):

IIFM is a global non-profit organization established as an institution supporting Islamic capital and money market in the Islamic finance industry. IIFM aims to play its role in developing primary and secondary markets and meet Islamic banks' needs in terms of liquidity and Islamic banking products

### Islamic International Rating Agency (IIRA):

It is an agency specialized in rating Islamic banks and financial institutions and determining extent of their reliance on traditional international financial institutions.

### Islamic Finance:

Providing in-kind or intangible finance to various institutions in forms that comply with the provisions and principles of Islamic Sharia, and in accordance with legal and technical standards and controls, to contribute to an effective role in achieving economic and social development.

### Musharakah:

An agreement or contract between the Islamic bank and the customer to contribute to the capital in equal or varying proportions to finance the establishment of a new project or development of an existing one, or to own a real estate, or a movable asset, whether on a permanent or diminishing basis.

### Fixed Musharakah:

The bank has partnership with one or more natural or legal persons in a commercial, real estate, agricultural, service project or other various fields of investment, through joint financing in the project participation in capital), and each of the partners is entitled to his share of the proceeds of such project.

### Diminishing Musharaka or Ijarah Muntahia Bittamleek:

A type of partnership where the bank contributes to the capital of a company operating in any business sector with one or more partners, and each of the parties to this company deserves its share in the profit according to what is agreed upon in the contract, while the Islamic bank promising to waive part or all of its share in the capital, by selling its shares or its share in the capital to such partners, provided that the partners, in turn, also commit to purchasing such share and replacing the bank in ownership, with payment of the consideration in one go or in multiple installments according to the agreed terms.

### Mudarabah:

An investment activity where an agreement concluded between two parties, namely, the owner of the capital (Rab al-Mal) and the mudarib or the entrepreneur (i.e. the party concerned with investing the money). In which Rab al-Mal contributes capital to an institution or activity managed by the employer in his capacity as a Mudarib (or entrepreneur).

### Unrestricted Mudarabah:

A contract in which the capital provider (Rab al-Mal) permits the Mudarib to administer a Mudarabah fund without any restrictions. In this case, the Mudarib has a wide range of trade or business freedom on the basis of trust and the business expertise he has acquired.

### Restricted Mudarabah:

A contract in which the capital provider (Rab al-Mal) restricts the actions of the Mudarib to a particular location or to a particular type of investment as the capital provider considers appropriate, but not in a manner that would unduly constrain the Mudarib in his operations. In other words, Rab al-Mal allows the Mudarib to make investments that are subject to specific investment standards or certain restrictions.

### Murabahah:
A contract whereby an Islamic bank sells to its customer a known type of asset at cost plus an agreed profit margin. Islamic banks use Murabahah to meet finance requirements such as financing raw materials, machinery and financing short-term trade.

### Promise Stage:
It starts from the customer's request to purchase the commodity until the bank purchases it.

Ownership Stage:

It starts from the bank's purchase of the commodity until it is sold to the customer.

### Sale Stage:
It starts from the bank selling the commodity to the customer until the end of his payment of the installments.

### Ijarah:
The acquisition of benefits in exchange for a fee.

### Operational-Cum-Financing Ijarah:
An agreement whereby a specific asset is leased or used by a lessee in exchange for the latter making periodic payments for a limited period of time in the contract to the owner of the asset (the lessor).

### Ijarah Muntahia Bittamleek:
A form of Ijara contract that offers the lessee an option to own the asset at the end of the Ijarah period, either to purchase the asset for a nominal price, to pay the market value, or under a gift contract.

### Istisna'a:
An agreement with a customer to sell or purchase an asset that may not have been established yet, provided that it is manufactured or built according to the specifications of the final buyer and delivered to him at a specified future date at a predetermined sale price.

### Customer:
The customer who asks the bank to manufacture an item for him according to a contract between them.

### Manufacturer:
The bank that executes the customer's request.

### Subject-Matter:
The item that is agreed upon by both the customer and the manufacturer, and valued at a known price.

### Price:
The value of a manufactured item (subject-matter) agreed between the customer and the manufacturer.

### Form:
It is the form of the offer and acceptance by the bank (sani) and customer (mustasni) on the manufactured item.

### Tawarruq:
Tawarruq means purchasing a commodity on a deferred price either in a form of Musawamah or Murabahah, later selling it to a third party other than the initial seller from whom he purchased it with the objective of obtaining cash.

Individual Tawarruq (Tawarruq al-Fiqhi):

"Purchasing a commodity on a deferred price and later the buyer sells it to a person other than the seller for immediate cash."

### Organized Tawarruq (Tawarruq al-Munazzam):
Provided by Islamic financial institutions as a banking service to their customers within ordered and organized procedural and contractual mechanisms and steps that facilitate the customer's access to cash through a securitization process in which the bank is an additional intermediary party.

### Al-Qard al-Hasan:
A contract between two parties, one the lender and the other the borrower, under which money belonging to the lender is paid to the borrower, provided that the latter (the borrower) returns it or a similar amount to the lender at the agreed time and place.
### Instruments (Sukuk):
"Securities of a negotiable duration proving ownership of its holder of a periodic income-generating asset". Sukuk are distinguished financially from other securities traded in the markets.
### Shares:
The main securities in the capital structure of the shareholding companies. Shares are the company's property documents. Shareholders are the owners of the company that issues such shares.
### Traditional Debt Bonds:
Negotiable securities for documenting a loan with interest. The security holder is the lender and the issuer is the borrower. They are issued by companies, governments and banks. Capital (nominal value) and interest is secured by the issuer. The relationship between the holder and the issuer is a creditor-debtor relationship.
### Traditional Tawarruq:
Means the conversion of debt into equitably tradable securities (bonds), which represent interest-bearing debt to the bearer from its issuer, such bonds cannot be issued or traded legally.
### Islamic Tawarruq:
The issuance of financial documents or certificates of equal value, representing common shares of the ownership of assets (items, benefits, rights or a mixture of items, benefits, money and debt) that is actually existing or will be created from the proceeds of the subscription, and issued in accordance with a Shariah-compliant contract and governed by its provisions.
### Person with Disability:
Any person who has a prolonged deficiency in physical, mental, intellectual or psychological functions that prevents him from effectively performing his/her daily tasks in the community on an equal basis with others.
### Disability:
The presence of one or more visual, hearing, mental, physical and motor disabilities, learning disabilities, speech and language disorders, and other disabilities requiring special care.
### Business Conduct Rules:
Code of Conduct is a set of ethical standards and controls governing employee's behavior in implementation of their works. Business ethics were needed due to interaction of many parties (Shareholders – Stakeholders – Chiefs– Employees– Customers) in the business process, provision of various services and products along with conflict of their interests, goals and requirements. Therefore, it was necessary to set a number of ethical criteria to regulate such relationship in order to meet all parties' needs, maintain their rights and define their duties and responsibilities.
### Code of Ethics:
The higher values that ensure that banks can honestly and objectively practice their operations and perform their roles and enhance trust of all third parties relevant to bank activities and in order to recognize this proper purpose.
### Work Ethics:
A set of ethical standards, rules and behavior that an employee has to comply with and show toward his/her work, colleagues and the society as a whole.
### Professional Behavior:
Carrying out job duties with honesty, objectivity and integrity and working continuously to achieve the objectives of the Financial Institution. It also means that practices conducted by employees shall be within their entrusted powers. Employees shall perform their duties in a manner that is free from negligence, and shall not violate laws and instructions, jeopardize the public interest or seek to achieve personal interest.

Stakeholders:

Any person with an interest in the Financial Institution, such as shareholders, creditors, customers, suppliers and any third party.

Insider Information:

Any information, data, figures or statistics, whether verbal, written or electronic, obtained or accessed by any of the Financial Institution Staff by virtue of his/her work nature or because of being an employee at the Financial Institution and which is/are not available to the public.

Conflicts of Interest:

A situation in which the objectivity and independence of any of the Financial Institution Staff are adversely affected when performing his/her tasks by a personal, actual or potential, material or non-material interest that may relate to him/her personally or to one of his/her personal relationships. This situation also includes when the employee's performance is negatively influenced, directly or indirectly, by his/her personal considerations or after obtaining information related to a decision.

Compliance:

Compliance refers to ensuring application and implementation of financial instructions, procedures and transactions in accordance with regulations, rules and instructions issued by regulatory and supervisory authorities in charge of the Financial Sector.

Compliance function:

An independent function that identifies, assesses and provides advice, monitors and reports on risks of the Bank's non-compliance related to its exposure to legal and administrative penalties, financial loss or what may undermine the Bank's reputation due to its failure to abide by the regulations and controls or sound standards of conduct and professional practice.

Non-compliance risk:

Risks leading to legal sanctions and procedures, financial loss or damage to the bank's reputation that may suffer as a result of its failure to comply with all applicable laws, regulations, rules, circulars, instructions and codes of conduct applicable.

Compliance Department:

is a supervisory department established in order to assure the Board of Directors that the executive management and all departments in the bank abide by enforcing all instructions issued by the supervisory and regulatory authorities and the bank's management itself, in addition to Banks compliance with the rules and regulations governing the work and rules of ethics and professional conduct.

Compliance Manual:

Compliance Manual is the manual prepared by Compliance Department in each bank with the objective of covering compliance issues, including all principles of compliance, and in line with SAMA's Compliance Manual.

Audit Committee:

It is responsible for ensuring compliance with laws and overseeing the bank's transactions, and it should ensure that a control system is in place and the financial data reported are accurate and fair.

Nomination and Compensation Committee:

Shall be concerned with searching for and recommending nominees for selection as executive and non-executive Directors, determining an incentives system and approving of compensation.

Executive Committee:

BOD shall determine powers and responsibilities of this committee.

Risk Management Committee:

Shall be concerned with assisting BOD in supervising credit risk management and assuming other related responsibilities that may be assigned thereto by the Board.

Financial Crime:
Any crime that results in financial loss, but it is more common to refer to crimes that have a special connection with the financial sector.
Fraud:
a deliberate distortion of a fact to entice someone to waive something valuable or a legal right.
Financial Fraud:
The act of seeking illegitimate gain through the exploitation of technological, documentary, relational, social means, or the intentional neglect or exploitation of weaknesses in systems or regulatory standards, either directly or indirectly, is referred to as illegitimate exploitation.
External Fraud:
is a fraud committed by individuals from outside bank (usually professional criminals).
Internal fraud:
is a fraud committed by employees of the bank, whether senior managers or subordinate staff.
Falsifying Identity:
By claiming to be customers after obtaining by way of fraud correct account information from the bank.
Fake Authorization:
Illegally obtaining or forging verbal and written authorization of bank's officials and customers.
Unauthorized Access and Broadcast Signals Intrusions):
Unauthorized persons gain access to e-transfer rooms and equipment, and may intercept and switch the actual broadcast.
Skimming and Pasting:
Any single or multi-symbol number is cut from the card surface and other symbols are affixed to the card surface.
Accounting Fraud:
is the intentional preparation of financial statements for an account, where its perpetrator knows well that it is falsified.
Money laundering:
Commit or initiate any act meant to conceal or camouflage the original source of money obtained in a manner incompatible with Sharia or law and make such monies appear to be legitimate
Funds:
Assets, economic resources or properties of any value or type, however acquired, whether material or immaterial, tangible or intangible, movable or immovable, along with documents, deeds, transfers, letter of credits of any form, including electronic or digital systems and bank credits that evidence ownership or interest therein, in addition to all types of commercial papers, securities, bonds and bills, or any interest, profit or other income generated from such funds.
Proceeds of Crime:
The funds directly or indirectly obtained or acquired from or through the commission of a sanctioned offense, whether within or outside the Kingdom, in accordance with Sharia or laws in the Kingdom, including any funds transferred or converted wholly or partially into properties or investment proceeds.
Financial Institutions:
Any KSA-based establishment that executes one or more of the banking activities, money transfer, currency exchange, securities-related business, insurance and finance. Implementing Regulations of the Law outline activities or operations executed by the financial institutions.
Placement
Placement involves the introduction of illegally obtained funds into the financial system, usually through banks. This is realized through cash deposits, purchase of monetary instruments for cash, currency exchange, purchase of insurance contract, cheque cashing services, the retail economy (through cash purchases), and smuggling of cash between countries

### Layering:
Concealing the illicit source of funds in order to block tracing of funds by conducting complex transactions to be concealed. This stage consists of a set of processes, such as sending wire transfers to other banks, purchasing and selling of shares, bonds, insurance contracts and fraudulent investments, or transferring those funds to offshore accounts.
### Integration:
laundered money is integrated back into the legitimate economic system, making it appear to be legitimate assets. This can be realized utilizing funds in other activities that could generate sustainable income that may be used to finance other crimes, or to be utilized later.
### Terrorism financing:
Any act involves raising, offering, getting, allotting, transporting, or transferring funds wholly or partially for any organized or unorganized individual or collective terrorist activity, inside KSA or offshore, directly or indirectly from a legitimate or illicit source. or to engage in any banking, financial or commercial transaction in favor of such activity or involved individuals, or obtain, directly or through an intermediary, funds for its use, advocacy and promotion of its principles, to secure training places, shelter and provide involved individuals with any kind of weapons or counterfeited documents, or to provide any other means of support and financing intentionally. Furthermore, any act that constitutes a crime subject to the International Convention for the Suppression of the Financing of Terrorism.
### Collection of funds:
Collect funds to support and finance terrorist operations or persons to carry out terrorist acts. At this stage, charities and non-profit organizations may be abused by terrorists to collect and launder funds destined for terrorism.
### Transfer of funds:
Transfer of funds to terrorists within or outside the fund collection area. At this stage, banks, finance companies, or the alternative transfer method may be used to move funds across borders .... etc.
### Use of funds:
Place funds at the terrorists' disposal to cover operational expenses, subsistence, personal and medical expenses, purchase of travel tickets, purchase of weapons and ammunition, combat training, etc...
### Suspicious Financial Transaction:
A suspicious financial transaction is a transaction entailing procedures that are very similar to operations that have been conducted and proven to involve ML/TF, or procedures that a bank's employee believes being illogical, unjustified, unconvincing, contradicting customer's normal behavior, or the nature of normal accounts transactions.
### AML/CFT Department (Unit):
an independent and dedicated ML/TF Control and Reporting Unit (MLCU), with adequate staff who shall be trained, familiar with compliance function and shall be all Saudis.
### General Directorate for Financial Investigations:
General Directorate for Financial Investigations receives suspicious transactions reports relating to ML/CT issues. FIU analyzes and redirects these transactions and prepares reports to the relevant authorities to take appropriate actions against money laundering, terrorist financing and other financial crimes. Previously, MOI FIU, for instance, was a unit then transformed into a general department.

# Abbreviations:

| | |
|---|---|
| SAMA | The Saudi Central Bank |
| MADA | Saudi Payments Network |
| TADAWUL | Saudi Stock Exchange |
| SARIE | Saudi Arabian Riyal Interbank Express |
| CAM | Cash Accept Machine |
| ATM | Automated Teller Machine |
| SPAN | Saudi Payments Network |
| AMEX | American Express |
| ACH | Automated Clearing House |
| EFTPOS | Electronic Funds Transfer at Point of Sale |
| IBAN | International Bank Account Number |
| SWIFT | Society for Worldwide Interbank Financial Telecommunications |
| SMS | Short Message Service |
| APR | Annual Percentage Rate |
| AAOIFI | Accounting & Auditing Organization for Islamic Financial I nstitutions |
| CIBAFI | General Council for Islamic Banks and Financial Institutions |
| IFSB | Islamic Financial Services Board |
| IIFM | International Islamic Financial Market |
| IIRA | Islamic International Rating Agency |
| FATF | Financial Action Task Force |
| KYC | Know Your Customer |
| CDD | Customer Due Diligence |
| EDD | Enhanced Due Diligence |
| GCC | Gulf Cooperation Council |
| WTO | World Trade Organization |
| BIS | Bank for International Settlements |
| BCBS | Basel Committee on Banking Supervision |
| OECD | Organization for Economic Co-operation and Development |
| WB | World Bank |
| IAIS | International Association of Insurance Supervisors |
| CPMI | Committee on Payments and Market Infrastructures |

# Multiple Choice Questions

## Multiple Choice Questions (MCQs):

The questions are developed to give students an overview sample of test questions. Kindly be aware that these are not the actual questions approved for Professional Certificate of "Retail Banking Foundations":

Kindly choose one answer for each question. Then check the answers at the end of this section.

1- SAMA's main duty is:

a. Receive customer deposits in current and time deposit accounts.
b. Formulate and manage monetary policy and regulate the foreign exchange market.
c. Purchase and sale of foreign currency.
d. Provide loans for project finance.

2- Banks that have been established by the state in order to supervise direct and control the banking system. Central banks reserve the right to issue the currency and keep the state's liquid assets: such as gold and foreign currencies.

a. Mortgage Banks
b. Commercial Banks
c. Industrial Banks
d. Central Banks

3- Which of the following activities is prohibited for SAMA to engage in:

a. Control and supervise financial institutions in accordance with the relevant laws.
b. Take appropriate procedures and measures to reduce the commission of offenses connected with financial institutions.
c. Financing and lending government.
d. Manage and invest foreign exchange reserves.

4- Banks that issue securities of companies, and government bonds so that companies guarantee coverage of shares and bonds offered to the public during its offering for public subscription:

a. Business banks
b. Central Banks
c. Mortgage Banks
d. Agricultural Banks

5- Which of the following activities requires any bank to obtain a written approval from SAMA before carrying out:

a. Opening Documentary Letters of Credit
b. Altering the composition of paid-up or invested capital
c. Issuing credit cards and ATM cards
d. Dealing in stocks and foreign exchange.

6- In accordance with the Banking Control Law, the deposit liabilities of a bank shall not exceed:

a. Double the total of its reserves and paid-up or invested capital.
b. Five times its paid-up or invested capital and reserves.
c. Ten times its reserves and paid-up or invested capital.
d. Fifteen times its reserves and paid-up or invested capital.

7- Which of the following activities is prohibited for banks operating in KSA to engage in:

a. Engaging in the wholesale or retail trade including the import or export trade.
b. Opening current accounts and saving accounts
c. Financial Mediation between lenders and borrowers.
d. contributing to financing foreign trade.

8- "A bank that conducts a banking business mainly through the web and mobile applications", called:

a. Mortgage Banks
b. Central Banks
c. Digital Banks
d. Agricultural Banks

9- Guarantee that is issued to participate in tenders and expires after being fulfilled or upon awarding, whichever is earlier, called:

a. Bid Bond
b. Performance Bond
c. Advance Payment Bond
d. Letter of credit

10- Deposits that entitle the client to withdraw the funds deposited with the bank when needed, after serving a notice to the bank before withdrawing the deposit with a certain period, called:

a. Fixed deposits
b. Call Deposits.
c. Term Deposits
d. Current Deposits.

11- Cards that SAMA requires all banks to issue and provide all services to the end customer, free of charge, regardless of ATM used, operator of that ATM:

a. Credit card.
b. MasterCard
c. ATM card
d. AMEX card

12- The interest of fixed deposit account is often higher than the interest of saving accounts because:

a. The saving accountholder can withdraw at any time, while the deposit accountholder cannot withdraw its amount before the agreed date.
b. The deposit accountholder can withdraw at any time, while the saving accountholder cannot withdraw its amount before the agreed date
c. Fixed deposit accounts are denominated in foreign currency, while saving accounts are denominated in the local currency.
d. Saving accounts are denominated in foreign currency, while fixed deposit accounts are denominated in the local currency.

13- Opening letters of credits is a service, through which:

a. A company can invest its funds in global investments.
b. A person can invest its funds in global investments.
c. A company can import his goods from abroad.
d. A person can approve his documents from government bodies.

14- ATM card is issued by the bank to customers who have balance in their accounts, and the most important characteristics of it are:

a. ATM card authorizes its bearer to withdraw, or to pay for goods and services to the extent of its available balance.
b. ATM card entitles its holder to obtain credit.
c. The customer always bears a fee for the ATM card.
d. Banks do not charge any fees from the ATM card.

15- The account into which a specific amount of money is deposited for a specified period in exchange for a return, with the condition that the client cannot withdraw the amount before the agreed-upon date is referred to as:

a- Fixed Deposit Account.
b - Time-Locked Current Account.
c - Notice Deposit Account.
d - Savings Account.

16- Which of the following is not a commercial paper:

a. Bills
b. Checks
c. Promissory notes.
d. Shares

17- The bank must agree to open an account for any customer without requiring him/her to deposit any amount. The account should be closed, if no amount is deposited within a period of:

a. 30 days
b. 60 days
c. 90 days
d. 120 days

18- Which of the following categories are not allowed to open bank accounts:

a. Expatriates with a visit visa to carry out certain assignments for entities in Saudi Arabia
b. Foreign Pilgrims
c. Expatriate with a temporary (90-day) work visa in his/her passport:
d. Expatriate holding residence permit (Iqama)

19- An account shall be considered dormant if the account completed .......... from the date of the last transaction carried out by the customer:

a. 24 calendar months
b. 12 calendar months
c. 6 calendar months
d. 3 calendar months

20- A person not allowed to manage his/her money under a court deed that proves the lack or loss of mental capacity, called:

a. Minor
b. Guardian
c. Legally Incompetent Person
d. Custodial Person

21- Inward transfers and checks are to be accepted in the following cases:

a. If the transfer or check is sent from a fictitious account to a beneficiary (natural or legal) in a branch of such bank, the transfer or check can be encashed to the beneficiary or its legal representative.
b. If the transfer or check is sent from a local bank to another, it must be directed from sender's account to receiver's account.
c. In case the transfer or check is received from outside the Kingdom without the personal beneficiary name, and it is not required to be opened at the time of receiving the transfer.
d. If the transfer or check is not specified in a name to a beneficiary (natural or legal) in a branch of such bank, the transfer or check can be encashed to the beneficiary or its legal representative.

22- If the customer deposited a check in his account to be encashed, which is drawn from another bank, endorsement of the beneficiary is called

a. Nominal endorsement.
b. Blank Endorsement
c. Special Endorsement
d. Restricted endorsement

23- The market in which the origination, guarantee, settlement and servicing of mortgage loans by real estate financers takes place, is called:

a. Secondary market.
b. Primary market.
c. Parallel market.
d. Capital market.

24- The market in which the rights of real estate financier and securities secured by mortgages are traded is called:

a. Parallel market.
b. Primary market.
c. Secondary market.
d. Capital market.

25- The supported financing program, provided in collaboration with the Real Estate Development Fund, aims to alleviate the burden of the down payment required by financing entities when purchasing real estate under mortgage financing. The financing percentage is increased to:

a- (70%) of the property value under the mortgage financing contract.
b - (80%) of the property value under the mortgage financing contract.
c - (90%) of the property value under the mortgage financing contract.
d - (95%) of the property value under the mortgage financing contract.

26- If the account completes a period of twenty-four (24) months from the date of the last transaction conducted by the client or their authorized agent or registered and authenticated heirs, it is referred to as:

a. Active Account
b. Dormant Account
c. Abandoned Account
d. Unclaimed Account

27- Financing entities (debt sellers) must process the customer's request for debt transfer by completing the specific forms for transferring mortgage financing debt within a period of (------):

a. Not exceeding three working days from the date of receiving the request.
b. Not exceeding five working days from the date of receiving the request.
c. Not exceeding seven working days from the date of receiving the request.
d. Not exceeding ten working days from the date of receiving the request.

28- Financing entities (debt sellers) must complete the processing of the customer's request within a period of (-------) from the date of receiving approval from the financing entity (interested in purchasing the debt) for the debt transfer.

a. Not exceeding three working days.
b. Not exceeding five working days.
c. Not exceeding seven working days.
d. Not exceeding ten working days."

29- The card that obligates the holder to pay the full amount due upon receiving the account statement or on the due date specified in the statement of account is:

a. Credit card.
b. Charge card.
c. Corporate card.
d. Business card.

30- In case a new credit card is issued, the minimum total annual income for the cardholder should be:

a. (SAR 12,000) for bank customers.
b. (SAR 15,000) for non-bank customers.
c. (SAR 24,000) for bank customers and an amount of SAR 30,000 for non-bank customers.
d. (SAR 12,000) for bank customers and an amount of SAR 15,000 for non-bank customers.

31- Which of the following is true with respect to rights and obligations of a credit or charge card holder:

a. The cardholder shall provide the card issuer with his updated information and any change in his contact information.
b. The cardholder may not cancel the credit and charge card agreement within (10) days of receiving the card.
c. The card issuer may increase the term cost over the outstanding balance due to late payment or default.
d. The card issuer may charge fees for transfers between the current account of the cardholder and the credit or charge card accounts in the same bank.

32- Credit card cash withdrawal fees should not exceed:

a. SAR 150 for each cash withdrawal amounting to (SAR 5000) or less.
b. SAR 100 for each cash withdrawal amounting to (SAR 5000) or less.
c. 3% of the amount of each transaction exceeding (SAR 5000), and a maximum of (SAR 300).
d. 6% of the amount of each transaction exceeding (SAR 5000), and a maximum of (SAR 600).

33- Banks shall completely conceal the customer signature and balance from the branch screens, if the account continues without financial movement for a period of:

a. Five years.
b. One year
c. 6 months
d. 90 days

34- If the amount written in words differs from the amount written in figures, in such case, the amount ....... shall prevail.

a. Written in figures
b. Written in words
c. Lower value
d. Higher value

35- Which of the following represents one of the Similarities between Islamic banks and traditional banks:

a. Not dealing with banking interest.
b. Sharia Supervision
c. subject to the supervision and control of SAMA and instructions thereof
d. Observance of Provisions of Islamic Sharia

36- An agreement or contract between the Islamic bank and the customer to contribute to the capital in equal or varying proportions to establish a new project or develop an existing one, or to own a real estate, or a movable asset. It may be on a permanent or decreasing basis, is called:

a. Murabaha Contract.
b. Musharakah Contract.
c. Mudarabah Contract.
d. Bond Contract.

37- The bank has partnership with one or more natural or legal persons in a certain project, through joint financing in the project, and the share of each party in the capital and profit remains the same as long as the company exists, is called:

a. Fixed Musharakah
b. Temporary Musharakah
c. Diminishing Musharakah
d. Musharakah ending with ownership

38- An investment activity where an agreement concluded between two parties, namely, the owner of the capital (Rab al-Mal) and the party concerned with investing the money. In which Rab al-Mal contributes capital to an institution or activity managed by the employer, is called:

a. Musharaka
b. Mudarabah
c. Murabaha
d. Istisna'a

39- Mudarib in the mudarabah contract means:

a. Mudarib manages the project in return for a wage that is taken as a percentage of the project's profits.
b. The party providing the project capital.
c. The party bearings the losses of the project.
d. Owner of capital

40- A contract in which the capital provider (Rab al-Mal) permits the Mudarib to administer a Mudarabah fund without any restrictions, is called:

a. Restricted Mudarabah
b. Diminishing Mudarabah
c. Mudarabah ending with ownership
d. Unrestricted Mudarabah

41- A contract whereby an Islamic bank sells to its customer a known type of asset at cost plus an agreed profit margin, is called:

a. Ijarah
b. Mudarabah
c. Murabaha
d. Musharaka

42- Murabahah Sale on Order of Purchase goes through the following stages:

a. Ownership Stage - Promise Stage - Sale and Payment Stage
b. Promise Stage - Ownership Stage - Sale and Payment Stage
c. Promise Stage - Sale and Payment Stage - Ownership Stage
d. Sale and Payment Stage - Ownership Stage - Promise Stage

43- Ijara contract that offers the lessee an option to own the asset at the end of the Ijarah period, either to purchase the asset for a nominal price, to pay the market value, or under a gift contract, is called:

a. Operational Ijarah
b. Ijarah Muntahia Bittamleek
c. Diminishing Ijarah
d. Permanent Ijarah

44- An agreement with a customer to sell or purchase an asset that may not have been established yet, provided that it is manufactured or built according to the specifications of the final buyer and delivered to him at a specified future date at a predetermined sale price, is called:

a. Musharaka
b. Mudarabah
c. Murabaha
d. Istisna'a

45- Sukuk are distinguished financially from other securities traded in the markets by the following:

a. It has low-risk as compared to stocks.
b. It has high-risk as compared to stocks.
c. It has an unpredictable income as compared to stocks.
d. It has a relatively unstable periodic income that makes it unpredictable.

46- Shares differ from sukuk, as shares:

a. It is not permanent as its issuing company, as the case with sukuk, but has a liquidation term.
b. Their market price is less volatile and therefore predictable and stable.
c. Upon liquidation, its holder obtains its share of the company's assets upon liquidation after payment of its debts.
d. Its holder shall recover its capital upon liquidation irrespective of the value of the issuer's assets or its ability to repay debts.

47- Which of the following securities has the right to vote in the general assembly of the joint stock company:

a. Instruments
b. Bonds
c. Preferred Stock
d. Ordinary shares

48- Traditional Tawarruq differs from Islamic Tawarruq, as bonds, as an example of traditional Tawarruq, represent:

a. Common shares of the ownership of assets that is actually existing
b. Interest-bearing debt to the bearer from its issuer
c. Securities that Islamic banks can issue and trade according to Shariah.
d. Securities in which investors assume a high risk.

49- Enabling the bank to verify the valid identity of each customer is an application of:

a. Conflict of interest.
b. Protection of privacy
c. Know Your Customer (KYC)
d. Disclosure and transparency

50- Developing appropriate programs and mechanisms to enhance customer knowledge and skills shall be according to principle of:

a. Disclosure and transparency
b. Financial education and awareness
c. Complaints handling
d. Equitable and fair treatment

51- Providing a bank customer with an invoice containing prices and commissions charged by the center shall be according to principle of:

a. Information Privacy Protection
b. Equitable and fair treatment
c. Disclosure and transparency
d. Know Your Customer (KYC)

52- Responsibilities of banks' customers include:

a. Establish a control system to combat fraud.
b. Develop awareness and education programs regularly.
c. Set appropriate complaint mechanisms.
d. Provide reliable information

53- Which of the following is one of the required technical skills for customer service at banks?

a. To be patient and self-controlled.
b. To be aware of prices and terms of services and products offered at the bank.
c. To be subtle and fulfil needs.
d. To be mindful of customers' needs and expectations.

54- Developing and improving services delivery procedures at banks represent marketing excellence for:

a. Products and services
b. Location
c. Pricing
d. Promotion

55- Which of the following reflects the purpose of developing a Code of Business Conduct?

a. Interpreting procedures and processes for managing non-compliance risks.
b. Identifying and verifying legal status of principal customers and beneficiaries.
c. Identifying main risks of non-compliance facing banks.
d. Establishing principles of discipline, transparency, integrity and objectivity in behaviors of bank's staff.

56- As a core value of the Code of Conduct, integrity means that:

a. Bank shall proclaim its mission, objectives and in place policies.
b. All banks' staff shall be above suspicion and not seeking personal benefits.
c. Bank shall deal fairly with all parties.
d. Banks' staff shall be professionally qualified in so far as to perform their duties properly.

57- As a core value of the Code of Conduct, objectivity means that:

a. Banks' staff shall maintain all documents and papers in their custody.
b. Information and data related to the Bank's business shall not be disclosed.
c. All Banks' staff shall adhere to laws, legislation, circulars and professional standards.
d. Banks' staff shall consider their appearance and public health standards inside and outside the center.

58- Which of the following is considered one of the professional values of the Code of Conduct:

a. Continuous learning and self-qualification.
b. Avoiding conflicts of interest.
c. faithfulness and loyalty to the country.
d. Respect the customs and traditions of society.

59- Which of the following shall be provided by banks to their employees?

a. Maintain customer information confidential.
b. Provide all banks' services to customers fairly and equally.
c. Provide safe, fair and proper work environment that meet staff's basic requirements and needs.
d. Combat money laundering and terrorist financing.

60- Ensuring application and enforcement of instructions and procedures in accordance with laws, rules and instructions issued by regulatory and supervisory authorities is an application of:

a. Know Your Customer (KYC)
b. Compliance.
c. CDD
d. Fraud

61- Approving compliance policy in Banks is the responsibility of:

a. Board of Directors.
b. Senior Management.
c. Compliance Management
d. Compliance Officer.

62- Which of the following is a Compliance Management duty?

a. Approving a formal document establishing a permanent and effective compliance function.
b. Providing adequate resources to the entity entrusted with compliance function.
c. Assisting the Senior Management to handle risks of non-compliance.
d. Reviewing activities of compliance function regularly.

63- Any practice involving deception to, directly or indirectly, obtain financial benefit is deemed:

a. Money laundering.
b. Financial fraud.
c. Terrorist financing.
d. Money smuggling.

64- Which of the following is an example of external fraud:

a. Manipulation of exchange center's staff in customer accounts.
b. Failure to record transactions.
c. A customer impersonates another.
d. Non-compliance with the rules regulating work.

65- Which of the following is considered an internal fraud?

a. Customer uses a false ID.
b. Customer enters incorrect data via a computer.
c. Customer attempts to exchange counterfeit currency.
d. Exchange center accountant intentionally made wrong daily entries.

66- Manipulation of bank accountant while recording financial transactions is a type of:

a. Internal Fraud.
b. External Fraud.
c. Money Laundering.
d. Violation of Compliance Policies.

67- Committing any act intended to conceal or disguise the truth of acquired funds in order to appear as if they are from a legitimate source, is considered a type of:

a. Financial Fraud.
b. Money Laundering.
c. Terrorism Financing.
d. Violation of Compliance Policies.

68- Money laundering operations include the process of entering funds generated from an illegal source into the financial system, which is called ____________ stage:

a. Layering
b. Integration
c. Placement
d. Control.

69- The process of concealing the illegal source of funds in order to block tracing of such funds is called:

a. Integration.
b. Layering.
c. Integration.
d. Placement

70- The process of re-entering laundered money back into the legitimate economic system so that it appears as legitimate assets is called:

a. Integration.
b. Layering.
c. Integration.
d. Placement

71- Every act involves collecting and providing funds for any terrorist activity, whether directly or indirectly, shall be considered as:

a. Money laundering.
b. Financial fraud.
c. Terrorist financing.
d. Violation of Compliance Policies.

72- Using the proceeds of criminal activities to purchase high-value goods that can be easily traded, is among the methods of:

a. Internal Fraud.
b. Money Laundering.
c. External Fraud.
d. Violation of Compliance Policies.

73- Which of the following represents patterns related to money laundering and terrorist financing:

a. Failure to record transactions.
b. Manipulation of exchange center's staff in customer accounts.
c. Use of non-profit organizations to raise funds and hide their source.
d. Staff's non-compliance with Rules Regulating Bank Business.

74- Which of the following is an indicator of money laundering suspicion:

a. The customer's willingness to initiate deals at a price above the market price or sell them at a price below the market price.
b. The customer provides information necessary for requirements of Know Your Customer policy.
c. The customer provides valid ID documents.
d. Being able to communicate with the customer on a permanent basis through the contact information provided by the customer.

75- To be able to combat fraud, bank staff shall:

a. Record financial transactions properly
b. Report suspicious transactions and behaviors
c. Confiscate suspicious funds
d. Plan personal goals in line with the organizational objectives.

76- After reporting suspicious money laundering activity, bank shall:

a. Inform the customer or beneficiary of reporting procedures.
b. Maintain records, copies of notices, the technical report and attachments thereof.
c. Destroy report files after the end of the process.
d. Alert and notify the customer not to repeat such activities.

77- Duties of bank's ML/TF Control Unit include:

a. Alert customers not to conduct suspicious transactions any more.
b. Destroy report files after the end of the process.
c. Receive reports on suspicious transactions from bank's departments.
d. Develop programs to raise awareness and educate customers.

78- Not reporting suspicious activities is considered a crime punishable by law:

a. Imprisonment of not more than three years.
b. Fine of not more than SAR 5,000,000.
c. Imprisonment of not more than two years, and/or fine of not more than SAR 500,000.
d. Imprisonment of more than two years, and/or fine of more than SAR 500,000.

79- Creating a database that include all issues related to money laundering and terrorist financing for all suspicious and reported cases, is the duty of:

a. Senior Management.
b. AML/CTF Department
c. Board of Directors.
d. Compliance Management

80- Money Laundering Control Unit (MLCU) at banks is responsible for:

a. Approve the bank's compliance policy.
b. Identify and assess the main compliance risks facing the bank and develop corrective plans
c. Report to FIU when suspicions have been determined, supported by a detailed technical report on any suspected case.
d. Determine, document and evaluate non-compliance risks related to the bank's activities.

81- Which of the following tasks is the responsibility of the Financial Investigation Unit:

a. Developing a compliance-related education, awareness and training program for all senior management, department managers and employees.
b. Receiving reports from financial institutions about transactions suspected to be money laundering crime.
c. Drafting a compliance policy and getting such policy approved by the Board of Directors.
d. Providing adequate resources to the entity entrusted with compliance function.

82- Which of the following is one of key objectives of money laundering operations:

a. Obtaining documents or benefits that a receiver has no right to obtain.
b. Supporting and promoting the values of honesty and integrity.
c. Making it more difficult for Security Authorities to track such funds.
d. Theft or deliberate misuse of banks' assets.

83- Negative impacts of money launderings activities on the national economy include:

a. Spread of political and administrative corruption and influence peddling.
b. Impeding the local economic development and missing real investment opportunities.
c. Rise of lower social groups to the top of the social hierarchy.
d. Depriving money exchange and transfer centers of involving in its business in addition to revocation of license.

84- A bank should conduct periodic maintenance of all ATMs, to include verification of operation and availability at all times, preferably replacing ATMs that have been serviced for more than:

a. Seven years
b. Nine years
c. Ten years
d. Twenty years

85- If the bank is unable to send any external remittance due to return of funds by a correspondent bank, the bank should:

a. Advise a customer within two business days.
b. Advise a customer within the same day.
c. Advise a customer after four business days.
d. Invest the amount for affected customers.

86- A bank should inform customers of decision by the bank to close a customer's account .......... of the account being closed.

a. 30 days
b. 60 days
c. 90 days
d. 120 days

87- In the event of a complaint by the bank's customer, the bank should communicate with the customer regarding the complaint within one week from the date of receipt. If the complaint is not resolved in one week, the bank will communicate and update within:

a. 5 business days
b. 7 business days
c. 10 business days
d. 30 business days

88- The bank shall maintain confidentiality of customer information, except in the following case:

a. When disclosure is made under customer's oral consent.
b. When disclosure is in the customer's interest.
c. When disclosure is made under the consent of bank's officials.
d. When disclosure is made under customer's written consent.

89- Which of the following is not considered the responsibilities of customers when dealing with banks:

a. Equitable and fair treatment
b. Know how to file a complaint:
c. Provide reliable information.
d. Avoiding risk:

90- A bank should notify their consumers that use of ATM card could result in additional withdrawal fees as per SAMA schedule of fees and charges when:

a. Implementing withdrawals inside of KSA
b. Implementing withdrawals outside of KSA
c. Withdrawals between local banks.
d. Transfer between individuals.

91- To master the professional approach of work aspects, requirements, conditions and duties, together with a good knowledge of nature of work in the bank such as procedures and conditions of banking services and products to achieve the expectations of customers and beneficiaries who are waiting for the employee and the bank to meet their needs and requirements, solve their problems and support them, is called:

a. Behavioral Skills
b. Ethical Skills
c. Technical skills
d. Psychological skills.

92- One of the most important CRM objectives:

a. Provide information and inputs for marketing research.
b. Provide information about clients' personal lives.
c. Provide data on the national economy.
d. Increase rates of customers' retention.

93- Principles of Responsible Financing aim at encouraging responsible financing that:

a. meets the actual requirements of clients.
b. educates customers about their responsibilities to the economy.
c. meets the economy's actual needs.
d. corresponds to the orientations of officials of the economy.

94- The monthly credit obligations for financing wherein all the instalments are not equal and calculated by the assumption that the monthly instalment is fixed at:

a. Higher monthly installment of all installments.
b. The monthly average level of all instalments
c. Lowest monthly installment of all installments.
d. The monthly average of monthly instalments.

95- When calculating deductible ratios for consumers whose total monthly income is less or equal to SAR (15,000), the monthly credit obligations resulting from the financing shall not exceed ........ of the total monthly income of the client.

a. 35%
b. 45%
c. 55%
d. 65%

96- When calculating the total monthly income of the client, it shall be calculated from the other income of amounts obtained by the person from any income source whether being monthly, annual or other periodical period:

a. Half of the monthly average
b. Half of the annual average
c. Half of the monthly average
d. Monthly average level

97- Loss of original documents and papers and replacement thereof with copies is an indication of:

a. Money Laundering.
b. External Fraud.
c. Internal Fraud.
d. Violation of Compliance Policies.

98- A set of ethical standards, rules and behavior that an employee has to comply with and show toward his/her work, colleagues and the society as a whole, called:

a. Work Ethics
b. Insider Information
c. Integrative relationship.
d. Feedback

99- Employees of financial institution may accept the gift on the condition that:

a. The gift is in cash, or in the form of loans.
b. The gift shall be in the form of shares or financial derivatives.
c. The gift and its value shall be according to the usual practices followed, depending on the occasion of its presentation and its nature.
d. The person presenting the gift shall not have private or public interest that he/she wishes to get from the Financial Institution or one of its staff.

100- One of the available methods in handling customer complaints is:

a. Failure to provide the service as promised in terms of timing and behavior.
b. Lack of honesty and trust in exchange centers.
c. Failure to provide information on alternative products and services rendered by the ex change center.
d. Identifying customer's expectations on acceptable service levels.

# Question Answers

1. Answer: B        reference: Chapter 1 section 1.3.1

SAMA serves as the Central Bank of KSA. It has been entrusted with performing many functions, the most important of which is managing monetary policy to maintain price and exchange rate stability.

2. Answer: D   reference: Chapter 1 section 1.1.1

Central Banks that have been established by the state in order to supervise direct and control the banking system. Central banks reserve the right to issue the currency and keep the state's liquid assets: such as gold and foreign currencies.

3. Answer: C   reference: Chapter 1 section 1.3.1

Financing and lending government is one of the activities that is prohibited for SAMA to engage in

4. Answer: A   reference: Chapter 1 section 1.3.1

Business banks are the banks that issue securities of companies, and government bonds so that companies guarantee coverage of shares and bonds offered to the public during its offering for public subscription.

5. Answer: B        reference: Chapter 1 section 1.3.2

Altering the composition of paid-up or invested capital is one of the activities requires any bank to obtain a written approval from SAMA before carrying out.

6. Answer: D   reference: Chapter 1 section 1.3.2

In accordance with the Banking Control Law, the deposit liabilities of a bank shall not exceed fifteen times its reserves and paid-up or invested capital.

7. Answer: A   reference: Chapter 1 section 1.3.2

Engaging in the wholesale or retail trade including the import or export trade is one of the activities that is prohibited for banks operating in KSA to engage in.

8. Answer: C   reference: Chapter 1  section 1.4.3

"A bank that conducts a banking business mainly through the web and mobile applications, is called digital banks.

9. Answer: A   reference: Chapter 2 section 3.1.2

Guarantee that is issued to participate in tenders and expires after being fulfilled or upon awarding, whichever is earlier, is called Bid Bond.

10. Answer: B        reference: Chapter 2 section 2.1.1

Call Deposits are the deposits that entitle the client to withdraw the funds deposited with the bank when needed, after serving a notice to the bank before withdrawing the deposit with a certain period.

11. Answer: C   reference: Chapter 2 section 2.1.1

Automated Teller Card is a card that enables the account holder to obtain cash from Automated Teller Machines (ATMs) without the need to visit the bank, at all times. Customers can make withdrawals, if they have sufficient balance.

12. Answer: A reference: Chapter 2 section 2.1.1

The interest of fixed deposit account is often higher than the interest of saving accounts because the saving accountholder can withdraw at any time, while the deposit accountholder cannot withdraw its amount before the agreed date.

13. Answer: C reference: Chapter 2 section 2.1.2

Documentary LC is one of the means whereby a trader can import goods from overseas.

14. Answer: A reference: Chapter 2 section 2.1.1

ATM card authorizes its holder to withdraw, or to pay for goods and services to the extent of its available balance, and shall be deducted therefrom immediately. ATM card does not entitle its holder to obtain credit.

15. Answer: D reference: Chapter 2 section 2.1.1

Beneficiary is the seller for whom the credit was opened for the purpose of paying for goods.

16. Answer: D reference: Chapter 2 section 2.1.2

Commercial papers consist of: Bill, promissory note and the check, and therefore the shares are not commercial paper.

17. Answer: C reference: Chapter 2 section 2.2.1

The bank must agree to open an account for any customer without requiring him/her to deposit any amount. The account should be closed, if no amount is deposited within a period of 90 days.

18. Answer: B reference: Chapter 2 section 2.2.2

A foreign natural person having a Hajj identification card issued by the Ministry of Hajj and Umrah, pilgrim guiding institutions, or others, permitting him/her to perform Hajj, is not allowed to open bank accounts.

19. Answer: A reference: Chapter 2 section 2.2.3

Accounts shall be considered dormant after (24) calendar months from the date of the last recorded debit transaction carried out by a customer or his/her authorized agent or the last reliable and documented correspondence.

20. Answer: C reference: Chapter 2 section 2.2

Legally Incompetent Person is a person that is not allowed to manage his/her money under a court deed that proves the lack or loss of mental capacity.

21. Answer: B reference: Chapter 2 section 2.1.3

If the transfer or check is sent from a bank account to a beneficiary (natural or legal) in a branch of such bank, and the transfer is received from outside the Kingdom in the personal beneficiary name, it is not allowed to be disbursed except through a bank account.

22. Answer: D reference: Chapter 2 section 2.3.4

If the customer deposited a check in his account to be encashed, which is drawn from another bank, endorsement of the beneficiary is called restricted endorsement

23. Answer: B reference: Chapter 2 section 2.7.2

The primary market is the market where real estate loans are created, guaranteed, settled and serviced by real estate finance institutions.

24. Answer: C reference: Chapter 2 section 2.7.2

The secondary market is the market in which the real estate financier's rights arising from primary market contracts and mortgage-backed securities are traded.

25. Answer: D reference: Chapter 2 section 2.7.4

Exceptionally, the supported financing program, provided in collaboration with the Real Estate Development Fund, aims to alleviate the burden of the down payment required by financing institutions when purchasing real estate through mortgage financing. The financing percentage is increased to reach (95%).

26. Answer: B reference: Chapter 2 section 2.2.3

If the account remains inactive for a period of (twenty-four) Gregorian months from the date of the last transaction conducted by the customer, their authorized agent, or registered and reliable correspondents, it will be termed as a dormant account.

27. Answer: A reference: Chapter 2 section 2.7.5

It is the responsibility of the financing institutions (debt seller) to process the customer's request for transferring the debt by completing the specific forms for the transfer of mortgage financing within a period not exceeding three business days.

28. Answer: B reference: Chapter 2 section 2.7.5

Upon receiving approval from the financing entity (debt buyer), the processing of the customer's request will be completed within a period not exceeding five business days from the date of approval by the financing entity (interested in purchasing the debt) to transfer the debt.

29. Answer: B reference: Chapter 2 section 2.5.3

The charge card is the card that obliges the holder to pay the full amount due upon receipt of the statement of account or on the due date specified in the statement of account.

30. Answer: C reference: Chapter 2 section 2.5.2

In the event a new credit card is requested, the minimum annual gross income of the cardholder should be SAR 24,000 for the bank's customers and SAR 30,000 for non-bank customers.

31. Answer: A reference: Chapter 2 section 2.5.2

With respect to the rights and obligations of the holder of credit card or charge card, the cardholder is required to provide the card issuer with updated information and any change in contact details.

32. Answer: C reference: Chapter 2 section 2.5.2

Credit card cash withdrawal fees should not exceed: 3% of the amount of each transaction exceeding (SAR 5000), and a maximum of (SAR 300).

33. Answer: A reference: Chapter 2 section 2.2.3

Banks shall completely conceal the customer signature and balance from the branch screens, if the account continues without financial movement for a period of five years and after his account has become unclaimed.

34. Answer: B reference: Chapter 2 section 2.3.4

The amount written in words shall prevail. If the amount is written several times (more than once) in words and figures, the lower amount shall be considered according to the Law.

35. Answer: C reference: Chapter 4 section 3.1.4

Subject to the supervision and control of SAMA and instructions thereof is one of the similarities in banking services between Islamic banks and traditional banks.

36. Answer: B reference: Chapter 4 section 4.4.6

Musharakah contract is an agreement or contract between the Islamic bank and the customer to contribute to the capital in equal or varying proportions to finance the establishment of a new project or development of an existing one, or to own a real estate, or a movable asset. It may be on a decreasing basis so that the customer purchases the bank's share increasingly (Diminishing Musharakah).

37. Answer: A reference: Chapter 4 section 4.4.6

Fixed Musharakah means the bank has partnership with one or more natural or legal persons in a certain project, through joint financing in the project, and the share of each party in the capital and profit remains the same as long as the company exists, is called:

38. Answer: B reference: Chapter 4 section 4.4.7

Mudarabah is described as an investment process based on an agreement between two parties, namely, the owner of the capital (Rab al-Mal) and the mudarib or the entrepreneur (i.e. the party concerned with investing the money). In which Rab al-Mal contributes capital to an institution or activity managed by the employer in his capacity as a Mudarib.

39. Answer: A reference: Chapter 4 section 4.4.7

Role of Mudarib in the mudarabah contract is confined to managing the project in return for a wage that is taken as a percentage of the project's profits.

40. Answer: D reference: Chapter 4 section 2.4.4

Unrestricted Mudarabah is contract in which the capital provider (Rab al-Mal) permits the Mudarib to administer a Mudarabah fund without any restrictions. In this case, the Mudarib has a wide range of trade or business freedom on the basis of trust and the business expertise he has acquired.

41. Answer: C reference: Chapter 4 section 4.4.2

Murabaha is a contract whereby an Islamic bank sells to its customer a known type of asset at cost plus an agreed profit margin.

42. Answer: B reference: Chapter 4 section 4.4.2

Murabahah Sale on Order of Purchase goes through the following stages: Promise Stage - Ownership Stage - Sale and Payment Stage

43. Answer: B reference: Chapter 4 section 4.4.3

Ijara ending with ownership is a form of Ijara contract that offers the lessee an option to own the asset at the end of the Ijarah period, either to purchase the asset for a nominal price, to pay the market value, or under a gift contract, or to pay the Ijarah premium during the Ijarah period, provided that the promise is made separately and independently of the basic Ijarah contract, or a gift contract is concluded pending the fulfillment of all Ijarah obligations, and the ownership is transferred directly upon fulfillment.

44. Answer: D reference: Chapter 4 section 4.4.5

Istissnaa contract is an agreement with a customer to sell or purchase an asset that may not have been established yet, provided that it is manufactured or built according to the specifications of the final buyer and delivered to him at a specified future date at a predetermined sale price.

45. Answer: A reference: Chapter 4 section 4.5.2

Sukuk have low-risk (as compared to stocks), as their trading price is low and the holder can therefore obtain liquidity from selling the same in the trading market at any time without loss.

46. Answer: C reference: Chapter 4 section 4.5.2

Upon liquidation, the shareholder shall have his share of the company's assets upon liquidation (and payment of debts), whether it was more or less shares.

47. Answer: D reference: Chapter 4 section 4.5.2

Ordinary shares are the securities that has the right to vote in the general assembly of the joint stock company

48. Answer: B reference: Chapter 4 section 4.5.4

Traditional Tawreeq means the conversion of debt into equitably tradable securities (bonds), which represent interest-bearing debt to the bearer from its issuer; such bonds cannot be issued or traded legally.

49. Answer: C reference: Chapter 2 section 10.4.3

KYC principle is intended to enable the bank to form an appropriate perception of the true identity of each customer with an appropriate degree of confidence

50. Answer: B reference: Chapter 6 section 6.2.1

Exchange centers shall develop programs and appropriate mechanisms to help existing and future customers develop the knowledge, skills and confidence and raise their awareness.

51. Answer: C reference: Chapter 6 section 6.2.1

This shall include clarification of rights and responsibilities of each party, details of prices and commissions charged by the bank.

52. Answer: D reference: Chapter 6 section 6.2.2

Customer shall always give full and accurate information when filling in any bank's documents.

53. Answer: B reference: Chapter 5 section 5.1.1

The technical skills for performance of work are to be aware of the prices and conditions of services and products provided by the banks.

54. Answer: A reference: Chapter 5 section 5.4.2

Marketing activity is to show excellence in products and services by developing and improving procedures for rendering these services

55. Answer: D reference: Chapter 7 section 7.1

Rules of job conduct aim to establish job discipline, transparency, integrity, objectivity in the conduct of the employees of the bank.

56. Answer: B reference: Chapter 7 section 7.1
Integrity means that all employees of the bank must be above all suspicions, and not seeking personal benefits.

57. Answer: C Chapter 7 section 7.2
Objectivity means the commitment of all employees with the laws and legislations and professional circulars and standards.

58. Answer: A. Chapter 7 section 7.2.1
Values of professionalism to the conduct rules include continuous learning and self- rehabilitation.

59. Answer: C reference: Chapter 7 section 7.4
Creating safe, fair and proper working conditions for the employees to meet the basic needs and their practical requirements, is requirement that shall be considered by banks towards their employees.

60. Answer: B reference: Chapter 8 section 8.1.1
Compliance refers to ensuring application and implementation of financial instructions, procedures and transactions in accordance with regulations, rules and instructions issued by regulatory and supervisory authorities in charge of the Financial Sector.

61. Answer: A reference: Chapter 8 section 8.4.1
The Board shall be responsible for supervising and managing risks of non-compliance, and to do so, the bank's policy of compliance should be adopted.

62. Answer: C reference: Chapter 8 section 8.4.3
Therefore, Compliance Department's responsibility is to assist the senior management in the effective management and dealing with non-compliance risks encountered by the bank.

63. Answer: B reference: Chapter 9 section 9.1.2
Manual of Combating Embezzlement and Financial Fraud and Control Guidelines issued by SAMA defined financial fraud as "any act involving deceit to obtain a direct or indirect financial benefit by the perpetrator…"

64. Answer: C reference: Chapter 9 section 9.2.2
External fraud is committed by individuals from outside bank. Such as counterfeiting or forging IDs.

65. Answer: D reference: Chapter 9 section 9.2.2
Accounting fraud by intentionally making wrong entries every day is an internal fraud.

66. Answer: A reference: Chapter 9 section 9.2.2
Manipulation of bank's employee in recording financial transactions is an internal fraud.

67. Answer: B reference: Chapter 10 section 10.1.1
Money Laundering Law issued by SAMA defines money laundering as: The commission of any act intended to conceal or disguise the real source of funds acquired by means contrary to Shariah or Law, thus making the funds appear as if they had come from a legitimate source.

68. Answer: C reference: Chapter 10 section 10.1.3

The placement stage is confined to placing funds acquired from an illicit source into the financial system.

69. Answer: B reference: Chapter 10 section 10.1.3

Layering is the stage of concealing the illicit source of funds in order to block tracing of funds by conducting complex transactions to be concealed.

70. Answer: A reference: Chapter 10 section 10.1.3

Integration includes integration laundered money back into the legitimate economic system, making it appear to be legitimate assets.

71. Answer: C reference: Chapter 10 section 10.2.1

Terrorist financing can be defined as, any act involves raising, offering, getting, allotting, transporting, or transferring funds wholly or partially for any terrorist activity, directly or indirectly.

72. Answer: B reference: Chapter 10 section 10.1.1

Investing the proceeds of criminal activity in the purchase of high-value goods that can be easily traded to conceal the source of these proceeds is an example of ML/TF-related types.

73. Answer: C reference: Chapter 10 section 10.1.4

Use of non-profit organizations to raise funds and conceal their source is an example of ML/CTF transactions.

74. Answer: A reference: Chapter 10 section 10.4.1

Customer's willingness to buy a deal at a price higher than market price, or to sell the same at a price lower than market price, is considered an indicators of suspicious ml transaction.

75. Answer: B reference: Chapter 9 section 9.3.4

In order to prevent fraud, an official system shall be put into effect for internal notification of actual or suspected fraud.

76. Answer: B reference: Chapter 10 section 10.4.4

Banks shall retain a copy and records of the report and technical report together with its attachments for future reference, after the reporting stage:

77. Answer: C reference: Chapter 10 Section 10.4.4

Reporting to FIU when suspicions have been determined, supported by a detailed technical report. on any suspected case, is one of MLCU functions.

78. Answer: C reference: Chapter 10 section 10.4.3

Banks and their employees are prohibited from alerting customers involving suspicious transactions or activities. Otherwise, such employee will be deemed committing a crime that may promote to imprisonment (not exceeding two years), and/or a fine (not exceeding SAR 500,000).

79. Answer: B reference: Chapter 10 section 10.4.4

Establishing a database comprising all issues relating to money laundering and terrorist financing matters, such as the suspicious cases reported, is one of MLCU functions.

80. Answer: C reference: Chapter 10 section 10.4.4

Reporting to FIU when suspicions have been determined, supported by a detailed technical report on any suspected case, is one of MLCU functions.

81. Answer: B reference: Chapter 10 section 10.5.2

Receiving reports from financial institutions on ML suspicious operations is a function of the Financial Investigation Unit.

82. Answer: C reference: Chapter 10 section 10.1.2

One of the main objectives of money laundering is to increase the difficulty of tracing money by security agencies.

83. Answer: B reference: Chapter 10 section 10.1.5

AML negative effects on the national economy include impeding State's economic development in addition to decrease of real investment opportunities.

84. Answer: B reference: Chapter 6 section 6.2.3

A bank should conduct periodic maintenance of all ATMs, to include verification of operation and availability at all times, preferably replacing ATMs that have been serviced for more than nine years.

85. Answer: A reference: Chapter 6 section 6.2.3

If the bank is unable to send any external remittance due to return of funds by a correspondent bank, the bank should advise a customer within two business days. The funds returned should be credited to the customer's account by the bank.

86. Answer: B reference: Chapter 6 section 6.2.3

A bank should inform customers of decision by the bank to close a customer's account 60 days in advance of the account being closed and the reasons for this. In cases of fraud or embezzlement by a customer, a bank can immediately close or block the account.

87. Answer: C reference: Chapter 6 section 6.2.3

The bank should communicate with the customer regarding the complaint within one week from the date of receipt. If the complaint is not resolved in one week, the bank will communicate and update within 10 business days.

88. Answer: D reference: Chapter 6 section 6.2.3

The bank shall maintain confidentiality of customer information Except when disclosure is made under customer's written consent.

89. Answer: A reference: Chapter 6 section 6.2.2

Equitable and fair treatment is not considered one of the customers' responsibilities when dealing with banks.

90. Answer: B reference: Chapter 6 section 6.2.3

A bank should notify their consumers that use of ATM card withdrawals outside KSA could result in additional withdrawal fees as per SAMA schedule of fees and charges.

91. Answer: C reference: Chapter 5 section 5.1.1

Technical skills mean to master the professional approach of work aspects, requirements, conditions and duties, together with a good knowledge of nature of work in the bank such as procedures and conditions of banking services and products to achieve the expectations of customers and beneficiaries who are waiting for the employee and the bank to meet their needs and requirements, solve their problems and support them.

92. Answer: D reference: Chapter 5 section 5.6

Increasing customer retention rates is among the key objectives of Customer Relations.

93. Answer: A reference: Chapter 3 section 3.1.1

Principles of Responsible Financing aim at encouraging responsible financing that meets the actual requirements of clients, particularly those related to obtaining housing and assets rather than consumable items.

94. Answer: B reference: Chapter 3 section 3.3

The monthly credit obligations for financing wherein all the instalments are not equal and calculated by the assumption that the monthly instalment is fixed at the monthly average level of all instalments, regardless whether the financing is payable through equal instalments or requires payment of a final payment.

95. Answer: C reference: Chapter 3 section 3.3

When calculating deductible ratios for consumers whose total monthly income is less or equal to SAR (15,000), the monthly credit obligations resulting from the financing shall not exceed 55% of the total monthly income of the client.

96. Answer: A reference: Chapter 3 section 3.3

It shall be calculated from the other income, half of the monthly average of amounts obtained by the person from any income source whether being monthly, annual or other periodical period.

97. Answer: C reference: Chapter 9 section 9.2.2

Loss and replacement of original documentation is an indication of internal fraud.

98. Answer: A reference: Chapter 7 section 7.2

A set of ethical standards, rules and behavior that an employee has to comply with and show toward his/her work, colleagues and the society as a whole, called work Ethics.

99. Answer: C reference: Chapter 7 section 7.2.4

Employees of the financial institution may accept the gift on condition that the gift and its value shall be according to the usual practices followed, depending on the occasion of its presentation and its nature.

100. Answer: D reference: Chapter 5 section 5.5

Identifying customer’s expectations on acceptable service levels is a suggested method for handling customer complaints.

# Curriculum Maping:

| Curriculum Unit/Item | | Chapter/Section |
|---|---|---|
| First element | Structure of Money Exchange and Transfer Centers | Chapter One |
| 1 | The Structure of Retail Banking Sector in the Kingdom of Saudi Arabia. Upon completing study of this section of the book, the examinee shall be familiar with: | |
| 1.1 | **Structure of KSA Banking Sector:**<br>1.1.1 Nature and Components of the Banking System<br>1.1.2 The Structure of Banking Sector in the Kingdom of Saudi Arabia | Section 1 |
| 1.2 | General Features of Retail Banking Sector and its Transactions:<br>3.1 Definition of Banking Service<br>3.2 Characteristics of banking services provided by banks<br>3.3 Concept and Types of Banking Services Distribution Channels | Section 2 |
| 1.3 | **Regulatory Framework and Rules Governing the Banking Sector:**<br>1.3.1 SAMA Objectives, Duties and Responsibilities<br>1.3.2 Regulations for banks operating in KSA<br>- Licensing<br>- Determination of specific ratios<br>- Establishment of General Regulations<br>- Appointment of auditors<br>- Submission of periodic data to SAMA<br>- Inspection of banks<br>- Credit Control:<br>- Prohibition of Banks from Practicing Certain Business<br>- SAMA's Written Approval to Engage in Certain Business<br>- Measures Applicable in Case a Bank Violates the Rules and Regulations<br>1.3.3 Impact of International Rules, Standards and Conventions on the Banking Sector | Section 3 |
| 1.4 | **Evolvement of KSA Banking Sector**<br>1.4.1 Evolvement of the Saudi Banking System<br>1.4.2 Evolvement of KSA Banking System<br>1.4.3 Digital Banks in the Kingdom of Saudi Arabia | Section 4 |

| Second element | Retail Banking Products and Services in the Kingdom of Saudi Arabia | Chapter Two |
|---|---|---|
| 2 | Retail Banking Products and Services in the Kingdom of Saudi Arabia<br>Upon completing study of this section of the book, the examinee shall be familiar with: | |
| 2.1 | **Main Features of Retail Banking Products and Services:**<br>2.1.1 Retail Banking Services<br>2.1.2Corporate Banking Services<br>2.1.3 Diverse Banking Services | Section 1 |
| 2.2 | *Rules for Bank Accounts*<br>2.2.1 Opening of Bank Accounts<br>2.2.2 Rules for Opening Accounts for Natural Persons<br>2.2.3 Supervisory and control rules on bank accounts<br>2.2.4 General Rules for Operation of Bank Accounts | Section 2 |
| 2.3 | **Commercial Papers in the Kingdom of Saudi Arabia:**<br>2.3.1 Types, Characteristics and Functions of Commercial Papers<br>2.3.2 Bills<br>2.3.3 Promissory Note<br>2.3.4 Checks | Section 3 |
| 2.4 | **Payment Systems and Technical Services in the Saudi Banking Sector:**<br>2.4.1 Saudi Payment Network<br>2.4.2 Saudi Arabian Riyal Interbank Express (SARIE) System<br>2.4.3 Digital Formulation of Customer Accounts in the Saudi Banking Sector (IBAN)<br>2.4.4 (Electronic Funds Transfer at Point Of Sale) EFTPOS<br>2.4.5 Swift<br>2.4.6 SADAD<br>2.4.7 Online Banking<br>2.4.8 Phone Banking<br>2.4.9 ATMs | Section 4 |
| 2.5 | **The financial products offered by banks to individuals:**<br>2-5-2 Concept of Credit Cards<br>2-5-3 Concept of Consumer Financing<br>2-5-4 Concept of Mortgage Financing<br>2-5-5 Rules for Disclosing Prices of Financial and Savings Products<br>2-5-6 Disclosure Requirements<br>2-5-7 Disclosure Table Models for Individuals | Section 5 |

| Third element | Principles of Responsible Financing | Chapter Three |
|---|---|---|
| 3 | Principles of Responsible Financing<br>Upon completing study of this section of the book, the examinee shall be familiar with: | |
| 3,1 | **Principles of Responsible Financing for Individuals**<br>3.1.1 Nature of Responsible Financing<br>3.1.2 General Provisions of Responsible Financing | Section 1 |
| 3,2 | **3.2 Qualitative Principles of Responsible Financing:** | Section 2 |
| 3,3 | **3.3 Quantitative Principles of Responsible Financing:** | Section 3 |
| 3,4 | **3.4 Collection Controls and Procedures for Individual Customers**<br>3.4.1 Customer Communication Controls<br>3.4.2 Collection Procedures from Customer Accounts<br>3.4.3 Procedures for Dealing with Defaulting Customers | Section 4 |

| Fourth element | Principles of Islamic Sharia and its Impact on Retail Banking Services | Chapter Four |
|---|---|---|
| 4 | **Principles of Islamic Sharia and its Impact on Retail Banking Services**<br>Upon completing study of this section of the book, the examinee shall be familiar with: | |
| 4.1 | **4.1 General Features of the Islamic Banking Sector:**<br>4.1.1 Concept of Islamic Banks<br>4.1.2 Characteristics of Islamic Banks<br>4.1.3 Similarities and Differences between Traditional and Islamic Banks | Section 1 |
| 4.2 | **4.2 Islamic Window Operations:**<br>4.2.1 Concept of Islamic Windows<br>4.2.2 Advantages of Establishing Islamic Windows<br>4.2.3 Governance of Islamic Window Operations | Section 2 |
| 4.3 | **4.3 Organizations Supporting Islamic Banking Business:**<br>4.3.1 Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI)<br>4.3.2 General Council for Islamic Banks and Financial Institutions<br>4.3.3 Islamic Financial Services Board<br>4.3.4 International Islamic Financial Market<br>4.3.5 Islamic International Rating Agency | Section 3 |
| 4.4 | **4.4 Tools and Forms of Islamic Financing:**<br>4.4.2 Mudarabah<br>4.4.3 Ijarah<br>4.4.4 Al Tawaroq<br>4.4.5 Istissnaa<br>4.4.6 Musharaka<br>4.4.7 Mudaraba<br>4.4.8 Al-Qard al-Hasan (beneficial loan) | Section 4 |
| 4.5 | **4.5 Islamic Sukuk(Bonds) and Tawarruq Processes:**<br>4.5.2 Concept of Islamic Sukuk<br>4.5.3 Instruments, Shares and Traditional Bonds<br>4.5.4 Islamic Tawreeq (securitization) | Section 5 |

| Fifth element | Principles of Effective Customer Service in the Retail Banking Sector | Chapter Five |
|---|---|---|
| 5 | **Principles of Effective Customer Service in the Retail Banking Sector**<br>Upon completing study of this section of the book, the examinee shall be familiar with: | |
| 5.1 | **5.1 Skills of Customer Service Employees:**<br>5.1.1 Skills of Rendering Quality Service to Customers<br>- Technical skills<br>- Behavioral Skills<br>5.1.2 Employee's Role towards Customer | Section 1 |
| 5.2 | **5.2 Customer's Expectations from Customer Service Employees:**<br>5.2.1 How to Achieve Customers' Expectations<br>5.2.2 Customer Satisfaction Assessment System | Section 2 |
| 5.3 | **5.3 Principles of Customers Retention:**<br>5.3.1 Customers Care<br>5.3.2 Fulfilling Customers Desires According to Their Needs<br>5.3.3 Convincing Customer and Addressing His Objections<br>5.3.4 Ensuring Customers Will Keep Dealing with Bank<br>5.3.5 Customer Waiting Time Management<br>5.3.6 Addressing Errors in Service Performance | Section 3 |
| 5.3 | **5.4 Foundations of Effective (Distinguished) Service:**<br>5.4.1 Foundations of Excellence<br>5.4.2 Marketing as Basis of Distinguished Customer Care and Service Performance | Section 4 |
| 5.4 | **5.5 Mechanisms for Dealing with Customers' Complaints:** | Section 5 |
| 5.2 | **5.6 Effective Customer Relationship Management:**<br>5.6.1 Initial Contact with Customer<br>5.6.2 Knowing Customer's Requirements and Needs<br>5.6.3 Services provided to persons with disabilities<br>5.6.4 Solving Customers' Problems<br>5.6.5 Disclosure of licenses | Section 6 |

| Sixth element | Principles of Protecting Financial Institutions' Customers | Chapter Six |
|---|---|---|
| 6 | **Principles of Protecting Financial Institutions' Customers**<br>Upon completing study of this section of the book, the examinee shall: | |
| 6.1 | **6.1 Financial Customer Protection in the Kingdom of Saudi Arabia** | Section 1 |
| 6.2 | **6.2 Principles of Protecting Financial Institutions' Customers**<br>6.2.1 General Principles<br>6.2.2 Customer Responsibilities<br>6.2.3 Key Commitments<br>6.2.4 Errors and complaints | Section 2 |

| Seventh element | Labor Rules and Practices | Chapter Seven |
|---|---|---|
| 7 | **Labor Rules and Practices**<br>Upon completing study of this section of the book, the examinee shall be familiar with: | |
| 7.1 | **7.1 Code of Conduct Objective** | Section 1 |
| 7.2 | **7.2 Principles of Behavior and Ethics in Financial Institutions:**<br>7-2-1 Commitment to Professional Conduct and Public Ethics<br>7-2-2 Interaction with Stakeholders<br>7-2-3 Combating Financial and Administrative Corruption<br>7-2-4 Gifts and Hospitality<br>7-2-5 Compliance with Systems, Regulations, Instructions, and Policies<br>7-2-6 Dealing with Conflicts of Interest<br>7-2-7 Maintaining Confidentiality and Disclosure Mechanisms<br>7-2-8 Use and Leakage of Internal Information for Market Manipulation<br>7-2-9 Reporting Actual or Potential Violations<br>7-2-10 Rewards and Incentives | Section 2 |
| 7.3 | **7.3 Employees' Commitment towards Each Other:**<br>7.3.1 Dealing with Directors and Officials<br>7.3.2 Dealing with Colleagues<br>7.3.3 Dealing with Subordinate | Section 3 |
| 7.4 | **7.4 Bank's Commitment towards Employees:**<br>7.4.1 Disciplinary Sanctions<br>7.4.2 Reporting and Inquiry<br>7.4.3 Agreement with the Customer | Section 4 |
| 7.5 | **7.5 Board Directors Code of Conduct** | Section 5 |

| Eighth element: | The principles of commitment and their impact on the individual banking services sector | Chapter Eight: |
|---|---|---|
| 8 | **The principles of commitment and their impact on the individual banking services sector**<br>Upon completing study of this section of the book, the examinee shall be familiar with: | |
| 8.1 | 8.1 Compliance in Financial Institutions:<br>8.1.1 Concept of Compliance<br>8.1.2 Compliance function definition<br>8.1.3 Significance of Compliance in Banking Sector<br>8.1.4 Non-compliance risk | Section 1 |
| 8.2 | 8.2 Compliance Department and Compliance Officer:<br>8.2.1 Organizational Status of Compliance Department<br>8.2.2 principles of Compliance Department<br>- Independence<br>- Resources:<br>8.2.3 Compliance Officer | Section 2 |
| 8.3 | **8.3 Compliance Rules for banks Operating in KSA:** | Section 3 |
| 8.4 | **8.4 Compliance Responsibilities in Banks:**<br>8.4.1 Responsibilities of the Board regarding Compliance<br>8.4.2 Responsibilities of senior Management Regarding Compliance<br>8.4.3 Responsibilities of Compliance Department | Section 4 |
| 8.5 | **8.5 Compliance Manual for Banks Operating in KSA:** | Section 5 |
| 8.6 | **8.6 FIs Governance in KSA:**<br>8.6.1 Importance and Benefits of Financial Institutions Governance<br>8.6.2 Key Governance Principles in Financial Institutions | Section 6 |

| Ninth element | Defining and Describing the Concept of Fraud and Its Impact on Retail Banking Services | Chapter Nine |
|---|---|---|
| 9 | **Define and describe the concept of fraud, and its impact on individual banking services**<br>Upon completing study of this section of the book, the examinee shall be familiar with: | |
| 9,1 | 9.1 Basic Concepts of Fraud in Retail Banking Sector<br>9.1.1 Definition of Financial Crimes<br>9.1.2 Definition of Fraud<br>9.1.3 Causes of Fraud<br>9.1.4 Seriousness of Financial Frauds and Importance of Combating | Section 1 |
| 9,2 | **9.2 Most Common Types of Fraud in in Retail Banking Sector:**<br>9.2.1 Types of Fraud According to the Means Used<br>- Material Fraud (Traditional)<br>- E-Fraud<br>9.2.2 Types of Fraud According to Fraudsters:<br>- External Fraud:<br>- Internal fraud:<br>- Conspiracy of Banks' Employees with Third Parties. | Section 2 |
| 9,3 | **9.3 Fraud Combating and Prevention Techniques:**<br>9.3.1 The Strategy of Fraud Combating and Control Policy<br>9.3.2 Regulatory Framework and Responsibility Structuring<br>9.3.3 Assessment of Fraud Risk<br>9.3.4 Promoting Awareness of Fraud<br>9.3.5 Internal Control Procedures<br>9.3.6 Follow-up Process<br>9.3.7 Notification of Fraud System<br>9.3.8 Investigation Standards<br>9.3.9 Code of Conduct and Disciplinary Measures | Section 3 |
| 9,4 | **9-4 Financial Fraud Unit:**<br>9-4-1 Tasks of the Financial Fraud Unit<br>9-4-2 Human Resources and Training | Section 4 |

| Tenth element | Anti-Money Laundering and Countering Terrorism in the Kingdom of Saudi Arabia | Chapter Ten |
|---|---|---|
| 10 | **Anti-Money Laundering and Countering Terrorism in the Kingdom of Saudi Arabia**<br>Upon completing study of this section of the book, the examinee shall be familiar with: | |
| 10.1 | **10.1 Money laundering:**<br>10.1.1Definition of Money Laundering<br>10.1.2 Objectives of Money Laundering Operations<br>10.1.3 Stages of Money Laundering<br>10.1.4 Methods (Types) Used in Money laundering<br>10.1.5 Risks of Money Laundering<br>10.1.6 Penalties for ML Offenses | Section 1 |
| 10.2 | **10.2 Terrorist Financing Processes:**<br>10.2.1 Definition of Terrorist Financing<br>10.2.2 Stages of Terrorist Financing<br>10.2.3 Risks of Terrorist Financing Crimes<br>10.2.4 Requirements for combating Terrorist Financing | Section 2 |
| 10.3 | **10.3 ML/TF Difference:** | Section 3 |
| 10.4 | **10.4 Suspicious ML/TF Transactions:**<br>10.4.1 Indicators of Suspicious ML Transaction<br>10.4.2 Procedures of Reporting Suspicious Transactions<br>10.4.3 Procedures of Dealing with Suspected Customers<br>10.4.4 AML/CTF Department | Section 4 |
| 2.5 | **KSA's AML/CTF Initiatives:**<br>10.5.1 Issuance of Anti-Money Laundering Law<br>10.5.2 Establishment of FIU | Section 5 |

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