

Banking Control Law 1966 in Saudi Arabia, Shortcomings and Development: A Comparative Study in Banking Supervision between the Saudi Arabian Monetary Agency and the Bank of England

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Abstract : The paper examined the extent to which it was necessary for the Saudi Arabian Monetary Agency (SAMA), as a central bank, to update the Banking Control Law 1966 (BCL) in order to gain full independence, while ensuring that SAMA would have enough flexibility to develop the banking industry yet make sound decisions with regard to the issuance of new regulations related to banking supervision. Using a comparative study approach, the paper looked to find the best practices around these issues. The Bank of England, which was recently granted full independence, presented a good opportunity for a case study. The perspectives of the World Bank, the International Monetary Fund and commercial banks in Saudi Arabia are examined, including an analysis of their recommendations regarding SAMA regulations on banking supervision. This paper found several issues are important for SAMA as the central bank in a country which is a member of the G20, and which has recently faced unstable oil prices. The paper also discusses conflicts of interest which arose when the Saudi government became a shareholder in commercial banks while simultaneously regulating SAMA through the Ministry of Finance, resulting in a monopoly which disabled free competition in the banking market. The paper recommends further steps for SAMA to develop the banking industry, which is an important arm of Saudi's economy, and examines the challenges SAMA faces in updating regulations such as the BCL under Sharia law. The author also suggests practical solutions to the difficulties. The paper found these difficulties could be avoided if SAMA focuses on Islamic banking product, and fixed the lacks of regulations of the related laws.

Keywords : Saudi Arabian monetary agency, comparative study, banking control law 1966, the bank of England

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