



Regulatory and compliance

Resilient SAMA sustains confidence and drives transformation

The pandemic has proved to be a transformative period for regulators in the Kingdom. Tasked with keeping the economy afloat during the perfect storm of lockdowns, record-low oil prices, and a near global economic collapse, the Saudi Central Bank (SAMA) proved itself resilient and capable of handling the challenges posed by these factors.

Stimulus packages

In March 2020, when the Covid-19 pandemic was rapidly spreading across the world, SAMA launched a SAR50 billion (USD13.3 billion) economic stimulus package to support the private sector, especially SMEs. Under the program, SAR30 billion was allocated for banks and financing companies to delay loan payments due from SMEs for six months. SMEs were additionally granted concessional loans of up to SAR13.2 billion from banks and financing companies to finance their operations and maintain employment. SAMA also created a SAR6 billion fund to exempt SMEs from the costs of a loan guarantee program.

Like many central banks, SAMA recognized that the health and economic impact of the pandemic would be long-lasting. In June 2020, SAMA announced further measures to ensure liquidity, injecting another SAR50 billion into the banking sector in the form of one-year profit-free deposits. This injection allowed the banks to defer loan repayments from SME obligors and protect them against an expected drop in profits and rise in non-performing loans.

Addressing global concerns that economies will suffer after the stimulus jolt subsides, SAMA extended its loan deferral program until at least the end of the second quarter this year. This move will allow lenders to continue tapping into a life-line created to cover the costs incurred by a bank in deferring payments from its SME loan customers. It remains to be seen when such programs will cease, but banks and SAMA continue to closely monitor non-performing loans.

SAMA officially becomes a central bank

Last November, SAMA officially became minted as the “Saudi Central Bank” (though it will continue to use the acronym “SAMA”). SAMA has long held the traditional role of a central bank in the Kingdom – it came at a time of unprecedented importance for SAMA, because of its role at the forefront of the Saudi economic response to the pandemic and pursuit of Vision 2030.

A new objective has been added to SAMA’s mandate: “supporting economic growth.” Not only does this lend further legitimacy to SAMA’s pandemic stimulus measures, but it opens the door for more proactive measures to

support the Saudi economy. SAMA also appointed a new governor, Dr. Fahad Abdallah Al-Mubarak, in January 2021. Al-Mubarak replaces outgoing governor Dr. Ahmed A. Al-Kholifey, who will become an adviser at the royal court and whose legacy at the central bank will be highlighted by unprecedented economic stimulus as well as a number of focused, proactive policies on digital banking. Al-Mubarak is a familiar face at SAMA, having led SAMA from 2011-2016.

Charting a digital path

SAMA has not let the pandemic distract it from its long-running plans to develop the Saudi fintech and digital banking sectors. One of the key efforts in this area is SAMA’s Regulatory Sandbox Framework. The Sandbox, directly connected to Vision 2030’s goals for the financial sector’s development, was launched in 2018 and allows local and international financial technology firms to test new digital solutions they intend to launch in the Kingdom. Services and products currently being tested or have been successfully tested include e-wallets, peer-to-peer (P2P) transfers, lending and direct international transfers. In January 2020, SAMA issued



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its Payment Services Provider Regulations (PSPR) to regulate Payment Services Providers (PSPs) in the Kingdom. PSPR operates alongside the existing Sandbox framework, and includes four additional types of licenses: Micro PI, Major PI, Micro EMI, and Major EMI. The effort was in large part to attract existing foreign PSPs to operate in the Kingdom, and it borrows many concepts from European PSP regulations, making it easier for companies to launch their services in the Kingdom if they have already been approved to operate in Europe.

Soon after PSPR was launched, SAMA issued new licensing guidelines and criteria for digital-only banks in the Kingdom. The licensing conditions require a digital bank to submit a business plan as well as internal capital and liquidity adequacy assessment plans, to have a physical presence in the Kingdom, and that the founders of the bank prove their financial capacity and experience before operating.

Saudi regulators also have a keen interest in using blockchain technology in the financial sector. In June 2020, as part of its pandemic-related stimulus efforts, SAMA used blockchain technology to deposit liquidity into the banking sector. The move is in line with SAMA's ongoing efforts to explore emerging technologies and was a first among global central banks.

International regulatory efforts

SAMA's "Aber" project, in partnership with the Central Bank of the UAE (CBUAE) set out to explore the feasibility of issuing a digital currency for central banks. The Aber project released the results of its study in November 2020, coming to several

conclusions about developing a cross-border payment system. The results of the pilot project were encouraging, similar to the results of similar pilots conducted by other central banks. Specifically, the results showed that a distributed ledger technology would make a cross-border digital currency feasible, and that such a system would reduce transfer times and costs between banks.



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Faisal Sana has over 21 years of financial services experience, gained through his assurance work in the practices of KPMG in Saudi Arabia, the United Kingdom and Pakistan. He was involved in the development of SAMA's IFRS 9 guidance for Saudi banks and various regulatory risk-based inspections of banks on behalf of SAMA. He is well-versed in the review and implementation support of internal control frameworks at Saudi banks.