

# Executive summary

## People-centered banking

### ESG commitment driven by investment opportunities

ESG factors remain a reputational risk for many banks, but they need to be more than that. The Saudi banking sector can face potential losses due to the lack of ESG reporting as growing segments of investors expect banks to adhere to ESG standards and acquire an evaluation by recognized ESG rating providers. As both regulators and investors in Saudi are pushing the ESG agenda, banks must attempt to improve their reporting practices.

### Customer expectations driving disruption

SAMA has been a proponent of change and development in the financial sector, in line with Vision 2030. The Central Bank's forward-looking stance has increasingly embraced disruptors in the banking scene and has led to a push for digitalization. SAMA's plans include the development of an Open Banking framework due to go live in 2022, the support of the FinTech sector through the Regulatory Sandbox, and the licensing of digital banks. Regulators must still consider new disruptors in banking, though, such as 5G and blockchain technologies, which can reap benefits for the sector if managed efficiently.

### The role of banks in creating a savings culture

Embracing a savings culture can be challenges, and in Saudi Arabia many factors have prevented the development of such culture and the accompanying financial literacy. Banks play a key role in promoting savings by providing a range of deposit products and mechanisms with varying combinations of liquidity and rate of interest tailored to needs and preferences of different depositors and many other direct and indirect banking solutions. Hence, providing people with the tools to save and raise financial awareness will be beneficial for both banks and consumers, and will benefit the objectives of Vision 2030's FSDP.

## Governance and compliance

### Reimagining external audit through digital enablement

The Covid-19 pandemic has accelerated the adoption of new technology, which brought about a reimagined audit experience. The banking sector can benefit from increased audit transparency and collaboration with

the auditing team. The use of cloud-based platforms to exchange important information with the client, including valuable insights into the status of the audit, creates greater interaction. At KPMG, the launch of KPMG Clara is the firm's response to the need for reimagined technology to upscale auditors' client approach and to step into the future. In this evolving business landscape, the accounting industry must try to stay ahead and continue to invest in cognitive, machine learning, and AI capabilities.

### Technology governance in an evolving regulatory landscape

With the opportunities and challenges posed by the new upcoming technologies, SAMA is acting as a catalyst to governing and promoting digital financial growth in Saudi Arabia. SAMA has introduced laws, regulations, policies and frameworks to maintain resilience and mitigate risk in line with Vision 2030 and the FSDP.

### Transfer pricing for improved business outcomes

Saudi Arabia introduced transfer pricing regulations in 2018. TP compliance and requirements vary based on the tax profile of the bank or financial institution. But beyond compliance, transfer pricing can be a meaningful instrument to ensure that standalone Income Statements reflect optimal business outcomes. These considerations work in tandem with seamless adherence to Saudi Arabia's transfer pricing arm's length principles.

## Transformational technologies

### Cloud technology as a critical enabler for digital banking

Cloud-based software is a game changer for banks and can make operations seamless, flexible, and accessible at the press of a button. Whether it is for financial or non-financial risks, cloud computing allows the risk team to react rapidly to threats and dive deeper into data analysis. However, challenges remain that hinder cloud adoption such as migrating sensitive data and functions in such a regulated industry. Despite potential risks, SAMA and commercial banks in the Kingdom are moving towards adopting the new technology in line with Vision 2030's push for digitalization.

### Building robust data management strategies

Building a proper data management foundation is essential, because data management can enable

banks to offer a superior customer experience, mitigate risks, and comply with regulations. Regulations in Saudi Arabia, such as the Interim Regulations for data protection and the new Personal Data Protection Law, provide a structure and environment in which individual banks can build robust data management strategies. However, it is up to individual banks to develop their own data management practices, tailor-made to the type and quality of their data, to drive business value.

### Payment service providers create banking transformation opportunities

As FinTech investments in Saudi Arabia poured into payments in 2021, SAMA is aiming to provide a regulatory framework to support innovation in the sector, as well as attract foreign PSPs to operate in the Kingdom. Due to these developments, new players or disruptors are emerging through the FinTech sector and banks are having to contend with a new way of conducting business that is heavily consumer-centric. Inflexible legacy systems and extensive regulations can hinder innovation, but banks cannot afford to remain static within this increasingly digitized environment.

## Enabling excellence

### Increased expectations of data privacy

The banking industry is based on trust, so the main risk of cybersecurity and data privacy threats is compromising the trust of clients and their personal information. Saudi Arabia has faced increasing security threats, especially with Covid-19 and remote working, the brunt of which has befallen the financial services industry. Banks in Saudi Arabia must consider various avenues to mitigate these threats while also complying with regulations, such as the new Personal Data Protection Law.

### Seeking procurement excellence and cost reduction in retail banking

Procurement in retail banking has the potential to optimize costs across the organization as well as address complex problems emerging from a changing banking landscape. Banks in the Kingdom face an array of challenges to their procurement function that may be hindering their ability to cut costs and increase their reach in the market. In order to leverage procurement's cost-saving potential, Saudi banks

need to ensure that the function develops from an executor of operational processes to a strategic value partner by increasing its maturity level.

### Leveraging technology in an evolving risk management landscape

Banks face a set of risks and governing responsibilities both old and new. Evolving climate change and conduct risks deserve fresh attention and have become more prominent and pressing. Climate change is a top risk for financial firm growth as governments outline new corporate requirements and move to a low-carbon economy. Banks are also starting to feel pressure from their customers and from the public at large to address climate risk. Another imminent change to the risk landscape for banks is the January 2023 deadline for adherence to the Basel accords. To respond to this evolving landscape in risk management, banks must be ready to embrace new technology such as AI to improve efficiency and productivity while reducing costs.



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