

# Licensing Guidelines and Minimum Criteria

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## 1. Objective of the licensing guidelines/criteria and overview of the application process

These Licensing Guidelines and minimum criteria set out the Saudi Arabian Monetary Authority's (SAMA's) Licensing process for banks. The guidelines and criteria apply to applicants seeking a license to carry on banking business in the Kingdom of Saudi Arabia (KSA) under the *Banking Control Law "BCL"*. They outline the general guidelines, the minimum criteria to be addressed by applicants and the application procedures and the necessary information and documents to be submitted with an application.

These guidelines and minimum licensing criteria are issued in accordance with the authority vested in SAMA under the Charter of Saudi Arabian Monetary Agency –issued via Royal Decree No. 23 dated 23/5/1377 H, and the Banking Control Law – issued via Royal Decree No. M/5 dated 22/2/1386 H.

The application process involves the following steps:

- Preliminary consultation between SAMA and the prospective applicant to discuss the applicant's plans to carry on banking business in the Kingdom of Saudi Arabia.
- Submission of an application and relevant information, as detailed in the Licensing criteria and the application form; and
- SAMA's review of the application.
- The form can be found under the link below:

<https://www.sama.gov.sa/en-us/applylicense/pages/banksforms.aspx>

All applications will be processed within reasonable time, having regard to the particular circumstances of each application, including the completeness of information and documents submitted to SAMA by the applicant. Some common factors that can delay the Licensing process include:

- An initial submission that contains incomplete or inadequate documentation;
- Situations where as per SAMA's assessment, the applicant is unable or unwilling to comply with SAMA requirements;
- Delays in responding to SAMA's requirements and requests and;
- Delays as a result of new developments since the application was first lodged by the applicant.

All prospective applicants are encouraged to contact SAMA as early as possible during their planning process to discuss their intent (or likely intent) to apply for a banking license.

## **2. General Licensing Guidelines for Banks**

### **1. Overview**

1. These guidelines are for the applicants seeking to conduct banking business in Kingdom of Saudi Arabia. The requirements set down the minimum criteria to be met by the applicants and the necessary information and documents to be submitted with the application.
2. Article 3 of the Banking control law allows Joint Stock Companies to carry on banking business in Kingdom of Saudi Arabia.
3. Applicants seeking a license to carry on banking business in Kingdom of Saudi Arabia should apply in writing to SAMA.
4. Foreign banks may apply to establish branches to carry on banking business in Kingdom of Saudi Arabia. For Foreign branches, references to 'Applicant' means the parent entity. If any of the founders of a locally incorporated bank is a foreign bank, the foreign partner would also be subject to the requirements for the licensing of a foreign bank branch.
5. Except as explicitly stated in SAMA's Prudential Standards, foreign bank branches are subject to the same legislative and prudential requirements as locally incorporated Banks. Although the prime responsibility for oversight of the Kingdom of Saudi Arabian operations of a foreign bank branch rests with local management and its head office as well as with the foreign bank branch's home supervisor(s), the foreign bank branch is nonetheless required to submit its local operations to SAMA's prudential supervision and other statutory laws.

### **2. Use of restricted words and expressions**

6. Applicants should note that The Banking Control Law prohibits the use of the word "Bank, or its synonyms, or any similar term in any language on papers or printed matter, or in commercial address, or name or in advertisements"

## **3. Minimum Licensing Criteria for Banks**

7. SAMA will only process a license for suitable applicants with the capacity and commitment to conduct banking business with integrity, prudence and competence on a continuing basis.
8. These licensing criteria are applicable to all applicants, including foreign bank applicants intending to establish a foreign bank branch. These requirements represent minimum criteria that an applicant will need to meet. These licensing criteria should

not be taken as exhaustive as SAMA may consider processing an application on other prudential grounds.

9. SAMA expects all applicants to be aware and able to comply with the BCL, its prudential requirements, and other relevant laws and regulations from the commencement of their banking operations. It should be noted that more prudential requirements may be set on a case-by-case basis, for example, for newly licensed banks in their formative years.

#### **A. Capital**

10. SAMA will also assess the adequacy of capital for an applicant on a case-by-case basis depending on the scale, nature and complexity of the operations as proposed in the business plan. Foreign Bank branches are not required to maintain capital in Kingdom of Saudi Arabia although capital requirements may be set on a case-by-case basis, for example, those intending to conduct high risk businesses and/or wanting to specialize in particular business lines that require specific level of capacity or competence.
11. Applicants must satisfy SAMA that they are able to comply with SAMA's capital adequacy requirements from the commencement of their banking operations. All locally incorporated banks are required to maintain, at all times, a minimum capital ratio (CAR) as set by SAMA. Newly established banks may be subject to a higher minimum capital ratio in their formative years, depending on the risk profile of their proposed operations.

#### **B. Bank Ownership**

12. As per to the BCL, the founders and members of the Board of Directors of an applicant are required to demonstrate to SAMA that they are 'fit and proper', are persons of good reputation, are well established and are of financially sound standing and substance. In the case of foreign bank branch applicants, this requirement applies both to the foreign bank itself and to the significant shareholders of the foreign bank. SAMA requires all significant shareholders to be able to demonstrate that their involvement in the bank represents a long-term commitment and that they have the capacity to contribute additional capital, if required.

#### **C. Corporate Governance**

13. Applicants must satisfy the requirements set out in SAMA's Principles of Corporate Governance for Banks Operating in Saudi Arabia with regard to the composition and functioning of the Board. Applicants must also satisfy SAMA that they have policies and related procedures in place to ensure that persons who hold the key positions within the proposed bank are fit and proper, in accordance with SAMA's Requirements for

Appointments to Senior Positions in Financial Institutions Supervised by the Saudi Arabian Monetary Authority (SAMA).

14. SAMA may consult other regulators (domestic and overseas) regarding the suitability of individuals who will manage the affairs of the proposed bank. Where necessary, applicants will be expected to provide SAMA with consent to seek details in this regard.

#### **D. Risk Management and Controls**

15. Applicants must satisfy SAMA that their proposed (or existing) risk management and control policies are adequate and appropriate for monitoring and limiting risk exposures in relation to domestic and, where relevant, international operations from the commencement of the bank's operations. This includes, but is not limited to, the development, implementation and maintenance of adequate and appropriate policies and procedures for monitoring and managing Credit, Market, Liquidity, Compliance, AML/CTF risks and Operational Risks.
16. Applicants must demonstrate that their proposed arrangements for reporting to SAMA are adequate and are in line with SAMA prudential standards and Article 15 of the Banking Control Law. Foreign bank branch applicants must demonstrate that the arrangements for reporting to SAMA and the parent foreign bank or head office are adequate and in compliance with applicable laws and regulations.
17. In assessing whether the proposed policies and procedures for managing and controlling risks are adequate and appropriate for the applicant's operations, SAMA will take into account the size, nature and complexity of the operations.

#### **E. Compliance & Anti Money Laundering and Combating Terrorism Financing (AML/CTF)**

18. Applicants must satisfy SAMA that their proposed compliance and AML & CTF processes, people and systems are adequate and appropriate for ensuring compliance with:
  - (a) Rules Governing Anti-Money Laundering & Combating Terrorist Financing and;
  - (b) SAMA's Compliance Manual for Banks Working in SAUDI ARABIA and;
  - (c) Other Kingdom of Saudi Arabia regulatory and legal requirements.
19. In assessing whether the proposed compliance and AML/CTF processes, people and systems are adequate and appropriate for the applicant's operations, SAMA will have regard to the size, nature and complexity of those operations.

## **F. Information Technology (IT), Accounting Systems and Outsourcing**

20. All Banks are required to submit prudential returns to SAMA. Required reporting forms and the frequency for Banks depend on the type of bank.
21. Applicants must satisfy SAMA that their proposed information technology and accounting systems will be adequate for maintaining up-to-date records of all transactions and commitments undertaken by an applicant, so as to keep management and SAMA continuously and accurately informed of the bank's condition and the risks to which it is exposed.
22. Applicants are required to demonstrate to SAMA that their proposed IT and accounting systems will be capable of producing all required statutory and prudential information in an accurate and timely manner from the commencement of their banking operations.
23. In assessing the overall adequacy of the proposed information and accounting systems, SAMA will have regard to the integrity and security of the systems and arrangements for Business Continuity Management (BCM) and Disaster Recovery Planning (DRP) as per SAMA's SAMA Cyber Security Framework and BCM framework.
24. Any planned outsourcing of material processes, people and systems must satisfy SAMA's outsourcing requirements set out in SAMA's Instructions for Outsourcing.

## **G. External and internal audit arrangements**

25. Applicants must demonstrate to SAMA that arrangements have been established with external auditors in accordance with the requirements of the BCL and other relevant laws and regulations.
26. Applicants are required to satisfy SAMA on the adequacy of proposed internal audit arrangements and requirements as set out in SAMA's Principles of Corporate Governance for Banks Operating in Saudi Arabia.

## **H. Supervision by home supervisor (Foreign bank branch application)**

27. Foreign bank branch applicants must have received a written consent from their home supervisor for the establishment of a banking operation in Kingdom of Saudi Arabia. Only applicants that are licensed banks in their home country and are listed in their domestic stock exchange will have their applications processed for granting of a license to operate as a foreign bank branch.
28. Foreign bank branch applicants must satisfy SAMA that they are subject to adequate prudential supervision in their home country. In considering the standard of supervision exercised by the home supervisor, SAMA will have regard to the Core

Principles of Banking Supervision (Core Principles) promulgated by the Basel Committee on Banking Supervision (BCBS). This includes whether the home supervisor supervises the foreign bank applicant on a consolidated basis in accordance with the principles contained in the Basel rules, and is prepared to co-operate with SAMA in the supervision of the bank branch in Kingdom of Saudi Arabia.

## **4. Application process guidelines**

### **1. Pre-application consultations**

29. Prospective applicants for a license to carry on banking business in Kingdom of Saudi Arabia are encouraged to contact SAMA to discuss their plans prior to submitting a formal application. Consultations with prospective applicants before they submit an application will help them to:
- I. Understand SAMA's licensing procedures.
  - II. Understand SAMA's expectations of banks, and in particular any concerns that SAMA might have early on, and which will help the prospective applicant make an informed decision about whether to spend time and other resources on an application that may not progress further.
30. To start the pre-application process, prospective applicants should contact SAMA to arrange an initial meeting.

### **2. Information required to be submitted with the application**

31. After the pre-application consultations, prospective applicants should be ready to submit their formal application for SAMA to assess. Prospective applicants can find the application form they need to complete on SAMA's website. All the supporting information and other requirements to be submitted by an applicant to carry out banking business in the Kingdom of Saudi Arabia, either to operate as a locally incorporated bank or as a foreign bank branch, is set out in the Application Form.
32. SAMA may seek such additional information from an applicant, as is necessary, to assess the application.

### **3. Submission of application**

33. Two copies of the final application (one hard copy and one soft copy (via e-mail)), each to be signed by two authorized Directors of the applicant (preferably the Chairman of the Board of Directors and the Chief Executive Officer (CEO), including all the required information and supporting documents as set out in the Application Form, should be submitted to SAMA. These should be sent to the physical and e-mail addresses shown in the front page of the Application Form. If there are any changes to the information



provided before a decision on the application has been made, the applicant should notify SAMA in writing as soon as possible.

#### **4. Processing and Notification**

34. All applications will be processed within reasonable time, having regard to the particular circumstances of each application, including the completeness of information and documents submitted to SAMA by the applicant. For applicant's application to be assessed as complete, it would need to have provided SAMA with a fully and correctly completed Application Form with all its supporting requirements. The information provided must also be of sufficient quality and detail to allow SAMA to complete its assessment.
35. Applicants should expect to receive written acknowledgement (by e-mail) of receipt of their application from SAMA along with confirmation of their case officer/s name within fifteen (15) business days.
36. SAMA will endeavor to assess an application and reach a decision within a reasonable time. Throughout the processing and assessment of the application, SAMA may have queries or require further information from the applicants. Applicants can help to make the process as efficient as possible by responding promptly and comprehensively to any SAMA queries.