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Review Article¹

Saudi Arabia's Islamic Finance Ecosystem: Institutional Dynamics, Regulatory Architecture, and the Trajectory of Global Leadership

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Abstract

This study examines the current state of the Islamic financial industry in the Kingdom of Saudi Arabia through an assessment of the performance of its primary institutional components—namely Islamic banks, sukuk (Islamic bonds), Islamic investment funds, and the takaful (Islamic insurance) sector. It further identifies the principal legislative, regulatory, and institutional determinants that have underpinned the success of the Saudi model and reinforced its position among the world's foremost Islamic financial markets. The research adopts a descriptive-analytical methodology, drawing on annual reports issued by the Saudi Central Bank, the Islamic Financial Services Board, and the Insurance Authority, in addition to a range of specialized references and empirical studies. The findings reveal a consistent upward trajectory in total Islamic banking assets, financing, and deposits over the study period, alongside a marked expansion of the Kingdom's footprint in the global sukuk market. Although Islamic investment funds registered growth in number, their total assets experienced a notable contraction in 2021 and 2022. Concurrently, the takaful industry demonstrated significant progress, particularly in the health and general insurance segments. Crucially, the study establishes that the Saudi experience is not characterized solely by quantitative expansion; rather, it is reinforced by a set of enabling factors, including robust Sharia governance frameworks, comprehensive regulatory and supervisory mechanisms, active participation in international standard-setting bodies, sustained support for research and professional training, and progressive digitalization of financial services. The paper concludes that the synergistic integration of these elements has considerably strengthened the capacity, resilience, and long-term sustainability of the Saudi Islamic financial industry. Nonetheless, it underscores the continued necessity for further product diversification and deeper functional integration across institutional sectors to consolidate future growth trajectories.

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Keywords: Islamic financial industry; Islamic banks; Islamic sukuk; Islamic investment funds; takaful insurance; Sharia governance; Kingdom of Saudi Arabia.

Introduction

The Kingdom of Saudi Arabia is one of the leading countries in the field of Islamic finance in the world, operating in an advanced and diversified financial environment that is consistent with the principles of Islamic Sharia and seeks to meet the needs of increasingly large local and global segments. Islamic banks are considered a fundamental pillar of the Saudi financial structure, alongside other Islamic financial institutions and instruments, including takaful companies, Islamic investment funds, and Islamic sukuk. From this perspective, studying the Saudi experience requires moving from a general descriptive presentation to an analysis of the reality of the industry's institutions, the development of their performance indicators, and then identifying the factors that contributed to their success and continuity.

The Islamic finance sector has witnessed rapid growth globally, at a time when the Kingdom has become a major center for this industry, benefiting from market size, institutional diversity, growing demand for Sharia-compliant products, and the development of the regulatory and supervisory environment. The Saudi experience is also important because it combines a dual banking system, full-fledged Islamic banks, Islamic windows, a sukuk market, investment funds, and cooperative insurance, making it an appropriate model for studying the dynamics of Islamic financial industry institutions and their relationships with governance, supervision, and innovation.

Statement of the Problem

In light of the position that Saudi Arabia has come to occupy in the Islamic finance market, and the multiplicity of industry institutions and the development of their assets and products, the study raises the following problem: What is the current state of the Islamic financial industry in the Kingdom of Saudi Arabia, and what factors contribute to its development and success?

Importance and Objectives of the Study

The significance of this study derives from the strategic prominence occupied by the Saudi market within the Islamic financial industry and from the extensive diversity of its constituent segments. Its value is further reinforced by linking the quantitative evolution of institutions to the institutional and regulatory mechanisms ensuring their enduring stability.

The study aims to analyze Islamic banking indicators, highlight the position of the sukuk market, track the development of Islamic investment funds and the takaful insurance industry, and then identify the most important factors that contribute to the successful localization of Islamic finance in Saudi Arabia.

Methodology and Scope of the Study

The study adopted a descriptive-analytical approach by describing the components of the Saudi Islamic financial industry and analyzing the quantitative indicators contained in the annual reports of the Saudi Central Bank, the reports of the Islamic Financial Services Board, and the Insurance Authority. The time periods vary according to the availability of data in the source; the Islamic banking data cover the period 2018–2022, the Islamic investment fund data cover the period 2016–2022, and the takaful insurance data cover the period 2019–2023, while the analysis of sukuk focuses mainly on the years 2021 and 2022.

First: The Current State of the Islamic Financial Industry in Saudi Arabia

The Kingdom of Saudi Arabia is a major center of Islamic finance worldwide, seeking to attract investments and meet the needs of diverse segments of Muslim and non-Muslim customers who prefer to conduct transactions according to the principles of Islamic Sharia. The section indicated that the sector achieved growth of 9.4% in 2023 compared with 2022, and that the continued growth of Islamic investment funds and takaful reflects the expansion of the industry's base and the multiplicity of its channels. The strength of the Saudi experience does not stem from the size of a single market, but from the existence of an ecosystem comprising Islamic banks, sukuk, investment funds, and cooperative insurance, in addition to the regulatory and supervisory institutions that oversee these activities.

Islamic banks in Saudi Arabia operate under a dual system that combines Islamic and conventional finance. Saudi Arabia has four banks that are fully compliant with the principles of Sharia: Al Rajhi Bank, Bank AlJazira, Bank Albilad, and Alinma Bank. Collectively, these four banks represent a significant share of the total national banks operating in the Kingdom. Islamic banking is also not limited to full-fledged Islamic banks; it also includes Islamic windows in conventional banks, which expands the base of Sharia-compliant financing and increases the market's ability to absorb demand.

Second: The Current State of Islamic Banks in Saudi Arabia

In 2023, Saudi Arabia ranked as the world's largest Islamic finance market, with aggregate Islamic financial assets exceeding SAR 3.1 trillion across various sectors. The Islamic banking segment alone comprised approximately 33% of global Islamic banking assets. Table (01) depicts the progression of total Islamic banking assets, financing, and deposits in Saudi Arabia over the 2018–2022 period.

Table 01: Total Islamic Banking Assets, Financing, and Deposits in Saudi Arabia during the Period

.(2022–2018)

Unit: Million Saudi Riyals

Year	2018	2019	2020	2021	2022
Total Assets	1,877,132	1,915,049	2,041,007	2,413,332	2,714,555
Total Financing	1,100,523	1,243,643	1,461,902	1,724,264	1,977,400
Total Deposits	1,142,186	1,432,173	1,579,184	1,767,999	1,873,686

Source: Prepared by the researchers based on the annual reports of the Saudi Central Bank (2019–2023).

From the table, we observe that Saudi Islamic banks recorded a continuous increase in total banking assets during the study period, as total assets of Islamic banks and Islamic windows together increased from one year to the next. Focusing on the last two years, the volume of assets increased by 18.2% to reach approximately SAR 2,413 billion at the end of 2021, then continued to grow to approximately SAR 2,714.6 billion at the end of 2022, with an estimated annual growth rate of 12.5%. This growth is explained by the increase in Sharia-compliant bank financing, which accounted for 71.4% and 72.8% of total Islamic banking assets in 2021 and 2022, respectively.

With regard to bank financing granted by Islamic banks and Islamic windows in Saudi Arabia, it achieved high growth rates, as its total increased to approximately SAR 1,724 billion, with an annual growth rate of 17.9% at the end of 2021, then continued to rise to SAR 1,977.4 billion at the end of

2022, recording an annual growth rate of 14.7%. Deposits, meanwhile, reached approximately SAR 1,873 billion at the end of 2022, with an estimated annual growth rate of 6%, compared with approximately SAR 1,768 billion at the end of 2021.

The increase in deposits was supported by growth in profit-bearing deposits, which include murabaha deposits and others, accounting for approximately 23.6% of total deposits and reaching SAR 442.4 billion at the end of 2022 compared with SAR 339.6 billion in 2021. This was accompanied by an increase in investment accounts based on profit sharing, which accounted for approximately 7.1% of total deposits compliant with Sharia rules and principles, reaching SAR 133.6 billion compared with SAR 115.1 billion. In contrast, demand deposits, consisting mainly of current accounts, declined from approximately SAR 1,313.3 billion in 2021 to SAR 1,297.6 billion in 2022, despite remaining the largest component of Sharia-compliant deposits.

Figure (01): Breakdown of Deposits of Islamic Banks in Saudi Arabia, 2021–2022



Source: Annual Report of the Saudi Central Bank, Fifty-Ninth Report, 2023, p. 147.

Breakdown of Financing Modes in Saudi Islamic Banks ➤

Saudi Arabia is characterized by having a diverse range of Islamic financing modes, including murabaha, tawarruq, ijara, mudarabah, musharakah, and others. Murabaha accounted for more than half of financing contracts compliant with Sharia principles, followed by tawarruq contracts and then ijara, while mudarabah, musharakah, and the remaining modes represented a limited share. This distribution reveals that the existing diversity of products does not necessarily mean balanced use, as debt-based modes, particularly murabaha and tawarruq, remain dominant in the structure of Islamic banking finance.

According to the figures presented in the section, murabaha accounted for approximately 53.1% of total financing contracts, followed by tawarruq contracts at approximately 36.28%, then ijara at about 9.1%, while the remaining percentage was distributed among mudarabah, musharakah, and other contracts. These indicators highlight the importance of continuing to develop products based on risk and profit sharing in a way that enhances the genuine diversity of Islamic financial instruments.

Figure (02): Distribution of Islamic Financing Modes in Islamic Banks in Saudi Arabia in 2023

Source: Prepared by the researchers based on the information presented in the section and the reports of the Saudi Central Bank.

Third: The Current State of Islamic Sukuk in Saudi Arabia

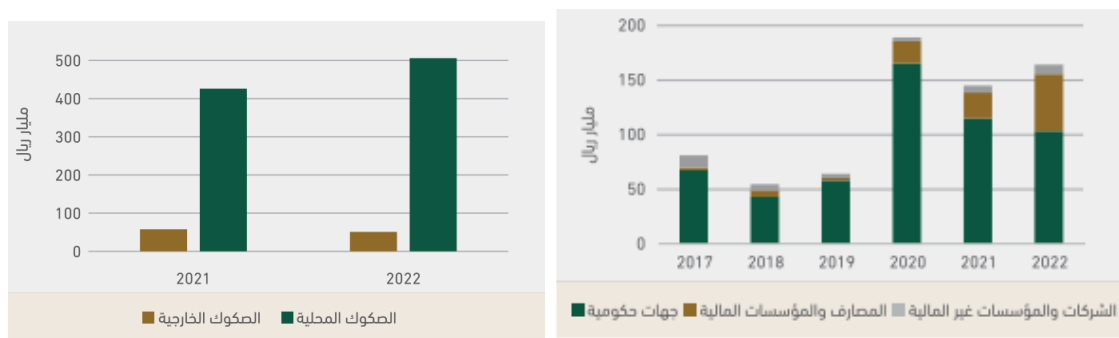
Saudi Arabia accounted for more than one-quarter of global Islamic sukuk issuances during 2022 and ranked first worldwide in the issuance of sovereign sukuk. The Ministry of Finance, represented by the National Debt Management Center, issues domestic and international sovereign sukuk, making the sukuk market one of the most important components of the Saudi Islamic financial industry and a key instrument for financing public needs and projects.

The assets of domestic sukuk at the end of 2022 amounted to approximately SAR 506.2 billion, compared with approximately SAR 426.2 billion at the end of 2021, while total external sukuk amounted to approximately SAR 50.6 billion at the end of 2022 compared with approximately SAR 58.1 billion in 2021. As for domestic non-sovereign sukuk, represented by corporate sukuk, their volume reached SAR 129.6 billion at the end of 2022. Sukuk issued by banks and financial institutions accounted for 56.9% of the total value, amounting to SAR 73.7 billion, compared with approximately SAR 40.7 billion previously, while quasi-sovereign sukuk accounted for approximately 11.7%, valued at SAR 15.2 billion.

Domestic sukuk issuances in 2022 were also estimated at approximately SAR 164.2 billion, compared with SAR 145 billion in 2021, with an estimated annual growth rate of 13.2%. Fourteen government sukuk were issued through private placement with a value of SAR 103.4 billion in 2022, in addition to issuances by banks and financial institutions, which amounted to 15 private issuances and one public issuance valued at SAR 52.2 billion, compared with SAR 23.6 billion in 2021, along with issuances by companies and non-financial institutions valued at SAR 8.6 billion in 2022 compared with SAR 6.4 billion in 2021.

Figure (03): Development of the Volume of Domestic and External Sukuk in Saudi Arabia during 2021–2022.

Figure (04): Domestic Sukuk Issuances by Issuing Entity during the Period 2017–2022.



Source: Annual Reports of the Saudi Central Bank for 2022 and 2023.

These indicators confirm that the Saudi sukuk market does not perform a financing function only, but also constitutes a channel for diversifying sources of financing, deepening the financial market, and financing infrastructure projects. The growing presence of government issuances and financial institution issuances also explains an important part of the Kingdom's global position in this market.

Fourth: The Current State of Islamic Investment Funds in Saudi Arabia

Saudi Arabia has a wide range of Islamic investment funds. The section examined the development of these funds during the period 2016–2022 through two main indicators: asset size and the number of

funds. Table (02) shows that the general trend was upward until 2020, followed by a decline in 2021 and 2022.

Table (02): Asset Size and Number of Saudi Islamic Investment Funds during the Period 2016–2022.

Unit: Billion Saudi Riyals

Years	2016	2017	2018	2019	2020	2021	2022
Asset Size of Islamic Investment Funds	75.6	100.2	100.3	150.4	200.08	189.2	92.8
Number of Islamic Investment Funds	152	201	201	302	403	381	187

For assets. Source: Prepared by the researchers based on the annual report of the Saudi Central Bank for 2023, p. 148.

According to the Islamic Financial Services Industry Stability Report for 2022, Islamic investment funds in Saudi Arabia accounted for approximately 35.2% of such funds globally, compared with approximately 36% in 2021. Assets increased during most of the study years, with a compound annual growth rate of approximately 16% since 2016, reaching approximately SAR 189 billion in 2021 before declining to SAR 92.8 billion at the end of 2022. The number of Sharia-compliant funds also reached 187 investment funds in 2022.

The investment structure of these funds indicates a diversity of assets compliant with Sharia rules and principles. Investment in money markets represented the largest share, at approximately 51.8% of total assets, followed by investment in sukuk at 21.1%, and then investment in equities at 20.4%. This structure reveals a clear tendency toward money market and sukuk instruments, reflecting a relative preference for more liquid and less volatile assets compared with some other instruments.

.Figure (05): Percentage Distribution of Islamic Investment Funds in Saudi Arabia for 2022

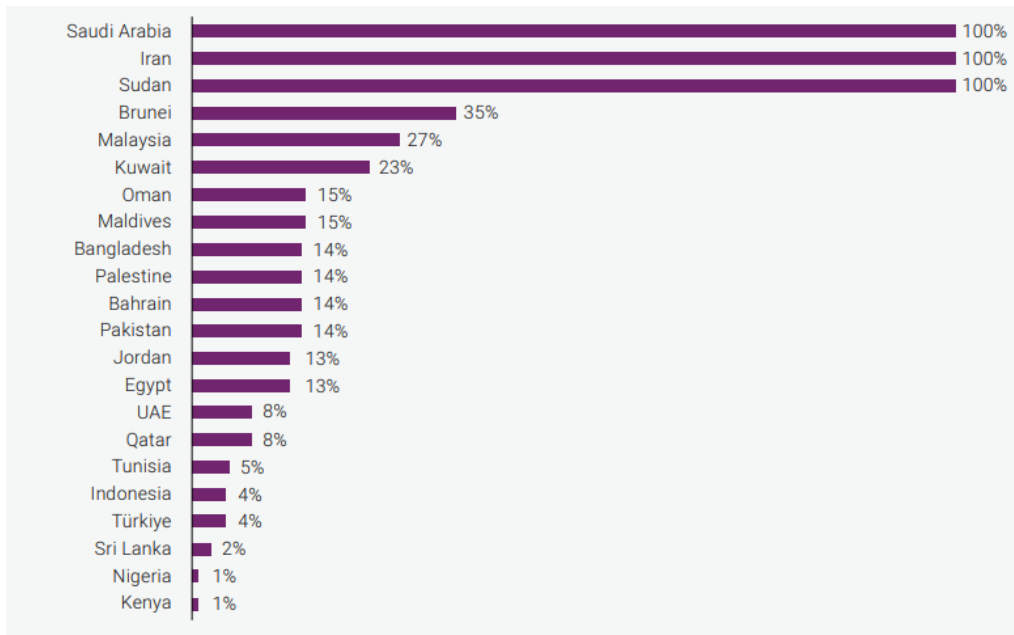
Source: Prepared by the researchers based on the annual report of the Saudi Central Bank, 2023, p. 148.

Fifth: The Current State of the Takaful Insurance Industry in Saudi Arabia

Saudi Arabia is considered a leading experience in the field of takaful. The cooperative insurance sector constitutes an important part of the Islamic finance sectors, and the basic insurance system in Saudi Arabia is based on cooperative insurance. The sector's assets amounted to approximately SAR 53.4 billion in 2022 compared with SAR 42 billion in 2021, with an estimated growth rate of 26.9%. This sector derives its importance from its direct or indirect connection with various economic activities and from its role in protecting individuals and institutions and supporting financing and investment activity.

Figure (06): Countries' Contribution Rates to the Takaful Insurance Sector during 2022.

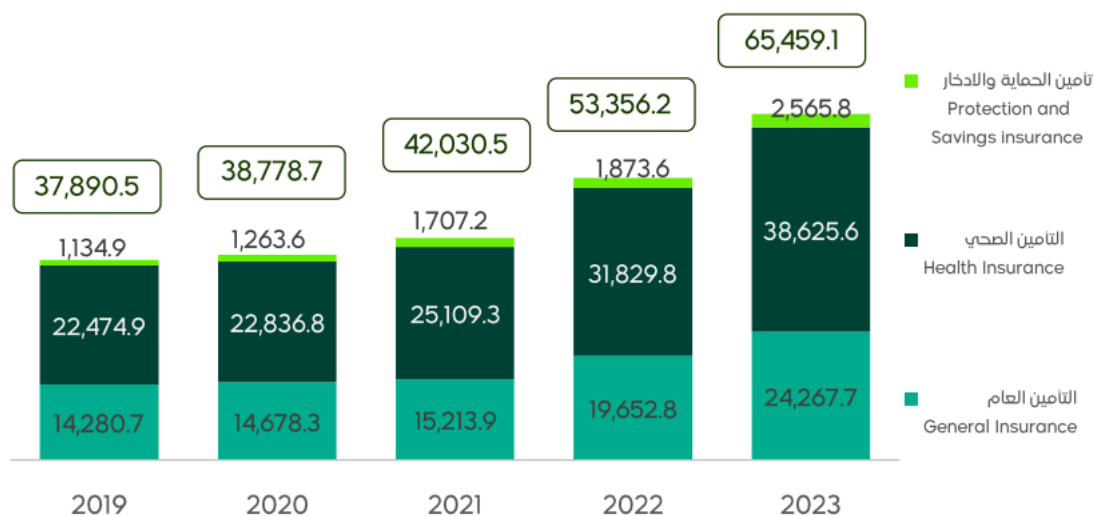
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Source: Islamic Financial Services Board Report for 2023, p. 75.

Figure 6 illustrates that the global takaful market is entirely concentrated among just three countries—Saudi Arabia, Iran, and Sudan—accounting for a full 100% collectively, albeit each follows its own distinctive operational model. In contrast, the remaining countries implement the cooperative insurance model alongside conventional insurers. Specifically, Brunei accounts for 35% of the global sector, with Malaysia following at 27%, Kuwait ranking third at 23%, and Oman capturing 15%. Bangladesh, Palestine, Bahrain, and Pakistan each claim a 14% share, while Jordan and Egypt each hold 13%. The rest of the countries possess varying smaller shares. This underscores the growing interest, particularly among the Gulf Cooperation Council states, whose collective market reached USD 16.7 billion in 2022, up from USD 13.5 billion in 2021.

Figure (07): Total Takaful Insurance Market Activity Volume in Saudi Arabia during the Period 2019–2023.



Source: Saudi Insurance Market Report, Insurance Authority, 2023, p. 09.

The figure clearly illustrates the sustained upward trajectory of the takaful insurance market in Saudi Arabia across its various segments throughout the study period. Total net written premiums generally increased by 26%, reaching approximately SAR 56.3 billion in 2023, up from SAR 44.6 billion in 2022. General takaful recorded significant year-on-year growth, with total assets amounting to SAR 14,280.7 billion in 2019, subsequently rising to SAR 24,267.7 billion in 2023, at an annual rate of 37.7% in 2019. It then experienced a slight decline in 2021, but soon recovered to reach 37.1%, while the annual growth rate of the activity was estimated at 36.9% between 2022 and 2023. This necessarily confirms that the takaful sector constitutes the leading segment of the Islamic financial industry in Saudi Arabia.

Table (03): Growth Rate of Takaful Industry Activities in Saudi Arabia during the Period 2019–2023.

Years / Type of Activity	2019	2020	2021	2022	2023	Activity Growth Rate 2022–2023
General Insurance	37.7%	37.9%	36.2%	36.8%	37.1%	23.5%
Life and Savings Insurance	3%	3.3%	4.1%	3.5%	3.9%	36.9%
Health Insurance	59.3%	58.9%	59.7%	59.7%	59.0%	21.4%
Grand Total	100%	100%	100%	100%	100%	22.7%

Source: Prepared by the researchers based on: Saudi Insurance Market Report, Insurance Authority, p. 09, 2023

With regard to the health takaful insurance sector, its share reached 67.2% of total net written insurance premiums in 2023, maintaining its position as the largest insurance activity, with a growth rate of approximately 59% of total written insurance premiums during the study years. Its assets were estimated at SAR 22,474.9 billion in 2019 and continued to increase until reaching SAR 38,625.6 billion in 2023, with an annual growth rate estimated at 21.4% during 2022 and 2023.

According to the Saudi Insurance Market Report for 2023, the health insurance and motor insurance sectors together accounted for 80.8% of total written insurance premiums in 2023. Motor insurance ranked second, at 21.8% of total written insurance premiums for 2023, and it also increased by 38.2% in 2023.

With reference to savings and life insurance, we observe an increase from one year to the next, with a decline in the annual growth rate in 2022, when it was estimated at 3.5%. Managed assets were estimated at SAR 1,134.9 billion and SAR 1,163.6 billion until reaching SAR 2,565.8 billion as the maximum value in 2023, which recorded an annual increase estimated at 36.9% between 2022 and 2023.

.Sixth: Factors Contributing to the Success of Islamic Finance in Saudi Arabia

The Saudi authorities decided to allow the establishment of Islamic financial institutions in response to growing demand for financial products compliant with Islamic Sharia. These institutions became part of the financial system subject to the supervision and oversight of the Saudi Central Bank and the Capital Market Authority. The section shows that the success of the Saudi experience was not the result of a single factor, but rather of interaction among regulation, supervision, Sharia governance, openness to international standards, training, research, and innovation.

1. Basic Legislative Systems and Regulatory Regulations

The Saudi Central Bank made multiple regulatory efforts based on its supervisory and oversight role over banks and financial institutions. The regulations granted the Central Bank broad flexibility to take whatever measures it deemed appropriate to maintain banks' soundness and ensure their financial solvency, thereby providing a regulatory foundation that allows Islamic financial activity to develop within the general framework of the Saudi financial system.

2. Sharia Governance Framework and Regulation of Banks and Finance Companies

The Saudi Central Bank adopted the application of the Islamic Financial Services Board standards relevant to the banking sector in order to develop Islamic banking in accordance with international recommendations and global best practices. Among the most important of these instruments is the Sharia governance framework for banks and local banks operating in Saudi Arabia, issued in February 2021, alongside the risk management framework for banks and financial institutions engaged in Islamic banking activities. These frameworks aim to strengthen the environment of compliance with Sharia rules and principles and establish minimum principles for risk management, market risk, and operational risk.

The Central Bank also issued Sharia governance instructions for finance companies with the aim of strengthening Sharia governance procedures and developing confidence in the Islamic finance sector. These instructions cover the roles and responsibilities of the board of directors, senior management, and the Sharia committee, as well as compliance and Sharia audit functions. This regulation is considered one of the most important elements in building institutional trust because it links Sharia compliance to responsibility and internal control rather than merely to product approval.

3. Rules for Profit-Sharing Investment Accounts

The Central Bank issued rules for profit-sharing investment accounts for banks conducting Islamic banking activities, with the aim of establishing minimum regulatory requirements that must be observed, strengthening customer protection, and raising the level of transparency in the banking sector. This framework also regulates the responsibilities of the board of directors, executive management, the Sharia committee, and the internal control department, and emphasizes the need to separate assets and sources of Islamic financing from conventional sources in Islamic windows, while maintaining an independent record of transactions and conducting periodic internal audits.

4. Legal Framework Regulating Takaful Insurance

Insurance in Saudi Arabia is conducted through registered companies operating under the cooperative insurance model. This sector is subject to a set of systems, regulations, and controls governing the approval of insurance products, monitoring companies' activities, and protecting the rights of policyholders and investors. This framework has contributed to giving cooperative insurance a clear institutional character and linking it to government supervision, thereby strengthening the sector's capacity for expansion and competition.

Among the regulatory instruments referred to in the section are controls for approving cooperative insurance products, which require the submission of the necessary documents to the Central Bank to obtain prior approval or notification depending on the nature of the product. Market regulation also relies on the Cooperative Insurance Companies Control Law and its Implementing Regulations, which address requirements for establishing companies, protecting policyholders' rights, encouraging fair competition, and providing quality insurance services at appropriate prices.

The supervisory framework is characterized by the multiplicity of relevant authorities. The Council of Cooperative Health Insurance oversees the implementation of the health insurance system, while the monetary and supervisory authority regulates the insurance market, supervises its companies, and monitors their compliance with the governing rules. The Capital Market Authority plays a role in regulating and developing the financial market and governing joint-stock companies, which includes insurance companies within its scope. This institutional distribution gives the cooperative insurance sector a multi-level supervisory network.

5. Membership in Specialized International Bodies

The Saudi Central Bank's membership in the Islamic Financial Services Board, followed by membership in the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), constitutes a qualitative addition confirming its interest in developing this sector and benefiting from international standards. The Central Bank also seeks to apply international prudential standards and Islamic Financial Services Board standards, which helps align the Saudi industry with global best practices while preserving its Sharia specificity.

The Saudi Central Bank's membership in the Islamic Financial Services Board since 2002 constituted an entry point for deepening its relationship with international standards relating to Islamic financial services. It contributed to forming committees and submitting proposals related to industry performance, while enabling Islamic financial institutions to operate alongside conventional institutions and open Islamic branches and windows. The official membership in AAOIFI in October 2018 also represented an additional step toward strengthening accounting, auditing, and Sharia governance and linking the Saudi market to the professional standards adopted in the industry.

This membership is particularly important given that the development of Islamic finance requires a balance between Sharia specificity and the requirements of soundness and prudential supervision. Accordingly, combining Islamic Financial Services Board standards with Basel standards and Sharia governance and auditing standards provides a framework that helps improve operational efficiency, strengthen risk management, and increase the level of trust among stakeholders.

6. Training, Research, Innovation, and Digitalization

Forms of interest in Islamic finance include organizing workshops and courses addressing industry topics and hosting experts, specialists, academics, and representatives of governmental, local, and international bodies. Among the topics addressed by these workshops were Islamic banks' strategies in the post-COVID-19 pandemic period, the digitalization of banking services, and the opportunities and challenges presented by financial technologies.

As part of localizing Islamic finance, the Saudi Central Bank established in 2018 a division called the "Islamic Finance Division," concerned with studying the sector and its opportunities, addressing obstacles and challenges, making regulatory proposals and policies, contributing to the qualification of human resources, and raising awareness through workshops, training courses, and scientific research. In 2021, the Central Bank also launched the Islamic Finance Research Support Program and a program for translating this research, and issued the report "Islamic Finance in the Kingdom:

Excellence and Leadership,” which addressed the major Islamic finance sectors and their development in Saudi Arabia.

The Islamic Finance Division performs a function that goes beyond administrative monitoring of the sector, as it combines the study of opportunities and challenges, participation in formulating regulatory proposals and policies, human-resource development, and awareness-raising. Support for research and translation also expands the specialized knowledge base and makes regulatory decision-making more closely connected to scientific study of the needs of society and the economy. From this perspective, scientific research becomes one of the elements of the infrastructure supporting the industry rather than an activity parallel to it.

In cooperation with the Central Bank, the Financial Academy launched professional certificates in the fundamentals of Islamic banking and in Sharia compliance and auditing, supporting the development of human-resource capabilities. The Kingdom also hosted international conferences and summits that discussed digital transformation, innovation, and resilience in Islamic finance, reflecting policymakers’ recognition of the importance of moving from traditional expansion toward an industry more dependent on knowledge and modern financial technologies.

An international workshop organized by the Central Bank in September 2021 addressed the topic “Islamic Finance: Growth through Innovation” and focused on Islamic banks’ strategies in the post-COVID-19 pandemic period, the digitalization of banking services, and the opportunities and challenges presented by financial technologies. The fifteenth international summit of the Islamic Financial Services Board, hosted in Jeddah in November 2021, also discussed Islamic finance and digital transformation and balancing innovation and resilience. These activities show that digital transformation has become part of the competitive foundations of the Saudi industry, rather than merely a separate technological option disconnected from its institutional path.

Seventh: Discussion of the Results

The study results reveal that the Saudi experience is based on a multi-component institutional foundation, with Islamic banks representing the largest driver in terms of assets, financing, and deposits. Meanwhile, the sukuk market contributes to expanding financing instruments and deepening the financial market; investment funds provide channels for pooling savings and directing them toward Sharia-compliant assets; and takaful insurance constitutes a mechanism for protecting individuals and institutions and managing risks. Thus, the leadership of the Saudi experience cannot be evaluated through a single indicator, but rather through the degree of integration among these components.

The indicators also show that growth is not linear across all sectors. While Islamic banking, sukuk, and takaful insurance recorded a clear upward trend, the assets of Islamic investment funds experienced a notable decline after 2020. Therefore, discussion of leadership should remain linked to a balanced reading of the indicators that combines market size, continuity of growth, product diversification, and governance quality. Likewise, the dominance of murabaha and tawarruq in financing modes reflects success in expanding Sharia-compliant financing, but at the same time opens room for further development of musharakah and mudarabah modes in a way that strengthens the distinctive nature of Islamic finance.

The study also highlights that the regulatory environment and Sharia governance are two decisive factors in explaining the strength of the Saudi experience. The existence of clear rules for Sharia responsibilities, risk management, investment accounts, internal control, and auditing, together with membership in international standard-setting bodies, contributed to raising the level of trust and

standardizing minimum practices. Support for research, training, and digitalization also provides a foundation for the sustainability of the industry, not merely its quantitative growth.

Conclusion

The experience of the Kingdom of Saudi Arabia confirms that the Islamic financial industry can develop within a modern and integrated financial system when it has a broad market, diverse institutions, clear regulatory and supervisory frameworks, and effective Sharia governance mechanisms. Analysis of Islamic banks, sukuk, investment funds, and takaful insurance has shown that the Kingdom has built a strong foundation for the industry, with differing growth paths among sectors. It has also become clear that the success factors are not limited to increases in assets and issuances, but also include membership in international bodies, governance development, capacity building, research support, and attention to innovation and digital transformation.

Main Findings

- Saudi Islamic banks recorded a continuous increase in total assets, financing, and deposits during the period 2018–2022, with a notable acceleration in the last two years of the period.
- Sharia-compliant financing accounts for a large share of Islamic banking assets, confirming the centrality of financing activity in the sector's structure.
- Murabaha and tawarruq remain the two most widely used modes in Islamic banking finance, compared with a limited share for musharakah and mudarabah modes.
- The sukuk market experienced strong expansion, particularly in domestic and sovereign issuances and issuances by banks and financial institutions.
- Islamic investment funds experienced clear growth until 2020, after which their assets and number declined during 2021 and 2022, while their investments continued to be diversified among money markets, sukuk, and equities.
- The takaful insurance sector achieved tangible growth, and health insurance and general insurance remained among its largest components.
- Sharia governance, regulatory frameworks, membership in international bodies, and support for training, research, and digitalization contributed to strengthening confidence and the sustainability of the industry.

Recommendations

- Continue diversifying Islamic financing modes, with greater attention to musharakah and mudarabah modes and without relying solely on murabaha and tawarruq.
- Strengthen functional integration among Islamic banks, the sukuk market, investment funds, and takaful insurance in order to expand the range of products and services.
- Support applied studies that explain the reasons for the decline in some indicators of Islamic investment funds and identify the factors affecting their stability.
- Continue developing Sharia governance, Sharia auditing, and risk management in line with international standards and in a manner that enhances the confidence of market participants.
- Expand professional training and scientific research programs in Islamic finance and link them to the requirements of innovation, financial technologies, and digital transformation.
- Strengthen regular and detailed statistical disclosure concerning Islamic finance sectors to enable researchers to measure performance and compare institutions and periods.

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