



RESEARCH ARTICLE

Legal Regulation of Granting Digital Bank Licenses in the Kingdom of Saudi Arabia: An Analytical Study

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ARTICLE INFO	ABSTRACT
Received: Oct 22, 2024 Accepted: Dec 24, 2024	<p>This study explores the legal regulation of granting licenses to digital banks in the Kingdom of Saudi Arabia, considering them a cornerstone of the digital transformation in the financial sector within the framework of Saudi Vision 2030. The study aims to analyze the nature of digital banks, their characteristics, and economic importance, while highlighting the legal and regulatory framework for granting their licenses in the Kingdom. The research also discusses the legal conditions and criteria that must be met to obtain licenses, and the role of the Saudi Central Bank (SAMA) in the supervision and oversight of digital banks.</p> <p>The study also addresses the legal and economic challenges associated with granting digital bank licenses, such as data protection, combating financial crimes, achieving a balance between innovation and competition, and developing the technological infrastructure. Additionally, the study analyzes the Kingdom's experience in regulating digital banks through a case study of the Saudi Digital Bank model and compares it with international experiences.</p> <p>The study concludes with recommendations for developing the legal and regulatory frameworks to support innovation and achieve financial stability, thereby enhancing the Kingdom's position as a global financial hub in the digital economy.</p>
Keywords Digital Banks Legal Regulation Banking Licenses Saudi Central Bank Saudi Vision 2030 Cybersecurity Combating Financial Crimes Financial Inclusion Digital Economy	
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INTRODUCTION

The world is undergoing rapid transformations across various sectors, driven by technological advancements and the digital communications revolution. The financial sector has not been immune to these changes. With the emergence of digital banks, we are witnessing a new banking model that is reshaping the way financial services are delivered and opening up broad horizons for innovation and financial inclusion. These banks, which rely entirely on modern technologies, provide integrated banking services online, without the need for physical branches, offering a more seamless, faster, and more efficient banking experience.

PROBLEM STATEMENT

The research problem lies in the challenges posed by these transformations to existing legal and regulatory systems, especially in light of the need to find a delicate balance between supporting

financial innovation and protecting customer interests and ensuring the stability of the financial system. In the Kingdom of Saudi Arabia, despite the efforts made to develop the digital banking sector, there remains a need for an in-depth study of the legal and regulatory framework that governs the operations of digital banks, and an assessment of its suitability to keep pace with rapid technological developments and the challenges associated with this new type of financial institution. Is there a legal and regulatory framework capable of achieving this balance? What are the conditions and criteria that must be met to grant licenses to digital banks? What is the role of the Saudi Central Bank in regulating and supervising this sector? What are the legal and economic challenges facing digital banks in the Kingdom? These questions and others form the core of the research problem that this study seeks to address.

SIGNIFICANCE OF THE RESEARCH

The importance of this research stems from the increasing role that digital banks play in supporting the digital transformation of the financial sector, promoting financial inclusion, and achieving the goals of Saudi Vision 2030. The research is also of particular importance in light of the legal and economic challenges facing this sector, which require careful study and in-depth analysis, with the aim of developing practical recommendations that contribute to the development of this sector and ensuring its sustainability. In addition, the research highlights the Kingdom's experience in the field of regulating digital banks and compares it with international experiences, which contributes to the exchange of expertise and knowledge in this field.

OBJECTIVES OF THE RESEARCH

This research primarily aims to analyze the legal regulation of granting licenses to digital banks in the Kingdom of Saudi Arabia, through achieving the following sub-objectives:

- Defining the concept of digital banks, their characteristics, and economic importance.
- Analyzing the legal and regulatory framework for digital banks in the Kingdom, and the role of the Saudi Central Bank in regulating this sector.
- Reviewing the legal conditions and criteria that must be met to obtain digital bank licenses.
- Analyzing the legal and economic challenges associated with granting digital bank licenses.
- Studying and analyzing the Kingdom's experience in regulating digital banks, and comparing it with international experiences.
- Providing recommendations for developing the legal and regulatory frameworks to support innovation and achieve financial stability in the digital banking sector.

RESEARCH METHODOLOGY

This research relies primarily on the analytical method, through the analysis of relevant legal and regulatory texts, the study of previous literature and research in this field, in addition to the analysis of the Kingdom's experience in regulating digital banks, and comparing it with international experiences. The research also relies on the inductive method in drawing conclusions and recommendations through the analysis of available data and information.

Research Plan:

To achieve the objectives of the research, the study has been divided into three main sections, as follows:

Section One: The Nature of Digital Banks and their Regulation in the Kingdom of Saudi Arabia. This section covers the concept of digital banks and their characteristics, the legal regulation of digital banks in the Kingdom, and the role of the Saudi Central Bank in this regulation.

Section Two: Legal Conditions and Procedures for Granting Digital Bank Licenses in the Kingdom of Saudi Arabia. This section covers the legal conditions and criteria for granting a digital bank license, and the Kingdom's experience in granting licenses to digital banks.

Section Three: Legal and Economic Challenges Associated with Granting Digital Bank Licenses. This section addresses the legal and economic challenges facing digital banks in the Kingdom.

SECTION ONE

The Nature of Digital Banks and their Regulation in the Kingdom of Saudi Arabia:

Digital banks are witnessing rapid development in the financial sector, as they have become a fundamental transformation in the nature of banking services, by providing integrated financial solutions through digital media without the need for traditional branches. With the increasing reliance on technology in all aspects of life, digital banks have emerged as one of the main drivers of the digital economy, contributing to enhancing efficiency and ease of access to banking services.

In the Kingdom of Saudi Arabia, the emergence of digital banks represents a qualitative step in achieving the desired digital transformation, in line with Saudi Vision 2030, which aims to diversify the economy and promote technological innovation. However, this transformation requires a solid legal and regulatory framework to ensure a balance between supporting innovation and protecting customer interests, while taking into account international best practices in this field.

This section highlights the concept of digital banks, their characteristics, and economic importance, in addition to analyzing the existing legal regulation in the Kingdom of Saudi Arabia, and the role of the Saudi Central Bank (SAMA) in regulating this sector, thereby enhancing integration with the ambitious goals of the Kingdom's Vision.

This section is divided into the following two subsections:

Subsection One: The Concept and Characteristics of Digital Banks.

Subsection Two: Regulation of Digital Banks in the Kingdom of Saudi Arabia.

Subsection One: The Concept and Characteristics of Digital Banks:

Digital banks have become a central element in the modern banking landscape, having successfully reshaped the way financial services are delivered to meet the demands of the digital age. These banks are characterized by the flexibility of their services and the speed of their interaction with customers compared to traditional banks, which has contributed to enhancing their efficiency and attracting new categories of users.

The importance of digital banks lies not only in providing banking services in an innovative and seamless way, but also in their vital role in supporting the digital economy, which has become one of the main axes of economic growth in the world. However, understanding the concept of digital banks and distinguishing them from traditional banks requires a careful study of their characteristics and features, in addition to analyzing their importance as a tool to promote financial inclusion and drive economic development.

This subsection aims to provide a clear definition of digital banks while clarifying the differences between them and traditional banks, reviewing their main characteristics and features, in addition to highlighting their increasing role in supporting the digital economy and achieving technological transformation. This will be addressed in detail as follows:

First: Defining Digital Banks and Distinguishing them from Traditional Banks:**Definition of Digital Banks:**

Digital banks are financial institutions that provide integrated banking services online using modern technology without the need for physical branches. These banks offer a variety of banking services, such as account opening, transfers, loans, and investments, relying on technologies such as artificial intelligence, blockchain technology, and innovative banking applications. This banking model is characterized by efficiency and ease of access for customers, which has made it an essential part of the modern digital economy (Arner et al., 2017).

Distinguishing Digital Banks from Traditional Banks:

Digital banks differ from traditional banks in many aspects. Traditional banks rely on physical branches as the main point of contact with customers, while digital banks rely entirely on technology to provide their services. This makes digital banks more flexible and efficient in providing services, while reducing the operating costs required by traditional banks, such as renting branches and hiring employees (Philippon, 2020).

Moreover, digital banks are characterized by the speed of processing transactions and 24/7 accessibility, which provides a more seamless banking experience. While traditional banks may face restrictions related to working hours and geographical location, which makes them less compatible with customer requirements in the digital age (Zahra, 2023).

Second: Characteristics and Features of Digital Banks:**Characteristics of Digital Banks:**

Digital banks have a set of characteristics that distinguish them from traditional banks, most notably (Gomber et al., 2017):

- a- Lack of reliance on physical branches: Digital banks provide their services entirely through online platforms, eliminating the need for physical branches. This feature gives them the ability to expand easily and reduce operating costs.
- b- Technological integration: Digital banks rely heavily on modern technologies such as artificial intelligence, machine learning, and big data analysis to provide personalized and fast services to customers.
- c- Continuous access: Digital banks operate 24/7, allowing customers to conduct their transactions anytime and from anywhere without time restrictions.
- d- Financial innovation: Digital banks are characterized by their ability to offer innovative financial services and products, such as digital savings tools, investment management via applications, and international transfers at low costs.

Features of Digital Banks:

- a- Ease of use: Digital banks provide simple and easy-to-use user interfaces that enable customers to manage their accounts and execute their transactions quickly and smoothly.
- b- Cost reduction: Due to the lack of need for costly infrastructure such as traditional branches, digital banks reduce costs for both the bank and customers, which allows them to provide services at lower prices.
- c- Financial inclusion: Digital banks contribute to expanding the scope of financial inclusion by enabling individuals in remote areas to access banking services online.

d- Enhanced security: Digital banks rely on advanced technologies for cybersecurity and data protection, such as multi-layer encryption and biometric authentication, to ensure the protection of customers' financial information.

Third: Importance of Digital Banks in the Digital Economy:

Supporting Financial Inclusion

Digital banks play an important role in promoting financial inclusion by enabling individuals and small businesses, especially in remote areas that lack the presence of traditional banks, to access banking services. This contributes to integrating larger segments of society into the formal financial system, which enhances economic growth and reduces the economic gap (Demirguc-Kunt et al., 2020).

Improving Economic Efficiency

Digital banks rely on automation and modern technology to execute banking operations quickly and at a lower cost. This not only contributes to reducing the operating costs of banks, but also makes banking services more efficient and faster, which enhances overall economic productivity.

Stimulating Financial and Technological Innovation

Digital banks are a major platform for developing innovative financial solutions, such as artificial intelligence applications for data analysis, and blockchain technology to enhance security. These innovations not only contribute to improving banking services, but also stimulate technological progress in other sectors related to the digital economy.

Enhancing International Competitiveness

With the world's shift towards the digital economy, digital banks enhance the ability of countries to compete in the global market. By improving cross-border payments and providing innovative financial services, countries can attract foreign investments and enhance their position as global financial hubs (Lai & Chuen, 2018).

Role in Achieving Saudi Vision 2030:

Digital banks are a key tool for supporting Saudi Vision 2030 by promoting the digital transformation of the financial sector. They help diversify the economy and reduce reliance on oil, while facilitating e-commerce and promoting an innovative economic environment (Saudi Central Bank, 2023).

Subsection Two: Regulation of Digital Banks in the Kingdom of Saudi Arabia:

Digital banks are among the most prominent manifestations of the digital transformation in the banking sector, as these banks have demonstrated their ability to provide innovative and fast services that suit the requirements of the digital age. In the Kingdom of Saudi Arabia, the emergence of digital banks coincides with efforts to achieve Saudi Vision 2030, which seeks to develop the digital economy and promote financial innovation. However, achieving these goals requires precise regulation that ensures a balance between stimulating innovation and protecting customer rights and ensuring the stability of the financial system.

This subsection focuses on analyzing the legal and regulatory aspects that govern digital banks in the Kingdom. It addresses the current laws regulating the banking sector, with a focus on the role of the Saudi Central Bank (SAMA) in setting controls and supervising this sector. It also discusses how the regulation of digital banks contributes to achieving the strategic objectives of Saudi Vision 2030, which enhances the Kingdom's position in the global digital economy. This will be discussed as follows:

First: Current Laws Regulating the Banking Sector in Saudi Arabia:

The Kingdom of Saudi Arabia has a strong and developed banking system that is subject to a legal and regulatory framework that aims to protect the financial system and ensure its stability. The banking sector in the Kingdom is regulated under the Banking Control Law issued in 1966, which is one of the basic pillars of banking supervision. The law stipulates that all banks operating in the Kingdom must be licensed by the Saudi Central Bank (SAMA), and that they must comply with capital, governance, and risk management standards. These laws ensure the integrity of banking operations and reduce systemic risks (Banking Control Law, 1966).

In addition, banks are subject to anti-money laundering and counter-terrorist financing rules in accordance with the Anti-Money Laundering Law issued by Royal Decree No. M/31 of 2017. The law requires banks to verify the identity of customers, monitor suspicious operations, and report them to the relevant authorities. Compliance standards are also implemented in accordance with the requirements of the Financial Action Task Force (FATF), to ensure that local legislation is aligned with international standards (FATF, 2017).

Moreover, the legal framework ensures the regulation of digital banks specifically through the issuance of special regulations in 2020, which were approved by the Saudi Central Bank. These regulations include conditions such as minimum capital requirements, technical governance obligations, and cybersecurity standards, ensuring the integrity of financial data and customer rights.

Through this comprehensive framework, the Saudi legal system ensures a balance between promoting financial innovation and protecting the financial system in the Kingdom.

Second: The Role of the Saudi Central Bank (SAMA) in Regulating Digital Banks:

The Saudi Central Bank (SAMA) plays a pivotal role in regulating digital banks in the Kingdom, as it is the regulatory and supervisory body responsible for ensuring the safety and stability of the banking sector. SAMA sets regulatory guidelines and instructions aimed at enhancing transparency and ensuring compliance with local and international standards. One of its most important contributions in this field is the issuance of the regulatory framework for digital banks in 2020, which includes licensing, governance, and risk management requirements. The framework stipulates that digital banks must comply with cybersecurity standards to ensure the protection of customer data and prevent technical threats (SAMA, 2020).

In addition, SAMA supervises compliance with anti-money laundering and counter-terrorist financing regulations, requiring digital banks to submit periodic reports and independent reviews of operations. It also manages platforms for reporting suspicious transactions in cooperation with security agencies, which ensures that digital banks comply with global financial legislation (SAMA, 2021).

Moreover, SAMA encourages innovation through regulatory initiatives such as the "Regulatory Sandbox," which allows digital banks and financial technology companies to test innovative solutions in a controlled environment. This initiative enhances the central bank's ability to formulate policies that support innovation while maintaining market stability (Mohamed, 2023).

Third: The Relationship between Digital Banks and Saudi Vision 2030:

Digital banks represent a fundamental pillar in achieving the goals of Saudi Vision 2030, as the Kingdom seeks to build an advanced digital economy and diversify sources of national income. Digital banks contribute directly to supporting digital transformation by providing innovative financial services that are compatible with the latest technologies, which enhances the efficiency of the banking sector and provides solutions that meet the needs of individuals and small and medium-sized enterprises (SMEs) (Saudi Vision 2030).

In addition, digital banks contribute to promoting financial inclusion, which is one of the most prominent goals of Saudi Vision 2030, as these banks facilitate access to financial services in remote areas and reduce the geographical and time barriers that customers face. According to official reports, digital banking initiatives have contributed to a significant increase in the number of bank accounts opened electronically since the implementation of the Vision (Al-Khaireya, 2018; Qamar, 2024).

Digital banks also support e-commerce, which is a central sector in Vision 2030. By providing smooth and secure financial services, these banks facilitate electronic payment and financial transfer processes, which supports the growth of digital commerce in the Kingdom. In addition, digital banks enhance financial innovation through the use of technologies such as artificial intelligence and blockchain, which aligns with the technological objectives of the Vision (Ministry of Communications and Information Technology, 2023).

Through these aspects, digital banks act as a key element in achieving the economic and technological ambitions of Saudi Vision 2030, enhancing the Kingdom's position as a global digital financial hub.

SECTION TWO

Legal Conditions and Procedures for Granting Digital Bank Licenses in the Kingdom of Saudi Arabia

With technological advancements and the digital transformation of the financial sector, digital banks have emerged as a fundamental element in the modern banking system, which has required the development of legal and regulatory frameworks to keep pace with this development and ensure its stability. In the Kingdom of Saudi Arabia, the establishment of digital banks is of particular importance as part of Saudi Vision 2030, which seeks to promote the digital economy and financial inclusion.

This section aims to highlight the legal conditions and procedures that govern the granting of licenses to digital banks in the Kingdom. The first subsection focuses on reviewing the legal and technical requirements that must be met by applicants to obtain a license, including capital, governance, compliance, and cybersecurity standards. It also reviews the role of the Saudi Central Bank in the supervision and oversight of these banks to ensure regulatory compliance and customer protection.

The second subsection discusses the Kingdom's experience in establishing digital banks, with a case study of the Saudi Digital Bank model, and a comparison with leading international experiences such as the United Kingdom and the United Arab Emirates. This aims to provide a comprehensive view of the challenges and opportunities related to the development of digital banks in the Kingdom, and enhance their ability to compete internationally.

In light of this, this section is divided into the following two subsections:

Subsection One: Legal Conditions and Criteria for Granting a Digital Bank License.

Subsection Two: The Experience of the Kingdom of Saudi Arabia in Granting Licenses to Digital Banks.

Subsection One

Legal Conditions and Criteria for Granting a Digital Bank License

With the development of technology and the increased reliance on digital solutions in various sectors, digital banks have become one of the main pillars of the digital transformation in the banking sector. With this development, the role of legal regulation in ensuring the stability of this type of bank, protecting customer rights, and enhancing confidence in the digital banking system becomes prominent.

This subsection aims to review the legal conditions and criteria necessary to obtain a license to establish a digital bank in the Kingdom of Saudi Arabia. This includes basic licensing requirements such as the minimum capital limit, governance mechanisms, and compliance with financial regulations. It also discusses the technical and technological standards that ensure data security and the integrity of banking operations, such as cybersecurity and achieving digital inclusion. Finally, the subsection addresses the role of the Saudi Central Bank in supervising and overseeing digital banks to ensure their compliance with local and international regulations and standards.

These procedures come within the framework of seeking to achieve a balance between supporting financial innovation and ensuring the stability of the banking sector in the Kingdom, in line with the goals of Saudi Vision 2030. This is as follows:

First: Licensing Requirements (Capital, Governance, Compliance):

The process of obtaining a license to establish a digital bank in the Kingdom of Saudi Arabia requires meeting a set of basic requirements that aim to ensure the safety and stability of the bank and its ability to provide reliable financial services in accordance with regulations and laws. These requirements include three main aspects: capital, governance, and compliance.

Capital: Applicants for a digital bank license are required to prove the availability of sufficient capital to cover initial operating costs, potential risks, and ensure the bank's ability to meet its financial obligations towards customers. The Saudi Central Bank (SAMA) evaluates the adequacy of the proposed capital in accordance with the nature of the digital bank's operations, its size, and the degree of risk it is exposed to (SAMA, 2020). It should be noted that the Central Bank has not set a fixed amount for capital, but rather leaves it to be assessed on a case-by-case basis, taking into account the nature of the bank's operations (Sahl Law Firm, 2024).

Governance: Digital banks must apply sound governance principles that ensure the existence of a clear administrative structure, specific responsibilities, and an effective internal control system. Digital banks must comply with the governance instructions issued by the Saudi Central Bank, which include a set of guidelines related to the formation of the board of directors, audit committees, risk committees, and nomination and remuneration committees (SAMA, 2019). Digital banks are also required to have clear policies and procedures for risk management, internal control, and ensuring the integrity of banking operations.

Compliance: Digital banks must fully comply with all relevant regulations and laws, including the anti-money laundering and counter-terrorist financing law, the Personal Data Protection Law, and cybersecurity rules. Digital banks must establish specialized units to combat financial crimes, apply due diligence measures towards customers, and report any suspicious activities to the competent authorities. Digital banks must also comply with the instructions of the Saudi Central Bank regarding customer protection and their rights to clear information, safe services, and fair solutions to disputes.

Second: Technical and Technological Standards (Cybersecurity, Digital Inclusion):

The requirements for obtaining a digital bank license in the Kingdom of Saudi Arabia go beyond the financial and administrative aspects to include precise technical and technological standards that ensure the safety of digital banking operations and the achievement of financial inclusion goals. These standards focus on two main elements: cybersecurity and digital inclusion:

Cybersecurity:

Cybersecurity is the cornerstone of digital banks' operations, given their complete reliance on technology to provide their services. This requires digital banks to implement the highest standards of protection for customer data and financial transactions from cyber threats. Digital banks must use advanced encryption techniques to protect sensitive data during transfer and storage, including

encrypting communications between the customer and the bank, and the data stored in databases, to ensure that it cannot be accessed by unauthorized parties (SAMA, 2020).

They must also develop advanced systems to detect intrusions and breaches of their systems, and respond immediately to any security incidents, including using firewalls, intrusion detection systems, anti-virus programs, and conducting regular penetration tests to verify the effectiveness of the security measures taken (Mohamed, 2023).

In addition, digital banks must implement a multi-factor authentication system to verify the identity of customers before allowing them to access their accounts or conduct any transactions, using a combination of passwords, verification codes sent via text messages or email, and biometric authentication to increase the level of security (Gomber et al., 2017).

They are also responsible for educating customers about cybersecurity risks and how to protect their personal data, and identify attempts at fraud and phishing (Demirguc-Kunt et al., 2020).

Digital Inclusion:

Digital inclusion aims to ensure that all segments of society have access to digital banking services, regardless of their educational level, geographical location, or technological capabilities. To achieve this, digital bank applications and websites must be easy to use, with simple and clear user interfaces, suitable for different types of devices, and support several languages to meet the needs of diverse customers (Zahra, 2023).

Digital banks must also provide multiple support channels for customers, such as support via telephone, email, instant chat, and social media, and respond to customer requests quickly and efficiently. Furthermore, digital banks must offer a variety of financial products and services that meet the needs of different customer segments, such as current accounts, savings accounts, loans, transfers, and investments, in addition to products specifically designed for low-income groups or people with disabilities (Ministry of Communications and Information Technology, 2023).

Finally, digital banks must cooperate with government agencies, non-governmental organizations, and community initiatives to raise awareness of digital banking services, and provide the necessary training and support to individuals who lack digital skills, to ensure that the largest segment of society has access to these services.

Third: The Role of the Central Bank in Supervising and Overseeing Digital Banks:

The Saudi Central Bank (SAMA) plays a vital and central role in regulating and supervising digital banks operating in the Kingdom, as it is the cornerstone in ensuring the stability of the financial system and protecting the interests of customers. The role of SAMA extends to include multiple aspects, starting from granting licenses to the careful monitoring of the daily operations of digital banks, to ensure their compliance with local and international regulations and laws.

One of the main tasks of the central bank is to set the regulatory and legal frameworks that govern the operations of digital banks. SAMA issues instructions and guidelines that define the requirements for obtaining a license, explain operational standards, capital requirements, anti-money laundering and counter-terrorist financing procedures, and data protection and privacy controls. These regulatory frameworks seek to create a safe and transparent working environment for digital banks, while maintaining a balance between supporting financial innovation and protecting the financial system as a whole (SAMA, 2020).

In addition, SAMA assumes responsibility for the continuous supervision and oversight of digital banks after they obtain a license. This includes reviewing periodic financial reports, assessing the extent to which banks comply with regulatory requirements, and monitoring their activities to ensure the integrity of their operations. The central bank also conducts regular on-site inspections

to verify the extent to which digital banks apply internal controls, risk management, and cybersecurity standards, to ensure the integrity of banking operations and protect customer rights (SAMA, 2019).

Moreover, the central bank plays an important role in promoting financial inclusion by directing digital banks towards providing innovative and comprehensive financial services to all segments of society, including remote areas and low-income groups. SAMA encourages digital banks to adopt modern financial technologies that help reduce costs and increase efficiency, while ensuring compliance with security and privacy standards. The central bank also supports innovation initiatives by providing a flexible regulatory environment that allows digital banks to test their new products and services in a pilot environment (Regulatory Sandbox) before launching them in the market (Mohamed, 2023).

In addition, SAMA is keen to cooperate with security and judicial authorities to combat financial crimes, such as money laundering, terrorist financing, and online financial fraud. The central bank updates instructions and guidelines periodically to keep pace with technological developments and new risks, and to ensure the continued effectiveness of the regulatory and supervisory system. It also cooperates with international financial institutions to exchange experiences and knowledge, and apply global best practices in regulating and supervising digital banks (SAMA, 2021).

With this comprehensive role, the Saudi Central Bank contributes effectively to the development of a strong and stable digital banking sector, which supports economic growth in the Kingdom and enhances its position as a regional and global financial hub.

Subsection Two: The Experience of the Kingdom of Saudi Arabia in Granting Licenses to Digital Banks:

With the accelerating pace of digital transformation globally, digital banks have become an integral part of the modern financial landscape, prompting many countries to adopt clear strategies to regulate this promising sector. In this context, the Kingdom of Saudi Arabia has embarked on an ambitious journey to develop its digital banking sector, as part of Vision 2030, which aims to build a solid and diversified digital economy. This subsection seeks to explore the Kingdom's experience in the field of granting licenses to digital banks, through an in-depth analysis of the Saudi Digital Bank model as a case study, in addition to comparing this experience with leading international models in this field, such as the experiences of the United Kingdom and the United Arab Emirates. This analysis aims to highlight the unique aspects of the Saudi experience, the challenges it faced, and the opportunities it provided, with the aim of extracting lessons learned that can contribute to developing the regulatory and operational framework for digital banks in the Kingdom, and enhancing their ability to compete regionally and globally. This will be discussed as follows:

First: Case Study: Analysis of the Saudi Digital Bank Model:

In light of Saudi Vision 2030, digital banks have emerged as part of the Kingdom's digital transformation strategy. Saudi Arabia has launched several initiatives to encourage innovation in the financial sector, the most prominent of which was granting licenses to digital banks as independent institutions. In this context, the establishment of the "Saudi Digital Bank" came as the first licensed digital bank in the Kingdom, aiming to provide integrated digital banking services to individuals and companies through innovative strategies that focus on technology and data.

The establishment of the Saudi Digital Bank went through specific stages, starting with the launch of the regulatory framework by the Saudi Central Bank (SAMA). The Saudi Digital Bank obtained its license in June 2021, where regulatory requirements were put in place to ensure compliance with the highest standards of safety and transparency.

The business model of the Saudi Digital Bank relies on providing banking services based on smart applications and artificial intelligence, which allows access to a larger segment of customers. Services include opening digital accounts, transfers, and providing financing to individuals and small and medium-sized enterprises (SMEs) (Sayari, 2024).

The regulatory flexibility provided by the Saudi Central Bank has contributed to promoting the development of digital banks, including allowing the use of innovative financial technologies such as artificial intelligence and blockchain. On the other hand, this required setting strict cybersecurity standards to maintain the security of financial data (Hariri, 2023).

The Saudi Digital Bank's experience has faced several challenges, including building trust among customers and promoting reliance on digital banking services in a society that prefers traditional cash transactions. It was also necessary to address cybersecurity concerns and ensure full compliance with international standards (Indriasari et al., 2022).

The Saudi Digital Bank has contributed to promoting financial inclusion by providing easy financial services to new segments of society, such as youth and entrepreneurs, which has supported the growth of non-oil sectors in the Saudi economy.

Second: International Experiences of Digital Banks (UK and UAE):

The United Kingdom is one of the first countries to adopt the concept of digital banks, where the flexible and supportive regulatory environment has contributed to the success of this experience. Monzo and Revolut are among the most prominent examples of British digital banks. Monzo was launched in 2015 as a digital bank aimed at providing innovative financial services based on smart applications. This bank was distinguished by its easy-to-use interface, and the ability to control accounts completely via mobile phone. The policies of the UK Financial Conduct Authority (FCA) and the Bank of England have contributed to creating a conducive environment for the growth of this sector by encouraging innovation and ensuring the protection of customer rights. This experience has contributed to promoting financial inclusion and attracting new categories of customers to the banking sector (Washington et al., 2022).

In the United Arab Emirates, it has emerged as one of the leading countries in adopting digital banks in the Middle East region. The UAE has launched leading initiatives to support the digital transformation of the banking sector, including Liv. Bank, affiliated with Emirates NBD, which was established in 2017. Liv. Bank provides banking services aimed at young people using advanced technologies such as artificial intelligence and big data analysis. Regulatory authorities such as the Central Bank of the UAE supported these initiatives by establishing an integrated legal framework that allows digital banks to operate in accordance with high standards of transparency and cybersecurity. In addition, the UAE has developed a comprehensive strategy to enhance its position as a regional hub for financial technology, which has contributed to attracting foreign investment in this field (Kothari et al., 2024).

Internationally, the experiences of the United Kingdom and the United Arab Emirates have shown the importance of providing flexible regulatory frameworks and strong digital infrastructure for the success of digital banks. Despite the differences in the economic and regulatory contexts between the two countries, they both provided a model to follow in integrating technology into the banking sector to meet the changing needs of customers.

Section Three: Legal and Economic Challenges Associated with Granting Digital Bank Licenses:

With the accelerating spread of digital banks around the world, the legal and economic challenges associated with granting licenses to these banks have become a major focus of attention for regulatory bodies and decision-makers. Licensing digital banks is an important step towards promoting financial innovation and expanding the scope of banking services, but this transformation

is accompanied by challenges related to regulating the operations of these banks and ensuring their sustainability within a stable and secure financial environment.

On the legal front, issues of protecting the personal data of customers, combating financial crimes such as money laundering, and ensuring compliance with the regulatory and supervisory framework are key areas that require careful treatment and effective legal mechanisms. From an economic perspective, the potential impact of digital banks on traditional banks, the challenges of achieving a balance between competition and innovation, as well as developing the technological infrastructure to support this banking model, represent major dilemmas for decision-makers and regulatory bodies.

This section aims to review and analyze the most prominent legal and economic challenges associated with granting licenses to digital banks, while highlighting the best ways to deal with these challenges in order to achieve a balance between financial innovation and economic stability.

In light of this, this section is divided into the following two subsections:

Subsection One: Legal Challenges.

Subsection Two: Economic Challenges.

Subsection One: Legal Challenges

With the growing role of digital banks as an essential part of the modern financial system, the need to face complex legal challenges to ensure the provision of safe and reliable services to customers has emerged. Protecting personal data and maintaining the confidentiality of customer information is one of the most prominent legal issues that require special attention in light of the great reliance on technology in banking operations. In addition, combating financial crimes, such as money laundering and terrorist financing, is a fundamental challenge that requires international cooperation and strict legal frameworks to combat it effectively.

Moreover, regulatory and supervisory compliance is a constant challenge for digital banks, as they must reconcile rapid innovation with adherence to legal standards and local and international legislation. From this point of view, this subsection addresses the most prominent legal challenges associated with digital banks, while reviewing the efforts made to overcome them and ensure the sustainability of this evolving banking model. This will be discussed as follows:

First: Protection of Personal Data and Customers:

Protecting the personal data of customers is one of the most important legal challenges facing digital banks, due to their heavy reliance on technology and data storage through cloud systems. With the increasing use of digital applications and online banking services, customer data is exposed to the risks of breaches and cyber attacks, which makes it necessary to have strict legal frameworks that oblige digital banks to follow the highest cybersecurity standards. In this context, the role of international laws such as the General Data Protection Regulation (GDPR) in the European Union, which is considered a global model for regulating data protection, and imposes severe penalties on institutions that do not comply with the required standards (Albrecht, 2016).

In the Kingdom of Saudi Arabia, the Personal Data Protection Law issued by the Saudi Data and Artificial Intelligence Authority (SDAIA) represents a major legal framework for regulating data processing in digital banks. The law obliges financial institutions to take precautionary measures to protect customer data and ensure that it is used only for the purposes specified in advance. In addition, strict restrictions are imposed on sharing data with third parties without the consent of customers, which enhances customer confidence in digital services and stimulates their adoption (Personal Data Protection Law, 2021).

In addition to legal frameworks, advanced technology such as encryption and digital identity management tools play a major role in enhancing the protection of personal data in digital banks.

These solutions rely on artificial intelligence technologies to detect hacking attempts and enhance the security of banking operations. However, the challenge lies in achieving a balance between providing a smooth user experience and ensuring full compliance with data protection requirements (Zarsky, 2016).

Second: Combating Financial Crimes (Such as Money Laundering):

Combating financial crimes, especially money laundering and terrorist financing, is one of the major legal challenges facing digital banks. Money laundering relies on exploiting the financial system to conceal the illegal sources of funds, and with the development of digital services, digital banks have become a potential target for this type of activity due to the ease they provide in opening accounts and conducting transfers quickly. Addressing this problem requires strengthening financial monitoring systems and adopting advanced technologies such as Big Data analysis and artificial intelligence systems for early detection of abnormal patterns in transactions (Levi & Reuter, 2006).

On the legal level, combating money laundering requires digital banks to comply with anti-money laundering (AML) laws and standards of the International Financial Action Task Force (FATF). These requirements include performing customer due diligence (KYC) and tracking the sources of funds and financial transactions. In the United Arab Emirates, for example, digital banks are required to comply with Federal Law No. 20 of 2018 on facing money laundering, which establishes a strict legal framework to ensure compliance (UAE Federal Law No. 20, 2018).

From another perspective, the implementation of financial crime laws requires cooperation between regulatory authorities locally and internationally. In the Kingdom of Saudi Arabia, the Saudi Central Bank requires digital banks to adopt advanced technologies for automated reporting systems to monitor suspicious transactions and send immediate reports to the Financial Intelligence Unit. This approach helps protect the local financial system from exploitation and ensure its alignment with global standards (Saudi Central Bank, 2019).

Third: Issues of Regulatory and Supervisory Compliance:

Issues of regulatory and supervisory compliance pose a major challenge for digital banks, given that these banks operate in an environment that relies heavily on modern technology and requires regulations that differ from traditional banks. Regulatory compliance includes adherence to the legal framework established by legislators to ensure the stability of the financial system and protect customer rights. In a global context, the Basel Committee on Banking Supervision standards provide an important model for defining the required capital and managing operational risks in digital banks, which contributes to enhancing transparency and good governance (Delfiner et al., 2007).

In the Kingdom of Saudi Arabia, the Saudi Central Bank (SAMA) plays a pivotal role in setting the regulatory frameworks for digital banks. SAMA has issued a set of regulations that include the need to comply with internal governance requirements and to provide periodic reports related to financial performance and risk management. This framework helps to reduce any potential risks that may affect the stability of the banking sector. However, digital banks may face challenges in complying with these regulations due to their innovative nature and the faster development of their operations than traditional systems (SAMA, 2020).

Moreover, digital banks face challenges in adapting to the continuous changes in global regulatory laws. For example, they have to comply with data protection laws such as the General Data Protection Regulation (GDPR) in the European Union when dealing with international clients, which adds an additional burden on digital banks to adapt their operations in accordance with these regulations. This requires huge investments in technology and compliance systems to ensure alignment with multiple legislations (Smith & Liu, 2024).

Subsection Two: Economic Challenges

With the increasing expansion in granting licenses to digital banks, several economic challenges have emerged that face this sector and affect the dynamics of the financial market in general. The introduction of digital banks into the financial system is a qualitative shift, but it imposes new pressures on traditional banks, which find themselves facing competition that requires them to reconsider their business models to keep pace with rapid innovation. At the same time, the challenge lies in achieving a balance between healthy competition that encourages innovation, and ensuring market stability and preventing monopolies or harming customer interests.

In addition, the success of digital banks depends heavily on the strength of the technological infrastructure, which forms the basis for providing reliable and secure services. However, this infrastructure faces significant challenges, including high costs and the requirements for continuous updates to keep pace with rapid technological progress. This subsection provides an analysis of the most prominent economic challenges associated with the spread of digital banks, with a focus on their impact on traditional banks, the need to achieve a balance between competition and innovation, and the importance of developing the technological infrastructure to ensure the sustainability of this advanced banking model. This will be discussed as follows:

First: The Impact of Digital Banks on Traditional Banks:

The impact of digital banks on traditional banks represents one of the prominent economic challenges in the modern financial sector. With the spread of digital banking services, traditional banks are facing great pressure to restructure their business models and develop their services to keep pace with changes in customer expectations. Digital banks rely on innovative technologies that provide fast and low-cost services, making them an attractive option for the new generation of customers who prefer non-cash transactions and online services. According to a study conducted by McKinsey & Company, digital banks are able to reduce operating costs by up to 40% compared to traditional banks, giving them a significant competitive advantage (Jana et al., 2021).

From another perspective, the growth of digital banks is causing a reduction in the market share of traditional banks, especially in basic services such as money transfers and account opening. In this context, a study published by the Journal of Financial Economics indicated that customers have become inclined towards digital banks because of the speed of service and low fees, which has forced traditional banks to invest in digital transformation to avoid losing more customers. These transformations place an additional burden on traditional banks, especially those with an old technological infrastructure (Balkan, 2021).

Moreover, digital banks are contributing to reshaping the relationship between customers and banks, as customers are now able to manage their accounts themselves without the need to visit branches. This change has affected the traditional nature of the banking relationship and forced traditional banks to reduce the number of branches and rely more on technological solutions, which has raised challenges related to the costs of adapting to this new model (Nurjannah, 2023).

Second: Achieving a Balance between Competition and Innovation:

Achieving a balance between competition and innovation is a crucial challenge in light of the expansion of digital banks, as regulators and policy makers seek to create a competitive environment that stimulates innovation while maintaining the stability of the financial market. Digital banks rely on modern technologies such as artificial intelligence and blockchain to provide advanced financial services that meet customer needs quickly and efficiently. However, unregulated expansion in the sector may lead to some large digital companies monopolizing the market, reducing opportunities for fair competition and threatening innovation in the long run (Omarini, 2017).

In contrast, traditional banks need to adapt to this new environment by investing in digital technologies and innovating their products and services. Although competition with digital banks is considered a positive factor for enhancing innovation, it may expose small and medium-sized banks to the risk of exiting the market if they cannot keep pace with technological developments. A report issued by the World Economic Forum shows that a balance between innovation and competition requires setting regulatory policies that ensure that some large players do not dominate the largest market share, while providing the necessary support for small and medium-sized banks (Athanasios, 2016).

From another perspective, regulatory policies must take into account the provision of a conducive environment for competition without slowing down the pace of innovation. This includes setting incentives to encourage investment in research and development and enacting laws that prevent the exploitation of monopolies, as is the case in the laws adopted in the European Union, which place restrictions on dominant companies to ensure market fairness (Skara et al., 2024).

Third: Challenges of the Technological Infrastructure:

Digital banks face major challenges in building and maintaining the technological infrastructure necessary for their operations, given their full reliance on technology in providing banking services. A strong infrastructure is the basis for ensuring a smooth and secure user experience, and includes multiple elements such as basic transaction systems, large databases, and advanced cybersecurity systems. These elements require huge investments in modern technologies such as cloud computing and artificial intelligence, which increases the operating costs of digital banks and poses a major challenge, especially in the early stages of establishment (Jana et al., 2021).

Among the most prominent technical challenges facing digital banks is the continuous need to update systems to keep pace with rapid technological developments and increasing cyber threats. The technologies used in digital banks must be scalable and updated periodically, which requires specialized technical teams and continuous investments in research and development. In addition, the technological infrastructure must be able to handle huge amounts of data and transactions simultaneously, while ensuring the security of this data and protecting customer privacy (Indri sari et al., 2022).

The technological infrastructure of digital banks requires providing high-speed internet access and large capacity for communication networks, which poses a particular challenge in remote or less technologically developed areas. Digital banks must cooperate with telecommunications companies and internet service providers to ensure that a strong and reliable infrastructure is provided that supports the effective delivery of digital banking services. There are also challenges related to compatibility between different systems, where the technological infrastructure must be integrable with different electronic payment systems and other banking systems, to facilitate electronic transfer and payment processes (Ministry of Communications and Information Technology, 2023).

Moreover, maintaining cybersecurity is a continuous challenge for digital banks. These banks must invest in the latest security technologies and develop comprehensive strategies to protect data from breaches and cyber attacks. This requires specialized cybersecurity teams and regular tests to assess the effectiveness of the security measures taken. In addition, digital banks must be prepared to respond immediately to any security incidents and take the necessary measures to reduce potential damage (Lessambo, 2023).

In addition to the above, digital banks face challenges related to ensuring business continuity in the event of any technical malfunctions or cyber attacks. These banks must have contingency plans to continue providing banking services in emergency situations, and must have backup systems for data and information to ensure that it is not lost or damaged. They must also ensure that all systems

operate correctly at all times, and that there is a technical support team ready to deal with any problems that may arise (Vishnupriya & Bhujanga, 2023).

CONCLUSION

The legal regulation of granting licenses to digital banks in the Kingdom of Saudi Arabia is a fundamental axis for supporting the digital transformation of the financial sector. This regulation is a necessary response to the rapid changes in the banking industry globally, where digital banks are emerging as a key tool for providing innovative services that meet customer aspirations and contribute to enhancing financial inclusion. In this context, the Saudi Central Bank plays a pivotal role in setting regulatory frameworks that achieve a balance between encouraging financial innovation and ensuring the protection of customer interests and the stability of the banking sector.

The legal framework in the Kingdom is characterized by its flexibility and ability to keep pace with technological and economic developments, which contributes to creating a stimulating regulatory environment that supports digital banks in achieving their goals efficiently and reliably. The focus on good governance and the adoption of the highest cybersecurity standards are also key elements to ensure the success and sustainability of digital banks within an integrated banking system.

Through this approach, the Kingdom of Saudi Arabia seeks to enhance its position as a regional financial hub that keeps pace with global transformations in the digital economy. This is part of a broader vision to build a diversified and robust digital economy, capable of meeting the needs of the present and anticipating the aspirations of the future.

The study has reached several findings and has recommended many recommendations and suggestions as follows:

First: Findings

The most important findings of the study are:

1. The study showed that digital banks represent a real transformation in the financial sector, driven by technological developments and changing customer needs. These banks, which rely on advanced technologies in providing their services, have become an integral part of the modern banking system, and have a major role in enhancing efficiency and ease of access to financial services.
2. The study emphasized the importance of having a solid legal and regulatory framework for digital banks, which ensures achieving a balance between supporting innovation and protecting customer rights. It also showed that the Saudi Central Bank (SAMA) plays a pivotal role in regulating this sector, by setting regulations and guidelines that aim to enhance transparency and compliance with local and international standards.
3. The study clarified that obtaining a license to establish a digital bank in the Kingdom requires meeting a set of basic requirements, including providing sufficient capital, applying sound governance principles, and complying with relevant regulations and laws, such as combating money laundering and protecting data. The study also emphasized the importance of technical and technological standards, such as cybersecurity and digital inclusion, to ensure the integrity of digital banking operations and achieve the goals of financial inclusion.
4. The study highlighted the vital role that the Saudi Central Bank (SAMA) plays in supervising and overseeing digital banks. This role includes setting the regulatory and legal frameworks, reviewing financial reports, assessing the extent to which banks comply with regulatory requirements, and monitoring their activities to ensure the integrity of their operations, in addition to promoting innovation through initiatives such as the "Regulatory Sandbox".
5. The study revealed that there are legal and economic challenges associated with granting licenses to digital banks. From a legal point of view, issues of personal data protection,

combating financial crimes, and regulatory compliance emerged. From an economic point of view, challenges such as the impact of digital banks on traditional banks, achieving a balance between competition and innovation, and developing the technological infrastructure have emerged.

6. The study showed that the Kingdom's experience in establishing digital banks, represented by the Saudi Digital Bank, is moving in the right direction, taking into account international best practices, such as the experiences of Britain and the UAE. It emphasized the importance of flexible regulatory frameworks and a strong digital infrastructure for the success of digital banks.

Second: Recommendations

The most important recommendations of the study are:

1. The study recommended the need to continue developing the legal and regulatory frameworks for digital banks, in line with rapid technological developments. These amendments should focus on promoting innovation while maintaining financial stability and protecting customer rights.
2. The study emphasized the importance of strengthening cybersecurity in digital banks, by applying the highest standards of protection for customer data and financial transactions, and the need to invest in modern technologies to detect and counter breaches.
3. The study recommended that digital banks should contribute to promoting financial inclusion, by providing easy financial services to all segments of society, including remote areas and low-income groups.
4. The study emphasized the importance of encouraging financial and technological innovation in digital banks, while providing a flexible regulatory environment that allows banks to experiment with new products and services.
5. The study recommended strengthening international cooperation to exchange experiences and knowledge, and apply global best practices in regulating and supervising digital banks.
6. The study stressed the need to educate customers about the importance of digital banking services and how to use them safely and effectively, in order to increase their confidence and encourage them to deal with digital banks.
7. The study recommended the need to invest in developing the technological infrastructure to support digital banks, including providing high-speed internet access and large capacity for communication networks.

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