



Credit Rating in the Islamic System

A Case Study of Saudi Arabian Banks


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Abstract: Purpose: Understanding the credit agencies allows the country to diversify its investments and efficiently achieve the set goals. Therefore, the present study aimed to explore the credit rating agencies within the Saudi Islamic system. Methodology: The study employed a qualitative research design by recruiting 25 key managers working in selected Saudi banks. The data for this study has been collected through a semi-structured interview. Findings: The study results showed that the Islamic banking credit rating agency positively affects foreign business investors compared to domestic investors. The results also indicated that transparency leads to better share activists to improve its evaluation method through better deployment. The two critical factors affecting the credit rating include the bank board's size and its independence. Conclusion: The study has concluded that the credit rating system of any financial institution should be designed to locate the problems occurring within the Islamic banks. Originality: The study has highlighted that independent directors favor the rating system due to the achievement of better and higher rates.


Keywords: Banking sector, conventional bank, credit rating system, Islamic bank, Saudi Arabia.

JEL Classification: G24

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Introduction

Islamic banks perform all the duties and functions just like other financial institutions do. This approach is like conventional banks that help the business entities by providing them with the required services to run the country's economy smoothly. However, there is a difference in the philosophy and operational methods adopted by conventional and Islamic banks as they are exclusively Shariah compliance (Islamic law). The industry players demand the rating of Islamic banks because of distinguishable risks entrenched within the Islamic bank operations along with its remarkable development (Radzi & Lonik, 2016).

Considering the current financial dynamics, an issuer's creditworthiness is assessed through credit rating based on his borrowing and repayment history, underlying assets, overall business performance, and outstanding liabilities of the issuer (Arundina et al. 2015). An important role is played by the credit rating agencies in the capital market to verify the creditworthiness of issuing firms, which facilitates the investment decision of the investors. The rating agencies estimate the chances of default by the issuer through fundamental analysis. The assigned rating reflects the probability of default. In addition, the rating is not a one-off affair; instead, it defines a continuous implementation of law over a specific tenure that fulfills the obligation.

The prohibition of interest (Riba) is one of the essential factors of Shariah law in the Islamic economy. Riba is defined as the additional amount that is given in the form of usury. Whereas this amount can neither be consumed nor paid by the Muslims, it is considered a severe offense (Arundina et al. 2015). It is one of the primary reasons that keep Muslims away from the conventional banking system. According to the Islamic Shariah, "Money must be banked by an asset." Therefore, the sharing of profit and loss defines the building of an Islamic economy, where there are borrowers and lenders and not buyers and sellers.

However, there are various risks involved in Islamic bank operations based on its distinctive nature of financial operations, stressing the acceptance of the credit rating system (Radzi & Lonik, 2016). The stress towards the adaptation of the credit scoring system is because of the critical nature of the banking system given in the escalated credit practices, need for managing loan portfolios, reduction of credit cost evaluation, and the need to improvise the credit process decision making in terms of its efficiency and effectiveness. The use of the rating system enhances the firms' ability to utilize the funds carefully, pointing towards good performance and paving the way for informed decisions.

In contrast to the conventional financial system, the increased liquidity risk of the Islamic financial system argues the formation of the credit rating agencies. These agencies assist in identifying, monitoring, or measuring risk and distillation of risk intensity and complexity while also communicating its impact on the overall public apart from the market participants (Leng & Othman, 2014). Therefore, the study intends to evaluate the impact and significance of credit rating agencies for the Islamic system, particularly for Saudi Arabia. The study assumes that the results would assist in understanding the risk difference between conventional and Islamic financial systems and understand the integration of Shariah-related factors.

The study contributes by assessing the current framework used by the Islamic system for managing credits. It will help in bridging the operation gap and enhancing its governance. Moreover, the study has considered Saudi Arabia as its case study based on its vision 2030 and sustainable goals. Reflecting upon the present scenario, it is found that the Saudi economy contracted to 0.7m in 2017 due to its reduction of oil output and lower crude prices (Bloomberg, 2018). The understanding of the credit agencies would allow the country to diversify its investments effectively and achieve the set goals. Additionally, to the best of the author's knowledge, none of the previous studies have discussed the credit rating agencies in the Islamic system in line with Saudi or Islamic laws. The main aim of the study is to explore the credit rating agencies within the Saudi Islamic system.

The remaining paper is organized as follows; the second section following introduction is the literature review that links the current study with the existing knowledge. Section 3 describes the methods applied in this study to explore the credit rating agencies within the Saudi Islamic system. The methodology is followed by section 4, which comprises comprehensive results based on the responses provided, followed by a discussion of findings and comparison with previous research. The last part of the manuscript is the conclusion that presents a summary of the key findings.

Literature Review

There has been a vast expansion of the Islamic finance industry over the past few years. According to the World Bank (2015), an average growth of 15% - 20% annually has been attributed to the Islamic banking industry. Whereas worth of around US\$2 trillion is estimated for the Shariah-compliant financial assets. This estimation will likely cover the capital markets, banking and non-banking financial institutions, and the money market (World Bank, 2015). There is a 50% growth in the Islamic banking system compared to the overall banking sector (Hassan et al. 2017).

A vital feature determining the financial institution's ability is issuing credit ratings in the international sector. The credit ratings issued by international credit agencies hold significant importance in the international financial landscape to determine the ability of financial institutions to operate in the international financial markets (Solovjova, 2016). Here, it does not matter whether they are conventional or Islamic. These ratings are likely to be used by the banks and their investors to make lending and business decisions. The ratings provided by the investors are among the main concerns of the municipal authorities, government bodies, and non-financial companies across the world. The significant aspects that determine the ability of the financial institutions to raise funds and establish the interest rate include the determination of risks associated with the loans and making investments in bonds of corporations, public agencies, and municipalities (Naceur, Barajas, & Massara, 2015). Concentration on predicting the bond rating assigned by credit rating agencies relates to the methodology of credit rating agencies.

When considering the conventional financial institutions, the bank analysis usually concentrates on managing interest-rate sensitivity, value at risk, interest rate sensitivity tolerance, and historical interest rate sensitivity trend. The impact of different economic scenarios on different business lines of a bank is investigated by the rater. This type of analysis shows relevancy with the Islamic financial institutions because of the large proportion of assets linked to the benchmark rate in the conventional markets. The assets and liabilities of a bank's balance sheet are fully integrated as a distinguishing feature of the "two-tier" theoretical model of Islamic banking. It results in the depreciation of the need for active asset and liability management. The *mudaraba*-based investment needs to be included in all the liabilities for such banks, whose nominal value can decrease in the event of loss and vice versa (Usman & Tasmin, 2016).

The Islamic financial institutions do not practice writing down the value of deposits as they face criticism in writing down the value of assets. The deposit holders or the equity holders are responsible for managing the losses on the asset side. This approach targets the degree of transparency and information disclosure practiced by the banks. Approaches like fire-walling and segmentation are needed to separate asset types to match them closely to liabilities. The measurement of asset quality essentially involves the policies and procedures followed by the bank for internal loan approval for the conventional financial institutions. In the case of Islamic banking, the debt would essentially be asset-backed. Based on trade finance, a clear preference for asset-backed securities is evident on the balance sheet asset. In terms of risk-return profile, sale-related securities are considered as low risk like conventional fixed-income securities. The asset-backed securities are the

preferred choice, together with the issues related to *mudaraba* and *musharaka*. Islamic financial institutions prefer leasing along with trade-based instruments that are at low risk of facing uncertainty. The risks associated with Islamic banks include the Shariah implications and confrontations by conventional financial institutions (Dar & Azeem, 2013). It clarifies the fact that conventional as well as Islamic banks face common risks. The challenges experienced in Islamic banking operations are more significant than conventional banking operations, including specific contractual features (Iqbal & Mirakhor, 2011). Shariah law is among the most prominent features of Islamic finance. If the Islamic banks fail to comply with Shariah law, it cancels the transaction, leading to fiduciary risks (Radzi & Lonik, 2016).

Islamic banks are also exposed to displaced commercial risk when they cannot generate adequate profits for distribution to the account holders because of their underperformance (Radzi & Lonik, 2016). A bank may not pay competitive rates of return; although, it operates in full compliance with the Shariah requirements. In such cases, the fund providers and dissuades are retained as the bank foregoes part or its entire share of the profit. The nature of the balance sheet and Shariah compliance requirements impose additional risks for Islamic banks. Problems are likely to arise when there is a restriction on Shariah compatible short-term securities for hedging against foreign exchange risk. Credit rating agencies serve a more critical function than conventional banking, considering the challenges in risk management of Islamic banking. However, risk management identifies, measures, and monitors risks; instead, it also distills the complexity of those risks. These risks are even communicated to the public and the market participants (Leng & Othman, 2014).

Previous studies conducted by Hassan & Lewis (2009), Hassan & Mahlknecht (2011), and Mohammad and Shahwan (2013) have discussed the philosophy and operations concerned with Islamic financial institutions. However, compared to conventional banks, different philosophies and operations of Islamic banks have been discussed by Hanif (2012) and Demirguc-Kunt et al. (2013). A study conducted by Abedifar et al. (2013) focused on the risks and challenges faced by the Islamic banking system to conduct operations based on Shariah. The evidence about the long-term relationship between Islamic banking and economic growth was revealed by (Lebdaoui, 2016). The results showed that there is a positive role of Islamic banking in economic growth. Another study used financial statements to focus on the relationship between banks' interest rates and profitability changes. The cointegration of variables revealed that the changes in the interest rate and profitability of participating banks are positively associated (Minnay & Görmüş,

2017). A recent study conducted by Abdullah et al. (2019) investigated the influence of banking credits on the economic growth of Saudi Arabia. The results demonstrated that the economic growth of Saudi Arabia is reflected through real GDP, and the impact of Islamic banking credits confirms its significant contribution to Saudi Arabia's economy.

There is a significant financial or banking crisis impact on the Islamic banks, even if their operations are in line with Islamic finance. Approximately 15% of Muslims' needs for the financial crisis are satisfied by Islamic financial institutions, as indicated by credit ratings (Zharikov et al. 2017). The immunity of Islamic banks is likely to be reduced by expanding the Islamic finance model. The loan losses are balanced by increasing the Saudi bank reserves; for instance, the adverse effects of the international financial crisis in Saudi banks are reduced due to credit rationing (Ghassan & Taher, 2013). The Shariah-compliant credit and deposits from conventional credit facilities are separate. The major driving forces of long-run growth are associated with credit to the private sector. There is no impact of domestic credits by the banking sector on inflation and economic growth, based on multiple correlations, heteroscedasticity, and autocorrelation. The present study aims to shed light on credit rating agencies within the Saudi Islamic system in a similar context. It focuses on the risks associated with the Islamic banking system and evaluates the strategies adopted by these banks in line with the credit rating agencies. It is believed that the ratings would assist in eliminating the uncertainties from the transactions. It is likely to help the shareholders and investors to get acknowledge about risks of their investments.

Methodology

The study has adopted a qualitative research design to explore the credit rating agencies within the Saudi Islamic system. The qualitative design is selected because of its effectiveness in gathering data in a natural setting without any interruption. It permits the researcher to assess the attitude and behavior of the participants that enriches the collected data. A total of 25 key managers employed in three selected Saudi banks were recruited through random sampling, as it provides a diverse perspective on the subject matter. The banks included; The National Commercial Bank, Saudi Investment Bank, and Saudi British Bank. The data for this study was collected through semi-structured interviews. The rationale behind selecting this approach is that it permits the researcher to investigate the participants' opinions and thoughts, elevating the value of the collected data.

The researcher welcomed the participants and provided a detailed description of the study. The purpose of the study, along with the significance associated with the research topic, was also shared with the participants. Moreover, the researcher communicated the confidentiality, consent, and anonymity of the collected data and established that the data was limited to the scope of the study only. The responses received from the participants were recorded, electronically; whereas, field note was prepared for enriching the gathered data. The collected data was evaluated using thematic content analysis that reflected the accurate picture in an actual setting. The pattern of the answers was studied, and a similar pattern of answers was placed together after examining the participants' responses.

Results

The study results are categorized into two parts where; the first part details the demographic information of the participants, and the other lists the observed themes based on their responses.

Demographic Details

Table 1 exhibits the demographic details of the participants. Based on the responses, it is observed that most of the participants were male (76.0%). Majorly, the participants were aged between 28-32 years (36%), followed by individuals who were aged 32 years or above (32%). Among 25 participants, 52% had completed their bachelor's, 44% were masters, and 12% were diploma holders. More than half of the interviewed individuals (52%) had work experience between 6 to 10 years, followed by individuals with above ten years (32%) experience and 2 to 5 years of experience (16%). Moreover, no participant had experience below two years.

Table 1
Demographics

Variable F	Participants (n=20)		
	%		
Age			
18 – 22 years old	3	12.0	
23– 27 years old	5	20.0	
28-32 years old	9	36.0	
32 years or above	8	32.0	
Gender			
Female	6	24.0	
Male	19	76.0	
Educational Level			
	Diploma	3	12.0
Bachelor		13	52.0
Masters		11	44.0
Work Experience			
Less than 2 years	0	0.00	
2 to 5 years	4	16.0	
6 to 10 years	13	52.0	
Above 10 years	8	32.0	

Thematic Analysis

The collected responses of the participants were assigned different themes. These themes were divided based on the Islamic banking rating agency effect in terms of its transparency, its effect on board size and independence, and its existence. The questionnaire-based interviews made the categorization of the responses easy.

Islamic Rating Agencies and Bank Transparency

This theme was the most predominant one among all the responses indicating that the Islamic bank credit rating agency has a positive effect on foreign business investors compared to domestic investors. The transparency of the bank and its capacity to draw investments showed improvement. The pressure from the banker, notably foreign investors, was revealed by various interview participants. Such as

one interviewer stated, *“The foreign investors have pressurized us (bank managers) to disclose their financial engagement to determine meeting of their financial needs.”* The results also indicated that transparency leads to better share activists, corroborated by the statement, *“The increased transparency has acted as a stimulator for our shareholders as they have shown improved participation as well as representation in the banking practices”*. Similarly, one banker also added, *“Adaptation of the credit rating system has allowed the bank to improve its evaluation method through better deployment.”* The association of the transparency has also been indicated with the accounting information such as, *“Since our bank rating system requires disclosing the accounting information as there is an increased demand by the investors, where a demonstration of the higher value relevance is crucial.”*

The impact of foreign investors on agency costs and firm value is related to business rather than domestic investors due to information disadvantage (Dolgun, Mirakhor & Ng, 2019). Thereby, managers are exerted by foreign investors to disclose more information regarding the financial position of the company as well as its competence to cover its financial involvements. In addition, it will need more confidence and support regarding the competence of the management for meeting their requirements (Hanif, 2018). The importance of foreign investors' contribution has been emphasized in this study in the context of quality enhancement of firms based on disclosed information, regarded as an essential indicator of transparency. This role permits to strengthen board representation and shareholder activism, and higher implementation of appropriate evaluation methods (Al-Malkawi & Pillai, 2018). An increased demand and pressure for escalated disclosed information is driven by foreign ownership, which results in more incredible accounting information and a more efficient monitoring system by the management such as high auditors' quality and better accouIncreasedrds, which is vital for monitoring of all stockholders (Humphrey, 2018).

The influence of corporate transparency on bank risks has explicitly been studied in the Arab region, despite the significance of corporate transparency as a governance structure in financial markets (Yalta et al. 2018). In addition, corporate transparency is associated explicitly with Islamic financial institutions due to the private equity nature of Islamic instruments. All stakeholders must have complete access to the information covered by agreements to bank transactions as Islamic banks mobilize funds on a profit-sharing basis (Radzi & Muhamed, 2019).

It has been observed that the transparency and disclosure regulations can de-stabilize a banking system and can affect its growth negatively. Similarly, it has been examined that the bank's failure is led by the disclosure of financial issues of

a bank concerning over-reaction and bank runs in the financial markets (Aktan et al. 2019). Bank managers' incentives are disruptively affected by this situation and drive them to make inefficient investment decisions. Moreover, this situation limits inter-bank risk-sharing arrangements for bank managers (Kartiwi et al. 2018). The potential of bank runs can be increased by imprecise information disclosure, as public information is not based on the financial condition of banks but also the activities of depositors.

The relationship between the board size and the firm's ability is demonstrated for extracting critical resources, including leverage, external funding, and budget from its environment (Borhan & Ahmad, 2018). The association between governance performance and optimal institutional performance of boards influences the ability of a board to introduce strategic modifications throughout environmental turbulence concerning high levels of diversity and board size. It has been observed that board diversity might be a substantial barrier to strategic change concerning bank size (Nishat, 2019). The positive relationship between leverage and board size demonstrates that a large board employs high leverages for raising the firm's value. It is also discussed that problems are met by a large board to imply poor corporate governance and reach agreements (Anuwar & Jaffar, 2018).

The debt ratio is another essential constituent, but the relationship between debt ratio and board size is negative, implying that a board size can exert a manager for keeping a low leverage policy to raise company performance. In addition, the cost of debts is negatively associated with the board size (Azad et al. 2018). Based on the opinions of participants, there is a strong negative impact of board size on profitability. However, there is no observation about determining the board size by firm's characteristics in Saudi Arabia, leading to a positive relationship between bank's performance and board size. On the other hand, it is observed that the negative relationship is for large banks, which tend to have large boards (Hossain, 2018). The shareholders hold a minor part of the board, so it is considered that the principal shareholders are likely to occupy a large board.

The findings of this study have shown that several bank risk measures are associated with the corporate transparency index concerning the association between bank risk and transparency. It has been explored that banks tend to take less risk with more disclosure. These findings have argued that the extent of regulated disclosure is reflected by greater transparency. Moreover, the bank system is improved by strengthening market discipline. Banking supervision can be facilitated by market discipline in Islamic banks as compared to conventional banks.

Board size and independence

The size of the board and independence are considered two important factors affecting the credit rating concerning the adaptation of the credit rating system. Interviewees highlighted that independent directors are more inclined towards the rating system due to better and higher rates. Its reasoning is revealed in one of the interview responses *“We have observed that independent board director is very contended with the decision as they get to enjoy higher rating for their issued debts.”* The size of the board also plays a critical role in the rating ability of the bank. It is indicated by various interviewees who highlighted that increase in the number of board members led to improvement in the capacity of the bank to cater to the increased demand. Such as one interviewee stated, *“We have observed that the size plays a critical role as our competitors with smaller board sizes are lacking behind due to their size.”* One interviewee supplemented this by stating, *“The larger board size allows forming moderate decisions with posing a moderate effect on the credit rating ability of the bank, due to access of better funding sources that are at a lower cost.”* Interviewees also reported that the monitoring capacity of the bank improves the credit rating agency because of a significant number of independent directors, such as one banker stated, *“During my experience of 10 years, I have observed that larger number of independent directors can access the banking practices in a better way as compared to smaller ones”*. This ability has also been observed to reduce the risk given the effective management of risk.

The role and composition of the board of directors are increasingly studied. Different effects of board characteristics on firm behavior have been discussed by previous studies (Ali et al. 2019; Radzi, 2018). These effects include the number of board meetings, gender diversification, the board size, outsiders setting on the board, background of board members, and percentage of insiders. The role and ability of the board hold management liable for stakeholders and provide independent oversight of management performance for their actions (Kamarulzaman et al. 2018). On the contrary, only a few studies have discussed the influence of board size and the existence of independent directors on a bank’s credit rating. Banks with a higher percentage of independent directors enjoy higher ratings in their new debt issues on the board (Al-Ali, Al-Sabah & Al-Foraih, 2018).

The positive relationship between credit rating and board independence implies that board size increases with credit ratings, which is moderated with a consistent effect in large decision-making groups. In this regard, better governance benefits banks by accessing funds in more significant amounts and at a lower cost (Zolkifli, Uda & Binti Janor, 2018). A non-monotonic association between credit

ratings and board independence is observed by using the Sarbanes-Oxley Act of 2002. An exogenous increase of board independence is upgraded with ratings only when low independence is constant with the benefits and costs of having independent directors (Billah, 2019). The deficiency of the industrial expertise of independent directors is included in these costs. On the other hand, the management monitors the cost of information acquisition for independent directors. Moreover, the credit risk of a financially distressed bank is adversely affected by the risk-taking incentives of these directors.

Bank Existence

The assessment of the interviewees' responses highlighted that the age of the bank affects its credit rating ability. Some of the participants belonged to a bank that existed for a decade now; while, others had been established five years ago. The responses of both the respondents highlighted that age had a positive impact on the rating. One banker with experience in both banks stated, *"In the light of my experience, I have observed that older Islamic banks enjoy better credit rating as compared to newly operated ones."* Another banker provides the reasoning stating that *"My bank enjoys better credit rating due to its long existence as people are aware of its trustworthiness and reliability."*

A significant role is played by long-term finance in promoting sustainable economic development as it assists in progressing structural economic transformation, providing funds for fixed investments for improving production capacity, and encouraging infrastructure development (Dolgun, Mirakhor & Ng, 2019). The requirement for funding long-term investments is so massive that resources by traditional development partners, multilateral development banks, and governments remain inadequate. The private sector's contribution is essential to meet the challenges of lasting financing requirements (Radzi & Muhamed, 2019). On the other hand, investors' preference is indicated from the current financing patterns for assets with short-term maturity despite their meager returns. Therefore, a key policy challenge for community development is extending the maturity structure of finance (Borhan & Ahmad, 2018). Under current conditions, market factors significantly eradicate the availability of long-term financing funding and systemic biases toward risk transfer and short-term debt mechanisms. In particular, deficiencies are created in resource allocation and a paucity in long-lasting funding despite sufficient global savings (Al-Malkawi & Pillai, 2018). It is specifically essential to develop economies as it hinders the integration of much-needed investment projects for improving welfare while the gap exists internationally.

Discussion

The rating agencies have made specific adjustments and refinements for the Islamic financial institutions because of the remarkable development of the Islamic capital market and finance industry across the world. The system of finance in Islamic financial institutions is based on Shariah laws. Financial turmoil is created, and the activity of Islamic banks is threatened because of Shariah in compliance. Therefore, the Islamicity of all the activities and operations is ensured by employing an internal governance mechanism (Grassa, 2016). It is essential to comprehend the types of credit rating while measuring bank's performance to examine the details regarding the rating methodologies for conventional banks. Rating is an opinion of an obligor about the overall capacity to fulfill financial obligations.

The present study showed a positive impact of Islamic bank credit on foreign business investors. It also resulted in improved bank transparency and capacity to draw investments. A similar study conducted by Ali (2005) showed that rating is based on assessing an issuer's willingness and ability to fulfill financial obligations promptly. Another study conducted by Wan et al. (2010) emphasized Shariah compliance, a complex and specialized area. There is no significant difference in the performance of conventional and Islamic banks, except a financial institution that assists by providing services needed for running a smooth economy.

A study conducted by Elkhoury (2009) examined and analyzed the method used by different credit rating agencies to assess the risks associated with the operations in Islamic and conventional banks. The study examined the extent to which Shariah issues are factored into rating methodology considering the creditworthiness of Islamic banks because the operations of Islamic financial institutions need to be consistent with Shariah. The study results helped boost the investor's confidence as they need to understand this entire concept, no matter the concerned agencies adopt different methodologies. The present study showed that independent directors favored the rating system due to their achievement of better and higher rates.

It is essential to explore the subtle particularities of Islamic finance as it plays a vital role in both non-Muslim and Muslim finance markets, especially when the funding instruments are rated. Similar results to the conventional bank can be achieved by accommodating the unique features of Islamic banks after refining the Islamic rating approach. The present study reported that the monitoring capacity of the bank improves because of a more significant number of independent directors. Similarly, Zolkifli et al. (2018) examined the impact of credit risk factors

on the banking system of conventional and Islamic banks. The results indicated low efficiency and increased debt concerning the management efficiency and leverage, which showed increased credit risks among both banking systems. It would help judge the stability and assist in recognizing the mutually dependent nature of credit and fiduciary risks. The Islamic bank rating system reflects the operational soundness to gain benefit from the supervision process.

Implications

Market participants easily understand the need for rating financial performance. It is understood that global rating agencies are already providing such ratings to Islamic financial banks. Such rating is either unconventional or conspicuous by its gap; while, the requirement for rating ethical performance is further strongly felt by market participants (Humphrey, 2018). The study emphasizes that a composite rating should be developed to evaluate the management quality and credit risk of Islamic financial banks to measure financial performance. From the findings, it has been observed that the Islamic banking business (Radzi & Muhamed, 2019). These attributes might be implemented into the investigation concerning the rating exercise comprehensively. Thereby, the conventional rating process should serve the objective to measure financial performance with some adaptation (Borhan & Ahmad, 2018).

The outcomes of this study are directed to an opinion survey on the preferability of aspects of such statements. The survey results reflect the opinions of various categories of participants, which imply that the following pointers should be included in the Islamic financial institutions (Anuwar & Jaffar, 2018). In this regard, Islamic financial institutions should establish a banking system as a first preference, uphold the principles of integrity, partnership, and honesty, develop and increase innovative and competent management embedded with Islamic banking professionalism and high standard of integrity, free the financial market of *riba* and speculation, and operate with Shariah principles (Hossain, 2018). The findings are quite evident in that all the highly preferred aspects associated with Islamic values are conspicuous, and most of these are absent from the actual rating system of Islamic financial institutions. An interesting finding from the interviewees was that none of the categories rate shareholder wealth maximization as an essential aspect of the credit rating agency.

The study has emphasized the risk profile of an Islamic financial institution and sketched the unique risk factors related to Islamic banking concerning its different nature. An in-depth examination of current rating methodologies implemented by top international rating agencies should be undertaken for performance

rating of investment, asset-management companies, rating of debt, equity instruments, and credit-rating of conventional financial institutions to evaluate the adequacy and measure the risk financial performance of Islamic institutions. A survey of academic research associated with quantitative and statistical studies should be undertaken on the rating of financial instruments and credit rating to search for information for their appropriateness for Islamic financial institutions.

Conclusion

The present study results have significantly contributed towards the enhancement of literature on credit risk management of conventional and Islamic banks. The profitability of banks increases, and their financial performance is improved because of regulating the problem of credit risk. However, Islamic banks need to establish comprehensive criteria by looking beyond credit risk and corporate governance. Therefore, the credit rating system of any financial institution should be designed to locate the problems occurring within the Islamic banks precisely. Moreover, future studies need to emphasize corporate governance in Islamic banks, along with the impact of Shariah governance on the working of Islamic banks. Moreover, they may even focus on the benefits of governance to equity stakeholders by exploring the association between corporate governance and the cost of equity capital among Islamic banks.

It is recommended that a simplified survey-based model should be developed to classify Islamic financial institutions based on their ethical performance. This study has not used a quantitative approach due to a lack of information on the Islamic financial banking system for a reasonably long period that can provide statistically significant findings. Therefore, it has been proposed that the model's coefficients should be based on the survey method. The Islamic financial institution should be reflected by the actual performance of the rating agency. The Islamic value accounting should be proposed to meet the data requirements of the credit rating agency.

Islamic banking development is reflected through the association between the private sector in Saudi Arabia and Islamic banking credit. Considering this, the present study recommends that economic diversification be achieved by improving and enhancing economic growth aligned with Saudi Vision 2030. There is a significant impact of Islamic banking credits on a country's economic growth; therefore, it is recommended that the government of Saudi Arabia support Islamic banking to promote their credit as being accessible. Moreover, Saudi Arabia Monetary Authority is recommended to highlight the availability of credits between Islamic and conventional banks.

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