

**The effects of deputizing the bank to collect the bill  
of exchange in favor of the beneficiary according to  
the Saudi commercial papers system**

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### **Abstract:**

Banks play a major role in the Saudi financial system. They facilitate trade by serving as financial intermediates, agents of ensuring economic liquidity and clearing houses for different bills. Banks facilitate the issuance and collection of the bills of exchange on behalf of the beneficiary. The beneficiary of the bill of exchange can be the payee or any other person who has been endorsed at the back of the bill of exchange. Using qualitative thematic analysis, this study evaluates the implications of deputizing the banks to play the role of collecting the money from the bills of exchange upon their maturity. Various secondary data were explored including past studies, scholarly articles, and articles that express the views and standpoints of different stakeholders in the Saudi commercial paper system. The findings show that deputizing the bank would contribute to an immense growth in the use of bills of exchange, but it would erode the confidence that the foreign traders place in the economic and financial system of Saudi Arabia to handle their affairs.

**Keywords:** Payee, Drawer, Drawee, Endorsement, Deputizing, Commercial Papers, Money Market, Bills of Exchange, Maturity Date, Domicile and Proxy.

آثار تفويض البنك لتحصيل الكمبيالة لصالح المستفيد وفق نظام الأوراق التجارية السعودي

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الملخص :

تلعب البنوك دورًا رئيسيًا في النظام المالي السعودي. أنها تسهل التجارة من خلال العمل كوسيط مالي ، وكلاء لضمان السيولة الاقتصادية وغرف المقاصة لفواتير مختلفة. تسهل البنوك إصدار وتحصيل الكمبيالات نيابة عن المستفيد. يمكن أن يكون المستفيد من الكمبيالة هو المستفيد أو أي شخص آخر تم التصديق عليه في الجزء الخلفي من الكمبيالة. باستخدام التحليل الموضوعي النوعي ، تقيم هذه الدراسة الآثار المترتبة على تفويض البنوك لتلعب دور تحصيل الأموال من الكمبيالات عند استحقاقها. تم استكشاف العديد من البيانات الثانوية بما في ذلك الدراسات السابقة والمقالات العلمية والمقالات التي تعبر عن آراء ووجهات نظر مختلف أصحاب المصلحة في نظام الأوراق التجارية السعودي. تظهر النتائج أن تفويض البنك من شأنه أن يساهم في نمو هائل في استخدام الكمبيالات ، لكنه من شأنه أن يقوض الثقة التي يضعها التجار الأجانب في النظام الاقتصادي والمالي للمملكة العربية السعودية للتعامل مع شؤونهم.

**الكلمات المفتاحية:** المدفوع لأمره ، الساحب ، المسحوب عليه ، التظهير ، الإنابة ، الأوراق التجارية ، سوق المال ، الكمبيالات ، تاريخ الاستحقاق ، الموطن والتوكيل .

## CHAPTER ONE: INTRODUCTION

### Background to the study

Financial system all over the world is a complex interconnected scheme comprising financial instruments, financial services, financial markets, financial institutions, financial actors, regulators, information technology, and various inventions and innovations (Britanicca, 2022). The primary goal of the financial system is to reduce risk, lower transition costs, provide liquidity and standardize and institutionalize many common financial transactions. Key players in the financial system include investment banks, commercial banks, and insurance companies amongst others (Todd, 2013). To facilitate trade within and without the economy, commercial banks and other financial actors use various financial instruments that include derivatives, equity securities, debt securities, foreign exchange, and money market instruments. The latter include such instruments as commercial papers, treasury bills, call money, certificate of deposit, and Commercial bills (bills of exchange) (Rubin, 2010).

One of the financial instruments that have been very critical in international trade is the commercial bill (bills of exchange). A bill of exchange is a type of negotiable (transferable by delivery) instrument (written document). Negotiable instruments should be in writing, signed by the drawer, make the unconditional promise, pay a certain sum of money, have the name of the drawee, and the transferee should receive in good faith and for value (Hedley & Hedley, 2020). Presumptions about negotiable instruments include stamp, consideration, holder in due course, date, time of acceptance, proof of protest, time of transfer, and order of endorsement. Types of negotiable instruments include negotiable by statute cheques, bills of exchange and

promissory notes) and negotiable by custom (share warrants, bankers draft, bearer debenture, circular more and huddles) (Alharbi, 2015).

As one type of negotiable instrument, a bill of exchange refers to the document ordering a person in the bill (drawee) to pay another person (either the bearer or specified person) a specified amount of money. Bills of exchange are similar to promissory notes and cheques in that they can be drawn by banks or individuals and they can be transferred through endorsements. However, a bill of exchange is different from a promissory note in that the promissory note binds a party to pay a third party not involved in its creation. Common forms of promissory notes are bank notes (Maghrabi & Tayachi, 2021). A Bill of exchange has some similar features to a cheque but the two are different. Unlike the cheque, a bill of exchange outlines the indebtedness of the debtor to the creditor used often in international trade. It can be used by the parties to full the contractual terms and is in most cases extended with credit terms such as 90 days. However, the bill of exchange does not pay interest which gives them a similar operating feature as post-dated cheques. If not paid by a specified date they can accrue interest (but in this case, the rate has to be specified in the instrument) (Shwehdi et al., 2015).

Also called draught or draft, bill of exchange, it consists of an order in writing by an individual (seller) to another (buyer) requiring the buyer to pay on determined or fixed future time (time draft) or pay on demand (sight draft) a specified sum of money to the bearer or indicated person (الرشود et al., 2021). When a bank issues the bill of exchange, then it can be considered a bank draft, when this bank will guarantee the payment of the stated amount. They are referred to as trade drafts when issued by an individual, and a sight draft if the amount would be paid on-demand or

immediately. Under international trade practice, the sight draft is used by the exporter to hold title to the goods that have been exported until the importer pays for them and takes delivery. It is also referred to as a time draft if the specified amount would be paid in the indicated time in the future (Kronke, n.d.).

Bills of exchange date back to the 8<sup>th</sup> century AD when it was used as a method of settling accounts by Arab merchants. However, the bill in its current form started to be used widely in the 13<sup>th</sup> century by the Lombards of northern Italy, who used to do significant foreign trade. Because the buyers (merchants) in most cases retained their assets in various banks in different trading cities, the seller of commodities (shippers) could get payment from the bank after they present a bill of exchange that has been signed by the buyer. By signing the bill of the exchanger, the buyer accepted the liability when the payment is due. However, because the payment was to be executed at a pre-determined date in the future, bankers would buy the bill at a discount from the seller (the seller would accept to get less than the full amount indicated in the bill). The bank would then debit the account of the buying merchant's account when the bill is due (Index, n.d.). Besides, it was possible to draw bills directly from the bank. After the seller gets the payment due, the bill of exchange was used as a credit instrument until it matured (independent of the transaction made originally).

Even with the emergence of other electronic and virtual payments, the use of bills of exchange has remained a presence of many people in the world. The bill of exchange contains five key pieces of information – amount, title, date, payee, and signature and identification number. Transferability of the bill of exchange allows it to be endorsed at the back (by the payee) to be used by a different party. The payee can also sell it at a discount price to another party to

get funds before the specified payment date (Gorton, 2014). The discount is the interest charged by the bank or person buying the bill and paying it earlier. However, there are risks associated with the bills of exchange. Of the risks is the risk that the drawee may fail to pay after the entity accepts it. This is mainly the case when the drawee is a non-bank business or person. The payee is, therefore, obliged to assess the creditworthiness of the drawee (or issuer) before accepting the bill. When the drawee fails to pay the specified amount at the specified date. It is said that the bill of exchange has been dishonoured. In a normal transaction, the bill of exchange may involve up to three parties. The party paying the amount specified (drawee), the recipient of the money (payee), and the party obliging the drawee to pay (drawer). Unless the drawer transfers the bill of exchange to the third party payee and drawer are the same entity (Carlson et al., 2014).

### Conceptual Framework

The popularity of bills of exchange is thought to have increased in the late 17<sup>th</sup> century even though they pre-date this time. Once they become popular instruments for local and international trade courts started to give them a legal effect as part of the common law. For a document to be considered a valid, legal and enforceable bill of exchange, it has to meet various statutory requirements (Kahl et al., 2015). For example, a valid bill of exchange should meet the "unconditional order" 31 for payment of money only and should specify the amount of money involved draft the drawee. Given that it is a document, it has to be in writing delivered and signed by the issuer. The delivery of the bill is referred to as the constructive or actual transfer of possession from one party to another.



Bill of exchange has three main features – it is transferred by delivery alone, the transfer is valid without consideration and if the transferee is the “holder in due course” they take free from the defences available to them and most defects in the title of parties. Handing over the possession of the will can transfer the title. When the bill of exchange is not payable to the bearer and it is delivered with no endorsement, the transferee will only receive the title that the transferor had in the bill (Oosterhuis, 2018). The bill has to be endorsed by the transferor if the transferee is to get a better title than the transferor. Each holder of the bill is considered holder in due course. Even though lack of consideration can make the drawee resist action on the bill of exchange, the transferor is not entitled to deny its validity. Primarily, bills of exchange play three key roles - means of payment in international trade, means of financing, and evidence of payment. Given the vulnerability of international trade to fluctuations in exchange rates, bills of exchange are used as a guarantee that the holder will get a fixed price. It is used as a means of financing because it can be sold at a discount to a third party (who waits and receives money from drawee when it falls due (Gorton, 2014).

Every country in the world has its own rules and regulations concerning the use of various commercial papers. This has helped these countries to cultivate faith in the financial system, and as a result, it has resulted in a robust global financial system. One of the countries in the world that have a robust financial system and commercial papers facilitating mechanism is Saudi Arabia. The country has established a strong commercial paper system that caters for different kinds of commercial papers. Specifically, Commercial Papers Law (Royal Decree No. 37) is the key guideline on how various commercial papers are treated and acted upon. The law recognizes the role of different players

including financial institutions – mainly the banks. In most cases, banks write the bill of exchange and other commercial papers on behalf of the owner. In other cases, the drawee will write the bill of exchange or other commercial paper and order the bank to pay the payee the sum of money indicated in the bill. The objective is to ensure that the person gets the amount of money required (for which the goods were purchased) and at the specified amount (الرشود et al., 2021). This is very important in promoting international trade and improving the confidence of traders in global trade.

The rationale for the study

This study evaluates the effects of deputizing the bank to collect the bill of exchange in favour of the beneficiary according to the Saudi commercial papers system. Many processes are used to make the financial system efficient, cost-effective, timely, and liquid. One of the major limitations of bills of exchange is that in their full value, they are relatively liquid – one has to wait until the due date to collect the money. If one needs the money faster, they have to sell the bill of exchange at a discount to the entity or party that is willing to take the bill of exchange and wait for its due date. Given that the bill of exchange collection and delivery has been in most cases carried out by commercial banks, investigating the effect of deputizing the banks in the collection of the bill of exchange would help to gauge the extent to which financial innovation can be included in the existing financial system and the effects that it would have on the overall financial system (Czaplicki, 2021). The study would also help to explore the importance of having the banks not only as intermediaries in the financial system but also as guarantors that help to instil confidence and trust in the financial system. Amid the 21<sup>st</sup> century technological

advancement, having financial institutions (that are not necessarily banks) to deputize the banks in the collection of bills of exchanges may have domestic and international short-term and long-term effects (Goncharov, 2017). This study will help to shed light on the implications, both short-term and long-term that such a move would have in Saudi Arabia's financial system.

### **Problem Statement**

There are four ways in which the holder of the bill of exchange can use it. The first way is to retain it until it matures. The holder can also negotiate or endorse the bill in favour of the creditor. The bill can also be discounted with the banks. Finally, the holder of the bill can send it to the banks for collection. By discounting the bill the bill is cashed before the maturity date and when endorsed it is transferred to a third party. When the bill is sent to the bank for collection, the bank retains it until it matures (Kopyściański, n.d.). This means the bill will be realized on its due date. Conventionally, the banks collect the bill of exchange in favour of the beneficiary and allow them to access the money once its payment is due. Banks have access to a wide variety of sources of information that they cause to evaluate the creditworthiness of the drawee. In addition, they serve as financial intermediaries and, therefore, traders use them to make bills of change on their behalf. They can facilitate payment especially if the trader holds an account with them or any other bank. Doing an interbank transfer of money or transfer of money from one source to another through the bank is relatively easy. However, the inclusion of the bank in the bill of exchange collection increases the cost and limits the accessibility of the money by the payee. For this reason, it may be prudent to have an alternative collection system, institution, or model that would facilitate the collection of the

bills of exchange, improve the efficiency of the process, and improve global and foreign trade (Law, 2014). However, each economic and financial system improvement or alteration comes along with various risks. Failure to consider these risks can have a huge effect on the economy. For this reason, this study answers the question: what are the effects of deputizing the bank to collect the bill of exchange in favour of the beneficiary according to the Saudi commercial papers system?

### **Research Objectives**

The following are the primary objectives that this study seeks to achieve.

- i. Evaluate the existing legal, financial and economic framework within which the bills of exchange and other commercial paper operate in Saudi Arabia
- ii. Determine the effects of deputizing the bank to collect the bill of exchange in favour of the beneficiary according to the Saudi commercial papers system
- iii. Evaluate the risks associated with deputizing the bank to collect the bill of exchange in favour of the beneficiary
- iv. Recommend the best approaches that can be used to improve the bill of the exchange collection process

### **Research Questions**

The study will answer the following questions:

- i. What is the structure and framework of the existing legal, z and economic framework within which the bills of exchange and other commercial paper operate in Saudi Arabia?
- ii. What are the key effects of acts on behalf of the bank to collect the bill of exchange in favour of the beneficiary according to the Saudi commercial papers system?

- iii. What are the major financial, economic, trade and market risks amongst others associated with deputizing the bank to collect the bill of exchange in favour of the beneficiary
- iv. What are the best approaches that can be used to improve the bill of the exchange collection process

## **CHAPTER TWO: LITERATURE REVIEW**

### **Introduction**

This section looks at various articles and materials relevant to bills of exchange collection in Saudi Arabia and the existing financial system. The section offers a cortical evaluation of the works looked at in relation to the problem statement. The objective is to provide an overview of the sources explored and show how the research fits within the larger field of study.

### **Saudi Payments Infrastructure**

The Saudi Arabian Monetary Agency (SAMA) is the key leader in the development and management of Saudi modern payments infrastructure. It executes this mandate in liaison with commercial banks. The objective is to support the economic development of the Kingdom of Saudi Arabia. (P. W. Wilson, 2021) The Saudi payment infrastructure comprises cheque clearing systems, ATM, RTGS, and EFTPOS as well as the electronic payment and presentment system. The payment environment in Saudi Arabia is facilitated by the Saudi Arabian Riyal Interbank Express (SARIE) which acts as the RTGS system in the country (Kopyściański, n.d.). The system makes it more efficient to carry out inter banks settlement and eliminates any inherent risk. It also supports a wide range of electronic banking services and products. This provides settlement functions for the other payment systems that operate within the system. All point-of-sales transactions are handled by The Saudi Payments Network (SPAN). Given the significant growth in the transactions processed through SPAN, it has become a vital part of the Saudi payment system. For the payment of recurring bills and one-off bills, there is the SADAD electronic

bill presentment and payment system. This system facilitates the collection of a variety of private sector and public bill payments. It provides an efficient and comprehensive service for the payment of bills. Over the years the number of bills paid via SADAD has grown significantly. SADAD is increasingly becoming a key component of the Saudi payment environment (Goncharov, 2017).

SAMA has the prerogative of strengthening the Saudi economy and stabilizing the external and internal value of its currency. Through the royal decree issued in 1957, SAMA was mandated to regulate exchange dealers (Royal Decree 1957). The negotiable instruments are regulated by the *Negotiable Instruments Regulations (1963)*. This law covers the legal treatment that is given to various payment instruments such as drafts, Cheques, and bills of exchange (Rabbani, 2020).

Commercial Papers System in Saudi Arabia (bill of exchange regulations)

Saudi Arabia has a very robust Commercial Papers Law that defines, regulates and offers guidance on the use of commercial papers. The Royal Decree no 37 of 1964 serves as the guiding structure for various types of commercial papers within the country. These commercial laws highlight the key features that must be present in a bill of exchange (Rabbani, 2020). Amongst these features highlighted in article 1 of the commercial laws include the place of payment, the statement bill of exchange written in the body of the document, the name of the payee, date of issuance, maturity date, name of the drawee, the signature of issuer, and the unconditional order to pay a given sum of money (Zerban & Madani, 2018). The law further provides that any instrument lacking the above features shall not be deemed as the bill of exchange except in it does not include the place of payment,

place of issuance, and maturity date. If it lacks the place of payment, the place indicated next to the drawee's name shall be considered both drawee's domicile and the place of payment. If it does not include the place of issuance it is considered to have been issued in the place that is shown next to the name of the drawer. If it does not have a maturity date, the document will be considered payable at sight (Elbadry, 2018).

The bill of exchange in Saudi Arabia can indicate the payment to be made in the drawee's domicile and can be drawn to the order of another person (or drawer) and can be drawn on the account of the drawer. Usually, when the bill of exchange has both amounts written in figures and words, the amount written in words takes precedence in the event of any discrepancy. However, wherever there is a discrepancy and the amount in figures or words has been indicated several times, the lesser amount shall prevail (Parveen, 2021). Given that Saudi is a sharia-compliant country, the terms of the bill of exchange must be exercised within the context of sharia law. In this case, any interest indicated in the bill of exchange makes it void. The age of competence in Saudi to make the bill is 18 years but the obligor's age to pay the bill if they are from a foreign country is regulated by the laws of their country. However, if the country from which the person signing the bill deems them incompetent, they can also be considered competent in Saudi Arabia if they sign the bill in the region or territory where they are deemed competent (Albassam, 2015).

The drawer of the bill is supposed to provide the guarantee of its payment and acceptance. The drawer cannot request from being exempted from payment. If the drawer (or the person appends their signature on behalf of another person) signs the bill without proper authorization, then they



will be held accountable. Even when the bill is not explicitly issued "to order" it can be negotiated through endorsement. The endorsement of the bill should not have any condition, and in case there are conditions, then the conditions are not considered valid. In the event of endorsement, the endorser is required to guarantee the payment and the acceptance of the bill. They can also indicate whether the bill can be re-indorsed or not. If they indicate that the bill can be re-indorsed they are not held liable for any endorsement carried out on the same bill in the future. Upon endorsement, all the rights that arise from the bill are transferred. However, when the indorsement has such words as "by proxy", "value for receipt", or "value for collection" or other words that show procuration, then the holder can exercise all rights arising from the bill but cannot endorse it unless the indorsement is carried out through a proxy. The holder can exercise all rights that arise from the bill if it has such statements as "value as a pledge", or "value as security". The endorsement is considered forgery if it is antedated (Barnett & Alkhareif, 2015).

In terms of the acceptance of the bill of exchange, the holder can present for acceptance to the drawee at his domicile. The bill drawer can indicate its presentment for acceptance whether undated or dated. If the bill of exchange is payable at a fixed period after sight it should be presented for acceptance within one year of its issuance. However, the drawer can request that the bill of exchange be presented for acceptance and be presented the day that follows. The acceptance of the bill is established by the use of the words "accepted" or any other similar words. The acceptance should also be signed by the drawee. However, the drawee's signature on the face of the bill is considered an acceptance. Similar to the issuance of the bill, its acceptance is also required to be unconditional but the drawee is allowed to limit the acceptance of the amount to only a portion of the amount

(Hedley & Hedley, 2020; Parveen, 2021). The bill is considered to have a non-acceptance if the drawee strikes out the statement of acceptance that is indicated on the bill of exchange before giving it back. When the bill of exchange is accepted by the drawee, then they commit to paying it upon its maturity.

Under section 43 of the commercial laws of Saudi Arabia, the bill of exchange holder is required to present it for payment to a legally recognized clearing house. The holder is not obliged to accept partial payment. When the partial payment is made, the drawee can require this payment to be shown on the bill and that they should be provided with a quittance to this effect. The holder is only entitled to receive the amount indicated after the expiration of the maturity date and not any other day prior. If the currency indicated in the bill is not available in the Kingdom of Saudi Arabia, then the bill payment is carried out using the currency that is available at its rate of exchange. If the bill is not presented for payment upon maturity the debtor can deposit the indicated amount to the agency that is designated by the Minister of Commerce and Industry and the deposit is made at the expense of the holder who shall be considered liable (John, 2017).

**Roles of the Banks in Saudi Arabia to collect the bill of exchange In Favor of the Beneficiary**

Banks play a critical role in the financial system. Holders of the bill of exchange in most cases present the bills to the banks (either to sell them at discount or to wait until the maturity date). Banks serve the role of clearing houses where they offset the transactions with other banks to settle the amount indicated in the bill. The banks clearing houses are in most cases the voluntary associations of local banks set up to facilitate and simplify the exchange of bills of exchange. By

doing this, the banks settle balances between them and ensure that the collection process is effective (Belovski et al., 2016).

The holder of the bill of exchange can also involve a third-party institution which will serve as the clearing house. However, the banks are used in most accesses either as third parties between two other banks, as the only bank, or as the recipient bank from another bank. In the event of the first case, the drawer of the bill deposits money in another bank, which pays the amount to another bank upon the maturity of the bill. The holder of the bill then requests their bank to collect money on their behalf from the second bank upon maturity. In the second case, the holder of the bill presents it to their bank and the bank is required to collect the amount indicated after the maturity from the bank where the issue has an account. In the third case, both the issuer and the holder may use the same bank. In the entire process, banks play as the critical pillars that instil confidence and facilitate trust required to support the business (Evensen et al., 2018).

## **CHAPTER THREE METHODOLOGY**

### **Introduction**

This study aims at investigating the effects of deputizing the bank to collect the bill of exchange in favour of the beneficiary according to the Saudi commercial papers system. To achieve this chapter highlights the research design, research strategy, data collection, and data analysis technique used in the research.

### **The Research Design**

#### **a. Research Philosophy**

Concerning the underlying beliefs on how data in the study was gathered, an interpretivism philosophy was used. Under this philosophy, the researcher performs the role of observing the world around them and argues that reality is unique to each observer (Denicolo et al., 2016). The focus of interpretivism is what is unique, specific, and deviant and is carried out to get an understanding of the phenomenon (Drisko & Maschi, 2016). The reality of the issue is considered to be socially constructed.

#### **b. Research Type**

This is an indicative study. The study is generated from the "bottom-up". The study, therefore, tends to be explanatory because there is no wide existing literature on deputizing the banks to collect the bills of exchange on behalf of the beneficiaries. This type of research plays a critical role in qualitative research where there is no theory to test (Žukauskas et al., 2018). The three stages of the inductive approach are observation, seeking a pattern, and coming up with a conclusion or theory about the problem statement. The

main advantages of this approach are its flexibility, and support for generalization.

### **c. Research Strategy**

The research is conducted using the exploratory approach where the primary focus was on gaining insights and familiarity with the problem under investigation. The approach is used to analyze what is exciting and what the situation would be if Saudi allows the banks to be deputized in the collection of the bills of exchange (Myers, 2019). The goal of the exploratory research design is to get familiar with major issues in the study, get a well-rounded picture of the situation, and generalize assumptions and ideas. It also helps in the development of hypotheses and theories and provides guidance for future techniques and research to be carried out. This method provides an opportunity to clarify concepts and define the payment system and commercial papers environment in Saudi Arabia (J. Wilson, 2021).

#### **Data Collection**

The data in the study are collected through systematic literature (empirical literature review). The study analyzes the previous studies, existing articles, opinions, and views of different stakeholders within the Saudi financial system, to answer the problem statement (Al-A'ali & Masmoudi, 2019). Some of the materials explored include the existing commercial laws in Saudi Arabia, articles on various elements of the Saudi Arabia payment system, and an investigation of the existing process of collecting the bills of exchange on behalf of the to use this approach, the study started with a background to the global commercial paper system, then the research question is narrowed down to the Saudi bills of exchange (Tshabangu et al., 2020).

## **Data Analysis Methods/Techniques**

Thematic analysis is used in this study. The method entails searching across the data to analyze, identify, and report repeated patterns. On top of describing the data, the method involves interpreting the processes of constructing themes and selecting codes. The advantages of using the theoretical analysis include enabling the researcher to gain new insights and concepts arrived from the data (Saunders, 2011).

### **The Methodological Limitations**

The study uses qualitative research. Some of the limitations associated with this type of research include the time-consuming process of gathering the data. In addition, it is difficult to verify the results of qualitative research. The findings also have limited generalizability. This is because the findings are not based on statistical analysis. The study also suffers some limitations related to its nature (as an explanatory study) (Franck, 2013). The exploratory study lacks a standardized analysis, has inconclusive results, and there is a small sample. The study also relies on secondary information. The secondary information comprises the legal papers, scholarly articles, books, articles, views and opinions of different stakeholders in the commercial system of Saudi Arabia. The views and opinions are obtained from journal articles, magazines, newspapers, and various business-related publications. The use of secondary data transfers the limitations of the original research into the current study. This means if there was a problem with the collection of the data or the analysis of the original study, the findings of the current study would also be affected (Eriksson & Kovalainen, 2008).

To minimize this limitation, multiple sources of data were used. This helps to complement information from one source to another. In addition, the exclusion criteria for the secondary studies and articles require that the material used has strong validity and reliability. The methods used in data collection and analysis are used to ascertain the validity of the study. The reliability was ensured by looking at the consistency of each of the materials used and the accuracy of the data used (Carson, 2001)

## **CHAPTER FOUR: FINDINGS AND DISCUSSION**

### **Introduction**

This chapter highlights the key findings of the study. It specifically looks at the Banks' role as clearing houses, other stakeholders and institutions involved in bills of exchange and the implications of deputizing the banks in the collection of bills of exchange.

### **Banks' role as clearing houses**

The bill of exchange involves a procedure where the drawee accepts the seller's bill. Acceptance is the scenario where a third party agrees to the payment of the bill of exchange a draft. In most cases, the financial institutions (mainly the banks) play the role of accepting the bill of exchange (E. G. P. Experts & Community, 2022). When the bank accepts the bill of exchange, it is referred to as bank acceptance. However, in some cases, the buyer can also serve as the acceptor, which case would be known as the true acceptance. In both two scenarios, the bank or individual acceptor takes the responsibility for the payment of credits or bills on the maturity day or before. Banks or the individual drawee final the acceptance by signing with the words "accepted" on the face of the bill (CHERUNILAM, 2020).

Saudi Arabia has 13 locally licensed banks and 17 licensed foreign ones. These banks play a facilitative role. Given that most of the bills of exchange are issued by international banks or individuals, the banks help to serve as a clearing house where they pay the money at the end of the maturity date and raise a claim with the bank of the drawer (DiMatteo, 2016). This is a critical role that helps to promote local and international trade in Saudi Arabia. The use of the bills of exchange is regulated by commercial law and the



document has to abide by all the requirements of this law for it to be enforceable in Saudi Arabia. Commercial law was developed in line with practices and trade principles developed by supra-national institutions such as the world trade organization, world Bank, and the international monetary fund. This is meant to ensure that the bills of exchange issued in Saudi Arabia can also be accepted in other countries (D. Experts, 2019).

Implications of deputizing the banks in the collection of bills of exchange

**B**anks are some of the most regulated institutions in Saudi Arabia. They have to follow strict rules n currency, liquidity creation, anti-money laundering and other capital and liquidity requirements. All these steps are taken to ensure they do not collapse and have put adequate safeguards to protect their stakeholders. For this reason, banks are one of the most trusted institutions in Saudi Arabia. Involving a bank in transactions improves the confidence and trust that people have in the payment system. This means that banks stand in a very good position to collect money on behalf of the beneficiary once the bill of exchange has matured. However, banks can be deputized by other financial institutions and businesses. Deputizing the banks would make the bills of exchange more accessible and more liquid. According to Lee et al., (2011) increasing the firms and institutions of collecting bills after they have matured would minimize the complexity and many formalities that surrounds the issuance of the bills of exchange. However, such a move would lower the level of confidence that foreign investors have in Saudi Arabia's financial system. This would affect the trade between Saudi Arabia and its trading partners. It may also increase the time taken to clear the bills of exchange as there would be very many issuers and acceptors.

According to Experts, (2019) the charges raised by the banks for most of the transactions are regulated by the government. Even though the banks can be deputed by other financial institutions that are credible and have high public trust in them, banks have a well-developed network of partners and working models that allows them to work as a "collective whole". Banks cooperate with other international institutions and banks which makes it easier to evaluate the creditworthiness of the issuer even in the situation where they are situated outside of the country. This means that replacing the banks in the collection of funds related to the bills of exchange would affect the resilience, stability and credibility with which traders and other institutions would treat the Saudi bills. Saudi players are critical in the world export system especially in the export of oil and related products. This means an effect on the country's commercial paper system would have a ripple effect around the world. The growth in the use of commercial papers and bills of exchange has been supported by many years of improving the validity, legality, and acceptability of this document. Instead of improving its value, deputizing the bank to collect the bill of exchange in favour of the beneficiary according to the Saudi commercial papers system would shrink its growth and reduce the international trade that Saudi participates in.

## **CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS**

### **Conclusion**

Financial instruments are a critical part of the economy and they help to safeguard the integrity of the global financial system. Major financial instruments include equity-based instruments, money market-based instruments, and credit-based instruments. All the instruments are aimed at simplifying the process of financing, funding, or dealing with one or the other aspect of the financial system. Bills of exchange are some of the oldest financial and commercial documents that have been used for many years to facilitate trade between parties in one or more countries. Their issuance, acceptance, and clearance follow a strong and elaborate system that has been developed for years and is guided by existing laws. In Saudi Arabia, it is guided by commercial laws. Banks do the largest part of collecting the bills of exchange in favour of the beneficiary. This study has shown that if this role by the banks is deputized by other institutions it would erode the trust and the confidence that international and local community place in the Saudi payment system. This can hurt businesses, reduce operations, and weaken the financial and economic system in Saudi Arabia.

### **Recommendations**

There is an end for a future primary study that evaluates the direct views of the key stakeholders (policymakers, banks and other financial institutions, traders, and other stakeholders) on what they make of move to deputize the bank to collect the bill of exchange in favour of the beneficiary according to the Saudi commercial papers system. This would make the study on the area more holistic.

**The effects of deputizing the bank to collect the bill of exchange in favor of the beneficiary according to the Saudi commercial papers system**  
**Dr. Yasser Almuhaideb**

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It is also recommendable that the key players in the bill of exchange transactions in Saudi Arabia (government agencies, banks and traders) continue to identify existing bottlenecks within the system and how it can be improved. However, the integration of the financial system with all the other sectors means caution should be taken when modifying the existing payment structure to prevent having a contagion effect on the Saudi economy and economy of the world.

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