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Assessment of correspondent banking relationships
Case study: local banks in Palestine

(تقييم العلاقات مع البنوك المراسلة: دراسة البنوك المحلية في
فلسطين)

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Supervised by

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of the requirements for the degree of
Master of Business Administration**

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إقرار

أنا الموقع أدناه مقدم الرسالة التي تحمل العنوان:

Assessment of correspondent banking relationships

Case study: local banks in Palestine

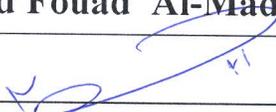
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بناءً على موافقة شئون البحث العلمي والدراسات العليا بالجامعة الإسلامية بغزة على تشكيل لجنة الحكم على أطروحة الباحث/ اياد فؤاد محمد المدهون لنيل درجة الماجستير في كلية التجارة/ قسم إدارة الأعمال وموضوعها:

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واللجنة إذ تمنحه هذه الدرجة فإنها توصيه بتقوى الله ولزوم طاعته وأن يسخر علمه في خدمة دينه ووطنه.

والله ولي التوفيق ،،،

نائب الرئيس لشئون البحث العلمي والدراسات العليا

أ.د. عبدالرؤوف علي المناعمة



Abstract

This study aimed to assess the relationship between the Palestinian local banks and foreign correspondent banks and the most important factors that affect the success of the relationship and the development of it to provide better services.

In order to reach the most accurate possible results of the study it has been used descriptive and analytical approach through the study sample, which represents the distribution of 60 questionnaires and conduct some in-depth-interviews with the managers of the departments of Foreign Relations and International Trade at the Palestinian local banks which were 7 banks. Those questionnaires included all aspects of relations with correspondent banks and then 42 questionnaire was recovered as responses of the study population, and the most important results that have been accessed summarized as follows:

- Working with foreign correspondent banks require or result in often development of the services offered by the bank to its customers, and it gives the bank a competitive advantage form other banks operating in the same area.
- It is important to study the area in which the bank and correspondent bank operates to avoid various risks like money laundering risk, and to avoids any problems or legal difficulties with correspondent banks .

And in view of the results that have been reached during the study the researcher recommendations were:

- The local banks must keep pace with the technological development in the provision of new and distinct services through correspondent banks, and must understand the market needs a well to provide appropriate services.
- local banks must adhere to international standards and anti-money laundering laws so that they deliver better services and avoid any legal problems resulting from foreign operations.
- The importance of the Monetary Authority role on overseeing and setting up relations between the local banks and correspondent banks and holding workshops in the mechanics of dealing with correspondent banks in order to develop relations between the local banks and external correspondents.

ملخص الدراسة

تهدف هذه الدراسة لتقييم العلاقة بين البنوك المحلية الفلسطينية و البنوك المراسلة الخارجية و اهم العوامل التي تؤثر على نجاح و تطوير العلاقة بشكل جيد لتقديم خدمات افضل.

من اجل الوصول لأدق نتائج ممكنة للدراسة فقد تم استخدام المنهج الوصفي التحليلي من خلال حصر العينة و الذي تمثل بتوزيع استبيانات عددها 60 استبيان على مجموعة من موظفي و مسؤولي اقسام العلاقات الخارجية و التجارة الدولية وعمل مقابلات مع بعض رؤساء الدوائر المعنية بالبنوك المحلية الفلسطينية و البالغ عددها 7 بنوك. وقد تضمنت تلك الاستبيانات و المقابلات جميع النواحي المتعلقة بالعلاقات مع البنوك المراسلة و بعد ذلك تم استرداد الاجابات ل 42 استبيان من مجتمع الدراسة ، و تلخصت اهم النتائج التي تم الوصول اليها بما يلي:

- العمل مع البنوك المراسلة الخارجية يتطلب او ينتج عنه غالباً تطوير الخدمات التي يقدمها البنك لعملائه مما يمنح البنك ميزة تنافسية عن البنوك العاملة في نفس المنطقة.
- عمليات البنوك المراسلة تتطلب من كل من البنك المحلي و البنك المراسل دراسة جيدة للمنطقة التي يعملان بها لتجنب المخاطر المحتملة كمخاطر غسيل الاموال بما يجنب البنك أي مشاكل او صعوبات قانونية مع البنوك المراسلة.
- و بالنظر الى تلك النتائج التي تم التوصل اليها اثناء الدراسة فقد تم التوصل الى مجموعة من التوصيات تتمثل في:
- يجب على البنوك المحلية مواكبة التطور التكنولوجي في تقديم خدمات جديدة و متميزة من خلال البنوك المراسلة ، كما يجب عليها فهم احتياجات السوق بشكل جيد لتقديم الخدمات المناسبة.
- يتوجب على البنوك المحلية الالتزام بالمعايير العالمية و قوانين مكافحة غسيل الاموال حتى يتسنى لها تقديم الخدمات بشكل افضل و تجنب حدوث أي مشاكل قانونية ناتجة عن العمليات الخارجية.
- اهمية دور سلطة النقد في الاشراف و ضبط العلاقات بين البنوك المحلية و البنوك المراسلة و عقد ورشات عمل في اليات التعامل مع البنوك المراسلة بهدف تطوير العلاقات بين البنوك المحلية و مراسليها الخارجيين.

Dedication

I would like to take this opportunity to express my deepest thanks and dedicate this work for my dear parents and my wife for their continuous support along the way, for my brothers, for my sister and my son Omar.

Also I would like to dedicate this thesis to all my family, my dear friends and for all the lovely people that I know.

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List of Abriviations

AML/CFT	Anti Money Laundering, Combating the Financing of Terrorism
BAFT-IFSA	The Bankers Association for Finance and Trade - The International Financial Services Association
D/A	Document against acceptance
D/P	Document against payment
ECB	European Central Bank
FATF	Financial Action Task Force
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examinations Council
FOREX/FX	Foreign Exchange
IMF	International Monetary Fund
LCR	Liquidity Coverage Ratio
PMA	Palestinian Monetary Authority
PNA	Palestinian National Authority
QFCRA	Qatar Financial Centre Regulatory Authority
SPSS	Statistical Package for the Social Sciences
SSM	The Single Supervisory Mechanism
SWIFT	The Society for Worldwide Interbank Financial Telecommunication

Chapter 1

Research plan

Chapter 1

Research plan

1.1 Introduction

The formal financial sector in The West Bank and Gaza emerged some 20 years ago, after 1993-1994 with the signing of Oslo Accord in 1993 and the Paris Protocol in 1994. The latter provided Palestinians the authority to administer monetary and financial affairs in order to support the expected economic growth.

According to The World Bank reports 2015, in most developing countries, the banking sector dominates the financial sector, banks are generally in sound financial condition and products are well developed as is the regulatory infrastructure.

However, the banking sector in Palestinian territories remains vulnerable due to its dependence on the Jordanian banking system and, from an operational point of view, on the Israeli one. Due to a large extent to the current political instability and to the depressed economic activity, banks play a very limited role in the financing of the West Bank and Gaza economy (The World Bank reports, 2015).

Since the establishment of the Palestinian National Authority (PNA) in 1994 and emerging the Palestinian Monetary Authority (PMA) the number of banks has been regularly increasing, reaching 15 banks with more than 252 branches and offices until 2015, among them 7 local banks and 8 foreign banks. Most of the foreign banks are Jordanian, with 2 Islamic banks operate in the West Bank and Gaza Strip (pma.ps, 2016).

1.1.1 International trade preview:

The international trade activities have grown in importance over time. This trend is attributable to the increased globalization of world economies and the availability of trade finance from the international banking community (Madura, 2011).

Palestinian central bureau of statistics indices shows that the trade transaction volume in year 2016 in the Palestinian territories was 4128.1 million USD and this number is based mainly on imports of goods and services to The West Bank and Gaza.

Banks and their relations with their correspondents play a critical role in facilitating international trade by guaranteeing international payments and thereby reducing the risk of trade transactions, International trade and financial system would not be complete without the role of international banking institutions and corresponding banking in developing local banks operations in the field of trade and to provide and deliver better goods and services (Al Abbadi and others, 2011).

Many international banks in the USA, EUROPE and The Middle East serve as correspondent banks to many local banks in Palestine.

1.1.2 Correspondent banking:

A correspondent banking relationship involves a correspondent bank, which provides the services, and a respondent bank receiving them. The respondent usually pays for the services by maintaining correspondent balances at the larger bank. The mix of services that might be provided is broad, but appears to emphasize check processing, especially for smaller banks, and loan participation. Other services

include payments, cash management and trade services (e.g. letters of credit), providing reports on economic conditions, making securities recommendations, and safekeeping securities (Osterberg and James B. Thomson, 1999).

Correspondent banking is an attractive business. It is still the primary channel to deliver cross-border banking services (SWIFT, 2016).

Finding and maintaining successful relations with the correspondent banks worldwide are a big challenge, the local banks should realize the fact that they need to improve the relations and the strategies followed with the correspondent banks for the benefit of their international trade performance and to provide better services.

Because of the difficulties in dealing with the Israeli banks and reducing most of the transactions with Palestinian banks and stopped their work as correspondent banks for the Palestinian banks since 2005, which required finding suitable alternatives for completing the international and foreign bank's transactions.

1.2 Problem statement

Managing the corresponding relationship between the local banks and the international and foreign correspondents is a big challenge and vary with time and due to many economic and financial concerns;

The problem of this research is to find an answer for the following questions:

- What is the nature of the relationship between local banks operates in Palestine and correspondent banks?

This leads to the following sub-questions:

1. What are the patterns of the corresponding relationship?
 2. What are the products and services provided?
 3. Are the conditions and costs of the relation feasible?
- What kind of polices followed by local banks in dealing with the correspondent banks?
 - Is there any role or involvement of the PMA in monitoring or developing the corresponding relationships between local banks and the foreign international banks?

1.3 Research variables

1.3.1 Dependent variable

Successful corresponding relationship

1.3.2 Independent variables

- Quality and cost of services provided
- policies followed to manage the relationship, and Local banks compliance to AML (Anti Money Laundry) principles
- The overseeing role of the PMA on the correspondent banking

1.4 Research hypothesis

There are three hypotheses for this research:

- There is a significance relation between the quality and cost of services provided and the successful corresponding relationship (at level of significance $\alpha \leq 0.05$).
- There is a significance relation between the policies followed to manage the relationship and the successful corresponding relationship (at level of significance $\alpha \leq 0.05$).
- There is a significance relation between the overseeing role of the PMA on the correspondent banking and the successful corresponding relationship (at level of significance $\alpha \leq 0.05$).

1.5 Research objectives

There are three main objectives for this research:

- To evaluate the relationship between the local banks and their international correspondent.
- To evaluate the policies and methodologies followed by local banks in managing the corresponding relationship.
- To understand the role of the PMA in developing and monitoring the corresponding banking relationships between the local banks and their international correspondents.

1.6 Importance of the research

The importance of this research comes through benefiting both the local banks to highlight the importance of correspondent banks for foreign operations and also is to researchers in the same field as follows:

1.6.1 Local banks for their international trade:

International trade is becoming the backbone of the world economy; developed countries can't stand alone and being self-sufficient that's why most of the banks in the Middle East area have extended their activities and bank services across their borders (Al Abbadi and others, 2011).

Depending on this research one can realize the importance of correspondent banking and help to understand the feasibility and profitability of local Banks in its international trade via its successful relationship with their Correspondents.

1.6.2 Researchers and interested parties:

There are no studies focused on the subject of corresponding banking in Palestine. This research may help guiding the researchers and interested parties to conduct more studies and research in this field.

1.7 Research technique

The main sources for the required data for this research are:

History data and documents about type and variety of corresponding services provided and the agreements with the correspondent banks.

Data will be taken from a sample of the local banks working in Palestine (The divisions of foreign relation management, international trade, international transfers and money exchange departments)

These divisions have the basic objective in having clear correspondent relations with foreign banks to enhance the ability of the bank to carry out its international financial transactions for the interest of its clients (Rose and Hudgins, 2008).

The research will use mix of quantitative and qualitative measures to analyze the history data and in-depth-interviews to help knowing the organization structure of the divisions of foreign relations management and their style of management of the foreign relationships for the benefit of the bank as all.

1.8 Previous studies

The followings are the most related and significant studies took place in different countries in the world yearly arranged; many other studies was referred to and linked with through the research:

1. Correspondent Banking. Consultative study:(Bank for International Settlements, 2015)

Through correspondent banking relationships, banks can access financial services in different jurisdictions and provide cross-border payment services to their customers, supporting international trade and financial inclusion.

In view of the importance of correspondent banking, the keen interest of central banks in this activity and the trends that point to risks

to its safe and efficient functioning, This technical report was prepared to describe current trends and analyzing technical measures that might alleviate some of the concerns and cost issues related to correspondent banking.

Banks have traditionally maintained broad networks of correspondent banking relationships, but there are growing indications that this situation might be changing. In particular, some banks providing these services are reducing the number of relationships they maintain and are establishing few new ones. The impact of this trend is uneven across jurisdictions and banks. As a result, some respondent banks are likely to maintain relationships, whereas others might risk being cut off from international payment networks. This implies a threat that cross-border payment networks might fragment and that the range of available options for these transactions could narrow.

Rising costs and uncertainty about how far customer due diligence should go in order to ensure regulatory compliance are cited by banks as among the main reasons for cutting back their correspondent relationships.

To avoid penalties and the related reputational damage correspondent banks have developed an increased sensitivity to the risks associated with correspondent banking. As a consequence, they have cut back services for respondent banks that do not generate sufficient volumes to overcome compliance costs or banks those are located in jurisdictions perceived as very risky.

The regulatory framework, and in particular the AML/CFT requirements and the related implementing legislation and regulations in different jurisdictions, are taken as given in this report. It is acknowledged that these requirements are necessary to prevent and detect criminal activities and ensure a healthy financial system.

The researcher (the working group) limited the analysis to technical measures that could help improve the efficiency of procedures, reduce compliance costs and help address perceived uncertainty, without altering the applicable rules and the basic channels for correspondent banking services between correspondent and respondent banks. The group analyzed in detail some potential measures and translated them into the technical recommendations.

The working group believes that its recommendations might alleviate some of the costs and concerns connected with correspondent banking activities. However, the members are aware and would like to stress that, in isolation, these technical measures will not resolve all such issues. The working group acknowledges that the issues surrounding the withdrawal from correspondent banking are very complex and that costs related to AML/CFT compliance are only one of the elements that have to be considered in order to understand recent trends. Those include business considerations as well as economies of scope and scale issues. Limiting information challenges through the use of enhanced technical tools will only address part of AML/CFT compliance costs but does not resolve issues such as uncertainty about how far customer due diligence should go. In particular, the proposed technical measures will not

immediately help the banks without access to correspondent banking services to gain such access.

2. Shell companies, Latvian-type correspondent banking, money laundering and illicit financial flows from Russia and the former Soviet Union. Graham Stack . (Germany, 2015).

This study aims to examine the role played by international shell companies in Latvian-type correspondent banking, who creates the shell companies according to what criteria and the resulting money laundering operations for financial flows from Russia and the former Soviet Union.

This study draws on journalist and non-governmental organizations investigations, financial intelligence unit reports, interviews with participants, whistleblower reports and public domain databases to research financial activities shrouded in secrecy with connections to corruption and organized crime.

This study concludes that the Latvian-type correspondent banking generates for its clients from the former Soviet Union anonymous shell companies en masse across diverse onshore and offshore jurisdictions. The shell companies are vehicles for moving white, grey and black funds from Russia, Ukraine and other former Soviet countries through international correspondent banking relations to offshore savings accounts and business suppliers.

The money laundering risk in connection with shell companies stems ultimately from the readiness of banks to work with them. Thus, the greatest money laundering risk in connection with shell companies arises where there is a banking model built largely around their use. This

paper has argued that a major money laundering risk arises from mass use of shell companies by banks specialized in facilitating the international flow of grey and black funds from the former Soviet countries.

**3. AML compliance for foreign correspondent accounts: a primer on beneficial ownership requirements and other challenges
Christina N. Davilas. (USA, 2014).**

The purpose of this study is to educate on AML legal requirements and issues relative to foreign correspondent accounts, and give practical advice on relatively low-burdensome measures firms can take to help them achieve compliance in this challenging area.

The Design and methodology of this study Summarizes AML requirements relevant to foreign correspondent accounts, discusses related settlements involving the alleged failure to obtain and verify beneficial ownership information, reviews ongoing regulatory and legislative initiatives (including an initiative to require firms to identify beneficial owners and verify their identities), and suggests certain due diligence procedures firms can use to screen foreign correspondent accounts.

This study finds that, one of the fundamental risks that firms face when dealing with foreign correspondent accounts is not knowing their customers' customers. While the current regulatory framework does not, in most cases, explicitly require firms to obtain beneficial ownership information, the practical reality seems to be that obtaining and verifying

such information, where possible, could pay substantial dividends in terms of risk assessment and avoidance.

In some cases, a variety of cost-effective screening measures can be sufficient for a firm to identify concrete risks so that it may take steps to reduce its own regulatory exposure. Firms should not discount the simple for the elaborate, and should take advantage of the several, cost-effective AML tools and resources that are readily available.

4. . Ninth Survey On Correspondent Banking In Euro. (European central bank, 2014)

Correspondent banking relationships play an important role in the processing of payment transactions in euro. They ensure that payments flow between credit institutions, as well as allowing indirect access to payment systems, thereby representing an important link in the payment chain.

Given their relevance for the smooth functioning of payment systems, correspondent banking services have been within the scope of the Eurosystem's oversight activity since the European Central Bank (ECB) was established.

The Eurosystem has conducted surveys on correspondent banking business since 1999 in order to monitor its importance, size and development,

The most recent survey (the ninth) was conducted in March 2014, 22 banks located in eight euro area countries participated in the ninth survey.

Since correspondent banking business in euro continues to be highly concentrated among the largest banks in the euro area, it is likely that the surveys cover a very high proportion of all correspondent banking business.

This report presents the results of the ninth survey and provides some risk and policy considerations with regard to correspondent banking.

The report also provides a trend analysis of developments in the correspondent banking business by comparing the results of the 2014 survey with the data obtained from the previous surveys.

The results of the ninth correspondent banking survey confirm that correspondent banking remains an important channel for effecting payments in euro. As in previous surveys, both the number and value of payments processed by correspondent banks were very large. For instance, the total daily turnover of euro transactions settled through correspondent banking arrangements averaged almost €1 trillion. However, most payments originated through correspondent banking arrangements are settled through payment systems, while payments processed solely through correspondent banking arrangements represent just over 12% of the total value (and less than 1% of the total volume) of payments processed by the respondent banks.

Risks in correspondent banking are relevant for both the prudential supervision of banks and the oversight of payment systems. Although the perspective of payment system overseers is traditionally somewhat

different from that of banking supervisors, their objectives are closely interrelated.

The Euro system has not introduced specific oversight requirements for correspondent banks so as to avoid any double regulation of these institutions. The Euro system has instead relied on banking supervision, working together with supervisors at various levels (European, global and national) with the aim of ensuring that risks in correspondent banking are consistently and uniformly covered in the euro area. The Single Supervisory Mechanism (SSM) the new system of banking supervision comprising the ECB and the national competent authorities of the participating countries – is likely to facilitate such close cooperation.

5. .Basel III Liquidity Coverage Ratio and Liquidity Risk Monitoring Tools – Issues for Global Correspondent Banking Services .Tod R. Burwell . (USA, 2013)

BAFT-IFSA is an international financial services trade association whose membership includes a broad range of financial institutions throughout the global community. As a worldwide forum for analysis, discussion, and advocacy in international financial services, BAFT-IFSA member banks provide leadership to build consensus in preserving the safe and efficient conduct of the financial system.

This paper were presented to clarify the BAFT-IFSA supports to the goals of the Basel Committee on Banking Supervision in promoting a more resilient banking sector and agrees that a strong banking system is the basis for sustainable economic growth.

An integral part of this important effort has been the establishment of a basis for a quantitative liquidity regime. In this regard, the Liquidity Coverage Ratio (LCR) is an important tool for proper liquidity risk management globally.

The LCR would benefit from clarification as it relates to correspondent banking services. As discussed herein, BAFT-IFSA believes that the current definition of correspondent banking under the Framework does not match the modern operational nature of the services offered. This directly affects the applicable inflow and outflow factors in the LCR calculations and could detrimentally impact the provision of real economy financing through correspondent banking relationships.

BAFT-IFSA believes that the nature of correspondent banking should be considered by the Basel Committee when determining clarity around its LCR definition and calibration. Correspondent banking operational aspects and direct link to underlying commercial activities and international trade.

Due to the fact that correspondent banking globally supports significant transactional and operational services, BAFT-IFSA believes the impact on the real economy from a lack of clarity in the treatment of correspondent banking operational activity under the LCR would be significant.

Taking an activity-based approach, flows generated by correspondent transactions with underlying commercial operations relating to banks and their customers should be classified as operational in nature in the definition of correspondent banking, Recognition of the

operational aspects of modern correspondent banking will aid in strengthening the overall effectiveness of the LCR and the broader Basel framework globally.

This paper concluded that by clarifying and correcting the treatment for correspondent banking operational relationships, This will have a positive effect on global economic activity and international trade and growth in the real economy.

6. Assessment of Correspondent Banks Case Study ,Abeer F.A. Al Abbadi, Abdel Nasser T. Zyoud and Sinan S. Abbadi (Jordan, 2011)

This study aims to evaluate corresponding banks in Jordan, focusing on the feasibility and profitability of Philadelphia Investment Bank in its international trade via its Correspondent banks.

The study followed the analytical approach and depended on History Documents and In depth Interview techniques and puts a major emphasis on the fact that correspondent banking has become an essential cornerstone of international business amid the new era of world trade, globalization, external competition and cartels from the major opponents to Jordanian Banks, the main conclusion is realized the importance of correspondent banks in the international trade, so Philadelphia bank benefited from correspondent banks for the cheap cost of market entry and services were tailored to the scale of required locale. But there was no big investment in staff facilities.

The recommendation of the study was, it is the time to consider solidification and forming one financial block, or a sort of cartel and face

these correspondent banks in one unit. They are also called for developing collective strategies. Small banks should merge and form huge capital blocks. Another strategy is that Jordanian banks should minimize the reliance on foreign banks and should develop their own, by establishing international branches abroad to help financing their international activities.

7. International correspondent bank reputation. Lucy Chernykh and Robert O. Edmister (USA, 2007)

This research examines the reputation of banks operating in international payment transactions, also examines the relationship between foreign correspondent banking and domestic bank quality.

The primary issue examined in this research is the effect of foreign correspondents' reputations on the domestic bank's reputation.

International reputation information is tested with a unique event, the implementation of bank deposit insurance by Russia. Examining the Central Bank of Russia's accept and reject decisions for the sample of 576 banks applying for deposit insurance, this study finds that the foreign correspondent country is a significant determinant of domestic bank quality. High income correspondents form relationships with higher quality Russian banks. Conversely, middle income correspondents form relationships with lower quality banks. Further, the study finds evidence of within country bank reputation effects. The probability of deposit insurance acceptance by the Central Bank of Russia is significantly related to U.S. correspondents segmented by Federal Reserve sanctions for correspondent activities infractions.

These results suggest that foreign correspondents may possess complementary data useful for improving the governance of banks and confirms the importance of international reputations in domestic bank management and regulation.

8. . Market Entry Strategies Of Foreign Banks Into The Russian Market: Theoretical And Some Empirical Evidence.Vadim Nikitin. (Estonia, 2002)

The aim of this research is to identify and explain the main market entry strategies conducted by foreign banks in Russia on the theoretical and methodological basis, and to test some of these results empirically.

This work is focused, on the research of western banks and their establishments in Russia.

In order to achieve the above-mentioned aim, the following tasks were set:

1. To analyze the internationalization of banks, reasons what induces banks to enter foreign markets, entry modes and strategies used by penetration and to give a survey of earlier empirical works on banking internationalization.
2. To analyze foreign banks' strategies on the Russian market,
 - Timing of entry.
 - Institutional mode of entry.
 - Fields of business activity.

3. On the basis of survey results to analyze location-specific factors of the Russian market and motives and entry strategies of foreign banks into the Russian market, and to test some of these results empirically.

The central hypotheses for this research

1. Foreign banks have entered the Russian market to support bilateral trade relations between Russia and their home countries.
2. Foreign banks have entered the Russian market by following existing clients from home market (or 'follow the customer' behavior).

In order to test the above-mentioned hypotheses, the researcher used the same variables that were already used by previous empirical studies.

the independent variables of the model were the following:

- size of bank assets.
- volume of foreign trade (export and import).
- inflow of foreign direct investment from the foreign bank's homeland.
- distance between the capital of Russia (Moscow) and bank's headquarters' location in home country.

Based on the theoretical arguments, empirical evidence of earlier empirical works and postal survey results, and According to estimation results, it was made the conclusion that, first: that largest bank and banks from nearest countries penetrate the Russian market in order to support foreign trade relations between Russia and their home countries.

Second: The ‘follow the customer’ hypothesis has failed in our case. In order to explain the failure of the ‘follow the customer’ hypothesis it is necessary to observe the case more in detail.

9. Private Banking and Money Laundering: A Case Study of Opportunities and Vulnerabilities. Correspondent Banking: A gate way for money laundering. (USA, 2001).

Many banks in the United States have established correspondent relationships with high risk foreign banks. These foreign banks are:

(a) shell banks with no physical presence in any country for conducting business with their clients;

(b) offshore banks with licenses limited to transacting business with persons outside the licensing jurisdiction; or

(c) banks licensed and regulated by jurisdictions with weak anti-money laundering controls that invite banking abuses and criminal misconduct. Some of these foreign banks are engaged in criminal behavior, some have clients who are engaged in criminal behavior, and some have such poor anti-money laundering controls that they do not know whether or not their clients are engaged in criminal behavior.

This paper was prepared by Minority Staff of the U.S. Senate Permanent Subcommittee on Investigations, January 2001. To examine the vulnerability of correspondent banking to money laundering, the Minority Staff investigation interviewed experts; reviewed relevant banking laws, regulations and examination manuals; surveyed U.S. banks about their correspondent banking practices; reviewed court

proceedings and media reports on cases of money laundering and correspondent banking; and developed detailed case histories of money laundering misconduct involving U.S. correspondent accounts. The one-year investigation included hundreds of interviews and the collection and review of over 25 boxes of documentation, including subpoenaed materials from 19 U.S. banks.

The year-long Minority Staff investigation into the use of international correspondent banking for money laundering led to several conclusions and recommendations by the Minority Staff.

Based upon the survey results, case histories and other evidence collected during the investigation, the Minority Staff has concluded that:

(1) U.S. correspondent banking provides a significant gateway for rogue foreign banks and their criminal clients to carry on money laundering and other criminal activity in the United States and to benefit from the protections afforded by the safety and soundness of the U.S. banking industry.

(2) Shell banks, offshore banks, and banks in jurisdictions with weak anti-money laundering controls carry high money laundering risks. Because these high risk foreign banks typically have limited resources and staff and operate in the international arena outside their licensing jurisdiction, they use their correspondent banking accounts to conduct their banking operations.

(3) U.S. banks have routinely established correspondent relationships with foreign banks that carry high money laundering risks. Most U.S. banks do not have adequate anti-money laundering safeguards

in place to screen and monitor such banks, and this problem is longstanding, widespread and ongoing.

Based upon its investigation, the Minority Staff makes the following recommendations to reduce the use of U.S. correspondent banks for money laundering.

(1) U.S. banks should be barred from opening correspondent accounts with foreign banks that are shell operations with no physical presence in any country.

(2) U.S. banks should be required to use enhanced due diligence and heightened anti-money laundering safeguards as specified in guidance or regulations issued by the U.S. Treasury Department before opening correspondent accounts with foreign banks that have offshore licenses or are licensed in jurisdictions identified by the United States as non-cooperative with international anti-money laundering efforts.

(3) U.S. banks should conduct a systematic review of their correspondent accounts with foreign banks to identify high risk banks and close accounts with problem banks. They should also strengthen their anti-money laundering oversight, including by providing regular reviews of wire transfer activity and providing training to correspondent bankers to recognize misconduct by foreign banks.

10. An Empirical Study Of International Correspondent Banking In Australia Soon-Lim Chan (Australia, 2001).

This research is concerned with international correspondent banking and the management of this activity by banks in Australia.

This research examines the factors contributing to the establishment of international correspondent banking relationships and criteria of selection of the key correspondents within an Australian context by statistical regression and factor analysis.

The forming of the research constructs will be mainly based on united states literature, original work on a case study and an international correspondent banking industrial survey in Australia.

The main objectives of this research are to:

- Outline the development of international correspondent banking practices, operations and management in Australia,
- Review the existing theoretical and empirical literature in the area of international correspondent and criteria for selection of correspondents overseas.

Two hypothesis were formed:

1. Models of non-resident assets and liabilities against 18 determinant factors. These factors includes (e.g. Bank size, Customer driven, Competitiveness, Cost saving, Preventing fraud and ML, Access to overseas local markets, Improving efficiency, Completing international network ... etc).
2. Number of correspondent banks against 19 selection criteria such as (e.g. Board domestic and global bank network, Effective and efficient products and services delivery, Linkage to swift and netting, Location, Market reputations, Pricing, Range of services ... etc).

This research utilises the triangulation approach consisting of three components, a detailed case study of an Australian major bank (Commonwealth Bank of Australia CBA), empirical survey analysed and described by descriptive and simple inference statistics of international correspondent banking industry and modelling by multiple linear regressions and factor analysis.

The conclusions in this research supports the idea that modern correspondent banking products and services have emerged because of the structural changes in the global and domestic banking sectors.

The Australian financial services market will be opened to offshore competitors and also will be influenced by other global market trends.

Banks are forced to develop as much clearer understanding of market segmentation and the profitability of customers and products.

11. Banking Consolidation and Correspondent Banking. William P. Osterberg and James B. Thomson. (USA, 1999).

The ongoing consolidation of the U.S. banking system and the increasing geographic scope of large banking institutions could have important implications for the competitive structure and the efficiency of correspondent banking markets.

This study examines some of the issues, focusing on the impact of regulatory changes to permit intrastate branching and interstate banking. The main concern is primarily with the impact of such changes on concentration in correspondent balances and domestic deposit markets.

This paper utilize the call report data compiled by the Federal Financial Institutions Examinations Council (FFIEC) and the Summary of Deposits data prepared by the Federal Deposit Insurance Corporation (FDIC). Any changes in concentration could have important implications for the efficiency and competitiveness of banking markets.

Overall, the evidence presented here suggests that interstate branching will result in more concentrated interbank markets, as the geographic consolidation of the banking industry at the national level will certainly reduce the number of correspondent and respondent banks nationwide. This increased concentration in correspondent banking markets will not necessarily reduce the competitiveness of these markets at the state and local level because branching deregulation also increases their contestability.

1.9 Previous studies discussion

Review of previous studies shows that understanding the success factors in correspondent banking relationship is important for the management of banks, because it would potentially help them improve their business in the field of foreign trade and related services and to comply with the international standards of Anti money laundering and terrorism financing laws.

The followings can be concluded from the previous mentioned studies discussed through this research:

- The subject of correspondent banking has not been studied significantly in the Arab region, especially in Palestine, Most of

the studies and papers on the subject has took place in foreign countries.

- The majority of these studies have focused on the importance of the study of relationships with correspondent banks in the areas of foreign trade through banks.
- The importance of relations with foreign correspondent banks in the development of foreign bank's reputation.
- There are studies focused on the development of services provided by correspondent banks due to the global and local development in the banking sector.
- Dealing with correspondent banks involves a number of risks through foreign operations like money laundering risks.
- Some studies have focused on the importance of the role of regulators in the follow-up of relations between banks and external correspondents.

Chapter 2
Correspondent Banking
Overview

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Correspondent Banking Overview

2.1 Introduction

Correspondent banking has always been viewed as a backroom operation. By maintaining global network of international banking relationships, the correspondent banking provides the necessary support to the banking sector.

With the world integrating into a single universal market, correspondent banking will play an increasingly important role in facilitating the execution of international financial transactions, when banks want to expand cross-border businesses, in particular for transaction services, the effective and cheaper way is to use correspondent banking relationships, a contractual mode for provision of financial services. International banking via subsidiaries, branches or joint venture require large capital investment and hence the high risk involved (Soon-Lim Chan, 2001).

Meanwhile correspondent banking involves no capital investment and hence is low risk. Many banks consider international correspondent banking as a strategy to expand their international banking in the form of strategic correspondents and alliances and thus to achieve targeted profits (Al Abbadi and others, 2011).

This chapter discusses the correspondent banking relationship definition, identifies the basic correspondent banking services, provides a general summery about the factors affecting the correspondent relationships of the Palestinian local banks and their international

correspondents, identifies the risk involved with the Correspondent banking relationships and money laundering risk and ask about the role of Palestinian monetary authority in controlling and monitoring the corresponding relationships.

2.2 Correspondent banking relationship definition

Correspondent bank is a financial institution that provides services on behalf of another, equal or unequal, financial institution (bank) (FATF GUIDANCE, 2016).

The definition of correspondent banking varies from bank to another due to the nature of banking businesses and polices. However, generally, correspondent banking involves banks providing services to their own customers through the use of another bank as an agent. Correspondent banking deals with a whole spectrum of bank to bank relationships. It can take different perspectives, ranging from domestic transactions to global agency agreements (palmer, 1990).

A correspondent bank can conduct business transactions, accept deposits and gather documents on behalf of the other financial institution. Correspondent banks are more likely to be used to conduct business in foreign countries, and act as a domestic bank's agent abroad, this is done because the local bank may have limited access to foreign financial markets, and cannot service its client accounts without opening up a branch in another country (Wilkins, 1993).

2.2.1 Correspondent bank accounts

A correspondent banking relationship involves one bank (the correspondent) providing a deposit account or other liability accounts,

and related services, to another bank (the respondent), the correspondent and a respondent bank maintain relationship in various ways such as exchange correspondent banking contracts or they open accounts with one another (nostro and vostro). Arrangement requires the exchange of messages to settle transactions by crediting and debiting those accounts (Soon-Lim Chan, 2001).

Day-to-day international banking relies on the network of correspondent banking relationships. Correspondent relationships are a contractual mode for the provision of a range of services in international finance which is certain circumstances and can be superior to internationalization and multinational banking. For most banks, correspondent banking is primarily an international rather than national activity, direct fees commonly used to pay for services, but implicit payments in the form of correspondent balances have been widely used in the past. It is also possible to use both direct fees and correspondent balances as a form of payment. (Shapiro, 2008).

Furthermore because of the nature of modern banking it is almost impossible for correspondents not to provide or for the local banks not to use correspondent banking services. Correspondent banking services cannot be isolated from other banking services since correspondent banking is used to support other banking services within the same bank or external to other banks.

2.3 Correspondent banking services

The correspondent banking relationship involves the provision of banking services by one financial institution (the correspondent bank) to

another financial institution (correspondent bank client), where the financial institution (the local bank or the correspondent bank client) carry on activities or business at or through permanent establishments in different countries (QFCRA practice, 2007).

In addition to clearing and the provision of domestic and cross-border payments services as its core product. However, in recent years, Correspondent banking enables the provision of a range of transactions and services including the execution of third-party payments, trade finance, the banks' own cash clearing, liquidity management and short-term borrowing or investment needs in a particular currency (Soon-Lim Chan, 2001).

Also, banks have come to realize that banker clients should be treated as normal corporate clients. Services and products should also be adjusted to suit banker client needs but costs and benefits needed to be weighted. Otherwise, selling standard products to those banker clients do not have further business potential, which is the way to have low cost for both parties. Many correspondent banking products and services such as advising letters of credit generate substantial fee income, which can avoid the interest rate risk and hence provide steady income for banks. Recent technological advance of the financial markets around the globe have led to rapid product innovation and to development in the area of correspondent banking. Traditional correspondent banking products, clearing and trade related services are still in existence, other products such as international syndicated loans, treasury services, custodian services and advisory services are growing in importance (Ingo Walter, 1988).

The banking services provided by the correspondent bank may involve:

2.3.1 Clearing and payment services

The global clearing and payment services has always been the core product of correspondent banking businesses. The service, which generates fee income for the bank, involves issuance and receipt of money settlements. A correspondent bank usually has large local settlement networks therefore acts as an overseas agent of another bank. To facilitate the transfer of funds, banks would maintain accounts (nostro an vostro) to one another. Apart from providing reports which enable the bank to know how much currency has cleared through the account and what balances have to be maintained, banks also provide management information systems to monitor all payments and credit limits. New and improved payment and clearing methods by latest communication technologies also reduce the cost, increase speed and accuracy of delivery of these products (Soon-Lim Chan, 2001).

The most important clearing and payment services are international fund transfer and check clearing:

2.3.1.1 International funds transfers

The simplest funds transfers involve two accounts in the same bank. Here, money is moved from one account to another, or accounting changes by which funds are simultaneously debited from one account and credited to another. Each account may be either a customer account or the bank's own account. If the accounts at either end of a transaction are in different banks, a book transfer may still be accomplished directly

if the two banks have a correspondent relationship. One bank maintains a “correspondent account” at the other bank for the purpose of settling transactions for itself or for its customers (The Mechanisms of Wire Transfer, 2016).

Wire transfers allow people in different geographic locations to easily transfer money to locales and financial institutions around the globe. For providing the service, banks will collect a fee, sometimes based upon the size of the transfer being made.

2.3.1.2 Checks clearing

Movement of a check from the local bank in which it was deposited to the correspondent bank for collection from the bank on which it was drawn, and the movement of its face amount in the opposite direction. This process (called 'clearing cycle') normally results in a credit to the correspondent account for the bank of deposit, and an equivalent debit to the account at the bank on which it was drawn. (JPMorgan, cheque collection policy, 2016).

2.3.2 Trade related services

Trade related services, involves services such as international documentary collections and letters of credit. Trade finance transactions considered as the core business which mainly provide fees and commission revenues (Soon-Lim Chan, 2001).

Variants of trade finance instruments such as the letters of credit and collection will be presented as follows:

2.3.2.1 Letters of credit

When a Letter of Credit (LC) is issued, the LC Issuing Bank sends the LC either to its correspondent bank, which is normally located in the seller's (beneficiary) country. The correspondent bank that receives the LC is known as the Advising Bank. Letters of credit are often used in international transactions to ensure that payment will be received. Due to the nature of international dealings including factors such as distance, differing laws in each country and difficulty in knowing each party personally, the use of letters of credit has become a very important aspect of international trade. The bank also acts on behalf of the buyer (holder of letter of credit) by ensuring that the supplier will not be paid until the bank receives a confirmation that the goods have been shipped (UOB letters of credit, 2016).

Another definition of the letter of credit is that it is a written undertaking by a bank (the issuing bank) used for high exporters' risk, to the seller (the beneficiary) according to the instruction of the buyer (the applicant) to effect payment up to a prescribed amount within a prescribed time period against prescribed documents, provided these are correct and in order, in international trade, the correspondent acts as the agent for the issuing bank (the importer's bank). Its sometimes the exporters bank too. It can be an advising and/or a confirming bank. By advising the credit, the bank has a responsibility to take reasonable care to check the authenticity of the credit, which it is being asked to advise. This service generates fee income for the correspondent bank (Soon-Lim Chan, 2001).

2.3.2.2 Collections

The idea of documentary collection is based on the importers need inbound collections handled expeditiously and the exporters need to reduce the risk of nonpayment associated with selling goods overseas on an open-account basis. Both need to control the exchange of documents and reduce associated payment risk, the transaction is initiated by the exporter, who sends the goods to the buyer's country. At the same time, they entrust the related documents (which may include negotiable bills of lading) to their bank, for collection of sale proceeds and the delivery of documents to the buyer according to the terms of the sales contract, three types of collection are being used here; Clean collection, Documents against acceptance (D/A) and Documents against payment (D/P) (PNC documentary collection services, 2016).

A collection is used when the exporter is confident that a risk of non-payment in existence in particular for a clean collection or an open account transaction where the buyer send the purchase order and the exporter ships the goods without any other documents and involvement of a bank except using the bank's payment system. In documentary collection, the transaction is similar to the clean collection but transport and commercial documents holding the title of the goods are required. A correspondent bank holds the title documents until the importer either pays – Document against payment (D/P) or accepts the obligation to pay – Document against acceptance (D/A).

2.3.3 Loans

Loans can come from individuals, corporations, financial institutions and governments. They are a way to grow the overall money

supply in an economy as well as open up competition, introduce new products and expand business operations. Loans are a primary source of revenue for many financial institutions such as banks, a considerable fee is earned from this activity. Correspondent banks, with their contacts with other banker, supply services by finding suitable participants or themselves as a participant for the syndicated facilities (Soon-Lim Chan, 2001).

2.3.4 Treasury services

Treasury services are mainly foreign exchange activities for commercial activities of respondent customers as for instance, international trade financing. Today trading with accounts of respondent banks become important correspondent banking businesses. A large and reputable correspondent bank is involved in selling the bank's treasury products, settling foreign exchange and money market lines and establishing limits for the bank's counterparts. These counterparts are usually smaller banks who find it profitable to make use of the larger bank's services rather than operating the services on their own. The larger bank as the correspondent banker thus puts up credit analysis on the smaller banks and give the permission to trade them within some credit limits and the most important services provided through treasury are the foreign exchange and deposits:

2.3.4.1 Foreign exchange services

The exchange of one currency for another, or the conversion of one currency into another currency. Foreign exchange also refers to the global market where currencies are traded virtually around-the-clock.

The term foreign exchange is usually abbreviated as "Forex" and occasionally as "FX" (FATF GUIDANCE, 2016).

Foreign exchange transactions encompass everything from the conversion of currencies by a normal bank client to billion-dollar payments made by corporate giants and governments for goods and services purchased overseas. Increasing globalization has led to a massive increase in the number of foreign exchange transactions in recent decades. The global foreign exchange market is by far the largest financial market, with average daily volumes in the trillions of dollars.

2.3.4.2 Deposits

Financial institutions maintain cash on hand and at correspondent banks to comply with statutory reserve requirements and to meet customer demands. Cash accounts include U.S. and foreign coin and currency on hand and transit, clearing, and cash items. Demand and time deposits maintained at correspondent banks are often known as due from accounts, or correspondent balances (RMS Manual of Examination Policies, 2016).

Money placed into a banking institution for safekeeping. Bank deposits are made to deposit accounts at a banking institution, such as savings accounts, checking accounts and money market accounts. The account holder has the right to withdraw any deposited funds, as set forth in the terms and conditions of the account. The "deposit" itself is a liability owed by the bank to the depositor (the person or entity that made the deposit), and refers to this liability rather than to the actual funds that are deposited (investopedia.com, 2015).

2.3.5 Custodian services

Custody services involve the holding and servicing of assets on behalf of others. To facilitate the provision of these services, custodians operate securities accounts and cash accounts for their clients. Securities accounts are used to record and safekeep investments in securities made by clients, while cash accounts reflect clients' cash holdings, often in multiple currencies, which are placed on deposit with a bank that provides custody services (The clearing house, 2016).

In custodian services, the correspondent agrees to act as a guardian for its customer goods. The primary purpose of a custodian has expanded therefore from its humble trade settlement and certificate safekeeping function to providing services such :

- Securities safekeeping.
- Following up and informing the client about any corporate actions, attending general meetings and taking actions on behalf of our clients based upon their request.
- Collecting income generated from securities.
- Arranging settlement of exchange transaction.
- Following up on market & companies news to keep our clients updated.
- Comprehensive reporting.
- Maintaining books and records.
- Attending and proxy voting in General Assembly Meetings on behalf of clients.
- Client support & answering their questions instantly.

2.3.6 The provision of cash management

Cash Management is a term that refers to the concentration, collection and Disbursement of cash, this performs as a key component of ensuring a company's financial stability and solvency. Frequently corporate treasurers or a business manager is responsible for overall cash management in order to improve a company's overall financial profitability (Chandekar and Khedkar, 2014).

Correspondent banks believes that efficient cash management services assures for the effective collection and payment technique, proper disbursements of free funds, helpful for urgent cash requirement, and manage the banks who manage these activities of the correspondent bank clients (local banks).

2.3.7 Advisory services

A range of consulting services provided by financial advisors to businesses and high net worth individuals who require specialized advice on capital formation, cash flow and wealth management. Advisory clients pay fees based on services provided or as a percent of assets under management, the advisory services covers very wide range according to the strength of business of correspondent banks. These services include full consultancy services to other banks that wish to venture into the capital market and start a capital market operations. Fees and commission are granted from these services. A correspondent also provides advise on existing products and services at no extra charge. The main aim is to generate good relationships with other banks (Soon-Lim Chan, 2001).

2.4 Factors affecting the correspondent banking

The vast majority of banks do not have overseas subsidiaries or branches to conduct their international business, and so need correspondent banking relationships. Rather than set up relationships with multiple banks it is usually more effective to set up a relationship with a select number of global transaction banks. (Werner, 2015)

Even banks with small or medium-sized overseas networks use a global bank to fill in the gaps.

However, correspondent banking is changing because of pressures in three areas:

compliance, competition and consolidation.

As a result, the way in which global transaction banks provide services to their bank clients is being transformed.

2.4.1 Compliance

In the last few years authorities around the world, have been clamping down on failure to comply with laws and regulations on anti-money laundering, counter-terrorist financing and trade sanctions. This has reasserted the fact that banks must have robust know-your-customer and customer due diligence procedures in place to fully understand the nature and origin of their correspondent business, and that of their respective clients. If these procedures do not work there is a strong likelihood they will be found out by the authorities, fined and their reputations damaged. The cost of managing the risk has forced banks to review their correspondent banking relationships. Some banks have

withdrawn from providing certain services or even pulled out of entire countries, and others have terminated relationships with specific banks. (Erbenová and others, 2016)

2.4.2 Competition

Competition in the correspondent banking market is increasing. For global transaction banks the main competition, as always, is from the handful of other global banks providing a similar suite of services; but competition is also coming from local banks intent on building a bigger international network so they can serve their corporate customers directly. However, for most local banks the costs of building such networks are expensive, so they are continuing to access the entire range of transaction services provided by international correspondent banks and use them to serve their customers.

2.4.3 Consolidation

Competition, new regulation and the challenges of regulatory compliance have conspired to bring about a situation where many banks no longer wish to provide international banking services via their own branch network to their clients; instead they chose to enter partnerships and alliances for services sourced from global or correspondent banks (Osterberg and Thomson, 1999).

This has brought about a consolidation of services, where international business given up by some banks has been picked up by others. With fewer banks handling greater transaction volumes, efficiency has improved. Consolidation has also enabled both banks in a correspondent banking relationship to work more deeply and

collaboratively to understand the third party, the end-customer, which can only be a good thing, so they can provide better services.

2.5 Correspondent banking and money laundering risk

A correspondent bank will typically provide a range of services to a number of correspondent banking clients (local banks) who issue instructions on behalf of their respective customers to the correspondent bank.

Correspondent banking can facilitate the flow of substantial funds through several different financial institutions without providing any information of the person or entities involved, this can make it difficult to detect illegal activity (QFCRA PRACTICE, 2007).

In The Middle East countries many banks were facing higher compliance costs and that some Money or Value Transfer Services had been cut-off (for example in the countries of the Cooperation Council of the Arab Countries of the Gulf), which could increase the cost of remittances and lead remittance flows to be channeled through non-regulated entities, many embassies and Non-Profit Organizations operating in The Middle East were reclassified to a higher risk category (Erbenova and others, 2016).

Accordingly, Banks have reduced foreign currency transaction services to third parties, such as Money or Value Transfer Services, because the risks are difficult to manage.

The costs of doing business in The Middle East countries are reported to have risen as a result. Banks reported the need for much

closer monitoring, including on the nature of the respondent bank's business activities; markets and customers, group, management and shareholder structure; and the quality of countries' regulatory and supervisory frameworks.

Banks in the region are strengthening their procedures and processes, investing in infrastructure and staff training, and recruiting more compliance staff. Regional political and civil unrest has further driven some banks to enhance sanctions screening systems to better adjust to screening of politically exposed persons, sanctions list transactions and rapid changes to these lists.

Accordingly, both parties (the correspondent bank and the respondent bank) must establish and maintain due diligence policies, procedures, systems and controls to identify and manage risk in relation to correspondent banking, particularly when correspondent banking clients (respondent banks) are located in jurisdictions presenting high risk of money laundering or terrorist financing.

The correspondent bank will typically have no direct relationship with the underlying parties to the transactions and therefore needs to take appropriate steps to verify the identity of the underlying parties to the transactions and determine the nature and the purpose of those transactions.

2.6 Risk based approach to due diligence

Financial Action Task Force (FATF) standards for AML/CFT revised 2012, places greater emphasis on assessing risks and applying a risk-based approach. Jurisdictions and regulated sectors are required to

identify, understand, and assess money laundering and terrorist financing risks, and to take actions to ensure these risks are effectively mitigated. As regulated sectors transition away from previously more rules-based systems to a greater emphasis on assessing risks and implementing a risk-based approach, this can create additional costs. Notably it may lead to the overcautious use of enhanced due diligence measures resulting in an unnecessary increase in compliance costs.

Correspondent banks are required to adopt a risk-based approach when assessing any business relationship or transaction with respect to its specific money laundering risk and the information and evidence that might be required or validated for this purpose. All Correspondent Banking Clients (local banks) shall be subjected to appropriate due diligence that will seek to satisfy an institution that it is comfortable conducting business with a particular bank, given the bank's risk profile and the nature of the business relationship with that bank. It may be appropriate for an institution to consider, the fact that a Correspondent Banking Client operates in, or is subjected to, a regulatory environment which is internationally recognized as adequate in the fight against money laundering and terrorism finance (The Wolfsberg group, 2006).

And they must take specific and adequate measures to address the higher risk of money laundering which might arise from correspondent banking relationship.

When establishing and managing correspondent banking relationships set of requirements should be considered:

- Customer identification requirements
- Risk assessment requirements

2.6.1 Correspondent banking client (local bank) identity

The ownership and management structure of the bank may present increased risks. Relevant risk considerations include the domicile and reputation of the owners; the corporate legal form of the bank; whether it is state owned, publicly held or privately owned; the transparency of the ownership structure, the identity of any significant ownership who have a controlling interest in the bank.

2.6.2 Correspondent banking client risk

Some factors should be taken into consideration such as, the nature of the bank business, including the types of financial products and services that the bank provides to its own customers; customer base; the country of residence of the bank; intended purpose of the correspondent account.

The adequacy of the bank AML controls and internal compliance practices. Using a risk based approach, the correspondent bank shall evaluate the quality of the local bank Anti-money laundering program, including how it meets internationally recognized standards and sufficiency so as to mitigate the risk presented based upon their products, customer base and jurisdiction (The Wolfsberg group, 2006).

The respondent bank financial position, and the reputation and history of the bank, including its business history and compliance history are highly important.

In addition, when assessing the money laundering risks posed by a respondent bank some steps to Due diligence requirements should be considered:

1. Obtain the bank's annual report and financial statements.
2. Meet with senior management of the bank.
3. Determine the expected level of activity of the bank through the correspondent account.
4. Document the respective AML responsibilities of the bank.
5. Review publically available information to determine whether the bank has been the subject to a money laundering or other criminal investigation, actions relating to financing of terrorists.
6. Undertake ongoing assessment of countries that carry the high risk of money laundering or terrorist financing.

2.7 Development of Correspondent banking in Palestine

Correspondent banking has undergone dramatic changes in the past few years. These changes have impacted on the products and services that are offered, the methods of pricing the products and services and the methods used in promoting them. Palestinian banks have offered international financial services to their customers through agency arrangements with limited group of correspondent banks. Initially, the small number of agents were concentrated in Israel, reflecting the very closed trade and capital flows between Israel and the Palestinian Authority. However, the number of correspondents grew steadily as local banks sought an foreign correspondents to allow their customers make and receive payments, and vice versa. Then the number of correspondent banking relationships rose steadily covering the United States, Europe and The Middle East.

The focus of this overseas business was retail deposit gathering and lending with international financial services and foreign exchange

dealing. Therefore, Palestinian banks needed to use correspondent banking relationships to provide cross border financial services.

The banking sector, which dominates the financial system in Palestine, is relatively new (The World Bank reports, 2015).

Table (2.1) shows the targeted group in this study are the Regulated Local Banks Working in Palestine (7 Banks) divided to commercial and Islamic banks as follow (pma.ps, 2016):

Table (2.1): the regulated local banks working in Palestine

Regulated local banks	Bank name
Local Commercial Banks	Bank of Palestine Palestine Commercial bank (merged with bank of Palestine lately in 2016) Palestine Investment bank Al Quds bank The National bank
Local Islamic Banks	Arab Islamic bank Palestine Islamic bank

From an operational point of view, the banking system in Palestine is highly dependent on the Israeli one (especially for the operations in NIS). End 2007, the two Israeli commercial banks (Bank Hapoalim and Israel Discount Bank) dealing with the Palestinian financial institutions started severing ties to the banks working in Gaza strip after Israel declared Gaza "hostile territory". This decision threatened the transfer of NIS bank notes used by the PA (Palestinian Authority) to pay salaries to tens of thousands of its employees in the Gaza Strip (NIS are also needed to pay for imports, mainly from Israeli suppliers).

Cooperation between the Palestinian Monetary Authority (PMA) and the Bank of Israel (BOI), a solution was found that probably avoided a run on banks in Gaza. both the BOI and the PMA continue to

collaborate in order to find a satisfactory solution to this issue through dealing with banks those where managed from the west bank.

At this time, local banks need international strong partners to offer some extra resources to meeting the financing needs of their respondent partners. Foreign Correspondents Banks where the best alternative for completing these transactions.

The number of correspondent banks is growing, soon there will be direct operational banking channel between international banks and most of the developing countries including Palestine.

Palestinian Banks have many correspondent banks around the globe. Most of the Palestinian banks maintain direct correspondence with U.S based banks, Banks in Europe and the gulf area and Saudi Arabia. Each local Palestinian bank deals with at least one New York based bank. And since there are no restrictions on the international, commercial and capital transactions , Palestinian Banks were encouraged to have correspondent banks all over the globe.

Table (2.2) shows Some of the international correspondent for the local banks in Palestine: (data from the local banks websites)

Table (2.2): Some international correspondents for the local banks

Bank name	Country
Citibank NA	USA
Bank of New York	USA
Commerz bank AG	Germany
Banca Intesa	Italy
AL-Rajhi bank	Saudi Arabia
Albilad bank	Saudi Arabia
Citibank NA	Jordan
Housing bank	Jordan
National bank of Egypt	Egypt
Emirates International bank	United Arab Emirates

2.8 The role of Palestinian monetary authority (PMA) in controlling the corresponding banking relationships

The Palestine Monetary Authority (PMA) is an independent public institution responsible for the formulation and implementation of monetary and banking, policies, to safeguard the banking sector and ensure the growth of the national economy in a balanced manner (pma.ps, 2016).

The PMA is responsible for ensuring the effective banking operations, maintaining monetary stability and encouraging economic growth in Palestine, in accordance with the general policy of the National Authority (World bank report, 2015).

According to PMA, Palestinian Monetary Authority aims to maintain monetary and financial stability and to promote sustainable economic growth through the following:

- Effective and transparent regulation and supervision of banks, specialized lending institutions and money changers operating in Palestine.
- Overseeing the implementation and operation of modern, efficient payment systems.
- Development and execution of monetary policy designed to achieve price stability.

The role of Palestinian Monetary Authority in controlling and supervising the correspondent relationship between the local banks and their correspondent is a very important aspect and need to be more

discussed and clarified in this research for the benefit of the local Palestinian banks.

Since 2008 the Palestine Monetary Authority has worked to ensure a rigorous banking supervision environment and to expand its macro prudential toolkit so that banks can be well positioned to cope with shocks. In light of recent emerging strains in correspondent banking relationships, the Palestinian banks are taking targeted steps to strengthen the AML/CFT (Anti-Money Laundering/Combating the Financing of Terrorism) elements of the domestic regulatory framework. In late 2015, the West Bank and Gaza became a member of MENAFATF (Middle East and North Africa FATF), a FATF (The Financial Action Task Force)-style regional body for the Middle East and North Africa region. The authorities also approved a new AML/CFT law in December 2015, and the accompanying regulation that criminalizes terror financing establishes a committee to order the freezing of terrorist assets and issue a list of designated entities. To further reassure foreign players, the Palestinian authorities have requested IMF to support the implementation of the new law and strengthen the CFT framework. They have also commissioned a soon-to-be completed assessment of the West Bank and Gaza's AML/CFT regime by an internationally recognized firm to help demonstrate adherence to international best practice.

Chapter 3

Methodology

Chapter 3 Methodology

3.1 Introduction

This chapter describes the methodology that was used in this research. The adopted methodology to accomplish this study uses the following techniques: the information about the research design, research population, questionnaire design, statistical data analysis, content validity and reliability.

3.2 Research Design

The first phase of the research thesis proposal included identifying and defining the problems and establishment objective of the study and development research plan.

The second phase of the research included a summary of the comprehensive literature review. Literatures on correspondent banking was reviewed.

The third phase of the research included a field survey which was conducted with a sample taken from Palestinian local banks on their corresponding relationships.

The fourth phase of the research focused on the modification of the questionnaire design, through distributing the questionnaire to pilot study, The purpose of the pilot study was to test and prove that the questionnaire questions are clear to be answered in a way that help to achieve the target of the study. The questionnaire was modified based on the results of the pilot study.

The fifth phase of the research focused on distributing questionnaire. This questionnaire was used to collect the required data in order to achieve the research objective.

60 questionnaires were distributed to the research population and 42 questionnaires were received.

The sixth phase of the research was data analysis and discussion. Statistical Package for the Social Sciences, (SPSS) was used to perform the required analysis. The final phase includes the conclusions and recommendations.

Figure (3.1) shows the methodology flowchart, which leads to achieve the research objective.

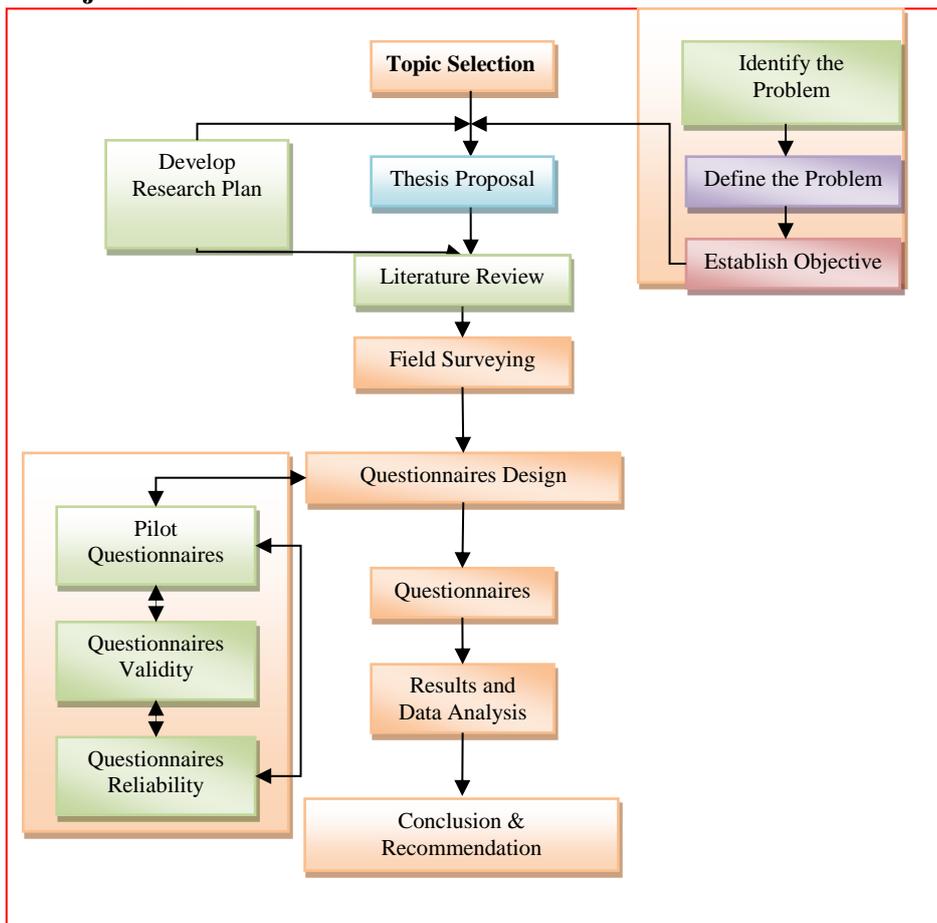


Figure (3.1): illustrates the methodology flow chart.

3.3 Data Collection Methodology :

In order to collect the needed data for this research , the research use the secondary resources in collecting data such as books, journals, statistics and web pages, in addition to preliminary resources that not available in secondary resources through distribute questionnaires on study population in order to get their opinions about the Assessment of correspondent banking relationships - Case study: local banks in Palestine. Research methodology depend on the analysis of data on the use of descriptive analysis, which depends on the poll and use the main program (SPSS).

3.4 Population and sample size:

The population will include a sample consists of members from the managers and the employees working in divisions those are working related to the correspondent banking, such as foreign relation departments, international trade departments and operation departments, the sample was taken from the local banks working in Palestine.

3.5 Data Measurement

In order to be able to select the appropriate method of analysis, the level of measurement must be understood. For each type of measurement, there is/are an appropriate method/s that can be applied and not others. In this research, ordinal scales were used. Ordinal scale is a ranking or a rating data that normally uses integers in ascending or descending order. The numbers assigned to the important (1,2,3,4,5) do not indicate that the interval between scales are equal, nor do they indicate absolute quantities. They are merely numerical labels. Based on Likert scale we have the following:

Table(3.1): likert scale

Item	<i>Strongly agree</i>	<i>Agree</i>	<i>Neutral</i>	<i>Disagree</i>	<i>Strongly disagree</i>
Scale	5	4	3	2	1

3.6 Validity of Questionnaire

Validity refers to the degree to which an instrument measures what it is supposed to be measuring. Validity has a number of different aspects and assessment approaches. Statistical validity is used to evaluate instrument validity, which include internal validity and structure validity.

3.6.1 Internal Validity

Internal validity of the questionnaire is the first statistical test that used to test the validity of the questionnaire. It is measured by correlation coefficients between each item in one field and the whole field.

Table (3.2) clarifies the correlation coefficient for each item of the " The quality and cost of services provided " and the total of the field. The p-values (Sig.) are less than 0.05, so the correlation coefficients of this field are significant at $\alpha = 0.05$, so it can be said that the items of this field are consistent and valid to be measure what it was set for.

Table (3.2): Correlation coefficient of each item of " The quality and cost of services provided " and the total of this field

No.	Item	Pearson Correlation Coefficient	P-Value (Sig.)
1.	Services provided vary by correspondent banks.	.270	0.042*
2.	New services and features are introduced by correspondent banks continuously.	.361	0.009*
3.	The cost of the service provided vary from bank to another.	.482	0.001*
4.	Bank relies on a policy to deal with correspondent banks those provide services at a lower cost.	.597	0.000*
5.	The diversity of services offered by the correspondent bank is the most important, regardless of the costs.	.317	0.020*
6.	Dealing with foreign correspondent banks improper foreign operations less expensive than relying on the Israeli banks as in the past.	.353	0.011*
7.	Services provided by foreign correspondence are considered to be faster and better than dealing with the Israeli banks.	.328	0.017*
8.	Services provided by correspondent banks meets the bank's needs well.	.599	0.000*
9.	Relations with correspondent banks helps the local bank to provide a new and specialized banking services not offered by other banks.	.277	0.038*
10.	Developing new services on a regular basis with foreign banks is an important part of managing the relationship with the correspondent bank.	.437	0.002*
11.	Services provided altered by the correspondent bank according to certain mechanisms.	.498	0.000*
12.	Bank takes advantage of foreign banks in the development of local services provided to its customers.	.488	0.001*

* Correlation is significant at the 0.05 level

Table (3.3) clarifies the correlation coefficient for each item of the " Policies followed with correspondent banks " and the total of the field. The p-values (Sig.) are less than 0.05, so the correlation coefficients of this field are significant at $\alpha = 0.05$, so it can be said that the items of this field are consistent and valid to be measure what it was set for.

Table (3.3): Correlation coefficient of each item of " Policies followed with correspondent banks " and the total of this field

No.	Item	Pearson Correlation Coefficient	P-Value (Sig.)
1.	There are specific and clear criteria and mechanisms taken by the local bank in dealing with the correspondent banks.	.344	0.013*
2.	Management of financial operations with correspondent are handled through a local bank account with the correspondent bank.	.628	0.000*
3.	The study of the region or the state in which the Bank operates considered as an important element to avoid the risks of foreign operations.	.290	0.031*
4.	Reports are prepared to reflect the evolution of the bank's relationship with its correspondents such as the size of the operations that are performed.	.596	0.000*
5.	There are conditions imposed by foreign banks to local banks to accept working with them as a correspondent.	.574	0.000*
6.	The correspondent bank is required to update data from local banks and periodic review them on the basis of risk assessment.	.301	0.026*
7.	It is important to followed up and review the terms of dealing with the correspondent bank and make sure it is applied properly.	.261	0.048*
8.	The local bank periodically updated the mechanisms used with correspondent banks to work on developing them.	.597	0.000*
9.	There are specific criteria for the selection of a correspondent bank and determine the extent of the seriousness of dealing with it based on the state in which it operates.	.493	0.000*
10.	Working with foreign banks involves various risks such as money laundering risks.	.626	0.000*

No.	Item	Pearson Correlation Coefficient	P-Value (Sig.)
11.	The Bank evaluates processes that are completed through correspondent banks.	.369	0.000*
12.	The Bank has specific programs to monitor the banned activity or unusual that might result from dealing with foreign banks.	.317	0.020*
13.	The Bank is committed to international standards and Palestinian laws to combat money laundering when conducting transactions with correspondent banks.	.620	0.000*
14.	Through external transactions with a variety of banks, the bank is faces legal problems with correspondent banks.	.492	0.000*

* Correlation is significant at the 0.05 level

Table (3.4) clarifies the correlation coefficient for each item of the " The role of the Monetary Authority on overseeing the correspondent banking " and the total of the field. The p-values (Sig.) are less than 0.05, so the correlation coefficients of this field are significant at $\alpha = 0.05$, so it can be said that the items of this field are consistent and valid to be measure what it was set for.

Table (3.4): Correlation coefficient of each item of " The role of the Monetary Authority on overseeing the correspondent banking "and the total of this field

No.	Item	Pearson Correlation Coefficient	P-Value (Sig.)
1.	There are specific instructions and conditions set by the Monetary Authority to oversee the relationship between the local bank and foreign correspondent banks.	.593	0.000*
2.	The Bank prepares reports on the foreign bank to any supervisory committees within the bank or to the Monetary Authority.	.468	0.001*
3.	Monetary Authority contribute to improving the conditions for dealing with foreign banks and to communicate with them.	.585	0.000*
4.	PMA provides alternatives to banks in case of difficulties in finding a foreign correspondent bank.	.491	0.000*
5.	Monetary Authority monitors the foreign bank	.587	0.000*

No.	Item	Pearson Correlation Coefficient	P-Value (Sig.)
	operations in order to ensure avoiding potential risks.		
6.	Monetary authority hold seminars and awareness programs about risks resulting from foreign operations.	.436	0.002*
7.	Local bank residence in a non-politically and economically stable area is an important reason for the problems with the foreign correspondent banks.	.351	0.011*

* Correlation is significant at the 0.05 level

Table (3.5) clarifies the correlation coefficient for each item of the " Features of successful relationship with correspondent banks " and the total of the field. The p-values (Sig.) are less than 0.05, so the correlation coefficients of this field are significant at $\alpha = 0.05$, so it can be said that the items of this field are consistent and valid to be measure what it was set for.

Table (3.5): Correlation coefficient of each item of " Features of successful relationship with correspondent banks " and the total of this field

No.	Item	Pearson Correlation Coefficient	P-Value (Sig.)
1.	The Bank has a widely geographically distributed network of correspondent banks.	.474	0.001*
2.	Bank relies heavily on correspondent banks in the implementation of external operations.	.273	0.040*
3.	Dealing with foreign banks granted local bank a competitive advantage and contribute to the entry into new markets.	.285	0.033*
4.	Dealing with foreign banks Contributes to get more foreign banking facilities.	.353	0.011*
5.	The bank conduct a study and evaluation of the of the foreign bank prior to accepting them as a correspondent for the bank.	.434	0.002*
6.	Correspondent bank is a key element of the definition of bank abroad.	.328	0.017*
7.	Foreign banks are considered to be the best alternative as a correspondent for the Israeli banks which have been relied upon for many	.553	0.000*

No.	Item	Pearson Correlation Coefficient	P-Value (Sig.)
	years in the implementation of external operations.		
8.	Relations with foreign banks contribute to the financing of exports and imports by opening letters of credit and foreign guarantees.	.556	0.000*
9.	Implementation of external banking services with correspondent banks leads to increased business and the local bank earnings.	.260	0.048*
10.	Relations with foreign banks contribute to increased foreign investment by opening deposits and purchases of stocks and bonds.	.370	0.008*
11.	There is a cooperation between the Bank and correspondent banks in the area of preparing reports on the economic situation to take advantage of them.	.588	0.000*
12.	The constant communication between the local bank and it's correspondent is very important for the success of the relationship between them.	.339	0.014*
13.	The exchange of visits between representatives of the banks with correspondent banks, which contributes to the convergence of views and improve the terms of engagement.	.591	0.000*

* Correlation is significant at the 0.05 level

3.6.2 Structure Validity of the Questionnaire

Structure validity is the second statistical test that used to test the validity of the questionnaire structure by testing the validity of each field and the validity of the whole questionnaire. It measures the correlation coefficient between one field and all the fields of the questionnaire that have the same level of liker scale.

Table (3.6) clarifies the correlation coefficient for each field and the whole questionnaire. The p-values (Sig.) are less than 0.05, so the correlation coefficients of all the fields are significant at $\alpha = 0.05$, so it can be said that the fields are valid to be measured what it was set for to achieve the main aim of the study.

Table (3.6): Correlation coefficient of each field and the whole of questionnaire

No.	Field	Pearson Correlation Coefficient	P-Value (Sig.)
1.	The quality and cost of services provided	.795	0.000*
2.	Policies followed with correspondent banks	.776	0.000*
3.	The role of the Monetary Authority on overseeing the correspondent banking	.590	0.000*
	Main factors affecting the corresponding relationship	.901	0.000*
	Features of successful relationship with correspondent banks	.733	0.000*

* Correlation is significant at the 0.05 level

3.7 Reliability of the Research

The reliability of an instrument is the degree of consistency which measures the attribute; it is supposed to be measuring (George and Mallery ,2006). The less variation an instrument produces in repeated measurements of an attribute, the higher its reliability. Reliability can be equated with the stability, consistency, or dependability of a measuring tool. The test is repeated to the same sample of people on two occasions and then compares the scores obtained by computing a reliability coefficient (George and Mallery ,2006). To insure the reliability of the questionnaire, Cronbach's Coefficient Alpha should be applied.

3.7.1 Cronbach's Coefficient Alpha

Cronbach's alpha (George D. & Mallery P, 2006) is designed as a measure of internal consistency, that is, do all items within the instrument measure the same thing? The normal range of Cronbach's coefficient alpha value between 0.0 and + 1.0, and the higher values reflects a higher degree of internal consistency. The Cronbach's coefficient alpha was calculated for each field of the questionnaire.

Table (3.7) shows the values of Cronbach's Alpha for each field of the questionnaire and the entire questionnaire. For the fields, values of Cronbach's Alpha were in the range from 0.800 and 0.840. This range is considered high; the result ensures the reliability of each field of the questionnaire. Cronbach's Alpha equals 0.853 for the entire questionnaire which indicates an excellent reliability of the entire questionnaire.

Table (3.7): Cronbach's Alpha for each field of the questionnaire

No.	Field	Cronbach's Alpha
1.	The quality and cost of services provided	0.805
2.	Policies followed with correspondent banks	0.817
3.	The role of the Monetary Authority on overseeing the correspondent banking	0.800
	Main factors affecting the corresponding relationship	0.831
	Features of successful relationship with correspondent banks	0.840
	All items of the questionnaire	0.853

Thereby, it can be said that the researcher proved that the questionnaire was valid and reliable .

3.8 Test of normality

The One-Sample Kolmogorov-Smirnov test procedure compares the observed cumulative distribution function for a variable with a specified theoretical distribution, which may be normal, uniform, Poisson, or exponential. The Kolmogorov-Smirnov Z is computed from the largest difference (in absolute value) between the observed and theoretical cumulative distribution functions. This goodness-of-fit test tests whether the observations could reasonably have come from the

specified distribution. Many parametric tests require normally distributed variables. The one-sample Kolmogorov-Smirnov test can be used to test that a variable of interest is normally distributed (Henry, C. and Thode, Jr., 2002).

Table (3.8) shows the results for Kolmogorov-Smirnov test of normality. From Table (3.8), the p-value for each variable is greater than 0.05 level of significance, then the distributions for these variables are normally distributed. Consequently, parametric tests should be used to perform the statistical data analysis.

Table (3.8): Kolmogorov-Smirnov test

Field	Kolmogorov-Smirnov	
	Statistic	P-value
The quality and cost of services provided	0.817	0.516
Policies followed with correspondent banks	1.071	0.202
The role of the Monetary Authority on overseeing the correspondent banking	0.893	0.402
Main factors affecting the corresponding relationship	0.791	0.559
Features of successful relationship with correspondent banks	0.859	0.452
All items of the questionnaire	0.513	0.955

3.9 Statistical analysis Tools

The researcher used data analysis both qualitative and quantitative data analysis methods. The Data analysis made utilizing (SPSS 24). The researcher utilize the following statistical tools:

- 1) Kolmogorov-Smirnov test of normality.
- 2) Pearson correlation coefficient for Validity.
- 3) Cronbach's Alpha for Reliability Statistics.

- 4) Frequency and Descriptive analysis.
- 5) Parametric Tests (One-sample T test, Independent Samples T-test and Analysis of Variance (ANOVA)).

3.9.1 *T-test* is used to determine if the mean of a item is significantly different from a hypothesized value 3 (Middle value of Likert scale). If the P-value (Sig.) is smaller than or equal to the level of significance, $\alpha = 0.05$, then the mean of a item is significantly different from a hypothesized value 3. The sign of the Test value indicates whether the mean is significantly greater or smaller than hypothesized value 3. On the other hand, if the P-value (Sig.) is greater than the level of significance $\alpha = 0.05$, then the mean a item is insignificantly different from a hypothesized value 3.

3.9.2 *The Independent Samples T-test* is used to examine if there is a statistical significant difference between two means among the respondents toward the Assessment of correspondent banking relationships due to (gender and qualification).

3.9.3 *The One- Way Analysis of Variance (ANOVA)* is used to examine if there is a statistical significant difference between several means among the respondents toward the Assessment of correspondent banking relationships due to (age and work experience).

Chapter 4

Data Analysis and Discussion

Chapter 4 Data Analysis and Discussion

4.1 Introduction

In this chapter the analysis and the interpretation of the data collected by the questionnaire will be presented first, and the test of the hypothesis will be presented at the end of the chapter.

4.2 Personal data

Table (4.1): Personal data (N=42)

Personal data		Frequency	Percent
Gender	Male	26	61.9
	Female	16	38.1
Age	25-35	24	57.1
	36-45	15	35.7
	46-55	2	4.8
	56 or more	1	2.4
	Diploma	-	-
Qualification	Bachelor	39	92.9
	Master	3	7.1
	PhD	-	-
	Less than 5 years	8	19.0
Work Experience	5 to 10 years	14	33.3
	From 10 to 15 years	11	26.2
	15 years and over	9	21.4
	Head of department	4	9.5
Job Title	Head of section	7	16.7
	Assistant head of department	6	14.3
	Officer	18	42.9
	Senior Officer	4	9.5
	Assistant head of section	3	7.1

The questionnaire was distributed on a sample that vary in sex, age, qualifications, job experience and job title. The results shows that 61.9% of the respondents were male, while the percentage of women was 38.1%.

Also, the majority of respondents were between the ages of 25-35 with percentage of 57.1% and the lowest rate was above the age of 56 by 2.4%.

The majority of respondents were a bachelor's degree by 92.9% and a few who holds a master's degree with percentage of 7.1%.

Functional experience ranging from 5-10 years for about 33.3% of the respondents and 26.2% for the proportion of 10-15, those who have less than 5 years experience was 19% and the proportion of the more experienced with over 15 years experience was 21.4% of the respondents.

According to job title; The majority of respondents were from the departmental officers with a percentage of 59.5% and 40.5% were of the heads of departments and their assistants.

4.3 Bank data

Table (4.2): Bank data (N=42)

Bank data	Frequency	Percent	
Bank name	Arab Islamic Bank	8	19.0
	Bank Of Palestine	19	45.2
	Al Quds Bank	10	23.8
	The National Bank	3	7.1
	Palestine Islamic Bank	2	4.8
Bank Type	Commercial	32	76.2
	Islamic	10	23.8
Number of foreign correspondent banks	4	2	4.8
	5	10	23.8
	7	3	7.1
	30	8	19.0
	35	19	45.2
The Bank has a specialized unit responsible for tracking foreign operations with correspondent banks	Yes	42	100.0
	No	-	-
The Bank has a unit for evaluation and monitoring of money laundering	Yes	42	100.0
	No	-	-

The questionnaire was distributed to a sample taken from five banks of the local banks operating in Palestine mentioned in the table (4.2) above.

And the results shows that the sample respondents from commercial banks were 76.2% and from Islamic banks were 23.8%.

The results shows that the number of correspondent banks in the sample of respondents varied between banks, from larger number of correspondent banks as for Bank of Palestine and Arab Islamic Bank and a relatively average number such as Al Quds Bank and Palestine Islamic Bank and The National Bank.

And the results shows that; all the banks responded have specialized departments to deal with banks' foreign correspondents, as well as departments to administrate and monitor money laundering.

4.4 Analysis for the variables

1. the quality and cost of services provided

Table (4.3): Means and Test values for “The quality and cost of services provided”

	Item	Mean	S.D	Proportional mean (%)	Test value	P-value (Sig.)	Rank
1.	Services provided vary by correspondent banks.	4.29	0.46	85.71	18.22	0.000*	7
2.	New services and features are introduced by correspondent banks continuously.	4.24	0.66	84.76	12.24	0.000*	8
3.	The cost of the service provided vary from bank to another.	4.64	0.48	92.86	21.95	0.000*	2
4.	Bank relies on a policy to deal with correspondent banks those provide services at a lower cost.	3.45	0.89	69.05	3.30	0.001*	12
5.	The diversity of services offered by the correspondent bank is the most important, regardless of the costs.	4.24	0.48	84.76	16.57	0.000*	8
6.	Dealing with foreign correspondent banks improper foreign operations less expensive than relying on the Israeli banks as in the past.	3.88	0.80	77.62	7.11	0.000*	11
7.	Services provided by foreign correspondence are considered to be faster and better than dealing with the Israeli banks.	4.40	0.63	88.10	14.52	0.000*	6
8.	Services provided by correspondent banks meets the bank's needs well.	4.48	0.51	89.52	18.93	0.000*	4
9.	Relations with correspondent banks helps the local bank to provide a new and specialized banking services not offered by other banks.	4.48	0.51	89.52	18.93	0.000*	4
10.	Developing new services on a regular basis with foreign banks is an important part of managing the relationship with the correspondent bank.	4.67	0.48	93.33	22.64	0.000*	1

	Item	Mean	S.D	Proportional mean (%)	Test value	P-value (Sig.)	Rank
11.	Services provided altered by the correspondent bank according to certain mechanisms.	4.07	0.71	81.43	9.75	0.000*	10
12.	Bank takes advantage of foreign banks in the development of local services provided to its customers.	4.60	0.50	91.90	20.81	0.000*	3
	All items of the field	4.29	0.19	85.71	42.75	0.000*	

* The mean is significantly different from 3

Table (4.3) shows the following results:

- The mean of item #10 “Developing new services on a regular basis with foreign banks is an important part of managing the relationship with the correspondent bank” equals 4.67 (93.33%), Test-value = 22.64, and P-value = 0.000 which is smaller than the level of significance $\alpha = 0.05$. The sign of the test is positive, so the mean of this item is significantly greater than the hypothesized value 3 . We conclude that the respondents agreed to this item.
- The mean of item #4 “Bank relies on a policy to deal with correspondent banks those provide services at a lower cost” equals 3.45 (69.05%), Test-value = 3.30, and P-value = 0.001 which is smaller than the level of significance $\alpha = 0.05$. The sign of the test is positive, so the mean of this item is significantly greater than the hypothesized value 3 . We conclude that the respondents agreed to this item.
- The mean of the field “the quality and cost of services provided” equals 4.29 (85.71%), Test-value = 42.75, and P-value= 0.000 which is smaller than the level of significance $\alpha = 0.05$. The sign of the test is

positive, so the mean of this field is significantly greater than the hypothesized value 3. We conclude that the respondents agreed to field of “the quality and cost of services provided ”.

Analysis showed that the majority of the sample confirms that the local bank's quest to improve the quality of services provided by correspondent banks regardless of the cost of the services in order to provide better services to their own clients (clients of the local bank).

This finding was consistent with the findings of (Al Abbadi and others, 2011) who found results that realize the importance of correspondent banks in the international trade, so banks benefited from correspondent banks for the cheap cost of market entry and services were tailored to the scale of required locale.

Also findings consistent with (Soon-Lim Chan, 2001) whose study supports the idea that modern correspondent banking products and services have emerged because of the structural changes in the global and domestic banking sectors.

2. policies followed with correspondent banks

Table (4.4): Means and Test values for “policies followed with correspondent banks”

	Item	Mean	S.D	Proportional mean (%)	Test value	P-value (Sig.)	Rank
1.	There are specific and clear criteria and mechanisms taken by the local bank in dealing with the correspondent banks.	4.55	0.50	90.95	19.91	0.000*	6
2.	Management of financial operations with	3.90	1.12	78.10	5.23	0.000*	13

	Item	Mean	S.D	Proportional mean (%)	Test value	P-value (Sig.)	Rank
	correspondent are handled through a local bank account with the correspondent bank.						
3.	The study of the region or the state in which the Bank operates considered as an important element to avoid the risks of foreign operations.	4.67	0.48	93.33	22.64	0.000*	1
4.	Reports are prepared to reflect the evolution of the bank's relationship with its correspondents such as the size of the operations that are performed.	4.60	0.50	91.90	20.81	0.000*	5
5.	There are conditions imposed by foreign banks to local banks to accept working with them as a correspondent.	4.31	0.68	86.19	12.47	0.000*	10
6.	The correspondent bank is required to update data from local banks and periodic review them on the basis of risk assessment.	4.17	0.70	83.33	10.87	0.000*	11
7.	It is important to followed up and review the terms of dealing with the correspondent bank and make sure it is applied properly.	4.43	0.50	88.57	18.48	0.000*	9
8.	The local bank periodically updated the mechanisms used with correspondent banks to work on developing them.	4.00	0.77	80.00	8.47	0.000*	12
9.	There are specific criteria for the selection of a correspondent bank and determine the extent of the seriousness of dealing with it based on the state in which it operates.	4.63	0.49	92.68	21.46	0.000*	2
10.	Working with foreign banks involves various risks such as money laundering risks.	4.62	0.49	92.38	21.35	0.000*	3
11.	The Bank evaluates processes that are completed through correspondent banks.	4.48	0.51	89.52	18.93	0.000*	7
12.	The Bank has specific programs to monitor the banned activity or unusual that might result from dealing with foreign banks.	4.48	0.51	89.52	18.93	0.000*	7
13.	The Bank is committed to international standards and Palestinian laws to combat money laundering when conducting transactions with correspondent banks.	4.62	0.49	92.38	21.35	0.000*	3
14.	Through external transactions with a	3.07	0.87	61.43	0.53	0.298	14

	Item	Mean	S.D	Proportional mean (%)	Test value	P-value (Sig.)	Rank
	variety of banks, the bank is faces legal problems with correspondent banks.						
	All items of the field	4.32	0.20	86.44	43.27	0.000*	

* The mean is significantly different from 3

Table (4.4) shows the following results:

- The mean of item #3 “The study of the region or the state in which the Bank operates considered as an important element to avoid the risks of foreign operation” equals 4.67 (93.33%), Test-value = 22.64 and P-value = 0.000 which is smaller than the level of significance $\alpha = 0.05$. The sign of the test is positive, so the mean of this item is significantly greater than the hypothesized value 3. We conclude that the respondents agreed to this item.
- The mean of item #14 “Through external transactions with a variety of banks, the bank is faces legal problems with correspondent banks” equals 3.07 (61.43%), Test-value = 0.53, and P-value = 0.298 which is greater than the level of significance $\alpha = 0.05$. Then the mean of this item is insignificantly different from the hypothesized value 3. We conclude that the respondents (Do not know, neutral) to this item.
- The mean of the field “policies followed with correspondent banks” equals 4.32 (86.44%), Test-value = 43.27, and P-value= 0.000 which is smaller than the level of significance $\alpha = 0.05$. The sign of the test is positive, so the mean of this field is significantly greater than the hypothesized value 3. We conclude that the respondents agreed to field of “policies followed with correspondent banks ”.

Analysis showed that the majority of banks follows clear and restricted policies in dealing with foreign banks and study the region in which it operates to avoid any legal problems generated through foreign operations.

This finding was consistent with the findings of (Chernykh and Edmister, 2007) who found that the foreign correspondent country is a significant determinant of domestic bank quality. And that foreign correspondents may possess complementary data useful for improving the governance of banks and confirms the importance of international reputations in domestic bank management and regulation, also find that AML compliance for foreign correspondent accounts as a primer on beneficial ownership requirements and other challenges.

Also the findings was consistent with (Daviilas , 2014) who found that, One of the fundamental risks that firms face when dealing with foreign correspondent accounts is not knowing their customers' customers. While the current regulatory framework does not, in most cases, explicitly require firms to obtain beneficial ownership information, the practical reality seems to be that obtaining and verifying such information, where possible, could pay substantial dividends in terms of risk assessment and avoidance.

3. the role of the Monetary Authority on overseeing the correspondent banking

Table (4.5): Means and Test values for “the role of the Monetary Authority on overseeing the correspondent banking”

	Item	Mean	S.D	Proportio nal mean (%)	Test value	P-value (Sig.)	Rank
1.	There are specific instructions and conditions set by the Monetary Authority to oversee the relationship between the local bank and foreign correspondent banks.	4.40	0.50	88.10	18.3 3	0.000*	3
2.	The Bank prepares reports on the foreign bank to any supervisory committees within the bank or to the Monetary Authority.	4.52	0.51	90.48	19.5 4	0.000*	2
3.	Monetary Authority contribute to improving the conditions for dealing with foreign banks and to communicate with them.	3.90	1.05	78.10	5.56	0.000*	5
4.	PMA provides alternatives to banks in case of difficulties in finding a foreign correspondent bank.	1.95	0.82	39.05	-8.23	0.000*	7
5.	Monetary Authority monitors the foreign bank operations in order to ensure avoiding potential risks.	4.02	0.64	80.48	10.3 1	0.000*	4
6.	Monetary authority hold seminars and awareness programs about risks resulting from foreign operations.	3.21	1.14	64.29	1.22	0.115	6
7.	Local bank residence in a non-politically and economically stable area is an important reason for the problems with the foreign correspondent banks.	4.74	0.45	94.76	25.3 1	0.000*	1
	All items of the field	3.82	0.25	76.46	21.0 0	0.000*	

* The mean is significantly different from 3

Table (4.5) shows the following results:

- The mean of item #7 “Local bank residence in a non-politically and economically stable area is an important reason for the problems with the foreign correspondent banks” equals 4.74 (94.76%), Test-value = 25.31, and P-value = 0.000 which is smaller than the level of significance $\alpha=0.05$. The sign of the test is positive, so the mean of this item is significantly greater than the hypothesized value 3 . We conclude that the respondents agreed to this item.
- The mean of item #4 “PMA provides alternatives to banks in case of difficulties in finding a foreign correspondent bank” equals 1.95 (39.05%), Test-value = -8.23, and P-value = 0.000 which is smaller than the level of significance $\alpha=0.05$. The sign of the test is negative, so the mean of this item is significantly smaller than the hypothesized value 3 . We conclude that the respondents disagreed to this item.
- The mean of the field “the role of the Monetary Authority on overseeing the correspondent banking” equals 3.82 (76.46%), Test-value = 21.00, and P-value= 0.000 which is smaller than the level of significance $\alpha=0.05$. The sign of the test is positive, so the mean of this field is significantly greater than the hypothesized value 3. We conclude that the respondents agreed to field of “the role of the Monetary Authority on overseeing the correspondent banking ”.

Analysis showed that the banks that operate in an unstable political and economic climate such as banks operating in Palestine are faced with difficulties in dealing with correspondent banks, in addition to the limited role of the Monetary Authority in supervision, development

and improvement of conditions for dealing with foreign correspondent banks.

This finding was inconsistent with the findings of (European central bank reports, 2014) that found that risks in correspondent banking are relevant for both the prudential supervision of banks and the oversight of payment systems. Although the perspective of payment system overseers is traditionally somewhat different from that of banking supervisors, their objectives are closely interrelated.

The Euro system has not introduced specific oversight requirements for correspondent banks so as to avoid any double regulation of these institutions. The Euro system has instead relied on banking supervision, working together with supervisors at various levels (European, global and national) with the aim of ensuring that risks in correspondent banking are consistently and uniformly covered in the euro area. The Single Supervisory Mechanism (SSM) the new system of banking supervision comprising the ECB and the national competent authorities of the participating countries – is likely to facilitate such close cooperation.

In General "Main factors affecting the corresponding relationship":

Table (4.6): Means and Test values for " Main factors affecting the corresponding relationship "

Item	Mean	S.D	Proportional mean (%)	Test value	P-value (Sig.)	Rank
The quality and cost of services provided	4.29	0.19	85.71	42.75	0.000*	2
Policies followed with correspondent banks	4.32	0.20	86.44	43.27	0.000*	1
The role of the Monetary Authority on overseeing the correspondent banking	3.82	0.25	76.46	21.00	0.000*	3
All Items of Main factors affecting the corresponding relationship	4.20	0.12	84.06	67.11	0.000*	

*The mean is significantly different from 3

Table (4.6) shows the mean of all items equals 4.20 (84.06%), Test-value = 67.11 and P-value =0.000 which is smaller than the level of significance $\alpha=0.05$. The mean of all items is significantly different from the hypothesized value 3. The results shows that the respondents agreed to all items of the Main factors affecting the corresponding relationship.

Analysis showed that local banks follows and abide by the policies of correspondent banks and comply with the laws in order to develop and deliver better services, regardless of the cost. in addition to bear the burden by Palestinian local banks to develop relations with foreign correspondent banks in spite of the political and economic circumstances in which it operates.

This finding was consistent with the findings of Private Banking and Money Laundering Case Study of Opportunities and Vulnerabilities (Correspondent Banking: A gate way for money laundering) (USA, 2001) Who found that U.S. banks should be required to use enhanced due diligence and heightened anti-money laundering safeguards as specified in guidance or regulations issued by the U.S. Treasury Department before opening correspondent accounts with foreign banks that have offshore licenses or are licensed in jurisdictions identified by the United States as non-cooperative with international anti-money laundering efforts. In addition, U.S. banks should conduct a systematic review of their correspondent accounts with foreign banks to identify high risk banks and close accounts with problem banks. They should also strengthen their anti-money laundering oversight, including by providing regular reviews of wire transfer activity and providing training to correspondent bankers to recognize misconduct by foreign banks.

Features of successful relationship with correspondent banks

Table (4.7): Means and Test values for “Features of successful relationship with correspondent banks”

	Item	Mean	S.D	Proportional mean (%)	Test value	P-value (Sig.)	Rank
1.	The Bank has a widely geographically distributed network of correspondent banks.	4.50	0.51	90.00	19.21	0.000*	8
2.	Bank relies heavily on correspondent banks in the implementation of external operations.	4.69	0.47	93.81	23.41	0.000*	2
3.	Dealing with foreign banks	4.64	0.48	92.86	21.95	0.000*	3

	Item	Mean	S.D	Proportional mean (%)	Test value	P-value (Sig.)	Rank
	granted local bank a competitive advantage and contribute to the entry into new markets.						
4.	Dealing with foreign banks contributes to get more foreign banking facilities.	4.62	0.49	92.38	21.35	0.000*	5
5.	The bank conduct a study and evaluation of the of the foreign bank prior to accepting them as a correspondent for the bank.	4.50	0.51	90.00	19.21	0.000*	8
6.	Correspondent bank is a key element of the definition of bank abroad.	4.57	0.50	91.43	20.33	0.000*	7
7.	Foreign banks are considered to be the best alternative as a correspondent for the Israeli banks which have been relied upon for many years in the implementation of external operations.	4.64	0.48	92.86	21.95	0.000*	3
8.	Relations with foreign banks contribute to the financing of exports and imports by opening letters of credit and foreign guarantees.	4.62	0.49	92.38	21.35	0.000*	5
9.	Implementation of external banking services with correspondent banks leads to increased business and the local bank earnings.	4.76	0.43	95.24	26.49	0.000*	1
10.	Relations with foreign banks contribute to increased foreign investment by opening deposits and purchases of stocks and bonds.	4.43	0.50	88.57	18.48	0.000*	10
11.	There is a cooperation between the Bank and	3.81	0.80	76.19	6.53	0.000*	13

	Item	Mean	S.D	Proportional mean (%)	Test value	P-value (Sig.)	Rank
	correspondent banks in the area of preparing reports on the economic situation to take advantage of them.						
12.	The constant communication between the local bank and it's correspondent is very important for the success of the relationship between them.	4.43	0.55	88.57	16.91	0.000*	10
13.	The exchange of visits between representatives of the banks with correspondent banks, which contributes to the convergence of views and improve the terms of engagement.	4.31	0.72	86.19	11.86	0.000*	12
	All items of the field	4.50	0.19	90.04	51.82	0.000*	

* The mean is significantly different from 3

Table (4.7) shows the following results:

- The mean of item #9 “Implementation of external banking services with correspondent banks leads to increased business and the local bank earnings” equals 4.76 (95.24%), Test-value = 26.49, and P-value = 0.000 which is smaller than the level of significance $\alpha = 0.05$. The sign of the test is positive, so the mean of this item is significantly greater than the hypothesized value 3. We conclude that the respondents agreed to this item.
- The mean of item #11 “There is a cooperation between the Bank and correspondent banks in the area of preparing reports on the economic situation to take advantage of them” equals 3.81 (76.19%), Test-value = 6.53, and P-value = 0.000 which is smaller than the level of

significance $\alpha = 0.05$. The sign of the test is positive, so the mean of this item is significantly greater than the hypothesized value 3. We conclude that the respondents agreed to this item.

- The mean of the field “It features successful relationship with correspondent banks” equals 4.50 (90.04%), Test-value = 51.82, and P-value=0.000 which is smaller than the level of significance $\alpha = 0.05$. The sign of the test is positive, so the mean of this field is significantly greater than the hypothesized value 3. This shows that the respondents agreed to field of “It features successful relationship with correspondent banks”.

Analysis showed that banks those have foreign transactions through correspondent banks, in turn, reflected positively on their increased profits and improve its performance and give a competitive advantage over other banks working in the same area.

This finding was consistent with the findings of (Burwell, 2013) who found that by clarifying and correcting the treatment for correspondent banking operational relationships, This will have a positive effect on global economic activity and international trade and growth in the real economy.

4.5 Research Hypothesis

- 1) **There is a significance relation between the variety, feasibility and cost of services provided and the successful corresponding relationship (at level of significance $\alpha \leq 0.05$).**

Table (4.8): Correlation coefficient between the variety, feasibility and cost of services provided and the successful corresponding relationship

	Pearson Correlation Coefficient	P-Value (Sig.)
There is a significance relation between the variety, feasibility and cost of services provided and the successful corresponding relationship	0.302	0.016*

* Correlation is statistically significant at 0.05 level

Table (4.8) shows that the correlation coefficient between the variety, feasibility and cost of services provided and the successful corresponding relationship equals 0.302 and the p-value (Sig.) equals 0.016. The p-value (Sig.) is less than 0.05, so the correlation coefficient is statistically significant at $\alpha = 0.05$. the research conclude that there exists a significant relationship between the variety, feasibility and cost of services provided and the successful corresponding relationship.

2) There is a significance relation between Policies followed with correspondent banks and the successful corresponding relationship (at level of significance $\alpha \leq 0.05$).

Table (4.9): Correlation coefficient between Policies followed with correspondent banks and the successful corresponding relationship

	Pearson Correlation Coefficient	P-Value (Sig.)
There is a significance relation between Policies followed with correspondent banks and the successful corresponding relationship	0.296	0.028*

* Correlation is statistically significant at 0.05 level

Table (4.9) shows that the correlation coefficient between Policies followed with correspondent banks and the successful corresponding relationship equals 0.296 and the p-value (Sig.) equals 0.028. The p-value (Sig.) is less than 0.05, so the correlation coefficient is statistically significant at $\alpha = 0.05$. the research conclude that there exists a significant relationship between Policies followed with correspondent banks and the successful corresponding relationship.

3) There is a significance relation between the overseeing role of the PMA on the correspondent banking and the successful corresponding relationship (at level of significance $\alpha \leq 0.05$).

Table (4.10): Correlation coefficient between the overseeing role of the PMA on the correspondent banking and the successful corresponding relationship

	Pearson Correlation Coefficient	P-Value (Sig.)
There is a significance relation between the overseeing role of the PMA on the correspondent banking and the successful corresponding relationship	0.299	0.026*

* Correlation is statistically significant at 0.05 level

Table (4.10) shows that the correlation coefficient between the overseeing role of the PMA on the correspondent banking and the successful corresponding relationship equals 0.299 and the p-value (Sig.) equals 0.026. The p-value (Sig.) is less than 0.05, so the correlation coefficient is statistically significant at $\alpha = 0.05$. We conclude there exists a significant relationship between the overseeing role of the PMA on the correspondent banking and the successful corresponding relationship.

4) There is a significance statistical differences at level of significance $\alpha \leq 0.05$ among the responses mean of respondents regarding the Assessment of correspondent banking relationships due to (gender, age, qualification and work experience).

This hypothesis can be divided into the following sub-hypotheses:

- There is a significance statistical differences at level of significance $\alpha \leq 0.05$ among the responses mean of respondents regarding the Assessment of correspondent banking relationships due to gender.

Table (4.11): Independent Samples T-test of the fields and their p-values for gender

No.	Field	Means		Test Value	Sig.
		Male	Female		
1.	The quality and cost of services provided	4.31	4.24	1.210	0.233
2.	Policies followed with correspondent banks	4.32	4.33	-0.097	0.923
3.	The role of the Monetary Authority on overseeing the correspondent banking	3.80	3.86	-0.676	0.503
	Main factors affecting the corresponding relationship	4.21	4.20	0.337	0.738
	Features of successful relationship with correspondent banks	4.51	4.48	0.565	0.575
	All items of the questionnaire	4.29	4.28	0.510	0.613

Table (4.11) shows that the p-value (Sig.) is greater than the level of significance $\alpha = 0.05$ for each field, then there is in significant difference among the respondents toward each field due to gender. The researcher conclude that the personal characteristics' gender has no effect on each field.

- There is a significance statistical differences at level of significance $\alpha \leq 0.05$ among the responses mean of respondents regarding the Assessment of correspondent banking relationships due to age.

Table (4.12):ANOVA test of the fields and their p-values for age

No.	Field	Means			Test Value	Sig.
		25-35	36-45	46 or more		
1.	The quality and cost of services provided	4.26	4.31	4.39	0.690	0.508
2.	Policies followed with correspondent banks	4.36	4.24	4.48	2.828	0.071
3.	The role of the Monetary Authority on overseeing the correspondent banking	3.82	3.82	3.86	0.028	0.972
	Main factors affecting the corresponding relationship	4.21	4.17	4.31	1.923	0.160
	Features of successful relationship with correspondent banks	4.49	4.49	4.64	0.888	0.420
	All items of the questionnaire	4.29	4.26	4.41	2.087	0.138

Table (4.12) shows that the p-value (Sig.) is greater than the level of significance $\alpha = 0.05$ for each field, then there is in significant difference among the respondents toward each field due to age. The research conclude that the personal characteristics' age has no effect on each field.

- There is a significance statistical differences at level of significance $\alpha \leq 0.05$ among the responses mean of respondents regarding the Assessment of correspondent banking relationships due to qualification.

Table (4.13): Independent Samples T-test of the fields and their p-values for qualification

No.	Field	Means		Test Value	Sig.
		Bachelor	Master		
1.	The quality and cost of services provided	4.27	4.47	-1.764	0.085
2.	Policies followed with correspondent banks	4.31	4.43	-0.966	0.340
3.	The role of the Monetary Authority on overseeing the correspondent banking	3.83	3.71	0.766	0.448
	Main factors affecting the corresponding relationship	4.20	4.29	-1.410	0.166
	Features of successful relationship with correspondent banks	4.51	4.44	0.626	0.535
	All items of the questionnaire	4.28	4.33	-0.721	0.475

Table (4.13) shows that the p-value (Sig.) is greater than the level of significance $\alpha = 0.05$ for each field, then there is in significant difference among the respondents toward each field due to qualification. The researcher conclude that the personal characteristics' qualification has no effect on each field.

- There is a significance statistical differences at level of significance $\alpha \leq 0.05$ among the responses mean of respondents regarding the Assessment of correspondent banking relationships due to work experience.

Table (4.14):ANOVA test of the fields and their p-values for work experience

No.	Field	Means				Test Value	Sig.
		Less than 5 years	5 to 10 years	From 10 to 15 years	15 years and over		
1.	The quality and cost of services provided	4.27	4.20	4.34	4.37	1.989	0.132
2.	Policies followed with correspondent banks	4.34	4.32	4.29	4.35	0.152	0.928
3.	The role of the Monetary Authority on overseeing the correspondent banking	3.88	3.85	3.79	3.78	0.286	0.835
	Main factors affecting the corresponding relationship	4.22	4.17	4.20	4.24	0.553	0.649
	Features of successful relationship with correspondent banks	4.47	4.49	4.48	4.57	0.539	0.658
	All items of the questionnaire	4.29	4.26	4.28	4.33	0.646	0.590

Table (4.14) shows that the p-value (Sig.) is greater than the level of significance $\alpha = 0.05$ for each field, then there is in significant difference among the respondents toward each field due to work experience. The research conclude that the personal characteristics' work experience has no effect on each field.

Chapter 5

Conclusion And Recommendations

Chapter 5

Conclusion And Recommendations

5.1 Conclusions

The main goal of this research is finding an answer for the research problem through answering the following questions:

- What is the nature of the relationship between local banks operates in Palestine and correspondent banks?

And this leads to the following sub-questions:

- 1- What are the patterns of the corresponding relationship?
 - 2- What are the products and services provided?
 - 3- Are the conditions and costs of the relation feasible?
- What kind of strategies followed by local banks in dealing with the correspondent banks?

In order to answer the research problem we identify different factors that can affect the correspondent banking relationship, these factors were extracted from related theories and literature review to assessment of corresponding relationships.

The findings of this research indicate that there are different success factors which influence the corresponding relationship these factors may differ from bank to bank , and each bank use different ways in managing the corresponding relationship.

According to our findings the researcher conclude that:

1. Working with foreign correspondent banks often require or result in continuous development of the services offered by the bank to its customers.
2. The greater the number of correspondent banks, is an indicator of the effectiveness and profitability of the local bank.
3. Work in a wide range of correspondent banks, local bank grants a competitive advantage over other banks working in the same area.
4. Dealing with correspondent banks contributes to the spread of the bank externally and contribute to entering new markets.
5. Relations with foreign correspondent banks directly reduced the dependency on the Israeli banks in foreign operations.
6. Transactions with foreign banks may result in some problems and legal difficulties.
7. It is important to study the area in which the bank and correspondent bank operates to avoid various risks like money laundering risk.
8. In addition, dealing with correspondent banks involves some risks related to the operations of foreign trade and the transfer of funds.
9. Some difficulties may result in foreign trade and in particular the Palestinian banks operating in an economically and politically unstable region.
10. The role of the Palestinian Monetary Authority is limited and it's not optimally effective in the development of relations between the local banks and foreign correspondent banks.

5.2 Recommendations

Palestinian banks operating in Palestine faces many difficult economic and geographical challenges, and in light of technological and economic development, Which imposes upon the development of its relations with foreign banks and keep abreast of developments so that they can provide better services, and to achieve the dispersal externally and open new markets.

Taking into account the need to adhere to the requirements of foreign banks, including grants of sustainability in the provision of services to Palestinian banks and thus reflected on the performance of the bank in terms of services provided to its customers.

So it need a lot efforts to succeed. Moreover the study recommends the following points:

1. Local banks have to periodically assess its relations with the correspondent bank and a review of the mechanisms used in the implementation of the bank's foreign operations.
2. The local banks must keep pace with the technological development in the provision of new and distinct services through correspondent banks.
3. The local banks should adhere to international standards and anti-money laundering laws so that they can deliver better services and avoid falling into any legal problems resulting from foreign operations.
4. banks must study and understand the market's needs to achieve higher profit through services provided to customers.

5. It is possible to local banks to reduce dependence on foreign correspondent banks in case they worked to spread regionally and internationally by opening its own branches abroad.
6. Its import mat to focus on the role of the Monetary Authority of overseeing, development and setting up relations between local banks and foreign correspondents.
7. Holding internal and external workshops by concerned parties and looking at the mechanics of dealing with correspondent banks in order to develop the corresponding relationship between the bank and external correspondents.
8. Work on the preparation of reports by banks or by any other supervisory authority criticism about the activities and bank transactions with foreign banks.

5.3 Future research

Studying the management of correspondent banking is a very important aspect in the banking industry. There are penalty o factors, which influence the corresponding banking. This study tried to explore a small number of factors that influence the corresponding relationship between the Palestinian local banks and their international correspondents.

As such there still room for further studies and research on the correspondent banking management.

Further research, could:

1. Study different factors by using different methods and viewpoints.
2. Study In-depth the advantages of successful corresponding relationship on the local banks.
3. Focus on how the corresponding relationships affected by the political situation in the middle east area.

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Appendix

Appendix (I): Questionnaire for Research:

Part I: Personal data

- 1) Gender Male • Female •
- 2) Age 25-35 • 36-45 • 46-55 • 56
or more •
- 3) Qualification Diploma • Bachelor • Master • Doctorate •
- 4) Work Experience
Less than 5 years • 5 to 10 years •
From 10 to 15 years • 15 years and over •
- 5) Job Title _____

Part II: Bank data

Bank name

Bank Type

Commercial • Islamic • Other •

Number of foreign correspondent banks

Geographical distribution of correspondent banks

Areas dealing with correspondent banks

The Bank has a specialized unit responsible for tracking foreign operations with correspondent banks

The Bank has a unit for evaluation and monitoring of money laundering

Part III: Independent variables

First: the quality and cost of services provided

	Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
1	Services provided vary by correspondent banks.					
2	New services and features are introduced by correspondent banks continuously.					
3	The cost of the service provided vary from bank to another.					
4	Bank relies on a policy to deal with correspondent banks those provide services at a lower cost.					
5	The diversity of services offered by the correspondent bank is the most important, regardless of the costs.					
6	Dealing with foreign correspondent banks improper foreign operations less expensive than relying on the Israeli banks as in the past.					
7	Services provided by foreign correspondence are considered to be faster and better than dealing with the Israeli banks.					
8	Services provided by correspondent banks meets the bank's needs well.					
9	Relations with correspondent banks helps the local bank to provide a new and specialized banking services not offered by other banks.					
10	Developing new services on a regular basis with foreign banks is an important part of managing the relationship					

	Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
	with the correspondent bank.					
11	Services provided altered by the correspondent bank according to certain mechanisms.					
12	Bank takes advantage of foreign banks in the development of local services provided to its customers.					

Second: policies followed with correspondent banks

	Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
1	There are specific and clear criteria and mechanisms taken by the local bank in dealing with the correspondent banks.					
2	Management of financial operations with correspondent are handled through a local bank account with the correspondent bank.					
3	The study of the region or the state in which the Bank operates considered as an important element to avoid the risks of foreign operations.					
4	Reports are prepared to reflect the evolution of the bank's relationship with its correspondents such as the size of the operations that are performed.					
5	There are conditions imposed by foreign banks to local banks to accept working with them as a correspondent.					
6	The correspondent bank is required to update data from local banks and periodic review them on the basis of risk assessment.					
7	It is important to followed up and review the terms of dealing with the correspondent bank and make sure it is applied properly.					
8	The local bank periodically updated the mechanisms used with correspondent banks to work on developing them.					

	Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
9	There are specific criteria for the selection of a correspondent bank and determine the extent of the seriousness of dealing with it based on the state in which it operates.					
10	Working with foreign banks involves various risks such as money laundering risks.					
11	The Bank evaluates processes that are completed through correspondent banks.					
12	The Bank has specific programs to monitor the banned activity or unusual that might result from dealing with foreign banks.					
13	The Bank is committed to international standards and Palestinian laws to combat money laundering when conducting transactions with correspondent banks.					
14	Through external transactions with a variety of banks, the bank is faces legal problems with correspondent banks.					

Third: the role of the Monetary Authority on overseeing the correspondent banking

	Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
1	There are specific instructions and conditions set by the Monetary Authority to oversee the relationship between the local bank and foreign correspondent banks.					
2	The Bank prepares reports on the foreign bank to any supervisory committees					

	within the bank or to the Monetary Authority.					
3	Monetary Authority contribute to improving the conditions for dealing with foreign banks and to communicate with them.					
4	PMA provides alternatives to banks in case of difficulties in finding a foreign correspondent bank.					
5	Monetary Authority monitors the foreign bank operations in order to ensure avoiding potential risks.					
6	Monetary authority hold seminars and awareness programs about risks resulting from foreign operations.					
7	Local bank residence in a non-politically and economically stable area is an important reason for the problems with the foreign correspondent banks.					

Part IV: The dependent variable

Features of successful relationship with correspondent banks

	Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
1	The Bank has a widely geographically distributed network of correspondent banks.					
2	Bank relies heavily on correspondent banks in the implementation of external operations.					
3	Dealing with foreign banks granted local bank a competitive advantage and contribute to the entry into new markets.					
4	Dealing with foreign banks Contributes to get					

	Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
	more foreign banking facilities.					
5	The bank conduct a study and evaluation of the of the foreign bank prior to accepting them as a correspondent for the bank.					
6	Correspondent bank is a key element of the definition of bank abroad.					
7	Foreign banks are considered to be the best alternative as a correspondent for the Israeli banks which have been relied upon for many years in the implementation of external operations.					
8	Relations with foreign banks contribute to the financing of exports and imports by opening letters of credit and foreign guarantees.					
9	Implementation of external banking services with correspondent banks leads to increased business and the local bank earnings.					
10	Relations with foreign banks contribute to increased foreign investment by opening deposits and purchases of stocks and bonds.					
11	There is a cooperation between the Bank and correspondent banks in the area of preparing reports on the economic situation to take advantage of them.					
12	The constant communication between					

	Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
	the local bank and it's correspondent is very important for the success of the relationship between them.					
13	The exchange of visits between representatives of the banks with correspondent banks, which contributes to the convergence of views and improve the terms of engagement.					

الاستبانة: Appendix (II)



لجامعة الإسلامية - غزة
كلية الدراسات العليا
قسم إدارة الأعمال

استبانة

السيد الفاضل/ة المحترم/ة

يقوم الباحث بإجراء دراسة ميدانية لاستكمال متطلبات نيل الماجستير في ادارة الاعمال بعنوان:

Assessment of Correspondent Banking Relationships Case Study: Local Banks in Palestine

(تقييم العلاقات مع البنوك المراسلة : دراسة البنوك المحلية في فلسطين)

تهدف هذه الاستبانة الى التعرف على عوامل نجاح العلاقة بين البنوك المحلية و البنوك المراسلة الخارجية في اطار الخدمات المقدمة والسياسات المتبعة في ادارة هذه العلاقة. لذلك يأمل الباحث من سيادتكم التكرم بتعبئة بيانات الاستبيان المرفق علما بأن هذه البيانات التي سيتم الحصول عليها سوف تكون سرية ولن تستخدم إلا لأغراض البحث العلمي فقط برجاء من سيادتكم الاجابة على البنود والاسئلة الواردة فيها بكل موضوعية حتى تحقق الدراسة اهدافها

برجاء وضع علامة (X) امام الاجابة المناسبة والتي تمثل الواقع.
مع جزيل الشكر والتقدير

الباحث
اياد فؤاد المدهون
جوال/
0599608001

الجزء الأول : البيانات الشخصية

- (1) الجنس ذكر أنثى
- (2) العمر 35-25 45-36 55-46 56 فأكثر
- (3) المؤهل العلمي دبلوم بكالوريوس ماجستير دكتوراه
- (4) الخبرة الوظيفية
- أقل من 5 سنوات من 5 إلى 10 سنوات
- من 10 إلى 15 سنة 15 سنة فأكثر
- (5) المسمى الوظيفي _____

الجزء الثاني : بيانات البنك

اسم البنك

نوع البنك

تجاري اسلامي اخرى

عدد البنوك المراسلة الخارجية

توزيع البنوك المراسلة الجغرافي

مجالات التعامل مع البنوك المراسلة

يوجد لدى البنك وحدة مختصة مسئولة عن متابعة العمليات الخارجية مع البنوك المراسلة

يوجد لدى البنك وحدة لتقييم ومراقبة عمليات غسل الاموال

الجزء الثالث: المتغيرات المستقلة
أولاً: نوعية الخدمات المقدمة وتكلفتها

م	البيان	موافق بشدة	موافق	محايد	غير موافق	غير موافق بشدة
1	تتنوع الخدمات المقدمة من قبل البنوك المراسلة.					
2	يتم تقديم خدمات جديدة ومميزات من قبل البنوك المراسلة بشكل مستمر.					
3	تختلف تكلفة الخدمة المقدمة من بنك مراسل لآخر.					
4	يعتمد البنك سياسة التعامل مع بنوك مراسلة تقدم خدمات بتكلفة اقل.					
5	من المهم تنوع الخدمات المقدمة من قبل البنك المرسل بغض النظر عن التكاليف.					
6	يعتبر التعامل مع البنوك الخارجية كبنوك مراسلة للعمليات الخارجية اقل تكلفة من الاعتماد على البنوك الاسرائيلية كما في السابق.					
7	تعتبر الخدمات المقدمة عن طريق البنوك الخارجية المراسلة اسرع وأفضل مقارنة بالتعامل مع البنوك الاسرائيلية.					
8	الخدمات المقدمة من قبل البنوك المراسلة تلبي احتياجات البنك بشكل جيد.					
9	تساعد العلاقات مع البنوك المراسلة المصرف المحلي في تقديم خدمات مصرفية جديدة ومتخصصة لا تقدمها المصارف الاخرى.					
10	يعتبر تطوير خدمات جديدة بشكل دوري مع البنوك الخارجية جزء مهم من ادارة العلاقة مع البنك المرسل.					
11	تتغير تكاليف الخدمات المقدمة من خلال البنك المرسل وفق اليات معينة.					
12	يستفيد البنك من البنوك الخارجية في تطوير الخدمات المحلية المقدمة لعملائه.					

ثانيا: السياسات المتبعة مع البنوك المراسلة

م	البيان	موافق بشدة	موافق	محايد	غير موافق	غير موافق بشدة
1	هناك معايير واليات محددة وواضحة لتعامل البنك المحلي مع البنوك المراسلة.					
2	تتم ادارة العمليات المالية مع البنك المراسل من خلال ادارة حساب للبنك المحلي مع البنك المراسل.					
3	تعتبر دراسة المنطقة او الدولة التي يعمل فيها البنك المراسل عنصر مهم لتجنب مخاطر العمليات الخارجية.					
4	يتم اعداد تقارير تعكس تطور علاقة البنك مع مراسليه مثل حجم العمليات التي يتم تنفيذها.					
5	هناك شروط تفرضها البنوك الخارجية على البنوك المحلية لقبول العمل كمراسل لها.					
6	يقوم البنك الخارجي بتحديث بيانات عملائه من البنوك المحلية والمراجعة الدورية لها على اساس تقييم المخاطر.					
7	تتم متابعة و مراجعة شروط التعامل مع البنك المراسل والتأكد من انها مطبقة بشكل صحيح.					
8	يتم تحديث الاليات المتبعة مع البنوك المراسلة بشكل دوري للعمل على تطويرها.					
9	هناك معايير محددة لاختيار بنك مراسل وتحديد مدى خطورة التعامل معه بناء على الدولة التي يعمل بها.					
10	ينطوي العمل مع البنوك الخارجية على مخاطر مختلفة مثل مخاطر غسل الاموال.					
11	يقوم البنك بتقييم المخاطر المحتملة من العمليات التي يتم انجازها من خلال البنوك المراسلة.					
12	يوجد لدى البنك برامج معينة لمراقبة النشاط المحظور او غير المألوف الذي قد ينتج عن التعامل مع البنوك الخارجية.					
13	يلتزم البنك بالمعايير الدولية و القوانين الفلسطينية لمكافحة غسل الاموال عند اجراء المعاملات مع البنوك المراسلة.					
14	من خلال التعاملات الخارجية مع بنوك متنوعة يواجه البنك مشكلات قانونية مع البنوك المراسلة.					

ثالثاً: دور سلطة النقد في الاشراف على التعامل مع البنوك المراسلة

م	البيان	موافق بشدة	موافق	محايد	غير موافق	غير موافق بشدة
1	يوجد تعليمات وشروط محددة موضوعة من قبل سلطة النقد للإشراف على العلاقة بين البنك المحلي والبنوك المراسلة الخارجية.					
2	يقوم البنك بإعداد تقارير عن عمليات البنك الخارجية لجهات رقابية داخل البنك او لسلطة النقد.					
3	تساهم سلطة النقد في تحسين شروط التعامل مع البنوك الخارجية والتواصل معها.					
4	توفر سلطة النقد بدائل للبنوك في حال وجود صعوبات في ايجاد بنك مراسل خارجي.					
5	تتم الرقابة من قبل سلطة النقد على عمليات البنك الخارجية بما يضمن تجنب المخاطر المحتملة.					
6	تعقد سلطة النقد ندوات وبرامج توعية بالمخاطر الناتجة عن العمليات الخارجية.					
7	يعتبر عمل البنك المحلي في منطقة غير مستقرة سياسيا واقتصاديا سبب في مشاكل مع البنوك المراسلة الخارجية.					

الجزء الرابع: المتغير التابع
مميزات العلاقة الناجحة مع البنوك المراسلة

م	البيان	موافق بشدة	موافق	محايد	غير موافق	غير موافق بشدة
1	يوجد لدى البنك شبكة من البنوك المراسلة موزعة جغرافيا على نطاق واسع.					
2	يعتمد البنك بشكل كبير على البنوك المراسلة في تنفيذ العمليات الخارجية.					
3	التعامل مع البنوك الخارجية يمنح البنك المحلي ميزة تنافسية و تساهم في الدخول الى اسواق جديدة.					
4	يساهم التعامل مع البنوك الخارجية في الحصول على المزيد من التسهيلات المصرفية الخارجية.					
5	يقوم البنك بعمل دراسة و تقييم للبنك الخارجي قبل اعتماده كمراسل للبنك.					
6	يعتبر البنك المراسل عنصر اساسي للتعريف بالبنك في الخارج.					
7	يعتبر البنك الخارجي كمراسل بديل افضل للبنوك الاسرائيلية التي تم الاعتماد عليها لسنوات طويلة في تنفيذ العمليات الخارجية.					
8	تساهم العلاقات مع البنوك الخارجية في تمويل الصادرات و الواردات عن طريق فتح الاعتمادات المستندية والكفالات الخارجية.					
9	يؤدي تنفيذ الخدمات المصرفية الخارجية مع المصارف المراسلة الى زيادة اعمال و ارباح البنك المحلي.					
10	تساهم العلاقات مع البنوك الخارجية في زيادة الاستثمارات الخارجية من خلال فتح الودائع وعمليات شراء الاسهم و السندات.					
11	يتم التعاون بين البنك و البنوك المراسلة في مجال تقديم تقارير عن الوضع الاقتصادي في مجال البنوك ليتم الاستفادة منها.					
12	من المهم التواصل المستمر بين البنك المحلي و البنوك المراسلة لنجاح العلاقة مع البنك المراسل.					
13	يتم تبادل زيارات بين ممثلي البنوك مع البنوك المراسلة مما يساهم في تقارب وجهات النظر و تحسين شروط التعامل.					

Appendix (III):List of Reference's Names and Titles

#	Names of References	Titles of References
(1)	Dr. Fares Abu Muaamar	The Islamic University of Gaza
(2)	Dr. Ali Shaheen	The Islamic University of Gaza
(3)	Dr. Wafeeq Al-Agha	Al-Azhar University of Gaza
(4)	Dr. Yasser EL-Shurafa	The Islamic University of Gaza
(5)	Dr. Waseem El-Habeel	The Islamic University of Gaza
(6)	Mr. Ameer Sha'at	Head of International Institutions Department at Bank of Palestine
(7)	Mr. Tareq Gharbia	Head of International Trade and Settelments Department at Bank of Palestine