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Correspondent Banking Relationships: Strategic Withdrawal Impact on Banks in Palestine

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DECLARATION

I am the undersigned, postgraduate' student "Adnan Abdul Elah Fares Khuffash", bearing identical student number 201712467, hereby declaring - throughout all phases of compiling this thesis- adherence of all rules, arrangements, decisions and regulations issued by the Arab American University, which are in effect and compliant to international's scientific and ethical standards, including scientific integrity.

I hereby certify that I do bear all the subsequences and responsibility if otherwise have proven to be the case, including the Deans right to revoke the certification relying on this declaration, without any objection from my part or right to appeal against their decision.

Adnan Khuffash.

DEDICATION

I dedicate this thesis to my beloved wife Feda, for her endless support and love, my beloved kids (Wedad, Abdul Elah, Obadah, Ola, Ahmad, and Ali) for supporting me, when we use to gather at nights to do our HomeWorks and to my beloved brother Azzam for his constant encouragement and support to me.

Researcher

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ABSTRACT

This study aims to highlight the impact of the withdrawal of correspondent banking business on the Palestinian banking sector, therefore, it highlighted the importance of existence of potent correspondent's network that provides various services to Palestinian banking sector and through it to several business and social components, as a vital driver that ensures inclusive financial inclusion.

However, to ensure obtaining of sufficient information about the status quo of the correspondent banking network in Palestine, the study enrolled various tools like questionnaire and interviews with the regulator and banks' key personnel to investigate the compliance of banks to the international standards required to counter and mitigate as possible, the drivers of correspondent banking withdrawal.

The study reveals volatility and weaknesses in cooperation between agencies within the same bank, who are entrusted to manage the compliance to the international standards to preserve correspondent banking networks, it also reveals a limited correspondent banks network, whereas most investigated banks keep one correspondent in the USA, and some even does not have a correspondent in the USA, therefore, it manages its USD operations through a correspondent bank in Europe, which make it volatile to lose this privilege as the European bank eventually, is procuring a third party operations in US Dollars.

The study also prevails fragile policies by the PMA towards identifying, articulating and managing the correspondent networks; the study finds no circulations and instructions designated to fortify the monetary and financial stability by ensuring and regulating the existence of strong correspondent banking network.

The study also prevails the adherence and compliance of the Palestinian banking sector to major policies and standards required by the international community like anti-money laundry and countering the financing of terrorism.

The study recommends deep cooperation between main stakeholders of the process of corresponding like the PMA, banks, government, and universities, it also recommends that the financial inclusion strategy include and indicate the importance of a wider and strong correspondent banking network; nevertheless, it recommends on the stakeholders to start considering employing contemporary technologies like the blockchains, the fintech, and 3D printing as potential substitutions to any correspondent banking withdrawal.

Keywords:

PMA, Financial Inclusion, correspondent banking, Blockchain, 3D printing, Fintech, Anti-money Laundry, withdrawal of correspondent banking

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LIST OF ABBREVIATIONS

PMA: Palestine Monetary Authority

PNA: Palestine National Authority

CBRs: Correspondent Banking Relationships

AML/CFT: Anti-money laundry/ combating financing of terror

SWIFT: Society for Worldwide Interbank Financial Telecommunications

FATF: Financial Action Task Force

MENA: The Middle East and North Africa

IMF: International Monetary Fund

CEO: Chief Executive Officer

SDGs: Sustainable Development Goals

LEI: Legal Entity Identifiers

CDD: Customer Due Diligence

KYC: Know Your Customer

KYCC: Know Your Customers' Customers

BOD: Board of Directors

RMA: Relationship Management Agreement

RTGS: Real Time Gross Settlement

FI: Foreign Institution

LSO: Left Security Officer

RSO: Right Security Officer

1 CHAPTER 1

1.1 INTRODUCTION

1.1.1 PALESTINE BANKING SECTOR

The banking system in Palestine consists of 14 banks, which generates banking services through a network span of 351 branches and offices, (across the West Bank and Gaza Strip), it is a diverse system that it provides financial services with an Islamic perspective, as long as the conventional services of commercial banking. The banking system consists of (3) Islamic Banks, (4) local commercial banks and other (7) foreign commercial banks,[1] those banks were employing 6991 employees by the end of the year 2018. There were also six specialized lending institutions, with 81 branches, such institutions are meant to deal with micro-lending transactions, in addition to 312 licensed money changers (PMA, 2019).

Banking system in Palestine is regulated by the Palestine Monetary Authority (PMA), which has established at the 1994 thanks to a presidential decree number (184) issued for that purpose. However, at 1997, the elected Palestine legislative council, authenticated the presidential decree No. 184 to be elevated to a level of law number 2 (PMA, 2019). Nevertheless, it is important to indicate that, main roles and functions of the PMA have been incorporated within the Gaza-Jericho agreement, annex IV, protocol on economic relations between the government of the State of Israel and the P.L.O. (Gaza-Jericho Agreement, 1994), which paved the way towards the establishment of an institutional economic body entitled to regulate and control the monetary and financial activities within the Palestinian National Authority (PNA).

1 Islamic banks are Arab Islamic bank, Palestine Islamic bank, and Safa Bank, while the local commercial banks are Bank of Palestine, Palestine investment bank, Al Quds bank and The National Bank, however, the foreign operating banks are Arab bank, Jordan Ahli bank, bank of Jordan, Egyptian Arab Land Bank, and the Jordan Commercial Bank.

Banking system indicators were, according to financial data issued by the PMA at the end of the year 2018, the total deposits made by individuals, retail, and corporate businesses, were USD 13.1 billion, whereas, entire credit portfolio was USD 8.4 billion; nonetheless, the banking industry total assets were USD 15.5 billion, and the non-performing loans (NPL) did not exceed 3.1% (PMA, 2019).

It is worthy of mentioning here also, that the PMA is regulating a banking system without the existence of local currency, but instead, allowed in using the currencies of four jurisdictions, to run its monetary and financial policies, these currencies are the United States Dollars (USD), Israeli Shekel (ILS), Jordanian Dinars (JOD), and the European Union Euros (EURO), however, the control of influx of these currencies into/or out the Palestinian market, particularly, the Israeli Shekel is outside the scope of the PMA discretion, which did the job onto the PMA to control its financial and monetary policies epidemic that is always challenging and requiring constant heed. Nevertheless, Paris Protocol has also curbed the ability of the PMA to manage the Israeli Shekel abundance and movement within the economy, by imposing certain stipulations pertaining the liquidity requirements, which should be not less than 4%-8% out of total Shekel deposits in banks, provided that it linked the excess of Israeli Shekel in Banks, which the PMA can convert to other foreign currencies to the volume of exporting of goods and services to the Israeli economy (Gaza-Jericho Agreement, 1994), with specific extra related conditions and stipulations, which at all possible scenarios made it impossible to control Shekel influx into the economy, as Palestine export of goods and services to Israel is not capable at all circumstances to compete the irregulated Shekel injunction to the Palestinian economy, as it does not necessarily represent all the time, transactions of exchange of goods and services, which has to be manifested in clearing tax invoices, as identified and articulated in the very economic protocol and agreement indicated above (Article VI: Indirect Taxes on Local Production).

1.1.2 CORRESPONDENT BANKING RELATIONSHIP

Correspondent banking relationship, would include, inter alia a bilateral agreement between international bank (Hereinafter, the correspondent bank) and local bank (Hereinafter; the respondent bank), however this agreement would involve a reciprocal cross- border relationship which, often involves providing deposit account or liability account (NOSTRO) opened in the correspondent books, which would require arrangements between related banks to exchange messages to manage the account in terms of DEBIT and CREDIT transactions.

Those identical messages, which associated with specific code to identify each message type, with specific fields and validations to each of these messages, are exchanged utilizing the services of SWIFT (**S**ociety for **W**orldwide **I**nterbank **F**inancial **T**elecommunications). Those banks who are providing correspondent services are usually, inter alia the major banks in the USA and Europe, as those economies are dominating the global trade, while commodities and services are exchanged all over the world using the US currency (Dollar), and European union currency which is the EURO, recruiting various payment tools with these currencies, because obviously those currencies are backed with giant and solid economies.

Nevertheless; these relationships among banks are facilitating and vital leverage to transactions and services including among other things, the implementation of a third parties' payments, trade finance (letter of credits, letter of guarantees, bills for collection…etc.), clearing, liquidity management, short- term borrowing, investment, currency exchange, derivatives.

After the emergence of the economic and political crises struck lately the world, and further to heavy fines (sometimes in billions of US Dollars) regulators and governments (particularly in the USA), start to impose on banks who they believe have not made the proper due diligence while their exposure to particular risky clients or businesses is wide, and may tolerate and stay lenient on transactions with potential money laundry or terror funding, camouflaged with common trade transactions. Correspondent banks start to reconsider its corresponding relationship agreements with other banks and in particular regions in the world especially the Middle East and North Africa (MENA), not to mention Palestine, of course, was among them.

Consequently; markets all over the world begin to deal with new phenomena, which coined as (DE-RISKING), therefore; there would be consensus on the definition of this term, but further to what mentioned above, we can say that “De-risking is the action of the correspondent bank to averse risk by avoiding building new relationships with other offering banks and gradual terminating those who are already exist, so that to avoid the business and reputation risks, without case by case assessment of the risk associated with retail customers, wholesale customers, country, region or as a result of an analysis indicating that the business relationship is not lucrative.

The banking industry in Palestine, is comparatively new and volatile as well, due to the size of the market and the modest, limited capital invested; however, it’s worthy of mentioning the obstacles imposed by occupation, which make engaging with new corresponding relationships is a quite challenging and existential threat. Therefore, the banking industry in Palestine must have to be prepared to counter the de-risking challenges utilizing every available potential, contemporary policies, systems, effective regulations, and governance.

1.2 SCOPE OF THE STUDY

This study investigates the impact of withdrawal from correspondent banking relationships on banks operating in Palestine, and also will include the PMA as it is the regulator that supervising and guiding the various activities of the banks as well as financial stability, efficiency, and viability.

1.3 RESEARCH PURPOSE AND OBJECTIVES

The main purpose of this paper is to study in detail the status quo of corresponding relations, effectiveness, and viability of the existing networks of correspondents, in addition, to be acquainted with the size of harm the derisking has introduced, and nonetheless, is about to introduce.

However, these study objectives would be categorized into:

1.3.1 MAIN OBJECTIVES:

Investigate the viability, adequacy, efficiency, and existence of strategic alternating plans of the existing correspondent banking relationships and networks of the banking sector operating in Palestine, and therefore to verify whether our banking system is under real existential threat for the long run.

Investigate the impact of withdrawal on the Palestine banking system, in terms of quantifying losses relying on data collected from banks' officials, the PMA and available data collected from the periodic bulletins issued by the Association of Banks in Palestine.

1.3.2 SUB-OBJECTIVES:

1. To investigate and scrutinize the measures and policies adopted from banks as well as regulator (PMA).
2. To ensure that banks are aware of the challenge of compliance to the regulator and relevant international standards.
3. Are banks have developed, invented procedures, alternative channels, and technologies to cope with any future correspondent withdrawal' challenges.
4. Did the regulator has developed measures to assure full compliance with international standards to procure business.

5. To investigate the know-how of the banks to establish networks and correspondent banking relations, in terms of the existence of departments with well-qualified staff steering this strategic task.

1.4 THE QUESTION OF THE RESEARCH

The banking system is the backbone of any efficient economy; therefore, it is of immense importance to verify and answer the following questions:

1.4.1 MAIN QUESTION

Is the Palestinian banking system' under a serious existential threat, as a consequence of correspondent banks withdrawal?

1.4.2 SUB-QUESTIONS

1. Does the Palestine banking system' keep an efficient network of correspondent banking relationships (CBRs)?
2. What are the measures considered to counter the de-risking threats?
3. What are the compliance measures required from the correspondent banks?
4. Does the PMA (Palestine monitory authority) consider the proper and effective scrutiny and supervision to assure a fortified shield to the industry?
5. Are teams dealing with building corresponding relations in various banks qualified and aware of the challenge size?

1.4.3 HYPOTHESES

H1. There is a coordination and cooperation between different departments in the bank, which meant to steer and supervise the process of building CBRs (i.e., Foreign institution (FI) Dept, Compliance Dept. Risk Dept, Operations Dept).

H2. There is a difference with statistical significance, in the awareness, and knowledge of those managers who are steering the process of CBRs.

H3. The number of years of experience is a significant indicator to gauge knowledge level related to CBRs management.

2 CHAPTER 2: LITERITURE REVIEW AND PREVIOUS STUDIES

2.1 INTRODUCTION

Narratives, debates, and discussions about new strategies and trends of big banks - locating mainly in the USA and Europe- opting not to provide and /or limiting the scope of correspondent services to other banks around the globe, are contemporary complexities to moving money across the globe and consequently curtailing the movement of goods and services. Such endeavor, inaugurated mainly, to avoid strenuous compliance costs and potential fines being respondent banks were failed fully or partially to comply with AML/CFT, international and local sanctions, or regulators requirements, which would plummet with banks' balance sheets figures, accompanied by the negative reputational impact being stigmatized as banks which are facilitating suspicious transactions of money laundry and terror financing.

Basel Committee and other regulatory international bodies have adopted more strict policies which are to be imposed gradually on the international banking system, to force adhering to these policies which potentially, warrant the integrity and financial solidity of those banks as end goals Basel committee directions and objectives is about.

A frenzied debate followed the 2008 subprime crises (which is discussed in chapter 3 in more details), and its ramifications on the international banking system, pertaining the feasibility of keeping correspondent relations with particular jurisdictions, (particularly in emerging markets and developing economies), while risking those correspondent bank's financial position and reputation, such debates have sparked tons of studies of the concerned international bodies and institutions to investigate the effect of this phenomena and gauge the damage caused and to which extent it has been reached, and therefore, the recommendations to alleviate and thoroughly mitigate the impact.

Since correspondent relations networks stand as a respiratory system to the body would stand, no bank (particularly outside the USA& Europe) can survive without various and multiple banking relations, which enables it to manage his domestic and cross-border payments, remittances, settling its foreign trade transactions, investments, etc.

Therefore, it has to be the financial researchers' top priorities to dig deep into the impact of withdrawal from correspondent business on the international movement of money, the murk future which is potentially waiting for banking sector in vulnerable developing economies, being exposed to correspondent withdrawal or restricting the services granted to those banks to the minimum with limited scope in services, which have no real contribution to enhance the economy and provide meaningful tools to manage the monetary and financial policies, provided it curtails the international trade and the effective exchange of goods and services, being such correspondents banks blocked the access to advise, reimburse, or confirm letter of credits for instance, deprive that country from possessing a blanket to its import and export transactions, and consequently, the hazardous impact and infliction on development of those economies.

2.2 THEORITICAL FRAMEWORK

Developing countries and emerging markets, which were mainly afflicted by the withdrawal of correspondent banking relations, were started to report about this increasing trend to their regularities and to the international bodies and organizations involved in enhancing global monetary and financial stability, inter alia, the International Monetary Fund (IMF)[2], which has conducted researches and investigations to examine those reports and explore the extent this phenomenon has reached, and to study the main drivers of it.

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2 "The (IMF) is an organization of 189 countries, working to enhance financial and monetary cooperation, and therefore foster financial stability, it also facilitates the international trade, promote high employment and sustainable economic growth, and reduce poverty around the world. It has been established in 1945, and governed by and accountable to the 189 countries, its prime purpose is to ensure the stability of the international monetary system. Its mandate was updated in 2012 to include all macroeconomic and financial sector issues that bear on global stability. IMF capability to lend its

The bulk of literature on the effect of the withdrawal of the correspondent banking, has discussed in details this phenomenon, reasons stand behind it, its affection on the future of movement of money across the globe, and of course, the consequence of the international trade, and the threat to the local respondent banks. Following brief review of this relevant literature, with focusing on various aspects of the phenomenon, its drives, and suggested solutions to mitigate its effect, keep sustainability of movement of money, and ensures the financial inclusion to all society components, while preserving also the integrity of the financial systems and keep them away from transactions which involve any activity of money laundry or financing terror.

2.2.1 "THE WITHDRAWAL OF CORRESPONDENT BANKING RELATIONSHIPS: A CASE FOR POLICY ACTION"

(Erbenova, et al., 2016)

A study conducted by "IMF" team at 2016, has indicated that in addition of the withdrawal of correspondent business, there are also a restriction on the services, in other words, the respondent banks will not have access to all financial services correspondent banks used to serve before the emergence of financial crises, however correspondent banks are likely categorized the type of service on region, jurisdiction, customers or business line. Accordingly, the study found that the most inflicted are the smaller emerging markets, and developing economies in Africa, the Caribbean, Central Asia, Europe, and the Pacific, as well as countries under sanctions, like Iran.

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members is up to USD 1 trillion, 150 nationalities are represented by staff, 0% interest rate on loans to low-income countries" (IMF, 2019).
Source: https://www.imf.org/en/About
"It is worthy to mention that, by the 1945, the mission of the IMF assigned to it by its founders is not exactly as mentioned above, initially, it was restricted to monitor the exchange rate stability, and to adjust the external imbalances in member countries, it was acting as mediator between surplus and deficit countries, and as arbiter of changes of exchange rate par value between domestic currencies and the US dollar, but after the termination of the Dollar exchange standard by 1973, the role has been switched as captioned above (Sonnenfeld, A., Treu, T., Marshall, P. J., Suyu, S. H., Gavazzi, R., Auger, M. W., & Nipoti, 2015)."

The study also indicated that, the cost-benefit analysis, which conducted by the correspondent banks is also a major driver behind the cut-off service, as the aftermath of the 2008 crises, and the rising and change in regulatory and enforcement landscape, the rigorous requirements to anti-money laundry and combating the funding of terror (AML/CFT), however, complying to all these requirements would be made compulsory on the correspondent banks to heavily invest in software, employees, training, and updating of their systems, and also there are requirements to restructure the banks' capital, provisions and reserves, which would have heavy impact on those banks' financial positions, all these factors would lead the correspondent banks to reconsider its correspondent networks. Nonetheless, it's worthy to mention here that, in most cases, the requirements and the scale of compliance would stay ambiguous, which leave the banks, ignorant of what's the right decision, and when to decide! Also, this ambiguity would leave those banks unaware of how to avoid or mitigate risks, provided there are legal impediments across countries to exchange information and data, pertaining to parties involved in the payment transaction.

However, the study stressed on the fact that, the impact of withdrawal on respondent banks in specific jurisdictions, can become systemic in nature if unaddressed, therefore, it could disrupt the financial services, like foreign trade services, remittances, nonetheless, would lead to financial exclusion for certain types of customers, who concerned in transferring money to import goods and services, whereas, such transactions are the core of their businesses, and also, those who are concerned in serving vulnerable segments of the societies, like the nonprofit organizations.

There was a joint IMF- Union Arab Banks, which surveyed banks at Arab countries in the Spring of 2015, the survey showed that withdrawal of correspondent banks relationships (CBRs) in the Middle East and North Africa (MENA) have had impact on countries subject to trade and economic sanctions, Non- profit Organizations and Money Transfer services, this came as a result of responses of 17 countries, which revealed also, that 40% of surveyed banks, were facing higher compliance costs, and also money transfer services have been cut-off, however, in the same context, the countries of Cooperation Council of Arab Countries of the Gulf, lead the remittances flows by channeling them through non-regulated entities despite the high cost of these remittances, the survey also showed that many embassies and Non- profit organizations operating in MENA region, were reclassified to a higher risk category. It also showed that banks had reduced foreign currency transaction services to third parties, such as Money or Value Transfer services, because the risks are hard to manage, the survey also indicated that doing business in MENA are reported to have risen as a result, so that much closer monitoring, including respondent bank's business activities, know your customers (KYC), also your customers' customers (KYCC), and also management and shareholders structures. However, monitoring involved the quality of countries' regulatory and supervisory frameworks. In the MENA region, the study and relevant survey also revealed, that 10% of banks had closed relationships with respondents' banks, because, either they were under economic and trade sanctions or they were not competent enough to manage the AML/CFT policies. However, the same study offered various steps to overcome and addressing the withdrawal from correspondent banking relationships, which suggested to clarify the regulatory expectations, by making the application of regulations, and instructions clear, by keeping continuing dialogue between the regulators and banks, providing technical assistance, it also suggested to lower the compliance costs through industry initiatives (Erbenova, et al., 2016).

2.2.2 WITHDRAWAL FROM CORRESPONDENT BANKING, WHERE, WHY, AND WHAT TO DO ABOUT IT

A report prepared by the finance and markets global practice of the World Bank Group[3], discussed in details and dug deep into the phenomenon of withdrawal from correspondent banking, however, the study like other studies, stressed on the importance of the correspondent banking, as a provider of payment services by the foreign correspondent to respondent banks which includes also its affiliates, payment services would include also the execution of third party payment, trade finance, and also its own cash clearing, liquidity management, and short term borrowing in particular currencies.

The study also introduced the term "De-risking" to refer to the withdrawal of the correspondent banking industry; nevertheless, it is main intention towards this introduction links the perception of withdrawal to risk, as the main driver behind it! Therefore, it is the concern of being posed in the risk of money laundering, or financing of terrorism, or the concern to violate the list of sanctions, by any mean.

In order to give the term more identification, the study summoned the definition of "de-risking" from international body, which works closely on monitoring the financial institutions, and layout policies to guide regulators on international arenas, to counter the money laundry and financing of terror, while moving money across the globe, this institution is called "FATF" the Financial Action Task Force [4] , it defines "de-risking" as "

3 The World Bank Group: an international organization, which is consisting of 189 member countries, having staff from 170 countries, and offices scattered in 130 locations, as it described itself, it is the world largest sources of funding and knowledge for developing countries, it has five institutions, which are working towards sustainable development to achieve its goals of ending extreme poverty, and promote shared prosperity, its main institutions are The international Bank for reconstruction and development (IBRD), The International Development Association (IDA), The International Finance Corporation (IFC), The Multilateral Investment Guarantee Agency (MIGA), and The international Center for Settlement of Investment Disputes (ICISD) (WorldBank, 2019).

4 FATF, the Financial Action Task Force, is an inter-governmental policy making organization, its main purpose is establish international standards to build policies to counter money laundry and terror financing, whether national or international levels, it was established in the 1989, as an initiative of the G7, to build up measures to counter AML/CTF, there was a report of 40 recommendations issued by FATF at the 1990, those were meant to provide comprehensive plan of action to combat money laundry. After the 11th September, 2001, the FATF mandate has been expanded to include also, countering of financing the terror, therefore, the 40 recommendations have been supplemented by additional 8 (later increased to 9) special recommendations meant specifically to counter financing of terror (Yuen, 2012).

the phenomenon of financial institutions terminating or restricting business relationships with clients or categories of clients to avoid, rather than manage, risk(…). De-risking can be the result of various drivers, such as concerns about profitability, prudential requirements, anxiety after the global financial crises, and reputational risk (FATF, www.fatf-gafi.org, 2014)."

To obtain comprehensive understanding, and outlays exhaustive review of the effects and status quo of the withdrawal from correspondent banking (period covered is between 2012-mid 2015), this World Bank study surveyed 137 banking authorities, 24 large global banks, and 433 local banks, out of those approached, 20 large global banks, 170 local banks, and 91 authorities have been responded.

It's interesting to highlight the major findings of the study, which illustrate, the tendency and the effect of withdrawal of banking correspondent on the various jurisdictions around the globe, it could be summarized as following:

1. More than half of responded authorities have indicated a significant or some degree of decline in establishing new correspondent banking relationships (CBRs), notably, Latin America and the Caribbean are the most affected regions, in foreign CBRs decline. However, Europe and Central Asia region has experienced significant to moderate declines in their foreign CBRs, while the Middle East and Africa, also witnessed significant decline in the foreign CBRs, provided there were also concerns about banks located at the MENA region, which it is about countries that have been sanctioned imposed upon them, therefore, parties involved in building the CBRs, whether they're correspondent or respondent banks have stressed the importance to robust the AML/CFT (anti-money laundry/ combat financing of terror) frameworks by conducting national risk assessments, issuing guidelines, and sharing with international forums ideas, solutions, and the status quo of de-risking in the region, in

order to involve those international bodies in setting out rationale standards, which could be compatible to the region-specific settings.

2. ¾ of large global banks providing correspondent services responded that the number of accounts that held for respondents (Nostro Accounts) had declined.
3. 17 out of 20 large global banks indicated that they constantly revising their foreign correspondent banking policies, corresponding to their constant review of risk, and financial crimes and also to comply with regulatory/ supervisor directions.
4. A majority of local banks indicated a decline in foreign CBRs, of course including those in the MENA region.

Above indicated study raised conclusions and recommendations, inter alia, the following:

1. As the big global banks are trying to mitigate/avert risk, and terminating their CBRs with respondent banks, such attempt would necessarily ended up by excluding customers and business from the organized financial market, which it is well monitored and transparent, to some other murk zones, which make the system subject to more risks, susceptible and vulnerable to AML/CFT, as more exclusion would drive customers to less transparent and organized channels.
2. It noted that major banks' withdrawal from granting correspondent services, is in somehow justifiable, because of compliance costs, huge risk challenges, and business size and nature is not rationale.
3. Whereas the study emphasized on the regulators/ supervisors to ensure that banks follow a risk-based approach.
4. Banks are to be constantly abiding of the international AML/CFT standards.
5. Supervisory/ regulatory bodies have to be clear of their instructions and requirements of customer due diligence, and what information required about banks' customers' customers “know your customer’s customer) (KYCC).

6. Regulators and relevant authorities should watch carefully the true status of correspondent banks relations.
7. Correspondent banks can restrict their services to particular channels, giving trial periods instead of terminating the whole relationship.

   (World Bank. 2015. Withdraw from correspondent banking : where, why, and what to do about it (English). Washington, D.C. : World Bank Group., 2015).

2.2.3 AN OVERVIEW ON DE-RISKING: DRIVERS, EFFECTS AND SOLUTIONS

This study which committed by the Association of Supervisors of Banks of the Americas, came to review the impact of the newly emerged phenomenon of withdrawing from correspondent banking, particularly in the Americas, and of course, the rest of the world would ultimately, sharing the symptoms and threats.

The study clearly indicated that due to regulatory reform in the Americas and the across the Globe, which have laid down new international standards, accompanied with complexity and excessive compliance demands on the financial sectors and thus on the regulators consequently, have impacted the profitability, and summoned more extensive investments to protect the financial sector from criminal use and legislative implications.

However major banks under the pressure of fines (which gone worldwide from approximately 10 billion Euros in 2009, to 200 billion Euros by January, 2014, (Erbenova, et al., 2016)) due to misconduct in compliance with international standards to combat AML/CFT, and their constant endeavor to cut cost in heavy investment, in both technology and human force, to track transactions which may include violations to standards, therefore, banks opted to reduce potentially high-risk businesses, and major banks providing correspondent services leaned towards limiting and/or cutting relationships. However, the process described above is better known as “De-risking,” which is remarkably affecting emerging economies and low-income countries, the consequence of terminating relationships with respondent banks abode in these economies.

The study also explored the main drivers of the derisking, which could be summarized as the following:

1. Low return business lines for correspondent banking.
2. Greater risk management controls, and
3. More stringent and demanding prudential requirements.

As the correspondent banking business to be profitable would require high volume of various operations and diversity in services requested from respondent banks, therefore, it would be infeasible to correspondent banks to keep them on board, as the services required would be limited to the minimum with very limited scope of diversity, provided to the potential hidden or unexpected risks, which would implore less profits, more costs, and reputational risk, make it justifiable to correspondent banks to follow such entrenchment course.

The above indicated study comes to mention the effects of the derisking on the economy and society, which also, could be summarized as the following:

4. Socio-economic

   As the withdrawal of correspondent banking, would affect the movement of money across the globe, and therefore would restrict the money remittances to smaller economies, where families and people in need depend on these remittances; nonetheless, the limitations on moving of money, would have its heavy impact on startups and entrepreneurs.

5. Trade finance

   Terminating or limiting services to respondent banks, would have also bad impact on the movement of goods and services across the globe, as the payment tools used to cover the cross- border trade, like the letter of credits, standby letter of credits, guarantees, bills for collection, and transfers, would be neutralized. which, would affect the development in emerging economies, and restrict growth to minimum levels.

6. Slowing and decreasing of financial inclusion

As fewer services would be available to customers, which would draw people away from limited and restricted, formal channels of banks to some other unregulated or monitored channels, also banks would find itself classifying customers according to the correspondent banks criteria, which it is mostly classified larger proportion of customers as high- risk ones, the process which would ultimately make customers overwhelmingly desert banks and their limited access to required services.

7. Increase use and enhancement of LEI (Legal Entity Identifiers)

A legal Entity Identifier is a unique 20-character, alphanumeric code, "used to identify legal entities that are participants in financial transactions, so that help to create greater transparency in the market place, the standard of this identifier has been established according to the ISO 17442, it has been accepted for global use, and regulators started to ask banks to include it within payment orders" (Bloomberg, 2019), introduction of LEI allows banks to compare across different legal entities to detect their relationships and ownerships structures, allowing for more risk assessment.

The study came to conclude that derisking is a consequence of increased regulatory and compliance costs aimed towards reducing ML/FT problems, the solution for de-risking requires coordination among respondent banks, correspondent banks, regulators and stakeholders and deep analysis regarding the pros and cons of each alternative in each jurisdiction or region (Langthaler & Nino, 2017).

2.2.4 ASSESSING THE IMPACT OF THE DE-RISKING ON REMITTANCES AND TRADE FINANCE IN BELIZE

This study has been performed to pursue the derisking threat experienced by" Belize[5]" since 2015, the financial system has been impacted adversely, with repercussions also for the personal and commercial activities of clients.

The study indicated that by September 2016, there were four domestic banks in Belize, two of which had CBRs, notably those who maintain CBRs assisted lacking CBRs banks and their clients in transactions that involve remittance of money abroad.

The study brings a new dimension in the identification of de-risking, which it is a response to the loss of trust in capacities of other financial entities or jurisdictions to comply with FATF rules more broadly, transparency regulations. There is also the cost-benefit considerations which banks considering in the process of decision making to keep CBRs, which implies that, not only compliance to AML/CFT is the only criteria to consider, there are also a reputational risk, bribery, and corruption concerns, and also strategic business reasons.

The study discussed the issue of cost, which is a driver leads to derisking, and indicated that, in small markets, and to what related to AML/CFT, the operating costs for the international banks may increase based on uncertainties of how far the respondent banks are dealing with customer due diligence (CDD), as a measurable indicator of regulatory compliance, banks have to know their customers through implementing the CDD policies, and also banks are required to know their customers (KYC) and go further to know their customers' customers (KYCC), therefore, to avoid fines, penalties, and any reputational damage, international banks are becoming increasingly sensitive to risks accompanying

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5 Belize: a country on the Caribbean cost of Central America; population 359,000 (estimated 2015); languages are English (Official), Creole, and Spanish; Capital: Belmopan; former name (until 1973) British Honduras. Source: https://en.oxforddictionaries.com/definition/belize

correspondent banking business. Thus, they consider withdrawal with respondent banks, who are not generating big volume of business to cover costs borne by correspondent banks, and who are domiciled in jurisdictions categorized as risky or those who giving services to customers without presenting enough information about them to conduct risk assessment, or offering products and services that pose a higher risk of ML/FT.

So, the reason behind derisking affecting small jurisdictions is the cost for major international banks to scrutinize that respondent banks are seriously in compliance with requirements of international standards.

However, the study summarized the reasons why banks may decide to withdraw from CBRs, inter alia, are: "Quote"

1. High real or perceived ML/TF risks in a country, affecting the risk-reward/cost-benefit analysis of CBRs by correspondent banks;
2. Re-evaluation of business models (due to changes in FATF recommendations) and the associated legal, regulatory and enforcement environment;
3. Enhance the application of ML/TF risk countermeasures and sanctions;
4. Increase demands for tax transparency;
5. Unclear regulatory expectations;
6. Difficulties in managing and mitigating cross-border ML/TF risks associated with CBRs; and
7. Legal impediments to access cross- border information and information sharing between banks and their regulatory authorities. (Unquote).

Referring to the World Bank, the study indicated that the Caribbean region, has been badly exposed to derisking, because of the size of economies, degree of informality and institutional and regulatory challenges, provided of the presence of offshore banking in some Caribbean jurisdictions has increased the potentiality of risk.

Banks in the Caribbean have been vulnerable to de-risking, including Belize, while its banks losing CBRs, the situation poses a threat to economic and financial stability.

The study provoked many concerns pertaining to the exacerbated situation of withdrawal from CBRs, and those concerns may be summarized as follows:

1. Business to increase reliance on parallel forex for US Dollars as a result of derisking.
2. Using cash within the economy would be rapidly increased, which ultimately would increase the opportunities for money laundering.
3. The volume of business incorporated or conducted by correspondent banks would be decreased.

The study ended by submitting recommendations, which could be of a benefit to the Palestine financial sector, due to common aspects may the two jurisdictions share.

4. Enhancing compliance with international practices and standards.
5. Implement stricter transaction reporting.
6. Promoting the country as well- regulated.

(Vasquez, 2017).

2.2.5 BANK DE-RISKING IMPACTS ON FINANCE AND DEVELOPMENT. THE CASE OF ROMANIA

To review the experiences of other countries, in counteracting the phenomenon of de-risking, how the de-risking manifested itself in these countries, how it is impacting its economic performance, to which extent it derails the track of development. Therefore, I summoned this study and the case of Belize above, to be benefited from their experiences, to counter de-risking and its adverse ramifications on the banking industry and the economy.

The study indicated that the phenomenon of de-risking manifests as financial transactions contraction, including restricting the access to finance, reducing or eliminating exposures to a range of clients, individuals or legal entities and geographical areas.

Maybe the similarity with the Romanian banking sector is that the foreign capital is dominating the sector, in Romania case the parent banks have withdrawn credit lines to their subsidiaries, which amounted to 13 billion euros over the period 2009-2015, which ultimately affecting to the contraction of lending in the post-2008 international financial crises.

Derisking has been manifested also in the reduction of the total number of retail clients, also the number of banking transactions with payment instructions has decreased, and the remittances have tended also to decrease.

De-risking in Romania, also has its implications on financial inclusion, due to restricting access to certain categories of customers to financial services.

The study concluded that the de-risking phenomenon has recently entered the attentions of FIs and academics, it has also adverse macroeconomic and social effects.

Lack of proper assessment of the de-risking impact and insufficient data are main drivers which obstruct preventing and counteract the adverse effects of derisking (Georgescu, 2017).

2.2.6 DE-RISKING BY BANKS IN EMERGING MARKETS- EFFECTS AND RESPONSES FOR TRADE

The study started to emphasize those involved in addressing de-risking to focus mainly on compliance consistency and effective adaption of technology innovation; nonetheless those main drivers are the core issues behind the global banks to withdraw from corresponding business. However, it is very obvious to banking industry nowadays that de-risking is a reality which it has to seriously consider and study, the increased capital requirements, rising KYC, AML/CFT, all these drivers have contributed to global correspondent banks to exit the correspondent business, however the trade finance, which is prominent component to correspondent business, is at risk, with potential consequences for segments of emerging market trade.

The study indicated that the surge of regulatory requirements in a limited time period, by imposing increases in reserve capital requirements [6]and compliance costs[7]. "Surveys of banks conducted since 2014 show a clear trend towards spending on compliance, anti-money- laundering compliance cost has risen 53% since 2011, according to 2014 KPMG survey" (Dilley, Pesce, McCarthy, & Olcina, 2014)

The study concluded that, as banks are driven towards the increase of in capital and compliance costs, then the ability of engaging with certain businesses and segments would be trending towards decrease, however, de-risking is accelerating, which would drive the people, businesses and potentially specific whole countries away from accessing international movement of money, in a form of wire transfers, and also would pull down the foreign trade financing and thus the movement of goods and services, which ultimately would mean that those economies are facing serious threats to any potential development.

The study recommended enhanced cooperation among multilateral institutions, regulators, and private-sector financial institutions, and it also recommended enhancing clarity on regulations and expanding and hasting technological innovation (Starnes, Kurdyla, & Alexander, 2016).

2.2.7 INTERNATIONAL STANDARDS ON COMBATING MONEY LAUNDERING AND THE FINANCING OF TERRORISM & PROLIFERATION

The FATF recommendation No. 13 is concerned about the issue of correspondent banking, and give guidance of banks to conduct under the contractual prospects of correspondent banking.

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6 Banks are required to deploy computer systems designated to fulfil AML/CFT standards as required by FATF, and Basel ii & iii, (PMA, Manual for Banks to Counter Money laundry and Financing of terror, 2017)

7 Banks in the PNA jurisdiction are now required to increase their capital to reach USD 75 Million as a minimum. (PMA, Instructions 6-2015, 2015)

The recommendation required from the financial institution to what related to cross- border correspondent banking and any other similar relationships, provided to adherence to normal Customer Due Diligence (CDD), the following requirements:

1. Gathering sufficient information about respondent banks, in terms of the nature of their business, and to decide on the reputation of these banks, how they monitor and supervise various operations, whether of these banks have been ever under investigations pertaining to money laundry or financing terror.
2. Evaluate those banks' AML/CFT controls to monitor ML/FT.
3. Obtaining approvals from higher management and the board of directors (BOD).
4. Understanding the responsibilities of those banks.
5. To what related to “pay-through accounts,” the respondent bank must be fully adhered to CDD and gathered enough information about their customers to be provided immediately, to the correspondent bank upon request.

FATF, clearly stated in its guidance pertaining recommendation 13, its concern, pursue the 2008 financial crises, the trend of the correspondent banks -on its quest to avoid risk- withdrawing from contractual correspondent relations, instead of managing these risks basing on the principle of risk-based approach (RBA), therefore, this guidance came to make clear for parties, what is required to manage the relationship instead of ditching it (FATF, FATF 2016, Guidance on correspondnet banking services, FATF, Paris, 2016).

2.2.8 DE-RISKING FORUM “ENHANCING THE SUPERVISORY AND REGULATORY FRAMEWORKS RELATED TO CORRESPONDENT BANKING DE-RISKING”

The Union of Arab banks convened with its bank’s members across the Arab World at the Dead Sea – Jordan on 16-17th May, 2016, to discuss the new emergence of de-risking phenomenon, and the threat this phenomenon may impose on banks in Arab world in particular, as many member banks complain of their correspondent banks started to withdraw from the contractual corresponding relationships or restricting the services granted to those banks.

The forum hosted experts from the banking industry, to discuss the phenomenon and subsequent negative ramifications on banking industry in the Arab world, among experts participated in the forum through presentations, was Mr. Al Hassan Ben Halima, directorate of banking supervision system manager, bank Al-Maghrib, Morocco, who indicated that fewer profits, increasing in compliance cost, high fines and threats to non-compliant banks, and reputational risk are main drivers of de-risking, and also indicated that major impact, inter alia, is the financial exclusion, which would suggest more exposure to risk.

He stressed also on the role of regulators and the importance to stand vigilance, to counter ML/FT, and indicated that Central bank of Morocco has laid out regulation since 2003 to regulate know your customers (KYC) policies and procedures, this procedure followed by laying legal frame to the issuance the banking law at 2006, and also law 43-05 at 2007, which designated to counter money laundry and financing of terror. He recommended to keep a constant dialogue with international organizations and enhance cooperation within various supervision bodies, and exchange information pertaining to the issues of compliance to the international standards.

While Mr. Michael Matossian, chief compliance officer of Arab bank group, indicated, interestingly, that global institutions fear impermissible transaction may be nestled within seemingly permissible ones, he also indicated that low-risk appetite and enhanced due diligence costs are driving decisions to de-risk, however, he recommended regular dialogue with correspondent banks and full transparency regarding bank's risk appetite and the types of customers it banks, banks need to identify what type of businesses are willing to accept, initiating new dimension of KYC, and establish regular conference calls with the correspondent banks and provide relevant information.

Nonetheless, the deputy general manager of Bank al Etihad of Jordan, Mrs. Deema Mufleh Akel, reasserted the unanimous definition of de-risking as a phenomenon of financial institutions terminating or restricting business relationships, and indicated also the main drivers behind de-risking as perceived reputational risk, higher cost related to implementing AML/CFT requirements, sanctions risks, in addition to the trend of the correspondent banks to decline risk appetite, and averting reputational risks.

Mrs. Deema's paper pointed out the risks associated with de-risking as having humanitarian and social implications, political tension, Isolation of communities away from global financial services, the emergence of shadow markets, and slowing down the economic development. The presenter also stressed the importance for regulators to provide more guidance on the boundaries of the risk-based approach, and redefining the risk tolerance as there is nothing with zero tolerance, however, the paper suggested the following recommendations:

1. Ensure implementation of the risk-based approach.
2. Increase information sharing between financial institutions.
3. Effective implementation of international standards.
4. Governments to coordinate to limit de-risking threats.
5. Higher supervision on money transfers.

Mr. Ali Awdeh from the Union of Arab Banks, at his paper, indicated that aftermath of 2008 financial crises witnessed a shift in the dynamic between regulatory authorities and financial institutions, he also pointed out to the perception that banks were not held sufficiently accountable for their role in the 2008 crises, which led the US regulators to increase scrutiny on financial institutions. Therefore, the financial institutions have responded by reducing their risk appetite, which resulted in the emergence of the de-banking of whole customer bases. The paper also mentioned from its own perspective, the drivers of de-risking, which the main driver is the declining of risk appetite, associated with more AML/CFT scrutiny. Nonetheless, the reduction in foreign trade, humanitarian concerns, increasing financial exclusion, and approaching non-regulated nestles to some banking activities, are the main aspects and consequences of de-risking. Nevertheless, the paper concluded that the overly restrictive AML/CFT measures may negatively affect access to financial services and lead to adverse humanitarian and security implications, provided de-risking contributes to increasing vulnerability by pushing high-risk clients to smaller banks, that do not comply with AML/CFT policies.

Mrs. Lana Al- Barishi, compliance Manager at Bank of Jordan Amman, outlined the main drivers of de-risking as, rising of fines and penalties, reputational, and increasing in compliance costs and pressure. Whereas the impacts of de-risking are increasing money laundry and terrorist financing risks, reduction in trade finance, and increase financial exclusion; nonetheless, the paper indicated that designing and implementing a flexible risk-based approach would require customer acceptance, continues monitoring and risk rating.

At his paper, the executive manager of financial stability department at the Central bank of Jordan, Mr. Mohamad Amaireh, articulated various aspects, which de-risking would involve, inter alia, the definition of de-risking, which he described as a global trend where financial institutions are terminating or restricting business relationships. While the key drivers of de-risking are banks became more risk-averse, higher compliance costs, reputational risks, and regulatory requirements on (AML/CFT) frameworks, nonetheless, the de-risking implications are increasing trade restrictions, increasing financial exclusion, reducing economic growth, reducing bank’s profits and disruption of remittances flows affecting livelihoods of the lower-income people.

The paper highlighted Jordan’s efforts to combat de-risking, inter alia, AML/CFT law in 2007, national committee for AML/CFT and independent unit for AML/CFT with the

Central bank of Jordan. The paper concluded with different recommendations, inter alia, strengthening compliance functions at banks, enhancing the skills of compliance officers, reviewing KYC policies and procedures, global dialogue to construct a supportive regulatory environment.

(UAB, 2016)

2.3 PREVIOUS STUDIES

Search to find previous studies originated in Palestine to discuss the issue of withdrawal of correspondent banking from Palestine yielded no results, however, two related studies discussed relevant issues, committed at the Islamic University- Gaza were noted, one of them was a thesis submitted in partial fulfillment of the requirements for the degree of master of business administration, submitted by the researcher (then student) Eyad Fouad Mohd Al-Madhoun, October 2016, to the Islamic University- Gaza (Al-Madhoun, 2016). While the other study was a research done by Dr. Ali Abdullah Shaheen, published by the Islamic University- Gaza (IUG Journal of Humanities Research), ISNN (International Standard Serial Number) 1726-6807, the volume 17(2)- pages 637-676, issued June 2009 (Shaheen, 2009), which discussed the strategies to be used by banks to follow up funds washing methods and its development.

Mr. Eyad Fouad Mohd Al-Madhoun' research concluded, inter alia, that:

1. Continues developing of the services, would necessarily require networks of correspondent relations.
2. Profitability would go proportionally parallel with the number of correspondent banks.
3. Effective network would grant a competitive advantage.

4. New markets to be entered, provided spreading externally.
5. Reducing the dependency on Israeli banks in foreign operations.
6. The emergence of problems and legal difficulties, being interacted with foreign banks.
7. Studying the area where both the bank and its correspondent operate, so that to avoid various risks, like money laundering.
8. Dealing with correspondent banks would involve risks, particularly in foreign trade and transfer of funds.
9. Difficulties in foreign trade, due to political unstable region.
10. The role of the PMA is limited and is not enough effect on the development of relations between local banks and foreign correspondent banks.

However, the study recommended the following:

1. Periodic assessment to correspondent banking relations, and reviewing the mechanism used in the implementation of foreign business and operations.
2. Keeping pace with the technological development to provide new services through correspondent banks.
3. Adhering to international standards.
4. Reducing dependence on foreign correspondent banks, if they spread regionally and internationally.
5. PMA has to focus on the role of overseeing, development and setting up relations between local banks and foreign correspondents.
6. Reports to be prepared by banks or the PMA, to criticize the activities and banks transactions with foreign banks.

Commentary on the conclusion and recommendations:

1. The indicated research conclusions came as general perception about the role of correspondent banking, without articulating the status quo of the banks in the west bank and Gaza strip, nonetheless most of these conclusions could be applied to any study concerned in correspondent banking.
2. To spread externally has nothing to do with correspondent banking relationships.
3. Facing difficulties in running foreign trade transactions has nothing to do with correspondent banking.
4. Studying the [Geographic] areas where the bank and its correspondent operate, would allude to limited impression and scope about the depth of fathoming the actual role of the correspondent bank, and how it runs its contractual relations with the respondent.

Pertaining the recommendations:

1. Reducing dependence on correspondent banks, by spreading internationally is invalid hypotheses as it contradicts the very meaning of correspondent banking role and existence.
2. Provided the study did not discuss the mechanisms, which banks in the West Bank and Gaza strip are adopting to manage the correspondent relations!

However, the study is a pioneer endeavor, which successfully sheds light on the importance of correspondent banking in the West Bank and Gaza strip.

The other relevant study, which found to be gradually relevant to this research is that one commenced by Dr. Ali Shaheen, which studied the banking strategies to combat money laundry, where he indicated to general aspects of money laundering, in terms of definitions, tools and mechanisms may be utilized to enter dirty money into the economy! Also, the study came across the negative impact would money laundry have on both individual and society, in terms of corruption and proliferation of crime, depleting the resources of the nation, while combating the crime and tracking culprits and the rehabilitation of the victims.

The study also indicated to efforts exerted internationally, particularly by the FATF, the United Nations, and the Basel Committee to combat money laundry.

However, the study concluded:

1. Correlation between the proliferation of money laundry and globalization.
2. Bank secrecy is contributing to enhancing the money laundry phenomenon.
3. Control weakness and insufficient supervision on banks contribute to enhance the phenomenon.
4. Legal lags and the modern civil society legislations [contrary to divine legislations] are contributing to pace up with the phenomenon.

While the study recommended:

1. To comply with Basel's relevant principles and international organizations.
2. Stringent surveillance and control over suspicious transactions.
3. Introducing adequate managerial controls to decipher money laundry activities and bridging volatile gaps in legislation and procedures.

Commentary on the study:

It is a pioneer and contemporary study dealing with money laundering, a critical phenomenon that has an immense effect on correspondent banking future, as it is the main driver to the withdrawal of correspondent banking contractual relationships.

Unfortunately, the researcher at his conclusions indicated that the globalization and the modern legalizations are having a role in enhancing money laundry, while on the other hand recommended complying with global and international organizations standards to combat money laundry, a blatant contradiction which scientific research could prudentially avoid.

2.4 CONCLUSION

The international community and the leading organizations meant in the international monetary and financial stability show big concern about the emergence of this new phenomenon of withdrawal from correspondent relationships to avoid potential risks, and excessive operational cost to comply with stringent international standards and potentially heavy fines.

The literature show that in spite of heavy implications of withdrawing from correspondent relations, thou the correspondent banks may sound reasonable in many cases where they couldn't accurately verify the authenticity and measures the respondent banks are considering to comply with different international standards, in terms of customer due diligence (CDD) / the enhanced customer due diligence (ECDD), knowing your customer (KYC), and Knowing your customer's customer (KYCC), so that any dereliction in managing those components is very critical, and increase the probability of the correspondent banks exposure to fines, penalties and consequently to risk its reputation, therefore, the correspondent banks would find themselves obliged to increase their investments in both technology and human to trace the potential pitfalls of every transaction comes from respondent banks, which ultimately resulted in excessive costs.

The respondent banks, on their turn, have to realize that honest adhering to international compliance standards is a sacred mission for them in order to keep themselves on the international map of correspondents.

The researcher experienced the measures considered when Commerzbank chosen to withdraw from correspondent contractual agreements with most of the banks operating in Palestine, those banks who were dealing irresponsibly and tolerate compliance measures as required by the Commerzbank itself, which were practical translation to international measures, have lost their correspondent relations with one of the major banks in Europe.

Therefore, banks in Palestine have to deliberately work towards enhancing their compliance potentials, and procedures, they have to increase their investment to fortify their relevant bylaws and procedures, and heavily invest in building competent risk management departments, which is capable to guide and lead the institution towards its safe heaven.

CHAPTER 3

3 METHODOLOGY

The methodology adopted to implement the various aspects and particulars of this study researched utilizing the qualitative research method, and the quantitative research methods, in terms of:

1. A questionnaire built and distributed to working banks in Palestine.
2. Structured interviews with bank's compliance, risk, treasury, and correspondent banking relationship (CBR) officers.
3. Structured interviews with relevant officers in the PMA, who are monitoring and regulating the CBRs at banks.
4. Data collected from the periodic bulletins issued by the Association of Banks in Palestine.
5. After analyzing the data collected, which come up with answers to our research main, sub-questions, and objectives, then the research concluded results and recommendations.

3.1.1 QUESTIONNAIRE DESIGN

Research's questionnaire designed to reflect the status of correspondent banking relationship in Palestine's banking sector, in terms of gauging the level of bank's compliance to the international standards accepted practices, and also built to gauge the level of internal coordination and liaison among departments meant to steer the process of building correspondent relationships.

The research referred to questionnaire and inquires submitted by the Wolfsburg Group (Defined in chapter 1) (Wolfsberg Group, 2018) and derived accordingly, the questions and ideas required to serve the purpose of this research.

The questionnaire divided into sections, where every section is directed to a particular department which is involved in supervising the process of correspondent relationships. Nonetheless the outcome of these questions would explore any contradictory answers among various departments and also between those departments and the relevant policy makers at the PMA, which ultimately produces accurate picture about how banks and regulators are steering the process of correspondent banking relationships.

The questionnaire also questions the volume of business each treasury at each bank is conducting with correspondent banks in order to gauge the impact of losing such opportunity and also the questionnaire investigates the protocols of confirmations to letter of credits and the protocols to open RMAs with correspondent banks to explore the impact of losing such relations on foreign trade.

On his quest to explore more facts about the status of correspondent banking relationships, the research also adopted the man-on man meetings with several officers who are managing the risk, compliance, treasury and foreign institutions departments at banks, and also with officials in the PMA who have been asked questions which produced similar outcome as the questionnaire did.

3.1.2 RESEARCH POPULATION

As the subject dictates, the officials and employees working in the departments of risk, compliance, treasury, and foreign institutions at both local and foreign banks. Nevertheless, officials supervising and monitoring the performance of these departments.

3.1.3 DEPENDENT VARIABLES

A questionnaire has been built of questions, which are meant to quantify the impact of the withdrawal of CBRs basing on dependent variables, which classified within the following categories:

1- Policies &implementation, which are reflected in questions 5, 6, 7, 11, &19 in the questionnaire.

2- Know- How & awareness, which are reflected in questions 8, 9, 10, 11, 14, 20, & 24.

3- Protective measures, which are reflected in questions 3, 7, 11, 13, &22.

4- Indicators, which are reflected in questions 4, 18, 23, 24, 25, 26 & 27.

5- Impact, which is indicated in questions 15, 16, & 17.

1.1.1. INDEPENDENT VARIABLES

Independent variables have been reflected in the questionnaire as:

1- Bank's affiliation in terms of local or foreign, which is reflected in question number 1.

2- Classification of department/ agency, which is reflected in question number 2.

3- Years of experience, which is reflected in question number 3.

3.2 RESEARCH STRUCTURE

The structure will be built from different chapters, which articulate the following:

Chapter 1; introduction, and preamble a glimpse of the importance of Correspondent banks to the banking industry.

Chapter 2: literature review and previous studies in Palestine.

Chapter 3: Methodology

Chapter 4: Correspondent banking withdrawal, concepts, motivation, and drivers.

Chapter 5: Data analysis and discussion of results.

Chapter 6: conclusions and recommendations.

CHAPTER 4

4 CORRESPONDENT BANKING WITHDRAWAL, CONCEPTS, MOTIVATION, AND DRIVERS

4.1 INTRODUCTION

From the ancient times, and the need to arrange payments internally, within the internal jurisdiction, as well as, cross borders was with immense importance, individuals and merchants who were about to travel across borders, and in order to avert risk of carrying large sums of money in pockets or suites, while travelling for long distances and for a long period of time, people and merchants in the western world at the 18th century used to ask their bankers to issue them "Traveler's letter of credit" as an formal letter issued by the bank addressed to its agents or correspondents domiciled at the destination, this letter would inform about the valued status of the client, and usually requested to provide any possible assistance to them, moreover it would authorize the correspondent bank or agent to pay this specific client-specific sum of money. However the Traveler's letter of credit would indicate the maximum amount could be paid under the power of this document, also would indicate its expiry date, and the reimbursement manner, which so often through promissory note, drawn on the issuing bank as previously mentioned, it's worthy to mention also that this document could be presented to many different correspondents, which would indicate on the face of the document the specific amount each correspondent/ agent paid to the client, but within the permissible maximum amount indicated by the issuer.

In return, the issuing bank undertakes to pay a bill of exchange / promissory note drawn by the correspondent/ agent on the issuing bank for the amounts paid plus correspondents/agents' charges. (Rowe, Berrisford, & Wickremerante, 2004).

In our modern time, the movement of money and goods have been rapidly evolved and advanced, particularly with the advancement of technology, which made the role of correspondent banking indispensable and thus more sophisticated.

Therefore, the correspondent banking is becoming essential part of the payment system across the globe, however, whereas, local banks, on one hand, are utilizing the opportunity to access new universal markets, and therefore seize these opportunities to offer wider windows before their clients to lucrative investments in both money and capital markets in the most international dynamic markets, while on the other hand, it made the movement of goods and services rotating around the globe smoothly and around the clock, thanks to appeasements and security endowed to parties involved in the commercial transaction.

Correspondent banking, as a concept, inter alia, involves a contractual relationship between two banks, whereas, smaller bank often asks to initiate account with other bigger bank, located in leading business markets, like the USA and Europe, nevertheless, most the commercial and investment transactions are made with those economical giants' currencies.

The European Central Bank (ECB, 2015), in its ninth survey on correspondent banking in euro, February 2015, it defined the correspondent relationship as" agreements or contractual relationships between banks to provide payment services for each other. While more detailed definition incorporated by the Wolfsberq Group[8] which defined the term as per following" correspondent banking is the provision of a current or another liability account, and related services, to another financial institution, including affiliates, used for

8 The Wolfsberq Group is an association of 13 global banks which aims to develop guidance and frameworks for the management of financial crime risks with respect to KYC, AML and CFT policies, these banks are" Banco Santander, Bank of America, Barclays, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sacks, HSBC, J.P. Morgan Chase, Mufg Bank (Bank of Tokyo Mitsubishi-UFJ, Ltd), Société Générale, Standard Chartered Bank, UBS"

the execution of third-party payments and trade finance, as well its own cash clearing, liquidity management, and short term borrowing or investment needs in a particular currency”.

From the above-mentioned definitions, it’s obviously noted that the corresponding banking relationship involves a reciprocal beneficial interest between the respondent bank and the correspondent one, this bilateral relationship would include the opening of accounts, by the respondent in the books of the correspondent, and thus would require the respondent bank to deposit amounts of money in these accounts and most often in different currencies, this process in banking terminology – as previously indicated in chapter 1- is called “NOSTRO” account, which indicates the records held at the respondent bank to follow the financial transactions incorporated by the correspondent bank upon the respondent further instructions, the term NOSTRO is an Italian term which means “OUR”, therefore, the term would implicate “our money with the correspondent bank”, on the other hand the account/s opened at the correspondent bank would be described as “ VOSTRO” account, and it’s often in the same correspondent jurisdiction currency, notwithstanding the fact that other accounts with other jurisdiction’s currencies are also permissible, similarly, the term VOSTRO is also an Italian term which means “YOUR”, therefore, it implicates your money with us, that is the sum of money deposited by the respondent bank at their account with the correspondent bank (Investopedia, 2019) .

The importance of correspondent banking came from the vital role it outplays in cross-border payments and transactions, as a customer to any bank, whether corporate or retail/ individual, you would require from your bank to transfer money/ pay money to cover your commercial activities or other financial transactions which would require movement of money, for example importing goods from abroad, or paying your son’s educational fees and expenses abroad, and maybe you want to invest at the international markets, by buying securities, bonds and stocks, however, all these activities would require from your bank to be prepared to offer you an access to the international markets, while such access couldn’t be accomplished without vast network of correspondent banks across the globe.

However, the internal payments across businesses/ individuals located within the same jurisdiction are accomplished usually through the clearing rooms set up by the central banks, which provide the logistics for the local banks to exchange payments, and settlement of different payment tools like cheques, and local transfers within this room which supervised by the center bank personnel, thus the result of such interbank exchange of cheques and local transfers session are recorded on the books of the central bank, which on his part would advise each single member bank of his financial status concluded, however, and thanks to technology advancement, nowadays most central banks across the globe are running their internal payments through the RTGS system “ Real Time Gross Settlement”, implementing this system by the central bank with the participation of the members of the local banks, would include providing the means to local banks to electronically exchange payments among each other, by accumulating the different transactions done by the banks on the central bank’s servers, during a specific period articulated by the center bank itself, and keep those transactions in bundles in terms of debits and credits, and at the time of settlement specified, the central bank would generate the results of these transactions affecting the financial positions of the those local banks on the books of the central bank.

On 15 September, 2014, the PMA launched the automated clearing system, where then-Governor, Dr. Jihad Al Wazir made it clear that” the purpose of the launch and implementation of this system (RTGS) is to provide effective systems for the execution of cheque clearing and other retail payment instruments in a modern, prompt, and more secure manner” (PMA, 2019). It was obvious that the RTGS system has transformed the payment system in Palestinian jurisdiction to advanced level which simulates payment systems in various advanced economies, elevate with economic performance, particularly on its micro level, and stimulate local payment loops to run smoothly and effectively.

4.2 CORRESPONDENT BANKING, FINANCIAL INCLUSION, AND DEVELOPMENT

The Palestinian National Authority (PNA), joined the international community in adopting the Sustainable Development Goals (SDGs) and 2030 Agenda, those universally agreed 17 goals and 165 targets are adopted by the head of states and governments at the United Nations Sustainable Development Summit in 2015, among them, which are directly influencing the human affairs were those goals, which are mainly meant to eradicate poverty, zero hunger, gender equality, reduce inequalities, quality education, good health and well-being (PNA- Prime Minister Office, 2019).

Notwithstanding, complying with the requirements to achieve the SDGs is initially, the mission of the government, and it is the government to work internally by utilizing various tools, and techniques in terms of both micro and macro-economic, but still the interaction of external factors and the partnership of the international stakeholders would be indispensable and therefore, movement of money across borders is inevitable, to enhance the government efforts to pursue its relevant obligations.

Eradicate the poverty, zero hunger, and mastering quality education, for example, would require the citizens from different social and economic prospects, access to the markets and financial services, and this would require the banking sector in the country, to be viable and effectively connected to the international banking networks. Nevertheless, talking about economic and social development, wouldn't be realistic anyhow without a banking system, which is capable to be engaged with the course of development.

Presenting certain services to clients, across its various segments and categories is the main purpose of the financial system all about, in any country. However; among services are those related to the cross- border payments, foreign trade, and liquidity management. Hence, the availability of such services, would guarantee wider contribution of different sectors of the society in the various commercial activities and therefore, more contribution would be always bound to availability of financial services, with capabilities to assimilate most society components, which concurs with the strategic goals of the National Strategy for Financial Inclusion in Palestine (PMA, PCMA, 2018).

Nonetheless, the financial inclusion and economic development, would necessarily, require accessible, and diverse financial services and such diversity would not be met, with international corresponding banks are withdrawing, declining their services, and restrict their scope, however, this would have consequences on the international trade, growth development, financial inclusion and of course on the entire financial system (Grolleman & Jutrsa, 2017).

It’s worthy to mention here, that the National Strategy for Financial Inclusion in Palestine, unfortunately, missed indicating the vital role of which the correspondent banking could play, provided missed to highlight the deep perils could the withdrawal inflict on the financial inclusion, growth and on the entire financial system (PMA, PCMA, 2018).

4.3 WHAT ARE THE MAIN DRIVERS, THAT COUNTER THE CBR EXPANSION?

Since the year 2008’ notorious financial crises, which also known as the subprime mortgage[9] crisis, whereas the major banks at the USA, have channeled over 1 trillion US Dollars to clients, whose, their credit record and history tell that they were not qualified for standard requirements to obtain a conventional loan, in such cases, and due to higher risk, that would accompany these loans, banks used to levy such customers interest rate which is higher than those rates prevailed in the market (Reinhart & Rogoff, 2008).

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9 Subprime mortgage is a type of loan granted to individuals with credit scores, who, as a result of their deficient credit histories, would not be to qualify for conventional mortgages, (Bird, 2019).

The subprime mortgage crisis, has disclosed malpractices of the financial industry worldwide, and highlighted the poor consideration to identify and counter risk, this, inter alia, has motivated the Basel Committee[10] on March 2011,to mandate the Core Principles Group[11] to review and update the principles, which were laid down, back since the 1997, since then those core principles were reviewed as the minimum standard for effective regulating and supervision of banks and banking system, therefore those Core Principles are used by the global central banks as a benchmark to assess their banking systems performances, also those Core Principles are used by the International Monetary Fund (IMF) and the world bank, in the context of the Financial Sector Assessment Program (FSAP), in order to assess the effectiveness of countries' banking supervisory systems and practices (Basel Committee on Banking Supervision, 2012).

Those principles actually, have laid restrictions imposed on banks who are offering correspondent banking services, which made the compliance a hectic, costly and risky, as those correspondent banks who don't comply would be subject to sanctions and fines.

Principle 29, which discusses the abuse of financial services, under essential criteria subject, sub-point 6 says that, QUOTE "the supervisor determines that have in addition to normal due diligence, specific policies, and processes regarding correspondent banking. Such policies and processes include:

a) Gathering sufficient information about their respondent banks to understand fully the nature of their business and customer base, and how they are supervised; and

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10 "The Basel Committee on banking Supervision consists of senior representatives of bank supervisory authorities and central banks from Argentina, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, The Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States. (Basel Committee on Banking Supervision, 2012)

11 "The Core Principles Group consisted of members from the Committee and Basel Consultative group, which comprises representatives from both Committee and non- Committee member countries and regional groups of banking supervisors, as well as the IMF, the World Bank, and the Islamic Financial services Board" (Basel Committee on Banking Supervision, 2012).

b) Not establishing or continuing correspondent relationships with those that do not have adequate controls against criminal activities or that are not effectively supervised by relevant authorities, or with those banks that are considered to be shell banks[12]" Quotation ended, (Basel Committee on Banking Supervision, 2012).

Sub-point 8, of principle 29, has indicated that "the supervisor has adequate powers to take action against a bank that does not comply with its obligations related to relevant laws and regulations regarding criminal activities" (Basel Committee on Banking Supervision, 2012). Basel committee indicated also that, the supervisor / regulator would have at its disposal the ability to revoke the banking license or to recommend its revocation, as indicated in "principle 11, corrective and sanctioning powers of supervisors", which made correspondent banks really concern about its very existence, at the first place provided the risk of big fines, which would definitely deteriorate its profits along with its reputation. however, it's worthy to mention here, some examples of fines and penalties have been imposed by regulators across the globe on prime international banks, which have found not complying to the internationally accepted standards to counter money laundry and terror financing, among those banks, was UBS bank, which was fined in December 2018, a mere USD 15 Million by US law enforcement, for failings in its AML programs, while Commonwealth Bank of Australia, which it's Australia biggest bank, agreed to pay on June, 2018 USD 534 Million to settle civil proceedings related to more than 50 thousands of

12 Shell banks are the banks that have no physical presence (i.e. meaningful mind and management) in the country where they are incorporated and licensed, and are not affiliated to any financial services group that is subject to effective consolidated supervision. Typically, a shell bank maintains nothing but a registered agent in its country of incorporation, with the agent having little or no knowledge of the day-to-day operations of the bank. (Basel Committee on Banking Supervision, 2003)

breaches of anti-money laundering and counter-terrorism financing (AML/CFT) laws between 2012-2015, (Neale, 2019).

Based branch in New York, the Arab bank has been fined for USD 24 Million, whereas a joint release issued on August 17, 2005, by two U.S governmental bodies, the Comptroller of the Currency Administrator of National Banks, and the Financial Crimes Enforcement Network, declared that such fine came for violations of the Bank Secrecy Act, and the proceeds to be paid to the U.S Department of the Treasury. The release indicated also that the bank failed to implement an adequate anti-money laundering program to comply with the Bank Secrecy Act and manage the risks of money laundering and terrorist financing in connection with the U.S Dollar clearing transactions (FinCEN, OCC, 2005).

As a consequence of this fine, the Arab bank started to do its best to be following international compliance standards, which made its management to specify a space on its Palestine website to indicate the USA Patriot Act, whereas financial institutions operating in the U.S.A are required to obtain certain information, via a certification process, from any "foreign bank" that maintains a correspondent account with it on the behalf of its foreign branches (Arab Bank, n.d.).

However, the bank notably, published on its website a report issued on July 1, 2008, from the Ambassador of the U.S.A to Jordan to the U.S.A' State Department Headquarters, saying that Arab bank has been active in anti-money laundering (AML) efforts inside its bank, and is the leader among Jordanian banks for AML and countering the financing of terrorism (CFT) (Arab Bank, n.d.).

Notwithstanding the report from the U.S.A Ambassador to Jordan may interpreted as a prove of the bank's adhering to compliance requirements, but it indicates also the panic of the bank's administration from more fines, or any other further procedures, this tension manifested itself, in uncustomary endeavor in business world, that a commercial bank relay reports from political bodies, which made the report a sort of complimentary, with a political glimpse, particularly when the report came to mention that the Arab bank group regulatory compliance division is led by Executive Vice President Mr. Michael Matossian[US Citizen], a procedure which transcends customs and practices financial institutions would recruit to evaluate its compliance standards, which should be conducted and evaluated by competent regulatory bodies, rather than political ones, but this is a good example, which demonstrates the strict policies, correspondent banks started to consider pertaining the issue of withdrawal from correspondent business.

To illustrate the heavy price top global financial centers borne, for span of ten years from 2008-2018, below is a Table (1) which demonstrates a burden of USD 25 billion paid by various international banks for not complying with AML/KYC sanctions

Table 1: Top Global Financial Centers-Total AML Levied 2008-2018

Global Financial Center	Total Fines Levied USD
USA	23,529,862,783
Australia	534,367,200
UK	410,201,519
France	113,620,000
Switzerland	50,965,000
Germany	44,000,000
Singapore	16,808,000
Luxembourg	13,963,350
United Arab Emirates	9,446,600
Hong Kong	5,358,044
Canada	837,330
Grand Total	24,729,435,826

Source: Fenergo Paper- A fine mess we’re in- AML/KYC Sanctions Fines (Fenergo, 2018).

CHAPTER 5

5 DATA ANALYSIS AND DISCUSSION OF RESULTS

5.1 DATA ANALYSIS

Data were entered, cleaned, coded and analyzed using SPSS (version 25), a detailed description of the analysis is below:

- Descriptive statistics of demographic variables (the type of bank, department of the employee, and years of experience) represented by frequencies.
- Descriptive statistics of foreign institutes (FI) department-related indicators were calculated.
- Dependent variables were calculated using the scoring schemes described below for each of them

5.2 ADOPTION OF POLICIES AND PROCEDURES REGARDING CORRESPONDENT BANKS RELATIONSHIPS BY BANKS AS WELL AS REGULATOR (PMA). *"POLICIES ADOPTION SCORE"*

Policies adoption scores were computed by adding the points of each of the following questions extracted from the questionnaire collected from the banks according to what is explained between the brackets.

1. Does the bank keep correspondent banking relationships with foreign banks other than Arab countries bank? (1 point if yes, 0 points if no) How many correspondents are there (1point if less than five correspondents, 2 points if 5 or greater correspondents)
2. Does the bank keep correspondent relationships with Arab countries' banks? (1 point if yes, 0 points if no), how many correspondents are there (1 point if less than five correspondents, 2 points if 5 or greater correspondents)
3. Does the bank have procedures/bylaws to articulate the required procedures to establish correspondent relationships? (1 point if yes, 0 points if no)

4. How many RMAs does the bank keep in foreign banks? (1 point if the number of RMAs is less than or equal 20, 2 points if the number of RMAs is between 20 and 40, 3 points if number of RMAs is 40 or greater)
5. Does the bank report regularly to the PMA about the correspondent banks' relationship status quo? (1 point if yes, 0 points if no)

5.3 BANKS AWARENESS OF THE CHALLENGE OF NON-COMPLIANCE TO REGULATOR AND RELEVANT INTERNATIONAL STANDARDS. *"AWARENESS SCORE"*

Awareness score was computed by adding the points of each of the following questions extracted from the questionnaires collected from the banks according to what is explained between the brackets.

1. Is there a department, which is dedicated to corresponding banking (FI foreign institutions?) (1 point if yes, 0 points if no)
2. Does the bank employ the FI officer/manager? (1 point if yes, 0 points if no), what are his years of experience? (1 point if his years of experience (0-5) years, 2 points if (5-10), 3 points if his years of experience greater than 10 years)
3. How many NOSTRO /VOSTRO accounts does the bank have? (2 points)
   (1 point if NOSTRO, 0 if Vostro, 1 point if NOSTRO accounts' number equal number of FI correspondents' number, 0 point if not)
4. How many RMAs does the bank keep in foreign banks? (1 point if the number of RMAs is less than or equal 20, 2 points if number of RMAs is between 20 and 40, 3 points if number of RMAs is 40 or greater)
5. Is the FI officer designated as LSO or RSO to manage swift? (1 point if one of them at least was chosen)
6. Have your correspondent bank/s-imposed limitations on your cross-border payments? (1 point if yes, 0 points if no)

5.4 HAVE BANKS DEVELOPED/INVENTED PROCEDURES, ALTERNATIVE CHANNELS, AND TECHNOLOGIES TO COPE WITH ANY FUTURE CORRESPONDENT WITHDRAWAL' CHALLENGES *"PROTECTIVE MEASURES SCORE"*

The remedial measures score was computed by adding the points of each of the following questions extracted from the questionnaire collected from the banks according to what is explained between the brackets.

1. Does the bank keep correspondent relationships with Arab countries Banks? (1 point if yes, 0 points if no) How many correspondents are there (1 point if less than five correspondents, 2 points if 5 or greater correspondents)
2. Does the bank have procedures/bylaws to articulate the required procedures to establish correspondent relationships? (1 point if yes, 0 points if no)
3. How many RMAs does the bank keep in foreign banks? (1 point if the number of RMAs is less than or equal 20, 2 points if the number of RMAs is between 20 and 40, 3 points if number of RMAs is 40 or greater)
4. Diversity in correspondent relationships, is among risk identified? (1 point if yes, 0 points if no)
5. How many employees are there in FI Dept.? (1 point for each employee)
6. Does your correspondent bank in the USA, agree to confirm your letter of credits standby LCs and guarantees? (1 point if yes, 0 points if no)

5.5 HAS THE REGULATOR DEVELOPED MEASURES TO ASSURE FULL COMPLIANCE TO INTERNATIONAL STANDARDS TO PROCURE BUSINESS "*INDICATORS SCORE"?*

Indicators' score was computed by adding the points of each of the following questions extracted from the questionnaire collected from the banks according to what is explained between the brackets.

1. Is there a risk profile identified to FI Dept.? (1 point if yes, 0 point if no)

2. Has the bank documented policies and procedures consistent with applicable AML/CFT regulations and regulations to reasonably prevent, detect, and report?
    i. Money laundry (1 point if yes, 0 point if no)
    ii. Terrorist financing (1 point if yes, 0 point if no)
    iii. Sanctions violations (1 point if yes, 0 point if no)
3. Did any correspondent bank has ceased relationship with your bank? (0 point if yes, 1 point if no)
4. Does your bank perform the enhanced customer due diligence (ECDD) in terms of obtaining your customer's customers' (KYCC) information on your cross-border payments? (1 point if yes, 0 points if no)
5. Have your correspondent bank/s-imposed limitations on your cross-border payments? (1 point if no, 0 point if yes)
6. Does your bank, conduct sanctions screening against sanctions list (s) (1 point if yes, 0 points if no)
7. Does your bank, transfer money abroad by order of money exchangers? (1 point if no, 0 point if yes)
8. Does your bank effect payments, by the order of a third party? Given the bank transfer money abroad by order of money exchangers (previous question (yes answer) (0 points if yes, 1 point if no)
9. A descriptive analysis was conducted for the dependent variables.
10. A cross-tabulation of the mean for each dependent variable by demographic variables was conducted.
11. Computing the correspondent bank probability to withdraw depending on a set of indicators decided and weighted by the researcher.

12. Investigate the existence of a relation between a set of dependent variables and the type of bank using a 2-independent sample t-test for those variables which met the normality conditions for both categories of bank type, and using Man-Whitney test for those which didn't meet the normality conditions.
13. Investigate the existence of relation between a set of dependent variables and the period since the establishment using 2-independent sample t-test for those variables satisfying the normality assumption for both categories of bank type, and using the non-parametric Man-Whitney test for those which didn't satisfy the normality, the period was calculated to be the difference between 2019 and the year of establishment, and later categorized into less than 24 years, and 24 years or greater.

5.6 RESULTS

5.6.1 SAMPLE CHARACTERISTICS

Table (1) below shows the sample main characteristics, it is clear from the below indicators that two thirds of the respondents worked for local banks while the rest worked for Jordanian ones, one quarter on the respondents reported that the banks they worked for were established 22 years ago and the majority were more than that since establishment, the respondents worked mainly in the treasury and operations departments (30.8% each), risk management (23.1%), compliance and FI (7.7% each), all of the respondents were of more than 10 years of experience.

Table 2: Sample distribution by demographic variables

Variable	Categories	Counts	Percentage
Type of bank	Foreign bank	5	33.3%
	Local bank	10	66.7%
Period of establishment	3	2	16.7%
	22	3	25%
	24	5	41.7%
	25	1	8.3%
	33	1	8.3%
Department	Risk management	3	23.1%
	Compliance	1	7.7%
	Foreign Institutions (FI)	1	7.7%
	Treasury	4	30.8%
	Operations	4	30.8%
Years of experience	1-5 years	0	0.0%
	5-10 years	0	0.0%
	More than ten years	13	100.0%

5.6.2 DESCRIPTIVE STATISTICS OF FOREIGN INSTITUTES RELATED INDICATORS

In response to a set of questions related to dealing with foreign institutes we noticed that the respondents seemed very positive in responding to the questions as all of the respondents reported keeping banking relationships with foreign banks other than Arab countries banks, also 100% of the respondents claimed keeping relations with Arab countries banks, almost 80% said there were procedures/ bylaws to articulate required procedures to establish correspondent relationships around 65% of the respondents said they have FI officer/ Manager while only 57.1% of the respondents said there was a department, which is dedicated to correspondent banking FI. This might be a reason for having each respondent fill the questionnaire separately, which made everyone keen to show the best of their workplace, claiming the existence of non-existent procedures/ relations or even employees.

Remarks on Table 2, sample distribution on demographic variables:

Questionnaire and interviews disclosed the fragile coordination between departments entitled to run foreign institution affairs and other departments designated to risk linked issues, concerned to calibrate and mitigate withdrawal drivers to the least to ensure adequate compliance to international organizations' standards and requirements.

Investigated foreign banks investing in Palestine from Jordan and Egypt, I've noticed that they have dedicated no department which stands alone to manage the international institutions' business autonomously; nonetheless, they have no dedicated trained staff who adequately equipped to run this critical business. They are just relying on the margin of knowledge obtained unsystematically from contacting their peer colleagues at head offices in Amman of Jordan either by mail or phone, however, some tried to ridicule the importance of physical existence of dedicated departments, due to the presence of them at Jordan, disregarding the fact that those entities are operating in two different jurisdictions.

Chapter 2, has discussed the challenges and obstacles from Arab banking sector perspectives, a reference to the “De-risking forum “enhancing the supervisory and regulatory frameworks related to correspondent banking de-risking “ (UAB, 2016).

Table 3: Frequencies of Foreign Institutes Department Related Indicators

Indicator	Categories	Counts	Percentage
Does the bank keep correspondent banking relationships with foreign banks other than Arab countries banks?	Yes	14	100.0%
	No	0	0.0%
Does the bank keep correspondent relationships with Arab countries' banks?	Yes	13	100.0%
	No	0	0.0%
Does the bank have procedures/ bylaws to articulate the required procedures to establish correspondent relationships?	Yes	10	76.9%
	No	3	23.1%
Does the bank employ the FI officer/ manager?	Yes	9	64.3%
	No	5	35.7%
Is there is a department, which is dedicated to correspondent banking FI?	Yes	8	57.1%
	No	6	42.9%

Remarks on Table 3, Frequencies of Foreign Institutes Department Related Indicators

Questionnaire and interviews prevailed that most banks are keeping direct correspondent relationships with banks in both Arab Jurisdictions and foreign Jurisdictions; nevertheless, they mostly keep correspondent relations accounts with US Dollars or Euros, but we have not noticed a broad relationship with Arab banks using other Arab countries currencies.

This trend indicates that Arab countries have to exchange their inner commercial transaction through the USA or Europe, which perpetuate their reliance on foreign jurisdictions and keep their internal trade within the Arabs world, hostage to foreign correspondent withdrawal threat.

The outcome here is apparently concurrent with the previous study indicated in Chapter 2 “an overview on de-risking: drivers, effects and solutions” a study which committed by the Association of Supervisors of Banks of the Americas (Langthaler & Nino, 2017). Table (3) below shows the cross-tabulations between questionnaire items and the bank type.

Table 4: Cross table of items responses according to bank type

Foreign Institutions Related Analysis

		Type of Bank			
Item	Categories	foreign bank		local bank	
		Count	%	Count	%
Does the bank keep correspondent banking relationships with foreign banks other than Arab countries banks?	yes	5	100.0%	9	100.0%
	no	0	0.0%	0	0.0%
How many	1	0	0.0%	2	22.2%
	3	3	60.0%	1	11.1%
	4	0	0.0%	4	44.4%
	5	1	20.0%	1	11.1%
	6	0	0.0%	1	11.1%
	10	1	20.0%	0	0.0%
USD	yes	5	100.0%	7	77.8%
	no	0	0.0%	2	22.2%
ILS	yes	5	100.0%	5	55.6%
	no	0	0.0%	4	44.4%
JOD	yes	4	80.0%	5	55.6%
	no	1	20.0%	4	44.4%
EUROS	yes	5	100.0%	8	88.9%
	no	0	0.0%	1	11.1%
	yes	5	100.0%	8	100.0%

Does the bank keep correspondent relationships with Arab countries' banks?	no	0	0.0%	0	0.0%
How many	1	3	60.0%	2	25.0%
	2	0	0.0%	1	12.5%
	3	1	20.0%	2	25.0%
	4	0	0.0%	1	12.5%
	6	1	20.0%	2	25.0%
USD	yes	2	40.0%	3	37.5%
	no	3	60.0%	5	62.5%
JOD	yes	5	100.0%	6	75.0%
	no	0	0.0%	2	25.0%
ILS	yes	1	20.0%	1	12.5%
	no	4	80.0%	7	87.5%
GBP	yes	1	20.0%	0	0.0%
	no	4	80.0%	8	100.0%
EURO	yes	1	20.0%	2	25.0%
	no	4	80.0%	6	75.0%
Does the bank have procedures/ bylaws to articulate the required procedures to establish correspondent relationships?	yes	4	80.0%	6	75.0%
	no	1	20.0%	2	25.0%
Is there is a department, which is dedicated to correspondent banking FI (foreign institutions).	yes	2	40.0%	6	66.7%
	no	3	60.0%	3	33.3%
Does the bank employ FI officer/ manager?	yes	2	40.0%	7	77.8%
	no	3	60.0%	2	22.2%
What are years of expertise?	yes	0	0.0%	0	0.0%
	no	0	0.0%	0	0.0%
	3	0	0.0%	2	28.6%
	5	0	0.0%	3	42.9%
	10	1	50.0%	1	14.3%

	12	0	0.0%	1	14.3%
	15	1	50.0%	0	0.0%
How many Nostro accounts does the bank have?	3	2	50.0%	1	14.3%
	4	0	0.0%	1	14.3%
	5	1	25.0%	0	0.0%
	6	0	0.0%	1	14.3%
	7	0	0.0%	2	28.6%
	10	0	0.0%	1	14.3%
	11	1	25.0%	1	14.3%
How many Vostro accounts does the bank has?	0	1	33.3%	4	66.7%
	2	1	33.3%	0	0.0%
	3	1	33.3%	0	0.0%
	12	0	0.0%	2	33.3%
How many RMA, does the bank keep with foreign banks?	2	1	25.0%	0	0.0%
	10	0	0.0%	1	16.7%
	11	1	25.0%	1	16.7%
	30	0	0.0%	1	16.7%
	39	2	50.0%	0	0.0%
	50	0	0.0%	1	16.7%
	101	0	0.0%	2	33.3%
How many employees are there in the FI Dept.?	0	0	0.0%	2	25.0%
	1	0	0.0%	1	12.5%
	2	2	100.0%	5	62.5%

Remarks: It is noted that local banks except one (SAFA Bank) are keeping a department which is designated to manage and build new correspondent relations, mostly these departments consist of two employees only. Nevertheless, foreign banks, which are Jordanian banks, are relying only on those departments which are located at their headquarters in Amman – Jordan.

It is noted that banks are not making use of relationship management agreements (RMA), which is a channel to connect banks via SWIFT with other major banks across the globe without the need to open any Nostro/Vostro accounts.

Treasury Related Analysis

Is there is a platform to execute foreign currency exchange with your correspondent bank?	yes	2	40.0%	7	87.5%
	no	3	60.0%	1	12.5%
Do your correspondents allow foreign exchange transactions, which exceed platform's limit, to be conducted outside the framework of the platform itself	yes	1	25.0%	0	0.0%
	no	3	75.0%	5	100.0%
Do your correspondents offer you preferential rates, for your deposits (time deposits, overnight ones) bonds, stocks, syndicated loans, and mutual funds?	yes	4	80.0%	5	100.0%
	no	0	0.0%	0	0.0%
	99	1	20.0%	0	0.0%
Do you think, there is an alternative available in the local market, which is capable of compensating the loss of correspondent bank's foreign currency exchange business	yes	0	0.0%	0	0.0%
	no	4	100.0%	3	100.0%
What's the percentage treasury contributes annually. to the overall profit of the bank 15%	0	0	0.0%	2	66.7%
	0	1	33.3%	0	0.0%
	0	1	33.3%	1	33.3%
	2	1	33.3%	0	0.0%

Remarks: It is noted that some banks like Palestine Islamic bank and Safa bank are not keeping any platform to execute foreign currency exchange. However, it is obvious that there is no any alternative which can compensate the absence of correspondent platforms which ultimately give the banks access to international markets to efficiently invest client's deposits, it is also noted the big percentage treasury business contributes to overall bank's revenues

Foreign Trade Related Analysis

Does your correspondent bank in the USA agree to confirm your letter of credits, stand by LCs and guarantees	yes	1	25.0%	0	0.0%
	no	3	75.0%	5	100.0%
Does your bank send its LCs, LGs and standby LCs, directly to the correspondents	yes	4	100.0%	2	50.0%
	no	0	0.0%	2	50.0%
Does your USD correspondent in the USA agree to the issue IRU on your behalf to any other party	yes	1	33.3%	0	0.0%
	no	2	66.7%	4	100.0%
Have your bank made any changes pertaining to some particular fields in SWIFT MT 103 MESSAGES TO COMPLY with FATF recommendation number 16	1	3	75.0%	3	75.0%
	2	1	25.0%	1	25.0%
In covering bank to bank payments, does your bank use?	MT 202	1	50.0%	4	100.0%
	MT 202 COV	1	50.0%	0	0.0%
Have your correspondents bank/imposed limitations on your cross-border payments?	yes	2	50.0%	2	50.0%
	no	2	50.0%	2	50.0%
Does the bank transfer money abroad by the order of money exchangers?	yes	1	25.0%	0	0.0%
	no	3	75.0%	4	100.0%
	yes	2	50.0%	1	33.3%

Are particular fields related to applicants and beneficiary's information in messages like MT 600, have been modified to accommodate FATF requirements	no	2	50.0%	2	66.7%

Remarks: It is noted that American correspondent banks are not granting confirmations to foreign trade transactions initiated from Palestinian banks, the confirmation facility only obtained from European banks, which make the foreign trade business on the brink of declining, moreover, it is obvious that correspondent banks are adopting strict policies which ultimately would restrict the volume of movement of money across the globe.

It is obvious that banks are strictly adopting the requirement of correspondent banks to cover settlement payments between banks using MT 202 COV, which includes fields which articulate precisely the transparent details of parties involved to the transaction.

Risk and Compliance Related Analysis

Is there is a risk profile identified to FI Dept.?	yes	2	50.0%	4	66.7%
	no	2	50.0%	2	33.3%
Diversity in correspondent relationships, is among risk identified?	yes	3	75.0%	4	66.7%
	no	1	25.0%	2	33.3%
Money laundry	yes	5	100.0%	7	100.0%
	no	0	0.0%	0	0.0%
Terrorist financing	yes	5	100.0%	7	100.0%
	no	0	0.0%	0	0.0%
Sanctions violations	yes	5	100.0%	7	100.0%
	no	0	0.0%	0	0.0%
Does the bank report regularly the PMA about the correspondents' banks relationships status quo	LSO	1	20.0%	3	42.9%
	RSO	4	80.0%	4	57.1%
	NON	0	0.0%	0	0.0%
	yes	5	100.0%	3	42.9%

Did any correspondent bank has ceased relationship with your bank	no	0	0.0%	4	57.1%
Does your bank perform the enhanced customer due diligence (ECDD), in terms of obtaining your customer's customers (KYCC) information	yes	5	100.0%	6	100.0%
	no	0	0.0%	0	0.0%
Does your bank, conduct sanctions screening against sanctions list (s)	yes	4	100.0%	6	100.0%
	no	0	0.0%	0	0.0%
Does your bank, transfer money abroad by the order of money exchangers	yes	0	0.0%	1	14.3%
	no	3	100%	6	85.7%
Does your bank effect payments, by the order of a third party	yes	1	20.0%	0	0.0%
	No	4	80.0%	7	100.0%
Do you collect the third-party information	yes	0	0.0%	0	0.0%
	No	1	100.0%	0	0.0%

Remarks: As foreign banks are not keeping departments which are designated to manage foreign institutions, therefore, there is neither risk profile identified to FI department nor bylaws and procedures. It is also noted that it is not required from banks to regularly report on the status of banking relationships. However, it is obvious that all banks are completely comply with the requirements of the regulator to what related to the issues of money laundry and financing of terror.

Overall remarks on Table 4, Cross Table of Items Responses According to Bank Type

Comparative overview of various dependent variables, awareness, and knowledge about the drivers that lead to correspondent withdrawal, policies required to preserving extensive correspondent relationships, provided to the awareness of the possibility to build correspondent relationships utilizing RMAs (Relationship Management Agreements) without the obligation to keep NOSTRO accounts; nonetheless, the remedial plans and alternatives are comparatively volatile.

Banks in Palestine have to enhance their higher management awareness as well as their staffers' awareness at all managerial hierarchy levels. That the correspondent relationship is very crucial to its very existence in the first place, in addition to the potentials of a value-added, correspondent banking business can offer to banks, in terms of managing its assets and liabilities and pave the way for widening the financial inclusion base.

The limited access to Israeli correspondent business, for example, is depriving banks of efficient managing and controlling the unregulated fluidity of Israeli shekel into the Palestinian economy, this implication would require the regulator to liaise with the other government bodies to set up more stringent policies to regulate all the channels that facilitate the shekel's influx, provided working always on preserving competent network of Israeli corresponding business, the Palestinian banking sector can offer appeasement policies to the Israeli banks by strict compliance to the international practices and requirements.

Foreign banks investing in the Palestinian banking sector, while restricting the access to financial institutions business can impose strategic threat, they must succumb to the fact that such banks are operating in a different jurisdiction, and their affiliated banks in Palestine are autonomous entities, facing different financial and political circumstances, because according to correspondent banks' policies, every country has its unique standards, plans, and ranking. Therefore, what applies to Jordan is not necessarily applicable to Palestine and vise- Versa.

The questionnaire also prevails that there are no remedial plans, particularly when respondents emphasized the absence of any alternative to the correspondent banking system.

However, outcome concluded here is concurrent with previous study mentioned in Chapter 2, conducted by IMF (The Withdrawal of Correspondent Banking Relationships: A Case for Policy Action" (Erbenova, et al., 2016), and also concurrent with previous study conducted by the World Bank "Withdrawal from correspondent banking, Where, Why, And What to do about it" (World Bank. 2015. Withdraw from correspondent banking: where, why, and what to do about it (English). Washington, D.C.: World Bank Group., 2015)

5.6.3 DESCRIPTIVE OF POLICIES, AWARENESS, REMEDIAL MEASURES SCORES

Table (4) below shows the descriptive statistics of the three dependent variables. Having a look at the mean values we can see that the mean value of the policies adoption section is 6.27 out of 11 points, 6.60 out of 12 points in the awareness section, and 5.40 out of 10 points in the remedial measures score, investigating the standard deviation values, it is clearly noticed that the values are not spread from the mean which is a bad indicator that the values are concentrated and low.

Table 5: Descriptive of policies, awareness, remedial measures scores

Score	Minimum	Maximum	Mean	Std. Deviation
Policies Adoption Score (11 points)	0	11	6.27	2.74
Awareness score (12 points)	2	9	6.60	1.88
Remedial measures score (10 points)	0	10	5.40	2.69

Another step of the investigation was performed to see if there is a relation between the bank type and the dependent variable mentioned earlier, it is obvious in the table (5) below that the means are relatively close with less than one-point difference in all scores.

Remarks on Table 5

As noted, banks are considering no strategic alternatives, to counter the threat of withdrawal, except for their excessive endeavors to comply with regulator correspondent requirements.

Banks are restricting their compliance to those policies required by the PMA; therefore, we can note those instructions required the PMA are literally followed to what related to the policies of money laundry, and countering the terrorism, while at the same time they miss to comply with many issues required by the international standards, like keeping departments dedicated to run financial institutions, giving adequate training to the staff pertaining risks which would lead to poor performance, referring to Chapter 2, a study conducted to discuss the issue of anti-money laundry and countering the terrorism financing, agreed with findings and the general relevant discussions (FATF, FATF 2016, Guidance on correspondnet banking services, FATF, Paris, 2016).

Table 6: Means of policies, awareness, and remedial measures scores by type of bank

Type of bank	**Foreign bank**	**Local bank**	**Total**
Policies score (11 points)	6.80	6.00	6.27
Awareness score (12 points)	6.60	6.60	6.60
Remedial measures score (10 points)	5.80	5.20	5.40

5.6.4 RELATIONS BETWEEN SCORES AND DEMOGRAPHIC VARIABLES

Before testing the relation between the three dependent variables “policies adoption score”, “awareness score”, “remedial measure score” and the demographic variables (type of bank, period since establishment” the dependent variables were tested for normality for each category of the demographic variables using "Kolmogorov Smirnoff test" see tables (6), (7).

Table 7: Normality test of dependent variables for types of banks

Type of bank: local				
One-Sample Kolmogorov-Smirnov Test				
		Policies score	Awareness score	Remedial measure score
N		10	10	10
Normal Parameters[b,c]	Mean	6.0000	6.6000	5.2000
	Std. Deviation	3.16228	2.27058	2.97396
Most Extreme Differences	Absolute	.164	.270	.173
	Positive	.124	.145	.127
	Negative	-.164	-.270	-.173
Test Statistic		.164	.270	.173
Asymp. Sig. (2-tailed)		.200	.037	.200
Type of bank: foreign				
One-Sample Kolmogorov-Smirnov Test[a]				
		Policies score	Awareness score	Remedial measures score
N		5	5	5
Normal Parameters	Mean	6.8000	6.6000	5.8000
	Std. Deviation	1.78885	.89443	2.28035
Most Extreme Differences	Absolute	.345	.349	.335
	Positive	.255	.349	.167

	Negative	-.345	-.251	-.335
Test Statistic		.345	.349	.335
Asymp. Sig. (2-tailed)		.053	.046	.069

Table 8: Normality test of dependent variables according to the period since establishment categories

The period since establishment <24 years				
One-Sample Kolmogorov-Smirnov Test[a]				
		Policies score	Awareness score	Remedial measures score
N		5	5	5
Normal Parameters[b,c]	Mean	4.4000	5.0000	3.2000
	Std. Deviation	2.70185	2.12132	2.38747
Most Extreme Differences	Absolute	.241	.227	.175
	Positive	.168	.173	.133
	Negative	-.241	-.227	-.175
Test Statistic		.241	.227	.175
Asymp. Sig. (2-tailed)		.200	.200	.200
Period of establishment >= 24 years				
One-Sample Kolmogorov-Smirnov Test[a]				
		Policies score (11 points)	Awareness score (12 points)	Remedial measures score (10 points)
N		7	7	7
Normal Parameters[b,c]	Mean	7.0000	7.1429	6.4286

	Std. Deviation	2.51661	1.34519	2.50713
Most Extreme Differences	Absolute	.214	.257	.162
	Positive	.214	.257	.124
	Negative	-.214	-.202	-.162
Test Statistic		.214	.257	.162
Asymp. Sig. (2-tailed)		.200	.181	.200

5.6.5 RELATION BETWEEN POLICIES SCORE AND DEMOGRAPHIC VARIABLES

5.6.5.1 POLICIES ADOPTION SCORE AND TYPE OF BANK

According to table 6 normality was proven for all types of banks, for that we used the 2-independent samples t-test to investigate if there is a significant difference in “policies adoption score” between foreign banks and local banks, the results showed that there were no significant differences between foreign banks and local banks in “policies score” with a confidence level of 95% (t=0.519, p=0.612), this rhymes with the cross-tabulations shown in table (5) above, the clear result is that respondents in both types of banks showed a relative weakness in the policies adoption that is not related to the type of bank. This goes along with the explanation given by interviewee (3) during the interviewing phase, as he ensured that although the foreign bank gets the credit approvals and general instructions, that are aligned with PMA instructions, from its, headquarter in Amman, the transactions are made directly from the Palestinian branches and the correspondent bank is informed about the origin of the transaction clearly, he also added the DR of his bank was in Palestine but the SWIFT management was being handled in the HQ in Amman while keeping the experience exchange there between the branch and its HQ. On the contrary interviewee (2) claimed that the management subordination of the foreign banks was still of an effect as they are considered as Jordanian bank following the instruction of the Jordanian central bank regarding concentration ratios, credit, and risks, but he considered this to be of a benefit the foreign banks as the global ranking of the Jordanian banks was higher than it for the local ones.

Remarks on Table 7 and 8

As the interviews prevail, we notice that core policymaking is conducting in Amman to those foreign banks, questionnaire also prevails that foreign institution departments are managed at headquarters in Amman, which make the know-how to run correspondent business is weak, provided, some banks are violating the requirements of the PMA pertaining the issue of DR site (Disaster Recovery), as such banks are keeping the SWIFT servers and backups in Jordan (foreign jurisdiction), and there is no desk or instruments to manage the issue or contact with correspondent banks directly from Palestine, this would imply that at worst scenarios of disastrous event in Jordan, where banks at that direction cannot function due to any force majeure, then foreign banks in Palestine would be held hostages to this event in other jurisdiction!

5.6.6 POLICIES SCORE AND PERIOD SINCE ESTABLISHMENT

The dependent variable “policies adoption score” was tested to be normally distributed for each category of the independent variable “period since establishment” based on “Kolmogorov Smirnoff test”, for that we used use the 2-independent samples t-test to investigate if there was a significant difference in “policies adoption score” between banks that were established before less than 24 years and banks that were established since 24 years or greater, the results showed that there were no significant differences between the banks based on the establishment year “policies adoption score” ($t=-1.713$, $p=0.118$).

Table 9: Relation between policies and period since establishment

Independent Samples Test										
		Levene's Test for Equality of Variances		T-test for Equality of Means						
		F	Sig.	T	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Policies score	Equal variances assumed	1.824	.200	.519	13	.612	.80000	1.54023	-2.52746	4.12746
	Equal variances not assumed			.625	12.597	.543	.80000	1.28062	-1.97565	3.57565

Remarks on Table 9

Because the financial sector in Palestine is comparatively small, it is obvious the existence of extensive rotations of employees between different banks, both the local and foreign banks, which would inflict its implications of following same policies as those employees and transforming their experiences from one place to another, which would preserve common cultures among those banks.

But it is also obvious that banks with a long history of the establishment, is reflecting more prudent performance and strong ground of experience and knowledge comparative to newly established banks.

5.6.7 RELATION BETWEEN "AWARENESS SCORE" AND DEMOGRAPHIC VARIABLES

5.6.7.1 AWARENESS SCORE AND TYPE OF BANK

The dependent variable "awareness score" is not normally distributed for each type of bank based on "Kolmogorov Smirnoff", hence we use the non-parametric test "Man Whitney" to investigate if there is a significant difference in "awareness score" between foreign banks and local banks, the results showed that there were no significant differences under the confidence level of 95% between foreign banks and local banks in the "awareness score (U=20.500, p= 0.594). Again, it is believed that awareness scores were relatively low for both types of banks which was clear in the table (4) describing mean and standard deviation, the thing that didn't leave a space for a gap in the scores between the two types of banks.

Observations

As mentioned above the high rotation of employees between banks is excessive (Local and foreign) this would reflect the vicinity in experience and organizational culture.

Table 10: Relation between “awareness score” and type of bank “Mann-Whitney test”

Test Statistics[a]	
	Awareness score
Mann-Whitney U	20.500
Wilcoxon W	35.500
Z	-.561
Asymp. Sig. (2-tailed)	.575
Exact Sig. [2*(1-tailed Sig.)]	.594
A. Grouping Variable: type of bank	

5.6.8 RELATION BETWEEN AWARENESS SCORE AND PERIOD SINCE ESTABLISHMENT

The dependent variable “awareness score” is normally distributed for each category of the independent variable “period since establishment” based on “Kolmogorov Smirnoff test”, and so we used the 2-independent samples t-test to investigate if there is a significant difference in “awareness score” between banks that were established before less than 24 years and banks that were established since 24 years or greater, the results showed that there was no significant differences with a confidence level of 95% , although the relation is significant on 90% confidence level between banks that were established before less than 24 years and banks that were established since 24 years or greater “awareness score” (t=-2.154, p=0.057), this goes along with the statement given by our interviewees from the older bank which indicates, mainly Jordanian ones as they have gained the experience by time and transfer it to the local branches.

Table 11: Relation between awareness score and period since the establishment

Independent Samples Test										
		Levene's Test for Equality of Variances		T-test for Equality of Means						
		F	Sig.	T	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Awareness score	Equal variances assumed	1.036	.333	-2.154	10	.057	-2.14286	.99468	-4.35914	.07343
	Equal variances not assumed			-1.991	6.282	.091	-2.14286	1.07634	-4.74814	.46243

5.7 RELATION BETWEEN "REMEDIAL MEASURES SCORE" AND DEMOGRAPHIC VARIABLES

5.7.1 REMEDIAL MEASURES SCORE AND TYPE OF BANK

The dependent variable "remedial measures" is normally distributed for each type of bank based on the "Kolmogorov Smirnoff test," which enabled us to use the 2-independent samples t-test to investigate the existence of a significant difference in "remedial measures" between foreign banks and local banks. There were no significant differences between foreign banks and local banks in "remedial measures" ($t=0.394$, $p= 0.7$) under the confidence level of 95%. This might be the reason for the absence of remedial measures taken by both types of banks.

Table 12: Relation between remedial measures score and type of bank

<table>
<tr><th colspan="10">Independent Samples Test</th></tr>
<tr><td rowspan="3"></td><td colspan="2">Levene's Test for Equality of Variances</td><td colspan="7">T-test for Equality of Means</td></tr>
<tr><td rowspan="2">F</td><td rowspan="2">Sig.</td><td rowspan="2">T</td><td rowspan="2">Df</td><td rowspan="2">Sig. (2-tailed)</td><td rowspan="2">Mean Difference</td><td rowspan="2">Std. Error Difference</td><td colspan="2">95% Confidence Interval of the Difference</td></tr>
<tr><td>Lower</td><td>Upper</td></tr>
</table>

Remedial measures	Equal variances assumed	.581	.460	.394	13	.700	.60000	1.52214	-2.68839	3.88839
	Equal variances not assumed			.433	10.365	.674	.60000	1.38724	-2.47629	3.67629

5.7.2 REMEDIAL MEASURES SCORE AND PERIOD SINCE ESTABLISHMENT

The dependent variable “remedial measures” is normally distributed for each category of the independent variable “period since establishment” based on “Kolmogorov Smirnoff test”, and so we used the 2-independent samples t-test to investigate if there is a significant difference in “remedial measures score” between banks that were established before less than 24 years and banks that were established since 24 years or greater, the results showed that there was a significant difference in “remedial measures score” between banks that were established before less than 24 years and banks that were established since 24 years or greater (t=-2.241, p=0.049) with a confidence level of 95%.

Table 13: The relation between remedial measures score and the period since establishment

		Levene's Test for Equality of Variances		T-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	T	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Remedial measures score	Equal variances assumed	.003	.960	-2.241	10	.049	-3.22857	1.44041	-6.43800	-.01914
	Equal variances not assumed			-2.262	9.043	.050	-3.22857	1.42757	-6.45563	-.00151

Indicators for correspondent bank NOT to withdraw.

Table 14: Frequencies of indicators' items responses

			Count	%
Is there is a risk profile identified to FI Dept.?		Yes	6	60.0%
		No	4	40.0%
Has the bank documented policies and procedures consistent with applicable AML/CFT regulations and regulations to reasonably prevented, detect and report?	Money laundry	Yes	12	100.0%
		No	0	0.0%
	Terrorist financing	Yes	12	100.0%
		No	0	0.0%
	Sanctions violations	Yes	12	100.0%
		No	0	0.0%
Did any correspondent bank has ceased relationship with your bank?		Yes	8	66.7%
		No	4	33.3%
Does your bank perform the enhanced customer due diligence (ECDD), in terms of obtaining your customer's customers (KYCC) information		Yes	11	100.0%
		No	0	0.0%
Have your correspondent bank/imposed limitations on your cross-border payments?		Yes	4	50.0%
		No	4	50.0%
Does the bank transfer money abroad by the order of money exchangers?		Yes	1	12.5%
		No	7	87.5%
Does your bank effect payments, by the order of a third party		Yes	1	8.3%
		No	11	91.7%
Do you collect the third-party information		Yes	0	0.0%
		No	1	100.0%
Does your bank, conduct sanctions screening against sanctions list (s)		Yes	10	100.0%
		No	0	0.0%
Have your correspondent bank/imposed limitations on your cross-border payments?		Yes	4	50.0%
		No	4	50.0%
Does the bank transfer money abroad by the order of money exchangers?		Yes	1	12.5%
		No	7	87.5%

Table 15: Descriptive statistics of indicators

Score	Minimum	Maximum	Mean	Std. Deviation
Indicators (12 point)	0	9	6	2.78

Table 16: Means of "indicators" by type of bank

Type of bank	Foreign bank	Local bank	Total
Indicators (12 point)	7	5.5	6

The probability of banks to withdraw was computed as in the table below using weights based on the researcher point of view:

Table 17:Probability NOT to withdraw

	Mean score	Mean score of 100	Weight	Weighted mean
Is there is a risk profile identified to FI Dept.?	.40/1	40	0.2	8
Has the bank documented policies and procedures consistent with applicable AML/CFT regulations and regulations to reasonably prevented, detect and report?	2.4/3	80	0.3	24
Did any correspondent bank has ceased relationship with your bank	0.7/1	70	0.2	14
does your bank perform the enhanced customer due diligence (ECDD), in terms of obtaining your customer's customers (KYCC) information	.73/1	73	0.1	7.3
Have your correspondent bank/imposed limitations on your cross-border payments?	.27/1	72	0.05	3.6

Does the bank transfer money abroad by the order of money exchangers?	.47/1	47	0.05	2.35
does your bank effect payments, by the order of a third party	.80/1	80	0.05	4
does your bank, conduct sanctions screening against sanctions list (s)	.67/1	67	0.05	3.35
Total				66.6

5.7.3 REMARKS

It is obvious, despite the banks are adhering to comply with policies designated to counter money laundry and financing of terror, it is still the withdrawal threat persists up to 33.4%, which is a high percentage, and invitation to raise the red flag in front of banks, regulator and government.

5.7.4 FINANCIAL INCLUSION

According to the financial inclusion section in the literature review we could conclude the relationship between the existence of the correspondent bank and the financial inclusion, which leads to stronger economy, on the contrary our interviewees were not aware of the importance of the correspondent banking to the financial inclusion as our interviewee (6) working at PMA reported "however, while reviewing other relevant strategies, there was no mention to any role to the correspondent banking in enhancing financial inclusion, as financial inclusion is only about increasing the level of accessibility of the targeted sectors and denominations to improve their living standards, and contribute to economic development, which ultimately benefits towards creation of new jobs, reducing unemployment levels." He also mentioned that the strategy document was discussed and presented on many occasions and economic events where nobody has mentioned the effect of correspondent banking on financial inclusion.

5.7.5 CONCLUSION

During the analysis section and shedding a light to the hypothesis, the research studied the sample looking into what believed of three important variables in relation to the study those variables were Policies adoption, Awareness, and protective measures which banks could perform to find a substitute in case of correspondent bank withdrawal, the research investigated the existence of significant relation between our variables and two other variables which are the type of bank (Local, Foreign) and the years of operation (years since establishment).

The research also investigated the indicators that might decrease the probability of correspondent bank withdrawal and finally tried to quantify some of the losses in case of correspondent bank withdrawal in the light of potential loss that would inflict treasury business, a segment like currency exchange alone was around USD 49 million (ABP, 2019).

Summary of the results is as below:

1. The mean scores that the sample has scored in all three areas of study are shown in the table below

Score	Minimum	Maximum	Mean	Std. Deviation
Policies Adoption Score (11 points)	0	11	6.27	2.74
Awareness score (12 points)	2	9	6.60	1.88
Remedial measures score (10 points)	0	10	5.40	2.69

2. Type of bank was of no significant relation to any of the Policies adoption, Awareness, and protective measures which banks could perform to find a substitute in case of correspondent bank withdrawal under the significance level of 95%.
3. Years of bank operation (years since establishment) was of a significant relation to both Awareness (under significance level of 90%), and protective measures which

banks could perform to find a substitute in case of correspondent bank withdrawal (under the significance level of 95%).

4. The calculated mean probability of correspondent bank withdrawal = 1-66.6% = 33.3%

CHAPTER 6

6 CONCLUSION AND RECOMMENDATIONS

Literature reviewed unveiled the prime drivers behind the correspondent banks to withdraw from contractual agreements with other banks across the world, nonetheless, it has been indicated at the literature the concerns of the international organizations designated to maintain both monetary and financial globe's stability on the future of banking and movement of money across the globe, therefore, they have invested heavily in research and commenced deep studies to understand the reasons behind the phenomenon of the De-risking.

This study comes across and investigated the procedures, and the tools adopted by the international financial community to gauge the effect and reasons, I have adopted a questionnaire and set of interviews with questions and inquiries, which are similar in some extent to those adopted by those giant organizations, the research also relied on my relevant experience dealing with many and various questionnaires received from correspondent banks and the regulator, nevertheless, I've relied on my experience in witnessing the withdrawal of Commerzbank, Frankfurt, from correspondent services to many banks in Palestine.

Unfortunately, the bad effect of such withdrawal was very obvious on the daily operations on the deserted banks, the confusion, and uneasiness was also clear on the faces and spreadsheets of the perplexed treasury department' managers, it has a symptom on banking sector similar to a one lung functioning effect on the body.

This study also investigated the status quo of the banks pertaining the level of compliance to the international standards required to preserve healthy relationship with correspondent banks, and also considering the measures required to keep involved parties away from risk of fines and reputation, in terms of its readiness, awareness, compliance and plans to counter and alleviate the subsequences of indicated threats.

6.1 CONCLUSION

1- Tools equipped to procure this research (i.e., questionnaire and interviews) have revealed and shed light on the way and procedures by which banks are managing risk, nonetheless, controlling the drivers with subsequent impact to influence the decision of withdrawal of correspondent banking from Palestine,

2- It also unveiled the poor interagency coordination, particularly, those agencies who are entrusted to be in constant vigilance and to endorse both compliance and adherence to the relevant international standards.

3- As an entity which is running its economy without possessing national currency, succumbed to implications of occupation, whereas the political, social and economic lives of Palestinian people are overwhelmingly controlled and attached to the neighboring giant's Israeli economy, therefore, it is with strategic importance to preserve correspondent banking relations with countries permitting the PNA to circulate and clear their currencies within the jurisdiction of Palestine territories, as losing correspondent relations with any of these banks in the USA, Europe, Israel And Jordan will leave the Palestinian economy badly crippling and incapable to calibrate its monetary and financial policies and preserve economic stability accordingly.

4- Therefore, in an unprecedented move made by the Israeli government, which is aware of the importance of correspondent relations to keep the PNA away from collapse, it grants guarantees and immunity to the two major Israeli banks, which are keeping correspondent relations with banks in Palestinian Jurisdiction, Israel also guarantees indemnity from suits filed overseas accuse banks in involvement in terror financing and money laundry, the Israeli's attorney general also gave the Israeli banks legal immunity from being prosecuted against any terror financing or money laundry allegations within Israel Jurisdiction.

5- However, it's worthy to mention that this arrangement is initial move until final arrangement would be reached to end the correspondent relations with Palestinian banks and forming a kind of financial relations but with a sort of governmental body formula (Ravid, 2017), which means strategic measures should be considered shortly by the Palestinian to avoid existential threat for both economic and political entities as shown above.

6- Correspondent banking relationships have strategic importance to sovereign countries and would influence its strategic decisions, Iran for example, which has bartered strategic advancing with its nuclear program against ease in sanctions, whereas facilitating the correspondent banking business to serve food and medicine transactions was a must.

7- It has been also noted that and after the recent US withdrawal from the nuclear agreement with Iran, the European Union was hasting to preserve the agreement and in order to keep it alive, Germany, France, and the UK launched a barter system called it INSTEX (Instrument in Support of Trade Exchanges) to facilitate business transactions with Iran, but outside the framework of US banking system and also outside SWIFT framework (Laub, 2019).

8- The above examples would tell the strategic impact of correspondent banking relationship on every nation's economy and welfare, and therefore, the withdrawal from correspondent banking relationship would mean a mortal impact on a country's economic welfare.

9- In the meantime, quantifying risk on some particular items at the banks' income statements which would be influenced by withdrawal specific scenarios, it was obvious that Treasury and foreign trade businesses are overwhelmingly impacted.
10- "The financial position of banks for the year of 2018" indicated that revenues from foreign currency exchanges were circa USD 49 Million (ABP, 2019), this amount is exposed to risk of loss in total or part as correspondent banking business is withdrawing in total or in part accordingly, it's also worth to mention that this revenue is only a segment of treasury department's work.
11- There are no strategic substitutions, whereas both banking sector and the regulator are considering and investing in, as it is noted when they were asked about availability of alternatives to correspondent banks, the answer was no.
12- There are very limited researches conducted by the Palestinian universities, and /or by the PMA, which are investigating the status of Palestinian banks networking with the international financial community.

6.2 RECOMMENDATIONS

Pursue the outcome of data collected from the study's population and also data gathered from different sources such as the PMA, and from Palestine bank's association, nonetheless, relying also on the researcher long experience in the banking sector, supervised and steered the foreign trade operations, and foreign institutions departments at various significant banks operating in Palestine, which enabled me (The Researcher) to be acquainted of the various challenges the banking sector in Palestine is actually facing, pertaining the issue of correspondent banking business, nevertheless, the question of foreign trade businesses as benchmark which can actually gauge and demonstrate the augmented and important role the CBR can display within the banking industry in Palestine, nonetheless, within any other banking industry worldwide.

These recommendations are meant particularly to the investors in the banking sector in Palestine, regulator (i.e., PMA), Academic institutions, economic research centers, and any governmental body which is founded to enhance economic growth and maintain sustained financial and monetary stability within the economy.

The recommendations summarized as per following:

1- Banks and the PMA, have to consider to open NOSTRO/ VOSTRO accounts with correspondent networks in Arab countries, BUT with every and each country's local currency, in order to cover the internal trading with Arab countries; therefore, the Palestinian banking sector avoids to pay in USD or EURO to cover its purchases and trading with Arab countries. However, this option reduces the exposure to de-risking; nevertheless, it provides additional placation to American and European correspondent banks.

2- Banks have to consider to open NOSTRO/ VOSTRO accounts with foreign countries, but with their local currencies, particularly for those countries with active trading transactions, like China, India, Japan, Canada, etc. Therefore, they can cover deals with those countries with their local currencies; however, banks derail their payments away from the USA and Europe, which ultimately, reduce the exposure to de-risking.

3- The PMA has to abstain from agreeing with the Central Bank of Israel or terminate any relevant agreement, which involves substituting the correspondent banking relationships with Israeli Banks (Bank Hapoalim, & Israel Discount Bank) by forming a State-owned Israeli entity. The mechanism suggests approving checks and wire transfers from the Palestinian banking sector to Israeli economy. This move came to eliminate potential threats to the above -mentioned Israeli banks of terrorism-financing lawsuits and also improve transparency in the Palestinian economy (Benmeleh & Hodali, 2018). However, this move will violate the common practices of procuring business between jurisdictions and will leave the Palestinian economy hostage to political complications and ramifications, which has nothing to do with standard banking' practices and procedures.

4- Enter agency cooperation and coordination, particularly, those agencies whose main goals are to control and supervise the compliance and to adhere to policies build within the organization to preserve the drivers of CBRs intact.

5- Establishing liaison committee within the same and every bank, which includes in its membership, employees from risk, compliance, operations and FI's, however, this committee has had to convene on weekly/ monthly basis, in order to study the status of correspondent banking business and to scrutinize the level of compliance required by the FATF, Basel (ii, iii) and regulator's instructions and relevant circulations.

6- As there are no instructions circulated to the banks regulating the business of the correspondent banking, the PMA has to review its policies in this regard and pay due attention to this vital and essential driver, which would ensure the vitality and efficiency to banking sector, as the withdrawal threat is an existential threat, therefore, silence and neutrality on this threat would be with immense, extensive price with inferior options to remedy or undo!

7- Banks have to be liaised with a specialized committee in the PMA, meant to maintain sustainable financial and monetary stability to convene regularly parallelly with the time base of those committees in banks.

8- The National Financial Inclusion Strategy has to be reviewed and amended to include within its objectives a more extensive network of correspondent banking business and lays down the tools and blueprints to actuate this objective! Nonetheless demonstrate the importance of this segment to include wider sectors and more participants of the various components of the society; however, it is worthy of mentioning that this strategy has to include also the potential blockchains could offer to financial inclusion.

9- Universities and research centers meant to economic development are required to adopt research policies, which are intended to investigate the various aspects of economic tools and drivers, particularly those related to the financial sector as it's the prime driver to economic development, in terms of its viability, competence, and its ability to meet the outstanding and strategic challenges.

10- Researches conducted with partnership with the PMA, which comprehensively investigate the efficacy of regulatory policies and regulations, nonetheless, investigating the efficiency of banks' performance and compliance to the international standards to run and effectively manage risks, which may negatively impact the correspondent banking business and many other aspects, in order to find strategic path away from poor performance and incompetence system, which possesses no alternative plans to ensure sustainability and viability.

11- In order to set out alternatives, effective and up to date channels which would have potential to counter the threat of correspondent withdrawal, banks, as well as regulator, have to start considering to invest heavily in blockchain technology,[13] which is slated to transform among other things, the banking industry. Nevertheless, and within the sphere of contemporary technologies are accelerating to emerge and have the potential to transform the financial industry, it is quite important to start

13 Blockchain technology is "peer-to-peer public accounting system maintained by means of a distributed network of computers, which requires no central authority or third parties acting as intermediaries". This technology consists of three fundamental components: a transaction, a transaction register, and a system that verifies and stores transaction, (Karp, 2015).

preparing banking' sector legal personnel, along with software engineers to work on "Smart Contracts"[14] which would enable banks to contract to perform certain transactions.

12- Investing in the "Fintech" the acronym to Financial technology, which is a wide landscape to transform banking and make various technology applications, and digitization to be embedded to banking industry, and therefore, increase the utility of banks, and make movement of money abroad more efficient with less cost, and has the potential to link banks across the globe, as nods connected to each other within a particular cloud, such clouds and blockchains are likely to be the substitute mechanisms to replace the conventional banking correspondence networking.

13- More researches are required to investigate the Palestinian banking system's readiness to digital onboarding and its compatibility to compete for the future outstanding challenges to ensure the banking sector's very existence and sustainability.

14 "Smart Contract is a computer code, build within the blockchain to facilitate, verify, or negotiate a contract agreement. Such contracts operate under a set of conditions which parties agreed upon, when a party complies with a specific term the system automatically triggers and execute the pending correlated counter term" (Blockchain Expalined, 2019).

Appendix A: Questionnaire

PART 1:

Dear Sirs,

Postgraduate student, Mr. Adnan Khuffash is conducting a study titled" Correspondent banking relationships, Strategic impact of withdrawal on banks in Palestine." It comes as a requirement to complete and, gain a master's degree in "Strategic Planning and fundraising" at the Arab American University, post-graduate college.

You are kindly requested to assist the student, by answering the attached questionnaire, in a subjective way as possible, to ensure the constructive outcome, which would help to understand the impact of correspondent withdrawal.

I hereby, to confirm that answers and information gathered from participants would stay **anonymous** and should be held for **full research satisfactory**, with **full confidentiality**, and shall not be disclosed to any other third parties.
Best Regards,

Research Supervisor,
Dr. Majeed Mansour

QUESTIONNAIRE

General Bank's relevant information

1- Your bank is ☐A foreign Bank ☐ A local Bank.

2- Date of Entry incorporated/ Establishment:

3- Your Department is Select Dept, if other, please specify the Dept.

4- Years of experience Please select

Foreign Institutes (FI) Dept.

5- Does the bank keep correspondent banking relationships with foreign banks other than Arab countries banks? ☐ Yes ☐ No
If yes, how many correspondents are there: , In Which Currencies accounts opened: Select Currencies OR, Write to them here:

6- Does the bank keep correspondent relationships with Arab countries banks? ☐ Yes ☐ No
If yes, how many correspondents are there: , In Which Currencies accounts opened: Select Currencies OR, Write to them here:

7- Does the bank have procedures/ bylaws to articulate the required procedures to establish correspondent relationships? ☐ Yes ☐ No

8- Is there is a department, which is dedicated to correspondent banking FI (foreign institutions).? ☐ Yes ☐ No

9- Does the Bank employ the FI officer/ manager? ☐ Yes ☐ NO
What are his years of expertise?

10- How many Nostro/ Vostro accounts does the bank has? ☐ NOSTRO ☐ VOSTRO

11- How many RMAs, but without keeping NOSTRO a/c, does the Bank keep with foreign banks?

12- How many employees are there in the FI Dept.?

Treasury Related Questions

13- Is there is a platform to execute foreign currency exchange with one or more of your correspondent bank/s? ☐ Yes ☐ No,
if yes, what is the limit of each transaction, allowed via the platform?

14- What is the volume in USD, of your daily foreign currency exchange with your correspondents?

15- Does your correspondent allow foreign exchange transactions, which exceed the platform's limit, to be conducted outside the framework of the platform itself?

☐ Yes ☐ No.

16- Does your correspondent offer you, preferential rates, for your deposits (Time Deposits, Overnight ones) Bonds, Stocks, Syndicated Loans, and Mutual funds?

☐ Yes ☐ No

17- What's the annual volume in USD, your bank invests with correspondent banks in terms of stocks, bonds, syndicated loans, and mutual funds

18- Do you think, there is an alternative available in the local market, which is capable of compensating the loss of correspondent bank's foreign currency exchange' business, ☐ Yes ☐ No, if yes, please mention those alternatives .

19- What's the percentage, treasury contributes annually, to the overall profit of the bank .

Foreign Trade and Relevant Operational Questions

20- Does your correspondent bank in the USA, agree to confirm your letter of credits, standby LCs and guarantees? ☐ Yes ☐ No, if not, which of your other correspondents agree to add its confirmation .

21- Does your bank send its LCs, LGs, and Standby LCs, directly to the correspondent?
☐ YES ☐ NO

22- Does your USD Correspondent in the USA, agree to issue IRU (Irrevocable Undertaking) on your behalf to any other third party? ☐ YES ☐ NO, if no what are the reasons as you believe .

23- Have your bank made any changes pertaining to some particular fields in SWIFT mt 103, messages, to comply with FATF recommendation number 16?

☐ YES ☐ NO, if yes, please mention them .

24- Have your correspondent bank/s-imposed limitations on your cross-border payments? ☐ Yes ☐ No

25- Does your Bank, transfer money abroad by order of money exchangers?

☐ Yes ☐ No

26- Are particular fields related to applicants and the beneficiary's information in messages like MT 600, have been modified to accommodate FATF requirements?

☐ YES ☐ NO, if yes, what are those changes

Risk and Compliance Relevant Questions

27- Is there is a risk profile identified to FI Dept.?☐ Yes ☐ No

28- Diversity in correspondent relationships, is among risk identified?☐ Yes ☐ No

29- Has the Bank documented policies and procedures consistent with applicable AML/CFT regulations and regulations to reasonably prevent, detect and report:
- Money laundry ☐ YES ☐ NO
- Terrorist Financing ☐ YES ☐ NO
- Sanctions Violations ☐ YES ☐ NO

30- Does the bank regularly report to the PMA about the correspondent banks' relationship status quo? ☐ YES ☐ NO

31- Does the FI Officer is designated as☐ LSO☐ RSO ☐ NON, to manage SWIFT? Who keeps the other designation drive/s?

32- Did any correspondent bank has ceased relationship with your bank? ☐Yes ☐ No, if yes, what are the main reasons claimed

33- Does your bank perform the enhanced customer due diligence (ECDD), in terms of obtaining your customer's customers' (KYCC) information? ☐ Yes ☐ No

34- Does your Bank, conduct sanctions screening against Sanctions list(s), ☐ Yes ☐ NO

35- Does your Bank, transfer money abroad by order of money exchangers?
☐ Yes ☐ No

36- Does your Bank effect payments, by order of a third party?☐ Yes ☐ No
If yes, do you collect the third-party information? ☐ Yes ☐ No

Thank you,

Your kind cooperation is highly appreciated.

Appendix B: Interviews Questions

Interview Questions designated for PMA:

14- Does Our banking system keep efficient networks of correspondent relationships? If yes, what are the main aspects and manifestations of these networks?

15- What are the measures considered to counter the de-risking threats?

16- Are FATF recommendations have been reflected in particular PMA's instructions and circulations?

17- Does the PMA consider the proper and effective scrutiny and supervision to assure a fortified shield to the industry?

18- Foreign banks operating in Palestine, do not include within the institution's structure departments designated to manage correspondent relationships, and relying instead on departments at their headquarters in other jurisdictions, however, does the PMA believe this practice is acceptable and can provide safe substitution of building specialized sections and teams within the regional departments in Palestine?

19- Using the correspondent accounts by its foreign subsidiary/ies or branches, (like what is happening in the case of Jordanian banks, and the Egyptian bank), is bearing outstanding risks on the part of mother banks to encounter withdrawal correspondent relationships, therefore, I wonder if the PMA is taking into consideration this big threat on the part of mother banks and their subsidiaries and branches?

20- Despite the importance of correspondent banking networks in enhancing financial inclusion, it is noted that the national strategy for financial inclusion, does not include any indication of the importance of correspondent banking relationships, and suggests none for that direction. Do you think, why?

21- What are the main measures required by FATF and BASEL ii/iii, which are still not adopted by the Palestine financial system?

Questions designated to banks:

Treasury Dept:

22- Does your bank keep a platform for foreign currency exchange with any of your correspondent banks?

23- What is the volume of daily foreign exchanged with your correspondent?

24- Does your bank give you preferential currency prices?

25- Do you believe that the existence of a currency exchange platform, is a good driver to widen customers' base within the bank?

Compliance and Risk Depts.

26- Do you regularly report to the PMA, on the trajectory of your correspondent relationships?

27- Do your correspondent banks in the USA agree to add their confirmation to your letter of credits, guarantees and standby LCs?

28- Have your bank made any changes pertaining to some particular fields in SWIFT MT 103, messages?

29- Do you issue your letter of credits and guarantees directly to your correspondent or you just relay the relevant message to your headquarters abroad?

30- What are the investments and procedures adopted by the bank to ease the concerns of correspondent banks, in terms of internal controls for AML/CFT, sanctions, customer due diligence (CDD) or enhanced customer due diligence (ECDD)!?

31- Is it acceptable from your correspondent to issue IRU (irrevocable reimbursement authorization) on your behalf, to other third parties?

Appendix C: List of Interviewees

List of interviewees

1- Mr. Ali Faroun, from the PMA- Market Conduct Dept. Director

2- Mr. Mohammad Manasrah, from the PMA- Audit and Inspection dept. Director

3- Mr. Ibrahim Abu Raidah, from Safa Bank- Credit Dept. Manager

4- Mr. Awni Hamdan, from Safa Bank- Risk Dept. Manager

5- Mr. Hamdi Atari, from Cairo Amman Bank, Foreign Trade Expert

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ملخص

تهدف هذه الدراسة الى تسليط الضوء على أثر انسحاب البنوك المراسلة من القطاع المصرفي الفلسطيني، عليه فقد سلطت الضوء على أهمية وجود شبكة بنوك مراسلة كفؤة قادرة على تقديم مختلف الخدمات المصرفية للسوق الفلسطيني، ومن خلاله لمختلف القطاعات الاجتماعية والاقتصادية لتحقق شمول مالي فعال من شأنه ان يقدم خدمات مختلفة لشريحة عريضة في المجتمع الفلسطيني.

وفي سبيل التأكد من الحصول على المعلومات الكافية عن الوضع الراهن لشبكة البنوك المراسلة، جندت الدراسة أدوات مختلفة مثال الاستبانة ومقابلات مع ممثلين من سلطة النقد وبعض البنوك العاملة في فلسطين، وذلك للتحقق من امتثال البنوك للمتطلبات الدولية اللازمة لمواجهة والتقليل قدر الإمكان من الأسباب التي تقود البنوك المراسلة للانسحاب.

أظهرت الدراسة هشاشة وضعف في التنسيق بين الأقسام المختلفة في البنك والتي تُعنى أصلا في ادارة العلاقة مع البنوك المراسلة والمخاطر التي من شأنها ان تقود الى انسحاب البنوك المراسلة، كذلك فقد أظهرت ضعف شبكة المراسلين، حيث تبين ان معظم البنوك المُستطلعة تحتفظ بحسابات ببنك واحد فقط في الولايات المتحدة الامريكية، وتبين أيضا ان بعض هذه البنوك لا يوجد لها مراسلين في الولايات المتحدة الامريكية لإدارة عمليات الدولار، وعليه فان هذه البنوك تدير عمليات الدولار المختلفة المصرفية من خلال مراسليهم في أوروبا، الامر الذي يجعل هذه البنوك اكثر عرضة لمخاطر الانسحاب، كونها تمثل طرف ثالث في تعاملات الدولار بين البنوك الامريكية والأوروبية في عمليات تخص هذه البنوك الفلسطينية.

كما ان الدراسة أظهرت هشاشة السياسات لسلطة النقد في إدارة البنوك المراسلة بالتحديد، بحيث لم تجد اية تعليمات او تعاميم او تقارير موجهة للبنوك العاملة تنظم إدارة البنوك المراسلة، وترسم ابعادها ومتطلباتها وتكون هذه السياسات بمثابة تدعيم للاستقرار المالي والنقدي في القطاع المصرفي الفلسطيني.

الدراسة أظهرت أيضا التزام القطاع المصرفي الفلسطيني مع السياسات والمعايير الدولية المطلوبة لإدارة مكافحة غسيل الأموال وتمويل الإرهاب.

اوصت الدراسة الى تنسيق أعمق بين مختلف الشركاء للعملية المصرفية، مثال سلطة النقد الفلسطينية، البنوك العاملة في فلسطين، الحكومة، والجامعات الفلسطينية، كما اوصت الدراسة ان يتم تضمين استراتيجية الشمول المالي بأهداف وآليات تدعيم ووجود شبكة بنوك مراسلة كبيرة وفعالة، وذلك لزيادة العرض لمختلف الخدمات المصرفية والمتوفرة في المراكز المصرفية العالمية، كما اوصت الدراسة بان يتم اعتبار دراسة وإدخال التقنيات التكنولوجية الحديثة، مثال "الحلقات المغلقة"،

" التقنيات المالية"، و"الطباعة ثلاثية الابعاد"، كون هذه التقنيات الحديثة تمثل بديل عمليا في المستقبل لتبادل العمليات المصرفية ونقل الأموال عبر العالم.

الكلمات المفتاحية:

انسحاب البنوك المراسلة، سلطة النقد الفلسطينية، الحلقات المغلقة، الطباعة ثلاثية الابعاد، غسيل الأموال، مكافحة الإرهاب.