Global Journal of Management and Business Research: C
Finance
Volume 17 Issue 7 Version 1.0 Year 2017
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals Inc. (USA)
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

Evaluation Strategies of Credit Risk used by Commercial Banks Listed in Palestine Stock Exchange (PSE)

By Sharif Musbah Abu Karsh & Radwan Mahmoud Abumwais
Arab American University

Abstract- This study explains the "evaluation of the credit risk strategies used by commercial banks listed on the Palestine Securities Exchange" through the methods used by banks in assessing customers' credit requests, whether banks differ in the use of these methods and whether they differentiate between customers in using these Methods. The questionnaire was designed to suit the objectives of the study. Twenty-one questionnaires were distributed to commercial banks in the credit facilities and loans department. These are: National Bank, Palestine Investment Bank, Bank of Palestine, and Al Quds Bank. We excluded Palestinian Islamic bank and Arab Islamic bank, because of the different nature of the work of loans in Islamic banks compared with commercial banks in terms of: Murabaha, Musharka, it adopts laws in line with Islamic rules. The following statistical tools were used: average percentage, Ranking and Chi-square. It was found that all commercial banks in Palestine use the above methods of evaluation, as they place more emphasis on 5C's, LAPP Method, Past Experience, 5P's and Financial Analysis respectively. It was also found that natural persons and NGOs were treated in the same way by banks in assessing their credit applications; however, they differed in the treatment of business firms. The researchers recommend the following: First, more systematic and efficient analytical procedures are used for assessing the three risk categories according to the nature of transaction, cause and effect. Second, establishing an industry-wide institute for conducting economic studies relative to each financial intermediary with data bank for their information system.

Keywords: credit risk, financial intermediaries, palestine securities exchange.

GJMBR-C Classification: JEL Code: G21

EVALUATIONSTRATEGIESOFCREDITRISKUSEDBYCOMMERCIALBANKSLISTEDINPALESTINESTOCKEXCHANGEPSE

Strictly as per the compliance and regulations of:

Evaluation Strategies of Credit Risk used by Commercial Banks Listed in Palestine Stock Exchange (PSE)

Sharif Musbah Abu Karsh [α] & Radwan Mahmoud Abumwais [σ]

Abstract- This study explains the "evaluation of the credit risk strategies used by commercial banks listed on the Palestine Securities Exchange" through the methods used by banks in assessing customers' credit requests, whether banks differ in the use of these methods and whether they differentiate between customers in using these Methods. The questionnaire was designed to suit the objectives of the study. Twenty-one questionnaires were distributed to commercial banks in the credit facilities and loans department. These are: National Bank, Palestine Investment Bank, Bank of Palestine, and Al Quds Bank. We excluded Palestinian Islamic bank and Arab Islamic bank, because of the different nature of the work of loans in Islamic banks compared with commercial banks in terms of: Murabaha, Musharka, it adopts laws in line with Islamic rules. The following statistical tools were used: average percentage, Ranking and Chi-square. It was found that all commercial banks in Palestine use the above methods of evaluation, as they place more emphasis on 5C's, LAPP Method, Past Experience, 5P's and Financial Analysis respectively. It was also found that natural persons and NGOs were treated in the same way by banks in assessing their credit applications; however, they differed in the treatment of business firms. The researchers recommend the following: First, more systematic and efficient analytical procedures are used for assessing the three risk categories according to the nature of transaction, cause and effect. Second, establishing an industry-wide institute for conducting economic studies relative to each financial intermediary with data bank for their information system.

Keywords: credit risk, financial intermediaries, palestine securities exchange.

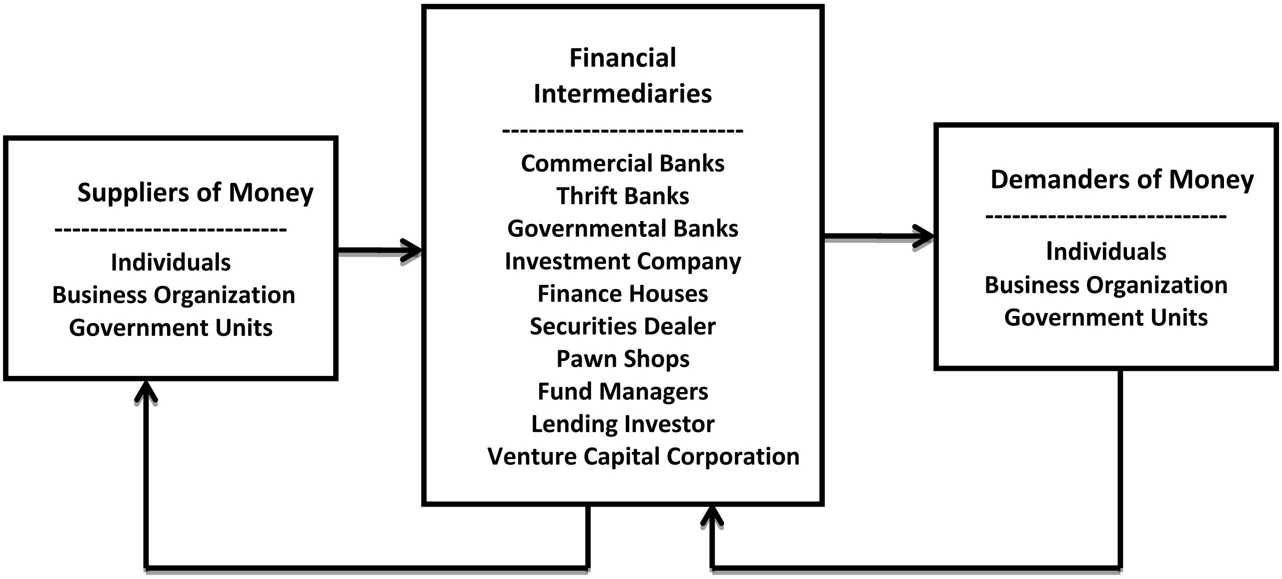
I. Introduction

Uncertainty cannot be entirely eliminated and wherever there is uncertainty there is risk. As [Drucker, 1989] put it: 'To try to eliminate risk in business enterprise is futile, risk is inherent to commitment of present resources to future expectation Indeed, economic progress can be defined as the ability to take greater risks. The attempt to eliminate risks even the attempt to minimize them can only make them irrational and unbearable. It can only result in greatest risks of all: rigidity." Credit results in grouping the risks into three main categories, according to transaction, cause and effect. Risk by transaction is the exchange rate risk associated with the time delay between entering into a contract and settling it. The greater the time differential between the entrance and settlement of the contract, the greater the transaction risk, because there is more time for the two exchange rates to fluctuate such as lending risk, trading risk, underwriting risk, asset liability risk . Risk by cause which caused by several factors such as credit risk, market risk, performance risk, interest rate risk , while Risk by effect results to undesirable situations which puts the company's resources, operations, employees' morale and the people the conduct business with at stake such as capital risk, income risk, opportunity risk, legal liability risk. The growing awareness that in the modern business world the risks have reached levels where formal systems of management and control are essential Deregulation is allowing into financial markets a wide range of institutions with little prior involvement in such activities mergers and acquisition are giving rise to large group structures in which traditional banking competence has to work alongside other traditions.

II. Conceptual Framework

The financial system in a modern economy is more sophisticated as it has a vast network of various institutions with modern facilities. Its operations cover all commercial and industrial centers of the world. Its policies and programs play a major role in the social and economic development of the region concerned. In fact, the financial centers of the world like New York, London, Singapore and Hong Kong are all prosperous places. The relationships among the suppliers and requires of funds and financial intermediaries is shown in figure 1:

Author α: Department of Banking and Financial sciences, Faculty of Administrative and Financial sciences Arab American University P.O. BOX 240, Jenin – West Bank, Palestine. e-mail: Sharif.karsh@aauj.edu
Author σ: Faculty of Graduate Studies, Arab American University P.O. BOX 240, Jenin – West Bank, Palestine.
e-mail: Radwan.Abummwas@aauj.edu



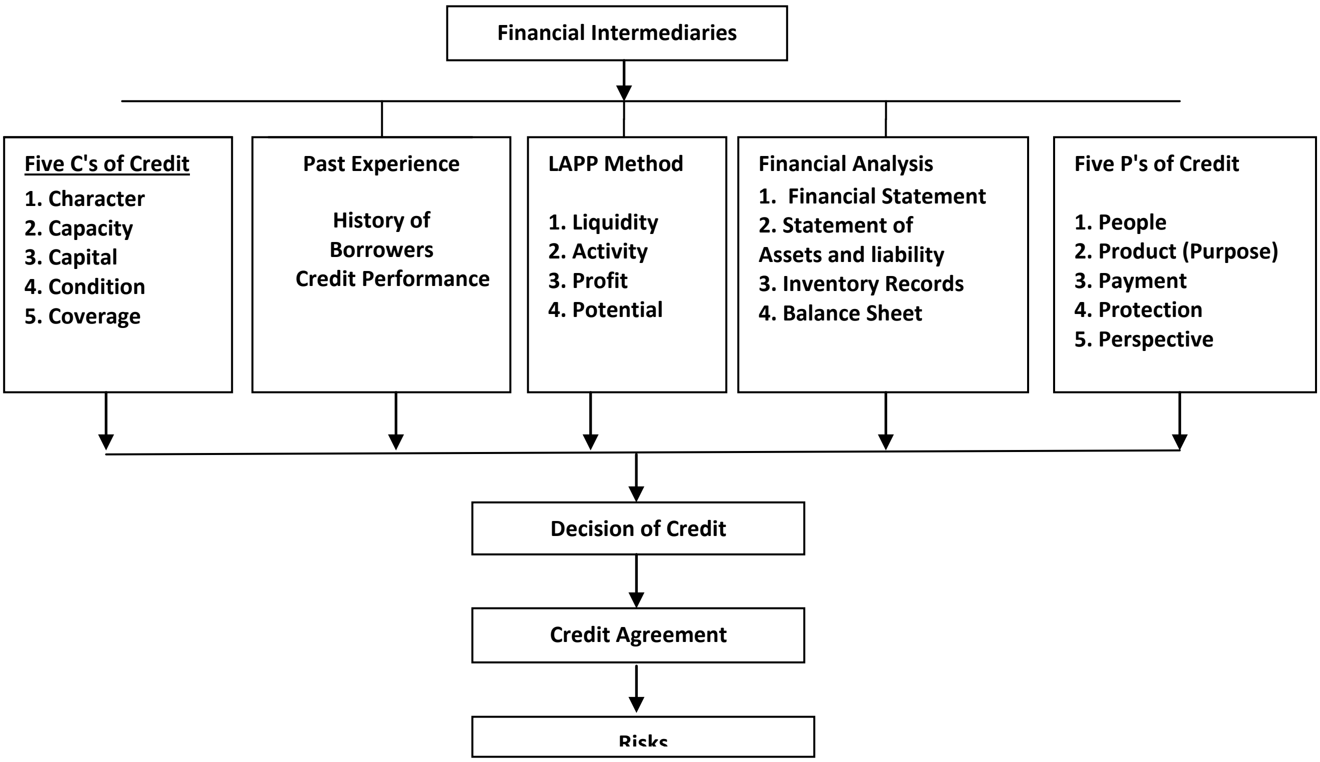
Adapted from the Unpublished Thesis [Abu Karsh, 1996]

Figure 1: How Financial Intermediaries Work

Financial intermediaries play a vital role in the economy by channeling funds from surplus to deficit spending units in the process; They issue securities to their owners and creditors in exchange for funds, the funds they require are " repackaged " and provided to other economic units. In the recent days, there is a big gap between the rich and the poor and many individuals either invest on their business or lend individuals or business organization. The financial intermediaries use various credit evaluation methods and criteria. While these are not mutually exclusive they tent to complement and reinforce each other that the subjectivities of one are strengthened by the objectivity of the other. Among these are shown in figure 2.

III. Study Model

The financial intermediaries' use various credit evaluation methods and criteria, presented below the Model of study as shown in figure 2 based on previous studies that implemented internationally.



Various Credit Risk Evaluation Techniques and Criteria

Figure 2: Paradigm of the Study

IV. Study Questions

This study aims to look into how the Commercial Banks Listed in Palestine Stock Exchange (PSE) an assessing the credit-worthies of their borrowing clients and the risks that they assume, In order to accomplish the main objective of this study, answers to the following specific sub problems are sought:

1. What are financial intermediaries and how may they be classified?
2. How does the respondent's commercial bank assess credit worthies of their borrowing clients?
3. In what aspects of the different credit evaluation techniques do subject commercial banks differ?
4. Are there significant differences in the techniques used by the subject commercial banks in a assessing their clients' credit worthies when the clients are classified into: Natural Persons, Business Organization, and Non– Business Organization.
5. What are the risks associated with the selected commercial bank credit decision and how do they differ in risks assumed?
6. Are there significant differences in the risk assumed by the subject commercial banks when the risks are classified according to, Transaction, Cause, and Effect?

V. Study Methodology

a) Method

The study made use of the descriptive research in the sense that it sought to describe, evaluate and compare the business operation practices of the subject Commercial Banks Listed in (PEX) in terms of how these institutions assess the credit – worthiness of their borrowing clients and the factors they consider when they assume risks.

b) Instrumentation

Pertinent data from both primary and secondary sources [, i.e.] the respondent themselves; different financial intermediaries' brochures, pamphlets and other publications relative to the financial system were collected through the various data gathering. The unstructured interview was utilized to clarify and/or reinforce data gathered, the perceptions of the top executives of the selected Commercial Banks on points focal to this study. The Principal data gathering instrument is a six-part researcher's constructed questionnaire which was conceptualized and prepared on the basis by of their readings and the books of international Trade Credit Management. The distribution of questionnaires started mid-June 2017 and was concluded the second week of July 2017. The questionnaire was validated by some credit executives not necessarily coming from the identified respondent companies.

c) Selection of Respondents

All Financial intermediary groupings are represented by six Banks since the Islamic Bank of Palestine and Arab Islamic Banks are not commercial banks, Thus they are excluded. From each of the four respondent banks five highest-ranking executives from the facility and collection Department, since Respondent Corporation and executive respondents were purposively chosen, there was no need for statistical sampling design. The (21) accomplished questionnaires recovered from the 21 executives of the 4 respondent banks represents a recovery rate of (100%), still within the 5% margin of error set for this study.

Table 1: Number of Respondents by Intermediary

The Bank	No. of Respondent	Percentage	Valid Percentage	Cumulative Percentage
National Bank TNB	6	28.6	28.6	28.6
Bank of Palestine	5	23.8	23.8	52.4
Al-Quds Bank	5	23.8	23.8	76.2
Palestine Investment Bank	5	23.8	23.8	100.0
Total	21	100.0	100.0	

VI. Significance and Scope of the Study

a) Significance

The researchers believe that extending credit is business, Therefore it is more important that it be managed and operated well, that its advantages may serve not only a few but the economy as a whole. The outcome of this study can provide general guidelines to financial intermediaries all over the country which could serve as a reference for developing their own credit risk evaluation practices. This would, in turn, assure the positive and productive evolution of such financial intermediaries as its primary contribution to the development of the social and economic conditions of the country.

b) Scope and Limitations

The study centered on local Banks Listed in Palestine Securities Exchange (PEX) and authorized by Palestine Monetary Authority (PMA) as of June 31, 2017, Table 3 shows the Local Commercial Banks Listed in Palestine Securities Exchange (PEX).

Table 3: Structure of the Palestine Financial System

Palestine Financial System Components Palestine Monetary Authority			
1. Local Banks	No. Branches	2. Foreign Banks	No. Branches
Bank of Palestine	17	Cairo Amman Bank	22
National Bank of Palestine	10	Arabic Bank	27
Palestinian Investment Bank	14	Jordan Bank	30
Arabic Islamic Bank	11	Egyptian Arab land Bank	7
Palestinian Islamic Bank	18	Jordanian Commercial Bank	5
Al-Quds Bank	23	National Bank of Jordan	6
AL-Safa Bank	1	Housing Bank for Trade & Finance	13
		Jordan Kuwait Bank	3
Total		Total	
3. Exchange Companies	257	4. Specialized Lending Institutions	6
Total	257	Total	6

Source, Palestine Monetary Authority [PMA, 2017]

VII. Review of Related Literature and Studies

[Bass, 1979] in his book entitled "Credit Management "emphasized on the reasons why account is outstanding. The author mentioned three reasons why an account is outstanding. are: inefficiency, dissatisfaction and deliberate policy. Inefficiency: which may be due to shortage of staff or due to organizational structure, Sometimes the real reason is not known until persistent probing from a supplier unearths a fault in the system no one had noticed. Bass further stated that inefficiency might be remedied by the credit managers reviewing the invoice–approval procedure, by conducting" administrative visits," that is meeting the clerk responsible for handling goods received notes and finally , by deciding whether to live with it or to take a tough line of action. The writer, however, warned that this should be handled with care so as to retain goodwill rather than to insist on immediate action. Dissatisfaction: An account remains outstanding due to customer dissatisfaction a customer may be dissatisfied due to a legitimate complaint which brought to the notice of the company but remained unresolved. A customer may withhold payment because of increase in price or shortage in supply of his goods to avoid customer dissatisfaction; Bass suggests that a joint visit with the salesman. He however, points out that if it is impossible, the next line of action would be to identify and isolate the amount in dispute and to persuade the customer to pay everything else. The author further states that sometimes the customer is slow in paying because the supplies had been delivering ahead of schedule, The customer may instead store the goods and instructed the accounting department not to pay until the due date assuming Unusual word pair delivery. In a matter of this nature, the author advocates a credit man's visit to settle the differences. Deliberate Policy: This is a situation where some companies indulge in the practice of taking as much credit as they can get away with, without any control. The ultimate result is that the company will run out of working capital, and will resort to giving flimsy excuses to the creditor. The author advises that the credit manager must be careful and must be able to see through these attempts to hide the fact that his company is being used to provide free working capital.

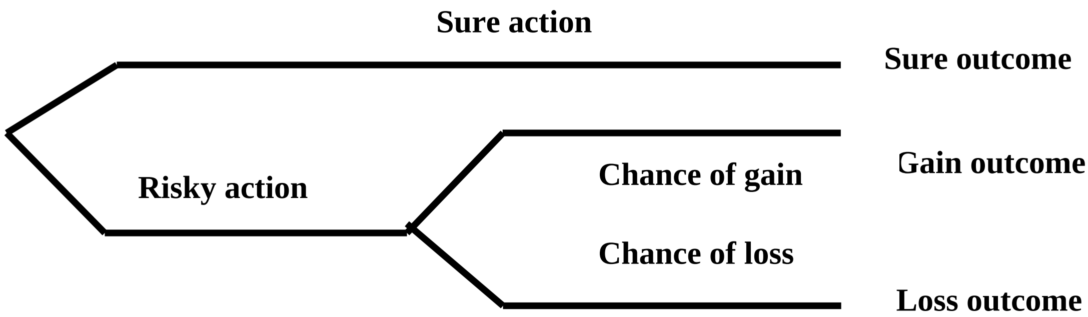
[Power, 1990] in her study entitled "The five "C's" of lender liability avoidance" explained that commercial banks today face a variety of loan related risks including the risks of being involved in a lender liability action. She analyzed some of the trends emerging from the court system in lender liability cases and summarized some of the managerial implications of recent court decisions. According to her areas of potential lender liability risks are; (1) liability from negligent processing of loan applications, (2) liability for failure to negotiate in good faith, (3) liability for failure to lend without just cause, (4) liability for aiding and abetting borrower in violation of securities law, (5) liability for negligence in administration of a loan, (6) liability for exercising undue influence over a borrowers business, (7) liability for improper acceleration of fore closure, (8) liability for supplying information about customer credit worthies.

In a study entitled "Back to basics: Fundamental loan principles and the commercial lending practice " [Scott, 1992] stated that throughout modern banking history, banks had experienced periods of deteriorating credit quality or national recessions. In fact, the study showed many banks, while others failed during healthy times with record number of banks which failed 1980s' experts from many disciplines lectured for a return to basics or principles. These basic loan principles are timeless, what cause bankers to lose perspective is the internal pressures and external influences upon them. These factors cause changing the interpretation of the principles and unusual word pair practices within lending. An understanding of the ways external pressures can influence the credit process, aid bankers in following sound principles.

[Raymond,1991] found in his study that commercial lenders' use of accounting information depends on the credibility of the borrowing firms' management, referred to as capacity in the banking industry. He hypothesized that positive accounting information Affects lender's judgments and loan decisions more favorably when accompanied by positive signals of character (supporting loan approval) than when combined with negative character signals (supporting loan denial). Further he stated that this accounting / character interaction is predicted to be smaller for novice lenders than experts, owing to the novices' lack of experience in assessing character. Experts are expected to recall more total facts in a hypothetical loan application than novices, especially when accounting and character facts are inconsistent, supporting different loan decision.

[Fan Li, 2014] stated in his M.A thesis that Banks today are the largest financial institutions around the world, with branches and subsidiaries throughout everyone's life However, commercial banks are facing risks when they are operating. Credit risk is one of the most significant risks that banks face, considering that granting credit is one of the main sources of income in commercial banks. Therefore, the management of the risk related to that credit affects the profitability of the banks. Nominalization is to provide stakeholders with accurate information regarding the credit risk management of commercial banks with its impact on profitability. The main purpose of his research is to investigate if there is a relationship between credit risk management and profitability of commercial banks in Europe. The research collects data from the largest 47 commercial banks in Europe from 2007 to 2012 and formulates four hypotheses which are related to the research question. A series of statistical tests are performed in order to test if the relationship exists. Other statistical tests are performed to investigate if the relationship is stable or not. To decide in risk situation there are two actions involved one action called the "SURE ACTION" is the status quo while the other action called the "RISKY ACTION "has two possible outcomes either a gain or a loss. If we knew that the gain outcome was going to occur, we would select the risk action; if we knew that the loss outcome was going to occur we would select the sure action. The problem is that we do not know for sure which of these two outcomes will occur; the outcome that occurs depends on an uncertain event for which we have only, as shown in Figure 3.

Global Journal of Management and Business Research (C) Volume XVII Issue VII Version I Year 2017



Probabilistic knowledge this prototypical risky situation will be called "BASIC RISK PARADIGM"

Figure 3: Basic Risk Paradigms

[Abbadi and Abu Karsh, 2013] They conducted a study title "Methods of evaluating credit risk used by commercial banks in Palestine, They classified these methods into five techniques: 5C's of credit, 5P's of credit, LAPP method, financial analysis, past experience. "They said that all banks in Palestine use most of the above five methods". The average percentages were used to find out the elements the banks concentrate most in each method, and it was found that banks in Palestine concentrate more on collateral, credit records, and ability to pay including liquidity and cash flow. They concentrate less on conditions, purpose and product. It was also found through hypothesis testing that there is no difference between banks in using the LAPP and 5P's methods, but they differ in using the 5C's and FAPE method. Another test was conducted found that banks operating in Palestine treat natural persons and NGO's in the same way in evaluating their credit application, but differ in treating business organizations and artificial persons. A new model was developed by the authors called PACT: representing Person, Activity, Collateral, and Terms. Each variable contains several elements and a weight (score) for these elements were estimated to make them easy to use by the bank's credit managers. Then the bank adds the score for the customer and evaluates each customer based on a scale of 100.

VIII. Brief history of Palestinian Commercial Bank

Before the occupation of the West Bank in 1967, there were 11 commercial banks in Palestine (8 in the West Bank and 3 in Gaza) with 30 branches of which 26 were the West Bank and only four in Gaza. At that time their credit facilities represented 71.4 % of their deposits [ESCWA 1987].

The Israeli authorities used military orders to close all bank branches on the eve of occupying the land (West Bank and Gaza) in 1967. They froze their assets and confiscated the cash in their vaults and transfer them to the Central Bank of Israel. After a few years, they issued military orders allowing Israeli Banks to open branches in the West Bank and Gaza. Only 4 banks opened with 22 branches distributed in main cities of the occupied area: Bank Leumi 13 branches, Bank Discount, six branches; Bank Hapoalim, two branches; and Barclays Bank, one branch [ESCWA 1987]. They remain alone until 1981 when the Israeli High Court of Justice allowed Bank of Palestine to reopen its closed branches in Gaza. Israeli banks were unable to attract Palestinian deposits, so they lacked funds, which made them dependent on government money collected from taxes imposed on the Palestinians.

Their roles were limited to transferring money and to paying checks to Palestinians who received their salaries in Israeli Shekel. Israeli banks were unable to provide a financial intermediary function, as very few customers agreed to deposit their money with them, and their loan portfolio was less than 8% of their assets. Most of their facilities were overdraft granted to merchants who had business with Israeli partners. Banks also were facilitating a trade of Palestinian merchants who needed to open letters of credit or letters of guarantees to import from Israel. Despite this, these facilities were profitable to those banks, as they were charging three times the fees banks charge in neighboring countries; but due to lack of business very few could make a profit and sometimes losses caused many of them to close their branches. In 1987, due to the Intifada, all of these banks were closed [Harris, 1988] There were no banks in Palestine until 1994, except one branch of Cairo-Amman Bank, which was reopened in 1986 in addition to the Bank of Palestine in Gaza. After the Oslo agreement in 1993, the Wadi Araba Agreement between Jordan and Israel and the Paris Accord in 1994, Israeli authorities allowed Jordanian banks to reopen their branches closed in 1967. They also allowed the Palestinians to establish the Palestine Monetary Authority in 1995 to overview banks and to give licenses to the newly established banks [Abbadi, 1997]. Since 1995, the PMA has issued several laws, and regulations; the most important are the Banking Law, the PMA law and the Money Changers Law. Recently the PMA drafted a Central Bank Law which is awaiting a Presidential decree. Currently, three currencies are circulated in Palestine: the US dollar, the Israeli shekel, and the Jordanian dinar. Since its establishment, the PMA has issued several licenses to new banks and allowed banks to open new branches, which made the number of banks to increase from 2 in 1994 to 17 by end of 2012, with over 226 branches and offices, now in 2017 they decrease to 15 banks, with over 206 branches and offices.

IX. Study Results Questions

a) Results Question 1: Financial intermediaries and their classifications

A financial intermediary as defined in the Dictionary of Banking Terms, is a financial institution that accepts deposits from the public and makes loans to those needing credit.

These are financial institutions that allow the movement of capital from surplus units to deficit units by accumulating funds from the public (through deposits) and lending it to those needing credit. According to Palestine Monetary Authority (PMA), financial intermediaries are classified into: 1- Local banks. 2- Foreign banks. 3- Exchange companies. 4- Specialized lending institutions.

b) Results Question 2: Assessment of borrowers' Credit-Worthiness

Five major credit evaluation techniques are employed by respondent's financial intermediaries in determining the credit-worthiness of a borrower. These are, enumerated in the order of popularity among respondents, five C's of Credit, LAPP method, Past Experience, five P's of Credit, and Financial Analysis. Although not specifically classified as a credit the respondent companies' credit evaluation tools which all respondents found as adequate enough safeguard from delinquent borrowers. All respondent groups ranked this credit equal with 5C's of credit.

Table 4: Evaluation Criteria in Assessing Credit-Worthiness

	Frequency	Percent	Valid Percent	Cumulative Percent
5C's of Credit	9	42.9	4.8	4.8
LAPP Method	5	23.8	23.8	28.6
5P's Credit	1	4.8	4.8	33.3
Previous Experience	4	19.0	19.0	52.4
Financial Analysis	1	4.8	42.9	95.2
Nothing detailed	1	4.8	4.8	100.0
Total	21	100.0	100.0	

i. *Most Important C in Credit Evaluation*

Table 4 reveals that the 5C's of Credit ranked first among the various methods of ascertaining clients' credit worthiness. Although subjective in nature, it is an effective credit assessment tool which calls for a thorough analysis of the borrower's character, his capacity to pay, capital or owners' equity, the conditions surrounding the loan or the environment affecting the investments, and the collateral he may be required to put up or offer to secure the loan. As to which among these five factors is given the most importance and / or weigh the most in making credit decisions.

Table 5: Most Important C in Assessing Credit-Worthiness

	Frequency	Percent	Valid Percent	Cumulative Percent
Character	14	66.7	4.8	4.8
Capability	5	23.8	66.7	71.4
Capital	1	4.8	23.8	95.2
Condition	1	4.8	4.8	100.0
Collateral	0			
Total	21	100.0	100.0	

ii. *LAPP Method Most Extensively used in Appraising Business Health*

Regarding the banks depending on the LAPP method, "Profitability" is the most significant accounting for 38.1% of the sample followed by "Liquidity" accounting for 33.3% of the respondents and in the final place was "Activity" accounting for 28.6% of the sample.

Table 6: Most Important LAPP Method in Appraising Business Health

	Frequency	Percent	Valid Percent	Cumulative Percent
Liquidity	7	33.3	28.6	28.6
Activity	6	28.6	38.1	66.7
Profitability	8	38.1	33.3	100.0
Potential	0	0	0	0
Total	21	100.0	100.0	

iii. *"5P's" Method in Assessing a Borrower's Credit-Worthiness*

Table 7 shows that the five P's were the least ranked among the decision criteria in credit extension. It was noted earlier that the 5 P's were essentially the same in terms of application as the other two techniques i.e. 5 C's and the Lapp. Its unpopularity therefore could be attributed to its being the latest entry into the financial industry's vocabulary.

Table 7: Most Important "P" in Assessing Credit-Worthiness

	Frequency	Percent	Valid Percent	Cumulative Percent
People	3	14.3	14.3	14.3
Product	2	9.5	9.5	23.8
Payment	12	57.1	57.1	81.0
Perspective	2	9.5	9.5	90.5
Protection	2	9.5	9.5	100.0
Total	21	100.0	100.0	

iv. *Previous Experience*

It's a good tool in measuring the history of a borrower's credit performance, according to Table 15 shows that 4 respondents were chosen it, and ranked "third" among the five evaluation criteria the banks used in assessing their credit worthiness.

v. *Financial Analysis*

Credit analysis involves a wide variety of financial analysis techniques, including ratio and trend analysis as well as the creation of projections and a detailed analysis of cash flows. Credit analysis also includes an examination of collateral and other sources of repayment as well as credit history and management ability. Analysts attempt to predict the probability that a borrower will default on its debts, and also the severity of losses in the event of default.

c) Results Question 3 Credit Evaluation Aspect Where Subject Financial Intermediaries Differ

The four respondent financial intermediaries employ all the credit evaluation tools in credit extension but in varying degrees depending upon the peculiarities the loan and the borrower. While most of the respondent extensively use the five C's approach, the level of usage of the other techniques, i.e. LAPP method, five P's approach, financial analysis and past experience differ significantly among the different financial institutions surveyed.

d) Results Question 4: Credit Evaluation Techniques Used for Different Types of Borrowers

Three types of borrowers were identified in this study; natural persons which refer to individual borrowers, business organization, and non-business organization which are both represented by legal personalities but differ in the focus of their operations the former being profit oriented while the latter aims for public services. Business organizations are the most preferred debtors by all respondent groups, Natural persons ranked second among the four financial intermediaries. Whether the borrower is a natural person, business organization or a non-business organization, the order of importance given to the different credit evaluation tools are essentially the same, that is, the five C's of credit ranks first, followed by LAPP method , Past experience, five P's and financial analysis respectively. For natural person and business organization borrowers, the prioritization of the four respondent groups to the various credit evaluation tools are in perfect conformity while a slight deviation is observed when respondents assesses non-business organizations. From the foregoing was based the rejection of null hypotheses regarding the non-significance of difference of credit evaluation tools used by the different respondents when the clients are grouped into: natural person, business organization, non-business organization.

Table 8: What banks employees (respondents) prefer to work with

	Frequency	Percent	Valid Percent	Cumulative Percent
Business Organization	15	71.4	71.4	71.4
Natural Persons	5	23.8	23.8	95.2
Non-Business Organization	1	4.8	4.8	100.0
Total	21	100.0	100.0	

e) Results Question 5: Risk Assumed by Subject Financial Intermediaries

Credit risk evaluation results are used by the respondents as bases for both ante and post credit decisions and activities. Ranking first as a consequence of credit risk evaluation is the formulation and implementation of sound credit and collection policies and procedures, but the establishment of good internal and external relationships and contacts is the most important for the four financial institutions. To deal effectively with risks inherent to any business activity, respondent financial intermediaries grouped them into three categories: (1) by transaction, reported to be the most frequently incurred by the four respondent groups, TNB, Bank of Palestine, Palestine investment bank, Al-Quds bank, (2) risks by cause, reported to be the second most frequently incurred by the four respondent groups, and (3) risks by effect, the least encountered.

Table 9: Debtors Preferred in the Extension of Credit

Group		N	Mean Rank
Normal persons	TNB	6	11.67
	Bank of Palestine	5	9.60
	Al-Quds bank	5	11.70
	Palestine Investment bank	5	10.90
	Total	21	
Non-Business Organization	TNB	6	17.25
	Bank of Palestine	5	6.50
	Al-Quds bank	5	10.90
	Palestine Investment bank	5	8.10
	Total	21	
Business Organization	TNB	6	11.83
	Bank of Palestine	5	10.00
	Al-Quds bank	5	11.50
	Palestine Investment bank	5	10.50
	Total	21	

f) Results Question 6: Differences in the Evaluation Criteria Used by the Respondent Companies for the Different Types of Debtors

From the table 20 could be drawn a conclusion that the credit evaluation criteria used by the four respondent groups for the different types of debtors i.e. natural persons , business organizations , and non-business organizations , are not significantly different from each other, because the Asymp. Significance results are too close. While statistical proof for this conclusion is superfluous since the rankings of all are evidently identical except for the reversal of positions of the Financial analysis and the five P's, Because the respondents did not use these methods because of insufficient experience and take a longer time in evaluation process, so the results were few for other variables, this not being not significant enough to alter the non-significance of difference. Presented to support above arguments which illustrates the almost perfect conformance of the ranking of the five credit evaluation tools as they are employed to assess the credit-worthiness of the three debtor categories i.e. natural persons , business organizations, and non-business organization.

g) Results Question 5: Credit Risks Assumed by Respondent Financial Intermediaries

No amount of protective and/or preemptive measure will entirely eliminate the risks associated in the conduct of any business undertaking. It can only be minimized or held to a tolerable level. Credit risk is one of the primary risks in bank lending, the risk that a borrower will not pay a loan as called for the original agreement, and may eventually default in the payment Various credit risk evaluation procedures are employed by financial institutions, results of which are based decisions to commit company funds. The formulation and implementation of sound credit and collection Policies is the best hedge against credit risks. The installation of preventive measures i.e. policies designed to uncover the weaknesses as well as identify the strong points of a prospective borrower could greatly reduce the evolution of bad accounts since this will preempt the granting of loans to unworthy customers. In fact, all respondent financial intermediaries view that the outcome off credit evaluation is considered to trigger off formulation of credit policies and collection practices when 33.3 % of the respondents identified this as most useful technique or basis of policy formulation.

Table 10: Perspective according to respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Establishing internal and external good relationships	6	28.6	28.6	28.6
To maintain and execute sound policies and procedures for crediting and collecting.	7	33.3	33.3	61.9
To provide informal a advice for the clients	2	9.5	9.5	71.4
To provide enough protection to invest in the due accounts.	4	19.0	19.0	90.5
None of the above.	2	9.5	9.5	100.0
Total	21	100.0	100.0	

From the above table, we see that the most used practices in the institutions is to maintain and execute sound policies and procedures of crediting and collecting with a percentage of 33.3%, followed by establish internal and external good relationships with a percentage of 28.6%, and then with 19% providing enough protection to invest in the due accounts.

Table 11: Perspectives according to institution

	Frequency	Percent	Valid Percent	Cumulative Percent
To establish internal and external good relationships	5	23.8	19.0	19.0
To maintain and execute sound policies and procedures for crediting and collecting.	3	14.3	14.3	33.3
To provide informal advise for the clients	4	19.0	19.0	52.4
To provide enough protection to invest in the due accounts.	4	19.0	23.8	76.2
None of the above.	5	23.8	23.8	100.0

From the above table, we see that the most used practices in the institutions is to establish internal and external good relationships with a percentage of 23.8% and none of the choices provided in the table, followed by providing enough protection to invest in the due accounts and providing informal adviser for the clients with a percentage of 19%.

Table 12: Differences between Perspectives of the Intermediaries

Practice	Order (according to institution)	Order according to respondents
To establish internal and external good relationships	5	2
To maintain and execute sound policies and procedures of crediting and collecting.	2	5
To provide informal a advise for the clients	1	2
To provide enough protection to invest in the due accounts.	3	1
None of the above.	5	1

Ranked overall second as outcome of credit risk evaluation is the establishment of good internal and external relationships and contacts, the respondents indicating the need to develop goodwill among clients and create an atmosphere of mutual trust and respect as a way of increasing the probability that a borrower will make good of his promise fulfill his obligations.

From credit evaluation practices could be based decisions to provide for prompt asset turnover and adequate protection of investments in account receivable, with the respondents ranking it third among the post credit-related activities that management pursue. The least observed practice as a consequence of risk evaluation is the informal counseling of

Global Journal of Management and Business Research (C) Volume XVII Issue VII Version I Year 2017

prospective borrowers on several factors governing credit practices and characteristics of the loan agreement as this is not expected to yield tangible results, this being purely exploratory. It could however hasten negotiation procedures, the other party gaining insight into his responsibilities as a debtor.

h) Results Question 6: Differences in the Risk Encountered under the three Risk Categories

Categorized by transaction, by cause, or by effect, the four financial intermediaries display differing Degrees of exposure to the different risks attendant with these three risk categories, this based on probability levels, and decision criteria for this study. The preceding findings further strengthen previous discussions regarding the unpredictability on risk which manifests itself in many forms under various circumstances: Transaction. Cause and Effect, Kruskal-wallis was used to examine the techniques used by the subject financial intermediaries in assessing the client's credit worthiness.

Table 13: Differences in the Risk Encountered

	Bank	N	Mean Rank
Transaction	TNB	6	8.33
	Bank of Palestine	5	6.00
	Al-Quds Bank	5	16.70
	Palestine Investment Bank	5	13.50
	Total	21	
Cause	TNB	6	12.58
	Bank of Palestine	5	13.20
	Al-Quds Bank	5	8.30
	Palestine Investment Bank	5	9.60
	Total	21	
Effect	TNB	6	10.92
	Bank of Palestine	5	10.60
	Al-Quds Bank	5	8.30
	Palestine Investment Bank	5	14.20
	Total	21	

X. Recommendations

1. Financial intermediaries should deepen their experience on evaluation tools like LAPP method . financial analysis and the five P's approach as a strong support to their reliance with the traditional five C's of credit .
2. Establish an industry-wide institute for the cooperative effort aimed at conducting economic researches that would provide each financial intermediaries with data bank for their information system.
3. The enactment of a severe punishment law against those who evade payment that would deter people from committing the crime, in cooperation with the banking sector and the lending institutions, so that a law will be put in place to suit all parties.
4. Develop a computer-based system that would automatically assess a borrower's credit status once pertinent data about a prospective borrower is inputted into a computer. The system may either use any of the credit evaluation tools as a standard or a combination of all five techniques , depending upon the peculiarities of the need.
5. A more liberal credit granting to non-business organizations considering the social dimension of these undertakings. The subject financial intermediaries should give weight on social rate of return of an industry. To increase the probability of re-payment, lending institutions should extend technical assistance to this type of borrowers .
6. Institute more systematic and efficient forecasting procedures that would individually focus to the three risk categories i.e. according to transacting, cause, and effect.

References Références Referencias

1. Abbadi, and Abu Karsh, credit risks used by commercial banks in Palestine, International research journal of finance and economics, ISSN 1450-2887, Issue 111, July 2013.
2. Abu Karsh, unpublished doctoral dissertation, University of Santo Tomas, Manila, Philippines, 1996.
3. Fan Li, Yijun Zou, '' the Impact of Credit Risk Management on Profitability of Commercial Banks'', Student Umeå School of Business and Economics Spring Semester 2014.

4. Feliciano R. Fajardo and Manuel M. Manansala , Money Credit and Banking, Published by National Book Store , Inc. . 4thed. 1993), P. 16.
5. G.V Benz, International Trade Credit Management, (Great Britain) by Gower Press Limited, 1975.
6. George M Bollenbacher, The New Business of Banking, A Backline publication, pp. 125-135, 1995.
7. Joseph F. Sinkye, Jr. Commercial Bank Financial Management, 3rd Ed Macmillan Publishing Company, a Division of Macmillan, Inc. 11989, P. 491.
8. Peter F. Drucker., Management Tasks, Responsibilities, practices. , P.433.
9. Richard M. V Bass, Credit Management (London: Business Book Ltd., 1979)
10. Beaulieu Philip Raymond, "Commercial Lender's use of accounting information: The effects of character information and experience" unpublished doctors dissertation, University of Washington, Abstracts International Volume, 52 number 11, 1992.
11. Caneron, Rady Scott, "Bank to Basics: Fundamental Loan Principles and the commercial lending Practice "unpublished master thesis, The Stonier Graduate Scholf of Banking, Master Abstracts International. Volume 31, Number 2, 1993.
12. Hinsch Scott Jonston Jr. "analyzing the Commercial Credit risks of the 1990s': unpublished Master's Thesis. The Stonier Graduate School of Banking, Masters' Abstracts international. Volume 30, no. 1, 1992.
13. Price Patricia Power. "The Five "C's" of Lender Liability avoidance , unpublished Master's thesis The stonier graduate school of banking. Master Abstracts International, Volume 29, November 2, 1992.
14. Palestine Monetary Authority, PMA> Home. http://www.PMA.Ps/.