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The Extent of Basel Accord implementation on Islamic Banks in Palestine the case of Palestine Islamic Bank

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ABSTRACT: The primary goal of this study is to examine how the Basel II agreement is being implemented in Islamic banks in Palestine (a case study of Palestine Islamic Bank). To attain the purpose of the research, a descriptive-analytical approach was used, and a questionnaire was distributed to the employees of Palestine Islamic Bank (145) in all branches of Palestine. The study's main result is the implementation of the Basel II Agreement in the Islamic Bank of Palestine. Based on the findings, the researcher has some suggestions, the most essential of which are: empowering and strengthening human resources to monitor different threats. Banks should develop capabilities, develop instruments and systems for measuring risk according to internal assessment methods and adhere to Islamic regulations and rules in Islamic banks to maintain the level of competition with traditional banks in the market.

INTRODUCTION

The banking system generally includes a variety of risks that require precautionary measures and appropriate procedures to manage and control these risks in accordance with international best practices to mitigate or avoid potential exposures. Due to the increasingly severe financial crisis in various countries around the world, many famous international banking institutions have collapsed, resulting from insufficient risk management and control. In this context, Basel II was launched in 2006 as a risk management framework that considered an early warning system, allowing regulators to focus on problem of Islamic banks rather than all banks. Despite the significant differences in the nature of capital between Islamic and conventional banks, Islamic banks must meet the requirements of international banking standards and give a secure and viable banking foundation (Bohaidar, Roukia; Lalabh, & Moloud 2010).

Therefore, it is not entirely clear if the opening of capital requirements can reduce the intention to participate in taking a risk. It is exceptionally difficult, if not unachievable, for supervisors and regulators to set capital norms that are similar to those demanded by well informed, exact private sellers and buyers. For example, banks can also increase their risk exposure in response to regulatory pressure. Furthermore, actual capital requirements can lead to an increase in risk-taking. Thakor (1996) makes a cautious assessment, concluding that risk-based capital requirements raise the circumstances for credit restriction, which negatively impacts overall economic growth. Thakor and Wilson (1995) further suggest that higher capital needs can encourage borrowers to turn to capital markets, impairing capital allocation in the process, whereas Gorton and Winton (1999) demonstrate that more increased the need for additional capital raise the cost of capital. As a result, the theory makes contradictory expectations regarding whether capital requirements will harm or help banks improve their performance and stability. At the end of 1974, the central bank governors of the Group of Ten nations came together to form the Basel Committee on Banking Supervision in the wake of widespread upheaval in the international monetary and banking markets. When Swan (2009) conducted the initial meeting, there have been regular meetings three or four times a year since February 1975.

The Islamic Financial Services Board (IFSB) of Malaysia which is regarded as the frame of reference for most Arab central banks with institutional approval is not included in the Basel Committee's International Banking Supervision Standards published in their first and second editions. It has published standards and instructions on Islamic banks providing unique criteria for Islamic banks in capital adequacy, good governance norms, and transparency; however, the crisis has proven the need to have appropriate venture capital as required by the Basel revision. However, Islamic banks' dependence on Islamic economic and moral principles does not decrease the significance of institutional governance in managing larger risks than commercial banks. The subjective causes are based on the Islamic economy's principles and practices. When it comes to investing tools, the objective explanation for this is that Islamic banks' institutional, legal, and regulatory framework has not been completed yet. This is compounded by market flaws such as information asymmetry, which cause moral hazard and adverse selection. A good risk management framework is required to cope with challenges such as moral hazard (borrowers using loans to fund dangerous firms), adverse selection (as most underlying business needs loans and funding), and agency problems (as most underlying organizations demand loans). According to the World Bank, Islamic banks face not only typical banking risks but also "new and distinct risks resulting from their different asset and liability structures." Khan and Ahmed demonstrated that introducing these new forms of hazards is a direct outcome of their commitment to Islamic principles.

PROBLEM STATEMENT

The development of a risk management framework for Islamic banks is a prerequisite and a sufficient condition for the continued existence of a powerful, transparent, and safe Islamic financial sector. When it comes to the external environment, objective concerns are essential, but subjective considerations are more important in the banking environment. Therefore, researchers want to understand the impact of the Basel Accord on The degree of implementation of the Palestinian Islamic Bank, taking the Palestinian Islamic Bank as an example.

Subjective consideration:

1. Islamic banks must take into account concerns relating to the balance sheet and assets of both parties to the transaction, as well as considerations relating to Islamic banking principles, which consist of the sharing of profits and losses, the need for transparent controls to safeguard the interests of deposit holders who have established relationships with banks based on customer acceptance Absolute confidence in profit and loss, investors hold "bank" risk is one of the fundamentals of Islamic banking based on the rules of "Algonmbel Gorm," resulting from the saying of "Alkheragbel Daman." hence, there is no investing strategy A guaranteed bank gets returns without incurring any risks, and Shar3an prohibits any contract comprising a promise of capital investment or profit contracts. However, risk mitigation and avoidance can only be done in compliance with applicable legislation. ' Due to the wide range of Islamic investment and financing vehicles available, including debt instruments as well as asset instruments, Islamic banks face the same risks as traditional banks because of their distinctiveness and diversity.

In terms of liabilities, in terms of assets, the use of funds is private, making it different from traditional banks. They are not based on debt like conventional banks on equity and assets.

In terms of liabilities, the bank's liability for capital and deposits is "limited liability," Unlike traditional banks, the bank's liability for capital and deposits is unlimited. Whether or not a bank is profitable, depositors are obligated to receive interest.

2. Recent experience of Islamic banks compared to conventional banks
3. The structure and model of traditional banks are incomplete.
4. The vast experience of Islamic banks and what they have achieved relatively quickly requires great quality efforts to protect them.

Objective considerations:

1. There is a lack of one unified supervisory organization for Islamic banks and many supervisory bodies to manage Islamic banks' activity, which has resulted in a weakening of Islamic Bank Links. To understand Islamic finance's power, integrity, and resilience, one must know how it impacts the real economy.
2. Cash risk management in Islamic banks is very sensitive to the difficulties of getting liquidity (fund liquidity risk) or the liquidation of assets (asset liquidity risk). Banks' liquidity risk due to one exporter's inability to provide the requisite funds is critical because Islamic banks may face significant liquidity risk difficulties due to the following:
3. Constraints originating from conformity with Islamic law restrict the securitization of bank assets for liquidity purposes and tend to be of a debt type, resulting in a high level of restriction (debt-based assets).
4. Since there is no overnight or interbank lending between banks, which is a significant source of liquidity for banks in the short term, this problem has become more severe and urgent due to a lack of interbank lending between Islamic banks.
5. Due to the restriction of Islamic banks, regular banks rely primarily on the Lender of Last Resorence as a doorway to the liquidity of Islamic banks, which do not have this option. Suppose a bank's liquidity risk management needs to be more transparent and clear to avoid jeopardizing the institution's long-term viability in the market. In that case, this will necessitate greater transparency and clarity in the banking industry as a whole.

6. In Islamic banking, privacy and personalization are available in various ways. The depositor's rights must be protected by a high degree of disclosure. The petitioner has used the concept of participation profit and loss to his advantage. This is the Bank's Commitment to the Owner's Handbook, limited to a prudent investment of available funds. In contrast to traditional banks, where is the bank's commitment to the depositor and the owner? With their unlimited nature and long-term viability, Islamic bank deposits are a great illustration of Islamic finance. This is due to the structure of the funds and the fact that a large number of the bank's sources of funding form a positive relationship between the deposit account and the owner, as well as the fact that investment funds are placed on a loss -and- profit basis, to the extent that certain law schools, tend to Named Savers Silent Partners.
7. Sensitivity of Islamic banking work to ensure that the public is a sufficient and necessary condition to maintain an efficient, effective, safe, and sound Islamic banking sector capable of fulfilling Economic and Social Council considerations, including the ethical and religious dimensions of such banks.

QUESTIONS &HYPOTHESES

This research seeks to analyze the practical application of Basel International Standards to the regulation of Islamic banks in general and the Islamic Bank of Palestine (IBP) in particular, with a specific focus on the Islamic Bank of Palestine (IBP). Our research team examined the content of IBP's annual report and conducted interviews with a senior banking executive, as well as the heads of compliance and risk management, to explore the extent to which IBP banks are implementing international basel2 standards, as well as identify problems and provide answers to the following questions:

The 1st question

What is the extent to which the Basel Accord is being implemented in Palestine about Islamic banks?

And the following sub-questions emerged from this question.
1. Are the Risk Principles for Islamic Bank Exposures being implemented to the extent that they should be done?
2. What is the current degree of implementation of Islamic banks' risk management responsibilities?
3. What are the risk measures and minimum capital level required by Basel II for Islamic banks?
4. What is the level of regulatory scrutiny that Islamic banks are subjected to under the Basel II framework?
5. How well-regulated are Islamic banks under Basel II?
6. What is the status of Basel III adoption in Islamic banking?

The second question

Based on variables (gender, job title, education, years of work, age), are there differences in the extent to which the Basel Accords are implemented in Palestinian Islamic Banks?

To implement this question, the following assumptions will be answered:
1. First hypothesis: “There is no statistically significant difference in the significance level (0.05 ≥ α) of the degree of Basel Accord implementation on the Palestinian Islamic Bank due to the gender variable."
2. Second Hypothesis: “There is no statistically significant difference in the degree of implementation of the Basel Accords on the Palestinian Islamic Bank at the significance level (0.05≥α) because of the job title variable.”
3. Third hypothesis: “There is no statistically significant difference in the significance level (0.05≥α) of the implementation of the Basel Accords on the Palestinian Islamic Bank Due to the educational variable."
4. Fourth hypothesis: “There is no statistically significant difference in the significance level (0.05 ≥ α) of the implementation of the Basel Accords on the Palestinian Islamic Bank due to years of experience variables."
5. Fifth hypothesis: "There is no statistically significant difference at the significance level (0.05 ≥ α) on the age variable of the Palestinian Islamic Bank between the degrees of Basel Accord implementation."

LITERATURE REVIEW

Habib Ahmed (2014) stated in his paper that risk management is more than just identifying and mitigating risks; it also entails the establishment of an effective risk management system that includes the establishment of a suitable risk management environment, the maintenance of efficient risk management processes, and the establishment of effective external auditing procedures.
Monzer and Kahf (2012) found in their study Basel II: Implications for Islam Banking that Islamic banks and conventional banks have similar credit risks. As a result, the process of calculating the min equity obligation for credit risk exposure should be the same as the approach developed for traditional banks, according to Monzer and Kahf (2012). Therefore, the Islamic banking sector is free to embrace the Basel II proposed agreement's section on Islamic finance; nonetheless, regulators will reasonably compel

them to comply with the guidelines. In Islamic banking, the equity should be construed to include owners' and shareholders' equity of unlimited deposits, as the latter bear their share of the risk of loss under the Mudhaarabh contract. Equity considerations must be considered when allocating losses and equity expenses between shareholders and owners of unrestricted deposits. Islamic banks charge shareholders significantly lower minimum capital charges for operational risk than their conventional counterparts. The reason for this is because Mudarabah Contracts does not charge Mudarabah for damages that are not the result of carelessness, fraud, or breach of contract on the part of the contractor (including violation of usual and customary professional standard practice). Operational risk trade-offs and minimum equity calculation rules may be the same for Islamic banks and traditional ones. But there should be less of a burden on shareholders than there would be for conventional banks.

Mohammad Bitar (2014) attempts to determine whether banking regulation affects the stability and efficiency of Islamic banks in the same way as it does conventional banks. When comparing Islamic banks to traditional banks, we can use Basel III guidelines to study the influence of bank leverage, capital, and liquidity, requirements on the stability and efficiency of the Islamic financial system. Islamic banks have better capital, liquidity, and profitability levels than conventional banks, according to the findings of the first exploratory study, which was conducted using principal component analysis (PCA), logit and profit techniques, and ordinal logistic regression. Through conditional quantile regression, the second research investigates the stability of Islamic banks, concluding that Islamic financial banking institutions are less stable.

The following question is posed by Adam Ja'far (2015) in his work: Is it possible to decrease the impact of risk exposure by using suitable capital adequacy criteria in compliance with Islamic Financial Services Board standards? Is it capable of protecting, maintaining, and stabilizing deposits? Is it possible to obtain banking security due to the banking risks when applying? The research descriptive and analytical approaches, as well as some statistical methods, were used to arrive at a set of overarching findings, which were as follows: With the application of standard capital adequacy ratios that have been updated following the Islamic Financial Services Standards Board, the identification and control of funds awarded were achieved. As a result of the study, several recommendations were made. Among them were addressing some of Dah's negative aspects of standard capital adequacy, for instance, the presentation of competition principles to developing country governments in a discriminatory manner and allowing new credit rating agencies to enter the market.

This humble quest is nothing more than a human endeavor, free of error and forgetfulness, based on the perfection and unity of God, as well as the infallibility of his prophets, and we meet any scientific discussion with a purpose, as well as any effort to improve research methods. We hope that the recommendations in this study, whether they are deletions, additions, or adjustments, will facilitate a broader debate of the main issues of Islamic banks' capital adequacy calculation techniques in the future.

RESULTS OF STUDY QUESTIONS

What is the extent to which the Basel Accord is being implemented regarding Islamic banks in Palestine?

This issue was answered by computing the arithmetic mean and standard deviation of the study sample persons who answered a questionnaire field that represented the extent to which Basel had implemented the Islamic Bank of Palestine (IBP).

Basel II had the highest average score for supervisory review (4.519), followed by the market discipline area with mean of (4.482), then the Islamic risk management mandate area mean was (4.477), followed by the banking sector Islamic Banking Risk Management Principles score mean was (4.47), followed by the mean score mean was (4.399) in the Risk Measurement and Minimum Capital Approach areas in Basel II, and then the mean score in the Islamic Banking Risk Management mandate area was (4.396).

***What is the level of implementation of Risk principles in Islamic banks?**

According to the study sample results, the researchers estimated the arithmetic mean and standard deviation of the responses to questionnaire paragraphs reflecting the domains of Islamic Banking Risk Management Principles.

The result shows that the occurrence of all sentences is high. "Risk management aiming at stable profits" had the highest arithmetic mean (4.70), followed by "appointing officials with banking experience for various major risks" with an average of (4.64). "There is an independent committee called the 'Risk Management Committee' that sets the overall policy" with the lowest mathematical mean was (4.01), followed by the statement emphasizing that "the board is responsible for risk management," with a mean of (4.32).

What is the extent to which Islamic banks have implemented risk management tasks?

The researchers computed arithmetic mean and standard deviation of replies from participants in the study sample to questionnaire paragraphs representing a task area related to risk management at the Islamic Bank.

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The results show that the occurrence of all sentences is high. The paragraph “Internal Risk Management Policy” had the highest average score (4.80), followed by the statement emphasizing that “Prepare and submit risk reports to the board and stakeholders” with mean of (4.77). The paragraph “Cultural awareness of risk management within Islamic banks” had the lowest arithmetic mean (4.05), followed by the section “The approach to risk management is risk financing (through hedging or shifting)” with mean of (4.40).

*** What are the minimum capital and risk measurement procedures in Islamic banks that comply with Basel II standards?**

Following Basel II, the researchers estimated the mean and standard deviation of replies from persons in the study sample to questionnaire paragraphs describing the regions of minimum capital and risk measuring methodologies, respectively, using statistical methods.

The results also show in table number (4.4) that all sentences have a high degree. The highest arithmetic means of "Minimum capital adequacy ratio of 8%" (4.66), followed by the paragraph "Measuring credit risk, using key internal rating methods," had an average score of (4.63). The section "Measuring credit risk, using standard methods" had the lowest arithmetic mean (4.00) and the paragraph "Measuring market risk, we rely on standard methods" had the lowest arithmetic mean (4.27).

*** What is Basel II supervisory review level in Islamic banks, and how is it implemented?**

The researchers considered the arithmetic mean and SD of individual study sample responses to questionnaire paragraphs expressing the supervised review domain according to Basel 2.

The results in Table No (4.5) show that the occurrence of all sentences is high. As well as the highest arithmetic mean (4.80) for “The method used by the regulator to review the assessment of capital adequacy ratios used by Islamic banks regulated by it,” followed by the average score for “The regulator should enter to prevent any reduction or reduction in required capital” (4.63), followed by "Ensure Islamic Banks are committed to maintaining an interest rate of 8%", the arithmetic mean (4.12).

*** What is the level of Market discipline following Basel II in Islamic Banks?**

The researchers calculated the arithmetic mean and standard deviation of individual research sample responses to questionnaire paragraphs expressing the market subject area according to Basel 2.

The results are shown in Table (4.6); all sentences have high occurrence. The arithmetic means of “Islamic banks disclose the structure and size of their private funds” was the highest (4.77), followed by the mean score of “Disclosure of capital adequacy ratio according to the magnitude of potential risk” (4.68), and followed by the paragraph “Disclosure of risk assessment,” Arithmetic mean was (3.99).

*** What is the level of Implementation Basel III in Islamic Banks?**

The researchers calculated the individual study sample's arithmetic mean and standard deviation across questionnaire paragraphs expressing Basel 3 implementation areas.

The results show that the occurrence of all sentences is high. And "Islamic banks can increase capital adequacy ratio to 10.5%" has the highest arithmetic mean (4.64), followed by "Islamic banks must maintain liquidity ratios to meet short-term interests" with average score (4.61). And "Islamic banks will introduce a leverage ratio of 3%” had the lowest with arithmetic mean (3.93), followed by “Islamic banks should maintain liquidity ratios for medium to long-term interests” with an arithmetic average (4.41).

Results regarding the 2nd question

Is there a variation in Basel Accord execution on Islamic banks in Palestine based on characteristics such as educational qualification, age, gender, years of experience, and job title?

To respond to this question, the following assumptions are made:

H1: "The extent to which the Basel Accords were implemented in the Palestinian Islamic Bank did not differ statistically at the significance level (0.05 ≥ α) due to the gender variable."

The H1 was investigated by calculating the "T" test results and the mean of the responses of the research sample members in the Basel Accords implementation range of the Palestinian Islamic Bank, according to gender.

The value of the total degree "T" (2.911), the level of significance (0.004), the degree to which the Basel Accords implemented the Palestinian Islamic Banks differed by gender variables and the risk management tasks of the Islamic Banks and the implementation of the Basel Accords 3 Fields outside the field where differences favor women. Therefore the first hypothesis is rejected.

H2: This study shows that the job title variable does not affect how much the Basle Agreement is being implemented in Palestinian Islamic banks. The significance level for this difference is set at 0.05.

The second hypothesis was tested test results shows that due to the job title variable; the arithmetic means of the responses of individuals in the study sample to the extent to which the Palestinian Islamic Bank implemented the Basel Accords was calculated.

Due to the Job title variable, there are apparent differences in The Extent of Basel Accord Implementation on Islamic Banks in Palestine, and one way ANOVA was performed to determine the significance of the differences.

In addition, it should be noted that the value of P for the overall score (1.426) and the level of significance (0.238) are both more than the level of significance (0.05), indicating that there are no statistically significant differences in The Extent of Basel Accord Implementation on Islamic Banks in Palestine related to the Job title variable, as well as the fields. As a result, the second hypothesis has been accepted.

H3: "There are no statistically significant differences at the level of significance (0.05 %) in the extent of Basel Accord implementation on Islamic banks in Palestine as a function of the Educational qualifications variable."

H3. Due to the educational qualification variable, the arithmetic means of the responses of the individuals in the study sample to the extent to which the Palestinian Islamic Bank implemented the Basel Accords was calculated.

Mainly, there were significant differences in the scope of Basel implementation in the Palestinian Islamic Bank due to educational qualification variables. An analysis of variance approach was used to understand the significance of the differences.

Similarly, the P values for the total score (0.997) and the significance level (0.372) were greater than the significance level ($\alpha \geq 0.05$), implying that there was no statistically significant difference in the range of the Basel agreement due to education Eligibility Variables and Fields, Implementation of Islamic Banking in Palestine. Therefore the third hypothesis is accepted.

H4: "There are no statistically significant differences at the level of significance ($0.05 \geq \alpha$) in The Extent of Basel Accord implementation on Islamic Banks in Palestine due to the Years of experience variable."

H4 was tested. The arithmetic means of the responses of individuals in the study sample to the extent to which the Palestinian Islamic Bank implemented the Basel Accords was calculated due to years of experience variables.

Especially, due to years of observed variables, there are significant differences in the scope of Basel implementation in the Palestinian Islamic Bank, and to understand the significance of the differences, an analysis of variance method was used.

Note that the P values for the total score (0.561) and the significance level (0.572) are more than the significance level ($\alpha \geq 0.05$), implying that there is no significant difference in the range of the Basel agreement due to years of observed variables As well as the field, the implementation of the Islamic Bank in Palestine. Therefore, the H4 is accepted.

H5: "There are no statistically significant differences in the extent of Basel Accord implementation on Islamic banks in Palestine due to the age variable at the level of significance (0.05 %) in The Extent of Basel Accord implementation on Islamic banks in Palestine due to the age variable."

H5: To account for age differences in the replies of persons in the study sample, the arithmetic means of those individuals' responses about whether the Palestinian Islamic Bank has thoroughly followed the Basel Accords was calculated.

Especially, there were significant differences in the level of Basel implementation in the Palestinian Islamic Bank based on the age variable, and an analysis of variance approach was utilized to determine the significance of the discrepancies.

It should be noted that the P values for the total score (2.553) and the significance level (0.081) are higher than the significance level (0.05), indicating that there is no statistically significant difference in the range of the Basel agreement due to the age variable, as well as the Basel in areas other than the areas of minimum capital and risk measurement methods of the Seoul Agreement II, implemented in the Palestinian Islamic Bank, where the difference is between (less than 0.05) and the significance level (0.05) (30-40 years). As a result, the fifth hypothesis is considered valid.

CONCLUSIONS

1. Islamic banks comply with the standards set out in Basel II
2. Palestine Islamic Bank complies with the CAR under Basel II and PMA.
3. Due to the different types of risks and the complexity of the CAR calculation, the Palestinian Islamic Bank has been increasing its reserves above the prescribed limit.
4 In general, the importance of Basel II in Islamic banks and Palestinian Islamic banks, in particular, is the need to meet and protect shareholders and customers from expected and unexpected losses.
5. Especially Islamic banks, a type of bank that relies on dividend distribution and PLS, if any risk occurs to the bank and causes losses and does not comply with the Basel Accords, shareholders will not be willing to bear the resulting lost time.
6. All employees demonstrate the importance of Basel II regulations on a personal and administrative level.
7. The PMA's regulation of the Palestinian Islamic Bank CAR is not only adequate but needs to be adjusted to include the bank's different Islamic transactions.

RECOMMENDATIONS

1. For the reasons described previously, all financial companies must be ready to cooperate with the Basel Accords and implement them.
2. Islamic banks have a distinct financial nature than conventional banks; the Palestinian Monetary Authority must examine developing new capital adequacy ratios for companies.
3. Researches must focus on further research on evaluating capital adequacy ratios in models proposed by Islamic banks; b. Quantify the impact of various banking risks faced by Palestinian Islamic banks.
4. Islamic banks must imply the importance of clear accounting policies between capital adequacy ratios, the risks imposed on them, and their percentages impact.
5. Islamic supervisory bodies and external reference bodies need to follow up on the capital adequacy of Islamic banks to achieve solvency so that accounting and auditing professions are practical tools to serve their users and society.
6. Strengthened and qualified HR need to monitor various development and risks their competencies in the field.
7. Collaborating among Islamic banks need to adhere to the formula established by the Islamic Financial Services Council to arrive at a consistent procedure for use in the application.
8. To take advantage of this technique by Islamic banks, banks need to develop risk assessment instruments and systems following internal assessment methods.
9. Islamic banks should effectively comply with Islamic rules against conventional banks, as compliance with Islamic laws is an essential competitive advantage for them to compete with traditional banks.

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