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Doctorate of Business Administration

Risk Mitigation Practices of the Lebanese Banking Sector: A Proactive Approach to Maintain Resilience through Prudential Regulations

DOCUMENT 5
THE THESIS

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This thesis is dedicated to my wonderful family and parents, with gratitude for their endless love, support and encouragement.

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ABBREVIATIONS

ABL: Association of Banks in Lebanon

ALCO: Asset and Liability Committee

ALM: Asset Liability Management

AML: Anti-Money Laundering

APA: American Psychological Association

AQR: Asset Quality Ratio

BIII CPA: Basel III Compliance Professional Association

BA: Banking Authority

BCCL: Banking Control Commission of Lebanon

BCI: Business Continuity Institute

BCM: Business Continuity Management

BCBS: Basel Committee on Banking Supervision

BDL: Banque du Liban (Central Bank of Lebanon)

BIS: Bank of International Settlements

BoP: Balance of Payments

Bn: Billion

BRSA: Banking Regulation and Supervision Agency

CAR: Capital Adequacy Ratio

CB: Commercial Bank

CCB: Capital Conservation Buffer

CET: Common Equity Tier 1

CFTC: Commodity Futures Trading Commission

CIA: Central Intelligence Agency

CMB: Capital Markets Board

CRD: Capital Requirements Directive

CRR: Capital Requirements Regulation

CSR: Corporate Social Responsibility

EBA: European Banking Authority

ECB: European Central Bank

ECGI: European Corporate Governance Institute

EFSF: European Financial Stability Facility

EFSM: European Financial Stabilisation Mechanism

EIOPA: European Insurance and Occupational Pensions Authority

EMIR: European Market Infrastructure Regulation

EPS: Earnings per Share

ESFS: European System of Financial Supervision

ESM: European Stability Mechanism

ESMA: European Securities and Markets Authority

ESRB: European Systematic Risk Board

EU: European Union

FATCA: Foreign Account Tax Compliance Act

FC: Foreign Currency

FDIC: Federal Deposit Insurance Corporation

FHFA: Federal Housing Finance Agency

FRC: Financial Reporting Council

FSAP: Financial Sector Assessment Programme

FSU: Financial Stability Unit

GA: Government Authority

GCC: Gulf Cooperation Council

GDP: Gross Domestic Product

HBC: Higher Banking Council

IFRS: International Financial Reporting Standards

IIS: International Institution for Supervision

IMF: International Monetary Fund

ISBP: International Standard Banking Practice

KSA: Kingdom of Saudi Arabia

LBP: Lebanese Pounds

LCR: Liquidity Coverage Ratio

LT: Long-Term

NCUA: National Credit Union Administration

NPA: Non-Performing Assets

MENA: Middle East North Africa

MFI: Monetary Financial Institution

NBFI: Non-Bank Financial Institution

NSFR: Net Stable Funding Ratio

OCC: Office of the Comptroller of the Currency

OECD: Organisation for Economic Cooperation and Development

OTC: Over-the-Counter

PO: Public Organisation

PPP: Public Private Partnership

PRA: Prudential Regulation Authority

RQs: Research Questions

RO: Research Organisations

ROAA: Return on Average Assets

ROE: Return on Equity

ROAE: Return on Average Equity

RWA: Risk Weighted Assets

S: Supervisory

S&P: Standard & Poors

SEB: Skandinaviska Enskilda Banken

SEC: Securities and Exchange Commission

SIC: Special Investigation Commission

ST: Short Term

SQs: Strategic Questions

SWOT: Strengths/Weaknesses/Opportunities/Threats

TA: Total Assets

TB: Treasury Bills

UK: United Kingdom

US: United States

WOCCU: World Council of Credit Unions

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ABSTRACT

The thesis reflects the student's field of interest and provides a unique exploration of the risk mitigation strategies of the Lebanese banking regulators. Its argument concerns the prudential regulation of financial stability and the key factors involved in maintaining the resilience of the banking system; hence the thesis explores the continuity of the system across the entire Lebanese banking sector and its application in the context of the Middle East.

The thesis reviews and investigates the banking system in Lebanon and the issues derived from external factors imposed on the Lebanese economy. It discusses ways to mitigate risk and looks at the role of the banking authorities and supervision mechanisms that assure all policies and procedures are being implemented correctly by commercial banks. Moreover, the research highlights best practice as applied in the International Standard Banking Practice (ISBP) by the United States (US) and European Union (EU) and compares it to that applied in Lebanon. The aim of the thesis is to leverage the research outcomes to other countries in the Middle East and to make recommendations based on the lessons learned. Additionally, the thesis opens up new avenues for future researchers and practitioners.

The core of the empirical research discussion of this thesis is built around the prudential regulations of the Lebanese banking system. Four sets of ratios and their scope of implementation in the field are investigated: Capital adequacy ratios, Liquidity ratios, Asset quality ratios and Profitability ratios. The research utilises transcripts from interviews with key stakeholders to ascertain their perception of the regulations' value and any problems they perceive with it. An interpretive approach has been employed to assess the likely response of the banking system to economic turmoil. The research has adopted a qualitative methodological approach to present an explanation for the choice of the methodology, which itself was influenced by the author's choice of Interpretivism, that is, the use of Interviews as the method for data collection. As a result, gaps were identified

and analysed. The Research Questions, which have been framed and fine-tuned for this, the final document, Document 5 – The Thesis, are illustrated in a conceptual framework. The robustness of the conceptual framework is the result of the critical literature review, which provides an overview of the literature in relation to all the main concepts and ideas that this thesis explores.

The empirical research concludes by identifying the main contributions the results can make to the business and academic fields. Briefly, the results concern the main characteristics of the Lebanese banking sector; the existence of a relationship between financial crisis and banking regulations; the policies and procedures used by Lebanese banks to set their financial ratios and the main indicators used to illustrate the resilience, stability and continuity of the banking sector; the central role played by the economic monitor Banque du Liban (BDL) in maintaining robust monetary policies; the weaknesses of the Lebanese banking sector and the necessity for Lebanese banks to adopt adequate corporate governance as well as the importance of political stability. Finally, the thesis closes by suggesting the importance of the research findings and their application in the context of the Middle East.

CHAPTER ONE

INTRODUCTION

The thesis provides new knowledge to the fields of banking and academia. It makes suggestions throughout—of significance to both to the banking service sector and the academic community—of more efficient ways to mitigate the banking sector's exposure to risk by better applying the financial regulations, and consistently updating those currently in use, in accordance with newly introduced policies. Studying these, the thesis questions whether or not applying these mitigation procedures is beneficial to banks in Lebanon.

1.1. Identifying the Research Context

The contextual intention of the chosen topic of this research is to highlight the importance of prudential banking regulations in Lebanon and its role in preventing a crisis in the financial system. The investigation aims to identify the changes required in the "prudential regulatory" landscape in order to address the effects of a financial crisis, which is determined throughout by looking at the issue over the long-term (the past and in the future) and by the use of qualitative research. The research elaborates upon how and when the banks in Lebanon resisted the effects of financial turmoil by maintaining financial stability in the past, and, looking forward, it identifies what changes the banking regulators should introduce—specifically in terms of financial ratios, shareholder structure and capital—in order to mitigate the impact of external risks, by leveraging best banking practices and regulations already tested or being tested in other geographical regions affected by financial and economic crisis. Furthermore, the research studies the role played by the banking sector's regulatory system in mitigating the Lebanese financial system's—particularly the banking sector's exposure to risks—in the face of a potential financial crisis.

The research was undertaken in the Lebanese banking sector through the collection of data from commercial banks and various banking authorities and supervisory bodies, such as the Banque Du Liban (BDL), the Banking Control Commission of Lebanon (BCCL) and many other government authorities related to the performance of the economic, financial and banking sectors in Lebanon, as well as through carrying out semi-structured interviews with people working within those institutions.

1.2. Research Justification

The current research takes a unique stance by studying banking regulation and economic turmoil specifically in the Lebanese context historically and to date. Although the research topic is found mentioned in many references by authors with knowledge and expertise in the industry of finance and banking, from the perspective of both practitioners and analysts from Lebanon and the Arab Region, none could be found in the academic banking fields searched. While carrying out the critical literature review, no academic thesis or research studies were found that discussed Lebanese prudential banking regulations and its practices amid financial turmoil.

In order to ascertain that the topic had not been the subject of previous research, the researcher checked articles in journals and newspapers, other research and conference papers, books and chapters in books, online resources and other print and multimedia to see whether the research topic had been previously discussed. The results of an extensive trawl brought up limited references discussing topics around the research topic, but nothing specific to the topic the thesis aimed to cover. The detailed results of the literature review are discussed in Chapter 2.

1.3. Research Gap, Research Problem and Motivations for the Research

As noted above, a gap in the literature was identified that suggested the need for further research. Given that the research gap that was identified related to an issue which seems not to have been discussed until now directly within the specific field of banking regulation, or around this topic of economic turmoil specifically in the Lebanese context, the current study addresses a gap in how to mitigate risk exposure through applying best practices in prudential banking regulation in the Lebanese banking sector. Having identified this research gap, the research problem, forming the heart of the thesis, is addressed. Hence, as the challenge of the research concerns prudential banking regulations in the Lebanese context, an area that has attracted the attention of the financial supervisory authorities in Lebanon, this study first investigates and then looks at the possible solutions that banks need to consider, under the supervision of the Banque du Liban, to minimise the losses of future potential financial crises.

Additionally, the motivation for carrying out this research has arisen as from the author's professional expertise in the banking sector as much as from her passion to provide Lebanon with the benefit of her expertise and experience to make suggestions for mitigating the various financial challenges currently facing the country and to help prepare Lebanon for the many other financial "shocks" that are surely yet to come in future.

1.4. Lebanon in Context

1.4.1. Geography & Demography, Economy & Trade and Government

Lebanon is a democratic nation-state run by a legislative scheme of regime and an elected "President, Prime Minister and a cabinet". The Lebanese system of government is founded on a legitimate standard of segregation among the managerial, jurisdictive, and legal divisions (The Embassy of Lebanon in Washington DC, 2018).

The natural resources of Lebanon consist of limestone, iron ore, salt, and, being a water-surplus state in a water-deficit region, arable land. The country has a population of 6,237,738 (July 2016 estimates) with 18 sects of religion (CIA, 2017). According to Coface (2017: 1), financial growth in Lebanon during 2016 did not reach more than 1 per cent, evidence for which was seen in the issues encountered in the economy amid the officially announced "paralysis". A small improvement in Lebanon's economic performance, however, was seen as "a must" in 2017. As a consequence of the absence of any economic assurance, the regular stimulus of development in Lebanon, the monetary facilities, leisure industry and real estate sector will continue to deteriorate; exports are expected to remain on the decline as well.

From the perspective of the financial sector, Lebanon has preserved financial steadiness in the past, withstanding repeated tremors and testing times. With time, macroeconomic and financial weaknesses have accrued.

> "Public debt is lower than peaks reached in the past, but is high at a projected 144 per cent of GDP in 2016, and fiscal and external deficits are large. Financing needs require a continued inflow of remittances and non-resident deposits, but deposit growth has slowed. With assets close to four times GDP, the financial sector is very large, with banks accounting for 97 percent of the total." (IMF, 2017a: 4)

In 2016 economic growth in Lebanon was forecast at 1 per cent. There are several reasons why the economy was performing so poorly, including instability in the region – not least the war in Syria – and also crucially because of the political impasse in Lebanon itself that left the country without a President and fully operative supervisory Parliamentary authority for over two years. In October 2016 the country elected a President and eventually a new Prime Minister. In addition, the democratic election process opened the door to a new era of strengthened economic regulations and long-overdue improvements to them (IMF, 2017b: 4).

1.4.2. The Lebanese Banking Sector

Lebanon has faced many financial crises but all of them have been supported by successful monetary regulation. Before the announcement of the Independence of Lebanon in 1943, the monetary industry of the nation was mostly stimulated by branches or representative offices of overseas organisations. Local banks were insignificant to the total assets, holding only a small amount of capital and having a limited scale of banking operations. Yet, it was in 1945, just after independence that the banking industry began to develop; it issued the first ruling of the "Banking Secrecy Law" (a legal necessity in some authorities which forbids banks from providing regulators with any information about a client account) activated in 1956. Finally, the banking industry in Lebanon began to demonstrate signs of real growth and evolution with the advocacy of the "Code of Money and Credit" (guidelines for carrying out banking operations) and the creation of the Central Bank of Lebanon (BDL) in 1964. (Yahya, 2011a: 9–10)

As of year-end 2009, the Lebanese banking sector comprised 65 operating banks. Nevertheless, the severe policies put in place by the BDL—to monitor the launch of new branches annually—contributed to the main task of planned changes to the banking industry in Lebanon, by turning it into a less aggressive sector that was not so dominant. The international monetary subprime crisis of 2007–2009 was a test of the Lebanese banking industry's health, because the banking industry in Lebanon did not witness any negative influences from that crisis. The Lebanese position was in contrast to the circumstance of the MENA region and the position internationally, however: in Lebanon, the banking system saw sustained progress and development, it achieved the extension of deposits during a period when global banking operations were encountering severe competition; for example, when the market also saw some exceptional failures. (Yahya, 2011b: 10)

Milestones in the evolution of Lebanese banking are presented in Appendix 1. In the recent past, the main crisis to impact on the sector was the Intra Bank default.

Other milestones in the development of the Lebanese banking sector are presented below. This discussion focuses on the collapse of the Intra Bank and the consequences of this for the Lebanese banking sector. Figure 1 is below highlights two important phases in the timeline of Lebanese banking. Figure 1, and the discussion that follows, is called the phase *before the Intra Bank* and the phase *after the Intra Bank.* Understanding the circumstances surrounding the collapse of the Intra Bank is important in the Lebanese context. This is because it links directly to the consequences, in that the bankruptcy of the banks was due directly to the collapse of the Intra bank. As Ghazi (2001: 1) explains, when the Intra Bank collapsed in 1966, it caused a banking crisis in Lebanon because the "bank comprised around 10% to all total bank deposits and around 40% of deposits with Lebanese owned banks".

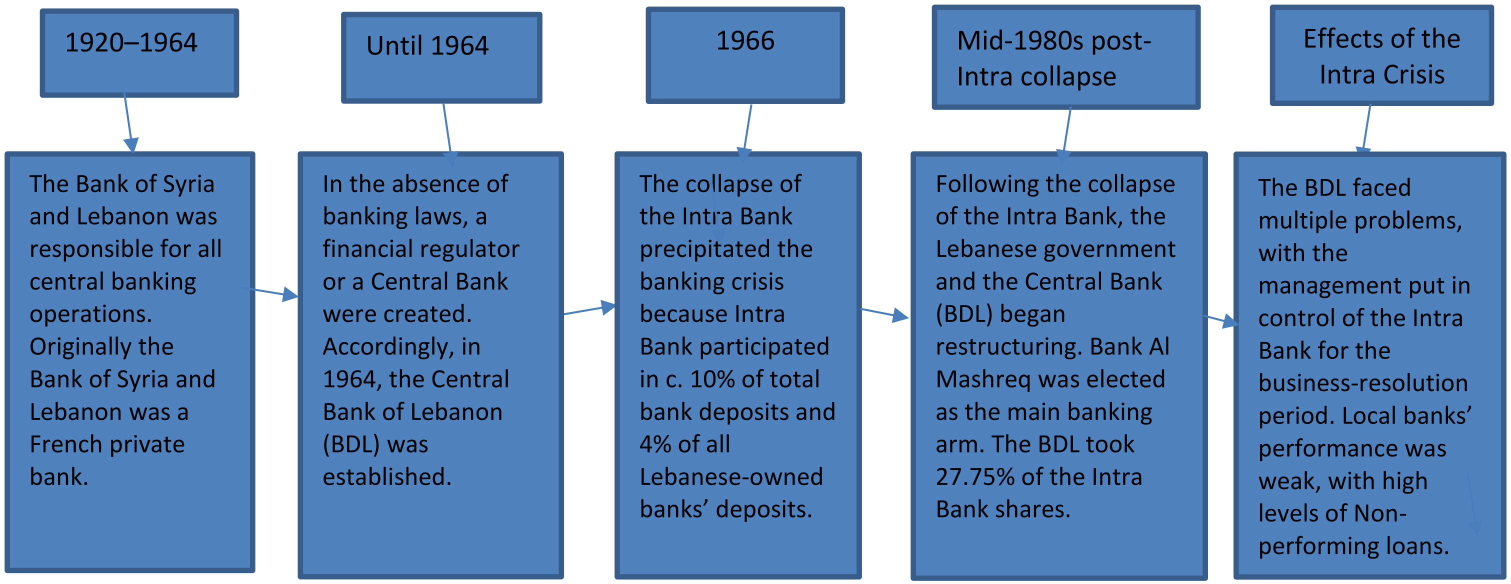

Figure 1: Before and after the collapse of the Intra Bank (Photius, 2004: 1–3)

Looking at Figure 1, it is notable that the consequences of these events in Lebanon was the much closer attention to the regulation of the banking sector and the emergence of a several important regulatory authorities. These are discussed in more detail on page 69–70.

1.5. Summary of Documents 1–4

Figure 2, below, provides a breakdown of all the previous documents that help make up the DBA thesis. A narrative paragraph to describe each document follows.

DOCUMENT 1 *Definitions and Mapping of the Research Questions* *"Banking Regulations in MENA following the Arab Spring"*
DOCUMENT 2 *Critical Literature Review and the Initial Conceptual Framework* *"Prudential Banking Regulations during the Arab Spring within the MENA Region (Tunisia, Egypt, Lebanon and Syria)"*
DOCUMENT 3 *Qualitative Research* *"Mitigating the Lebanese Banking Sector's Exposure to Risk During the Arab Spring: Prudential Banking Regulations, Resiliency and Best Practices"*
DOCUMENT 4 *A Piece of Quantitative Research* *"New Paradigm of Lebanese Banking Prudential Regulations: Financial Crisis and Resiliency"*
DOCUMENT 5 *The Thesis* *"Risk Mitigation Practices of the Lebanese Banking Sector: A Proactive Approach to Maintain Future Resilience through Prudential Regulations"*

Figure 2: Purposes and titles: Documents 1–5

Summarising all of the previous DBA documents is significant because Documents 1–4 represent the DBA "journey" that constitutes the basis for Document 5, the thesis. Therefore, it is relevant to present a brief overview of each document in order to highlight the main purposes of the research, its methods and methodologies, and the derived outcomes. The sequential links between Documents 1 to 4 are required to ensure that the thesis is built upon analytical reasoning.

Document 1 – Definitions and Mapping of the Research Questions

Document 1, titled "Banking Regulations in MENA following the Arab Spring", introduced the topic of the DBA. This initial document provided the opportunity to put forward one's idea(s) and research interest(s) for the coming DBA journey. This document was the basis for the Strategic Questions (SQs) and Research Questions (RQs) and, eventually, of the conceptual framework and literature review, as well as the preliminary plan for the structure of future documents.

The RQs were defined with focus on the Arab Spring and its effects on the banking regulations in the MENA Region. The aim was quite ambitious at first and covered a large amount of data; however, with some refinement and alteration of the scope of the research, while keeping the subject of interest around the same field, the parameters of the RQs were pared down. There were no results concluded from Document 1. The main target of this document was to define clearly the RQs and thereby to start mapping out the whole DBA.

Document 2 – Critical Literature Review and the Initial Conceptual Framework

Document 2, titled "Prudential Banking Regulations during the Arab Spring within the MENA Region (Tunisia, Egypt, Lebanon and Syria)", focused on the critical literature review of the SQs and RQs and on the concepts and ideas illustrated by the conceptual framework. This covered four of the countries most impacted by the Arab Spring: Tunisia, Egypt, Lebanon and Syria. The literature review conducted was focused on the effect of the Arab Spring on the banking sector and, in the main, on the banking regulation in place in each of the countries mentioned. Comparisons of the results followed, these were based on critiques of each outcome. The results of Document 2 show that banks in Tunisia witnessed a catastrophic turn in their financial performance; in Egypt, banks preserved a sufficient level of capital but suffered from some liquidity issues, which meant they achieved minor progress on their asset quality side. In Lebanon, on the other hand, the banks in general were able to manage all of the unpleasant operational circumstances that were surrounding the sector in the Arab region. Finally, in Syria, the deterioration of the country's economy and banking sector is clear to this day with no sign of any solution to end the ongoing civil war. These results were taken forward to Document 3, the qualitative research.

Document 3 – Qualitative Research

In arriving at Document 3, narrowing the scope of the research topic was essential. Qualitative research for this document was conducted under the title "Mitigating the Lebanese Banking Sector's Exposure to Risk during the Arab Spring: Prudential Banking Regulations, Resiliency and Best Practices". Accordingly, major amendments were implemented at the level of the SQs/RQs. Ten semi-structured interviews were conducted in Lebanon with elite candidates from various banking authorities and commercial banks. The research was analysed based on an interpretivist methodology.

The outcome of the Interviews after analysing the transcripts identified the following six Gaps:

- Gap #1 Arab Spring and the financial crisis;
- Gap #2 Cost to the financial system;
- Gap #3 Role of the supervisors during the Arab Spring and the tools applied;
- Gap #4 Factors behind financial resiliency;
- Gap #5 Lessons learned
- Gap #6 Best practices in the US and EU

Each gap was directly linked to one of the suggested RQs. As such, Gap #1 discussed the means and tools applied by the Lebanese banking sector in order to abide by the standards set by the Basel III Accord. Gap #2 stipulated that no clear feedback was forthcoming about the cost of the Arab Spring on the Lebanese banking sector. Gap #3 argued that the plan of action adopted by the banking authorities to mitigate the risk was derived from exposure to Egypt and Syria, two countries where commercial banks have both a direct and indirect presence and exposure to risk. Gap #4 presented an awareness among all the interviewees of aspects of maintaining a resilient banking structure. Gap #5 clarified that most Lebanese banking practitioners believe that the Lebanese banking sector will grow again in the near future. Finally, Gap #6 recommended that the global regulatory framework covering financial regulation, including best practices in the banking sector, must be followed and applied, regardless to what extent practitioners are convinced they are of any use or not. The findings of the research opened up a new horizon for more data to be explored in the quantitative research.

The relevant conclusions to be drawn from Document 3 are set out below:

- "A major gap was identified as to whether or not what is introduced on the capital level by Basel III is in line with the Lebanese banking market." (SQ 1, RQ 1.3)
- "It is clear that the banking authorities in Lebanon are convinced that the banks will not face problems in meeting the new CAR of 12% set by Basel III." (SQ 3, RQ 3.1)
- "Nobody expects the Basel Committee to introduce international standards for liquidity. Liquidity is markedly different from capital. Liquidity is a specific type of risk by nature. Standardising liquidity will create many discrepancies." (SQ 3, RQ 3.3)
- "Different views were expressed in terms of the cost derived from exposure to the Arab Spring." (SQ 2, RQ 2.2)
- "Maintaining a more tangible physical capital along with a high liquidity level are the main characteristics of the Lebanese banking sector." (SQ 1, RQ 1.1)

The impact of the results of Document 3 on Document 5 concerns the role of the Lebanese banking authorities in applying the Basel III reform measures on banking supervision.

Document 4 – A Piece of Quantitative Research

Employing the results of the qualitative research, Document 4, titled "New Paradigm of Lebanese Banking Prudential Regulations: Financial Crisis and Resiliency", studied the gaps derived from Document 3 from a quantitative perspective. The research at this stage served as a bridge from Document 3 to Document 5, the thesis. Minor amendments were carried out at the level of the SQs and RQs, mainly in terms of allocation across all the documents of the DBA. The quantitative research strategy, Document 4, was conducted using a positivist approach by means of secondary data as a research method. The analysis of the findings was divided into six sections, relative to the same gaps found in the previous document. Document 4 outlined the outcome as follows: application of Basel III in the Lebanese banking industry is facing a number of problems. One of the main characteristics for maintaining a resilient banking sector is stability. The role played by the banking authorities at times of recession is critical. The Lebanese banking sector is more progressive as a result of the regulations set by Basel III.

The relevant conclusions to be drawn from Document 4 are as set out below:

- "The regulators view Basel III as an opportunity rather than as an assignment to be carried though 'by the due date' because strengthening the capital and liquidity requirements of banks is the way to maintain their *financial stability*." (SQ 2, RQ 2.2);
- "It is important to be aware of and understand the volume of the existing losses from the financial crisis. Quantifying the costs to the financial sector is an indicator of how regulators will amend the current regulations or implement a new set of prudential regulations to maintain the resiliency of the banking sector." (SQ 1, RQ 1.4);
- "Relating resiliency and financial stability to financial ratios and banking continuity is a complementary pillar to help shore up the resiliency of the banking sector." (SQ 2, RQ 2.1).

The impact of the results of Document 4 on Document 5 concerns financial stability and the level of resiliency of the Lebanese banking sector.

1.6. Methodological Stance Comparison: Documents 3 and 4

Figure 3, below, shows the research methodologies and methods used previously in Documents 1 to 4. It is relevant to present this comparison in Document 5 in order to get an overview of how the current research was conducted. In fact, the choice of the research philosophy, approach, strategy and methods are related to the requirements for each document as stipulated by Nottingham Trent University. Arriving at Document 5, a decision was made as to whether to conduct the research based on a qualitative or quantitative methodology. The choice was made to select the qualitative methodology to conduct the research; therefore, the same procedure utilised for Document 3 will be employed for Document 5.

METHODOLOGICAL STANCE		
	FOR DOCUMENT 3	FOR DOCUMENT 4
Research philosophy	Interpretivism	Positivism
Research approach	Inductive	Deductive
Research strategy	Qualitative	Quantitative
Research methods	Semi-structured interviews	Secondary data
Techniques and procedures for data collection.	Data was collected from the semi-structured interviews and retrieved from the interview transcripts.	Secondary data were collected from various sources: online financial databases (IMF, BIS, EBA, FDIC), annual reports, banking authorities, publications from BDL, ABL and Bankdata as well as seminars and conferences for senior executive members of the Lebanese banking sector.

Figure 3: Methodological stance: Documents 3–4

1.7. Scope of Document 5: The Thesis

Document 5 brings to a conclusion the research conducted throughout the previous documents. To draft Document 5 several guidance measures needed to be considered. Among these considerations are that the thesis should offer justification for its methodological stance and, in addition, include how development of the research results link to professional practice. The current research should demonstrate specifically how it might improve knowledge about the financial sector and in particular the field of banking in Lebanon and how it intends to help promote good practice. And while Documents 3, 4 and 5 must be linked in terms of topic, each of the documents nonetheless should have characteristics that mean they can also be read separately.

1.8. Structure of the Thesis

Moving on from the Introduction, now Chapter 2 focuses on the critical presentation of a literature review carried out around the topic chosen for the DBA and provides a list of references that since submission of the previous documents of the DBA have been updated. In addition, Chapter 2 offers an overview of the concepts covering the RQs constituting the conceptual framework.

Chapter 3 will discuss the strategic and research questions in relation to the DBA, making reference to Documents 1–4 and feeding certain data from these into the current Document 5, while focusing on the main RQs of the thesis.

Chapter 4 explains the research methodologies and research methods and justifies the choice for the research philosophy, research approach, research strategy, data collection methods, identification of the interviewees, reliability and validity, research limitations and aspects of the standards of ethics in relation to the research topic.

Chapter 5 is the core of the thesis; it presents analysis of the study conducted, grouped into themes.

Chapter 6 offers the conclusions in relation to the SQs and suggests possible potential topics for future research. Finally, Chapter 6 explains how the research intends to contribute to academic knowledge and provides relevant data and analysis for use in the business field.

CHAPTER TWO

CRITICAL LITERATURE REVIEW

This chapter relates directly to the analysis that is carried out in Chapter 5. Accordingly, all areas and topics that are subject to the critical literature review of this chapter are available in the findings of the interviews. Chapter 2 aims to look critically at the findings of the literature review and to ascertain what references are available that might help address the research gaps that have been identified.

It is worth listing some of the areas in which academic references were identified related to the subject matter of the research topic of this thesis: "Enhancing prudential standards in financial regulations"; "Banking and financial regulations"; "A review of financial regulations to avoid the nationalisation of losses in the banking system"; "Financial regulations and bank credit to the real economy"; " New banking regulations"; "Recovery from the current banking crisis"; "Financial crisis, regulation and competition: The Romanian banking experience"; "Chaotic banking crises and regulations"; "Has the financial system become safer after the crisis? The changing nature of the financial institution". All in all, the specific subject area which is the focus for this research has seen very little discussion, and what exists is mostly quantitative in nature and restricted to US and EU examples.

As noted above, the topic chosen for the current research is a relatively new one in the Lebanese context. As Jill et al. (2011b: 20) point out, when the subject of the research study is new it is very difficult to look specifically at each and every article, chapter, book, report, hence the researcher must select and read those deemed most relevant in order to answer the strategic and research questions. In this regard, the researcher referred to corporate reports and reports from governmental authorities whenever it was relevant to the research topic and the discussion.

2.1. Definition of Key Concepts

The subdivisions laid out below include the definitions and explanations of the concepts mentioned in the previous section in Figure 8 (see p. 61). These concepts are important in relation to the current study, for they link the concepts illustrated in the conceptual framework to the literature review chapter, to build a logical connection between all the chapters that make up the entirety of this research project. Below, all the relevant concepts are explained in detail, providing readers, whether in the field or outside it, the foundation to gain a clear understanding of the main terminologies used in the study. Additionally, for the researcher, the simple interpretations of these concepts provided her an effective guidance tool to assist in conducting the research.

Continuity of the Banking Sector

According to BCI (2016: 1) business continuity is the ability of an organisation to continue supplying goods or facilities throughout a satisfactory predetermined stage after a disruptive event. Honour (2006: 1) describes business continuity as the capacity of an institution to offer their clients facilities and care and to keep its feasibility before, throughout, and after a disruptive occurrence. As a result the concept of Business Continuity Management (BCM) was born, in order to strengthen the roots of business continuity. In this regard, the BCM Institute (2015: 1) provides both a profile of the BCM as an organisation as well as a full list of procedures which describes possible prospective effects that could threaten the organisation.

Since the regimes and supervisory bodies of nation-states began to understand and become more familiar with the objectives of having a business continuity plan in place—in order to reduce the unpleasant consequences of an event in the public sphere—they have been quite insistent that they need to acquire some guarantee that the main parties (of the business/commercial/public services realm) employ suitable preparations for business continuity. Then institutions, many of which were already working globally, began to ask for a distinct "International Standard, ISO/TC 223, *Societal Security"*, a wish that was granted with the creation of "ISO 22301: 2012, *Societal Security – Business Continuity* *management Systems – Requirements"*. Recent regulation is the outcome of a very important culture of worldwide awareness, collaboration and effort. According to Tangen and Austin (2012: 1), "ISO 22301 is a management system standard" for business continuity management (BCM), which can be utilised by all institutions across different categories and of all sizes. From the perspectives of banking, accounting, auditing and regulation, banking continuity emerged with great force in the worldwide banking sector and has produced very efficient criteria for assessing the performance of banks: for instance, the Bank of England (2017: 1) has published a document titled *Financial Sector Continuity*, the aim of which is to support business continuity and "operational resilience" for the monetary system of the United Kingdom. Additionally, Deutsche Bank (2017: 1) has published its own *Business Continuity Program* in order to preserve the Deutsche Bank franchise, reduce risk, protect income and strengthen and steady the financial sector while also building upon client trust. Similarly, according to Barclays (2017: 1), whose intention is to maintain a strong worldwide presence, the purpose of the *Barclays Business Continuity Management* scheme is to put forward the back-up readiness procedures that plan to reduce the disturbance of facilities to Barclays business and its clientele.

In light of all of the above, the BCM concept has been identified as central to the conceptual framework of the current research: the research has identified the need to implement this measure in the Lebanese banking sector.

Resilience of the Banking Sector

According to Dombret (2013: 1), a bank is resilient when it is capable of resisting a crisis and when it has acquired the trust of its clients and stakeholders. Therefore, if the bank is able to collect money from the "wholesale and retail" banking business with acceptable prices, even when the country might be suffering from market pressure, the bank is considered resilient. Meanwhile, Waddock (2013: 2) questioned the meaning of "resilience", defining it mainly as the capacity of an organisation's BCM scheme to be able to maintain reliability even when aspects of it are being modified. Consequently, in the event that any section of the scheme varies or collapses, resilience permits a scheme to remain active, and even also to prosper, when not dependant on any one single section.

Another definition is given by Berry et al. (2015: 3). These authors state that despite the fact that legislators and supervisors discuss resilience, it is largely unclear what they assume that to be. As these same authors point out: although it is frequently indirectly supposed that by allowing banks to retain additional capital, default or collapse of the bank can be avoided—and that "resilient banks will equal a resilient system"—this is a risky hypothesis, as it disregards the idea that having a difficult structure is "much more than the sum of their individual parts".

Hence, Berry et al. (2015: 3) have designated the main aspects that impact on the resilience of the BCM scheme and which are capable of being computed, these are: "Diversity, Interconnectedness and network structure, financial system size, asset composition, liability composition, complexity and transparency and Leverage". ECB (2017: 1) suggests that a more united banking industry would support general productivity and enhance "resilience". "Individual banks", the ECB proposes, are more likely to be subjected to different types of risk and minor exposure to recession in individual nations, threatening, therefore, to interrupt the relationship between banks and between banks and nation-states. On the other hand, IMF (2016: 81) supports the notion that robust "corporate governance" and investor-insurance plans improve the "resilience of emerging market economies" to international monetary turmoil.

Financial Stability

In relation to financial stability, Schinasi (2004: 8) explores how the monetary structure is in a steady state each time the system is able to ease growth in the economy and to dispel the monetary inequalities that arise internally, or which are due to significant opposing and/or unexpected occasions. Furthermore, Crockett (1997: 9) explains how, as "stability" requires the main organisations in the monetary structure to be steady, therefore the level of trust required among them is tremendous in order that they can continue to meet the duties they promise with neither interference nor external help. Similarly, Padoa-Schioppa (2002: 20) proposes that financial stability occurs whenever the monetary system is capable of resisting crisis without increasing procedures that may damage the distribution of "savings to investments opportunities" and the handling of "payment in the economy".

Rosengren (2015: 1) argues that several financial experts and "Republican members of Congress" wish the Federal Reserve would employ a modest strategy in law to fix financial procedures; nevertheless, monetary security problems are a debate quite separate from such guidelines, since even excessively clear planning will not succeed in identifying disturbance of improvements. IMF (2017: 11–12 (I)) suggests identifying and measuring financial stability through "a measure of Growth at Risk", described as the "value at risk of future Gross Domestic Product (GDP) growth as a function of financial vulnerability". Risks to financial stability are moving from the banking system to "nonbank and market sectors of the financial system". Furthermore, in a study of the UK economy, Bank of England (2017: 24) noted that, in general, "direct risks to financial stability from the United Kingdom's external financing position appear limited". To offer an alternative view, the withdrawal of money from the UK could put pressure incidentally on banks' financial stability, via its possible influence on the UK economy. Any broader economic distraction caused by losses of money from the UK could cause losses for banks on an extensive variety of UK exposures, challenging their risk defences. All of the above relate most closely to macro financial stability. Whereas, from the micro financial stability standpoint, related to liquidity (see Figure 5, p. 43-44), in order to assess financial stability, it is prudent to determine the net liquid assets (cash and balances of the central bank) by taking the total assets, in addition to analysing the net liquid assets in the short-term liabilities (such as accounts payable, taxes payable, unearned revenues, current purchases, etc.).

Prudential Banking Regulations

Brownbridge et al. (2002: 1) specifies that the target of prudential regulation is to safeguard the monetary system and take care of deposits. Accordingly, the focal point of prudential regulation is the protection and solidity of the banking sector and the non-bank financial institutions (NBFIs, which also collect deposits.

Thompson (1996a: 30) distinguishes between two types of regulations: prudential regulations and product regulations. The key role of "prudential supervision" is to encourage the *stability* of monetary organisations and, moreover, the monetary scheme. Prudential regulation emphasises *institutions*, while its target is to preserve creditworthiness and sustainability. This type of management includes “capital adequacy ratios, liquidity ratios” and schemes for handling different types of exposure, such as restrictions imposed on huge credit risks. Prudential supervision focuses significantly on the avoidance of issues belonging to individual corporations that could have an effect on the monetary system. On the other hand, Thompson (1996b: 32) contributes to the discussion on regulations, saying that there is another kind that focuses on monetary rules; these are “product regulations” concerned with dealing with depositors and debtors on an equal basis. This view points out how regulation is also concerned with caring for the welfare of the clients when making their transactions with monetary organisations, and encouraging competition and competence through enhancement of the quality of data available for investors.

According to Deloitte (2017: 1), the prudential banking authority (PRA) is a section of the Bank of England in charge of the prudential guidelines as well as management of all types of financial institution including “building societies, credit unions, insurers” and the main savings companies and national banks. These regulations contribute significantly to the Bank of England PRA’s main goal, of defending and maintaining the steadiness of the UK monetary structure, and hence, economy. In addition, Dragomir (2010: 1) stated that throughout the previous period, “prudential banking regulation and supervision” has taken up a lot of attention, continually, as these have recently been impacted by important modifications. These changes show the significant progress that has been made to manage the financial marketplaces and monetary performers, which has benefited from extraordinary expansion and recession throughout this period.

Capital Adequacy Ratios (CAR)

According to Bialas and Solek (2010: 1) the capital adequacy ratio (CAR) is defined as the indicator that provides the “ratio of a bank’s core capital to the assets and off-balance liabilities weighted by the risk”. Furthermore, RBNZ (2007: 1) determines that capital adequacy ratios are a “measure of the amount of a bank’s capital expressed as a percentage of its risk weighted credit exposures”. Berger (2010: 2), meanwhile, discusses the scope of the CAR for monitoring monetary financial institutions (MFIs), explaining that CAR is a significant measure to ascertain capability of the MFIs to carry out their duties and avoid losses. CAR specifies the quantity of capital in comparison with the risk-weighted assets which should be available at MFIs. The Association of Banks in Lebanon (ABL) publication, ABL (2008: 20), indicates that CARs measure the bank's ability to maintain capital, commensurate with the bank's risk. A further definition is provided by Sairam et al. (2016: 2), who define capital adequacy as a "measure of a bank's capital to cushion against or absorb a reasonable amount or losses before they become insolvent and consequently lose depositors' funds"; thus it guarantees the effectiveness and steadiness of a monetary scheme by reducing the banks' risk of bankruptcy. As to how CAR is put into practice, according to IMF (1998: 337), banks must hold enough capital in terms of the size of their operations, in an effort to remove the risk associated with keeping depositor's money safe, and to avoid any damage to the bank or its shareholders. This capital asset is influential, as it provides shareholders and directors with the motivation to efficiently and securely manage the bank. In addition, the adequacy of the quantity of capital accessible to cushion the bank against losses is identified by a so-called "capital adequacy ratio". BIS (2003: 14) notes that the capital component is the most crucial part, which is unique in all nations' banking schemes. The capital component is entirely noticeable on the accounts the organisation issues; it is also the foundation of the utmost importance on which market decisions about capital adequacy are completed; as well as displaying vital behaviour in relation to profit limits and the banks' capability to withstand the competition.

Liquidity Ratios

Costea and Hostiuc (2009: 252–253) explain that liquidity can take into consideration several types of liquidity ratios; these are the general liquidity, fast liquidity and the acid liquidity ratio tests. The authors provide further detail about the definition of each type of liquidity ratio: general liquidity (current liquidity) shows the likelihood of the "patrimony" fundamentals changing quickly into "liquidities", thus enabling the reimbursement of existing outstanding debts; fast liquidity (quick liquidity) demonstrates the probability of compensating the unpaid amounts within a limited period of time from the ready money available at the bank's teller, also the ready money in the bank's reserves, and finally from the "short term investments"; the acid liquidity (rapid liquidity) illustrates the probability of there being a change in demand of existing assets and reserves, enabling the present dues to be covered.

On the other hand, Nikolaou (2009: 4), in the Working Series papers for the European Central Bank (ECB), distinguishes between three different liquidity types: central bank, funding, and market liquidities. In addition, the same author accentuates "the role of central bank liquidity", saying that it could be significant in handling a liquidity crunch, though he does not see this as a solution. Liquidity, Nikolaou argues in the same place, could also take on the role of a direct, though transitory, cushion against liquidity collapses, thus giving regulators time to challenge the reasons behind the risk to liquidity.

In addition, Taylor and Schooner (2010a: 194) acknowledge that even though banking supervisors have given more careful supervision to capital than to liquidity in current years, historically the significance of liquidity risk has had a healthy presence. The same author notes that numerous central banks have dealt with "liquidity risk" via "reserve requirements".

Asset Quality Ratios (AQR)

Asset quality ratios (AQR) contrast unpaid loans and assets recovered from debtors unable to pay back loans with the fiscal assets the bank has at the ready in order to engage costs. This ratio has a direct insight into the bank's "health", as the higher the ratio the more likely the bank will be to have assets generating losses in comparison to the cash the bank needs to earn as a buffer for those costs (Federal Reserve Bank of Minneapolis, 2011). Meanwhile, FDIC (2012: 2) defines asset quality as the main area where the bank's general situation is defined. The key aspect influencing asset quality as a whole is "the quality of the loan portfolio and the credit administration program". Additionally, as pointed out by ModeFinance (2015: 3), doubtful loans are an important issue that affect the bank's position, because loans constitute the largest portion of the balance sheet. Consequently, during the economic crunch, worsened loans were seen as the banks' major issue. This is because they had accrued huge numbers of "bad loans"; this made them incapable of fulfilling their duties, since total assets did not meet the financial value of the bad loans.

Asset quality ratios support the strength of the banking sector. For instance, as pointed out in Moody's (2016: 1), Chinese banks are confronting growing risks in asset quality and increasing monetary area interrelation. Actually, in China, the banks' asset quality is worsening "against the backdrop of a deceleration of GDP growth and rising financial leverage". Furthermore, Alber (2014: 1) acknowledges that asset quality and management is a neglected area; it attracts less attention from academics, even though asset quality is a key determinant of "management quality", and management is a major reason why results are either strong or poor.

BIS (2018: 1) points out how "non-performing assets (NPAs)" are a repeated characteristic in financial disasters. It believes that peak asset quality translates into minor "interest income" and that it develops "loan loss provisions", which, ultimately, leads to a reduction of banks' productivity and supervisory capital.

Profitability Ratios

Kabajeh et al. (2012: 116) describe profitability ratios as a sign of the organisation's efficiency. Profitability ratios are utilised to check the income produced by the corporation on a periodic basis. Profitability ratios calculate the earning potential of an organisation, and this ratio is treated as signalling its future progress, achievement and management. Profitability is a sign of the effectiveness of the organisation's operations. Lower productivity can occur because of the absence of cost management (Prasad and Sinha, 1990: 197).

Lebanese Banking Authorities

The Lebanese banking industry is controlled and supervised by the Central Bank, the BDL, which was created through the "Code of Money and Credit", approved on 1 August 1963 by "Decree no. 13513", which successfully initiated its activities on 1 April 1964.

In 1967, the BDL formed the Banking Control Commission of Lebanon (BCCL), a self-governing entity. The BCCL is tasked with supervising banks to make sure that all operating banks in Lebanon abide by the firm compliance measures and legal requirements set out in the “Code of Money and Credit”. In this regard, the BCCL monitors all banks’ transactions and has the authority to request from banks any data it may require. In addition, the BCCL has the authority to conduct inspections inside any department of any bank. Accordingly, on the strength of any investigation, review, report or recommendation from the BCCL, the BDL can issue banks corrective penalties due to breach of duty or misconduct, with “the legal provision” applied to offending banks.

Furthermore, the Special Investigation Commission (SIC) was created in Lebanon to investigate and examine any evidence suggestive of dubious business deals. The SIC makes sure that all banks and financial institutions, and any other individual or organisation within a sector where “Anti-money laundering” (AML) guidelines apply, are operating strictly within compliance rules (Meouchi and Meouchi, 2009: 1–3).

The Association of Banks in Lebanon (ABL) has issued regular reports since 1990, titled the **“**Main Banking and Financial Regulations”, in both Arabic and French languages (ABL, 2016). The ABL (2016) report confirms that the role of the BCCL is focused on controlling “banks, financial institutions, money dealers, brokerage firms and leasing companies”. It explains that this entity carries out its regulatory purposes as a self-regulating organisation in collaboration with the Governor of the BDL, who is able to authorise the BBCL to inquire about any file or issue of concern. In addition, the BCCL receives a distinct financial plan that is authorised by the “Higher Banking Council (HCB)” and supported by the BDL. BCCL’s extremely competent team of inspectors carry out their responsibilities, in the main, through regular visits inside banking institutions or outside by way of conducting reviews or investigations of any institution. During this inspection period inside and/or outside the premises of institutions, the BCCL assesses the monetary credibility of any banks that are under its supervision (BCCL, 2016).

US Financial Regulations

It is relevant to discuss the financial regulations of the United States in the current context because they set the tone of the global banking system.

Murphy (2015a: 2) distinguishes US banking by-laws as generally emphasising caution. The business resolutions of banks are controlled for the maintenance of security, integrity and acceptable capital. Moreover, banks in the US are allowed to have an investor of "last resort", and certain "bank creditors" are given "deposit insurance" as collateral.

Furthermore. Murphy (2015b: 15) explains how traditionally the US has supplied a single supervisor or various supervisors for every group of monetary supervision rather than setting up one unique organisation and giving it full powers to supervise all monetary marketplaces, operations and organisations. There are eight US regulatory agencies: the Federal Reserve, Office of the Comptroller of the currency (OCC), Federal Deposit Insurance Corporation (FDIC), National Credit Union Administration (NCUA), Securities and Exchange Commission (SEC), Commodity Futures Trading Commission (CFTC), Federal Housing Finance Agency (FHFA) and the Bureau of Consumer Financial Protection.

EU Financial Regulations

In addition to the US financial regulations discussed above, it is important for the research to look briefly at EU Financial Regulations as well, as these are powerful and influential regulators adopted globally.

The Skandinaviska Enskilda Banken (SEB, 2016: 5) defines EU Financial Regulations as a collaboration of a group of entities that set and refer to European Union Financial Regulations. These entities are the European Banking Authority (EBA), European Central Bank (ECB), European Financial Stability Facility (EFSF), European Financial Stabilisation Mechanism (EFSM), European Stability Mechanism (ESM), European Systematic Risk Board (ESRB) and the European Market Infrastructure Regulation (EMIR). The SEB defines each entity separately: The EBA creates shared controlling and managing guidelines in the EU and performs "stress tests" of banks in Europe. Its core managerial entity is founded by the "28 National FAs". The ECB is responsible for financial regulations, and as such, its main goal is to steady pricing and operate regulatory control for important organisations in the Euro zone. The EFSF is a transitory emergency administration account that was created to protect the stability of the Euro by providing monetary aid to the nations located in the euro zone. The EFSF was substituted by the ESM. The EFSM, meanwhile, is a crisis financing plan, which is dependent on money collected from the monetary marketplace and pledged by the "European Commission". The plan is controlled by the Commission and is targeted towards protecting monetary stability in Europe by lending monetary support to "member states" of the EU during financial turmoil. The ESM, on the other hand, is the everlasting "ballast" procedure of the EU. It is aimed at providing monetary assistance to nation-states in the euro zone and enabling the guarantee of economic constancy in the euro region. Further, the ESM, initiated during October 2012, following the two temporary crunch reserves, was established to monitor the EFSM and the EFSF. Additionally, the ESRB is in charge of the "macro-prudential supervision" of the economic structure inside the EU. Finally, in August 2012, the EMIR was created. This body has an EU directive that obliges "OTC derivatives" to be "cleared" through a main correspondent to a more efficient degree. ECB (2015: 2) explained that the ECB thinks that the acceptance of the "Capital Requirements Regulation and Directive (CRR/CRD IV)" a very important accomplishment. This significant regulation has a main task in enhancing the resilience of the EU banking area and returning market trust.

Tier 1 Capital

FDIC (2017a:3) identifies three modules of supervisory capital:

> "common equity tier 1 capital; additional tier 1 capital; and tier 2 capital. Tier1 capital is the sum of common equity tier 1 capital and additional tier 1 capital. Total capital is the sum of tier 1 and tier 2 capital. Common equity tier 1 capital, tier 1 capital, and total capital serve as the numerators for calculating regulatory capital ratios. Common equity tier 1 capital is the most loss absorbing form of capital."

Getter (2014a: 2) defined the Tier 1 capital element as consisting in the main of common shareholders equity, revealed reserves, the larger part of retained earnings, and "perpetual non-cumulative preferred stock". As Getter states: "Tier 1 capital risk-weighted asset ratios are generally defined as Tier 1 capital (e.g., common shareholder equity) in the numerator and bank asset."

The Bank of England (2018: 1) describes how: “common equity Tier 1 (CET1) capital includes paid-up capital and its associated share premium accounts, retained earnings, accumulated other comprehensive income, other reserves, and funds for general banking risk”. CET1 capital should be accessible to the organisation for unlimited and direct use, in order to protect against losses quickly as they arise.

Risk-Weighted Assets (RWA)

FDIC (2017b: 3) states that “risk-weighted assets serve as the denominator for these ratios [CAR, liquidity, asset quality and profitability ratios]. Average total assets with certain adjustments serve as the denominator for the Tier 1 leverage capital ratio”. Getter (2014b: 8) explains that the complete asset part of a bank’s balance sheet is usually risk-weighted, and then totalled, before adding the final “corrective capital charges”. The IMF (2012 (II): 5) clarifies that risk-weighted assets hold a minimum of three significant roles. First, RWAs are a vital section of the micro- and macro-prudential tool; second, they can offer a mutual tool to assess a bank’s risk; and third, they make sure that capital assigned to assets is adequate to the risk level; and fourth, possibly, to emphasise where weakening “asset-class bubbles” are ascending. Taylor and Schooner (2010b: 137) insist that banks with extra risky assets must have more “capital requirements”. This method is known usually as “risk-weighted capital requirements (RWCR)”.

Stress Testing

Accordingly, with stress testing, ECB (2013: 7) clarifies that use of “macro stress testing”, to measure bank solvency was established rapidly over recent years. The growth was rushed along by monetary recession, which led to considerable risks for banks, and attracted widely held doubt concerning the banking sector’s capability to tolerate losses. “Macro stress testing” has proved to be a valuable tool to support recognition of possible weaknesses in the banking sector and to measure its flexibility in relation to opposing expansions. On the contrary, the UK *Financial Times* (2017: 1) announced that in a change that will be greeted by fund managers, the “US Treasury department” confirmed that the “stress testing of asset management businesses” was needless and “called on Congress to make it off limits”. Stress testing has turned out to be a main cause of dissatisfaction within banks, which are subject to yearly inspections that these organisations see as difficult and pointless. IMF (2012 (I): 6), affirms, meanwhile, that the latest monetary crisis highlighted the importance of stress testing for financial organisations, particularly banks. It says that the practice has emphasised the helpfulness of stress testing as an indicative instrument, and that nevertheless it has also exposed weaknesses in the stress testing used before the financial crash by the banks themselves, which were overseen by the controlling bodies. A whole stress testing workout represents much more than a mathematical calculation of the influence of potential crisis, therefore. Stress testing naturally assess two features of financial organisations' "performance: solvency and liquidity". BIS (2009: 8) stipulates that stress testing must be established as an essential part of the general "governance and risk management culture of the bank". It must be part of any actions the bank makes and become part of its management structure, with the consequences from stress-testing studies influencing decision-making at the highest, most suitable organisational levels, together with planned business resolutions at board- and senior management levels. Therefore, both board and senior managerial-level contributions in the stress testing programme are crucial for the actual stress testing process. Danske Research (2010: 1) commented on stress testing by saying that "stress tests are part of the healing process, but not a cure".

2.2. Aspects of the Lebanese Banking Sector

A – Large number of commercial banks:

Currently, the Lebanese banking sector comprises 65 operational commercial banks. Moreover, the concentration of all the sector's banking operations is within the top Alpha Group of banks, the first 15 banks (Chaaban, 2015a: 5). The IMF (2017 (II) c: 9) states that the 65 banks in Lebanon represent 97 per cent of the country's financial structure, which is 97 per cent of the country's GDP.

Figure 4 (below) presents a summary of the Lebanese Banking System's organisational chart, showing how the Lebanese Central Bank (BDL) and its commercial banks and financial institutions are interrelated, both directly and indirectly.

2.3. Organisational Structure of the Lebanese Banking System

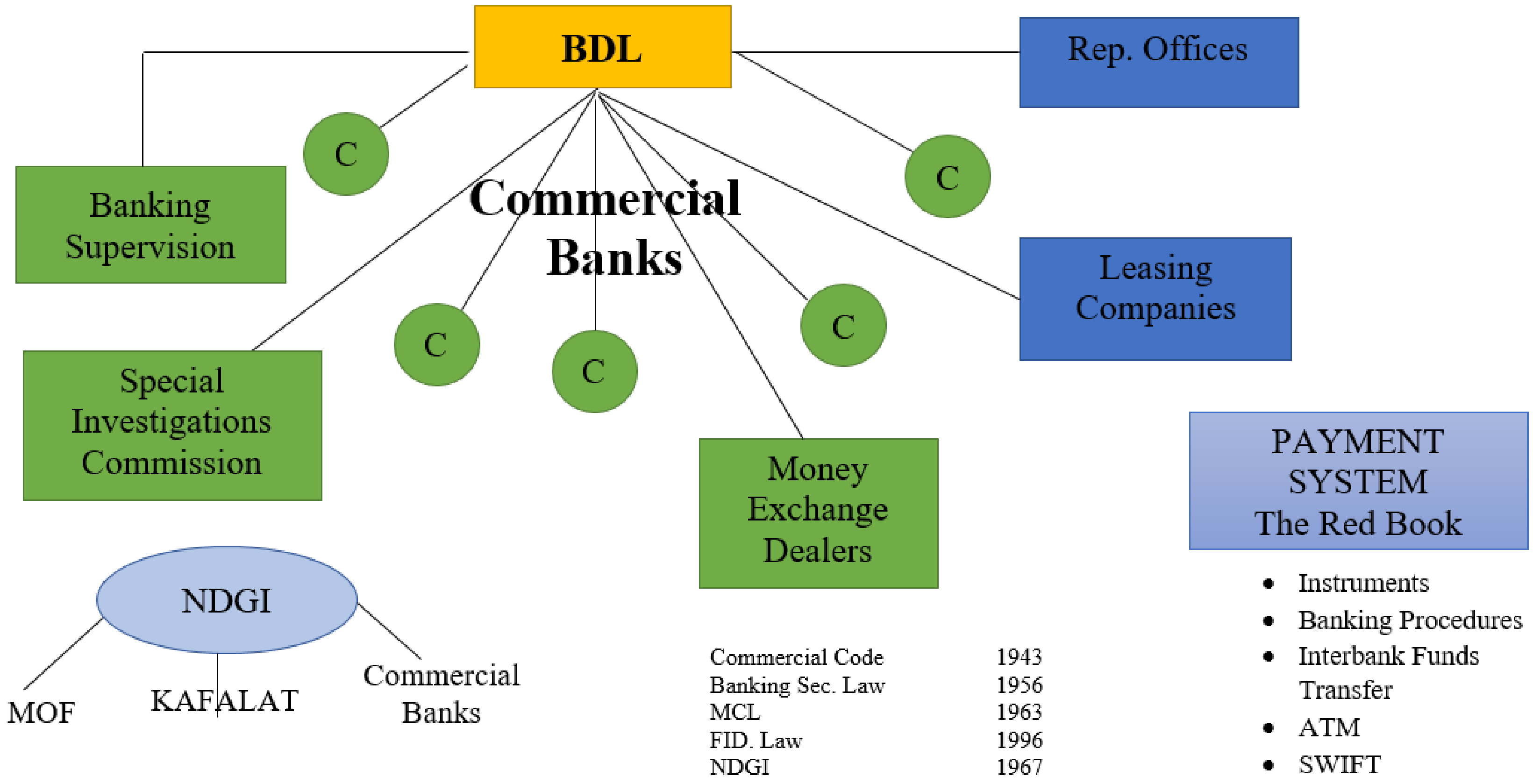

Figure 4: Organisational chart of the Lebanese Banking System (Bouldoukian, 2006: 6)

B – Indicators of financial stability in the Lebanese Banking Sector 2011–2016

It is important to present an overview of the performance of Lebanese banking activities in order to understand the current financial situation of the country's banking sector.

With regard to this, the Figure 5 illustrates the indicators for financial stability of the Lebanese banking sector from 2011 to 2016.

Figure 5 shows the financial performance of the Lebanese banking sector from 2011 to 2016. To measure this performance, another, different set of financial ratios is used: these are Asset quality, which comprises many ratios to measure the performance of the loan portfolio; Asset concentration, which incorporates various ratios, highlighting where the assets have been distributed; Profitability ratios, which represent the sources of income generated; Liquidity ratios, which measure the ability of the bank to repay its liabilities claimed on demand, with only its liquid assets; and finally, Foreign currency exposure, which assesses the risk from the bank's activities and the amount the bank holds in foreign currency (that is, currencies other than the Lebanese Pound – LBP).

Indicators of financial stability in the Lebanese Banking Sector 2011–2016 (in %)						
	2011	**2012**	**2013**	**2014**	**2015**	**2016**
Asset Quality						
NPLs to Total Loans /1	9.6	9.7	10.2	10.2	10.8	10.4
Loan loss reserves to NPLs	86.2	86.3	80.6	82.6	80.2	86.0
Loan loss reserves to Total Loans	8.3	8.1	8.2	8.4	8.6	9.0
Annualised Loan Growth	13.6	11.0	8.5	8.5	7.2	1.6
Asset concentration						
Public sector claims (excl. BDL) to total assets	20.8	20.5	22.9	21.3	20.3	19.7
Placements with the BDL to total assets	33.6	34.6	33	36.1	37.9	39.5
Foreign assets to total assets	18.1	17.2	16.2	13.8	12.8	11.7
Profitability						
Interest margin to gross income	28.5	27.9	28.2	27.3	27.0	26.8
Efficiency ratio /2	52.1	57.0	56.6	57.6	57.3	59.2
ROAA	1.1	1.0	1.0	1.0	1.0	1.0
ROAE	14.5	12.8	11.7	11.3	11.4	10.9

Liquidity						
Net Liquid Assets to Total Assets	42.8	42.9	41.8	42.3	42.0	41.4
Net Liquid Assets to Short-term Liabilities	49.7	50.7	50.4	51.4	51.5	50.3
Foreign currency exposure						
FX denominated loans to total loans	78.4	77.4	76.5	75.8	74.6	73.8
FX denominated liabilities to total liabilities	66.2	65.1	65.5	64.8	64	63.7
Net open FX position to regulatory capital	16.9	13.9	11.8	13.9	14.1	14.4
Total capital/Total assets	8.0	8.7	8.9	9.2	9.3	n.a.
CET1 Ratio	8.7	9.3	10.1	10.7	10.9	n.a.
Tier 1 Capital Ratio	11.0	12.1	13.5	13.8	13.9	n.a.
Total Capital Ratio	11.6	13.0	14.5	14.9	15.1	n.a.
Leverage (times)	13.9	12.7	12.6	12.0	11.9	11.5

Figure 5: Indicators of financial stability in the Lebanese Banking Sector, 2011–16 (IMF, 2017d: 32)

The Table is significant in relation to RQ 1.1 of SQ 1, presenting the financial performance of the Lebanese banking system, computed by five sets of ratios from 2011 to 2016. Analysis of these ratios shows a slow growth in asset quality. On the profitability side, the decrease in both ROAA and ROAE reflects the decrease in the Net Income of the Lebanese banks. The change in liquidity ratios is minor; however, from the changes in capital adequacy ratios, it is noticeable that the Lebanese banking system is being more conservative.

C – The family-owned nature of Banks in Lebanon

The fact that most of the Lebanese banks are family-owned is something that interests many economists, bankers and researchers, and which leads them to inquire whether this characteristic is a positive quality of the Lebanese banking sector or a burden to it. The reason it is worth discussing this issue of family ownership is because while conducting the interviews a number of statements highlighted the effects of the family-owned nature of banks in Lebanon, relating it to the performance of the bank in terms of regulatory practices, and hence with the potential to significantly impact the whole country's banking sector.

In this context, some research was carried out into any interesting findings in the literature as to the reality of the family-owned nature of banks in Lebanon. The main finding in this regard from Chaaban (2015b: 11) is that “Individuals closely linked to political elites control 43% of assets in Lebanon’s commercial banking sector.” Chaaban (2015b: 11) goes into a bit more detail, stating that “18 out of 20 banks have major shareholders linked to political elites, 4 out of the top 10 banks have more than 70% of their shares attributed to crony capital and 15 out of 20 banks have the chair of the Board linked to politicians”. Some of the current owners of Lebanese banks are listed in Figure 6, below, with their equity value in US dollars (millions) presented in the right-hand column.

Figure 6 represents the amount of equity held by each Lebanese family-owned bank that is distinguished by having a politician as a partial owner. The equity held is stated in millions of dollars. For example, Saad Hariri (current Prime Minister as at 2018) is a direct shareholder at *BankMed* which maintained US$2,517 million as total equity in 2013. Another example is Adnan Kassar (Former Minister of the Economy and former head of the Chamber of Commerce in Lebanon), who is a direct shareholder at *Fransabank*, which in 2013 maintained US$2,382 million of equity in total. A further example is Maurice Sehnaoui (former Minister for Economy and Trade), who is a direct shareholder at *Societe Generale De Banque Au Liban (SGBL),* which held total equity of US$1,380 million in 2013.

Here, it should be mentioned in addition that the reason why the data used in the Table of Figure 6 dates to 2013 is due to the many political constraints put in the way of publishing data in relation to politicians in Lebanon. More recent data was unavailable, at least any that gave a clearer picture of the banking landscape in this regard than that illustrated here. The purpose of the Table is to show the level of control Lebanese politicians have over the banking sector, as a family-owned business. This issue is discussed below in the analysis of the findings (pp. 118–120).

Family (+link)	Equity in US$ (mill.), 2013
Hariri (former PM, current MP)	2,517
Kassar (former minister)	2,382
Sehnaoui (former minister)	1,380
Raphael (former minister)	724
Assaf (former minister)	211
Habib (former MP)	58
Kheireddine (former minister)	24
Hrawi (son of former President)	17
Total	**7,313**

Figure 6: Samples of Lebanese family-owned banks

Chaaban (2015c: 12) concludes on the figures (illustrated in Figure 6) that "families of current or former politicians control 32% of the sector's assets: 8 families control 29%, with total equity more than US$7 billion" excluding foreign banks. These are the same eight families listed in Figure 6.

In contrast to the viewpoint expressed above, some people believe that the family-owned nature of banks in Lebanon is not a bad aspect, and, on the contrary, believe it could play a significant role in mitigating risks and encouraging the adoption of more conservative regulatory and supervisory measures in Lebanon. As such, ABL (2013: 5) notes that many "family-owned banks" continue to satisfy significant organisational positions, with family participants and the same family members owning major stockholdings. As a result, these companies have adopted a conventional method towards "risk assessment and management of reputational risk", avoiding "politics" and bias, to the benefit of comprehensive, planned, and clear banking and supervisory rules. Achour (2016: 2) confirms the viewpoint that a great number of Lebanese banks are "family-owned" and adds that this also benefits positive (Corporate social responsibility - CSR).

D – High indebtedness of government to commercial banks

This subsection will explore one the main outcomes of the current research derived from the interview transcripts. In answering RQ 2.3 ("What are the strengths and weaknesses that impact the Lebanese Banking Sector?") the fact (agreed among all interviewees) was established that the Lebanese banking sector is highly exposed to sovereign risk and that this constitutes one of the main weakness of the country's banking system.

In the literature, The Business Year (2016: 1) states: "Lebanese banks hold over 60% of the government's TBs and Eurobonds, making them the single biggest state financier." And Abu Nasr (2015: 1) warns in no uncertain terms that: "Banks are buying public debt even in the absence of government economic reforms and this is the danger. The government should stop borrowing and it should rely on the private sector." In addition, Das (2012: 1) notes that the banking industry in Lebanon is heavily exposed to the country's "sovereign debt". It states that at the end of 2010, "government debt on banks' balance sheets stood at a very high 3.4 times the system's aggregate Tier 1 capital", while extensive sovereign exposure is forecast to increase to more than "6.1 times Tier 1 capital".

Moreover, Moody's (2016: 1) assesses the outlook for the banking sector in Lebanon, stating that the prime risk for banks there, as far as their credit outlook assessment is concerned, is derived from their high level and accelerating exposure to "Lebanese sovereign debt". Moody's predicts that Lebanese banks will suffer from a financial shortage of 8 per cent of the country's GDP during 2016 and 2017; this is due to the increasing level of "sovereign debt", which relates directly to the deterioration of the banks' credit. In March 2016, "banks' aggregate sovereign" including the "Lebanese sovereign debt and exposures to Banque du Liban" are expected to be LBP129 trillion (US$86 billion), which constitutes 46 per cent of the banks' total assets. This comprises the greater part of the Lebanese banking industry's joint balance sheet and is equivalent to more than five times their "Tier 1 capital".

Viewing the situation from a similar perspective, the IMF (2017 (II)e: 11) summed up:

> "how the total exposure to the sovereign is more than six times Tier 1 capital, absorbing an increasing share of asset growth as the economy and deposit inflows have slowed and sovereign spreads are tight compared to countries at similar ratings partly due to BDL intervention in the Eurobond and T-bills markets".

Finally, Lebanese banks have been subject to a downgrade: rated “B-” by S&P and Fitch, and “B2” by Moody’s. This again is highly significant in relation to RQ 2.3 (“What are the strengths and weaknesses that impact the Lebanese banking sector?”). The impact of this on the research is discussed in the findings section of Chapter 5, where it will be noted that interviewees identified that one of the main drawbacks for the Lebanese banking sector is its high sovereign exposure. Evidently this has not gone unnoticed among the credit ratings agencies, since Moody’s (2017: 1) announced the downgrade of three Lebanese banks from “B2” to “B3” in terms of their stability, demonstrating that, in the opinion of the rating company, the decline in the country’s credit rating is due to the banks’ separate credit outline, in consideration of the strong credit relationship amid banks’ “balance sheets and the sovereign credit risk”.

2.4. Maturity Mismatch of the Lebanese Banking Sector

The main concept discussed below concerns the existence of a maturity mismatch in the balance sheets of the Lebanese banking sector.

Allen et al. (2002: 16) states that the “maturity mismatch risk” ascends usually once because “assets are long term and liabilities are short term”. Maturity mismatches generate “rollover risk: the risk that maturing” obligations would not be refunded, and the borrower would be obliged to settle the duty in cash. In addition, maturity mismatches produce “interest rate risk” for the borrower: “the risk that the level and/or structure of interest rates that the debtor has to pay on its outstanding stock will change”. Additionally, interest rate risk could ascend when “longer-maturity liabilities” holds a “floating interest rate”, mainly one related to the “interest rate on short-term debt”. Maturity mismatches might ascend in any local or overseas coin-money of a country. Maturity mismatch risk has been significant during all of the recent crunch periods.

To clarify further, IMF (2017 (II) f: 10) explains how, in order to profit from the “term premium and higher interest margins”, banks progressively capitalised in longer-term BDL instruments as well as “non-marketable term deposits”, effectively growing “maturity mismatches”; in this way they brought about “interest rate risk”.

Accordingly, IBL Bank, Lebanon (IBL Bank, 2007: 116–117) states:

> “large amounts of the group’s financial assets, primarily investments in certificates of deposits and Lebanese government bonds in Lebanese pounds and foreign currencies, carry fixed interest rates, whereas customers’ accounts and loans and advances to customers are re-priced on a regular basis which, consequently, leads to major risks from the mismatch between the sources and uses of funds, and in its turn increases interest rate risk.”

Because of the discrepancies in the numbers of monetary “assets and liabilities”, the bank is not covered for “interest rate risk”. All Lebanese banks have similar gaps in “maturities”, because clients’ credits are the main basis of finance.

Moreover, IBL Bank (2014: 51) acknowledges that the “maturity mismatch between assets and liabilities which characterises the Lebanese Banking sector was also present at IBL Bank”. Recently it has been noted in Moody’s (2016: 12) that since the Lebanese government started spreading the “maturity of government debt”, the “maturity” gap has caused operating banks’ “balance sheets” to grow.

The above examples—sourced from across the literature over the past ten years, selecting later and more recent references, and citing the annual reports of one of Lebanon’s top banks (IBL) and one of the most reliable rating agencies (Moody’s)—provide evidence that the Lebanese banking sector has been truly suffering from the maturity mismatch issue driven by sovereign debt from 2007 until the present time.

2.5. Banking Regulations in the United States and European Union

This section represents the core of global banking regulations. In the United States the Basel Accord is the main regulation; in the EU countries, it is the European Banking Authority (EBA) regulations that sets the framework for regulation of European banks.

As stated above in section 2.1 (p. 35-36) the subsections below constitute an important discussion to elaborate on US and EU banking regulations, which currently largely take a most powerful position of control regarding worldwide banking regulations.

Basel Accord

BIS (2016: 1) describes the "Basel Committee on Banking Supervision (BCBS)" as the main worldwide norm-setter for all "prudential regulations" of banking industries, offering a collaboration covering all the regulatory perspectives of banks. Moreover, BCBS commands banks globally to enhance their supervisory and regulatory performance in order to improve their monetary stability.

Shortcomings of Basel I:

The first "Basel Capital Accord" was applied in 1998. Originally it was established for the globally dynamic banks of the G10 nations, to offer them a "level playing field on capital standards and to ensure banks had a sound amount of capital" (WOCCU, 2005a: 1).

Jablecki (2009: 32) has studied the influences Basel I had on the financial strategies of banks. Because of the contrary range of problems and potential reduction of money subsequent to the "maturity mismatch", banks have become more careful about the necessities of their capital structure. Consequently, to increase robustness, banks do seem to maintain the lower "capital-to-risk-weighted-assets ratio". Lastly, Jablecki discusses the idea that the recent Basel II background will probably enhance the financial strategies of banks further, but he acknowledges that it will be necessary to have a final experiential study to confirm this idea.

The introduction of Basel II:

On 26 June 2004, the Basel Committee on Banking Supervision published the "International Convergence of Capital Measurement and Capital Standards, a Revised Framework", known as Basel II (WOCCU, 2015b: 1).

The Federal Reserve (2003: 396) clarified that, according to the point of view of the US regulators, Basel I must be substituted—at least for large and complicated banks—for three main reasons: First, Basel I had major weaknesses regarding its applicability for both large and small institutions; second, "the art of risk management" is more developed in the larger banks; and third, the banking industry has become more concentrated.

<u>The current Basel III:</u>

BIIICPA (2016: 1) defines Basel III as an inclusive list of improvement procedures that have been established by the BCBS to reinforce controls and rules in order to mitigate risk in the banking industry: the Basel III restructuring is targeted specifically at enhancing the capability of the banking system and to mitigate the risks from the effects of a monetary and fiscal crisis; to strengthen "risk management and corporate governance", and to reinforce the "transparency and disclosures" of the banking industry.

Moody's Analytics (2011: 3-4) simplifies this somewhat, stating that Basel III is a development rather than a "revolution" for banks. It was established from the current Basel II context, and the most important modifications for banks are the implementation of "liquidity and leverage ratios and enhanced minimum capital requirements." Moreover, Moody's Analytics (2011: 3–4) state that Basel III is altering the system that helps banks manage risk and finance. The recent Basel III pursues further incorporation of the finance and risk management roles.

European Banking Authority (EBA)

The European Banking Authority (EBA) defines itself as a European Union-dedicated organisation created to accomplish a more combined effort in banking control throughout the European Union (EBA, 2016: 3–4). On 1 January 2011, the EBA was created as a section of the "European System of Financial Supervision (ESFS)". The ESFS consists of "three European Supervisory Authorities (ESAs): the EBA, the European Securities and Markets Authority (ESMA), the European Insurance and Occupational Pensions Authority (EIOPA), as well as the European Systemic Risk Board (ESRB), the Joint Committee of the ESAs, the European Central Bank (ECB) and the Member States' competent supervisory authorities". EBA (2016 (I): 20) adds that the core target of the EBA is to help in the formation of stand-alone EU financial institutions, markets and the commercial banking sector. The authority is responsible for creating a mutual supervisory background that is applicable to all EU member states' banking and investment firms in a similar way: "the EU single rulebook on banking".

To summarise Chapter 2, the critical literature review, the concepts, ideas and terminology discussed in this thesis have been elaborated in some detail in this chapter to provide easy reference. To recap on these ideas, the chapter has presented several subsections on financial continuity, financial stability, financial resiliency, prudential banking regulations, financial ratios (CAR, AQR, liquidity, profitability, RWA, Tier 1 capital), Lebanese banking authorities, US financial regulations, EU financial regulations and stress testing. Furthermore, in another section 2.2, Chapter 2 put forward a discussion about certain aspects of the Lebanese banking sector including the issue of the maturity mismatch.

2.6. Previous Similar Studies from Emerging Markets – Turkey

This subsection elaborates on Turkey as an example of emerging markets. It reflects Turkey's practices in mitigating exposure to risks through prudential banking regulations and, especially, the role of their banking supervisory authorities.

Turkey enjoys the status of leading the "world's largest emerging economies", a huge and increasing population, and a differentiated economy. The ongoing access of fresh companies to the marketplace is an indication of the future of industry in Turkey (Oxford Business Group, 2018:1)

According to BIS (2016: 8), "The Banking Regulation and Supervision Agency (BRSA)", in association with the Turkish Central Bank, accepts the prospect of replying to the outcomes and remarks of the ''RCAP Assessment Team" on the execution of Basel III Capital guidelines in Turkey. In September 2015, there were 52 banks in Turkey, totalling assets of around 120 per cent of GDP. In November 2015, as per Basel III "weighted average total capital ratio was 15.5% and the CET1 ratio was 13.2%". A distinguishing characteristic of the banking sector is a moderately large "foreign currency" element on the balance sheet. Almost one-third of the unpaid loans of banks in Turkey are expressed in foreign currency.

Additionally, EBA (2016: 1) stated that Turkey enjoys a regulatory structure based upon sector, where the Banking and Regulation Supervision Agency (BRSA) is the national supervisory authority for the banks, and the Capital Markets Board (CMB) is the regulator for the securities and derivatives markets. The BRSA and the CMB are engaged with managerial control of these sectors, publishing mandatory guidelines and further direction to organisations, in their capacity as supervisory establishments. The size of the monetary industry in Turkey compared with worldwide data is close to the standard of other “developing countries”; nevertheless, it falls some way below universal and EU standards. In Turkey, the ratio of bank assets to GDP fell below the international level as of 2014. A similar view might be observed concerning the size of the capital market.

Behind this example of Turkey, there are lessons to learn – which are worth giving deserve due consideration – from the financial crisis that took place in 2000–2001. Many reasons were behind this crisis. In a case study by Piciu (2015: 464–466), the author offers an explanation as to how the misconduct of management in relation to a number of structural issues in the Turkish banking system led to the crisis. Additionally, in the same place, the author added that the whole Turkish banking system needed reform, which should take time. Accordingly, to recover from such a crisis, governmental promises and a show of dogged determination were mandatory actions to witness for both regulatory experts and the banks. Another reason for the failure of the financial sector in Tukey is “corruption” within the banking system. To resolve this crisis, the IMF proposed a “reform package” for Turkey, and the World Bank and the Bank of International Settlements recommended a set of guidelines for the Turkish banks to follow.

In comparing with the Lebanese banking sector, the lessons learned from the crisis is related to their implementation of the financial reforms at the banking sector level through the use of the prudential banking regulations. More specifically, and to provide evidence for the argument put forward thus far, Hoekman and Togan (2005: 312) explain how the currency crisis, which occurred in 2001 in Turkey, cost the Turkish banking sector approximately US$46 billion (equivalent to around 27–30 per cent of the country’s GDP). Following this financial turmoil, Turkey adjusted its “legislative, regulatory and institutional” background. The authors go on to explain that, from 2004, all of the prudential standards in Turkey were compliant with those adopted by the EU in the fields of "capital adequacy standards, loan classification and provisioning requirements, limits on large exposures, limits on connected lending, and requirements for liquidity and market risk management". Overall these prudential rules are similar in most of the world's developing and developed economies, because the intention of them is to guarantee the steadiness of the banking industry by maintaining creditworthiness, restraining risk, and defending the deposits held by the bank.

2.7. Justification for the Focus on the United States and the European Union

Arising from International Banking Standards, the idea of having a model that is followed by the banking sector is seen as highly relevant. It was necessary to decide on which international standards the current study should consider and use as a reference tool. It was while conducting the literature review of the importance of the US Financial Regulatory System that became clear how much more robust the regulatory system became in the US after the experience of the subprime crisis, leading to the credit crunch of 2008. It was following this that the Federal Reserve, the Department of the Treasury, FDIC and other regulatory authorities in the US applied many changes in their regulatory system, such as the stress test, and these were examples then available for the Lebanese banking authorities to follow. On the other side, the EBA has built up the Single Rulebook in banking regulation, rooted in EU legislative texts such as the "CRD IV package", BRRD (bank recovery and resolution directive) and the DGSD (Deposit Guarantee Scheme Directive), which are banking reform practices that the Lebanese Banking regulatory authorities can refer to in mitigating their risk exposures in the event of any upcoming financial crisis.

CHAPTER THREE

STRATEGIC/RESEARCH QUESTION AND CONCEPTUAL FRAMEWORK

3.1. Strategic and Research Questions

One of the DBA's main criteria is to link the strategic question and the research questions (SQs/RQs) to the research across all the documents. The SQs/RQs presented in Figure 7 (below) are answered in the analysis section of Chapter 5. The SQs and RQs are investigated during the semi-structured interviews and then studied in order to derive accurate findings.

The research questions limit the "statement of purpose" and become the main indicators to the reader of the research. Qualitative researchers address at least one principal question followed by many "sub-questions". They begin their list of questions by using "how" or "what" and use investigative action words, for example, "explore" or "describe". They inquire about wide, common questions to allow interviewees to clarifying their thoughts. In addition, they emphasise originally one essential concern (Creswell, 2014: 124). During the process of formulating the SQs and RQs, Koch (2008: 9) advises the researcher in various ways: first, "make your question one that somebody else will want an answer to as well. They will be your AUDIENCE". Second, "your PURPOSE is your reason for asking your question. The answer to your research question will be a complete statement expressed as a sentence – your THESIS". Third, "most importantly, do not get discouraged or worried if you find your thesis or your beliefs changing – this is a natural part of the researching and writing processes".

According to Kennedy (2006: 1–2), the importance of the RQs relies on three main factors. First, it inquires around things or ideas that people are interested in knowing more about. Second, it is written based on the information the researcher already has and the information that others have, then this can be brought together to form new knowledge. Third, RQs are the main starting point that will lead the researcher to learn about things or facts she did not know about at the time of writing the RQs.

In fact, the importance of the RQs is seen throughout the learning process, in the knowledge the researcher acquires from the evolution of these questions across Documents 1–4 of the DBA. Besides, as each document progresses, it becomes ever clearer that acquiring new knowledge from new information is the main purpose of developing the list of RQs along the duration of the DBA "journey". Framing the RQs and sometimes getting different answers, and then reshaping the same questions from the qualitative research perspective to the quantitative research perspective are the sources of learning by which DBA students acquire sufficient knowledge to finally be able to focus on finding an answer to each of the RQs in Document 5.

In relation to the formulation of the RQs, Bryman and Bell (2011a: 79) indicate that they result from the research field the researcher is interested in exploring. The sources of these RQs can be widely captured; they could be either from private expertise and interest, or focus on a certain philosophy or the researcher's literature review, or new improvements in institutions or issues in companies. Fisher (2010a: 37) explains that the RQs are the questions for which we can derive answers in theory. They generally discuss the current situation or the past situation and tend to focus on defining and clarifying the current position or condition of something and not on suggesting a future action plan.

The RQs in the current research derive from the author's professional experience and interest in the field.

The main RQ of the current thesis is highlighted by the "thesis statement" set out below:

> "*What, when and how signficant a role is played by Prudential Financial Regulations and Supervision in mitigating the Lebanese Banking sector's exposure to risk further to any economic, political, financial or other types of crises?"*

The SQs and RQs were subject to minor amendments in Document 5. In comparison with the previous SQs/RQs of Documents 3 and 4, presented in Appendix 8, some minor changes in the phrasing of the SQs/RQs have been made in Document 5. In fact, from documents 1–4, the SQs and RQs have been evaluated depending on the needs of each document, since while progressing through the DBA more knowledge was acquired and discovered as each document was brought to a conclusion. Therefore, the RQs were amended while maintaining the core of the chosen research topic. Between documents 1 to 2, some major modifications were made to the RQs as a result of the literature review and the gaps identified, but between documents 3 and 4 the modifications were minor. In Document 5, a few RQs have been added. Figure 7 (below) sets out the SQs and RQs, the foundation of the current research, in their final form. Reaching the final pages of the thesis, all of the questions set out below should find answers based on analysis of the interviews, thus enabling the conclusions to bring to a close a comprehensive and a complete DBA.

Strategic and Research Questions – Document 5		
Strategic Question 1	**Strategic Question 2**	**Strategic Question 3**
What changes are required in the prudential regulatory landscape of the Lebanese banking sector to address the effects of any potential financial crisis?	**How and when did the banks in Lebanon resist risk to maintain financial stability?**	**What changes should the banking regulators introduce, in terms of financial ratios, shareholder structure and capital management, in order to mitigate external risks, in line with best banking practices and regulation?**
Research Questions		
1.1. What currently are the main characteristics of the Lebanese banking sector?	*2.1. What are the main indicators for resiliency, stability and continuity?*	*3.1. Where does the role of the Central Bank prevail in terms of "prudential banking supervision" in imposing minimum strict financial ratios, namely for liquidity, capital adequacy, asset quality and profitability ratios?*
1.2. How can the interrelationships and impact of an economic recession on banking regulations in Lebanon be determined?	*2.2. How did Lebanon manage to preserve stability and continuity of the banks when all economic indicators were weak?*	*3.2. What precautionary plans (e.g. stress tests, audits and inspections) have been set up by the BDL to ease the negative effects of financial crises such as the Arab Spring?*
1.3. To what extent is controlling the prudential banking indicators from capital adequacy, asset quality, liquidity and profitability relevant before, during and after a recession?	*2.3. What are the strengths and weaknesses that impact the Lebanese banking sector?*	*3.3. In comparison with the supervision best practices applied in the US and the EU, will introducing a new set of prudential policies, similar to those applied by international standards, ease the impact on the Lebanese banking sector of any potential financial crises?*
1.4. Should banks at certain times change the parameters of the set of financial ratios (capital adequacy, asset quality, liquidity or profitability) such as when faced with the negative impact of economic recession, in order to mitigate risk?		*3.4. What is the vision for the future of the Lebanese banking sector, taking into consideration the introduction of stricter and more demanding prudential banking ratios?*

Figure 7: Strategic and Research Questions

Finally, as explained by Jill et al. (2011a: 18), regardless of the type of research or what is under investigation, as “a stand-alone review or the preliminary part of a complete research project”, the student must always begin with Research Questions. Actually, the RQ provides the plan for the literature review and underlines the fact that the RQs are a critical stage that highlights the mode for the research study. Accordingly, well-structured and clear RQs will support the researcher in maintaining focus across the entire study.

3.2. Conceptual Framework

This section discusses the conceptual framework, but first Figure 8, the “Emerging Conceptual Framework” is presented to illustrate all of the ideas, concepts, thoughts and themes of the research topic that make up the conceptual framework. Second, in the following subsection, a definition of all the components of the conceptual framework are offered. To enhance understanding of the conceptual framework, a quite detailed explanation of Figure 8 and the relationship between the concepts that make up the conceptual framework will be provided. Finally, a definition of how the themes of the conceptual framework and the main RQs relate to the allocation of the documents across the DBA is provided. The most important thing to understand about the conceptual framework is that it is primarily a conception or model of “what is out there”; that is, what the researcher is planning to study, what the research aims to uncover about what is going on “out there” and why—a tentative theory of the phenomena under investigation.

Jabareen (2009: 1) describes the conceptual framework as a “network or a plane” of linked concepts”. Conceptual framework studies provide a technique to construct a theory around which a conceptual framework can be built based on “grounded theory”. In addition, Jabareen discusses the pros and cons of conceptual framework studies, which the author sees are its adaptability, ability for amendments and focus on comprehending in place of estimating. On the other hand, Fisher (2010b: 139–140) explains that constructing a conceptual framework is not about determining things that are recent; actually, it is accomplished by pulling together all the relevant disparate elements of information the student has learned while conducting her literature review.

From the experience gained through the drafting of Documents 1 to 4 it can be confirmed that the conceptual framework and the literature review sections do always directly relate to each other. As some ideas and thoughts from the literature review are included in the conceptual framework, hence components of the conceptual framework are discussed in the literature review. In a similar context, Hart (2011: 162) suggested that drawing the thoughts, opinions and notions from the core of the literature is a significant component of any research. The researcher might adopt various approaches, in any method considered suitable to the investigation. The use of one or a number of different approaches will allow the student to discover techniques for the literature review, to classify the main milestones of analyses and ideas, while constructing an image of the connections which are found amidst the research studies of different researchers.

3.3. Conceptual Themes and Frameworks of the Research

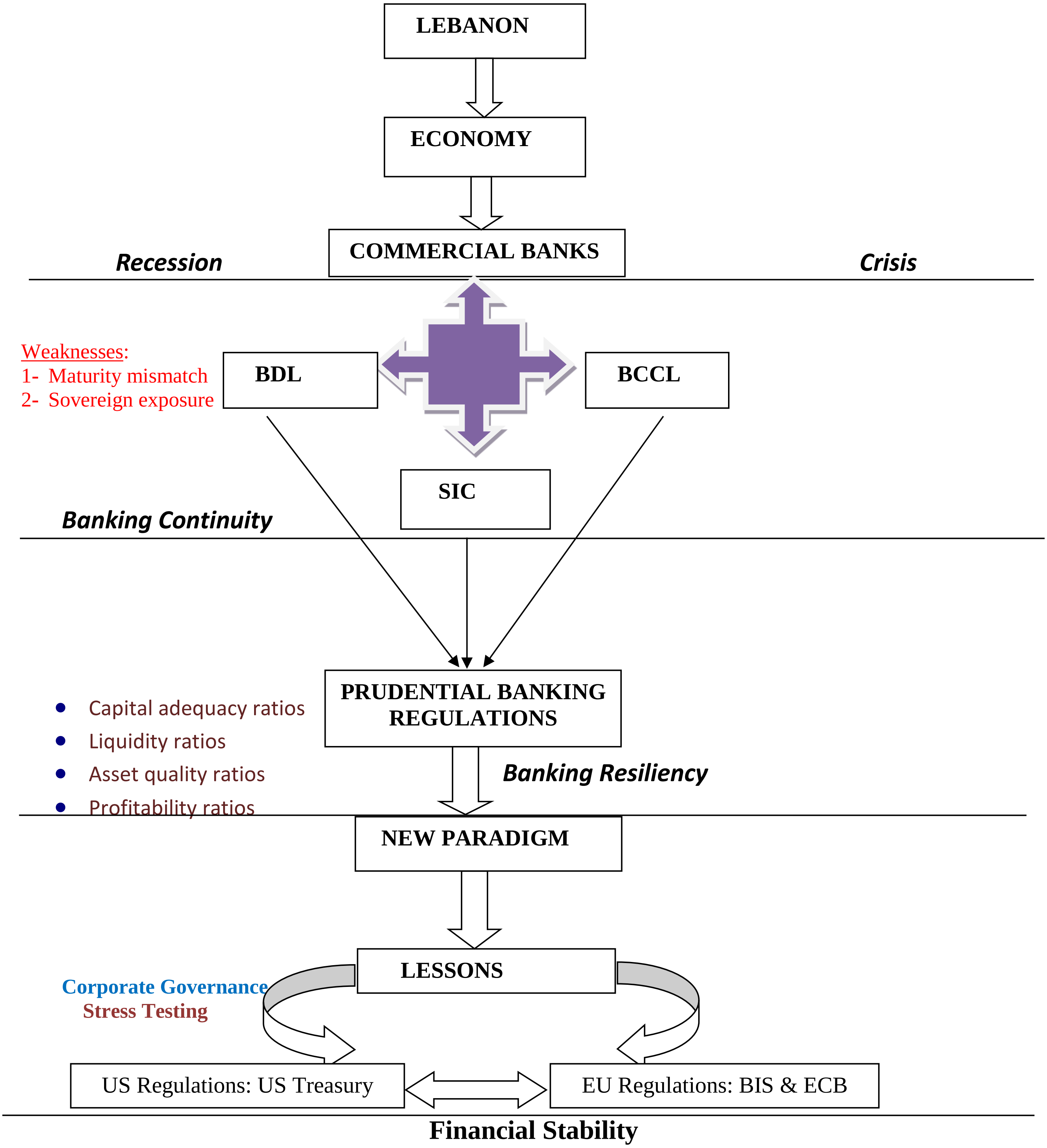

Figure 8: Emerging Conceptual Framework

3.4. Identifying the Relationship between Concepts: A Cause-and-Effect Relationship

At end of Document 3 and particularly on reaching the conclusions of Document 4, the conceptual framework needed revision in light of the new findings derived from both documents. In Document 2 the *initial* conceptual framework was created. An *emerging* conceptual framework, based on previous research results, has been drawn up for Document 5.

The final conceptual framework for Document 5, based on four levels, serves as a useful visual illustration to explain the main concepts of the thesis.

Starting at the top of Figure 8, the geographical scope of the research is *Lebanon*, the first box in level 1 of the conceptual framework. The macro discussion is derived from the Lebanese *economy*, illustrated by the only box at level 2. Since the main component that controls the Lebanese economy is the banking sector, *commercial banks* of the third box in level 1, which has a mutual relationship with the economy, presents how the banking sector and the economy in Lebanon directly interrelate. At this first level of the conceptual framework, *crisis* and *recession* are situated either side of the boxes as the two external factors that impact on all of the above variables that make up level 1 (Lebanon, the economy, commercial banks).

Moving down to the second level, the conceptual framework introduces the three banking authorities that regulate the Lebanese banking sector: the Banque Du Liban (BDL – the Central Bank of Lebanon), the Banking Control and Commission of Lebanon (BCCL) and the Special Investigation Commission (SIC). The roles of the Lebanese authorities mentioned – BDL/BCCL/SIC — are explained in more detail in section 2.1 (p. 35-36). The commercial banks in Lebanon are regulated as per the drafted regulations of these three authorities. On the same level, the *banking continuity* concept is shown. This is a notion that is guaranteed where there is a positive and rewarding relationship between the role of the banking supervisory body and the operating banks.

The current thesis is concentrated on the third level of the conceptual framework, *prudential banking regulations*. As these regulations are issued from the authorities at level 2 (the banking supervisory bodies), hence supervisors and prudential banking regulations have a reciprocal relationship. At this third level, the concept of *banking resiliency* takes up its position too. In fact, prudential banking regulations are the main indicators of the banking sector's ability to maintain resiliency. On the left-hand side at level 3, the prudential banking regulations this thesis will be examining are listed. These financial ratios are Capital adequacy ratios (CAR), Liquidity coverage ratios (LCR), Asset quality ratios and Profitability ratios.

At level 4, the *new paradigm* emerges as a result of the first 3 levels. The word paradigm in this conceptual framework describes a model, standard or prototype that is to be followed. Following this standard, model or prototype closely will lead to *financial stability* in the Lebanese banking sector and eventually the economy and the country as a whole. Finally, following the 4 levels of the framework, the lessons illustrated in the final box should conclude with recommendations for future corporate governance and stress testing. In that event, this research will examine the practice of the Lebanese regulators and compare how the regulations are applied in the United States through the US Treasury and in the European Union via BIS and the ECB.

When reading Figure 8, it is worth noting that this emerging conceptual framework is designed based on two different types of relationship: horizontal and vertical. The figure illustrates the conceptual framework by creating a vertical relationship between boxes 1–6 moving in a logical and sequential manner; Lebanon, economy, commercial banks, prudential banking regulations, new paradigm and lessons; and the horizontal relationship of the emerging conceptual framework, demonstrated by the concepts written on the horizontal line drawn at each level and the main component of the level itself.

3.5. Relationship between the Conceptual Framework and the Main Research Questions and Themes

The objective of this thesis is to provide data to understand more about the subject of interest, to provide answers to the research questions and to suggest solutions to the problems, all of which sections are included in the conceptual framework.

It is important to identify the interrelationships between each SQ and RQ and the themes mentioned in the conceptual framework of Figure 8. Having done so, it is then possible to allocate the SQs and RQs across all of the DBA documents, in order to demonstrate how the research interrelates and is connected to the SQs/RQs and the themes and documents of the conceptual framework.

Figure 9, below, is a tabular representation of the relationships between the themes of the conceptual framework, the SQs/RQs, and details of the document in which they are discussed. Figure 9 illustrates in more detail all the ideas of the conceptual framework and relates each idea to its respective SQs and RQs. In addition, it points to the document of the DBA where these ideas are discussed in more detail. The relevance of Figure 9 to the research is demonstrated by how it is able to show the link between the conceptual framework and SQs/RQs and illustrate in tabular form the allocation and distribution of these elements throughout the DBA journey.

Themes of the Conceptual Framework	SQs	RQs	Document Allocation
Lebanon	←	→	Docs 1, 2, 3, 4 and 5
Economy	←	→	Docs 1, 2, 3, 4 and 5
Commercial banks	←	→	Docs 1, 2, 3, 4 and 5
Recession/Crisis	1	1.2/ 1.3/1.4	Docs 3, 4 and 5
	3	3.2/ 3.3	
Lebanese Banking Authorities: BDL, BCCL, SIC	3	3.1/ 3.2	Docs 3, 4 and 5
Banking continuity	2	2.1/ 2.2	Docs 4 and 5
Banking resiliency	1	1.1	Docs 3, 4 and 5
	2	2.1/ 2.2	
Prudential Banking Regulations	1	1.3/ 1.4	Docs 2, 3, 4 and 5
	3	3.1/ 3.3	
Financial ratios: CAR, liquidity ratio, asset quality ratio, profitability ratio	1	1.3/ 1.4	Docs 2, 3, 4 and 5
	3	3.1/ 3.3	
New paradigm	3	3.4	Docs 3, 4 and 5
Lessons learned	3	3.4	Docs 3, 4 and 5
US Regulations	3	3.3	Docs 2, 3, 4 and 5
EU Regulations	3	3.3	Docs 2, 3, 4 and 5
Financial stability	2	2.1/ 2.2/ 2.3	Docs 4 and 5

Figure 9: Themes of the Conceptual Framework and the SQs/RQs allocated to each of the five documents of the DBA

Figure 9 shows that while most the themes were included in Documents 3 and 4 and eventually 5, many of them had not been introduced in Documents 1 and 2. Each theme of the conceptual framework is defined in the critical literature review (Chapter 2) and aims to answer one or more of the specific RQs as identified in Figure 9.

CHAPTER FOUR

RESEARCH METHODOLOGIES AND METHODS

Chapter 4 discusses the research methodologies and research methods in nine sections. The first section will identify the research philosophy and justify the selection of interpretivism over positivism or realism. The second section will define the research approach, which could be either deductive or inductive, and will offer an explanation of the reasoning behind conducting research that follows an inductive reasoning approach. The third section will recognise the research strategy of the thesis. Section four will clarify the data collection method used in Document 5, followed by an explanation of the data collection in section five. Section six will identify the interviewees, and section seven will assess the significance of the reliability and validity of the data gathered. The penultimate section will discuss the limitations and delimitations (definitions of these are provided below in section 4.7, pp. 85–87) of the research methodologies and finally section nine discusses the ethical stance of the research.

It is essential that the researcher has an understanding of the difference between methodologies and methods. In this regard, Fisher (2010c: 49–50) explains the distinction between methodology and methods, stating that methodology is the learning of approaches, and it promotes all types of logical inquiries around anything that is feasible for researchers to recognise. Methods, on the other hand, are about arguing for the use of a survey, for example, and demonstrating why that method is more appropriate than an interview method.

4.1. Research Philosophy

4.1.1. Research Philosophy: Importance and Relevance: Ontology and Epistemology

While conducting research, it is significant to take into consideration the various research models and issues in relation to *ontology* and *epistemology*. As these models define views, principles and expectations as well validate what is stated as fact, they could, therefore, impact the method and affect how the research is conducted, including the design, to complete the conclusions. Hence, it is relevant to recognise which have the appropriate characteristics to ensure that the methods are consistent with the type and purposes of a specific chosen research question, and to make sure that the prejudgements of the researcher are well-assumed, visible and reduced (Flowers, 2009: 1).

According to Hatch and Cunliffe (2013: 11), ontology is a division of "philosophy" that examines expectations around life and meanings of truth, while epistemology is an additional division that is considered to equate understanding. From another point of view, Raddon (2010a: 3) points to the difference between ontology and epistemology, declaring that epistemology is "what constitutes valid knowledge and how we obtain it" and ontology is "what constitutes reality and how we understand existence".

Based on the structure of this research the epistemology model was the chosen means to study and find answers to the SQs/RQs. This is because the outcome of the research is constructed on understanding and acquiring knowledge. As such the strategic questions –

- SQ1: "What changes are required in the prudential regulatory landscape of the Lebanese banking sector to address the effects of any potential financial crisis?";
- SQ2: "How and when did the banks in Lebanon resist risk to maintain financial stability?"; and
- SQ3 "What changes should the banking regulators introduce, in terms of financial ratios, shareholder structure and capital management, in order to mitigate external risks, in line with best banking practices and regulation".

– do require some careful thought.

Epistemological and Ontological Stances of the Research

For the purposes of this research, a realist ontology is adopted. That is, while perceptions of the banking system and its associated risks are constructed through the interactions between people, the aspects of that banking system, such as the dominance of family-owned banks, are held to remain relatively constant regardless of those perceptions. Edward et al., (2014) explained that epistemologically, this means that mixed methods are appropriate. In other words, the research methods are relative to the nature of the phenomenon under investigation. Thus, use is made of the analysis of financial figures which might suggest a more positivist approach. However, the bulk of the study is concerned with the interpretation of the implications of these analyses and so is better characterised as interpretive. Furthermore, the research justifies an interpretivist position because meanings are being analysed throughout the collected evidence and material. This research is situated in the interpretivist paradigm because interpretive research concentrates on logically revealing the importance of practices. Consequently, undertaking qualitative interpretive research would be best suited to searching out and comprehending information at a more in-depth level. The reason for this choice is explained in more detail in the following section 4.1.3 on page 71.

4.1.2. Research Philosophy: Comparison: Positivism, Realism and Interpretivism

Three key paradigms are discussed in this subsection: positivism, interpretivism and realism. This section clarifies how these paradigms were formed and developed in the research study, while also presenting the characteristics that distinguish each paradigm.

According to Flowers (2009b: 3), the positivist stance results from the “natural sciences” and is distinguished through the use of experiment, that is, the application of theory established from the current theory in order to test visible public truth(s). This stance assumes that the societal nature occurs impartially, and that information is simply accurate when it is built on investigations of this truth. It also assumes that worldwide or common regulations or hypothetical patterns might be created that can clarify "cause and effect relationships" and which provide forecasting results. In addition, Raddon (2010b: 5) describes positivism as "the researcher in [the] scientist". Furthermore, he lists the characteristics of positivism as being "natural science as a model, the quest for objective knowledge, a deductive theory approach, underpinned by an objectivist or realist ontology: facts are facts, explaining how and why things happen, typical methods: surveys, questionnaires, [and] random sampling". Bryman and Bell (2011b: 15) define positivism as "the epistemological position that advocates the application of the methods of the natural sciences to the study of social reality and beyond".

In relation to interpretivism, Raddon (2010c: 6) describes the interpretivist researcher as a "detective". He also notes the main features of the interpretivist position which, as such, emerges from criticism about employing the "natural sciences" as a model for a societal study, the search for personal information, using an "inductive" approach supported by a "subjectivist ontology". Meanwhile, Bryman and Bell (2011c: 17) describe interpretivism as the research philosophy proposed on the basis of an opinion that an approach is necessary, which takes into consideration the variances among individuals and matters of common knowledge, and which thus requires the societal researcher to hold a personal understanding of social movements. In addition, Marsh and Stocker (2002: 26) explain how, according to "the interpretivist tradition researchers reject the notion that the world exists independently of our knowledge of it. Rather, they contend that the world is socially or discursively constructed".

According to Bryman and Bell (2011d: 17), realism has two characteristics in common with positivism: a conviction that the natural sciences and societal disciplines might and must employ similar types of method for gathering information and clarification, and on the promise that an outside truth exists on which researchers can focus. In addition, Bryman and Bell identify two main types of realism: *empirical realism* and *critical realism*.

To sum up the three philosophical positions, Saunders et al. (2008: 24) differentiate between the three stances stating: "positivism relates to the philosophical stance of the natural scientist". They go on to suggest that: "interpretivism is an epistemology" that has many supporters, and which it is essential the researcher knows about in order to recognise the alterations among individuals. The heart of realism is that "what the senses show us is reality, is the truth: that objects have an existence independent of the human mind".

As much of the banking literature is concerned with analysing figures or formulating polices, it pays little attention to how policies might best be put into practice. This is an explanatory form of research, therefore, to which an interpretivist approach is well suited.

4.1.3. Why Interpretivism?

Figure 10, below, identifies the flow of the research process when adopting an interpretivist perspective.

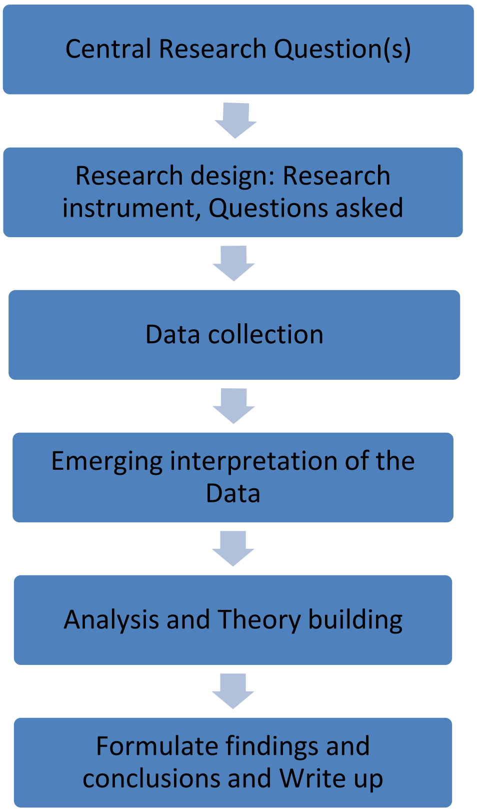

Figure 10: Interpretivist view of the research process (Raddon: 2010d: 14)

The conclusion arrived at here is that the current study should be categorised as interpretive qualitative research. This research will assume an interpretivist position. This is because the researcher's aim is to understand why and how things happen by using the typical approach of in-depth interviews, the questions for which start out from a central research question, with the aim to reach the stage of formulating the research findings and conclusions. This perspective follows the steps shown in Figure 10 above. The main purpose of this study is to investigate the RQs and interpret the findings from the data collected. Throughout the learning process of Documents 1–4, it became clear that there is no best or better philosophy, rather it is important to understand all types of philosophies for the researcher to then be able to decide which philosophy best fits the nature of the proposed research itself.

According to Rowlands (2005: 1), qualitative research can be either positivist or interpretivist subject to the choice of philosophy the researcher decides to adopt when conducting her research. Creswell (2007: 47) puts forward many forms and examples of presentations for plans or suggestions for qualitative studies. Interpretivism could take any one of these forms. He further explains that interpretivism can be considered an old method to organise qualitative research and that it consists typically of an overview and recommendations for action to be taken, in addition to discussing the ethical standards and problems, conclusions and expected results. Furthermore, Creswell (2009a: 176) affirmed that qualitative research is a type of interpretive investigation whereby the student interprets what she perceives, receives and recognises. This is another reason why the research assumed an interpretivist position, as it is believed this stance best responds to the demands and characteristics of the research being performed.

4.2. Research Approach

In any research there are always two types of research approaches to identify and each one has its own specifications. The decision about which one the student should adopt depends on the nature of the research being conducted and on the logical sequence that is followed throughout the research to derive the conclusions.

The subsection that follows critically review both approaches: inductive and deductive, and subsequently explains why the current research is adopting an inductive reasoning method.

4.2.1. The Deductive Approach vs the Inductive Approach

Knowing that an interpretivist stance is usually associated with an inductive approach, this section incorporates further explanation about the difference between the theoretical approaches of deductive or inductive reasoning.

Zikmud et al. (2013a: 43–44) gave a clear definition to distinguish between deductive and inductive reasoning: deductive reasoning is the rational procedure for coming to a decision regarding a certain occasion/event based upon anything that is recognised to be right; however, inductive reasoning is the rational procedure of creating a common proposal based on examining specific truths. Figure 11, below, illustrates the logical sequence of the deductive vs the inductive approach.

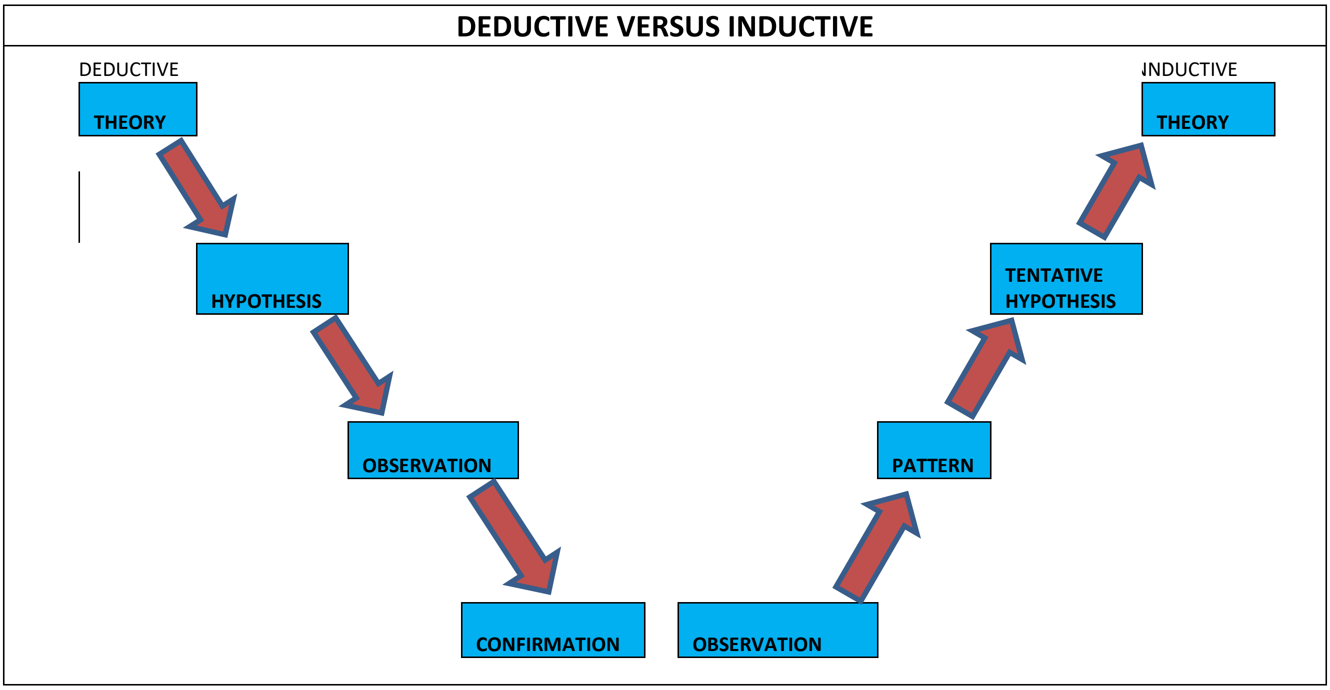

Figure 11: The Deductive approach versus the Inductive approach (Burney, 2008: 6)

Figure 11 presents the difference between the reasoning processes of the deductive and inductive approaches. As noted by Saunders et. al (2012: 145), deductive research incorporates the evolution of a theory which is later applied to a severe test throughout a list of suggestions. In addition, Babbie explained (2010: 23), deductive starts with "why" and transfers to "whether", from overall to precise; whereas induction is in the reverse way. A deductive approach is top-down theory testing, where theory is followed by the hypothesis to be tested, then observation and finally confirmation. However, an inductive approach is a bottom-up theory-building process, where observation is made first, followed by analysis of patterns and hypothesis formulation to construct the theory.

The common inductive method offers a simple means and an organised list of measures to examine qualitative information, which could generate trustworthy and credible results. Even though the general inductive method is not quite as robust as other philosophical approaches, nonetheless it offers a straightforward and direct method for developing results. As Thomas (2006: 237) points out, several researchers are probably discovering that employing a common inductive method is less difficult than employing different methods to a qualitative information study.

Another justification for the use of inductive reasoning in the qualitative research style is expressed by Kakulu (2008: 1), who states that whenever a field of study or exploration is mostly subject to investigation, and relevant recorded philosophies to make theories do not exist, this type of research might start off with an introduction. It could start by collecting the evidence and later attempt to discover certain evidence in a method recognised as being inductively perceptive. Moreover, Creswell (2009c: 175) confirms that qualitative research is built on an inductive process, whereby the research construct encourages the formation of groups and themes from the "bottom up" by way of organising the information into more "abstract units of information".

4.2.2. Research Strategy: Qualitative Research Style

> "Qualitative business research is a research that addresses business objectives through techniques that allow the researcher to provide elaborated interpretations of market phenomena without depending on numerical measurement. Its focus is on discovering true inner meaning and new insights." (Zikmud et al., 2013b: 132)

Another definition for qualitative research states that:

> "Qualitative research is a situated activity that locates the observer of the world. It consists of a set of interpretive, material practices that makes the world visible. This means that qualitative researchers study things in their natural settings, attempting to make sense of, or to interpret, phenomena in terms of the meanings people bring to them." (Denzin and Lincoln, 2000: 3)

Finally, Strauss and Corbin (1998: 11) define qualitative research in another very succinct way, saying that: "by the term qualitative research, we mean any type of research that produces findings not arrived at by statistical procedures or other means of quantification." In the context of the current study, the author believes that a qualitative research strategy is the most appropriate approach to take for studying banking and finance. This is because researchers in this particular field of finance require the exploration of facts and explanation for the causes, and in this regard, therefore, the qualitative method will serve better to help elucidate complex problems. Consequently, the study followed a qualitative style to achieve the general purposes of the research.

Quantitative Research vs Qualitative Research

The debate as to whether researchers should adopt the quantitative or the qualitative research strategy has been fierce and continuous. Many authors differentiate between the usages of both. In the end, however, the choice comes down to what type of research is being conducted. Furthermore, specifically, the student from the start should ask herself this primary question: *which research strategy would best help find reliable and accurate* *answers to my SQs and RQs in order to gather data and analyse it, and to generate results that are of use to the corpus of knowledge and the workplace/profession?* At this point, the researcher will be in a position to begin to know better which strategy is the more convenient and most appropriate for the purposes of the research.

In Figure 12, below, Hancock (2002a: 7) differentiates briefly between the different aspects of quantitative and qualitative research.

Reasoning for Minimising the Quantitative Approach & Methods

While some use is made of quantitative approaches in this Thesis, such as the construction of financial ratios, this is a subsidiary part of the research, because the nature of the research requires direct investigation among practitioners in the field of banking. More precisely, to have answers to the RQs, the research involved conducting interviews in order to be able to collect the data needed. For instance, if a questionnaire, as one method of collecting data in a quantitative approach was applied, participants would not necessarily give accurate and reliable answers, particularly when the core discussion is about banking regulations. Contrarily, in face-to-face interviews, responses to the RQs are relevant. In addition, considering the sensitivity of the data collected, the feedback and discussion of the respondents was thought to add significantly to the knowledge and findings of the research by exploring the gaps and deriving the findings. Besides, understanding the Lebanese system of banking management requires the use of a qualitative approach.

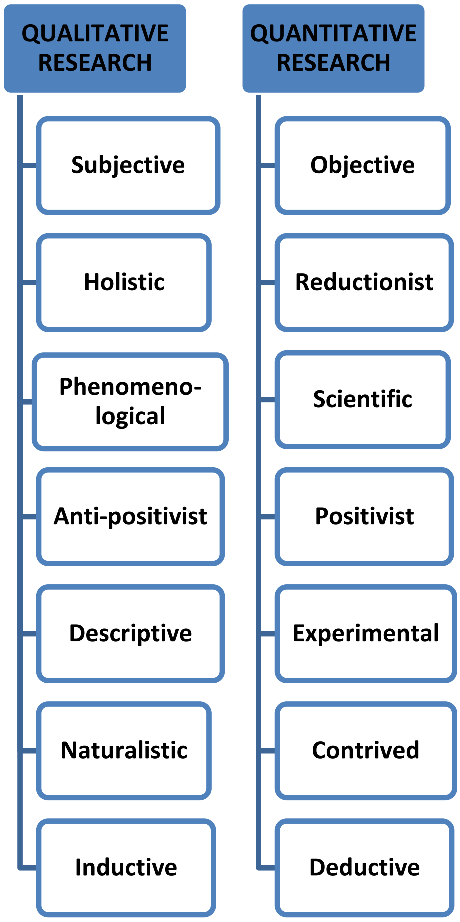

Figure 12: Comparison of Qualitative and Quantitative research terms (Sources: Hancock, 2002a: 7)

Hancock (2002b: 7) explains that every different characteristic of the qualitative study might be seen as either a strong point or a weak one; it is all subject to the initial research objective. The subsequent paragraph will discuss the pros and cons of choosing a qualitative research type. Creswell (2008: 3) clarifies the position by saying that, usually, the difference between qualitative and quantitative research is outlined by means of words in qualitative research instead of figures in quantitative research, or via “closed-ended questions” in quantitative theories instead of “open-ended questions” in qualitative interviews. Moreover, Sale and Lohfeld (2002: 50) conclude that the main problems between the quantitative vs qualitative argument concern the “ontological and epistemological”. For quantitative researchers, reality is the fact that defines a neutral truth, which is distinct from the viewer, and which is waiting to be revealed.

As to the strengths and limitations of qualitative research, Anderson (2010: 2) states that qualitative research has many advantages if carried out correctly. These advantages are that: problems can be checked in every specific aspect; interviews are not limited to particular inquiries and might be directed by the interviewer; research background and path could be rapidly reviewed when more recent data arises; the information established from personal knowledge which is acquired is influential and occasionally more convincing than quantitative information; information is generally gathered from a specific number of persons, hence results could not be theorised on a bigger sample. On the other side, Anderson continues listing the limitations of using qualitative research, which from his perspective are: the value of research is deeply reliant on the student's talents; it is harder to keep, analyse and prove the accuracy; because there is so much information, studying the data will be time consuming; the presence of the interviewer while collecting the information might influence the answers of the respondents; in an methodical society, quantitative research is sometimes better received and recognised than qualitative research; and problems related to "anonymity and confidentiality" might cause issues during the presentation of the results. Furthermore, Atieno (2009: 16) has explored the strengths and limitations of using the qualitative research method. Starting with the strengths, Atieno pointed out that qualitative research is adequate for facilitating and handling information to maintain difficulty and context; and states that the qualitative approach is very suitable for queries wherever "pre-emptive reduction" of the information will avoid detection and qualitative research is an appropriate answer to particular study requirements. Moving to the limitations, Atieno listed the following: the key drawback of qualitative methods according to him relates to the quantity of people in the study, in that the results cannot be extended to broaden the number of people while still maintaining a similar level of confidence, which quantitative studies are able to do. Second, uncertainties, which are "inherent in human language", could be evident in the investigation. Finally for Maxwell (2008: 233) qualitative examination will lead to a good differentiation since it is not essential to put the information into a limited number of categorisations. Furthermore, Maxwell asserts, in the same place that among the problems of drafting qualitative research, is the extent to which the researcher must try to structure her techniques. Structured methods might assist in confirming the comparison of the data through "sources and researchers" and hence are mainly beneficial in replying to different inquiries. To the contrary, "unstructured approaches" allow the interviewer to emphasise specific considered phenomena; "they trade generalisability and comparability for internal validity and contextual understanding".

It is appreciated that the limitations of the qualitative research style mentioned above could impact this research in terms of both the confidentiality and uncertainty noted above. This means that the interviewer must identify any lack of confidence or uncertainty the interviewee displays, and/or notice if there is a sense that the interviewees (or the researcher) are not feeling fully confident, for whatever reason, in what they are discussing.

4.3. Data Collection Methods: Semi-Structured Interviews

Qualitative data can be collected by using one, two or all three methods, that is, by carrying out interviews, focus groups and observation.

The current research is based on the collection of qualitative data using the interview method, more specifically the semi-structured interview method, as this was felt to be the most suitable qualitative data-collection method for this study. As explained by Pathak and Intratat (2012: 4), "semi-structured interviews are used when the research would benefit from a fairly open framework". The same authors go on to explain that "this form of interview technique is also used when more useful information can be obtained from focused yet conversational two-way communication with the participants". Justification for choosing this means to collect the data is presented by Hancock et al. (2009: 16). Here, the authors state that qualitative researchers generally use "semi-structured interviews", which include "open ended questions" according to the subject field the researcher is looking to discuss. The "open-ended"-type question describes the subject to be examined while nevertheless offering chances for the evaluator and applicant to talk deeply about particular subjects. Should the respondent have trouble in replying to a particular question, or if the respondent replies with a short answer, the interviewer might employ hints or stimuli to motivate the respondent to think more about the question in hand. In addition, in a “semi-structured interview”, the interviewer is free to question the respondent to tease out details about a unique reply or to proceed with a set of questions prompted by the respondent’s reply.

In general, interviews can be either highly structured, semi-structured or unstructured. With regard to this, Hancock (2002c: 9–10) elucidates on the difference between the three types of interviews: during *structured interviews*, the interviewer uses a similar set of questions for every interviewee without changing technique and/or method. During *semi-structured interviews,* which are occasionally called “focused interviews”, a sequence of “open-ended questions” are asked according to the research subjects the interviewer wishes to discuss. The interviewer conducts the interview with the intention to discuss only a few subjects, occasionally limited to only one or two, and structures the questions based on the earlier answer given by the respondent. Finally, Hancock emphasises an important point: “semi structured interviews should not be seen as a soft option requiring little forethought. Good quality qualitative interviews are the result of rigorous preparation”. The final part of the former statement is the case for the current research. Bernard (2013a: 182) presents an alternative view of the use of semi-structured interviewing. He maintains that this research type is suitable in the event that the interviewer cannot meet with the interviewee more than once. In the current research, adopting a semi-structured interview technique was considered better. Bernard emphasises that semi-structured interviews are a popular technique for projects where the researcher is working with senior managers, elite members and bureaucrats, which is a point that specifically relates to the current study.

4.4. Data Collection

This section aims to explain the data collection process in detail and to describe the process of the interviews, which are the source of the data used for the analysis set out in this thesis.

The data was gathered by conducting twelve semi-structured interviews. All of the interviews were conducted in Beirut, Lebanon, during July and August 2016.

Contacting the Interviewees constituted the first step. Due to the positions of seniority of the potential interviewees, requests and acceptances for meetings were not easy to book into diaries. Appendix 2 presents a sample of the email sent to all prospective interviewees to request a meeting. Once the meeting was confirmed, the second step was to provide the Interviewee or his/her assistant with a letter explaining the purpose of the meeting, describing the subject area, and reminding them of their rights and obligations during the interview. There is a sample of the letter sent out to confirm interviews with interviewees in Appendix 3.

A number of interviewees requested the interview schedule (Questionnaire) in advance (Appendix 4) to enable them to prepare the answers; however, most interviewees preferred ad hoc discussion without any in advance information.

Once the researcher arrived at the premises where the interview was to take place, having introduced the researcher's profile and communicated to the respondent any information they needed to know prior to commencing the interview, each participant was requested to sign a Consent Form as per Appendix 7. Hard copies of all Consent Forms have been stored securely and are available for checking by the University at any time. In Document 3, two types of Consent Forms (A and B) were presented. This is because some interviewees chose not to disclose their name while others did do so; however, neither Document 3 nor Document 5 disclose the names of interviewees as all interviewee names have been anonymised. Due to the sensitivity of the data used in Document 5 (as in Document 3) sometimes interviewees had concerns and did not feel 100 per cent comfortable during the interviews. Therefore, would any of the respondents have shared their thoughts and data had they feared that either their personal name or the name of their institution would be revealed in the final research? Being assured that every piece of information gathered was for the purposes of the research gave the interviewees confidence, which was essential to getting a value-laden and successful interview.

The interviews conducted were not tape-recorded because it was impossible to do so in an environment like Lebanon, where the culture does not encourage students to record data collected during interviews. In order to further clarify this point, asking to tape-record an interview would simply put the student in a position that either the interview will be directly stopped or that the data provided by the interviewee would simply be "theoretical" and book-based, which was not the aim of the research. The aim of the current research is some way off current theories in practice. So, with regard to the media used for recording the interviews, the task was a difficult one that meant the student had to take sufficient, accurate notes during the interviews. All of the interviewees without exception were very supportive and patient and graciously gave the researcher enough time to take notes. In order not to miss any data, transcripts were written by hand the same day, or the next day at the latest. All hard copies of notes from the interviews have been securely stored away as records and, in addition, all transcripts written in the form of questions & answers are available for examination by Nottingham Business School, Nottingham Trent University.

Arriving at the analysis stage, the most relevant and/or important statements were grouped under different themes (headings) and within each theme several related gaps were identified. A detailed explanation of the analysis is provided in Chapter 5.

To sum up, Figure 13, below, describes the data-collection process with reference to appendixes 2, 3, 4, 5, 6 and 7:

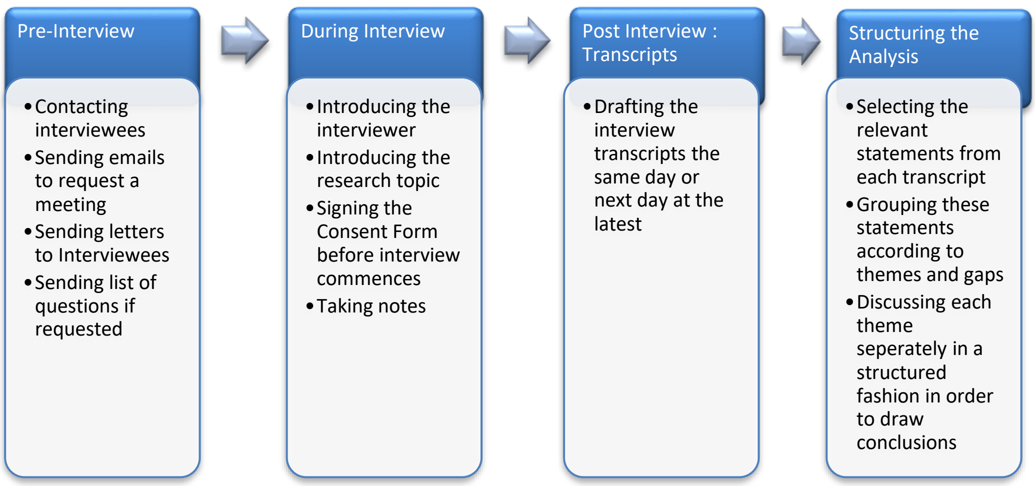

Figure 13: Describing the data-collection process

4.5. Identification of the Interviewees

In this section, the twelve interview participants are identified under their pseudonyms since all of the interviewees were informed that they would remain anonymous.

In addition, participants have been split into six categories according to their professional profile as set out below:

- CB: people working in commercial banks
- S: people working in a supervisory authority (prudential supervision)
- BA: people working in a banking authority (behavioural supervision)
- GA: people working in a government authority
- IIS: people working in an international Institution for Supervision
- PO: people working in a public organisation (financial institution)

Having access to high-level participants was very important to the research. This is because the interviewee's expertise and high-level of knowledge are seen as assets that validate the research findings. With regard to this, Appendix 5 represents the interviewees' profiles together with their pseudonyms, describing briefly the nature of their institution's business without mentioning its name. In addition, a short profile for each interviewee is provided without alluding to anything that could clearly identify the interviewee's actual name. Appendix 6 includes information about the interviewee and the duration of each interview, the medium used to record the interview, the place/date/time of the interview, the language employed throughout the interview and a brief note about the quality of the interview.

Figure 14 (below) lists the interviewee's pseudonyms and their institutions (eleven males and one female working in Lebanon; plus one man working in UAE who is the exception) followed by an abbreviation of the type of institution they work for (as defined above). This data that will be used in the analysis given in Chapter 5:

Name	Institution	Abbreviation
Jhonny	Commercial Bank	CB
Robert	Commercial Bank	CB
Sam	Commercial Bank	CB
Paul	Commercial Bank	CB
Roger	Banking Authority (behavioural supervision)	BA
Carlos	Government Authority	GA
Michael	international Institution for Supervision	IIS
William	Government Authority	GA
Harry	public organisation (financial institution)	PO
Emma	international Institution for Supervision	IIS
Charlie	Supervision (prudential supervision)	S
Leo	Supervision (prudential supervision)	S

Figure 14: List of interviewees and their institutions

4.6. Reliability and Validity

In this section, the aim is to understand the meaning of reliability and validity; hence, it is important to present the different definitions of reliability and validity suggested by various qualitative scientists. In addition, the context in which reliability and validity has been demonstrated in context during this research is presented.

The importance of maintaining validity and reliability while carrying out research is examined by Golafshani (2003: 602), who states that whether the concerns of “reliability, validity, trustworthiness, quality and rigor” are signified, distinguishing a good from a poor study before experimenting, and raising “the reliability, validity, trustworthiness, quality and rigor” is significant to the study in whatever model.

Patton (2002a: 94), defines reliability as the level to which the result is autonomous of the unplanned conditions of the study. Bernard (2013b: 46) describes reliability as the possibility of having similar responses when trying to measure something more than once. For this research, reliability has been achieved, since the research used casual samples (different interviewees) and suitable sample sizes. The research avoided bias and was conducted by a research student who was not influenced by any financial means or the need to achieve specific outcomes.

Moving to validity, the strength of the research is based more on its validity than its reliability, because the size of the sample used for data collection is so small. The validity of the results or information is usually assumed to refer to the “correctness” or “precision” of the study’s analysis (Ritchie and Lewis, 2003: 273). Bryman and Bell (2011e: 42–43) define validity as a feature that takes into consideration the honesty of the assumptions that are produced from the study. Bryman and Bell present various types of validity which are: “measurement validity or construct validity”, concerned with the question that shows whether or not a quantity which is developed of an idea actually does reveal the idea that it is thought to be designating; “internal validity”, which takes into consideration the “yes” or “no” question with an assumption that it includes a cause-and-effect association between two or more factors; “external validity”, which is concerned with the outcomes of the “yes” or “no” questions of the research, which could in general delve further than the precise study context; and lastly “ecological validity”, which takes into consideration the “yes” or “no” questions in relation to societal knowledge, in terms of whether the results are valid to the daily, normal societal surroundings of the public.

“Validity is a property of knowledge and not methods. No matter whether knowledge comes from an ethnography or an experiment, we may still ask the same kind of questions about the ways in which that knowledge is valid” (Patton, 2002b: 587). Validity was realised in the current research by presenting a carefully designed study and offering outcomes that are suitable for generalisation across the population of interest.

4.7. Limitations and Delimitations of the Research Methodologies

This section identifies the limitations in relation to the research methodologies used. Additionally, it defines the delimitation of this research study.

According to Simon and Goes (2013a: 1), limitations are difficulties and incidences that occur during research and over which the student does not have any control. Limitations create boundaries to the capacity of the research; its reach might be impeded, and occasionally the outcomes and conclusions are affected. Every research project is subject to limitations, even when it has been well designed, built, and carried out. The limitations of the current research include the following points:

1. Analysis – The analysis could face limitations because of the availability of material disclosed during the data collection process.
2. Type of reporting – Self-reported data is limited by the fact that it is difficult to corroborate. Note-taking, rather than a tape-recorded interview recorded what interviewees said during the interviews.
3. Utilisation of methods – This concerns the semi-structured interview technique as the method employed for data collection for the qualitative research. One limitation of this method is that sometimes the complexity of qualitative data can make it quite difficult to study.
4. Sample – This relates to the number of interviews conducted. Twelve interviews constitute a good number for qualitative research. The sample size is less relevant to qualitative research and tends more to be the focus of students conducting quantitative research.
5. Time limits – This relates to the research being carried out over a specific interval of time and the interrelationships with circumstances occurring at that same time. In the research study, the assumption is that events which occurred during the research period did not have any effect on the results of the research.

From another stance, Simon and Goes (2013b: 3) discuss the delimitations of a research project and define these as the features that come about due to the limitations of the research and through awareness of the “exclusionary and inclusionary” choices completed throughout the progress of the research strategy. Contrary to limitations that come from the implied features of technique and strategy, the delimitations derive from the definitive choices of the researcher. Amid these are the purposes and inquiries, “variables of interest”, the selection of hypothetical outlooks that were assumed, the model, the method, the hypothetical background and the selection of applicants.

When considering the delimitations of the current research, the following points are significant:

5. Emergent topics, open arguments not yet examined

   Since any single research study cannot possibly cover all aspects that readers may assume it should, certainly there is room for other research studies to take on alternative topics that have emerged from the current research, to continue with some of the lines of argument assumed here, to take up some of the thoughts elicited from the interviewees, and ideas that have been only briefly explored.

6. Literature review uncovered

   Any literature review for conducted study is subject to enhancements and developments, because the world of literature review sources (e.g. journal articles, books, book chapters, previous research papers, etc.) is unlimited, and a researcher can always add to her list of references.

7. Sample not examined

   The sample is limited to twelve interviewees (eleven men and one woman working in Lebanon; plus one man working in UAE who is the exception) from whom data was collected for the qualitative research.

8. Methodological methods not employed

   Since the research contained in this thesis is based on a qualitative study using the semi-structured interview method for data collection, all quantitative methods used for data collection have been excluded from the research.

4.8. Ethical Considerations

This section discusses the ethical stance the current research took and its implications. First, ethics in qualitative research will be defined; following that, an explanation of the ethical approval process conducted for this thesis and the ethical responsibilities of the research student/author are described. Finally, in the final section, the better known ethical principles and ethical organisations and institutions will be presented and discussed.

“Ethics concerns the morality of human conduct. In relation to social research, it refers to the moral deliberation, choice and accountability on the part of researchers throughout the research process” (Miller et al., 2012: 14). Walton (2016: 1) has defined ethics in research by stating that research ethics is concerned precisely with the examination of ethical problems which are evoked whenever people are participating as applicants in a study. Research ethics include three goals: The primary goal is to defend the applicants; second is to ensure that the study approach is conducted in such a way as to protect and enhance the welfare of the people and association it is researching about, and safeguard the wider community in general. The third goal is for researchers to study precise actions and strategies and to have put in place specific plans to ensure ethical correctness, including making sure that issues such as managing risk, defending privacy and the procedure of “informed consent” are all understood and followed through to the letter.

Ethics in qualitative research is subject to various problems. In this area of ethics, Orb et al. (2001: 93) explain that the ethical issues that concern qualitative study are delicate and diverse in comparison to the issues that exist in quantitative study. For instance, possible ethical struggles occur in respect of the manner in which a researcher gains the right of entry to a public cluster and the influences the researcher might assert on applicants while there.

It should be noted that an English proofreader has corrected the language and grammar of Documents 5 and 6 to ensure that errors in this regard made by the student, whose first language is not English, were corrected. This is to enhance the ease of reading by Supervisors, Examiners and readers in general.

4.8.1. The Ethical Approval Process for the Thesis

Respecting and abiding by the ethical standards expected in research by researchers is essential. The researcher should conduct the research based on a covenant of trust and in the full awareness of her social responsibility. In order to fulfil all of the requirements of ethics for the purposes of the current DBA research, the student has followed the code of conduct set out by Nottingham Trent University (NTU). In this regard, an ethical approval form has been completed and signed.

The researcher has taken every care to meet to the highest standards of two critical ethical aspects of this research, that is, to protect and respect her respondents. The breach of confidentiality and anonymity would constitute the most serious unethical practise were they not well managed. The interviewees were informed of their right to confidentiality and anonymity through the letter that was distributed among respondents. This is available in Appendix 3 “Letter to the Interviewee”.

Considering the sensitivity of the banking sector in Lebanon, assuring the interviewees who shared information that their data would be treated with the utmost care and that it would remain confidential without mention of their names, allowed the respondents to feel more comfortable during the interview. Accordingly, a “Consent Form” (Appendix 7) was signed by each interviewee prior to the interview commencing. Fisher (2010: 80) explains this, stating that the interviewer must clarify the position about confidentiality and anonymity with respondents and confirm that the research will not disclose names, but identify their input by using “pseudonyms”.

Documents 1 and 2 did not require the completion of ethical approval forms. Documents 3 and 4, however, did require the completion of ethical approval form A before conducting the research. These forms were duly filed and approved. For Document 5, the completion of ethical approval Form B is required; this form was duly completed and signed by the student, approved by the supervisor and the programme leader and made available for the examiners to review.

Smith (2003: 1) offers the American Psychological Association (APA) Ethics Code for Research. This contains five recommendations to assist researchers in reaching the high standards expected of them:

- “Discuss intellectual property frankly”
- “Be conscious of multiple roles”
- “Follow informed-consent rules”
- “Respect confidentiality and privacy”
- “Tap into ethics resources”

Nevertheless, useful though it is, ethical practices engage with a lot more than abiding by a list of standard procedures. Creswell (2009b: 88–91), for example, sees ethical issues in the very heart of the “research problem” (in the identified “gap”) itself, and in the purpose of the research and the research questions, in the data collection and in the data analysis and interpretation. To elaborate briefly on each of the points Creswell highlights, ethical issues of the research involves discussing and identifying the “gap”; but this initial identification, analysis and interpretation must be of benefit to individuals, communities, organisations, and hence to a wide range of readers/users, and not to the researcher alone. Ethical issues in the purpose of the research and the questions being explored occurs when deception leads to a different understanding of the purpose of the research (or of the questions asked) between the respondents and the researcher. Additionally, ethics in data collection concerns “respect for the participants and the sites for the research”; and, finally, ethics in data analysis and interpretation concerns analysis of the data collected (it should be conducted on the basis of ensuring anonymity), storing the records of the data securely for a period of time, and providing an accurate amount of data.

Another issue to consider concerns the medium used to record the interviews. The interviews for this research were not tape-recorded because, as discussed in more detail above (p. 79), obtaining approval to voice record any of the interviews would have proved to be very difficult, due to the cultural limitations briefly discussed above and below. Hence, to both respect the rights of interviewees and also to respect the cultural environment, hand-written note-taking was employed to record the content of the interview discussions.

CHAPTER FIVE

DISCUSSION OF THE FINDINGS BY THEMES

Before proceeding with the analysis of the qualitative data retrieved from the interviews, it is key to recall the gaps that emerged previously in the qualitative research of Document 3. The DBA, being a learning journey, logically links together all documents that make up the final thesis; and this explains why Document 5 utilises the qualitative research methodology studied and practised in Document 3. More specifically the current document, which employs the same methodology to collect data from the interviews as Document 3, demonstrates the emergence and then evolution of the gaps/barriers between Document 3 and Document 5.

It should be noted that the author's interjections have been differentiated from the interviewees' statements throughout, by the use of roman type inside square brackets, where appropriate, in the narratives of interviewees' comments.

Below are the six gaps that were discussed in Document 3:

- Gap #1 Arab Spring and the financial crisis
- Gap #2 Cost to the financial system
- Gap #3 Role of the supervisors during the Arab Spring and tools applied
- Gap #4 Factors of financial resilience
- Gap #5 The lessons learned
- Gap #6 Best practices in the US and EU

GAP #1 Arab Spring and the financial crisis

Sub-Gap #1 (CAR): banks tend to operate with the minimum amount of capital required because this minimum will maximise their Return on Equity (ROE) and consequently maximise their Earnings per Share (EPS). Basel III stated that when operating with a minimum capital base, in the event of a crisis, banks are going to be below that minimum. Therefore, investors will lose confidence in this capital. Basel III aimed to create an area above that minimum, thereby ensuring that in case of any loss, banks would still be able to operate above the minimum required.

Sub-Gap #2 (LCR): The issue of how the liquidity ratio of banks should be applied according to Basel III is under discussion by the BCCL (Banking Control Commission of Lebanon). The banks are waiting for the regulators' decision to address the issue of liquidity held by banks, although, currently, already the orientation seems to be towards regulations based on best banking practices.

GAP #2 Cost to the financial system

Although the effects of the Arab Spring on the Lebanese banking sector were only minor, undeniably the effect on the economy of the country as a whole was a lot more hard-hitting. The result of this was that it raised significant awareness about the challenge of maintaining a robust environment in the banking system to ensure financial stability in Lebanon as a country. In short, it showed how the banking industry was influenced by financial instability, or a lack of it, in the country and in the region, and how the country was reliant on the stability of the banks. The overall effect of the Arab Spring, actually, was to demonstrate how co-dependent banks and the nation are on each other, and how important financial regulations are to protect the country from falling foul of a financial crisis through poor regulation of the finance and banking sectors.

GAP#3 Role of the supervisors during the Arab Spring and tools applied

Sub-Gap #1 Case of Egypt

Good risk-management involves carrying out stress testing.

Sub-Gap #2 Case of Syria

The main tool used by banks in Lebanon to cope with the advent of the Arab Spring was to act immediately with a standard set of provisions.

GAP #4 Factors of financial resilience

The main indicators of a resilient bank are "confidence", the immunity of the system and finally an effective set of rules and regulations.

GAP #5 Lessons learned and best practices in the United States and the European Union

A review of the international standards, looking at how they can be customised to complement the Lebanese supervisory system, so that this becomes the best supervisory tool to meet the needs of the modern banking sector in Lebanon, is the most important and pressing task ahead for the BDL.

5.1. Analysis and Interpretation of Empirical Data

In relation to the gaps revealed in Document 3, Document 5 discusses the emergence of a set of new challenging gaps. This document classifies the gaps by sorting them into five umbrella themes which relate to the strategic and research questions.

The chart below (Figure 15) shows the process of analysing the data:

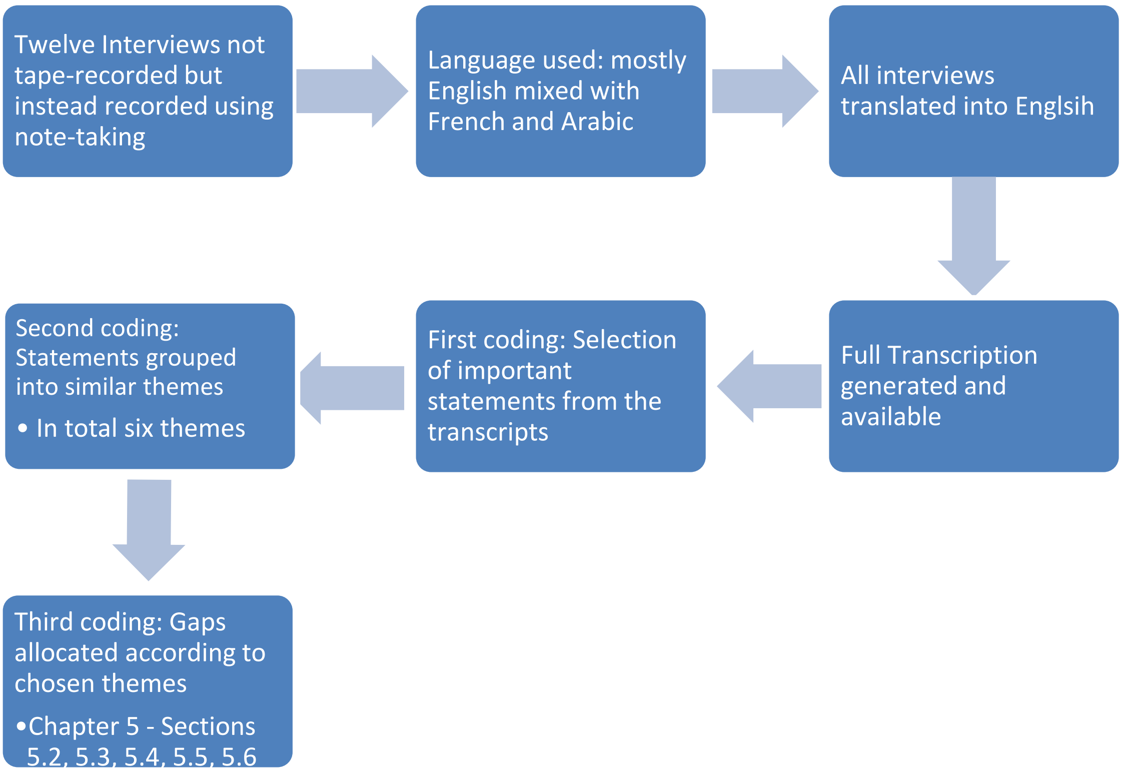

Figure 15: Process of analysing the research data

Furthermore, the data has been analysed and is presented as follows. From the outcome of the interviews many gaps were derived. Accordingly, these gaps were divided into five themes that match the aspects seen in the conceptual framework. The gaps were then allocated to themes, according to which the RQs could be answered. Under each gap, interviewees' statements are presented in *Italic*. Following the statements of each interviewee about each gap the conclusions are then addressed, and this is followed by discussion from the researcher's point of view from an analytical perspective. Bearing in mind that individual interviewees' statements do not cover all of the gaps, sometimes individual respondent's statements are brought together to address a particular gap. Occasionally, therefore, a focus on the same participants in relation to the same gap is due to the fact that some interviewees may hold greater expertise than his or her colleagues, depending on the theme under discussion.

5.2. THEME 1: Financial Stability, Resilience and Continuity of the Lebanese Banking Sector

In relation to:

- *RQ 1.1 "What currently are the main characteristics of the Lebanese banking sector?"*
- *RQ 2.1 "What are the main indicators for resiliency, stability and continuity?"*

GAP A:

Determining the Lebanese banking sector's diverse characteristics – *RQ 1.1*

Conceptual Framework: Characteristics of the Lebanese banking sector

In view of the fact that the first gap to be discussed in the analysis is a general and broad one, the introduction that follows below will provide context by describing the characteristics of the Lebanese banking sector and introducing the views of the interviewees. A deeper analysis into each of the five gaps and other aspects of the research will then follow in a similar vein.

The focus on different facets of the Lebanese banking sector's unique nature varied from one interviewee to another, demonstrating that what is important to one person might not be important to another. However, there were common features of agreement among many interviewees. The characteristics of the Lebanese banking sector, sorted according to relevance to the topic discussed by interviewees, are presented below.

Customer deposits are a prime characteristic of the Lebanese banking industry according to Paul (CB), who stated that *customers' deposits to the bank constitute three times the country's GDP.* Taking the same line of reasoning, Robert (CB) said that *the Lebanese banking sector is highly liquid due to high deposits.* In this regard, Robert (CB) emphasised *that the money flow received from the diaspora in the Gulf Corporation Council (GCC) is the main indicator of the strength of customer deposits.* Moreover, Jhonny (CB) stressed that *confidence in the BDL is an important feature for the stability of the Lebanese banks.*

From a supervisory point of view, Leo (S) described the banking sector in Lebanon as *a fully dollarised sector where more than 64 per cent of banks' deposits are in US Dollars.*

Robert (CB) mentioned that *the Lebanese banks are well capitalised in [relation to] Basel II and Basel III.* Jhonny (CB) underlined that *despite difficulties experienced in Lebanon* [e.g. the consequences of the Arab Spring], *the banks recorded a good track record as regards management where total Assets reached US$184bn (end of May 2016), equivalent to 360 per cent of Lebanon's GDP;* this led Paul (CB) to say that a *prudent and conservative regulatory body is one of the main characteristics of the Lebanese banking sector*.

Aside from the comments above, Sam (CB) thought *that the established banks, up against a free market entrance for any new bank are subject to too much competition, customers have 20 choices to move from one bank to another.*

Looking at the positive side, Robert (CB) added *that a well-tested banking sector with proven ability to absorb political shocks constitutes the core feature of the Lebanese banking sector*. Similarly, Jhonny (CB) emphasised that it was *the stability of the Lebanese currency that helped in the setting up of a robust banking sector*.

To the contrary, a number of negative elements were brought up by Leo (S). He was concerned that *the Lebanese banking sector is suffering from a high level of sovereign exposure in a country with a high-level budget deficit; in addition, since the Lebanese market is relatively small, it has limited activities.*

(Michael – IIS) offered reassurance, saying that *the role of the BDL itself is what makes the Lebanese banking sector unique. The BDL* [supervisory role] *is much stronger than other countries and has strengths in supporting commercial banks*.

(Carlos – GA) pointed to the robustness of the Lebanese banking model: *Trust in the banking sector, its excellent reputation, a solid and reliable sector, are the essential characteristics of the Lebanese banking sector. Moreover, the strength of the banking sector is purely economic*. Harry (PO), on the other hand, focused on some other specifics. For example, *the Lebanese banking sector is protecting both the public and the private sector in Lebanon and it is the main component of the private sector.*

Robert (CB) emphasised the fact that *economic growth in Lebanon is almost null; therefore, the lending market is saturated leading to a low ratio of loans/deposits*. Emma (IIS) explained this phenomenon further, stating that *the loan/deposit ratio is low because banks mostly invest in government papers (TBs) in a very small market; consequently, banks don't lend a lot because they are very conservative and the market is too small for them to lend*. Contradicting this point of view, Jhonny (CB) assumed the position that *the Lebanese banking sector enjoys the best loan/deposits ratio in the world, equivalent to 36 per cent.*

By way of a comparison with the results described above against those recorded in Document 3, when the same question was asked, are the following:

> Paul (BA) listed many factors, including the *superior quality of human resources, programmes of continuous professional training, private ownership, which have proved to be successful Lebanese' arms in the diaspora, and allowed the sector to expand in different markets abroad*.

Maria (CB) shared this opinion saying that: *the uniqueness of the banking sector in Lebanon comes from a good reputation and management, its privately owned-sector history, no exchange control, banks' ownership, based on families, confidence, and the liberal economy.*

From Theme#1, Gap A, the following conclusions can be drawn:

- It is relevant to the argument to understand why the Lebanese banking sector is highly liquid. Actually, liquidity is maintained at high levels in Lebanese banks because of the relatively low loans/deposits ratio; therefore, the Lebanese banking sector is highly liquid at the loans level, but, since the market is small, it is already a saturated market for banks in terms of their lending.
- The main characteristics of the Lebanese banking sector are its high level of customer deposits, high liquidity, a well-capitalised banking sector and a conservative approach to managing banking operations.
- Finally, interviewees agreed that, in order to increase the loan/deposit ratio, banks should focus more on financing.

GAP B:

Indicators of a resilient, stable banking sector: Relevance and controversial points of view – *RQ 2.1*

Conceptual Framework: Resilience, continuity and financial stability in banking

According to Jhonny (CB), the indicators for resiliency and continuity in the Lebanese banking sector are the following: *the banking sector continues to attract deposits to enable it to lend to sectors, and the sector is still able to finance the fiscal deficit, to support the BDL in FC* [foreign currency] *and still maintain high liquidity.* From the other side, Robert (CB) identified the same indicators, as follows: *political stability in the long-term and continuous influence of deposits, because without deposits banks can't invest, and continuous commitment from shareholders.* Another point of view is taken by Sam (CB), who listed the same indicators, including an*: inflow of cash from the diaspora, trust in the*

Lebanese banking sector, trust in the governor of the Central Bank, the history of the banking sector – since Lebanon has been 40 years in crisis and out of these, 15 years were due to war – thus that means that all banks are still growing; and, finally, trust in the Lebanese bankers and their know-how.

A number of interviewees provided a deep prudential answer for *RQ 2.1*. As such, Paul (CB) noted that the indicators for resiliency and continuity and financial stability are: *to have profitability ratios above 1 per cent, to have ROE above 15 per cent, to have loans/deposits around 14 per cent* [ratio for studying bank liquidity; if it is too high, the bank may not have enough liquidity to cover fund requirements, and if the ratio is too low, the bank might not be making as much profit as it could be]*, to have an average spread above 2.5 per cent, to have a CAR above 14 per cent, to have a comfortable level of liquidity in FC to enable the bank to survive hard times, to have at least 75 per cent of the fixed positions in FC allowed by the regulatory authorities and to have a ratio for cost/income of around 50 per cent.*

Furthermore, a number of straightforward answers were given by other participants. For instance, Roger (BA) believed that, in order *to have resiliency and stability and to maintain continuity in the banking sector, banks should aim at sustainable growth and aim to preserve capital adequacy and profitability.* Meanwhile, Harry (PO) noted that *trust is the key indicator for Lebanese banks to maintain their resiliency, stability and continuity.* Whereas, Carlos (GA) summed up nicely what he believed the indicators for resiliency and continuity in the Lebanese banking are: *political stability, security stability and diaspora remittances*.

Other feedback on this issue was framed differently. Emma (IIS), for instance, stated emphatically that *abiding by international banking prudential regulations is the main indictor for resiliency.* In addition, William (GA) believed *that economic resiliency relied on a closed cycle that constitutes the banking sector, the private sector where the internal Lebanese investment is very low and inward transfers* [from the diaspora, which contributes US$7.5bn, that is, 60–65 per cent in real estate spending and 30–35 per cent on consumer items].

In mid-2015, “foreign deposit inflows”, which constitute the resiliency of the Lebanese economy, began to slow down. The banking sector in Lebanon historically has been very reliant on their trusted customer depositors, especially from the “Lebanese diaspora”, to accommodate the country’s economy with all its funding and capital requirements. Nevertheless, during 2015, growth in the customer deposits of the Lebanese banks began to stall: at the end of 2015, “the Balance of Payments (BoP)” stands at a shortfall of US$3.35bn, its highest level for five years (BlomInvest Bank sal, 2017: 3). Bankmed (2016: 2) furnishes this statistic with a bit more detail, stating that Lebanon is classified at number 16 among the countries that receive payments worldwide and is ranked number 11 among the emerging nations. In addition, Lebanon is positioned as the second largest recipient of such payments among the Arab states. Moreover, emigrants’ payments received by the Lebanese banking sector reached 15.9 per cent of the country’s GDP during 2015. Furthermore, Hourani (2005: 22) has emphasised the importance of the diaspora remittances to Lebanon, stating that overseas’ payments are “a safety net” and a support for Lebanese families during periods when the country has seen few developments and very rare favourable circumstances. The same author adds that transfers are necessary to the economy of Lebanon, because they facilitate the economic pressures of their receivers. In addition, they accelerate the receivers’ utilisation of products and services, financing education, the purchase of real estate, and economic financing.

A final statement declares that *strong liquidity and capital levels are the key indicators for resiliency, financial stability and continuity* (Charlie –S).

On the use of International standard regulations for maintaining financial stability in the Lebanese market, Charlie (S) added that *in the US, Basel II was written at the time when the economy was booming from 2000 until 2006; thus, expected loss was low and the required capital was low. While, Basel III was written at a time when the* [US] *economy was in recession; thus, expected loss was high and hence the required capital was high*.

In comparison to the results discussed above in this document, in Document 3, when interviewees were asked about what factors built up resistance of the banking sector, four quotes stand out:

> Adel (CB) emphasised *that the factors of a resilient bank are: high deposits, high liquidity, tied regulators at BDL*.
>
> While Carole (BA) believed that *failure of banks comes from two main things: confidence and liquidity. The main indicator of a resilient bank is "confidence."*
>
> Joseph (CB) in addition stated that the stand-out *factors of a resilient bank are: liquidity, solvency (CAR), high asset quality and strong income.*
>
> Leo (S) offered a different view, he considered liquidity as a resistance tool used by banks to maintain financial stability, describing liquidity as a "*killer-type of risk"; it is like a heart attack. We start banking with a liquidity mismatch; therefore, banks operate on account of their profitability.*

From Theme#1, GAP B, the following conclusions can be drawn:

- The main indicators for the stability, resiliency and continuity of the banking sector in Lebanon are: the influence of foreign depositors on the country's banking system, that is, cash received from the diaspora; trust in the leadership of the BDL; and the application of all International banking prudential regulations.
- The application of prudential regulation to maintain stability is key. Financial stability can be achieved by ensuring an active macro-prudential policy, to monitor how well financial institutions are performing, focused on the general health of the financial system.

5.3. THEME 2: Mitigating Financial Risk in the Banking Sector through Regulation

In relation to:

- *RQ 1.2 "How can the interrelationships and impact of an economic recession on banking regulations in Lebanon be determined?"*
- *RQ 2.2 "How did Lebanon manage to preserve the stability and continuity of the banks when all economic indicators were weak?"*
- *RQ 2.3 "What are the strengths and weakness that impact the Lebanese banking sector?"*

GAP C:

The existence of a direct or indirect interrelationship between economic recession and banking regulations – *RQ 1.2*

Conceptual Framework: Banking regulations amid recession and crisis

Gap C discusses the research question to explore whether there is an interrelationship between recession and banking regulation (*RQ 1.2*). Put another way, the thesis investigates whether the BDL needs to make any alterations to the prudential banking regulations to enable it to better cope with new market challenges, and to avoid any upcoming financial risks whenever there is a slowdown in the economy. Additionally, this gap examines if bankers, regulators and supervisory authorities are making their assessments with due respect for the importance of the link between enhancing banking regulations, in order to be able to meet whatever is happening in the country from recession or crisis at any given time.

In this regard, below are suggestions from the interviewees around this topic.

Robert (CB) said that, *yes, there is a relationship between recession and banking regulations and the BDL is playing the main role.* Taking the same view, Carlos (GA) also believed that *there is a direct relationship between economic recession and banking regulations.* Furthermore, Emma (IIS) agreed that the relationship exists, stating that *the Lebanese* *banking sector is very active in terms of regulation. We can't afford to have issues in the sector. Whether there is a recession or not, prudential regulations have been improving over the years. Modifications to regulations are caused by International recessions and local ones*. Similarly, Harry (PO) supposed that *there is a strong relationship, because the banking sector is the engine of the economy.* Finally, Charlie (S) provided reassurance saying, *yes, there is a correlation between rules and regulations and economic recession. In general, any regulation brought in worldwide follows a severe crisis.*

Contrary to the views above, some of the other interviewees did not agree that there was a relationship between recession and banking regulation. For example, Paul (CB) affirmed *there is no major impact from recession on the Lebanese banking sector and its regulation, because it is protected, but there is an impact on individuals*. Sam (CB) confirmed as well that he sees *no direct relationship between banking regulations and recession and normally banking regulations should not be tightly bound to boosting the market during a recession. As an example of the link between recession and banking regulations and its importance, the BDL during a recession, in order not to defraud their customers, imposed new regulations called "transparent regulations – circular#135" issued in 2015.* Additionally, Jhonny (CB) declared that *there is no relationship at all between economic recession and banking regulations in Lebanon because economic recession is due to both a poor business environment and a bad investment structure*. At the end of these statements, Roger (CB) also concurred that *Lebanese banking regulations are not affected by recession*.

There is a relationship between recession and banking regulation. Sarin and Summers (2016: 2) state that generally the assumption is that it is largely due to the supervisory modifications put down at the start of the great recession or financial crisis that the main monetary organisations in the US and worldwide are safer and more rigorous now than they were before the financial recession. Furthermore, Shrieves and Dahl (1995: 1) conclude that modifications to the regulatory area and the bank capital guideline, together with autonomous modifications in bankers' evaluations of the risk conditions, probably were responsible for a significant part of the credit tightening that took place during the period 1990–1991.

From Theme#2, Gap C, the following conclusions are drawn:

- There is a relationship between financial crisis and banking regulation. As a result, the evolution of the Basel III framework and its progress represents a set of International standard regulations that are responsive, which the regulators saw needed to be amended following market volatility. It should be noted that amendments to Basel II only came about following the occurrence of the subprime debacle in the US, when the banks were suffering heavy losses. It was then, accordingly, that a financial recession gave birth to new regulations: Basel III. Furthermore, quotations from the interviews analysis section of Document 3 shows how the gap has been evolving:
- From 2000 until 2009, the Basel Committee talked only about the quantity of capital the regulation allowed in the capital structure—which included Tier 1, upper Tier 2, lower Tier 2 and Tier 3—types of capital instruments that they viewed were not robust enough unlike the "hybrid instruments". In this sense, differentiating between quantity and quality of capital in banks is important. To enhance the bank's capital does not mean only to hold a greater capital amount, but also means that banks should concentrate on identifying the areas where this increase is needed.

GAP D:

How can banks mitigate risk in a tough economic environment? – *RQ 2.2*

Conceptual Framework: Absorbing risks to the banking sector

Gap D explores the ideas and thoughts of senior executive bankers and members of the regulatory and supervisory authorities about ways to mitigate financial risk in the Lebanese banking sector. Their responses are discussed in the subsequent paragraphs.

According to William (GA) *the Lebanese banking sector will remain the main pillar of the Lebanese economy.* Harry (PO) noted that *the two main factors for maintaining stability and continuity in banking, in a climate of weak economic indicators, are the diaspora and the US$7.5bn transfers to Lebanon*. Taking a similar view, Carlos (GA) confirmed that *diaspora transfers are key to preserving stability and continuity in the Lebanese banking* *sector during tough times*. Sharing the same opinion, Emma (IIS) stated that *in 2010 and 2011 Lebanon attracted a great number of deposits. This created a buffer for the Lebanese banking sector and this buffer was maintained even in times of stress. Also, Lebanese banks don't have deposit out-flows because of a strong and loyal diaspora and the very attractive yields paid in Lebanon.* Likewise, Michael (IIS) affirmed that *the Lebanese banking sector relies on the remittances from the diaspora.*

Another opinion assumes that *the BDL's role provides the main reason to explain how banking stability was preserved at times of turmoil; this is because it* [the BDL] *plays a predominant role with its regulations* Sam (CB). In this sense, Roger (CB) explained that *Lebanon was able to maintain stability in the banking sector because of the role played by the BDL, which intervened and provided assistance to banks, enabling the BDL to carry out a sort of financial engineering to lower the impact of the crisis. More specifically, the BDL acted as a buffer and offered incentives for banks to use it as such.* Furthermore, as Paul (CB) clarified: *the monetary policies helped the banks to preserve the financial sector. The BDL set ceiling ratios for banks to abide by. The Lebanese banking sector was helped by the operations of financial engineering promoted by the Lebanese TBs and conducted by the BDL, to support the banks in maintaining their resiliency.*

In reply to RQ 2.2 (How did Lebanon manage to preserve the stability and continuity of the banks when all economic indicators were weak?), some interviewees linked the ability to preserve stability to aspects of profitability. In this regard, Jhonny (CB) expressed that *in terms of profitability, banking has been stable. Ratios of ROAA* [Return on Average Assets calculated by dividing net income by average total assets and showing how efficiently any organisation is utilising its assets] *and ROAE* [Return on Average Equity – calculated by dividing net income by average total equity and showing how efficiently an organisation is utilising its equity] *are low ratios, and these ratios have not improved at all for the last two years.* Contrary to this view, Robert (CB) commented that the *profitability of banks is growing; this is due to the high interest rates being paid by the government in the debts on Euro Bonds, and, at the same time, the independence of the BDL from the government is also a major drive for the economic sector.*

In the same context, William (GA) raised a new concept, saying that *the financial regulations are protecting Lebanon in terms of risk evaluation and credit assessment. The main safeguard protecting the financial sector are the banking regulations.*

Charlie (S) introduced the additional terms "pro-cyclical" and "counter-cyclical", stating that: *use of counter-cyclical measures can reduce the implications of economic conditions to the financial sector.*

To summarise the statements above: some interviewees linked the mitigation of banking risks to the direct effect of diaspora transfers to Lebanon; others to the role played by the BDL; yet others to the profitability achieved by the Lebanese banks; others provided their own definition of the situation.

Some interviewees considered the capital *buffer* key to mitigating risks to banks. In this respect, Charlie (S) clarified the position: he said that *Lebanese banks have an additional buffer of 1.5 per cent more than Basel III stipulates, to cover Lebanon's specific type of risk*. He explained further that, *in line with Basel III and its counter-cyclical measure, the BCCL asked banks to maintain a Capital Conservation Buffer* [CCB] *of 2.5 per cent in 2011, when Lebanon experienced rapid economic growth. This was a type of extra precautionary planning put in place at a good time to face bad times in the future. BCCL decided in 2011 to increase the capital buffer from 8 per cent to 12 per cent* [a difference of 4%: 1.5% from the additional buffer and 2.5% from the CCB]. BIS (2016: 1) explains that the purpose of the counter-cyclical capital buffer is to guarantee that the capital necessities of the banking industry include the "macro-financial" background where banks function, according to the bank's own considerations. Its main goal is to employ a "buffer of capital" to reach a wider "macro-prudential" target, for defence of the banking industry from long periods of additional collective credit development.

And as Charlie (S) pointed out, *Basel III came about as a result of "counter-cyclicality"; however, the BDL applied what we call "pro-cyclicality'', meaning that in good times the BDL requests banks lower their capital and during bad times they increase their capital.*

From Theme#2, Gap D, the following conclusions are drawn:

- The BDL should adopt the counter-cyclical capital buffer (a technique aimed at protecting the banking industry from damages due to cyclical systematic risk, which are the risks of an economic cycle).
- The banking sector should be the shock-absorber and not the shock-amplifier, weighting a lot of diaspora remittances, and, hence, liquidity and profitability are not tools for shock-absorption. To further explain, the banking system acts as both an amplifier, in the event that there's a failure in the market, and a shock-absorber, whenever there is not a failure in the market, when it is stable.
- Maintaining a buffer is not the key factor to mitigate banking risks at times of recession. The interpretation is that this buffer, as discussed above, is only concerned with capital; and it is very important to realise here that this capital can be easily enhanced by banks when their shareholders help out by paying in money, which is sometimes generated by income from shareholders outside business sources, since they have adequate liquidity. Therefore, the quality of this 1.5 per cent additional buffer is questionable, particularly when it is noted that most Lebanese banks are owned by wealthy family shareholders and that, therefore, a cash injection into the bank's capital is the easiest way to enhance the capital and hence to achieve the buffer.

GAP E:

Weaknesses of the Lebanese Banking sector – *RQ 2.3*

Conceptual Framework: Maturity mismatch and high sovereign exposure

In Gap E, a very important aspect of the current research is explored. The discussion among interviewees set out below investigates the weaknesses and challenges faced by the Lebanese banking sector. The main weaknesses that were identified and researched are also presented.

In addition to the weaknesses to be discussed below in the following Sub-Gap E1 and Sub-Gap E2, interviewees identified various weaknesses in the Lebanese banking sector. These are as follows:

Leo (S) stated that he could identify *two weaknesses of the Lebanese banking sector: financial risk* [capital and liquidity, and a set of provisions] *and non-financial risks, since banks are trying to expand outside Lebanon.* As for William (GA), he considered that *the main weakness of the Lebanese banking sector is that they have many operating banks, amounting to 65, which spread the Lebanese banking operations in terms of quality and risks.* On the other hand, Paul (CB) assumed *that the Lebanese banking industry is suffering from two weaknesses: the level of automation and a lot of operating banks*. Roger (BA) identified many weaknesses, among these: the *influence of the remittances from the diaspora to Lebanon*, and *political influence over correspondent banking relationships.* In contrast Carlos (GA) took the point of view that *the main weakness of the Lebanese banking sector is the low credit rating of Lebanon.* In fact, banks with a low credit rating comes at a price, presenting a reputational risk. Accordingly, investments in the country will be impacted by the banking system's low credit score, because investors will not want to hold assets somewhere with a low credit rating and bear the risk.

Sub-Gap E1:

Large maturity mismatch in the consolidated Balance Sheet for the whole of the Lebanese banking sector

Robert (CB) pointed out the *Substantial maturity mismatch, due to Short Term deposits on the Liability side of the Consolidated Balance Sheet of the Lebanese banking sector*. Roger (BA) agreed with this point of view, saying that *the Lebanese banking sector has a main gap, created in the structure of the consolidated Lebanese banking balance sheet, causing a maturity mismatch.*

Note that none of the other interviewees disclosed anything further about this weakness; however, because of its importance, it was included in the analysis to be researched, and is presented below.

In a study for the maturity mismatch in the US banking system, Young et al. (2010: 2) considered a single cause of possible weakness in the commercial banking system:

"maturity mismatch". To solve this inconsistency, the authors sought to discover the actual maturity gap among "assets and liabilities". Even though banks' assets usually have extended time from liabilities, Young et al. discovered proof of an organisational disruption in the middle of the 1990s, during which equity marketplaces started valuing banks as comparatively "longer-funded". Groups of bank assets—for example "real estate loans and consumer loans" were seen as being efficiently "shorter-term".

The aim is to find a solution for this gap. In fact, this is typically the role and goal of Asset Liability Management (ALM). In this regard, Rao (2016: 1) explains that banks control the dangers and exposures of ALM discrepancy through several corresponding "assets and liabilities", given either the "maturity pattern" or the corresponding period, by using "hedging and securities". In addition, ALM is an effort to counterpart, according to delicacy, the "assets and liabilities in terms of maturities and interest rates", in order to decrease the risks derived from interest rates and liquidity.

Sub-Gap E2:

Extremely high sovereign exposure and its impacts on the banking sector: The main weakness of the Lebanese banking sector

A very interesting comment was put forward by one of the participants: *I do not see any weakness in the Lebanese banking industry except for the political conflicts, which mainly directly affect banking activities* (Harry – PO).

An important comment was communicated by Robert (CB), who warned that *the high level of exposure to risk in relation to the Lebanese government is the main weakness of the Lebanese banking sector. If the government defaults, the banking sector will default, so it is a fact that government is probably going to default, especially as there have been no serious reforms at the level of the economy and government. The BDL is the banking sector's biggest client*. Jhonny (CB) confirmed this, saying that *one of the main weaknesses is exposure to the sovereign sector. In total, 54 per cent of exposures held by commercial banks consist of exposure from the sovereign. BDL is the banking sector's largest customer:*

with a total exposure of US$70bn from commercial banks to the central bank. In addition, Roger (BA) stated that *if the country is downgraded, Lebanese banks will be automatically downgraded as well, due to the high exposure of the Lebanese banking sector in the sovereign.* Furthermore, Emma (IIS) agreed that *the exposure to the sovereign is the main weakness of the Lebanese banking sector.* Michael (IIS) added that *the banking sector in Lebanon has a lot of public sector exposure and a bit less private sector exposure, which is considered to be a weakness.*

In this regard, Roger (BA) provided reassurance, saying that *there is no interest either from inside or outside Lebanon to default on the banking sector.* Similarly, Jhonny (CB) said that *as long as the commercial banks lend to the government, the government will not default, because banks are the main lender to the Lebanese government.* However, the author of the current research does not concur with the statements of Roger and Jhonny. Corroborating with the author's disagreement with the two respondents (Jhonny and Roger), Robert (CB) stated: *I am optimistic to a certain level, but it depends on the political and economic stability of the country. I am optimistic in terms of the banking sector but pessimistic in terms of the government.*

Robert (CB) confirmed that *the size of the consolidated balance sheet for the banking sector is US$190bn for the 65 operating banks, while Lebanon's GDP is US$45bn, so banks constitute four times the local operating GDP.*

Aside from the political perspective, it is necessary to highlight briefly the gap relating to political influences on the Lebanese banking sector.

From Theme#2, Gap E and Sub-Gaps E1 and E2, the following conclusions can be drawn:

- The Lebanese banking sector faces a big political challenge, which relates to compliance issues (problems related to regulatory sanctions) imposed on the banking activities of a certain political party in Lebanon. Additionally, it cannot be denied that the performance of the Lebanese banking sector is always going to be affected by the country's relationships with other countries, and mainly the Gulf and Kingdom of Saudi Arabia (KSA) countries.

- Another major issue faced by the Lebanese banking sector is its high level of exposure to sovereign risk. Since the banking sector is the main pillar of the Lebanese economy, the performance of Lebanese banks is very important. On the other hand, since Lebanese banks are lenders to the Lebanese government, were the government to face financial issues their obligations towards the Lebanese banks could be put into doubt. Hence, the government and the banking sector in Lebanon have a direct interrelationship, leading to the conclusion that in a scenario where the government found it was bankrupt, the banks would be forced to default too.
- To avoid the maturity mismatches, the Asset Liability Committee (ALCO) should be setting limits to avoid any potential gaps and hence to mitigate associated risks.

In this regard, Harry (PO) stressed a point of view from the political perspective explicitly, saying that *Lebanon should not make the Gulf and KSA countries angry with us, and yes, it is true, all the Lebanese economic sectors were affected by the last global economic crisis.*

5.4. THEME 3: The Role of the Lebanese Banking Regulators and Supervisory Authority

In relation to:

- *RQ 3.1 "Where does the role of the Central Bank prevail in terms of 'prudential banking supervision' in imposing minimum strict financial ratios, namely for liquidity, capital adequacy, asset quality and profitability ratios?"*
- *RQ 3.2 "What precautionary plans (e.g. stress tests, audits and inspections) have been set up by the BDL to ease the negative effects of financial crises such as the Arab Spring?"*
- *RQ 1.4 "Should banks at certain times change the parameters of the set of financial ratios (capital adequacy, asset quality, liquidity and profitability), such as when faced with the negative impact of economic recession, to mitigate risk?"*

GAP F:

The imposition of prudential banking regulations on commercial banks by the Central Bank and the former's commitment to these financial ratios and precautionary plans – *RQ 31, 3.2 and 1.4*

Conceptual Framework: Prudential banking supervision: Basel III and the Internal ratios of banks

Gap F is divided into two subcategories: first the role of the BDL in terms of prudential banking supervision, and where this role prevails; and second, the effectiveness of the precautionary plans set by the BDL to ease the negative effects of financial crises.

In relation to the BDL's role in enforcing prudential banking regulations, Robert (CB) argued that the *BDL set the guidance of these ratios. The BDL follows the CAMEL approach* [international rating system] *using six factors: Capital Adequacy, Asset Quality, Management, Earnings and Liquidity. The BCCL controls the implementation of the approach through on-site and off-site examinations. Each bank has a regulatory reporting unit that reports to the BCCL (daily, weekly or monthly).* As Jhonny (CB) added, the *BDL plays the main role. The central bank has done very well in terms of regulation, for example: Basel III.* In that regard, Paul (CB) commented that *the BDL is intervening in the day-to-day running of businesses and the financial sector and everything, even at the level of the orientation for the economy and the financials relating to the economy. The BDL is intervening everywhere.* Meanwhile, according to Roger (BA), *the BCCL makes sure that banks maintain the requested ratios. The BCCL rely on their on-site inspections and external auditors in each bank.* In this regard, Emma (IIS) noted that *the BDL and BCCL coordinate very closely. It is a coordinated effort to tighten the regulations. The BDL lead through circulars and the BCCL issues the incremental decrees.* Furthermore, Carlos (GA) highlighted how *the BCCL and BDL regulations play an important role in maintaining financial stability in Lebanon.* Additionally, Sam (CB) confirmed that *the BDL's work on this set of ratios is an ongoing process.*

Another important role of the BDL was highlighted: *One important role of the BDL aside from the regulatory aspects is to provide banks with cheap financing* (Michael – IIS).

On the opposite face, discussion about the effectiveness of the precautionary plans used by the BDL to absorb the poor consequences of recession is presented below. Emma (IIS) informed the discussion *that banks, on the BDL's instructions, are implementing the IFRS9 and FATCA and OECD exchange of information on taxes*. *The BDL asked the IMF and the World Bank for the Financial Sector Assessment Program, FSAP.* In terms of preventative action from the regulators, Carlos (GA) noted that *in terms of monetary precautionary plans, the ministry of Finance in Lebanon puts into practice all measures suggested by the BDL and BCCL.* On the other hand, Roger (BA) pointed out that *the stress test, which is the main precautionary plan set by the BDL, is not yet mandatory*.

Another important precautionary plan, set by the BDL, is that of provision. Paul (CB) clarified that *the BDL asked local commercial banks to make provision for the exposures they had in Syria and Egypt; hence these were the consequences of the Arab Spring on the performance of the Lebanese banking sector*. Aside from the provision aspect, Robert (CB) suggested that there were different precautionary plans: *the BDL required banks to increase capital; the BDL required banks to increase the level of subsidies; the BDL prohibited banks from distributing profits in order to make provision (as such, no more than 15 per cent of profits were allowed to be distributed in 2012); the BDL obliged all banks to carry out early implementation of International best practices in order to build confidence in the local market.* In this regard, Bookstaber et al. (2013: 1) provide research on stress testing as a tool to impose financial stability. They explain that stress testing was derived from risk management, and that it must be applied to enhance control over financial stability and integrate connections and any changes to the monetary scheme. Since the 2008 crisis, the banking regulators have improved the methods and the instruments they use to regulate financial stability and have also meaningfully extended the practise of stress testing in the management of the prime monetary organisations.

However, one respondent suggests the main problem the Lebanese banking sector is facing is *because Lebanon is a small market, banks report directly to the US Treasury without passing through or respecting the BDL* (Sam – CB).

Regarding Lebanese banks' commitment to the financial regulations that were put in place to mitigate their exposure to risk related to a recession, interviewee's opinions are presented below.

From the supervisory and regulatory points of view, Charlie (S) said that *each Lebanese bank has its own policies and procedures which are driven by maximising profits. Actually, the bank's objectives are extremely different from the BCCL's objectives, because the main goal of every bank is profit.* Roger (BA) added that *the financial regulations are only provided by the BDL. Banks are not allowed to create their own ratios, but they are allowed to be more conservative than the BDL.* However, *the ratios set by the BDL must always be maintained at the level requested.* Choudry (2007: 327) explains that in the line of control of these ratios, the Asset and Liability Committee (ALCO) is the instrument in control of regulating a section of the prudential field; it is in charge of putting in place and executing the AML rule. The structure of the ALCO differs depending on the bank; however, generally it comprises the supervisors in high positions within different business divisions. Also, ALCO determines the regulations of minimising risk. Furthermore, McNaughton (1997: 82) discusses the evolution of ALCO within the commercial banking sector as an eight-stage process: no recognisable ALCO assembly is within the bank; an investment committee is designed to supervise resolutions concerned with the bank's financial securities; the capacity of the investment committee develops to comprise resolutions about the bank's finance or treasury operations; the ALCO is put together and substitutes the investment commission; there is an official group of employees to support the ALCO with analytical assistance; the association to ALCO magnifies; ALCO is swamped with information; ALCO undertakes the job of a regulator.

Some interviewees disagree with the idea that banks should be permitted to change the parameters of the financial ratios. For instance, Jhonny (CB) stated that *no banks should* *have a need to change the parameters of the financial ratios.* Contrary to this view, Paul (CB) explained that *banks should set two important internal ratios in the short term: "Immediate liquidity" and "General Liquidity". In terms of asset quality, it is not easy to maintain healthy asset quality ratios because these ratios are set to keep the bank from immediate market risk. In this regard, the Net Loans/Customer Loans ratio should be between 1 and 2 per cent.* Additionally, Robert (CB) supported Paul's view, advising that *banks should change the parameters of the financial ratios when required, this is supported by Basel III, which provides banks a certain treatment allowing them to build a buffer to prevent crisis. Sometimes, therefore, banks are more conservative than the BDL.* Furthermore, Sam (CB) agreed that *banks should review these ratios frequently and accordingly allocate provisions when necessary, which constitutes a type of buffer for banks.*

On the prime issue of the prudential role of the Lebanese banking authorities in relation to the Lebanese banks, the liquidity and capital adequacy ratios' requirements are discussed in this research. In each country, the banking authority, basically the central bank imposes on local banks and financial institutions prudential requirements that they must maintain. These requirements are a set of defined ratios. Liquidity ratios and capital adequacy ratios are among the two most important ones, defined in detail above, in the literature review. In terms of regulatory issues, the main objective of these ratios is to control the performance of banks in order that any issues in future liquidity or capital are avoided in, say, the event that there is volatility in the market due to any systematic risk (risks derived from external forces such as war, or the economy) or non-systematic risk (risks derived from internal factors such as internal managerial conflicts or issues at the level of the Board of Directors). The BDL has issued a circular requesting banks to maintain these financial ratios as explained below by Leo (S):

Liquidity ratios, obligatory reserves:

- *In LBP: 25 per cent on-Demand Deposits and 15 per cent on-Term Deposits.*
- *In FC: 15 per cent of deposits and other obligations are mandatory placements.*

Capital adequacy ratios:

Lebanese banks are requested to meet the CAR ratios in accordance with the Basel III ratios as per the BDL's circular #44. The CAR ratios breakdown is below:

- *CET1: 5.5 per cent*
- *Tier 1 Capital Ratio: 7.5 per cent*
- *Total Capital Ratio: 9.5 per cent*

Comparing the target ratios for CAR (according to Basel III) with those requested by the BDL, the Table below (Figure 16) demonstrates the views of interviewees Leo (S) and Charlie (S).

	BASEL III	**BDL**
CET 1	4.50%	5.50%
Tier 1 Capital Ratio	6.00%	7.50%
Total Capital Ratio	8.00%	9.50%

Figure 16: Target ratio requirements of CAR (Basel III) versus the BDL [(Leo (S) and Charlie (S), 2016)]

It is also worth indicating that regulatory capital requirements affect banks' productivity as researched by Duygun et al. (2014: 23). Here the authors note that in the recent state of international retrieval from monetary disaster, the problem of the "recapitalisation" of the banking organisation is controlling the argument in relation to the rule. The question is whether greater dependence on "equity capital" would increase the long-term capital costs of banks. Regulators appear to be quite positive about the problem, but nevertheless, the equity capital ratio similarly is only a short-term measurement:

From Theme#3, Gap F, the following conclusions can be drawn:

- There is a 1.5 per cent additional buffer set by the BDL, but it is doubtful whether the 1.5 per cent additional buffer imposed by the BDL on Lebanese banks is enough to provide a sufficient cushion for banks to continue operating in a volatile economic environment.
- Each Lebanese bank should set internal ratios to be approved by the Asset and Liability Committee (ALCO) and Executive Committee. As a monitoring tool ALCO is there to manage a section of the prudential area, its main role being to look after

the asset/liability position, interest rate risk, liquidity risk and the investment portfolio of the bank.

- Banks should adopt a more conservative, pro-active and tougher stance and become more compliant, abiding with the prudential banking regulations set by the Central Bank, and committing to the financial ratios and precautionary plans.
- Stress Testing is one of the main precautionary tools that should be adopted rigorously by the BDL.
- Banks should set their own levels of risk appetite and the financial parameters implemented by the banks' subsidiaries.

5.5. THEME 4: The Dilemma of Best-Banking Regulation Practices

In relation to:

RQ 3.3 *"In comparison with the supervision best practices applied in the US and the EU, will introducing a new set of prudential policies, similar to those applied by the international standards, ease the impact on the Lebanese banking sector of any potential financial crises?"*

GAP G:

What makes "Best banking practices": Regulation or supervision? Do the US and EU regulations represent best practices? – *RQ 3.3*

Conceptual Framework: International best practices: US Treasury Banking Regulations, EU Banking Regulations and Lebanese Banking Regulations

Gap G sets out to explore what the best banking prudential practices are, and to what extent the practices, as applied in the US or the EU, could be adopted in Lebanon. This gap found that interviewees held contradictory opinions about the scope of International best practices and their implementation, in the Lebanese banking sector. Accordingly, below, this section explores participants' feedback on the importance of the International banking regulations.

An interesting comment was expressed by William (GA), who said he thought *the Lebanese banking sector's practices and regulations were "Old Fashioned". We can't customise what we receive from abroad in terms of regulations and laws; however, we can customise some laws, such as the AML and FATCA.* William's "Old Fashioned" alluded to the Lebanese banking sector's slow adoption and implementation of the International regulations, which he saw was due to a lack of awareness on the part of the regulators about how these regulations should be applied. Actually, the BDL could well face some delay in incorporating all of the new regulations, because the supervisors will need to read all of them first to understand the scope of their implementation in advance.

Moving on to other respondents who were of the opinion that the Lebanese banking regulations perform well, Sam (CB) perceived that *Lebanon has a very good banking regulatory body. In the US and EU banking regulations, there is nothing on information security regulations. So, while Lebanon is pretty advanced in terms of information security and business continuity, in terms of financial regulations I'm not sure of the Lebanese competences in that field in comparison with the international standards.* Of the same opinion, Roger (BA) affirmed that *the US and EU take ownership of international best practices only when the market is stable and there is no major financial crisis. In Lebanon, however, the banks do operate best practices; proof of that can be seen in the banks' history, in the expertise shown by the financial treatment during any previous crisis.* Carlos (GA) confirmed as well that *Lebanon has the best banking practices and is obliged to abide by all the International regulations received from the US and EU. However, of course, the industry does need to customise these regulations in accordance with Lebanese laws.* Last, but not least, Charlie (S) declared that *Lebanon has its own "Modules of Regulations" that have already been tested; the national regulations for the Lebanese banking sector represents more than just best practices.*

Nevertheless, Emma (IIS) took a different view, stating that although *the current Lebanese banking regulations framework is robust, still, there are weaknesses in the regulatory framework. Examples of weaknesses are the exchange of cash across borders, exchange of tax information and AMLCFT. We don't have to take up every regulation received from the*

US and EU; but, we do need to customise them, even if we are obliged to abide by these new regulations. Additionally, Robert (CB) suggested that *while Lebanon's banking regulations are more robust, the EU and US have a better regulated banking system, because our* [Lebanon's] *banking authorities (BDL and BCCL) are independent of the government unlike in the US and EU.*

On the other hand, some respondents explained the difference between the implementation of the prudential regulations drafted by the US Treasury and those drafted at the level of the EU. In this sense, Harry (PO) clarified that *whatever regulations Lebanon receives from the US it is obliged to abide by and follow like all the other countries, we do not have the choice. However, the regulations Lebanon receives from the EU are flexible and can be negotiated with the authorities in the EU, hence we can accept them or not. Even the EU countries abide by all the US regulations. In the case of Lebanon, the impact of the US regulations on the Lebanese economy is high, simply because we are a dollarised country; in the EU, however, the impact is less because they deal in the Euro mostly.* In opposition to this view, Paul (CB) supposed that *Lebanon was obliged to abide by both the US and EU prudential regulations in terms of financial ratios.*

We follow the international trends. The Lebanese banking sector did not come by Basel III as such. We consider compliance is an instrument in the stability of the banking sector. I don't know if the Lebanese banking regulations have the best practices (Jhonny – CB).

Following the interviewees' comments on International banking practices, it is worth identifying the core banking regulation practices applied in the US and the EU.

In the US, the well-known framework for regulating banking operations is the Basel Agreement. In the EU, the EBA sets banking regulation practices for all banks operating all over Europe.

Böhme et al. (2011: 2) explained that the 2008/2009 financial disaster of has driven many restructurings in the banking sector. Immense fresh supervisory deals have been decided upon in Europe and the United States, and supervisors and bankers are now getting ready for the coming stage of compliance and application.

Finally, to make a comparison with the results of Document 3, where interviewees were asked: “In comparison with the supervision best practices applied by both the US Treasury and the EU, where and when should the BDL introduce new prudential policies?”, Document 3 found: “one of the main gaps this research has identified is whether or not the Lebanese banking regulators consider the regulations from the US and the EU ‘best practices’”

From Theme#4, Gap G, the following conclusions can be drawn:

- When adopting new regulations from abroad, first the Lebanese regulators need to gain a good understanding of then, then, second, interpret the regulation(s) sympathetically and appropriately before implementing it in the Lebanese regulatory system.
- The points of view expressed about best practices in the banking sector vary, the interviewees express contradictory opinions within both Document 3 and Document 5, but the findings between the two documents also diverge. Hence, as nothing is perfect, accordingly the research cannot state that it found that respondents believed or did not believe that there is one unique and “better” banking system that could be harmonised the world over and extend to all other banking systems. The appropriate action to be taken in each country (regardless of its geographic and demographic characteristics), therefore, is to build on its own regulatory and supervisory banking system and to lead by example. For instance, in Lebanon, the banking authorities would benefit from integrating what best fits and is useful from the Basel Accord, studying it carefully, and implementing only the regulations that enhance the banking sector in Lebanon. A similar strategy should be applied when implementing the EU regulations, as well as any others. The Lebanese banking authorities should not automatically accept and adopt any new International banking regulations but should only implement those that complement the characteristics of the country’s current banking system. Taking the

regulations as they are and implementing them, without checking whether all aspects suit the nature of the banking framework in Lebanon, is not recommended. Instead, implementing appropriate elements from all the available regulations, inspired locally or internationally, to compliment the system in place nationally, is seen as best practice in banking.

5.6. THEME 5: Robust Corporate Governance and Shareholder Structure

In relation to:

RQ 3.4 "*What is the vision for the future of the Lebanese banking sector, taking into consideration the introduction of stricter and more demanding prudential banking ratios?*"

GAP H:

Managerial barriers: Such as managing a family-orientated business, and other aspects

Conceptual Framework: Corporate Governance

Gap H explores management, which is seen as a highly relevant aspect of the current research. The reason it is important is due to the fact that managerial culture—the practice of management within the banking sector—plays a critical role in mitigating the risks to banks, whether or not the economy is in recession or suffering from a slowdown.

Although the current research is not focused on the behavioural regulations of Lebanese banks, even so, as it has been identified as a gap, it must be taken into consideration by the banks as well as in the BDL's regulations, because it relates directly to corporate governance. In this regard, Leo (S) states that should the banks want to expand outside Lebanon *the banks should enhance corporate governance, and hence they should work on the risks derived from financial crimes, terrorism and conduct, internet and political risks*.

On the importance of the corporate governance, EBA (2016 (II): 5) highlighted that the internal governance topics have taken a lot of care from different worldwide entities. Their key goal effort has been to fix the organisation's poor or shallow internal governance performance as recognised in the monetary crunch.

ICSA (2017) goes into some detail to define corporate governance. It as an approach whereby institutions and their targets are overseen. It deals with performance measures and other such ways, which guarantee that a corporation is managed in such a manner that it is able to carry out its purposes: this might be to increase the investments of shareholders, alongside consideration of the many regulations and limitations with respect to the other stakeholders' interest in the organisation's activities. Furthermore, BIS (2015: 6) provided information that some nations are adopting a "mixed approach", which forbids senior managers from assuming the positions on the board of directors, restricts their number, or "requires the board and board committees to be chaired only by non-executive or independent board members". In addition, few nations forbid the chief executive officer (CEO) to be chair of the board of directors or a board member.

Consequently, Sam (CB) criticised Lebanese banking practice, saying that *we are still in a family business banking environment. The real decision is still with the owner of the bank, which has a major impact on performance. Banks should have good governance able to take a controlling role over the CEO. One exemption is "Bank Audi sal", which is still trying to apply a separate managerial control aside from the owners. This issue is currently not being taken seriously by the BDL and hence, in the future, it will be likely to turn into a big problem.*

In addition to the lack of corporate governance suggested above, Sam (CB) stressed another essential fact, that *banks are using shareholder's disposable income instead of auto-financing.* This is because most Lebanese banks are owned by wealthy families. Thus, the wealthy shareholders will enhance the liquidity of the banks by paying in money from their own resources; in most cases shareholders are already running other businesses elsewhere. Accordingly, this is a practice that is positive for the bank on one hand as it offers them a sort of financial reliance, but, on the other, it is considered “fake growth”, with shareholders creating a false picture of the banks’ growth, enhanced by assistance from their private financial sources.

Roger (BA) revealed that *there is no real Financial Stability Committee even if the public is told that there is*. *In fact, the committee is being held in an unprofessional manner. As such, rarely do people from the concerned departments meet with the governor, but instead they tend to just make unilateral decisions.*

The importance of corporate governance on profitability is something taken up by Lopes, et al. (2016: 1). These authors stated that in current economies, the corporate governance guidelines have been understated as drivers that lessen risk, resultant from the current gap among management operations and proprietorship structure. Importantly, few features of the board of directors impact the accomplishments of corporations. These new insights might well deliver different rules for regulators in the formation of more recent mutual instructions and provide guidance on the values that precisely fund the effectiveness of corporate governance instruments and guarantee the anticipated global comparison.

From Theme#5, Gap H, the following conclusions can be drawn:

- One key and remarkable gap concerns the internal managerial aspects of Lebanese banks. Good management relies mainly on having a sound corporate governance policy in place, which involves balancing the interests of all stakeholders: the shareholders, management, customers, investors and regulators.
- A relevant issue was uncovered during the interviews in relation to the managerial practices of the Lebanese banking authorities and supervisory bodies: the Financial Stability Unit (FSU), established in 2014, the purpose of which was to improve banking regulation practices as well as to control the work of the Lebanese banks at a macro-level, is being managed in an unprofessional way, because the members of this unit rarely meet either together or with the governor of the bank before making decisions.

- Lebanese banks are being "ruled" according to the tempo of the owner, which not only creates inconvenient working conditions for the employees, but also affects the banks' performance; this, then, has an effect on banks' overall achievements.
- Banks are "faking growth": in order to grow faster and make more profits, banks are relying on the wealth of their shareholders to reinvest in new projects, such as expanding their activities outside Lebanon.
- The final conclusion to draw for GAP H is about rational behaviour. Banks' management decisions should be affected by the conditions of the economy. Organisations should be rational when deciding on their risk appetite, taking into consideration the long-term (LT) objectives, and studying the financial and non-financial capabilities of the bank.

GAP J:

Level of Independence of the Lebanese banking sector: Leading to a contradictory vision of the future performance of the banking sector – *RQ 3.4*

Conceptual Framework: The future prospects of the Lebanese banking sector

Gap J, the last gap to be discussed in the current research, is about how each interviewee views the future of the Lebanese banking sector, especially amid the introduction of stricter and more demanding prudential banking ratios. Each participant replied to this RQ from his/her own perspective, depending on which interviewee category the individual belongs to (see p. 53: GA, S, IIS, CB, BA, PO).

For Leo (S), the target for the future of the Lebanese banking sector is *to limit the number of operating banks*. Seeing progress in terms of financial regulation, the goal of Charlie (S) is *to complete the implementation of the Basel III regulations.* Others have different visions for the future of the Lebanese banking sector. Jhonny (CB) stated that *in the future, we need to have a maximum of 30 operating banks in Lebanon; we need to have less lending to the public sector; and, finally, we need to push the government to reduce its borrowing needs.* Meanwhile, Emma (IIS) warned that *the environment of the Lebanese banking sector in Lebanon is very difficult.*

William (GA) saw a brighter future, for *banks in Lebanon remain dealing with deposits and investments; whereas, in other countries they have a huge jungle in the banking sector; the huge product mix was one of the main reasons contributing to the financial crisis.* Reasoning in a similar way, Carlos (GA) predicted that in the future, *the Lebanese banking sector will be booming.*

Moving forward, new lines of thought were introduced. Harry (PO) anticipated that in *the future, the Lebanese banking sector will perform much better and be booming due to three main factors: first, the future exploration for gas and oil in Lebanon; second, Lebanon will play a significant role in the reconstruction of Syria; and third, after the Presidential elections, they will implement the Public Private Partnership* [PPP], *which will inject money into the Lebanese economy, and hence, boost it.* Disagreeing with Harry, Sam (CB) argued: *Lebanon is not ready for the two future opportunities of the oil and gas market and the reconstruction of the Syrian market. The Lebanese banking sector will not take full advantage of these because the Lebanese banks are still run with a family business mentality, and operate in an unprofessional way.* Taking the opposite position, Michael (IIS) disagrees with Harry's third point about PPPs. Thus, Michael acknowledged that *at the moment, the potential of PPP is very limited; but banks are very interested, obstacles stem mainly from the political side. Unless the political obstacles are removed, the banks won't invest.* He added, *theoretically, Lebanon could stand to benefit greatly from PPP; however, unfortunately, PPP requires a lot of political coordination across the country and, in reality, there is no potential for that in the short-term, especially without an elected President to this da*y. *In addition, oil and gas exploration will play a role in PPP.*

The PPP issue is a salient one, because as this is a partnership between the public and private sector, where commercial banks are brought in to finance projects, it represents a large, long-term governmental commitment to guarantee the banks that they will get their money back.

In relation to Gap J, The World Bank (2016: 23) argues that:

"human and financial capital can be tapped locally, while the export market is a realisable potential, enfeebling the dependence on capital inflows and lessening balance of payments risks. Such a vision is necessary for Lebanon to exit a socially and economically bankrupt model, whereby human capital is exported in return for inflows that finance rent-seeking activities that aggravate imbalances."

Before concluding, a quote from Document 3 brings into perspective the interrelation between the banking sector and government, a point that has come even more into focus in Document 5, as Gap J comes to a close: "*There is an agreement from all parties in Lebanon* [that it is important] *to maintain the stability of the banking sector but, of course, it is not enough for the future of the country to only have a banking system.* (Ghaleb – BM)" (Traboulsi, 2014 (II) h: 59).

From Theme#5, Gap J, the following conclusions can be drawn:

- Political stability is required in order to improve the Lebanese banking environment.
- The future of the Lebanese banking sector is a question posing somewhat of a dilemma for the country, as the economy cannot be fully separated from the political situation; and, for as long as there is political instability, the economy will always be affected and, hence, so will the performance of the financial sector too, regardless of all the efforts made by the banking authorities to separate politics and the economy as a whole.
- The 65 banks in Lebanon (commercial banks, investment banks, foreign branches and subsidiaries) should merge or be required to decrease their number, because 65 banks in a country with a population of 6,000,000 covering an area of 10,452 square kilometres is a huge number.
- As the PPP market in Lebanon is a very difficult one to gauge, thus the scope of its implementation is not very clear.

5.7. Summary of the Research Findings

This conclusion links directly to the Strategic and Research Questions (SQs and RQs) posed by the research. To set out in the first subsection, the summary, the abstract is linked to the conclusion. In subsection 2, the SQs that were asked at the beginning of Document 5 are revised on the basis of the findings of the research. In subsection 3, the researcher identifies some of the other avenues of research that it is hoped may open up the horizon for future students to assume a topic derived from this thesis.

Before proceeding, the research findings are summarised in brief by employing a SWOT (Strengths/Weaknesses/Opportunities/Threats) analysis perspective:

- Strengths:
    - Large amount of customer deposits due to the remittances made by customers of the diaspora.
    - Tough regulations proved affective during several crises and continuous political instability.
- Weaknesses:
    - Weak corporate governance.
    - Family-owned banks making it more difficult to segregate duties and avoid conflict of interest.
    - High exposure to the sovereign risk impacts the credit rating of the Lebanese banking sector in general.
- Opportunities:
    - Basel III and upcoming Basel IV represents an opportunity to enhance the effectiveness of banking regulations in Lebanon.
    - The EU directive for banking regulations could provide a model for best practices to tailor to the Lebanese banking sector, in order to mitigate risks.
    - The future (hopefully, growth) of the Syrian economy will be an opportunity for Lebanese banks to expand there; the hope is that when the civil war ends the country will attract companies and investment from the region to help in the rebuilding of Syria.

- Threats:
  - The large number of banks currently on the market and the prospect of others entering the market, continues to increase the level of competition in the market.
  - Political instability is a major risk.

5.8. Revising the Strategic Questions and the Research Questions

While revising the SQs and Research Questions (RQs), the researcher examined if the Strategic Questions at the core of the thesis had been answered during the course of the study.

To this purpose, Appendix 9 summarises the SQs in relation to the research findings, the correspondent gaps and the pages relevant to each of the interviewees' statements.

Furthermore, while revising the RQs, some further conclusions were drawn for most of the RQs:

RQ 1.1: What currently are the main characteristics of the Lebanese banking sector?
The main characteristics of the Lebanese banking sector are: high customer deposits, high liquidity, well capitalised, and a conservative regulatory system.

RQ 1.2. How can the interrelationships and impact of an economic recession on banking regulations in Lebanon be determined?
There is a relationship between banking regulations and financial crisis [Basel III is the main example, discussed in the Findings for RQ 1.2 in section 5.3, pages 101-110].

RQ 1.4. Should banks at certain times change the parameters of the set of financial ratios (capital adequacy, asset quality, liquidity or profitability), such as when faced with the negative impact of economic recession, to mitigate the risks?
While every Lebanese bank has its own policies and procedures none are allowed to create their own ratios, but they can be set at more conservative levels if required.

RQ 2.1. What are the main indicators for resiliency, stability and continuity?

The main indicators for resiliency, stability and continuity of the banking sector are: influence of foreign depositors, specifically the money received from the diaspora.

RQ 2.2. How did Lebanon manage to preserve the stability and continuity of the banks when all economic indicators were weak?

Lebanon preserved stability of the banking sector and banking continuity mainly through the role of the BDL, the monetary policies of the regulators, as well as by applying timely risk evaluation and credit assessments.

RQ 2.3. What are the strengths and weaknesses that impact the Lebanese banking sector?

The weaknesses of the Lebanese banking sector are: maturity mismatch in the Balance Sheet of the Lebanese banks and the high sovereign exposure held by the BDL.

RQ 3.1. Where does the role of the Central Bank prevail, in terms of "prudential banking supervision", in imposing minimum strict financial ratios, namely for liquidity, capital adequacy, asset quality and profitability ratios?

The BDL sets the guidance of the banking prudential ratios and controls the procedures whereby banks must abide by them; the BDL intervenes in the practise of the banks when necessary.

RQ 3.2. What precautionary plans (e.g. stress tests, audits and inspections) have been set up by the BDL to ease the negative effects of financial crises such as the Arab Spring?

The BDL requests banks to make provision for their exposure in risky countries; to increase capital; or it obliges banks to make an early implementation of International best practices. In addition, the BDL can call for precautionary stress test procedures when and if needed.

RQ 3.3. In comparison with the supervision best practices applied in the US and the EU, will introducing a new set of prudential policies, similar to those applied by the international standards, ease the impact on the Lebanese banking sector of any potential financial crises?

Abiding by the regulations of Basel III and implementing other compliance guidelines issued by the EU is required. Introducing and customising these regulations to fit the Lebanese banking regulation landscape would bring about compliance with best banking practices.

RQ 3.4. What is the vision for the future of the Lebanese banking sector, taking into consideration the introduction of stricter and more demanding prudential banking ratios?
It is seen as necessary that the Lebanese banking sector adopts adequate corporate governance measures, political stability is needed, and limiting the number of banks is also important.

5.8.1. Has the Question of the Justification for the Research been Answered, and what are the Likely Practical Impacts of the Research?

Beyond the contribution this research will make to the academic and business fields, the research aims to have an effective practical impact in the field as well. To justify this statement, reference is made to Chapter 1.2 and to the explanation about the unavailability of any literature about the research topic proposed. To further explain this, the practical use of the findings – resulting from the research carried out in this thesis on prudential regulation of Lebanese banks – will be very useful in the real world, not just in Lebanon, but everywhere. Furthermore, since the search of the literature brought up many disparate bibliographic references focused on “banking regulations”, “financial crisis”, “financial recession”, “financial stability and resiliency”, “risk mitigation” and “best banking practices”, the effective links and relationships between all the terminologies are rarely found in one single piece of research. As mentioned, although the research topic provides a case study for Lebanon, the practical impact of the research is easily transferable to any country facing financial turmoil and the risks this poses to any nation’s banking sector and economy.

5.8.2. New Corridors for new Topics

It is hoped that this research will open up other research areas for future students. Seeing these new corridors as an opportunity to be explored, as such, students may benefit from some of the ideas this research presents and base other new research around one of its themes. For instance, a topic for further study and analysis could be selected from one of the gaps discussed in Chapter 5. Another focus could be a comparison between EU banking regulations and/or the US Treasury banking regulations and the banking practices of other countries. Furthermore, another research student could select one of the prudential ratios discussed in this thesis (Asset quality, Liquidity, Capital Adequacy and Profitability) and study its implementation in any given banking sector, of any country, to explore how it may or may not be a useful tool for mitigating exposure to risks.

CHAPTER SIX

RESEARCH CONTRIBUTION AND CONCLUSIONS

6.1. The Contribution of the Research

The researcher considers the importance and uniqueness of this study – in terms of the academic and business contribution it can make – as a major target achieved in this DBA. As a result of this research, the findings recommend a number of changes that should be implemented within the Lebanese banking sector by the Lebanese Banking authorities. These are detailed below.

- The Lebanese banking sector relies heavily on remittances received from Lebanese in the diaspora in order to maintain financial stability. Banks and regulators should focus more on other factors to help maintain resiliency, for example, by better controlling the prudential ratios of the banking sector and to make them more conservative.
- Banking experts and banking authorities should be aware of the existence of the direct relationship between financial crises and banking regulations.
- The BDL should focus on conducting stress testing more regularly in all operating banks.
- To protect the banking sector the BDL should adopt a counter-cyclical capital buffer.
- Political stability must be maintained in order to achieve stability in the banking sector. This is because political problems cause other specific compliance issues that have an effect on banking activities.
- Lebanese banks should decrease their level of risk exposure in relation to the Lebanese sovereign.
- Lebanese banks should solve their maturity mismatches on their balance sheets.
- The Committee of ALCO should ensure it takes a more involved role in monitoring the prudential area inside banks.

- Prudential regulations, adopted from either the US Treasury or the EU EBA, or elsewhere, should be customised and integrated into the practices of the Lebanese banking system.
- Corporate Governance should be improved.
- The banking authorities should enhance the rational behaviour of the management of banks in Lebanon.
- The number of banks operating in Lebanon should be reduced.
- The BDL should encourage PPP activities in Lebanon.

Addressing the significance of the current research's contribution to the corpus of academic and professional knowledge and literature and its application in practice goes to the very heart of the discussion about bridging the gap between theory and practice. In this regard Van de Ven (2007: 2–3) explains that a review of the literature and debates among academics working in different fields of expertise proposes that the values for discussing the inconsistency and difference among philosophy and business is adopted similarly in various different specialised domains. Acknowledgement that knowledge and business deliver separate types of information has been established for some time. But stating that the "knowledge of science and practice" are not the same does not mean that they are contradictory or that they complete each other; instead, they balance each other out.

So, as to the research's contribution to knowledge and practice, the dual purposes of the DBA research have been identified across all five documents that make up the DBA.

In the following subsections, a discussion is offered that goes deeper into the types of contribution research can make to the academic and practice fields and identifies some elements of the contribution the current research could make to academia and business.

6.2. Contributions to the Fields of Knowledge in Practice and in Academia

As stated, the purpose of doctoral research is to contribute to scientific knowledge. As Bhattacherjee (2012: 2–3) stipulated, the purpose of science is to create scientific knowledge. The goal of scientific research is to discover laws and postulate theories that can explain natural or social phenomena, or in other words, “build scientific knowledge”. For doctoral degrees, Wordpress (2011: 1) noted that doctoral research in general includes a contribution to knowledge. This prerequisite is frequently made clear in university guidelines which describe the type of doctoral degrees supervised by the institution. To the examiners, relevance is given to components of the thesis that in their view makes the best contribution to knowledge.

Krishnamachari (2014a: 1) identifies various methods to assess and appraise the academic contribution of research, these are: “contribution to the literature”, “contributions to aid other researchers in their work”, “contributions to community-building”, “contributions to education” and “contributions to mentoring”.

The findings that emerged in Document 5 have contributed to academic knowledge by developing new theories and frameworks. This Thesis adds to the corpus of knowledge about the banking regulatory field specifically through exploration of the gaps identified and by delivering the findings. Moreover, it is hoped that the unique focus of this research, along with the richness of its literature review will lead students and researchers to explore further the topics to emerge from this research. More detail to the justifications for the research’s contribution to knowledge are contained in the short arguments below.

1. Knowledge Gaps

   The current research identified the “knowledge gaps” via use of the literature review, where planning for the study of the gaps began. The nine gaps identified were introduced above in Chapter 5 of this document, these are: “Determining the Lebanese banking sector’s diverse characteristics”; “Indicators of a resilient, stable banking sector: Relevance and controversial point of view”; “The existence of a direct and indirect relationship between economics recession and banking regulations”; “How can banks mitigate risk in a tough economic environment?”; “Weaknesses of the Lebanese banking sector”; “The imposition of prudential banking regulations on commercial banks by the Central Bank and the former’s commitment to these financial ratios and precautionary plans"; "What makes 'Best banking practices': Regulation or supervision? Do the US and EU regulations represent best practices?"; "Managerial barriers: such as managing a family-oriented business, and other aspects"; and the "Level of Independence of the Lebanese banking sector: Leading to a contradictory vision of the future performance of the banking sector". The knowledge recently acquired during the course of identifying and drawing conclusions on the gaps represents a concrete contribution to knowledge.

The authorities in Lebanon took a discriminatory approach to their adoption of international standards. The research question, therefore, as to what extent should emerging economies, like Lebanon, adopt international standards is given more weight when the Lebanese adoption is considered in comparison with the Turkish example. In Turkey the financial standards drawn up meet Western problems rather than meeting the need of a specifically Turkish environment, thus highlighting the need for the international standards to be amended and adapted to take into account the local circumstances.

Another important point is how the international standards should be implemented, bearing in mind that the family-controlled nature of bank ownership in Lebanon creates some unique constraints relating to the application of corporate governance.

2. Knowledge Findings

Studying the above-mentioned gaps in-depth, the results obtained were used to derive appropriate policy recommendations that have contributed specifically to the corpus of knowledge in the field of prudential banking regulations and ways to mitigate risk. Detailed research into prudential banking regulations was conducted and elaborated through analysis of the findings in Chapter 5. For instance, focus is on corporate governance, whereby the research found that, providing it is well implemented, it would be of great use in the Lebanese banking structure. Another important finding that contributes significantly to the findings is the negative impact of maintaining a high sovereign exposure.

3. Uniqueness of the Thesis

   The present study takes a unique approach, providing insight into the finance and banking sector in the Middle East and Mediterranean region. This constitutes a contribution to the body of knowledge in the academic field of finance and banking because of the lack of previous precise and detailed studies conducted in the area of prudential supervision.

The unique stance taken by the researcher was driven by the gaps found, which are known to be of interest to academics and researchers as well as practitioners working in the field. In fact, the way the themes and gaps are grouped in relation to the conceptual framework, aimed at replying to the SQs and RQs, constitutes a model for future students to follow.

4. The Weight of the Literature Review

   The current research also contributes to the existing literature by providing greater understanding of the role of the Lebanese banking authorities in mitigating the financial sector's exposure to risk. Hence, the research can play a significant role in suggesting policies to make the banking sector more resilient.

The rich information contained in the literature review, conducted in relation to the specific subject area of prudential regulation, constitutes a contribution to knowledge. The greater the number of relevant references, the richer the quality of the research conducted, and the more convincing the research findings; that said, this research has incorporated many reviews of the literature on the topic and critically discussed the same.

5. Solving Problems

The thesis deals with a real-life scenario: the capability to resolve new emerging issues has also added value to the knowledge created. For instance, in a country like Lebanon, where the cultural constraints made voice-recording interviews a difficult mission, the researcher "thought on her feet", thereby taking notes rather than recording the interviews. To encourage interviewees from senior positions to share their thoughts, an email message was sent to each interviewee (Appendix 2) and sometimes the email was customised, depending on the environmental/person requirements.

In addition to the above, the thesis contributed academically to the following:

- The thesis has contributed examples and made suggestions about how policies can be employed in the finance and banking sectors in Lebanon. Thus this research has to some extent alleviated the lack of coverage in the banking literature on the practical problems of implementation of regulations in Lebanon.
- In particular, the thesis points to how regulation in the absence of good corporate governance may be ineffective. This suggests that banking academics need to open up the "black box" of banking and not assume that just because regulations have been adopted they will necessarily be implemented. In the case of Lebanon, the inquiry has pointed to the deficiencies of the corporate governance framework in family-owned banks. It has also pointed out important connections with political elites, which require further research.
- Analysis of banking regulations must pay careful attention to the context. A strength of Lebanon's banking system has been its ability to adapt and translate banking regulations in a way that other countries in the region have not managed. This means that banking academics need to pay sharp attention to the political and cultural make-up of countries when considering the operations of banks.

6.3. In Practice and in the Business Field

The contribution to business that this study set out to make was to identify tools in banking regulation for mitigating the Lebanese banks' exposure to risk during times of recession. As far as the question of whether the research makes a contribution to practice is concerned, Document 5 has a direct implication, as it can explicitly help practitioners in the field bridge the gap between theory and practice in real life business situations. Krishnamachari (2014b: 1) explains that, in order to ensure the research makes a contribution to practice, the researcher should ask these questions: "has one's work been translated to practice? How has the translation been carried out? What difference has it made in the real world, in the context of that translation? How significant has the practical contribution been?"

The Research Justification section 1.2 (Chapter 1) put forward the reasons why this topic was justified for research purposes and how it proposes to present a new and unique piece of research. The thesis will be an additional reference for practitioners in the finance and banking fields generally, and of particular interest to practitioners in Lebanon and the Middle East region. Currently, acquiring knowledge through practice is an essential asset for bankers and banking regulators. During a period in which countries everywhere are witnessing unpredictable economic conditions, when forecasters are predicting when rather than if a financial recession will happen, understanding how to mitigate risks through maintaining adequate prudential financial ratios is essential. Implementation of these ratios set by the banking regulators and put in place within a well-controlled supervisory banking system could save not only the banking system of individual countries but also their national economies, because banks are at the core of a country's economic well-being in most countries.

The first distinguishing feature of a DBA against a PhD is that the DBA thesis is more oriented towards practice, whereby the research takes the nature of practice as its central focus. Being proud of the outcome of this empirical research study, the researcher has worked tirelessly over the past five and a half years with a passion and a commitment to complete the work. This, she believes, will contribute significantly to practice and, more specifically, to practitioners in the banking sector and related fields.

Figure 17, below, illustrates the relevant contribution to the business world:

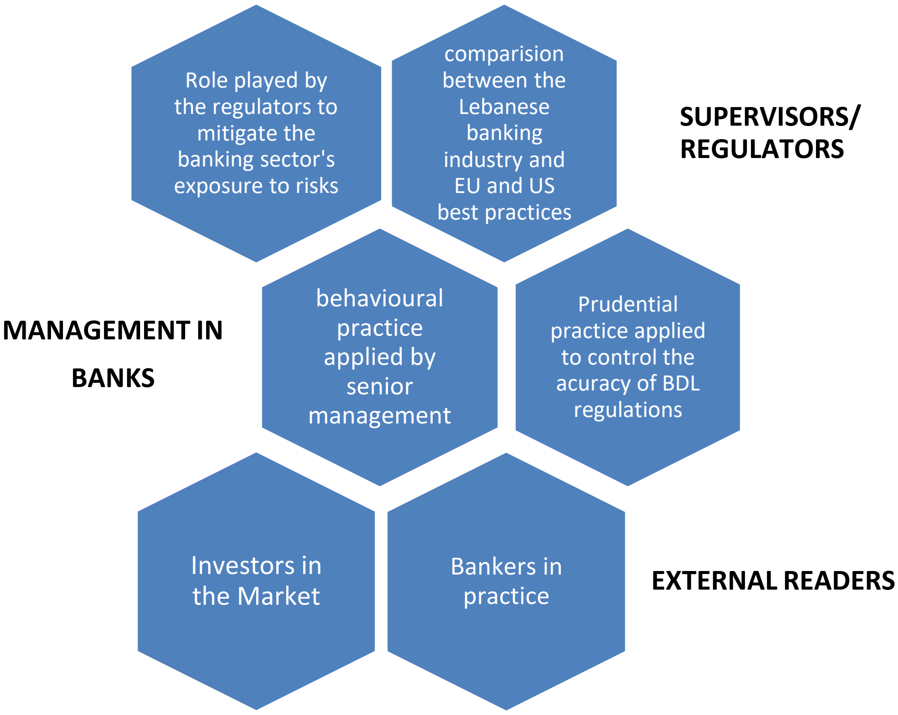

Figure 17: Entities – Contribution to Practice

6.4. Limitations of the Research

Since this research focuses on the Lebanese banking sector and its regulations, there were many constraints associated with conducting qualitative research. This section discusses these limitations as they cropped up over the course of producing Document 5.

The first limitation to the current research which, as mentioned was due to the cultural and legal situation on Lebanon, meant that not all of the interviews were tape-recorded, digitally or otherwise. In this regard, Frechtling (1997: 9) points out that in a method where the interviewer does not record the interview, but instead takes notes throughout the interview and then makes a comprehensive and complete transcript, the interviewer relies heavily on recalling details to develop and explain the records directly after the interview.

This method Frechtling suggests is suitable when the interview duration is short, hence the outcomes are required rapidly, and the assessment inquiries are clear and straightforward. However, when the inquiries are of longer duration or more difficult, productive "note-taking" might be realised once a lot of training has been undertaken. Additionally, the interviewer will more than likely often need to talk while taking notes simultaneously, a talent which is difficult for certain people to accomplish. Opdenakker (2006: 5) takes another position, however, calling attention to some disadvantages of tape-recorded interviews. As such, he says, writing notes during the interview is important for the interviewer even though the interview may be "tape-recorded" as well, because first, it helps to double check that all questions were answered, and second, in the event the tape recording is unsuccessful because of malfunction or otherwise, than notes of the interview are available instead. He concludes in the same place by recalling that during one of his conducted interviews, "I missed to press on the 'record' button, hence, I have learned that I must take notes."

The second limitation of this research is the way it presents the data collected. Since qualitative research is based on robust and extensive stories, narratives and descriptions in contrast to quantitative research, which is based on statistical data, the issue was how to categorise all the themes that emerged from the interviews.

The third limitation of the current research concerns time. Ideally, interviews would have continued over a longer duration. However, due to time constraints, the interviewer was unable to extend the duration of the interview over the one-and-a-half-hour limit set, during which the aim was to gather as much information possible.

The fourth and a final limitation of this research is about the evolution of events in Lebanon which undoubtedly had an effect on the quality of the data, because the subject of this thesis, in fact, explores an area, banking, where new events are taking place on a daily basis, and where things might be subject to change at any given moment. In fact, regulations, more specifically banking regulations, more precisely prudential banking regulations, are changing all the time and are subject to continuous alterations and enhancements. This was the toughest constraint faced during the collection of data and analysis. For instance, Lebanon had already been living in a political coma for two and a half years when the interviews commenced. There had been no presidential elections in Lebanon during this period and the country had been without a President. This political situation heavily impacted the Lebanese economy, and, accordingly, detrimentally effected the Lebanese banking sector and its performance. On 31 October 2016, and after long drawn out and complicated debates and other issues nationally, presidential elections took place and finally a Lebanese President was appointed. However, the elections and inauguration of a new Lebanese President took place only after the interviews and analysis were completed. However, this limitation is relevant only if a political opinion was going to be offered in relation to the subject. Therefore, this limitation, although a significant one, is nonetheless minor in terms of the effect it has had on the findings of this research.

6.5. Conclusion

The thesis focuses on researching the procedures required that would help draw attention to and provide solutions for the challenges faced by the Lebanese banking regulators and the senior management in banks in relation to recognising the importance of prudential banking regulations. Building awareness about the significance of prudential regulations is relevant to maintaining financial resiliency and hence the stability of the banking sector in Lebanon.

Approaching the end of the thesis, it is necessary to offer clear answers to the main Research Questions. Accordingly, below, the outcomes of the Strategic Questions are set out below:

1- *What changes are required in the prudential regulatory landscape of the Lebanese banking sector to address the effects of any potential financial crisis?*

   Many changes are required to be carried out in the Lebanese banking landscape to absorb the potential for future market shocks. The call for these changes is addressed to both the banking system and to the regulators, both of which should ensure the control of the level of capital (e.g., CAR), asset quality ratios (e.g., AQR), liquidity ratios (e.g., LCR and Loans-to-Deposits) and profitability ratios (e.g., ROE, ROA, Cost-to-Income) in order to build buffers to cushion sufficiently robust banks and the banking system to protect and maintain the financial stability of the financial industry during any potential future financial crisis.

More specifically, reference is made (section 5.2, p. 97) to the Lebanese banking sector's maintenance of a low Loans-to-Deposits ratio. This is pertinent because the sector is highly liquid at the loans level, not least since the market is small, and also because it is reaching levels of a lending saturation market for. Accordingly, banks should focus more on sources of financing to increase their ratio of Loans-to-Deposits. Additionally, with reference (section 5.3, p. 110) to solving the maturity mismatch of the Balance Sheets of Lebanese banks, the Asset Liability Committee (ALCO) should seek to define limits in order to avoid future gaps and to lessen their risk appetite, maintaining robust at the level of their risk capacity.

2- *How and when did the banks in Lebanon resist risk to maintain financial stability?*

Lebanese banks resisted the effects of the financial crisis through the presence of robust indicators, which encouraged the Lebanese banking system to become more resilient and stable. These indicators are influenced largely by: the Lebanese Diaspora, which investors are, in large, part the base for the cash in-flow of the banking system, confidence in the banking regulators, and adherence to the international banking prudential regulations.

Reference is made (section 5.2, p. 100) to financial stability, which can be achieved by also ensuring an active macro-prudential policy.

As the economy and politics cannot be separated because of the influence they have on each other one cannot ignore, hence political stability is seen as essential to maintaining financial stability. Political stability is one feature that Lebanon currently lacks (reference is made to this aspect in section 5.6, p. 125), which may have a negative impact on the financial stability.

3- *What changes should the banking regulators introduce, in terms of financial ratios, shareholder structure and capital management in order to mitigate external risks, in line with best banking practices and regulation?*

With reference (section 5.4, p. 116) to the Lebanese banking regulators, they should focus on corporate governance and stress-testing and hence set their own levels of risk capacity and risk appetite. As corporate governance deals with the decision-making process how institutions are directed, supervised, succeeded and organised, thus guidelines, rules and corporate governance are complementary to each other within the banking industry. For example, in the UK, as per FRC (2018: 1), the "UK Corporate Governance Code", issued in 1992 by the "Cadbury Committee", has been adopted. The Code describes corporate governance as "the system by which companies are directed and controlled" whereas the board of directors, shareholders and other stakeholders, risk management officer, compliance officer, internal auditors (3 Lines-of-Defense) and external auditors, regulators and supervisors (4th Line-of-Defense) are all parties responsible for the governance of the institutions they represent. Another example is in the Euro Zone countries where the European Corporate Governance Institute (ECGI) has been adopted. According to ECGI (2017: 6), the task of ECGI is to support academics in the area of corporate governance in contributing and carrying out their research for the consideration of experts, regulators and governors.

In addition, lending to the Lebanese government ought to limit the level of sovereign exposure. This is because the government and the Lebanese banking sector have a direct interrelationship and involvement; thus, were the current government in Lebanon to default, the banks, in turn, would find themselves affected by financial instability, which may lead to bankruptcy, namely in a situation where a bank does not have the robustness to face a challenging economic and/or financial situation resulting from a default from the sovereign (reference is made to this issue in section 5.3, p. 110). Reference is made (section 5.3, p. 106) to the BDL, and whether it should adopt the counter-cyclical capital buffer, and whether the banking sector should be the shock-absorber and not the shock-amplifier.

As noted in in section 3.1 in the RQ3.3, analysed in Gap G in section 5.5, discussed through many interviewees in Chapter 5, and studied in the SWOT analysis in section 5.7, best practices was referenced in section 5.5, p. 119 to how the best banking system is built and whether it is by leading through example, while still considering the characteristics of each country's banking sector. Therefore, customizing the international regulations into the banking scheme is the best solution.

The results of the empirical research produced the information structured in The Thesis, revealing the emergence of issues to allow initiating novel research of the Lebanese banking sector. At each step of the study the importance of the contribution to the field of practice and to the knowledge base of academic learning were considered. Another perspective was to realise new research for the society to which the student belongs. The DBA journey was achieved through passion on the part of the researcher to write about a field of interest to her.

Generally, the qualitative nature of this research permitted certain original visions for a significant, but not completely assumed theme, to develop. There are many ideas to be used for future research available in the findings of the DBA. The opportunities that can be explored in the banking field are not necessarily only for the Lebanese banking sector, as the results of the themes to emerge from the gaps might be allocated for a research project to be conducted in other countries in the Middle East region and/or any other country where banking characteristics are along similar lines. For instance, future research can be conducted about the corporate governance issues and its implications in practice, the interrelationship between the banking sector and governments through their sovereign exposure and the effects on credit ratings. The author has already generated ideas about the next topic to be researched in the near future. The research reflects both the author's Lebanese nationality and her professional knowledge and experience in the banking sector there, and in the academic sector in the country of residence, the UAE. The author is looking to pursue further research in the area of prudential regulation and mitigation practices of the banking sector in the region, and to start with intends publishing articles in journals, to progress her career in the academic context and to bridge the gap between theory and practice.

The gaps explored in this research present the regulators and management of the Lebanese banking industry with the challenging task of opening the doors for banks and the supervisory authorities to implement a number of positive changes, to help stop the identified resistance to changes in the current regulatory system. The issues identified in this research relate directly to all stakeholders, whether in practice as part of the banking system and policymakers, or researchers in the academic context.

Whether the research outcomes can be implemented in the Lebanese banking sector, or in any other sector with similar gaps, is a topic that requires further debate, evoking the issues raised here on any occasions where they arise. However, realisation of this research is subject to the author’s vision, which is informed by knowledge of what an efficient and resilient banking system could look like.

At every appropriate opportunity, in all professional or academic occasions, the researcher endeavours to promote awareness about the issues discussed in this research. The ambition is that the solutions proposed to address the issues presented here are considered by those in positions to implement change. As stated, the author is looking forward to conducting further research in this area and to publish the findings in peer-reviewed journals, and in this way to always seek to bridge the gap between theory and practice.

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8. Appendices

8.1. Appendix 1: Milestones in the Evolution of the Lebanese Banking System

1850 - 1920	• The Ottoman Bank, Comptoir d'Escompte, Banque de Paris & Pays Bas, Compagnie de la Route Suez Canal • Banque Agricole de Turquie, Banque de Syrie et du Liban, Compagnie Algerienne, Credit Foncier d'Algerie et de Tunisie & Credit Foncier de Syrie
1920 - 1943	• Banking under the French Mandate
1943 - 1963	• Banking in the early days of independence
1963 - 1968	• Creation of the Code of Code of Money and Credit
1968 - 1974	• The Golden Period
1975 - 1922	• The War Period
1993 - 2004	• Consolidation, mergers and aquisation
Expansion	• Expansion over the borders into the MENA countries

8.2. Appendix 2: Email Requesting Interview Meeting

Dear Sirs,

My name is Rania Itani Traboulsi, a student from Nottingham Trent University, School of Business, UK. I am contacting you for the purpose of conducting an interview with your good-self as part of my final Thesis research study for the Doctorate in Business Administration (DBA).

My DBA research topic is entitled "*Lebanese economy and banks amid turmoil: mitigating the risks of the financial crisis through the prudential banking regulations – insights for best practices*".

I will be honoured if you accept to participate in my research study to benefit from your expertise and knowledge in the field.

I will be present in Beirut from XX July – XX August 2016. Please inform me about your convenient date and time. I appreciate that you are busy and I would value any time you might have available. I would anticipate that a full interview might take 30 minutes, but any insights you can give on the attached topics would be welcome.

On behalf of NTU and myself, please accept our best appreciation in advance for your contribution to the success of my DBA study.

For your further inquiries, please feel free to contact:

Dr. Susan Kirk, *Course Leader DBA International,* Nottingham Business School, Nottingham. susan.kirk@ntu.ac.uk

Professor Duarte Pitta Ferraz, *Professor of Finance and Banking*, Director of Studies, NOVA School of Business and Economics, Lisbon, Portugal. duarte.pitta.ferraz@novasbe.pt

Professor Alistair Mutch, *Professor of Information and Learning*, second DBA supervisor, Nottingham Trent University (Nottingham, UK). alistair.mutch@ntu.ac.uk

Sincerely Yours,

Rania Itani Traboulsi

DBA Researcher

Nottingham Trent University

Nottingham, UK

www.ntu.ac.uk

8.3. Appendix 3: Letter to the Interviewee

Date

Attention: Interviewee NAME

Institution NAME

Subject: Meeting Request – DBA Research

Dear XXX,

Rania Itani Traboulsi is conducting a research as part of her studies for a Doctorate of Business Administration (DBA) at the Nottingham Trent University whose purpose is "*Lebanese economy and banks amid turmoil: mitigating the risks of the financial crisis through the prudential banking regulations – insights for best practices*".

During this research project, banking and supervision authorities' executives and managers will be interviewed and the interviews could be tape-recorded, if approved. If, during the interview, you do not feel comfortable, please let the interviewer know, that you would rather not answer to the question. We should stress that only the Interviewer and the Supervisors will have access to the tape recordings (if available).

Every participant in this research project will be asked to give written consent to participating, before it begins. Participation is voluntary and is appreciated. If you have any questions before, during and after the interviews, you should not hesitate to contact the interviewer.

Each participant will be informed about the data that will be collected, using audio means. **All the data will be destroyed after the project is completed. Before that, the collected data will be treated anonymously**. All names and organisations will be changed. Normally, only the researcher and his Supervisors will have access to the transcripts, although under exceptional circumstances they may need to be viewed as part of the examination process. In all cases, those who have access will do so in order to ensure that the overall project meets academic standards and they will themselves be bound to maintain strict confidentiality.

Every participant has the right to withdraw from this project, without having to give any reasons for withdrawing. Under these circumstances, the data provided by this participant will not be considered and will be destroyed. If you wish to withdraw you should contact the interviewer or, in alternative, the supervisors.

The interviewer can be contacted by e-mail: rania.itanitraboulsi@my.ntu.ac.uk

The Supervisors contact details are below:

Professor Duarte Pitta Ferraz, *Professor of Finance and Banking*, first DBA supervisor, NOVA School of Business and Economics, Lisbon, Portugal.
duarte.pitta.ferraz@novasbe.pt

Professor Alistair Mutch, *Professor of Information and Learning*, second DBA supervisor, Nottingham Trent University (Nottingham, UK). alistair.mutch@ntu.ac.uk

Professor Susan Kirk, *Course Leader DBA International,* Nottingham Business School, Nottingham. susan.kirk@ntu.ac.uk

Sincerely Yours,

Rania Itani Traboulsi
DBA Researcher
Nottingham Trent University
Nottingham, UK
www.ntu.ac.uk

8.4. Appendix 4: Questionnaire

First, let me express my gratitude for the time you will afford me to conduct this interview with your good-self hoping that we will be able to discuss and talk explicitly about matters and subjects related to the Lebanese banking regulations.

I hope in advance that you will enjoy sharing with me your thoughts and contributing in adding value to my thesis from your own experience in the sector.

QUESTION 1:

My first question will be addressed in general to know about your opinion for what changes are required in Lebanese banking prudential regulatory landscape to address the effects of any financial crises?

SUB-QUESTIONS:

- What currently are the main characteristics of the Lebanese banking sector?
- How do you determine the interrelationships and impact of an economical recession into the banking regulations in Lebanon?
- To what extent is controlling the prudential banking indicators from capital adequacy, asset quality, liquidity and profitability is relevant before, during and after recession?
- Should banks at any time change in the parameters of these financial set of ratios (capital adequacy, asset quality, liquidity or profitability) when faced with negative impact from an economic recession to mitigate the risks?

QUESTION 2:

- To further go deep into my analysis, I would like to ask you: How and when did the banks financially resisted in Lebanon to maintain their financial stability? What comes to your mind when you hear the word ‘liquidity’? Do you have any comments about the ‘Loans-to-deposits’ ratio?

SUB-QUESTIONS:

- What are the main indicators for resiliency, financial stability and continuity? How did Lebanon preserve its banking stability and banking continuity at times when all economic indicators were weak?
- What are the weaknesses and strengths that impact the Lebanese banking sector?

QUESTION 3:

When you think about the potential need for changes in regulation what comes to your mind? Should the banking regulator introduce more demanding financial ratios, more robust shareholders’ structure in relation to capital demands to mitigate external risks (such as the on-going Arab crisis) in line with best banking practices and regulation at, for example, the European Union?

SUB-QUESTIONS:

- Where does the role of the Central banks prevail in terms of ‘prudential banking supervision’ in imposing minimum strict financial ratios, namely for liquidity, capital adequacy, asset quality and profitability ratios?
- What precautionary plans (e.g. stress tests, audits and inspections) have been set by the BDL to ease the negative effects of any financial crises, such as the Arab Spring?
- In comparison with the regulatory best practices applied in US & the EU, will introducing new set of prudential policies similar to ones applied by the International standards will ease from the impacts of the financial crisis on the Lebanese banking sector?
- What is the vision for the future of the Lebanese banking sector taking into consideration the introduction of stricter and more demanding prudential banking ratios**?**

Finally, I would like to thank you again for the information you have supporting me with hoping that I did not annoy you with any of the above questions.

I was pleased meeting with you today and having this valuable conversation and I will certainly not fail to provide you with my final thesis once published!

8.5. Appendix 5: Interviewees' Profile

Interviewee No	Interviewee Pseudonym	Organisation Type	Interviewee Biography
1	**Jhonny**	Commercial Bank	Chief economist and head of the Economic Research and Analysis Department at one of Lebanon's top banks. Previously, Head of Research at an investment banking firm in Lebanon. He is a frequent guest-speaker at local, regional and international conferences as well as at universities, business, and civic organisations. He has also been quoted by the *Financial Times*, *Wall Street Journal*, *New York Times*, Bloomberg, etc. He is a Member of the World Economic Association, a Member of the Research & Studies Committee at the Association of Banks in Lebanon, a Founding Board Member of the Institute of Directors, a member of the Advisory Council of the Lebanese American University's School of Business, and a member of the Worldwide AUB Alumni Association Advisory Council. He is the recipient of the World Lebanese League's Award for "Best Economist in Lebanon and the Diaspora for 2009", Data Invest & Consult's Award for "Best Sovereign Risk Analyst of 2010", Data Invest & Consult's Award for "Most Innovative Research in 2012" and the "2013 Excellence in Economic Research Award".
2	**Robert**	Commercial Bank	Group Head of Market, FI and Country Risk Management of a prime Lebanese bank. He is an active member of the World Union of Arab Bankers as Risk Professionals (GRP).
3	**Sam**	Commercial Bank	He serves as the Head of Security and Business Continuity and has served as Head of Information Security at a Lebanese bank for the last 15 years. He has participated as a key speaker at various seminars, and at workshops organised by the Union of Arab Banks (UAB), and others.
4	**Paul**	Commercial Bank	He serves as the Head of the Financial Control & Accounting Department for a top Lebanese bank. He serves as the Group Chief Financial Officer. He served as Deputy General Manager and Central Manager at another top Lebanese bank.
5	**Roger**	Banking Authority	Executive Director – Head of Banking and the Financial Sector Stability Monitoring Unit at a Lebanese banking authority. He has more than 15 years' experience in executive banking supervision.
6	**Carlos**	Government Authority	Lawyer at the Beirut Bar Association and a professor in the Faculty of Law at a Lebanese University. He is member of the International Court of Arbitration – The Hague – and a member of the Board of Tripoli Special Economic Zone. He was chosen as Foreign Personality of the Year 2008 in France. He also taught Public Law at the University of Montpellier I, and was consultant to the Office of the defence of the STL (The Hague, Netherlands). He is currently Consultant to the Human Rights Committee in the Lebanese Parliament. He recently collaborated in preparing "A Guide for Legislative Analysis" for the Lebanese parliament and "A Guide for Constitutional Drafting" in Tunisia. He is author of numerous articles and studies. The Lebanese Government appointed him recently as a member of the High Consultative Committee of the Ministry of Justice, and he is currently serving as one of the legal advisors for the Minister of Finance.

7	**Michael**	International Institution for Supervision	He is an Operations Analyst with the World Bank's Public-Private Infrastructure Advisory Facility. He has over five years' experience advising public sector clients on public private partnership (PPP) transactions, and the creation of conducive enabling frameworks for private investment in infrastructure. Based in Dubai, he has worked on advisory mandates across the MENA region, notably in Afghanistan, Jordan, the Palestinian Territories and Pakistan, primarily focused in the power, transport and agriculture sectors. He was recently appointed to study Lebanon's banking opportunities and potential, in terms of new financing projects.
8	**William**	Government Authority	He is currently a Minister in Lebanon. He is currently serving as Deputy General Manager at a Lebanese bank and is also the CEO of a company and on the board of several group subsidiaries. This comes in addition to several other positions he previously held in the banking sector. With a PhD in Business Management, he has maintained a close relationship with the academic world, where he is chairperson at the Business Administration Faculty of Saint Joseph University as well as a lecturer at the Intitut Superieur d'Etudes Bancaires. He participates in several academic research studies in the business management field.
9	**Harry**	Public Organisation	He held various positions in the family business, and very quickly filled the Vice Chairman and CEO office of the mother company, with executive responsibilities in the subsidiaries abroad. He is currently the Chairman of two companies. He assumed responsibilities in several professional associations and contributed to the foundation of some of them. He served as Director and Treasurer of the "ICC, Lebanese chapter". He served as Director at the Board of the Chamber of Commerce, Industry and Agriculture of Beirut & Mount Lebanon. He was appointed Honorary Consul of the Republic of San Marino. He contributed to the foundation of the Lebanese Franchise Association.
10	**Emma**	International Institution for Supervision	She is currently a well-known Economist and Representative of the IMF Beirut Office. She served as an economist specialist and team leader at the Education Development Project: Ministry of Education World Bank Loan. She also served as a research analyst at one of the prime Lebanese investment banks. She worked as a teacher of economics at the Lebanese American University (LAU) and as an instructor at the American University of Beirut (AUB).
11	**Charlie**	Supervision	Head of the Risk Assessment Department at a Lebanese banking supervisory authority. Short-Term Expert at METAC, International Monetary Fund (IMF), Beirut. University Lecturer in Lebanon. Lecturer and Trainer at UAB And Other Arab Institutions.
12	**Leo**	Supervision	Head of Research Department Studies at a Lebanese banking authority for the last 15 years. He assumed different positions: Manager, Head of Studies Department, Executive Manager and Manager – Head of Studies Department at a Lebanese banking supervisory authority.

8.6. Appendix 6: Interview Details

Interviewee No	Interviewee Pseudonym	Organisation Type	Date/Time	Recorded	Language Used	Duration	Interview Quality
1	**Jhonny**	Commercial Bank	03/08/2016 @ 4:00 pm	No	English	45 mins	Good
2	**Robert**	Commercial Bank	22/07/2016 @ 11:00 pm	No	English	70 mins	Excellent
3	**Sam**	Commercial Bank	25/07/2016 @ 3:00 pm	No	English	60 mins	Excellent
4	**Paul**	Commercial Bank	21/07/2016 @ 2:00 pm	No	English	75 mins	Excellent
5	**Roger**	Banking Authority	20/07/2016 @ 9:00 am	No	English	60 mins	Excellent
6	**Carlos**	Government Authority	23/08/2016 @ 12:00 pm	No	English	40 mins	Good
7	**Michael**	International Institution for Supervision	26/07/2016 @ 5:00 pm	No	English	30 mins	Satisfac-tory
8	**William**	Government Authority	28/07/2016 @ 11:00 am	No	English	30 mins	Good
9	**Harry**	Public Organisation	15/07/2016 @ 3:00 pm	No	English	40 mins	Satisfac-tory
10	**Emma**	International Institution for Supervision	28/07/2016 @ 10:00 am	No	English	50 mins	Good
11	**Charlie**	Supervision	29/07/2016 @ 9:00 am	No	English	70 mins	Excellent
12	**Leo**	Supervision	29/07/2016 @ 10:30 am	No	English	70 mins	Excellent

8.7. Appendix 7: Letter of Consent

Name of site:

Please read and confirm your consent to being interviewed for this project by initialling the appropriate box and signing and dating this form

1. I confirm that the purpose of the project has been explained to me, that I have been given information about it in writing, and that I have had the opportunity to ask questions about the research ☐

2. I understand that my participation is voluntary, and that I am free to withdraw at any time without giving any reason and without any implications for my legal rights ☐

3 I give permission for the interview to be tape-recorded, on the understanding that the tape will be destroyed at the end of the project ☐

4. I agree to take part in this project ☐

______________________________ ___________ ____________________

Name of respondent Date Signature

Rania Itani Traboulsi ___________ ____________________

Researcher taking consent Date Signature

Researcher contact details: Rania Itani Traboulsi, e-mail: rania.itanitraboulsi2012@my.ntu.ac.uk, Mobile: +971555678802

Supervisors contact details:

Professor Duarte Pitta Ferraz (duarte.pitta.ferraz@novasbe.pt), Nova School of Business and Economics, Faculdade de Economia, Universidade Nova de Lisboa, Campus de Campolide, 1099-032 Lisboa, Portugal.

Professor Alistair Mutch (alistair.mutch@ntu.ac.uk), *Professor of Information and Learning*, second DBA supervisor, Nottingham Trent University (Nottingham, UK).

8.8. Appendix 8: Strategic & Research Questions – Documents 3 & 4

Strategic Questions (SQs)	Research Questions (RQs)	Corresponding Docs
FOCUS 1: Impact Post-Arab Spring		
1. What are the changes required in Lebanese banking prudential regulatory landscape to address the effects of the Arab Spring?	1.1. What currently are the characteristics of the Lebanese banking sector?	Docs 3 & 5
	1.2. How do you determine the interrelationships and impact of the Arab Spring in the banking regulations in Lebanon?	Docs 3, 4 & 5
	1.3. What changes should be implemented in the fields of prudential regulation, namely in liquidity, capital adequacy, asset quality and profitability as result of the Arab Spring?	Docs 3, 4 & 5
FOCUS 2: Resiliency		
2. How did the banks resist financially in Lebanon?	2.1. What are the main elements for a 'resisting/surviving' bank?	Docs 3 & 4
	2.2. How banks in Lebanon coped with the Arab Spring?	Docs 3 & 4
FOCUS 3: Best Practices		
3. What changes should banking regulators introduce in terms of financial ratios, shareholders' structure, liquidity and capital management in order to be resilient to similar events and situations in line with best banking practices and regulation?	3.1. What is the role of Banque Du Liban in terms of 'prudential banking supervision' in imposing minimum strict financial ratios, namely for liquidity, capital adequacy, asset quality and profitability ratios?	Docs 4 & 5
	3.2. What are the precautions plans (e.g., stress tests, audits and inspections) set by Banque Du Liban to ease from the negative effects of the Arab Spring?	Docs 4 & 5
	3.3. In comparison with the supervision best practices applied in US & the EU, in which areas and within which time frame should Lebanese banking regulators introduce new prudential policies?	Docs 4 & 5
	3.4. What is the vision after the Arab Spring for the future of the Lebanese banking sector taking into consideration the introduction of stricter and demanding prudential banking ratios?	Doc. 5

8.9. Appendix 9: Revising the Strategic Questions

Strategic Question	Research Findings	RQs	Correspondent Gap	Related pages
1-What changes are required in the prudential regulatory landscape of the Lebanese banking sector to address the effects of any financial crises?	"There is a strong relationship between financial crisis and banking regulation. […] Basel II only came about after the subprime debacle in the US occurred, when the banks were suffering heavy losses." (Conclusions)	RQ. 1.2	GAP C	pages: 101-103
	"Whether there is a recession or not, prudential regulations have been improving over the years. Modifications in regulations are caused by the International recession and local ones." (Emma (IIS))			
	"… there is a correlation between rules and regulations and economic recession. In general, any regulation worldwide is following a severe crisis." (Charlie (S))			
	"… a financial recession gave birth to some new regulations: Basel III." (Conclusions)			
	"Banks should have good governance able to take a controlling role over the CEO." (Sam (CB))	RQ. 3.4	GAP H	pages: 120-123
	"Banks are "faking growth" to grow faster and make more profits because they are relying on the wealth of their shareholders to reinvest in new projects, such us expanding their activities outside Lebanon." (Conclusions)			
	"The issue is with the cost of the compliance which can't be afforded by small banks."	RQ. 3.4	GAP J	pages: 123-125
	"… the target for the future of the Lebanese banking sector is to limit the number of operating banks." (Leo (S))			
	"… the goal is to complete the implementation of the Basel III regulations." (Charlie (S))			

Strategic Question	Research Findings	RQs	Correspondent Gap	Related pages
2-How and when did the banks in Lebanon resist risk to maintain financial stability?	*"… inflow of cash from the diaspora, trust in the Lebanese banking sector, trust in the governor of the Central Bank, history of the banking sector – since Lebanon has been 40 years in crisis and out of these, 15 years were due to war – thus that means that all banks are still growing; and, finally, trust in the Lebanese bankers and their know-how."* (Sam (CB))	RQ. 2.1	GAP B	pages: 97-100
	"… to have profitability ratios above 1%, to have ROE above 15%, to have loans/deposits around 14% […] to have an average spread above 2.5%, to have a CAR above 14%, to have a comfortable level of liquidity in FC to enable the bank to get through difficult times, to have at least 75% of the fixed positions in FC allowed by the regulatory authorities and to have a ratio for cost/income around 50%." (Paul (CB))			
	"… to have resiliency and stability and to maintain continuity in the banking sector, banks should aim at sustainable growth and should aim to preserve capital adequacy and profitability." (Roger (BA))	RQ. 2.1		
	"… strong liquidity and capital levels are the key indicators for resiliency, financial stability and continuity." (Charlie – S).			
	"… confidence and liquidity …" (Carole (BA))			
	"… diaspora transfers are key to preserving stability and continuity in the Lebanese banking sector during tough times." (Carlos (GA))	RQ. 2.2	GAP D	pages: 103-106
	"… the monetary policies helped the banks in preserving the financial sector. The BDL set ceiling ratios for banks to abide by. The Lebanese banking sector was helped by the operations of financial engineering promoted by the Lebanese TBs and conducted by the BDL, to support the banks in maintaining their resiliency." (Paul (CB))			
	"… the financial regulations are protecting Lebanon in terms of risk evaluation and credit assessment. The main safeguard protecting the financial sector was the banking regulations." (William (GA))			
	"… using counter-cyclical measures can reduce the implications of economic conditions to the financial sector." (Charlie (S))			
	"Maintaining a buffer is not a key factor to mitigate banking risks in times of recession." (Conclusions)			

Strategic Question	Research Findings	RQs	Correspondent Gap	Related pages
3-What changes should the banking regulators introduce, in terms of financial ratios, shareholder structure and capital management, in order to mitigate external risks, in line with best banking practices and regulation?	"Since banks want to extend outside Lebanon *'banks should enhance corporate governance and hence work on the risks derived from financial crimes, terrorism and conduct, internet and political risks'". (Leo (S))*	RQ. 2.3	GAP E	pages: 106-110
	"… the Lebanese banking sector has a main gap, which is created in the structure of the consolidated Lebanese banking balance sheet, causing a maturity mismatch." (Roger (BA))			
	" … different precaution plans: '*the BDL required banks to increase capital; the BDL required banks to increase the level of subsidies; the BDL prohibited banks from distributing profits to take provisions, as such, no more than 15% of the profits were allowed to be distributed in 2012; the BDL obliged all banks to carry out early implementation of International best practices in order to build confidence in the local market.'"* (Robert (CB))	RQ. 3.1/ 3.2/ 1.4	GAP F	pages: 111-116
	"Banks are not allowed to create their own ratios, but they can be more conservative than the BDL. These ratios must always be maintained at the level requested by the BDL." (Roger (BA))			
	"… banks should set two important internal ratios "Immediate liquidity" and "General Liquidity" in the short-term. In terms of asset quality, it is not easy to maintain healthy asset quality ratios because these ratios are set to keep the bank from immediate market risk. In this regard, the Net Loans/Customer's Loans ratio should be between 1% and 2%." (Paul (CB))			
	"… the Lebanese banking sector's practices and regulations are "Old Fashioned". We can't customise what we receive from abroad from regulations and laws; however, we can customise some laws, such as the AML and FATCA." (William (GA))	RQ. 3.3	GAP G	pages: 116-120
	"In terms of financial regulations, I am not sure of the Lebanese competences in that field in comparison with the International standards." (Sam (CB))			
	"… still there are weaknesses in the regulatory framework. Examples of weaknesses are the exchange of cash across borders, exchange of tax information and AMLCFT. We don't have to take up every regulation received from the US and EU; but we do need to customise them, even if we are obliged to abide by these new regulations." (Emma (IIS))			
	"… whatever regulations Lebanon receives from the US, it is obliged to abide by and follow like all the other countries, we do not have the choice. However, the regulations Lebanon receives from the EU are flexible and can be negotiated with them, hence we can accept them or not." (Harry (PO))			