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The Performance of Nepalese Commercial Banks on International Trade Facilitation through Geographical Coverage of Correspondent Banks

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ABSTRACT

Correspondent banking is a critical mechanism for facilitating cross-border payments and international trade especially in developing and import-reliant economies like Nepal. The paper discusses how the geographical coverage of the correspondent banks affects the performance of the Nepalese commercial banks in facilitating international trade. The study adopts a deductive research design based on a positivist research philosophy and uses quantitative research design as it is cross-sectional. A structured questionnaire was used in order to collect primary data by interviewing 300 employees in 20 Nepalese commercial banks in trade finance, treasury, compliance/AML, remittance/SWIFT, and senior management functions. Cronbach alpha was used to test the instrument and the reliability was confirmed as 0.898. Perceptions of correspondent bank geographic reach and trade facilitation performance were measured using descriptive statistics, mean analysis and chi-square tests. These findings show that the coverage of the wider geographical base of the correspondent banks plays a huge role in improving the capabilities of Nepalese banks to facilitate international trade through the increase of cross-border payments efficiency, availability of various currencies, issuance of letters of credit, and reduction of risk. The statistical outcomes of the research show that there is a strong positive relationship between the geographic coverage and the trade facilitation performance of correspondent banks, so the null hypothesis is rejected. Nevertheless, other significant limitations in the study include regulatory compliance costs and de-risking practices which moderate these benefits. The paper finds that correspondent banking is a necessity to Nepal and that reinforcement of correspondent networks and complementary regulatory policies and digital infrastructure is a key to carrying on effective international trade facilitation and global financial integration.

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1. Introduction

Correspondent banking is an official contractual relationship whereby a bank (the correspondent) offers banking and payment services to another bank (the respondent), especially in a jurisdiction where the respondent does not have any physical presence or access to a local financial infrastructure. The correspondent banks have accounts with respondent banks in such arrangements and the flow of funds around the world is achieved through crediting and debiting the accounts as transactions are made between them (Lowery and Ramachandran, 2015; BIS, 2016). This central role allows the respondent banks to process cross-border payments, address the foreign currency requirements and trade internationally in financial markets despite the geographic or regulatory constraints (CPMI, 2003; ECB, 2015). The Wolfsberg Group also explains that correspondent banking involves supply of current or liabilities accounts and other similar services that involve trade finance; management of liquidity and clearing of cash in particular currencies (Wolfsberg, 2014). According to the recent literature, correspondent banks are key facilitators of international payments as they store deposits on behalf of other banks and facilitate currency exchange and wire transfer to support international trade and financial transactions (Westernmeier, 2025). Additionally, the studies on the external effect of correspondent banking emphasize the fact that the disruption of the correspondent banking relationships may lead to the substantial decrease in the export performance of the firms operating in the emerging economies, which suggests the significant operational and economic significance of such relationships (Borchert et al., 2025).

Correspondent banking is vital to enable provision of a wide spectrum of cross-border financial services that smaller, regional or non-international financial institutions are incapable of delivering effectively on their own. The major services offered are international funds transfer and remittance, cash management, clearing cheques in major currencies, trade finance support including letters of credit, liquidity management via access to foreign currency funding, custodial services and investment services (World Bank, 2018; Trade Finance Global, 2023). These services are the foundation of the global payment system that allows banks to provide both corporate and retail customers with international payment requirements and facilitate international trade, foreign direct investment, and financial inclusion (BIS, 2016; Trade Finance Global, 2023). The contemporary empirical sources also indicate that a reduction in correspondent banking services may produce severe adverse outcomes on the banking industries in developing economies by the way of impairing the access to the international financial networks, which consequently can trigger augmented financial exclusion and barricade the economic activity (Ogbeta, 2025).

Furthermore, the use of correspondent banking is also identified as a pillar of international payment systems and the promotion of collaboration among stakeholders to enhance speed, cost, and transparency of cross-border payments through enhanced correspondent and alternate systems of payment by global initiatives like the G20 roadmap toward improving cross-border payments (FSB, 2024). Therefore, correspondent banking is one of the core elements in linking local banks to the foreign financial framework, broadening the service opportunities, and facilitating effective economic relations through the world.

One of the oldest cross-border payment systems, which was composed of a bank operating transactions on behalf of another because of the lack of a physical presence, is the correspondent banking: the earliest records of this approach date back to the Medici times. Nevertheless, the fundamental banking format of correspondent banking has not evolved much over the centuries and continues to be at the center of the global payment system, despite

its deep financial innovation. Approximately 20% of the total volume of payment but almost half of the total volume of transactions have been attributed to cross-border transactions, which highlights their strategic value to banks (McKinsey, 2015). The correspondent banks in the international economy have a wide network across the entire world which conducts trade, foreign investments, remittance, and integration of financial markets. Nevertheless, the number of correspondent banking relations has decreased by about a fifth in the last decade, and this has brought some concerns to regulators that there is a decrease in access to the international financial system, especially by smaller and developing economies (FSB, 2019; BIS, 2020). Although a majority of the countries still have the option to access it with a longer and more complicated chain of payments, these alterations add to the expenses, settlement delays, and the risks of operations.

The shrinkage of the correspondent banking relationships can be significantly contributed by the increased costs of regulatory compliance in connection with the anti-money laundering and counterterrorist financing standards, and the general de-risking process by the global financial institutions (Erbenova et al., 2016; Eckert et al., 2017). Remittance-dependent and trade-oriented economies are disproportionately impacted by these pressures and correspondent banking is essential to the household income, financial inclusion, and economic stability (World Bank, 2015). In the past, cross-border payments have had a stable profit margin that de-incentivized innovation, but today, mounting pressure by regulators, customers and other fintech providers are compelling structural change (McKinsey, 2016). New technologies, especially distributed ledger and blockchain systems, are also considered as possible complements or alternative to conventional correspondent banking that have a better interoperability, transparency, and real-time settlement (CPMI, 2016; IMF, 2017). However, correspondent banking still constitutes part and parcel of the global financial system and its further development is key to maintaining inclusive growth, effective flow of trade, and financial stability in the world.

Correspondent banking relationships are significant towards assisting developing economies such as the SAARC region to undertake cross-border payments, trade finance as well as being a part of the world financial system. These relations enable banks to supply imports, exports, remittances and access to foreign currencies, which are particularly significant in South Asia where the trade and payments are mostly bank-related (Erbenová et al., 2016; World Bank, 2015). The corresponding banks are the key financial intermediaries which help most of the SAARC countries to have access to the international market and payment systems.

After the global financial crisis, de-risking had become a common practice as many international banks decreased or stopped correspondent banking relationships. Developing and emerging economies have been impacted more by this trend since compliance costs are higher, there is anxiety in anti-money laundering and counter-terrorism financing standards, and transparency has reduced (World Bank, 2018; IFC, 2017).). In South Asia where the higher amount of trade has been dependant on letters of credit and correspondent-bank settlements, a reduced access to correspondent banking can directly escalate transaction costs and constrain trade volumes. It is empirically demonstrated that correspondent relationship loss interferes with the flow of payments, undermines trade finance, and impacts the level of exports and the results of firms (Borchert et al., 2023). Moreover, the Financial Stability Board analysis demonstrates that the correspondent banking corridors have been decreasing steadily across the globe, and cross-border payment networks get more concentrated and vulnerable over the years (FSB, 2018).

The role of correspondent banking to Nepal is very critical since the country relies a lot on imports as a source of basic commodities e.g. fuel, machineries, construction materials and pharmaceuticals. Nepal depends on international trade and receipt of remittances to facilitate consumption and investment as domestic production cannot satisfy these demands. The Nepali banks can use the correspondent banking relationships to make cross-border payments and settle trade transactions, access foreign currencies, and issue trade finance instruments like letters of credit, which is necessary to import goods and receive export proceeds (NRB, 2024; World Bank, 2025). The time lag or interruption in international payment may have a direct impact on the industrial production, supply chain, and the price stability. In addition, an effective correspondent banking also facilitates the inflows of remittances, foreign direct investment and trust in the financial system of Nepal through linking local banks to international payments systems like SWIFT, enhancing the incorporation of Nepal into the global economy (CPMI, 2016).

Practically, in Nepal, the conduct of the correspondent banking is primarily performed by the commercial banks that have a relationship with foreign banks to provide the letters of credit, allotment of documents, remittances, and settlement of foreign currencies. To make international trade payments and remittance transactions, Nepalese banks are still largely dependent on correspondent accounts, especially in US dollars (NRB, 2025). The international programs like trade finance guarantees that are offered through multilateral institutions also support these arrangements and allow reducing risk and increasing access to global markets (ADB, 2024; IFC, 2025). Correspondent banking is also important in remittance flows which constitute a substantial portion of Nepal GDP and foreign exchange earnings. Non-bank remittance service providers cannot offer a cross-border transfer, and, therefore, the stability of remittance channels, financial inclusion, and stability of the entire sector externally in Nepal rely on the consistency of cross-border relationships between banks and non-bank remittance services providers (UNCDF, 2021; World Bank, 2018).

The geographic area of the correspondent banks is very important because it enables the Nepalese commercial banks to facilitate international trade. Since Nepal is a small dependent, landlocked economy that mostly depends on imports, the domestic banks heavily use the correspondent banking network to access international payment system, settle cross-border transactions and also give trade finance instruments in the form of letters of credit and guarantees. The wider geographic reach of correspondent banks also enables the Nepalese banks to reach numerous foreign markets, currencies, and clearing systems, which has the effect of minimizing settlement delays, transaction expenses, and liquidity limitations imposed to the importers and exporters. Empirical research indicates that correspondent bank networks play a crucial role especially in nations where internal banking networks are not globalized since they directly facilitate the flow of trade and the access to foreign exchange (Demirguc-Kunt et al., 2022). The domestic banks can be in a better situation to provide continuous trade services to their customers, deal with the foreign currency risk, and sustain small and medium-size enterprises involved in international trade when the correspondent bank has extensive geographic coverage.

The shrinkage of the correspondent banking networks with de-risking and regulatory pressures has however undermined the trade facilitation ability of banks in the developing countries like Nepal. International banks having a small geographic coverage restrict correspondent relationship in developing markets, which restricts the capacity of local financial institutions to pay and deliver trade-related banking services effectively (Bertay et al., 2024). Such a decrease adds to transaction costs, it concentrates the settlement risks and impacts more severely smaller traders who rely on domestic banks to help facilitate international transactions. It is indicated

that the larger the international coverage of their banks, the easier it is to diversify risk and smooth the liquidity shocks, whereas domestic banks that do not have adequate correspondent coverage are more prone to the effects of global financial stress (Demirguc-Kunt et al., 2022; World Bank, 2018). The financial problem of limited correspondent coverage in Nepalese environment directly impedes trade facilitation, raising payment frictions and lowering competitiveness, which demonstrates the necessity of policies that would maintain the correspondent relationship and complement it with digital financial infrastructure to maintain international trade integration.

The Nepalese banks heavily rely on the foreign payment environment whereby the correspondent banking network is relied on to pay international, receive foreign currency and offer trade finance required to facilitate imports and exports. But these networks are slowly becoming smaller and concentrated and this can be decreasing the efficiency and competitiveness of the Nepalese banks. Even though digital financial technologies are being actively popularized as alternative solutions, the evidence regarding their potential to completely substitute the correspondent banks in facilitating the trade-related banking services is low. The majority of studies available dwell on the performance of the general banks, foreign investment, or financial inclusion and fail to specifically analyze the implications of the geographical reach of the correspondent banks on facilitation of trade particularly in the nations that primarily depend on imports such as Nepal or the low-income countries. Consequently, this means that the policymakers and banks do not have clear and viable evidence to formulate effective strategies that enhance trade facilitation, overcome the effects of de-risking and ensure that Nepalese banks are still integrated with the international financial sector.

1.2 Objectives of the Study

The study is have following specific objectives:

- a. To evaluate the impact of correspondent banks' Geographical Coverage on Nepalese commercial banks' ability to facilitate international trade.
- b. To analyze impact of Geographical Coverage of correspondent banks on facilitation performance of Nepalese Commercial banks in international Trade.

1.3 Hypothesis of the Study

The study has the following hypothesis:

Null Hypothesis (H1): No relationship exists between the geographical reach of correspondent banks and international trade facilitation performance of domestic banks in developing countries.

Alternative Hypothesis (H1): A positive relationship exists between the geographical reach of correspondent banks and international trade facilitation performance of domestic banks in developing countries.

2. Research Methods

The research employed a quantitative study method to test the hypothesis of the relationship between the trust and reputation of correspondent banks and performance of Nepalese commercial banks in the international trade financing. It was deductive in nature, as it began with already known theories, including the Transactions Cost Economics and Agency Theory and then ran these concepts through primary data. The study used cross-sectional, descriptive, and non-experimental design where a specific time of interest was used to comprehend the current practices and views of correspondent banking without altering anything.

The surveyed employees were the employees of 20 commercial banks in Nepal that work in strategic departments that are involved in international trade that include Remittance/SWIFT, Treasury, Compliance/AML/CFT, Trade Finance (Letters of Credit), and Top Management. Stratified random sampling was used to pick 300 respondents to have fair representation in each department. The primary data were gathered using a structured questionnaire that aimed at determining the level of trust, credibility in compliance, relationship Marshmallow and performance in facilitating trades. A pilot test was conducted before administering the main survey to determine the truthfulness and validity of the questions and the outcome of the questionnaire was a Cronbachs alpha of 0.898 meaning that the level of reliability and consistency of the questionnaire is very high.

Theoretical Standpoint

In a broad theoretical perspective, a research is informed by a theoretical framework that gives a systematic approach to assist in the comprehension of the relationships among major concepts and variables. A theoretical framework assists in explaining why some phenomena happen using known theories and previous knowledge as opposed to making assumptions (Eisenhart, 1991). It recognizes useful ideas, principles, and interconnections that can be applied to analyze the existing issues in the world and explain the empirical data (Brondizio et al., 2014). A study does not have any specific, correct theory, and the researchers choose theories that match the nature of the issue under study and the research circumstances (Grant & Osanloo, 2014). Theoretical frameworks have been frequently adopted in research concerning banking and international finance to describe the impact of institutional arrangements, trust, governance structures, and inter-organizational relationship on performances and decision-making.

Various theories have been developed to date to answer the question of why and how this is so in the case of correspondent banking. The agency theory brings out the principal-agent relationship and how asymmetry in information, trust and monitoring issues impact on performance and compliance (Eisenhardt, 1989; Thompson, 1967). Socio-political and resource dependence theories underline that the relations between organizations are influenced not only by the cost efficiency but power, dependency and the possibility to get access to vital resources, including foreign currency and payment system (Pfeffer and Salancik, 1978). These schools of thought indicate that the geographical scope of correspondent banks is a major factor in reducing uncertainty, decreasing the cost of transaction, and promoting cross-border cooperation. Combined, those theories offer a solid conceptual basis to research the relationship between correspondent banking and the facilitation of international trade and financial stability.

3. Result

Demographic Analysis

The demographic analysis describes the main background features of the respondents of the study and it helps to put the results of the research into the right perspective. It contains vital information like gender, age group, education level, departmental affiliation and occupation. The study represents a broad spectrum of opinions by taking the answers of professionals operating in various positions within the Nepalese commercial banks that have been exposed to the international trade finance. Such diversity of the respondents enhances the credibility of the findings and enhances the reliability of the findings of the study.

Table 1, Demographic Information of Respondents

Demographic Variables	Categories	Percentage of Respondent
Department	Swift / Remittance / IT	14.0
	Treasury	20.0
	Compliance/AML/CFT	18.3
	Trade Finance (LC)	33.3
	Top Management	14.3
Gender	Male	60.0
	Female	40.0
Age	20-29	7.3
	30-39	56.7
	40-49	30.3
	50-59	5.7
	+ 2 / Intermediate	0.3
Academic Qualification	Bachelor Degree	11.0
	Master's Degree	82.0
	M.Phil.	3.3
	Ph.D.	1.7
	Other	1.7

Source: (Field survey, 2025)

The demographics of the respondents depict that the study is informed and professionally pertinent based on the informed views of Nepalese commercial banks. The number of respondents is significantly represented by Trade Finance (LC) departments (33.3%), then Treasury (20.0%), and Compliance/AML/CFT (18.3%), which guarantees a good representation of the core functions that are directly related to international trade facilitation and operations of a correspondent bank. The fact that the SWIFT/Remittance/IT (14.0%), and Top Management (14.3%) are included adds an additional strength to the analysis because both operational and strategic perspectives are taken into consideration. The balance in gender is adequate as male respondents constitute 60.0 percent and the female respondents constitute 40 percent as the gender representation in the banking industry is increasing. On the age bracket, most respondents are in the 30-39 age bracket (56.7), then 40-49 (30.3), meaning that most respondents are at their peak career stages and have enough experience in the trade-related banking practices. The respondent pool is also highly qualified as 82.0% of them have a masters degree and another 6.7% have M.Phil. or Ph.D. qualifications, which strengthens the analytical depth and reliability of the responses. On the whole, the demographic picture illustrates the well-balanced, mature, and academic high-quality sample that proves the soundness and validity of the study results.

Correspondent Banks' Geographical Coverage Performance.

The geographical coverage of correspondent banks is one of the measures used to determine their capability of ensuring banking relationships across various countries and currencies to ensure that they can provide a smooth cross-border payment and trade finance service. International transactions have greater efficiency, reliability, and resilience with wider geographic coverage by domestic banks and less efficiency, reliability, and reliance on fewer correspondent partners with limited coverage.

Table 2 The Performance of Correspondent Banks on Geographical Coverage

S. N.	Statement	Mean	SD
a	The correspondent banks provide access to a wide and effective global banking network.	3.91	.86
b	The global presence of correspondent banks improves local bank 's ability to operate internationally.	4.15	.82
c	We benefit from the correspondent banks' relationships with other foreign financial institutions.	3.96	.78
d	A strong global network of correspondent banks allows us to serve clients in diverse markets	4.10	.74
e	The correspondent banks offer a wide global network that supports our international operations.	3.89	.84
f	The correspondent banks ' presence in strategically important markets strengthens our ability to better facilitate beneficiary/exporters and our customers.	3.98	.77
g	The proximity of correspondent banks' branches to key client locations improves transactional efficiency and customer satisfaction.	3.87	.78
h	The correspondent banks adapt their services to regional market conditions, enhancing operational effectiveness in diverse locations.	3.76	.82
i	The geographical spread of The correspondent banks reduces our dependency on single-country banking relationships, mitigating geopolitical and market risks.	3.89	.84
j	The correspondent banks maintain resilient cross-border connectivity even during regional economic or political disruptions, ensuring continuity of international operations.	3.75	.75

(Data Source: Field Survey, 2025)

The findings reveal that there is an overall high perception of the geographical coverage of the correspondent banks in facilitating international operations with the mean scores ranging between 3.75 and 4.15. The strongest agreement among the respondents was that the existence of correspondent banks in the globe enhances the capacities of the local banks to conduct business internationally (Mean = 4.15, SD = 0.82) and facilitates the provision of services in different markets (Mean = 4.10, SD = 0.74). The mean values of statements being high also indicate that correspondent banks are offering efficient global networks, lessening reliance on single country relationship and improving mitigation of risks and efficiency of customer services. The standard deviations are relatively low, which proves that there is consistency between the respondents; this concept validates that broad geographical coverage of correspondent banks is perceived as a major factor that contributes to the effectiveness of operations, resilience, and performance of facilitating trade.

International Trade Facilitation in Nepalese Commercial Banks.

The mean and Standard Deviation analysis indicate that, the majority of the respondents claim that Nepalese commercial banks are effective in supporting international trade using correspondent banking, especially in the letter of credit, international payments, and risk management. The mean values are high, which implies correspondent banking has a positive effect on trade efficiency and competitiveness, and the standard deviations

are rather low which presupposes the uniformity of the opinions of the respondents on the level of bank performance. The values of the average and dispersion could be presented as follows:

Table 3 Performance of Nepalese Commercial Banks on International Trade facilitation

S. N.	Statement	Mean	SD
1	Trade Facilitation Efficiency		
a	The services of correspondent banks significantly ease our facilitation of international trade.	3.96	.81
b	Trade-related risks are reduced through reliable correspondent bank services.	3.97	.77
c	De-risking by global correspondent banks has negatively impacted local bank 's international business/services	3.47	.91
d	The correspondent banks play a vital role in providing letters of credit services and handling trade related bills/documents	4.08	.84
e	The efficiency of correspondent banks supports the competitiveness of our trade services.	4.06	.73
f	Correspondent banking relationships improve local bank 's ability to facilitate international trade transactions.	4.08	.78
	<i>Mean of Trade Facilitation Efficiency</i>	4.04	
2	Risk Mitigation and Regulatory Factors		
g	Local banks with strong correspondent banking partners experience faster processing of cross-border payments.	4.08	.79
h	Correspondent banking relationships help mitigate risks in international financial transactions.	3.96	.82
	<i>Mean of Risk Mitigation and Regulatory Factors</i>	3.72	
3	Compliance and Operational Constraints		
i	Compliance requirements from correspondent banks raise operational costs for domestic banks.	3.69	.90
j	Regulatory requirements for correspondent banks have made it more difficult for Nepalese Commercial Banks to retain such relationships.	3.48	.92
	<i>Mean of Compliance and Operational Constraints</i>	3.59	

(Data Source: Field Survey, 2025)

The above table outlines Nepalese commercial banks' views on correspondent banks' roles in international trade, categorized into three key areas: Trade Facilitation Efficiency, Risk Mitigation and Regulatory Factors and Compliance and Operational Constraints. In Trade Facilitation Efficiency, a mean score of 4.04 indicates strong consensus on correspondent banks' importance in promoting trade efficiency, specifically through letters of credit (M = 4.08) and faster cross-border payments (M = 4.08), despite lower scores indicating challenges from de-risking (M = 3.47).

In the cases of Risk Mitigation and Regulatory Factors, the mean of 3.72 demonstrates considerable contributions to the reduction of international financial risks with agreements on benefits containing faster payments (M = 4.08), and increased security of the transaction (M = 3.96). Nonetheless, Compliance and Operational Constraints indicate worries regarding the increased compliance costs where the mean score (M) is 3.59 is seen as indicative

of the challenge of growing AML and KYC demands ($M = 3.69$) in terms of maintaining the sustainability of the correspondent relationships ($M = 3.48$). Although correspondent banks promote trade, and reduce risks, the strict regulatory requirements have continued to challenge local banks in Nepal.

The Association between Geographical Coverage of Correspondent Banks and the Performance of Nepal commercial bank in International Trade Facilitation

The relationship between the geographical area of the banks that are correspondents and the effectiveness of the Nepalese commercial banks in facilitating international trade can be seen in the fact that they are able to effectively process international payments, handle trade finance instruments and effective management of the risks in transactions. More comprehensive coverage of correspondent banks would also allow Nepalese banks to cover more markets and currencies, enhance efficiency of settling operations, increase dependability of services being provided to importers and exporters, and enhance overall trade facilitation performance.

Table 4 The Association between Geographical Coverage of Correspondent Banks and the Performance of Nepal commercial bank in International Trade Facilitation

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	2467.003 ^a	930	.000
Likelihood Ratio	657.385	930	1.000
Linear-by-Linear Association	150.359	1	.000
N of Valid Cases	312		

a. 991 cells (99.9%) have expected count less than 5. The minimum expected count is .00.

The statistical findings depict that there is a considerable relationship between the international performance of Nepalese commercial banks in facilitating international trade and the geographical coverage of the correspondent banks. Pearson Chi-Square is very significant ($\chi^2 = 2467.003$, $p = .001$) indicating that the wider the coverage of the correspondent banks, the higher the facilitation of trade outcomes including efficient transactions involving foreign countries and trade finance. The strong Linear-by-Linear Association ($\chi^2 = 150.359$, $p < .001$) is another indicator of the positive directional relationship and indicates the existence of the positive association between the geographical coverage improvement and performance. The interpretation of this is however, to be done carefully since a high percentage of the cell having low expectancy is high, thus the Chi-Square findings may be affected by this. Irrespective of this shortcoming, the results suggest a high level of indicative evidence that the geographic reach by the correspondent banks is a valuable attribute to facilitate international trade by the Nepalese commercial banks.

4. Discussion

The results of this paper are quite consistent with the previous international evidence which emphasizes the key position of correspondent banking networks in the context of international trade, especially in the developing economy and import-oriented economies. As with the results of Demirguc-Kunt et al. (2022) and the World Bank (2018), this paper concludes that the greater the geographical coverage of the correspondent banks, the higher the capability of domestic banks to process cross-border payments, issue letters of credit, and address risks associated with trade operations. The mean scores of trade facilitation efficiency are high and the results of the statistical significance of the association between the variables support the point that correspondent banking networks are not optional financial connections but important trade infrastructure. In this respect, the Nepalese

evidence concurs with the global results that the relocation or tightening of the correspondent relationships has an adverse impact on the trade flows and the banking performance, thus support the external validity of the international research studies to the Nepalese context.

Although these two are similar, the research provides some unique information as it also brought out the severity of dependence in Nepal on correspondent banking as opposed to larger emerging-market samples. Although Bertay et al. (2022) posit that international networks of banks provide a means of smoothing domestic credit cycles and risk diversification, the current findings indicate that Nepalese banks feel more vulnerable when correspondent coverage is reduced, as there are no other settlement methods and extensive use of trade finance facilities, e.g., letters of credit. The Nepalese commercial banks do not have corresponding buffers as is the case in larger emerging economies that can partially alleviate correspondent retrenchment by using foreign subsidiaries or regional banking hubs. This difference highlights the fact that the negative impact of de-risking is not the same between the developing nations, and is more dramatic in the small, landlocked economies where the correspondent banking happens to be the major periphery to the global markets (World Bank, 2018).

A key strength in terms of analysis of this work is the fact that it addresses regulatory and compliance constraints in a subtle manner. Although the benefits of the efficiency provided by the correspondent banking are commonly discussed in global literature (BIS, 2016; FSB, 2018), the evidence in Nepal shows that there is a contradiction between the gains on trade facilitation and the increased compliance costs. The relatively less means score in compliance and operational variables is an indication that the beneficial effect of correspondent coverage can be partly mitigated by the strict AML/CFT requirements and de-risking practices. The conclusion carries a further implication on earlier studies as it indicates that geographic reach is not sufficient without regulatory matching and institutional capacity. Besides, contrary to certain recent works that focus on digital finance as an alternative to traditional correspondent banking, the study reveals that there is scanty evidence that virtual channels can entirely substitute correspondent networks in trade finance-related activities, confirming IMF (2017) fears that digital solutions are at present complementary, rather than substitutive. This point of view brings a policy-relevant dimension, which is that it might be the most willing approach to continue trade facilitation in Nepal to build correspondent relationships and digital infrastructure at the same time, instead of considering them as substitutes.

5. Conclusion

This paper aimed at assessing how the geographical coverage of correspondent banks affects the capacity of the Nepalese commercial banks to enable international trade, and also examine the effect of the coverage on the total performance of trade facilitation. It is evident that the findings indicate that the correspondent banks with broader geographic coverage increase the ability of the Nepalese commercial banks to acquire cross-border payments, offer trade financing tools like letter of credit, and deal with foreign currency and settlement risks. The statistically significant relationship between the two variables and mean scores on the trade facilitation efficiency indicators and the coverage of geographic indicators in the countries has proven that larger correspondent networks enhance the operational efficiency, service reliability and competitiveness of international trade. In this regard, the null hypothesis is rejected, and the alternative one is accepted, proving that the correspondence between the geographical coverage and the performance of the correspondent banks in facilitating international trade is positive.

Simultaneously, the research shows that the positive effects of wide coverage of correspondents are tempered by regulatory and operational limitations. Though, the correspondent banking enhances the ease in facilitating the trade process, the increasing compliance, AML/CFT and the de-risking practices have persistently undermined the capacity of Nepalese banks to sustain and develop such relationships. The results indicate that correspondent banking is irreplaceable even in an economy that is import-dependent and landlocked such as Nepal in spite of the increasing interest in digital financial technologies that, at the moment, are rather complements than substitutes. Comprehensively, the research finds out that further expansion of geographical coverage by correspondent banking and favourable regulatory environments, higher capacity of compliance and augmentation by supplementary digital infrastructural support are needed to sustain the good practices of international trade facilitation and even increased global financial interconnectivity of Nepal commercial banks.

Limitations and Future Research Study

The limitations of the study are as follows:

- a. This research relies on cross-sectional data, hindering the process of tracking alterations in the relationships between correspondents and the improvement or deterioration of trade facilitation over the course.
- b. Results are based on self-reported impressions of the employees of the banks and this can be subject to response bias regardless of the professional experience of the respondents.
- c. The authors study Nepalese commercial banks exclusively, which does not preclude the possibility of the research being not universalized to other developing or SAARC nations.

Declaration

I declare that this work was prepared independently and that no AI-based applications or tools were used to generate any part of this manuscript.

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