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Article

Banking Risk management In Commercial Banks

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Abstract: The banking sector is among the most high-risk industries, and in recent years, these risks have not only grown but also shifted in nature. While credit risks used to dominate concerns about stability, banks now face significant challenges such as market fluctuations, liquidity crises, interest rate volatility, and strategic threats. This evolving landscape emphasizes the need for advanced risk management systems, especially as many banks increasingly engage in high-risk financial activities. To safeguard their assets and profitability, institutions must adopt measures that proactively minimize potential losses—whether those arise from external factors, human errors, or legal rulings. For Iraqi banks in particular, it is critical to implement comprehensive systems that evaluate and address all forms of risk while ensuring regular updates to adapt to changes in the financial environment.

Keywords: banking risk management, credit risk, market risk, operational risk, liquidity risk

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1. Introduction

The banking sector plays a crucial role in the economy, exerting a profound influence while continuously adapting to both global and local changes. One of the most significant factors driving this transformation is the rapid advancement of technology within international financial markets. Additionally, efforts to remove long-standing restrictions that have previously hindered banking operations and to eliminate barriers preventing some financial institutions from participating in certain sectors are gaining momentum. At the same time, there is a growing emphasis on effectively managing and reducing lending risks, particularly in response to increasing competition in the global market as banks seek to attract capital.

Furthermore, international institutions like the Bank for International Settlements (BIS) have become instrumental in overseeing global banking operations. Starting with the Basel Accords in 1988, BIS and similar organizations have issued various regulations focused on strengthening control, supervision, transparency, and risk reduction. The banking industry is inherently risky, and these risks have not only intensified in recent years but have also evolved. While credit risk remains a concern, other risks such as market fluctuations, liquidity challenges, interest rate changes, and strategic issues have come to the forefront. This shift has prompted banks to reconsider how they assess and manage potential threats. In response, it is increasingly important for banks to implement effective risk management strategies, especially as many are moving toward more high-risk, high-reward financial activities.

2. Materials and Methods

The first section

Research Methodology

First: The research problem:

Risk management has become a focal point for financial and banking institutions, especially in light of the financial challenges and crises that have caused the insolvency and bankruptcy of many such institutions. The banking sector, in particular, is especially vulnerable to risks, more so than other industries, and as such, it must continuously develop and adopt effective methods and tools to address these risks efficiently.

Second: Research Objective:

1- Identify banking risks and the process of managing these risks.
2- Highlight the importance of risk management in reducing the risks that plague the banking system.
3- Discovering the reality of banking risk management in the research bank (Ashur International Bank).
4- Encourage the use of contemporary methods in identifying and measuring risks in the surveyed bank.

Third: The Importance of Research:

The value of this research lies in the crucial role that effective banking risk management plays, especially in light of the rapid advancements within the banking sector and the increasing complexity of associated risks. As financial institutions face a growing variety of challenges, understanding and developing robust risk management strategies has become essential not only for boosting banks' financial performance but also for preventing the emergence of financial crises. The need for banks to implement efficient risk management systems is more pressing than ever, allowing them to not only respond to and mitigate current threats but also to predict potential risks and take preventive actions. Additionally, it is vital for banks to continuously adapt and develop solutions that enable them to stay ahead of the evolving landscape of the financial industry

Fourth: Research hypothesis:

The research was based on the main assumption that "Does the research bank have standards for managing banking risks?"

Literature Review

The second section

Banking Risk Management (Theoretical Side)

First: The concept of banking risk management:

The term risk is one of the terms that are widely frequented and it is used in all fields and the word risk in the language is derived from the word danger, including the verb risk, and it has been used in several meanings, including: [1]

- The mortgage is said to risk the matter, i.e. bet
- Supervising the destruction is said to have risked by himself, i.e. healed it on the destruction.

It is also defined as "a situation in which there is a possibility of an adverse deviation from the desired expected or hoped outcome". [2]

From the Latin word "Resca", the word risk-taking takes its concept of interruption for a projected situation, which is a deviation from the expected. [3]

According to the IIA, risk "is the likelihood of circumstances or events that could affect the achievement of an organization's objectives, and risk is measured by the degree to which they affect the organization's objectives and the degree of their probability of occurring." Banking risk is defined as "fluctuations in the market value of the bank and is also defined as part of the outputs of operations." The existence of an opportunity in which activities deviate from plans at any stage andpart of the outputs of operations. The operational of the bank is difficult to predict." [4]

Second: Types of banking risks:

Banks face a wide range of risks, all of which are inherently tied to the future. These risks are linked to almost every financial decision they make, but they vary in their causes and sources. To effectively address them, it's important to understand and distinguish the different types of risks involved.

1- Classic risks : Traditional risks include all risks associated with managing a bank's assets and liabilities. These risks can be categorized into several types:

   I. Liquidity risk : Before addressing the risk of liquidity, it is necessary to define the concept of liquidity, as liquidity means (the extent to which the bank has funds available to meet and meet cash requests by borrowers and deposit withdrawals by depositors). [5]

   Liquidity risks occur when a large number of depositors unexpectedly seek to withdraw their funds from a commercial bank at the same time. This puts pressure on the bank to rapidly liquidate its income-generating assets, often at significantly reduced prices and within a constrained timeframe. This risk also appears when a large number of borrowers exercise their rights to withdraw the funds that the commercial bank agreed according to the lending agreement to withdraw amounts within certain limits called the credit line. There may happen to be a number A large number of borrowers want to benefit from withdrawing these funds within a short period of time, which negatively affects the bank's liquidity. [6]

   II. Credit risk : Credit-risk can be defined as the risks associated with the counterparty (debtor) in the contract, i.e. his ability to fulfill his contractual obligations in full on time as stipulated in the contract. It is also defined as the risk arising from the possibility of abank suffering losses as a result of the customer's inability to meet his obligations on time. [7]

   III. Interest Rate Risk: This type of risk stems from unfavorable changes in interest rates, which can adversely affect a bank's income and capital, both in the present and in the future. When these risks become substantial, they can significantly threaten the bank's profitability and erode its capital foundation. Proper management of interest rate risk requires advanced information systems capable of delivering timely and accurate reports to support effective decision-making. [8]

2- Market risk : The market risk is represented in inappropriate deviations of movable values, where Market risk is assessed by analyzing fluctuations in various market parameters represented in the interest rate, stock market indices and exchange rate, and in general, the market risks to which the financial institution is exposed are those resulting from fluctuating returns , interest rates,exchange rates or the values of various assets. [9]

3- New risks : New risks have emerged as a result of the developments in the economy in general, including what is related to the ocean, including what is related to transformations in the economic function, and the most important of these risks are the following:

   I. Operational risks : These refer to losses that occur due to inadequate procedures, employee negligence, weaknesses in internal systems, or external events. According to the European directive on the adequacy of a bank's own funds, operational risks also encompass legal risks, though they exclude strategic and reputational risks. In contrast, the Basel Committee's definition only excludes strategic risks from this category. [10]

Based on this definition, operational risks are divided into the following elements:[11] Internal fraud: It is those acts of the kind that aim to cheat or misuse property or circumvent the law and regulations.

- External fraud: Any acts carried out by a third party of the kind aimed at fraud, misuse of property or circumvention of the law.
- Work Practices and Workplace Safety: These involve actions that are not aligned with the job's requirements or health and safety regulations, as well as tasks that lead to personal injury compensation due to inadequate safety measures or poor coordination.
- Customer, Product, and Business Practices: This refers to the unintentional failure or negligence in fulfilling professional obligations to specific customers, or shortcomings arising from the design of the product itself.
- Damage and extinction of tangible assets, which are the losses or damages caused to tangible assets as a result of natural disasters or any other accidents
- Downtime and malfunction of systems including computer systems .
- Implementation and information management is the failure to carry out transactions or manage operations with commercial parties and vendors .

II. Legal risks : They are the risks that the bank may be exposed to as a result of the lack or deficiency of its documents, which makes them legally unacceptable, and this deficiency may occur inadvertently when accepting guarantee documents from customers, which later turn out to be not acceptable to the courts. [12]

III. Strategic risk: Strategic risk is the current and potential impact on profits or capital resulting from harmful business decisions, the implementation of improper decisions or the lack of response to industrial variables, and these risks are one of the most important risks that accompany electronic banking operations and are mainly related to the decisions and policies taken by the senior management of thebank. It differs from other risks in that it is more general and broad and it also has an impact on all other types of risks and the strategic risk arises from the inconsistency of the strategic objectives of the bank with the strategies that have been developed and the resources that have been employed, so thebank must estimate the costs of managing the risks associated with them before the expected return achieved from them, as well as ensure that the services it provides are consistent with the concrete objectives in the strategic plan and follow up the risks associated with the operations of Electronic banking. [13]

IV. Systemic risks: They are the risks resulting from the inconsistency between the actions of the interveners in the various systems (capital markets, the banking sector, payment mechanisms) that make up the financial system and the regulatory mechanisms that indicate a general economic imbalance or are the risk that appears in the form of the bankruptcy of a series ofbanking institutions or the fall of the financial market.[14]

Third: The Importance of Banking Risk Management:

Risk management is not a new concept, but its significance has grown considerably in recent years, particularly following numerous financial crises, the most recent being the global financial crisis. This shift has prompted regulatory and supervisory authorities to seek new methods to establish a well-structured risk management system. The importance of risk management can be highlighted by the following key elements[15]:

1. It helps form a clear vision for the future, providing a foundation for setting action plans and policies.
2. It aids in developing a competitive edge for the bank by effectively managing both current and future costs that impact profitability.

3. It ensures that risks are identified and hedged in ways that do not negatively affect the bank's profitability.
4. Risk-taking decisions are aligned with the strategic objectives of the financial institution.
5. The expected return is proportional to the level of risk undertaken.
6. Capital and resource allocation is appropriately matched to the degree of risk involved.
7. Decisions regarding risk tolerance are transparent and easily understood.

Fourth : Stages of Banking Risk Management :

Banking risk management is carried out according to several steps, which are considered risk management functions

They are represented in:[16]

1- Identifying Risks: The first step in managing risks is their identification, which begins with defining them clearly. Every bank product or service is associated with a variety of potential risks. For instance, when a bank issues a loan, it faces four main types of risk: lending risk, interest rate risk, liquidity risk, and operational risk. Identifying these risks is not a one-time task but an ongoing process, requiring constant evaluation at both the individual transaction level and across the broader portfolio.
2- Measuring Risks: Once risks have been identified, the next step is to measure them. This involves assessing each type of risk in terms of its size, duration, and the likelihood of its occurrence. By considering these three dimensions, a bank can better understand the potential impact of these risks on its operations.
3- Managing Risks: After identifying and measuring the risks, the third step is controlling them. There are three main strategies for managing these risks: avoiding or limiting specific activities, reducing the level of risk, or mitigating the impact if the risk does occur. These approaches help ensure that potential negative consequences are minimized.
4- Role of Information Systems in Risk Monitoring: For effective risk management, banks must implement robust information systems capable of not only identifying and measuring risks accurately but also monitoring any significant changes in the bank's risk position. Moreover, systems that track interest rate fluctuations are vital to compensate for any lost returns on loans, ensuring the bank can adjust accordingly to protect its financial position.

Fifth: Approaches to Banking Risk Management:

When banks encounter risks, they have several methods available to deal with them. The most widely used approaches include: [17]

1. Risk Avoidance: Risk aversion is a strategy employed when a bank does not have the necessary resources to absorb specific risks. Although this approach minimizes exposure, it also means forgoing potential profits from those activities.
2. Risk Acceptance: In contrast to risk aversion, risk acceptance involves taking on risk when the potential return justifies the risk involved. This strategy is employed when a bank is confident in its ability to manage and mitigate these risks effectively.
3. Risk Transfer: The third approach is transferring the risk to a third party. This can be accomplished through insurance, government guarantees, or collateral, thereby shifting the financial burden away from the bank in the event of a loss

3. Results and Discussion

The third section

(Applied Side)

First: About Ashur International Bank:

Ashur International Investment Bank was founded in 2005 as a private joint-stock company within Iraq's private sector. It became the country's first full-service investment bank, offering a comprehensive range of banking services to both commercial enterprises and individuals. As the bank's operations expanded and flourished, its capital was progressively increased, reaching 250 billion Iraqi dinars (approximately $215 million) by 2014. The bank envisions itself as a leader in providing innovative financial services, aiming to offer distinctive services both locally and globally. It is also committed to upholding the highest standards of banking, in compliance with Iraqi laws and regulations, while utilizing the latest technology in all of its transactions, including information and communication technologies. Ashur International Investment Bank places a strong emphasis on effective banking risk management.

And when visiting the bank, the following was found:

1- The bank has an independent risk management unit.
2- Develop risk management policies and strategies commensurate with the potential risks that may be exposed to them.
3- The bank follows a diversification and distribution policy during the credit granting process.
4- The bank shall establish rules for granting loans and rules for obtaining the information and documents required to grant loans.
5- The bank studies and analyzes the guarantees provided and their legality and adequacy before accepting the credit application.

Second: Study and analysis of the elements of the questionnaire:

1- Description of the research sample: The sample was described according to the variable of gender, age group, degree, and years of experience.
   I. By gender variable: Table (1) shows the distribution of the questionnaire sample, according to the gender variable as follows:

Table (1) Distribution of Sample Members by Gender Variable

Percentage (%)	Duplicate	Gender
52.6	20	male
47.4	18	Female
100	38	Total

- **The source is prepared by the student based on the outputs of the SPSS program**

The table shows that 52.6 % of the research sample represents males while 47.4% of the sample represents the percentage of females.

   II. According to the age variable: Table (2) shows the distribution of the research sample according to the age variable as follows:

Table No. (2) Distribution of Sample Members According to Age Variable

Percentage	Duplicate	Age Group
15.8 %	6	From 20 to 30 years
60.5%	23	From 31 to 40 years old
13.2%	5	From 41 to 50 years
10.5%	4	Over 50 years old
100 %	38	Total

- **The source is prepared by the student based on the outputs of the SPSS program**

The table shows that 60.5% of the distribution of the research sample according to the age variable ranges between the ages of 31 to 40 years, while 15.8% of the sample represents the age of 20 to 30 years, and for those aged 41 to 50 years and over 50 years, they represent 13.2% and 10.5% respectively.

III. By academic level: Table No. (3) shows the distribution of the research sample by academic level:

Table No. (3) Distribution of Sample Members According to the Variable of Study Level

Percentage	Duplicate	Academic achievement
10.5%	4	Settings
68.4%	26	academic
15.8%	6	Graduate
5.3%	2	Other
100 %	38	Total

– **The source is prepared by the student based on the outputs of the SPSS program**

Table No. (3) shows the distribution of the sample according to the variable of the academic level, where it is noted that 68.4% of the sample members are those who hold a university degree, and this indicates a large percentage of the employees in the research bank are scientifically qualified and also indicates the importance of appropriate scientific qualification and also this percentage reflects the interest of the research bank in raising the levels of academic employees, while 15.8% represents the number of those who hold a postgraduate certificate, while 10.5% and 5.3% represent those who hold a preparatory certificate and Certificate from other centers respectively.

IV. According to years of experience: Table No. (4) shows the research sample according to years of experience:

Table No. (4) Distribution of sample members according to the variable of the number of years of experience

Percentage	Duplicate	Number of years of experience
%26.3	10	Less than 5 years
%31.6	12	5 to 10 years old
%10.5	4	From 10 to 15 years old
%18.4	7	From 15 to 20 years old
%13.2	5	More than 20 years
100 %	38	Total

– **The source is prepared by the student based on the spss program**

We note from the table that 31.6% of the research sample have professional experience how much 5 to 10 years, 26.3% have less than 5 years of experience, 18.4% have years of experience from 15 to 20 years, and 13.2% have more than 20 years of experience.

2- Analysis of the results of the questionnaire:

A Tucker Ari distribution table has been prepared for the questionnaire variables used for the purposes of descriptive statistical analysis to obtain the arithmetic means andthe standard lesions of the agreement ratios achieved for all paragraphs.

The source is prepared by the student based on the outputs of the SPSS program

Table No. (5) shows the arithmetic averages and standard deviations of the degrees of belief of the members of the research sample that the Assyria Bank provided the appropriate climate for banking risk management, where paragraph (2), which states "the development of policies and riskmanagement strategies commensurate with the potential risks that can be exposed" in the first rank with an arithmetic average of 3.97 anda standard deviation estimated at 0.927 and has obtained a degree of approval with a medium degree, which indicates the interestof the bank Paragraph (3), which states that "Assyria Bank follows a diversification and distribution policy during the credit granting process", ranked second with an arithmetic average of 3.29 anda standard deviation of 1.158, which indicates that the bank under study follows a policy of deconcentration of credit. The order of the rest of the paragraphs was descending according to the approval of the respondents as follows: (1,2,3) and the arithmetic averages (3.11, 1.84, 1.76) respectively The standard deviations were estimated at (1.026, 1.84, 0.936) respectively With regard to the total degree of the questionnaire, the arithmetic average was (2.79), which indicates that the degree of approval is high for the respondents and the standard deviation reached(0.750), which is less than the one that confirms that there is agreement and consensus on the questionnaire questions. Which indicates that the respondents consider that the research bank has risk management standards, all of the above leads us to accept the research hypothesis , which states: **The research bank has standards for banking risk management.**"

Table No. (5) Trends of the members of the research sample

Order	Degree of approval	Standard deviation	Arithmetic mean	Frequencies and percentages					Scale	Ferry
				Strongly agree	I agree	neutral	Disagree	Strongly disagree		
3	**Moderate Agree**	**1.026**	**3,11**	**13**	**19**	**1**	**4**	**1**	**Iteration**	**The bank has an independent risk management module.**
				34.2	**50**	**2.6**	**10.5**	**2.6**	**Percentage %**	
1	**I agree**	**0.927**	**3.97**	**7**	**17**	**11**	**2**	**1**	**Iteration**	**Develop policies and managementstrategies The risks are proportional to the potential risks to which they may be exposed.**
				44.7	**5.3**	**28.9**	**18.4**	**2.6**	**Percentage %**	
2	**Disagree to a moderate degree**	**1.158**	**3.29**	**14**	**13**	**6**	**3**	**2**	**Iteration**	**The Bank follows a diversification and distribution policy during the credit granting process.**
				36.8	**34.2**	**15.8**	**7.9**	**5.3**	**Percentage %**	
4	**Disagree**	**0.945**	**1.84**	**16**	**15**	**5**	**1**	**1**	**Iteration**	**The bank establishes guidelines for granting loans, as well as the requirements for the information and documentation that must be provided to secure these loans.**
				42.1	**42.1**	**13.2**	**2.6**	**0**	**Percentage %**	
5	**Strongly disagree**	**0.786**	**1.76**	**16**	**16**	**5**	**1**	**0**	**Iteration**	**The bank evaluates and analyzes the collateral, assessing its legality and sufficiency, before**
				42.1	**42.1**	**13.2**	**2.6**	**0**	**Percentage %**	

										approving the credit application.

4. Conclusion

1. Banking risk management is "administrative arrangements that aim to protect a bank's assets and profits by minimizing the chances of expected losses, whether those caused by nature, human error, or judicial rulings."
2. There are several options for managing banking risks, the "first option" is to avoid risks in case it does not have the necessary capabilities to bear those risks, but at the same time it will lose the profits derived from this banking process, either the "second option", which is the opposite of the first option, i.e. accepting risks in order to obtain the available return if the expected return is greater than the expected risks, while the "last option" available to the bank is to transfer the loss to a second party by bearing The cost of this is through insurance, government guarantees or obtaining guarantees.
3. The need for transparency and disclosure through the availability of an accurate and fast information system that can be relied upon so that decision makers can evaluate the bank's performance, efficiency and ability to manage risks.
4. Assyria International Bank develops risk management policies and strategies commensurate with the potential risks that may be exposed and follows a diversification and distribution policy during the credit granting process.

Recommendations:

1. Allocate greater focus on managing all forms of financial and operational banking risks, as this will enhance the bank's performance and operational outcomes, while also ensuring accurate pricing for activities that may introduce risks.
2. Establish a dedicated risk department responsible for accurately identifying risks by analyzing available data and information. This department should develop reporting systems and work plans for various units, monitoring adherence to these plans to achieve a clear identification and classification of all risks in the bank's operations, activities, or transactions.
3. Strengthen banking oversight and emphasize the importance of banks complying with international standards related to capital adequacy and transparency.
4. Ensure that Iraqi banks and financial institutions adopt advanced systems for evaluating banking risks, covering all types of risks, and regularly reviewing these systems to ensure they remain aligned with developments in the banking sector.

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