ON THE ROLE OF CREDIT RISKS IN RATIONALIZING ADMINISTRATIVE DECISIONS: FRESH EVIDENCE FROM IRAQI BANKS

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Abstract

The research aims to identify and measure indicators of credit risk in banks by analyzing criteria and indicators for measuring bank credit risk and developing a proposed approach that identifies indicators for measuring bank credit risk, and applying the proposed approach to actual credit cases to deepen understanding of the dimensions of the problem and its solutions, for helping economic units in take management decisions as well as stabilizing banking conditions and preserving deposits. After conducting a field survey of a group of Iraqi companies with the aim of identifying the sample that suffers from the research problem at hand, the Iraqi banks were chosen as a sample for the current study. The search is done studying and analyzing bank credit risks can help provide appropriate information to rationalize administrative decisions.

Key words: credit risks, administrative decisions, Iraqi banks. JEL Classification:

1- Introduction

The subject of credit analysis has become one of the topics of concern to banking activity and its employees in general, as well as to students of financial and banking studies in particular, as it is an important tool to reach accuracy in making credit decisions and thus reduce losses that banks may be exposed to. Which contributes to the rationalization of bank lending operations. The special risks occur as a result of factors whether it is external or internal to the entity that affect the ability of banks, which requires it to predict and anticipate their occurrence in far future organizations, entities, institutions, companies and units that have specific operations or work that seek to achieve what they aim to achieve can be reduced or controlled through diversification, in contrast is difficult for the bank to control them during the period and predict them in the future and confront them, and therefore general risks cannot be avoided by diversification.

Commercial banks suffer risks and credit risks, so the problems they may be exposed to increase when these risks exacerbate. As a result of the contraction of the bank credit market in Iraq and the accompanying high volume of risk, the need has become urgent to rationalize the credit decision through the application of practical methods to measure the accompanying risk indicators within a proposed framework that takes into account all the variables affecting it in order to rationalize administrative decisions.

Its comes in reviewing, analyzing and standing on the size of these risks and then developing the necessary treatments, and accordingly the return achieved by this research in addition to its scientific return has an economic return, especially for the relevant banks.

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After conducting a field survey of a group of Iraqi companies with the aim of identifying the sample that suffers from the research problem at hand, it's were chosen as a sample for the current study.

Our main results suggest there are many financial risks to which private commercial banks are exposed, such as interest rate risks, investment risks, inflation risks, financial market risks, theft and embezzlement risks, patriotism risks, and globalization risks. These results are with greater importance for investors as well as for decisions makers.

The remainder of this paper proceeds as follows. In Section 2, we overview the main related literature. Section 3 describes the main sample data and the empirical approach. In Section 4, we summarize and we discuss the main empirical findings. Finally Section 5 concludes.

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2- Literature review

Banking business has witnessed a great development over the years if the banking business in the economies of different countries of the world has reached a great degree of development and complexity, as this sector is considered one of the most prestigious sectors, and since deposits are the main source of funds for commercial banks.

The credit function in the bank is defined as: providing individuals, institutions, and establishments in society Banking has contributed to the development of forms of bank credit, through its discovery of modern methods of providing bank credit that do not contradict the principles of the true religion, such as partnership, leasing, good loan, and peace (Ibrahim, 2014: 154).

Accordingly, bank credit is a process whereby the bank accepts, in return for a specific interest or commission, to grant a customer (natural or moral) at vital functions for bank credit, including financing investment and consumer projects for individuals, financing internal and external trade, and settling exchanges after which it is an alternative to money, and it also contributes to achieving a better distribution and use of financial resources (Melehi, 2017: 19).

credit bank also defined credit as "the confidence that a bank gives to a person, whether natural or moral, to grant him an amount of money to use for a specific purpose, within an agreed period of time and on certain conditions in exchange for an agreed financial return and with guarantees that enable the bank to recover his loan in the event that the customer stops paying" (Saeed, 2013: 152).

It was also defined as the current exchange of goods, services, and property in exchange for payment of the equivalent and agreed-upon value in the future, meaning that it is a "value exchange.

It also defined it as "a process whereby the bank agrees, in exchange for a certain interest or commission, to grant a customer, upon his request, sooner or reforming all structural imbalances in the Iraqi banking system by setting controls, legislation and laws that reduce the incidence of banking system problems and also contribute to preparing this system to face future challenges formation of a permanent committee in the Central Bank of Iraq that follows up the international developments in this field and is consistent with the relevant Arab and international institutions (Awwad, 23: 2015).

Banking has contributed to the development of forms of bank credit, through its discovery of modern methods of providing bank credit that do not contradict the principles of the true religion, such as partnership, leasing, good loan, and peace. One of the main risks that banks face is the credit risk, which is meant by: (Al-Zubaidi, 2000: 174).

1. Risks arising from non-payment in full and on time.
2. Credit risk as possibility of borrower's inability for repay loan in accordance with the terms agreed upon granting credit.

Accordingly, There are many financial risks to which private commercial banks are exposed, such as interest rate risks, investment risks, inflation risks, financial market risks, theft and embezzlement risks, patriotism risks, and globalization risks activating the role of insurance companies and institutions in Iraq to coordinate with commercial banks in order to protect banking business from credit risk shocks (Abdul Rahman, 2018: 444).

The risks to which loans are on the demand for bank credit, and on the liquidity of commercial banks. The treatment of these cycles differs, and formation of a permanent committee in the Central Bank of Iraq that follows up the international developments in this field and is consistent with the relevant Arab and international institutions the impact of these treatments on determining the size and cost of bank credit, as follows: (Hindi, 2000: 227)

1. Special risks or non-systemic risks: Non-systemic risks are those internal risks that are unique to a company or industry under development of forms of bank credit, through its discovery of modern methods of providing bank credit that do not contradict the principles of the true religion, such as partnership certain circumstances. Examples of these conditions include weak banking management, administrative errors, labor strikes, and changing customer tastes as a result of the emergence of new products. Such type of exceptional and non-market risks would affect the customer's ability and desire to pay his obligations towards the loan-granting bank within the agreed term during the specified financial period between the two parties.

2. General risks or systemic risks: Systemic risks mean all the risks that affect all loans regardless of the circumstances development of forms of bank credit, through its discovery of modern methods of providing bank credit that do not contradict the principles of the true religion, such as partnership of the borrowing bank due to economic, political and social factors that are difficult to control and control. Examples of such risks include the risks of changing interest rates, the risks of changing customer tastes, the risks of inflation, the risks of changing foreign exchange rates, in addition to technological changes.

In sum, the private risks occur as a result of internal factors that effects in eveloping and modernizing private commercial banks in Iraq through the use of modern methods of banking, and developing human cadres by introducing bank employees to qualifying courses to develop their capabilities and inform them of modern methods of banking as a whole and it is difficult for the bank to control them during the period and predict them in the future and confront them, and therefore it is not possible to avoid general risks by diversification (Al-Qadi, 2018: 20).

Good lending is characterized by a number of characteristics, with the availability of which it is difficult for default to occur, and the credit decision-maker must strive to provide them in his decision. The most important of these characteristics is liquidity, which means the possibility of self-liquidation of credit, as in the case of facilities with the guarantee of goods, documentary credits, and full payment on the agreed date and on the agreed terms. Therefore, the credit grantor must verify this and the safety of using the loan for the purpose for which it was granted, and it must verify the availability of a specific and clear source of repayment. The liquidity of loans also means the speed of loan turnover, i.e. the short period of time from the date of the loan contract until its maturity date (Abdullah and Al-Trad, 2016: 316-317).

The credit decision-maker must balance the risks associated with his credit decision and the profitability expected from him, taking into account the bank's credit policy with regard to the type of credit that can be granted and the applicable interest rates. Rabah (Al-Khatib, 2014: 38).

And the bank must make sure that the loaned funds will be recovered at the specified time for repayment, and this comes from its keenness and emphasis on the availability of liquidity in order to maintain the bank's ability to fulfill its obligations towards depositors when they request their

deposits and to fully verify the availability of the creditworthiness of the borrower, and the integrity of its transactions and its efficiency in managing its activity (Al-Daghim and Al-Amin, 2018: 175).

A good guarantee is a key element in credit decision-making, and it is an element that is difficult to overlook or neglect, as it serves as a line of defense for unforeseen emergencies, or to confront situations surrounded by risks and a high degree of uncertainty. The guarantee must be subject to periodic review and inspection to ensure its integrity and validity and the availability of all conditions related to its validity and continuity as a guarantee for loans and facilities provided by the bank (Zaida, 2017: 37).

3- Data description and empirical appraoch

The research community consists of individuals working in the Iraqi banking sector, including administrators, accountants, auditors, and financial analysts. As for the research sample, a sample of those individuals was selected, as 165 questionnaires were distributed, and 160 of them were valid for analysis. The questions in the specific questionnaire form include identifying and analyzing the characteristics of the individuals in the sample, which are demographic or personal, in order to determine the age of the individuals responding to the questionnaire, their age, gender, qualifications, or academic or university attainment, as well as the special or related years of experience. A standard, model, or five-point Likert equation was also used. I also used methods and techniques appropriate to the objectives of this research, such as the arithmetic mean and standard deviation, in addition to other tests appropriate to the purpose or objective for which they were found..

The distributed questionnaires were 165 questionnaires, and 160 questionnaires subject to statistical analysis were retrieved, as the percentage of these forms reached 96.97%, while the non-returned forms amounted to 5 forms that could not be analyzed, i.e. 3.03%.

4- Results and discussions

We start with analyzing, the demographic characteristics of the research sample individuals in terms of age, gender, educational qualification and years of experience . These demographic properties are reported in through Table (1).

Table 1: The main demographic properties of the research sample

No.	variable	Category	Number	Percentage
1	Age	40-30years old	110	68.75 %
		50-41years old	40	25 %
		More than 50 years old	10	6.25 %

2	sex	Male	110	68.75 %
		Feminine	50	31.25 %
3	Qualification	Bachelor's	100	62.5 %
		Master's	40	25 %
		Ph.D	20	12.5 %
4	Years of Experience	5to10 years	20	12.5 %
		11to15years	50	31.25 %
		More15years	90	56.25 %

Quotes that 68.75% of sample individuals range in age 30-40years,25% of them range in age from 40-50 years, and the ratio of males to total was 68.75%, ratio of females was 31.25%, and ratio of the sample of bachelor's academic achievement degrees reached 62.5%, masters academic achievement 25%, and PhD academic achievement 12.5% This means that they are qualified to understand the subject, and that the years of experience of Individuals in entity were the largest ratio for the types of more than 15 years ratio of 56.25%. All of these data and indications provide indicators and evidence that can illuminate the connection between the knowledge and creativity of individuals in understanding and analyzing variables in order to find, identify and determine the reflection between them. When the bank grants bank credit, procedures are taken to determine the size and specifications of the loans, in order to provide the necessary information to rationalize administrative decisions.

It indicated: (Study and analysis of bank credit risks can help provide appropriate information to rationalize administrative decisions). Table (2) explain t arithmetic mean, percentage, and (SD) standard deviation of the research hypothesis variables.

Table 2: The arithmetic mean, percentage, and (SD) standard deviation of the research hypothesis variables

Sequence	Paragraphs	Calculation the Mean of Arithmetic	Calculation the Ratio(%)	Calculation the (SD) Standard deviation
1	The bank analyzes credit risks in order to provide information that helps management make rational decisions	4.002	0.8004	0.546

Sequence	Paragraphs	Calculation the Mean of Arithmetic	Calculation the Ratio(%)	Calculation the (SD) Standard deviation
2	When the bank grants bank credit, procedures are taken to determine the size and specifications of the loans, in order to provide the necessary information to rationalize administrative decisions	3.768	0.7536	0.426
3	Bank makes sure facility obtains for its credit its will able repay loans to it, along with their interest, on the dates specified for that, and that the element of safety and confidence is available during its process.	3.638	0.7276	0.546
4	Bank obtaining commissions and interest from loans and its enables it to pay interest on deposits, this subjects meet for expenditures for accomplish a invested return on capital.	4.091	0.8182	0.536
5	he bank works to maintain a financial position characterized by liquidity through the commitment and implementation of these competent authorities to the applicable orders, which are supposed to be strictly.	4.098	0.8196	0.439

Sequence	Paragraphs	Calculation the Mean of Arithmetic	Calculation the Ratio(%)	Calculation the (SD) Standard deviation
6	The bank is responsible towards its depositors for the method of investing funds and determines the nature of the applicable orders, which are supposed to be strictly.	3.686	0.7372	0.549
	Average	3.881	0.7761	0.507

Calculation the Mean of Arithmetic for all paragraphs was (3.881) with a percentage of (0.7761) and a standard deviation of (0.507), which acceptant of the research hypothecs, and to ensure that the relationship between the two research variables is a real relationship and is not due to chance, the test can be used (see, Table 3).

Table 3: Results of One Sample T-test for the research hypothesis variables

Sequence	Paragraphs	The Value of T (Calculation)	Freedom Degree	Significance (Sig)
1	X1	9.427	159	0.05
2	X2	6.901	159	0.05
3	X3	11.891	159	0.05
4	X4	6.249	159	0.05
5	X5	8.19	159	0.05
6	X6	8.828	159	0.05

value of T was between 8.19 and 11.891, which indicates the acceptance of this hypothesis, especially with regard to the following:

1. The credit decision-making in banks is within the framework and aims of policy of credit, which differs from organization or bank to another according to the specific factors of each bank, which sets the controls for the bank's activity in granting credit facilities.
2. When granting bank credit, measures related to determining the volume and specifications of loans are taken, and those that determine the controls for granting, following up, and

collecting these loans, meaning that the lending policy includes the rules that govern lending operations in its various stages.

3. Entity or bank makes sure facility obtains for its credit its will able repay loans to it, along with their interest, on the dates specified for that, and that the element of safety and confidence is available during its process.

4. Entity or bank obtaining commissions and interest from loans and its enables it to pay interest on deposits, this subjects meet for expenditures for accomplish a invested return on capital .

5. The bank's maintenance of a financial position characterized by liquidity through commitment and application of these competent entities, units, institutions and organizations to the applicable orders that are supposed to be strictly observed.

6. The bank's responsibility towards its depositors affects the method of investing funds and determines nature of applicable orders that are supposed observed to be strictly.

It is possible to clarify the value of the factor correlation coefficient (Pearson's R) among bank credit risks and administrative decisions in the banks listed in the Iraq banks sample, as following:

Table 4 :The value of correlation coefficient (Pearson's R) between credit risk and management decisions

Correlations			
		Bank credit risk	Administrative decisions
Bank credit risk	Correlation of Pearson	1	.912[*]
	Sig. for (2-tailed)		.000
	N.	160	160
Administrative decisions	Correlation of Pearson	.912[*]	1
	Sig. for (2-tailed)	.000	
	N.	160	160
Correlation (R) is Sig. at 0.01level(2-tailed)*			

Correlation coefficient between bank credit risks and administrative decisions is 0.912, which is a direct and significant value (Sig), which is less than the level of significance of 5% or 1%. Therefore, the null hypothesis is rejected and the alternative hypothesis is accepted.

The effect relationships will also be tested by extracting the values of the coefficient (F) between the bank credit risk model and the administrative decisions through the use of the program (SPSS vr.25) and testing the significance of that effect in order to judge whether it is significant or not.

Table 5: Table of variance analysis between bank credit risk and administrative decisions

ANOVA					
Model	Sum of Squares	Df.	Mean Square	F	Sig.
Regression	153.346	1	153.346	782.464	.000
Residual	30.965	158	.196		
Total	184.311	159			

The above table represents analysis of variance (ANOVA). We note that the value of F calculated is (782.464), which is significant at a significant level (5%). This is evidence that the model is significant, and this indicates the independence of the degrees of the dependent variable from each other, by making sure that adding any individual to a group of groups will not affect in any way the selection of other members of the study population, and this can be confirmed by using a random sample and conducting the test on it. Distributed moderately among all members of the study population.

5- Conclusions and recommendations

The research reached the following conclusions:

1. Most of the credit offered by private commercial banks is short-term credit for commercial and consumer purposes, and they do not favor long-term credit in order to avoid risks.
2. (the bank) and the debtor, through which the debtor can obtain an amount of money on the demand for bank credit, and on the liquidity of commercial banks. The treatment of these cycles differs, and the impact of these treatments on determining the size and cost of bank credit.
3. There are many financial risks to which private commercial banks are exposed, such as interest rate risks, investment risks, inflation risks, financial market risks, theft and embezzlement risks, patriotism risks, and globalization risks.
4. Commercial cycles, such as inflation and recession, have a great influence on the work of commercial banks, on the demand for bank credit, and on the liquidity of commercial banks. The treatment of these cycles differs, and the impact of these treatments on determining the size and cost of bank credit.

5. Banking has contributed to the development of forms of bank credit, through its discovery of modern methods of providing bank credit that do not contradict the principles of the true religion, such as partnership, Murabaha, leasing, good loan, and peace.
6. There are vital functions for bank credit, including financing investment and consumer projects for individuals, financing internal and external trade, and settling exchanges after which it is an alternative to money, and it also contributes to achieving a better distribution and use of financial resources.

Reforming all structural imbalances in the Iraqi banking system by setting controls, legislation and laws that reduce the incidence of banking system problems and also contribute to preparing this system to face future challenges become a necessity.

1. Reforming all structural imbalances in the Iraqi banking system by setting controls, legislation and laws that reduce the incidence of banking system problems and also contribute to preparing this system to face future challenges.
2. Formation of a permanent committee in the Central Bank of Iraq that follows up the international developments in this field and is consistent with the relevant Arab and international institutions.
3. Developing the legal, legislative and political frameworks for the banking business in Iraq, in order to harmonize the developments taking place in the global banking business.
4. Developing and modernizing private commercial banks in Iraq through the use of modern methods of banking, and developing human cadres by introducing bank employees to qualifying courses to develop their capabilities and inform them of modern methods of banking.
5. Activating the role of insurance companies and institutions in Iraq to coordinate with commercial banks in order to protect banking business from credit risk shocks.
6. The research sample banks should make the process of granting credit a focus of their attention and development in order to help raise the level of financial performance of the bank and promote banking investments and make the bank achieve its objectives and reach the highest rates of profits because credit is the most profitable banking activity.

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