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## The role of financing tools in reducing banking risks

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### Abstract

It is noted that the banking sector is lagging behind significantly in terms of progress in the field of information and communications. This is an important factor in the growth and development of banks. With the popularization of network communications, connecting all banks with all their branches, we have noticed that the difficulties of currency circulation between countries of the world have been eliminated, which has helped to promote banking business, reduce costs and expand the scope of business. Customer base that benefits from the banks advanced banking services.

With the development and reliance on advanced electronic banking systems, we notice that the risks facing internal control over electronic operations have increased significantly, including risks related to the use of advanced electronic systems and banking risks. Therefore, it has become necessary to have a control system capable of practicing its work effectively in light of the electronic system. The need has emerged to use control tools that are different from those used in the traditional banking system based on manual dealing.

In this study, the idea of electronic banking procedures, the concept of electronic risks, and the development of the idea of internal oversight of banking activities and transactions were addressed.

**Keywords:** Financing tools, reducing banking risks, electronic banking procedures

### Introduction

The last years of the twentieth century witnessed a major development in the fields of politics, economics and technology, as the distinctive feature of the work environment became volatility and change, due to globalization and the great openness of borders between countries. This great openness of borders has enabled organizations to reach advanced and advanced levels of technology, which helped them achieve a significant competitive advantage in the market.

Recently, the services as a whole, and banking specifically, have benefited from advanced technology that has led to radical and comprehensive transformations in the field of work, especially in banking applications. The private sector responded to technological development in different ways in providing banking services, transforming the method of completing transactions from traditional methods to electronic methods using computers and the Internet in this field.

This technological development has led to a significant improvement in completing transactions at the lowest costs. However, this development has increased the risks facing banks, including operational risks and credit risks, and the subsequent developments in the field of internal control over electronic banking operations. Therefore, it has become necessary to find ways to reduce exposure to these risks and benefit from the positive benefits provided by technological development, including reducing the effort expended in the field of control.

### Research Methodology

#### First: Research Problem

The use of computers has witnessed a great development in all areas of life, which has become vital in reducing many of the regulatory and accounting risks that banks are exposed to, especially with regard to errors of manipulation, forgery and banking fraud. This development has also included banks, as the use of computers has become much easier in providing banking services. However, internal control in banks that use the electronic system faces challenges in implementing control over all the bank's work, due to the existence of

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new risks that differ from those in banks that rely on manual work. This necessitates the recognition of banking hazards associated with information technology and the assessment of the degree to which internal controls are met for electronic commerce.

### Main Question

How can internal control in banks that rely on electronic systems deal with various risks and achieve control effectiveness compared to banks that rely on manual work? The following sub-questions are derived from it:

1. What is the extent of the impact of the spread of electronic operations used within local banks?
2. What is the extent of the impact of the requirements of this control in Iraqi banks?
3. What is the effect of this control in avoiding banking risks?

### Second: The importance of the research

1. The significant increase in the number of advanced electronic banking risks that banks are vulnerable to and the failure to address them properly on one hand, as well as the weakness of banking oversight, which is one of the most significant causes of the observed banking crises.
2. The difficulty of dealing with the banking risks that are associated with electronic transactions is one of the topics that supervisors care about. As a result, the importance of internal control in banks has increased, and this has a significant and lucid impact on the banking institution as a whole.
3. The increase in the size of the banking market in Iraq has been significant. The capital is larger, and the variety of banking services is greater, all of which require a high degree of customer service and the provision of superior services of a high quality.

### Third: Research Objective

#### The research aims to the following:

1. Investigate the internal control of internal systems by relating them to the information technology environment in order to recognize the dangers associated with this field.
2. Define the prerequisites for achieving the goals of internal control associated with electronic transactions.
3. Define the degree to which banks delegated internal control procedures to electronic banks, which are represented by the control over documentation, the development of systems, the regulation of outputs, the control of operations, and conducting a survey among employees and beneficiaries of these transactions in this field.
4. Make a decision based on the role of internal controls in selecting and reviewing electronic banking systems to ensure the effectiveness of the application employed in this field.

### Fourth: Research Hypothesis

The first important hypothesis is that there is a relationship that has a correlation and is significant morally between electronic operations and control over them, as well as the risks to electronic banking operations.

### Fifth: Research community and sample

The community in this research consists of banks, while the

research sample is represented by Rashid Bank and Rafidain Bank.

### Sixth: Spatial and temporal boundaries of the research

The spatial boundaries of the research include the branches of the banks in the research sample within the city of Baghdad for the time period (2018-2019).

### Seventh: Research Methodology

In this research, the descriptive method was relied upon to determine the theoretical part by relying on university theses, research and books that have the same research topic and also relying on the analysis of the results of the field study.

### Eighth: Collecting information and data

The necessary data was collected in order to give a general and comprehensive picture through the theoretical aspect that includes books, theses and dissertations as well as Arab and foreign periodicals, while the practical aspect relied on the questionnaire.

### Ninth: Statistical analysis

Statistical operations were used that are consistent with the data collected.

### The first section, the theoretical aspect Risks of electronic banking operations

The banking industry is one of the industries most exposed to risk, especially in this contemporary time, which is associated with banking work since its inception, despite many of the developments that have accompanied it, and the risk has continued in light of the developments related to financial liberalization and the growing use of modern financial tools, which were helped by the progress that occurred in banking technology, which required management to reduce the losses and damages that accompany them. We will discuss during this research three requirements:

**The first requirement:** The importance of banking risk management.

**The second requirement:** Electronic banking operations.

**The third requirement:** Evaluating the banking risks that accompany banking work.

### The first requirement

The spread of electronic banking operations is accompanied by the widespread use of the Internet and the increase in people's use of the Internet, in addition to another factor that has contributed to the growth of electronic banking represented by banks that discovered the benefit of electronic banking.

### First: Clarification of electronic operations in general

It means any transaction that occurs using an electronic medium, regardless of whether its parties are between individuals or other governmental or non-governmental entities, or between international institutions and countries, and between commercial companies, or dealing with banks, either between their clients or among themselves (Brigham & Ehrhardt 2002) <sup>[2]</sup>.

It may be defined as the organized effort between individuals in order to produce and sell goods for profit to

satisfy a segment of society through the Internet.

### Second: Requirements of electronic banking operations

1. It requires protection and security because the services provided by the Internet are among the executive services in which the security element is implemented. Among these risks is the possibility of unauthorized entry into the organization's internal systems. The firewall is one of the latest and most important technologies used to protect against the risk of electronic attack.
2. **Technology and technical requirements:** It is a group of devices, equipment, programs and websites on the Internet that are specific to electronic business and that help in serving customers with the latest technological developments. Therefore, it is necessary to study all technological and technical requirements in terms of providing the infrastructure that suits the application of all electronic commercial activities (Al-Anzi, 2008, 5) <sup>[4]</sup>.

### Third: Advantages of electronic banking operations

1. Facilitates conducting studies and research at the lowest costs (Safar, 2006) <sup>[5]</sup>.
2. Providing complete and up-to-date information about customers and their accounts (Sadyrin, 2021) <sup>[7]</sup>.
3. Attracting many customers by reducing customer service costs
4. Trading documents very quickly, which facilitates foreign trade operations by tightening control over all banking operations (Al-Enezi, 2008) <sup>[4]</sup>.

### The second requirement

#### Banking risks

##### First: Definition of electronic risks

It is a series of events, and when they occur, a problem occurs, which is the possibility of a deviation from the desired result, which causes a loss (Safar, 2006) <sup>[5]</sup>.

##### Second: Factors affecting electronic risks

1. The instability of external factors, which has a major impact (Hindi, 2012:5) <sup>[8]</sup>.
2. The occurrence of inflation, which is accompanied by a general increase in prices.
3. Increased competition to attract and attract loans, credit, etc.
4. Many countries impose regulatory restrictions on all commercial banks in order to reduce the risks of competition.

### The third requirement

#### How to manage banking risks

##### First: The concept of how to manage banking risks

1. It is a field that aims to eliminate risks, reduce them, monitor them, enhance benefits and avoid risks such as marketing risks and financial investment.
2. Analyze and determine economic control over risks that threaten the assets of the investor's or institution's money.

##### Second: Risk management steps

1. Review and evaluation are important for this purpose in order to ensure the success of the risk management program (Brigham & Ehrhardt, 2002) <sup>[2]</sup>.

2. It is necessary for management to identify risks (Sadyrin, 2021) <sup>[7]</sup>.
3. The objectives must be determined in order to determine the facility's needs for a risk management program (Stoner, 2020) <sup>[9]</sup>.

### The second topic

#### Internal control over electronic banking operations

The main purpose of controlling all banking operations and maintaining the strength and safety of the banking system by protecting the rights of its employees and protecting the interests of the bank itself, and as a result of the great development in the activities and work of banks that it carries out, control has become very complex similar to what happened in the mechanization of banking work and making it electronic and what is required with the change in the method of control because it has become based on risks and how to eliminate them or reduce them, which has a great impact on the conditions of banks. Therefore, control must be studied over all banking operations in general and electronically in particular, and then linked to banking risks and their impact on them in order to identify the extent of the contribution of internal control in how to reduce banking risks, and in order to achieve this purpose, the study was divided into two important requirements:

**The first requirement:** The relationship between risks and internal control over banking operations.

**The second requirement:** Internal control over electronic banking operations and the importance of that control.

#### The first requirement

##### The relationship between risks and internal control over banking operations

**First:** Definition of internal control: There are many definitions of internal control, which are multiple for the stages of development it has gone through, and most of them revolve around dividing work among employees in a way that allows or allows for the continuous review of each employee's work by other employees (Babin & Griffin, 2010) <sup>[10]</sup>.

##### Second: Internal control and its importance

The importance of internal control is that it is a means to an end, and this means is called to serve a group of parties that rely on it to make their decisions and formulate their policies, and some points highlight the importance of the need for internal control in general.

1. It plays a major role in increasing the effectiveness of operational processes.
2. Obtaining financial reports with a high degree of reliability.

### Third: Objectives of internal control

#### Internal control seeks to achieve the following:

1. Protecting the assets of the economic unit, i.e. the process of achieving prevention from errors and with the intent to conceal fraud and embezzlement (Lasher, 2021) <sup>[6]</sup>.
2. Evaluating the quality and quality of performance in implementing the specified responsibilities.
3. Improving coordination between different organizational units.
4. Enhancing compliance with the law, regulations and

- contractual responsibilities.
- Improving the effectiveness of administrative decision-making and the capacity of business operations (Al-Yawar, 24:2014) [3].

**The second requirement**  
**Internal control over electronic banking operations and its importance**

The internal control system is one of the important pillars in how banks are managed and is the basis for maintaining their safety, and internal control in focus differs from traditional control of banks, which was represented in the process of analyzing and inspecting the activities of all banks to ensure the safety of the bank's procedures, but as a result of the change in the nature of banks' work, the types of risks that have recently come as a result of innovations and technological progress have multiplied. Therefore, the trend towards bank control has become represented by focusing on the risks that the bank has and knowing the direction to which they point and then trying to control these risks and inspect banks under the pretext of historical data, meaning that the role of the regulatory authority will be a proactive role and not just studying banking activity after it occurs (Alnassar *et al.*, 2014) [1].

**Section Three: Analytical Aspect**

**Results and Analysis**

**About Rafidain Bank**

Rafidain Bank was established under Law 33 of 1941 and began its operations on 4/19/1941 with a raised capital of 50 thousand Iraqi dinars. The bank has gone through several stages, including its presence as a national bank practicing commercial banking between many international and

foreign banks, and thus began to gradually expand within the thought through multiple stages of integration. During 1998, the bank witnessed a major development and was transformed into a public company fully affiliated with the state with the aim of contributing to supporting the national economy in many areas, including commercial banking, investing money, and providing various financing to agencies according to development plans.

**About Rashid Bank**

It is an Iraqi bank affiliated with the Iraqi government. It was established in Baghdad in 1998 as an Iraqi commercial bank with 162 branches inside Iraq. It was established under Law No. 56 of 1988 and became a public company under Public Companies Law No. 22 of 1997. However, on 12/4/2001, the bank's capital became able to contribute to supporting the national economy through the functions it performs, such as:

- Investing funds.
- Commercial banking.
- Financing many public and private sectors according to development plans.
- All banking services in the field of foreign and domestic transactions.

**Questionnaire results**

**Internal control over banking operations**

The table included calculating the frequencies and their percentage for each scale and each paragraph of the axis, which were obtained using the statistical program SPSSVR.20, in addition to the frequencies and percentages of the axis in general CEBO.

**Table 1:** Represents the frequencies and their percentages (answers are related to the paragraphs of the fourth axis)

Strongly Disagree	I do not agree	Neutral	I agree	I totally agree		
16	67	14	2	1	Frequency	CEBO 1
16	67	14	2	1	Percent	
22	50	17	9	2	Frequency	CEBO 2
22	50	17	9	2	Percent	
21	67	8	4	0	Frequency	CEBO 3
21	67	8	4	0	Percent	
17	68	10	5	0	Frequency	CEBO 4
17	68	10	5	0	Percent	
29	53	16	2	0	Frequency	CEBO 5
18	53	16	2	0	Percent	
18	60	20	2	0	Frequency	CEBO 6
17	60	20	2	0	Percent	
19	52	21	7	1	Frequency	CEBO 7
19	52	21	7	1	Percent	
10	55	22	12	1	Frequency	CEBO 8
10	55	22	12	1	Percent	
21	42	20	21	6	Frequency	CEBO 9
21	42	20	21	6	Percent	
17	70	15	3	0	Frequency	CEBO 10
17	70	15	3	0	Percent	
16	65	14	4	0	Frequency	CEBO11
16	65	14	4	0	Percent	
21	67	17	5	0	Frequency	CEBO 12

The EBO axis (electronic banking operations), where the following table includes information extracted by the researcher for the arithmetic mean, standard deviation, direction of the answer, its level and importance, in addition to the lowest and highest value for the EBO axis.

The importance of the paragraph	Answer level	Direction of the answer	Standard deviation	Arithmetic mean	Highest value	Lowest value	
10	high	I agree	0739	3,83	5	1	EBO 1
14	high	I agree	0979	3,54	5	1	EBO 2
13	high	I agree	0888	3,63	5	1	EBO 3
11	high	I agree	0765	3,80	5	2	EBO4
5	high	I agree	0751	4,04	5	2	EBO 5
2	high	I agree	0692	4,16	5	2	EBO 6
7	high	I agree	0856	3,93	5	2	EBO 7
3	high	I agree	0667	4,14	5	2	EBO 8
1	high	I agree	0587	4,17	5	2	EBO 9
16	Moderate	neutral	0969	3,10	5	1	EBO 10
18	moderate	neutral	0667	2,98	5	1	EBO 11
4	high	I agree	0700	4,07	5	2	EBO 12

From the above mentioned table we notice that the arithmetic mean value of EBO reached 3.83 with a standard deviation equal to .7 and the answer direction was agreed and the answer level was high. As for the arrangement of the sixth paragraph, the highest value of the arithmetic mean was adopted and the lowest answer was 2 and the highest answer was 9.0. The arithmetic mean value of paragraph EBO 2 reached 3.54 with a standard deviation of 0.979 and with an agreed direction and a high answer level. The arrangement was of great importance, especially paragraph eleven, which relied on a neutral direction and a moderate answer level. As for the arithmetic mean value of paragraph EBO 3, it was 3.63 with a standard deviation of .888 and with an agreed direction and a high answer level. The arithmetic mean value of paragraph EBO 4 was 3.80 with a standard deviation estimated at 0.765, with an agreed trend and also a high response level. The arithmetic mean value of paragraph EBO 5 was 4.04 with a standard deviation of

0.751, with an agreed trend and also a high response level. The arithmetic mean of paragraph EBO 6 was 4.16 with a standard deviation of 0.692, with an agreed trend and a high response level. The arithmetic mean of paragraph EBO 7 was 3.93 with a standard deviation of 0.856, with an agreed trend and a high response level. The arithmetic mean of paragraph EBO 8 was 4.14 with a standard deviation of 0.667, with an agreed trend and a high response level. The arithmetic mean of paragraph EBO 9 was 4.17 with a standard deviation of 0.587, with an agreed trend and a high response level. The arithmetic mean of paragraph EBO 10 was 3.10 with a standard deviation of 0.969, with a neutral response trend and a moderate response level. The arithmetic mean of paragraph EBO 12 was 4.07 with a standard deviation of 0.700, with an agreed response trend. The level of response is also high.

**Questionnaire form**

Strongly Disagree	I do not agree	neutral	I agree	I totally agree	Paragraphs	ت
					The bank has supervisory controls and procedures to examine the system, media and outputs and ensure, their integrity	1
					Banks have a periodic mechanism that is effective in auditing and, monitoring electronic banking systems	2
					The criticism of the reports' information is more accurate via electronic banking than via traditional methods.	3
					This is considered in conjunction with the electronic banking system and internal controls.	4
					Electronic banking systems take into account all developments in the field of regulatory standards	5
					Banks consider conducting risk management studies on internal control processes	6
					The Internal Control Department discusses the effectiveness of reducing the risks it faces with management on a regular basis.	7
					Information Systems Department employees are prohibited from issuing orders to change programs or orders to change programs and files	8
					Utilizing electronic systems affects the organization's relationships with other departments, including internal oversight.	9
					It is difficult to trace electronically, which results in the possibility of dishonest employees tampering with funds in banks	10
					The job of the Internal Control Department is to identify the significant dangers recognized by the Electronic Risk Management Department.	11
					Like all other banking systems, electronic banking systems require audit control channels.	12-

**Conclusions**

1. The use of technology in banking has provided many

advantages, including the speed of completing information about customers and innovating new



- banking services that differ from the old ones.
2. Internal control has clearly shared the risks to which these operations are exposed in electronic banking operations, which can prevent their occurrence if control is based on a specific approach.
  3. The refineries of the study sample suffer from the lack of awareness by employees in banks of their roles correctly.

### Recommendations

1. The need to improve the control environment in banks.
2. Work must be done to enhance control activities, which are considered a basic pillar of the control system.
3. Training courses must be held for employees in the internal control department to learn how to deal electronically in transactions.
4. Qualifying a group of internal auditors to evaluate its internal procedures to identify weaknesses and how to put in place appropriate procedures to address them.

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