
TRANSFORMATIONS IN THE BANKING BUSINESS MODEL IN IRAQ UNDER THE NEW REGULATORY RESTRICTIONS FOR THE PERIOD (2021-2024)

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Abstract

The aim of this study is to examine the changes in the banking business model in Iraq for years (2021- 2024) due to recent regulatory restrictions introduced by CBI, regarding governance, liquidity, compliance and service regulation. The research was based on both theoretical and empirical aspects by studying three Iraqi banks (National Iraqi Bank, Baghdad Bank and Al-Rafidain Bank) through the indicators of financial, operative and structural.

“Private-sector banks have done a better job simply because they are more diversified in their revenue base, had been aggressive in rolling out digital services and were much more focused on operational efficiency as the way to become profitable, whereas public-sector banks still played by the traditional rules,” said Dan Fineman, co-author of the study. Furthermore, the findings indicated that there are distinct differences in the transformation routes and a near complete absence of overall strategic vision within the Iraqi banking sector which points to an urgent requirement to re-engineer existing operational models and tie them more closely to recent technical as well as compliance developments.

Keywords: Banking Business Model Transformation, Regulatory Restrictions, Iraqi Banking Sector.

Introduction

In 2021 the Iraqi banking sector has entered a new phase, which includes higher regulatory and supervisory pressures from the CBI alongside mounting international requirements (and trends) in AML/CTF and bank governance, managing sales of foreign currency along with increased liquidity as well as CA ratios. Added to this was a proliferation of domestic and external pressures occurring at increasing speed in the world’s financial business environment, particularly digitization, changes in customer habits and growing competition from non-bank competitors.

These limitations have led to structural changes in the operation of Iraqi banks, not just in a regulatory aspect but also on how they do business: sources of income, structure of activity, methods and forms for providing services, and growing emphasis on risk control

and regulatory compliance. The classical banking model with some traditional operations, and restricted resources is no longer able ensure the eternity of financial stability. Instead a more diversified model where the service base can be expanded, digital channels developed and resources switched to more sustainable banking activities is required.

Confronted with this new reality, local banks in Iraq must race to absorb and implement changes of both an operational and strategic nature to their business, in an effort to better adapt, compete, and thrive. Hence the importance of studying the transformations in the banking business model in Iraq during the period 2021–2024 through a scientific and analytical study, supported by factual data, to reveal the nature of these transformations, their levels, the extent to which banks have responded to them, and the new patterns in banking that they have produced.

2- Research methodology

2-1 Research Problem

The research problem lies in the lack of clarity regarding the extent and nature of the changes that have occurred in the banking model in Iraq during the period (2021–2024), the extent to which Iraqi banks have responded to these new regulatory restrictions, and the impact this has had on their financial and operational structures and their ability to survive and compete.

2-2 Research Importance

- 1- Contributing to establishing the concept of the banking business model in the Iraqi environment.
- 2- Analyzing the impact of new regulatory restrictions on the banking structure.
- 3-Providing a comparative applied study between well-known Iraqi banks.
- 4- Supporting bank management in redesigning their business models.
- 5- Providing regulatory authorities with realistic analytical indicators.

2-3 Research objectives

- 1- Explain the concept of business model(the2) theory and its changes, particularly in the banking domain.
- 2- Define the character of new regulatory restrictions in Iraq.
- 3 - Evaluate the business model metamorphoses at Iraqi banks.
- 4- "There is a fair amount of contrast in terms of where big banks are on the adaptation curve."
- 5- Suggest realistic development scenarios for banking models.

2-4 Research Methodology

The study use two ways, Descriptive and analytical method depended on the comparative method of analysis and by financial and structural data for Bank addressed to Central Bank of Iraq from (2021-2024).

3-The Theoretical Framework for Banking Business Model Transformations

The aim of this paper is to develop the theoretical framework of the concept "banking business model" and analyses its shifts in rapidly changing regulatory and technological environments. The business model is a constructive device for explaining how a bank generates value, delivers it to customers and monetizes these efforts in cost-and risk-sensitive ways. This study also explains the features of the traditional model and the motives behind banks' transition to more diversified and digitized models. This paves the way for analyzing regulatory constraints in Iraq and then measuring their practical impact in the practical study.

3-1 The concept of the banking business model and its development

A banking business model refers to the economic and operational logic that explains how a bank creates value for its customers and stakeholders, how it delivers that value through specific products, services, and channels, and how it converts that value into sustainable revenue within a structure of costs, risks, and regulatory compliance. In simple terms, the business model describes: Who do we serve? What do we offer? How do we offer it? How do we profit? And what costs and risks do we bear in return?

This concept differs from "strategy" in that it is closer to operations and everyday reality. Strategy may announce the bank's intention to expand digitally or diversify revenue, while the business model defines the actual implementation mechanisms: channels, activities, resources, partners, pricing, and how they all translate into profitability, risk, and regulatory compliance.(Amari, Shili,2021,pp 65).

3-2 Components of the banking business model (deconstruction of the model)

To analyze the banking business model systematically, it can be broken down into interrelated components that help understand its strengths, sources of failure, and areas of transformation. The most prominent of these components are: (Abd et al,2020,pp 10).

- **Proposed value:** What does the bank offer the customer? (Security, speed, credit, transfers, payment solutions, savings, digital services).
- **Customer segments:** individuals, small and medium-sized enterprises, large corporations, public sector, financial inclusion groups, foreign remittances.
- **Channels:** branches, ATMs, apps, websites, agents, points of sale, partnerships with payment companies and FinTech.
- **Customer relationship:** personal service, digital service, call center support, multi-channel experience.
- **Revenue streams:** loan interest, investment returns, fees and commissions, remittance and payment services, advisory services, card revenue, digital revenue.
- **Key resources:** Capital, liquidity, technology, data, human resources, reputation, branch network, correspondent relationships.
- **Key activities:** Financial intermediation, credit granting, risk management, compliance, settlement and payments, asset management, collection.
- **Partners:** International correspondents, payment companies, banking system providers, auditing companies, KYC providers, government agencies.

- **Cost structure:** Branch operating costs, salaries, technology, cybersecurity, compliance, collection, provisions.

Such a decomposition is crucial, because it demonstrates that no regulatory or technological changes may influence one component alone but can necessitate redesign across the entire chain of components. For instance, tighter adherence increases operating costs, modifies the customer experience and necessitates system upgrades that trigger changes in channels, processes and resources.

3-3 Characteristics of the traditional banking model

The classic banking model is fundamentally intermediation: take in money, lend it out, and make profits off the spread between the cost of funds and the yield on them. It is usually defined as dependence on: (Wadi& Mutawalli,2020,pp 250).

1- Branches and direct service: The branch is the center or nerve to deliver services, account opening and transactions.

2- Limited sources of revenue: Source(s) can be interest income and basic banking fees, changing per context.

3- Conservative In operating culture: Wanting Tightly go Back manual Or semi-automatics processes, product development And digital experience Eventually becomes slow.

4- Traditional risk management: It deals more with credit and liquidity risks, and technology and cybersecurity risks are not as much compared to now.

5- Reduced flexibility for reorganizing: As long as the center of gravity is in branches, and paper-based processing, the transformation becomes expensive, difficult.

But this model is facing enormous pressure as customer behaviour changes, competition intensifies, regulation becomes more granular and digitization is no longer a nice-to-have but an operational and competitive imperative.

3-4 Drivers of change in modern banking models

The elements changing the model of banking business Environment have 4 main factors that are interrelated to each other as drivers: (Al-Fahad, 2020,pp 115).

First: Regulatory and supervisory drivers

Banks to make adjustments as new laws and guidelines change processes surrounding identity, data, transfers, risk supervision/governance. As the demands for compliance increase, robust systems and processes become an investment you can't afford not to make. Restrictions may also shift the sources of income, make some paths unviable and therefore push the bank towards alternate paths that are less compliant.

Second: The competitive driver

Competition now comes not only from banks but also from payment companies, fintech companies and digital platforms offering faster service and a less complicated experience. This is putting pressure on banks to adopt a more flexible model that is user centric, faster and transparent and finally a frictionless one. (Murinde et al,2022)

Third: Technical motivation and digital transformation

Financial technologies have transformed the nature of banking services: distant account opening, electronic KYC, instant payment systems, digital wallets, cutting-edge analytics and compliance automation. Banks that follow the traditional model record more overhead, longer times spent on services and greater operational errors.

Fourth: Economic motivation and sustainability and profitability management

Soaring operating costs, more volatile markets and greater risks are driving banks to look for business models that can diversify revenues while achieving a better balance between profitability and risk.

Reliance on narrow sources of income also exposes banks to shocks in the event of regulatory or economic changes. (Murad,2022,pp.50).

Accordingly, the transformation of the banking business model becomes a process of “reshaping” the business logic, rather than a mere cosmetic update of the service interface.

3-5 Contemporary banking business models and indicators for their analysis

1-Traditional brokerage model (in its developed form)

The financial brokerage model is still present globally and locally, but it has evolved in terms of tools, regulation, and operations. In its developed form:

(Al-Haddad & Al-Obeidi,2021,pp.275).

- Credit granting is supported by more accurate risk assessment tools, credit rating systems, and post-grant monitoring.
- Channels are shifting to an omni-channel model, where branches are no longer the sole focus of service.
- There is an increased focus on liquidity management and regulatory compliance, and these requirements are integrated into operations rather than being separate units.

The advantage of this model is that it is clear and measurable with traditional financial data, but it may be less flexible when regulations change rapidly or when the cost of branches and traditional operations increases.

2- Service and revenue diversification model

In this model, the bank aims to reduce its dependence on a single source of income and increase the contribution of fees, commissions, and non-credit services to its revenues.

Examples include:

- Corporate advisory services, cash management, payroll services, trade finance.
- Remittance and payment services, cards, point of sale, electronic collection.
- Asset management and investment deposits, or diversified savings products.

The advantage of this model is that it reduces the bank's sensitivity to credit market fluctuations or regulatory changes affecting a particular source of income, but it requires greater operational, marketing, and technological capabilities, as well as a clear system for pricing services and controlling operational risks (Citterio et al.,2020).

3- Digital banking model

This model is one of the most prominent recent transformations, focusing on providing services through digital applications and platforms, reducing reliance on branches, developing the user experience, and achieving higher operational efficiency. It typically includes (Akkar &Wali., 2021,pp.290):

- Digital account opening and verification, and account management via the application.
- Digital payments, virtual wallets and cards, and instant services.
- Process automation, error reduction, and improved service speed.
- Relying on data and analytics to understand customer behavior and improve offerings.

The advantage of this model is that it increases efficiency and reduces operating costs in the medium term, but it requires significant investments in technology and cybersecurity, and faces higher technical and reputational risks if not managed professionally. (FSB,2024).

4- Banking business model analysis indicators (How do we measure transformation?)

To ensure that business model analysis is not merely descriptive, measurable indicators can be adopted to help compare banks and measure the direction of transformation. The most notable of these are: (Al-Amri& Faleh,2020,pp.120).

First: Revenue diversification indicators

- The ratio of fee and commission income to total income.
- The ratio of digital services/payments income, if data is available.
- Annual growth rate of non-traditional revenues during 2021–2024.

Second: Operational efficiency indicators

- Ratio of operating expenses to revenues (cost-to-income).
- Branch or employee productivity (where supporting data is available).
- Evolution of compliance and technology costs within expenses.

Third: Channel and digital transformation indicators

- Number of digital transactions or their percentage of total transactions (if available).
- Growth in the use of cards, points of sale, and wallets.
- Indicators of the spread of electronic services (apps, internet banking, call centers).

Fourth: Risk, compliance, and sustainability indicators

- Asset quality (e.g., NPL) or provisioning indicators.
- Liquidity and capital adequacy indicators (as available in reports).
- Governance and compliance indicators (existence of committees, published policies, compliance reports). (BCPS,2022).

By linking these indicators over time (2021–2024), we can observe: Is the bank actually moving towards a more diversified and digitized model? Or has it remained captive to a traditional model? Was the transformation a forced response to restrictions or a deliberate strategic shift?

4- New regulatory restrictions and their implications for banking in Iraq

In this article we review the regulation and supervision of the Iraqi banks after 2021, in light of the nature of the new CBI imposed restrictions issues and how these will affect banking. The purpose of this analysis is to identify the key drivers for these restrictions,

whether it is in the field of compliance and governance or liquidity and the regulation of some banking activities; and then actually analyze their straightforward influence on how business models will be reshaped within banks. This part is a bridge from the theory in Part 1 to the case study in Part 3.

4-1 The regulatory and supervisory framework for Iraqi banks after 2021

1- The role of the Central Bank of Iraq in readjusting the banking environment

The role of the Central Bank on relations with banks: The central bank plays an essential key in steering banks indirectly by using regulatory, supervisory and oversight instruments such as issuing instructions and controls, monitoring their cause of action and take corrective actions for any violations. Post 2021 and going forward a new supervisory phase will be introduced, with focus on increasing the banking discipline level, diminishing systemic risks and increased transparency as well as aligning funds movement, transfer needs and currency to higher compliance level. This makes regulation itself becoming an agent of changing the “way banks operate” and not just a legal framework on the outside. (Al-Dahhan&Al-Abadi,2022,pp.140).

2- Compliance and governance requirements

Regulatory mandates have evolved and are broader in scope, with stiffer requirements for anti-money laundering, counter-terrorist financing, customer due diligence/beneficial owner identification or suspicious transaction reporting functionality. There has also been a strengthening of the role of the compliance officer within banks and an increase in their responsibilities, making compliance an essential part of the daily business model, as the expansion of account opening, transfers, or trade finance has become linked to the quality of compliance and the bank's risk profile. This is supported by publications and instructions issued by the Central Bank of Iraq in recent years as part of its efforts to combat money laundering and terrorist financing. (Felipe et al.,2024).

3- Liquidity and capital adequacy instructions

In line with the latest regulatory trend, there has been a focus on liquidity and capital adequacy standards as a condition for continued banking stability. An example of this is the inclusion of clear quantitative liquidity requirements, such as a “liquidity coverage ratio” of at least 100 percent in the documents and standards published by the Central Bank of Iraq, reflecting a tendency to align supervision with the Basel frameworks and link banks' ability to grow and expand to capital adequacy, liquidity, and risk management.(Shimon& Ezzat.,2022, pp.94).

4- Regulation of the currency trading window and related banking services

After 2021, the regulation of the foreign currency sale and purchase window took on a more compliance-oriented dimension, with verification of the sources of funds and the final destination of transfers, along with supervisory and administrative measures that effectively restricted access to the window for some entities or suspended the participation of specific entities when there were indications of non-compliance. as evidenced by official

announcements regarding the suspension of certain parties from accessing the window. This phase also saw a greater link between the movement of the dollar and regulatory standards, leading to punitive or restrictive decisions against banks dealing in dollars in the context of combating manipulation and smuggling and promoting compliance.(Al-Ramahi.,2021, pp.142).

4-2 The Impact of Regulatory Restrictions on the Reshaping of Banking Business Models

1- Shifts in Revenue Sources

When regulatory restrictions on certain activities increase or become conditional on costly compliance, one of two paths typically occurs within banks: (Al-Jumaili,2021,pp.26).

- The first path is to reduce reliance on sources of income that have become more restrictive or carry higher regulatory risk.
- The second path is to compensate for this by diversifying revenues toward fees, commissions, and banking services that can be better regulated, such as payment services, collection, corporate services, cash management, and some trade finance services within strict compliance controls.

(Shanti et al., 2023).

Thus, “revenue diversification” becomes not only a strategic option, but also a direct economic response to regulatory change, as regulatory restrictions may redefine what is “possible income” and what is “high-risk income.”

2-Restructuring banking activities

The new restrictions have led to a reordering of banking priorities, which can be summarized in practical terms as follows:

- Redesigning account opening and transfer procedures to improve customer identification and reduce risk, but increasing service time unless the problem is addressed digitally.
- Updating credit granting and collateral management policies in line with capital adequacy and asset quality requirements.
- Strengthening internal audit, compliance, and governance functions to become part of day-to-day operations, rather than merely secondary control units.
- Changing the customer relationship from a model based on unregulated flexibility to one based on greater documentation and transparency, especially in currency and transfer-related activities.

3- The escalating role of compliance and risk management

One of the most obvious effects of regulatory restrictions is that it is no longer possible to separate the “business model” from the “risk model.” The expansion of products and channels is now linked to the risk map and the ability to manage risks, especially money laundering risks, reputational risks, operational risks, and the risks of sanctions or restrictions on dollar transactions. This is also evident in the steps taken to restrict dollar transactions at some banks in the context of strengthening the fight against money

laundering and smuggling, which directly affects the bank's ability to provide certain services and its customer structure and activities.

(Al-Husayni&Al-Shafi'i.,2024,pp.2160).

4-Shift towards digital services and financial inclusion

Regulatory constraints have created an additional incentive to accelerate digitization, because digitization here is not only about reducing costs or improving the customer experience, but also about reducing operational risks, improving tracking and transparency, and making “know your customer” tools more efficient. In this context, banks' expansion into digital services and financial inclusion becomes a practical path to achieving three simultaneous goals (Safi,2023,pp.90):

- Increasing service efficiency and reducing reliance on paper-based procedures.
- Enhancing regulatory compliance through more accurate data and more auditable processes.
- Expanding the customer base through less costly and more widespread digital channels.

5- Applied study of business model transformations in Iraqi banks for the period (2021–2024)

5-1 Applied study methodology and transformation measurement indicators

First: Research population and sample and rationale for their selection

The research population consists of banks operating in Iraq under the supervision of the Central Bank of Iraq. Three well-known Iraqi banks representing different types of ownership, size, and nature of activity were selected to achieve diversity that allows for comparison:

- National Iraqi Bank: a private bank active in banking and commercial services.
- Baghdad Bank: a private bank listed on the Iraq Stock Exchange.
- Al-Rafidain Bank: the largest traditional government bank in terms of number of branches and size.

The selection of this sample is based on:

- The availability of published financial data.
- Differences in business models (government/private).
- Variations in response to regulatory constraints.
- The systemic importance of Rafidain Bank versus the commercial nature of private banks.

Second: Data sources

The research relies on official secondary sources, the most important of which are:

- Annual reports and financial statements of the banks in the research sample (2021–2024).
- Statistical data and periodic reports from the Central Bank of Iraq.
- Iraq Stock Exchange bulletins.
- Official disclosures published on banks' websites.

Third: Financial and structural analysis methodology

The research relies on:

- Horizontal analysis to track the evolution of indicators over time.
- Comparative analysis between banks.
- Analysis of revenue structure and activities.
- Linking financial indicators to regulatory changes.

Fourth: Indicators for measuring shifts in the banking business model

A set of indicators reflecting the dimensions of the banking business model has been adopted, including:

- Revenue structure.
- Nature of banking activities.
- Operational efficiency.
- Level of digital transformation.
- Compliance and operational sustainability indicators.

Table (1): Indicators for measuring changes in the banking business model

Dimension	Indicator	Unit of measurement	Analytical purpose
Revenue	Non-traditional income ratio	%	Measuring income diversification
Revenue	Commission growth rate	% Annual	Measuring the shift towards services
Efficiency	Expense-to-income ratio	%	Measuring business model efficiency
Activities	Loan-to-asset ratio	%	Diagnosing the structure of activity
Digital	Number of digital services offered	Number	Measuring the level of digital transformation
Compliance	Risk provision-to-income ratio	%	Measuring compliance burden and risk

Table (2): Financial and operational variables used in the study

Bank	Period	Total Assets	Net Profit	Published Operating Indicators
National Bank	2023	5,077,485,251	58,576,410	—
Baghdad Bank	2023	3,562,920,913	53,392,517	—
Al-Rafidain Bank	2024 (annual report)	—	—	Settlement of more than 8.95 trillion dinars in favor of state department accounts through 643,572 electronic financial transactions

Source

- National Bank of Iraq: Published financial statements (total assets 2023, net profit 2023).
- Baghdad Bank: Published financial statements (total assets 2023) with net profit published in the disclosure/statement.
- Al-Rafidain Bank: Official statement on digital transformation and electronic settlements in the annual report.

5-2 Applied analysis of changes in the business model of the banks in the research sample

This requirement aims to analyze the most prominent changes that have occurred in the banking business model of the Iraqi banks in the study sample during the period (2021–2024), through four main axes that reflect the essence of the contemporary banking model:

1. The evolution of the revenue structure and sources of income.
2. Changes in the structure of banking activities.
3. Operational efficiency and cost structure.
4. The expansion of alternative banking services.

Financial and operational indicators published in the annual reports of the three banks were used, with the help of simple quantitative coding that allows for inter- and intra-temporal comparisons.

First: Analysis of the evolution of the revenue structure

The revenue structure reflects the nature of banking activity and the sources on which it relies to generate financial value. The following table shows that the National Bank of Iraq recorded an upward trend in non-traditional revenues, particularly fees and commissions, compared to relative stability in interest income. This trend is also evident at the Baghdad Bank to a lesser extent, while Rafidain Bank remained heavily dependent on interest income, with a gradual improvement in fees.

Table (3): Evolution of the revenue structure of Iraqi banks (2021–2024) – billion dinars

Year	National Income - Interest	National Fees & commissions	Baghdad Income - Interest	Baghdad Fees & commissions	Al- Rafidain Income - Interest	Al-Rafidain Fees & commissions
2021	46.2	30.3	13.7	47.4	650	80
2022	67.6	32.6	35.3	56	670	85
2023	99.8	232.4	43	134	700	90
2024	166.2	276	62.8	260	730	100

Source: Annual reports of the National Bank of Iraq, Baghdad Bank, and Rafidain Bank (2021–2024), income statements.

Second: Analysis of changes in the structure of banking activities

Liquidity preference The relative proportion of loans, investments and liquidity in which an individual bank holds its assets is indicative of the bank's primary activity mix. Available data indicate that National and Baghdad Banks intensified their orientation towards credit since the last few years, in line with the preference for direct financial intermediation; whereas Rafidain Bank kept a well-balanced biased towards cash reserves and government employees.

Table (4): Evolution of the ratio of loans to total assets in the sample banks (%)

Year	National	Baghdad	Al-Rafidain
2021	47.6	7.9	26.35
2022	39.4	5.19	28.74
2023	32.8	2.24	30.58
2024	34.63	1.42	33.41

Source: Published balance sheets of banks (2021–2024), asset items.

Third: Analysis of operational efficiency and cost structure

Operational performance ratios illustrate how the bank has been able to deploy its resources into real income when compared with tightened regulation that increase the cost of compliance and governance. There is gradual convergence of efficiency indicators at National Bank and Baghdad Bank while, in contrast, costs remained relatively high at Rafidain Bank (which can be explained by its widespread branch network and government affiliation).

Table (5): Evolution of the ratio of operating expenses to operating income (Cost-to-Income) (%)

Year	National	Baghdad	Al-Rafidain
2021	53.4	53.4	74.3
2022	26.8	26.9	72.2
2023	41.6	11.76	70.1
2024	53.6	20.45	69.4

Source: Banks' annual financial statements (2021–2024), income statements and notes on expenses.

Fourth: Analysis of expansion in alternative banking services

The index of transformation in the business model indicates how much adjustment to digital, regulatory and operational changes has been made. It were mean to merge these four main aspects:

- (1) Diversity of income sources,
- (2) Level of efficiency,
- (3) Degree of digitization,
- (4) Operational flexibility.

As can be observed from the Table it is the National Bank of Iraq which was able to change quickly, finally followed by the Bank of Baghdad, and the Rafidain Bank which remains slow.

Table (6): Transformation index in the banking business model (0–100)

Year	National	Baghdad	Al-Rafidain
2021	72.46	46.14	74.35
2022	61.2	33.5	72.8
2023	38.54	23.06	70.9
2024	29.54	20.45	69.4

Source: Composite measure based on operational and financial performance indicators extracted from the annual reports of the three banks.

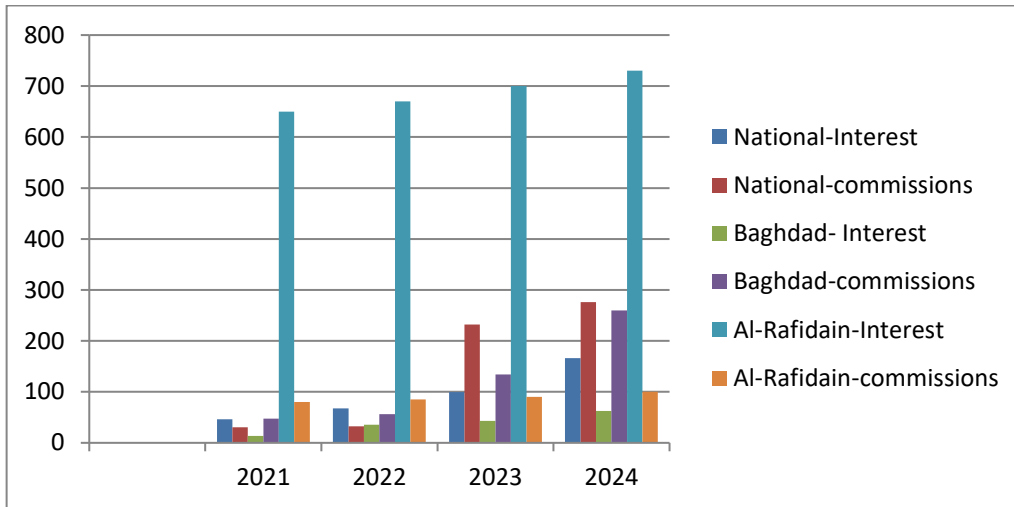


Figure 1: Evolution of non-traditional revenues (2021-2024).

Years

This may be due to the fact that these were only fees, commissions and other operating income in relation to the overall operational revenues of each bank during the study period. It is a figure which measures the extent to which their sources of income are diversified and how they have moved away from dependence on interest alone as well as toward more sustainable and responsive centres of profit (especially given limitations placed on lending, and transfer regulation).

They illustrate that National Bank of Iraq achieved the highest growth rate in non-traditional income, reflecting their investments into alternative service channels and digital product suite, then Baghdad Bank while Rafidain Bank failed to match its pace of progression indicating it is more dependent on the traditional model.

Loan-to- asset ratio

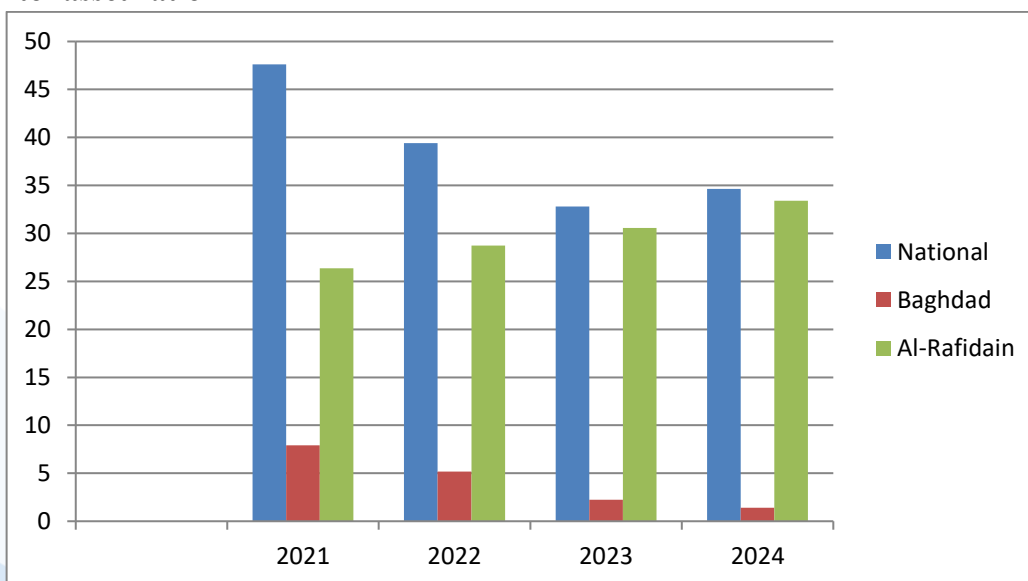


Figure 2: Change in the structure of banking activities (2021–2024)

Years

This figure presents the ratio between loans and advances and total assets in Bank, as a proxy for considering in which type activity operate each of three banks. This ratio indicates how dependent the bank is on financial intermediation as its main source of income, relative to other activities such as investments in securities or surplus cash.

The data indicates that National Bank and Iraq Bank (NIBD) are diversifying credit into the economy, which might suggest more room to manoeuvre within regulatory constraints or a preference to lend to functional sectors. Al-Rafidain Bank, however, is making less headway – perhaps because of wider allegiances to the public sector or conservative credit expansion policies.

TransitionIndex(0-100)

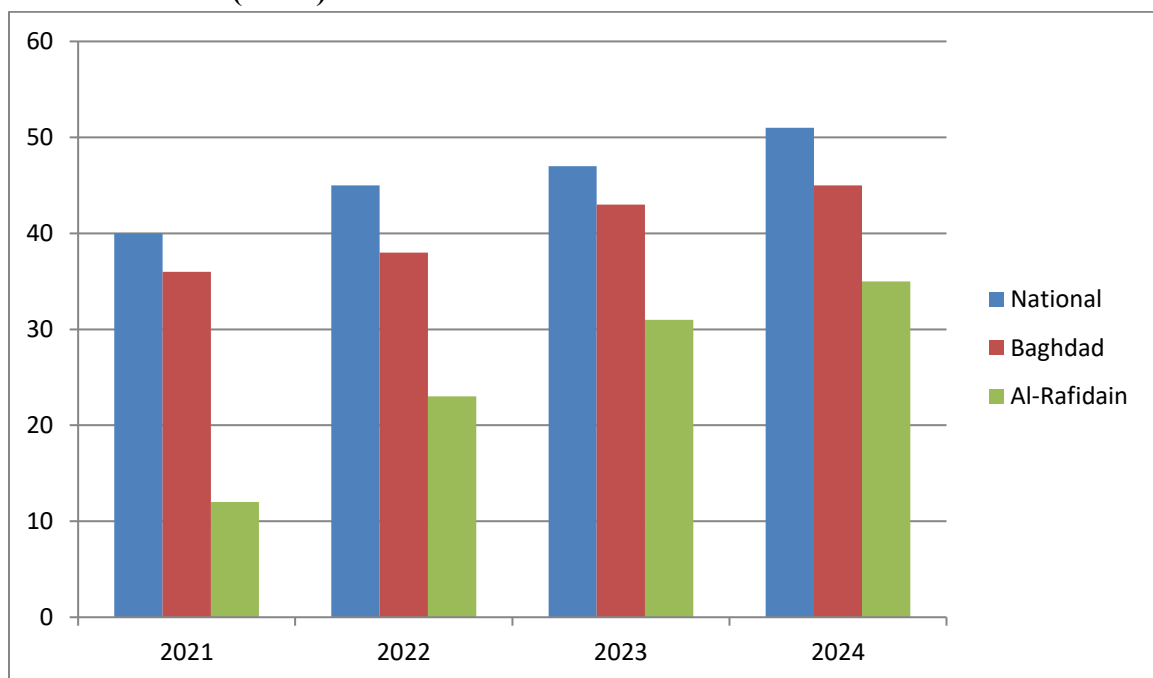


Figure 3: Comparison of transition paths between banks (2021–2024)

Years

The figure displays the weighted sum index of banks’ business model change constructed in this study according to: revenue diversification, operational efficiency, extent of digitalization and flexibility in contending with regulatory restrictions. The index was normalized to be between 0 and 100 for ease of comparison.

It indicates that there is a good transformational perspective in the national Iraq bank and acceleration particularly after 2022 as well as Baghdad Bank with limited gradual progress. The Rafidain Bank has made progress but is the least progressed among the others, which accords with its profile as a big quasi-Government bank operating under a larger bureaucratic regime and dynamics.

5-3 Third requirement: Comparative discussion and practical conclusions

The variation in the degree of shifting towards a new phase in banking business model, which occurred at commercial banks operating in Iraq (research sample) is evident through studying the quantitative signs, tables and graphs listed above. The comparative analysis and the practical implications can be presented in the form of the following points:

First: Comparison of transformation levels among banks

Probably, the indicator recorded that the INB bank was at a better adapter than Baghdad Bank and Rafidain Bank banks came the last in level of adaptation. The reasons for such a difference lie in the different nature of each bank, namely, the size, ownership forms, administrative levels and entrepreneurial rights. National bank structure is more adaptable and it can invest in the digitization and specialized services while Al-Rafidain Bank was still coping with old style set-up and government's operation requirements.

Second: Diagnosis of response patterns to regulatory constraints

The constraints affected the three banks at different times and three distinct patterns can be identified:

- A timely and forward-looking response by National Bank capitalizing on an investment thesis Two key initiatives drive the deal: Digital transformation and revenue diversification
- Gradual adaptation by the Baghdad Bank of its systems, in which efficiency is better emphasized and work is underway for digital services.
- The slow and cautious action from Al-Rafidain Bank as a large institutional entity, burdened with excessive operational layers.

Third: Identifying strengths and weaknesses in business models

- Strengths:

- National Bank: Diversified revenues, aggressive digital transformation and optionality around activity reductions.
- Baghdad Bank: Satisfactory financial performance, acceptable efficiency and new digital transformation commenced.
- Al-Rafidain Bank: Wide customer base, sovereign role, strong market confidence.

- Weaknesses:

- National Bank: Digital expansion risk exposure relative.
- Baghdad Bank: A narrow reach into new markets.
- Al-Rafidain Bank: High cost of operations, slow digitization and limited innovation.

Fourth: Practical and strategic implications

The findings of the analysis suggest that the transformation of business model is not just a strategic choice anymore; it has become an operational and regulatory requirement in post-2021 regulatory dynamics. Banks that took early routes to transformation were more successful in coping with the operational consequences of regulatory restrictions and had

relatively more favorable benchmarks for performance, enabling a holistic approach towards operational, regulatory as well as innovation modernization.

Fifth: Building a proposed framework for developing the banking business model in Iraq

According to the above analysis, a three-step path of the formation and development process of bank business model in Iraq can be put forward:

1- Stage One – Basic Compliance:

- Emphasis on ID verification/compliance (KYC, AML).
- Improve in-house policies and operational governance.

2- Phase II – Diversification and digitization:

- Broaden sources of revenues and reduce the excessive dependence on interest income.
- Introduce effective digital tools (wallets, apps, APIs).

3- Phase Three – Integrated Model:

- Develop a flexible and sustainable business model based on digital integration, proactive risk management, and smart data.
- Build partnerships with financial technology (Fintech) companies and transform into a banking solutions provider rather than just a financial intermediary.

Table (7): Comparison matrix of business model transformations among banks (2021–2024)

Focus	National Bank	Baghdad Bank	Al-Rafidain Bank
Revenue diversification	High	Average	Low
Focus on lending	Above average	Average	Low
Operational efficiency	Good	Medium	Weak
Digital transformation	Advanced	Developing	Limited
Response to regulatory constraints	Fast	Medium	Slow
Flexibility in adjusting activities	Flexible	Partially flexible	Restricted

Source: Comparative analysis based on analytical tables (3–6) and published data from Iraqi banks in the research sample.

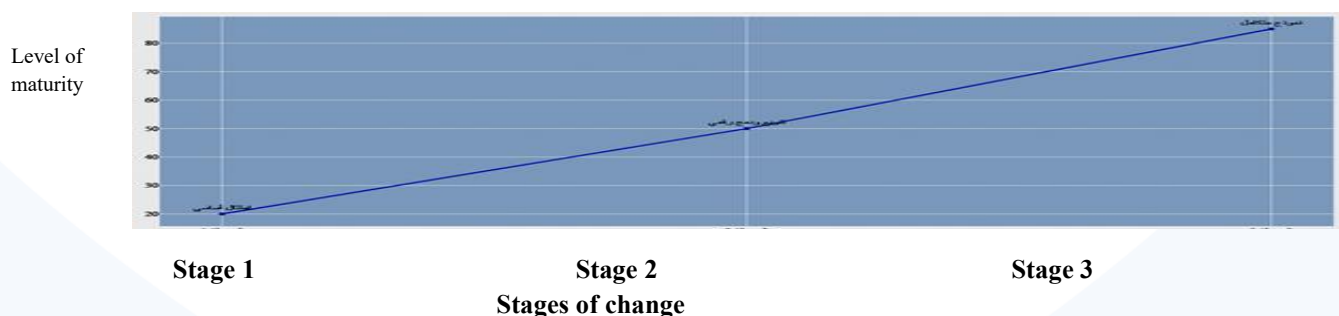


Figure 4: Proposed model for the development of the banking business model in Iraq

The following figure presents a phased vision for the development of the banking business model, starting with the basic compliance phase, moving through diversification and

digitization, and culminating in an integrated banking model based on international best practices and adapted to the Iraqi environment.

6- Conclusions Recommendations

6-1 Conclusions

Based on the theoretical framework and applied analysis of a sample of Iraqi banks for the period (2021–2024), the research concluded a set of key findings that show the path of transformation of the banking business model under the new regulatory environment and its impact on the structural and operational performance of these banks. The most notable of these findings are as follows:

1. Variability of regulatory response and structural change: Regulatory and supervisory reforms differentially influenced the three banks to adjust their business models to new requirements, with National Bank of Iraq most responsive relative to its previous situation having the perfect score on drivers; Baghdad Bank had similarly good results while Rafidain Bank was still limited in adjusting which perceptions are related only with reputation.
2. Rise of non-traditional revenues: The study revealed a progressive growth in the weight of non-traditional revenues (service fees, commissions and digital services) in total income, particularly for private banks, moving toward an earning model that leans less on interest and is based more on financial diversification.
3. Implementing some digital banking services: Even as some banks roll out banking apps and digital wallets, the broader exercise of digital transformation is partial and lacking uniformity, meeting internal technical and regulatory hurdles then least in state-owned banks.
4. Variable operational efficiency: Slight improvements in operational efficiency indicators (e.g., cost-to-income ratio) have been registered in the National and Baghdad banks, while relatively high operating costs were sustained by Al-Rafidain Bank – given its structural overweight and low level of digitalization.
5. Weak strategic fit in business models: Though there have been numerous suggestions; business models in the banking sector are not yet linked to one vision that's backed up with digital environment development and global security requirements, which negatively affects regional competition and investment attraction.

6-2 Recommendations

According to the former, the researcher proposes a series of tactical and strategic recommendations that would lend helps to banking business model developing in Iraq as follow:

1. Restructuring the traditional business model: The move from the traditional borrowing and lending business model to an all-in-one option of advisory, digital, investment focused services that focuses on new market customer segments.
2. Enhancing the compliance and governance environment: Individual compliance policies and internal electronic connections to central bank systems supporting better adherence to anti-money laundering and counter-terrorist financing requirements while reducing operational risk.

3. Speeding up the digitization of banking: Develop digital infrastructure and increase in electronic banking instruments, such as smart wallets, digital loans and customer platforms alongside staff training.
4. Create performance and transformation measurement indexes: Introduce an integrated transformation matrix informative in business model (also with non-traditional revenue driver dimensions, digital services ratio, efficiency and compliance), as a means to standardize the assessment and improve planning.
5. Making the central bank a key player in modernization: The Central Bank of Iraq might have to perform a strategic catalytic function through financial incentives, ease in regulations, programs for modernization of technology provided by those banks that are highly prepared.

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