
THE ROLE OF BANKING INQUIRIES IN REDUCING BANKING RISKS (REVIEW ARTICLE)

Lecturer. Alyaa Kadhim Ayal *
inm.aly1@atu.edu.iq

Assistant Prof. Mustafa Salam Abdulrida*
inm.ms@atu.edu.iq

Abstract

The management of commercial banks resorts to several different means in order to mitigate the severity of the financial risks to which they are exposed as a result of their dealings with different sectors and many customers. In order to protect itself from these risks, perhaps the best means used by the bank's management is the banking inquiry method, which is generated by collecting information about the borrowers in order to analyze their financial reality and indicate the extent of their ability to fulfill their obligations towards the bank. The guarantee of the bank to recover its rights from the borrowers constitutes a factor for measuring the success of the administration or not, as the non-return of these funds exposes the bank to large financial losses and prevents it from fulfilling its financial obligations towards others, and the sobriety of the bank's credit policy can reduce exposure to such risks, And the banking inquiry has a great role in obtaining the necessary information for the purpose of knowing and determining the personality and behavior of the customer through many sources, which are represented by [the customer himself, internal sources from the bank, external sources (outside the bank)].

Introduction

The commercial banks constitute one of the most important financial tributaries of the economy in general through the large financial resources it possesses, as banks are considered to be the container that absorbs financial surpluses from various sectors and re-employs them in various investment fields in order to push the investment forward and move the economy towards growth Expansion, and this role played by banks may expose them to various financial risks, some of which are beyond the control of the bank and which cannot be controlled and controlled, while others within the bank can be predicted and controlled. Perhaps among these risks to which the bank is exposed is the financial weakness of the borrowers, so support these Entities with loans for the purpose of financing their projects exposes the bank to the risks of inability to repay, and therefore a means must be used in order to mitigate these risks, the most prominent of which is the banking inquiry and knowledge of the financial position of the borrowers. The banking inquiry is one of the important functions within commercial banks, as it works to collect information and Data about individuals and companies (customers) with the bank for the purpose of verifying its validity and accuracy of that data and information, so the banks management has allocated a special department within the structure.

Regulatory banks for the purpose of analyzing the data and information of customers, in particular loan seekers, and from that we find that the banking inquiry is characterized by a great role in obtaining information for the purpose of judging the personality of the customer, whether it is an individual or a business company.

2- Banking inquiries

Banking inquiry is defined as a system that collects data on customers or customers from savings institutions, banks, credit unions, finance companies...etc., and then the collected data is converted into information to be stored in a special information base for each customer for easy reference. (Kwanji and Al-Hakim: 203, 2020), meaning that the banking inquiry expresses a service that specializes in providing important information about customers to be presented in the form of a report through a record that shows demographic (personal) information and data to identify the customer such as the commercial register, job number and credit data And the record of exporters and importers and personal data containing the full name, family members and first-degree relatives, as well as the address and work destination of the customer and data on his expenses and financing methods, for the purpose of his credit rating. (Zainab & Thaer: 209, 2023) And from that, we find that the banking inquiry represents an important service for providing all the customer's information, whether positive or negative, which includes the customer's credit history, loan size, payment date....etc. (Credit Reporting Knowledge: 2012, 17).

Thus, the banking inquiry contributes to reducing the various banking risks through the use of models of banking inquiry systems, which are divided into three models, as follows: (Al-Naimi: 2019, 518)

A- The systems managed by central banks (government agencies).

B- The credit inquiry (banking) companies that are managed by banks or borrowers.

C- Private (banking) credit inquiry companies owned by independent entities, in addition to the existence of mixed models that share the ownership and management of banking inquiry systems.

As for the sources of obtaining information related to banking inquiries, they are as follows: (Abdul Qader: 2008, 346-347).

A- Internal sources from within the bank, including the following:

- The movement of the customer's current account (the customer).
- The file of the customer (customer) in the banking information department.

B- External sources from outside the bank, including the following:

- The customer (customer) when submitting a borrowing request by filling out the information form.
- Facility records and financial reports if the borrower is a legal person (establishment).
- Information and historical record of the customer.
- Banks and other financial institutions such as chambers of commerce....etc.

From that, we find that the banking query represents a group of programs, devices, databases and applications that work as a single unit, with the aim of collecting information and data from the beneficiary customers for the purpose of verifying them and making sure that they

are free from errors and preventing duplication of information, and then sending This information is sent to the banking inquiry department or the inquiry system for the purpose of querying and issuing statistical reports on the information. (Abdul Amir and Muhammad: 110, 2021) .

3- Banking risks

Banks are among the economic sectors most exposed to risks due to the nature of the conflicting roles played by banks, in which banks are fully prepared to provide the necessary liquidity when demanded by depositors and borrowers at the same time, so that it can meet their need for loans to finance various investment and commercial projects, including It is reflected in the financial revenue of banks, and therefore the bank was exposed as a result of this activity to multiple financial risks (Al-Obaidi, Nour, 2022: 124), and given the importance of this sector in financing the economy by playing the role of financial mediation between the two sides of the financial surplus and deficit (depositors, borrowers), it has The risks resulting from this work have become a challenge that impedes the ability of banks to invest their financial resources in investment fields in order to achieve financial profits that help them grow and expand their business and draw banking strategies capable of meeting the economy's need for funds and financing projects (Khalawi, Mahmoud, 2021: 6) The exposure of banks in recent years to various financial risks prompted the Basel Committee to put part of the bank's capital to face these risks, because the risks are usually associated with a direct relationship with the achieved return. Financial receivables that expose the bank to credit risks. Therefore, the matter requires that the banking system be based on a solid credit policy capable of recovering what borrowers owe through the guarantees taken and other measures (Khalil, Dawood, 2022: 699). Banking risks have been defined as exposing banking business As a result of events and changes in the business environment that lead to expected and unexpected financial events that cause severe economic damage, exposing the bank to financial losses (Bireh, Tayah, 2022: 692), and it is also known as the extent to which the bank is likely to be exposed to unexpected or unplanned losses or events.

On bank indicators , financial (Al-Mousawi, Al-Khafaji, 2021: 165), and others defined it as representing unexpected losses, which express the existence of some deviation from what was planned, which generates uncertainty about the results to be achieved (Al-Douri and Al-Anbaki: 36, 2020), meaning that the risks Banking expresses a lack of confidence in the reality of the results of a specific activity and event; that is, not knowing what will happen in the future, that is, banking risks arise from the practice of certain activities that may result in many results in the future (Eyal: 2023, 85), and in light of the foregoing, it becomes clear to us The financial risk is a state of uncertainty that the bank is exposed to as a result of the financial business that it carries out, which occurs as a result of internal and external economic pitfalls that reflect their delusion on the performance of banks, public or private, which exposes the bank to financial losses that are not in its accounts.

4. Types of banking risks

There are several divisions of banking risks. Some have divided them into:

1. **Credit risks:** Credit risks arise due to the change in the economic conditions and the operating climate of the institution, which affects the cash flows available to service the loan,

and we find that it is difficult for the bank to predict these conditions and the changes that occur to the institution. The ability of the borrower to repay the loan (Harfoush, Sahrawi, 2009: 5). Credit risk is considered one of the biggest risks facing banks, as it is defined as the inability of the borrower to return the principal and the interests of the loan (Abdul Redha, 2022: 66).

2. Liquidity risk: It is the inability of the bank to fulfill its material obligations immediately within a specified period of time as a result of the mismatch of the maturity date of cash inflows and outflows or sudden and unexpected liquidity needs due to emergency circumstances and the inability of the bank to sell assets quickly and at a fair market value. As liquidity is an important element of continuity, therefore, liquidity management is an important tool for managing banks, as it reflects the ability of the bank to pay short and long-term obligations, as there are many financial indicators for liquidity used by banks for the purpose of managing their financial liquidity, which in turn affects the financial performance of banks significantly (Al-Banna', Al-Shammari, 2022: 369).

3. Market risk: It is defined as the possibility of the bank being exposed to a financial loss resulting from changes in the labor market, which is reflected negatively on the prices of stocks and bonds of banks in the stock market. We also produce these risks from fluctuations in global currency rates in the trading market. Therefore, these risks are exposed. The bank has it through what the market produces of variables at all local and international levels. Any change in the prices of securities by a decline exposes the bank to Losses, as well as any decline in interest rates in the bond market, it poses a danger to the bank as well, and the Central Bank of Iraq referred to it as the risks resulting from unexpected movements in market prices that negatively affect the values of the financial positions held in the investment portfolio, which in turn reflects negatively on The financial returns of the bank (Qatea, Hamid, 2021: 179).

4. Capital risk: It is the possibility that the bank will not be able to fulfill its obligations related to the deposit funds of depositors. These risks are affected by the profit distribution policy followed by bank managements (Nabil, Yassin, 2023: 163)

There are those who divide banking risks into many types, as follows: (Kunduz: 21-22, 2020)

A- Sovereign risks: related to the inability or unwillingness of the central bank or the government to pay.

B- Concentration risk: It results from the concentration of transactions in an individual or group of economically related individuals, a geographical area, a government, or a specific economic sector.

C- Settlement risk: It results from the failure to settle the deal in accordance with the agreed terms.

D- Counterparty risk: It results from the non-compliance of the counterparty at the time of maturity.

Conclusion

In light of the foregoing, it is clear that commercial banks usually operate in unstable environments at the internal and external levels, and this matter is a result of continuously

changing economic factors, and this matter poses a challenge for bank managements to be in constant communication with these changes in order to be able to avoid falling into crises. Financial, so the banks collect what they can of data and information about the borrowing parties in order to know the extent of the ability of these parties to pay these funds. Knowing the nature of the activities carried out by these parties and the extent of the profits and losses achieved during the previous years is very important in indicating the strength of this authority and knowing The volume of growth and contraction in them, as well as knowing the volume of borrowing they have, so the increase in the lending side of the investment agencies is an unsound indicator that warns that these entities will be exposed to a state of inability to pay all the lenders, so the banking inquiry is very important in trying to mitigate financial risks and make them less severe.

Results

1. Banking inquiry is one of the most important functions within commercial banks, as it represents the necessary means for collecting information and data about customers.
2. Banking inquiries have an important role in reducing banking risks by relying on customer records to determine the customer's credit status.
3. The weakness of the credit policy resulting from the hasty credit decisions by the management of the banks' departments makes the bank fall into risks resulting from the borrower's weakness in repaying the funds it owes.
4. Analyzing the credit positions in banks for all the data and information related to the borrowers can avoid the bank from falling into financial risks.
5. The exposure of the borrowers to external risks beyond their will and ability leads at the same time to their inability to pay their financial obligations, so the analysis must include the external and internal factors surrounding the borrowing parties so that the picture is clear to the bank.

References:

- [1]- Kwanji, Muzaffar Muhammad Nuri, Al-Hakim, Nisreen Muhammad Taher Saadi, The impact of the outputs of the banking inquiry system in reducing credit default, The Academic Journal of Nawroz University, Volume (9), Issue (20), 2019/2020.
- [2]- Khalaf, Zainab Nusrat & Mahmoud, Thaer Sabry, The credit worthiness of customers and its impact on bank credit granting decisions Applied research in a sample of Iraqi private commercial banks, JAFS, Vol.18, ISS.62,2023.
- [3]- International Finance Corporation, credit Reporting Knowledge Guide, 2012.
- [4]- Al-Nuaimi, Zahraa Ahmed Muhammad Tawfiq, The role of credit inquiry in developing the banking industry, Anbar University Journal of Economic and Administrative Sciences, Volume (11), Number (24), 2019.
- [5]- Abdel-Qader, Salwa Abdel-Jabbar, credit risks and their impact on the right credit decision, Karbala Scientific University Journal, Volume (6), Number (1), 2008.
- [6]- Abdul Amir, Hassan Ali, Muhammad, Jassim Muhammad, the legal rules governing the process of exchanging credit information according to the credit information system (CBS), Law Journal for Legal Studies and Research, Volume (14), Issue (23), p. 110.

-
- [7]- Al-Obaidi, Ali Mahmoud Hassan, Nour, Muhammad Al-Nayer Muhammad, "Disclosure of Banking Risks in Accordance with the Requirements of the Seventh International Financial Reporting Standard (IFRS7)", *Journal of the City of Science College*, Volume 14, Number 1, 2022.
- [8]- Khalawi, Sattar Jaber, Mahmoud, Asawer Shaker, "The Role of Hedging According to Financial Reporting Standard No. 9 in Banking Risk Management," *Journal of Al-Kut University College for Human Sciences*, Volume 2, Number 2, 2021.
- [9]- Khalil, Hadi Shawkat, Dawood, Samia Ahmed, "Studying the Impact of Banking Risks in Jeddah on Financial Reports Using the (Panel-ARDL) Model," *Journal of Financial, Accounting and Administrative Studies*, Volume 9, Issue 2, 2022.
- [10]- Tayah, Ahmed Muhammad, Birah, Nada Kaki, "Banking risk management in light of the covid-19 crisis, an analytical study for a number of Iraqi private commercial banks," *Tikrit Journal of Administrative and Economic Sciences*, Volume 18, Number 60, 2022.
- [11]- Al-Moussawi, Haider Younis, Al-Khafaji, Ayat Hussein, "Measuring the impact relationship and the correlation between the variables of financial flexibility and its impact on banking risks," *Ahl al-Bayt University Journal*, Volume 1, Number 32, 2022.
- [12]- Al-Douri, Omar Ali Kamel, Al-Anbaki, Anmar Majid, multiple stress tests and their effectiveness in managing banking risks, *Al-Riyadah Journal for Finance and Business*, Volume (1), Issue (1), 2020.
- [13]- Eyal, Alia Kazem, Abdel-Reda, Mustafa Salam, The Role of the Funding Gap in Enhancing Confidence in the Banking System in Iraq, *Analytical Study for the Period (2010-2021)*, Volume (15), Issue (2), 2023.
- [14]- Harfouche, Siham and Sahrawi, Eman, "The role of modern methods of managing credit risks for banks in mitigating the severity of the current financial crisis," a research presented to the International Scientific Forum on the International Financial and Economic Crisis and Global Governance, Algeria, 2009.
- [15]- Abd al-Ridha, Mustafa Salam, "Credit Risks and Their Impact on Banking Liquidity: An Applied Study between the National Islamic Bank and Iraqi Trade," *Ahl al-Bayt University Journal*, Volume 1, Issue 25, 2019).
- [16]- Al-Banna, Zainab Makki, Al-Shammari, Sima Hassan, "Analysis of banking risk and its reflection on capital adequacy using the Al-Tamman model," *Ahl al-Bayt University Journal*, Volume 1, Number 31, 2022.
- [17]- Katea, Mahdi Madi, Hamid, Silwan Hafez, "Facing Banking Risks Using the RAROC Risk-Adjusted Capital Model," *Journal of Administration and Economics*, Volume 1, Issue 127, 2021.
- [18]- Nabil, Nujoud, Yassin, Esser, "An Analysis of Some Quantitative External Factors Affecting Banking Risks in Iraq for the Period (2010-2020), *Baghdad University College of Economic Sciences Journal*, Volume 1, Number 71, 2023.
- [19]- Kunduz, Abdul Karim Ahmed, banking risks and methods of measuring them, studies of the Institute of Training and Capacity Building, Issue (5), 2020.