

RISK MANAGEMENT PRACTICES IMPACT ON IRAQI PRIVATE BANKS FINANCIAL PERFORMANCE

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ABSTRACT

Banking Industry considered as an important source of financing for most businesses. The past decade has seen dramatic changes in managing risk in this industry. In recent years, financial institutions and the supervisors have placed increasing emphasis on the importance of risk management. In response, banks, public or private, have universally embarked upon an upgrading of the risk management and control systems. The purpose of this study is to extend and understand the acknowledgement of importance of risk management practices and how risk management practices affecting financial performance. The data collected from 379 employees who working in Iraqi private banks. Structural Equation Modeling was used to analyze hypotheses and the results showed that there is positive relationship between the six aspects of risk management (Under Standing Risk and Management, Risk Identification, Risk Assessment, Risk Monitoring, Credit Risk Analysis). The findings showed that risk management practices significantly influence financial performance. These findings can facilitate the understanding of the factors and the programs need to be undertaken in order to enhance the use of risk management practices among Iraqi private banks and the investors.

Key Words: Risk Management Practices, Financial Performance, Iraqi Private Banks

Introduction

It is essential at the outset to explain the meaning of risk and risk management before we discuss the relevance of risk management strategies and the need for their disclosure in the annual report. Hornby (2005), define risk “The possibility of something bad happening at some time in the future; a situation that could be dangerous or have a bad result”. While Abaffy (2007)) define risk management, is the process of identifying, measuring, control and the reduction of risks faced by the company or the institution.

Driven by the increasing complexity of doing business, risk management has become an important and integral part of the company’s internal control and governance in order to

achieve its plans and objectives. Briefly, risk management refers to the methods and processes used by organizations to manage risks (or seize opportunities) related to the achievement of their objectives. A risk management framework typically involves a few processes.

Firstly, banks should be careful to risk management process this includes (identification, measurement, and assessment of risk types and contingencies that banks might face. Secondly, strategic action to tackle the risks (both threats and opportunities, this includes determining capacity for bearing and how avoid risk, risk reduction or mitigation procedures and other strategies to benefit from the impact of the potential risk and then convert risks into opportunities for success. Finally, it requires the monitoring and checking of the implementation and sending report to senior manager to making decision which risk need treatment (Lajili and Zeghal, 2005).

Moreover, by identifying and proactively addressing risks and opportunities, the banks protects and creates value for their customers, stakeholders, including owners, regulators, employees, reputation and society overall. Such risk management has been mandated to be disclosed by the accounting standard boards in some developed countries. However, risk management practices still scare in Iraqi context. Thus, this study highlights and expands the important of risk management practices.

Literature review

There are a large number of studies published about risk management in general. However, the number of the empirical studies on risk management practices in financial institutions was found to be scares in Iraqi context. Following is an attempt to discuss some conclusion of research in risk management practices based factors determining it.

Understanding Risk Management

In this respect, Linbo (2004) examines versus risk in large domestic USA banks. The researcher found that profits efficiency is sensitive to credit risk and bankruptcy but not to liquidity risk or loans. Anderson (2006) stated that it is important for employees to comprehend the aspect of risk encountered in the banking operations and the inherent risks that emerge in the business operations. It is vital to have a deeper understanding of risk management as critical success factors are not viewed as technical developments, rather the ability to comprehend risks from strategic paint view. It is also the ability to deal with risk on a regular basis. Carey, A. (2001), findings indicate that risk management is of great importance in the financial sector than in other part of the economy. Banking and financial institutions face and take the risk of uncertainty and provide a guide about how to deal with differing ideas, which have become the bedrock of risk management. Christine (2001) addresses the economic rationale for managing risks on a wide and consolidated basis. The aim is to lay out some of the key issues that supervisors and risk management practitioners have been confronted with in assessing and developing consolidated risk management systems, The study suggests, there is more than enough room for further research to deeper

the understanding of the benefits and shortcomings in risk management. Many questions, mainly research include technical problems in measuring financial risks.

Risk Identification

Al-Tamimi (2002); Al-Tamimi and Al-Mazrooei (2007), say that risk identification is the initial stage of risk management. For the implementation of risk management in an organization the first step of (Risk identification) risk identification is study risks and its impact on risk management practices. In (2002) Tchankova concluded that risk identification is a very important step in risk management. The idea was is to establish important observation areas inside and outside the corporation (Kromschroder and Luck, 1997). The responsibilities must then be assigned to the departments to identify specific risks. In, foreign exchange risks, the interest rate risks are the cortical function of the financial department. Therefore it is vital that the risk management function is firmly entrenched throughout the whole corporation; i.e. the parent company while, the branches to have identify and analyze risks and monitor and control these risks as well. There are various approaches for risk identification, for example, through visualization analysis or risk mapping. An organization will be able to highlight the intensity of risks via risk mapping which could steer the organization away from high and low intensity risks. Risk-ranking is a method of risk identification process that includes components where these rankings are usually based on impact.

In (2002), Al-Tamimi, discovered that the UAE commercial banks faced credit risks. The study also discovered that follow-up and inspections by branch managers and financial statement analysis were the main methods used in risk identification (are the following; establishing standards, credit scores, credit worthiness analysis, risk rating and collateral) among the techniques used in risk management. Dan (2011) aimed to outlines strategies to identify, prioritize, and mitigate risks for the achievement of projects' or organizational objectives and in order to fulfill performance and profitability needs. Risk management helps projects and organizations and at the same time prevents the loss of resources. It provides potentially profitable returns on investments for the organizational management, project management, project stakeholders, and team members. Here help is given as an entity get to where it wants to go and avoid unforeseen circumstances along the way.

Risk Assessment

Risk analysis and assessments are particularly important for measuring risk in banking institutions as well as for risk management practices. In ISO 31000, risk assessment is the process by which. Establishing the context, communication and consultation and monitoring and review are included. Risk treatment follows the assessment if such risks are not acceptable at the current level of control regarding risk assessment as "the overall process for risk identification, risk analysis and risk evaluation".

Gary Stoneburner (2002), has determined that the process of risk management includes nine stapes:- System Characterization, Threat Identification, Vulnerability Identification, Control

Analysis, Likelihood Determination, Impact Analysis, Risk Determination, Control Recommendations and Results Documentation. According to Fuser et al, 1999, the classification of risks helps the management to divide risks faced by banks to and therefore minimize the damage that such risks may cause. Frequently, There is a different relationship between the expected volume of loss and its corresponding likelihood, i.e. risks that will cause great damage to corporations, like earthquakes or fire, seldom occur, while risks that occur daily, like those involving interest rates or foreign exchange risk, often result in relatively minor losses. Yet, these risks can at these inflict serious damage on the firms. The empirical findings by Al-Tamimi and Al-Mazrooei (2007), has mentioned that UAE banks are often efficient in analyzing and assessing risk. There is a difference between the UAE national and foreign banks in terms of risk analysis and assessment. The findings from this research indicates that risk analysis and assessment are influence risk management practices. Drzik (1995) carried out a risk management survey on banks in the U.S. It was discovered that large banks there made substantial development with the implementation of risk measures. These measures were for both risk control purposes, and for performance measurements and pricing.

In Islamic banking, a few conceptual studies have been carried out (e.g. Sundararajan, 2007). Jackson-Moore (2007) suggests that banks should compile data, as this will be of advantages to the banks (information will be centralized and whereby common definitions, standards, and methodologies for operational risks can be implemented and thus, avoid significant losses in financial institutions. Koziol (2008) explains and assesses the risks that result in bank failures. The assessment of risks an related to bank failures is of paramount concern in relation to banking regulations, pointed out that it is important financial decision to the default risk of a bank, as such a course of action is viewed as a subjection dynamic process. The study presented a continuous-time model. Here the banks opted for the deposit volume so as to trade off the benefits of earning deposit premiums against the costs that would occur in future capital structure amendments. The major findings suggest that the subjectivity in the financing decision introduced an important self-regulatory mechanism.

Risk Monitoring and Controlling

To monitor and control risk some requirement are needed to ensure the implementation of the risk plans and the evaluation of its effectiveness in reducing risk, to keep track of identified risks, which includes the watch list and to update the organizational process asset. Monitoring is an important procedure to ensure that risk management is practiced by banks effectively (Javid, 2009). Effective risk management also means the execution of a reporting and review structure to ensure that risks are identified and assessed, after which appropriate controls and responses are set in place (IRM, AIRMIC and ALARM, 2002). Proper risk monitor practices can be used to ensure that risk management practices are in line and that it also helps the banks management to uncover mistakes at early stage (Al-Tamimi and Al-Mazrooei, 2007). Moreover, it was discovered that there is significant difference between the UAE national and foreign banks in the areas of risk monitoring and control. The UAE

commercial banks have an efficient risk monitoring and controlling system which has in turn positive influence on risk management practices.

Monitoring is the final step in taken the corporate risk management process (Pausenberger and Nassauer, 2002). Who is of the view that control has to be established at different levels? Control by the management board is insufficient to ensure the effective functioning of the risk monitoring system. This is because the management board members do not have sufficient time to exercise extensive control. Hence, the management board will put in place an independent unit to responsible for internal supervision. The internal audit will normally be responsible for this task. The supervisory board too obligated to control the risk management process. The supervisory board is supported by the auditor. Any defect by the auditor must be told to the supervisory board and the management board. The shareholders of corporation exercise the rights to insist on getting information in order to judge the efficiency of the risk management system. Here the director's report will enable the shareholders to assess and view the status of the corporation thoroughly.

Khan and Ahmad (2001) carried out studies risk management practices and discovered that on an average, the lowest percentage was found to be based on measuring, mitigating and monitoring risks i.e. 69% as compared to risk management policies and procedures i.e. 82.4%, internal control of the Islamic banks i.e. 76%. Hickson, (1996), explained that banks differ from each other because of the flexibility and high rates of the debt / equity ratio. These banks need to organize and discuss the most efficient way for the regulations of the system in the banks as it leads to instability the banking system. Should a bank indicate instability then the government must. It has also been suggested that to reduce the costs of monitoring and imposing control systems, such as insurance and the price and quantity of deposits these should be a separation between investment and bank deposits. The deposit insurance actually increased the level of banking instability, and the bank regulation (apart from the deposit insurance) promotes stability rather than creating monopolies in banking.

Credit Risk Analysis

Al-Tamimi (2002) studies the degree to which the commercial banks in UAE utilized risks management techniques to deal with various types of risk. The result of study was that these banks faced mainly credit risks. The research also discovered that the main means used to identify risk was via inspection conducted by branch managers and via financial statements. The methods used in risk management avoided the escalation credit risk, credit score, credit worthiness analysis, risk rating and collateral. The research also highlighted the willingness of the UAE commercial banks to important sophisticated risk management techniques, and has also recommended the adoption of the Meets conditions credit policy.

Moreover, Salas (2002) investigated the existence of credit risk in Spanish commercial and savings banks. The schedule of data was to compare the determinants of problematic loans of Spanish commercial and savings banks during period for 1985-1997. Both the macroeconomic and individual bank-level variables were taken in to account The GDP growth rate, firms, family indebtedness, rapid past credit or branch expansion, inefficiency,

portfolio composition, size, net interest margin, capital ratio and market power are the list of variables that is able to explain credit risk further. The result of the study discovered that the role of competition in the banking sector and ownership in determines credit risk. It also raises important bank supervisory policy issues: the use of bank-level variables as early warning indicators and finally the advantages of banks managing from different regions merging together.

Khambata (2003) investigated off-balance-sheet (OBS) credit risk across the top 20 Japanese banks. The study showed that financial derivatives were largely utilized by the top four banks with loan commitments as the largest source of credit risk among traditional OBS instruments. The results also showed a wide range of difference across the banks in terms of the use of derivative leverage when compared to USA and European banks, Japanese banks were found to use fewer OBS instruments as a percentage of the assets. This means that Japanese banks are careful in avoiding risks in general where compared to USA or European. This is especially so, given the bad financial condition of these Japanese banks.

Linbo (2004) offered two important practices of information on the efficiency of the bank in terms of profit that were found to be related to risks in the banks. The results suggest that the profitability of a bank is sensitive to credit and solvency risk but it is not sensitive to liquidity risk or to the investment/ mix of portfolios. Meanwhile, Rajagopal (1996) attempted to oversee bank's risk management and suggested a model for pricing the products based on credit risk assessment of the borrowers. It was concluded that good risk management results in good banking, which ultimately leads to the profitable survival of the institution. A proper approach to risk identification, measurement and control will safeguard the interests of banking institution in the long run. Froot and Stein (1998), found that credit risk management through active loan purchase and sales activity affects the banks' investments in terms of risky loans.

To address such issues within the banks, a comprehensive credit risk management plan must be put into place (Basel Committee 1999). These practices should also be aligned to sound practices that are related to the assessment of asset quality, the adequacy of provisions and reserves and the disclosure of credit risk. In order to establish an appropriate credit risk environment the following should be taken note of: - Operating under a sound credit granting process; maintaining an appropriate credit administration measurement and monitoring process; and finally ensuring adequate controls over credit risk.

Richard et al (2008) conducted a study in Tanzania on understanding credit risk management system in commercial banks established in less developed countries. The result obtained indicated that there were differing elements of credit risk management in commercial banks that operated a lesser developed economy compared to the developed economy. Therefore it can be concluded that the environment in which the bank operates is an important criteria for the success of a credit risk management. A similar empirical work was conducted by Hahm (2004) on interest rates and exchange rates in Korea. The Korean commercial banks were involved in both the interest rate and exchange rate risks. It was found that the efficiency of Korean banks was closely linked to the degree of the interest rate and credit policy.

Financial Performance

Performance is "a reflection of the organization's capacity and its ability to achieve its objectives" (Eccles, 1991:131). "Financial performance is the ability of the organization to use the financial and human resources efficiently for the purpose of achieving its goals" (Robins&Wiersema1996). "The organization's ability to achieve long-term goals is based on its financial performance" (Wheelen and Hanger, 2000). Financial performance is the measurement of the result achieved or expected in the light of predetermined criteria to determine what can be measured (Al-Hannawi 2005).

Furthermore, Normani (2010) found positive relationship between risk management practices and financial performance in Islamic banks in Malaysia this result in the same line with thesis of Eric (2002) found positive relationship between risk management practices and financial performance in insurance company in Uganda. Siraj (2012) investigates the presence, if any, of similarity in growth of chosen performance indicators of Conventional Banks and Islamic Banks in GCC region. The study selected six Islamic banks and six conventional banks. A comparative study based on performance indicators such as OER, NPR, ROA, ROE, EOA, operating expense, profit, assets, operating income, found different performance among Islamic banks and conventional banks.

The growth of banking, since inception of Dubai Bank in 1973, instigated comparative research that is conducted between conventional banking and Islamic banking. The scope of these studies was different and included comparison of leverage and profitability by Toumi et al (2011). Further, Jaffar and Manarvi (2011), in a comparative study on Islamic banks and conventional banking in using CAMEL process the study found that Islamic banks reported better performance on adequate capital and liquidity position compared to conventional banks. The study found similarity between conventional banks and Islamic banking on asset quality while conventional banks were found better in management of quality and earning ability. Ernst and Young (2012) found that while most organizations perform the basic elements of risk management, the top performers do more the study also found specific risk practices that were consistently present in the top performers.

It should be noted, that the process of financial performance is continuous and necessary to improve the performance of the banking facilities and as a result these to identify the pros and cons of the activity within the organization and achieve the set goals. Eccles (1991). It is essential that a balance be maintained between performance and risk so as to achieve management excellence. In order to define an organization's value chain across its business processes, the framework should be expanded to include the stakeholders' environment, market models and business models. For this there are six steps, and are as follows: To comprehend the stakeholder's environment; For the creation of market model; The development of a business model; To Creation a Business Plan; Monitor Business Operations; and, To deliver business results and provide feedback to other processes. Hanafi, (1991)

In this respect, Ronald's (1992), study focused on the relationship between capital and changes in risk. The study found that changes in capital were based on changes in the overall risk. Meanwhile, Milne (2002), study aimed to analyze the relationship between return on the economic capital's value to the investment in assets. The study found that the returns on capital worked as a measure of economic yield compared by the systemic risk, and were among the recommendations that the bank diversify investment assets and increase capital and not to grant loans without collateral.

Theory of Risk Management

In 1959, a study of (Markowitz 1959), indicated that the choice facing the problem of maximizing the portfolio expected return and risk reduction. Markowitz pointed out that the impact can be reduced component risk through diversification in portfolio investment assets. (Do not put all your eggs in one basket). However, the biggest problem facing investors is how to find a good combination of low-risk and biggest yield. The important element in risk management is a balance between return and risk. Financial institutions seek to achieve this objective through efficient diversification of risks and achieve the highest return at the lowest risk.

Research Model and Hypotheses

The majority of the studies of risk management practices were minor in Iraqi context the last decade have attempted to identify major antecedent factors which play critical roles in determining risk management practices. Therefore by this study used five aspects of risks includes (Understanding risk and management, Risk identification, Risk Assessment, Risk Monitoring and Credit Risk Analysis) Al-Tmmimi and Al-Mazroie (2007) with risk management practices and add another variable to examine how risk management practices affecting financial performance (see Fig 1).

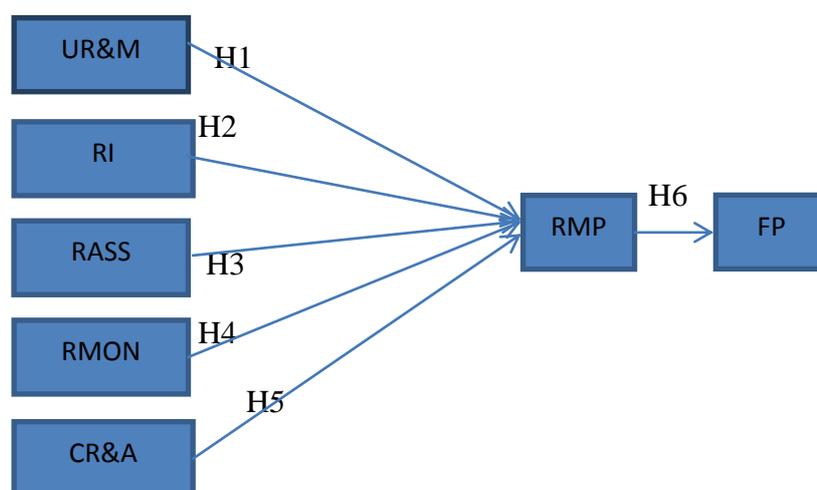


Fig 1: Proposal Model in Risk Management Practices and Financial performance In Iraqi private Banks

This study is an empirical study to investigating risk management practices and how risk management practices effecting financial performance among Iraqi private banks. The major part of the information consisting of secondary source was collected through research journals, internet and relevant books. This study attempts to answer the following questions

1. Does the staff in the Iraqi private banks understand the concept of risk and risk management?
2. Do private banks in Iraq practice efficient risk management?
3. What are the relationship between risk management practices and financial performance?

Based on the stated purposes and the questions mentioned above, the following hypotheses are formulated:

Hypothesis1: There is a positive relationship between the level of risk understanding & management and risk management practices.

Hypothesis2: There is a positive relationship between the level of risk identification and risk management practices.

Hypothesis3: There is a positive relationship between the level of risk assessment and analysis and risk management practices.

Hypothesis4: There is a positive relationship between the level of monitoring risks and risk management practices.

Hypothesis5: There is a positive relationship between the level of credit risk analysis and risk management practices.

Hypothesis 6: There is a positive relationship between the level of risk management practices and financial performance.

Estimation Technique

The technique of Structural Equation Modeling, (SEM) was the primary technique used for to analyze the data collected. Administrate questionnaire was used as an instrument for data collection from population 600 who were awarded of risk management practices in Iraqi private banks, from 600 questionnaires submitted in person, only 379 questionnaires were returned with a response rate of 63% of the total population.

Instruments

A modified questionnaire was developed and divided into three parts. The first part covers six aspects of risk management process includes: understanding risk and risk management; risk identification; risk assessment and analysis; risk monitoring; risk management practices; and credit risk analysis. This part includes forty one questions, where seven questions correspond to the understanding risk and risk management aspect, five questions correspond to risk identification, seven questions correspond to risk assessment and analysis, five questions

correspond to risk monitoring, ten questions correspond to risk management practices, and seven questions correspond to credit risk analysis last part covered the aspect of financial performance includes ten Question. Respondents were asked to indicate their degree of agreement with each of the questions on a five-point Likert scale. It is worth mentioning here that most private banks are different from public banks but they follow all role and regulatory issued from central bank .To assess the scales' content validity the author asked three experts – three academicians in Malaysia to examine the scales, as was suggested by Devellis (1991). Accordingly, the author made some changes to the first draft in terms of eliminating, adding to or rewording some of the questions included in that draft.

Sampling and data collection

According to the list provided by the Human Resources Department of each banks, there was a total of 20000 workers working in private banks. As mentioned earlier in the section on population and sampling, the total sample size for this study was 600 employees who have worked for at least 6 months in the private banks in Iraq. 379 completed questionnaires were received, which represented a 63% response rate. Of these completed surveys, 155 were rejected prior to statistical analysis. The rejected questionnaires included 20 respondents who indicated that they did not in fact work in private banks but they were in other ministries, 12 respondents who were not answer, were eliminated due to over 50% of missing or incomplete data. In total, 379 questionnaires were accepted as the final sample before analysis data. Questionnaire was distributed to the employees who working in 30 private banks in Baghdad.

The data was analyzed using the statistical Package for Social Sciences (SPSS) version 20. The research questions and hypotheses provided a basis to determine the most suitable methods to analyses the data compiled from the surveys. As stated earlier, the objectives of the study included:(a) To expand the level of understanding of the bank staff pertaining to risk and risk management(c) To examine the level of risk management efficiency in Iraqi private banks.(d) to explain the relationship between risk management practices and financial performance among Iraq private banks. Descriptive and inferential statistical analyses were used to examine the data collected. Once the data is cleaned and prepared for further analysis.

Data Screening

A survey was conducted starting from 1st of November till the end of December 2014. After collecting data from employees who working in Iraqi private banks in all of these questionnaires that were collected, 12 questionnaires were removed as the respondents did not aware about answer the questionnaires and the questionnaires that had more than 50% missing and in completed Based on Mahalanobis distance (d-squared) measures we dropped three items of outliers that the level of d-squared/ degree of freedom value exceeding 2.5 (Hair, Anderson, Tatham, & Black, 2006). After all the eliminations, 379 pure questionnaires were used for data analysis. According to conventions suggested by SEM researchers (Kline, 2005), the skewness score of all variables was within the normal range (i.e., between -2 and

+2) and it was revealed that the kurtosis scores of all distributions were within the normal range between -7 and +7 (DeCarlo, 1997; Kline, 2005). As shown in (appendix B)

Thus, all data were normally distributed in this study. The Composite Reliability (CR) as an alternative Cronbach's alpha is computed by almost all SEM and Amos software. A value of 0.70 or higher is an acceptable value in terms of composite reliability (Nunnally, 1978). All the values shown in (Appendix B) are above 0.70 and the average figure for these values is 0.88. Therefore, the measurement instrument of this study is reliable.

Measurement (Model Fitness)

Kline (1998) suggests at least 3 goodness of fit measures such as (Chi-square, (GFI, NFI or CFI), NNFI and SRMR) are need to model being fit. Hair et al., 1998 recommend at least 3 goodness of fit measures this include Chi-square, GFI, CFI, and RMSEA. The suggested approval of a goodness of fit to a model needs that are the GFI, AGFI, NFI, and CFI values should be greater than or equal to 0.90. An acceptable value of RMSEA ranges from 0.03 to 0.08 (Hair et al., 1998).

Empirical Results Analysis

Among the participants, 60% of the respondents were females and the balance 40% were males. With respect to the age group of the participants, 45% of the respondents were between the age of more than 56 years and the balance 42% of the respondents were 41-55 years of age. 63% of the respondents had higher academic education (Bachelor's degree) and the balance 36% of the respondents had either a Diploma or High School education. After analyzing the data collected about the experience of online stock trading investor, the results revealed that only 74% had 6-10 years of experience in banks. 21% of the respondents had an experience between more than 10 years and the balance 4% had only 1 year banks experience.

Before evaluating the fit of the structure model, it was necessary to define a measurement model to verify that the 46 measurement variables written to reflect the unobserved constructs. The results of initial estimation of the total measurement model for the construct showed a perfect fit (Chi-square= 1926.808, p- value= .000, DF=1203, TLI=.923, CFI=.927, GFI=.841, IFI=.928 and

RMSEA=.040). Thus the model shows that all of the factor loadings are more than .5 and at least all fit indices are acceptable. After confirming the measurement model, the structural model was examined. Based on the individual CFA described in the section 2.6 a total of 46 observed items were considered in the model. The final results of structure model suggested a model is perfect fit (chi-square=1454.463, p- value= .000, DF= 1208, GFI=.845, CFI=.925, IFI=.925 and RMSEA=.040). Table (1) reveals a summarization of the hypothesis testing for risk management practices and financial performance.

Table 1: Standard Regression Weights in the Model

Hypothesis Number	Test of relation between Variables		S.E	C.R	Standardizes Beta	P-Value	Results
H1	URM	RMP	.056	3.354	18	***	Support
H2	RI	RMP	.061	2.926	16	.003	Support
H3	RASS	RMP	.078	4.672	28	***	Support
H4	RMONI	RMP	.69	2.139	12	.032	Support
H5	CRA	RMP	.067	3.344	17	***	Support
H6	RMP	FP	.66	9.384	58	***	Support

Findings Discussion

The results reveal that understanding risk and management ($\beta = .18$; $P = ***$) positively affects the risk management practices. The impact of understanding risk and management on risk management practices has also been found in other studies (Wael (2010), Al-Tamimi, Al-Mazrooei 2007; Romzie Rosman (2009), Afsheen Shafiq and Mohamed Nasr (2010). The findings suggest that understanding risk and management need to make it more convenient to use risk management practices techniques to avoid all type of risks faced by banks. Thus, this study found that understanding risk and management had significant effect on risk management practices then H1 hypothesis were supported in this study.

The results show that risk identification ($\beta = 0.16$, $P = .003$) positively affects the risk management practices and H2 was also supported in this study. The significant roles of risk identification in this study confirm that the RI can be successfully applied to the domain of risk management practices.

As stated in the hypothesis. There were great theoretical and practical consequences due to the RI that was affected risk management practices. There is a need to instill a greater level of implementation of RI among the banks before they can start using the risk management techniques for the purpose of better result. This result is inline of (Al-Tamimi, Al-Mazrooei 2007; Romzie Rosman (2009).

According to H3 as expected ($\beta = 28$, $p = ***$) ($\beta = 0.47$, $p < 0.001$) was found to have a significant positive effect on the risk management practices. This finding was consistent with other studies in the risk management practices fields; (Al-Tamimi, Al-Mazrooei 2007; Romzie Rosman (2009), Afsheen Shafiq and Mohamed Nasr (2010). The significant results suggest a positive evaluation of risk assessment by banks and in turn will lead to their intention to adopt the risk management practices in banks to get better result and Attract as much as possible from customers and enhance banks performance.

The results of this study support hypothesis H4 risk monitoring and controlling ($\beta=12$, $p=0.32$) had a significant impact risk management practices in Iraqi private banks. There is a need to instill a greater level of risk monitoring and controlling among the staff and managers before they can start using the risk management practices techniques for the purpose get better result now and in the future. Also, comparing this result link with the results of the studies undertaken by (Wael (2010), Al-Tamimi, Al-Mazrooei 2007; Romzie 2009), Abu Hassen (2009), Sania (2010), to provide useful tools to implement risk management practices in Iraqi private banks.

These risks need to be deeply studied the customers behaviour before giving them credit. The result of hypothesis H5 shows positive relationship between credit risk and analysis and risk management practices ($\beta=17$, $p=***$) from this result expected significant impact on risk management practices so this risk need depth and more attention to avoided credit risk and get better result .

Finally, financial performance helps to increase profit and banks reputation according to the findings from this study ($\beta = 58$, $p= ***$). This result shows from hypothesis H6 strong effect of risk management practices among financial performance this study compatible with (Normani (2010), Eric (2002) studies.

Thus, this study found that understanding risk and management, risk identification, risk assessment, risk monitoring, credit risk and analysis had significant impact on risk management practices and this turns on reflection on financial performance. This empirical finding exposes the importance of evaluating risk management practices in Iraqi private banks.

Conclusions

This study attempted to fill the gap in literature as there are a large number of studies published about risk management in general. However, the number of the empirical studies on risk management practices in financial institutions was found to be of insignificant importance in Iraqi context. This study empirically examined and discussed the factors determining the risk management practices and its impact on Iraqi financial performance.

Moreover, the main objective of this study is to identify the factors influencing intention on using risk management practices in Iraqi private banks. There have been various models that have been conducted, developed and proposed in order to enhance the understanding of this issue. The approach adopted by this theory provides a comprehensive set of antecedents that can explain the intention to adopt a certain technology (i.e., risk management practices) in a precise manner. This enhances the practical contributions of the study. From the finding it has been identified that (URM, RI, RASS, RMON, and CRA) significantly affect risk management practices on Iraqi private banks this turn on affecting on financial performance. Meanwhile, this study opens the path for further research to be contacted risk management practices in other aspects.

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Appendix: A

Assessment of normality (Group number 1)

Variable	min	max	skew	c.r.	kurtosis	c.r.
CRA1	1.000	5.000	-.664	-5.279	.864	3.434
CRA2	1.000	5.000	-.604	-4.803	.780	3.099
CRA3	1.000	5.000	-.726	-5.773	1.103	4.384
CRA4	1.000	5.000	-.629	-4.995	.867	3.445
CRA5	1.000	5.000	-.444	-3.531	.405	1.611
CRA6	1.000	5.000	-.777	-6.174	1.238	4.921
CRA7	1.000	5.000	-.585	-4.650	.888	3.530
RMON1	1.000	5.000	-.497	-3.950	-.027	-.108
RMON2	1.000	5.000	-.597	-4.748	.106	.422
RMON3	1.000	5.000	-.443	-3.517	-.275	-1.092
RMON4	1.000	5.000	-.381	-3.026	-.408	-1.622
RMON5	1.000	5.000	-.564	-4.484	-.085	-.339
RAA1	1.000	5.000	-.670	-5.325	.809	3.216
RAA2	1.000	5.000	-.642	-5.101	.960	3.817
RAA3	1.000	5.000	-.726	-5.769	1.251	4.971
RAA4	1.000	5.000	-.690	-5.486	1.018	4.044

Variable	min	max	skew	c.r.	kurtosis	c.r.
RAA5	1.000	5.000	-.402	-3.192	.292	1.159
RAA6	1.000	5.000	-.690	-5.488	1.274	5.065
RAA7	1.000	5.000	-.592	-4.708	.955	3.795
RI1	1.000	5.000	-.519	-4.124	-.368	-1.461
RI2	1.000	5.000	-.479	-3.808	-.183	-.728
RI3	1.000	5.000	-.633	-5.028	.149	.593
RI4	1.000	5.000	-.662	-5.261	.091	.361
RI5	1.000	5.000	-.626	-4.977	-.270	-1.072
URM1	1.000	5.000	-.767	-6.094	.346	1.375
URM2	1.000	5.000	-.450	-3.575	-.186	-.739
URM3	1.000	5.000	-.444	-3.530	-.269	-1.070
URM4	1.000	5.000	-.554	-4.402	.148	.588
URM5	1.000	5.000	-.588	-4.675	.028	.112
URM6	1.000	5.000	-.587	-4.669	.145	.576
URM7	1.000	5.000	-.746	-5.928	.419	1.665
RMP10	1.000	5.000	-.978	-7.775	.742	2.948
RMP9	1.000	5.000	-1.158	-9.206	1.468	5.834
RMP8	1.000	5.000	-.971	-7.715	.998	3.967
RMP7	1.000	5.000	-.855	-6.798	.815	3.238
RMP6	1.000	5.000	-.881	-6.998	.487	1.937
RMP5	1.000	5.000	-1.154	-9.171	1.214	4.825
RMP4	1.000	5.000	-1.104	-8.771	1.048	4.166
RMP3	1.000	5.000	-1.052	-8.364	.781	3.103
RMP2	1.000	5.000	-.699	-5.558	-.098	-.388
RMP1	1.000	5.000	-.751	-5.972	.128	.510
FP10	1.000	5.000	-.755	-6.002	.106	.421
FP9	1.000	5.000	-.987	-7.843	.693	2.755
FP8	1.000	5.000	-.840	-6.677	.474	1.885
FP7	1.000	5.000	-.890	-7.071	.100	.397
FP6	1.000	5.000	-.872	-6.932	.362	1.438
FP5	1.000	5.000	-.814	-6.468	.166	.659
FP4	1.000	5.000	-.911	-7.239	.463	1.841
FP3	1.000	5.000	-.990	-7.867	.365	1.449
FP2	1.000	5.000	-.981	-7.793	.691	2.746
FP1	1.000	5.000	-.777	-6.172	.064	.256

Appendix: B

Factors Determining Risk Management and Financial Performance

Item	Sources	Factor loading	C R	AVE
Understanding Risk and Management				
<ul style="list-style-type: none"> - There is a common understanding of risk management across the bank. - Responsibility for risk management is clearly set out and understood throughout the bank. - Accountability for risk management is clearly set out and understood throughout the bank. Managing risk is important to the performance and success of the bank. - It is crucial to apply the most sophisticated techniques in risk management. - Your bank's objective is to expand the applications of advanced risk management techniques. - It is important for your bank to emphasize on the continuous review and evaluation of the techniques used in risk management. - Applications of risk management techniques reduce costs or expected losses. 	Al- Altimmimi and Al- Mazroie(2007Abul Hassan(2009	.74 .73 .72 .73 .73 .74 .78	.88	.73%
Risk Identification	Al- Altimmimi and Al- Mazroie(2007Abul Hassan(2009			
<ul style="list-style-type: none"> - The bank carries out a comprehensive and systematic identification of its risks relating to each of its declared aims and objectives. - The bank finds it difficult to prioritize its main risks. - Changes in risk are recognized and identified with the bank's roles and responsibilities. - The bank is aware of the strengths and weaknesses of the risk management systems of other banks. - This bank has developed and applied procedures for the systematic identification of investment opportunities 		.71 .70 .67 .76 .72	.83	.71
Risk Assessment	Al- Altimmimi and Al-			

	Mazroie(2007Abul Hassan(2009)			
<ul style="list-style-type: none"> - This bank assesses the likelihood of occurring. Risks. - This bank’s risks are assessed by using quantitative analysis methods. - This bank’s risks are assessed by using qualitative analysis methods (e.g. high, moderate, and low). - The bank analyses and evaluates opportunities it has to achieve objectives. - The bank’s response to analyzed risks includes an assessment of the costs and benefits of addressing risks. - The bank’s response to analyzed risks includes prioritizing of risks and selecting those that need active management. - The bank’s response to analyzed risks includes prioritizing risk treatments where there are resource constraints on risk treatment implementation. 		.74 .72 .73 .71 .72 .73 .71	.94	.72
Risk Monitoring	Al- Altimimi and Al-Mazroie(2007Abul Hassan(2009)			
<ul style="list-style-type: none"> - Monitoring the effectiveness of risk management is an integral part of routine management reporting. - The level of control by the bank is appropriate for the risks that it faces. - Reporting and communication processes within your bank support the effective management of risk. - The bank’s response to risk includes an evaluation of the effectiveness of the existing controls and risk management responses. - The bank’s response to risk includes action plans for implementing decisions about identified risks 		.81 .78 .69 .71 67	.83	.73
Credit Risk and Analysis	Al- Altimimi and Al-Mazroie(2007Abul Hassan(2009)			
<ul style="list-style-type: none"> - This bank undertakes a credit worthiness analysis before granting loans. - Before granting loans your bank undertake a specific analysis including the client’s characters, capacity, collateral capital and conditions. - This banks’ borrowers are classified according to a risk factor (risk rating). 		.75 .74 .75	.80	.74

<ul style="list-style-type: none"> - It is essential to require sufficient collateral from the small borrowers. - This bank’s policy requires collateral for all granting loans. - It is preferable to obtain collateral against some loans and not all loans - The level of credit granted to defaulted clients must be reduced. 		.73 .75 .74 .73		
<p>Risk Management Practices</p>	<p>Al- Altimmimi and Al- Mazroie(2007Abul Hassan(200</p>			
<ul style="list-style-type: none"> - The bank’s executive management regularly reviews the organization’s performance in managing its business risks. - The bank has highly effective continuous review/feedback on risk management strategies and performance. - The bank’s risk management procedures and processes are documented and provide guidance to staff about managing risks. - The bank’s policy encourages training programs in the area of risk management. - This bank emphasizes the recruitment of highly qualified people in risk management. - Efficient risk management is one of the bank’s objectives. - It is too dangerous to concentrate bank’s funds in one specific sector of the economy. - The application of Basel capital Accord by your bank would improve the efficiency of risk management. - Bank’s capital is adequate if the ratio of capital to total risk-weighted assets is equal to 8 percent. - Overall, I consider the level of risk management practices of this bank to be excellent. 		.73 .72 .72 .72 .74 .71 .71 .72 .72 .73	.90	.72
<p>Financial Performance</p>	<p>Al- Altimmimi and Al- Mazroie(2007Abul Hassan(200</p>			
<ul style="list-style-type: none"> .The bank used ROE and ROI ratio to see the performance of bank. . Bank is keen on increase its sales, reputation and increase profits through 		.72	.90	.71

monitoring		.71		
performance and use modern methods to measure performance of the bank.				
. That the size of profits or returns is an indicator to measure the efficiency of the		.71		
bank's financial.		.71		
.The efficiency of investment decisions aimed at reducing the cost to a minimum, and to maximize the bank returns		.72		
. The bank gives importance of analysis tools as working to discover the opportunities and threats.				
.That the economic value of the bank		.71		
significantly associated rate of return earned on the funds invested.				
.That the value of the bank in accordance with the personal perspective is used to ascertain		.72		
the extent of the safety of the bank. As a result, the market perspective and then correct the deviations.				
.There is a full run of the human and material resources available. It led to an increase in the bank's reputation in the market and increase competition.		.71		
. Creating new products and services that lead to increased competition, market value of the bank, as well as the bank's reputation and attract customers.		.72		
. The relative balance between profitability, liquidity and expand the bank's market. It is essential to restore the balance between the expected returns and potential risks.		.72		