

Financial Technology and Its Role in Iraqi Banking Industry (Analyzing Study for Selected Private Banks of Iraq)

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Abstract

Purpose: Recently, serious discussions are argued concerning the qualification of financial technological techniques in Iraqi banking industry in specific, due to the lack of requirements and lack of adopting certain technical infrastructures in addition to the lack of knowledge either for those employees or for clients. Iraqi baking industry still cannot improve their performance as qualified as expected. **Design-Methodology-Approach:** The current paper tries to investigate the role of adopting financial technology in banking activities through addressing a descriptive analytical method of relevant articles, essays, and studies with reference to novel financial techniques. **Findings:** It is obvious that adopting financial technology has a positive role in enhancing the banking performance and increasing the population of financial banking technology usages; especially for those who cannot reach their branches; and increasing the profitability of financial transactions due to decreasing the efforts and time of financial processes through traditional ways. **Research Limitation-Implication:** Accepting the idea of automatizing every financial transaction is still not clear enough to most of Iraqi banks' clients, further some of clients doubt the abilities of these financial technologies to serve their needs. **Practical Implication:** Unfortunately, most of Iraqi private banks follow the traditional applications of financial transactions rather than using the novel technologies, due to the lack of awareness towards its importance. So, the current paper confined to analyze only two Iraqi private banks (**Ashur International Bank & National Bank of Iraq**). **Social Implication:** Increasing the awareness of the importance of financial technological usages and training employers as well as staffs to be familiar with new technologies related to automatizing financial transactions. In addition to, supporting clients

to use these technologies through holding seminars, workshops and so on among adults i.e., in universities, schools and even public governorates to explain the importance role of adopting financial technologies in their routine financial transactions. **Originality-Value:** Globally banking industry developed rapidly, and Iraq is a part of this development in specific due to many obstacles that stand before especially those that related to financial inclusion, which leads to knowledge poverty of financial technologies especially in banking industry. So, this paper stands to be a guide path for others to analyze and explain the positive role of adopting financial technologies in a right way.

Keywords

Financial Technology, Profitability, Financial Inclusion, Banking Industry

1. Introduction

Economic in general characterized as a dynamic in its nature and the digital transformation is one of its phases that confirmed by the Fourth Industrial Revolution where financial industry is a part of it, especially those services that depend on which is known as (financial technologies). FinTech is the abbreviation of financial technology and it describes the novel and latest technologies that used to enhance and automate the financial services to clients; FinTech utilized by companies, business owners, and even consumers through special software and algorithms to operate their financial process more easily and effectively. Financial industry owes a debt of thanks to these technologies that transfer financial banking industry into another horizon. Global adoption of financial technologies is rapidly increasing due to their accessibility to individuals who are deprived of traditional financial services. New generation companies for both investment banking and retail trade have combined the power of the Internet with easy-to-use smartphones. Banking applications have enabled customers to participate in digital technological transactions and banking protocols, which has made banking to a large extent more accessible as well as more profitable on the Internet compared to traditional methods that used before, due to many innovative applications in various services including payments, finance, asset management, insurance, etc. Understanding the basics of innovated application of FinTech leads us to realize that mobile banking, peer-to-peer payment services i.e., CashApp, trading platforms i.e., Robinhood; and automated portfolio managers i.e., Betterment & Wealth front are valid real examples of innovated application.

2. Background

Some financial industry observers argue that financial technology has been used for decades and it considered as the *lifeblood* of all financial institutions (such as ATMs) which was firstly known in June 27, 1967 in North London to allow

clients to perform many various banking transactions after working hours (ATM) was innovated by John Shepherd-Barron and it became more popular between 1960s and end of 1970s, while recently others posit that financial technologies are presented in a different way, it is a distinct phenomenon from earlier eras of innovation; related to artificial intelligence AI, advanced analytics, robotics and cloud in addition to blockchain which means that financial technologies shifted from individual needs (clients) to group (companies) needs. But nevertheless, both sides agree that the rapid development of financial technologies over last decades has transformed the financial industry. Thus, financial techniques or what is called (Financial Technology—FinTech) can be defined simply as a combination of the two words “financial” and “technology” describes the use of technology to deliver financial services and products to consumers and/or end user. This could be in the areas of banking, insurance, investing—anything related to finance. In this context, FinTech represents technologies that already exist in traditional financial services i.e., mobile payments, money transfers, loans, fundraising, and asset management (Madir, 2021: p. 3). Yoshi Kawai, Secretary General of the International Association of Insurance Supervisors, which stands as a member of the Financial Stability Board define FinTech in a practical way i.e., “*technologically enabled financial innovation*” that gives rise to new business models, applications, processes, and products; in addition to new risk models due to the fact that any development or change could brought a sense of hidden risks. Meanwhile, it has a material impact on financial markets and institutions, in addition to those submitted financial services as mentioned earlier in other related studies (Dorflleitner & Hornuf, 2017: p. 4; Chang & Hu, 2020: p. 1).

3. Related Literature Review

Financial technique revolution has a great influence on the financial banking transactions as well as financial institutes around the world, studies refer to certain aspects of technologies that adopted i.e., ATM cards are provided with *smart chip technology* that reduce the ability of accidents due to the high level of security (EMV) which embedded with one use time password for each transaction, which means it is safe even when (ATM) card has been stolen. Another technical adoption is *biometric technology*, which could be used instead of using traditional banking cards, it characterized as more rescue than ever before, because it depends on fingerprint; eye recognition to identify the account owner. While other studies refer to the importance of *automated cleaning house*, that characterized as an active process to finalize the digital debits among banks in a country, such as paying insurance, social installments, salaries, and any other bills or loans’ installments as well (DGF, 2010: p. 16). Bank of America adopted another technology, *chatbots*, where chatbots are pieces of software that enables it to deal with customers as a real chatting and even customers could negotiate and get advice from those robots as well (Bairy & Rashmi, 2021: p. 428). Another study refers to the facilities that addresses through mobile devices; where each

bank has its own soft application that could be adopted and used through customers mobile and it becomes a mean of paying bills at once, cheque deposit, account balance and more activities (Cleveland, 2022: p. 7).

Furthermore, studies discussed the advantages of using modern financial technologies and described them as decentralize authority, diverse in its usages, and efficiently & transparency services (Vucinic, 2020: p. 58). With reference to decentralization and diversity, especially those activities that related to decision making, risk taking and rescue documents in a qualified way due to this feature (Al Nama'a & Abbood, 2019: pp. 3-6; Ehrentraud et al., 2020: p. 20). In this context, efficient financial banking industry could participate in achieving the performance especially for those hidden activities by employing the capabilities of robots in providing advice to costumers which leads to reducing the costs of banking transactions (Varma et al., 2022: p. 12). A study submitted by (Gutierrez & Philippon, 2017: p. 15) represents that unqualified information and ambiguity ones caused the recent financial crisis in 2008, especially that related to *securitization* which considered as the main source of that crisis; thus, adopting transparency that aligned with novel techniques has its role in increasing the producing of information and having positive or negative feedback easier than before.

Another source of studies refers to many kinds of modern financial technologies that have a great role in changing the concept of banking transactions i.e., digital transformation (Kessler, 2016: p. 3), paid services through mobile devices from account to another either private or company ones such as (P2P) or through PayPal, ACH and even through using QR code for financial transactions (Caceres-Santamaria, 2020: p. 3); in addition to Apple Pay which used widely and other account like Starbucks customers QR (Una et al., 2023: p. 5; while the situation is rather different with customer services due to the lack of trust, many banking customers are still prefer to deal with banks directly rather than using digital ones (Gia, 2019: p. 19), but the efforts are continued to convince banking customers with financial technologies for future (Barbu et al., 2021: p. 1418); and another usages is E-Wallet that characterized as safe as useful for its holders due to its ability to save all personal information, credit cards, passwords, an even PIN codes (Aparna, 2017: p. 54); moreover, these applications create a sense of competing to capture more revenues, more banking accounts, and creating a source of vacancies as well (Bhagat, 2020: p. 2).

4. Research Method

Current research adopts descriptive method due to the lack of experiences of Iraqi Banks towards adopting financial technologies in their processes; which leads authors to view and analyze many related articles, essays, and periodic published works that stands as a source of main knowledge to reflect it on Iraqi Banks, in addition to explain and analyze the situation of certain selected banks in Iraq that known as innovated bank i.e., (Ashur International Bank & Na-

tional Bank of Iraq) then, exploring the benefits of global experiences of adopting financial technology and reflecting them on banking processes in Iraq. Central Bank of Iraq CBI announced in 2021 that they finalize the 2nd phase of (wireless project) due to its importance in digital trading and other financial processes that depends on technology. After analyzing the yearly report of CBI for 2021, the current research concludes that many banks in Iraq started to digitize their processes and developing their application either for mobile devices or for internet.

5. Results & Discussion

As long as the current research analyzes the adopting of financial technology in two banks, the discussion will be done separately as:

- **Ashur International Bank:** Ashur bank recognizes the importance of financial technology and trying to compete through adopting many strategies towards enhancing and developing i.e., digital bank's accounting through internet; issuing credit and/or debit cards digitally, in addition to updating every news and activities on bank's website that facilitates to reach data especially those loans information, and job vacancies and so on (<https://www.ashurbank.iq/>). Moreover, Ashur bank becomes a distinctive bank in its ability to sustain and continue through many developing programs related to digitalization, and its policy towards increasing its clients that results in achieving high level of market share.

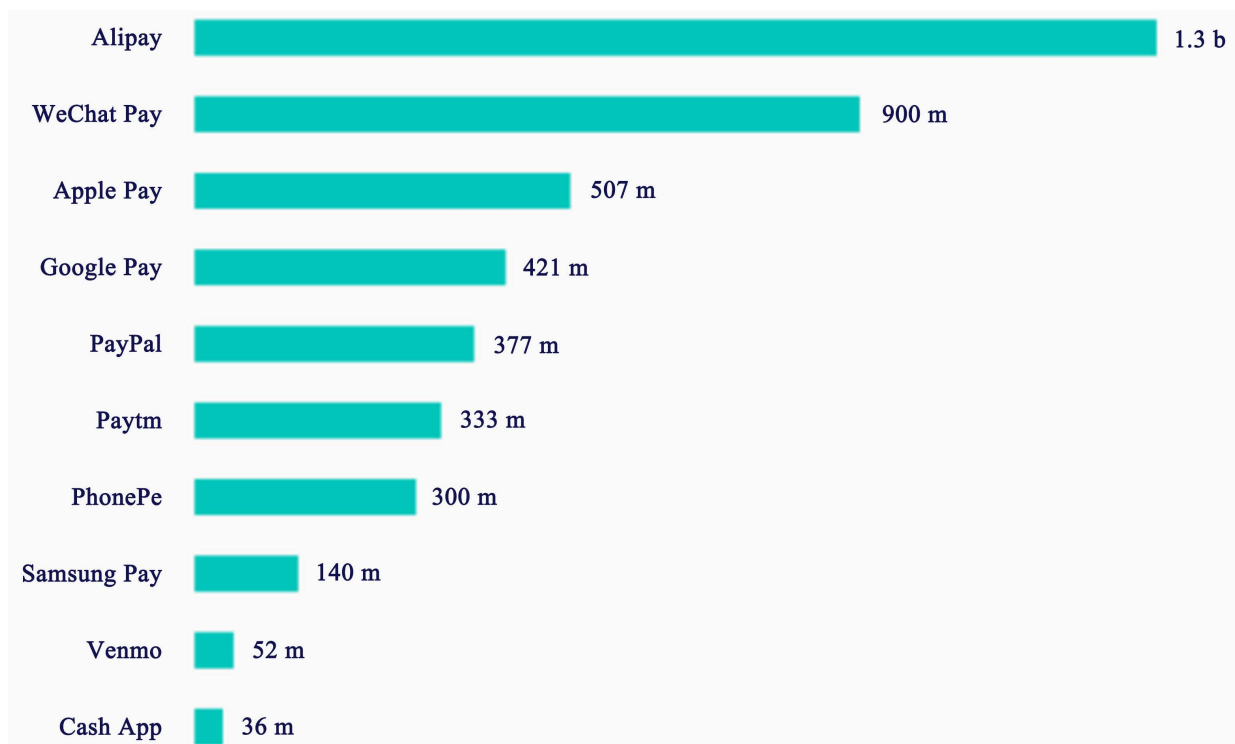


Figure 1. Most 10 E-wallet popular in the world. Source: <https://seon.io/resources/digital-wallet-fraud/>.

- **National Bank of Iraq:** followed many policies and strategies of providing many diverse activities to clients either personally or for companies, and in 2022, it announced that more than (157/ATM) was distributed in most dynamic centers and malls in Baghdad and other big cities. Adopting a service called (*Hala*) to open an account through WhatsApp application (<https://nbi.iq/>). NBI's clients can check their banking transaction through their digital account as safe as easy; they adopted a useful service as well that declare the final account statement once withdrawal took place. Developing the ATMs with services to transfer money to another account, digital answering, declaring account statements in addition to cash withdrawal. NBI adopts another service through E-wallet of clients with other technical companies in which it becomes popular around the world as mentioned in **Figure 1**; where E-Wallet stands as a type of electronic card used for online financial transactions either by using computers or even smartphones; it looks like a “*digital storage of funds*” and it reduces the need of carrying physical wallet.

6. Conclusions, Limitations & Further Research

Adopting new technologies have its benefits on both banking industry and lifestyle of Iraqi society; especially after holding many training programs on using these technologies, that leads other private banks to follow the first leaders to invent their experiences widely.

Although, adopting technologies especially those creative ones are expensive too much, but they are valuable, and they increase the ability to invest and increase the profits as well. Using digitization could be a chance to develop and empower those new graduates to develop their ambitions towards enhancing their abilities and capabilities to be familiar with new technologies.

Due to the great role of financial technology, governments must support their banking industry with all facilities and competencies to sustain and compete, otherwise, it would be difficult and risky to sustain among globalization especially for those activities that related to economy businesses.

The current research realizes that still the road is far to judge that Iraqi library is rich enough with these experiences even for those Arabian ones, many studies and works have to be done to enrich this field of knowledge.

Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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