BANK FRAUDS IN NIGERIA: UNDERLYING CAUSES, EFFECTS AND POSSIBLE REMEDIES

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ABSTRACT

Perhaps, no where are frauds more serious and more pronounced than in the banking sector of the economy. They are one of the biggest single causes of bank failure and distress in the Nigerian banking system. This study therefore sets out to find the common types of bank fraud that are frequently carried out in the banking system, the underlying causes, level of staff involvement, consequences and possible means of ameliorating the problem. A sample of 100 respondents taken in Benin City, capital of Edo State, Nigeria was studied by means of field survey tool of questionnaire and the response to rating scale questions were tested for significance using the "t-test". The analysis revealed that respondents did not view unofficial borrowing and foreign exchange malpractice as forms of bank fraud since they were common and an industry wide practice. It also revealed that there was an equal level of staff involvement in initiating and executing fraud, with the concealment of fraud coming last in their agenda. Also, among the factors hypothesized to encourage bank fraud; the major individual based factors were greed, infidelity and poverty, while organizational factors were inadequate staffing, poor internal controls, inadequate training and poor working conditions. Respondents also viewed greed, lack of personal ethics and weak corporate governance as managerial factors that help propagate frauds in banks. The unique contribution of this paper is its emphasis on building upon the methodology and findings of some previous studies in the area of bank fraud (in Nigeria), by conducting statistical test of significance which adds statistical validity and flavour to our findings.

Key Words: Bank Frauds, Effects, Remedies, Nigeria.
JEL Codes: G2, G21

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I. INTRODUCTION

The banking sector in any country plays a fundamental role in increasing the level of economic activity. As intermediaries to both suppliers and users of funds, banks are effectively situated in a continuum that determines the pulse of the economy. Worldwide, the ability or inability of banks to successfully fulfill their role as intermediaries has been a central issue in some of the financial crisis that has been witnessed so far. Diamond (1984) posits that a special feature of banking activities is to act as delegated monitors of borrowers on behalf of the ultimate lenders (depositors). In this special relationship with depositors and borrowers, banks need to secure the trust and confidence of their numerous clients. Though this requires safe and sound banking practices, it is not always the case as bank failures in different countries have come to prove.

The failure of banks to adequately fulfill its role arises from the several risks that they are exposed to; many of which are not properly managed. One of such risks which is increasingly becoming a source of worry is, the banking risk associated with fraud. Fraud, which literarily means a conscious and deliberate action by a person or group of persons with the intention of altering the truth or fact for selfish personal gain, is now by far the single most veritable threat to the entire banking industry. It is indeed worrisome that while banks are constantly trying to grapple with the demands of monetary authorities to recapitalize up to the stipulated minimum standards, fraudsters are always at work threatening and decimating their financial base. Also more worrying is the rise in the number of employees who are involved in the act as well as the ease with which many escape detection thus encouraging many others to join in perpetuating fraud (Onibudo, 2007).

The spate of fraud in the banking industry has lately become an embarrassment to the nation as apparent in the seeming inability of the law enforcement agents to successfully track down culprits. Whereas the activities of armed robbers is given widespread reviews in the pages of newspapers, especially during major thefts, it is an irony that what they cart away from banks is only a slice of what fraudsters remove from bank tills.

Statistics on the activities of fraudsters in the industry is both amazing and confounding. Ogwuma (1981) estimated that on the average, banks in Nigeria were at a risk of loosing one million naira every working day due to the incidence of frauds which come in different guise or forms. In recent times, this estimate is low going by the NDIC 2001 report where banks recorded cases of frauds and forgeries totaling ₦11.244 billion (Kazeem and Ogbu, 2002). Such an amount would have been enough to set up a least eleven micro finance banks in the current period. Forgeries currently constitute the greatest challenge facing the industry. Also the number of insiders (staff) who connive with outsiders to perpetuate the act is alarming. According to an NDIC publication, about 1,914 bank staff of various banks were involved in bank frauds between 1994 and 1996. The report also established that frauds contributed immensely to the failure of most banks in the 1990s, the amount involved representing as much as 32.1% of shareholders funds in 1998 (Udegbunam, 1998). Equally worrisome is the rise in the number of top management staff that have either been indicted or accused of engaging in bank fraud. Against these background, the main purpose of this study is to ascertain the nature and causes of bank frauds; as well as proffer solutions that it is hoped, would help reduce the spate of bank frauds in the country.

A. Statement of the Problem

The larger society expects greater accountability, fairness, transparency and effective intermediation from banks. Ensuring that they carry out their responsibilities with sincerity of purpose and devoid of fraud is an important ingredient for gaining public trust and goodwill. The extent to which fraud is prevalent in the banking sector, the nature and causes of bank frauds and proffering possible solutions to the problem is in essence what this research work is all about.

B. Objective of the Study

The primary aim of this research work is to ascertain the nature and causes of bank frauds in Nigeria. Thus, the study aims at the following objectives:

(i) ascertain the principal types of fraud currently plaguing the industry;
(ii) determine the level of involvement of banks staff in fraudulent activities;
(iii) reveal factors which encourage staff involvement in fraudulent activities;
(iv) determine the competence of bank staff in early fraud detection and control;
(v) ascertain the consequences of fraud on banking operations.

C. Significance of the Study

The impact of bank fraud on the operations of banks in Nigeria and indeed the economy at large is of interest to researchers and industry practitioners. Studies concerning bank frauds in Nigeria have highlighted the contribution of frauds to bank distress (Udegbunam, 1998). Also the level of involvement of different category of bank staff in fraudulent activities has been provided by Ovuakporie (1994), Aderibigbe (1999), Kazeem and Ogbu (2002), Onibudo (2007) and Omachonu (2009). This is an addition to some of these studies. Specifically it seeks to improve on their methodology and findings by conducting some statistical test of significance.

Furthermore, the study will be of invaluable benefits and usefulness to all categories of bank managers, financial information users such as existing and potential shareholders, creditors and fund providers and the relevant government agencies. Besides, researchers and students in the field of banking and finance who want to know more about frauds, its causes and possible ways of preventing it will also find the study beneficial.

II. CONCEPT AND MEANING OF FRAUD

Fraud can be defined as deliberate deceit or an act of deception aimed at causing a person or organization to give up property or some lawful right. The Association of Certified Fraud Examiners (1999) further defines fraud as the use of one's occupation for personal enrichment through the deliberate misuse, misapplication or employment of organizational resources or assets. Fraud can be defined as the fraudulent conversion and acquisition of money or property by false pretence (FBI, 1984). In legal terms, fraud is seen as the act of depriving a person dishonestly of something, which such an individual would or might be entitled to, but for the perpetration of fraud. In its lexical meaning, fraud is an act of deception which is deliberately practiced in order to gain unlawful advantage. Therefore, for any action to constitute a fraud there must be dishonest intention to benefit (on the part of the perpetrator) at the detriment of another person or organization.

Fraud usually requires theft and manipulation of records, often accompanied by concealment of the theft. It also involves the conversion of the stolen assets or resources into personal assets or resources. There is a general consensus amongst criminologists that fraud is caused by three elements called "WOE" (Onibudo, 2007). For any fraud to occur there must be a will, an opportunity and exit (escape route). A fraud will only occur if the perpetrators have the will to commit the fraud, if the opportunity to commit the fraud is available and if there is an exit or escape route from relevant sections or institutions that are against fraud or related deviant behaviour.

Fraud is a global phenomenon. It is not unique to the banking industry or for that matter, peculiar to only Nigeria. With the crash of major multinational corporations like Enron (in the United States of America) coupled with high level allegations and actual cases of corporate fraud, many organizations in their attempt to improve their image have resorted to developing ethical guidelines and codes of ethics. The whole essence of these is to ensure that all organizational members irrespective of rank or status, complies with the minimum standard of ethical responsibility in order to promote the reputation of such firms in their chosen industry, earn the goodwill of customers and thus improve their competitive advantage (Unugbro and Idolor, 2007). In the present Nigerian epoch, many youths and elder citizens alike want to make it within the shortest possible time, because banks deal with money, and money related businesses, it is no wonder that they have become the targets of persistent fraudsters.

As naturally expected, fraud is perpetrated in many forms and guises, and usually have insiders (staff) and outsiders conniving together to successfully implement the act. The following types which are not in any way completely exhaustive are the most common types of bank frauds in Nigeria identified by Ovuakporie (1994).

A. Theft and Embezzlement

This is a form of fraud which involves the unlawful collection of monetary items such as cash, travelers cheque and foreign currencies. It could also involve the deceitful collection of bank assets such as motor vehicles, computers, stationeries, equipments, and different types of electronics owned by the bank.

B. Defalcation

This involves the embezzlement of money that is held in trust by bankers on behalf of their customers. Defalcation of customers deposits either by conversion or fraudulent alteration of deposit vouchers by either the bank teller or customer is a common form of bank fraud. Where the bank teller and customer collude to defalcate, such fraud is usually neatly perpetrated and takes longer time to uncover. They can only easily be discovered during reconciliation of customers' bank account. Other forms of defalcation involves colluding with a customers agent when he/she pays into the customers account and when tellers steal some notes from the money which are billed to be paid to unsuspecting customers/clients.

C. Forgeries

Forgeries involve the fraudulent copying and use of customer's signature to draw huge amounts of money from the customer's account without prior consent of the customer. Such forgeries may be targeted at savings accounts, deposit accounts, current accounts or transfer instruments such as drafts. Experience has shown that most of such forgeries are perpetrated by internal staff or by outsiders who act in collusion with employees of the bank who usually are the ones who release the specimen signatures being forged (Onibudo, 2007).

D. Unofficial Borrowing

In some instances, bank employees borrow from the vaults and teller tills informally. Such unofficial borrowings are done in exchange of the staff post dated cheque or I.O.U. or even nothing. These borrowings are more prevalent on weekends and during the end of the month when salaries have not been paid. Some of the unofficial borrowings from the vault, which could run into thousands of naira, are used for quick businesses lasting a few hours or days after which the funds are replaced without any evidence in place that they were taken in the first place. Such a practice when done frequently and without official records, soon very easily becomes prone to manipulations, whereby they resort to other means of balancing the cash in the bank's vault without ever having to replace the sums of money collected.

E. Foreign Exchange Malpractices

This involves the falsification of foreign exchange documents and diversion of foreign exchange that has been officially allocated to the bank, to meet customers' needs and demand, to the black market using some "ghost customers" as fronts. Other foreign exchange malpractices include selling to unsuspecting and *naïve* customers at exchange rates that are higher than the official rate and thus claiming the balance once the unsuspecting customer has departed. This practice usually find fertile grounds to grow in banks which have weak control, recording and accounting systems and corrupt top management staff.

F. Impersonation

Impersonation involves assuming the role of another person with the intent of deceitfully committing fraud. Impersonation by third parties to fraudulently obtain new cheque books which are consequently utilized to commit fraud is another popular dimension of bank fraud. Cases of impersonation have been known to be particularly successful when done with conniving bank employees, who can readily make available, the specimen signatures and passport photograph of the unsuspecting customers.

G. Manipulation of Vouchers

This type of fraud involves the substitution or conversion of entries of one account to another account being used to commit the fraud. This account would naturally be a fictitious account into which the funds of unsuspecting clients of the banks are transferred. The amounts taken are usually in small sums so that it will not easily be noticed by top management or other unsuspecting staff of the bank. Manipulation of vouchers can thrive in a banking system saddled with inadequate checks and balances such as poor job segregation and lack of detailed daily examination of vouchers and all bank records.

H. Falsification of Status Report

A common type of fraud is falsification of status report and/or doctoring of status report. This is usually done with the intent of giving undeserved recommendation and opinion to unsuspecting clients who deal with the bank customers. Some clients for example will only award contracts to a bank customer if he/she providers evidence that he/she can do the work and that they are on a sound footing financially. Such a fraudulent customer connives with the bank staff to beef up the account all with the aim of portraying himself not only as being capable but also as a persons who will not abscond once the proceeds of the contracts has been paid. The inflation of statistical data of a customer’s account performance to give deceptive impression to unsuspecting third parties (which is very common in Nigeria), for whatever reasons, is a fraudulent behaviour.

I. Money Laundering

This involves the deceitful act of legitimizing money obtained from criminal activity by saving them in the bank for the criminals or helping them transfer it to foreign banks, or investing it in legitimate businesses. In the recent political dispensation (in Nigeria), money laundering by con men, politicians and fraudulent bank staff have assumed alarming dimension.

J. Fake Payments

A common type of fraud in the banking sector is fake payments, which involves the teller introducing a spurious cheque into his/her cage. It is done with or without the collaboration of other members of staff or bank customers. This type of fraud is however easy to detect if the bank has a policy of thoroughly examining all vouchers, checks, withdrawal slips and payments on a daily basis.

K. Computer Frauds

This involves the fraudulent manipulation of the bank's computer either at the data collection stage, the input processing stage or even the data dissemination stage. Computer frauds could also occur due to improper input system, virus, program manipulations, transaction manipulations and cyber thefts. In this epoch of massive utilization of automated teller machines (ATMs) and online real time e-banking and commerce; computer frauds arising from cyber thefts and crimes has assumed a very threatening dimension. No bank seems to be immune from it, and a significant proportion of the billions of naira spent annually in the banking sector to help reduce fraud usually are channeled towards combating compute frauds and cyber crimes/thefts.

According to Asukwo (1999), the immediate and remote causes of frauds in general include the following:

L. Greed

Greed refers to an inner drive by individuals to acquire financial gains far beyond their income and immediate or long-term needs. It is usually driven by a morbid desire to get rich quick in order to live a life of opulence and extravagant splendour. Greed has in many cases been regarded as the single most important cause of fraud in the banking sector.

M. Inadequate Staffing

A poorly staffed bank will usually have a problem of work planning and assignment of duties. The bank that is flooded with unqualified and inexperienced staff will of a necessity have to grapple with the problem of training and supervision of its officers. This situation can very easily be capitalized upon by the teeming fraudsters that the bank has to contend with in its day to day transactions.

N. Poor Internal Control

Inadequate internal control and checks usually creates a loophole for fraudulent staff, customers and non-customers to perpetrate frauds. Therefore to reduce or eliminate frauds, there is a need to always have effective audits, security systems and ever observant surveillance staff at all times during and after bank official operating hours.

O. Inadequate Training and Re-Training

Lack of adequate training and retraining of employees both on the technical and theoretical aspects of banking activities and operations usually leads to poor performance. Such inefficient performance creates a loophole which can very easily be exploited by fraudsters.

P. Poor Book Keeping

Inability to maintain proper books of accounts coupled with failure to reconcile the various accounts of the bank on daily, weekly or monthly basis usually will attract fraud. This loophole can very easily be exploited by bank employees who are fraudulent.

Q. Genetic Traits

This has something to do with heredity: a situation whereby characteristics are passed on from parents to offspring. For instance a kleptomaniac who has a pathological desire to steal just for the sake of stealing would naturally not do well as a banker. It is therefore imperative for banks to trace such symptoms quickly among members of their staff in order to reduce the possibility of fraud among employees.

Aside the aforementioned causes of fraud, the following factors suggested by Aderibigbe (1999) and Onibudo (2007), also contributes immensely to fraud:

i. Inadequate compensation, salaries and fringe benefits that are accruable to bank staff;
ii. The ease at which the stolen assets are converted after deceitful appropriation;
iii. Refusal to comply with laid-down procedures without any penalty or sanction;
iv. Collusion between interacting agents charged with the responsibility of protecting the assets and other interest of the bank;
v. Poor working conditions;
vi. Poverty and infidelity of employees.

Bank frauds greatly jeopardize the organizational growth of a bank as it leads to bank distress. This is because fraud reduces the deposits of depositors and eventually leads to the erosion of the capital base of banks. The cost of fraud is also usually difficult to estimate because not all frauds are discovered or even reported since most banks have a tendency to cover up the frauds emanating from their banks and cash tills all in a bid to continue to gain customers goodwill and engender their clients' confidence all the time (Asukwu, 1999).

III. METHODOLOGY

A. The Sample

In July 2009, **140** copies of a questionnaire specifically designed for this study were distributed to the staff of several banks located in Benin City, Edo State. We visited the banks twice a week for four weeks. In the first two weeks, we gave out copies of the questionnaire to every bank employee we met on their seats. The last two weeks, we devoted to retrieving the completed questionnaires. At the end of the four weeks, **109** questionnaires were retrieved of which **100** were sufficiently usable, giving us a completion rate of **71** percent. This sampling procedure has been described as non-probability purposive sampling technique (Agbadudu and Ogunrin, 2006). In non-probability sampling, elements of a population are not deliberately given equal or known chance of being included in a sample. In other words, non-probability sampling does not guarantee randomness (Nachmias and Nachmias, 1982). Non-probability purposive sampling technique describes the process of choosing sample elements while being guided by assumptions of what typical elements are; elements which are most likely to provide a researcher with information required (Asika, 1991).

For the present study, our aim is to generate tentative answers to questions bordering on the type(s) of fraud currently affecting banks in Nigeria, the factor(s) which serve as a motivator for committing fraud, the level of competence (of members of staff) in early fraud detection and control, the level of staff involvement in bank related fraud from the fraud initiation stage through execution stage to the concealment stage and what they considered to be the most significant consequences of fraud on their banking operations.

Deriving from the objectives of this study, a questionnaire was designed specifically for the study, and administered to respondents in Benin City, capital of Edo State Nigeria. We selected this city for two main reasons. Firstly, as the capital city of one of the most ethnically heterogeneous state in Nigeria, it is one of the cities reflecting the multi-ethnicity of Nigeria. Almost all the major ethnic groups in Nigeria are also found in the state and many of them are found in Benin City. That the city is representative of the ethnic diversity of Nigeria is therefore intuitively appealing. Secondly, the city is a gateway to the rest of the country. The presence of a number of federal institutions (University, Polytechnic, etc) necessitates employing citizens from outside the state, apart from the indigenous Edo people. This has given Benin City a highly advanced, educated and heterogeneous metropolitan population; some of which (just like in other similar metropolitan cities of the world) are likely to be potential fraudsters with a particular interest in defrauding banks.

The questionnaire was tested for content (face) validity before it was administered. In this vein, two senior staff (of managerial status in their respective banks) were requested to assess the questionnaire for adequate coverage of relevant dimensions of the research objectives. After their suggestions, the final questionnaire, which was applied for this study consists of questions that are not categorized explicitly into sections. We perceived that not categorizing the questions would impute informality to the data gathering exercise thus enhancing the completion rate. The questions do not follow a rigidly logical sequence either. It is our hope that the absence of a rigid order would eliminate the problem of response set, that is, the tendency to answer all questions in a specific direction regardless of the content of each question (Agbadudu and Ogunrin, 2006; Yomere and Agbonifoh, 1999). Also, the questions concerning personal details – age, gender, educational qualification, religion and state of origin are posed at the end of the questionnaire in a bid to avoid possible discomfort that self disclosure could induce in respondents. The researcher hope that if respondents are not unnerved after filling just two or three questions, which could happen if personal details are sought first, then the chances of a high response rate could be enhanced.

B. Techniques of Analysis

Qualitative analysis was done where appropriate. The questions in the questionnaire were analysed in tabular form with the aid of simple percentages. The percentage enabled us to simplify the problem of comparison and also show the qualitative characteristics in numerical form. Responses to rating-scale questions were tested for significance using the "t-test", where:

$$\mathbf{t} = \frac{\bar{x} - \mu_o}{\frac{\sigma}{\sqrt{n}}}$$

$\bar{x}$ = mean of respondents rating of attributes being assessed; σ = standard deviation of the mean; μ_o = hypothetical or normative population mean; for a five point scale, μ_o was set at **3.0** and for a three point scale $\mu_o = 2.0$ and **n** = sample size (in this case it is **100**). Use of Microsoft Excel spreadsheets aided the computations. Subsequently, computed values of (**t**) were compared with the respective tabulated values at $\alpha = 0.05$ (i.e. level of significance) and degree of freedom (**n-1**) = **99**.

IV. DISCUSSION OF FINDINGS/POLICY IMPLICATION

A. Demographic Characteristics of Respondents

Of the respondents, **48** were males while 5**2** were females. Of the respondents, **14** fell within the highest age bracket 'above **40** years'. **31** respondents fell within the lowest age bracket – "less than **30** years". The modal age bracket turned out to be "**30-35** years" with a frequency count of **45**. The respondents hailed from across **14** of the **36** states of the country. Most of them (**45**) hailed from Edo State. A total of **21** had postgraduate degree/qualification, **50** had HND/B.Sc. while the remaining **29** had ND/Diploma degrees. Out of the 100 respondents **15(%)** had less than five years banking experience, **41(%)** had between "**5-10** years" experience, **19(%)** had between "**11-15** years" experience, **14(%)** had between "**16-20** years" experience while the remaining **11(%)** had above twenty years experience in the banking sector. Also, of the respondents **26(%)** felt their remuneration was very adequate; **38(%)** saw theirs as adequate; **14(%)** were uncertain about the adequacy of their remuneration; **12(%)** held the view that the remunerations they earned was inadequate while the remaining **10(%)** felt their remuneration was very inadequate. This is shown in table 1-3.

Table 1: Respondents' Sex, Age distribution and level of Education

Sex		Age distribution (years) <30	30-35	36-40	>40	Nil response	Total	Level of Education Nil response	ND/Diploma	HND/B.Sc.	Postgraduate Degree
Male	48	11	21	6	10	0	48	0	8	28	12
Female	52	20	24	4	4	0	52	0	21	22	9
Total	**100**	**31**	**45**	**10**	**14**	**0**	**100**	**0**	**29**	**50**	**21**

Source: Fieldwork, 2009.

Table 2: Years of Service in the Banking Industry

Sex		Length of Service (years) <5	5-10	11-15	16-20	>20
Male	48	4	20	10	8	6
Female	52	11	21	9	6	5
Total	**100**	**15**	**41**	**19**	**14**	**11**

Source: Fieldwork, 2009.

Table 3: Respondents views about the Adequacy/Inadequacy of their income

Sex		Adequacy/Inadequacy of Staff Remuneration: Very adequate	Adequate	Uncertain	Inadequate	Very inadequate
Male	48	15	11	11	9	2
Female	52	11	27	3	3	8
Total	**100**	**26**	**38**	**14**	**12**	**10**

** t-value = 4.557*
Source: Fieldwork, 2009.

B. Level of Bank Staff involvement in Initiating Executing and Concealing Fraud

The result showed that bank staff are equally engaged in fraud initiation and execution (in the same degree). This inference comes from the fact that both polled 189 points. This is shown in table 4.

Table 4: Bank showing the Level of bank staff involvement in initiation, execution and concealment bank fraud

Stage/phase	N	High (1)	Moderate (2)	Low (3)	Score	Rank
Initiation	100	40	31	29	189	1
Execution	100	41	29	30	189	1
Concealing	**100**	**31**	**32**	**37**	**206**	**3**

** n = sample size (in this case it is 100)*
Source: Fieldwork, 2009.

C. Respondents Views on the Type(s) of Fraud Plaguing the Banking Industry

Eleven types of fraud isolated from the extant literature were presented in the questionnaire as the types of fraud currently prevalent in the banking industry. These are: (**1**) Theft and Embezzlement (**2**) Defalcation (**3)** Forgeries (**4**) Unofficial Borrowing (**5**) Foreign Exchange Malpractices (**6**) Impersonation (**7**) Manipulation of Vouchers (**8**)

Falsification of Status Report (**9**) Money Laundering (**10**) Fake Payments (**11**) Computer Frauds. The result obtained from the respondents on a three point Likert scale is produced in table 5. Among all the types of fraud listed, computer fraud had the highest t values; making it the highest perceived type of fraud currently affecting banks. All the other types of fraud listed also had statistically significant t values qualifying them as types of bank fraud except for unofficial borrowing and foreign exchange malpractice, which posted negative t values. These seem to suggest that bank employees no longer view them as types of fraud since the practice is common and widespread in the industry. For instance unofficial borrowing is seen as a form of informal borrowing that is resorted to in times of dire need when the employee may not be liquid enough to meet his/her financial obligations. Also, the fact that they pay later or issue a post dated cheque to clear the amount taken, is another cogent reason why it is viewed as perfectly normal and therefore not a fraudulent activity. Also diverting foreign exchange and other related malpractice is viewed as a perfectly normal business practice aimed at generating higher returns for the bank. This may be one of the reasons for the striving "black market" in the country, despite all attempts by the government to eradicate it.

Table 5: Respondents views on the type(s) of fraud plaguing the Banking Industry

Types of Fraud	t – values
Theft and Embezzlement	27.162
Defalcation	20.808
Forgeries	24.841
Unofficial Borrowings	-27.162
Foreign Exchange Malpractice	-28.545
Impersonation	25.933
Manipulation	48.755
Falsification of Status Report	19.310
Money Laundering	22.952
Fake Payments	26.697
Computer Fraud	70.000

Source: Fieldwork, 2009.

D. Factors which encourage involvement in Bank Frauds

Seven factors derived from the extant literature were presented as basic motivators towards engaging in fraudulent banking practices. The 5-point Likert scale (an ordinal scale) was also used to help indicate the direction and level of intensity of the respondents' views and opinion. The statistically significant t value indicates that overall, respondents agree that all the factors listed acts as motivators towards committing fraud. There is however a high degree of consensus among them that greed is the highest motivation for committing fraud (as shown by its high t value of 16.475). The result is shown in table 6.

Table 6: Respondents views on the type(s) of fraud plaguing the Banking Industry

Factors encouraging Fraud	t – values
Greed	16.475
Inadequate Staffing	5.045
Poor Internal Control	4.821
lack of Proper Staff Training	3.432
Poor Working Conditions	2.228
Poverty	3.306
Staff Infidelity	5.1302

Source: Fieldwork, 2009.

E. Consequences of Bank Frauds

The results show that the respondents regard loss of customer confidence as the most important consequence of bank fraud. This is closely followed by loss of revenue and loss of patronage which came second and third with 229 and 232 points respectively. Loss of corporate image is fourth while facilities distress is fifth respectively. The result is shown in table 7.

Table 7: Consequences of Bank Frauds ranked in order of importance

Consequences of Fraud	n	1	2	3	4	5	Score	Rank
Loss of customer confidence	100	40	21	18	13	8	228	1
Loss of Revenue	100	33	29	21	10	7	229	2
Loss of Patronage	100	39	22	16	14	9	232	3
Facilities Distress	100	9	12	10	30	39	378	5
Loss of Corporate Image	100	13	10	8	37	32	365	4

Source: Fieldwork, 2009.

F. Policy Implications

This study though largely exploratory, nonetheless resulted in findings, which are insightful for policy decision making. With respect to type of fraud affecting the industry, respondents did not view unofficial borrowing and foreign exchange malpractice as fraud. These may account for the reasons why their books of account do not balance at the end of the working week/month. Also, attempts by the Central Bank of Nigeria (CBN) at curbing the activities of "black marketers" who speculate illegally on the foreign exchange rates in the country, may not yield success for as long as bank employees continue to view the diversion of foreign exchange to black markets, as a perfectly normal business activity driven by the motive to earn higher financial returns. The recapitalized deposit money banks in the country have to tread cautiously in this area if they do not want to come under the sledge hammer of financial regulators in the country.

For the level of bank staff involvement in bank fraud, the consensus opinion of respondents suggests an equal high level of involvement in initiating and executing fraud; with the concealment of fraud coming last. This may be stating the obvious, since the concealment of fraud is an area which is largely viewed as insignificant and negligible, since at this stage, the chances of the fraud being uncovered may have become very high making it more risky to conceal. In such a situation, the fraudulent bank employee will prefer to abscond from duty rather than conceal the fraud.

Among the factors hypothesized to encourage bank employee involvement in fraud, greed, infidelity and poverty was the principal person-based factor. This is rather unfortunate given that bank staff are among the most well remunerated workers in Nigeria; most especially now that most of them have been able to recapitalize even above the mandatory minimum capital base of 25 billion naira. Surely poverty in this context seems to take a different meaning and may indeed imply a state of self perception in which the potential fraudster compares his/her status to others within the larger society, and a confirmation or allusion to an existing gap between others (who are obviously very wealthy) and themselves may create a premise for involvement in bank fraud. On organizational factors which motivate involvement in bank fraud, inadequate staffing, poor internal control, lack of proper training and poor working conditions was revealed by the findings as the significant propellants. Also respondents' reactions to their income reveal that they considered it fairly adequate with a statistically significant **t** value of **4.557**.

Respondents also viewed greed, lack of personal ethics and weak corporate governance as managerial factors that help propagate frauds in banks; and for which top management should be held responsible. They attributed the high level of delinquent/toxic assets and non performing loans of banks, which greatly distort their financial statements, to the activities of top management; who in most cases engage in unethical practices ranging from falsification of accounting statements, embezzlement of depositors funds, distortion of financial statements and the granting of loans and other credit facilities to high net worth customers and business partners/clients (way above their capital base and regulatory obligor limits) without any significant form of collateral security. They also were of the opinion that top management exerted little or no effort at recovering such loans as they seemed usually in a hurry to present such delinquent and toxic assets/loans as bad debts in their accounting statements and books of account.

V. RECOMMENDATION

The incidence of bank fraud in recent time seems to be a rather pervasive phenomenon, and no one is in doubt about the tremendous effect and consequences that it poses to the stability of the larger economy. It is therefore recommended that banks pay more active attention to early fraud detection and eradication. One way of achieving this is by ensuring that additional security devices are incorporated, not only within the bank premises but also in the cheque books given to their numerous clients. This not only helps reduce their vulnerability to forgeries and other fraudulent acts but also makes early detection of such nefarious acts easy. Also in recruiting key personnels who are to handle certain sensitive operations, it is essential that banks make concerted efforts at conducting a proper background check on the status and nature of the employee in his or her neighbourhood, as this would help them establish the probability of the employee engaging in fraudulent activities.

Thirdly, there is a need for banks to increase the ability of their staff in detecting fraud especially those related to cheques and money transfers. This can be achieved through a combination of internal and external modules of on the job training and off the job training exercises. Banks are also advised to continuously review their compensation packages to reduce the tendency for fraudulent behaviour by their employees. It is believed that if employees are well remunerated the incidence of frauds will reduce. Also, favourable financial awards and recognition should be given to employees who show dexterity in identifying and preventing fraud.

Furthermore, we recommend that sound corporate governance characterized by effective operational practices comparable to international standards, be adopted by top management of banks as an essential ingredient for the prevention of fraud in the banking sector. Top management must also strive to maintain a high degree of ethical standards in the performance of their duties, in view of the fiduciary nature of their functions. This is imperative as they are by law required to safeguard the assets of their banks. Also the internal audit department of banks should not be seen as a dumping ground for non-performing staff. Staff deployed into this department should be sufficiently qualified, properly trained and adequately experienced in all facets of banking operation.

In addition, enforcement of regulatory and supervisory guidelines, which are most dominant in the successful operation of banking activities in Nigeria, cannot be expected to be done alone by the CBN. The active and unalloyed participation of other agencies or institutions like the law courts, Economic and Financial Crimes Commission (EFCC), the police etc., must of a necessity, be sought as coordinates to the CBN in this matter. As Carmody (1998) and Imhanlahimi (2001) have pointed out, the high level of enforcement of laws, rules and regulations begets higher goals achievement in the social system or organizations concerned. In short, we recommend that the state's law enforcement agencies must be above board in assisting the CBN in the enforcement of the regulatory guidelines (which includes fraud reduction in the banking system) for banks to operate. Carmody (1998) puts it this way, the state must be strong and hard to bring about development, in this case through early fraud detection and eradication. The heart of this recommendation is that CBN should strictly specify regulatory guidelines for banks to operate, and then strictly enforce them objectively without fear or favour through the active and unalloyed cooperation of the law enforcement agencies or institutions.

In line with the earlier recommendation on the needed assistance and cooperation of the state's law enforcement agencies to the CBN, all forms of malpractices, corruption and fraud could be reduced to the bearest minimum in the Nigerian banking industry. It is heartening to note that the CBN has embarked 'on a number of measures on Anti-money laundering/combating Financial Terrorism' which led to a 3% decline (no matter how small, it was not increase) in fraud and/or forgery in the banking industry in 2006 (CBN, 2006). Furthermore, the Central Bank of Nigeria on August 14th 2009 sacked the chief executive officers (along with other top management staff and executive directors) of five (5) highly rated conventional/universal deposit money banks in the country; for offences and unethical practices ranging from falsification of accounting statements, embezzlement and the granting of loans and other credit facilities to customers and business partners/clients (way above their capital base and regulatory obligor limits) without any form of collateral security; which made them almost technically insolvent. The sacked CEOs – who are currently facing trial in the law courts in Nigeria – were also accused of doing little or nothing to recover the loans granted and also of hurriedly presenting such delinquent and toxic assets/loans as bad debts in their accounting statements and books (Omachonu, 2009).

Furthermore, on September 16th 2009, while addressing capital market regulators and active market participants in the Nigerian Stock Exchange trading floor (in Lagos State, Nigeria), the recently appointed Central Bank of Nigeria Governor stated that "the problem with the five banks, whose top executives were removed, is a clear case of a lack of liquidity, lack of capital and a lack of sound corporate governance…" practices (STV, 2009). Also, an additional three CEOs were sacked for similar offences after a careful and thorough scrutiny of their accounting and financial statements by the CBN; thus bringing the number of affected banks to eight (8) out of the total twenty five (25) conventional/universal deposit money banks in the country. With the current stance of President Goodluck Ebele Jonathan (Nigeria's President) that there should be no hiding place for malpractice, fraud or corruption in Nigeria, which cohabits with the CBN's position, the banking industry have bright prospects in the country. It is refreshing to see that the president words are being matched by actions (at least on the part of the CBN).

VI. RELEVANCE OF THE STUDY TO OTHER LESS DEVELOPED COUNTRIES (LDCs)

Nigeria's experience in tackling the issue of bank fraud is amply relevant to other LDCs, especially African countries. All LDCs in Africa, Latin America, Asia, and so on have large numbers of banks many of which are relatively small compared to their European counterparts; and who are also susceptible to frauds of various forms which often leads to financial distress. Determining the common types of bank fraud (as we have attempted to do in this study) that are frequently carried out in the banking system, the underlying causes, level of staff involvement, consequences and possible means of ameliorating the problem, is of great importance to the continued financial viability of such banks; and indeed the entire financial system. They would be stronger, bolder and enjoy greatly reduced financial/credit risk, including, as we observed earlier, more funds (hitherto lost to fraudsters) to venture into productive business transactions with prospective clients. There is no reason to believe that the above is not generally the case with the majority of banks in other LDCs.

Building very strong institutions through restructuring of regulatory frameworks and human capacity building for banks by the CBN (as is currently being done in the country), have also been presented in this study as Nigeria's experience (most especially the recent in-depth scrutiny of the financial statements and activities of banks all over the country). These are some of the contributions of globalization in spite of its limitations. Globalization is racing through many LDCs and there appears to be no going back on the above. Rather the CBN is doing more to ensure that good business is done by banks in an atmosphere of reduced fraud. Reports abound in international newspapers and news agencies, chronicling (in order of occurrence) the crash of many international financial and banking institutions, in some of the most advanced nations of the world; in the light of the current global economic meltdown.

One common thread observed in all these bank failures is weak corporate governance, lack of sound organizational and personal ethics, and top management involvement in the initiation, execution and concealment of various forms of bank frauds (some Nigerian banks inclusive). This experience is already in existence in some African countries. For example, Ayee (2002) discussed Ghana's Central Bank National Capacity Building Research Group for the financial sector as having great zest for excellence, and strongly committed to tackling the issue of fraud and weak corporate governance without fear or favour. This is equally, if not more, so in Egypt and South Africa, which has been, through its strong leadership, largely effectively curbing fraud, formulating and enforcing strict regulatory and operational policies, guidelines and sanctions.

And finally the findings of this study, may serve as very useful springboard for related studies in Nigeria and some other LDCs, or added experience for some others. They can glean from what Nigeria is doing in this matter, as discussed in this paper, to inform them on the types of bank frauds and the steps being taken by the Central Bank to reduce (if not totally eradicate) its effect on the banking industry and economy in general.

VII. CONCLUSION

The rather lengthy presentations in the preceding sections of this study have made the work of concluding relatively easy for us. They have harped significantly on some of the important issues which constitute the focal point of the study. A general statement about the recent work of the CBN (2005; 2006) regulatory framework is in order here. It shows that the apex financial institution, especially with its world acclaimed successful recapitalization of conventional banks in 2005, is determined more than ever before to sanitise and firmly institutionalize the financial industry in all its ramifications in Nigeria. This is a cause for cheer which should encourage all bank customers and investors, both national and international; to be rest assured that it is no longer business as usual in the banking sector. In Nigeria, political commitment has always remained the vital missing link between what can be done and what is done. The recent commitment of the banking system regulators and practitioners in reducing and totally eradicating fraud in all its ramifications, represents the fundamental requirement needed to address the structural and operational problems of the industry and should therefore not be truncated for whatever reasons.

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