Examination of Fraud in the Nigerian Banking Sector and its Prevention

Article - January 2012

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Examination of fraud in the Nigerian banking sector and its prevention
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ABSTRACT

Fraud has been acknowledged as one of the principal threat to the development of the banking sector worldwide. This study examines the cases of fraud and its prevention in the Nigerian banking sector. Data used for this study were obtained from primary source, through the administration of questionnaire to two hundred (200) staff members of ten (10) commercial banks in Lagos. The respondents were selected using purposive non-probability sampling technique. Responses to rating-scale questions were tested for significance using T-test. The findings revealed that Greed is a foremost cause of fraud, as greater part of the staff considered their remuneration as sufficient. It was also observed that banks’ staff got involved at all stages of fraud, including: initiation, execution and concealment. Moreover, computer fraud accounted for the majority of the fraud perpetrated in the bank. Meanwhile, among the consequences of fraud, loss of revenue and loss of customers’ confidence top the list. One of the recommendations included establishment of adequate internal control system.

Keywords: Fraud, banking Sector, Internal Control System, Nigeria banks.

1. Introduction

The banking sector plays a very significant role in the development of any economy (Adeyemo, 2012). Banks in most economies are the principal depositories of the public's monetary savings, the nerve centre of the payment system, the vessel endowed with the ability of money creation and allocation of financial resources and conduit through which monetary and credit policies are implemented (Idolor, 2010 and Akindele, 2011). The success of monetary policy, to a large extent, depends on the health of the banking institutions through which the policies are implemented (Adeyemo, 2012; Godwin, 2009; Oye, 2003). Whatever problems which militate against the proper functioning of the banking sector will invariably have multiplier effects on the other sectors of the economy. This is one of the reasons why it is essential to quickly diagnose any factor which may hamper the smooth functioning of the banking sector and urgently address such issues. Fraud has been identified as a major threat to the growth and development of the banking sector, not only in Nigeria but globally. This study examines fraud in the Nigerian banking sector and how it can be prevented.

2. Statement of the Problem

Fraud is a major challenge to the entire business world, no company is immune to it and it is in all facets of life (Olorunsegun, 2010). The banking public expects accountability, fairness, transparency and effective intermediation from banks. The banks are expected to ensure that they carry out their responsibilities with sincerity of purpose which is devoid of fraudulent
practices. This is germane if the banking sector is to gain public trust and goodwill. Though there were known cases of fraud in the sector, one major question still remain unanswered, which is: what is the nature, immediate and remote causes of fraud, and how can it be prevented? It is this problem which necessitates this research study.

2.1 Review of Related Literature

According to Idowu (2009), fraud can be seen as the deliberate falsification, camouflage, or exclusion of the truth for the purpose of dishonesty/stage management to the financial damage of an individual or an organization. It is dishonesty or an act of cheating aimed at causing a person or business to give up possessions or some lawful right. The Association of Certified Fraud Examiners (1999) further defines fraud as the use of ones profession for personal enhancement through the conscious misuse, misapplication or employment of organizational possessions or property. To Fadipe-Joseph and Titiloye (2012), fraud is any actions by which one person intends to gain a deceitful advantage over another. In other words, fraud is an act of commission which is planned to cause unlawful gain to one person and criminal loss to the other, either by way of concealment of information or otherwise.

In legal terms, fraud is seen as the act of depriving a person underhandedly of something, which such a person would or might be entitled to, but for the perpetration of fraud. In its lexical meaning, fraud is an act of trickery which is intentionally practiced in order to gain illegitimate advantage. Therefore, for any action to constitute a fraud there must be deceitful objective to benefit (on the part of the perpetrator) at the disadvantage of another person or group. Fraud typically requires stealing and manipulation of accounts, frequently accompanied by cover up of the theft. It also involves the translation of the stolen resources or property into own resources or property.

There is a common agreement amongst criminologists that fraud is caused by three elements called “WOE” (Idolor, 2010). For any fraud to take place there must be a Will, an Opportunity and Exit (escape route). A fraud will only come about if the perpetrators have the will to commit the fraud, if the occasion to commit the fraud is presented and if there is a way out or escape means from appropriate sanctions or institutions that are against fraud or related abnormal behaviour. Fraud is a global occurrence; it is not peculiar to the banking industry or for that matter, peculiar to only Nigeria (Adeoti, 2011). With the collapse of foremost international corporations like Enron (in the United States of America) together with high level allegations and real cases of business fraud, a lot of organizations in their effort to advance their image have resorted to developing ethical guiding principles and codes of moral values. The whole essence of these is to guarantee that all organizational members irrespective of position or rank, complies with the least standard of ethical responsibility in order to encourage the reputation of such firms in their selected industry, earn the goodwill of clients and thus improve their competitive advantage (Unugbro & Idolor, 2007).

As logically anticipated, fraud is perpetrated in several forms and guises, and usually have insiders (staff) and outsiders conniving together to effectively execute the act (Adeyemo, 2012). The following types which are not in any way absolutely complete are the most common types of bank frauds in Nigeria identified by Alashi (1994) and Adeyemo (2012):

(a) Forgeries which involve the deceptive copying and use of customer’s signature to draw huge sum of money from the customer’s account without previous permission 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
Examination of fraud in the Nigerian banking sector and its prevention
Akinyomi, O. J.

forgeries are perpetrated by internal staff or by outsiders who act in conspiracy with employees of the bank who usually are the ones who release the sample signatures being forged (Idolor, 2010).

(b). Unofficial Borrowing in which instances, bank employees borrow from the vaults and teller tills off the record. Such unauthorized borrowings are done in exchange of the staff post-dated cheque or I.O.U. or even nothing. These borrowings are more rampant on weekends and during the end of the month when salaries have not been paid. Some of the unauthorized borrowings from the vault, which could run into thousands of naira, are used for fast businesses lasting a few hours or days after which the resources are replaced without any substantiation in place that they were taken in the first place. Such a practice when done recurrently and with no 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.

(c). Defalcation which involves the misappropriation of funds that are 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 staff or customer is a common form of bank fraud. Where the bank staff and customer conspire to defalcate, such fraud is usually smartly perpetrated and takes longer time to find out. They can only easily be revealed during reconciliation of customers’ bank account.

(d). Theft and Embezzlement represent another form of fraud which involve the illegal collection of financial items such as cash, travellers’ cheque and foreign currencies. It could also involve the dishonest collection of bank property such as motor vehicles, computers, stationeries, equipments, and different types of electronics, owned by the bank.

(e). Impersonation involves assuming the role of another person with the intent of dishonestly 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 unsuspicous customers.

(f). Manipulation of Vouchers involves the replacement or alteration of entries of one account to another account being used to commit the fraud. This account would obviously be a fabricated account into which the funds of unsuspecting clients of the banks are transferred. The amounts taken are usually in small amounts so that it will not easily be noticed by top management or other unsuspicous 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.

(g). Computer Frauds which involves the deceptive manipulation of the banks’ 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 enormous deployment 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 (Olorunsegun, 2010). No bank seems to be invulnerable to it, and a considerable percentage of the enormous amount of money spent annually in the banking
sector to help reduce fraud usually are channeled towards fighting computer frauds and cyber crimes/thefts.

(h). Account-Opening Fraud usually starts when a person unsuspectingly by the bank, opens a transaction account with fake identification. Such a person might use the account for illegal transaction and close the account within a short period of time.

(i). Fraudulent Money Transfer which may results from a request created solely for the purpose of committing a fraud or the alteration of a legitimate funds transfer request. A genuine request can be altered by changing the beneficiary’s name or Account number or changing the amount of the transfer. These day “yahoo boys” the name giving to scammers in Nigeria that send fake e-mails to would-be victims, asking them to apply for fake contracts or fake lottery thereby winning non-existing money from a dead billionaire’s account in different parts of the world. They connive with fraudulent bankers in the Western Union department to withdraw their ill-gotten hard currencies.

There are several causes of fraud, but Asukwo (1999) and Idowu, (2009), identified some of the immediate and remote causes of frauds which include the following:

(i) 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.

(ii) Greed: Greed refers to an inner drive by which individuals 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 splendor. Greed has in many cases been regarded as the single most important cause of fraud in the banking sector.

(iii) Inadequate Staffing: A poorly staffed bank will usually have a problem of work planning and assignment of duties. The bank that is flooded with incompetent and inexperienced staff will of a necessity have to struggle 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 business.

(iv) Poor Book-keeping: Inability to maintain appropriate books of accounts together with failure to reconcile the various accounts of the bank on daily, weekly or monthly basis more often than not will attract fraud. This loophole can very easily be exploited by bank staff that is fraudulent.

(v) Inadequate Training and Re-Training: Lack of adequate training and retraining of human resources both on the practical and theoretical aspects of banking activities and operations more often than not leads to poor performance. Such inefficient performance creates a loophole which can very easily be exploited by fraudsters.

Aside the above-mentioned causes of fraud, the subsequent factors suggested by Aderibigbe (1999) and Idolor (2010), also contribute greatly to fraud

1. Inadequate compensation, salaries and fringe benefits which are accruable to bank staff;
2. Refusal to comply with laid-down procedures without any penalty or sanction;
3. Conspiracy between interacting agents charged with the responsibility of protecting the assets and other interest of the bank;
4. Poor working conditions;
5. Poverty and infidelity of employees.

Bank frauds seriously endanger the organizational growth of a bank as it leads to bank distress (Ojo, 2008). This is because fraud reduces the deposits of depositors and ultimately 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 propensity to cover up the frauds emanating from their banks, all in a bid to continue to gain customers goodwill and stimulate their clients’ confidence all the time (Asukwo, 1999).

2.2 Objective of the Study

The main objective of this study is to ascertain the nature and causes of fraud in the Nigerian Banking sector and to proffer possible solutions to the problem. Specifically, this study seeks to

1. Identify the main types of fraud threatening the sector
2. Determine the level of involvement of banks staff in fraudulent activities
3. Ascertain the factors which encourage staff involvement in fraudulent activities
4. Identify the consequences of fraud on banking operations
5. Identify some measures which can help in fraud prevention

2.3 Method

The data used for this study were obtained from primary source, essentially through the administration of well designed questionnaire to two hundred (200) staff members of ten (10) commercial banks in Lagos. The respondents were selected using a purposive non-probability sampling technique. The questionnaire was tested for content validity before it was administered. This was carried out by sending the questionnaire to four management staff of four of the banks, requesting them 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 was produced.

Responses to rating-scale questions were tested for significance using the “t-test”, where:

\[ T = \frac{x - \mu_0}{\frac{\sigma}{\sqrt{n}}} \]

\( x \) = mean of respondents rating of attributes being assessed; \( \sigma \) = standard deviation of the mean; \( \mu_0 \) = hypothetical or normative population mean; for a five point scale, \( \mu_0 = 3.0 \) and for a three point scale \( \mu_0 = 2.0 \) and \( n \) = sample size (in this case it is 200). 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 \( (n-1) = 199 \).

2.4 Analysis and Interpretation
Examination of fraud in the Nigerian banking sector and its prevention
Akinyomi, O. J.

Table 1: Respondents views about the adequacy/Inadequacy of staff remuneration

<table>
<thead>
<tr>
<th>Sex</th>
<th>N</th>
<th>Very Adequate</th>
<th>Adequate</th>
<th>Uncertain</th>
<th>Inadequate</th>
<th>Very Inadequate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>102</td>
<td>40</td>
<td>27</td>
<td>19</td>
<td>11</td>
<td>5</td>
</tr>
<tr>
<td>Female</td>
<td>98</td>
<td>27</td>
<td>24</td>
<td>20</td>
<td>14</td>
<td>13</td>
</tr>
<tr>
<td>Total</td>
<td>200</td>
<td>67</td>
<td>51</td>
<td>39</td>
<td>25</td>
<td>18</td>
</tr>
</tbody>
</table>

Source: Field Survey, 2011

The results in Table 1 above revealed that 118, representing 59% of the respondents agreed that the remuneration of bank staff is adequate. This supports the general knowledge that banking job is one of the best paid jobs in Nigeria today.

Table 2: Respondents’ view on the Level of bank staff involvement in initiation, execution and concealment of bank fraud

<table>
<thead>
<tr>
<th>Stage</th>
<th>N</th>
<th>High (1)</th>
<th>Moderate (2)</th>
<th>Low (3)</th>
<th>Score</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initiation</td>
<td>200</td>
<td>101</td>
<td>53</td>
<td>46</td>
<td>345</td>
<td>2</td>
</tr>
<tr>
<td>Execution</td>
<td>200</td>
<td>94</td>
<td>66</td>
<td>40</td>
<td>346</td>
<td>1</td>
</tr>
<tr>
<td>Concealing</td>
<td>200</td>
<td>138</td>
<td>46</td>
<td>16</td>
<td>278</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: Field Survey, 2011

Table 2 above showed the respondents’ view on the level of bank staff involvement in initiation, execution and concealment of bank fraud. The result revealed that bank staff members are equally engaged in fraud initiation and execution (almost in the same degree). This inference comes from the fact that both polled 346 and 345 points respectively.

Table 3: Respondents views on the type(s) of fraud plaguing the banking industry

<table>
<thead>
<tr>
<th>Type of Fraud</th>
<th>T-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forgeries</td>
<td>35.204</td>
</tr>
<tr>
<td>Defalcation</td>
<td>31.002</td>
</tr>
<tr>
<td>Impersonation</td>
<td>28.841</td>
</tr>
<tr>
<td>Manipulation</td>
<td>29.582</td>
</tr>
<tr>
<td>Theft and Embezzlement</td>
<td>30.821</td>
</tr>
<tr>
<td>Money Laundering</td>
<td>27.389</td>
</tr>
<tr>
<td>Fake Payment</td>
<td>61.577</td>
</tr>
<tr>
<td>Computer Fraud</td>
<td>82.502</td>
</tr>
<tr>
<td>Unofficial Borrowing</td>
<td>-26.295</td>
</tr>
<tr>
<td>Foreign Exchange Malpractices</td>
<td>-29.419</td>
</tr>
<tr>
<td>Falsification of Status Report</td>
<td>24.311</td>
</tr>
</tbody>
</table>

Source: Field Survey, 2011

Eleven types of fraud isolated from the literature were presented in the questionnaire as the types of fraud currently prevalent in the banking industry. The result obtained from the respondents on a three point Likert scale is produced in table 3 above. 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 4: Respondents views on the factors which encourage involvement in bank frauds

<table>
<thead>
<tr>
<th>Factors</th>
<th>T-values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greed</td>
<td>19.547</td>
</tr>
<tr>
<td>Inadequate Staffing</td>
<td>9.054</td>
</tr>
<tr>
<td>Poor Internal Control</td>
<td>8.481</td>
</tr>
<tr>
<td>Lack of Proper Staff Training</td>
<td>6.822</td>
</tr>
<tr>
<td>Poor Working Conditions</td>
<td>7.603</td>
</tr>
<tr>
<td>Poverty</td>
<td>8.592</td>
</tr>
<tr>
<td>Staff Infidelity</td>
<td>6.958</td>
</tr>
</tbody>
</table>

Source: Field Survey, 2011

Table 4 above showed the respondents’ views on the factors which encourage involvement in banking fraud. Seven factors derived from the 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 19.547).

Table 5: Consequences of banks fraud ranked in order of importance

<table>
<thead>
<tr>
<th>Consequences</th>
<th>N</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Score</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss of Revenue</td>
<td>200</td>
<td>78</td>
<td>54</td>
<td>29</td>
<td>21</td>
<td>18</td>
<td>447</td>
<td>1</td>
</tr>
<tr>
<td>Loss of Patronage</td>
<td>200</td>
<td>66</td>
<td>50</td>
<td>35</td>
<td>31</td>
<td>18</td>
<td>485</td>
<td>2</td>
</tr>
<tr>
<td>Loss of Customers’ Confidence</td>
<td>200</td>
<td>14</td>
<td>38</td>
<td>40</td>
<td>46</td>
<td>62</td>
<td>704</td>
<td>3</td>
</tr>
<tr>
<td>Loss of Corporate Image</td>
<td>200</td>
<td>11</td>
<td>23</td>
<td>50</td>
<td>32</td>
<td>84</td>
<td>755</td>
<td>4</td>
</tr>
<tr>
<td>Facilitates Distress</td>
<td>200</td>
<td>8</td>
<td>14</td>
<td>36</td>
<td>67</td>
<td>75</td>
<td>787</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: Field Survey, 2011

Tables 5 above showed the respondents’ ranking of the consequences of bank fraud. The results show that the respondents regard loss of revenue (with 447 points) as the most important consequence of bank fraud. This is followed by loss of patronage and loss of customers’ confidence which came second and third with 485 and 704 points respectively. Loss of corporate image is fourth while facilitates distress is fifth respectively.
3. Findings

The findings from the review of related literature and data analysis revealed that Greed is a major cause of fraud, added to the fact that majority of the staff members considered their remuneration as adequate. It was also observed that staff members of bank are involved at all stages of fraud, including: initiation, execution and concealment. The study also revealed that computer fraud accounted for the majority of the fraud perpetrated in the bank. Meanwhile, among the consequences of fraud, loss of revenue and loss of customers’ confidence top the list.

4. Recommendations

The following are the recommended means of preventing bank fraud: a) Banks staff should be properly screened to test their morality, trustworthiness, sincerity and fear of God before employed. b) Establishment of adequate internal control system has also been identified as necessary in fraud prevention (Olatunji, 2009 and Akinyomi, 2010). c) Particulars of proposed account-holders should be obtained and verified before any account is opened. d) Segregation of duties should be adopted across board. e) Effective reconciliation of inter-branch accounts should be emphasized. There is need to equip the reconciliation section of the bank with highly experienced and skilled staff. f) All payments instrument with huge amount should be referred to the issuing bank before payment. g) Staff members should be provided with equipment that is in good order to enable them perform their duties. g) Reward should also form part of bank policy to encourage staff and customers who have helped to frustrate intended fraud cases in the past.

Future researcher may consider selecting using random sample for the study and also increase the sample size. The effect of fraud on the nation’s economy may also be considered, especially fraud incidence in the public sector of the economy.

5. Conclusion

Fraud has been identified as a major threat to the growth and development of the banking sector globally. This study examines fraud in the Nigerian banking sector and its prevention. From the review of related literature and data analysis, this study concludes by stating that fraud remains a major threat to the growth and development of the banking industry. Urgent and appropriate actions must be taken both by the government, regulatory agencies and management of banks to ensure sanity in the system.

4. References


This study examines the cases of fraud and its prevention in the Nigerian banking sector. Data used for this study were obtained from primary source, through the administration of questionnaire to two hundred (200) staff members of ten (10) commercial banks in Lagos. The respondents were selected using purposive non-probability sampling technique. Responses to rating-scale questions were tested for significance using Ttest. The findings revealed that Greed is a foremost cause of fraud, as greater part of the staff considered their remuneration as sufficient. It was also observed that banks’ st