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ANALYSIS AND MANAGEMENT OF FRAUD IN NIGERIAN BANKING INDUSTRY: STAKEHOLDERS' PERSPECTIVES

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Abstract

The study analyzed trend of frauds in the Nigerian Deposit Money Banks (DMBs) from 2005 to 2018 and the perceptions of the stakeholders on the devised mechanisms to manage the effects of fraud in DMBs. Data were obtained from the annual reports of the Nigerian Deposit Insurance Corporation (NDIC) and through the use of structured questionnaire to elicit information from the respondents. A sample size of 50 senior staff with at least 10 years' experience was drawn from 10 banks (five from each bank) with relative high records of fraud cases. The data were analysed using descriptive statistics method. The analysis reveals that fraud cases and the value of frauds in the Nigerian banking industry have been on the increase particularly at the emergence of e-banking. The respondents agreed to the effectiveness of the devices and strategies employed to reduce and minimise fraud occurrence. However, the need for more enlightenment of customers on safe handling of security details, timely and effective persecution of fraudsters, compliance with and the enforcement of relevant Fraud Prevention Acts and the strengthening of the internal control units of banks among other things are still desirable.

Keywords: *Bank Frauds and Management, Deposit Money Banks, Stakeholders' Perceptions*

JEL Classification Codes: *G20, G21, M48*

1. INTRODUCTION

The financial sector drives the economy of nations and its effective management contributes greatly to the Gross Domestic Product (GDP). The banking industry is a crucial arm of the financial sector and it plays a major role in the implementation of the monetary policies of governments. In Nigeria, the banking industry comprises deposit money banks, development banks, merchant banks, with the Central Bank of Nigeria (CBN) as the apex bank. The Deposit Money Banks (DMBs), formerly commercial banks, have contributed immensely in driving the

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developmental programs of government primarily in the allocation and distribution of resources among the various sectors of the economy (Oyebisi, Wisdom, Olusogo & Ifeoluwa, 2018). It has also been argued that there is a positive nexus between real sector development or growth and financial sector given the special role of financial intermediation played by the DMBs. (NDIC, 2016).

In ensuring relevance of the banking sector to the economic growth of the nation, the DMBs are regulated through the CBN, Banks and Other Financial Institutions Acts (BOFIA) 1991 (as amended), Nigeria Deposit Insurance Corporation (NDIC), among others. These bodies were established to ensure that the banks adhere aptly to the respective corporate governance in order to protect depositors fund and to safeguard the banks from distress and failure. Furtherance to this and for the strengthening of the banks, the relevant regulatory bodies have designed control framework like the Accounting Standards for Banks and Non-banks financial institutions (Part 1) issued by the Nigerian Accounting Standard Board (NASB); The Prudential Guidelines for licensed banks issued by the Banks Supervision Department of the CBN on 7th November 1990, among others (Taiwo, Agwu, Babajide, Okafor & Isibor, 2016).

Given the rules and supervisory functions espoused by the regulatory bodies, it is usually expected that the DMBs would adequately be protected and better secured in the fulfilment of their statutory responsibilities. Evidence from the regulatory bodies, especially the NDIC, however, has proved the vulnerability of the DMBs to corrupt practices including frauds. It has also been established that one of the risks that the DMBs have been facing and which has been a source of concern to the stakeholders and scholars is the one associated with incessant frauds of various types which are a general phenomenon (Taiwo, Agwu, Babajide, Okafor & Isibor, 2016; Udeh & Ugwu, 2018; Owolabi, 2010; Adetoso & Akinselure, 2016; Akinyomi, 2012; Adekanmbi, 2017; Popoola, Fakunle, Omole & Oyedeji, 2018; Oloidi & Ajinaja, 2014).

Frauds in the banking sector is a global issue. Sharma (2009), referred to bank fraud as a 'big business' that has grown bigger in the recent time. Consequently, there have been reports on some cases of big frauds that the public, banks and the governments even in the U.S.A. suffered losses (Sharma, 2009). The Nigerian Deposit Insurance Corporation has continually reported in its annual reports, the cases and the value involved in the DMBs have affected and reduced the liquidity of the concerned banks (NDIC, 2018). Liquidity is fundamental to the banks' continual existence and sustainability. Thus, just as the air is fundamental to the existence of man, so also is liquidity to the survival of banks (Abogun, Fagbemi and Balogun, 2013). Given the major role of banks in the economic growth of developing economy like Nigeria, it is imperative to prevent any form of pilferages and theft of funds of the banks. Many scholars and the regulatory bodies have at different times identified the causes of frauds in the banking industry. Tackling the causes is of paramount importance to ensure safety and security in the financial environment. This study thus, looks at the cases of fraud viz a viz the cause in Nigeria, analyses the trend and identifies the possible ways of mitigating the causes of fraud in DMBs.

2. LITERATURE REVIEW

2.1 Conceptual Framework

2.1.1 Fraud as a Global Phenomenon

Fraud occurs where a party takes an advantage of a system to defraud others for personal gains. It is postulated that fraud is an avenue where the truth can be suppressed deceitfully for the purpose of cheating others (Popoola, Fakunle, Omole & Oyedeji, 2018). Fraud is seen as a big business and thus, the extent of the undetected and unreported cases has remained a mystery (Free, 2015). It is a wide range of illicit practices and acts of intentional deception and misrepresentation (Oloidi & Ajijana, 2014). It is a pandemic socio-economic malaise that has eaten deep into both the private and the public sectors in the developed and the emerging economies (Udeh & Ugwu, 2018). In the 2018 Global study on occupational fraud and abuse, the Association of Certified Fraud Examiners reported that there were 2,690 real cases of occupational fraud with actual losses of over \$7 billion (ACFE, 2018). It was established that in the occupational fraud, 40% of the detection was as a result of Tips, internal audit detection represents 16% and management review represents 13%, among other means of detection (ACFE, 2018).

Sharma (2009) opined that there have been reported cases of frauds in the banking sector with a single gang of forgers cheated about fourteen countries for over 500 crores of rupees (about \$70.4 million at 71.02 Indian rupees to \$1). In another single fraud, a bank computer engineer defrauded a bank of several crores of rupees, which approximated to about \$10.2 million (Sharma, 2009). When converted into Nigerian currency it equals to about N3.7 billion at the current rate of N360 to \$1.

2.1.2 Fraud in the Nigerian Banking Industry

Frauds are not new in the banks, they are as old as the industry itself and the perpetrators are becoming more audacious and organized (Olaoye & Dada, 2014; Pickford, 2015). The Nigerian banking industry has had her own share of the fraud that the recent reports of the regulatory bodies in Nigeria showed that it is endemic. Thus, Udeh & Ugwu (2018) opined that fraudulent practices in Nigeria have become a malady affecting basically all sectors of the economy. The fraud in the DMBs was what forced the Central Bank of Nigeria in 2019 to engage the services of forensic accountants for five banks, inclusive of the then Oceanic bank, which led to the discovery of fraud and the conviction of the Chief Executive Officer of the bank (Udeh & Ugwu, 2018).

The Nigerian Deposit Insurance Corporation (NDIC) in 2016 published reports of failures of ten banks in Nigeria. The banks are Alpha Merchant Bank, Commerce Bank, Century Merchant Bank, ABC Merchant Bank, PAN African Bank, All States Trust Bank, Assurance Bank, City Express Bank, Merchant Bank of Africa and Trade Bank. The reports asserted that there were gross mismanagement and unethical practices uncovered by the CBN examiners, among other factors (NDIC, 2016). Consequently, some banks in liquidation granted facilities to

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owners and directors of some banks ranging from to 20% to 100% and this accounted for the greatest affliction of bank failures in Nigeria in the 90s (NDIC, 2016). The scholars however, have established that there are frauds in the banking industry (Taiwo, Agwu, Babajide, Okafor & Isibor, 2016; Udeh & Ugwu, 2018; Owolabi, 2010; Adetoso & Akinselure, 2016; Akinyomi, 2012; Adekanmbi, 2017; Popoola, Fakunle, Omole & Oyedeji, 2018; Oloidi & Ajinaja, 2014).

2.1.3 Types of fraud in the Nigerian Banking Industry

The types of fraud in the Nigerian Banking Industry include the granting of unauthorized loans/overdraft, presentation of forged cheques, posting of fictitious credit, loss of money to armed robbers, fraudulent transfer and withdrawals, outright theft, and the suppression of cash/cheques (NDIC, 2003-2005 cited by Chiezey & Onu, 2013; Taiwo, Agwu, Babajide, Okafor & Isibor, 2016). These include excess charges, Non-refund of wrong debit, identity theft, posting of fictitious credits, fund diversion, lending to fictitious borrowers, false balance credit, cheque kitting, cheque cloning, letter of credit fraud, unofficial borrowing, misappropriation of fund, manipulation of vouchers, tellering fraud, foreign exchange fraud, over-invoicing of service to the bank, ATM/Card Fraud and computer frauds (Oloidi & Ajinaja, 2014; Olaoye & Dada, 2014; Chiezey & Onu, 2013; Akinyomi, 2012; Owolabi, 2010). In the early years of 2005, granting of unauthorized loans/overdraft, presentation of forged cheques, fraudulent transfer and withdrawals, outright theft by staff, suppression of customers' deposit among others were the types of fraud in DMBs (NDIC Annual Reports, 2005-2018). This trend later changed drastically with the introduction of e-banking and the industry began to witness ATM/Card-related and Web-based fraud which is the height of fraud in DBMs (NDIC Annual Reports, 2005-2018).

2.1.4 Causes of Fraud in Deposit Money Banks

In the survey of the factors causing banking crises in 29 selected countries, it shows that Capital Flight (6.89%), Dutch Disease (13.79%), Assets Bubble (24.14%), Recession (55.17%), Adverse Terms of Trade (68.97%), Weak Judiciary (6.89%), Bank Runs (6.89%), Frauds (20.69%), Connected Lending (31.03%), Political Interference (37.93%), Deficient Bank Management (68.97%), and Poor Supervision/Regulation (100%) are the reasons adduced by the respondents (NDIC, 2016, using computed data of Caprio, 1998). Thus, it is established that fraud has been a major factor contributing to the distress and failure of banks and its occurrence is a breach of the internal control system of the concerned. In line with this, many researchers, scholars and bank regulators have identified the roots of the emergence of frauds in the banking industry in Nigeria. The causes were divided into Institutional Causes and Environmental/Societal Causes (Olaoye & Dada, 2014, cited Alashi, 1994, Ojo, 2008).

2.1.6 Institutional Causes

These are linked to the internal environmental issues and to some extent, lack of observance of the internal working policies of the banks (Ojo, 2008; Olaoye & Dada, 2014). It includes weak accounting and internal control system; inadequate supervision of subordinates; disregards for KYC (Know Your Customer) rule; poor information technology and data base management; hapless personnel policies; poor salaries and conditions of service; general

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frustrations due to the unfulfilled promises by the management; inability to engage in regular call-over; lack of adequate punitive measure to the staff that disregard the laid down rules; reluctance to report frauds leading to more endearing step to commit more fraud; the level of staff banking experience; inadequate infrastructure; inadequate training; poor book-keeping; genetic traits; insecurity of tenure, among others (Ojo, 2008; Olaoye & dada, 2014). Meanwhile, in view of the cases of frauds on ATM and Web-based as shown in table 1, ineffective strengthening of the controls on technological advancement and emergence of e-banking have become major causes of fraud in the banking industry.

Chakrabarty (2013), cited by Adetiloye, Olokoyo & Taiwo (2016) treated frauds under Technology-related, Know Your Customer (KYC) and Advances-related. Thus, it is established that the greatest value of frauds occur from technology-related (Adetiloye, Olokoyo & Taiwo, 2016). KYC is related to customers planned fraud, which include the duplication of data, falsification of data to commit fraud and the advances-related could cut across banks (Chakrabarty, 2013; Adetiloye, Olokoyo & Taiwo, 2016).

2.1.7 Environmental/Societal Causes

The personality profile of dramatized personae; societal value on wealthy people without questions on the sources of the wealth; lack of deterrence and punishment for fraudsters; fear of negative publicity; high rate of unemployment and poverty level, among others are the causes societal (Ojo, 2008; Olaoye & Dada, 2014).

3. METHODOLOGY

This study adopts primary and secondary data. The secondary data were sourced from the annual reports of the NDIC while structured questionnaire was used to elicit information from the staff of DMBs. A total number of 50 staff and five each from 10 DMBs were purposively selected based on the key position and direct relevance. The data were analysed using descriptive method.

4. FINDINGS AND DISCUSSIONS

The findings reveal an upward and downward movement in the frequency of fraud during the sample period. In 2018, the internet and technology-based sources of fraud recorded the highest frequency of 59.2% fraud cases, 42.83% of actual total loss suffered and the Web-based fraud cases increased from 7,869 in 2017 to 12,343 in 2018 (NDIC, 2018). This is an indication that many fraudsters have become expertise in undermining the technological advancement and operational systems of banks in Nigeria. It is also a signal of the upward movement in fraud cases since the emergence of internet and web-based banking. Table 1, 2 and 3 showed that the cases of frauds, amount involved, and the actual loss suffered have been on the upward and downward movement with the later years showing divergent results. Thus, in 2005, 2006, 2007, 2008, 2009 and 2010, NDIC reported that there were 1,229, 1,193, 1,553, 2,007, 1,764 and 1,532 cases of fraud respectively in the DMBs. The number increased in 2011, 2012, 2013, 2014, 2015, 2016, 2017 and 2018 to 2,352, 3,380, 3756, 10,621, 12,279, 16751, 26,182 and 37,817

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respectively. Accordingly, the rising cases of fraud in the DMBs showed that the culprits are more determined in the criminal act. In table 1 and diagram 1, cases of fraud increased annually, with quarters 3 and 4 having higher cases of fraud than the first two quarters of the year which is very suggestive of the fact that fraudsters commit this act more in the later part of the year.

Table 1: Quarterly Fraud Cases in Deposit Money Banks in Nigeria (2005-2018)

YEAR	QUART. 1	QUART. 2	QUART. 3	QUART. 4	TOTAL
2005	296	303	313	317	1229
2006	268	284	334	307	1193
2007	397	335	398	423	1553
2008	440	528	503	536	2007
2009	372	282	456	654	1764
2010	325	232	403	572	1532
2011	612	509	577	654	2352
2012	709	691	932	1048	3380
2013	983	768	1067	938	3756
2014	1897	2357	2173	4194	10621
2015	3702	2219	3550	2808	12279
2016	4413	4611	3946	3781	16751
2017	5744	5389	6903	8146	26182
2018	9360	5986	8859	13612	37817
TOTAL	29518	24494	30414	37990	122416

Source: Researchers’ Compilation from NDIC Annual Reports (2019)

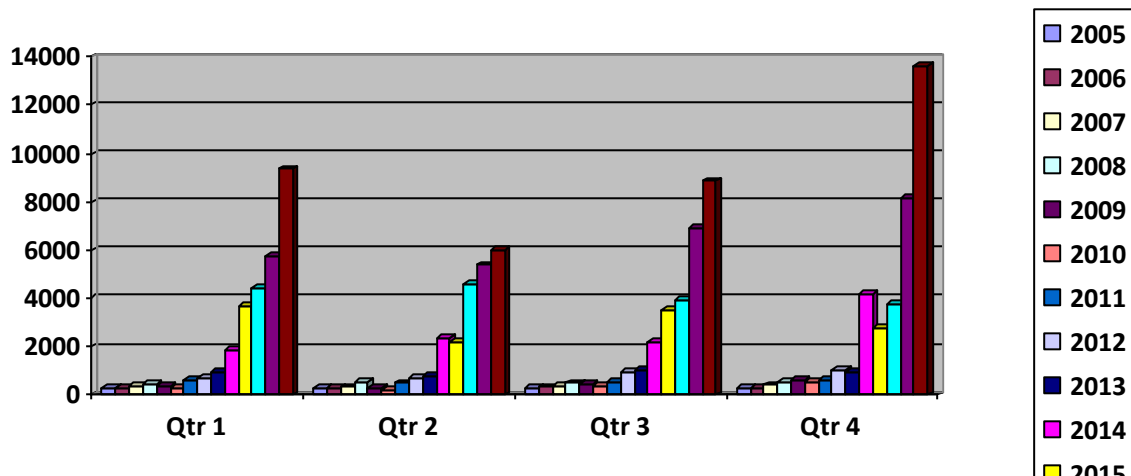


Figure 1: Quarterly Cases of Fraud in DMBs (2005-2018)
 Source: Researchers’ Compilation of NDIC Annual Reports (2019)

Table 2 and diagram 2 showed that the amount involved in fraud cases have not followed the pattern of the cases of fraud. Thus, while the cases have been increasing, the amount involved were relatively divergent. In 2005, there was a total amount of N10.61 billion involved in fraud and the value was more in quarters 1 and 4. In 2008 however, the amount involved in fraud was N53.5 billion with the first quarter responsible for N30. 6 billion representing 57.1%. The years after 2008 to 2017 had relative lower but divergent amount involved in fraud was N12 billion. This increased to N38.9 billion in 2018 with quarter 2 and quarter 4 accounting for N26.3 billion, representing 67.6%. meanwhile, the total amount involved in fraud from 2005 to 2018 was N310.8 billion, with N75.6 billion (24.3%) in quarter 1, N93.9 billion (30.2%) in quarter 2, N56.9 billion (18.3%) in quarter 3, and N84.4 billion (27.2%) in quarter 4.

Table 2: Quarterly Amount of Fraud in Deposit Money Banks (2005-2018)

<u>(ALL IN MILLIONS)</u>					
YEAR	QUART. 1	QUART. 2	QUART. 3	QUART. 4	TOTAL
2005	3,711.20	1,321.08	1,963.85	3,610.00	10,606.13
2006	740.12	1,429.06	843.82	1,819.35	4,832.35
2007	4,128.00	1,083.94	2,196.00	423.00	7,830.94
2008	30,548.67	3,030.78	13,900.49	6,042.92	53,522.86
2009	2,674.00	22,152.00	4,168.00	12,268.00	41,262.00
2010	4,671.00	4,206.00	8,300.00	4,114.00	21,291.00
2011	2,301.00	3,807.00	2,207.00	20,085.00	28,400.00
2012	2,825.00	10,120.00	2,049.00	2,971.00	17,965.00
2013	7,805.00	4,859.00	3,844.00	5,287.00	21,795.00
2014	3,552.00	12,915.00	4,002.00	5,139.00	25,608.00
2015	2,444.00	9,584.00	2,119.00	3,874.00	18,021.00
2016	2,211.00	2,054.00	1,210.00	3,207.00	8,682.00
2017	2,756.00	2,441.00	2,685.00	4,129.00	12,011.00
2018	5,213.00	14,843.00	7,402.00	11,468.00	38,926.00
TOTAL	75,579.99	93,845.86	56,890.16	84,437.27	310,753.28

Source: Researchers' Compilation from NDIC Annual Reports (2019)

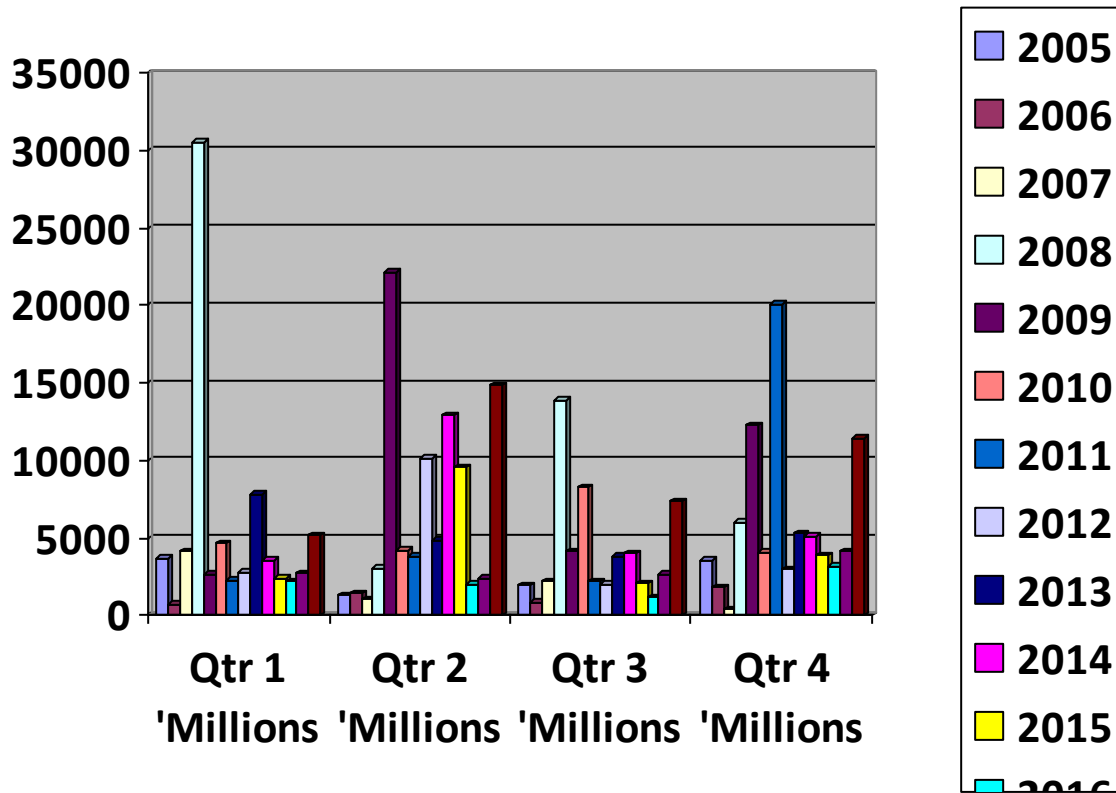


Figure 2: Quarterly Amount of Fraud in DMBs (2005-2018)
 Source: Researchers’ Compilation of NDIC Annual Reports (2019)

Table 3 and diagram 3 show the figure of the actual loss suffered by the DMBs on fraud cases from 2005 to 2018. Meanwhile, 2008 (N17.5 billion), 2010 (N11.7 billion), and 2018 (N15.2 billion), were the ones with two digits in million naira. However, quarters 1 and 2 were the highest in respect of the actual loss suffered from fraud in DMBs with quarter 2 of 2018 accounted for about 38.73% (N10.3 billion) of the total figure of actual loss suffered (N26.7 billion) in quarter two for years 2005-2018.

Table 3: Quarterly Actual Loss from Fraud in Deposit Money Banks (2005-2018)

(ALL IN MILLIONS)					
YEAR	QUART. 1	QUART. 2	QUART. 3	QUART. 4	TOTAL
2005	856.72	1,186.47	1,184.79	2,374.07	5,602.05
2006	422.94	824.17	547.86	834.72	2,629.69
2007	858.00	562.53	615.60	973.69	3,009.82
2008	12,951.73	997.27	1,738.89	1,855.20	17,543.09
2009	1,276.00	4,227.00	1,220.00	827.00	7,550.00
2010	1,757.00	2,767.00	6,438.00	717.00	11,679.00
2011	837.00	654.00	776.00	1,805.00	4,072.00
2012	1,370.00	1,260.00	1,098.00	788.00	4,516.00
2013	2,506.00	1,164.00	906.00	1,180.00	5,756.00
2014	1,221.00	473.00	1,538.00	2,960.00	6,192.00
2015	907.00	1,008.00	479.00	776.00	3,170.00
2016	538.00	787.00	446.00	626.00	2,397.00
2017	293.00	436.00	527.00	1,114.00	2,370.00
2018	2,225.00	10,326.00	1,725.00	875.00	15,151.00
TOTAL	28,019.39	26,672.44	19,240.14	17,705.68	91,637.65

Source: Researchers' Compilation of NDIC Annual Reports (2019)

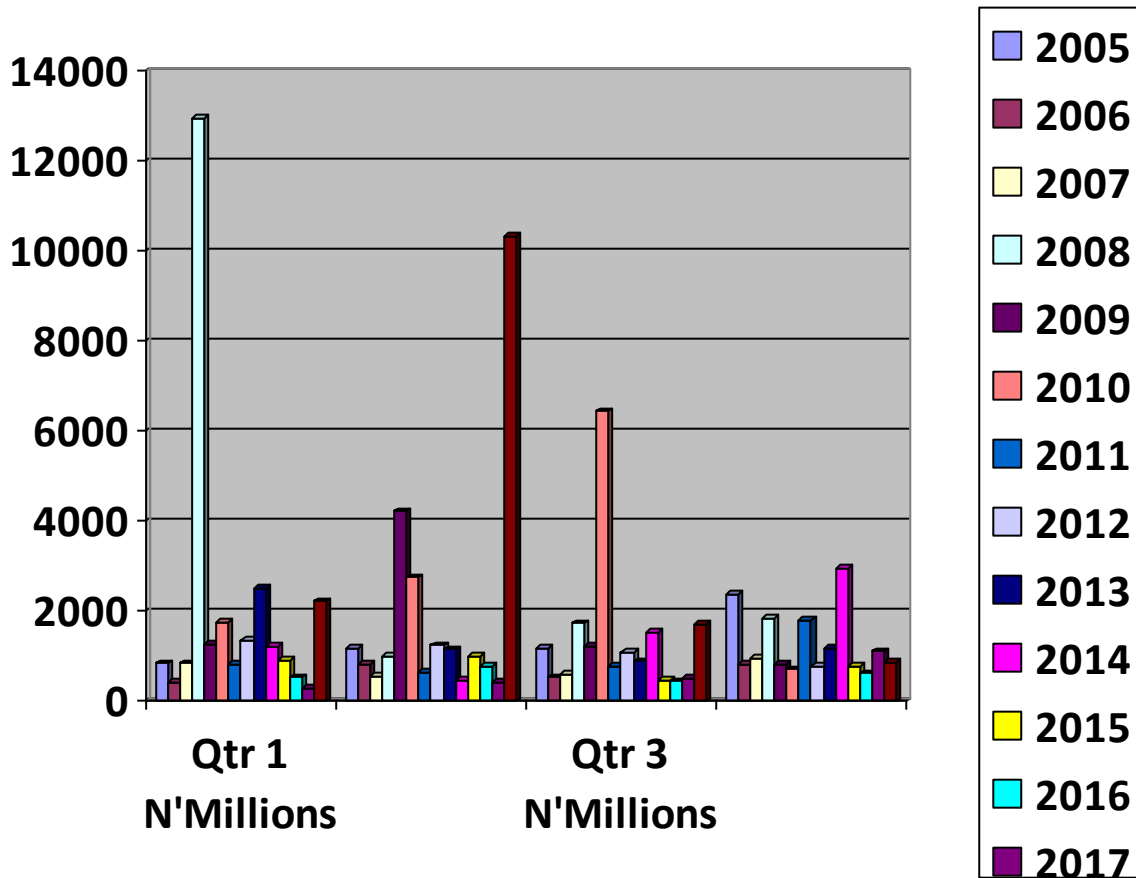


Figure 3: Quarterly Actual Loss on f Fraud in DMBs (2005-2018)
 Source: Researchers’ Compilation of NDIC Annual Reports (2019)

Table 4 shows the responses from the staff on the 22 ways to manage fraud in DMBs, which include the need for more enlightenment of customers on safe handling of bank personal details with a mean 4.4800 from a minimum of 4 and maximum of 5, and Standard Deviation (SD) 0.50467, showing the spread; timely prosecution of fraudsters with mean 4.5200 and SD 0.50467, showing the spread; the key staff of the banks should not be outsourced (mean = 4.0000, SD = 0.00000, with a min. and max. of 4; effective monitoring of the lifestyle of bank officials for possible identification of those living beyond their means (mean 5.0000, SD 0.00000), with a min. and max. of 5, among other ways. The stakeholders alluded to the effectiveness of the devices and strategies employed to reduce and minimise fraud occurrence. However, a concern is expressed on the low level of awareness on the part of the banks for the enlightenment of the customers on the safety measure needed against this unscrupulous attempt to defraud them of their fund. Thus, the perception of the respondents on the need for more enlightenment of customers on safe handling of security details is also strong. Timely and effective persecution of fraudsters, compliance with and the enforcement of relevant Fraud Prevention Acts and the strengthening of the internal control units of banks among other things are still desirable.

Table 4: Stakeholders' Perspectives on Ways of Managing Fraud in Deposit Money Banks

Descriptions	N	Min	Max	Mean	Std. Deviation
There is a need for more enlightenment of customers on safe handling of their banking personal details.	50	4.00	5.0	4.480	.50467
There should be a timely prosecution of fraudsters in order to serve as deterrence to others.	50	4.00	5.0	4.520	.50467
There is a need for more effectiveness on enforcement of compliance to the relevant Fraud Prevention Acts.	50	5.00	5.0	5.000	.00000
The Internal Control Unit of banks should be more strengthened.	50	5.00	5.0	5.000	.00000
There should be more rewarding benefits for the staff whose units have periodically operated free of fraud.	50	4.00	5.0	4.520	.50467
The Staff Turnover should be well managed in order to avoid losing key staff that know the inside and outside of the bank and that could be displeased to commit fraud with the information at their disposal.	50	4.00	5.0	4.480	.50467
Staff of the departments like Internal Control, Compliance, Fraud Prevention among others should not be outsourced.	50	4.00	4.0	4.000	.00000
Customers data like date of birth, house addresses, next of kin, should not be unduly exposed.	50	5.00	5.0	5.000	.00000
There should be continuous training and retraining of staff, most especially in the area of disclosure and non-disclosure policies of the bank.	50	4.00	4.0	4.000	.00000
Bank customers should be periodically educated in order to guide against careless disclosure of information about themselves to their parties especially online without adequate verification of the reliability of the source.	50	4.00	5.0	4.480	.50467
The banks should create more multi-control processes for e-banking in form of human-way of division of labour.	50	4.00	5.0	4.480	.50467
Bank business transactions should be reconciled daily.	50	4.00	5.0	4.480	.50467

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There should be timely investigation of any unusual transactions (deposits, withdrawals and charges) in the accounts of customers.	50	4.00	4.0	4.000	.00000
The fraud preventive units and the internal control units of the bank should be made of staff experienced and trained in forensic accounting and fraud detection.	50	4.00	5.0	4.520	.50467
Staff of DMBs should periodically be made aware of various types of fraudulent practices and the consequences of such act.	50	4.00	5.0	4.520	.50467
There should be an independent monitoring of the lifestyle of key bank officials, in order to identify those that live beyond their means.	50	5.00	5.0	5.000	.00000
The security measures like the CCTV around the ATM systems should be improved on, in order to timely guide against impersonations and the use of stolen passwords.	50	4.00	5.0	4.520	.50467
The bank should institute a more effective Anti-Malware and Anti-Virus applications for easy identification and combat, most especially on cloud computing transactions.	50	4.00	5.0	4.480	.50467
The Know Your Customer (KYC) policy should be effectively done periodically and should not be a one-off.	50	4.00	4.0	4.000	.00000
There should be a strong policy to authenticate the referees to accounts' holders.	50	4.00	5.0	4.480	.50467
Adequate and qualitative background checks on all bank employees before engagement to sensitive areas.	50	4.00	5.0	4.520	.50467
The banks should insure the depositors' fund and other assets.	50	5.00	5.0	5.000	.00000
Valid N (listwise)	50				

Source: Researchers' Field Work (2019)

5. CONCLUSION AND RECOMMENDATIONS

This study aims at analyzing the trend of fraud in the Deposit Money Banks (DMBs) and to view the possible ways to mitigate the effects of frauds from the perspective of the staff. Having established through the records of the Nigeria Deposit Insurance Corporation (NDIC) of the increase in the cases of fraud, upward/downward movement in the amount involved and the actual loss suffered, the study finds out that frauds in DMBs have not abated, most especially with the level of fraud cases in 2018. This study further established the 22 ways of managing frauds in the banking industry from the perspectives of the staff. Scholars have postulated as to the effects of frauds in DMBS and the negative implications to the economic growth and development of the country. Thus, to be able to effectively combat frauds in the banking industry, the loopholes in the security and control on e-banking should exposed and the system

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more strengthened with a more effective control. In addition, the stakeholders – the governments, regulators, drivers of economy, bank executives, the staff among others, should synergize in effectively combating fraudulent practices in Deposit Money Banks (DMBs).

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