Online Publication Date: 10 April 2012
Publisher: Asian Economic and Social Society

Fraud and Its Implications for Bank Performance in Nigeria

Abdulraheem AbdulRasheed (Department of Accounting and Finance University of Ilorin, Ilorin)

Isiaka Sulu Babaita (Department of Business Administration University of Ilorin, Ilorin)

Muhammed Abubakar Yinusa (Department of Sociology University of Ilorin, Ilorin)

Citation: AbdulRaheem AbdulRasheed, Isiaka Sulu Babaita, Muhammed Abubakar Yinusa (2012): "Fraud and Its Implications for Bank Performance in Nigeria" International Journal of Asian Social Science Vol.2, No.4, pp.382-387.

Fraud and Its Implications for Bank Performance in Nigeria

Author (s)

AbdulRaheem AbdulRasheed
Department of Accounting and Finance University of Ilorin, Ilorin.
E-mail: abdulrashraheem@yahoo.com

Isiaka Sulu Babaita
Department of Business Administration University of Ilorin, Ilorin.
E-mail:sibyaka@yahoo.com

Muhammed Abubakar Yinusa
Department of Sociology University of Ilorin, Ilorin.
E-mail: aymuhammeduil@yahoo.com

Abstract

In recent years, the volume and frequency of fraudulent practices in Nigerian banks have been on the increase with obvious implications on bank performance. The performance of Nigerian banking industry is a product of its returns and services rendered to the public as a whole. However, the occurrence and frequency of fraud in the banking sector over the years has negatively affected the performance of these banks in Nigeria. It is on this note that this paper examines the problem of fraud and its implications for bank performance in Nigeria through empirical analysis. The sources of data used for the paper were extracted from the Nigerian Deposit Insurance Corporation (NDIC) Annual Report from 2004 to 2009. Statistical methods such as parametric table and Pearson correlation were employed in the evaluation of the data. The study revealed that Nigerian banks recorded the highest fraud cases in 2008. The result of the hypothesis shows that, there is a significant relationship between total amount involved in fraud cases and bank's profit. On this note, it was recommended that fraud can be reduced by complying effectively with the policy measures which the government, monetary and supervisory authorities designed to curb the menace of bank fraud in Nigeria.

Introduction

The menace of fraud has certainly emerged as one of the hindrances to bank performance in Nigeria. Although fraud is a worldwide phenomenon, it is the single most important financial problem in Nigeria. The nation has suffered severe losses financially. Banks in Nigeria may not be talking about fraud they persistently suffer, especially because of the sensitivity and response to such exposure. Enquiries reveal that banks are suffering from incidents of high-level fraud, either due to betrayal by some bank workers themselves or scamming activities by fraudsters (Bangudu, 2011). Industry watchers and bank officials say incidents of bank fraud are hugely under reported and due to lack of statistics, solutions cannot really be proffered to address such occurrences.

In recent years, the volume and frequency of fraudulent practices in Nigerian banks have been on the increase. The growing scope and scale of fraud in the banking industry is not surprising, given the rising profile of the country as a corrupt and fraudulent nation. In view of the insatiable search for money in Nigeria, big time fraud is on the increase and the banks lose huge amount running into billions of naira to fraudsters. In 2001, the total amount involved in fraud was 11.243 billion (Ajayi, 2003). Fraud has been the precipitating factor affecting bank performance and leading to distress.

Although this phenomenon is not unique to Nigerian banking industry alone, the high incidence of fraud within the banking industry has become a problem to which solution must be provided in view of the large sum of money involved and its implications on the economy.

There is no doubt that fraud has resulted in wide spread distress in banks in Nigeria in the past and present. It has jeopardized industrial growth as most banks have already gone under due to distress. It was established that fraud was one of the main causes of distress in the banking system which led to the closure of many banks in the 1990s. Some recent bank failures were also caused by fraudulent activities. According to Ogunleye (2004), the incidence of fraud in the Nigerian banking system has become a matter of serious concern to all. It is against this background, that this paper sets out to examine the menace and its effects on bank performance in Nigeria.

Concept and Typology of Fraud

The concept of fraud has been defined in various societies mostly in line with the culture or prescribed social life of the people. Hornby (2000) defined fraud as an action or an instance of checking somebody in order to make or obtain goods illegally. Olaoye (2009) noted that fraud consists of both the use of deception to obtain an unjust or illegal financial advantage and intentional misinterpretation, affecting the financial statement by one or more individuals among management, employees or other parties. This is similar to the definition of Olowookere (2003) who defined fraud as any activity that is painted with initial intention to cheat or deceive.

Ebhomenien (1999) described fraud as predetermined and well planned trickily process usually undertaken by a person or group of persons with the sole aim of cheating another person or organization. Fraud covers a wide range of misconduct. This ranges from manipulation, falsification or alteration of records or document, misappropriation of assets, omitting transaction from records or document, recording transaction without substance, misapplication of accounting policies especially if it is intentional and deceitful. It is all these corrupt ingredients that lead to the perversion of developmental processes. Those that have been privileged to be in positions that enable them to control resources meant for the national development often exacerbate this situation through lack of proper accountability.

According to Shehu (2006), fraud by insiders includes the following: rogue traders, fraudulent loans, wire fraud, forged or fraudulent documents, uninsured deposits, and theft of identity. Ovuakporie cited in Abdullahi (2011) gave account of 33 types of bank frauds which are common in Nigerian banking sector. These include theft and embezzlement, defalcation, forgeries suppression, substitution, payment against unclear effects, unauthorized lending, lending to “ghost” borrowers, kite-flying and cross firing, unofficial borrowing, foreign exchange malpractices, impersonation, over-invoicing, manipulation of vouchers, fictitious accounts, over valuation of status reports, duplication of cheques books, drafts, mail transfers, interception of clearing cheques, computer frauds, fake payments, teeming and lading, robberies etc.

Ogunleye (2004) identified advanced fee fraud (“419”)/confident game as one of the major types of fraud in Nigerian banking institutions. According to him, this usually involves an agent approaching a bank, with an act of access to large funds. Account opening fraud is another category of fraud. According to Rose-ACKERMAN (1996), this involves the deposit and subsequent cashing of fraudulent cheques. It usually starts with a person asking to open a transaction account such as current or savings account with false identification. The person opens the account with a small initial cash deposit. Generally, within a few days, the person will deposit a number of dud cheques and obtain cash in return, either by cashing the fraudulent items outright or by withdrawing cash as soon as frauds are available with the connivance of the bank staff. Whatever category it falls into, fraud is unacceptable, inexcusable and must not be allowed to jeopardize developmental efforts.

Causes and Effects of Fraud in Banking Industry

There are many factors responsible for fraud in Nigeria. According to Abiola (2009), the causes of fraud can be categorized into two viz a vis institutional factors and environmental/societal factors.

Institutional Factors: According to Nwaze (2008), the institutional factor can be traced to internal environment of the organization. A major institutional cause of fraud is poor management which comes in form of inadequate supervision. A junior staff with fraudulent tendencies that is not adequately supervised would get the impression that the environment is safe for the perpetration of fraud. Poor management also manifest in ineffective policies and procedures, which a fraudulent minded operator in the system will capitalize on. Overstretching is another reflection of poor management. This can aid perpetration of fraud to a large extent. A staff that is overstretched is not likely to perform at optimum level of efficiency.

External/Environmental Factors: Environmental factors are those that can be traced to the banks' immediate and remote environment. Our present society is morally bankrupt, little or no premium is put on things like honesty, integrity and good character. The society does not question the source of wealth. According to Asukwo (2009), the immediate and remote causes of frauds in general include the following: greed, inadequate staffing, poor internal control, inadequate training, poor book keeping and genetic traits.

On the effects of fraud in banking industry, Eseoghene (2010) opined that fraud leads to loss of money which belongs to either the bank or customers. Such losses may be absorbed by the profit of the affected trading period and this consequently reduces the amount of profit which would have been available for distribution to the shareholders. Besides, fraud increases the operating cost of a bank because of the added cost of installing necessary machinery for its prevention, detection and protection (Abdullahi, 2001). According to Abiola (2009), fraud can lead to a diminishing effect on the asset quality of banks. In fact, the problem is more dangerous when compounded by insider loan abuse which was the reason for the first generation of liquidated banks by NDIC.

Implications of Fraud on Bank Performance

The phenomenon of fraud has outrageous implications of bank performance in Nigeria. A bank's performance is measured by its capacity to maximize returns on investor's funds. According to Jeon and Miller (cited in Abdullahi, 2011), bank performance is the bank profitability and productivity. Performance may refer to the development of the share price, profitability or the present valuation of a company (Melvin and Hirt, 2005). Fraud in the banks leads to loss of confidence in business, insolvency or winding up business, bankruptcy, failure of creditors' business with attendant loss of employment.

Chibuke (2001) noted that the volume and frequency of fraudulent practice in Nigerian banks has been on the increase. Brunner et. al (2004) opined that the location of ATM is a high determinant to fraud carried out at ATM point. According to them, ATM within the banking premises is more secure than ATMs outside the bank premises. Diebold (2002) noted that the major form of ATM fraud is PIN theft which is carried out by various means like skimming, shoulder surfing, camera, key pad recorder etc. Dickson (2009) declared that fraudulent practices have led to the fall of so many banks in time past. In 2005, there was total of 1,229 reported cases of bank fraud. This shows an increase in the level of fraud in 2004 which recorded 1,175 cases of bank frauds.

According to Ndi-Okereke (2004), fraud in banks nearly and always leads to loss of monies that ordinarily belong to someone other than the banks. The loss results in reduced level of resources available for use in operations. In very bad cases where fraud occurs with crippling frequency and in wholesome sizes, the banks may be forced to close down and under such circumstances, the customer lose money. Frequent occurrences of frauds ultimately distract the attention of the management and led to increased running cost. Time and energies that would have been spent improving customer services would be expended on preventing frauds. Monies that would have also gone into service management activities would be expended in setting fraud control procedures and systems (Shehu, 2006). The development of banking in Nigeria has been greatly hampered by fraud.

Methodology

This study examined the implications of fraud on bank performance in Nigeria. Data on commercial banks in Nigeria were considered for this study because this banking sector controls over 60% of assets and liabilities of the whole Nigerian financial system (Ajayi, 2003). The industry is made up of twenty four (24) commercial banks. The sources of data used for the study were the secondary data which were extracted from the Nigerian Deposit Insurance Corporation (NDIC) Annual Report. The periods from 2004 to 2009 were considered for analyses. In order to analyse the collected data for this study, the parametric statistical tool was used for the study. The Pearson Correlation was also adopted so as to establish the relationship between fraud and bank performance.

Data Analysis

This section provides descriptive information on cases of fraud in Nigerian banks. Table 1 shows that Nigerian banks recorded the highest fraud cases in 2008. This was followed by the year 2009. The year 2006 had the lowest cases of fraud. However, it is important to note that the fraud cases vary from year to year. In addition, the table indicates that in the year 2009, Nigerian banks made the highest profit when compared with the previous years under review. The table shows that the profits of the Nigerian banks increase year after the other. However, the amount of profit increased from N81,630 million in 2004 to N88,600 million in 2005. For other years, there was a geometric order increase in growth (Abdullahi, 2011).

Table 2 indicates that the mean score and standard deviation of total amount involved in fraud and banks' profits. The calculated r-value is 0.968 which is greater than the critical r-value of 0.879 at 0.05 level of significance and 5 degree of freedom. Therefore, there is a significant relationship between total amount involved in fraud cases and bank's profit. This indicates that amount of fraud cases in the banks do affect the profit of the banks. This result supports the opinion of Eseoghene (2000) which noted that fraud leads to loss of money which belongs to either the bank or customers. By so doing, it reduces the profit which will be available for shareholders. Abiola (2009) also noted that fraud leads to diminishing effects on the asset quality of banks. This according to him invariably affects the economic system of any society. The problem of fraud is more dangerous when there is a network of syndicate within the bank itself. Okubena (1998) posits that though fraud varies from one bank to another, it all have adverse effect on the performance and viability of all banks. Ekeigwe (2000) corroborating Okubera (1998) also stated that bank should appreciate the main feature of fraud, because fraud is rapidly increasing and becoming highly profitable. Computer technology is highly encouraging the growth of fraud. No wonder then that the Central Bank of Nigeria (CBN) gave a directive in 2011 to all banks on the need to compulsorily revert to ten digit number to mitigate fraud in the industry. Many of the banks that were distressed in the past met their waterloo because of the adverse effect of fraud in their banks.

Table-1 NDIC Annual Reports (2004-2009)

Year	No of Fraud Cases	Amount involved (N 'm)	Profit (N 'm)
2004	1,175	11,754	88,600
2005	1,229	10,606	81,630
2006	1,093	4,832	181,000
2007	1,553	10,005	397,000
2008	2,007	53,522	658,100
2009	1,764	41,265	1,373,330

Source: NDIC Annual Report (2004-2009) Abdullahi (2011)

Table-2 Correlation Statistical Analysis showing the Relationship between the Total Amount involved in Fraud and Banks' Profits

Variables	N	Mean	SD	Df	Calculated r-value	Critical r-value	Decision
Total Amount involved in Fraud	6	21995.5000	20189.60884	5	0.968	0.879	Accept H_I
Banks' Profit		463276.66	497244.94				

N.B. Not significant at 0.05 alpha level (p>0.05)
Source: Abdullahi (2011)

Conclusion and Recommendations

The foregoing analysis shows that fraud has adverse effects on banks performance in Nigeria. Without doubt, the menace of fraud has been the major source of bank distress. The results obtained from tables 1 and 2 indicated that the Nigerian banks' profits are adversely affected by the number of fraud cases and amount of funds involved in the fraud. This can be reduced by complying effectively with the policy measures which the government, monetary and supervisory authorities designed to curb the menace of bank fraud in Nigeria. Thus, towards combating frequent fraud cases in the Nigerian banking sector, the following recommendations are hereby proffered. There is need for the creation of the corruption 'hotline' where the public can call to complain or report fraud cases and the trials of the serving and non-serving political and public office-holders to serve as deterrents to others.

In addition, the role of civil society should be part of strategic counter-fraud campaigns. This is because, civil society has had to devote itself to the task of struggling against this vice. Indeed, civil society organization and actors are uniquely suited to investigating and bringing to light the manifestations and cases of corruption in Nigerian society. They have devoted themselves to putting transparency and accountability on the national agenda by creating public awareness about fraudulent practices.

The following are the other policy measures that can be adopted and implemented in combating the menacing threat of fraud in the Nigerian banks. There is also need to train and retrain management and staff of Nigerian banks in fraud prevention and control. Such training should include a comprehensive review of legal and regulatory guidelines for confidentiality, as well as the various approaches to detecting common fraud schemes used to steal money. Besides, there is need to establish cash reward for persons who report and produce evidence of fraud incidence. It is our submission that the Nigeria nation cannot make progress with the cancer of fraud corroding its banking sector.

References

Abdullahi, B. A. (2011) The Effects of Fraud on Bank Performance: A Case Study of Nigerian Banks. An unpublished B.Sc project submitted to the Department of Accounting and Finance, University of Ilorin.

Abiola, I. (2009) "An Assessment of Fraud and Its Management in Nigeria Commercial Banks" European Journal of Social Sciences Vol. 10 No. 4.

Ajayi, M. A. (2003) "Fraud in Nigeria's Financial System: Evidence from Commercial Banks" Ilorin Journal of Business and Social Sciences Vol. 8 No.1& 2

Asukwo, P. E. (2009) "Bank Fraud: A Look at the Nigerian Banking System." ICAN Publication. Vol. 4 No. 1

Bangudu, O. (2011) "Bank Fraud Cases under Reported" NEXT 234, June 23.

Chubaike, U. (2001) "Nigeria: Bank Fraud. Journal of Financial Crime" Vol. 3 No. 3, pp. 265-275.

Ekeigue, C.C. (2002) "Computerizing a Banking System. Issues for Banking Executives" A paper presented in ICAN Mandatory Continuing Professional Education Programme (MPCE) Seminar.

Eseoghene, J. (2010) "Bank Fraud in Nigeria: Underlying Causes, Effects and Possible Remedies" African Journal of Accounting, Economics, Finance and Banking Research. Vol. 6. No. 6

Hornby A. S. (2000) Oxford Advanced Learner's Dictionary of Current English. Oxford: Sally Wehmeier.

Ndi-Okereke, O. (2004) "Financial Crime: Implication for the Capital Market and Insurance Sub-Sector" Journal of Economic Crime. Pp.194-203.

Nwaze, C. (2008) Quality and Internal Control: Challenges in Contemporary Nigerian Banking.

Okubana, A.A. (1998) "An Investigation in Frauds in Banks" An unpublished Thesis of University Lagos.

Olaoye, C. O. (2009) "Impact of Internal Control System in Banking Sector in Nigeria" Pakistan Journal of Social Sciences Vol. 6 Issue 4.

Ogunleye, G. A. (2004) "Fraud in the Banking Sector: The Unmanaged Distress Risk" Journal of Economic Crime. Pp. 106-126.

Rose-Ackerman, S. (1996) High Level Rent-Seeking and Corruption in African Regimes: Theory and Cases. Washington: World Bank Group.

Shehu, 2006) Money Laundering: The Challenge of Global Enforcement. Paper presented at the Hong Kong Society of Criminology Lecture Series. Centre for Criminology. The University of Hong Kong.