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Growth of bank frauds and the impact on the Nigerian banking industry

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INTRODUCTION

Banks all over the world have through their unique position in an economy, contributed immensely to the economic growth and development of a nation. The significance of the banking sector in any country stems from its role of financial mobilization from surplus to deficit units of any economy, provision of a competent payment system and facilitation of the implementation of monetary policies. In intermediation, banks mobilize savings from the surplus units of the economy and channel these funds to the deficit unit, particularly private business enterprises, for the purposes of expanding their productive capacity. As intermediaries to both suppliers and users of funds, banks are effectively situated in a continuum that determines the pulse of the economy.

The banking sector has become one of the most critical sectors in the economy with wide effect on the level and direction of economic growth and transformation and also on some economic variables such as the rate of employment and inflation which directly affect the lives of the people. Worldwide, the ability or inability of banks to successfully fulfill their role as intermediaries has been a central issue in 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 their 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 incessant frauds and accounting scandals.

Olufidipe (1994) defined fraud as "deceit or trickery deliberately practiced in order to gain some advantages dishonestly"; According to Boniface (1991), fraud is described as „any premeditated act of criminal deceit, trickery or falsification by a person or group of persons with the intention of altering facts in order to obtain undue personal monetary advantage‟; Idowu (2009) also sees fraud as a 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.

In a nutshell, 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).

Idolor (2010), stressed that 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 are 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. Corroborating the view of Idolor, Oseni (2006), stated that the incessant frauds in the banking industry are getting to a level at which many stakeholders in the industry are losing their trust and confidence in the industry.

Statistics on the activities of fraudsters in the industry have been both amazing and confounding. In 2001, 943 fraud cases involving 11.2 billion were recorded. Ogbu (2003:42) stated that frauds in Nigerian banks continued to rise in 2002 with 77 banks of the 90 in operation, recording cases involving the sum of N12.9 billion. Onyeogocha (2001:34) attributed it to insider abuses and even board tussles. The

NDIC report (2001), showed the actual loss to have exceeded the expected provisions for only N1.3 billion. 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. 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 backgrounds, the main purpose of this study is to thus, ascertain the growth of bank frauds in the banking industry with (facts and figures), causes and prevention of bank frauds and the impact on the banking industry. Section 1 of this paper, therefore discusses the statement of problem, objective of study and significance of the study. Section 2 focuses on theconceptual framework/literature review. Section 3 contains the methodology and model specification while Section 4 dwells on data presentation and discussion of findings. The last section thus concludes the study as well as proffers solutions to the observed issues discussed in the study.

STATEMENT OF 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 unquestionable integrity with respect to their operations as a means towards earning public trust and goodwill. The banking business has become more complex with the development in the field of Information and Communication Technology (ICT) which has changed the nature of bank fraud and fraudulent practices. Berney (2008) observed that customers rely heavily on the web for their banking business which leads to an increase in the number of online transactions. Gates, Jacob and Malphrus (2009) assert that the internet provides fraudsters with more opportunities to attack customers who are not physically present on the web to authenticate transactions.

In Nigeria, in spite of the banking regulation and bank examination by the Central Bank of Nigeria (CBN), the supervisory role of the Nigeria Deposit Insurance Corporation (NDIC), and The Chartered Institute of Bankers of Nigeria (CIBN), there is still a growing concern about fraud and other unethical practices in the banking industry. Evidence from the NDIC Report (2008) revealed that the report of the examinations and special investigationsfrom the banks were still bedevilled with problems of fraud, weak board and management oversight; inaccurate financial reporting; poor book-keeping practices; non-performing insider-related credits; declining asset quality and attendant large provisioning requirements; inadequate debt recovery; non-compliance with banking laws, rules and regulations; and significant exposure to the capital market through share and margin loans. Okpara (2009) found that one of the factors that impacted the most on the performance of the banking system in Nigeria was fraudulent practices.

This study thus, examines the extent to which fraud and other unethical practices have impacted on the Nigerian banking industry both in the past and present.

OBJECTIVE OF STUDY

It is a well-known fact that the continued growth of frauds in the banking industry over the years has constituted a problem not only to shareholders and customers but also to regulatory authorities and the general public. The purpose of this study is to conduct an empirical research into the growth of bank frauds, find out how much is involved, identify the causes, ascertain the principal types of fraud currently plaguing the industry, test the impact of frauds on deposit mobilization and to proffer solutions to the identified problems.

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). The study also seeks to improve on the methodology and findings of past researchers by conducting some statistical tests of significance. Furthermore, the study will be of value and very useful 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 fraud, its causes and possible ways of preventing it will also find the study beneficial.

Conceptual framework/ literature review:

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. The concise oxford Dictionary of current English (1974:485) defined fraud as deceitfulness; criminal deception and use of false representations. Hur-Yagba (2003.83) opined that there is a general consensus among criminologists that fraud is caused by three elements called: Will, Opportunity, Exit (WOE) i.e. the will to commit frauds by the individual, the opportunity to execute the fraud and the exit which is the escape from sanctions against successful or attempted fraud or deviant behavior. 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 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, comply 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). As naturally expected, fraud in 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).

Fraud and fraudulent practices are in categories. Mitchell *et al (*1992) identified seventeen categories of unethical behavior in banking business which include defrauding government, bribery of public officials, insider trading, bribery of private citizens, discrimination, socially questionable activities, bad judgment in management decisions, corporate politics, unfair trade practices, industrial espionage, environmental harm, safety, conflict of interest and invasion of privacy. Most of these unethical behaviors were prevalent in banking business in Nigeria. Kolawole (2003:56) attributed cases of frauds in the banking system to unskilled employee who are not professionals; our legal system that prolong cases of fraud for too long making room for undue interference. Atijosan (1993:29) also stated that frauds could be carried out through addition of fictitious transactions, altering transactions through wrong posting of accounts and deleting transactions by omitting specific accounts. Archibong (1993:23) noted that the long-term survival and growth of any organization depends on how the issue of fraud and fraudulent practices in any organization is handled. Ojo (1997:80-83) stated that the current economic downturn, unstable political environment and fragile financial outlook in Nigeria require adequate preventive and control tools to manage the banks and other institutions and enterprises.

Akindehinde (2011), stated that data on institutional causes of fraud in Nigerian banks were not readily available. He also stated that some of the challenges encountered during research occurswhen seeking data on fraud and forgeries from the banks. He noted that data could only beobtained from only eight banks between April and June, out of which only five were received directly and the others stumbled upon. However, a survey carried out in India gave the institutional causes of bank fraud as lack of oversight by line or senior managers, deviation from existing process/controls, current business pressure to meet targets, difficult business scenario and collusion between the employees and external parties (Deloitte, 2012).

In Nigeria, notable efforts made by the relevant authorities to strengthen bank regulatory framework include:

(i) The Accounting Standards for Banks and Non-banks financial institutions (Part 1) issued by the Nigerian Accounting Standard Board (NASB),
(ii) The Prudential guidelines for licensed banks issued by the Banking supervision Department of the CBN on 7th November, 1990,
(iii) The adoption of International agreement on bank's capital adequacy or Basle Accord on capital adequacy. These measures were meant to stem the tide of bank failures by establishing standard policies to regulate banking business.

A worrisome development in fraud and fraudulent activities is increased rate of bank staff involvement especially in forgery cases. Forgery is the fraudulent copying and use of customer's signature to obtain money from the customer's account without his/her prior consent. Such forgery may be targeted at savings accounts, deposit accounts, current accounts or transfer instruments such as drafts. Okpara (2009) reported high involvement of bank staff in these fraudulent practices. Nwaze (2006) affirms that most forgeries are perpetuated by internal staff or by outsiders who act in collusion with employees of the bank.

Impersonation by third parties to fraudulently obtain new cheque books which are subsequently utilized to commit fraud is another peculiar dimension of bank fraud.

Impersonation involves assuming the role of another with the intent of deceitfully committing fraud. Cases of impersonation have been known to be particularly successful when done with conniving bank employees who can readily make available the specimen signature and passport photograph of the unsuspecting customer. NDIC (2011) report reveals that 78.26 percent of fraud which was perpetuated with staff connivance amounted to N900 million losses to the affected banks.

The extent of these unethical practices in the Nigerian banking system arguably reflects the general degree of corruption in the country. Transparency International Corruption Perceptions Index (2011) ranked Nigeria as 143 out of 180 countries based on the prevalence of corrupt practices. The increase in bank staff involvement may be connected with the reluctance to report and prosecute cases by the affected banks. Gold (2009) and Olasanmi (2010) opine that because many fraud cases escape detection, it encourages many others to join in perpetuating it.

Fraud has been classified in various ways using different parameters. Owolabi (2010) classified perpetrators of fraud as management of the banks (otherwise referred to as management fraud), insiders (these perpetrators are purely the employees of the banks), outsiders (include customers and/or non-customers of the banks) and outsiders/insiders (this is a collaboration of the bank staff and outsiders). As stated earlier, E-banking also attracts varieties of fraud such as skimming, (counter fact card fraud) stolen card, fraudulent applications, E-theft, never received issue, card data manipulation, Automated Teller Machine (ATM) video, spam mails or denial service, access swift fraud, inter-bank clearing frauds, money laundering frauds and identity theft/phishing (utilizing other people's identity such as credit card info and identity numbers to make unauthorized purchases).

By NDIC's (2004:39) analysis, the 10 most common types of fraud and forgery cases are listed in table 2.1 below:

Table 2.1: Types of bank fraud and forgeries

S/N	TYPES OF FRAUD/ FORGERY
1	Presentation of Forged cheques and Dividends
2	Granting of Unauthorized Credits
3	Posting of Fictitious Credits
4	Suppression of cash/cheques,fraudulent transfer and withdrawals
5	Fraudulent transfers/ Withdrawals from Customers' Accounts
6	Cheque suppression and cash defalcation
7	Excess charges
8	Non-refund of wrong debit
9	Outright theft of money/embezzlement
10	Identity theft

Source: NDIC Annual Report 2004

Theft and Embezzlement:

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

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 customer's 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.

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).

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.

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.

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.

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.

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 behavior.

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.

Computer Frauds:

This involves the fraudulent manipulation of the bank's computer systems 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.

Causes of bank fraud in the Nigerian banking industry:

Many factors account for the causes of fraud and fraudulent practices in Nigerian banks. Ojo (2008) classifies the causes of fraud and forgeries in banking transactions into two generic factors namely, the institutional or endogenous factors and the environmental or exogenous (social) factors. The institutional factors or causes are those that are traceable to the in-house environment of the banks. The notable institutional factors are weak accounting and internal control system, inadequate supervision of subordinates, disregard for "know your customers (KYC)" rule, poor information technology and data base management, hapless personnel policies, poor salaries and conditions of service, general frustrations occasioned by management unfulfilled promises, failure to engage in regular call-over, employees‟ refusal to abide by laid-down procedures without any penalty or sanction, banks‟ reluctance to report fraud due to the perceived negative publicity or image, banking experience of staff, inadequate infrastructure, inadequate training and re-training, poor book-keeping and genetic traits.

The environmental or social factors, according to Idowu (2009), are those factors that can be traced to the immediate and remote environment of the bank. These factors or causes, according to Ogbunka (2002), are manifest in the penchant to get rich quick, slow and tortuous legal process, poverty and the widening gap between the rich and the poor, job insecurity, peer group pressure, societal expectations, increased financial burden on individuals and stiff competition in the banking industry which saw many banks engaging in fraud so as to meet up with liquidity and profitability objectives. Both factors affect the performance of banks in Nigeria.

Some of these causes of fraud or fraudulent practices in the Nigerian banking industry are explicitly discussed below:

Lack of Experienced And Adequate Personnel :

In view of rapid expansion in the banking industry in the mid „80‟s, provision was not made to train bankers to fill the missing gaps. This led to the dilution of standards and professionalism was thrown to the wind. Honesty and integrity, which are the hallmark of banking, took a secondary position. This is reflected in the lack of competent hands among the management cadres of liquidated and distress bank. The CBN and the Chartered Institute of Bankers of Nigeria should assist to bridge the gap by assisting to train the required personnel for the banking industry.

Internal Audit and Control:

There is absence of internal auditing procedures to ensure compliance with standards. This has contributed to bank loses as a result of inefficiencies, inaccuracies, irregularities and willful manipulations There is the need to ensure that there exists an independent and competent internal audit or inspection unit. Systems of control must be put in place to safeguard assets, accuracy and reliability of the records. The need for an independent and competent internal audit or inspection unit becomes very relevant.

Inadequate Book Keeping/Accounting Procedure:

Improper bookkeeping record gives rise to an unhealthy meddlesomeness. This has led some accountant and auditors comprising „doctoring‟ or window dressing financial statements to present a rather distorting or misleading state of affairs of enterprises being serviced by colluding with bank management. There should be strong accounting controls and security measures, which are subject to periodic re-assessment for the continued good health of the organization. The supervisory control arm of the CBN should be strengthen to check inconsistent accounting policies and practices in banks. This would in the long run pave way for comparison of bank performance.

Poor Credit Administration:

This is the bane of many Nigerian banks. Many loans granted are not properly appraised. And this has resulted in an increase in volume of non-performing assets or bad debts putting many banks in precarious financial situations. Cases abound of unauthorized lending and lending to ghost borrowers. The Failed Bank (Recovery of Debts) and Financial Malpractices in Banks Decree No. 18 1994 should be encourage and strengthened while the Economic and Financial Crime Commission (EFCC) should operate as an independent unit of the government to enable it deal with cases of Advance Fee Fraud „419" whose transaction sometimes pass through bank.

Inadequate Job Rotation/ Segregation of Duties:

Where a staff stays too long on one schedule, it provides an opportunity to commit and cover frauds. Also where schedules meant for different individuals are cumulated in one person, it gives an opportunity to also commit fraud. Bank management should avoid an individual with too much jobs by employing individuals to fill the gap.

Ineffective Bank Management:

Some of the top management staff lack of knowledge of principles and practice of management such as planning, control, directing, coordination and supervision. Thus, they exhibit poor judgment and promote fraudulent behavior. Bank management requires training, retraining and re-orientation on values.

Poor Knowledge of The Job:

Some bank employees exhibit lack of knowledge of their duties and responsibilities and therefore easily fall prey to fraudsters. There is need for training and retraining of employees.

Clearing Fraud:

All parties in the clearing system such as drawer, presenting/collecting bank, and paying /drawee bank must comply with clearing guidelines. Clearing fraud is an unlawful conferment of financial or monetary benefit upon any person through the clearing system to which that person otherwise would not be entitled. These include presentation of spurious instruments on other banks that is fake or forged cheque; drawing instruments on unfounded accounts by a bank and/ or with the connivance of customers of the banks; issuance of bank drafts, manager cheque and bankers payments to other banks. When there is insufficient funds in the bank account to accommodate the instrument; and wrong presentation of instruments of high value on other banks with fraudulent intent. To minimize the incidence of clearing fraud, there should be an enabling environment for employees to work. This implies clean environment, centralize waste disposal, good equipments such as good photocopies, air conditioners in good working order and adequate, employment of high calibre staff/officials assigned clearing duties with good track records, motivation of staff to avoid temptation, accountability of lines of authority must be clear and supervision and control are very essential in a clearing environment.

Society Expectation:

The unquestioning attitude towards who are involve in frauds/sudden wealth especially from bank staff that eagerly yearn to meet rising society expectation. There is the need by the larger society to change their value system by questioning source of all wealth. This measure would require government support.

Delay Justice:

The lack of adequate capacity to detect, investigate and prosecute reported cases of fraud by the law enforcement agents. The judiciary is often slow in dispensing cases of fraud and the non-disclosure of frauds and lack of cooperation from the affected institutions because of the adverse publicity it brings to them encouraged bank employees to engage in frauds.

a. ***Other Miscellaneous Issues:*** The list of frauds and forgeries in the banking industry is by no means exhaustive in this paper. However, it is pertinent to mention that bank staff need to comply with operational guidelines, code of conduct, while management need to be security conscious to protect their assets. Banks must render statements Account to their customers in order to resolve differences that are fraud suspect. Special Squad at the state and federal intelligence division of the Nigerian police should be trained and retrained to deal with cases of fraud. Staff dismissed in banks on account of fraud should be circularized to other banks to prevent re-employment. All bankers irrespective of their status should be registered with the Chartered Institute of Bankers of Nigeria so that the institute can watch over their activities and can summon anyone to the disciplinary committee on account of fraud.

Growth of bank fraud in Nigerian banking industry:

As depicted in table 2 below, a total of 17,975 cases of fraud and forgeries were reported during the period, involving ₦305,008.57million and perpetuated across the various Nigerian banking institutions between the period of 1994-2011. It is noteworthy that the year 2008 (which subsequently happened to be the period of the global financial crisis) witnessed the highest number of frauds and forgery cases (i.e. 2,007 cases), and the highest total amount of frauds and forgeries of ₦53,522.86million. The expected loss did not commensurate with the amount of fraud between 1994-2011; while the amount of fraud rose from N3,399.39m in 1994 to N12, 919.55m in 2002 and dropped slightly to N11,754.00m in 2004, amount of expected loss fluctuated between the period 1994-2011.From N950.65m in 1994 it dropped to N227.44m in 1997 rose to N1,094.55m in 2000 and then dropped to N854.46m in 2003 and rose again to 2,610.00m in 2004. Total number of reported cases of fraud rose from 170 in 1994 to 2,352 in 2011.

Table 2: Total amount involved in fraud/forgeries

Year	**Total no of fraud cases**	**Total amount involved (N' 000)**	**Total expected loss (N' 000)**	**Proportion of expected loss of amount involved (%)**
1994	**170**	**3399.39**	**950.65**	**27.97**
1995	**147**	**1011.36**	**229.13**	**22.66**
1996	**606**	**1600.68**	**375.243**	**23.44**
1997	**487**	**3777.89**	**227.44**	**6.02**
1998	**573**	**3197.91**	**692.25**	**21.66**
1999	**195**	**73944.28**	**2730.06**	**36.87**
2000	**403**	**2851.11**	**1094.55**	**37.9**
2001	**943**	**11243.94**	**906.3**	**8.06**
2002	**796**	**12919.55**	**1299.69**	**10.06**
2003	**850**	**9383.67**	**854.46**	**9.14**
2004	**1175**	**11754.00**	**2610.00**	**22.21**
2005	**1229**	**10606.18**	**5602.05**	**52.82**
2006	**1193**	**4832.17**	**2768.67**	**57.29**
2007	**1553**	**10005.81**	**2870.85**	**28.69**
2008	**2007**	**53522.86**	**17543.09**	**32.78**
2009	**1764**	**41265.50**	**7549.23**	**18.29**
2010	**1532**	**21291.41**	**11679**	**54.85**
2011	**2352**	**28400.86**	**4071**	**14.33**
TOTAL	**17,975**	**305,008.57**		

Source: NDIC Annual Reports for various years

Table 2.3 shows the status and number of banks staff involved in frauds and forgeries from 1998-2011. Within fourteen years, a total of 4,932 were reported to have been involved in frauds and forgeries, while in 2009 which was the highest number of banks staff involved in frauds and forgeries with a total of 656 members, 431 of them were core operating staff such as supervisors, officers, accountants, managers, executive assistants, clerks and cashiers, thus accounting for 65.7% of the total staff who were involved in fraudulent activities.

Table 2.3 Categories of Bank Staff involved in Fraud and Forgeries

Years		Supervisors and Managers	Officers, Accountants and Executive Officers	Clerks and Cashiers	Typists and Technicians	Messengers, Drivers, cleaners and guards	Temporary Staff	Total
1998	No	**112**	**72**	**82**	**12**	**26**	**5**	**311**
	%	**36.01**	**23.15**	**26.37**	**3.86**	**8.36**	**1.61**	**100**
1999	No	**178**	**144**	**92**	**37**	**127**	**15**	**596**
	%	**29.9**	**24.2**	**15.4**	**6.2**	**21.3**	**2.5**	**100**
2000	No	**132**	**101**	**137**	**20**	**81**	**8**	**493**
	%	**26.8**	**20.5**	**27.8**	**4.1**	**16.4**	**1.6**	**100**
2001	No	**55**	**60**	**30**	**-**	**5**	**2**	**152**
	%	**36.1**	**39.42**	**19.74**	**-**	**3.29**	**1.32**	**100**
2002	No	**16**	**48**	**13**	**-**	**4**	**4**	**85**
	%	**18.80**	**56.50**	**15.30**	**-**	**4.70**	**4.70**	**100**
2003	No	**25**	**41**	**25**	**-**	**7**	**8**	**106**
	%	**23.58**	**38.68**	**23.58**	**-**	**6.60**	**7.55**	**100**
2004	No	**157**	**129**	**61**	**18**	**15**	**3**	**383**
	%	**40.99**	**33.68**	**15.93**	**4.70**	**3.92**	**0.78**	**100**
2005	No	**169**	**124**	**54**	**16**	**12**	**3**	**378**
	%	**44.70**	**32.80**	**14.28**	**4.23**	**3.17**	**0.79**	**100**
2006	No	**118**	**90**	**50**	**16**	**7**	**50**	**331**
	%	**35.64**	**27.19**	**15.10**	**4.83**	**2.11**	**15.10**	**100**
2007	No	**87**	**89**	**34**	**21**	**-**	**45**	**273**
	%	**30.76**	**32.60**	**12.45**	**7.69**	**-**	**16.48**	**100**
2008	No	**48**	**127**	**48**	**20**	**-**	**70**	**313**
	%	**15.33**	**40.58**	**15.33**	**6.39**	**-**	**22.37**	**100**
2009	No	**94**	**137**	**200**	**64**	**11**	**150**	**656**
	%	**14.32**	**20.88**	**30.49**	**9.76**	**1.68**	**22.87**	**100**
2010	No	**92**	**79**	**115**	**23**	**15**	**33**	**357**
	%	**25.77**	**22.13**	**32.22**	**6.44**	**4.20**	**9.24**	**100**
2011	No	**89**	**126**	**163**	**7**	**35**	**78**	**498**
	%	**17.87**	**25.30**	**32.73**	**1.41**	**7.03**	**15.66**	**100**

Source: NDIC Annual Reports for various years (1998-2011)

Fraud is perhaps the most fatal of all the risks confronting banks. The enormity of bank fraud in Nigeria can be inferred from its value, volume and actual loss. A good number of banks frauds are suppressed partly because of the personalities involved or because of concern over the negative effect such disclosure may have on the image of the bank. Customers may lose confidence in the bank and this could cause a setback in its growth.

Fraud leads to loss of money belonging either to the bank or customers. Such losses may be absorbed by the profits for the affected trading period and this, consequently, reduces the amount of profit which would have been available for distribution to shareholders. Losses from fraud, which are absorbed by the equity capital of the bank, impair the bank's financial health and constrain its ability to extend loans and advances for profitable operations. In extreme cases, rampant and large incidences of fraud could lead to a bank's failure.

Fraud can increase the operating cost of a bank because of the added cost of installing the necessary machinery for its detection, prevention and protection of assets. Moreover, devoting valuable time to safeguarding its asset from fraudulent men distracts management.

This unproductive diversion of resources reduces outputs and low profits which in turn could retard the growth of the bank. It also leads to a diminishing effect on the asset quality of banks. The problem is more dangerous when compounded by insider loan abuses. Indeed, the first generation of liquidated banks by NDIC was largely a consequence of frauds perpetrated through insider loan abuses. If this problem is not adequately handled, it could lead to distress and bank failure.

METHODOLOGY

The study employed an econometric model in determining the impact and consequences of fraud on bank profitability in Nigeria. The study used time series annual data for the period covering 2002 to 2014 gathered from the Central Bank of Nigeria statistical bulletin, various financial website, Journals and Newspapers. The multiple regression technique and the Augmented Dickey-Fuller (ADF) Unit Root test were used for the study while the study hypothesized that fraud does not have a significant effect on bank profitability in Nigeria.

Model Specification:

The model employed in this study is built based on the modification of the model of Uchenna and Agbo (2013). The modified model is specified as follows:

ROA = f (TA1, NOC, NS1)….. (1)

Where;

ROA = Return on Asset

TAI = Total amount involved

NOC = Number of fraud cases

NS1 = Number of staff involved

The model was tested using multiple regression analysis. The F-value was calculated to determine the extent of relationship between the variables under consideration at 5% level of significance.

RESULT AND DISCUSSION

Unit Root Test:

To test for the stationarity of all the variables, this test will be carried out at first difference, trend and intercept with two as the maximum lag.

Variable	ADF Unit Root	Unit Root at 5%	Stationarity
LROA	-3.132917	-3.112	Stationary
LTAI	-5.953673	-3.112	Stationary
LNOC	-3.724452	-3.112	Stationary
ENSI	-5.362756	-3.112	Stationary

Source: Authors computation using E-views 7

The above table shows that all the variables to be used for this study are stationary at 5% significance level.

4.2 Multiple Regression Result

Variables	Coefficient	Standard error	T-statistics
Constant	0.120	1.411	0.062
LTAI	-0.912	2.670	0.096
LNOC	5.076	4.716	0.076
ENSI	-1.126	0.164	0.014

R^2 = 0.69, ADJ R^2 = 0.65, DW- stat = 2.109, F-stat = 4.72
Source: Authors computation using E-views 7

The result in the table above shows that all the parameters conformed to a priori expectation. It is also clear from the table that all the independent variables are significant based on the T- statistic values of their coefficients. The F-value of 4.72 reveals that the result is relatively stable and robust while the R^2 of 0.69 shows that about 69% of the systematic variation in ROA is caused by all the independent variables in the model. Lastly the DW-value of 2.109 shows that there is no serial correlation in the model.

Discussion of Result:

The result above shows that there exists a negative significant relationship between Bank Profitability as proxied by Return on Asset (ROA) and the total amount involved in frauds committed in the banking sector (TAI). This implies that as the total amount involved in bank fraud increases, bank profitability decreases and vice versa. The negative sign of the TAI variable also conform to its negative impact on bank profitability and a priori expectation.

The same explanation goes for number of staff involved (NS1) as it also share a negative significant relationship with Bank profitability. Hence, if the number of staff involved in fraud cases of banks is on the increase maybe due to ineffectiveness of the bank's corporate governance, it will affect bank's profitability in a negative way. The negative sign also conform to a priori expectation.

For the number of bank cases involved (NOC), it shares a positive significant relationship with bank profitability. Hence as the profits of banks increase over the years, there will be the tendency of some of its staff to embezzle funds hence increasing the number of bank fraud cases. As huge profits are declared, ineffective corporate governance, granting of loans with inadequate collateral security just to maintain a particular customer, low incentives for staffs, etc are some factors that tend to increase the number of fraud cases of banks.

CONCLUSION AND RECOMMENDATIONS

It has been shown from the study that fraud inflicts severe financial difficulty on banks and their customers. It also leads to the depletion of shareholders' funds and banks' capital base as well as loss of customers' money and confidence in banks. Such losses may be absorbed by the profits for the affected trading period and this consequently reduces the dividend available to shareholders. Losses from fraud which are absorbed by the equity capital of the bank impair the banks' financial health and constrain its ability to extend loans and advances for profitable operations. In extreme cases, rampant and large incidents of fraud could lead to a bank's failure. The loss in funds affected the economy. It reduced the amount of money available to small or medium scale firms for developing the economy.

Based on the above findings, the following recommendations are made:

1. Staff motivation should be a top priority for banks so as to reduce to the barest minimum the number of staffs involved in fraud. The motivation can be in the form of incentives, rewards, payment for overtime job, bonuses, annual salary increment, etc. Also, reward should form part of the bank policy to encourage staff and customers who have helped to frustrate intended fraud cases in the past.
2. Establishment of adequate and sound internal control system is also recommended for fraud prevention. For example proposed account-holders should be verified before any account is opened and all payments instrument with huge amount should be referred to the issuing bank before payment.
3. Adequate training and re-training of staff should be regular. The training should emphasis the responsibilities and loyalties of the staff to the bank. The training should include testing them on issues on morality, trustworthiness, sincerity and fear of God.
4. Top level management and bankers should try to achieve a high ethical standard when carrying out their responsibilities as this will help them reduce fraud.
5. The regulatory and supervisory bodies of banks in Nigeria should improve their supervision using all tools at their disposal to appropriately check and curtain the incidence of fraud and fraudulent practices in the banking industry in Nigeria.

Aside these recommendations, the ones given by the committee of Bankers set-up in 1982 as part of the measures taken in eradicating frauds and all other fraudulent activities should be followed and they include:

i. Names of dismissed staffs should be circulated to other banks.
ii. Strict disciplinary action should be taken against fraudulent staff to serve as a deterrent for others
iii. The Chartered Institute of Bankers of Nigeria should black list such staff.
iv. Bankers committee should maintain a data bank on dismissed staff and those forced to resign.

The Central Bank of Nigeria also gave some useful suggestions on how fraud can be prevented and control in Commercial Banks. These include:

a. No person shall be employed in a bank without a satisfactory reference from their precious employers
b. Reference must be made to the banker's committee data bank before any person whose appointment was terminated or was forced to resign is employed.
c. CBN should impose penalties on banks which make no return on staff who leave their services each month as a result of dismissal or retirement.

APPENDIX

Table 1:

YEAR	ROA	TAI	NOC	NSI
2001	2,247,039.9	2,530.00	402	55
2002	2,766,880.3	12,919.55	796	85
2003	3,047,856.3	9,383.67	850	106
2004	3,753,277.8	11,754.00	1,175	383
2005	4,515,117.6	10,606.18	1,229	378
2006	7,172,932.1	4,832.17	1,193	331
2007	10,981,693.6	10,005.81	1,553	273
2008	15,919,559.8	53,522.86	2,007	313
2009	16,731,539.6	41,265.50	1,764	656
2010	17,522,858.2	21,291.41	1,532	357
2011	17,845,086.6	28,400.86	2,352	498
2012	18,053,158.8	26,895.37	2,106	265
2013	18,023,948.7	27,360.74	1,544	184
2014	20,145,732.9	28,419.02	1672	188

Source: CBN Statistical Bulletin (2013).

Others are Journals, Books, etc.

Table 2: Regression result

Dependent Variable: LROA				
Method: Least Squares				
Date: 22/06/16 Time: 11:20				
Sample (adjusted): 1972 2014				
Included observations: 42 after adjustments				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	0.120192	1.411242	11.13702	0.0620
LTAI	-0.912236	2.670732	2.100844	0.0960
LNOC	5.076162	4.716879	4.236638	0.0761
LNSI	-1.126421	0.164340	0.179062	0.0142
R-squared	0.694381	Mean dependent var		13.71599
Adjusted R-squared	0.654270	S.D. dependent var		1.583273
S.E. of regression	1.262929	Akaike info criterion		3.497794
Sum squared resid	59.94563	Schwarz criterion		3.604499
Log likelihood	-66.36721	Hannan-Quinn criter.		3.493558
F-statistic	4.724539	Durbin-Watson stat		2.109410
Prob(F-statistic)	0.000344			

SOURCE: Eviews 7 Estimation (2015)

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