

THE ECONOMIC IMPLICATION OF FRAUD IN NIGERIA

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ABSTRACT

This research examined frauds in the banking industries in Nigeria. The essence of these is that if these frauds are not detected and worked upon, it may lead to banks not performing well. This issue is important at this stage because the world is going cashless and ATM is one of the main tools for cashless banking. Questionnaire and oral interview were used for the study. The study also concludes that since the issue of fraud cannot be wiped out completely, it can as well be minimized to as low as reasonably practicable by ensuring that the proper thing is done at all time.

Key words: Corruption, Bribe, Crime, Fraud, Infrastructure

I. Introduction

Fraud is a Global phenomenon that has been in existence for long and increases every day by day. Fraud is a deliberate act that causes a business or economy to suffer damages, often in the form of monetary losses. Fraud is rampant in both developed and developing countries and as well varies across places in its magnitude, its sources, the way it manifests itself and its effect on administrative performance and development. Fraud can be seen as a Deceit or Trickery deliberately practiced in order to gain some advantage dishonestly. Oxford Advanced learner's dictionary defined fraud as the crime of cheating somebody in order to get money or goods illegally.

It is also a person who pretends to have qualities, abilities etc. that they do not really have in order to cheat other people.

Over the century, commercial banks have contributed to the development of the Nigeria economy. Commercial banks are the institutions that accept deposits payable on demand and organize loans. For the economy of a nation to develop, the banking sectors a very import role to play.

Banks acts as financial intermediaries between investors. For the purpose of this study, the banks referred to consists of commercial banks merchant banks, cooperative banks, community banks and other financial rendering banking services.

Commercial banks are seen as financial institution whose services hinge critically on a trusted relationship between it and its customers.

Banks and no-bank financial institution jointly constituting the financial industrial of any economy however, the banking system comprises the major corner stone of an economy. For any economy to develop and grow, the finance sector must be strong, effective and efficient.

The existence of an effective banking industry is a panacea to growing any economy. The pivot of any economic development is the financial sector through its role in intermediating funds from the surplus units to deficit units. This also stimulates investment, economic growth and employment as well as international trade and payment.

Bank failures are as old a banking industry itself. Despite the significant roles it plays in economic development, its failures are becoming well pronounced. The dictionary of economics and commerce confirmed that 200 banks failed in England between 1815 and 1850 just a period of 35 years, one of the reasons attributed to this failure is fraud.

II. Literature review

There have an extensive studies conducted in many countries on fraud and its effect on bank performance.

Adewumi (2007) in his explanation of bank fraud identity socio-economic lapse in society such as misplacement of societal values, the unquestioning attitude of society toward the source of wealth, the rising societal expectations from bank staff and subsequent desire to staff to live up to such explanations as contributory factors of fraud.

In a different study, Otusanya (2008) carried a study on the role bank CEO in the perpetration of corporate executive frauds in the Nigeria Banking sector. The study reveals that recent banking crises in Nigeria have exposed the activities of bank executives in corruption and fraudulent practices using institutional anomie theory called American dream theory, whereby the pursuit of monetary success has come to dominate society.

Idowu (2009) did a research on the means of minimizing the incidence of fraud in Nigeria Banking industry, findings of the study revealed that, so many factors contributed to the incidence of fraud in banks amongst which

are poor management of policies and procedures, inadequate working conditions, bank staff amongst which are poor management. Adepoju and Alhassan (2010) opined that Bank customers have come to depend on the trust the automatic teller machine (ATM) frauds in the country. Managing the risks associated with ATM fraud as well as diminishing its impact is important. Amindele (2010) conducted a research on the challenges of automated teller machine (ATM) usage and fraud occurrence in Nigeria banking industry” the study posits that lack of adequate training, communication gap, and poor leadership skills were the greatest cause of fraud in banks. He advised that adequate internal control mechanism be put in place and that workers satisfaction and comfort be taking care of.

Onurah and Ebimobowei (2011) investigate fraudulent activities and forensic accounting in Nigeria. The study found that there is need for the banks in Nigeria to adopt more proactive measures such as the use of forensic accounting techniques in banks.

Abdulrasheed, Babaitu and Yinusa (2001) examination the impact of fraud on bank performance in Nigeria. Result of the study shows that, there is a significant relation between banks profit and total amount of funds involved in fraud.

Finally, kanu and Okorafor (2013) did a work on the nature, extent and economic impact of fraud on bank deposit in Nigeria using descriptive and inference statistics. The study revealed that there is a positive significant relationship between bank deposit and fraud in Nigeria banking industry.

Institutional factors or causes are those that can be traced to internet environment of the financial institutions. They are as follows:

1. **INADEQUATE INFRASTRUCTURE:** Poor communication systems and power failure result to ATM bank fraud which encourages the perpetration of frauds in banks.
 2. **NATURURE OF SERVICE:** Fraud may be caused where documents of value and liquid assets are exposed to an undisciplined staff or unauthorized person(s) like customer(s) in the bank.
 3. **POOR MANAGEMENT.** This comes in form of inadequate supervision. A junior staff with fraudulent tendencies that is not adequately supervision would get the impression that the environment is safe for the perpetration of fraud especially ATM.
 4. **POOR SECURITY ARRANGEMENT:** Bank security arrangement for valuable, it is easy and weak, poor and vulnerable, it is easy for fraudster to have their ways underrated in the bank.
 5. **POOR SALARIES:** Employees that are poorly paid are often tempted to fraudulently convert some of the customer's money to their own use in other to meet their personal and social needs. This temptation is stronger on bank employees who are on daily basis have to deal with cash and hear cash instruments.
 6. **FRUSTRATION:** this is a place where staff feels short – changes in terms of promotion and other financial reward, they became frustrated and such frustration could lead to fraud as much as such employee would attempt to compensate himself in his own way and it is an indication of weakness in bank internal control system.
- Environmental Factors: these are those factors that can be traced to the banks immediate and remote environment (Nweze 2008)

1. **Unemployment and high level of poverty in Nigeria:** Nigeria is one of the richest economics in sub-Saharan African and indeed the world both in human and natural resources (oil) but 80% of the Nigeria youths especially university graduates are unemployed. Most of the politicians squirt away the looted funds in foreign bank without been punished by EFCC. This causes employment and lack of infrastructure which is not good for a developing country like ours.
2. **Fear of negative publicity:** Many financial institutions fail to report fraud cases to the appropriate authorities. They believe that doing so will give unnecessary negative publicity about the bank and it is a chance for fraudsters to thrive because it is a great challenge to a researcher as regard to data collection.
3. **Societal value.** When the possession of weakness determines the reputation ascribed to a person that society is bound to witness unnecessary competition for acquisition of wealth the desire to be with the high and mighty caliber of the society, extreme want that is often characterized by need and cultivation of a life too expensive for the legitimate income of the individual which to a large extent encourages banks fraud.

III. Methodology

This research study follows a description research method. It attempts to look at the economic implication of bank fraud in Nigeria. Banking system using Enterprise bank Plc.

The research instruments used for this research study were questionnaires, and personal interviews. Data collections for research look two forms. Both primary and secondary data were gathered and used to accomplish this research work. The primary data was obtained through personal interviews and response given by respondents to the questions asked in the research questionnaire. The secondary data was gathered from various textbooks journals, newspapers and magazines.

The total population of the research study was made up of 35 staffs obtained through random sampling from the three banks used. The population included the managers of inventories, production, sales finance and accounting departments of the banks.

Out of a total population of 35 employees chosen for the research, a simple size of 32 staffs was taken to consummate the research work.

IV. Result and discussion

This section presents the results of the data analysis.

Table1: Distribution of response on personal data of respondents.

SECTION A			
	Personal data	Number	Percentage (%)
1.	Sex: Male	24	75
	Female	8	25
2.	Age:		
	20 - 35 years	10	31.25
	35 – 45 years	17	53.13
	45 years and above	5	15.63
3.	Marital Status: Single	10	31.25
	Married	22	68.75
4.	Work Experience: Less than 1 year	6	18.75
	1 – 4 years	20	62.50
	4 years and above	6	18.78
SECTION B			
	Causes of Fraud	Frequencies	Percentage
	Poor internal control	12	37.5%
	Poor hiring practices	8	25%
	Lack of accountability	6	18.8%
	Poor ethical values	4	12.5%
	Poor physical security	1	3.1%
	Others	1	3.1%
	TOTAL	32	100

SOURCE: FIELD SURVEY 2018

The table above shows that from the 32 respondents, 24(75%) were male while 8(25%) respondents were female. This is an indication that males dominate the operation of Heritage bank in Nigeria. The tale also indicates that respondents between the ages of 20 – 25years were 10(31.25%) while those between the ages of 35 – 45years were 17(53.13%), while ages between 45years and above were 5(15.63%).

From the table (causes of fraud) 12(37.5%) were as a result of poor internal control, 8(25%) were as a result of poor hiring process, 6(18.8%) were as a result of lack of accountability, 4(12.5%) were as a result of poor ethical values, 1(3.1%) were as a result of poor physical security, and 1(3.1%) were classified as others.

TESTING OF THE HYPOTHESIS

Ho: Poor internal control, poor hiring practices lack of accountability, poor ethical values and poor physical security are the major cause of fraud in Nigerian Banks.

Ha: The problems stated in Ho are not the causes of fraud in Nigerian Banks in reducing frauds in Nigerian Banks.

Using the contingency chi-square test, we therefore reject the null hypothesis since $X^2_c > X^2_{t, 0.05}$ i.e. $32.70 > 9.49$ and accept the alternative hypothesis (H_1) at 0.95 level of significance.

X^2_c = computed value and $X^2_{t, 0.05}$ = table value

The policy implication of this decision is that Poor internal control; poor hiring practices lack of accountability, poor ethical values and poor physical security are the major cause of fraud in Nigerian Banks.

V. Conclusion

This paper has attempted to highlight the incidence and magnitude of fraud and some of its negative impact on the banking sector in Nigeria. Fraud inflicts severe financial difficulty on bank and their customers. It also lead to the depletion of shareholder’s 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 and advances for profitable operations. In extreme cases, cases, rampant and large incident of fraud could lead to bank failure.

The loss in funds affected the economy. It reduced the amount available to small or medium scale firms for developing the economy. The costs of fraud are always passed on the society in the form of increased customer inconvenience, opportunity costs, unnecessary high prices of goods and services and lack of infrastructure. Fraud can increase the operating cost of a bank because of the added cost of installing the necessary machinery for its provision, detection and protection of assets. Moreover, devoting valuable time to safeguarding its asset from fraudulent men distracts management. This unproductive diversion of resources always reduces output and low profits which in turn could retard the growth of the bank.

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