THE IMPACT OF FRAUDULENT PRACTICE ON THE NIGERIAN BANKING SYSTEM

BY

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BEING A PROJECT SUBMITTED TO THE POSTGRADUATE SCHOOL, AHMADU BELLO UNIVERSITY,ZARIA, IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER IN BUSINESS ADMINISTRATION (MBA)

DEPARTMENT OF BUSINESS ADMINISTRATION
FACULTY OF ADMINISTRATION
AHMADU BELLO UNIVERSITY, ZARIA

OCTOBER, 1998

DECLARATION

I hereby declare that this project was written by me based on the research findings conducted personally be me. To the best of my knowledge, this project has not been presented to any post-graduate school for the award of higher degree. All references made to text, journals and articles have been duly acknowledged in the refineries and the bibliography.

Finally, I wish to state that I am responsible for any errors committed and/or omission in this project.

HAMISU ADAMU

25-oct-1998
DATE

DEDICATION

To: MY WIFE AISHA HAMISU

"GOD GRANT ME THE SERENITY TO ACCEPT THE THINGS I CAN'T CHANGE ..... THE COURAGE TO CHANGE THE THINGS I CAN, AND ..... THE WISDOM TO KNOW THE DIFFERENCE.

Postscript

CERTIFICATION

This project entitled "**The Impact of Fraudulent Practices on the Nigerian Bank System**" meets the regulation governing the award of the degree of Masters of Business Administration (MBA) of Ahmadu Bello University Zaria and is approved for its contribution to knowledge and literary presentation.

SUPERVISOR — 10/10/98 DATE

EXTERNAL EXAMINER — DATE

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HEAD OF DEPARTMENT — 8/2/2000 DATE

DEAN, POST-GRADUATE SCHOOL — 473309 — 02/07/01 DATE

ACKNOWLEDGMENT

Eventhough I accept full responsibility to the content of this project: Information gathered upon related literature and current practices of organisations generally have helped in furnishing me with more knowledge for achieving the desired objectives.

To those people whose ideas and foresight have been so encouraging and helpful, I wish to express my sincere gratitude. For, it would have been more demanding and much less rewarding without their contribution.

I am particularly indebted to my supervisor in person of Mallam Ibrahim Fari Okeji (MIFO) of the Department of Business Administration, A.B.U., Zaria whose valuable and experienced suggestion have contributed immensely in making the entire project work a success.

My unreserved gratitude goes to the following people for the inspiration and motivation during the course, Mohammed Zubair (Alh. Baba), Umar Sidi, Lt. cdr Barau, Alh. Ibrahim Magaji (Jikanlinan) Umar Adamu and the entire staff of Business Administration Department of Ahmadu Bello University, Zaria for their concern and assistance.

Finally and most of all, my regards goes to my wife Aisha Hamisu for her love, patience and endurance during the period of my course. I pray and wish her a success completion of her course too (Amen).

ABSTRACT

Fraud is generally defined as a criminal deception deliberately practiced to gain unlawful or unfair advantage to the detriment of others. Thus, Bank fraud refers to criminal deception, the use of false representations to gain unjust financial advantage. This event usually leaves a client in the image of the bank and the staff on one hand and sorrow to the affected account holder on the hand The tension that is brought to bear on the staffers of the is best imagined than exposed.

Fraud and forgeries is on the increase in the banks in Nigeria. Any alteration of a written document made with intent to defraud is deemed to be forgery.

The growing incidence of frauds and forgeries in the banking industry should be of intense concern not only because this unhealthy development undermines the safety, soundness and stability of the industry, but also that it can and does precipitate bank failures and also erode public confidence in banks, especially in a developing banking environment.

In order to restore confidence in the banking system, it should be noted that recruitment of honest and dedicated staff should be of paramount importance to the industry and should not be compromised. The personnel should be of proven integrity and have capabilities commensurate with their responsibilities. The role of training and retraining need not be over-emphasized. Curiously, the growing awareness of these consequences appears to have been matched within statement.

The study is divided into five chapters. The first chapter is the introductory followed by chapter two which is the review of related literature. Chapter three contain the methodology that was used. Chapter four has the data presentation and analysis and chapter five gives the summary, conclusion and recommendations.

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CHAPTER ONE

1.1 INTRODUCTION

The banking industry constitutes one of the pillars on which the economy of any nation can be erected. Globally, this subsector of the financial services sector is one of the main pivots on which the economy evolves. When this industry sneezes the entire economy catches the cold. Thus when the sector perform well, all other indices for determining the growth and development of an economy changes positively, the economy is presumed to be growing and developing.

Banking frauds and malpractice are conceptualized as those practices which are not only just contrary to the ethics of the banking profession but also constitute infringement of various banking laws and regulation. Frauds in banking nearly always leads to loss of monies that ordinarily belong of some one other than the banks. This loss results in some cause in reduced level of resources available for use in the operation of banks, in very bad cases where frauds occur with crippling frequency and in wholesales sizes, the bank may be forces to close down as a result. When the bank loses money and it is wound up, the customers lose money. This leads to less of confidence in the banks and reduced patronage. What happened in the National Bank of Nigeria Ltd. (NBN) id an open example to all. Not only have the shareholders been put in to state of comma, but many private organization had their businesses closed because of their deposit which they cannot withdraw from the bank and the attendant consequences of this on he banking system is well known

Employees as well as client of firms in all industries engage in fraudulent practices all over the world. Whilst it cannot, strictly speaking, be said to be ordinarily human expected behaviour, the prevalence of it in all societies of the world, including the socialist societies, would make one state that it is not "in human" behaviour. History has revealed that between 1914 and 1929, fraud accounted for 63% of the total number identical causes of bank failure in the United State. In the.United kingdom, also the average loses from banks frauds in the 1980's was approximately f200 million. Indeed, no one area of the banking industry is immune from fraud, not even the very security outfit designed to prevent it occurrences.

Internal and external frauds, similarly contributed to bank failure in the Nigerian banking industry of the 1950's and 1960's also. A look at the rate of fraud in banks today portrays a sorry state of affairs. By the NDIC publication, the figure of frauds and foreign in Nigerian banks in 1994 was ₦2,665,71 million as against ₦1377.15 million in 1993. The actual/expected loss for 1994 was ₦883.55 million as against ₦241.00 million in 1993. The internal and external frauds have jointly contributed to more than 80% of all banks frauds world wide.

Although, the existence of frauds in our banks is not an uncommon or unexpected phenomenon, it is worrying because "of all the various problems confrontly the Nigerian banking system industry today, that of frauds is easily the most intractable". The banking industry worries more about frauds because of the rather obvious damaging consequences of he acts on the health and for the existence of the institution.

Frequent occurrences of frauds ultimately distracts the attention of the management and leads to increased running cost. Time and energies that would have been spent improving customer services would be expended on preventing frauds. Monies that would also have gone into service improvement activities would be expended in setting fraud control procedure and systems." Another reason why the banking industry, like any other worries about frauds is that it varies very widely in nature, character and methodology more over, the control of an identified specie seems to give birth to another that is invariably more sophisticated and complex, sot hat each case can be said to be variant of another and undoubtedly an instructive study in human negative use of ingenuity and endowment".

The banking system/ industry is an a very pathetic state today. A lot of adverse changes have occurred in the industry. What you hear constantly nowadays are stories of bank distress and failure. Gone are the goods old days when bank stood by their promises, no matter the odds, many banks today are nothing but glorifies extension of shoddy family or " connected parties" Business". Many of them leave their customers with sour memories that many corporate and private individuals today detest having anything to do with banking:

The failure of any back causes a doom to the nation, and frauds and forgeries being the major causes of bank failure, something drastic ought to be done to urgently steam the tide in view of its major implication of the banking system.

1.2 STATEMENT OF THE PROBLEM:

There appear to be little doubt about the fact that frauds in banks is a matter of the greats concern to bankers, the monetary/political authorities and the generality if Nigerians today. It is so far many reasons. The methods acquires sophistication by the day. The size increases in geometric progression. The people involved Kitherto were among the respectable members of society. It is an obvious correct assertion to say that more money is stolen in or through the banks by means of frauds committed with the pen than through physical exhortation of money or other securities. For the fact that most of these notorious actors in banking industry often make uses of computers to the detriment of their customer and the banking system, makes identification of these problem more complicated.

Fraudulent practices in banks have had significant impacts on the Nigeria banking system. The results of the incidences are damaging. Frauds leads to unwarranted losses for the banks and put the management of each institution on its toes whilst expending hard-earned resources and energies on Fraud prevention and defection. Very importantly also, every incidence of banks fraud literally chips off a but of the publics confidence in the orthodox financial institution that bank are and delay or slow down the full development of banking habit in Nigerians.

Although compared to the total number of bank employees nation wide, those involves in the rapoted cases of frauds and forgeries from 1989 (313 person) to 1994 (737 person) may seem insignificant, what attracts attention and generate serious concern is the categories of staff involved. More and more or

the middle and senior/management staff of banks are increasingly being attracted by the lure of fraud and forgeries.

The proliferation of many banking institution without strong financial base has endangers the transformation of the banking system and has been a threat to the continuity o many businesses because of the present distress as well as failure positions of some banks.

1.3 OBJECTIVES OF THE STUDY

The banking sector has a critical role to play in the economic development of the country. The increasing waves of frauds in the banking industry in recent year if not arrested will continue to pose as a threat to the stability and survival and performance of the industry as a whole. Societal norms have so cheated that fraudulent activities appear not to be frowned upon any longer and even the very depositors who have been defrauded by bank directors or management do not care. Fraud is a number one enemy to all concerned with the growth and development of our banks. The banking industry need to be sanctifies and re oriented and any effort to fights this enemy is therefore most desirable.

Secondly, and very importantly, the investing public should be enlighten tot he types and methods of commuting these frauds and forgeries so as to guide their hard earned money and avoid the whole banking system being in total colleagues.

Another disturbing issue is that while everyone agrees that there have been a phenomenal increase in bank frauds, there has not been any when, near

commensurate increase in the apprehension and prosecution of suspects. This study will enlighten and leighten the revaluation of both institutional and legal arrangements to at least minimize fraudulent practice in our banks.

It is through the banking industry that most internal frauds are committed leading to the misfortune of the industry. The purpose of this research of offer solutions that will provide possible checks to put a stop in internal bank frauds.

More importantly, the news frauds or attempted frauds dents the reputation of the bank concerned and reduces the level of confidence the public has in the entire banking system. All these have made the subject of the impact of fraudulent practices on the Nigerian banking system a topical one that needs to be widely looked into.

This study will also identify the major causes and sources of these fraudulent practices as well as it's effect on the banking system with a view to providing possible solutions.

1.4 SIGNIFICANCE OF THE STUDY:

This research work will be of great importance to policy formulators as it will make then know exactly the effects of bank frauds on the Nigerian banking system.

Equally to gain from the research is the general public who will come to know the various methods adopted by the banking employees to perpetrate their will act and for them (customers) to device a means of stopping or preventing it and seen their business grow. This is important because persistent and extensive fraudulent practices in banks leads to the distress as well as the failure of some banks. Apart form the loss to the promoter/ owners of any bank that goes into liquidation, such is bound to adversely affect the depositors with

the bank. Fraudulent practices by bank officials in conclusion with their parties can lead to substantial losses on the part of bank customers or users of its service. It may in some cases result in the folding up of the customers business.

This research work is also important to owners and shareholders of banks. They will actually know some fraudulent practice committed by managers which leads to leases and often results in reduces profits and dividend payment. Such fraudulent practices include: allowing a customer to overdraw his account without desiring the account, honoring forged cheques, and making advances to fictitious customers.

1.5 SCOPE OF THE STUDY

This work will not individual statistical presentation of the impact of back frauds on Nigerian banks, rather they will be aggregated. The data collected would not be subjected to rigorous statistical analysis. It only attempted to identify what constitutes a fraud in bank and their impact on the Nigerian, banking system. My thought is that rigorous statistical analysis not essential because human behaviour which us an essential element in committing frauds is very difficult to predict on the basis of past behaviour. Therefore, the area examined in the study include the following:-

A. What constitute fraud, it identification and cause

B. Most common type of fraud in Nigeria banks and what these banking are suffering as a result of fraudulent practices and

C. Recommendation for controlling and preventing frauds.

1.6 LIMITATION OF THE STUDY

In conducting this research, time factor limits the scope of areas to be investigated. The time allowed for the completion and submission of the project is very short, considering the fact that normal lectures continued, so one has to divide his time between reading, delivering lectures and researching. It therefore made us limit ourselves to the most important areas.

Other limitations include, few literatures, out dated information and biases of the writers.

CHAPTER TWO

REVIEW OF LITERATURE

2.1 INTRODUCTION

Akinola Aguda, defines and intention todefraud as" an intention to deceives in such a manner as to express any person to loss or the risk of loss". Since" loss" for our purpose is measured in monetary terms, fraud may be defined as intentional misrepresentation, concealment or omission of the truth for purpose of deception, or manipulation to the financial deferment of an individual or organisation. Fraud" then comprises of two fundamental elements. One is predetermined decease. The other is pre-caution, a collective term for any combination of embezzlement, defalcation of banking by perry, fraud is defined to mean ac act or course of deception deliberately practices to gain unlawful unfair advantage; such deception directed to the detriment of another. Therefore the term fraud in its broad sense could be said to suggest any activity that amount to unfair dealings. In R. V. Scott, viscount Dithorne observed that" to defraud"ordinarily means to deprive a person dishonestly of something which is his or of something to which he is or would or might but for the perpetration of the fraud be entitled".

According to Dr Beita Yusuf, fraud occurs when a person or group of person, through deception to trick, acquires an unnatural advantage he could not otherwise have, acquired through lawful, just or normal processes, and a person of group individuals in a position of trust and responsibility, in defiance of prescribed standard, breaks all statutory rules and regulation so as to promote ones personal interest at the expenses of the corporate interest he has been committed to protect and enhance".

2.2 TYPES OF FRAUDS

"Frauds or forgeries in banking transaction can be perpetrating through falsification of enteries in account of customer with a view take benefits of the excess proceeds or the shortfall; forgery of signature of account holders and unlawful withdraw of money from their accounts; or defalcation involving cash theft by bank officials (cashier, cash officers e.t.c) as well as customers".

Bank fraud take different forms. They very widely in nature, character and method of perpetration. In general, it may be classified in two ways:

I. Perpetrators and

ii. Method used.

On the basis of perpetration, there are three broad categories; internal, external and mixed. Internal perpetrators of fraud related to the committed by member of staff (insiders) while, external perpetration are committed by person not connected with the institute. Mixed fraud involved outsider colluding with staff. It is useful for bank management, government and it agencies to try and identify the category under which various frauds in banks fall. A clear knowledge of this will help in the determination of the best possible solution to proffer solutions.

The most common form of classification employed by financial institution is the basis of method. Under this approach, the list of types of frauds method is almost in exhaustive devising new methods. The most important and common types fraud highlighted by bank administration institute (1989) in fraud prevention and detection series are discussed.

A. ADVANCE FEE FRAUD

This may involve an agent approaching a bank, a company or an individual with an offer to access large funds at below market interest rates often for long term. The purported sources of such funds is not specifically identified as the only way to have access to it through the agent who must receive a fee or commission in advance. As soon as the agent collects the fee, he disappears into thin air and the loan never comes through". This particular type of fraud is popularly known as '419 in Nigeria.

B CHEQUE KITTING

"Kitting is defined by the U. S. Comptroller of the currency's policy guidelines for National Bank directors as ' a method whereby a depositor utilizes the time requires for cheque to clear to obtain an unauthorised loan without any interest charges. Cheque kitting involves the unauthorised use by depositor of uncollected fund in their accounts. Uncollected funds refers to cheques lodgement accepted by a bank for which it cannot fully guarantee collect ability until the institution on which such cheque is drawn has determined that fund is available to cover the term.

The customer indulging in this practice usually has two or more accounts at two or more different banks or branches. He draws a cheque on his account in bank X. knowing fully well that there are no funds on that account and deposits the cheque into his account with bank Y. He then draws on the uncollected funds at bank Y and immediately deposits in bank X another cheque down on non existent funds in his accounts at bank Y.

C. *ACCOUNT OPENING FRAUD*

This involves the deposit and subsequently cashing of fraudulent cheques. It usually start when a person not known to the bank asks to open a transaction account such as current and/or savings account with false identification but unknown to the bank". Such bad or fraudulent cheques include large overdrafts drawn on other banks or drawn on bank accounts that are closed or never existed.

D. *LETTER OF CREDIT FRAUD*

"Letter of credit generally arise out of international trade and commerce . Most letters of credit frauds are perpetrated by beneficiaries to the credit, using forged or fraudulent document. In these cases, forged or fraudulent documents are presented to the confirming or issuing bank and payment is demanded against the credit. Such letter of credit are usually accompanied with spurious" bank drafts" on the reverse of which are fake endorsement which guarantee payment".

E. *MONEY TRANSFER FRAUD.*

"Money transfer services are means of making frauds to or from a bank to a beneficiary account at any banking point worldwide in accordance with the instruction from the banks customers. Some common means of money transfer are mail, telephone, electronic process and telex" money transfer fraud usually results down or the alternation of a genuine funds transfer request. A genuine request can be altered by changing the beneficiary's name or account number or changing the amount of the transfer.

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F. LOAN FRAUD

Loan and other from of credit extension to business and individual customers constitute traditional function of banks. In than process of credit extension, fraud may occur at any stage from the first interaction between the customer and the bank to the final payment of the loan. Loan fraud occurs when credit is extended to non- borrowing customer or to a borrowing customer who had exceeded his credit ceiling. The fraudulent aspect of this class is that there is an intent to conceal it from the head office (inspectorate) staff on routine check to deceive them with seemingly true but falsified statement, documents etc.

Advance perpetration of credit fraud go to the extent pf applying credit facility approved for one customer to the credit of another who is often unrelated to the first customer; loan frauds often inflict huge losses upon victim banks years of profit making effort can be negated by a single loan fraud.

G. COUNTERFEIT SECURITIES:

" Like counterfeiting of money, counterfeiting of commercial financial instruction the oldest form of crime. Counterfeiting of securities refers to reproducing good quality forged instruments or documents:. The documents, may be total counterfeits, or may be genuine documents that are, forged or altered as to amounts, pay out data, payee to terms of payment. Modern photographic and printing equipment has greatly aided perpetrators of this crime.

H. CHEQUE FRAUD.

"Cheque frauds is by for the commonest source of loss to the banks and their customers, involving million of naira annually. The most common of cheque frauds involved cheque that are stolen, forged, counterfeited, or altered."

I MONEY LAUNDERING

" This is a means to conceal the existence, source of use of illegally obtained money by converting the cash into untraceable transaction in banks. The cash is disguised to make the income appear legitimate".

J CLEARING FRAUD

"Most clearing frauds hinge on supervision off an instrument so that at the expiration of the clearing period applicable to the instrument, the collecting bank will give value as though the paying bank had confirmed the instrument good for payment. Misrouting of clearing cheque can also assist fraudsters to complete a clearing fraud".

K COMPUTER FRAUD

"Computer fraud can remain in detected for a long time. It can take the form of corruption of the programme or application package and even breaking into the system via a remota sensor. Diskettes can also be tampered with to gain access to unauthorised areas or even give credit to an account for which the funds were not originally intended".

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L TELEX FRAUD

This is one of the most serious crimes in banking and one that can threaten its existence. Telex fraud is not a common occurrence in Nigeria, but it usually involves huge sum of money when it occur. In recent times though, this type of fraud has become frequent in Nigeria.

Telex fraud occasionally occur when among authentic message, which are to tested and sent, by bank's telex official, sporont telex , messages are introduced. Test keys are manipulated usually with the collusion Nitel official, the of take message, after duly tested are transmitted abroad. As a result of fake

messages, money is paid to a fictitious account abroad through a correspondent bank and later cashed by the overseas collaborators.

The correspondent bank, without notice of the fraud, would credit the fictitious account after decoding the telex message".

M DIPLOMATIC FRAUD

"Diplomatic fraud involves the tapping of the account numbers of diplomatic mission by CBN (Central Bank of Nigeria) associate, thus enabling massive transfer of Nigerian Embassy funds to the personal account of syndicates world wide, obviously with a strong insider in Nigeria and fully connected with the CBN".

2.3 THE MOST COMMON TYPES OF FRAUD AND FORGERIES IN NIGERIAN BANKS.

Bank fraud and forgeries take different form f which most have been mentioned already. Amongst these, the most common in Nigerian banks are;

i. Unauthorised Overdrafts.
ii. Presentation of forged cheque. That is, cheque fraud
iii. Posting of fictitious credits.
iv. Fraudulent transfer and withdrawal
v. Granting of unauthorised Loans. That is loan fraud
vi. Receipt of forged mails
vii. Raising of spurious vouchers and illegal cash advances.
viii. Negotiation of cheque from another sister branch.
ix. Advance fee fraud ("419")
x. Computer fraud.

These types of frauds are most common in Nigeria banks for the following reasons.

Favouritism: Bank director, instead of adhering to banks credit guidelines, grant loans to advances to big men, government officials, in other to obtain a favour and sometimes such loans and advances are never recorded in the books of account

public relation; loans and advances are given to friends and family relations recklessly.

Family relations recklessly.

General lust for affluence: Most Nigerians have that get rich quick syndrome. They want to be rich over night by what ever means without necessarily having to work hard for it. Erosim of moral and ethical value: some banks staff lack morals. They ail to observe basic rules or expected standard governing the conduct as a professional body. Bad political and economic condition. The political and economic situation of the country has declines from bad to worse with naira depreciation in value with about 1, 300 percent within 5 years. This has led to Nigerians including bank staff involving in "419" that is advance fee fraud and other kinds of fraud.

Bad general supervision and management of accounts: Account are not followed up or supervised as should be thereby loans and advances sometimes end up as bad debts.

Poor analysis of loan proposals and improper monitoring of loan, negligence on the part of bank staff who feel thy cant not be tricked by fraudsters and the belief by many Nigerians that the banking sector is the most profitable sector of the economy has also contributed to these fraud.

2.4 MAJOR CAUSES OF FRAUD IN NIGERIA BANKS.

If the definition of what constitutes fraud is difficult, the identification of causes of fraud is even more so. This is to be expected for modern day fraud in banks which involves intricate and sometimes complex was of conspiracy and deception that often masks from effect.

At present in this country may people regard fraud as a sort of victimless' crime, in spite of the fact that it is the biggest cause of bank failure. Bank failure of the 1950's and early 1960's resulted largely from incompetence and internal fraudulent practices.

There are two main sources of frauds in Nigeria banking industry the internal sources/causes and external. Though distinguishable in theory, these sources are very often takes separable in practices. That is to say, a successful fraud often takes place and success as a result of the collaboration, international or unitentional (i.e due careless or error of judgement, of an insider a bank employee) indeed it was recently affirmed that the public believes and rightly too that most frauds in bank are with the active connivance of bank staff. Otherwise has does anybody explain for example, how a cheque drawn in favour of federal government of Nigeria is paid into some private account and the funds withdrawn. Or how doe one explain how a draft prepared in the name of an institution or individual is collected by a completely different institution of individual. This is an exception of the rule, it is a frequent occurrence. The source/ causes of fraudulent practices can also be classified into institutional factors, lapses or inadequacies and environmental/ societal factors and lapses.

2.4.1 INSTITUTIONAL FACTORS/LAPSES/INADEQUACIES

These are factor or causes that we can trace to the international environment of the organisation. They are to a great extent, factor within the control of the management of the bank.

The major institutional cause of fraud is poor management. This is often manifested in various way. Lack of adequate supervision is a manifestation of poor management. This causes fraud when the junior staff are in adequately supervised, those with fraudulent tendencies among them get the impression that their working environment and / or circumstances is safe perpetration of frauds

"Inadequate control in the form of effective policies, procedure and systems is indicative of poor management, when controls are inadequate, loopholes becomes glaring to the fraudulent minded operator in the system and he sees it as opportunity he must avail himself of. Few banks nowadays, however, can be said to lack the basic collection of control policies and procedures which they require for acceptable level of efficiency. The problem many times is with the deliberate skyping of the laid down regulations procedures and time tested practices of the employee's bank. This, for instance, recently caused a Nigerian bank to lose over ₦300 million.

Particularly in the banks, experience, they are liable to commit unintentional fraud by falling party of the trap set up for them by fraudsters. The in experienced operator too will be unlikely to "small the rat" and take the necessary pre-cautionary measure to nib the fraud in the bud to set the deception process in motion.

Under staffing of branches, an indication of poor management, can assist the

perpetration of frauds. When the staffs is over stretches he will be unable to work at the appropriate level of effiency. This may for instance lead to inadequate " call over" of the days postings and this the non- discovery of a fraud committed. Over loading individuals with work leads to a lack of checks and balances as well as perfunctory performance of jobs. Sometimes, the same individual authorise, post and call over a cheque involves in fraud.

The longer a man stays on a job, certain paribus, the more proficient he is likely to be. But a man can over stay his tenure on a job. When this happens, it can encourage the management in terms of promotion or financial rewards, they become frustrate. Unfortunately these frustrated workers are their own judges, for their expectation are based on their perception of their effort and contributions to the progress of the banks. Sometimes, if not most time indeed, these perceptions are jaundiced and outrightly wrong. Nevertheless they lead the employed to commit fraud and "compensate" themselves for what were due for legitimately fairly.

2.4.2 SOCIO- ECONOMIC LAPSE/ INADEQUACIES.

The bank is not island, it is an intergral part of society. It is affected, by, as well as it effects the elements in its immediate and remote environments. If the whole society of which the bank is a part , is morally bankrupt, it will be difficult, if not impossible, to expect the banks to ne insulated from the effects of such moral decadence. Our societies have debased all the old moral standard and appear to be unconcerned with probity, honesty, integrity and "good name". The family friends, the religious houses and society at large seem not to care have you come about your riches but accept, accommodate and even respect you for your wealth, however dishonestly it has been acquired. All these

encourage fraud as the end seems to justify the means, and no means seem to be morally unacceptable.

Another closely related sociological cause of fraud is the misplacement of our societal values. What society appreciates and generally worships is money. In the past people were respected and honoured for their achievement in various fields of human endeavour. To day, however, hardly doe any human achievement have value other than wealth. Thus it is a fact of our firms that "fraud has it roots firmly entrenched in the social setting and the extent of growth depends naturally on the sense of value we choose to cultivate in terms of acquisition of wealth. In effect the present high propensity to defend of the average Nigerian is the product of our materialistic society. This problem is compounded by the inordinate urge to get rich quickly. The get rich-quick mania to normally pushed the bank employee to defraud his employers as he sees that approach as the quickest too his goals.

Sometimes innocent but nevertheless wrong over estimation of bank staff and the desire of these staff to live up to the standard of such a wrong image leads to fraud . A bank clerk is sometimes referred to by a praise singer as well as friends upside the bank as a manager such as person will want to make philanthropic contribution, reward a praise singer and cater for the needs of friends and relation as much as the person with the statues and income of a manager. In most cases they can and only do this by defrauding their employers.

To some extent the inability of the law enforcement agents to detect frauds may encourage frauds. Fraudsters will be scared if they know that there

exists a good chance of their being detected otherwise there is no effective detteract. The main problems have been lack of understanding of the nature of banks fraud by the law enforcement agent, who appear to be bored with complicated details.

Lapses and inadequacies in the management control systems in the bank customers organisation often leads to frauds. If a firms customers loses its cheque book or a leaf therefore, and delays in reporting such to the bank, this document may be used to perpetrate fraud. Similarly if a firm is careless in the handling of its security materials, such as the seal, it may be aiding the perpetration of fraud using its banks accounts.

No amount of punishment is ever effective deterrent against any crime. Inadequately severe punishment for an offence, however may make the risk of engaging in crime worth the while of the perpetrator.

The use of sophisticate accounting machines and communication equipment can indeed help in preventing fraud. However, there is wide spread concern about " computer fraud mainly because of the difficulty of detection until losses have reached a large scale. The use of the useful aids must be accompanied with appropriate control system if they are not to encourage fraud by being abused fraudsters.

The encouragement of bank staff by outsider- individuals and fraud syndicates is a growing sources of fraud in banks. These outsiders have two irresistible inducements too offer to risk as far as he is concerned. Secondly, big monetary reward awaits him. The idea of making money by investing nothing and risking nothing often is irresistible to potential fraudsters.

2.5 CONTROL AND PREVENTION OF FRAUD IN NIGERIA

The banks are noticeably in the front line in the fight against financial frauds. Moreover, they stand at a point in the chain where all the frauds end up sooner or later.

It should be obvious from the catatoque of cause, nature and types of frauds that have been mentioned, that their prevention and control should be a collaborative effort involving government agencies, the operation is financial institutions management and staff, and general public as well.

a. THE ROLE OF THE GOVERNMENT AND ITS AGENCIES:

The role of the government and its agencies in the prevention and control of fraudulent practices in Nigerian banks is a herculean task, it bothered mainly on ensuring a discipline society, promulgating of appropriate status, establishing relevant institution and ensuring enforcement of various legal provision, while the major task here is to articulate the role of government and its agencies in this respect, it should be emphasized that the classic role of banking, "know your customer", is the key to preventing and controlling frauds. It is pertinent to submit that the role of preventing and curing frauds.

The War Against Indiscipline and Corruption (WAIC) launched by government, if well prosecuted and faithfully implemented, would go along way in preventing and controlling frauds in our society. This deduction is bases in the realisation that indiscipline breed all sorts of vicas including frauds. Also indiscipline and corruption in the society create false value system and funded to encourage others to want to be like the " Joneses". In an attempt to be like the Joneses, people get involves in uno orthodox means of making wealth including fraudulent practices.

The role of government and its agencies in the prevention and control of fraud in the Nigerian banking system is mainly through the use of decrease and acts. For example, the first more by the government in the control operation of the banking system was in 1952 when the banking ordinance was passed into law. This act was later amended by the banking amendment act of 1958. The central bank as the apex regulatory body was formed and on the 15th of September, 1958, the central bank act was promulgated. This 1958 act was later replaces by central bank decrease no 24 of 1992 and also by the banks and other financial institution decree No 25 of 1991. We would now discuss some of the decrease and acts which are for the control for frauds in banks.

a. BANK AND OTHER FINANCIAL INSTITUTION DECREE NO 25 1991 BOFID

The federal military government promulgated a decree on the 20th June, 1991, known as banks and other financial institution decree 25 of 1991. The arrangement of the decree is in three parts namely, establishment of banks and miscellaneous matters; other financial institution and miscellaneous and supplementary. All three parts are in a total of sixty two section. The first part of section 44 discuss on the disqualification and exclusion of certain individuals from the management of banks, section 44 (2) c state that " No person shall be appointed or shall remain a director or an officer of a bank who is convicted of any offense in volving dishonesty or fraud or is guilty serious misconduct in relation to his duties.

Sub section of further states that "Any person whose appointment with a banks has been terminates or who has been dismissed for reason fraud

dishonesty or conviction for an offense involving dishonesty or fraud shall not be employed by any bank in Nigeria".

As a way of conviction, this section of the decree declares that nay back which knowingly acts in contravention of this section is quality of an offense and liable on conviction to a fine of ₦100,000.00. Also where an offense committed by a bank under subsection 4 of this section is proved to have been committed with the knowledge or connivance of any officers, the officer shall on convicting be liable to imprisonment for a term not less than five years or fine of ₦50,00 or both.

Subsection 1 of the section stated that it shall not be a defense for any director, manager or officer of a banks to claim that he is not aware of the provision of subsection 4 of this section except he can prove that he had obtained prior clearance of such person from the secretary of the bankers committee who maintain a register of terminated, dismissed or convicted staff of banks on the grounds of fraud or dishonesty.

The BOFID goes a long way in controlling fraud especially in the banking sector by providing adequate penalty for officials who defraud the bank thus serving as a deterrent to others who may have the mind of defrauding.

(b) COMPANY AND ALLIED MATTERS DECREE 1991.

Section 254 of the CAMD 1991 focuses on the restraints of fraudulent persons.

It started that where in the course of winding up a company it appear that a person otherwise been guilty , while an officer of the company, if any fraud in relation to the company or any of his duty to the company, the court shall make

an order that, that person shall not be a director or in any way, whether directly or indirectly, or take part in the management of a company for a specified period not exceeding ten years.

Section 270 of the decree states that any person disqualified under section 254 above shall be disqualified from being a Director.

Section 258 states that the office of the Director shall be vacated if the Director among other reasons becomes prohibited, from being a Director by reason of any order made under Section 258 of this decree.

The mentioned section of the decree stand as a way of controlling fraudulent behaviour amongst Directors and other officers of the company. Any Director or Officer who has been connected of fraud will not be able to participate in the management of a company. This stands as a deferent to others who may be nursing the same ambition.

© ***THE FAILED BANKS (RECOVERY OF DEBT) AND FINANCIAL MALPRACTICE IN BANKS DECREE, 1994.***

This decree made provision for a tribunal to try offenses specified in Section 44 of the banks and other financial institution decree 1991.

Section 19 of the decree provides that any Director, Manager, Officers or employee of any bank (either failed or not) who knowingly, recklessly, negligently, wilfully or otherwise rants, approves a loan or credit facility or financial accommodation to any person is guilty of an offense. Appropriate sanctions ranging from 3 t 5 years imprisonment is imposed and the tribunal may order the confistication of the accused's property.

(d) SECTION 418 AND 419 OF THE CRIMINAL CODE

This section deals with offenses of false pretense. Section 418 define false pretense as any representation made by word, writing or conduct of a matter of fact and where the person making it is known to be false or is not believed to be true.

419, describes false pretense as "any felony committed where a person by any false pretense with intent to defraud from any person anything capable of being stolen or indices any other person to deliver to any person anything capable of being stolen".

This Section of the criminal code stand as a way of controlling the popular fraudulent behaviour other wise known "419". This effort is quite commendable. The main way it can be controlled is by way of public enlightment, but the prosecution of offenders will likely stand as a detriment to others who are nursing the plan of going into it.

The effort of the government in controlling this fraud called "419" is also displayed by promulgating the advance fee fraud and other fraud related offense degree 1995.

(e) THE C.B.N/N.D.I.C.

The subject frauds in the banking system is of special concern to the manutary and supervisory authorities, particularly the C.B.N. ad N.D.I.C. These government agencies are concerned about the safety of individual institution and the soundness of the banking system. Most especially, the NDIC is specifically charged with the responsibility of protecting depositors.

Accordingly, Section 39 and 40 of the NDIC Decree No. 22 of 1988 place the insured banks in Nigeria, the responsibility of rendering the corporation monthly returns on frauds forgeries or out right theft occurring such month and notifying the corporation of any staff dismissed, terminated or adversed to retire on grounds of fraud. This no doubt is aimed at preventing and controlling frauds in banks.

The prudential regulation of the CBN/NDIC to banks are also aimed at preventing and controlling frauds. For example the condition in the prudential guidelines for licenced banks that all banks should review their credit portfolios quarterly would help early detection of fraud, forgeries and financial malpractice relating to loans and advances granted under suspicion circumstances.

CBN and NDIC examiners supervise banks not only to ensure that they are operating according to the rules ad regulation of the industry and that they are healthy but also prevent and detect frauds. In this respect, the agencies have powers to deal with members of a banks' board and management who are found to have grossly violated the government code of conduct or who are found to have engaged in financial malpractice, or have condone such offenses off other erring staff. In effect, examination recommendation emanating from the C.B.N. or NDIC must be treated with all seriousness by the banks must receive the backing of the board of Directors, management and share holders of the affected bank.

There is also the statutory requirement for banks to employ external auditors to check their books and affairs. Their appointment and termination is subjected to the approval of the C.B.N. So that banks will not exercise undue

l influence on them.

OTHER PREVENTING AND CONTROL MEASURES

Obviously, a bank is essential for any commercial fraud. The Central Bank in the major trading countries must show more interest in the supervision of Commercial and Merchant Banks while banker must be on the importance of banks as vital financial institutions. Co-operation in the fight against fraud is growing. The best weapon is information. Better collection, exchange and use of intelligence is equally significant.

Tighter controls on financial markets and of course, the exchange of information about new developments can also prevent frauds.

It is also of recent that the Banker's Association and the Nigerian Government began to take a hard look at the proliferation of fraud in this country and the abuse of Nigerian base markets. The most notable stop lately is the setting up of a data bank for an integrated computerised screening of distinctive borrowers with a view to weeding out chronic inter-bank debtors. The assistance of the criminal investigation department, with accountants and other experts working to help the police to identify and prevent frauds, is an important step. More pressure should be mounted on the press to see that the villains are brought to book.

To avert instances of abuses by board members and management, one would at this stage, recommend the American Filipino model called "DOSRI" which states that a banks board members or management staff should not interfere with any process for granting loans and advances to customers.

Through the rigorous application of the principle of DOSRI (Directors, Officers, Stockholders, and Related Interests) bank could help alleviate chronic problem of favouritism in granting and retrieving loans, unhealthy recruitment and promotion, which more often than not have resulted in the collapse of many banks around the world. DOSRI seeks to prohibited board members and other key officials of the bank from direct borrowing of money from their particularistic bank either for investment purposes or even housing loan once retrieval prospect would appear to be bleak, particularly among the non-share holding director.

In the Nigerian instances, several board member and even management staff who revere loans seldom pay back promptly, and that could be crippling to the overall rollable capital of any young bank. A case in point is the Ondo State Government owned Owena Bank.

Furthermore, fraud prevention should also include:

(I) Surveillance over long-serving officer in entrusted position;

(ii) Thorough auditing, investigation, monitoring, action and publicity;

(iii) Sound management through effective checks and balances system, management information system and review procedure;

(iv) Combating telex fraud by ensuring that officials sending telex messages are constantly checked to ensure that only genuine messages are transmitted.

(v) The need to be wary of spurious letters of credit. Overseas supplier have been receiving forged letters of credit individual in this country. Such letters of credit are usually accompanies with forged "bank draft" on the reserve of which are fake endorsements which guarantee payment for

the adequate protection of overseas suppliers who are becoming increasingly agitated about this type of fraud and more careful in parting with their goods without receipt of payments, our foreign mission should be brought in as counter checks.

(iv) Checking of cash frauds: Customers play a very vital role in helping banks to combat this menace. Bank should furnish their customers with the statements of their accounts regularly and customer should promptly reconcile their statements and query missing or reduced item.

(vii) The renewal of the finding of internal and external auditors and regulatory examiners as well as the progressive and continual monitoring of the responses to their finding to ensure appropriate follow-up measures.

(viii) Foreign exchange malpractice; the problem of foreign exchange fraud are still very much with us. To this effect the Federal Military Government introduced stringent measures to curb unlawful trafficking in foreign exchange, and especially with respect to keep two separate records of weekly return and statements of forex operation by authorised dealers or banks.

(ix) Banks should watch out for unscrupulous printing of Bank stationery and carving of bank rubber stamp.

(x) The role of inspection, to prevent frauds: Every bank must maintain an efficient internal control system in order to safeguard resources check the accuracy and reliability of accounting data, promote operational efficiency and ensure strict adherence to corporate policies.

(xi) The bank staff should be properly screened before being employed.

(xii) Periodic rotation of staff without leaving anyone on one function for too long a period, so as to forestall the possibility of exploring existing operational loopholes and short comings for personal gains, also help to prevent fraudulent practices.

(xiv) All outward clearing checks should be scrutinized daily, before despatch with particular attention being paid to large/unusual cheques and indication of cross firing or kite flying. When any unusual item is noticed, the paying bank should be altered immediately.

2.6 FOREIGN AND NIGERIAN EXAMPLES OF FRAUD

FOREIGN FRAUD

In recent years, fraud has been the biggest single cause of banks failures all over the world. In 1984, a United State congressional committee reported that out of 75 Commercial Banks failures between 1980 - 1983, 61% involved criminal misconduct by insiders and 455 criminal misconduct as a major factor. Furthermore, history has revealed that between 1914 and 1929, fraud accounted for 63% of the total number of identified causes of bank failure in the United State. In the United Kingdom also, the average loss from bank frauds in the 1980's was approximately f200 million pounds.

The risk of computer fraud has increased especially in the development countries which have virtually become "cash less societies" because of their periodic recourse to cheques, credit cards, and more recently the electronic Monetary Transfer system which enables subscribers transfer funds quite

speedily from one location to the other.

For example, one will published fraud in the United State, involving a multi-million dollar fund transfer, only came to light when the bank concerned was contacted six days later by the Federal Bureau of Investigation (FBI) to ask whether it was short of 10 million dollars. Another case involves a computer consultant in a Los Angeles bank who obtained the bank's electronic transfer codes and transmitted 10 million dollars into a Swiss Bank account.

Another example, of fraud in the United States is through the use of the so called "Computer Virus" where the system is broken into by taking all the vital information from the bank and completely erasing their accounts. A very young American who specialised in this area, become and instant millionaire after a couple of tries in the 1980s.

(a) National Bank of Nigeria (NBN)

This is a 58 year old enterprise and the first indigenous African Bank to be incorporated in 1934 with a share capital of ₦10,000.00 (₦20,000.00), out of which f500 (₦1000.00) ₦ was paid up. This was a very good start as far as banking business is concerned, but to everybody's surprise it became the first bank to be insolvent.

The bank problem started in 1965 when "every westerner sees it as a right to go and get a loan without strong collateral", said a former manager of the bank. Before 1987 was in serious financial mess, according to the report by the National Bank Reconstruction Consortium.

With the withdrawal of public sector deposits from the banking sector in Junne 1989, thing became more critical for the bank. Many of the lossses resulted from bad lending policies and fraudulent practices by the bank staff. By April 30, 1990, about 70% of the bank's liabilities, totaling more than ₦1 billion were due but very little could be realised from its assets to remedy the critical unfavorable liquidity situation. Loans advances were being given out with utmost carelessness. For example, it was discovered that about 40% of all loans advanced by the bank had been under very suspicious circumstances while up to 20% had gone to businesses which had either liquidated or were simply no longer able to pay back because of the economic down-tune by the end of 1990. Approximately 86% of all loans were virtually uncollectible, this had amounted to a whopping ₦933 million as against ₦200 million fairly active loans.

According to the Central Bank of Nigeria examination. In 1990, five percent (5%) of the total classified assets were substandard, 29% of doubtful standard while up to 66% were categorized as totally lost. This was as a result of bad management and fraud perpetrated mainly from within. Furthermore, in June 1989, the banks liquidity position was negative at minus 2.96%. This was primarily because more loans were made by the branch manager quite illegal and outside statutory regulations.

For example, a district manager of the BE was believed to have collated with an Akure - based industrialist in 1989 to defraud the bank about ₦3 million. This is a case of internal-cum-external fraud. By 1990, the bank's total classified assets, to loans, that is those that may not be recovered, amounted to ₦9.33 billion, representing about 86% of its total loan port folio. In 1990 again, a loss

of ₦538 million was recorded. All these problems, together with others, made the bank insolvent and led to its being placed under receiver shy in spite of a massive objective of a total of ₦625 million both by the CBN and the NDIC between 1990 and 1991.

b. OWENA BANK

With most state owned banks, notably the Owena Bank of Ondo State, politics other than professionalism or profit motive has been the guiding principle in recruitment, posting, promotion and even for the acquisition of assets and disbursement of loans and advances. This, many such government owned financial outfits spend most of their earnings on staff salaries and welfare. Board members and management staff who receive loans rarely pay back promptly and that has affected the overall capital base of the young back, whose total outstanding staff loans as at February 1993 amounted to over ₦60 million, far exceeding the banks actual total paid up share capital.

These staff loans disbursed by Owena bank and almost all the major Nigerian banks where governments have controlling shares, were invariably secured at a law interest rate of two percent; and more often than not, such loans were never used for what they were initially intended, and sometimes they were improperly used or even embezzled.

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c. *LOBI BANK OF NIGERIA LIMITED*

Another bizarre example of fraud is that which took place on the victoria

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island branch of Benue State - Owned Lobi Bank of Nigeria Limited which was also taken over by the Centra; Bank of Nigeria (C.B.N.) in September, 1995.

On February 2, 1998 the owners of Lakar Investment Limited opened an account with the branch for the period of its existence the account was illegally funded mostly by credit transfer from the C.B.N. such transfers were usually accompanied by C.B.N. advices.

By 1993, however, there was aNovember 3, 1998 scare when the C.B.N. debited the accounts of Lobi Bank with the C.B.N. putting it in the red inquiries later traced the amount, said to be in excess of ₦300 million callar's investment account with the victoria island branch of the banks. After several negotiation, the C.B.N. admitted that the amount was fraudulently, transferred into the account and that it was not the fault of Lobi Bank. But lobi bank was still asked to pay the interest due to the C.B.N. for the period that the banks account was in the red. The interest alone amounted to more than ₦200 million.

The bank was not to recover from that trauma, rather managers and senior officials of the bank were said to have help themselves and their friends to huge and unsecured loans. In the Victoria Island branch alone such secured loan amounted to ₦22,848,779.28 million.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

The study is basically a kind historical as well as decisional research. It is historical because it address itself to the determination ,evaluation and explanation of past trends of the impact of fraudulent practices on the Nigeria banking system for then purpose of gaining a better and clearer understandings of the present and scanning for a more reliable production of the future trends and policies. On the other hand, it is decisional in the sense that it seeks to provide information that would be helpful in tackling then problems of fraud and forgeries in our banking system as a whole for now and for then future. Also, to some extent that the study seek to establish a degree of relationship between a number of variables, it may be said to be an analytical research as well.

Being historical in approach, the main sources of data and information are public document. A large portion of which are those especially drawn from the central bank accrual reports and statement of account, central bank bullion and brief NDIC annual report and some banks annual report.

Part of the study that are largely of a theoretical orientation have been substantially from the works of prominent scholars and authors for more current information on then trend of fraud and forgeries in the economy and for some current views on the subject matter of then study generally the study draw a lot from journal, Newspapers and magazine.

However to ensure that data reported here are relevant to the purpose of the study, some of them have to be arranged in a different form the original ways in which they appear. This involves dropping these as part of original data that are considered and introducing new feature where such features are considered relevant for our analysis.

Finally it must be borne in mind that the sources of data use is a secondary data as I cannot claim the orignality of the materials.

3.2 SOURCES AND METHOD OF DATA COLLECTION

The data used for this research are obtained from secondary sources. These sources include; published lecturers central bank of Nigeria annual report; published lecturers, central bank of Nigeria annual report and statement of account central bank of Nigeria (C.B.N) publications such as the bullion, CBN financial review, Nigeria Deposit insurance corporation (NDIC) quarterly, business journals, articles etc

A large portion of tables are dawns from the annual report of the Nigeria deposit insurance corporation (NDIC), and some publications of the chartered institute of bankers as well as the Newswatch magazine.

3.3 POPULATION AND SAMPLE OF THE STUDY

By population, this means the totality of persons, firms items or variable under study. In this case, the entire banking system is the population of the study. A sample on the other hand, means a part of the population under study selected so that inference can be made from its about the entire population.

The population and sample of this study includes the number of banks with frauds and forgeries and the actual/expected losses, the incidence of failure of banks and the number/categories of staff affected by fraud cases.

3.4 METHOD OF ANALYSIS

The statistical method used for the analysis of data in this research include such statistical measures as average and percentage in the variable of the study.

The table 4.1.1 shows the number of reported fraud and forgery cases in commercial and merchant banks on a quarterly average bases for each year, i.e (1990-1994).

According to table 4.1.1, it will be observed that in 1990, a quarterly revere of 23 commercial banks had fraud cases. In 1991, the figure dropped to 20 but as from 1992 to 1994 respectively.

Fraud and foreign cases appears to considerably lower in merchant banks than in commercial banks, this was to be expected because of the retail mature of commercial banks function.

The table shows the number of merchant bank with cases of fraud and forgeries on a quarterly average basis for each year. In 1990 it, was 3, in 1992 it was 4, there were 5 banks

with fraud case in 1992, in 4 1993 and 5 banks with cases of fraud in 1994. The quarterly averaged of number of merchant banks with cases of fraud and forgeries ranged between 3 and 5 during those years.

The Nigerian deposit insurance corporation observed over the years that out of 10 banks with fraud cases, about 9 are commercial banks. Table 4.1.1 also proves this by sharing a significant increase of 40% in the number of commercial banks with fraud case, between 1993 and 1994.

The quarterly averages of number of banks with fraud cases is calculated using the formular;

$$\frac{\text{Number of banks with fraud cases for the whole quarterly}}{\text{number of quarters.}}$$

4.2 AMOUNT INVOLVED IN BANKS FRAUD AND FORGERIES (ACTUAL/EXPECTED LOSS) from 1990 -1994

The magnitude of then loss arising from bank frauds and forgeries is on the increase. Bank frauds in Nigeria have been averaging over ₦100 Million annually for the past few years, Notably, government owned banks suffer the most considering the general attitude of Nigerian that government owned outfit are only meant for individual self enhancement

Table 4.2.1

BANK FRAUD AND FORGERIES IN NIGERIA(1990-1994)

	COMMERCIAL BANKS			MERCHANT BANKS			
	Amount Involved	Actual Expected Loss	Ratio of Actual expected loss to amount involved	Amount Involved	Actual expected loss	Ratio of expected loss to amount involved	Total actual expected loss
YEARS	(N'M)	(N'M)	(%)	(N'M)	(N'M)	(%)	(N'M)
1990	788.08	22.45	2.9	15.40	0.033	0.2	22.48
1991	450.19	25.50	2.9	28.32	1.18	4.2	26.68
1992	351.93	64.80	18.4	59.32	8.31	13.9	73.11
1993	1377.15	241.00	17.5	41.92	5.37	12.8	246.37
1994	2655.71	883.55	33.3	43.68	67.10	9.0	950.65
	5533.78	11237.3		888.64	81.993		950.65

Source:

i. NDIC Annual Report and Statement of Accounts.

ii. "Policy" Decision Makers Magazine, Vol. No. 7, December 18, 1995.

Table 4.2.1 above shows the amount involved in fraud cases and the actual/expected loss from 1990 - 1994, for both Commercial Banks and Merchant Banks.

The table equally calculation of the percentage of actual/expected loss to the amount involved. The percentage is calculated by evaluating.

$$\frac{\text{Actual/expected Loss}}{\text{Amount Involved}} \times \frac{100}{1}$$

Cases of frauds reported by Commercial Banks in 1990 involved 788.80 million out of which actual/expected loss was ₦22.45 million, that is 2.9% of the amount involved. The amount involved in fraud and forgeries in 1991 was ₦360.19 million and the actual/expected loss was ₦25.50 million showing not much difference with that of 1990. The ratio of actual expected loss to amount involved stood at 2.9% just as it was in 1990.

The sum of ₦351.93 million was involved in frauds and forgeries in 1992 compared with ₦360.19 million in 1991. This represented a marginal dueling of 2.3% in 1992 from its 1991 level. The actual/expected loss, ₦64.8 million in 1992 more than doubled the actual/expected loss of ₦25.50 million in 1991. There was a rise of 189.3% in 1992 over the 1991 figures of actual/expected losses, to amount involved in the incidence of frauds because the figures for the succeeding years reveal a very seep rise, particularly in 1994.

In 1993, ₦1377.15 million was involved in frauds out of which ₦241.00 million resulted in actual/expected loss. There was an increase of ₦1025.22 million in the amount involved in fraud as against ₦351.93 million in 1992. Company 1993 with 1994, the amount involved was ₦1377.15 million in 1993

as against ₦2655.71 million in 1994. The actual/expected loss for 1994 was₦ 883.55 million, that is 33.3% of the amount involved for that year.

Fraud and forgery appear to be considerably lower in merchant banks than in commercial bans. The amount involved in 1990 was ₦15.40 million. While the actual/expected loss was ₦0.033 million. In 1991, the amount involved was ₦28.32 million while the actual/expected loss was ₦1.18 million. In 1992, the amount involved rose sharply to ₦59.32 million with an actual/expected loss of ₦8.31 million. By 1993 the amount involved in fraud and forgeries had dropped by ₦17.4 million to ₦41.92 million with an expected loss ₦5.37 million.

In 1994, the figure were by ar far larger. The amount involved was ₦743.68 million and the actual/expected loss of ₦67.10 million which indicate that there was high incidence of fraudulent practices in the industry in 1994.

It is evident from table 4.2.1 that a total of ₦6422,42 billion was involved in bank frauds in the period 1990-1994, out of which commercial banks account ed for 86.2%. The actual/expected loss to the banking system within the same period totalled about ₦1319.30 billion with commercial banks taking the largest share of 93.8%

TABLE 4.3

NUMBER OF BANK STAFF INVOLVED IN FRAUDULENT PRACTICE AND THEIR RANKS (1990-1994)

MEMBER OF STAFF INVOLVED IN FRAUDS AND FORGERIES

S/NO	RANKS	1990		1991		1992		1993		1994	
		No.	%	No.	%	No.	%	No.	%	No.	%
1	Supervisor & Managers	57.0	15.7	66.0	12.8	132.0	30.3	127.0	24.6	211.0	28.6
2	Officers, Accountants & Executive Assistants	45.0	10.8	60.0	11.7	66.0	15.1	56.0	10.9	144.0	19.5
3	Clerks and Cashiers	207	49.6	236	45.9	136	35.8	192	37.2	220	29.9
4	Typist, Technicians and Stenographers	8	1.9	47	9.1	9	2.1	34	6.6	24	3.3
5	Messengers, Drivers, Cleaners, Security Guard and Stewards	68	16.3	51	9.9	54	12.4	61	11.8	108	14.7
6	Temporary Staff	2	0.5	24	5.8	--	---	6	1.2	2	0.3
7	Unauthorised Staff	30	7.2	30	5.8	19	4.4	40	7.8	28	3.7
	TOTAL	417	100	514	101	436	100	516	100	737	100

SOURCE: NDIC ANNUAL REPORT

Table 4.3 shows the ranks and number of staff involved in fraud and forgeries, who also were dismissed, retired or had their appointments terminated on account of fraudulent practices in their banks, from 1990-1994. The table shows that a total of 737 staff of banks were dismissed, retired or had their appointment terminated because of their involvement in fraud and forgeries during 1994 as compared with 513, 435, 414 and 417 in 1993, 1992, 1991 and 1990 respectively. Fewer staff were involved in 1992, as compared to 1991 and 1990 but the actual/expected loss was larger, revealing that, probably more sophisticated methods are being employed.

In 1994 alone about 737 staff lost their jobs for their involvement in fraud. 78% of the staff involved, constitute the core grade of staff in the banking operations. Supervisors/managers constituted 28.6%, officer/accountant/executive assistants constituted 19.5%, and clerks/cashier, 29.9%. Other ranks of staff accounted for the remaining 22%.

In 1993, number of staff involved in frauds and forgeries was 516, with the core grades of staff as well, making the most percentage of staff involved. Supervisors/managers constituted 24.6%, officers/accountants/executive assistants accounted for 10.9% and clerks/cashiers had the largest shares for any category of staff at 37.2%. These three categories of employees accounted for 30.3, 15.1, and 35.8 percent, 12.8, 11.7, 45.9 percent and 13.7, 10.8, and 49.6 percent respectively of total staff involved in 1992, 1991 and 1990. It will be observed from the table, that clerks/cashiers had the lion share for all the categories of staff involved in fraudulent practices for the period 1990 to 1994 and that a total of 2620 staff of banks lost their jobs.

4.4 EFFECT OF FRAUD ON THE NIGERIAN BANKING SYSTEM

(a) Loss of Monies to the banking system:

From table 4.2 we could observe that the actual/expected loss in banks in recent years is on the increase. As at 1994 alone the banking industry experience a loss of a total of ₦1319.3 million in both commercial and merchant banks.

Frauds in banks usually always leads to loss of monies. This loss results, ion some cases, in reduced level of resources available for use in the operations of the bank. It is on record that millions of Naira are lost to fraud and forgeries every year. This leads to loss of confidence in the banks and reduced patronage, which results in a major set-back in the banking business. Loss of monies also affects the banks profitability.

(b) Loss of trained/experienced staff:

Although compared to the total number of bank employees nationwide, those involved in fraudulent case from 1990 to 1994 in Table 4.3 may seem insignificant, but what attracts attention and generates serious concern is the categories or ranks of staff involved and more of the middle and senior or management staff of banks are increasingly being attracted by the level of frauds and forgeries.

It is common knowledge that no fraud can succeed without the active collaboration of bank staff with customer of doubtful integrity. While some of the frauds and forgeries are the handwork of outsiders, most are perpetrated by the staff of banks concerned. As a result of this very serious economic crime to the banking system, some staff in the industry have been laid off.

of fraudulent practices and majority of them are supervisors, managers, officers, accountants, clerks and cashiers. This means that some experienced/trained hands in the industry are lost due to their involvement in frauds and forgeries.

c. Bank Failure:

In every bad cases where frauds occur with crippling frequency and in whole sales sizes, the bank may be forced to close down as a result. At present in this country, many people regard fraud as a sort of 'victimless' crime, in spite of the fact that it is the largest cause of bank failures just as table 4.4.0 shows below.

TABLE 4.4.0

BANK FAILURE IN NIGERIA (1990-1994)

Year	1990	1991	1992	1993	1994	1995
No of Banks	9	8	16	33	47	57

Bank failures of the 1995 and early 1996's resulted mainly from incompetence and internal fraudulent practices. More recent example include, notably, the government owned indigenous banks, such as the African Continental Bank, the National Bank of Nigeria, the Owena Bank and the Orient Banks which have collapsed, are under receivership or have their statutes formally questioned by the Central Bank of Nigeria and the Nigerian Deposit Insurance Corporation.

d. Bank Run:

It should be recalled that; unlike in the United States where unit banking is practiced, and where the collapse of one bank can cause a run only on the banks within the same community, the Nigerian Banking system, is structured after the branch banking system. Branch banking is characterised by one bank having one head office and a network of branch spread throughout the country, and even abroad. Consequently, the failure of one bank may send negative signal to the entire industry which may result in a run on other banks throughout the industry.

The role of banks as financial intermediaries involve channelling funds from surplus to deficit units of the economy. The ability of banks to mobilise funds form depositors depends on the level of confidence the depositors have in the banks.

TABLE 4.4.1.

CAPITAL REQUIREMENT OF INSURED BANKS (1990-1994)

Bank Category	Number of Banks					Adjusted Shareholders Funds					Capital Requirement				
	1990	1991	1992	1993	1994	1990	1991	1992	1993	1994	1990	1991	1992	1993	1994
Commercial Banks with Government participation	23	24	25	24	24	1129	1406	3288	4511	8428	1789	2233	4770	4953	1022
Non - State Govt Owned Commercial bank	25	30	41	42	41	1851	1478	2119	3220	5996	200	221	283	474	2063
Merchant Banks	33	46	54	54	51	1898	1409	879	1014	2213	106	95	500	3670	4392
All banks	81	100	120	120	116	2620	290	290	1723	4645	1448	9171	5553	9097	1666 81

SOURCE: (i) NDIC Annual Report and Statement of Account
(ii) "Policy" The Decision Maker Magazine.

e. Eroded Capital base and Shareholders Fund

Loan fraud has contributed immensely to the erodement of the capital base of banks and the share holders funds. This has in turn effect been drag on the banking industry. In the 1997 budget, the federal government raised up the minimum capital requirements of banks to ₦500 million, giving them two years to comply. The rationale for the greater focus on capital adequacy is not surprising. Capital and earnings are a bank's most dependable cushion against loans-losses. Several board members and even management staff who receive loans seldom pay back promptly, and that could be rippling to the overall rollable capital of any young bank. An example is the Ondo State Government owned Owena bank.

Over the years, Nigeria Commercial and Merchant banks have failed to meet the prescribed ratio of classified loans and advances to shareholders, fund for banks which basically require a maximum ratio of not more than 100 percent loans and advances to shareholders fund. In fact, instead of an improvement in their capital base, under-capitalization abounds. This is due to the issuance of improper loans to insiders, embezzlement of loan proceeds, or loan payments and improper use of loan proceed other than state business used.

In table 4.4.1 for instance commercial banks with state government participation recorded negative shareholders funds from ₦1129 billion in 1990 to ₦8428 billion in 1994 or 646.1 percent "negative" from ₦1789 billion in 1990 to ₦10226 billion in 1994 or 471.6 percent growth in capital requirement.

CHAPTER FIVE

5.1 SUMMARY

The choice of then topic of this research. The impact of fraudulent practices on the Nigeria banking system was influenced by the high rate of increase in fraud and forgeries in banks, with accompanying huge losses of monies, trained staff, and bank insolvency. Also, the high rate of sophisticated employed by fraudsters. The study sought to evaluate as well as identify the major causes of fraud and its impact on banks and proffer possible solutions to minimise fraud. The need for a stable, fraud free, honest and profitable banking industry is considered as a justification for this project.

It is an established theory that the banking industry, is the backbone of any economy. A healthy and efficient banking system can effectively assist an economy to grow. But many banks today have either failed or are in distress; the major reason being fraud and forgeries. The method adopted by the fraudsters continue to increase and acquire greater sophistication. Categories of perpetrators include, external and internal perpetrators. The list of the types of fraud perpetrated by these fraudulent is intending but the common types have been high lighted in this study. It is for the purpose of ensuring an efficient, stable and effective banking system that the government established the central bank/ Nigerian deposit insurance corporation and its agencies as well as other institutions to regulate and supervise the banking industry. References to fraudulent cases in foreign countries is made so as to relate it to the situation in Nigeria.

The population of this study hae been defined to include the totality of the banking system, with a focused on commercial and merchant banks. These include the, number of banks with cases of frauds and forgeries, the amount involved as well as the actual/expected losses. Data obtained from the NDIC annual report and statement of account reveals that as at 1994, the number of banks with fraud cases stood at 38 for commercial banks and 5 for merchant banks, taking a quarterly average of both. The actual/expected loss for both commercial and merchant bankers, as at 1994, was ₦1237 million and ₦81.993 million respectively. More over, the data shows that majority of the staff who are engaged in fraud and lost their jobs as well, were those of the higher ranks. In 1994 alone 737 members of bank staff were relieved of their jobs. The incidence of bank failure as a result of fraud was also remghant within the period of our study.

An analysis of the effect of fraud and forgeries on banks in Nigeria shows that Hugh sums of money were lost to fraudulent. The banking system also loosed some retrained and experience staff. Bank fraud also leads to banks run, depletion of capital bases of banks and shareholders funds. All these leads to banks failure. As at 1995 the number of failure banks was 57. Fraudulent practices also leads to public loss confidence in banks resulting in low patronage.

5.2 CONCLUSION

It is evident from then increasing number of banks with frauds cases, the high amount of losses of monies, the categories and number of staff

dismissed, the loss of public confidence resulting in bank run and the failure of many banks in recent years, that fraudulent practices has had a very serious impact on the Nigerian banking industry. The industry has invariably become a "believe of activities of fraudster. This canker worm" caulked fraud has eaten deep into the banking system so that the activities of the perpetrations have become so complicates, that it can hardly be eradicated except of course be minimized and controlled. It is therefore expedient that the emphasis of banks inspectors be directed to preventive inspection so as to minimise the possibility of frauds that could involve the bank in huge losses.

The considerable increase in the number of banks with frauds cases should be of more concern to the banks managment as well as the regulatory authorities (C.B.N and NDIC),o as it poses a danger to the health of banks. Bank distress and failure seems to be deadly- virus sweeping through the industry like a fornado knocking many banks off their feet.

There should be more reason to forecast more banks failure by the year 200 going by the fact that many banks have collapsed or become insolvent in recent years. As at 1995 the figure was out at 57. Fraudulent practices is one of the major causes of bank failure and it is just unimaginable that highly qualified and experiences professionals that are sound in banking business, are also co perpetration with outsiders, of this crime.

Furthermore, with increasing decrease and regulations, and prosecution of person involved in frauds and forgeries, in recent times, it is expected that the existence of fraus in our banks would be reduced to the barest minimum.

Conclusively, no matter the control measures that ate adopted by any banks, it must be realised that fraud could be minimized once there obtains a greater sense of discipline, accountability and patronisim within the wider Nigeria society.

5.3 RECOMMENDATIONS

Based on the analysis and the foregoing conclusion some measures may be necessary in order to prevent and control frauds in the banking industry.

i. The federal government should intensify efforts to ensure strict vigilance and monitory of banks activities as well as prosecute offenders. They should encourage public honesty and probity by removing corrupt leaders from office. They should also ensure that affected officer of bankers are jailed and forced to return back what they have defrauded and embezzled. This kind of harsh measures will discourage people from engaging in the habit.

Through the federal government has presently become quite aggressive in the fight against frauds perpetrators, they should not in any way relent their efforts. Activities of banks should be closely supervised by the central bank of Nigeria and the Nigerian deposit insurance corporation.

ii. The perpetrators of banks fraud must be made to refund all the money involved before their dismissal and where they cannot pay, all their property should be confisticated and sold to repay the money involved.

iii Chief inspectors of commercial banks must endeavour to work hand in hand with the police during investigations of frauds which must be handled promptly.

iv. Bank management must build in safeguards in all aspects of its operation. These safeguards must be subject to regular review, effectiveness assessed, and compliance ensured.

v. Sufficient background information should be sought and obtains before employing their personal and before opening account for customers, their locus- stands must be known.

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