EFFECTS IF FRAUD IN THE BANKING INDUSTRY
(A CASE STUDY OF UNION BANK NIG. PLC)

BY

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CERTIFICATION

This is to certify that this project titled "Effects of Fraud in The Banking Industry (A Case of Union Bank Plc", By Umaru Ismaila Alinbashari meets the Postgraduate School regulatioss governing award of the degree of Masters of Business Administration (MBA) of Ahmadu Bello University, Zaria and it is therefore approved for its contribution to knowledge and literature presentation.

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DECLARATION

I hereby declare that all the references made in this research work are duly acknowledged.

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Signature Date

DEDICATION

This project work is dedicated to my father Alhaji Umaru Alinbashari and my mother Hajiya Fatima Umaru Alinbashari.

ACKNOWLEDGEMENT

My first gratitude is to Allah (SWT) the creator of everything and everyone.

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ABSTRACT

Financial malpractices in the banking industry simply refer to all forms of ill practices perpetrated in the banking by the staff or outsiders. Such acts are fraudulent which erode the capital base of the affected banks and no bank for now is safe from it only that the magnitude in some cases is mi8nimal compared to others. Due to diverse effects of these fraudulent acts, various forms of checks are instituted and penalties noted out to offenders. The activities of the banks tribunals is a clear instance of such measures.

In getting facts for this study, lots of works done on related topics are studied and various journals are used that have authoritative information on the subject . The journals consulted are mostly that of banks, supervisory authorities and in some cases view if bank staff are sought on issues that need clarification.

Fraudulent practices are perpetrated in all sections of any economy, no government will be sitting idle watching its economy crumble via fraud. Measures are put in place to check this act but this could only minimize it if it is as well implemented.

Government's contribution in checking the malpractices in banks is in the provision of laws and institutions with responsibility of monitoring this financial institution. The banking institution themselves are much in the war against these malpractices to save the institutions from collapse.

In conclusion, large amounts of money are being lost by the banks through fraud. It is recommended that though there exist laws and checks against this malpractices, such laws should be enforced in its strict form and reviewed regularly to avoid certain loopholes that would be taken advantage of.

CHAPTER ONE

1.0 **INTRODUCTION**

Banks all over the world have through their unique position in an economy, contributed immensely to the economic growth and development of a nation. Therefore any problem that tends to hinder their operation such as 'fraudulent practices' is often viewed with seriousness. For long, Nigeria's financial system has suffered from fraudulent practices perpetrated by bank employees, people outside the banks as well as cooperative bodies. This situation became worrisome between the periods of 1992 – 1995 with unprecedented upsurge in bank fraud, particularly with the New Generation Banks (NGBs). These malpractices have led to unhealthiness and technical insolvency of Banks and total collapse.

Bank frauds all over the world were perpetrated essentially for selfish economic benefits. Thus, according to Ajamole (1990) in (Emergence of Computerized Banking) he defined fraud "as an act or course of deception, deliberately practiced to gain unlawful or unfair advantage to the detriment of another". Any act of unfair dealing whether against the bank by its customers or against the bank by its officers or against the customers by the bank, (including its officers) is regarded as fraud. Various fraud practices have been reported and most of these cases have been tried in various courts and bank malpractices tribunal. Since the introduction of the Failed Bank Tribunals, some measures of sanity now reign in the banks.

Economists, see fraud as leakage in the economic system. Sometimes fund got through fraudulent practices are not invested into the system, Investors are scared,

while funds from fraudulent practices are not put into productive uses. This project i.e Bank frauds prevention and control is presented in five chapters whereby chapter one will cover the introduction, aims and objectives, significance of the study, limitation and hypotheses. Then, chapter two examines the conceptual issues and literature reviewed. While chapter three attempts to analyze the nature and dimension of fraud, reported cases of committed fraud and the categories of staff or customers involved therein. Chapter four examines detection, causes, effects of fraud and prevention and control. Lastly, chapter five shows the summary, conclusion and recommendation against fraud practices in Nigeria Banking System.

1.1 SIGNIFICANCCE OF THE STUDY

The significance of this study is in the fact that it highlights the immediate and remote causes of fraud practices, effects, prevention, and control in Nigeria Banking System with particular reference to Union Bank. Several attempts have been made by researchers, writers e.t.c. On how to minimize or eradicate it if possible. In various organizations but such efforts have been focused mainly on manufacturing and distributive as well as public finance management, while little has been done on areas of Banking and other services industries. The studies have been geared towards finding out causes and consequences, prevention and control of frauds in Nigeria Banking Industry.

Therefore, the suggestions that are advanced in this study would no doubt be useful not only to the banking industry but to all financial institutions be it public or private sector of the Nigerian economy. The content of this research and the suggestions to be proffered will serve as resources for further study in the same or similar areas I

Banking and other financial institutions particularly in the area of fraud practices (internally) prevention and control.

1.2 STATEMENT OF THE PROBLEM

Economic crises which of course include financial frauds one of the fastest growing industry. In Nigeria frauds are often recorded in almost all branches of all banks particularly commercial ones. These acts have hindered a lot of business opportunities. Similarly, in United States of America (USA) in 1984 congregational 'Report on 75 failed Commercial Banks between 1980 – 1983, 61% involved criminal misconduct by insiders while 39% by outsiders'. The advent of computer which is hoped to reduce the level of fraud has not helped matters, since that the computer operator are known to have infused with fake figures and created fake accounts which serve as a pipe through which large sums of money are being taken away (illegally). The magnitude of the above problems, its implication to the banking industry has enabled the research content to answer the following questions.

i. How does a fraud practice in the bank affect the bank?

ii. What are the impacts of fraudulent acts of bank, over the transaction of their customers?

iii. What are the existence measures in Banks that can be used to check such fraudulent acts?

iv. What measures can be used for prevention and control of such fraud practices in Banks (Commercial Bank)?

1.3 LIMITATION OF THE STUDY

This research is limited to studying the causes and consequences, prevention and control of fraud practices in Nigeria Banking System. As a result of inability of many managers to grant audience with data relevant to frauds more especially, the ones treated in their organization, this enabled the limited knowledge of what fraud is, what constitute fraud. Some managers consider such discussions as issue of revealing the organizational secret, in this way the audience can only be entertained if he is a staff. However, the research is restricted to Union Bank whose staff are ready to assist to make the research a successful one.

1.4 OBJECTIVES OF THE STUDY

The purpose of this study is to show the various fraudulent practices in the banking industry and the perpetrators of this act and to expose what the law has to do in such situations.

Although a number of studies have been undertaken on the phenomenon of fraud in banks, the increasing pace with which frauds are being committed called for continuous research on the subject to keep track of new devices employed by the fraudsters in defrauding the system, hence the rationale for this research work.

To achieve this objective, the following secondary objectives have been specified.

i) To identify the cause(s) of fraud in banks,

ii) To identify the various types of fraud perpetrators in banks,

iii) To identify the various means employed in defrauding banks,

iv) To determine the effects of fraud on the business of banking

v) To recommend measures for reducing the incidence of bank fraud.

1.5 SCOPE OF THE STUDY

This project entitled “Effect of Fraud in the Banking Industry; A Case Study of Union Bank” focused on fraudulent activities in the banking sector. The project covers the act of fraud and forgeries in the banks, the effects it has on the banks and means of correcting the anomalies. In order to attain the objectives of this research work, the scope of the study has been defined to embody all relevant aspects of fraud in banking operations.

1.6 RESEARCH METHODOLOGY

Primary and secondary data were used in the production of this research work. The main sources of secondary data were survey report, both published and unpublished materials from the banking sector particularly Union Bank of Nigeria Plc and other corporate bodies in various locations. While the main source of primary data was the information obtained through oral interviews and personal contact with some of the officials in the inspectorate department of Union Bank.

Primary Source

The researcher considered it essential to conduct primary investigation through interviews with inspectors at the unit especially the Chief Inspector at interviews were also conducted at the branch levels with some bank officers and notably customers of the bank.

As much as possible information supplied by respondents were cross-checked, examined and verified by the researcher with other sources (through informal discussions) since it was not humanly possible to extend this study to cover the entire branches within the area under study because of the time and financial constraints that to reply on the use of sampling method for checking information about the extent of frauds and forgeries in each of the branches in this respect, the statistics method of random sampling was found to be more convenient in the choice of respondents and was applied in the case of customer of the banks.

The method entails the division of area under study into regional zones, and by random sampling of four main branches were selected for example Union Bank, Hospital Road, Kaduna South, Bank Road in Kano and Zaria main branch under Kaduna Regional Office. Two small branch offices and twenty (20) main customers for personal interviews. The statistical method of arriving at average responses and percentages were used in the analysis and the interpretation of data.

Secondary Source

Data in this section were sourced from existing records or relevant document, research studies and literatures related to the research problem. Other materials from which data were sourced include business journals, business magazines, daily newspapers as well as textbooks.

DEFINITION OF TERMS

FRAUD: It has various definitions given by different auditors. Obviously fraud is synonymous with irregularities. For the purpose of this study, it can simply be

defined as a conscious premeditated action of a person or group of persons with the intention of altering the truth or facts for selfish personal monetary gains.

FORGERY: is the act of making or writing fraudulent initiations falsifying or altering any writing for the purpose of doing injury to another person whether natural or corporate.

COUNTERFEITING; is the act of applying or deliberately making something to be exactly like the original in order to deceive.

BAD DEBTS: Can be defined as those credit which bank grant to customers but which these customers are unable to repay. In other words they are debts owed the bank by the customer which are not only uncollectable but also in payable.

CHAPTER TWO

LITERATURE REVIEW AND CONCEPTUAL ISSUE

2.0 INTRODUCTION

Fraud impacts on individuals, institutions, corporations and the economy of a nation, thus it leas capital flight and erodes public confidence in the country's financial system. Banks (mainly Commercial Banks) are deposit institutions for the safe keeping of customer's monies, but now-a-days, Banks serve as the way of having unlawful gain to the detriment of another. The unfair dealing or shady deals whether against the bank by its customers or against the customer by the Bank (including its officers) or against the bank by its officers is regarded as fraud.

In Nigeria, fraud in the banking industry is no longer an astonishing news. Nigeria have the tendency of hailing wealthy citizens, awarding them with chieftaincy titles and front seats in important occasions. The manner in which we recognize wealthy people in our various communities without the success of their wealth has even made matter worse.

Thus, many young and talented men and women engaged in drug trafficking and committing frauds because our society do not condone these but also encourage them singing songs of praise in their honour, making them chairmen at functions naming halls after them in the universities, naming streets and highways in villages and towns. These have been the factors that encourage people to seek wealth by all means including Bank fraud.

Experience from some of the distressed banks in Nigeria in recent years, has shown that some of these banks through fraud and bank malpractices cannot fully provide for losses sustained. Among the fraudulent practices that have wrecked financial institutions are blotting of account number and cheque numbers, forging of signature, transfer of customer lodgement of staff accounts and fraudulent manipulations of CBN clearing cheques. Others include presentation of forged mail, raising spurious vouchers and organized loss of banks many to armed robbers.

Irokaibe G. (1995). Slated that these types of fraud are referred to as corruption and economic crime, which possess identical xtics that clearly distinguish them from other classes of crimish offence.

2.1 THE NIGERIAN BANKING ENVIRONMENT

Banking Industry in Nigeria has contributed immensely towards and development of the economy, such that it serve as a cornerstone for monetary stabilization policies, it employed high number of Nigerian populace etc. Thus the importance of banking as an industry cannot be over emphasized. Therefore the question of “What a Bank” is a significant issue due to many clouded definitions it has. Bank most commonly defined in terms of its function. According to Lord Paget, Bank is generally defined “as a corporation of persons (group of person) who accept monies on current accounts, pay cheques drawn upon such accounts on demand and collect cheques for customers, if such medium services are afforded to all and sundry without restriction of any kind, the business, whether or not other business is taken at the sametime”.

R.S. Sayer (1979) defined Bank as “institutions whose debts usually referred to as bank deposits are commonly accepted in final settlement of other debts”. The Nigerian Banking System consist of the Central Bank of Nigeria (CBN), Commercial Banks, Merchant Banks and the Development Banks. The Central Bank of Nigeria (CBN) occupies the apex of the banking system and it is exclusively owned by the Federal Government f Nigeria, the CBN was established in 1958 with following principal objectives:

- To issue the legal tender (currency IN Nigeria
- To act as Bank of the bankers
- To promote monetary stability and a sound financial adviser to the Federal Government etc.

Commercial Banks apart from accepting deposits create the most important means of payment, “cheque book money” or demand deposits subject to cheques which may be expanded or contracted by their lending and investing activities.

Commercial Banks operate as bankers to majority of the Nigerian Banking populace by rendering a wide variety of services, which involved, receiving demand deposits and paying customers” cheque drawn against them etc. The merchant banking business in Nigeria registered in 1960, undertaking certain services unlike that of commercial banks offering and retail banking services, they mobilize deposits in large amount and lend in large to institutional investors. Merchant Banks deposits are usually fixed and interest bearing etc. Development Banking in Nigeria started

with establishment of the Nigeria Industrial Development Bank (NIDB) in 1950.

Other development oriented bank which followed subsequently are as follows:

- Nigeria Agricultural and Cooperative Bank Limited (N.A.C.B)
- The Nigeria Bank of Commerce and Industry (N.B.C.I)
- Federal Savings Bank (F.S.B)
- Federal Mortgage Bank of Nigeria (F.M.B.N)

The rationale for development banking are three fold:

i) To fill the financial gap created by the operation of commercial and merchant banks, which lend mainly on short and medium term basis respectively.

ii) To conform to an international trend started off by the establishment of the World Bank

iii) To act as catalyst for development.

Development Banks lend mainly on long-term basis. They engage in equity participation in other companies and perform promotional functions like project identification appraisal and market survey.

2.2 NATURE DIMENTION AND TYPES OF FRAUD

Even though, the problem of frauds ad forgeries is endemic and unavoidable in banking industry, due to a variety of reasons:

- The convertible (cash and nest cash) nature of most bank assets

- Location of bank branches, which faces so many problems due to the remoteness of the site such as poorly staffed, I-equipped and absence of communication facilities.
- The very nature of banking business, which involves human beings (clients and staff) of diverse background and interest in a relationship of trust
- Automated system, which leave no fingerprint or handwriting evidence. And so on.

Despite the above unavoidable reasons for the sustenance of fraud in banking industry, this research will try to cover the possible prevention and control of fraud in order to reduce fraud to the barest minimal even if it cannot be eradicated or eliminated.

DIMENSIION OF FRAUD

Generally, fraud can be classified on the basis of perpetrators and according to method used in their commission perpetration of fraud/banking malpractice can be categorized into:

- Malpractice by Bank employees
- Malpractice by non employees of the bank
- Malpractice by banks themselves
- Malpractice by bank staff

Malpractice by Bank Employees; This is one of the dimension of fraud in bank, which is being carried out by bank employee through diverting customers' monies not in accordance forgery of bank papers and falsification of accounts. Moreover, malpractice by bank staff also involve forgeries of signature of accounts, hide away the records of loans and other transactions then the easiest to detect, is taken away

the raw cash by official more especially those in charge of cash which can easily be traced within a short period of time.

Malpractice by Outsiders; This is another side of bank malpractice which is being done by outsiders in conjunction with bank staff and this is normally carried out in millions of Naira. However, it cannot be operated unless in-group known as “Syndicates”. The outsiders sometimes appear more talented than the practicing bankers and they have a device system that often beats bank procedures (control).

Malpractices by Bank Themselves; This is all about misappropriation of depositors fund which is the most dominant fraudulent practices in banks is to short change a depositor. Another one is the transfer of fund by fraudsters from one bank to another either by use of telex or computer.

TYPES OF FRAUD

As the new method of Banking operation emerged, the fraudsters that will suit with the new operation will emerged too, in this way, the types of fraud method is usually inexhaustive. The most important and common types of fraud highlighted by Bank Administration Institute (1989) are discussed here.

ADVANCED FEE FRAUD (419)

(419), this is a name taken the police number, attached to the criminal offence. This also shows involvement of an agent or agents was approach banks, companies or individuals with offer or access to large sums of money at below market interest rates for long terms, or an agent who will received a few commission ‘in advance’. As soon as the agent collects the fee, he dislocated and the money will never be taken back.

CHEQUE KITING

This refers to illegal or unauthorized use of cheques by the deposits yet to be credited to their accounts due to the daring process. In other words, is a process whereby a depositor utilized the time required for cheque to clear to enjoy an authorized credit without interest charged.

ACCOUNT OPENING FRAUD

This is normally committed by person unknown to the bank but who possess potentialities of good customers. It involves opening a business or personal account with false identification and making sum initial deposit of cash or cheque. And within few days a number of bad cheques will be deposited in order to obtain undue credit, which eventually will be discovered to have been lost to fraudsters.

CLEARING FRAUD

This involve misroutine of cheque min clearing process to enable fraudsters complete a clearing fraud. In other words, a local cheque can be routed tom up country branch. This will give the collecting bank an impression that paying bank had paid the instrument. The scenario is exploited by people with fraudulent intention.

Cheque are fast becoming common means of meeting financial obligations in modern business. Consequently, they are being supposed to danger of theft, forgery, counterfeit or alteration by people with bad intentions. Both customers and bankers can be victimized in this type of fraud.

MONEY LAUNDERING FRAUD

Fraudster in this category conceal the source illegally acquired money by converting such money into untreatable transactions in bank. The aim is to make the money appear legitimate. The generate belief is that bank managers are involving wherever such fraud is committed.

COMPUTER FRAUD

Computer fraud can be committed via direct interference, manipulation or corruption of programmes by operators in advance countries computer fraud in banks is known to have taken place via remote interference by the fraudsters.

LETTER OF CREDIT FRAUD

Letters of credit are common instruments in international trade. They are means of effecting payment in trade across national boundaries. The fraudsters use forged or fraudulent documents, which are presented to the confirming or issuing bank as the case may be. However, to affect payment against a fraudulent letter of credit, the beneficiary is most likely to be an accomplice in the deal.

TELEX FRAUD

This fraud takes the form of decoding telex messages especially those involving alteration of the original message to enable diversion of frauds by the fraudsters.

MONEY TRANSFER FRAUD

This fraud involves altering a genuine money transfer request by changing the beneficiary's name or account number. This is mostly non-repetitive, through personal transaction. The fraudulent beneficiary is usually accomplice.

LOANS FRAUD

This occurs when credit is extended to non-borrowing customers or to a borrowing customer. Who had exceeded his credit ceiling. The fraudulent aspect of this class is that there is intent to conceal it from the head office (Inspectorate) staff or routine check to deceive them with plausible but falsified statement, documents etc.

2.3 CAUSES OF FRAUD

The causes of fraud can be grouped into two classes:

1. The Institutional factors
2. Environmental / Societal factors

The Institutional Factors: Institutional factors are causes that are traceable to the internal affairs of the bank, while environmental factors are the influences of the society on the banking industry.

1. INSTITUTIONAL CAUSES OF FRAUDS

❖ POOR MANAGEMENT

This gives rise ineffective and poor control systems, indiscipline among staff and consequently permits frauds to flourish. A bank with poor management records higher incidences of frauds than the one with effective management.

❖ BANKING EXPERIENCE OF STAFF

Frauds in banking industry occur with higher frequency among staff with little experience and knowledge of banking. The more experience a staff , the less chances of frauds passing undetected unless he is involved in the act.

❖ POOR RECRUITMENT SYSTEM

The recruitment system in banks are based on connections on “whom you know” to the negligence of relevant technical knowledge competence, character and other qualities such connections facilitates fraudulent practices.

❖ INADEQUATE / LACK OF STAFF TRAINING

This could affect the morally weak as well as the morally sound staff lack of knowledge of the ways of tracking fraudulent practices could affect an otherwise honest staff in apprehending and avoiding the tricks of fraudsters.

- LAPSES IN THE MANAGEMENT CONTROL SYSTEM OF CORPORATE CUSTOMERS

Fraudulent staff of banking industry and in the employment of corporate customers and collude to take undue advantage to lapses in the management control systems of corporate customers. It is an example of where fraud could be hatched and executed externally.

- INADEQUATE INFRASTRUCTURE & POOR SECURITY OF DOCUMENT

Poor communication system, power failure result in a backlog of unbalanced postings, congested office space and situation whereby documents are not secured are factors that encourage the perpetration of fraud.

- NEGLIGENCE

Negligence by staff is a product of various factors such as poor supervision, pressure, apathy etc. These can give rise to perpetration of frauds. On the other hand, negligence by customers provide much opportunity to staff to perpetrate frauds. Negligence by customers could take form of errors that might have been genuine but open to abuse, distortion and defalcations by fraudulent staff.

- USE OF SOPHISTICATED ACCOUNTING MACHINES

Could create avenue for perpetrating frauds especially when machine are manned by ill-equipped staff, error could arise and therefore lead to the production of unreliable records. For dishonest staff the machines could be used effectively to distort or manipulate facts and figures, which are ways of committing fraud.

- FRAUD COULD BE PEPETRAYED IN SITUATIONS WHERE THE VOLUME OF WORK UNDERTAKEN BY A STAFF IS MUCH

  When the staff is characterized, he will be unable to work at the appropriate level of the efficiency. In such cases also some questionable documents that will permit fraud could pass undetected. This may for instance, lead to discrepancies in the books of account and thus the non-discovery of fraud committed. Overloading individuals with work leads to a lack of check and balances.

- POOR SALARIES AND CONDITION OF SERVICES

When the bank staffs are poorly aid and they are unable to meet their personal physiological and social needs, some are tempted to fraudulently covert some of their employers assets into their own use. When expectation of some workers are not met by the management in terms of promotions or financial rewards, they become frustrated and this factor encourages employees to commit fraud and "compensate" themselves. Fraud can easily be done when a management practice has negative effect on staff and this breeds fraudulent practises.

2. ENVIRONMENTAL / SOCIETAL CAUSES

Please have been identified as follows:

- SOCIETAL VALUE

The bank/corporate organizations are not islands as they are integral parts of the society. They are affected by elements in their 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 bank to be insulated from the effects of such moral decadence. The society at large seems not to care how you come about your riches but accepts, accommodates and even respects your wealth, however dishonesty it has been acquired. All these encourage fraudulent practises.

- **DOWNTURN IN THE ECONOMY**

Our economic development in the last 10 years has witnessed a great setback with graduates' unemployment, the Naira witnessing unprecedented devaluation. Government policies to help the situation fails at implementation because implements are fraudulent, therefore the idle hands found jobs in all sorts of fraudulent practices.

- **LACK OF EFFECTIVE DETERRRENT / PUNISHMENT**

Lack of effective deterrent in the form of punishment to discourage fraudulent practices contributes to causes of frauds. Even when cases of frauds are detected there are delays in reporting it to the appropriate authorities and the process of prosecution is slow which frustrates the other part which may make him drop the case.

- **FEAR OF NEGATIVE PUBLICITY**

Many financial institutions fail to report fraud cases to the authorities for fear of giving the bank unnecessary negative publicity. This attitude encourages individuals with inordinate ambition to defraud such banks because he knows the bank will not prosecute.

2.4 EFFECTS OF FRAUD IN MOST OF FRAUD AND FORGERIES

- The banks reputation could be jeopardized and the customers' confidence in the bank shaken, when large sums of money are involved, eventually this may cause the withdrawal by so many customers.
- It has adverse effect on the morale of other staff particularly where frauds go undetected.

2.5 EFFECTS OF FRAUD IN MIST OF FRAUD AND FORGERIES

- The banks reputation could be jeopardized and the customers' confidence in the bank shaken, when large sums of money are involved, eventually this may cause the withdrawal by so many customers.
- It has adverse effect on the morale of other staff particularly where frauds go undetected.
- It may cause the total close down of as a result of wind-up i.e. where frauds occur with crippling frequency and in wholesale size.
- Unchecked fraudulent practices are not only capable of destroying a whole bank but can also destroy the economy of a nation.
- The distraction of management's attention, increase in operating costs and the wastage of time and resources of fraud prevention at other effects of fraud.
- It also leads to increase work load on staff and possible entrenchment of outright loss of jobs
- Bank fraud lead to loss of money, which obviously reduces the profit base of the industry.

- ❖ It is regarded as leakage in the economy of a country because it retarded economic progress.

2.6 STAFF INVOLVED IN MOST OF FRAUD AND FORGERIES

Bank staff involved in frauds were either being terminated, dismissed or retired in the year 2002 to 2004.

TABLE 1

S/N	**RANKS**	**NUMBER**		
		2002	2003	2004
1	Supervisor and Managers	66	132	127
2	Officers, Accountant & Executive Assistant	60	66	58
3	Clerks and Cashier	236	156	192
4	Typist, Technicians and Stenographers	47	9	34
5	Messengers, Drivers, Cleaners, Stewards Security Guards	51	54	5
6	Temporary Staff	24	-	40
7	Uncategorized Staff	30	19	
	TOTAL	514	436	456

SOURCE : NDIC Annual Reports (Various Issues)

From the above table of staff of 517 staff of banks were dismissed, retired or had their appointments terminated because of their involvement in frauds and forgeries during 2004 as against 436 in 2003, in 2002, 514 members of staff of the affected banks were involved in fraudulent activities.

2.7 ANALYSIS OF FRAUD IN SOME OF OUR FINANCIAL INSTITUTIONS

Rapid expansion in the banking industry in the mid 1980's without increase in the number of experienced personnel had lead to the rapid promotion of newly recruited staff as well as over stretching of the few qualified hands. All these give rise to unprofessional banking practices. Thus, banking industry was besieged with fraud, forgeries and inside abuse resulting in the loss of staggering amount of money. The loss of money from various banking institutions, started from year to year as the figures below shows.

TABLE 2

RETURN OF COMMERCIAL AND MERCHANT BANKS ON FRAUD AND FORGERIES 2000-2004

YEAR	AMOUNT INVOLVE IN MILLION OF NAIRA	ACTUAL EXPECTED LOSS IN MILLION		
	COMMERCIAL	MERCHANT	COMMERCIAL	MERCHANT
2000	360.194	28.318	25,498	1.180
2001	361.93	59.82	64.8	8.31
2002	1,337.16	41.92	241.01	5.37
2003	2,655.71	743.88	883.55	67.1
2004	1,006.28	5.68	226.38	2.75
TOTAL	**5,751.26**	**879.42**	**1,441.24**	**84.71**

SOURCE: Banks Returns: NDIC Annual Reports (Various Issues)

From the above, as in the case of commercial banks, the amount of fraud involves declined in 2004. The amount fell by 62% to N1,006.28 Million while the total actual / expected loss in commercial banks in 2004 was about N226.38 Million. As in the case of Merchant banks, the amount of fraud involved decline to N5.68 Million in 2004. The actual / expected loss significantly declined to 2.75 Million in 2004. The reduction in fraud cases could be attributed to the promulgation and consequent trial of culprits by the failed bank tribunals in 1994.

2.7 DETECTION OF FRAUD AND IMPORTANCE OF TIMELY FRAUD DETECTION

To be meaningful, detection of fraud should be timely so as to prevent or reduce loss of funds to the bank. Time is, therefore of essence in fraud detection. Consequently, the banks internal check system should ensure early detection of the fraud, if the policies laid down by the system are properly and regularly followed.

These should include:

i) Call-over of daily operations of ledgers

ii) Dual controls over assets and other security ailments

iii) Separation of control by officials over transaction from start to finish

iv) Daily agreement by jornalization

v) Daily examination by responsible officers and men of the inspections department

vi) Checking and authorization for payments of instruments by independent officials. A very sound internal check system will not only prevent fraud but will at very early stages detect fraud.

Therefore, the inspection departments of banks, have important role to play in ensuring that there are sound internal check system and that the systems are effectively followed.

2.9 INTERNAL CONTROL SYSTEM FOR FRAUD PREVENTION AND CONTROL

Internal control system, means the whole system of controls, financial and otherwise established by the management in order to carry on the business of a company in an ordinary manner, safe guard its assets and secure as far as possible the accuracy and reliability of its records. Also internal controls defined by the American Institute of Certified Public Accountants as “The plan of organization and all the coordinate method and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency and encourage adherence to prescribed managerial policies”. Another definition is defined by the Institute of Chartered Accountants of England and Wales who view internal control as “The whole system of control financial and otherwise established by management in order to carry on the business of the accuracy and reliability of its records”. “Thus Internal check” and “Internal Audit/Inspection” are the major parties of internal control systems. Internal check involves:

a. The arrangement of duties among staff in departments, so that on one person is in a position to carry the whole of a particular operation in which fraud is possible.

b. Other automatic check, which form art of routine system e.g. (use of control totals) Internal check is characterized by the prime objective the prevention or early

detection of errors and fraud. The responsibility of establishing and maintaining an adequate system of internal control lies with the individual bank's management.

These are three essential of a good system of internal control namely:

a. Plan of organization with particular reference to allocation of staff duties .

b. Authorization, recording and custody procedures, including internal checks

c. Managerial supervision and reviews, including internal audit inspection

In realization of the dangerous effect of the increasing wave of frauds in banks, banks have devised different control systems and policies aimed at ensuring that the incidence of fraud is brought to the barest minimum. Though internal control system differ from one bank to the other, the following can be regarded as a general control policies which will ensure the prevention of fraud in banks.

i. Opening of New Current Accounts:

Experience has shown that new accounts are sources of danger and trouble. The branch should make sure that all bank's policies in respect of opening of such account are complied with.

ii. Payment Procedures:

The use of counter cheques should be discouraged and banks should avoid honouring cheques, which are not taken from books supplied to the customer. Payment to third party across the counter must be checked or avoided particularly when the third party is not very well known to the banks.

iii. Recruitment and Training of Staff

As stated earlier a good number of frauds in the banks succeed due mainly to staff involvement with the fraud syndicates. Bank's management must therefore evolve a sound employment policy to ensure that the right calibre of staff are employed into the banking industry. Cashiers must be properly trained to appreciate their responsibilities in detecting and preventing frauds.

iv. Unbalanced Position of Books of Accounts

Experience has shown that unbalanced books provide fertile grounds for frauds, hence at times books are intentionally jammed by unscrupulous staff. Bankers should therefore be restless if their books are not balanced. The situation in fact be viewed as a danger sign.

v. Un-reconciled Accounts

The need for effective reconciliation of books of accounts in our banks cannot be over emphasized. There is also need to equip the reconciliation section of our banks with highly experienced and knowledgeable staff.

vi. Job Rotation and Annual Leave

The bank should prevent a situation where by one person is kept too long on a desk there should be regular rotation of job, and management should ensure that all staff take leave when due accumulation of leave should be discouraged

vi. Payment of Drafts, Mail Transfer:

In recent times fraud syndicates here with the collaboration of some staff, beaten various security devices established by banks and succeeded in sound bring millions of Naira through drafts, mail transfer, cable transfer etc. It is recommended in the light of recent developments to verify all payments instructions with big amounts with the issuing branch/bank before payment.

vii. Employment Incentives and Reward

It has been proven that reasonable incentives to staff have helped to reduce the incidence of their involvement in fraud. Reward should also form part of bank policy to encourage staff and customers who have helped to frustrate fraud.

CHAPTER THREE

3.1 HISTORICAL BACKGROUND OF UNION BANK

Union Bank of Nigeria Limited, one of the leading commercial banks in Nigeria celebrated its 70th anniversary in June 1987. After being authorized by the banking of 1916, Union Bank of Nigeria Limited then known as the Colonial Bank opened for business in Nigeria in the year 1917 with the first branches in Lagos, then Jos and Port Harcourt.

In 1981, more branches were opened at Ebute Metta, Ibadan, Kano, Onitsha, Zaria and Burutu in 1921. In 1925 Barclays Bank , Dominion Colonial and overseas was formed to take over the activities of the Colonial Bank along with two other British banks. For the next 25 years only three (3) offices at Aba, Gusau and Ijebu –Ode were added to the existing nine branches.

However, during the depression of 1939 – 1945 several branches including Onitsha, Ebute –Metta, Burutu, Aba and Gusau were closed down.

In the year 1950, the bank's name was shortened to Barclays bank (DCO) and a period of expansion commenced which saw the reopening of all offices which had been closed down except Buruku branch. As a result of this development, the bank was able to open over 50 additional branches between 1959 and 1970 . A trend which has continued.

In 1969, the bank was legally incorporated in Nigeria as a wholly owned subsidiary of Barclays Bank International Limited of London and named Barclays Bank of Nigeria Limited the ownership structure remained the same until 1971 when 8.33% of the banks shares were offered to Nigeria citizens and association and the share capital listed on the Nigeria Stock Exchange for the first time.

As a result of the Nigerian Enterprises Promotion Decree of 1972 and 1977 which put the force of law behind government indigenisation policy, the Federal Government of Nigeria acquired 51.67% of the banks, shares while Barclays Bank Plc was left with 40% and the remaining 8.33% with the Nigerian public.

On 21st March 1978, the Federal Government ordered sanction against the bank as a result of the pronouncement of Barclays Bank International Limited of London on its activities in South Africa. The sanction then included immediate withdrawals of the public sector funds from the bank and the reduction of its expatriate by one third. The sanction led to massive withdrawals of deposits by customers culminating in liquidity crisis for the bank. It is on record that the bank was this crisis admirably until the embargo was lifted sometime in 1979.

One of the landmarks of the bank's history took place in 1979 when Barclays Bank decided to sell 50% of its shareholding in the bank in Nigeria. Thus reducing the former equity holding to 20%. Following the reduction of Barclays Bank shareholding, the name of the bank was changed in 1979 from Barclays Bank of Nigeria to Union Bank of Nigeria Limited to reflect the new image and the new ownership structure of the bank, the bank has remain the same with 51.67% for Ministry of Finance Incorporated. Federal Government 28.33% private Nigerian

investor and 20% Barclays Bank. The equity structure makes Union Bank the only former expatriate bank collecting the largest proportion of its shares 80% owned by Nigerians and Nigeria organizations.

Today, the total assets of Union Bank have grown from 1.4billions in 1979 to 5 Billion since 1986. Between 1981 and 1984 the bank made the highest level of profits in the banking sector in Nigeria.

Indeed, in 1986 the bank became the first Nigerian bank to hit the one billion mark in its saving deposits. It also won the Nigeria stock exchange merit award in the financial sector for six (6) consecutive years from 1979 to 1984 for the quality and depth of presentation of its annual account and conduct of annual general meetings.

At the Bank's 18th annual general meeting in Lagos on 28th January 1987, the chairman of the bank, Alhaji Abdulrahaman Okene decided that the bank's profits before taxation has grown from N22.9 million in 1979 to N103.8 Million in September 1986, an average annual growth of 50.50% and earning per share increase from 37 kobo in 1979 to 99 kobo in 1986. This huge profit, the chairman said it is a good testimony of 70 years of success of banking practice in Nigeria by Union Bank of Nigeria Limited.

3.2 ANNUAL REPORT OF THE YEAR ENDED 2004 BY THE BANK CHAIRMAN

The 29th annual report of Union Bank Nig. Plc of year 2004 presented by the chairman Prof. Musa Gella Yakubu.

❖ DOMESTIC SCENE

A noteworthy development in the economy during the period under review was the level of activities ad returns in the country's capital market. Market capitalization continued its upward trend. The all share index rose to an all time high of 22,896.37 at the end of March 2004 from the figure of 13,531.08 for the corresponding period of 2003. Similarly, Market capitalization rose to ₦1,635 trillion at the end of March 2004 from N0.846 Million in the corresponding period of 2003, the Nigerian Stock Exchange (NSE) was also reported to have recorded one of the highest returns in dollar terms among the global stock market.

In the banking industry, isolated cases of distressed were reported during the period under review. However, the regulatory authorities took decisive steps to address the situation in order to prevent a contagious effect on the system. These steps included sacking of the board of one of the illiquid banks and the suspension of two other banks from the clearing house during the period.

One of the steps taken to manage liquidity and improve the efficiency of the payment system is the introduction of a new clearing system in which seven banks were registered to operate as Settlement Banks. Under the new system, CBN has divested itself of the responsibilities of running the clearing system in favour of private sector participation. Each of the Settlement Banks was required to provide a clearing collateral of mot less than ₦15 Billion worth of Treasury Bills, Union Bank is one of the Settlement Banks. This represents a sudden and major policy shift from the ₦25 billion prescribed in the 2004/05 Monetary Policy Guidelines. And coming to

the heels of all these was the sudden pronouncement of N25 billion for any bank wishing to operate in Nigeria from 1st January 2006.

In the Foreign Exchange Market, for the period under review, the Naira depreciated against the American Dollar, with the official rate in the forex market moving from ₦129.55/US$ In April 2004 to ₦139.92/US$ as at the end of March 2004. However with appropriate fiscal and monetary measures and the ban placed on importation of a number of commodities, the Naira made some gains in the first quarter of the 2004 with a stable official exchange rate at about ₦134 to the US exchange Market is the fact that the spread between the official and the parallel market rates were drastically narrowed during the fourth quarter of the year under review, thus discounting forex arbitrage seekers.

In continuation of the medium term framework for the conduct of the monetary policy, the CBN release its Monetary and Credit Policy Guidelines for 2004/2005, which retained most of the measures in the 2002/2003 policy guidelines.

However, the critical changes worthy of note include inter alia, the following:

a. Increase in the minimum ratio of capital to total risk weighed assets from 8% to 10% effective from January 2004.
b. Cash Reserve Ratio (CRR) for all banks is reduced to 9.5%
c. Introduction of National Credit Guarantee Scheme (NCGS) for loans granted to small and medium enterprises

In terms of the general price level, the first two quarters of the period under review recorded a single digit rate of inflation. However, it rose to 14% in December 2003

16.5% in February and 17.1% IN march 2004, ostensibly and partly as a result of the increase in the prices of petroleum products and its attendant effect on cost of production. Thus this index represents a departure from the single digit inflation rate planned for period.

In order to stimulate investment in the real sector and following a relative improvement in macroeconomic stability during the first half of the year, the CBN reduced the Minimum Rediscount Rate (MRR) by 150 basic points from 16.5% to 15%. This was in consonance with the government's desire to tackle the prevailing high lending rate regime. Given that the CBN is poised to continue to adopt measures to force down bank lending rates, the challenge facing banks is to seek other lucrative avenues for diversifying their earnings. Since overheads are not likely to go more cost-effective measures have to be adopted while the need for operational efficiency cannot be overemphasized.

- **OPERATING RESULTS**

In spite of the harsh and challenging business environment, the bank posted an impressive result for the period ending 31st March 004. Gross earnings for the Group was ₦48.17billion representing an increase of 9.4% over the figure of ₦44.01 billion which was recorded in 2003. Total deposits for the Group grew by 12.3% from ₦251.6 billion recorded the preceding year to ₦282.5 billion as at 31st March 2004. Similarly, the bank's total deposits grew from ₦224.4billion in 2003 to ₦241.6billion recorded as at 31st at March 2004 representing an increase of 7.7%. Loans and Advances for the Group stood at ₦87.7billion as at March 31st 2004 as against

₦60.6 billion in 2003, while for the bank, the issue was ₦78.3 billion in 2004 as against ₦54.6 billion for the corresponding period in 2003.

Total Assets of the Group grew by 14.3% from ₦366.7 billion in the preceding year of ₦418.7 billion during the year ending 31st March 2004. In the same vein, the Total Asset of the bank grew by 11.7% from ₦329.6billion recorded in 2003 to ₦367.0 billion hereby representing an increase of 11.1% over the ₦32.7billion for the year ending 31st March 2003.

In terms of profitability, the Group earned a profit before tax of ₦11.8billion in 2004 as against ₦12.2 billion recorded the preceding year. The corresponding figures for the bank show a marginal increase in Profit Before Tax rising from ₦10.15billion recorded the preceding year to ₦10.21billion in 2004.

- DIVIDEND

There is no doubt that Union Bank operated in an atmosphere characterized by the ever increasing competition and dwindling margins. This notwithstanding the Directors, management and staff remained focused and worked assiduously to exploit the available opportunities and as a result, the bank was able to post the impressive result. Given the bank's policy of returning good returns to shareholders on their investments, your Board has proposed for your approval, a dividend of one Naira and forty kobo for every fifty kobo share held, representing an increase of 3.7% over the amount of ₦1.37 over the amount of ₦1.35 paid in the preceding financial year and a bonus of one share for every shares held.

- BOARD

During the year under review, one of the Executive Directors Mr. T.O.I. Akinola retired having attained the statutory age of sixty and in his place, one of the Deputy General Managers in person of Mr. A. Ishola was appointed as an Executive Director, Mr. B. Manu who was on a national assignment, returned into the fold. With the dept of knowledge and wealth of experience brought to the board, the quality of decisions and insights in moving the company forward will be greatly enhanced. Also Elder K.U. Kalu retired after eight years of infatigable chairmanship. Two other Directors also completed their tenure Alhaji S.I. Sodangi and Chief E.N. Ndiokho retired from the board, in their place the board considered it fit to appoint for approval at the meeting, Lady EneuFOT Ekaete, Mr Ppaul Richard Vekaa Belabo and Dr. Festus Odimegwu and in tandem the board appointed the present chairman following the retirement of the former chairman.

- STAFF

The staff remained the greatest asset, their commitment to duty and resilience had contributed in o small way to the impressive results that the bank have today. They will be held in high esteem while continuously striving to ensure that their welfare package remains competitive in line with the industry's standard.

- OTHER DEVELOPMENT

At the 2003 Annual General Meeting it was mention that the was in the process of consummating the subsidiarisation of the London Branch. Also informed was the plan to acquire 20% share in the HFC Bank (Ghana) Limited. Efforts are now at top

gear to subsidiaries of full fledge bank in London, the acquisition of 20% shares in the HFC Bank (Ghana) Limited has come to fruition with officials commissioning of the bank in Accra on 19th March 2004 by His Excellency Alhaji Aliu Maham, the Vice President of Republic of Ghana. The first dividend has been earned from that investment.

The Bank has also joined a consortium of five banks to float a joint venture company called Unique Venture Capital Management Limited with the aim of using the company to increase the level of participation in the Small and Medium Industry Equity Investment Scheme (SMIEIS). The bank is now well position to meet the challenges of the sector of the credit market.

3.3 RESULT AT A GLANCE

ANNUAL REPORT FOR THE YEAR ENDED 31ST MARCH, 2004

	The Group		The Bank	
	2004	**2003**	**2004**	**2003**
Major profit and loss account terms:	**₦'m**	**₦'m**	**₦'m**	**₦'m**
Gross earnings	45,166	44,013	39,185	34,712
Interest received	38,089	34,973	29,924	27,020
Net Interest revenue	27,369	24,540	24,213	21,311
Provision for risk assets	2,183	2,519	2,131	1,984
Overhead expenses including depreciation	23,469	18,844	21,133	16,865
Profit before taxation	11,794	12,217	10,210	10,154
Profit after taxation but before minority - interest	8,933	8,262	7.750	6,600
Minor interest	592	500		

Profit after taxation and monthly interest	8,341	7,762	7,750	6,600
Dividend	4,698	3,398	4,698	3,398
Major balance sheet items:				
Loans and advances	87,684	60,554	78,338	54,560
Deposits, current and other accounts	282,524	251,636	241,585	224,347
Called-up share capital	1,678	1,258	1,678	1,258
Shareholders funds	39,732	35,891	35,985	32,730
Total assets	418,728	366,677	367,798	329,583
Per 50 kobo share data (adjusted):				
Earnings	₦2.49	₦2.31	₦2.31	₦1.97
Dividends	₦1.40	₦1.01	₦1.40	₦1.01
Dividends cover (times)	1.77	2.28	1.64	1.94
Net assets	₦11.83	₦10.69	₦10.72	₦9.75
Total assets	₦124.76	₦109.26	₦109.59	₦98.20
Stock exchange quotation as at 31 March	-	-	₦27.20	₦26.50
Number of employees	8,293	8,40	7,463	7,645
Number of branches	322	313	302	294

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION

This chapter will attempt to examine the cases of frauds and forgeries over some period to evaluate the trend in the malpractices. It will also consider the numbers and category of bank staff that are involved and the extent and effects of these frauds and forgeries on the banking industry. Mention will also be made of the efforts of the regulatory bodies are making to prevent these nefarious or wicked activities. Attempt will also be made to examine the failed bank decree and then the Bank Distress, causes, effect and distress resolution options.

4.1 CASES AND PERPETRATORS OF FRAUDS IN BANKS

In compliance with the requirements of sections 39 and 40 of the NDIC Act No. 22 of 1988 as amended, banks render monthly returns on frauds and forgeries to the Corporation. Such returns should cover amount involved, actual/expected loss and number of staff dismissed and terminated. Similarly, in compliance with section 32 of the Decree, insured banks are expected to provide fidelity bond insurance to cover frauds and forgeries committed by banks staff. Because an unacceptable level of frauds and forgeries goes on in our financial institutions is real.

The NDIC (1999 – 2000) reports that during the year, the average number of reporting banks stood at 46 per quarter as against 43 in the previous year. In similar

vein, the number of reported fraud cases increased significantly by about 119.8% from 182 in 2000 to 400 in 2001.

Overall, over 43aaaaa5 and 46% of banks rendering returns had fraud cases in 2000 and 2001 respectively. Of this is a true picture of what is happening in banks then about half of our banks are places where fraudulent practices are expected.

The magnitude of the loss arising from bank frauds has been on the increase. Moreover, an analysis of the type of fraud and forgery cases perpetrated in banks are given below:

a. Presentation of forged cheques;

b. Granting of unauthorized loans;

c. Posting of fictitious credits;

d. Suppression of cheques/vouchers;

e. Fraudulent Transfer and withdrawals;

f. Abuse of medical scheme;

g. Unauthorized overdraft.

Also on the increase were reported cases of loss of money to armed robbers and dupes. The frequency, amount involved and actual loss are reported in table below:

TYPES OF FRAUDS AND FORGERIES INCLUDING CASES OF ARMED ROBBERY AND OUTRIGHT THEFT.

GENERAL NATURE OF FRAUD	FREQUENCY (AVERAGE FOR THE YEAR)	AMOUNT INVOLVED		ACTUAL/EXPECTED LOSS	
		N'M	%	N'M	%
Granting of unauthorized loans/overdraft	29	260.89	10.36	64.95	6.01
Presentation of forged cheques	173	604.82	24.03	159.70	14.78
Passing of fictitious credits	89	252.40	10.03	72.37	6.67
Loss of money to armed robbers	44	234.04	9.30	116.25	10.76
Fraudulent transfer and withdrawals	141	778.69	30.94	547.10	50.63
Outright theft	27	333.34	13.24	78.55	7.27
Suspension of cash/vouchers	23	52.84	2.10	41.68	3.86
Total		**2517.00**	**10.00**	**1080.00**	**100.00**

SOURCE NDIC

As shown on the table above **fraudulent transfer and withdrawals** constituted the target proportion in both the amount involved in fraud cases and actual / expected loss during the period under review. In fact this group accounted for more than half of the actual/expected loss during the period.. **Presentation of forged cheques** occupied the second position in terms of amount involved (24.03%) and actual expected loss (14.78%) followed by **outright theft** in the third position (13.24%).

Granting of unauthorized loans (10.36%) and posting of fictitious credit (10.03%) were forth and fifth respectively as regards total amount involved in reported cases of frauds and forgeries. With respect to actual/expected loss, loss of **money to armed robbers** occupied the third position (10.76%) **outright theft** and **posting of fictitious credits** were forth and fifth respectively.

BANK'S STAFF INVOLVED IN FRAUDS AND FORGERIES

Most fraud and forgeries were perpetrated by core operation staff in banking such as supervisors, officers, accountants, managers, executive assistants, clerks and cashiers. On the account of these fraud and forgeries most of them were been terminated, dismissed, retired and forced to resign their appointment.

4.2 EFFECTS OF FRAUD ON BANKING INDUSTRY

Frauds in any system have lots of consequences that bear directly on the system and indirectly the environment, so also is fraud in the banking industry. The effects of fraud and forgeries in the banking industry are felt by all. If not as a customer then as a citizen of the nation. The effect of fraud in banks has a chain reaction on the economy as a whole.

The impact of fraudulent activities on banks is felt in the area of depleting the capital base of the bank. Frauds are aimed at benefiting the perpetrators at the expense of the other persons being defrauded, and in the case of banks, which main dealings are in money, irrespective of the magnitude of the fraud committed it has the effect of reducing the capital of the bank. Simply, fraud erodes the capital of any organizations and no organization can survive with an eroding capital

Fraud is one of the major causes of bank failure being experienced in the country now. The amount of money lost to fraudster is large, such money is taken out of the coffers of the bank and does not generate any sort of income for the bank. It then implies that the bank's capital is being diminished which eventually will cause liquidity problem.

Loss of confidence in banking sub-sector is a consequence of frauds and forgeries in banks. The public serves as the bank's customer and it is their deposit (funds) that the banks uses for business and the public have the confidence in banks to be a safe keeper of their valuables. In the situation where these banks are turned to avenues for fraudsters to practice all sorts of tricks and forgeries, then these confidence would be lost by the banks as the customers will resort to other means of keeping their money without going to banks. In this situation banks will find it difficult to mobilize funds from saving sector to investing sector and as such investment reduces, production reduces and unemployment rate increase.

These effects have a negative impact on the banking industry. This is because when a bank is been reported to have cases of fraud the public (i.e. customer) does not see it as a peculiar case to the specific bank but rather the banking industry is viewed as been open to fraudulent practices. This is not healthy to the industry as it tends to disrupt business because of the reactions of customers to such fraud cases. The banking industry is a sub-sector of the economy, which is influenced by the policies of the nation and it also influences the policy making therefore its

contribution to the economy is immense. Where these banks are allowed or in infected with notorious disease, fraud, the economy will suffer as a whole.

Other effects of fraud in banks apart from the loss of confidence in our banks by the customers, this also brings setback on the efforts aimed at making profit, promoting and improving banking habit. In addition, the distraction of management's attention, increase in operating cost and the wastage of time and resources on fraud prevention are other effects of fraud.

The state of industrial harmony is always affected as a result of fraud because confidence within the bank employees would no longer be cordial because they sought of become suspicious of each other.

4.3 THE REGULATORY AUTHORITES

The regulatory/supervisory authorities are very crucial for the functioning and orderly development of financial system. Highlights of the roles of various regulatory authorities are provided below.

a. The Central Bank of Nigeria (CBN)

The CBN is the apex of regulatory authority of the financial system. It was established by the Central Bank of Nigeria Act of 1958 and commenced operations on 1st July 1959. Among its primary functions, the bank promotes monetary stability and a sound financial system, and acts as banker and financial adviser to the Federal Government as well as banker of the last resort to the banks. The bank also encourages the growth and development of financial institutions. The promulgations of the Central BANK OF Nigeria decree No.24 and Banks and Other Financial

institution (BOFI) Decree No. 25 both of 1991. gave the bank more flexibility in regulating and supervising the bank sector and licensing finance companies which thereto operated outside any regulatory framework. The subsequent amendments of 1997 widened the scope of supervision of the Central Bank of Nigeria in the financial system as the bank was made the overall regulator.

b. The Nigerian Deposit Insurance Corporation (NDIC)

The NDIC complements the regulatory and supervisory role of the CBN, it was established by decree No.22 of 1988. It took off effectively in February 1989. It was set up to provide insurance and related services for banks in order to promote confidence in the banking industry. The NDIC is empowered to examine the books and affairs of insured banks and other deposit taking financial institutions. Licensed banks are mandated to pay 15/16 of 1 percent of their total deposit liabilities as insurance premium to the NDIC. A depositor's claim is limited to a maximum of N50,000 in the event of a bank failure. In recent years, the NDIC, in collaboration with the Central Bank of Nigeria, has intensified its effort to resolve the problem of distress in the banking industry. In January 1997, the NDIC decree No.22 of 1988 was amended making the corporation to report on the Federal Ministry of Finance (FMF) instead of the Central Bank Nigeria.

C The Securities And Exchange Commission (SEC)

Formerly called the capital issues commission, the SEC was established by the SEC Act of 1979, which was further strengthen by the SEC Decree of 1988. It is the apex regulatory organ of the capital market in Nigeria. In doing this, the SEC ensures

adequate protection of the investing public. Other functions of the SEC at inception included.

- The determination of the prices and the time companies securities were to be sold;
- Approving the volume of such securities and registering all securities dealers and investment advisers and
- Market places (such as Stock Exchange Branches) with a view to maintaining proper standards of conduct and professionalism in the securities business.

The role of the commission was further enlarge by the Companies and Allied Matters Decree of 1990, which empowers it to approve and regulate mergers and acquisitions and authorize the establishment of unit trust.

d. The Federal Ministry of Finance (FMF)

The Federal Ministry of Finance advises the Federal Government on its fiscal operations and collaborations with the Central Bank of Nigeria on monetary matters. Before 1991, the responsibility of supervision and licensing of banks was shared between the FMF and the bank. The Central Bank of Nigerian became the sole authority for the licensing of bank since 1991. However, the amendment to the bank's enabling laws which made the Central Bank of Nigeria to report through the Federal Ministry of Finance to the Presidency tended to undermine the ban's ability to operate independent monetary policy.

e. National Insurance Commission (NAICON)

The National Insurance Commission (NAICON), established in 1997 replaced the Nigeria Insurance Supervisory Board (NISB), which was established by the

insurance Supervision Fund (amendment) Decree No. 62 of 1992 to take over the regulation and supervision of business from FMF. The NAICOM Decree, which contains 66 sections, makes provisions for the organization structure of NAICOM, objects of the commission, staff, collection of levy from insurers as part of its funding sources and other operational procedures that would guide orderly development of the insurance business in Nigeria. Specifically, the NAICOM is charged with effective administration, supervision, regulation and control of the business of insurance in Nigeria. Its specific functions include the establishment of standards for the conduct of insurance business, protection of insurance policy traders and establishment of a bureau to which members of the public may submit complaints against insurance companies and their intermediaries.

f. The Federal Mortgage Bank of Nigeria (FMBN)

The FMBN was established by Decree No. 7 of 1977. It took over the assets and facilities of the Nigerian Building Society. The main functions of the FMBN include the provision of banking and advisory services, research activities and provision and financing of housing. Following the adoption of National Housing Policy in 1990 and the promulgation of Decree No.3 of 1991, the FMBN was empowered to license and regulate primary mortgage institutions in Nigeria and act as the apex regulatory body for the mortgage finance industry. In 1983, a new institution, Federal Mortgage Finance was carved out of Federal Mortgage Bank of Nigeria was therefore transferred to the Federal Mortgage Finance, while the FMBN retained its regulatory role with the 1997 amendment to Central Bank of Nigeria Decree No. 24 of 1991, the FMBN is now placed under the control of the bank.

g. Financial Services Coordinating Committee (FSCC)

The committee was established to coordinate the activities of all the regulatory institutions in the financial system. Chaired at inception by the Central Bank of Nigeria, the committee now has the Federal Ministry of Finance as the chairman with its reconstitution in 1997. The Federal Ministry of Finance is also responsible for the budgetary provision for the administration of the committee.

Moreover, Central Bank of Nigeria is the principal regulator and supervisor in the money market with NDIC playing a contemporary role. The Central Bank of Nigeria exclusively regulates the activities of finance companies and specialized/development finance institutions such as the Nigeria Industrial Development Bank (NIDB), the Nigerian Bank for Commerce and Industry (NBCI) and Nigeria Agricultural and Cooperative Bank (NACB). The SEC is the apex regulatory/supervisory authority in the capital market. The Nigeria Stock Exchange (NSE) is self-regulatory user /regulatory institutions.

- ROLE AND IMPACT OF REGULATORY AUTHORITIES ON THE BANKING INDUSTRY

The regulatory or supervisory authorities of bank are concerned about the safety of depositor's funds and sanity in banks and this can achieved by providing guidelines for banks operations and ensures that such guidelines are complied with.

The Central Bank of Nigeria (CBN) and Nigeria Deposit Insurance Corporation (NDIC) are two bodies vested with these roles and they are aided by various laws, (Decrees and Acts) establishing them and other banking legislation.

The Central Bank of Nigeria has a role to play in ensuring sanity within the banking system which section 3e8 of the Central Bank of Nigeria Decree No. 24 of 1991 states that '**the bank shall, whenever necessary seek the cooperation of and cooperate with other banks in Nigeria**'

i. To promote and maintain adequate and reasonable financial service to the public

ii. To ensure high standards of conduct and management throughout the banking system

To achieve this objective, section 39 of the same decree prescribed the powers, which the Central Bank may receive from time to time. These include the power to specify critical ratios, to call for information from banks and to inspect the books any bank render under condition of society. Section 39(5)(a) also provides that Central Bank has the power to request for application to any bank for loans exceeding certain amount for its CBN approval.

The regulatory powers of the Central Bank are amplified under the Banks and other Financial Institutions Decree (BOFID) No. 25 of 1991. The powers considered are such that if meticulously applied can achieve the following:

- ✓ Ensure safety of depositors fund;
- ✓ Control bank charges;
- ✓ Scrutinize entry and exit and avoid under capitalization ;
- ✓ Control expansion and channel funds to productive sectors;
- ✓ Ensure equitable spatial distribution of financial services;
- ✓ Regulate conduct of directors ad employees of licensed bank;
- ✓ Ensure adequate profit retention to strengthen capital base;

- ✓ Limit risk taken by the bank;
- ✓ Ensure healthy competition
- ✓ Ensure sensibility to macro-economic objectives and facilitate social responsiveness.

The Central Bank of Nigeria has power under the BOFID to revoke with the president's approval, the license granted to a bank if such bank:

a. Cease to carry on banking business for which the licenses was issued in Nigeria for a period of six months.

The NDIC's role in minimizing effect of fraud on the banking industry is exhibited in section 32 of the Decree, which stipulates "**any licensed bank or such other financial institutions which insures its deposit with the corporation shall be required to provide fidelity bond coverage""**. This insurance policy covers frauds and forgeries committed by bank staff and are intended to reduce the adverse effect of insider frauds. The fidelity insurance cover policy is expected to be renewed annually and the minimum coverage is 15% of the bank's balance sheet paid up capital of the preceding year.

The NDIC's bank supervisory activities are an important responsibility in banks deposit protection. This responsibility is carried out by the corporation through on-site and off-site examinations of all insured banks in the system.

The On-Site Examination

Is carried out by the Field Examination Department. They undertake routine examinations CBN/NDIC on examinations and target or special examination.

The routine examinations are regular physical examination of the books and affairs of the banks to ensure their safety and soundness, while the target or special examinations are conducted on specified aspects of bank's operations.

The Off – site Supervision Department

On the other hand monitors bank activities and conditions through analysis of statutory returns, annual reports, external auditor's reports and on-site examinations reports.

The NDIC use various options to tackle problem banks, it may:

b. Runs into liquidation or is wound up or dissolved;

c. Do not comply with any condition requisite to granting such licence, or any obligation imposed upon it by the Central Bank of Nigeria Decree of 1991

d. Have insufficient assets to meet liabilities

Section 13 of the Decree provides that all banks must maintain at all times, in all its offices within and outside Nigeria, certain ratio of capital funds unimpaired by issues to all of any assets or to all or any liabilities or to both or as shall be specify by the Central Bank; failure of which the CBN has power to prevent such bank from carrying on certain business such as granting credits, making investment, paying dividends to shareholders, advertising or excepting deposit.

The Central Bank can appoint the Nigerian Deposit Insurance Corporation (NDIC) or other qualified persons to be liquidator for any bank whose license is revoked, the liquidators will ensure the orderly winding up of the bank. The NDIC is in the

capacity as both liquidator and underwriter and has liability of up to ₦50,000.00 (fifty thousand Naira) on each depositor.

Sections 39 and 40 of the NDIC decree No. 22 of 1988 place on the insured banks in Nigeria, the responsibility of rendering to the Corporation, monthly returns of frauds, forgeries or outright theft occurring during such months and notifying the corporation of any staff dismissed, terminated or advised to retire on the ground of fraud.

a. Pay off depositors up to a maximum of N50,000.00
b. Transfer insured deposits to another bank or other banks, such that the customer continues normal banking business with the new bank(s);
c. Arrange for another bank to assume all of a failing bank's assets in return for cash payment by the NDIC in a purchase and assumption transaction;
d. Establish a new bank as a bridge bank with a name different from that of failed bank, but transfer the deposit liabilities and assets of the failed bank to the new bank such that the new bank manages them for a temporary period before liquidation if deemed necessary.

There is a standing committee consisting of both CBN and NDIC officials for resolving the difficulties of problem banks. These various options in banking problem are explained in the later chapter above.

4.4 THE FAILED BANKS (RECOVERY OF DEBTS) AND FINANCIAL MALPRACTICES DECREE

The Nigerian Financial System has undergone some remarkable changes in recent times. Some of these developments include the promulgation of the Failed Banks (Recovery of Debt) and Financial Malpractices in Banks Decree No. 8 of 1994.

This is to facilitate the prosecution of those whom contributed to the failure of banks and to recover the debt owned to the failed banks. Also to help reverse the ugly trend of dying embers and loss of confidence in our financial system.

Another major development in Nigerian financial system in recent times was the inauguration of Financial Services Regulatory Coordination Committee (FSRCC) by the CBN in 1994. The aim is to coordinate and standardize the regulatory policies of all financial institutions in the system with a view to evolving some cooperation among regulatory agencies.

The Failed Banks Decree on its inception assumed the status of the "'Sword of Damocles hanging over the neck of societal cheats and frauds". The decree established a tribunal vested with the powers of (as provided by section 3(1) paragraphs a – d.

- ✓ Recovering the debts arising from normal course of business owed to failed banks;
- ✓ Try offences specified by the Decree and banking related decrees

The tribunal has exclusive jurisdiction over all ancillary matters and other issues connected with an offence or hearing over which the tribunal has jurisdiction.

The offences under the decree as provided by section 19(1) include

a. Any director, manager, officer or employee of a bank who:

i. Deliberately recklessly grants, approves the grant of a loan, an advance or any form of credit facility to any person that do not have, or is inadequate or defective security or collateral as accepted by banking regulations;

ii. Grants: approves the grant or is otherwise connected with such grant that is excess of his limit as stated by law or any regulatory authority or the bank's regulation;

iii. Receives or take part in sharing for personal benefits any money, profit, property or pecuniary benefit towards or after the procurement of a loan, an advance, a guarantee or any credit facility from any person;

iv. Recklessly grants or approves a loan or an interest waver where the borrower is known to have the ability to repay the loan and interest;

b. A person who is indebted to , or a customer of a bank who negligently, wilfully or recklessly provided any information knowing it to be false with the intention of deceiving the bank so as to avoid paying this obligation to the bank;

c. Where the person referred to in (b) is a body corporate any of its directors, managers, officers, employees or partners who is responsible or connected with the doing of the acts referred to above is guilty of the same offence.

Various penalties are proffered in the decree for persons found guilty of the offence as stipulated in section 19 of the Decree. The penalties ranges from imprisonment to various terms or and option of fine, to confiscation of the offender's property as may be deemed fit by the tribunal to be appropriate for the weight of the offence committed, these penalties are provided in section 20 of the decree.

The promulgation of this decree was in good time and the impact of this decree is well felt, most of the defaulters were accordingly dealt with as recommended by the decree and it has served as a deterrent to other persons. This is evident in the decline of the rate of frauds and other malpractices in the banks after its (the decree) inception.

4.5 BANK DISTRESSED AND MEASUREMENT OF FINANCIAL SECTOR DISTRESS

Financial distress in the Nigerian financial system is a problem that dates back to the early days of banking in Nigeria, the stages of development within the sector is made up of so many cases of bank failures. But became more manifested since the introduction of Structural Adjustment Programme (SAP) which brought in incompetent and inexperienced hands to assume senior positions in some banks and also people of questionable credentials joined the industry.

Because 1989 and 1996, the financial conditions of many banks and non-bank financial institutions worsened significantly which compelled the authorities to take decisive steps to restore public confidence in the financial system. During this period, the number of banks classified as distressed increased from 8 to 52.

However, this number decreased by five as at end of December 1997 following the lifting of holding actions on some of the distressed banks. The CBN took over the management of 17 distressed banks in 1995 and an additional one was taken over in 1996 by October 1997, 28 distressed banks were transferred to Nigerian Deposit Insurance Corporation for direct supervision and control. Since the banking crisis

started , the Central Bank has revoked the licenses of 31 banks, 4 in 1994, 1 in 1995, 26 in 1998 and 1 in 2002 when the license of Savannah Bank of Nigeria was revoked on February 15, 2001.

Financial failure otherwise referred to distress in a bank is said to occur when a bank is unable to meet its obligations to customer, its owners and the economy as a whole. In another way, is a situation where the total liabilities of the bank exceed the market value of the assets.

Measurement of Financial Sector Distress

A number of indicators have been developed for measuring the state of distress in a financial institution. Most of them are variants of the CAMEL rating an acronym for Capital Adequacy, Asset Quality, Management Ability, Earnings Strength and Liquidity Sufficiency. The parameter adequately covered every factor required for a sound bank.

A bank is said to be in distress where evaluation by the supervisory authorities depicts the institutions as deficient in the following performance criteria:

a. Gross under capitalization in relation to the level of operation
b. High level of classified loans and advances
c. Liquidity reflected in the inability to meet customers' cash withdrawals
d. Low earnings resulting from high operational costs and
e. Weak management reflected in poor credit quality inadequate internal controls, high rate of frauds and forgeries etc.

It might be important at this point to examine the parameters in detail. Essentially, the composite banks rating (CAMEL) is preferred to the individual rating measure because the composite rating techniques takes into account a wide range of factors on determining whether the bank is healthy or sick.

- **CAPITAL ADEQUACY**

This is a solvency that is ability of capital to meet or cover asset acquired. A bank capital is usually defined as equity fund or shareholder fund available to the bank which include paid up capital, retain earning, statutory reserve, share premium and this is measured as follows:

$$\text{Capital Adequacy} = \frac{\text{Total Capital}}{\text{Total asset or total deposit}}$$

- **Asset Quality**

Bank asset determines the extend to which the bank can perform as primary function of credit delivery. Numerically, a bank asset is the summation of liability and net worth. The survival of success of a bank therefore depend on its ability to acquire the right kinds of assets as well as to maintained the right structure and portfolio asset. A bank is therefore required to have large investment in assets of the highest yield, its measure follows:

$$\text{Asset Quality} = \frac{\text{Cash and short term fund}}{\text{Total Asset}}$$

= Income earning asset

Non-income earning asset

- **Management Competency**

The performance and survival of a bank depend on a large extent on the competent and ability of its management. The management of a bank is the team of personnel that is charged with the responsibility of optimally utilizing the resources available to meet the objectives of rendering external services, securing customer's deposit and profit making. Some of the indices used to asses good management or management ability include the following:

- ✓ Professional competence i.e necessary skill, experience etc
- ✓ Adherence to banking policies and regulations
- ✓ Control of cost
- ✓ Cognitive initiative to meet the challenges of dynamic economic environment
- ✓ Sterling leadership qualities, which motivate employees to put in their best

Any management that optimally satisfied these requirements must be good enough to put the bank in a sound financial fitting.

- **Earning Strength**

This is the ability of a bank to make money and subsequently make profit. It is obvious or fact that business enterprise will not survive if it failed to make sufficient profit both in short and long run. The earning power of bank is evaluated using the ratio:

(i) Total Earning

Total Asset

(ii) Profit Before Tax

Total number of staff

- **Liquidity Sufficiency**

Means the amount of cash available to the bank at any point in time. This position enables the bank to meet its day-to-day cash requirement of its customers who may likely to withdraw funds to cater for their own activities. The level of its liquid asset can determine the liquidity of a bank. Liquid asset like cash and short term fund are normally employed in meeting the bank transactionary needs, precautionary needs against unforeseen demand for cash and Central Bank liquidity requirement. It is evaluated using the following ratios:

(i) Total cash in vault /CBN

Total Deposit

(ii) Total fund on call

Total Liabilities

Bank Classification based on the CAMEL rating

Class	Composite score in % i.e. classification score	Rating
A	86 – 100	Very sound
B	71 – 85	Sound
C	56 – 70	Satisfactory
D	40 – 55	Marginal
E	0 – 40	Unsound (Sick or distressed

The regulatory authorities use this rating to determine the level of performance in banking industry.

4.6 CAUSES OF BANK DISTRESS(FAILURE), ITS EFFECT AND RESOLUTION OPTION

Several causes of distress have been identified. These can be categorized into two broad groups, namely internal and external causes. The internal causes of distress include weak management, inadequate capital base and fraudulent and corrupt practices, as well as poor asset/liability management. On the other hand, external causes of distress include: macro-economic instability, inadequate legal framework and structure, delay in the implementation of supervisory action towards distressed institutions, political interference and instability, etc.

- **Weak Management**

This bears a high share of the causes of failure in banks, the quality of management is usually determined among other things by academic/professional qualifications, relevant experiences, business reflex, ability to formulate and implement good

policies and leadership qualities. Because of the relative attractiveness of banking , it becomes a free for all affairs where sorts people even without proper grooming find themselves in the management of banking operations, these definitely results in bad management.

- **INADEQUATE CAPITAL BASE**

Banks are expected to maintain adequate capital to meet their financial obligations, operate profitably and contribute to promoting a sound financial system. It is for these reasons that the Central Bank of Nigeria prescribed the minimum capital requirements. When a bank's capital falls below the prescribed ratio, it is an indication that the bank may be heading for distress. Bank examination reports showed that a good number of banks operating in Nigeria were grossly under capitalized (a situation when bank cannot effectively finance its operations and even pay or settle its creditors as a result of insufficient and inadequate capital base). This situation has been attributed to the low level of initial capital, the effect of inflation as well as adverse operating results due mainly to inability to make appreciable recoveries fro their non-performing assets maintained by some banks, unnecessary devaluation of money and unstrict lending policy which result in too much bad debts. These factors have combined to erode the capital base of the banks.

- **Fraudulent And Corrupt Practices**

The problem of weak management has been compounded by unprofessional behaviour of some banks owners and managers. Revelations from proceedings of

the Failed Banks (Recovery of Debt) and Financial Malpractices Tribunals shows that they obtained loans from their banks without proper documentation and corporate collaterals. Most of those who obtained loans in that way had no intention of repaying. Common practices also include the inflation of contracts, insider abuse, and receipt of brokerage on deposits collected. The employment policy in banks reflects the ownership structure so represented will not see anything wrong in what his fellow man does. All these have contributed to the weakening of the ability of the banks to perform their function creditably. Honestly, fraud precipitates a bank's failure.

- **Poor Asset and Liability Management**

Several of the distressed banks suffer from poor asset and liability management . The portfolios of assets of the majority of these banks were concentrated on loans and advances that became non-performing. Other assets such as treasury securities, investments and cash accounted for a small proportion of their asset portfolio. Also there must be a prudent balance between the bank's assets and its liabilities. The structure of deposit must also indicate the investment of such deposit, however, most banks finances long term projects with short-term funds.

Hence the need arises to refinance such credits from the inter-bank markets at any cost to keep the bank in shape.

- **Planning**

Most bank in Nigeria do not plan and have no stated objectives and targets, which in turn made it difficult for performance to be judged. Planning makes it possible to identify various options available to a bank, setting the objectives and identifying and deviation and proffering remedy actions. It is easy in a planned environment to envisage failing tendencies and make corrective measures, but where there is no planning these advantages is missed.

- **Macro – Economy Instability**

Macro-economic instability can cause distress in the financial system. For example, when there is economic recession and output declines over a period of time, some borrowers may find difficult o repay their loans as a result of low sales. Similarly, inflationary conditions could adversely affect deposit mobilization by banks as households spend greater proportion of their income on durable items of consumption. Both invents could pose liquidity problems to a bank.

- **Inadequate Legal Framework**

The ability of the supervisory authorities to deal with distressed financial institution has been hampered for inadequate framework. A situation where a monetary authority requires prior approval of the executive branch of government to deal decisively with ailing banks may involve excessive bureaucracy. This causes delays and allows the distress to spread before resolution options are applied.

- **Political Interference And Instability**

Undue political interference in the running of the affairs of a bank could lead to distress. This is typified by the experience of government – owned banks where several loans granted through the influence of those in authority were hardly repaid . Similarly, unstable political environment could contribute to the loss of confidence in the financial system, engendering a run on the system.

- **Inability To Adopt To Change**

In this era of growing competition and sophistication on the part of the customers, banks must do all within its power to catch up with changes in the environment in which it operates. Most of the banks cannot afford modern facilities or technologies in banking industry to put them in competitive position. And this will result in poor profitability due to a competitive disadvantage of lack of modern facilities. Example of such facilities easy flow and safer storage of information in the bank.

- **Risk Asset Portfolio**

Most banks do not have clear investment or credit policy and there is absolutely no control on credit, this is a reflection of poor management. Most officials of these banks with leading power lend their businesses or friends without due easement of control with these credits not collaterized. The result is hard core credits in form of advances to customers and trading in commercial papers. Banks made losses investing in commercial papers are recognized as treasury activity but they are not subjected to risk assessment.

❖ Effect of Bank Failure or Distress

Bank Failure has multi-dimentional effects. The direct effect, which is the obvious one is the probable loss of the depositors' money either in full or in part. Even when the Nigerian Deposit Insurance Corporation (NDIC) undertakes to repay the depositors there will be delay, which impairs the liquidity of the deposit.

❖ Distress Resolution Options

In combating distress, the authorities try to identify its causes and thereby apply short run or long term measures. If the distress is as a result of illiquidity, short run measures such as lender of last resort facilities and direct intervention by the monetary authorities are undertaken. However, if the distress is due to insolvency, long term measures such as re-capitalization, mergers and acquisitions, sale and takeover and outright liquidation are considered. In Nigeria, the above options have been tried with different degrees of success.

❖ Financial Assistance

Finance assistance implies a situation whereby banks are given temporary accommodation by the monetary authorities. The CBN has done this on several occasions. For example, the CBN in collaboration with the Nigeria Deposit Insurance Corporation had to organize a rescue package of N2.3 billion to bail out some distressed banks in 1989. In addition the quantum of distressed bank had to organize a rescue package of 2.3billion to bail out some distressed banks overdrawn positions with the CBN stood at N17.2 billion as at end December 1977.

- **Holding Actions**

The authorities also imposed holding actions on some banks which specified actions to be taken include re-capitalization, restrictions on fresh lending, investment on capital projects, enhances debt recovery drive and staff/branch mobilization. The holding actions had limited success because the banks failed in most cases to comply in effecting the actions on the affected banks.

- **Control and Management**

Another option for distress resolution is the assumption of control and management of some of the distressed banks by the monetary authorities. In line with this, the Federal Government has approved the CBN and NDIC to take over control and management of distress banks. This came to effect on 1st October 1997. The Federal Government also promulgated decree No. 18 of 1994 on failed banks (Recovery of Debts) and other financial malpractices in order to deal with problems of bad loans and malpractices in banks granted loans and advances to themselves other staff without collateral and with little consideration for ability to repay.

- **Revocation of License**

The revocation of licenses is the lat option, which has been exercised by the CBN. As at the end of January 1998, the licenses of 31 banks had been revoked by the CBN. Also on 15th February 2002 the license of Savannah Bank was revoked. This is done in order to sanitize the banking industry so that public can have confidence on their operations.

4.7 SUMMARY

Within the framework of this chapter, the cases and perpetrators of frauds in the banks, what effect it has on the banking industry is discussed. Attempt is also made to deal with the role of the regulatory authorities and their impact on the industry and then the failed banks, the causes, the effects and distress resolution were discussed.

The incidence of fraud in the banking industry was alarming and the consequent effect is e3qually devastating, however, with the efforts of the regulatory authorities and the government, such cases has been on the decline.

The Failed Banks Decree can be said to be one of the best things that happen to the financial system in recent times, but series of amendments should be made in order to achieve the objectives fully.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 SUMMARY

This research work has been undertaken with an objective in mind to enquire in the disturbing issue of banks fraud as a whole, and ways of prevention and control of frauds with more emphasis of commercial banks.

In the introductory chapter, the significance of banking industry in an economy was highlighted and thereafter, the long run effect of incidents of fraud within the Banking Industry was equally emphasized. The object of the study its scope and limitation also state.

The second chapter effort was made to review relevant literature existing in the area. Attempt was also made the lo trace the nature and dimension, prevention and control of fraud, importance of timely fraud detection, and statutory consideration for fraud commission and lastly responsibility of fraud detection.

The third chapter was devoted to the brief history of union Bank and the annual report of 2004 present by the acting chairman of Union Bank.

Chapter four dwells on effects of fraud, regulatory authorities, failed banks that recovery of debts. Also in the chapter are causes of distress and effects and the resolution options.

Recommendation on ways to curb fraud, identification and indeed improving the services to the banking industry was proffered in the chapter five and also possible areas of further research in the concluding part of this write – up.

5.2 CONCLUSIONS

With banking industry recording unprecedented growth, the need to establish strong and adequate measures to identify fraud and proper solutions to the endemic problem, like on control measures to be established. Although it is unfortunate that the prevailing materialistic values of the society have made many officials throw away banking ethics to the dogs, a reawakening needs to be done by the industry through organized training and code of behaviour.

The present trend of fraud in the industry in Nigeria whereby Directors have to be arraigned before special tribunals in order to recover ill gotten loans and eroding the confidence of both indigenous and foreign investors in doing business via the banks. Conclusively, though it may appear to be forthandly for one to believe that fraud cannot be eradicated completely, nevertheless, it can b e reduced to the barest minimal if only strict measures are taken.

5.3 RECOMMENDATIONS

The object of any study (inquiry) which requires in depth exploitation of a problem is to make recommendations, the following suggestions are raised a possible solution to fraud prevention and control when followed.

1. Adequate training and re-training of staff should be regular. The training should emphasis the responsibilities and loyalties of the staff to the bank.

2. Screening of bank staff: Bank workers must be screened to make sure that those who authorized payment of money are honest.
3. It is in fact worthy of mention that bank “MUST” observe and down Banking procedures if only to reduce incidences of fraud and forgeries.
4. Payment to third parties across the counter must be properly checked, particularly when third party is not well known to the bank .

The following recommendations are given by the committee of Bankers set-up in 1982 as part of the measures taken in eradicating frauds and all other fraudulent activities.

i. Name of dismissed staff be circulated to member banks

ii. Strict disciplinary action should be taken against fraudulent staff to serve as a deterrent for others

iii. Institute of bankers should black list such staff.

iv. Bankers committee contrary should maintain a data bank on dismissed staff and those forced to resign.

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

a. No person shall be employed in a bank without a satisfactory reference from their precious employers

b. Reference must be made to the banker’s committee data bank before any person whose appointment was terminated or was forced to resign is employed.

C. CBN should impose penalties on banks which make no return on staff who leave their services each month as a result of dismissal or retirement.

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