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FRAUD IN NIGERIAN BANKING INDUSTRY A STUDY OF CUSTOMERS' PERCEPTION WITHIN THREE COMMERCIAL BANKS IN UYO METROPOLIS

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ABSTRACT
Fraud has become a major cause of bank failure in the Nigerian banking industry. This study sets out to examine major factors that have contributed to frauds in the Nigerian banking sector. The study intends to ascertain the impact of fraud on customers of the bank. A sample of 384 respondents was taken from three selected commercial banks in Uyo metropolis purposively. These include union, first and diamond banks. In each bank 128 questionnaires were given out to customers. A total of 322 copies of valid questionnaires were retrieved and used in the study. The routine activity theory by Cohen and Felson 1979 formed the bedrock of the study. Findings from the study shows that regular internal auditing of the banking operations could assist in the reduction of fraud in the Nigeria banking industry. The study recommended amongst others suggestion that in the recruitment of key personnel's, banks should make concerted efforts at conducting background checks on the status, behaviour and background of the employee as it will help in establishing the probability of the persons' likelihood in engaging in fraudulent activities. Recommendations and suggestions made will help in the reduction of these malpractices.

Key Words: Bank fraud, causes, effects customer, Nigeria, economy

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INTRODUCTION

The oxford learners' dictionary defines fraud as the crime of stealing or otherwise illegally obtaining money by use of deceptive tactics. Fraud is a major financial problem of the business world and there is no work place worldwide that is immune from it. The increasing wave of fraud in Nigeria in recent years has become a threat to the nation's economy. Nwachukwu (1995) noted that more money is stolen through the banks by means of fraud which could take the form of theft of inventory assets, misuse of expense account, secret commission and briery, false involving electronic and telecommunication fraud, unauthorized use of information, cheque forgery, cheque clone, false financial statements, illegal deduction of cash from customers accounts among others, but whichever form these fraudulent acts may take, the fundamental issue is that the banking industry has fallen a victim to fraudulent acts and customers tends to bear the cost of the brunt more (Olaoye and Dada 2014). Oyejide (2008) is of the view that fraud is a subject that has received a lot of attention both globally and in Nigeria specifically. Since it is an act that can be assed and known, it is believed that internal and external auditors are supposed to guard against its malpractices through their periodic auditing.

Generally, fraud takes it root from human greedy desires. Most persons are generally greedy and deceitful above all things. (Dada 2014) also noted that the banking industry has become one of the most critical sectors of the economy, with wide implications on the level and direction of economic growth and transformation. Also sensitive issues as the rate of unemployment and inflation which directly affect the lives of people are being handled by most banks as well. Today, the integrity and functions of Nigerian banks have been called to question in view of incessant fraud and accounting scandals.

Similarly Oseni (2006) observed that incessant fraud in the banking industry has made most stakeholders in the sector to lose their trust and confidence in the industry. He further added that the extent of fraud in Nigerian Banking sector has become a source of embarrassment to the nation and attempts by law enforcement agencies to track down offenders is in progress.

STATEMENT OF THE PROBLEM

Fraud entails attempts by the persons involved to achieve financial gain at the expense of legitimate customers of financial institution through transaction channels, such as credit cards, debit cards, ATM, online banking among others. (Sudjianto, 2010). Generally, everyone in society expects greater accountability, fairness, transparency and effective intermediation from banks, ensuring that bank workers carry out their responsibilities with sincerity of purpose, devoid of fraud which is an important ingredient for gaining public trust and confidence. The extent to which fraud is prevalent in the banking sector, the nature and causes of bank frauds and proffering solutions to fraud problem is the focus of this study.

Given the foregoing coming, this study will answer the following research questions:

(i) What are the causes and effects of fraud in the banking industry?

(ii) What factors contributes to bank fraud in the banking industry?

(iii) What is the impact of fraud on customers in the banking industry?

OBJECTIVES OF THE STUDY

The main objective of the study is to investigate fraud in the banking sector in same selected banks in Uyo metropolis. Specifically, the study will:

(1) To investigate the causes and effect of fraud in the banking industry.

(2) To identify factors that has contributed to fraud in the banking sector.

(3) To evaluate the impact of fraud on customers in the banking industry.

(4) To make suggestions and recommendations that should assist the reduction of bank fraud based on the study findings.

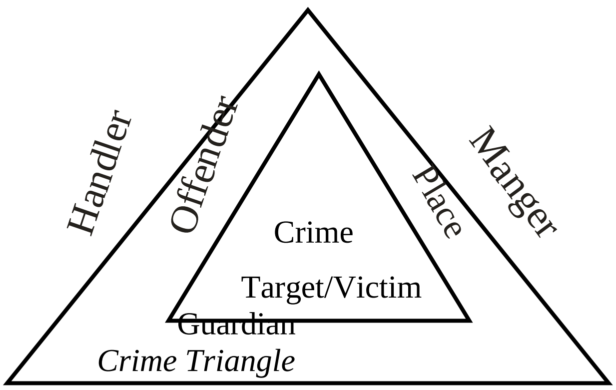
THEORETICAL FRAMEWORK

The Routine Activity Theory: Routine Activity theory is the theory that is adopted for this work. The theory was developed by Lawrence E. Cohen and Marcus Felson in 1979. Routine activity theory is an environmental place – based explanation of crime, where the behavioural patterns and intersections of people in time and space influence when and where crimes occur. According to Cohen and Felson crime occurs when these three elements come together:

(1) An accessible target

(2) The absence of capable guardian

(3) The presence of a motivated offender.



Crime Triangle

Cohen and Felson argue that the likelihood of crime increases or decreases based on the existence of these three elements. That when there is absence of capable guardian that could intervene example the police patrols, security guards, door staff, vigilant staff and co-workers, friends as well as neighbours and there is a presence of motivated offender, a suitable target is accessed crime is bound to occur.

It argues that in order for a crime to occur, motivated offenders must converge with suitable targets in the absence of capable guardians. Also that the probability of the situation is influenced by our routine activities at work, family and leisure for instance, if we spend more time in public places such as in bars and on the street we increase the likelihood that we will come into contact with motivated offenders in the absence of capable guardian. As a consequence, we are more likely to be victimized.

Cohen and Felson demonstrate that these simple ideas can be used to help explain the increase in crime such as fraud being experienced in the banking industry. This approach can also be used to explain geographic differences in crime rates, differences in the amount of crime experienced by socio-demographic groups e.g. why young Nigerian males have a high rate of crime victimization and individual differences in crime.

The routine activity theory is valuable in this study because it compliments traditional crime theories typically focuses on the factors that motivate or dispose individuals to engage in crime, that is to say they try to identify what factors produce motivated offenders. Unlike a theory that focuses on the individual characteristics of criminal offenders, routine activity theory examines the environmental context in which crimes occur. Also routine activity theory takes the supply of motivated offenders for granted, instead the theory focuses on the opportunities for crime in the premise that even when a motivated offender is present, no crime can occur if no opportunity is available. Hence, the people we interact with, the place we travel to and the activities we engage in influence the likelihood and distribution of criminal behaviour.

The theory suggests that reducing criminal opportunities serves a key role in reducing the prevalence of crime. The routine activity theory looks at crime from an offender point of view. A crime will only be committed if a likely offender thinks that a target is suitable and a capable guardian is absent. It is the offender assessment of a situation that determines whether a crime will take place.

METHODOLOGY

Area of Study: Uyo is the state capital of Akwa Ibom, an oil-producing state in Nigeria. The town became the capital of the state on September 23, 1987 following the creation of Akwa Ibom State from erstwhile Cross River State. The population of Uyo according to the 2006 Nigerian census which comprises Uyo and Itu is 427,873. There is the presence of various banks in Uyo metropolis considering its commercial nature and labour activities with regards to civil service activities. Hence, the need for financial transactions and the emerging problem of fraud in the various transactions.

Research Design: The Survey design was used in this study. Survey creates an avenue for real opinion to be communicated. Since this is a perception study, survey becomes necessary. 384 copies of questionnaires were specifically designed for this study. 128 copies of the questionnaires were distributed to customers in each the three banks used for study. The questionnaires were filled and returned on the spot. First bank returned 112 valid questionnaires, Union bank returned 107 valid questionnaires and Diamond bank returned 103 valid questionnaires at the end of the exercise, a total of 322 copies of questionnaires were retrieved which were sufficiently useable giving us a complete rate of 92%. And 62 copies of the questionnaire were not properly filled and voided. The 322 copies were used for the analyses.

Population of the Study: The population of this study includes valid customers with account with the three commercial banks selected for this study. This includes: First Bank, Diamond Bank and Union Bank.

Sample size and sampling Technique: Since the population of the study was infinite, the researcher used Bill Golden (2004) infinite population sample size determinant to determine the study sample. This can be graphically represented below:

$$Ss = \frac{Z^2 \times (P) \times (1-P)}{C^2}$$

Where Z^2 = confidence level @ 1.96^2

P = 5% percentage for picking of choice expressed as decimal (0.5)

C = Confidence level

$$Ss = \frac{Z^2 \times (P) \times (1-P)}{C^2}$$

$$Ss = \frac{(1.96^2) \times (0.5) \times (1-0.5)}{(0.05)^2}$$

$$Ss = \frac{0.9604}{0.0025}$$

Ss = 384.16 = 384

Conservative sample size is 384

Method of Data Collection: The instruments used in the study were both primary and secondary sources of data. Questionnaire was used to elicit information from the respondents. A total of 384 questionnaires were given out and 322 valid questionnaires were used for the study. It was on the spot assessment. The study adopted the multi-staged sampling technique. The banks were selected purposively on the basis that they have the characteristics under study. On the second stage, the respondents (bank customers) where selected using accidental sampling technique. This was on the basis that the researcher administered questionnaire on anyone she met when she arrived each of the banks selected.

Data Analysis: Copies of the questionnaire retrieved were coded and the data were analysed using simple percentages to realise the objectives of the study.

RESULTS AND DISCUSSION

In table 1, it is evident that customers' interviewed from the three bank identified computer as being an aid to fraud. Also in table 1, 76% of customers from Union Bank Plc agreed that people do forge others signature to defraud them. 84% of First Bank customers also affirmed to that, as well as 71% of customers from Diamond Bank. Still on the nature of fraud all the customers from the three commercial banks agreed that Bank officials do tap into customers' account inform of interest and charge for short mail services (SMS) without seeking the consent of the account holder.

Table 1: Showing the Nature of Fraud (N = 322)

s/n	Nature of Fraud	Union Bank (107)		First Bank (112)		Diamond Bank (103)	
		Yes (%)	No (%)	Yes (%)	No (%)	Yes (%)	No (%)
1	Computer aided fraud	87 (27)	20 (6.2)	93 (28.8)	19(5.9)	77 (23.9)	26 (8.0)
2	Forgeries of customers signature	76 (23.6)	31(9.6)	84(26)	28(8.6)	71(22)	32(9.9)
3	Use of forged cheques	78(24.2)	29(9.0)	88(27.3)	24(7.4)	81(25.1)	22(6.8)
4	Opening and operating fictitious account	83 (25.7)	24(7.4)	87(27)	25(7.7)	78(24.2)	25(7.7)
5	Tapping of funds inform of interest and SMS	90(27.9)	17(5.2)	76(23.6)	31(9.6)	83(25.7)	20(6.2)

Survey, 2017

In table 2, factors that contribute to bank fraud; poor supervision was identified as one of the factors that contribute to fraud. The findings showed that bank staffs equally engaged in fraud initiation and execution due to poor supervision by their superiors and these further affirm the routine activity theory by Cohen and Felson (1979) that when there is absence of a capable guardian that could intervene example a vigilant staff and co-workers and there is a motivated offender and a suitable target is accessed, then crime is bound to occur. Also from table 2 it is deduced that lack of effective punishment was a contributory factor to fraud.

Table 2: Showing the factors that contribute Bank Fraud (N = 322)

s/n	Factors that Contribute Bank Fraud	Union Bank (107)	First Bank (112)	Diamond Bank (103)

6	Poor supervision of subordinates	Yes (%) 87 (27)	No (%) 20 (6.2)	Yes (%) 83 (26.7)	No (%) 29 (9.0)	Yes (%) 78 (24.2)	No (%) 25 (7.7)
7	Poor information tech and data base management	75 (23.2)	32(9.9)	86(26.7)	22(6.8)	89 (27.6)	14(4.3)
8	Lack of effective deference/punishment	82(25.4)	25(7.7)	91(28.2)	21(6.5)	86(26.7)	17(5.2)
9	Downturn in the economy	68(21.1)	39(12.1)	78(24.2)	34(10.5)	71(22.0)	32(9.9)
10	Weak accounting and internal control	72(22.3)	35(10.8)	62(9.2)	50(15.5)	81(25.1)	22(6.8)

Survey, 2017

Table 3: Showing the Impact of Fraud (N = 322)

s/n	**Impact of Fraud**	**Union Bank (107)**		**First Bank (112)**		**Diamond Bank (103)**	
11	The reputation/image of bank is dented	Yes (%) 84 (26.0)	No (%) 23 (7.1)	Yes (%) 75 (23.2)	No (%) 37 (11.4)	Yes (%) 73 (22.6)	No (%) 30 (9.3)
12	Fraud slows down financial operations	67 (20.8)	40(12.4)	71(22)	41(12.7)	69(21.4)	34(10.5)
13	Bank profit is hindered	74 (22.9)	33(10.2)	78(24.2)	34(10.5)	72(22.3)	31(9.6)
14	Capital base of the bank is reduced.	61(18.9)	46(14.2)	77(23.9)	35(10.8)	65(20.1)	38(11.8)
15	Customers are discouraged	83(25.7)	24(7.4)	92(28.5)	20(6.2)	74(22.9)	29(9.0)

Survey, 2017

According to the findings from table 3, the result showed that on the impact of fraud; the result showed that the respondents regarded the bank that has a higher reputation on fraud has low patronage. From the findings it is glaring that fraud slows down the financial operations of the bank. The larger society expects greater accountability, fairness, transparency and effective intermediation from banks, ensuring that they carry out their responsibilities with sincerity of purpose and devoid of fraud, as this is an important ingredient for gaining public trust and good will.

CONCLUSION AND RECOMMENDATIONS

The banking industry having witnessed massive growth needs to establish strong and effective measures to identify fraud and creates control measures to tackle the fraudulent practices in the industry. The present trend of events in which the directors in various banks in Nigeria are arraigned before the Economic and Financial Crime Commission to recover ill-gotten money erodes confidence in customers doing business with the banks in Nigeria. Bank fraud should be exposed and the criminals should be punished severely to serve as deterrence to other criminal minded persons. Conclusively, the attitude of the general public towards controlling of fraud in the society has not been encouraging as we continue to celebrate the fraudsters knowing fully well that their source of wealth is not genuine, so the general public should desist from this attitude of celebration and resort to scorn.

i. Screening of bank staff should be made paramount to see that only honest people are authorized to be either paying chaiser or receiving chaisers to help reduce fraud in the industry.
ii. Payment of third parties across the counter should be properly assessed to be sure the payment is done to the right person.
iii. Strict disciplinary action should be taken against fraudulent staff to serve as a deterrent to others.

iv. Punishment should be equal to the offense committed.
v. Management should not in any way try to cover up any fraudulent activities in the bank in the fear of negative publicity.
vi. The bank should adopt the system of rotation of staff. A staff should not be allowed to stay at one position for a long time also a staff should be posted from one branch to the other from time to time, not allowing one staff to remain at a branch till retirement.
vii. Incessant downsizing of the staff in the banking industry should be reduced.
viii. Banks should allocate at least an accounting officer to 10 customers, to see to the customers' needs. As this will help in know your customer, KYC.

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