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STRATEGIES FOR EFFECTIVE MANAGEMENT OF BANK FRAUDS IN NIGERIA

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Introduction

"Crime is a symptom of more deep-rooted problems, it makes more sense to try to correct the causes that should have the greatest positive impact on the symptoms." Anderson (1981).

The above statement summarises the purpose of this paper. Fundamentally, banking is a business of money and near money instruments. As we know, money, they say, is the root of all evil. It is not therefore surprising to see Nigerian banking businesses being associated with frauds of varying degrees and dimensions. We should not really be worried with the presence of frauds in our banks. It is there and will continue as long as we operate in a human environment with its attendant biblical origin. Rather our main concern should be on how best to manage its existence. This is the focus of this paper.

It is a known fact in the present times that fraud and corruption are the worst enemies of our society. It is also generally and strongly believed that gross mismanagement is responsible for Nigeria's present economic woes, but it cannot be doubted that frauds have very much played greater role in this direction. It call for an objective focus on the appropriate remedy measures. Essentially, the Nigerian legal system recognises fraud as a social problem pervading the various sectors of the economy including the banking sector. Thus, numerous Act, Decrees and even Edicts addressing the issue of frauds in Nigerian banks have been put in place. Unfortunately, the target has not been realised because of the problem of execution and enforcement of such laws. The Banking Act, 1969 and Central Bank of Nigeria Act 1958 have some legal provisions aimed at preventing the perpetration of frauds in our banks. The same provisions are made available in the current Banks and Non Bank Financial Institution Decree (BOFID) No. 25 and CBN Decree No. 24 1991 that repealed the 1969 Banking Act and CBN 1958 respectively. Other legislation dealing partly or wholly with fraud include, among others Dishonoured Cheques (Offences) Acts. No. 14 of 1977; Criminal (1958) and Penal (1960) Codes; Bank Employees, etc. (Declaration of Assets) Decree 1986, Special Tribunal (Miscellaneous offences) Decree 1984, Counterfeit currency (Special Provisions) Decree No. 28 1984, Decree No. 22, 1988, Bankruptcy Decree 1979 and currently Failed Banks Decree, 1994.

Despite the legislative efforts of government, frauds in Bank have continued to persist unabated. It now demand practical and realistic strategies to cope with the management of frauds in Nigerian banks. This is where we begin.

1.1 Fraud: An Overview

Banks play significant role in the development of the economy by rendering services ranging from granting of savings and loan facilities, money transmission, business advisory services to foreign exchange facilities among others. These services are bedeviled with fraudulent practices that makes the attainment of profit objective of banks rather impossible thereby posing big problem and greater challenge to the entire banking system.

Fraud, according to the Encyclopedia of World Dictionary, is deceit, trickery, sharp practice or breach of confidence by which it is sought to gain some unfair or dishonest advantage. It can be defined as criminal deception, dishonest artifice or trick. It is also the act of depriving a person dishonestly of something that belongs to him or something that he would have been entitled. Uban (1986) sees fraud as stretching to embrace the act of asking for favour before performing a legitimate duty and discriminate application of the banker's tariff like intentional failure to use the normal rate to gain more from a customer.

From the above definitions, some characteristic/features of fraud can be identified. These are deception, dishonesty, deprivation, sharp practice, breach of confidence, criminality, litigation and failure to use approved procedures. Fraud is often perpetrated by an individual or group of individuals. They have different classifications. Essentially, the following categories can be identified.

- i. **Insiders Job:** This is when fraud is perpetrated by the staff of the bank and it is very common.
- ii. **Outsiders Job** This is when fraud is perpetrated by outsiders without working through a staff of the bank.
- iii. **Combined Job:** This is when fraud is perpetrated by the combination of insiders and outsiders. The success rate of this category of fraudsters is higher than the first two.
- iv. **Lone Ranger:** This is the fraudster that operates alone whether as an insider or an outsider. They are usually smart and understand the system very well. They are difficult to manage and detect.
- v. **Syndicate Operators:** These are organised fraudsters that make use of insiders and outsiders. The leader or 'master' is usually very smart with considerable knowledge of the operational system of the bank. It has been found that Ex-staff or dismissed staff of banks usually lead syndicate operations.

Bank frauds have become very rampant in the Nigerian banking industry assuming ugly dimension. It is a cancer worm that has eaten deep into the fabrics of Nigerian banks. It takes various forms and vary widely in nature, character and method of perpetration. Consequently, the classification of types of frauds is often a very difficult exercise. However, Sydney (1986) and Committee of Chief Inspectors of Banks (1987) prefer to group fraud according to the perpetration while Bankers Administration Institute-Illinois (1972), Adekanye (1986) and Ademunmi (1986) classified it based on the method used.

On the basis of perpetration, bank fraud may be grouped into three broad categories:

Internal Fraud - committed by members of staff

External Fraud - committed by members of the public other than bank staff.

Mixed Fraud - committed by outsiders in collusion with bank staff.

On the basis of method used, the following types of fraud can be identified. Cashiering Fraud: Classification of Accounts (current, saving, Deposit and suspense accounts), Printing of bank documents, illegally (forgery) clearing fraud; Computer fraud; Telex fraud; Foreign exchange fraud (letters of credits and others); Cross-firing of cheques and Kite-flying, suppression of lodgement, embezzlement or outright theft of cash; opening and operating of fraudulent loan account; over-invoicing for services to the bank; Robberies, Misuse of various "suspense accounts;" misappropriation of funds by staff; diversion of bank funds; suppression of cheques; and advances to non-existing customers.

Ojigbede (1986) gave a more embracing classification. He classified fraud into errors and irregularities. Errors are mistakes which are not intended but which do occur. They produce unreliable records and include omissions of proper entries, inclusion of incorrect entry, erroneous calculations and errors in posting. Irregularities are fraud intentionally perpetrated and may take any of the following forms: deliberate omission of an entry, introduction of improper entry, improper calculation, improper posting, manipulation of documents, substitution of fictitious documents and alteration of genuine documents. Ojigbede (1986) further subdivided irregularities into distortions and defalcations. Distortions are deliberate misrepresentation of financial position or operating results without any immediate loss of assets (**Window dressing**). Defalcations are fraud of irregularities that result in immediate loss of assets. Types of defalcations include:

1. **Interceptions** - misappropriation of assets before they are recorded.
2. **Abstractions** - misappropriation of recorded assets and
3. **Diversions** - Misappropriation of recorded assets by discrediting the contra for recorded assets or by improperly converting disbursements.

Other types of fraud include Larceny, teeming and Lading, burglary, kidnapping/Extortion, computer fraud and stolen and forged cheques. Infact, the types of fraud cannot be exhausted. This is because of the notoriety and ingenuity characterising defraudsters, as they are always devising new method of defrauding banks.

Causes of Fraud

A number of factors are responsible for the perpetration of frauds in our banks. For purposes of brevity, elaborate discussion of the causes cannot be made here, rather they are highlighted to suit specifications. Principally, some factors within the confines of the banking environment can cause fraud while others external to it can also cause it. Thus, internal and external causes of fraud can be identified. While the former can also be called institutional factors/lapses/inadequacies, the latter can be called socio-economic factors/lapses.

Institutional factors are lapses within the control of the bank's management. Success or failure of these factors depend significantly on the ability of management in detecting, planning, organising, directing and controlling the symptoms. The major institutional causes of fraud is poor management, which is often manifested in numerous ways. They include

- (a) **Poor Supervision:** Most employees perceive their work place as very conducive for the perpetration of fraud because of lack of adequate supervision. According to Ubani (1986) the incidence of fraud will be at minimum where the work of staff are properly supervised by well trained and articulate officers.
- (b) **Human Resource Problem:** Apart from lack of training programme for staff, our banking industry is characterised by hiring of incompetent and inexperienced staff. Ogundipe (1988) concluded that "the use of such criteria as favouritism, ethnicity and other factors have resulted to the recruitment of non-professionals who lack the ability to conceptualise let alone manage the process intelligently". Other human resource problems include lack of job rotation, inadequate staff performance appraisal, understaffing and high personnel turnover.
- (c) **Weak internal checks and controls**
- (d) **Hostility of the boss.**
- (e) **Frustration**
- (f) **Lopsided rewarding system.**

- (g) **Loose and ineffective security system (Structural inadequacies).** Anderson (1981) identified four top security problems as:
- i. Lack of interest, awareness and concern on the part of the Board of Directors and the top management of many banks in security problems.
 - ii. General lack of security knowledge and expertise on the staff of the banks and bank's regulatory bodies.
 - iii. The great tendency in many banks on asset protection programmes to the neglect of people protection programme.
 - iv. The reluctance on the part of a good number of banks to hire even one full time professional security office.
- (h) **Lack of pungent sanctions.**
- (i) **Sole authority system of management.**
- (i) **Unrestricted access to Telex, Test-keys.**

Socio-economic causes of fraud include:

- i. **Personal causes** - moral upbringing, weak minds and habitual criminals;
- ii. **Insatiable lust for wealth and societal acquisitive instinct.**
- iii. **Police negative attitude in handling fraud cases.**
- iv. **Lack of deterrent punishment.**
- v. **Over monetization of the economy.**
- vi. **Loopholes in the banking industry.**
- vii. **Bank staff's negative attitude in following laid down procedures.**

Effects of and strategies for managing frauds in Nigerian Banks

The effects of fraud in Nigeria banks is quite obvious. It affects not only the banks, but also the banking public and the economy at large. To the banks, frauds results in huge losses - reduced money, profit, levels of available resources, and dividend payments; decline in the quality of service, loss of confidence, increased operating costs and waste of time and other resources in preventing and controlling fraud. The Actual/Expected losses recorded by merchant and commercial banks from 1989 to 1995 as shown in Table I, attest to the huge losses arising from fraud. Also a look at the extent of frauds and forgeries and the amount involved in Table II is revealing showing a geometric increase on yearly basis.

Colossal frauds can lead to bank failures. To the banking public, this can lead to loss of some or all of their savings or deposits with the bank. This can further result in the winding up of the customer's business.

Banks are said to be the engine of growth of the economy. Thus, bank fraud affects the various sectors of the economy, thereby distorting the economic growth of the nation. Loss of confidence caused by persistent and extensive bank frauds has affected business transactions and earnings from the different segments of the economy, thereby distorting the economic performance. Fraud has continued to fuel the Nigerian economic predicament.

Socially, fraud has affected individuals value system and the entire societal values. There is total misplacement of societal values and this has lead most bank staff especially those in the lower ranks to continuously and continually cling to fraud as a sure means of meeting the unrealistic expectations of the public. Table III validates this assertion. From the table, out of 625 staff involved in fraud in 1995, 172, or 27.52% are clerks while 123 (19.68%) staff are messengers, drivers etc.

The table also shows an increase of more than 135% in the number of different categories of bank staff involved in fraud from 313 in 1989 to 737 in 1994. However, the number decreased from 737 in 1994 to 625 in 1995. This is attributable to the federal government promulgation of Failed Banks Decree 18 in 1994.

From the above, it is obvious that the consequences of frauds in our banks both in the short and long run are very glaring. It demands pragmatic strategy to, at least, reduce the scope, frequency and rate especially in the wake of worrisome dimension it is taking. The strategies here will focus on the prevention, control and detection of frauds.

Prevention, they say, is better than cure. This is because of the cost implication. Preventing frauds in our banks should start at the stage of formulating policies. Bearing in mind the incidence of fraud, necessary controls and checks should be built into the policies and ensure their implementation. The Managing Director should ensure consciously the installation of such checks and controls as initiated by the policy making body of the bank. He should go further to inspect the compliance and implementation of those checks and controls. There should be total acceptance and implementation of the basic security principles and concepts. They are:

1. Bank security programme must have the full co-operation, support and involvement of top management. Employees must have visible evidence of top management and support.
2. Bank security and safety must be an inherent and integral part of the overall accountabilities of all managers and supervisors especially branch managers.
3. Safety and security is everyone's business and requires the development of security awareness, interest and concern on the part of employees.
4. Safety and security is primarily an attitude, an awareness and a state of mind that recognises risk and danger and does some thing to reduce that risk and danger.

Developing a good understanding, acceptance and compliance with the above principles and concepts is important for effective management of fraud in our banks.

Other preventive measures for managing frauds include -

- Daily Reconciliation of Banks Accounts and a follow-up inspection by the Branch Manager.
- Adoption of job rotation policy.
- Adherence to lending limits.
- Good remuneration package.
- Adherence to disbursement authorization limits.
- Proper security training performance for staff.
- Objective recruitment policy.
- Printing the month and year that a new account is opened right on the cheque in a very small letter. Example, if an account is opened on 15th May, 1996 it can be written 05/96.
- Depending on the volume of activity in each Branch, they should be able to adopt relatively simple and brief cheque cashing procedures and enforcing them.
- Developing incentives and rewards for those whose intelligent actions result in the prevention of a significant fraud or the apprehension by the law enforcement agent of a fraudster.
- Establishing a reasonable verification procedures
- Adopting, tight controls for cashing cheques for non-customers.
- Enshrining more preventive provisions in the banking legislation and ensuring total compliance of such provisions.

Table II: Fraud and Forgeries in Commercial and Merchant Banks

Year	Commercial Banks	Merchant Banks	Total
	Amount Involved (N'.M)	Amount involved (N'.M)	
1989	98,223.6	6,744.1	104,967.7
1990	788,798.1	15,398.8	804,196.9
1991	360,194.2	28,318.5	388,512.7
1992	351,930.0	59,820.0	411,750.0
* 1993	1,376,300.0	41,920.1	1,41,920.1
+ 1994	2,655,700.1	743,680.0	1,399,380.0
+ 1995	1,006,200.0	5,080.0	1,011,280.8

Source: CBN Bank Examination Reports and Returns in O.E. Osuagwu et al (1995). Corporate Collapse and Bank Failure: What the Ordinary Man Must Know, Owerri: Olliverson Industrial Publishing House
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Table III: Ranks of Bank Staff Involved in Frauds

S/N	Ranks	Number						
		1989	1990	1991	1992	1993	1994	1995
1.	Supervisors and Managers			66	132	127	211	151
2.	Officers, Accountants and Executive Assistants			60	66	88	144	142
3.	Clerks and Cashiers			336	156	192	720	172
4.	Typists, Technicians and Stenographers.			47	9	34	24	18
5.	Messengers, Drivers, Cleaners, Stewards and Security Guards.			51	54	51	108	123
6.	Temporary Staff			24	-	5	2	16
7.	Uncategorised Staff			30	19	40	28	3
	Total	313	417	514	436	577	737	625

Source: NDIC Quarterly (Various Issues)
NDIC Annual Report and Statement of Accounts (Various years).

Conclusion

Bank frauds have been identified as being very negatively phenomenal in the growth and development of not only the banking sector but also other sectors of the economy. It is hoped that the preventive, control and detective strategies outlined in this paper will go a long way in scaling down the incidence of frauds in our banks. In addition to the strategies suggested, the following should be considered for implementation.

1. Overhauling some provisions relating to fraud and other bank malpractices in the existing bank legislations with a view to coming up with a more determining penalty.
2. Government should look into the possibility of enacting a law dealing specifically with computer frauds.
3. A separate security unit with qualified and trained personnel and security devices should be established. They should be responsible for the initiation and implementation of security programme of the bank as well as training and retraining of bank staff on security issues.

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