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Impact of Fraud and Fraudulent Practices on the Performance of Banks in Nigeria

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Abstract

Banking business has become more complex with the development in the field of Information and Communication Technology (ICT) which has changed the nature of bank fraud and fraudulent practices. Fraud and fraudulent activities pose a significant problem to the banking industry in Nigeria. The paper, therefore, evaluated the impact of fraud and fraudulent practices on the performance of banks in Nigeria within the period 2001-2011. The main argument is that fraud and fraudulent activities have no effect on bank performance in Nigeria. The paper focused on the twenty-four (24) deposit money banks in Nigeria within the period. The paper employed evaluative research design to determine the nature, magnitude and economic consequences of fraud on banks in Nigeria. Secondary sources of data were utilized for the study. The relationships between fraud cases and other variables were estimated using Pearson Product Moment correlation. Multiple regression analysis was used to ascertain the impact of fraud and fraudulent practices on bank performance in Nigeria within the study period. The paper found that the percentage of mobilized funds lost to fraud was highest between 2001 and 2005. However, due to the stringent measures adopted by the regulatory bodies to tackle the menace of fraud and fraudulent activities, there was a significant decrease between 2006 and 2011. The paper concluded that fraud and fraudulent activities inflict severe financial difficulties on banks and their customers. They reduce the amount of money available for the development of the economy. The paper recommended that banks in Nigeria need to strengthen their internal control systems and the regulatory bodies should improve their supervisory role in order to check and curtail the incidence of fraud and fraudulent activities in the banking industry in Nigeria.

Keywords: Fraud, Fraudulent Practices, Performance, Banks, Impact

1. Introduction

Fraud and fraudulent activities affect every business. Fraud losses continue to pose a significant problem to many industries despite significant advances in fraud detection technologies. Wilhem (2004) estimated annual losses due to fraud for various industries in the US to include $67b (Insurance), $150b (Telecommunication), $1.2b (Bank), $40b (money laundering), $5.7b (Internet) and $1b (Credit card). These losses pose a significant threat to banks considering their role in the economy. Owolabi (2010) noted that the problem of fraud in the banking industry is not limited to any economy, nation, continent or environment. Fraud and fraudulent activities can ultimately result to bank failure.

Bank failure in Nigeria can be traced to the 1930's bank failure and crisis. According to Nwankwo (1994) the crisis of confidence in the Nigerian banking industry occurred in the1930s when all indigenous banks, except the National Bank, collapsed. It occurred again during the banking 'boom and crash' of the late 1940s when all, but four indigenous banks, experienced the liquidators' hammer. Also between 1952 and 1954, 16 out of 21 indigenous banks failed. In the late 1990s, 26 failed banks were liquidated while others went through various surgical operations ranging from restructuring, renaming, acquiring and outright sales to new investors.

A prominent feature of bank failure which led to the reforms in the banking sector in Nigeria was fraud. This indicates a fundamental problem with fraud investigation and management in Nigerian banks. There is, therefore, need for a comprehensive fraud management scheme to have a holistic view of all the factors involved in fraud occurrence. The holistic scheme, as Wilhelm (2004) opines, includes fraud deterrence, fraud prevention, fraud detection, fraud mitigation, fraud analysis, fraud policy, fraud investigation and fraud prosecution. These stages must be successfully integrated and balanced to reap the benefits of advancements in fraud detection technologies and to save the economy from continuous lose of money to fraud and fraudulent activities in the banking sector in Nigeria.

The objective of this paper is to evaluate the impact of fraud and fraudulent practices on the performance of banks in Nigeria within the period 2001-2011. The main argument is that fraud and fraudulent activities have no effect on bank performance. The focus of the study is on the twenty-four (24) deposit money banks in Nigeria within the period.

2. Statement of the Problem

The banking business has become more complex with the development in the field of Information and Communication Technology (ICT) which has changed the nature of bank fraud and fraudulent practices. Berney (2008) observes that customers rely heavily on the web for their banking business which leads to an increase in the number of online transactions. Gates and Jacob (2009) and Malphrus (2009) assert that the internet provides fraudsters with more opportunities to attack customers who are not physically present on the web to authenticate transactions. Within a 6 year period, the FBI received 207,051 Suspicious Activity Reports (SARs) for criminal activities related to cheque fraud, cheque kiting, counterfeit cheques, and counterfeit negotiable instruments. These fraudulent activities accounted for 47 percent of the 436,655 SARs filed by U.S. financial institutions and equaled approximately $7 billion in expected losses (U.S. Department of Justice [DOJ], 2002). According to Greene (2009), the true economic costs are about 150 percent of the actual fraud loss.

In Nigeria, in spite of the banking regulation and bank examination by the Central Bank of Nigeria (CBN), the supervisory role of the Nigeria Deposit Insurance Corporation (NDIC), and The Chartered Institute of Bankers of Nigeria (CIBN), there is still a growing concern about fraud and other unethical practices in the banking industry. Evidence from the NDIC Report (2008) reveals that the report of the examinations and special investigations showed that some banks were still bedevilled with problems of fraud, weak board and management oversight; inaccurate financial reporting; poor book-keeping practices; non-performing insider-related credits; declining asset quality and attendant large provisioning requirements; inadequate debt recovery; non-compliance with banking laws, rules and regulations; and significant exposure to the capital market through share and margin loans. Okpara (2009) found that one of the factors that impacted the most on the performance of the banking system in Nigeria was fraudulent practices.

This study, thus, examines the extent to which fraud and other unethical practices have impacted on the banking industry in particular and the national economy generally.

3. Literature Review

Fraud and fraudulent practices are in categories. Mitchell *et al (*1992) identified seventeen categories of unethical behavior in banking business which include defrauding government, bribery of public officials, insider trading, bribery of private citizens, discrimination, socially questionable activities, bad judgment in management decisions, corporate politics, unfair trade practices, industrial espionage, environmental harm, safety, conflict of interest and invasion of privacy. Most of these unethical behaviors were prevalent in banking business in Nigeria.

Fraud is not peculiar either in magnitude or sophistication to Nigeria. The crash of multinational companies like ENRON, WorldCom Inc. and Global Crossing in the wake of fraud and accounting scandals, for instance, attests to this fact. Banks, nonetheless, played a dubious role in the collapse of these corporations (Microsoft ® Encarta ®, 2009). Various reasons have been given for increased occurrence of fraud in banks and other financial service industries. Ebong (2005) observes that people are driven to commit fraud as a means of easy acquisition of money and property which, in our today's world, translate into recognition and power. The pursuit of money and the constant quest for growth may not entirely explain all the financial scandals.

Data on institutional causes of fraud in Nigerian banks were not readily available. Akindehinde (2011), in corroborating this fact, lamented the challenges often encountered while seeking data on fraud and forgeries from the banks. He noted that data could only be obtained from only eight banks between April and June, out of which only about five were received directly and the others stumbled upon. However, a survey carried out in India gave the institutional causes of bank fraud as lack of oversight by line or senior managers, deviation from existing process/controls, current business pressure to meet targets, difficult business scenario and collusion between the employees and external parties (Deloitte, 2012). The quest to outperform competitors by corporate leaders can lead a once moral and ethical person to become unethical in his actions. Barclays bank of England, for example, was accused of fixing its London Inter-Bank Offered Rate (LIBOR) submissions. The Chief Executive Officer (CEO) of the bank admitted to manipulating the benchmark interest rate because other banks were doing it. Managers, therefore, tend to rationalize their unethical behaviors especially when surrounded by the kind of people who are engaged in the same deviant behavior. Thus, where there is excessive pressure for profit and dividends at the expense of decent business conduct and service, management invariably fails to provide ethical leadership and following.

A worrisome development in fraud and fraudulent activities is increased rate of bank staff involvement especially in forgery cases. Forgery is the fraudulent copying and use of customer's signature to obtain money from the customer's account without his/her prior consent. Such forgery may be targeted at savings accounts, deposit accounts, current accounts or transfer instruments such as drafts. Okpara (2009) reported high involvement of bank staff in these fraudulent practices. Nwaze (2009) affirms that most forgeries are perpetuated by internal staff or by outsiders who act in collusion with employees of the bank.

Impersonation by third parties to fraudulently obtain new cheque books which are subsequently utilized to commit fraud is another peculiar dimension of bank fraud. Impersonation involves assuming the role of another with the intent of deceitfully committing fraud. Cases of impersonation have been known to be particularly successful when done with conniving bank employees who can readily make available the specimen signature and passport photograph of the unsuspecting customer. NDIC (2011) report reveals that 78.26 per cent of fraud which was perpetuated with staff connivance amounted to ₦900 million losses to the affected banks.

CBN (1995) special report on distressed banks showed that top management staff were involved in fraudulent activities. It showed that there was a lot of insider abuse in several banks. In some cases, the CEOs set up Special Purpose Vehicles (SPV) to lend money to themselves for stock price manipulation or the purchase of estates. The report cited a case in which the CEO of a bank borrowed money and purchased private jets which were registered in the name of the son. In another bank, the management set up 100 fake companies for the purpose of perpetrating fraud. CBN also disclosed that 30% of the share capital of one bank was purchased with customers' deposits, while another bank used depositors' funds to purchase 80% of its Initial Primary Offer. It paid ₦25 per share while the shares were trading at ₦11 on the Nigerian Stock Exchange which later collapsed to less than ₦3 per share. In another instance, the CEO of a bank controlled over 35% of the bank through SPVs borrowing customers' deposits. The collapse of the capital market wiped out these customers' deposits amounting to hundreds of billions of naira. The implication is that a lot of the capital supposedly raised by these so called "mega banks" was fake capital financed from depositors' funds.

The extent of these unethical practices in the Nigerian banking system arguably reflects the general degree of corruption in the country. Transparency International Corruption Perceptions Index (2011) ranked Nigeria as 143 out of 180 countries based on the prevalence of corrupt practices. The increase in bank staff involvement may be connected with the reluctance to report and prosecute cases by the affected banks. Gold (2009) and Olasanmi (2010) opine that because many fraud cases escape detection, it encourages many others to join in perpetuating it.

Fraud has been classified in various ways using different parameters. Owolabi (2010) classified perpetrators of fraud as management of the banks (otherwise referred to as management fraud), insiders (these perpetrators are purely the employees of the banks), outsiders (include customers and/or non-customers of the banks) and outsiders/insiders (this is a collaboration of the bank staff and outsiders). In almost the same manner, E-banking also attracts varieties of fraud such as skimming, (counter fact card fraud) stolen card, fraudulent applications, E-theft, never received issue, card data manipulation, Automated Teller Machine (ATM) video, spam mails or denial service, access swift fraud, inter-bank clearing frauds, money laundering frauds and identity theft/phishing (utilizing other people's identity such as credit card info and identity numbers to make unauthorized purchases). Table 1 below shows the types of fraud and forgeries perpetrated in banks in Nigeria.

Table 1: Types of Bank Fraud and Forgery

S/No	Types of Fraud/Forgery	S/No	Types of Fraud/Forgery
1.	Presentation of forged cheques and Dividend s	8.	Outright theft of money/embezzlement
2.	Granting of unauthorized credits	9.	Identity theft
3.	Posting of fictitious credits	10.	Granting of unauthorized Loans
4.	Fraudulent transfers/withdrawals from ers' accounts		
5.	Cheque suppression and cash defalcation		
6.	Excess charges		
7.	Non-refund of wrong debit		

Source: Field Survey 2013

Many factors account for the causes of fraud and fraudulent practices in Nigerian banks. Ojo (2008) classifies the causes of fraud and forgeries in banking transactions into two generic factors namely, the institutional or endogenous factors and the environmental or exogenous (social) factors. The institutional factors or causes are those that are traceable to the in-house environment of the banks. The notable institutional factors are weak accounting and internal control system, inadequate supervision of subordinates, disregard for "know your customers (KYC)" rule, poor information technology and data base management, hapless personnel policies, poor salaries and conditions of service, general frustrations occasioned by management unfulfilled promises, failure to engage in regular call-over, employees' refusal to abide by laid-down procedures without any penalty or sanction, banks' reluctance to report fraud due to the perceived negative publicity or image, banking experience of staff, inadequate infrastructure, inadequate training and re-training, poor book-keeping and genetic traits.

The environmental or social factors, according to Idowu (2009), are those factors that can be traced to the immediate and remote environment of the bank. These factors or causes, according to Ogbunka (2002), are manifest in the penchant to get rich quick, slow and tortuous legal process, poverty and the widening gap between the rich and the poor, job insecurity, peer group pressure, societal expectations, increased financial burden on individuals and stiff competition in the banking industry which saw many banks engaging in fraud so as to meet up with liquidity and profitability objectives. Both factors affect the performance of banks in Nigeria.

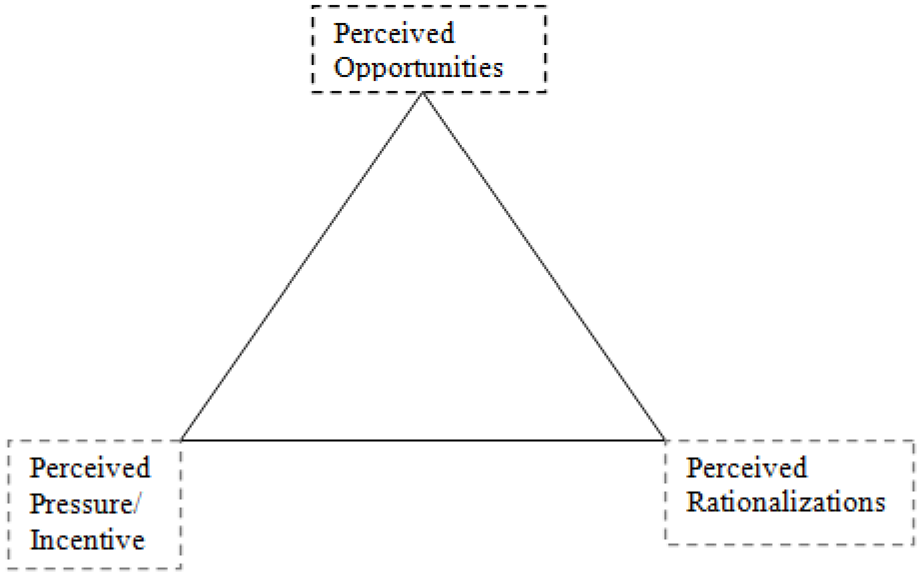
Fraud is perhaps the most fatal of all the risks confronting banks. The enormity of bank fraud in Nigeria can be inferred from its value, volume and actual loss. A good number of banks frauds are suppressed partly because of the personalities involved or because of concern over the negative effect such disclosure may have on the image of the bank. Customers may lose confidence in the bank and this could cause a setback in its growth.

Fraud leads to loss of money belonging either to the bank or customers. Such losses may be absorbed by the profits for the affected trading period and this, consequently, reduces the amount of profit which would have been available for distribution to shareholders. Losses from fraud, which are absorbed by the equity capital of the bank, impair the bank's financial health and constrain its ability to extend loans and advances for profitable operations. In extreme cases, rampant and large incidences of fraud could lead to a bank's failure.

Fraud can increase the operating cost of a bank because of the added cost of installing the necessary machinery for its detection, prevention and protection of assets. Moreover, devoting valuable time to safeguarding its asset from fraudulent men distracts management. This unproductive diversion of resources reduces outputs and low profits which in turn could retard the growth of the bank. It also leads to a diminishing effect on the asset quality of banks. The problem is more dangerous when compounded by insider loan abuses. Indeed, the first generation of liquidated banks by NDIC was largely a consequence of frauds perpetrated through insider loan abuses. If this problem is not adequately handled, it could lead to distress and bank failure.

This study is premised on The Fraud Triangle Theory. Cressey (1971) described the classical fraud theory and designated the propensities for fraud as a triangle of perceived opportunity, perceived pressure and perceived rationalization. The model is shown in Figure 1 thus:

Fig.1: Classical Fraud Motivation Model



Sources: Wells, Joseph T. (1997). *Occupational Fraud Abuse.* In Albrecht, W. Steve (Ed.). *Fraud Examination*. Thomson: South-Western Publishing, 2003.

Every fraud executor is confronted with some kind of pressure or "need". Pressures that motivate individuals to commit fraud are financial pressures (high medical bills or debts), vices (drugs, gambling, alcohol), work-related pressures (high pressure for good results at work or a need to cover up someone's poor performance, or to report results that are better than actual performance compared to those of competitors) and other pressures (frustration with the nature of work, or even a challenge to beat the system). This 'need' or greed usually has a combination of other factors such as the opportunity and the attitude to commit the fraud.

The executor of fraud must believe that he or she can commit the fraud without being caught (or if caught, nothing grave will happen). The opportunity to commit fraud is possible when employees have access to assets and information that allow them to both commit and conceal fraud. Opportunities are provided by a weak internal control environment, lack of internal control procedures, failure to enforce internal controls and various other factors such as apathy, ignorance, lack of punishment and inadequate infrastructure. Access must, therefore, be limited to only those systems, information, and assets that are truly necessary for an employee to complete his or her job.

The third driver of fraud is ability of the perpetrators to find a way to rationalize their actions as acceptable. Rationalization/Absence of guardians refers to the manner in which people think about their work, performance and contribution within the workplace. They, therefore, attach a value that they should derive from the company for being productive or delivering something of value. Absence of guardians, on the other hand, refers to the situation where there are limited or no processes in the organization to test the integrity of the financial information or processes. The absence of the integrity process includes an absence or ineffective role of internal auditors, external auditors, Board of Directors and reporting requirements – banks, regulators and appropriate management review.

The study adopted the Fraud Triangle Theory as its framework because it explains the factors that cause individuals to commit fraud and best describes fraud in the context of the banking industry.

4. Methodology

The study employed evaluative research design to determine the nature, magnitude and economic consequences of fraud on banks in Nigeria within the study period. Secondary sources of data were utilized for the study. Data were obtained from the annual publications of the CBN and Nigeria Deposit Insurance Corporation (NDIC). The relationships between fraud cases and other variables were estimated using Pearson Product Moment Correlation. Multiple regression analysis was used to determine the impact of fraud and fraudulent practices on bank performance in Nigeria within the study period. The model is specified as:

$$Y = a_0 + a_1\,TA1 + a_2 NOC + a_3 NS1$$

Where:

Y = Actual Loss to banks

$a_1, a_2, a_{3=}$ Regression coefficients

TAI = Total amount involved

NOC = Number of fraud cases

NS1 = Number of staff involved

The model was tested using multiple regression analysis. The F-value was calculated to determine the extent of relationship between the variables under consideration at 5% level of significance.

5. Results and Discussion

The effect of fraud and fraudulent practices on the performance of banks in Nigeria is not easily ascertainable. Whether fraud and fraudulent practices affect the performance of banks in Nigeria can be determined from the foregoing analyses.

Several types of fraudulent practices were reported in the Nigerian banking industry within the period of study. We rely on the available data obtained from NDIC within the period 2003-2005 which are complete. The dominant types are presented in Table 2.

Table 2: Types of Major Fraud and Forgeries in Nigerian Banking Industry between 2003 and 2005

	2003 (₦'M)				2004 (₦'M)				2005 (₦'M)			
Type of Fraud	Frequency	Amount	Actual	%	Frequency	Amount	Actual	%	Frequency	Amount	Actual loss	%
Granting Unauthorized Loans/overdraft	24	226.67	19.45	2.66	25	702.97	59.15	11.32	21	2,601.69	1,413.75	24.5
Presentation of forged cheques	249	2,269.91	24.41	27.09	368	1,759.90	547.02	28.33	418	2,632.45	628.82	24.8
Posting fictitious credit	16	93.63	21.58	1.12	58	311.10	88.75	5.01	43	670.31	924.69	6.32
Loss of money to armed robbers	40	597.2	81.81	7.13	55	333.87	296.39	5.38	61	566.37	708.07	5.34
Fraudulent transfer and withdrawals	283	4,370.2	347.17	52.16	309	2,382.48	560.45	38.36	365	2,673.37	759.10	24.8
Outright theft	48	179.81	43.55	2.15	49	188.45	45.56	3.03	33	160.15	235.75	1.51
Suppression of cash/cheques	113	644.51	134.6	7.69	201	532.57	207.10	8.57	171	1,054.25	930.84	3.13
Attempted fraud	-	-	-	-	-	-	-	-	117	331.77	0	3.13
Total	773	8,377.93	857.46	100	1,065	6,211.34	1,804.4	100	1,229	10,606.1	5,602.02	100

Source: NDIC Annual Reports for 2003-2005

Fraudulent transfers and withdrawals dominated the reported fraudulent cases from 2003 to 2005. The total reported cases for the three years were 3,067 while fraudulent transfers were 957 representing 31.20% of the total cases reported. In 2003, the reported cases were 283, while in 2004; they rose to 309 which was an increment of 9.19%. In 2005, the cases recorded were 418 indicating an increment of 35.28%. This implies that fraud and fraudulent activities were prevalent in the banking sector in Nigeria during the period of study.

Table 3: Fraud and Forgery cases and amount of money lost by Nigerian Banks (2001-2011)

Year	No of Fraud and Forgery cases reported	Amount involved (₦' billion)	Loss to banks (₦' billion)	No of fraud cases that led to losses
2001	908	2.53	.931	402
2002	981	5.0	1.4	428
2003	1036	3.6	1.5	369
2004	1175	9.6	2.6	518
2005	1229	1.5	1.4	56
2006	1193	4.6	2.6	612
2007	1553	10	2.9	825
2008	1974	24.49	3.7	746
2009	3852	33.3	7.0	656
2010	5960	19.7	11.4	357
2011	2527	29.5	5.8	498
Total	22,388	506.68	41.15	5,476

Source: CBN Annual Reports for 2001-2011

Table 3 shows the fraud and forgery cases and amount of money lost by banks during the study period. The actual losses to banks grew steadily from 2001-2004. The amount lost decreased from 2.6 billion Naira in 2004 to 1.4 billion Naira in 2005. Thereafter, it grew steadily for the remaining years under review with 2010 recording the highest loss to Nigerian banks with a staggering amount of 11.4 billion naira. Though 2009 had the highest amount involved, it recorded a loss of 7.0 billion naira. A total of ₦41.15 billion was lost by banks to fraud.

Table 4: Money mobilized by banks and amount lost to fraud (2001-2011)

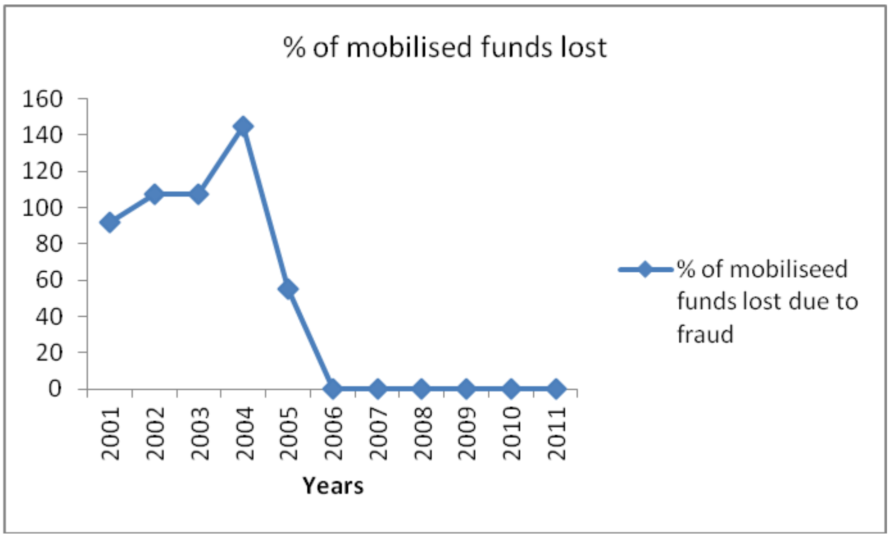
Year	Amount mobilised (₦' billion)	Amount lost to fraud (₦' billion)	% of mobilized funds lost
2001	1.01	0.931	92.17
2002	1.3	1.4	107.69
2003	1.4	1.5	107.14
2004	1.8	2.6	144.44
2005	2.5	1.38	55.2
2006	3400	2.6	0.076
2007	5400	2.87	0.053
2008	8700	3.67	0.042
2009	9990	7	0.070
2010	10840	11.4	0.105
2011	12330	5.8	0.047
Total	50668.01	41.151	507.456

Average: 46.13%

Source: CBN AND NDIC Annual Reports for 2001-2011

Deposit money banks in Nigeria lost more than they mobilized between the years 2001-2004. In 2005, banks lost more than half of their mobilized funds to fraud. In subsequent years, banks lost less than one percent of deposits mobilized to fraud as deposits increased significantly and tighter measures put in place by regulatory bodies to combat fraud. Banks mobilized a total of ₦50, 668.01billion Naira, while the average percentage amount lost to fraud was 46.13%. Table 5 and Figure 2 agree with this finding.

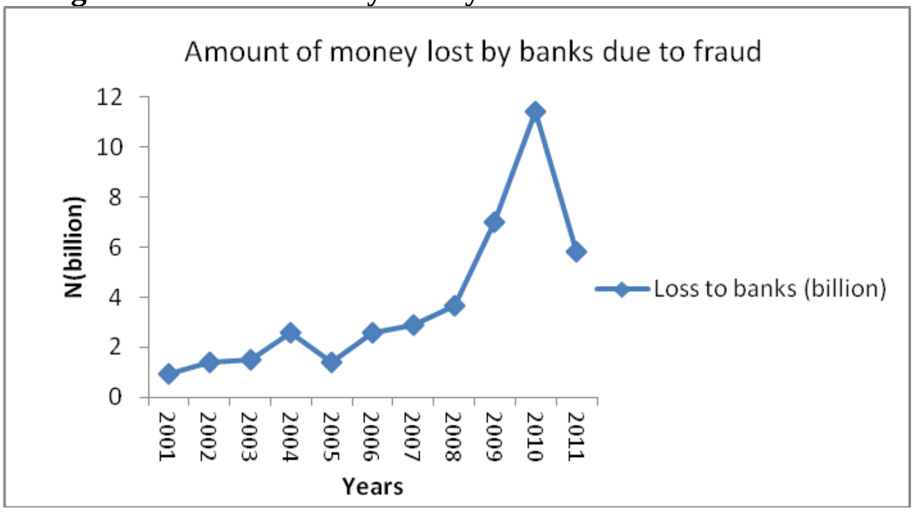
Fig. 2: Money lost by Banks to fraud as a Percentage of Mobilized funds within 2001-2011



Source: CBN Annual Reports for 2001-2011

Fig. 2 shows that the percentage of mobilized funds lost to fraud was highest between 2001 and 2005. But, between 2006 and 2011, there was a significant decrease. This was due to stringent measures adopted by the supervisory agencies to tackle the menace of fraud and fraudulent activities in the banking sector in Nigeria. The multiple regression analysis in Table 5 confirms the facts contained herein. Figure 3 indicates a progressive increase in the amount lost by banks to fraud from 2001- 2011.

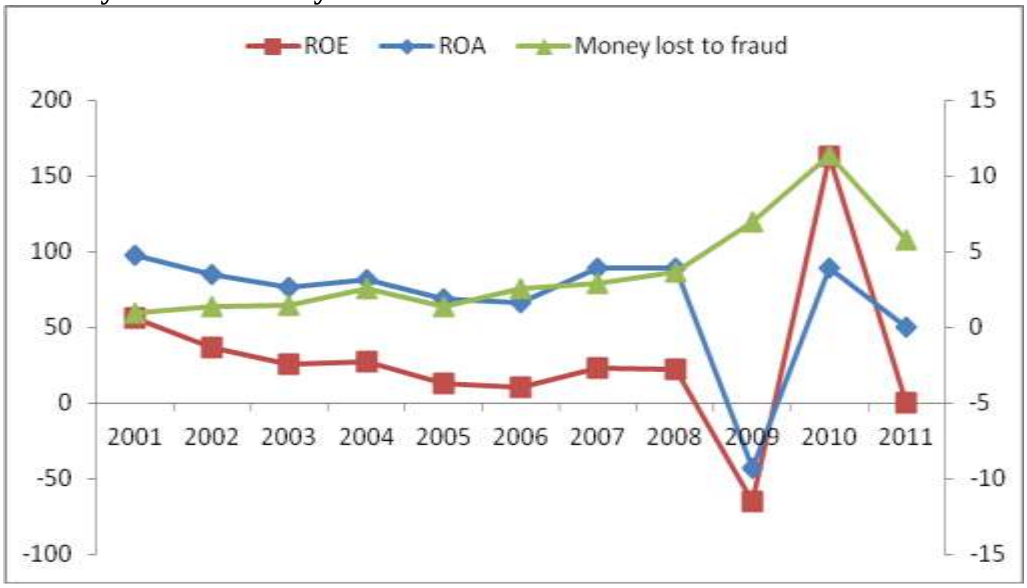
Fig. 3: Amount of money lost by banks due to fraud from 2001- 2011



Source: CBN Annual Reports for 2001-2011

The CBN annual reports recorded a decrease in the amount lost to fraud in 2005 from 2.6 billion Naira to 1.4 billion Naira. From 2006 there was a continued increase in the amount lost with a record high of 11.4 billion naira recorded in 2010. This decreased in 2011 to 5.8 billion naira. The decrease is not unconnected to the measures adopted by the regulatory bodies to combat fraud and fraudulent activities in banks in Nigeria.

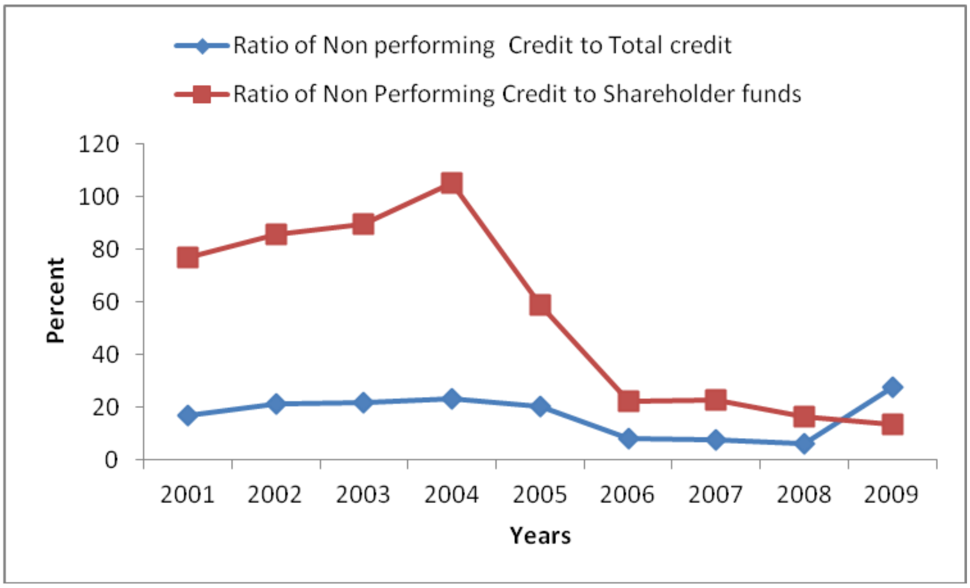
Fig. 4: Relationship between Return on Assets, Return on Equity and amount of money lost to fraud by banks for the years 2001-2011.



Source: CBN Annual Reports for 2001-2011

Fig. 4 shows the relationship between return on assets (ROA), return on equity (ROE) and the amount of money lost to fraud by banks. ROA and ROE were highly correlated (r =0.709). However, the amount lost to fraud was negatively correlated to ROE (r= -0.273). Though the amount of money lost to fraud had a negative correlation with bank efficiency, it was very low (r=-0.050). This confirms the finding of multiple regression analysis in Table 6.

Fig. 5: Ratios of Non-performing credit to total credit and Shareholders' funds 2001 – 2009



Source: CBN AND NDIC Annual Reports for 2001-2009

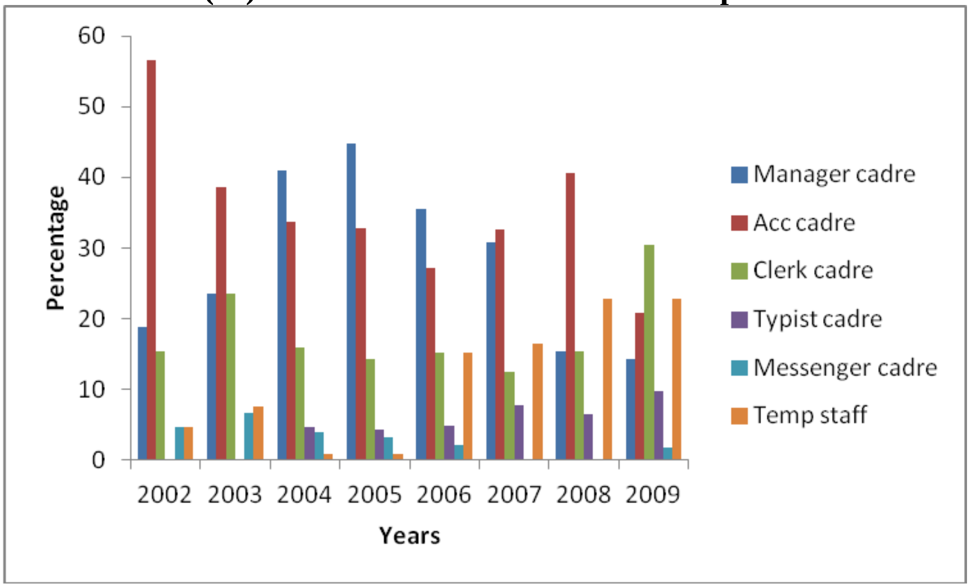
The quality of these risk assets worsened progressively from 2001 to 2004 as shown in Fig. 5. The data revealed that the ratio of non-performing credit to total credit was greater than 100% in 2004. This meant that the shareholders' funds had been completely wiped out industry-wide by the non-performing credit portfolio. The improvement in the ratio of non-performing loans to total loans in subsequent years was linked to the purchase of toxic loans by Asset Management Company of Nigeria (AMCON). Data for the period 2010-2011 were not available during the period of study.

Fig. 6: Total number of Bank Staff involved in Fraud from 2001 – 2011

Source: NDIC Annual Reports for 2001-2011

A total of 3,532 bank staff was involved in fraud and forgery during the study period. The number involved in fraud and fraudulent activities was highest in the year 2009. Though the year 2010 recorded the highest amount lost to fraud, the number of bank staff involved dropped from that of the previous year. The number of bank staff involved in fraudulent practices was highly correlated with fraud cases reported (r= 0.936). This was also positively correlated with the total expected losses from fraud as well as with the actual amount of money lost to fraud (r= 0.797). This was significant 0.3%.

Fig. 7: Cadre of Staff (%) involved in fraud and fraudulent practices from 2002- 2009



Source: NDIC Annual Reports for 2001-2011

The manager cadre comprises managers and supervisors, while the accountant cadre is made up of accountants, officers and executive assistants. The clerk cadre comprises clerks and cashiers, while the typist cadre is made up of typists, technicians and stenographers. The messenger cadre is made up of messengers, drivers, cleaners, stewards and security guards, while the temporary staff comprises temporary staff who did not have tenure appointment.

We employ multiple regression analysis to determine the relationship between the number of fraud cases and amount of funds mobilized by banks and its effect on the banks.

Table 5: Loss to Banks

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	β	Std. Error	β		
(Constant)	-.405	.280		-1.447	.186
Amount involved (₦ billion)	.029	.020	.107	1.501	.172
Number of Fraud and Forgery cases	.002	.000	.914	12.789	.000

Source: Field Survey 2013

Table 5 shows that the amount involved in fraud and fraudulent activities during the study period was ₦.172 billion. The number of fraud and forgery is .000 which is less than the alpha (∞) value of 0.05. This implies that there is a significant relationship between fraud and amount of funds mobilized by banks. This agrees with Table 4 and Fig. 2.

Multiple regression analysis was also employed to ascertain the relationship between the occurrence of fraud and bank performance (non-performing loans, Returns on asset and equity).

Table 6: Percentage of Mobilized funds Lost

Model	Unstandardized Coefficients		Standardized ents	t	Sig.
	B	Std. Error	Beta		
(Constant)	5.242	1.080		4.853	.001
% of mobilize funds lost	-.033	.015	-.581	-2.141	.061

Source: Field Survey 2013

Table 6 shows that the percentage mobilized funds lost is .061. This is greater than alpha value of 0.05 which implies that there is no significant relationship between occurrence of fraud and bank performance (non-performing loans, returns on asset and equity). This agrees with Fig. 4.

We also employed multiple regression analysis to establish the relationship between the number and caliber of bank staff involved in fraud and the amount lost to fraud.

Table 7: Bank Staff Involved in Fraud and Loss to Banks (₦' billion)

Model	Unstandardized Coefficients		Standardized ents	T	Sig.
	B	Std. Error	β		
(Constant)	6.063	8.649		.701	.611
Acc cadre	-.067	.106	-.582	-.629	.643
Clerk cadre	.123	.328	1.035	.375	.771
Typist cadre	-.381	.925	-1.522	-.412	.751
Messenger cadre	-.753	1.754	-2.286	-.429	.742
Temp staff	-.025	.195	-.308	-.128	.919

Source: Field Survey 2013

Table 7 reveals that there was an inverse relationship between all cadres of staff except the clerk cadre which had a positive relationship. There was no significant relationship between the cadres of bank staff involved in fraud and fraudulent activities and the amount lost during the period of study.

6. Conclusion and Recommendations

This paper has attempted to highlight the incidence and magnitude of fraud and some of its negative impact on the banking sector in Nigeria. Fraud inflicts severe financial difficulty on banks and their customers. It also leads to the depletion of shareholders' funds and banks' capital base as well as loss of customers' money and confidence in banks. Such losses may be absorbed by the profits for the affected trading period and this consequently reduces the dividend available to shareholders. Losses from fraud which are absorbed by the equity capital of the bank impair the banks financial health and constrain its ability to extend loans and advances for profitable operations. In extreme cases, rampant and large incidents of fraud could lead to a bank's failure.

The loss in funds affected the economy. It reduced the amount of money available to small or medium scale firms for developing the economy. The costs of fraud are always passed on to the society in the form of increased customer inconvenience, opportunity costs, unnecessary high prices of goods and services and lack of infrastructure.

Fraud can increase the operating cost of a bank because of the added cost of installing the necessary machinery for its provision, detection and protection of assets. Moreover, devoting valuable time to safeguarding its assets from fraudulent men distracts management. This unproductive diversion of resources always reduces output and low profits which in turn could retard the growth of the bank. It also leads to a diminishing effect on the asset quality of banks.

In view of the devastating effect of fraud and fraudulent practices on the performance of banks in Nigeria, the following recommendations are made:

i. Banks need to strengthen their internal control systems to be able to detect and prevent fraud and fraudulent activities and to protect its assets.
ii. The regulatory and supervisory bodies of banks in Nigeria need to improve their supervision using all tools at their disposal to appropriately check and curtain the incidence of fraud and fraudulent practices in the banking industry in Nigeria.
iii. The Government, in every society, plays a key role in financial and other crime prevention. In this regard, the relevant institutions established to fight fraud including the Central Bank of Nigeria (CBN), Nigeria Deposit and Insurance

Corporation (NDIC), Securities and Exchange Commission (SEC), National Insurance Commission (NAICOM), Economic and Financial Crimes Commission (EFCC), Independent Corrupt Practices Commission (ICPC), the Police, Judiciary, National Agency for Food, Drug Administration and Control (NAFDAC) and Standard Organization of Nigeria (SON), among others, should ensure the enforcement of various legal provisions in the fight against fraud in Nigeria.

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