An Empirical Analysis of Social Impact of Fraud on the Nigerian Banking Industry

Lucky Inaya* Emmanuel Ochuko Isito
Department of Accountancy, Delta State Polytechnic, PMB 1030, Ogwashi-Uku, Delta State, Nigeria

Abstract
The study sought to investigate the social impact of fraud on the Nigerian banking industry. Secondary data of Fraud, Actual/Expected Loss and Return on Equity were obtained from Annual Reports and Accounts of Nigeria Deposit Insurance Corporation (NDIC) and the commercial banks during the period 1990-2014. The Ordinary Least Square (OLS) with its Best Linear Unbiased Estimate (BLUE) Property was used in analyzing the data via the Statistical Package for Social Sciences. The findings showed that banks in Nigeria are significantly thriving from, and may also be complicit in, the high rate of fraud in the country. We also discovered a negative social impact of fraud on the Nigerian banking industry. Based on the findings, we recommend that the EFCC and other agencies responsible with the task of tracking fraud in Nigeria should earnestly beam their searchlights on the banks, being possible conduit pipes for corrupt financial flows. Also, banks should be enjoined to take, and continue to take, a closer look at their own operations, declining to provide tolerant environments for fraud, among others.
Keywords: Social Impact, Fraud, Actual/Expected Loss, Banking Industry, Society Expectation, Nigeria

1. Introduction

Fraud is a global phenomenon that has been in existence for long and it increases day by day. It is a deliberate act that causes a business or economy to suffer damages, often in the form of monetary losses. Fraud is rampant in both developed and developing countries and as well varies across places in its magnitude, its sources, the way it manifests itself and in its effects on administrative performance and development. Olufidipe (2014) defined fraud as “deceit or trickery act deliberately practiced in order to gain some dishonest advantage”. A person who pretends to be something that he is not is a fraud, a snare, a deceptive, trick, cheat and a swindler. By extension, fraud will include embezzlement, theft or any attempt to steal or unlawful obtain, misuse or harm the assets of bank (Nweze, 2008).

Fraud according to Adeniji (2014) and ICAN (2006) is an intentional act by one or more individuals among management, employees or third parties which results in a misrepresentation of financial statement. Financial reforms in Nigeria have evolved various strategies to encourage financial intermediation and mobilization of savings for investment which promote economic growth and development. These reforms seek to act proactively to strengthen the market mechanism, remove systematic and financial crisis, ensure a more liberal financial system and increase reduction of fraud. Fraud in the banking industry is a global phenomenon and its growth in Nigeria economy has been astounding. It is the number one enemy of business growth the world over. The fear now is that the increase rate of fraud in the financial institutions, if not arrested might pose certain threats to the stability and the survival of the financial institution and the performance of the industry as a whole and no area of the economy is immune from fraudsters (Nwankwo, 2015). This fraud is not limited only to other sector; it also affects the banking industry.

Bank frauds is generally bringing untold hardship on bank owners, staff, customers and family members as most bank failures are always associated with large scale of frauds (Okoro, 2013). Fraud shakes the foundation and credibility of most banks in Nigeria resulting to some of the bank being distressed. Fraud in the banking industry has been believed to have influenced the level of bank performances both at the micro and macro levels of the economy. The banking industry is the essential prerequisite of a competitive banking institution and the cheapest source of funds. Hence, the basic aim of a bank’s management in order to curtail fraud, need adequate mechanisms that can be put in place in order to curtail the fraud cases as well as the actual losses in the banking industry (Adewumi, 2007). If banking operations are strong, then the industry is better able to withstand negative social impact as a result of fraud. The broad aim of this paper therefore, is to analyze on the basis of empirical evidence, the social impact of fraud on the Nigerian banking industry.

1.1 Statement of Problem

There is the general consensus that fraud is one of the fundamental perils to the growth of the banking industry in Nigeria and the world over (Akinyomi, 2010). Fraud is a premeditated or intentional act that causes an entity, organization or economy to suffer damages, seldom in the form of monetary losses. Fraud is unbridled in both developed and developing countries and as well varies across places in its degree, its sources, the way it manifests itself and the social impact it has on the performance and growth of banks (Nwankwo, 2015). Fraud shakes the foundation, integrity, social status of most Nigerian banks thereby ensuing to some of the bank being distressed.

This metamorphoses into a collective or shared belief that the banking industry is where most of the fraudulent practices are done. As observed by AbdulRaheem, Isiaka and Muhammed (2012), the degree and incidence of fraud in the Nigerian banking industry has been on the increase with obvious implications on bank performance such that it has a negative social impact on the banking sector. At the moment, fraud in the banking industry as well as its social impact has been a topical issue not only to the shareholders, and regulatory authorities but also those that have interest in the industry's performance. As noted by Ikpefan (2006), it stems from the fact that frauds constitute a threat to the continued corporate existence of an organization. The growth of bank frauds over the years has constituted a problem. It is on this note that this paper seeks to empirically analyze the social impact of fraud on the Nigerian banking industry.

1.2 Objectives of the Study

The specific objectives of the study include:

(a) To determine whether fraud cases have a negative social impact on the Nigerian banking industry.
(b) To ascertain whether actual/expected loss associated with fraud has a negative impact on the Nigerian banking industry.
(c) To investigate whether fraud negatively impact on the performance of the Nigerian banking industry.

1.3 Research Questions

The study is designed to answer the following research questions:

(a) What social impact does fraud cases have on the Nigerian banking industry?
(b) To what extent does actual/expected loss negatively impact on the Nigerian banking industry?
(c) What impact does fraud have on the performance of Nigerian banking industry?

1.4 Hypotheses of the Study

In order at achieve the objectives of the study, the following hypotheses were formulated and tested:

H_{o1}: Fraud cases have a negative social impact on the Nigerian banking industry.
H_{o2}: Actual/expected loss associated with fraud has a negative social impact on the Nigerian banking industry.
H_{o3}: There is no significant relationship between the social impact of fraud and the performance of Nigerian banks.

2. Review of Related Literatures

2.1 Theoretical Framework

Attempts have been made to weave the factors that affect fraud into comprehensive theories of fraud and animal behaviour theories of fraud. Babatunde (2009) posits that motivation to fraudulent behaviour derives from number of causes. It could be pathological or greed. Pathological theory states that culture demands on the cultivation of taste too expensive for the legitimate income of the individual criminal motivation with particular reference to fraud and when the state of mind of the criminal disposes and impels him to commit fraud, even though he/she is not in due need of the resources. Greed theory of fraud states that banks have become persistent targets of men of the underworld mainly because bank are seen as the richest organization in the country. The theory goes further to enumerate some of the causes of fraud as instable instinct for wealth over concentration of authority, poor security arrangements for sensitive documents and so on. The development of fraudulent behaviour can be traced to middle childhood when moral behaviour start.

Kohlber (2008) in his book titled "theory of moral development in the society" explained that conventional level of morality develops between the ages of 10-16years. He stated that this is the stage during which a child learns to understand the rules, differentiating wrong from right actions to accept and respect authority and to abide by societal rules in order to win the approval of others. Thus, the theoretical framework of this study is anchored on the greed or pathological theory of fraud.

2.2 Empirical Review

There have been an extensive studies conducted in many countries on fraud and the effect on bank performance while there is no empirical evidence of the social impact of fraud on the Nigerian banking industry. For instance, Adewunmi (2007) in his explanation of bank fraud identify socio-economic lapse in society such as misplacement of societal values, the unquestioning attitude of society towards the sources of wealth, the rising societal expectations from bank staff and the subsequent desire of the staff to live up to such explanations as contributory factors of fraud. Akinfala (2005) conduct a research on job involvement/ experience factors and fraudulent behaviours among serving and convicted bank staffs. The study found that the level of job involvement has function of three factors: motivation, identification and a feeling of pride that people achieve in their jobs.

Nwude (2006) investigated bank frauds using methodology of an interaction with bank staff of various cadres with structured questionnaire to identify the fraud forms and characteristics in the banking industry. The study reveals that some staff involve in fraud due to greediness and arrogance. In a different study, Otusanya (2008) carried out a study on the role of Bank CEO in the perpetration of corporate executive frauds in the Nigerian Banking sector. The study reveals that recent banking crises in Nigeria have exposed the activities of bank executives in corruption and fraudulent practices using institutional anomie theory called American dream theory, whereby the pursuit of monetary success has come to dominate society. Idowu (2009) did a research on the means of minimizing the incidence of fraud in Nigerian banking industry. Findings of the study revealed that, so many factors contributed to the incidence of frauds in banks amongst which are poor management of policies and procedures, inadequate working conditions, bank staff staying longer on a particular job and staff feeling frustrated as a result of poor remunerations.

Adepoju and Alhassan (2010) opined that bank customers have come to depend on and trust the Automatic Teller Machine (ATM) to conveniently meet their banking needs, but that in recent times; there have been a proliferation of ATM frauds in the country. Managing the risks associated with ATM fraud as well as diminishing its impact is an important issue that face banks as fraud techniques have become more advanced with increased occurrences. Akindele (2010) conducted a research on the "challenges of Automated Teller Machine (ATM) usage and fraud occurrence in Nigeria banking industry". The study posits that lack of adequate training, communication gap, and poor leadership skills were the greatest causes of fraud in banks. He advised that adequate internal control mechanism be put in place and that workers satisfaction and comfort be taking care of. Onuorah and Ebimobowei (2011) investigate fraudulent activities and forensic accounting in Nigeria. The study found that there is need for the banks in Nigeria to adopt more proactive measures such as the use of forensic accounting techniques in banks.

Abdulrasheed, Babaitu and Yinusa (2012) examined the impact of fraud on bank performance in Nigeria. Result of the study shows that, there is a significant relationship between banks profit and total amount of funds involved in fraud. Finally, Kanu and Okorafor (2013) did a work on the nature, extent and economic impact of fraud on bank deposit in Nigeria using descriptive and inference statistics. The study revealed that there is a positive significant relationship between bank deposit and fraud in Nigerian banking industry. Thus, this study was carried out to fill the gap in literature.

3. Methodology

The expo-facto research design was employed in the study. This design was adopted because, it seeks to establish the factors that are associated with certain occurrence or type of behaviour by analyzing past events of already existing condition. The data used in this study covered the period between 1990 and 2014. Data of Fraud, Actual/Expected Loss and Return on Equity were obtained from the Nigeria Deposit Insurance Corporation (NDIC) and the Annual Reports and Accounts of the commercial banks under investigation. The Ordinary Least Square (OLS) with its Best Linear Unbiased Estimate (BLUE) Property was used in analyzing the data via the Statistical Package for Social Sciences (SPSS, 20.0). However, social impact was measured using society expectation.

3.1 Model Specification

In the model, the focal point of interest was on the coefficient of society expectation. The model specified for this study is shown below:

$$SEXP = a_0 + a_1FD_1 + a_2ACL_2 + \mu_t \ldots\ldots\ldots \qquad Eq. (1)$$

where: SEXP = Society Expectation
FD = Fraud
ACL = Actual/Expected Loss.
μ = Stochastic or disturbance term.

4. Data Analysis/Results

The social impact of fraud on the Nigerian banking industry cannot be easily ascertainable. Whether fraud has social impact on the Nigerian banking industry can be determined from the foregoing analyses. However, the detailed output of the regression results is presented in tables (see appendix).

Table 1: Descriptive Statistics of the Variables

Variables	Mean	Std. Dev.	Obs.
SEXP	3063.0796	6541.80604	25
FD	851642.2076	544835.55556	25
ACL	60775.1548	174708.59939	25
ROE	362872.2225	410195.447	25

Source: SPSS Output, 2015

Table 1 above presents the descriptive statistics of the variables under investigation. A closer look at the result indicated that Society Expectation (SEXP) coefficient for the observed period was 3063.0796 and 6541.80604 mean and standard deviation values respectively. This implies that SEXP can deviate from mean to both sides by 30.63%. In addition, Fraud (FD) was 851642.2076 and 544835.55556 mean and standard deviation values respectively while Actual/Expected Loss (ACL) was 60775.1548 and 174708.59939 mean and standard deviation respectively. The high standard deviation and mean values for fraud and actual/expected loss suggests that there were much fraud perpetuated in the Nigerian banking industry during the period under investigation and this may have negative social impact on the Nigerian banking industry. In addition, return on equity recorded ₦362872.2225 and ₦410195.447 mean and standard deviation respectively. The high mean and standard deviation recorded implies that fraud has actually affected the performance of commercial banks in Nigeria.

Table 2: Analysis of Variance

	Constant	FD	ACL	R^2	DW	F-Stat.	R^2 Adj.	Ob.
Std. Error		.001	.004	.770	2.437	36.900	.749	25
Prob.		.901	.000					

Source: SPSS Output, 2015

Table 2 summarizes the information about the variation of the dependent variable explained by the existing model used for this study and the residual that indicates the variation of the dependent variable that are not captured by the model. It can be observed that the independent variables give a significant effect on the dependent variable, where f-value is 36.900 with a p-value of less than 0.05 (i.e. $p>0.000$) indicating that, overall, the model used for the study is significantly good enough in explaining the variation on the dependent variable. To ensure the statistical adequacy of the model, the goodness of fit can also be measured by the square of the correlation coefficient also called R^2. In addition, both R^2 and adjusted R^2 measure the fitness of the model i.e. they measure the proportion of the variation in dependent variable explained by the model. But since adjusted R^2 is the modification for the limitation of R^2 the value of the adjusted R^2 is considered to measure the fitness of the model. Thus, as it is shown above, the value of adjusted R^2 is .749, indicating that the independent variables in the model are explaining 75% variation on the dependent variables while the unexplained variation is just 25%. We can understand that the model is providing a good fit to the data and are the major factors that influence society expectation of the Nigerian banking industry. Thus, this implies that societal expectation have negatively been reflected in the fraud cases, actual/expected fraud losses and return on equity of Nigerian banking industry.

4.1 Test of Hypotheses

To facilitate the study, three hypotheses were formulated. They are hereby restated and tested below:

Hypothesis I

H_{o1}: Fraud cases have a negative social impact on the Nigerian banking industry.

Table 3: Test Statistics for Hypothesis I

Variables	Coefficients	t-statistic	Prob.
Constant	1225.923	.844	.408
FD	.000	-.125	.890

Source: SPSS Regression Output, 2015

As shown in table 3 above, of the explanatory variable tested in this study, Fraud (FD) (p-value = .890) was not statistically significant at 5 percent or lower. Furthermore, a negative sign was attached to the t-value. This implies that fraud has a negative social impact on the Nigerian banking industry. Thus, the alternative hypothesis is rejected while the null hypothesis which states that "Fraud cases have a negative social impact on the Nigerian banking industry" is accepted.

Hypothesis II

H_{o2}: Actual/expected loss associated with fraud has a negative social impact on the Nigerian banking industry.

Table 4: Test Statistics for Hypothesis II

Variables	Coefficients	t-statistic	Prob.
Constant	1225.923	.844	.408
ACL	.033	-7.666	.550

Source: SPSS Regression Output, 2015

As shown in table 4 above, of the explanatory variable tested in this study, Actual/Expected Loss associated with fraud (ACL (p-value = .550) was not statistically significant at 5 percent or lower. In addition, a negative sign was attached to the t-value which symbolizes that the actual/expected loss associated with fraud has a negative social impact on the Nigerian banking industry. Thus, the alternative hypothesis is rejected while the null hypothesis which states that "Actual/expected loss associated with fraud has a negative social impact on the Nigerian banking industry" is accepted.

Hypothesis III

H_{o3}: There is no significant relationship between the social impact of fraud and the performance of Nigerian banks.

Table 5: Test Statistics for Hypothesis III

Variables	Coefficients	t-statistic	Prob.
Constant	1225.923	.844	.408
ROE	.048	-8.388	.760

Source: SPSS Regression Output, 2015

As shown in table 5 above, of the explanatory variable tested in this study, Return on Equity (ROE) (p-value = .760) was not statistically significant at 5 percent or lower. This implies there is no significant relationship between the social impact of fraud and the performance of Nigerian banks. However, the negative sign attached to the t-value suggests that fraud has negatively impacted on the performance of Nigerian banks. Thus, the alternative hypothesis is rejected, while the null hypothesis which states that "There is no significant relationship between the social impact of fraud and the performance of Nigerian banks" is accepted.

5. Conclusion

The study sought to investigate the social impact of fraud on the Nigerian banking industry. Based on the results of the empirical analysis, banks in Nigeria are significantly thriving from, and may also be complicit in the high rate of fraud in the country. We also discovered a negative social impact of fraud on the Nigerian banking industry as a result of high rates of fraud characterizing the banking industry. Thus, the EFCC and other agencies responsible with the task of tracking fraud in Nigeria should earnestly beam their searchlights on banks in Nigeria, being possible conduit pipes for corrupt financial flows. Bank officials should be compelled to always act in accordance with existing laws and maintain high technical and ethical standards. Managements of banks in Nigeria should be made to look inward and rid their rank and file of thieves and other dubious persons possessing criminal instincts. Also, banks should be enjoined to take, and continue to take, a closer look at their own operations, declining to provide tolerant environments for fraud. Furthermore, issues relating to fraud in the industry should be reported to the EFCC and other related offences Commission. Failure to do so should be met with dire consequences; and CBN sanctions for indicted errant banks should extend beyond the status quo of merely slapping their wrists

References

AbdulRaheem, A. Isiaka, S.B. & Muhammed, A. Y. (2012) Implication of fraud on commercial bank performance in Nigeria. *International Journal of Asian Social Science,* 2(4), 382-387.

Abdulrasheed, S., Babaitu, D., & Tinusa, G. (2012) Fraud and its implications for bank performance in Nigeria. *International Journal of Asian Social Science*, *2*(4), 35-45.

Adeniji, A. (2014) *Auditing and investigation.* 2nd ed., Lagos, Landmark Publisher, 97-98.

Adepoju, A. & Alhassan, G. (2010) Challenges of automated teller machine (ATM) usage and fraud occurrence in Nigeria: A case study of selected banks in Minna metropolis. *Journal of Internet Banking and Commerce (JIBC)*, *15*(2), 2-10.

Adewumi, S. (2007) *An ideal ATM implementation in an unsecured environment*. Jos, University of Jos Press, 89-102.

Ajisebutu, A. (2006) Financial statement fraud: What auditors should know. *The Nigerian Accountant,* 39(2), 1-17.

Akindele, R. I. (2010**)** Fraud as a negative catalyst in the Nigerian banking industry. *Journal of Emerging Trends in Economics and management Sciences (JETEMS),* 1(11), 77-90.

Akinfala, G. (2005) Precipitating factors in fraud and criminal motivation. *International Journal of Bank Marketing*, *10*(3), 232-250.

Akinyomi, O. J. (2010) The effect of internal control system on Nigerian banks. *International Journal of Accounting,* 2(2), 123-129.

Asukwo, P. E. (1999) Bank frauds: A look at the Nigerian banking clearing system*, ICAN News,* January/March, 19-24.

Babatunde, G. (2009) Precipitating factors in fraud and criminal motivation. *International Journal of Bank Marketing*, *10*(3), 232-250.

Fakunle, B. (2006) *Audit companion*, 2nd ed., Lagos, L. and Mark Publication.

Idowu, A. (2009) An assessment of fraud and its management in Nigeria commercial banks. *European Journal of Social Sciences*, *10*(4). 144-149.

Ikpefan, O. A. (2006) Growth of bank fraud and the impact on the Nigerian banking industry. *Asian Journal of Business Management,* 12(7), 1-25.

Kanu, S. I. & Okoroafor, E. O. (2013) The nature, extent and economic impact of fraud on bank deposit in Nigeria. *Interdisciplinary Journal of Contemporary Research in Business*, *4*(9), 253-264.

Kohlber, T. (2008) *The theory of moral development in the society.* 6th ed., London, Macmillan Publishers Ltd. 105.

NDIC. (2014) *Annual report and statement of Account.* FGN, NDIC

Nwankwo, O. (2015) Implications of fraud on commercial banks performance in Nigeria. *International Journal of Business and Management,* 8(15), 144-150.

Nwude, C. (2006) Quality and internal control challenges in contemporary Nigeria banking. *Zenith Economic Quarterly, Zenith Bank Plc*, *3*(2), 23-28.

Ogubunka, U. M. (2002) *Walking ahead of bank distress: The secrets of safeguarding your money in banks*. Lagos, Rhema Enterprises.

Okoro, G. (2013) *An investigation of fraud in banks*. An M.Sc. Thesis Submitted to the Department of Banking and Finance, Faculty of Management Sciences, University of Lagos, Unpublished.

Olatunji, O. C. (2009) Impact of internal control system in banking sector in Nigeria. *Pakistan Journal of social sciences*, 6(1), 181-189.

Olufidipe, E. O. (1994) Fraud in Nigeria and its implication for bank and financial institutions. Journal of *Nigeria Institute of Bankers,* July-Dec. 30(1), 7-10.

Onuorah, S. & Ebimobowei, D. (2011) Fraudulent activities and forensic accounting services of banks in Port Harcourt, Nigeria. *Asian Journal of Business Management*, *4*(2), Pp. 232-251.

Otusanya, J. O. (2008) *An investigation of corporate executive fraud by CEOs in the Nigerian banking industry.* A seminar paper presented at the Department of Accounting, Faculty of Business Administration, University of Lagos.