Fraud Theories and White Collar Crimes: Lessons for the Nigerian Banking Industry

¹ Kanu Success Ikechi, ²Nwadiubu, Anthony

^{1,2}Department of Banking and Finance, Faculty of Social and Management Sciences, Eastern Palm
University, Ogboko Ideato, Imo State. Nigeria

Abstract: Fraud and white-collar crimes have assumed different dimensions, albeit with increased sophistication within the Nigerian banking industry. Hence forgeries, deceit and other unwholesome practices have continued to thrive. Unfortunately, there is no definitive answer as to why people commit fraud. Good knowledge of the symptoms of occurring fraud is essential for us to know so we can learn to prevent it. In line with this thought, it has become necessary to review the existing theories on fraud and to ascertain if there are inherent clues or red flags that can be drawn from them to assist banks in the fight against fraud. That is the main objective of this study. There is no gain in stating that any meaningful attempt at stopping the menace of financial crimes will be a welcome development in the long run. As managing fraud instead of preventing it might be so dangerous, it poses an institution's ongoing concern. Thus, the broad objective of this research is to ascertain means and ways for preventing fraud in the Nigerian banking industry. A vast array of fraud theories were reviewed and reconciled with the pattern of financial crimes in the Nigerian banking industry. The research identified the influence of power, personal gain and self-control, loss aversion and risk acceptance, rationalization, and emotion as the drivers or propensity to commit fraud. We must learn our lessons from a past misdemeanour, as this will lead to a reduction in the re-occurrence of frauds. Thus, the essential lessons learnt from this study include the need for effective corporate governance, beefing up of internal control measures and objectively structured mechanisms to regulate and to supervise the Nigerian banking industry. There is also an urgent need for government's commitment to wage an all-out war against crime and to create a new healthy culture of integrity and honesty in all aspects of life with zero tolerance for fraud and white-collar crimes even in the Nigerian banking industry. Our society also needs to inculcate the principle of self-control/ restraint in individuals.

Keywords: Fraud theories, White collar crimes, Fraud prevention, Lessons, the Nigerian banking industry

1.0. Introduction

There is a bug in the Nigerian banking industry. Beneath the cultivated looks and gentlemanly disposition of the nation's money managers lies a disturbing concern - the long arms of fraud seem to be unleashing a devastating blow on banks. This incidence has become a recurring nominator in the industry. Unfortunately, the bane of our society today is greed and the philosophy to "get rich quick" is now the order of the day. (Kanu and Ekpe; 2011).

Due to the pivotal roles of banks in the growth and economic development of any nation, it has become very necessary to protect the institution from the antics of fraudsters. According to the NDIC 2018 Annual report, a whopping sum of ₦15.15 billion was lost to fraudsters in 2018 as against ₦2.37 billion and ₦2.40 billion in 2017 and 2016, respectively. The rising fraud incidences could be attributed to the increase in the sophistication of fraud-related techniques such as hacking, cybercrime as well as emergence in IT-related products, fraudulent withdrawals and unauthorized credits. Judging from the current trend in the industry, this figure is bound to increase as the years go by. All these have serious adverse effects on the bank's liquidity and performance. The high turnover of frauds, theft, defalcations and forgeries in the banking industry undermine the growth, development and stability of banks. At the moment, this seems to be doggedly affecting the financial sector of the economy.

Banks have remained the target of conmen. It is not an understatement that only well managed and secured banks concerning fraud prevention would survive in the coming years. Each time provisions are made for losses occasioned by fraud, it usually takes the shine off the books of banks.

Any meaningful attempt at eradicating this menace will be desirable as a long term effect of managing fraud instead of preventing it might be so dangerous for the institution's going concern. Thus, the broad objective of this study is to examine how fraud can be controlled in the banking sector

The research methodology consists of a theoretical review on fraud and an attempt at demonstrating their insights with the pattern of financial crimes in the Nigerian banking industry. We will analyze the existing theories on fraud to ascertain if there are inherent clues or red flags that can assist banks in protecting and preserving their assets from the onslaught of fraudsters.

2.0. Relevant Theories on Fraud

To prevent fraud, we must first understand why it occurs. Unfortunately, there is no definitive answer as to why people commit fraud. Every human being is unique, and as such, each person has a genetic trail and different personal experiences. Accordingly, people act differently in similar situations. Although there is no clear answer as to why people commit fraud; previous research and experience have provided some insight into the matter. (ACFE; 2011).

Knowing and understanding the symptoms of reoccurring fraud is something we should learn to identify so we can make preventions. The sooner the fraud is prevented, the fewer losses will be incurred. Some of the relevant theories on fraud are presented below.

2.1. Theory of Differential Association (Edwin H. Sutherland)

Edwin H. Sutherland (1883–1950,) developed the "theory of differential association," The theory's basic tenet is that "crime is learned, much as we learn math, English, or guitar playing."

Sutherland believed that the learning of criminal behaviour occurred in interaction with other people. He reasoned that criminality could not occur without the assistance of other people. He summarized the principles of differential association theory into the following propositions :

1. All criminal behaviour is learned.
2. Criminal behaviour is learned through interactions with others via a process of communication.
3. Most learning about criminal behaviour happens in intimate personal groups and relationships.
4. The process of learning criminal behaviour may include learning about techniques to carry out the behaviour as well as the motives and rationalizations that would justify illegal activity and the attitudes necessary to orient an individual towards such activity.
5. The direction of motives and drives towards criminal behaviour is learned through the interpretation of legal codes in one's geographical area as favourable or unfavourable.
6. When the numbers of favourable interpretations that support violating the law outweigh the unfavourable interpretations that don't, an individual will choose to become a criminal.
7. All differential associations aren't equal. They can vary in frequency, intensity, priority, and duration.
8. The process of learning criminal behaviours through interactions with others relies on the same mechanisms that are used in learning about any other behaviour.
9. Criminal behaviour could be an expression of generalized needs and values, but they don't explain the behaviour because non-criminal behaviour expresses the same needs and values.

2.1.1 The Fraud Triangle (Donald R. Cressey: 1919- 1987)

Cressey opined that "Trusted persons become trust violators when they conceive of themselves as having a financial problem which is non-shareable, are aware this problem can be secretly resolved by a violation of the position of financial trust and can apply to their conduct in that situation verbalizations which enable them to adjust their conceptions of themselves as trusted persons with their conceptions of themselves as users of the entrusted funds or property." Over the years, the hypothesis has become better known as the fraud triangle. (See figure 2.1)

Source: Fighting Fraud in the government – Association of Certified Fraud Examiners

One angle of the triangle represents a perceived non-sharable financial need; (pressure), the second angle is for the perceived opportunity; and the final is for rationalization. The role of the non-sharable problem is essential. What, of course, is considered "non-shareable" is entirely in the eyes of the potential occupational offender. Cressey divided these "non-shareable" problems into six primary subtypes:

1. Violation of ascribed obligations
2. Problems resulting from personal failure
3. Business reversals
4. Physical isolation
5. Status gaining
6. Employer-employee relations

The three basic tenets of the fraud triangle can be explained as follows:

An intense emphasis on monetary success (Pressure)

While profit motive has provided the motivational dynamic for entrepreneurship, corporate expansion, extraordinary technological innovation, and high rates of social mobility, it also has provided the motivational dynamic for greed, corporate fraud, unethical behaviour, and illegal acts.

White-collar employees tend to exploit/disregard regulatory controls (Opportunities)

An intense emphasis on monetary success leads to a pronounced strain toward anomie, that is, a tendency for bank staff and corporate executives to exploit/disregard regulatory controls for monetary gains.

Corporate executives justify/rationalize fraudulent behaviour (Rationalization)

A corporate environment that is preoccupied with monetary success also justifies/rationalizes the success by any means such as fraud

2.1.2 The Fraud Scale- (.W.S Albrecht et. al)

The research contributions of Dr W.S Albrecht and his colleagues, Keith Howe and Marshall Romney, in the early 1980s, helped further to explain the concept of fraud. They developed the "Fraud Scale," which included the components of situational pressures, perceived opportunities, and personal integrity.

Source: Fighting Fraud in the government – Association of Certified Fraud Examiners

They enthused that when situational pressures and perceived opportunities are high and personal integrity is low, and occupational fraud is much more likely to occur than when the opposite is true. The study covered several areas, one of which concentrated on the motivations of the perpetrators of occupational frauds and abuses.

2.1.3 Theory of the Fraud Diamond (D. Wolfe and D. Hermanson -2004)

Wolfe and Hermanson (2004) argued in their research that, although perceived pressure or incentive might exist along with an opportunity and a rationalization to commit fraud, fraud is unlikely to take place unless the fourth element is present: capacity. In other words, the potential perpetrator must have the skills and ability actually to commit fraud. Figure 1 below presents the complete elements of the fraud diamond theory.

Source: Fighting Fraud in the government – Association of Certified Fraud Examiners

Elements of Fraud Diamond

Incentive/Pressure

Every perpetrator must face some type of pressure to commit fraud. Perceived pressure is defined as the motivation that leads the perpetrator to engage in unethical behaviours. (Albrecht, Hill, et al., 2006)

Opportunity

This is the second element necessary for fraud to occur. An opportunity that exists in organizations has a major impact on an individual's decision to commit fraud. The prospect does not have to be real, and the perpetrators simply have to believe or perceive that the opportunity exists to take fraudulent action (Albrecht, Hill, et al., 2006; Zikmund, 2008).

Capacity

While a person's position or function within a company may provide one with the ability to create or exploit an opportunity for fraud, the fraudster must also have the necessary traits and abilities to be the right person to pull it off.

2.1.4 Theory of the Fraud Diamond (D. Wolfe and D. Hermanson -2004)

Hollinger and Clark (1983) were of the opinion that employees steal primarily due to workplace conditions. They also enthused that:

1. Increasing internal security in a workplace makes things worse in terms of theft by employees.
2. The employees who engage in workplace deviance are also principally the ones who engage in employee theft
3. Efforts made to reduce employee theft without reducing first its underlying causes create a "hydraulic effect." That is, trying to tighten control in one end helps to develop or push up more detrimental acts at the other end.
4. Particular attention should be paid to young employees, as they are most likely to steal.

2.1.5 Theory of Hyper motivation (2008)

According to Scott Rick and George Lowenstein (2008), given sufficient motivation, people can persuade themselves of almost anything, including why behaviour that they usually would have considered to be unethical is morally acceptable. People tend to conflate what is fair with what is in their interest, and the same is no doubt true of people's judgments of what is ethical. Given a sufficiently powerful motivation to commit an act of fraud, people are generally more than capable of rationalizing why it does not, in fact, conflict with their ethical precepts.

Motivation stimulates people to work to the best of their capabilities by providing them with motives, which are based on their unfulfilled needs. Famous motivation theories include Maslow's hierarchy of needs, Herzberg's two-factor theory and McClelland's theory of needs. Others are Vroom's theory of expectancy and McGregor's theory X and theory Y.

2.1.6 The Anomie Theory on fraud (Robert. k. Merton)

A central idea of Merton's Anomie theory is that motivations for crime do not result simply from the flaws, failures, or free choices of individuals. A complete explanation of crime ultimately must consider the socio-cultural environments in which people conduct their daily lives. Merton argues that the social system in the United States is a prime example of a system characterized by internal strain and contradictions. Specifically, Merton observes that an exaggerated emphasis is placed on the goal of monetary success in American society, coupled with a weak focus placed on the importance of using the socially acceptable means for achieving this goal.

2.1.7 American Dream Theory (Messner and Rasenfeld: 1994)

Messner and Rosenfeld (1994) developed an institutional anomie theory similar to Merton's and called it the "American Dream". This theory points to a broad cultural ethos in which the goal of monetary success is to be pursued by everyone in a mass society dominated by giant multinational corporations. As they observe: "Given the strong, relentless pressure for everyone to succeed, understood in terms of an inherently elusive monetary goal, people formulate wants and desires that are difficult, if not impossible, to satisfy within the confines of legally permissible behaviour". Thus, this anomic orientation of the American Dream helps explain top executives' tacit approval of corporate fraud.

2.1.8 Social Control Theory ((F. Ivan Nye, Travis Hirschi)

The Social control theory proposes that people's relationships, commitments, values, norms, and beliefs encourage them not to break the law. Thus, if moral codes are internalized and individuals are tied into and have a stake in their wider community, they will voluntarily limit their propensity to commit deviant acts. According to the proponents of this theory, there are four types of control. They are:

- ☐ Direct control: by which punishment is threatened or applied for wrongful behaviour, and compliance is rewarded by parents, family, and authority figures.
- ☐ Internal control: by which a youth refrains from delinquency through the conscience or superego.
- ☐ Indirect: by identification with those who influence behaviour,
- ☐ Control through needs satisfaction, i.e. if all an individual's needs are met, there is no point in criminal activity

2.1.9 The cognitive Theory on Fraud

Cognitive theory on fraud posits that to understand individual decision-making processes (including decisions on committing the crime) we must look at factors that influence information processing (such as time, mental capacity, and motivation). Further, we must examine how individuals mentally interpret and organize information by using schemata, the salience of emotions and the importance of social context. (Explore cognitive psychology concepts for understanding crime-related behaviour).

2.2 Social Learning Theory

Social learning theory proposes that new behaviours can be acquired by observing and imitating others. In addition to the observation of behaviour, learning also occurs through the observation of rewards and punishments, a process known as vicarious reinforcement.

2.2.1 Differential Opportunity Theory on Fraud (Richard Cloward and Lloyd Ohlin)

This theory posits that people (usually teens) from poor socio-economic backgrounds, which have few opportunities for success, will use any means at their disposal to achieve success. The means are generally referred to as subcultures. Differential opportunity theorists believe that there are three paths individuals faced with limited opportunities would use to achieve success. The three subcultures are based on the stability of the environment. They are:

- Crime - in a neighbourhood that is stable, and in which opportunity for crime exists, the individual will turn to crime as his or her alternative. Stability in this instance means that a hierarchy of criminal organization exists and that the teen can move through the ranks to establish him or herself.
- Conflict - this subculture is typical of disorganized areas of low socioeconomic opportunity. The area is characterized by a mix of groups trying to establish dominance. Although there is a crime against others to fund the various organizations, people within the groups achieve based on their success at conflict. Teens fight to gain territory and

prestige for their gang.

- Retreats - in some instances, teens are unsuccessful at both legitimate and illegitimate enterprises. In this case, the individual "drops out" of society. Status is gained by drug use or by the membership of cult groups.

2.2.2 Social Disorganization Theory

Social disorganization is a theoretical perspective that explains ecological differences in levels of crime based on structural and cultural factors shaping the nature of the social order across communities. This approach narrowed the focus of earlier sociological studies on the covariates of urban growth to examine the spatial concentration and stability of rates of criminal behaviour. According to the social disorganization framework, such phenomena are triggered by the weakened social integration of neighbourhoods because of the absence of self-regulatory mechanisms, which in turn are due to the impact of structural factors on social interactions or the presence of delinquent subcultures.

2.2.3 The Labeling Theory

This theory states that people come to identify and behave in ways that reflect how others label them. Describing someone as a criminal, for example, can cause others to treat the person more negatively, and, in turn, the individual acts out. Labelling theory is an important approach to understanding deviant and criminal behaviour.

2.2.4 The Potato Theory of Fraud

Committing fraud and getting away with it can become addictive. This may be characterized as the Potato Chip Theory of Fraud. Just as a person is often unable to eat only one potato chip, once employees start committing fraud, they often cannot stop. Assuming the person does not get caught, he or she will commit fraud after fraud, even branching out to new frauds to obtain more money and other things of value.

2.2.5 Rotten Apple Theory

It has often been said that one rotten apple can spoil an entire barrel. This can be applied to rampant fraud in an organization or group. True leaders can inspire their employees to reach new heights of personal growth and career development. They can be role models who help create a new generation of corporate leaders. Employees want to emulate the leaders they see at their companies. Executives and managers who lead by example in compliance and integrity lessen the risk of fraud by their employees. Unfortunately, the opposite also applies. Poor leaders who lack character and integrity, and who turn to fraud and abuse, can damage the people they lead.

2.2.6 A Tip of the Iceberg Theory on Fraud

This theory states that when fraud is first brought to the fore in an establishment, it is only a small part of the information that is known. Once the investigation starts and questions are asked, that is when much more information comes to light.

2.2.7 Low-Hanging Fruit Theory of Fraud

Although priority attention should be given to high-risk fraud such as financial misstatement and accounting issues, more often than not, much attention is not given to lower risk but high occurrence frauds. It ought not to be so.

2.3 Low-Hanging Fruit Theory of Fraud

This theory states that when a fraud is committed within an establishment by a specific person, taking such a fellow out of the organization eliminates any future fraud from that person. When a risk is removed, that improves the company. A bank must institute a zero-tolerance and hard-core approach to fraudulent behaviour by its employees, partners, and vendors.

2.3.1 Fraudster as Employee Theory

Good employees are critical to the operation of a business. They are ideally concerned about the future of the business, working hard to ensure its growth and future, maintaining integrity, and bettering the company. Fraudsters masquerading as employees use their positions to find weaknesses in the internal controls and exploit them to commit fraud. These people are not out to better the company. They are only out to line their pockets with ill-gotten gains. They have ceased to be employees as they have gone into business for themselves.

2.3.2 Rational Choice Theory (Cornish and Clarke-1986)

According to this theory, individuals not only decide to commit fraud /crime but choose when and where to commit it. If there are chances of their being caught, they shy away from it.

2.4 Short Memory Syndrome on Fraud

According to George Santayana "those who cannot remember the past are condemned to repeat it." This statement surely applies until this day. Charles Ponzi created the Ponzi scheme almost 100 years ago, and it has generated untold news stories of deception and shock year after year. Through the various iterations and untold millions of victims and financial losses, the Ponzi scheme is still going strong. Why is that? Are we incapable of learning from the misfortunes of others when they fall victims to tricks, cons, and fraud? Are fraudsters smarter than honest citizens?

Are greed and dangling carrots too alluring to resist? The Bernard Madoff investment fraud reinforces the Short Memory Syndrome that causes continual suffering. We need to resist the lure of scammers. No one makes huge investment returns every year, especially when the economic markets are in a downward cycle. Our society tends to forget about bad experiences in the past quickly. This is known as short memory syndrome. It has in no small measure exacerbated the incidence of fraud in our financial institutions.

3. A Common Trait Tuning through the Reviewed Theories.

The above theories share some traits in common. These may rightly be referred to as red flags

- ☐ An ill motive,
- ☐ A situational pressure,
- ☐ Provision of a necessary and sufficient opportunity,
- ☐ Low personal integrity,
- ☐ The ability to rationalize actions taken
- ☐ A contagious poor workplace condition where crime is learned and perpetrated.
- ☐ Living beyond means
- ☐ Financial difficulties
- ☐ Unusually close association with vendor and/or customer
- ☐ Control issues, unwillingness to share duties
- ☐ Divorce/family problems
- ☐ Wheeler-dealer attitude
- ☐ Irritability, suspiciousness, or defensiveness
- ☐ Addiction problems
- ☐ Past employment-related problems
- ☐ Complaints about inadequate pay
- ☐ Refusal to take vacations
- ☐ Excessive pressure from within an organization
- ☐ Past legal problems
- ☐ Complaints about lack of authority
- ☐ Excessive family and/or peer pressure for success
- ☐ Instability in life circumstances.

From the above array of traits, the influence of power, personal gain and self-control, loss aversion and risk acceptance, rationalization, and emotion have been identified as the drives or propensity to commit fraud. Our society needs to teach the principle of self-control/ restraint in individuals.

Having said this much on fraud theories, we proceed to look at some of the methods by which white-collar crimes are perpetrated in the Nigerian banking industry. Afterwards, we will try to ascertain if there are the practical application of the said theories to the Nigerian situation and state the possible lessons learnt that could help deter or prevent white-collar frauds in the Nigerian banking industry

4. White Collar Crimes in the Nigerian Banking Industry

Financial crimes in the Nigerian banking industry are real. There are various means through which they are perpetrated. The list is in exhaustive as new methods are devised overtime. The most essential and standard methods, according to Benson and Edwards (2006), Nwaze (2009) and Adebisi (2009) are:

1) Mail Fraud:

This is a process whereby the content of a duly authorized mail originated in a bank is converted to the benefit of the illegitimate recipient. Once the mail is altered, the benefit from there is switched to the fraudulent person.

2) Cashiering Fraud:

a) Pilfering: This is the act of stealing from counted cash by removing some units from the wrapper, bundle, etc. It is widespread in high denomination currencies

b) Teaming and lading:

This is also known as "carry-over fraud". It commences with suppression of cash or cheque lodgment's by cash handling officers and using other subsequent deposits to cover the already misappropriated fund.

c) Deposit Suppression:

Deposit instruments are destroyed to avoid any trace. Proper registration of deposits and treatment of control copy of deposit slips has reduced this type of fraud

d) Unauthorized Withdrawal:

This is an act of passing arbitrary debits into the account of customers. It is commonly perpetrated on large volume, dormant or illiterate customers account.

e) Vault / Till Cash Manipulations:

This is the act of presenting non-existing balances in the vault or tills as if they are real balances. Vault/ till manipulation could also be achieved vide replacement of actual cash with unauthorized paper or an IOU.

d) Foreign Exchange Manipulation:

Foreign currency in tellers till or vault can also be tampered with by a fraudulent staff because of the value if converted.

e) Stealing of valuable items in the Vault:

With the growing number of branches dealing with foreign currency notes and the advent of late depositing of cash, some fraudulent staff can easily make do with these items in the vault if improperly watched.

f) Fake Confirmation:

This can be in the form of confirmation of non-existing deposits to another branch (in most cases, orally via telephone) to utterly deny such confirmation later if issues arise.

3) Clearing related frauds:

This manifests mainly in the fraudulent use of cheques to obtain cash. The major types of frauds committed with cheques are Presentation of forged cheques, Cheque substitution, Suppression of clearing cheques, cheque cloning, cheque kiting, Issuance of 'rubber' cheques. Forgery of signatories and re-representation of already paid cheques through insider assistance.

4) Fund transfer frauds

Fund transfer can be local or international, e.g. Money gram, Western union etc. Fraudulent activities through this channel could come by way of identity fraud.

Identity Fraud:

This involves an impersonation of the real beneficiary of the transferred fund. This may be done by staff who have access to information about the transferor by an external fraudster who somehow got information about the shared fund

5) Manipulation of Fixed Deposit transactions:

This could come by way of inputting fixed deposits above approved rates, Back value dating of fixed deposit transactions, Seeking for undeserved rate for customers, to the detriment of the bank to get benefits from the customer and improper classification of fixed deposit transactions for tax avoidance.

6) Manipulation/ Conversion of Assets:

a) Stealing / Conversion of Bank Property: Some bank assets, i.e. consumables, e.g., photocopying papers, staplers, biros, pencils, fuel, etc.

b) Income leakage:

In some instances, charges expected to be taken are deliberately ignored or particular concession, e.g. COT concession.

c) Over invoicing / 'Expense Padding:

This has to do with the purchase of items such as assets, consumables or negotiating repairs etc., on behalf of the bank at inflated values for the personal benefit of the negotiating staff.

7) Credit Fraud or Risk Asset Manipulation:

Much of the distress experienced in the banking industry in Nigeria has to do with the management of credit facilities. Loans are the most typical type of credits granted by banks and experience shows that their vulnerability into fraudulent manipulation begins as soon as the first requests are made.

8) Advance Fee Fraud (419):

In advanced fee frauds, an agent approaches an individual, company or bank with very favourable terms and offers access to large pools of funds at below-market interest rates. It is based on the ability of the fraudster to convince the potential victim to pay a certain amount of money as a fee or commission in advance. Once the money is paid, the perpetrator would stop all further communication with the victim.

9) Counterfeit Securities Fraud

Daily, vast sums of money are lost by banks, governments and even private establishments through fraudulent use of counterfeit financial documents. With the advent of modern photographic and printing equipment, it has become easy for fraudsters to obtain either complete counterfeits or entirely forged genuine documents after relevant alterations such as for amount, dates, names etc.

10) Letters of Credit Fraud

In international trade, the overriding consideration of both parties is 'PROTECTION'. While the importer wants to ensure that he receives goods that conform to his specification, the exporter wants to ensure that he receives payments for goods supplied. This, coupled with the problem of distance and different exchange control regulations from country to the country brought the need for a standardized code for international trade. Even with these regulations, frauds are still being perpetrated via letters of credit.

11) Account Opening Fraud:

Fraudsters open accounts in banks with fake and incomplete documentation. Their strategies are so perfected that once a bank is defrauded, they go underground and may not be traced with the fake address and documentation provided at the point of account opening.

12) Money Laundering Fraud:

Money laundering is a means to conceal the existence source, or use of illegally – obtained money – by converting the cash into untraceable transactions in banks. The cash is disguised to make the income appear legal by reinvesting it into other businesses.

13) Executive management's fraud: This comes by way of

- Balance sheet restructuring and window dressing of accounts
- Lending to self, cronies and other executive colleagues.
- Lending to friends and family members
- Unauthorized use of bank assets
- Vendor of stationery or other operating materials such as 'Supply of diesel ' to bank branches.

14) Computer fraud:

Computer fraud is more sophisticated than the manually processed fraudulent activities. It is any fraud accomplished by tampering with computer programs; data files, operations, equipment or media, resulting in losses to the bank whose computer system is manipulated.

15) Electronic Banking Fraud:

While the development of e-banking has brought with it new products and ways of doing business, it has also spurred a wide variety of frauds and ways of perpetrating them. The nature of perpetration is often the internet or electronic card products-hence the term e-banking frauds or cyber-frauds.

Of all the fraud types enumerated above, computer and electronic banking frauds are now on the rampage within the Nigerian banking industry. This explains why we may need to go further to highlight how such frauds are perpetrated. Listed below are the different types of electronic fraud within the Nigerian banking industry:

Triangulation/Site cloning: Customers enter their card details on fraudulent bank sites and these details are then misused.

Hacking:

Hackers/fraudsters obtain unauthorized access to the card management platform of the banking system. Counterfeit cards are then issued for money laundering.

Online fraud:

Card information is stolen at the time of an online transaction. Fraudsters then use the card information to make online purchases or assume an individual's identity.

Lost/Stolen Card:

This refers to the use of a card lost by a legitimate account holder for unauthorized/illegal purposes.

Account takeover fraud:

An individual illegally obtains personal information of valid customers and takes control of the card account.

Money laundering:

Transfer of money into and out of a mobile wallet from or to a bank account is now possible. Cash-in from the bank account of an individual and cash-out to a different bank account of another individual can be used as a platform for laundering unaccounted money.

Unauthorized emails/Text messages:

Asking for account information for updating bank records are sent by fraudsters. The customer information is then misused for misappropriating funds.

Unauthorized Access:

This type of fraud may arise when access rights for making entries are given to unauthorized people.

Debit card skimming:

A machine or camera is installed at an ATM to pick up card information and PINs when customers use their cards.

ATM Fraud:

Fraudsters acquire a customer's card and/or PIN and withdraw money from the machine.

Mobile banking application against an incorrect mobile number:

For bank customers who do not use mobile banking, an employee of the bank could attach an associate's mobile number to the bank account and install a mobile application on his mobile device. The customer's account is compromised by the associate and he or she does not get any notification about the same.

Creating fake and non-existent users on the mobile platform:

Most of the banks appoint a third-party vendor to develop a mobile application to be integrated with their core banking system. The vendor may create two unauthorized users with rights to initiate and verify transactions, and transfer funds from the organization to his associates' wallets, effectively stealing money from the bank.

SIM Swap:

This has to do with replacing the old SIM with a new one, when the old gets lost or damaged, or when one needs a differently sized SIM card. If a fraudster manages such a swap, he can carry out numerous fraudulent transactions using the mobile number of the victim.

Unauthorized deduction from Mobile wallet:

Employees of the mobile wallet service provider may misuse the balance stored in the wallet of a customer, especially a dormant or infrequent customer account, by making unauthorized deductions.

16. Major channels for electronic fraud in Nigeria

The influence of sophisticated machines like electronic fund transfer, computer manipulation on bank fraud is very significant. The majority of frauds committed in the banking sector are usually committed through electronics transfer and computer manipulation. Most of the fraud cases that are ICT and computer-related come through the following ways:

Smart Card:

A card issued to a customer by a member bank of SMART CARD Nigeria Limited to aid them in their transactions. The card issued to the customer is usually PIN-protected (Personal Identification Number), and each cardholder has access/passcode or password different from any other persons. Such a passcode must be kept secret and must be changed any time it becomes known to someone else.

Electronic Fund Transfer (EFT):

This is an electronic oriented payment mechanism. It allows customers accounts to be credited electronically within 24 hours (Ugwu et al., 1999). Mark (1975) classified the basic elements of the ETF system into three: Clearing network characteristics, remote service or points of sales characteristics and pre-authorized debit and/or credit characteristics.

Mobile Telephone Banking:

Mobile phones are increasingly being used for financial services in Nigeria. Banks are enabling the customers to conduct some banking services such as account inquiry and funds transfer through the mobile telephone. The Mobile telephone banking notifies the customer of any transaction on his/her account. This too is often put to improper use by a third party that has physical access to the phone and the sign on the profile of the bonafide owner.

Personal Computer (PC) Banking:

PC banking refers to the use of computer hardware, software and telecommunications to enable retail customers' access to both specific account and general information on bank's products and services through a personal computer.

Automated Teller Machine (ATM):

This is an electronics device which allows a bank's customers to make cash withdrawals and check their account balances at any time without the need for a human teller. Many ATMs also allow people to deposit cash or cheques, transfer money between their bank accounts or even buy Mobile phone recharge cards. To withdraw cash, make deposits, or transfer funds between accounts, you generally insert an ATM card and enter your Identification Number (PIN).

Internet Banking Channel:

Internet is a global network of computers. It is a collection of computers networks, computers and millions of users, who share a compatible means for interacting with one another to exchange information (Olaleye and fashina; 2019).

17) Methods by which computer and ICT are being employed to defraud banks

Computer-aided fraud and embezzlement:

Skilled data processing professionals usually perpetrate this type of computer fraud.

Time (or logic) Bomb or Trap Door:

A time bomb is almost impossible to detect or prevent and it is nearly impossible to catch the person who devises it because a competent programmer can write the instruments so that when the bomb erases the target program application or system, it destroys itself as well.

Scavenging:

This is a method of obtaining data or information by searching trash cans of banks, data processing departments; this is called physical scavenging. There are also electronics scavenging that involves searching for residual data left on a computer.

Software piracy:

This involves copying or theft of proprietary computer software and/or raw data or information.

Having reviewed the various theories on fraud theories and the array of white-collar crimes in the Nigerian banking industry, the obvious question to ask is: if there is any connection or nexus between the two? That is the crux of the matter and the essence of this study! This now brings us to the next segment of the survey (Olaleye and fashina; 2019).

5. Practical Lessons and Inferences from the Reviewed Fraud Theories

5.1 Theory of Differential Association

Dishonest employees are bound to infect a portion of honest ones. It could also go the other way: Honest employees may influence some of those who are dishonest, but usually, the tendency has always been for the dishonest ones to corrupt the honest employees. Bank management should have an eagle eye on the crop of prospective employees. The class of staff bank parades could be their most prized assets. They could help or mar their performance or growth on the corporate ladder.

5.2 The Theory of Fraud Triangle

The auditing profession has adopted the fraud triangle as a tool to help detect and deter occupational fraud.

Understanding the fraud triangle helps to ascertain and prepare the audit scope/ objectives, planning and building of fraud audit program.

The first goal in an audit program is to make the auditor understand the lifestyles, behavioural traits and foreknowledge of the audit environment. Next, having ascertained the risk factors inherent in a system, the concept of a fraud triangle will help throw some light on where the pressures and the inherent opportunities exist. This theory helps in the planning and arrangement of audit guidelines, intending to build a potent fraud audit program.

Bank management and executives should have an eagle eye on the crop of staff they employ. The staff bank parades could be their most prized assets. They could help or mar their performance or growth on the corporate ladder. Banks should desist from putting up unnecessary pressures on their workforce as it creates a loophole or an opportunity for fraudsters to strike.

5.3 The Fraud Scale Theory

A brilliant staff is an asset to any organization, but if he becomes daring, then bank branch should place a check on him, his antics, job functions and schemes. This is to ensure that he does not cross his boundaries. He should not start and end a particular transaction. Dispensing of information to such staff should be on the need to know basis. His access to the computer system should be restricted only to his job functions; as an articulate staff with situational pressure may take undue advantage of the loopholes inherent in a system to commit fraud, more so if one's integrity is low and does not matter to him. The following factors might constitute a red flag to consider before hiring staff.

- ☐ Staff with many wives and children.
- ☐ Living beyond one's means
- ☐ An overwhelming desire for personal gain.
- ☐ High personal debt.
- ☐ A close association with customers.
- ☐ A feeling that pay was not commensurate with responsibility
- ☐ A wheeler-dealer attitude
- ☐ A strong challenge to beat the system.
- ☐ Excessive gambling habits.
- ☐ Undue family or peer pressure

5.4 The Theory of the Fraud Diamond

Corporate governance and job segregation are expected to have a positive influence on fraud prevention, while employees' capability and management integrity significantly influence fraud perpetration and prevention in the Nigerian banking industry.

Bank management and executives should have an eagle eye on the crop of staff they employ. The class of staff bank parades could be their most prized assets. They could help or mar their performance or growth on the corporate ladder. Knowledgeable staff should be closely monitored. An opportunity should not be created inadvertently. He may be tempted to strike as he can do so.

Banks must beef up the internal control mechanisms

5.4.1 The Theory of Work Place Deviance

Perhaps the most critical overall policy implications of this theory are that:

Theft and workplace deviance is in large part a reflection of how the employee perceives management at all levels of the organization.

Specifically, if the employee concludes that his or her contribution to the workplace is not appreciated or that the organization does not seem to care about the theft of its property, we expect to find greater involvement.

A lowered prevalence of employee theft may be one valuable consequence of a management team that is responsive to the current perceptions and attitude. Bank executives must at all times pay attention to four aspects of policy development drawn from this theory. They are:

1. A clear understanding of theft behaviour
2. Continuous dissemination of positive information reflective of the company's policies
3. Enforcement of sanctions and
4. Publicizing the sanctions

5.4.2 The Theory of Hyper Motivation

Motivation is essential in a banking environment. Without motivation, nothing can be achieved. Motivation is an important life skill. To steward your purpose well, you have to be motivated to work towards your goals which in turn helps your dreams become a reality. Banks should adopt the following steps to help prevent fraud.

- ☐ Staff should earn a living wage, so as not to be lured into fraud.
- ☐ Bank management to set a positive tone at the top.
- ☐ Implement internal controls.
- ☐ Institute a fraud reporting hotline.
- ☐ Hire, promote and train ethical employees.
- ☐ Dispense fair and balanced discipline.
- ☐ Identify and measure risks.
- ☐ Don't rely solely on a financial audit.
- ☐ Need to review and harness staff strengths and weaknesses over time.

5.4.3 The Anomie Theory on Fraud

There is a need to throw emphasis on a socially acceptable means for financial success. Banks should cultivate a socio-cultural environment that is devoid of excessive strain that could give rise to anomie. An unattainable deposit mobilization target is an anomaly

5.4.4 The American Dream Theory

Financial or monetary gains should not be the only mode to assessing a successful banker or a corporate executive's tenure in office. When a bank staff, bank executive or bank management formulate wants and desires that are difficult, if not impossible, to satisfy within the confines of legally acceptable behavior, they are bound to resort to fraudulent attempts. A case in point in the Nigerian industry is the outrageous deposit mobilization targets placed on bank marketers. Where they cannot meet up such targets, they resort to cutting corners. The Nigerian banking industry must

not throw morals to the wind. A situation where a corporate executive goes for a plea bargaining over an executive fraud makes a mockery of the banking profession which hitherto was a conservative profession.

5.4.5 The Social Control Theory

Bankers should not live in isolation. They are expected to belong to one social institution or the other where morals, ethics and principles of living and let live are practised and emphasized. Churches and mosques readily come to mind. Professional associations, bodies also come in to shape the thought processes and minds of people. It is an aberration for a chartered accountant or a chartered banker working in a bank to be caught involved in a fraudulent deal. If found guilty, may be stripped of his membership of the association. Same too applies to members of churches/ mosques and social clubs.

It is not enough working in a bank and remaining a social misfit. Life is not all about deposit mobilization. Bankers should belong to institutions where relationships, commitments, values, norms, and beliefs that will encourage them not to break the law. Thus, if moral codes are internalized and individuals are tied into it and have a stake in their wider community, they will voluntarily limit their propensity to commit deviant acts.

5.5 The Cognitive Theory on Fraud

Fraud detection, control and prevention are usually done by looking for red flags and various other cues of deceit. This, in turn, helps to understand crime-related behaviour. This theory is used as a yardstick to evaluate the cognitive processes that underlie both success and failure on fraud prevention and detection

5.5.1 The Social Learning Theory

New behaviours can be learnt or acquired by observing and imitating others

Banks should expose their staff to in house, external and professional training programs. The essence is to teach them to do things the right way. When a team has learnt to do it right, he may not choose to adopt a wrong approach to a task. Banks should avail their staff of the opportunities to observe and imitate good banking habits and ethics.

5.5.2 Differential Opportunity Theory on Fraud

Individuals suffering from adaptation problems may become criminals if there is access to illegitimate means. A line of separation is drawn if that opportunity to commit fraud is not created.

Banks should beef up on their internal control processes to prevent frauds.

5.5.3 The Social Disorganization Theory

Bank management must exercise caution when ignoring the root causes of crime and placing potentially excessive faith in criminal justice solutions to control crime. This theory is an essential predictor of youth violence and crime. In attempting to attenuate youth violence, many policy implications are suggested. For example, banks must be socially responsible. It will help to douse tension and incidence of fraud in bank locations. Developmental projects should be cited in underclass neighbourhoods, run by people with ties to the communities they intend to serve. This policy has the effect of targeting programs for the underclass while also strengthening minority agencies or creating new agencies within impoverished neighbourhoods. This idea will not only provide services but can also provide jobs for neighbourhood residents. Such an approach will also simultaneously strengthen residential ties and interconnections within neighbourhoods and bank branches

5.5.4 The Labeling Theory

Society's dominant groups create and apply deviant labels to subordinate groups, in other to keep them under check. This ought not to be so. Bank management should provide a level playing field for all categories of staff. Situations, where only a group of staff call it shot and others are to follow, should not suffice. Everyone should be encouraged to contribute their quota towards the progress of the bank.

Bank management should avoid creating power blocs and alienation of some key staff irrespective of their grade and location. Favouritism should be played down upon in the Nigerian banking industry. Reason being that if a group feels alienated in a decision-making process or are denied their rights, they may resort to negative thoughts and activities.

5.5.5 The Potato Theory of Fraud

This theory accounts for repeated cases of fraud in an organization. Once a fraudster succeeds in cheating, he becomes addicted, it will be difficult for them to stop because they feel that they will not be caught. The fraudster becomes addicted to repeating his actions, even committing other fraud until he gets a more significant profit and is eventually caught.

Whence there are repeated cases of fraud in a bank, the perpetrators are from within. They've been gaining from it. There is a need to beef up control measures aimed at catching up with the culprits.

5.6 The Rotten Apple Theory

A bank manager should lead by example. If a manager is fraudulent, the employees are bound to copy the fraudulent behaviour of their boss. A manager is expected to provide adequate supervision over his workforce. Where this is lacking successful fraud is easier to commit.

A laissez affairs or nonchalant manager may not have committed fraud, but they have succeeded in promoting it by not being alert and fully engaged. Trust but verify'' should be an ongoing policy in every bank in Nigeria

Once staff has been identified as dubious or fraudulent, should be shown the way out, lest he pollutes the minds of the younger ones.

5.6.1 A tip of Iceberg Theory on Fraud

What was initially discovered in the books of a bank may be deep-seated than what is seen on the surface as the fraud may have started a long time ago before it is discovered? Thus, undermining, how negligible or insignificant a case of fraud appears to be, it must be thoroughly investigated. Behind the façade of an insignificant loss of small amounts of money a stretch of fraudulent practices that may have started a long time ago

5.6.2 The Low-Hanging Fruit Theory of Fraud

In a banking environment, pilfering of cash constitutes a "low-hanging fraud". If it is not checkmated, nor given appropriate attention, the fraudster employees will continue their crimes until discovered. This could be months or years, and by that time, more damage will have been done.

In other words, if the small potentials do not get the proper attention, the frauds will not be revealed anytime soon and the fraudsters will carry on the action for months or even years.

Fraud investigation units should not overlook. Fraud perpetrators on low hanging fruits must be removed before they commit much more complex and serious frauds.

Lastly, though priority attention should be given to high-risk fraud, bank investigators should not forget the lower risk but high occurrence frauds.

5.6.3 The Addition by Subtraction Theory

A bank is best served when a dishonest employee is removed before he or she moves up the corporate ladder where far more damage can be done.

A bank must have a zero-tolerance and hard-core approach to fraudulent behaviour. This must apply to all employees, partners and vendors; be you small or favourably placed. As soon as a high-level executive who commits any kind of fraud is not held accountable, the entire program has lost credibility. Proactive banks are usually the ones that detect the fraud sooner before it gets worse.

Undermining the authorities that brought in a dishonest staff, he should be shown the way out before he wrecks more havoc on the system.

5.6.4 Fraudster as Employee Theory.'

One cannot stock nor cherish a hot pot of coal in his bosom. A fraudster as an employee will always seek for ways to manipulate and undo the system. They need to be shown the way out. Bank executives need to understand this concept when dealing with employees who commit fraud.

An employee that commits fraud against his employer is not legible to be considered an employee. He should be shown the way out of the system.

5.6.5 Rational Choice Theory

This theory lends itself to a range of policy initiatives known as situational crime prevention strategies. It encourages bank management to become proactive in fraud preventive measures. It is, sometimes referred to as designing out crime. This is the umbrella term for a range of strategies that are used to reduce the opportunities to commit a crime. Examples of this strategy include increasing formal surveillance measures such as CCTV and alarms in the banking hall and a general improvement in the lighting of bank premises at night.

5.6.6 The Short Memory Syndrome on Fraud

On no account must the Nigerian government allow any voodoo/ Ponzi Schemes to penetrate or infiltrate our financial systems again. Any outfit that is not registered by the corporate affairs commission should not be allowed to operate in Nigeria.

Most Nigerians are gullible. It is high time they realize that the class of investments that bring in this much taunted high level of return within so short a period may not be a legitimate one. Enough is enough to the'' Mavrodi Mundial Moneybox (MMM) Ponzi schemes of this world.

Nigerians and more especially the greedy ones have suffered tremendously each time a Ponzi scheme floated in the country goes sour. Most of them threw in their lives saving into it and got their fingers burnt in the process. Some are not alive today to tell their stories.

5.7 Further Precautionary Measures that should be taken to Guard against Fraud in the Nigerian Banking Industry

It is a well-established fact that white-collar crimes occur even in the best of financial systems that have a well-structured governance infrastructure but weak enforcement, that could lead to non-prudent and unethical management practices. However, it is more important to learn the lessons from past misdemeanours to guide us into a reduction in the re-occurrence of frauds in the Nigerian banking industry. The essential lessons learnt so far includes:

1. There is a need for effective corporate governance. Most cases of fraud in the Nigerian banking industry were occasioned by a weak governance structure coupled with inadequate credit assessment. The roles and responsibilities of stakeholders and management should be well defined and strictly adhered to.
2. The internal control mechanisms of Nigerian banks need to be strengthened.
3. There is a need for an objectively structured mechanism to regulate and supervise financial institutions.
4. There is need too for a continuous system of evaluation and clear guidelines on how to deal effectively with any irregularities
5. There must be healthy co-operation between government and private enterprises in business ventures and in dealing with irregularities in an effective manner.
6. No precedent should be set on creating moral hazards for financial institutions. Helping out selected financial institutions regularly certainly makes gross complacency and helps to ignite ethical hazard problems.
7. On no account must a fraud attempt be swept under the carpet; undermining whose ox is being gored.
8. Frauds may impose a financial burden on banks, but its highest cost to the public is the loss of trust in the government. Therefore, the government should give restoration of confidence top priority.
9. Lastly, the impact of financial scandals has damaged perceptions of the integrity environment of Nigeria. There is an urgent need for the government's commitment to wage an all-out war against corruption and to create a new healthy culture of integrity and honesty in all aspects of life with zero tolerance for fraud and corruption, even in the Nigerian banking industry.

References

- Andrea Schoepfer (2004), Exploring white-collar crime and the American dream; an M.A thesis presented to the graduate school of the University of Florida.
- Benson and Edwards's fraud prevention series (Volumes 1-11). B&E publishers Lagos
- Ekechi, A.O (1990), Frauds and forgeries in Banks: causes, types and prevention presented at the National Seminar in Bank Audit and organized by ICAN in Lagos.
- Enofe.A.O, T.A.Abilogun, A.J .Omolorun and E.M. Elaiho (2017), Bank Fraud and Preventive Measures in Nigeria: An Empirical Review, International Journal of Academic Research in Business and Social Sciences, Vol. 7, No. 7. [Crossref](#).
- Enofe.A.O . M.E. Egbe D.O. America (2016), Internal Control Mechanism and Fraud Prevention in the Nigerian Public Sector: An Application of the New Fraud Diamond theory. Journal of Accounting and Financial Management. Vol. 2 No.1
- Esheya. G (2014), Crime, unemployment, Corruption, and ostentatious lifestyle of public office holders in Nigeria; Proceedings of SOCIOINT14- International Conference on Social Sciences and Humanities, Istanbul turkey
- Fighting fraud in the government - Association of Certified Fraud Examiners.
- FITC (1989), Fraud in banks. A research report by the financial institutions training centre, Lagos.
- Five (5) theories explain why fraud occurred repetitively- integrity: prevention, detection and investigation blog.
- Freddie Choo and Kim Tan (2014), the American Dream and Corporate Executive Fraud <http://www.researchgate.net/publication/224829013>
- Gibson M.R. (2018); An analysis of fraud prevention and detection in non- profit organizations in the state of south Carolina. A Doctor of Business Administration thesis presented to the graduate school of Liberty University
- Kanu S.I. and E.O Okoroafor . (2013); The nature, extent and economic impact of fraud on bank deposits in Nigeria, interdisciplinary journal of contemporary Research in Business.4(9)..
- Kendra D. and S. Neset (2018), the cognitive psychology of corruption: Micro-level explanations for unethical behavior, CHR, Michelson Institute- A blog.
- Larry J. Siegel (1989), Criminology, 3rd ed. (New York: West Publishing, USA.
- Leonado W. V. (2018), the fraud triangle: Putting theory into practice, fraud auditing, detection and prevention blog
- NDIC, (2018) Annual Report.
- Olaleye J.O and A. F. Fashina (2019); Electronic banking fraud in Nigeria: Effects and controls; Global Scientific Journal: Volume 7, Issue 8
- Osisoma B.C. (2012), Combating fraud and white collar crimes: Lessons from Nigeria. Paper Presented at 2nd Annual Fraud & Corruption Africa Summit, Held at Zanzibar Beach Resort, Zanzibar - Republic of Tanzania.
- Ovuakporie Vincent (1994) Bank frauds, causes and prevention-An empirical Analysis
- Radzinowicz etal (1977) 'crime and justice, the criminal in society', vol.1, basic books inc, New York, USA.
- Richard C. Hollinger and John P. Clark (1983), Theft by Employees (Lexington, KY: Lexington Books), Q USA.
- Richard C. Hollinger-Workplace Dishonesty, Florida.USA
- Social Disorganization Theory- Review of the Roots of Youth Violence –Ontario, ministry of children, community and social services- A blog.
- The Fraudster Mindset: <http://www.pbookshop.com>
- Theories and causes of crime- School of education; university of Glasgow and the Scottish centre for crime and justice research- A blog.
- .The Association of Certified Fraud Examiners (1996), The Report to the Nation on Occupational Fraud and Abuse (Austin, USA)
- W. Steve Albrecht, Keith R. Howe, and Marshall B. Romney (1984), Deterring Fraud: the Internal Auditor's Perspective (Altamonte Springs, FL: The Institute of Internal Auditor's Research Foundation.