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## Financial Crime and Its Implications on Banks Performance in Nigeria: A General Appraisal

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### Abstract

In recent years, the volume and frequency of financial crime in Nigerian banks have been on the increase with obvious effects on performance. This paper therefore examines the implications of financial crime on bank performance in Nigeria. After the analysis of the manifestations and implications of financial crime on bank performance, the paper concludes with recommendations in dealing with financial crime. Prominent of these recommendations include the need for the creation of the corruption 'hotline' where the public can call to complain or report fraud cases and the trials of the serving and non-serving political and public office-holders to serve as deterrents to others. There is also need to train and retrain management and staff of Nigerian banks in fraud prevention and control.

**Keywords:** Banks Performance; Financial Crime; Nigeria.

### 1. Introduction

Traditionally, the role of banks whether in a developed or developing economy, consists of financial intermediation, provision of an efficient payments system and serving as conduit for the implementation of monetary policies.

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It has been postulated that if these functions are efficiently carried out, the economy would be able to mobilize meaningful level of savings and channel these funds in an efficient and effective manner to ensure that no viable project is frustrated due to lack of funds. Banks in Nigeria perform a variety of tasks and responsibilities not only for transformation agenda but also to enable it to function in an effective manner. These tasks and responsibilities are distributed among teams, which are assigned to fulfil their duties in a specific organisation. All designated tasks are equally important in Nigerian Banks, thus, making all employees and staff crucial to the operations of the bank. One of the crucial functions in these organizations is the process of auditing especially in the cases of fraud and irregularities [1].

In recent years, the volume and frequency of financial crime in Nigerian banks have been on the increase with obvious effects on performance. The growing scope and scale of financial crime in the banking industry is not surprising, given the rising profile of the country as a corrupt and fraudulent nation. In view of the insatiable search for money in Nigeria, big time fraud is on the increase and the banks lose huge amount running into billions of naira to fraudsters. Fraud has been the precipitating factor affecting bank performance and leading to distress.

There is no doubt that financial crime has resulted in wide spread distress in banks in Nigeria in the past and present. It has jeopardized industrial growth as most banks have already gone under due to distress. In Nigeria, fraud contributed significantly to the failure of the 36 banks in liquidation, [3]. Fraud is one of the serious financial crimes being perpetrated in our banking industry today. Frauds result in huge financial losses to banks and their customers, the depletion of shareholders' funds and banks capital base as well as loss of confidence in the sector. Fraud is therefore of special concern to the regulatory authorities who are saddled with the responsibility of ensuring the safety and soundness of the entire banking system. It is against this background, that this study examines the implications of financial crime on bank performance in Nigeria.

### ***1.1 Concept of Financial Crime***

There is no precise legal definition of financial crime, just as there is no single offence that can be called financial crime. Literally, some people see financial crime as the crime of deceiving in order to get money or goods illegally. Financial crime is a crime against property, involving the unlawful conversion of the ownership of property (belonging to one person) to one's own personal use and benefit [10]. Financial crimes may involve additional criminal acts, such as computer crime, elder abuse, burglary, armed robbery, and even violent crime such as robbery or murder. Financial crimes may be carried out by individuals, corporations, or by organized crime groups. Victims may include individuals, corporations, governments, and entire economies.

Financial crime as a concept has multifarious connotations. However, it is usually taken to have elements including an intentional and unlawful misrepresentation, which cause prejudice, most often misappropriation, which is the removal of cash or assets to which the fraudster is not entitled as well as false accounting in which records and numbers reported are falsified to give and create false impression [8].

### ***1.2 Financial Crime and Its Implications on Banks Performance***

The incidence of financial crime in the Nigerian banking system should be of serious concern to all stakeholders. The numbers of ATM card holders continue to grow daily as result of e-payment awareness and deployment of more than 3,000 ATM cash points by Nigerian banks across the country, activities of card fraudsters appear to be on the increase. Majority of Nigerian banks, notably United Bank for Africa, warned ATM card users nationwide against disclosing their ATM card details to a second party as a result of fraudsters who are said to be on the prowl [9]. Some ATM Frauds in a paper titled “ATM Fraud and Security” [6]. The following Techniques were outlined:

In an effort to obtain actual cards, criminals have used a variety of card trapping devices comprised of slim mechanical devices, often encased in a plastic transparent film, inserted into the card reader throat. Hooks are attached to the probes preventing the card from being returned to the consumer at the end of the transaction. When the ATM terminal user shows concern due to the captured card, the criminal, usually in close proximity of the ATM, will offer support, suggesting the user enter the PIN again, so that he or she is able to view the entry and remember the PIN. After the consumer leaves the area, believing their card to have been captured by the ATM, the criminal will then use a probe (fishing device) to extract the card. Having viewed the customers PIN and now having the card in hand, the criminal can easily withdraw money from the unsuspecting user’s account [7].

Another method of accessing a consumer’s account information is to skim the information off of the card. Skimming is the most frequently used method of illegally obtaining card track data. “Skimmers” are devices used by criminals to capture the data stored in the magnetic strip of the card. Reading and deciphering the information on the magnetic stripes of the card can be accomplished through the application of small card readers in close proximity to, or on top of, the actual card reader input slot, so it is able to read and record the information stored on the magnetic track of the card. The device is then removed, allowing the downloading of the recorded data.

PIN Fraud: This can take the following forms: Shoulder Surfing is the act of direct observation, watching what number that person taps onto the keypad. The criminal usually positions himself in close but not direct proximity to the ATM to covertly watch as the ATM user enters their PIN. Sometimes miniature video cameras that are easily obtained might be installed discretely on the fascia or somewhere close to the PIN Pad, to record the PIN entry information.

A fake PIN pad is placed over the original keypad. This overlay captures the PIN data and stores the information into its memory. The fake PIN pad is then removed, and recorded PINs are downloaded. Fake PIN pads can be almost identical in appearance and size as the original. An additional type of overlay that is more difficult to detect is a ‘thin’ overlay that is transparent to the consumer. This method used in conjunction with card data theft provides the criminal with the information needed to access an unsuspecting consumer’s account.

The phenomenon of financial crime has outrageous implications on bank performance in Nigeria. Financial crime in the banks leads to loss of confidence in business, insolvency or winding up business, bankruptcy, failure of creditors’ business with attendant loss of employment. Basically, Fraud & Irregularities occurring

among banks in Nigeria created significant effect. This event may result to business failure or worst bankruptcy. Aside from this, fraud & irregularities could also have significant effect to capital market, capital structure, Efficiency Market Hypothesis and credit ratings.

ATM fraud is not the sole problem of banks alone [7]. It is a big threat and it requires a coordinated and cooperative action on the part of the bank, customers and the law enforcement machinery. The ATM frauds not only cause financial loss to banks but they also undermine customers' confidence in the use of ATMs. This would deter a greater use of ATM for monetary transactions. The location of ATM is a high determinant to fraud carried out at ATM point [6]. ATM within the banking premises is more secure than ATMs outside the bank premises. The major form of ATM fraud is PIN theft which is carried out by various means like skimming, shoulder surfing, camera, key pad recorder etc. Fraudulent practices have led to the fall of so many banks in time past. In 2005, there was total of 1,229 reported cases of bank fraud. This shows an increase in the level of fraud in 2004 which recorded 1,175 cases of bank frauds.

In Nigeria, fraud contributed significantly to the failure of the 36 banks in liquidation, [8]. Fraud is one of the serious economic crimes being perpetrated in our banking industry today. Frauds result in huge financial losses to banks and their customers, the depletion of shareholders funds and banks capital base as well as loss of confidence in the sector.

### ***1.3 Management of Financial Crime in Nigeria***

In accordance to fraud and irregularities on banks performance in Nigeria, auditing and financial evaluation are crucial since it reflect on how their respective administrators manage the flow of their income, assets and transactions. For this reasons, banks in Nigeria should hire several experts to do the auditing and financial evaluations. Aside from hiring accountants and auditors that will work for them internally, they also need to seek help of other experts to avoid biasness and also in order reveal the genuine stability of the entity being audited [6]. [1], these people are called independent auditors expert or sometimes called external auditors.

Basically, external auditors/accountants are audit experts who perform an audit on the financial statements of a government, company, individual, or any other legal entity [3]. As stated previously, these people are working independently to present an unbiased and independent evaluation on such entities. In comparison to internal auditors, external auditors' primary responsibility is assessing the risk management practices and strategy, management and governance processes of an entity. These experts are usually does not express any opinion on the entity's financial statements, they just evaluate and never do such recommendations. Similar to internal auditors, independent auditors are considered by the public service sector and other organisations to take a look at financial statement to confirm they are free of errors and obvious misstatements [1].

It has been reported that an audit is an evaluation of an organization, system, process, project or product, which involves the independent and fair assessment of the financial statements of the organization. Knowledgeable, independent, and objective individual or group of individuals, known as auditors or accountants, makes a report based on the results of the audit. In addition, this function is performed to determine the reliability and validity

of financial information, and to present an evaluation of a specific company or an internal control of a particular business system, for these systems must comply with the generally accepted standards laid down by national governing bodies for regulation [9].

In accordance to the impact on control environment and internal controls within Banks in Nigeria, the independent auditor has a number of affirmative responsibilities. According to [8], firstly, the independent auditor must be precise in strategies to find out and report the bank's genuine financial position. Secondly, as a representative for the public, the independent auditor must stay independent of the management of the bank. The independent auditor owes the independence duty to the shareholders of the bank, the public and the board of directors. Thirdly, the independent auditor must completely reveal all material features of the financial condition of the bank. The independent auditor's duty of disclosure requires them to reject an improper engagement, report cheating, and place a caution on statements pertaining to the ability and liquidity of the company to continue as a going concern.

In independent auditor experts' affirmative duty to discover irregularities and material errors, including fraud, the independent auditor fulfils a function that the public considers the independent auditor's most significant role [7]. Fraud does not become visible on the face of bank's records, but frequently signs of it will likely be in the form of irregularities, and, hence, the auditor can only divulge fraud by closely examining irregularities [4]. Whereas the Statements of Auditing Standards (SAS) according to [1] assets the independent auditor's clear liability to identify management fraud, that same SAS does not oblige the auditor to guarantee the accuracy of the firm's financial statements.

The experiences of failed banks in Nigeria, and other nations, have called for the reinforcement of internal audit and the strengthening of the controls system in the Nigerian banks. This becomes relevant, given the fact that the banking institution is critical to the survival of any economy. Findings reveal that an effective internal audit functions reduces overheads, identify ways to improve efficiency and minimize exposure to possible losses.

## **2. Materials and Method**

The information used for the research was extracted from both primary and secondary sources. Data were derived basically from previous researchers and analyses of scholars, government documents, newspapers, magazines as well as journals that are related to the subject. Again, Data on commercial banks in Nigeria and Nigerian Deposit Insurance Corporation (NDIC) Annual Report were also reviewed for this paper because the banking sector controls over 60% of assets and liabilities of the whole Nigerian financial system. In addition, a total of 150 questionnaire structured into two sections were distributed to a cross section of 30 respondents (staff and customers) from 5 selected banks (United Bank for Africa Plc., Skye Bank Plc., Guarantee Trust Bank Plc., Diamond Bank Plc., and Fidelity Bank Plc.) in Ilorin Kwara State. Out this number, one hundred and twenty (120) questionnaires were returned and found useful for analysis. In analyzing the data collected in the course of the study, tables of frequency distributions were used.

**3. Results**

For the purpose of clarification and easy understanding of the analysis, it is presented in two sections. The first section presents the personal data of the respondents; the second part examines the responses concerning Financial Crime and its implications on banks performance in Nigeria.

In analyzing the data collected from the field, the simple percentage was used covering the model of the study both independent and dependent variables like Financial Crime and its implications on banks performance.

**Section 1**

**Table 1:** Distribution of Respondents by Sex

Sex	Frequency	Percentage
Male	72	60
Female	48	40
Total	120	100

**Source:** Researcher’s Survey (July, 2014)

The table 1 above depicts that 72 (60%) of the respondents are males while 48 (40%) are females. The differential percentage is a reflection of sex distribution in the banking sector.

**Table 2:** Distribution of Respondents by Age

Age	Frequency	Percentage
Below 20 years	-	-
21-25 years	18	15
26-30 years	22	18
31-35 years	30	25
36-40 years	43	36
Over 40 years	8	7
Total	120	100

**Source:** Researcher’s Survey (July, 2014)

From the above table 2, 18 (15%) of the respondents fall between 21 - 25 years. 22 (18%) fall between the age brackets of 26 – 30 years. 30 (25%) of the respondents were between 31- 35 years, majority of the respondents representing 43 (36%) are between 36-40 years while the remaining 8 (7%) respondents were over 40 years. From this analysis, one can infer that the majority of the workers fall between the age of maturity, efficiency and able bodies groups.

**Table 3:** Distribution of Respondents by Educational Qualification

Educational Qualification	Frequency	Percentage
WASC/SSCE	-	-
OND/NCE	52	43
HND/University Other	32	27
Others (specify)	36	30
Total	120	100

**Source:** Researcher’s Survey (July, 2014)

From the above table 3, the majority of the respondents obtained OND/NCE (43%). 32 (27%) of the respondents were with Higher National Diploma while 36 (30%) of the respondents were having other qualifications like MBA, ICAN and CIBN.

**Table 4:** Distribution of Respondents by monthly Salary

Monthly Income	Frequency	Percentage
Less than N85,000	32	27
N86,000 – N100,000	54	45
N101,000 - N150,000	18	15
N151,000 – N200,000	12	10
Over N200,000	4	3
Total	120	100

**Source:** Researcher’s Survey (July, 2014)

The above table 4 shows that overwhelming majority of the respondents 54 (45%) earn between N86,000 to N100,000 as monthly salary. From this analysis, one can infer that majority of the workers earn little compared to the work stress and the tempting nature of bank work

**Table 5:** Distribution of Respondents by Marital Status

Marital status	Frequency	Percentage
Single	25	21
Married	72	60
Separated	8	7
Divorced	12	10
Widowed	3	2
Total	120	100

**Source:** Researcher’s Survey (July, 2014)

From the above table 5, majority of our respondents 72 (60%) were married. Those that were single constituted 25 (21%) while those that were separated and divorced weighted 8 (7%) and 12 (10%) respectively. It would be inferred that majority of the workforce in the banks are responsible people and have many things at stake to protect.

**Table 6:** Distribution of Respondents by Work Status

Work Status	Frequency	Percentage
Management staff	15	13
Senior staff	42	35
Junior staff	63	53
Total	120	100

**Source:** Researcher’s Survey, (July, 2014)

The table 6 above depicts that overwhelming majority of the respondents 63 (53%) were junior staff in the bank. 15 (13%) respondents were management staff while 42 (35%) of the respondents were senior staff. This shows in essence that most of the work in the banks is carried out by the junior staff in almost all the departments with senior and management staff carrying out the administrative duties.

**Section 2**

This part of the study deals with the presentation of specific variables, which are related to the study. In order to derive the much - needed information on Financial Crime and its implications on banks performance in Nigeria, the following questions were asked and the respondents were tabulated and analyzed on the tables below.



**Table 7:** Respondents Opinion on whether there is increase in financial crime in the Banks in the recent times

Responses	Frequency	Percentage
Yes	102	85
No	18	15
Total	120	100

**Source:** Researcher’s Survey (July, 2014)

The table 7 above shows that majority of the respondents, 102 (85%) respondents were of the view that there is increase in financial crime in the in recent times while 18 (15%) respondents thought otherwise.

**Table 8:** Respondents Opinion on whether there has been insider’s connivance

Responses	Frequency	Percentage
Yes	112	93
No	8	7
Total	120	100

**Source:** Researcher’s Survey (July, 2014)

The table 8 above shows that majority of our respondents 112 (93%) respondents were of the view that there must be an inside connivance before a financial crime can be committed while 8 (7%) respondents thought otherwise. From this distribution, one can infer that inside connivance has assisted the crime in a great deal.

**Table 9:** Respondents Opinion on whether Banks operations involve outsiders apart from the employees. E.g. Providers of internet services?

Responses	Frequency	Percentage
Strongly agree	12	10
Agree	68	57
Disagree	21	18
Strongly Disagree	13	11
Undecided	6	5
Total	120	100

**Source:** Researcher’s Survey (July, 2014)

The table 9 above shows that 12 (10%) respondents strongly agreed that Banks operations involve outsiders apart from the employees. The majority of the respondents 68 (57%) respondents agreed. 21 (18%) respondents disagreed. 13 (11%) respondents strongly disagreed while 6 (5%) respondents were neutral.

**Table 10:** Respondents Opinion on whether there is an implication of financial crime on the bank?

Responses	Frequency	Percentage
Yes	83	69
No	37	31
Total	120	100

**Source:** Researcher’s Survey (July, 2014)

The table 10 above shows that majority of our respondents 83 (69%) respondents were of the view that there is an implication of financial crime on the bank while 37 (31%) respondents thought otherwise.

**Table 11:** Respondents Opinion on whether financial crime can cause the distress of a bank?

Responses	Frequency	Percentage
Yes	78	65
No	42	35
Total	120	100

**Source:** Researcher’s Survey (July, 2014)

### 3.1 Findings

It was found out in this research work that, the volume and frequency of financial crime in Nigerian banks have been on the increase with obvious negative effects on their performance. This is also linked to the connivance, corrupt and fraudulent nature of the operators and the society

Apart from the above, it was also discovered that Banks in Nigeria perform a variety of tasks and responsibilities not only for transformation agenda but also to enable it to function in an effective manner and unfriendly environment thus, making all employees, staff and the general public crucial to the operations of the bank.

It was also observed that most Banks in Nigeria are having problems or in wide spread distress as a result of financial crimes which has jeopardized the industrial growth as most banks have already gone under due to distress as amplified by one of the scholar [8].

#### **4. Conclusion**

Attempt in this paper has examined the implications of financial crime on bank performance in Nigeria as can be found in relevant literature. Issues bordering on financial crime were reviewed. On each issue, many pertinent positions emerged.

#### **5. Recommendations**

Based on the findings, the following recommendations, which will be very useful to the management of banks in controlling financial crime are preferred. Firstly, financial crime can be reduced by complying effectively with the policy measures which the government, monetary and supervisory authorities designed to curb the menace in Nigeria.

Secondly, there is need for the creation of the corruption 'hotline' where the public can call to complain or report fraud cases and the trials of the serving and non-serving political and public office-holders to serve as deterrents to others.

There is also need to train and retrain management and staff of Nigerian banks in fraud prevention and control. Such training should include a comprehensive review of legal and regulatory guidelines for confidentiality, as well as the various approaches to detecting common fraud schemes used to steal money. Besides, there is need to establish cash reward for persons who report and produce evidence of fraud incidence. It is our submission that the Nigeria nation cannot make progress with the cancer of fraud corroding its banking sector.

Finally, the measures to control financial crime should include checking of cashiers, call-over, reconciliation and balancing of accounts at branches, periodical submission of statement of accounts, stock taking of security items and cash in the vaults and inspection by bank inspectors.

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