



Evaluation of Fraud Prevention Strategies in Nigeria Banking Sector

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ABSTRACT

This research highlights the need for regulatory frameworks and continuous staff training to strengthen fraud prevention in Nigeria. The paper adopts questionnaire method with a sample of 98 respondents. Judgment sampling and simple random sampling (SRS) techniques were applied. The study shows a significant relationship between the implementation of fraud control measures and the reduction of fraud incidents in the banking sector. Furthermore, employee training and awareness programs have a substantial (p -value < 0.05) impact on reducing fraud incidents in the banking sector.

Keywords: fraud, Bank sector, Judgment sampling, simple random sampling (SRS) First bank, UBA, Access bank, Union Bank Nig. Plc. Chi-square, One-Way ANOVA, questionnaire.

1.0 INTRODUCTION

Bank fraud poses a risk of substantial financial losses to financial institutions, enterprises, and individuals. It is a crime that can emerge in numerous ways, from basic check fraud to more complicated schemes like identity theft and money laundering. The most common types of bank fraud are counterfeiting check fraud, Identity theft, loan fraud, credit Card Fraud and Phishing.

In Nigeria Financial institutions lost ₦17.6 billion (\$11.2 million) to fraud in 2023, according to the Nigeria Inter-Bank Settlement System's (NIBSS) [2023 Annual Fraud Landscape](#) report. The report shows that the amount lost to fraud has increased every year in the past five years with significant growth between each year. The total amount lost to fraud went from ₦2.96 billion (\$1.8 million) in 2019 to ₦ 11.61 billion (\$9 million) in 2022. Between 2019 and 2023, the total amount lost to fraud increased by 496% to ₦17.6 billion.

Banking fraud in Nigeria has seen alarming growth. According to the Nigeria Electronic Fraud Forum, losses from electronic fraud transactions reached over ₦10 billion in 2020 alone, with incidents increasing by 200% between 2018 and 2020. These numbers illustrate a growing concern that needs urgent attention.

The issue of fraud in the financial sector is a widespread occurrence that is not exclusive to any one economy, country, continent, or environment. Nigerian bank failures can be linked to the crises of bank failures in 1930s. The crisis of Nigerian banking sector is not new; it has existed for a considerable amount of time, the author stated. All native banks, with the exception of the National Bank, failed in the 1930s. It happened once more during the late 1940s financial "boom and crash," when all but four domestic banks managed to avoid the liquidators' hammer. Additionally, 16 out of 21 indigenous banks collapsed between 1952 and 1954. While several banks underwent different surgical procedures, such as restructuring, rebranding, acquisition, and full sales to new investors, 26 insolvent banks were liquidated all at once in the late 1990s. All of the changes had one thing in common: fraud played a significant role in their failures Nwankwo (1994).

Ajala et al. (2013) investigate the effectiveness of internal control systems in preventing fraud in Nigeria's banking sector. Data were collected from three commercial banks' audited and publicized financial statements and evaluated using the product moment correlation coefficient and regression analysis. They discover that the internal control system has greatly avoided and reduced fraud in Nigerian banks. They determined that poor corporate governance was to blame for the inappropriate design of internal control systems, which might have contributed to Nigerian banks' corporate performance.

The main goal of the study is to assess fraud and control procedures in Nigerian banks in order to determine realistic ways to reduce the prevalence of fraud in institutions. Other objectives include:

- i. Identifying significant differences between bank sectors regarding frauds in Nigeria.
- ii. To ascertain the perception of staffs on fraud cases in Nigeria banks.
- iii. To provide recommendations on the effectiveness of various fraud and control measures for banks to adopt.

By doing so, the client is better informed on the nature, kinds, modes, and various operations of frauds and placed in a better position to prevent and identify any fraudulent behavior.

2.0 METHODOLOGY

This paper focuses on the evaluation of fraud control measures in the banking sector in Enugu State, Nigeria. The sampling technique applied focuses on judgment sampling and simple random sampling, with a sample size of 98 respondents obtained from First Bank Nig. Plc. UBA, Access and Union Bank Nig. Plc. . The methods of data analysis will be based on percentage, and chi-square by using the SPSS program.

Chi- Square test for independence

In tests for independence or contingency tests, we try to see whether or not two criteria of classifications are independent of each other. Contingency tables are tables with cells corresponding to cross- classifications of attributes or events. We also follow the usual procedure for tests of hypothesis; thus:

The two criteria of classifications are independent

They are not independent

The test statistic is

$$\chi^2 = \sum_{i=1}^r \sum_{j=1}^c \frac{(o_{ij} - e_{ij})^2}{e_{ij}}$$

With degree of freedom

r = number of rows

c = number of columns

O_{ij} = The observed frequency of the ij^{th} cell

e_{ij} = The expected frequency of the ij^{th} cell

And
$$e_{ij} = \frac{R_i \times C_j}{N}$$

Where R_i = row total of the i^{th} row

And C_j = column total of the j^{th} column

N = Grand total

3.0 RESULT AND DISCUSSION

TABLE 3.1: Questionnaire Distribution

DISTRIBUTION AND RETURN OF QUESTIONNAIRE			
Section of population	Number of questionnaire issued	Number returned	Percentage
First bank Nig. plc.	32	32	32.7
UBA	24	20	20.4
Access	28	24	24.5
Union bank Nig. Plc.	24	22	22.4
Total	108	98	100.0

The table above shows the distribution of questionnaire for four banking sectors in Nigeria, which indicates that out of 108 questionnaire distributed 98 was return. It shows that 32.7% of the respondents were from first bank, 20.4% from UBA, 24.5% from Access bank and 22.4% Union Bank Nig. Plc.

TABLE 3.2: Fraud Control Measures

variables	frequency	percentage
What types of fraud control measures does your bank have in place?		
Internal audits		
External audits	20	20.4
Risk assessments	21	21.4
Compliance monitoring	17	17.3
Employee training	18	18.4
Customer education	15	15.3
	7	7.1
How effective do you think your bank's fraud control measures are?		
Very effective		
Somewhat effective	34	34.7
Not very effective	21	21.4
Not at all effective	20	20.4
	23	23.5
Have you experienced any instances of fraud in your bank?		
Yes		
No	67	68.4
	31	31.6

Table 4.2: The table above examines fraud control measures, which shows that the main types of fraud control measures are internal audits, external audits, risk assessments, compliance, monitoring and employee training. The result also shows that 34.7% of the respondents thinks that the bank fraud control measures are very effective. 68.4% of the respondents agree that they have experienced instances fraud in the bank.

TABLE 3.3: Risk Assessment and Mitigation

variables	frequency	percentage
How often does your bank conduct risk assessments to identify potential fraud vulnerabilities?		
Quarterly	18	18.4
Annually	64	65.3
Bi-annually	12	12.2
Rarely	4	4.1
What measures does your bank take to mitigate identified fraud risks?		
Implementing new policies and procedures		
Providing employee training	18	18.4
Enhancing internal controls	21	21.4

Increasing monitoring and surveillance	39	39.8
	20	20.4
How effective do you think your bank's risk assessment and mitigation processes are?		
Very effective	30	30.6
Somewhat effective	22	22.4
Not very effective	28	28.6
Not at all effective	18	18.4

Table 4.3: The table above examines risk assessment and mitigation which shows that 65.3% of the respondents agrees that bank conduct risk assessments to identify potential fraud vulnerabilities on yearly bases. Some of the measures banks take to mitigate identified fraud risks are implementing new policies and procedures (18.4%), providing employee training (21.4%) Enhancing internal controls (39.8%) and increasing monitoring and surveillance (20.4%). The result also shows that bank's risk assessment and mitigation processes are very effective.

TABLE 3.4: Employee Awareness and Training

variables	frequency	percentage
How often does your bank provide employee training on fraud awareness and prevention?		
Quarterly	24	24.5
Annually	37	37.8
Bi-annually	18	18.4
Rarely	19	19.4
What topics are covered in your bank's employee training programs on fraud awareness and prevention?		
Types of fraud	21	21.4
Fraud detection and prevention techniques	25	25.5
Reporting suspicious activity	32	32.7
Consequences of fraud	20	20.4
How effective do you think your bank's employee training programs on fraud awareness and prevention are?		
Very effective	32	32.7
Somewhat effective	29	29.6
Not very effective	25	25.5
Not at all effective	12	12.2

Table 4.4: The table above examines employee awareness and training. It which shows that banks provide employee training on fraud awareness and prevention on yearly bases, and some of the topics covered are Types of fraud (21.4%), Fraud detection and prevention techniques (25.5%), Reporting suspicious activity (32.7%) and Consequences of fraud (20.4%). The result also indicates that bank's employee training programs on fraud awareness and prevention are very effective.

TABLE 3.5: Customer Education and Awareness

variables	frequency	percentage
How often does your bank provide customer education and awareness programs on fraud prevention?		
Quarterly	29	30.2
Annually	35	36.5
Bi-annually	18	18.8
Rarely	14	14.6
What topics are covered in your bank's customer education and awareness programs on fraud prevention?		
Types of fraud	39	39.8
Fraud detection and prevention techniques	23	23.5
Reporting suspicious activity	16	16.3
Consequences of fraud	20	20.4
How effective do you think your bank's customer education and awareness programs on fraud prevention are?		
Very effective	34	34.7
Somewhat effective	26	26.5
Not very effective	21	21.4
Not at all effective	17	17.3

Table 4.5: The table above examines customer education and awareness. It shows that bank provide customer education and awareness programs on fraud prevention on yearly bases, with the following topics; Types of fraud (39.8%), Fraud detection and prevention techniques (23.5%), Reporting suspicious activity (16.3%) and Consequences of fraud (20.4%). The result also indicates that bank's customer education and awareness programs on fraud prevention are Very effective

TABLE 3.7: Incident Response and Reporting

variables	frequency	percentage
What procedures does your bank have in place for responding to suspected fraud incidents?		
Internal investigation	39	39.8
External investigation	21	21.4
Reporting to law enforcement	17	17.3
Reporting to regulatory bodies	21	21.4
How effective do you think your bank's incident response and reporting procedures are?		
Very effective	18	18.4
Somewhat effective	29	29.6

Not very effective	32	32.7
Not at all effective	19	19.4
Have you ever reported a suspected fraud incident to your bank's management or authorities?		
Yes	87	88.8
No	11	11.2

Table 4.6: The table above examines incident response and reporting. Which shows that banks have the followings in place for responding to suspected fraud incidents; such as internal investigation (39.8%), External investigation (21.4%), reporting to law enforcement (17.3%) and Reporting to regulatory bodies (21.4%). The result also shows that 88.8% of the respondents have reported a suspected fraud incident to bank's management or authorities.

3.1: Research Hypothesis test

H0: Employee training and awareness programs do not have a significant impact on reducing fraud incidents in the banking sector.

H1: Employee training and awareness programs have a significant impact on reducing fraud incidents in the banking sector.

Test statistic: (SPSS Software version 23)

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	0.81E3 ^a	4	.000
Likelihood Ratio	0.938E3	4	.000
Linear-by-Linear Association	43.128	1	.000
N of Valid Cases	98		

a. 0 cells (.0%) have expected count less than 3. The minimum expected count is 32.14

Using chi-square test statistic, it shows that the p-value < 0.05. Therefore, we reject the null hypothesis and conclude that employee training and awareness programs have a significant impact on reducing fraud incidents in the banking sector.

3.2: Research Hypothesis test

H0: There is no significant relationship between the implementation of fraud control measures and the reduction of fraud incidents in the banking sector.

H1: There is a significant relationship between the implementation of fraud control measures and the reduction of fraud incidents in the banking sector.

Test statistic: (SPSS Software version 23)

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	0.74E3 ^a	4	.000
Likelihood Ratio	0.85E3	4	.000
Linear-by-Linear Association	41.138	1	.000
N of Valid Cases	98		

a. 0 cells (.0%) have expected count less than 3. The minimum expected count is 32.14

Using chi-square test statistic, it shows that the p-value < 0.05. Therefore, we reject the null hypothesis and conclude that there is a significant relationship between the implementation of fraud control measures and the reduction of fraud incidents in the banking sector.

3.3: Research Hypothesis test

H0: There is no significant differences between bank sectors on the issue and perception of frauds in Nigeria

H1: There is a significant differences between bank sectors on the issue and perception of frauds in Nigeria

Test statistic: (SPSS Software version 23)

ANOVA

responses					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	35.519	3	11.840	12.248	.530
Within Groups	26.981	94	.287		
Total	62.500	97			

The table above is a result of a One-Way ANOVA conducted in SPSS software version 23. . The result shows that since the p-value < 0.05, therefore fail to reject the null hypothesis and conclude there is no significant differences between bank sector on the issue and perception of frauds in Nigeria

4.0 CONCLUSION

This study examine the evaluation of fraud prevention strategies in Nigeria banking sector. Using the percentage, Chi-Square, and One-way ANOVA, the result shows that banks provide employee training on fraud awareness and prevention on yearly bases, and some of the topics covered are Types of fraud (21.4%), Fraud detection and prevention techniques (25.5%), Reporting suspicious activity (32.7%) and Consequences of fraud (20.4%).The Chi-Square test (p-value < 0.05), shows that. there is a significant relationship between the implementation of fraud control measures and the reduction of fraud incidents in the banking sector. And also employee training and awareness programs have a significant impact on reducing fraud incidents in the banking sector. One-Way ANOVA (p-value < 0.05), indicates that there is no significant differences between bank sectors on the issue and perception of frauds in Nigeria.

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