COMPARING FRAUD CASES IN NIGERIAN AND US BANKS: LESSONS FOR PREVENTION AND REGULATION

Omoyemi Perpetual Itua[1]
Rosemary Obiageri Obasi[2]
Daniel Daniel Monday[3]
Alemaheyu Asale[4]
Tagese Abo[5]

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ABSTRACT

This study investigates the prevalence, types, and impacts of bank fraud in Nigeria, comparing it with similar cases in developed countries. Employing a mixed-methods approach, the research combines quantitative and qualitative data from annual reports, academic articles, and case studies. By analysing these sources, the study identifies the factors contributing to bank fraud in Nigeria and evaluates the effectiveness of preventive measures implemented by Nigerian banks. The findings reveal that while Nigeria has experienced a significant increase in bank fraud cases, the average amount lost per case is lower than in developed countries. The most common types of fraud are ATM/card cases and electronic fraud. Factors contributing to bank fraud include inadequate internal controls, technological vulnerabilities, insider threats, and external pressures. The study also evaluates the effectiveness of preventive measures implemented by Nigerian banks, such as advanced technologies, internal controls, and employee training. The results provide valuable insights for policymakers, regulators, and banks in addressing the challenges of bank fraud in Nigeria.

KEYWORDS

bank fraud, Nigeria, preventive measures, comparative analysis, financial institutions

INTRODUCTION

Technological advancements have made banks vulnerable to sophisticated fraud schemes, leading to a global concern. In 2023, worldwide fraud losses reached $4 trillion, with banks as primary targets (ACFE, 2023). This study aims to compare bank fraud trends in Nigeria with developed nation. Fraud is a deliberate deception for personal gain (Soni, Neena, 2013). The ACFE defines it as intentional

[1] Benson Idahose University, Faculty of Social & Management Sciences, Department of Accounting, Edo State, Nigeria, omoyemiitua@yahoo.com

[2] Benson Idahose University, Faculty of Social & Management Sciences, Department of Accounting, Edo State, Nigeria, robasi@biu.edu.ng, ORCID: 0000-0001-7768-0858

[3] Benson Idahose University, Faculty of Social & Management Sciences, Department of Accounting, Edo State, Nigeria, dmonday@biu.edu.ng

[4] Wolaita Sodo University, College of Agriculture, Department of Agricultural Economics, Sodo, Ethiopia, alemayehuasale@gmail.com

[5] Wolaita Sodo University, College of Agriculture, Department of Agricultural Economics, Sodo, Ethiopia, tageabo@gmail.com

deception, concealment, or breach of trust (ACFE, 2023). The USSC emphasizes financial loss and deceptive tactics (USSC, 2024). Expands the definition to include harm to others.

This study will provide valuable insights into bank fraud trends in Nigeria and inform the development of effective fraud prevention strategies by answering the following questions:

1. What are the predominant types of bank fraud in Nigeria compared to other countries?
2. How does the prevalence of bank fraud in Nigeria compare to developed nations?
3. What factors contribute to varying levels of bank fraud across countries?
4. What are the specific strategies used by banks in Nigeria to prevent and detect bank fraud?
5. How effective are these strategies compared to international best practices?

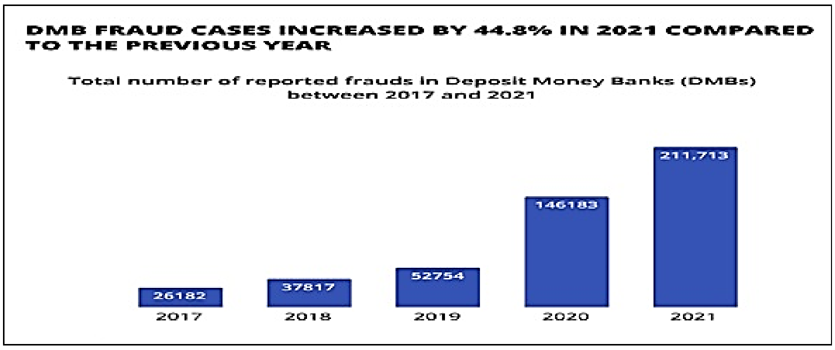

Figure 1. Rise in deposit money bank fraud
Source: Uma (2023)

Types of Bank Fraud

Common bank frauds include identity theft, account takeover, credit card fraud, check fraud, and Ponzi schemes.

Identity Theft

Identity theft occurs when fraudsters obtain personal information to commit fraud. This can involve phishing, data breaches, or physical theft. Stolen information is used to create accounts, obtain loans, or make purchases. Banks implement safeguards like two-factor authentication and identity verification, but fraudsters constantly evolve their techniques (Soni, Neena, 2013, Jain, Tiwari, Dubey, 2019). Victims bear the burden of detection and reporting, leading to financial and emotional distress (Enoch, John, Olumiyiwa, 2013).

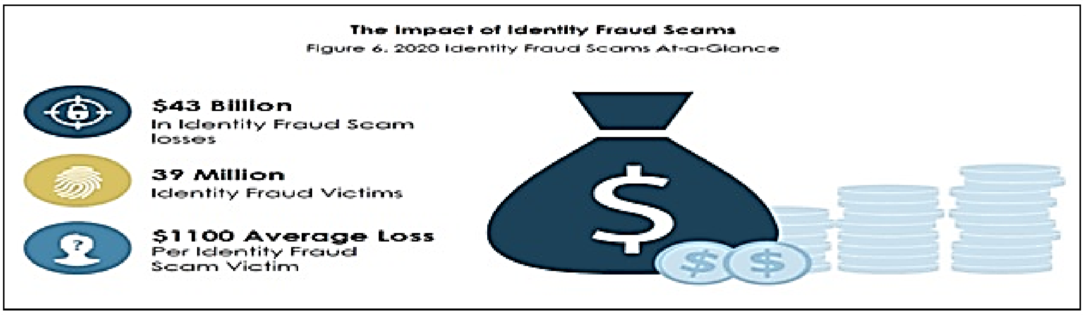

Figure 2: Impact of Identity Fraud in Banks
Source: Kitten (2021)

Account Takeover

Fraudsters gain unauthorized access to accounts through viruses, social engineering, or phishing. They can then transfer funds, make purchases, or alter information without the account holder's knowledge. Banks face challenges in preventing account takeover due to increased online and mobile banking (Akinyomi, 2012).

Credit Card Fraud

Credit card fraud involves unauthorized use of a credit card number or stolen card. This can occur through skimming, phishing, or using stolen information for online transactions. 11% of reported fraud cases in 2018 were credit card fraud (ACFE, 2023). Banks use CVV codes and EMV chips for security, but fraudsters find ways to bypass them (Enoch, Hohn, Olomuyiwa, 2013, CBN, 2023).

Check Fraud

Check fraud involves using falsified or altered checks to obtain funds from bank accounts. This can include writing fake checks, changing payee information, or using lost or stolen checks. Check fraud can result in significant losses for both individuals and banks (Subramanian, 2014). 82% of organizations experienced check fraud attempts in 2019 (CBN, 2023). Banks implement check verification systems and fraud detection algorithms, but sophisticated fraudsters can evade these measures (FBI, 2023, Bakiaris, Papachristou, 2017, Idolor, 2010).

Ponzi Schemes

Ponzi schemes promise high returns to investors but use new investor funds to pay off existing ones. Fraudsters posing as reputable investment firms can lure clients into these scams (Podkolzina, Belousov et al. (20191). Bernie Madoff's scheme caused billions in losses. The CBN advises investors to be cautious of high-return, low-risk investments (CBN, 2023). Banks may unintentionally facilitate Ponzi schemes by offering services to scammers. Identifying fraudulent schemes can be challenging, and banks may face legal repercussions if involved (Thammareddi, Agarwal et al., 2023, Ata, Hazim, 2020).

Impact on Banks and Customers

Fraud has significant financial and reputational implications for banks. It can erode trust, lead to operational challenges, and result in fines and legal penalties. Customers may experience financial losses, identity theft, and emotional distress.

Banks are responsible for safeguarding their customers' money, and when fraudulent activities occur, it can result in significant monetary losses. This can include large-scale fraudulent actions like insider trading as well as smaller-scale frauds like credit card scams (Olumiyiwa, 2023). The Association of Certified Fraud Examiners said that in 2020, fraud cost banks an estimated 5% of their yearly income (ACFE, 2023). Such losses not only affect the bank’s bottom line, but they also have a cascading effect on their customers and the economy as a whole.

Fraud also has a significant impact on banks’ reputation and credibility (Mangala, Soni, 2023, Emmy, Chinwe, Emmanuel, 2016). Banks must uphold customer trust by handling their money with integrity and protecting it from fraudulent activities, but failure to do so can lead to customer loss and revenue loss. In a survey conducted by PwC, 77% of respondents said they would be less likely to do business with a bank that had experienced fraud (Kopalo, Olaniyan, 2018). The negative effects of fraud on a bank’s reputation can be long-lasting and can result in the loss of both current and potential customers.

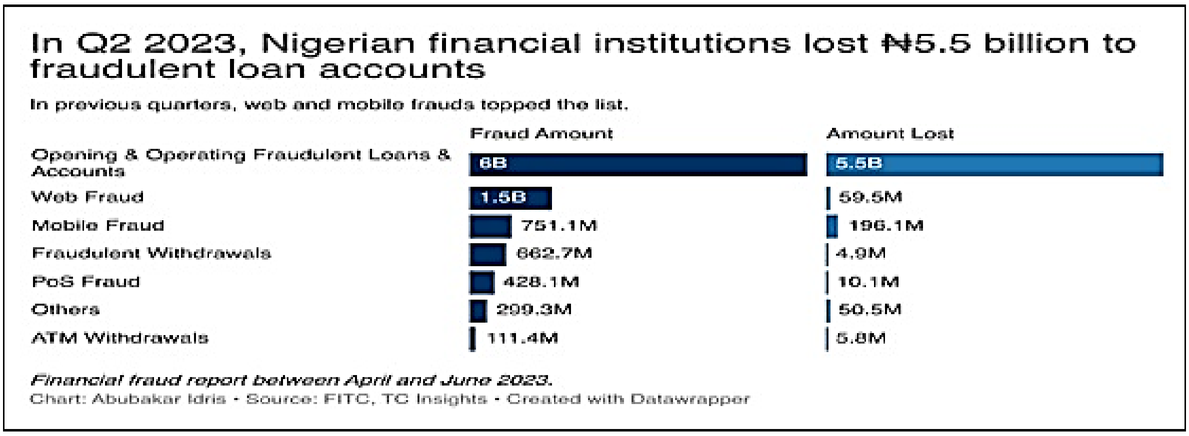

Figure 3: Loss due to fraudulent Loans
Source: Olumiyiwa (2023)

Furthermore, fraud can also have a significant impact on customers. One of the primary consequences of fraud for customers is the financial loss they experience.

Impact of Fraud on Banks and Customers

Fraud has significant consequences for both banks and customers. Financially vulnerable individuals may suffer devastating losses (PwC, 2023). Additionally, fraud can lead to emotional distress, increased anxiety, and loss of trust in financial institutions (Christinawati, Setiyawati, 2022). Fraud can also have long-term effects on consumers' credit ratings (Kolapo, Olaniyan, 2018, Christinawati, Setiyawati, 2022). Undiscovered credit card fraud can result in missed payments and damage to credit scores, hindering future access to credit (Cavaliere, Subbash, Rao et al., 2021). In the digital era, banks hold vast amounts of customer data, making them vulnerable to data breaches and identity theft (Idolor, 2010, Kolapo, Olaniyan, 2018). This can lead to financial losses, identity theft, and reputational damage for consumers.

METHODOLOGY

This study used a mixed-methods approach, combining quantitative and qualitative research. Quantitative data was gathered from annual reports of Access Bank, First Bank, Fidelity Bank, and the Central Bank of Nigeria. Qualitative data was collected through in-depth case studies of specific fraud incidents. Both quantitative and qualitative methods were used to analyze the data. Descriptive statistics were used for quantitative analysis, while thematic and content analysis were used for qualitative analysis.

RESULTS AND FINDINGS

Access Bank case:

- Fined N2 billion by the CBN for anti-money laundering violations.

- Ordered to pay N42 billion to a customer for unlawful deductions.
- Three former employees charged with stealing N10 million.
- Highest number of fraud cases in 2020 (2,901 cases, N6.41 billion).

First Bank case:

- Fined N1 billion by the CBN for anti-money laundering violations.
- Ordered to pay N2.5 billion to a customer for unlawfully freezing her account.
- Two former employees arrested for stealing N264 million.
- Second-highest number of fraud cases in 2020 (2,502 cases, N5.27 billion).

Fidelity Bank case:

- Experienced ATM fraud, resulting in N40 million loss.
- Former employee convicted of defrauding the bank of N6.4 million.
- Recorded 18 cases of insider-related fraud in 2015.
- Recorded 69 cases of loan fraud in 2018.

Comparative Analysis

Table 1. Summary of Comparative Metrics Among Case Study Banks

Categories of Frauds	Access Bank	First Bank	Fidelity Bank
Reported Fraud cases (2019)	3,049	2,183	1,934
Average amount lost per fraud cases	**₦887,000 (approximately $1,830)**	**₦1.24 million (approximately $2,560)**	**₦753,000 (approximately $1,550).**
Types of fraud cases	ATM/Card cases-1,493 Electronic fraud cases-474	Electronic fraud cases-746 ATM/Card cases-994	ATM/Card-related fraud cases at 1,116 cases. Electronic fraud cases-572

Source: NIBSS (2023) Comparison of Fraud Cases in Nigerian Banks

Access Bank and First Bank have both experienced fraud cases. However, Access Bank has reported a higher number of cases and a higher total amount lost. In 2020, Access Bank reported 3,049 cases, while First Bank reported 2,183. However, First Bank had a higher average loss per case (₦1.24 million) compared to Access Bank (₦887,000)23.

The types of fraud differed. Access Bank had more ATM/Card-related fraud (1,493 cases), while First Bank had more electronic fraud (746 cases)24. Access Bank's larger scale and operations in multiple

African countries may make it a more attractive target for fraudsters. Both banks have faced fines from the CBN for regulatory violations.

Fidelity Bank also experienced fraud cases, reporting 1,934 in 2020. Although lower than First Bank, Fidelity Bank had a higher average loss per case (₦753,000) compared to Access Bank. Similar to the other banks, Fidelity Bank had more ATM/Card-related fraud cases.

Comparison with Other Countries

Table 2. Summary of Bank fraud cases in US Banks

Categories of Fraud Cases	Capital One	Wells Fargo	Goldman Sachs
Reported Fraud cases (2019)	4,300	1,068	1,189
Average amount lost per fraud cases	$1,230	$1,449	$2,710
Types of fraud cases	Credit card fraud-1,500 Online banking-190 Market misconduct-337	Identity theft-280 Bribery and corruption-160	Online banking-190 Identity theft and account takeover- 560

Source: Office of the Special Inspector General for the Troubled Asset Relief Program [SIGTARP] (2023)

Comparison of Fraud in Nigerian and US Banks

While Nigerian banks reported a higher number of fraud cases in 2019 compared to US institutions like Capital One, Wells Fargo, and Goldman Sachs, the average amount lost per case was significantly lower in Nigeria. This could be due to differences in currency values, economic status, and security measures.

Fraud Case Comparison

Number of cases: Nigerian banks reported 3,049-2,183 cases, while US banks reported 1,068-1,189. Average loss: Nigerian banks lost ₦753,000-₦1.24 million per case, while US banks lost $1,230-$2,710. Types of fraud: Nigerian banks primarily reported ATM/card and electronic fraud, while US banks reported identity theft, credit card fraud, and online banking fraud. These differences may be attributed to Nigeria's developing banking sector and its ongoing digitalization. While US banks have more advanced security measures, Nigerian banks may be more vulnerable to fraud due to their stage of development

Effectiveness of Preventive Measures

All three banks have implemented robust fraud prevention measures, including advanced technology and tightened internal controls. Access Bank uses real-time monitoring and staff training. First Bank has focused on multi-factor authentication and biometric authentication. Fidelity Bank has implemented advanced fraud detection software, customer education, and enhanced security measures. These measures have helped reduce fraud incidents. However, challenges remain, such as card skimming and internal fraud, highlighting the need for continuous improvement in fraud prevention strategies.

CONCLUSION AND RECOMMENDATIONS

Fraud is a significant issue in Nigeria's banking sector, affecting banks and customers. It results in financial losses, reputational damage, emotional distress, and compromised personal information. All three major banks (Access Bank, First Bank, and Fidelity Bank) have experienced fraud. While Access Bank has reported more cases, First Bank has higher average losses per case. Compared to US banks, Nigerian banks have reported more fraud cases but lower average losses. Factors contributing to fraud include inadequate internal controls, technological advancements, insider fraud, lack of customer awareness, and corruption. Banks should invest in advanced fraud detection systems, strengthen internal controls, conduct regular staff training, educate customers, and strengthen customer authentication processes.

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