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# A STUDY ON CAUSES AND PREVENTION OF FRAUD IN BANKING INDUSTRY

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**ABSTRACT :**

The Indian banking sector has experienced considerable growth and changes since liberalisation of economy in 1991. Though the banking industry is generally well regulated and supervised, the sector suffers from its own set of challenges when it comes to ethical practices, financial distress and corporate governance. This study endeavours to cover issues such as banking frauds and mounting credit card debt, with a detailed analysis using secondary data (literature review and case approach) as well as an interview-based approach, spanning across all players involved in reporting financial misconduct. The report touches upon the case of rising NPAs in the past few years across various scheduled commercial banks, especially public sector banks. The study finally proposes some recommendations to reduce future occurrence of frauds in Indian banking sector. The credibility of third parties such as auditing firms and credit rating agencies is also questioned in the study and is believed to be a significant contributor amongst other causes, such as oversight by banks and inadequate diligence. The frauds may be primarily due to lack of adequate supervision of top management, faulty incentive mechanism in place for employees; collusion between the staff, corporate borrowers and third party agencies; weak regulatory system; lack of appropriate tools and technologies in place to detect early warning signals of a fraud; lack of awareness of bank employees and customers; and lack of coordination among different banks across

India and abroad. The delays in legal procedures for reporting, and various loopholes in system have been considered some of the major reasons of frauds and NPAs.

Keywords: Non-performing assets, Stressed assets, Banking frauds

**Introduction :**

The banking industry is yet in its formative stage in Nigeria. No country whether developed or developing an afford to overlook the directions its banking institution live in their development especial when we consider the unique position of the industry in the pace and direction of economic growth of the nature. There arise a need therefore of state emphatically that the soundness of the individual bark in economy is an infinite asset which act as a dynamic factor of growth to the general economy.

The role of financial institution in facilitating the process of intermediation form surplus economic unit to defect economic and unit become paramount intermediation is the ole the financial institution encounter varies problem in fraud. It is assumed that an alarming proportion that there is no feasible sign near future.

Basically it noted that fraud and loss are expected phenomenon of my business activity the scope and gravity are what create concern in the economy. The stud identifies varies forms and nature of bank fraud clearing fraud forgeries and falsification of account were the most common forms of fraud identified with 33% of banking institution in the economy respectively factors that facilitate fraudulent practices were also identified. These range form the socio economic factors to weak internal control system. This is effort undermines the operation and performance of banks and could be disastrous if there are not curbed.

## 2. BACKGROUND OF THE STUDY

Fraud is a social evil it affect the entire sector of the economy which banking system is inclusive although fraud and loss in an expected part of any business activity the scope and gravity is what creates concern in a developing economy like ours.

Fraud in banking sector is generally looked at as acts that involve the loss of asset a through deceitful and dishonest means. It certainly constitutes one of the most serious threat to the practice and spread of banking in Nigeria fraud and forgeries involved professional crooks that are seek to enlist the support and co-operation of the dishonest members of the bank staff.[1]

In pursuit of the objective of the study a systematic approach will be followed. The study is divided into four chapter. Chapter one takes a look at its introduction background of the study the statement of problems purpose objective of the study significance of study limitation of study and definition of terms chapter two deals with the literature review "general view" types of fraud causes of fraud element that facilitates fraud . chapter three concentrates on design and methodology sources of data location of data and tools of analysis chapter four comment on findings of the effect and the recommendation against fraud action to be taken to ameliorate the harm done to the bank summary and conclusion will mark the end of their study.

## 3. STATEMENT OF PROBLEM

Generally speaking professional fraud is new not just because it exposes the societies anemone and raise important questions of public interest which follows this

- Fraud is banks nearly leads to lose of money ordinarily belongs to some one other than the bank.
- In every bad conditions where fraud occurs with crippling frequency and in wholesale sizes the bank may be forced to liquidate consequently and drastic reduction of patronage in the banking sectors.
- The effect of fraud equally dastards management policy to encompass cheek and control system which are by them costly to maintain.
- Bankers as a matter of urgency are expected to be very careful in the detection for costing and prevention of fraud to help cub and cushion the effect of the menace.

[1] https://www.google.co.in/url?sa=t&source=web&rct=j&url=https://www.livemint.com/Money/Lzi217JNT5tQpZYeb5xTJJ/Frauds-are-a-growth-industry-in-Indian-banking.html%3Ffacet%3Damp%26utm_source%3Dgoogleamp%26utm_medium%3Dreferral%26utm_campaign%3Dgoogleamp&ved=2ahUKEwjJna-bh9XbAhUBRY8KHRh1AgAQFjAPegQIBhAB&usg=AOvVaw3XU7fDnuat_oZs61Wit3LE&ampcf=1

## 4. OBJECTIVE OF THE STUDY

The aim and objectives of this study are as follows:

- To establish the cause of fraud and event that facilitates this act.
- To find out the various forms and nature of commercial fraud that provide the system
- To keep the general public aware of the hazardous effects of fraud in the banking industry.
- To keep the management and its subordinate alert in a way to fight against fraud among back employee they are customer shareholders and the general public.
- To find possible solution and control means of fraud in the banking system in a bid to save the economy raise the profitability of bank and to save the image of banking sector.

## 5. SIGNIFICATION OF STUDY

The banking institution as an engine for economic development is specially designed to carry out contains duties which eventually benefits the following interest groups are

- Industrial sector
- Agricultural sector
- Individual customers
- Government or public sector

### 5.1 INDUSTRIAL SECTOR:

Industrial seek loan and advance form commercial bank to meet their business financial revilements. The bank accommodate them by providing permanent financial in the form of loans the working capital needs are met through bank overdraft facilities. The funds are however made available to loan seeker who met the lending condition laities of the banks.

### 5.2 AGRICULTURAL SECTOR:

Development banks are needed to finance specific project particularly the types which private institution cannot easily be induced to finance specially when they are largely experimental in nether taking the high risk that surrounds the agriculturist into consideration such as gestation period nature disaster pest & disease.

### 5.3 INDIVIDUAL CUSTOMERS:

Banks as custodian of high liquidity keeps safe the customers deposits which are payable on demand grants overdraft especially to current account holder discounts the customers commercial papas and pays their customers a sum entire in money as□□□□ □□□□□□□□ □□□□, ordered by their debtor.

### 5.4 GOVERNMENT OR PUBLIC SECTOR:

Bank is an avenue through which government controls the economic activities of the country through the use of C.B.N as the apex bank that implements the monetary policy measures on banks and other non-bank financial institution in the country

## 6. DEFINITION OF TERMS

**6.1 FRAUD:** Is loss of assets an act that involves misrepresentation of acts so as to gain business advantage.

**6.2 COROLLARY FRAUD:** It is fraudulent act that involves no monetary assets like securities shares etc. with respect to individuals that have capital invest and desire to make money.

**6.3 INTIMIDATION:** The role of banks in the economy by channeling or mobilization of excess fund form surplus unit for viable investment.

**6.4 MISREPRESENTATION:** Unfruitful statement made by customers or employee either in writing or orally in orally to gain business advantage.

**6.5 MACHINIST:** Is one who operated the computer or any other automated ro unallocated machine in the bank.

**6.6 FIDELITY:** A statement of true fats in relation of the risk involved in the business venture.

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Any bank desperate for fund especially distressed banks and banks needing large funds to bid for foreign exchange can easily fall victim of this type of fraud. When the deal fails and the fees paid in advance are lost, these victims are not likely to report the losses to the police or to the authorities.

CHEQUE KITTING

Kiting is defined by the US Comptroller of the Currency's Policy Guidelines for National Bank Directors as:

"*a method where a depositor utilizes the time required for cheques to clear to obtain an unauthorized loan without any interest charge"* Cheque kiting involves the unauthorized use by depositors of undeserved credits in their accounts. This occurs when a depositor utilizes the time required for a cheque to clear to obtain an authorized loan without interest charge. The goal of the cheque kitter may be to use these uncollected bank funds, interest fees for a short time to overcome a temporary cash shortage or to withdraw the funds permanently for personal use.

ACCOUNT OPENING FRAUD

**7. MONEY TRANSFER FRAUD**

Money transfer services are means of moving financial resources to or from a bank to beneficiary account at any bank point worldwide in accordance with the

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instructions from the banks' customers. Some common means of money transfer are mail, telephone, over-the-counter, electronic process and telex. Fraudulent money transfer may result from a request created solely for the purpose of committing a fraud or altered by changing the beneficiary's name or account number or changing the amount of the transfer.

**8. CLEARING FRAUD**

Most clearing frauds hinge on suppression of payment instrument so that at the expiration of the clearing period applicable to the instrument the collecting bank will give value as though the paying bank had confirmed the instrument good for payment. Clearing cheques can also be substituted to enable the fraudster divert the fund to a wrong beneficiary. Mis-routing of clearing cheques can also assist fraudsters to complete a clearing fraud. In other words, a local clearing item can be routed to an up-country branch. In the process of re-routing the instrument to the proper branch, the delay entailed will give the collecting bank the impression that the paying bank had paid the instrument.

**9. COMPUTER FRAUD**

The rapid development in information technology and globalization has had serious impact on banking practice in the country. Those factors are expected to continue to drive the way banking businesses are conducted in the country as more and more banks move to automate their back office and clients' services. Also with the advent of the Internet, E-commerce, E-banking, etc, it is no longer news that somebody could stay in the comfort of his home and move millions around the globe. Some banks in Nigerian offer on-line services for some of their clients. While this is convenient, it equally carries with it the risk of computer fraud as there seemed to be no longer discernable boundary nor perimeter along Muhammed Umar Dikko

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which to erect the defenses to keep corporate data within and inaccessible to computer hackers outside. While computer frauds more especially those perpetrated by hackers, are yet to be reported to the Regulatory Authorities in Nigeria, reports from on site examination of banks have continued to draw attention to the poor attitude of some banks to the issue of computer security.

**10. OUTSIDERS/INSIDERS FRAUD**

This involves a collaboration of bank staff and outsiders for the purpose of defrauding the bank. For bank's outsider fraud to succeed, more often than not, there must be an insider who is providing information and other logistic support to the outsiders.[2]

**11. Conclusion :**

A very essential challenge for the life insurance industry is due to the 'fraud risk'. Insurers are aware of the need to deal with this risk, but the problem is lack of an integrated approach to fraud risk management. The increasing cases of frauds and the growing level of risk insist that insurers regularly evaluate their policies, conduct checks and adopt advanced techniques to curtail such issues. However, no system can clean out such frauds, but a proactive approach can make a company ready to oppose fraudsters and gain a frame over its competitors. As India's insurance industry matures, fraud risk management is going to be a major concern for insurers and business leaders. Insurers will need to constantly reassess their processes and guidelines to manage and alleviate the risk of fraud. Fraud risk in the insurance can originate from internal and external factors. Internal risk means the risk of employees' misappropriating confidential information and conspire with fraudsters is on the rise and therefore they need to put in place internal checks. External fraud risk can occur at various stages, e.g., registration of clients, reinsurance, underwriting, and the claims process.

India is one of the fastest growing economies and so is the case with the country's insurance sector. Insurance Fraud Survey is conducted to assess the fraud scenario, the probable risk exposure and the industry practices to counter fraud risk. The significant role that life insurance fraud plays is negatively affecting the insurance industry is often under-reported or discounted. Fraud risk in life insurance is a complex matter, which influence both the parties — insurers as well as policyholders. Life insurance frauds increase the cost of insurance, resulting in policyholders paying higher amount of premiums and at the same time insurers losing to their competitors.

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