

FRAUD AND PERFORMANCE OF DEPOSIT MONEY BANKS IN NIGERIA

2012 – 2024

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Abstract

This study examines the effect of fraud on the performance of Deposit Money Banks (DMBs) in Nigeria from 2012 to 2024. Data on Return on Assets (ROA), Return on Equity (ROE), Number of Fraud Cases (NFC), Amount Involved in Fraud (AIF) and Actual Loss to Fraud (ALF) were sourced from NDIC, CBN and FITC reports. Descriptive statistics, Augmented Dickey-Fuller unit root test, Granger causality test and Ordinary Least Squares (OLS) multiple regression were employed. The descriptive result shows fraud cases rose from 3,786 to 101,801 with average actual loss of N11.38 billion. The regression result shows R-squared of 0.84 for ROA, indicating fraud explains 84% of performance variation. All fraud proxies have negative effects, but Actual Loss to Fraud has the most damaging and significant effect with coefficients of -0.0892 for ROA ($p=0.0009$). The Granger causality result shows unidirectional causality from fraud to performance, while poor performance does not cause fraud. The study concludes that fraud significantly reduces bank performance and actual loss is the main driver. It recommends DMBs deploy AI-powered real-time fraud monitoring and recovery systems to minimize actual loss.

Keywords: Bank Performance, Deposit Money Banks, Fraud, Fraud Loss,**Introduction**

The banking sector is the engine of economic growth and financial intermediation in any economy, and in Nigeria, Deposit Money Banks (DMBs) play a central role in mobilizing savings, allocating credit, and facilitating payments. Their performance, usually measured by profitability, liquidity, asset quality, and capital adequacy, determines not only shareholder value but also public confidence and overall financial system stability. However, in the last decade, the Nigerian banking industry has been confronted with an escalating wave of fraud that has severely threatened

this performance and eroded stakeholders' confidence. According to the Nigeria Deposit Insurance Corporation (NDIC, 2023) annual report, the banking industry recorded over 59,000 fraud cases with attempted fraud value of over N59.33 billion in 2023 alone, with actual losses exceeding N10 billion, representing a significant increase compared to previous years.

Fraud in the context of deposit money banks refers to intentional acts of deception, misrepresentation, or concealment perpetrated to obtain unauthorized financial benefits to the detriment of banks, customers, or the system. It manifests in various forms including cyber fraud, Automated Teller Machine (ATM) fraud, internet banking fraud, insider abuse, forgery of cheques and documents, unauthorized fund transfers, and identity theft (Odi, 2022). The liberalization of the financial system, rapid digitalization of banking services, and the emergence of Financial Technology (FinTech) have expanded service delivery channels but simultaneously created new vulnerabilities. While electronic banking has deepened financial inclusion and reduced operational costs for banks (Obizue & Ihejirika, 2025), it has also provided sophisticated platforms for fraudsters to exploit weak internal controls and low digital literacy among customers.

The evolution of fraud in Nigerian banks has shifted from traditional manual frauds such as cheque forgery and cash suppression to complex technology-driven frauds. The Central Bank of Nigeria (CBN) Industry Fraud Report (2022) noted that electronic fraud accounted for over 72% of total fraud losses in the banking sector, with mobile banking and web-based channels being the most vulnerable. This trend has been exacerbated by insider collusion, where bank staff conspire with external fraudsters to bypass internal control systems, as well as weak corporate governance and poor risk management practices in some banks (Udeh & Agbo, 2021). The recent COVID-19 pandemic accelerated digital adoption, leading to unprecedented increase in electronic transactions, which fraudsters exploited, causing losses to spike between 2020 and 2024 (Olaoye & Akinbobola, 2023).

Deposit Money Banks' performance is directly impaired by fraud through multiple channels. First, direct financial losses from fraud reduce profitability and return on assets. Second, banks incur huge costs in fraud prevention, detection, litigation, and compensation to customers. Third, persistent fraud cases damage reputation and reduce customer patronage and deposit mobilization, leading to liquidity challenges. Fourth, regulatory sanctions and penalties imposed by the CBN and NDIC for failure to implement adequate anti-fraud measures further diminish performance. Studies such as those by Ebimobowei & Eke (2023) and Inaya & Isah (2022) have shown that there is a significant inverse relationship between fraud incidence and profitability indicators like Return on Equity (ROE) and Return on Assets (ROA) among listed DMBs in Nigeria. Despite heavy investments in anti-fraud technologies and regulatory interventions such as the Bank Verification Number (BVN), Know Your Customer (KYC) framework, and the CBN's zero-

tolerance policy on fraud, the menace persists, raising questions about the effectiveness of current control mechanisms and its ultimate impact on bank performance.

The core mandate of Deposit Money Banks in Nigeria is to maintain public confidence through safe custody of depositors' funds and efficient financial intermediation. However, the rising incidence of fraud has become a systemic threat that undermines this mandate. Reports from the NDIC (2023) and Financial Institutions Training Centre (FITC, 2024) indicate that despite regulatory reforms, the number of fraud cases and the amount involved have been on an upward trajectory, with banks losing billions of naira annually. This is worrisome because banking thrives on trust, and once that trust is breached by fraud, the consequence is withdrawal of deposits, reduction in earnings, and in extreme cases, bank distress.

Several studies have attempted to examine fraud and bank performance in Nigeria, but most focused on a single fraud type or used data up to 2018, thereby not capturing the current dynamics of cyber fraud, FinTech-related frauds, and the post-COVID electronic banking boom. Moreover, there are conflicting empirical findings; Agwor and Arinze (2023) found that fraud significantly reduces bank performance, others such as Ogunleye & Adeyemi (2021) argued that the effect is not statistically significant due to banks' ability to recover losses through insurance and improved risk management. This inconsistency creates a gap in knowledge that needs to be filled with current data.

Furthermore, the problem is aggravated by internal factors such as poor staff welfare leading to insider abuse, weak internal control systems, inadequate segregation of duties, and failure of supervisory oversight (Owolabi, 2022). The external dimension includes sophisticated cybercriminal networks, inadequate legal prosecution of fraudsters, and low awareness among customers. If this trend is not checked, it could lead to systemic loss of confidence, reduced financial inclusion, poor credit allocation to the private sector, and overall constraint on Nigeria's economic development aspirations as contained in the Financial System Strategy 2020 (Obizue & Obizue, 2025). Therefore, there is an urgent need to re-examine the effect of fraud on the performance of Deposit Money Banks in Nigeria using recent data and comprehensive fraud proxies to provide evidence-based recommendations for regulatory and managerial action.

The study focuses on fraud and its effect on the performance of Deposit Money Banks in Nigeria. Geographically, the study is limited to Nigeria, but conceptually it covers all Deposit Money Banks licensed by the Central Bank of Nigeria and insured by the NDIC that have been in operation between 2012 and 2024. This ten-year period was chosen to capture the era of full BVN implementation, expansion of electronic banking, and the recent surge in cyber fraud. In terms of variables, fraud is measured by the number of fraud cases, amount involved in fraud, and actual loss due to fraud, while bank performance is proxied by profitability measure, Return on Assets

(ROA). The study relies on secondary data from NDIC annual reports, CBN Statistical Bulletin, audited annual reports of selected DMBs, and FITC Reports on Frauds and Forgeries.

This study is significant in several ways. To the management of Deposit Money Banks, the findings will provide empirical insight into how different dimensions of fraud affect profitability and operational efficiency, thus guiding strategic decisions on investment in fraud detection technologies, staff training, and strengthening internal controls. To regulatory authorities such as the CBN, NDIC, and FITC, the study will highlight regulatory gaps and provide evidence for formulating more stringent anti-fraud policies, enforcement of corporate governance codes, and consumer protection frameworks.

To shareholders and potential investors, the study will reveal the extent to which fraud erodes shareholder value and return on investment, enabling better risk assessment and investment decisions. To bank customers and the general public, it will increase awareness of fraud trends and the need for vigilance in electronic banking transactions. Academically, the study will contribute to existing literature by providing updated empirical evidence using recent data from 2012 to 2024, thereby filling the gap created by outdated studies and conflicting findings. It will also serve as a reference material for future researchers, students, and policy analysts interested in banking fraud and financial sector stability in developing economies like Nigeria.

Concepts

Fraud

Fraud is generally conceptualized as an intentional act of deception, misrepresentation, or concealment of material facts for the purpose of securing unfair or unlawful financial advantage. In banking literature, fraud is seen as a deliberate act carried out by individuals inside or outside the organization to obtain unauthorized benefits at the expense of the bank, its customers or other stakeholders (Odi, 2022). According to the Nigeria Deposit Insurance Corporation (NDIC, 2023), bank fraud encompasses all means by which human ingenuity devises to obtain money or property by false pretence. It is not an accidental error but a conscious violation of trust. The Association of Certified Fraud Examiners (ACFE, 2022) also defines fraud as any activity that involves using deception to obtain direct or indirect financial benefit.

In the Nigerian banking context, fraud has evolved from traditional manual forms to complex technologically driven schemes. Traditional fraud includes cheque forgery, cash suppression, over-invoicing and falsification of documents, while modern fraud is dominated by cyber-related offences such as phishing, identity theft, Automated Teller Machine (ATM) skimming, internet banking fraud, SIM swap fraud and unauthorized fund transfers (Adeyemo & Olokoyo, 2024). The common element in all definitions is the intention to deceive and the resulting financial loss or

risk. Ebimobowei and Eke (2023) emphasize that bank fraud can be perpetrated by insiders, outsiders, or through collusion between staff and outsiders, with insider-related fraud being the most damaging due to knowledge of internal control weaknesses.

Deposit Money Banks (DMBs)

Deposit Money Banks are financial institutions licensed by the Central Bank of Nigeria (CBN) to accept deposits from the public, provide credit facilities, and offer payment and other financial services. According to the CBN Act (2020), DMBs are the main vehicles for monetary policy transmission and financial intermediation. They mobilize surplus funds from savers and channel them to deficit units in the form of loans and advances, thereby promoting investment and economic growth. Their core functions include deposit mobilization, credit creation, funds transfer, foreign exchange transactions and custodial services. In Nigeria, DMBs are regulated by the CBN and insured by the NDIC, and their operations are critical to public confidence in the financial system (Udeh & Agbo, 2021).

Bank Performance

Bank performance refers to the ability of a bank to efficiently utilize its resources to achieve its objectives of profitability, liquidity, solvency and sustainability. Performance is a multidimensional concept but in banking literature it is mostly proxied by financial indicators. Obizue & Ihejirika (2025) conceptualize bank performance as the extent to which a bank generates earnings from its assets and equity while maintaining adequate liquidity and asset quality. Common measures include Return on Assets (ROA) which measures how efficiently management uses assets to generate profit, Return on Equity (ROE) which measures return to shareholders, Net Interest Margin (NIM) which measures efficiency of intermediation, and other indicators such as liquidity ratio and non-performing loan ratio. Olaoye and Akinbobola (2023) argue that good performance implies not only profitability but also operational efficiency, risk management effectiveness and stakeholders' confidence, all of which are threatened by fraud. According to Obizue, Amako & Igweagbara (2025), financial performance refers to the measure of how well a firm utilizes its assets and resources to generate revenue, manage costs, and deliver value to its stakeholders. It is a multi-dimensional construct, encompassing profitability, liquidity, efficiency, solvency, and shareholder value.

Link between Fraud and Bank Performance

Conceptually, fraud and bank performance have an inverse relationship. Fraud leads to direct financial losses, increases operational costs associated with fraud prevention, detection, litigation and customer compensation, and damages reputation which reduces deposit mobilization and patronage (Agwor & Arinze, 2023). The agency theory explains that weak corporate governance

and information asymmetry create opportunities for fraud, while the fraud triangle theory by Cressey posits that pressure, opportunity and rationalization drive fraudulent behaviour among staff. Therefore, persistent fraud depletes capital, reduces earnings, and ultimately impairs the intermediation role of DMBs.

Major Types of Fraud that Affect Banks' Performance

Internal / Staff Fraud

This is fraud committed by bank staff themselves. It includes cash suppression, unauthorized withdrawals from customers' accounts, falsification of figures, and stealing of liquid cash. This is the most dangerous because staff know the internal control weaknesses.

External Fraud

Fraud committed by outsiders against the bank or its customers without insider help. Example is armed robbery, break-in, and customers using fake documents to defraud the bank.

Insider-Outsider Collusion

This is when bank staff collude with external fraudsters to commit fraud. For example, a staff provides customer's BVN, PIN or account details to outsiders to empty an account. NDIC 2023 report said over 60% of fraud cases involved staff collusion.

Cheque and Forgery Fraud

Involves forging customer's signature, altering cheque amount, using cloned cheques, or stealing cheque leaves to withdraw money.

Electronic / Cyber Fraud

This is now the most common type in Nigeria. It accounts for over 70% of losses according to CBN 2022 and FITC 2024 reports. It includes:

ATM Fraud: Skimming, card trapping, shoulder surfing at ATM.

Internet Banking Fraud: Hacking into online banking platforms to transfer funds.

Phishing and Identity Theft: Sending fake emails or SMS pretending to be the bank to steal customers' login details, OTP, BVN.

SIM Swap Fraud

Fraudsters clone customer's SIM to receive OTP and clear account.

Loan and Credit Fraud

Customers or staff submit fake financial statements, fake collateral or inflate collateral value to obtain loans that they never intend to repay. This increases Non-Performing Loans and reduces bank performance.

Advance Fee Fraud (419)

Fraudsters deceive customers or banks with fake promises of huge benefits, contracts, or inheritance and ask them to pay upfront fees.

In summary, in Nigerian DMBs today, fraud has shifted from traditional manual fraud like cheque forgery and cash theft to technology-driven fraud like phishing, SIM swap, and internet banking fraud, which directly affects ROA and ROE.

Theories

The Fraud Triangle Theory

This theory was propounded by American criminologist Donald R. Cressey in 1953 in his book; *Other People's Money*.

Cressey argued that for fraud to occur, three elements must be present at the same time:

- a. Pressure: This is the motivation that pushes someone to commit fraud. In Nigerian DMBs, it could be financial pressure on staff due to poor remuneration, debt, greed, or unrealistic performance targets from management.
- b. Opportunity: This is the chance to commit fraud without being caught. This arises from weak internal control systems, poor segregation of duties, failure of supervision, and exploitation of digital banking loopholes. In banks, insiders know the control weaknesses and use it.
- c. Rationalization: This is the psychological justification fraudsters give themselves. A staff may say "the bank is making billions, taking small money is not bad" or "I am just borrowing and I will return it". It explains WHY fraud occurs in DMBs and why despite BVN and technology, fraud persists. When performance pressure is high and opportunity exists, fraud will occur and directly reduces bank profitability.

The Agency Theory

Propounded by Stephen A. Ross and later expanded by Michael C. Jensen and William H. Meckling (1976). The theory was originally introduced by Stephen Ross in 1973, but it was formally propounded and popularized by Jensen and Meckling in their 1976 paper. *Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure*. The theory explains the

relationship between principals (owners/shareholders and depositors) and agents (bank managers and staff) who are employed to protect their interest. The core argument is that there is information asymmetry and conflict of interest. The agents may pursue self-interest rather than the interest of the principals. In banking, depositors and shareholders entrust their funds to bank staff to manage, but the staff may abuse that trust through insider fraud, unauthorized lending, embezzlement, or collusion with outsiders to defraud the bank. The theory explains HOW fraud affects performance. When agents (bank staff) defraud, it leads to agency costs - direct financial losses, cost of monitoring, cost of internal controls, and loss of public confidence. This increases operational costs and reduces ROA and ROE, thus impairing the performance of DMBs. It justifies the need for strong corporate governance, CBN regulation and internal audit to align staff interest with owners' interest.

Empirical Review

Odi (2022) in a study titled Assessment of Fraud and the Financial Performance of Deposit Money Banks in Nigeria examined the effect of fraud on bank profitability. The major variables used were amount involved in fraud and actual fraud losses as independent variables and Return on Assets (ROA) as dependent variable. The analytical technique adopted was multiple regression analysis using Ordinary Least Squares (OLS). The result showed that amount involved in fraud has a negative but insignificant effect on ROA while actual fraud loss has a negative and significant effect on ROA. The study concluded that fraud loss significantly erodes the profitability of DMBs in Nigeria and recommended strengthening of internal controls.

Agwor and Arinze (2023) carried out a study on Electronic Fraud and Financial Performance of Deposit Money Banks in Nigeria. The study used electronic fraud variables such as fraud via ATM, mobile banking and internet banking as major independent variables and Return on Equity (ROE) and Return on Assets as performance measures. The study employed panel least squares regression and descriptive statistics covering 2015 to 2022. The findings revealed that ATM fraud and mobile banking fraud have a significant negative effect on ROE, and that increase in electronic fraud channels significantly reduces bank performance. The study concluded that electronic fraud has become the dominant threat to bank performance in the digital era.

Ebimobowei and Eke (2023) investigated the topic Fraud and Performance of Deposit Money Banks in Nigeria using data from NDIC and CBN reports from 2012 to 2021. Their major variables were number of fraud cases, amount involved in fraud and total actual loss as fraud proxies and profit before tax as performance indicator. They used multiple regression and correlation analysis. The result showed that number of fraud cases has a positive relationship with profit due to increased transactions but actual loss to fraud has a strong negative and significant effect on profit before tax. The study also found that staff involvement in fraud significantly increases actual loss.

They concluded that although fraud incidence may rise with transaction volume, actual loss is what significantly impairs performance.

Inaya and Isah (2022) conducted a study on Bank Fraud and Financial Performance of Listed Deposit Money Banks in Nigeria. The major variables were fraud cases, staff involvement in fraud and total amount lost to fraud as independent variables and Return on Equity and Net Interest Margin as dependent variables. The analytical tools were panel data regression and Granger causality test for 10 listed DMBs from 2014 to 2020. The results indicated that staff involvement in fraud has a significant negative impact on ROE and that there is a unidirectional causality from fraud to bank performance. The study also found that banks with stronger corporate governance record lower fraud losses. The authors concluded that internal fraud driven by staff collusion is the most damaging to the financial performance of listed banks and recommended improved staff welfare and whistleblowing policy.

Methods

The study examines the effect of fraud on the performance of Deposit Money Banks in Nigeria covering the period from 2012 to 2024. It adopted an ex-post facto research design because it uses historical secondary data that already exists and cannot be manipulated by the researcher. The data was sourced from Nigeria Deposit Insurance Corporation Annual Reports, Central Bank of Nigeria Statistical Bulletin, Financial Institutions Training Centre Reports on Frauds and Forgeries, and the audited annual reports of Deposit Money Banks in Nigeria.

The dependent variable is bank performance proxied by Return on Assets which is Profit Before Tax divided by Total Assets. The independent variable is fraud measured by three proxies which are Number of Fraud Cases representing total reported fraud cases per year, Amount Involved in Fraud representing total value exposed to fraud, and Actual Loss to Fraud representing the unrecovered loss after recoveries.

Model Specification

The functional relationship is that bank performance is a function of fraud and the model is specified as:

$$ROA = \beta_0 + \beta_1 NFC + \beta_2 AIF + \beta_3 ALF + \mu$$

where

ROA is Return on Assets

NFC is number of fraud cases,

AIF is amount involved in fraud

ALF is actual loss to fraud and

μ is error term.

On a priori, the study expects a negative relationship, that is; $\beta_1, \beta_2, \beta_3 < 0$. This implies that, as fraud increases, banks' performance decreases because fraud causes direct financial loss, increased operating cost and loss of confidence.

Method of Analysis

For analysis, the study used descriptive statistics to describe mean, median, maximum, minimum and standard deviation of variables, Augmented Dickey-Fuller unit root test was adopted to check stationarity and avoid spurious regression, and the Granger causality test used also to determine direction of causality between fraud and bank performance. The main estimation technique is Ordinary Least Squares multiple regression evaluated using R-squared, F-statistic and p-values, where p-value less than 0.05 indicates statistical significance.

Results

Table 1: Descriptive Statistics

Variable	Mean	Maximum	Minimum	Std. Dev.	Obs
ROA (%)	1.79	2.85	0.48	0.71	13
NFC (Cases)	40,125.00	102,165.00	3,786.00	28,412.50	13
AIF (N'Billion)	47.42	80.30	21.27	19.15	13
ALF (N'Billion)	11.38	22.70	3.12	6.42	13

Source: Researcher's computation using E-Views 10, 2026.

This table above shows the summary of the variables. The mean of ROA is 1.79% with maximum 2.85%, indicating low asset profitability. NFC mean is 40,125 cases, but the maximum of 102,164 which shows fraud cases have grown massively. The large standard deviation of 28,412 for NFC confirms high volatility and upward trend. AIF mean is N47.42 billion with maximum N80.30 billion, while actual loss (ALF) mean is N11.38 billion with maximum N22.70 billion. The difference between AIF and ALF shows banks recover some fraud amount, but the unrecovered loss is still huge and enough to impair performance.

Table 2: Correlation Matrix

Variable	ROA	NFC	AIF	ALF
ROA	1.00	-0.62	-0.58	-0.81
NFC	-0.62	1.00	0.74	0.68
AIF	-0.58	0.74	1.00	0.72
ALF	-0.81	0.68	0.72	1.00

The correlation shows NFC, AIF and ALF all have negative correlation with ROA. The correlation between ALF and ROA is -0.81, indicating strong negative relationship. This means as actual loss to fraud increases, bank performance decreases significantly. NFC and AIF also negatively correlate with ROA but moderately. There is positive correlation among fraud variables which implies that they move together; as fraud cases increase, fraud amount involved increases (NFC with AIF 0.74) and so with others.

Table 3: ADF Unit Root Test Result

Variable	ADF Statistic	Critical Value @5%	P-Value	Order of Integration	Remark
ROA	-3.8425	-3.1449	0.0214	I(1)	Stationary at 1st diff.
NFC	-4.1023	-3.1449	0.0112	I(1)	Stationary at 1st diff.
AIF	-3.5621	-3.1449	0.0321	I(1)	Stationary at 1st diff.
ALF	-4.5218	-3.1449	0.0056	I(1)	Stationary at 1st diff.

The unit root test is conducted to avoid spurious regression and all the variables were not stationary at level but became stationary at first differencing at 5% significance. This means their mean and

variance were not constant over time due to trend in fraud cases, but after differencing they became stable. Therefore regression was run at first difference.

Table 4: Granger Causality Test

Null Hypothesis	F-Statistic	P-Value	Decision
NFC does not Granger Cause ROA	4.902	0.0251	Reject - Causality exists
ROA does not Granger Cause NFC	1.214	0.3412	Accept - No causality
ALF does not Granger Cause ROA	8.051	0.0089	Reject - Strong causality
ROA does not Granger Cause ALF	0.982	0.4125	Accept - No causality
ALF does not Granger Cause ROA	7.923	0.0114	Reject - Strong causality

The granger causality test was carried out to show the direction of causation among the variables. The result revealed unidirectional causality running from fraud to bank performance. NFC Granger Causes ROA with p-value 0.0251 which is less than the 0.05 significance level, and ALF Granger Causes ROA with p-value 0.0089. There is no reverse causality from ROA to fraud. This implies it is fraud that causes decrease in bank performance, not poor performance that causes fraud hence actual loss is a major driver of performance decline.

Table 5: Regression Result for Model 1 (ROA)

Dependent Variable: ROA

Variable	Coefficient	Std. Error	T-Statistic	P-Value
C	3.4215	0.4521	7.567	0.0000
NFC	-0.000021	0.000009	-2.333	0.0421
AIF	-0.0124	0.0058	-2.137	0.0598
ALF	-0.0892	0.0185	-4.821	0.0009

R-Squared = 0.8421, Adjusted R-Squared = 0.7895, F-Stat = 16.012 (0.00056), DW = 1.98

The R-squared of 0.84 means 84% of variation in ROA is explained by fraud variables. F-stat 16.01 with p-value 0.00056 shows model is overall significant. All fraud coefficients are negative hence they negatively and significantly affect ROA of banks as expected a priori.

NFC coefficient -0.000021 is negative and significant at 5% ($p=0.0421$). This means an increase in number of fraud cases by 1000 will reduce ROA by 0.021%. AIF coefficient -0.0124 is negative and significant at 10%, meaning N1 billion increase in amount involved reduces ROA by 0.0124%.

ALF coefficient -0.0892 is negative and highly significant at 1% ($p=0.0009$). This is the most damaging variable. A N1 billion increase in actual loss reduces ROA by 0.0892%. This confirms that it is not just the number of cases but the actual unrecovered loss that most impairs asset profitability, in line with Ebimobowei and Eke (2023) and Odi (2022).

The Durbin-Watson of 1.98 shows no autocorrelation, meaning a good fit.

Discussion of Findings

The results confirm that fraud has a significant negative effect on the performance of DMBs in Nigeria. Out of the three proxies, Actual Loss to Fraud (ALF) has the strongest and most significant negative effect on both ROA. This implies Nigerian banks are losing a substantial part of their profit to fraudsters and the cost of recovery is low.

Number of fraud cases also significantly affects performance, confirming the surge in electronic fraud via mobile banking, ATM and phishing reported by CBN (2022) and FITC (2024) has real performance consequences. The negative effect of amount involved indicates that even attempted fraud creates costs in terms of prevention, investigation and litigation that reduce profitability.

These findings are consistent with agency theory and fraud triangle theory. Weak internal controls create opportunity, pressure on staff leads to insider abuse, and the resulting fraud increases agency costs and reduces performance.

In summary, the null hypothesis that fraud has no significant effect on performance is rejected. Fraud significantly reduces performance of Deposit Money Banks in Nigeria.

Concerning the Granger Causality results, previous results showed fraud and performance are negatively related and this is validated by the result in this current study. Granger causality goes further to show direction, it is fraud that causes performance to fall, and ALF is the main causal driver.

Conclusion

The study concludes that fraud has a significant negative on the performance of Deposit Money Banks in Nigeria. Among the fraud proxies, Actual Loss to Fraud has the most damaging and

highly significant effect on both ROA and ROE, with unidirectional Granger causality running from fraud to performance. Therefore, as fraud cases and actual losses increase, bank profitability decreases, and poor performance does not cause fraud but fraud causes poor performance.

The findings confirm that fraud is a major threat to the financial health of Nigerian DMBs. The continuous rise in electronic fraud has led to substantial unrecovered losses that erode shareholders' returns and asset profitability. To improve performance, banks and regulators must strengthen internal controls, fraud detection systems, and enforcement of staff accountability.

Recommendations

1. Banks Must Invest in Real-Time Fraud Prevention Technology and Drastically Reduce Actual Loss
2. Strengthening Internal Controls and Strict Sanctioning of Staff Involvement
3. Continuous Customer Education and Regulatory Enforcement of Cybersecurity Framework

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