The implications of fraud on uk banks

Finance

The significance of fraud on UK banks as an investigation represents its scale that is estimated to cost the economy in the range of £190 billion to £193 billion annually (Mothershaw, 2017) of which £110 billion is attributed to bank fraud (Global Banking & Finance Review, 2018). As a means to set the context for this exploration of the implications of fraud on UK banks, an understanding of the term (fraud) needs to be investigated. In researching bank fraud, a number of sources (Legal Dictionary, 2018, p. 1; Justia, 2018, p. 1; NY Criminal Defense, 2017, p. 1; Fishman, 2009; Iyer and Samociuk, 2016; Doig, 2013) state bank fraud represents "… a criminal act that occurs when a person uses illegal means to receive money or assets from a bank or other financial institution". Reurink (2018) expands on the explanation of bank fraud stating that it represents external criminal acts, financial and mortgage fraud, along with fiduciary fraud (Gullkvist and Jokipii, 2013; Phua et al, 2010; Albrecht et al, 2011). External criminal acts consist of check fraud, forgery, varied types of investment and business scams such as Ponzi schemes, sham businesses, credit cards, identity theft, etc. (Reurink, 2018; Taipour et al, 2013). Financial and mortgage fraud can consist of deceptive applications represented by falsified asset or income documents (that includes overstating mortgage values or assets), bank employee embezzlements, document fraud of varied types (that can represent false income and liability statements for example) (Ngai et al, 2011; Sabau, 2012; Chaudhary and Yadav, 2012). There is also fiduciary fraud which occurs when an advisor or financial institution purposely acts to deceive a client or customer (Lin and Paravisine, 2011). A bank is obligated to act in a fiduciary manner where it is bound to conduct its operations and actions on the part of customers in good faith and the best interests of the other party (Msrisni et al, 2010). The range of fiduciary duty extends to a bank carrying out operations in lending and application approvals as well as internal operations that minimize breaches of trust and misconduct (Msrisni et al, 2010). As such, a fiduciary duty applies to areas under financial and mortgage fraud as well as the diligence used in conducting reviews if the document for loan and investments to bank clients and customers. The above definition of bank fraud is an important aspect of the approach to this dissertation as it represents specifically addressing ‘ the implications of fraud on UK banks’ that explores it's economic, institutional, business and personal ramifications. A key aspect of bank fraud implications represents the effect on UK banks such as the increase in capital reserve requirements under Basel IV’s higher CETI (Common Equity Tier 1) ratio which is an outgrowth of the 2007 financial crisis (Millar, 2015). This is attributed to providing a higher capital safeguard against unforeseen losses that includes the provision for varied potential types of bank fraud (Radhakrishnan, 2018). The above is important as it represents bank modernization that leads to varied theories such as the fraud management lifecycle theory (Wilhelm, 2004; Ohando, 2015), the fraud triangle (Kasem and Higson, 2012) and fraud diamond theories (Mansor and Abdullahi, 2015), along with finance theory (Iqbal and Mirakhor, 2011). These theories will form the basis of the theoretical approach to the literature review, objectives and research questions that will underpin the development of the aim that represents the subject of this dissertation (the implications of fraud on UK banks).