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Fraud Risk Management Approach to Detterence Fraud at Banks in Indonesia

Doni Indrianto[1], Joseph Antonio Young[2], Nelson Ng[3]
Universitas Internasional Batam
E-mail: 2042068.doni@uib.edu[1], 2042120.joseph@uib.edu[2], 2042052.nelson@uib.edu[3]

Abstract

The purpose of this study is to be able to provide information to practitioners to evaluate the understanding and awareness of their bank employees regarding the fraud risk management approach in fraud prevention at banks in Indonesia. This study uses a qualitative descriptive analysis method. This method is used with the aim of describing research results in narrative form. In this study the data used are non-numeric secondary data. Non-numeric secondary data used in the study were found by searching for supporting information for this research from reports, journals, books and websites. The results of this study are that the fraud risk management approach can prevent fraud in the fraud triangle model, as well as detect and respond to fraud that occurs in banks.

Keywords Bank, Fraud, Risk

INTRODUCTION

Banks are financial institutions that are trusted to manage and regulate public finances; therefore, banks are required to protect customer money from the risk of financial fraud as stated in Law no. 10 of 1998 concerning banking law, including starting from criminal acts related to banking industry licensing, bank secrets, supervision and bank coaching, business banking and account transfers without permission (Meliana & Hartono, 2019). An example of fraud in the banking world is the case of embezzlement of customer funds at Bank Maybank Indonesia, where there was a case of embezzlement of bank customer funds on behalf of Winda Lunardi in the amount of Rp. 20 billion was made by the former head of the Maybank Cipulir branch in 2015-2020. This is due to weak internal bank supervision.

Implementation of an effective internal control system assists businesses in securing their assets, ensuring the availability of accurate information and reports, increasing compliance with applicable laws and regulations, and minimizing risks of loss, irregularities and violations of the precautionary principle. In addition, the implementation of good corporate governance helps ensure the public that companies are protected from fraudulent practices. The high intensity of fraud that occurs in an institution requires the implementation of good and comprehensive business management. Good corporate governance is designed to reduce the possibility of fraud. The application of good corporate governance is in line with the prevention of fraud (P. P. Dewi et al., 2021). If the company has implemented the steps outlined in implementing good corporate governance such as openness, non-discrimination, clear responsibilities, and community control, the company will be able to prevent fraud (Prena & Kusmawan, 2020).

Although banking institutions are usually recognized as one of the most heavily regulated sectors, banks are still a definite target for fraudsters (Dumbrava and Gavriletea, 2008). The reason is very clear that banks are the first choice and the best place to come, because of their role in capital raising and capital intermediation. The consequences of this turbidity are not insignificant, it can even lead to banking failures and distress. Even more detrimental, it may be one of the main causes of bankruptcy in the world, exemplified by the Icelandic crisis in 2008. Realizing that the losses caused by banking fraud are enormous, this research focuses on the fraud risk management approach in preventing fraud at banks in Indonesia.

In addition, fraud imposes large costs on organizations that experience fraud. Banks may suffer losses in terms of monetary, reputation, human resources as well as bankruptcy exposure. In a broader scope, fraud does not only threaten the condition of our country's economy by losing investors and resources, but also endangers the peace and political stability of the nation. Nevertheless, while banks are active in efforts to reduce fraud costs, it is important to ensure that they do not unduly undermine the effectiveness of primary fraud controls currently functioning. In order to protect the banking sector, it is very important to examine the level of effectiveness, prevention and detection of fraud in the view of bankers who act as the backbone and greatest asset for banks.

This study is expected to contribute to practitioners to evaluate the understanding and awareness of their bank employees on various types of fraud mitigation strategies as well as experiences of fraud incidents within the bank. Therefore, with this knowledge, the bank's management can improve their anti-fraud programs or consider the organization's fraud policies in their future.

IMPLEMENTATION METHOD

Fraud

According to the Association of Certified Fraud Examiners (ACFE) fraud is the misuse of organizational assets by someone for personal gain. Fraud is an action carried out by someone who spreads incorrect information and hides material facts intentionally to gain advantage from the aggrieved party such as theft, manipulation of financial statements (Christian & Resnika, 2022; Christian & Veronica, 2022; CIPFA, 2013 ; Sudarmanto & Eko, 2020). According to the Association of Certified Fraud Examiners (ACFE), fraud is classified into 3 acts, namely asset misappropriation, fraudulent financial reporting, and corruption (Murdock, 2018). Manipulating financial reports for the benefit of the organization by hiding facts and providing incorrect information because management abuses authority in managing assets so that it commits corruption and harms the public interest or users of financial reports. Fraud that occurs in banks comes from internal and external sources. Internal fraud is fraud originating from parties within the organization, namely employees and management. Fraud committed by internal parties such as embezzling customer funds, making fictitious receipts, leaking customer information (Bank Indonesia, 2011). Meanwhile external fraud is fraud originating from parties outside the organization, namely customers and business partners. Fraud from external parties is carried out such as credit card misuse, debit card card trapping, and fraud through OTP (Bank Indonesia, 2011). If management commits fraud in financial reports, it can cause losses to

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users of financial statements such as investors and the independence of auditors is doubted because they fail to examine fraud in financial reports (Christian & Visakha, 2021).

Fraud Triangle Theory

Based on the theory of the Fraud Triangle Theory, which was discovered by Cressey, (1950) that fraud occurs because of 3 factors, namely pressure, opportunity, and rationalization. According to Clinard & Cressey, (1954) there are 6 categories of pressure that create fraud, namely when it is difficult to pay debts, problems arise due to individual failure, failure in doing business, no one can help, because of trust issues, just want to get status, and because of treatment injustice between employees. Fraud that occurs can also be due to the emergence of opportunities because someone has trusted them and commits fraud to solve the financial problems they face. Apart from being given trust, fraud can also occur in organizations due to weak internal controls in detecting fraud (Higson, 2012). Justification is something that fraud is done to presume that it is right. It is because of a lack of integrity and having wrong morals. The emergence of justification is due to very heavy pressure, so that the mind becomes irrational and increasingly assumes that the fraud committed is correct and acceptable (Higson, 2012). Therefore, someone who is experiencing pressure due to financial or non-financial problems can encourage someone to commit acts of fraud when there is an opportunity and assume that the actions taken are correct.

Method

This study uses a qualitative descriptive analysis method. This method is used to describe research results in narrative form. In this study the data used are non-numeric secondary data. Non-numeric secondary data used in the study were found by searching for information supporting this research from reports, journals, books and websites that can be trusted. This information is information regarding the fraud risk management approach in preventing fraud at banks in Indonesia. In this study, fraud risk management was determined at banks in Indonesia as a research objective. This research went through the stages of problem identification, literature review, determination of research objectives, data collection, data analysis and interpretation, and reporting (Fadli, 2021).

RESULTS AND DISCUSSION

Preventing Fraud at the Bank

Fraud can occur because there is pressure exerted and has the opportunity to commit fraud and irrational thoughts, so that banks must take precautions in order to reduce the potential for fraud to occur. Therefore, banks must identify risks that will occur, namely risks to management, as well as risks to employees (CGMA, 2020).

The lack of knowledge, experience and professionalism of a manager as well as the weakness of management in controlling and supervising employees is a risk to management, so that the risk of management can give freedom to employees which will have an impact on the occurrence of fraud. Weak internal controls and low salaries are a failure of a manager in supervising and lack of expertise in managing a bank so that it can put pressure on employees and opportunities to commit fraud.

In addition, it is not only employees who commit fraud, but managers can also commit fraud, because with the knowledge and experience they have, managers can commit fraud. Managers commit fraud not because of the financial problems they face, but because of non-financial reasons such as the nature of managers who are greedy and ambitious. So by increasing awareness regarding fraud prevention on internal parties (employees and managers) and identifying risks, it can reduce the potential for fraud. In addition, the Bank can also carry out supervision by identifying the characteristics of employees and managers, as well as changes in the characteristics faced by employees and managers.

Detecting Fraud in Banks

The Chartered Institute of Management Accountants (CIMA, 2009) has developed a way to strengthen the loss of fraud, by implementing a reporting mechanism and a Whistleblowing system. The whistleblowing system is very important for the company's internal control to detect violations identified in the internal organization/company. The perpetrator of this violation is a whistleblower. This report includes employees or other stakeholders who report detection of violations within the company that can be reported by company insiders and external parties (Ayu Wardani & Sulhani, 2017). When finding fraud incidents, the bank can use a surveillance system. Surveillance system is an action in which an inspection is carried out without the party being examined (Bank Indonesia, 2011). Then improve internal control for employees in carrying out their duties.

Responding to Bank Fraud

Responding to fraud that occurs by investigating the occurrence of fraud to completion and collecting evidence regarding the fraud that has occurred. then report cases of fraud to authorities such as management or the Financial Services Authority with the results of the investigation and the evidence that has been collected. With the results of the investigation and the evidence collected, the perpetrators of fraud will be given sanctions in accordance with established regulations. Then it will monitor and evaluate incidents of fraud to determine corrective steps and follow up on actions that must be taken so that the same fraud does not happen again.

CONCLUSION

This research was conducted with the aim of discussing the fraud risk management approach in preventing fraud at banks in Indonesia. With a fraud risk management approach that has 3 prevention processes, namely preventing fraud, detecting fraud, and responding to fraud. Preventing fraud before it occurs and reducing the potential for fraud to occur and by detecting fraud using the whistleblowing system method, it is possible to reveal fraud committed by internal parties (employees or managers) and report to the competent authorities to conduct investigations and collect evidence for determine the sanctions to be given to the perpetrators of fraud in accordance with the regulations set by the bank.

Suggestion

Based on this research, banks can carry out 3 fraud prevention processes with a fraud risk management approach to prevent fraud risk. For future researchers who want to discuss fraud prevention, they can use the causes of fraud other than the fraud triangle model.

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