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The Impact of Banking Fraud on Return: An Analytical Study of the Iraqi Middle East Investment Bank

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The subject of fraud banking topics is increasingly important at present. A specialisation in the subject of fraud relating to banking involves criminal acts and international personalities, directly or indirectly involving knowledge of banks and advanced fraud and crime mechanisms such as cybercrime, Internet, human trafficking, terrorism, electronic, bribery, embezzlement forging electronic securities and other crimes that have become a threat to the stability of the security of advanced developing countries. D Fighting fraud according to the expansion and development of societies and the resulting shift in the interconnected relationships that result in a change directly or indirectly in the behaviours and actions of the people and their personalities as well as the development of economic and trade relations, may produce international direct personal criminal acts or indirectly act on the advanced knowledge and skills in fraud and crime. The Iraqi Middle East Investment Bank will be used to exemplify the financial indicators discussed in this study.

Keywords: *Banking, Fraud, Investment.*

Introduction

The subject of fraud, banking and the high degree of professionalism and specialisation, required means delving into such topics as the expansion and development of societies and the resulting shift in the interconnected relationships that result in a change directly or indirectly in the behaviours and actions of people and their personalities, as well as the development of economic and trade relations. Such interference has produced international direct personal criminal acts, or has indirectly acted on the advanced knowledge and skills in fraud and crime. We have computer crime and the Internet, human trafficking, terrorism, electronic, bribery, embezzlement, falsification of electronic securities, money-laundering, fraud, bank fraud and credit card management, corruption and crimes of intellectual property and fraud through local and international stock exchanges and other crimes that have become threatening and even threatened the stability of the security of developed countries and developing countries.

The use of financial indicators in the analysis of the banking yield is an important tool in knowing the impact of banking fraud on banking revenue and help banks make important decisions to reduce the fraud threats facing banks.

A Conceptual Framework on Banking Fraud

The fraudulent individual displays a kind of erratic behaviour; he is resourceful and well-versed in deception. Fraud and false allegations are used by such a person to convince others to take what is not rightfully theirs, avoiding legitimate means by using deceptive tactics. Based on the above, some banking fraud has been defined as: "the behaviour of the improper route of the individual or individuals intent of illicit enrichment in violation of the laws and regulations of the banks." The fact that the previous definition had come years before did not distinguish between the crime of banking fraud and other banking crimes, as all are contrary to the laws and regulations of the banks .

We believe that the appropriate definition of bank fraud is "every act committed by the perpetrator himself or through others in the scope of banking business, and through which he reaches to seize the funds of others by using the perpetrator as fraudulent means" (Al-Marsafawy, 2010).

Bank Fraud

Banking fraud consists of many classifications, as well as several pictures of the means used to commit acts of fraud; in this section we will show some of them.

Bank Fraud Ratings

Banking fraud can be categorised as: (Al-Nashef, 2017)

1. Internal fraud: a fraud that is carried out by employees from within the bank itself, and this type includes what is called the "management fraud," which is committed by a person who has authority over others, and under his control are certain assets and records.
2. External fraud: this is fraud committed by a person or persons outside the bank.
3. Collusion fraud: this is fraud committed by a group of individuals in collusion with one another, and those individuals may be from inside or outside of the bank, or both.

The Means of Banking Fraud

In terms of the means used to commit fraud acts, fraud takes several forms, some of which are done using ordinary means, and others are computer-generated:

A. Fraud with Ordinary Means

The most important of this type of fraud include (Al-Bishri, 2006):

Cheque Fraud

The modern era witnessed a noticeable expansion in the volume of commercial transactions and the accompanying increase in economic and commercial activities for individuals and establishments, and the need for more transformations to pay the resulting payments, and this has pushed attention towards finding acceptable ways to settle the payments away from carrying the money, so the solution was to use commercial papers. The Cheque makes up the largest share in the settlement of exchanges.

Fraud in Filling in the Cheque Information

The client may resort to defrauding the bank by claiming not to know how to read and write, asking one of the bank staff – to fill in the data on the cheque, then alleging an incorrect value, taking possession of less than the restricted value on the account (Al-Shahawy, 2015).

Fraud by Accepting a Cheque

Some resort sometimes to fraud, taking advantage of the bank signing the cheque, the acceptance of which may apply coincidental to the bank. This happens usually with complicity between the fraudster and one of the bank employees, or negligence on the part of the bank, or the drawer in the light of a deal with the beneficiary of the cheque, hands over a signed cheque for the bank to accept, knowing that such acceptance is void and is not binding to the bank, and then submitting the beneficiary of this cheque to the bank to pay its value, that emerges against the fulfilment.

Fraud with a Cheque

The bank may mark the cheque with its approval, and this indicates that there is a payment in return for (cheque balance) on the date of the marking, then the drawer withdraws from his account with the bank so that no balance remains , or the balance is not sufficient to fulfil the value of the cheque, so the cheque holder returns to the bank claiming that he had been subject to fraud by adopting the cheque and that without this credit he would not have waived paying the cheque (Lee and Hsieh, 2013).

Fraud by Certified Cheque

The customer may sometimes need the means to secure a commitment on him, so must provide cash insurance, which is a letter of guarantee or a bank cheque in favour of the support authority, but the customer may not want to provide a letter of guarantee, because it costs him cash insurance and issuance expenses, as he does not want to obtain a cheque. After all, his issuance entails a charge in exchange for paying off his account. Here, the customer requires the bank to certify a cheque drawn from the customer's account for the benefit of the beneficiary (the assignment authority), so fraud occurs with negligence or collusion with the bank, except that the bank does not perform a sparing process in exchange for payment from the drawer's account, and in this case the bank must fulfil the value of the cheque when it is presented, even if it does not have a return to fulfil the protection of the beneficiary, then refers to the drawer with the value (La Porta et al., 2002).

Fraud by Forging a Cheque

The bank may sometimes be defrauded by the submission of a counterfeit cheque, and the bank will cash that cheque, the most common form of bank fraud (Sufyani, Ali bin Muhammad, 2006).

Fraud on the Accounts of Companies under the Establishment

It may sometimes happen that an account is opened at a bank on behalf of a company under incorporation; if the company operates before any required foundation procedures are launched, allowing banking by persons authorised by the company's management in the draft Memorandum disbursement from the account balance, this procedure is wrong, and circumvents the system, because the account should only be accessed after the declaration of the company and the submission of documents that indicate this means provided for in the system (Abdullah, 2009).

Fraud upon Opening Current Accounts

Fraud may occur when a customer first opens an account. It is known that it is necessary to check the identity of a customer who wishes to open an account, and sometimes it happens that the customer provides a false identity photo to the bank when opening the account, and the competent employee is satisfied with viewing the image without verifying the customer's name, or from the image placed on it, then the customer uses cheques drawn on this account for fraud and forgery (Ibrahim, 2016).

Fraud in the Credits Field of Bonds

International trade requires the flow of goods from the seller to the buyer and payment from the buyer to the seller. The seller wants to export his goods, but he needs the means to ensure that he receives the value of these goods. Often the parties to the sale (the seller and the buyer) are far apart and the one does not know the truth of the other's financial position, and therefore there must be a means that guarantees the seller his right to the price of the goods, and the buyer has the right to receive these goods, so the idea of documentary credit as a guaranteed payment method fulfils the demands of both parties to a contract. However, documentary credit does not give absolute protection against the risks of fraud, deception and forgery when dealing with an unknown group, and therefore the buyer must be careful and obtain sufficient information about the party who will open the credit for him (Albrecht et al., 2011).

Fraud in the Field of Bank Guarantees

Bank guarantees are considered a means by which customers can provide assurance for obtaining loans from the bank, and this is a tool to prove the bank's right to obtain the money that it borrowed legitimately, if customers or customers do not pay their debts.

The guarantees of lending at banks are numerous, including mortgages, assignment of dues and personal guarantee, and bonds. A matter may occur in banking work to waste the guarantee provided to the bank and prevent it (Al-Jabr, 2009).

Fraud in the Field of Clearance

The customer may resort to fraud to claim an acquittal against the bank. Sometimes the customer agrees with the bank to settle his debts amicably, and the customer presents to the bank - in implementation of the friendly settlement - cheques drawn from others for the benefit of the customer, where the client endorses them to the bank, or the customer may submit cheques to the bank for his order from another bank.

It is known that the cheque is a fulfilment instrument, payable upon arrival, and that is why any cheque the bank receives from the customer is a receipt of cash, and the fulfilment of the customer's commitment in the settlement, and the bank cannot refer here to the customer with a friendly settlement contract, because he implemented his commitment and presented the cheques. The bank will find itself obliged to sue the customer to collect the value of these cheques, in addition to exposing him to the risk of stopping the payment of its value, and the risk of paying the customer, the most important of which is his acquittal based on the settlement contract (Al-Habboush, 2008).

Computer Fraud

With the emergence and growing use of the Internet, this type of fraud started in the second half of the nineties, directed at commercial companies that have no presence except on the Internet, or what is called dotcom networks, carrying with it a revolution of aspirations and promising a giant leap for international trade leading to what is called E-commerce, which depends on information technology and lives completely in cyberspace. Banking fraud is usually carried out by computer to enter, change, delete, or keep information or programs confidential, to illegally transfer cash. This is achieved by:

1. Entering and using the computer.
2. Accessing and using information or programs.
3. Entering false information in files.
4. Stopping or interrupting the operation of the computer or a specific process.
5. Cash transfer.
6. Using or publishing a password.

Some forms of banking fraud using computers include the following (Jalal and Shultz, 2011):

Credit Card Fraud

The banking definition of a credit card can be described as a "banking tool to fulfil the obligations that are widely accepted locally and internationally by individuals and merchants as an alternative to cash to pay the value of goods and services provided to the cardholder, in exchange for a receipt for the value of his commitment arising from his purchase of the commodity, or his obtaining the service provided that the interviewer collectsthe value from the bank issuing the card through the bank that authorised him to accept the card as a method of payment. There are those who see that it is a "contract according to which the card issuer pledges to open credit for a certain amount for the benefit of another person who is the cardholder through which he can fulfil his purchases at the commercial stores. The card issuer is associated with a contract pledging to fulfil their acceptance of purchases of cardholders, issued by the first party to be the final settlement after each specified period (King, 2007).

Credit Card Fraud by others

This may occur whether the falsification that takes place is whole or in part, and can also be fraud by false sites on the Internet and companies dealing with e-commerce where some fraudsters have since copied in terms of design and properties, to the degree to which the victim is convinced to enter personal information such as name, card number and credit. Usually the status of the crooks is taken as belonging to the parent site, because it offers price cuts and provides shipment data to the victim, who never doubted the legality of the site (Abu Suleiman, 2016).

Illegal Transfer of Funds

The widespread use of computers in all sectors, including banks and financial institutions, has led to the emergence of the crime of unlawful transfer of funds, and this problem has become one of the most prominent problems that affects electronic financial operations. A criminal may be able to connect the bank's information network to his account, stealing potentially millions of dollars. This incident is one of the hundreds of accidents that happen in the world today, that fall under the crime of computer fraud. The perpetrator may, at other times, manipulate the data stored in the computer's memory or its programs, according to various methods, to transfer all or some of the assets or benefits of others to his account (Abu Suleiman, 2016).

Fraud by ATMs

Technical progress resulted in the possibility of performing some banking operations automatically through the ATMs, as this machine performs some of the cashier's actions, such as responding to the customer's account balance, answering his requests, cash withdrawal from his account, or depositing in it, and all this is done using a card granted by the bank to the customer to take advantage of these services automatically. The bank delivers to the customer with the card an envelope prepared by the card manufacturer that includes the password that the customer enters into the machine. Although the stages in which the process of cash exchange takes place in this machine reveals the great technical development that this industry has reached, the facts indicate that some clients or bank employees themselves have used that machine as a method of bank fraud (Kreacher and Riley, 2019).

The Third Topic - The Financial Indicators Used in Analysing the Bank Return

The financial indicators used in analysing the bank return are among the indicators that reflect the performance of the bank on generating the return, as they reflect the administrative policy of the investments, financing and operations of the bank. The bank return has an important and effective role in the field of strengthening the capital through allocating certain proportions of returns as reserves according to what is dictated by the laws of the Central Bank and is also one of the most important factors attracting investors and increasing confidence in the bank (Hindi, 2000).

Among the most important indicators used in analysing the bank return are the following:

Net Interest Margin

This is expressed as a percentage formula through the difference between interest income and interest expenses. That is, the difference between the interest earned and the income paid - divided by the working assets earned for that income. That is, (interest received - interest paid/operating assets (income generating) (Rose, 1999).

Net Income Margin

The net income index measures the bank's ability to control expenditures and reduce taxes, because net income is equal to total revenue from which expenditures are authorised, and whenever the net income margin is large, this means that banking efficiency in reducing taxes and expenditures is large and the formula for this indicator is net income / revenue (interest earned) (Hemple et al., 2005).

Rate of Return on Assets (ROA)

This measures the bank's ability to achieve profits as a result of investing the bank's assets, and it is calculated by multiplying the net profit margin in the asset turnover rate (revenue/assets) and it is called the degree of exploitation of the assets. That is, the rate of return on assets = net margin x rate of turnover of assets (Yeager and Seitz, 2014).

Rate of Return on Equity (ROE)

The right measure for the return on property measures the ability of managers to maximise shareholders 'wealth, as it shows the amount of revenue gained from the book value of shareholders' investment in the bank and is calculated according to the following formula net income/equity = net income/assets x assets/equity (Kohn, 2014).

Rate of Return on Deposits (ROD)

This rate measures the bank's ability to obtain profits from deposits and the formula for this rate is Net income / deposits x 100.

The Rate of Return on Available Money

This rate measures the ratio of the net profits obtained by the bank to the total money represented by deposits and the right of ownership and is calculated through the net income / (equity + deposits) x 100.

Power Revenue for Available Resources

This rate measures the returns that have been achieved through the bank's investments. It is calculated according to the following formula. Net income before tax + accrued interest / liabilities + equity (Santomera and Joseph, 2015).

The Turnover Rate of the Assets

This measures the ability of the bank to use its assets not to the maximum extent to achieve the highest revenues and is calculated according to the following formula:
Total revenue / total assets.

The Fourth Topic: Analysis of the Indicators of Bank Returns for Iraqi Middle East Invesment Bank for the Period:

Table 1 :The balance sheet of the Middle East Bank as of December 31, 2007

2007/12/31	Funding sources	2007/12/31	the findings
	Short-term funding sources		Current assets
	Current liabilities	174354378373	The money
333057282533	Current accounts and deposits	156046473630	Investments
10688701696	Customizations		Cash credit
12587960744	The creditors	1596440897	Discounted commercial papers
356333944973		16905176721	Loans and advances
	Long-term funding sources	18501617618	
	Shareholders' equity	37645828456	Debtors
31000000000	paid Capital	381548298077	Total current property
19449023707	Precautions		Fixed assets
50449023707		23853066532	List of book value
406782968680	Total sources of funding	1381604071	Projects in progress
		25234670603	

		406782968680	Total assets
	Facing accounts		Facing accounts
38316852506	The bank's obligations towards banking operations	38316852506	Customer obligations for banking operations

Net Interest Margin

The ratio is calculated by dividing the net revenues by the working assets, as the net interest margin as an arithmetic mean was 19%, meaning that the net activity revenue resulting from the working assets was (0.19), which reflects the ability of the bank's management to exploit its assets to achieve a high-interest margin, due to trust in its depositors.

Net Income Margin

The net income is related to the change in revenues and expenses, where we find that the bank's income is linked to the increase in the banking activity in investing the money in the bank, where we find that this indicator shows the importance of revenue as a percentage of the benefits that gets to the total of its revenues and is calculated by dividing the net income by the total of the bank's revenue, as the bank's net income margin ratio was (18%).

The Rate of Return on Assets

The rate of return on assets indicates the bank's ability to successfully invest its assets and its ability to channel profitable opportunities for investment as it is a measure of returns, because it is an indicator of the bank's operating activity. The rate of the bank reached 2%, and this performance is high for the bank.

The Rate of Return on Equity

The rate of return on the right of ownership measures the bank's ability to obtain the return as a result of investing shareholders' money to maximise returns, as we find that this high rate indicates that the bank's management can make a good investment decision for the bank, and this rate has reached 17%, indicating an increase in returns.

The Rate of Return on Deposits

The rate of return on deposits is an indication of the contribution that deposits contribute to bank income, when the bank uses those deposits in various investment activities and the consequent increase in the bank's investment returns. The percentage ranged from 4%.

The Rate of Return on Available Money

The rate of return on available funds aims to measure the ability of the bank to generate profits from the available money from deposits and property rights, where the ratio of the rate of return on available money has reached 2%, which strengthens the bank capital adequacy index and the bank return index.

The Power Rate of Revenue for Available Resources

The strength ratio measures the revenue for the available resources, the revenue generated from the investments to which the resources available to the bank were directed. The percentage has reached 3%. The rise in this indicator indicates that the ratio of net profits before taxes and interest accrued is high against a decrease in total liabilities and equity.

The Turnover Rate of the Assets

The turnover rate of assets is the ability of the bank to invest assets in generating revenue, as the turnover rate of assets has been reached eight times. This indicates the ability of the bank to invest and obtain revenues.

Conclusions

1. The results of the analysis of the bank's return were characterised by the embodiment of what is used by the bank and its high potential to reduce bank fraud because of its impact on the return as it shows the results of the return indicators.
2. The issue of banking fraud is of great importance in light of technological developments and the advantages this development has produced for banking work as well as defects, including the use of technological development in defrauding banks because of its risks to the returns that banks seek to achieve.
3. The issue of banking fraud entails the need for banks to establish protective and defensive foundations for banks to reduce those risks that would affect the bank return.
4. To prevent fraudulent crimes, measures must be taken without the occurrence of fraudulent crimes and by `facing the causes that lead to fraud to prevent its occurrence.
5. Bank fraud has many classifications, and there are also several images of the methods used in committing bank fraud acts.
6. The banking business is personal, based on trust between the two parties.

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