JURNAL KAJIAN AKUNTANSI
p-ISSN: 2579-9975 | e-ISSN: 2579-9991

http://jurnal.ugj.ac.id/index.php/jka

HEXAGONAL THEORY AS AN EVALUATION TOOL FOR CREDITOR TRUST: A NEW STRATEGY TO PREVENT FRAUD

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Abstract

The aim of this research is analyzes the internal credit control system by integrating the 5C7P model and the Fraud Hexagon theory to prevent fictitious lending at a branch office of a state-owned bank in East Java. Using a qualitative case study method, data were collected through in-depth interviews with 10 credit professionals, including credit proposers, supervisors, and decision-makers, with professional experience ranging from 5 to 28 years. The findings indicate that fraud is driven by six key elements: managerial pressure (stimulus), the ability to manipulate data (capability), internal-external collusion (collusion), weak verification processes (opportunity), justification of violations (rationalization), and personal or institutional ambition (ego). Although the 5C and 7P principles have been implemented, these principles are often compromised by systemic pressures and misused by those with access and authority. These findings highlight the importance of a comprehensive approach that combines administrative evaluation, behavioral analysis, and structural risk mapping to enable early fraud detection. The study recommends strengthening internal controls through the integration of AI-based technology and ethics-based governance to restore public trust. The main contribution of this research is the proposed credit evaluation model that combines administrative and psychosocial perspectives an innovative approach that remains underexplored in financial literature in Indonesia.

Keywords**:** *Behavioral governance; Credit fraud; Fraud hexagon; Indonesian banking; Internal control.*

Abstrak

Penelitian ini menganalisis sistem pengendalian internal kredit dengan mengintegrasikan model 5C7P dan teori Fraud Hexagon untuk mencegah pemberian kredit fiktif di salah satu kantor cabang bank BUMN di Jawa Timur. Dengan menggunakan metode studi kasus kualitatif di salah satu kantor cabang bank BUMN di Jawa Timur, data dikumpulkan melalui wawancara mendalam dengan 10 orang tenaga ahli kredit, meliputi pengusul kredit, pengawas, dan pengambil keputusan, dengan pengalaman profesional berkisar antara 5 sampai dengan 28 tahun. Hasil menunjukkan bahwa fraud dipicu oleh enam elemen utama: tekanan manajerial (stimulus), kemampuan manipulasi data (*capability*), kolusi internal-eksternal (*collusion*), lemahnya verifikasi (*opportunity*), pembenaran pelanggaran (*rationalization*), dan ambisi pribadi atau kelembagaan (ego). Meskipun prinsip 5C dan 7P telah diterapkan, prinsip ini sering dikompromikan oleh tekanan sistemik dan disalahgunakan oleh pihak yang memiliki akses dan wewenang. Temuan ini menegaskan pentingnya pendekatan komprehensif yang menggabungkan evaluasi administratif, analisis perilaku, dan pemetaan risiko struktural untuk mendeteksi fraud sejak dini. Studi ini merekomendasikan penguatan pengendalian internal melalui integrasi teknologi berbasis AI serta tata kelola berbasis etika guna memulihkan kepercayaan publik. Kontribusi utama penelitian ini adalah usulan model evaluasi kredit yang menggabungkan perspektif administratif dan psikososial, sebuah pendekatan inovatif yang masih jarang dikaji dalam literatur keuangan di Indonesia.

Kata Kunci: Fraud hexagon; Fraud kredit; Pengendalian internal; Perbankan Indonesia; Tata kelola perilaku.

Cronicle of Article: *Received (03 Sept 2024); Revised (10 April 2025); and Published (30 June 2025)*

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INTRODUCTION

Bank credit is a routine operation the quality of which affects a bank's credit portfolio and hence its financial health. The process begins with the application of the debtor and the subsequent stages includes document verification, financial statement analysis, field surveys (site-visit), decision making of credit officers. Subsequently, it moves towards processing, monitoring and sanction which have the objective of ensuring that the credit sanctioning is ever prudent and in consonance with the norms of the institution. In the accounting sense, each stage is registered into the system as part of the bank's internal reporting and monitoring system. Such documents are utilized to submit applications, assess credit risk, and monitor loan performance post disbursal. Hence, the credit accounting is not merely a recording tool to document financial transaction, but also an accountability and internal audit tool that promote transparency and prevent fraud or misuse of power in a bureaucratic (Christian, 2022; Danayanti et al., 2021).

Further, the credit analysis process is supported by normative analytical models, which provide norms as formal and quantifiable assessment standards concerning credit feasibility. The 5C of credit assessing include character, capacity, capital, collateral and condition which related to the honesty of the borrower, physical ability to return the loan, financial strength of borrower, availability of collateral and economic condition. Also, 7P model (Personality, Party, Purpose, Prospect, Payment, Profitability, and Protection) allows a consistently broader analytical analysis as considers behavioral, business and financial features. Both frameworks reinforce each other in that they provide robust credit evaluation procedures which allow them to be more effectively gauged by both qualitative and quantitative financial performance measures. When these models are applied uniformly, banks are able to identify risk, maintain the quality of their portfolios, and enhance the resilience of their lending operations (Fauzi et al., 2023; Restianita et al., 2024; Sasmita et al., 2021).

Credit processes do have strict and numerous regulations to follow but there are still loopholes for criminals to take advantage of whether they are technical, behavioral, or systemic. It is reported that ACFE predicts frauds cost the global financial sector around 5% of revenue each year, with a median loss value per case close to USD 145,000 (Warren, 2024). Even in Indonesia, a blindingly obvious case was the fabrication of IDR 1.7 trillion in fake Letters of Credit (L/C) at a state owned bank, revealing massive Significant weaknesses in control and detection were evident at an early stage (CNN Indonesia, 2020).

The Fraud Hexagon Theory by Vousinas (2019) provides interesting perspectives on the motivators of fraud. It has been argued that fraud is not only sparked by "technical loopholes" and influenced by six critical factors including pressure (stimulus), capability, collusion, opportunity, rationalization and ego. Although models such as the 5C and 7P model are commonly used in predicting credit risk, these models also subject

to limitations in that they do not fully enlighten deeper behavioral motives that push an individual to commit fraud (Bayuaji & Indriastuty, 2024; Danayanti et al., 2021).

This confirms change process distortion as stated by previous research where the principles of the 5C and 7P strategies are often displaced by management interference, poor oversight and secret collusion between internal and external parties (Mahardika & Kaweda, 2025; Siddiq & Sutopo, 2024). A number of credit officers have acknowledged that performance targets can drive bending of the rules, data manipulation and loan approvals without adequate scrutiny. In addition, cooperation with debtors, forged collateral documentation and violation of prudential rules further increase the potential for widespread fraud (Bader et al., 2024; Hascika et al., 2024). Hence, administrative evaluation paradigms such as 5C7P need to be combined with behavioral models like the Fraud Hexagon model. Such an integration would enhance the internal control systems to be not only procedural but also to have the capability to predict and respond to new fraud threats.

This situation was compounded by the economic strain brought on by the COVID-19 pandemic, leading NPL ratios to rise from 2.53% as of end-2019 to 2.7% at the start of 2020 (OJK, 2020). These pressures caused many companies to manipulate their financial statements to support stock prices, often by overstating assets or recognizing fictitious revenues (Lee et al., 2025; Prasasti & Lastanti, 2024; Sabău et al., 2021). It is the logic of seeing fraud not solely as an administrative violation but also consequences pressures and opportunities affecting the behavior as well as other cognitive and ethical processes which are grounded on theories such as the Fraud Triangle Theory (Kolhe & Bhat, 2024; Simbolon, 2025). This concept was further expanded by Vousinas (2019) in the Fraud Hexagon Model adding three more factors: capability (the technical skills of the offender), ego (the need to preserve one's image or status), and collusion (the cooperation of two or more persons in perpetrating the fraud).

Collusion is important in reality because financial fraud is rarely committed by one person alone rather it is usually a group of insiders and outsiders with support from each other engaged in similar activities that work to evade detection and share in profits (Agboare, 2023; Umanhonlen et al., 2020). Fraud in credit lending is also due to lack of borrower viability assessment. Sasmita et al. (2021) found that weaknesses in the credit system are often taken advantage of during external stress, poor regulation, and collusive with bank staffs and debtors. The study major problem is that the internal control system for granting and monitoring loans remains weak and it is not capable to predict increasingly sophisticated schemes of fraud (Elumilade et al., 2021; Hilal et al., 2022). This is particularly reflected by the persistently high level of nonperforming loans and the failure of the system to identify manipulated documents and doctored information presented by borrowers (Arnone et al., 2024).

Besides, existing general credit rating models do not fully account for the motivation of fraud perpetrators from perspectives such as psychological justification, technical skills, ego-driven motivations, and possible collusion (Crumbley & Ariail, 2020). Thus, the standard and the bureaucratic system of credit analysis still has not sufficiently protected it from strategically and psychologically orchestrated fraud. The paper provides a remedy for this problem by incorporating the conventional credit assessment models (5C and 7P) with modern behavioral fraud models through the Fraud Hexagon Theory (Hascika et al., 2024; Putrayasa & Arsana, 2024). This endeavor seeks to establish an integrated and

multidimensional credit assessment model, aiming to examine not only the financial and administrative qualification of the borrowers but also a fraud risk assessment considering behavioral factors as well as systemic weaknesses. Thinking about the six components of the Fraud Hexagon, stimulus (economic pressure), capability (fraudulent ability), collusion (illegal cooperation), opportunity (system weaknesses), rationalization (Moral justification), and ego (individual ambition), financial service organizations have the opportunity to create more adaptive early warning systems to detect new patterns of fraud more effectively (Siddiq & Sutopo, 2024). The approach was also advocated by the 7P principles, particularly from the policies and platform perspective, of creating internal control system based on technology, good governance and continuous monitoring (more holistic internal audit) to support the policy guidance in Tabelessy et al. (2023).

This study is in line with prior research that have been conducting using the Fraud Hexagon Theory in fraud analysis. In particular, the studies of Bader et al. (2024) and Mahardika & Kaweda (2025) recognized among others pressure, opportunity, and collusion as the main factors of fraud, which are under the investigation of this study as well. Siddiq & Sutopo (2024) and Achmad et al. (2022) also highlighted the need for enhancing the internal controls and audit system for the prevention of fraud, which corresponds with the present study in terms of taking account of the credit assessment procedure through internal control. Theoretical contribution from Rasheed et al. (2024) is based on the evolution from the Fraud Triangle to the Fraud Hexagon that is the theoretical framework of this study. Soepriyanto et al. (2022) depicted a comparable scenario in the bank industry of Indonesia in term of prospective fraud in the award of loans.

Nevertheless, the prior research has paid majority of the attention on financial statement fraud and have internal audit effect of, but very limited in research on fraud threat in operational credit assessment procedure assessment of creditor trust and false loan. To date, the literature has yet to sufficiently investigate how administrative credit scoring models such as 5C and 7P can be combined with behavioural models like the Fraud Hexagon to the consideration of risk of fraud in the granting of credit. This unmet need suggests the value of an approach which can assess both fraud as a matter of procedure and behavior. Hence, the present research makes a clear distinction: it extends the application of the Frauds Hexagon to the credit evaluation process in conjunction with both 5C and 7P models to evaluate creditor trust and to identify fictitious loans - an amalgamation hardly considered in past studies.

Consequently, this study is unique in that it extends the applicability of the Fraud Hexagon to not just financial reporting, but into the credit evaluation process whereby the 5C and 7P frameworks are combined to evaluate creditor trust and to identify falsified loans an artificial which has been seldom an area of investigation in the past research. Besides, although the previous studies such as Bader et al. (2024), Mahardika & Kaweda (2025), Siddiq & Sutopo (2024) and Achmad et al. (2022) focus on financial statement fraud and prevention mechanisms based on audit, and Rasheed et al. (2024) is concern on theoretical development, as well as Soepriyanto et al. (2022) on fraud detection at the policy level, this research shows empirical result through a case study at a state bank in East java. It discloses practical deficiencies in internal control, document examination, and fraud detection systems that have been largely ignored in preceding studies. In so doing, this study transcends the framing of theoretical or policy implications and offers a contextualized, empirical insight into fraud risk in credit evaluation.

The novelty and the innovative contribution of this paper consists in the derivation of a single credit scoring model, that merges both the 5C7P credit assessment framework and the Fraud Hexagon Theory, to an integrated behavioral administrative instrument for fraud detection and mitigation. This framework not only fills an important theoretical gap between the financial and psychological views on fraud but also provides a practical model that can be applied by financial institutions and regulators to enhance predictive fraud detection and the system of credit governance.

Theoretically, the object of the study a state-owned bank should have a sound internal control system in the credit granting and monitoring procedure (Chen & Liu, 2025). However, there are a number of weaknesses that are exposed by field realities, primarily in document authentication and early fraud detection. These vulnera-bilities are compounded by managerial targets and collusion with internal em-ployees and external entities like the borrowers and intermediaries. The credit evaluation guidelines based on 5C and 7P have been standardized, but the companies often ignore them and chase after more credits. Therefore, by filling the void of integrative behavioral–administrative based fraud prevention models in earlier research, the present investigation addresses a major gap and introduces a novel operational model for credit evaluation based fraud prevention.

This study aims to analyze the internal credit control system to prevent fraud through an integrative approach that combines the 5C7P Model with the widely recognized Fraud Hexagon Theory in credit evaluation to address fictitious lending. Specifically, this study seeks to answer the research question: How can the integration of the 5C7P credit evaluation model and the Fraud Hexagon Theory strengthen internal control systems to effectively prevent fictitious lending in the banking sector?. This integration is novel and significant as it relates traditional credit scoring and behavioral fraud theories, and provides a stylized model which is implementable in banking systems. In principle this work makes a contribution to fraud theory in that it has been removed from the traditional financial reporting environment and is instead situated in the context of the evaluation of credit, thus integrating behavioral psychology, finance and organizational governance into a single theoretical model. Based on a case study methodology and empirical field data, this paper offers an updated perspective on fraud patterns in credit allocation (vulnerabilities of the system, managerial pressure, and misrepresentations which are underestimated in many cases). From a practical point of view, these findings give insight into the potential future improvements of the bank internal control mechanism for fraud detection and prevention and the credit processing accountability.

This study is expected to be used as the reference for the preparation of the integrative risk mitigation regulation which includes both the administrative and the behavioural aspect for the policy makers e.g. the Financial Services Authority (OJK). The model can also be generalized further to design an AI-based fraud-detection system that can foresee suspicious behavioral traits. The adoption of this holistic perspective allows the study to advance not only the theoretical but also practical governance and regulatory implications to foster sustainability of financial sector in enhancing its resilience-outstanding fragility issues in the midst of complex digitized and globalized economy especially in the case of Indonesia.

LITERATURE REVIEW

Fraud Theory

The theory of fraud has changed greatly in since its inception with Donald Cressey in 1953 and the traditional Fraud Triangle concept has been challenged (Bilkis & Reskino, 2022; Isahak et al., 2023). Cressey's assertion was that three factors fostered the commission of fraud pressure, opportunity, and rationalization. Pressure is personal or external factors that motivate a person to take unethical actions, this includes financial issues, performance pressures, or societal pressures. Opportunity is present when there is inadequate supervision or internal controls that allows one to commit fraud and have it go undetected for some period of time. Rationalization, on the other hand, is the person's inside rationale for wrong-doing, which is frequently based on the fact that the person perceives his or her actions to be harmless or that they have a right to do them.

Building on Cressey's legacy, later scholars argued that these three components could not be the sole explanation for fraud. Wolfe and Hermanson (2004) developed the Fraud Diamond, which incorporates the factor of capability (Ratmono & Frendy, 2022). This addition highlighted that in which even though pressure, opportunity and rationalization are present, the fraud will not necessarily take place if the potential fraudster does not have the necessary skills or the means to take advantage of the system's weaknesses. The concept of capability brings in the human factor real people who not only identify opportunities but also have the ability to take advantage of them.

Later after, Vousinas (2019) developed this idea adding two more aspects to the model of Fraud Hexagon which were arrogance and collusion. Arrogance is a sense of superiority or privilege that leads people to believe that they do not have to follow the rules or be held accountable. Collusion, on the other hand, is the social aspect of fraud multiple individuals, either internal or external to an organization, colluding to commit and conceal wrongdoing. These types of partnerships often allow the fraud to stay under the radar longer because when that many people are involved in deceiving and manipulating, it's a smoke screen that is much more difficult to blow away. In principle, these models may be considered as increasingly inter-related rather than as alternate models. Hence, the Fraud Hexagon can be seen as a substantiation and expansion of existing models, odd the individual and the group side of fraudulent behaviours. Each stage of the theoretical development sheds greater light on the why and how of fraud in its increasingly complex organizational setting.

In the context of the study where risk in credit transaction is critical these theories are a valuable set of analytical tools. The Fraud Hexagon predicts behavioural and systemic signals that fraud may be occurring in loan activities (such as, perceived pressure to achieve credit targets, existence of windows of opportunity due to lack of supervision, or justifications for fraud based on perceived misdeeds). Based on this theory, the article attempts to analyze the dynamic interaction of these elements with one another in credit inducement in fraudulent fashion. While theories of fraud have been meaningfully expressed, a significant portion of these theoretical contributions have revolved around the motivators of the individual, rather than how those motivators are influenced by and interacted with the organisation's. This research attempts to fill this void by adapting the Fraud Hexagon framework to the credit analysis arena. As such it contributes to filling the instrumentation gap of fraud in financial institutions and points to practical considerations for improved prevention/detection strategy.

Credit Analysis Principles (5C and 7P)

The 5C approach is the most commonly used credit analysis method by banks to assess the creditworthiness of prospective borrowers. This principle consists of five key aspects. First is character, which evaluates the borrower's integrity and track record in fulfilling financial obligations. Banks assess how the borrower has repaid previous loans to determine their reliability and honesty. Second is capacity, which examines whether the borrower has sufficient financial ability to repay the loan, based on income, expenses, and financial stability. Third is capital, referring to the borrower's owned assets or wealth as a measure of additional financial strength. Fourth is collateral, which involves the assets pledged as security to protect the bank from potential losses in case the loan is not repaid. Fifth is condition, which refers to the economic environment and the borrower's business sector, helping banks evaluate the sustainability and prospects of the borrower's business (Fauzi et al., 2023; Saputra et al., 2020).

In addition to the 5C approach, banks also apply the 7P principle for a more in-depth analysis, especially regarding the borrower's character and business (Pratama et al., 2024; Restianita et al., 2024). The first is personality, which assesses the borrower's attitude, behavior, and communication skills indicators of seriousness and commitment to fulfilling obligations. Second is party, which examines all individuals involved in the business, including owners, managers, and partners, to ensure they have appropriate backgrounds and integrity. Third is purpose, evaluating the objective of the credit application whether for business expansion, equipment purchase, or other needs to better assess the associated risks. Fourth is prospect, which reviews the business's potential to grow and generate long-term profits. Fifth is payment, which analyzes the borrower's financial management and loan repayment planning. Sixth is profitability, ensuring that the financed business can generate sufficient profits to cover operational costs and credit obligations. Seventh is protection, including risk mitigation steps such as insurance or legal safeguards to anticipate potential losses during the loan period.

A thorough credit analysis process is essential for maintaining credit portfolio quality and overall financial health. Although the risk of non-performing loans cannot be entirely eliminated, implementing the 5C and 7P principles can significantly reduce the likelihood of loan defaults. Therefore, every bank officer involved in the credit process must conduct analysis diligently and professionally in accordance with these principles. Banks that successfully implement both approaches can not only maintain customer trust but are also better equipped to face banking industry challenges and support sustainable economic growth (Sasmita et al., 2021).

In order to provide a more theoretically robust discussion, a more comprehensive and historically contextualized account of the major fraud theories the Fraud Triangle, Fraud Pentagon, and Fraud Hexagon needs to be given. They are to be read in informing each other and not in opposition. In this historical and conceptual fashion the explanation will gain greater theoretical coherence and intellectual plausibility. The relationship between these fraud schemes and the credit analyst environment also must be established. Linking theories of fraud to how banks determine borrower creditworthiness, evaluate risk, and make lending decisions will allow readers to more fully understand the practical and intellectual implications of this research. Finally, the paper should accentuate the research gap by outlining the dimensions that have not been addressed such as integration of fraud theory with credit risk analysis and that the current work aims at bridging them.

Therefore, this study would have theoretical and practical implications for improving credit evaluation procedure in banks.

Fraud Hexagon Theory

Theories regarding the causes of fraud have significantly evolved over time. Initially, the concept was introduced by Donald R. Cressey in 1953 through the Fraud Triangle. Cressey argued that fraud arises from three primary elements: pressure, rationalization, and opportunity (Handoko, 2021). Pressure is defined as external or internal forces, such as financial pressure or an emergency situation, that force a person to take shortcuts. Rationalization is the perpetrator's excuse for his or her actions that allow them to believe their actions are acceptable. Opportunity is defined as a loophole within a system that would allow a person to commit fraud and not be immediately detected (Zahara & Ratnawati, 2024). This theory was further developed in 2004 by Wolfe and Hermanson where they included a significant fourth component: capability (Alhumoudi & Alhumoudi, 2023). They stressed that pressure, rationalization and opportunity by themselves should not be adequate if the person does not have the skills or knowledge to do the fraud and get away with it. Intelligence, job position, trust from others, and the capacity to manipulate situations are all included in capability.

Crowe Horwath further expanded the approach in 2012 by introducing two additional components: efficiency and arrogance to the Five Fraud Elements Theory (Inayah & Chariri, 2024). Efficiency is a component of technical expertise or the process by which system vulnerabilities may be exploited, and arrogance is the mindset of the offender, who assumes he or she is immune to repercussions and legal ramifications. The most advanced evolution came in 2019 with the development of the Fraud Hexagon Theory by Georgios Vousinas. This model contains all previous elements and adds a sixth, known as collusion, which is cooperation between two or more people to defraud. Collusion is exactly that: if they are working to hide a fraud, it makes the potential for two or more people to be involved in that work much more likely, as a means of concealing their actions and making detecting those actions even more difficult (Sholikatun & Makaryanawati, 2023).

In this hexagonal theory, the six elements are formulated in the SCCORE model Stimulus (motivation), Capability, Collusion, Opportunity, Rationalization, and Ego (Vousinas, 2019). Stimulus includes internal or external motivations leading individuals to commit fraud. Capability refers to the skills or access to systems required to execute fraudulent acts. Collusion denotes collaborative efforts among perpetrators. Opportunity remains central, as fraud cannot occur without exploitable system weaknesses. Rationalization allows individuals to mentally justify their wrongdoing. Lastly, Ego reflects arrogance or the belief that they are untouchable by law or oversight. With this theory, Vousinas (2019) offers a more comprehensive framework to understand and prevent fraud. These six elements serve as analytical tools that help organizations remain vigilant and strengthen internal control systems. Understanding how each element contributes to fraudulent behavior allows organizations to design more systematic and effective fraud prevention and detection strategies.

This historical evolution illustrate The Fraud Hexagon is not a static model but a product of ongoing evolutions in form format, from the Triangle to the Diamond, the Pentagon and now the Hexagon. Seeing it as part of an evolutionary process rather than a completely separate model enables a better understanding of how theories of fraud have

evolved to consider the complexities of fraudulent conduct. Such a holistic perspective is said to contribute to greater theoretical richness and coherence. Also, when it comes to fraud, it is crucial to be familiar with these credit analysis models. Factors of fraud theory such as financial strain, a perceived opportunity due to inadequate credit control and a rationale for partaking in wrong doing may also be more related to certain behavioural and structural features of individual and corporate borrowers. The melding of fraud theory with credit analysis also enables banks to identify signs of risk at an early stage and to strengthen risk management in the lending process (Afjal et al., 2023). For the above reasons, the integration of fraud analysis into the credit analysis tools used by members of the 5Cs and 7Ps models is likely to enhance their own risk assessment, as well as the quality of lending decisions.

While there exists a wide range of research related to fraud detection and credit risk, these two literatures typically treat them separately. Fraud behavioural theories have seldom been systematically integrated with easily applicable credit risk models. This research endeavors to address this gap by using the Fraud Hexagon as a holistic analysis framework to better understand the actions of defaulters, thereby enabling stronger credit underwriting models. Thus, the outcome is both a theoretical and practical contribution to the field of financial risk management.

RESEARCH METHOD

This study employed a qualitative approach using a case study method. The research objective was to gain an in-depth understanding of the motivations, mechanisms, and factors that influenced the occurrence of fraudulent practices in the form of fictitious lending at a branch office of a state-owned bank (BUMN) located in Malang City. A qualitative approach was chosen because the nature of the phenomenon required contextual understanding that could not be adequately explained through quantitative means. This approach also enabled the researcher to obtain rich information through direct interaction with informants involved in the fraud case.

The research design was a case study focused on one state-owned bank in Malang City. The research site selection was conducted purposively, as the bank had been involved in one of the most significant fraud cases in 2024, namely the issuance of fictitious loans. This case attracted public attention due to its significant impact on the bank's reputation and the banking sector in general (Warren, 2024).

The data in this study consisted of both primary and secondary sources. Primary data were obtained through in-depth interviews with key informants, including credit proposers, supervisors, and decision-makers. Secondary data were collected from relevant documents such as internal audit reports, credit approval files, and applicable regulatory guidelines. Data collection techniques included observation, documentation, and interviews. Informants were selected purposively based on their knowledge and direct involvement in the fictitious loan practices, using the purposive sampling approach described by Etikan et al. (2015).

Data were analysed using thematic analysis, identifying patterns and themes based on the Fraud Hexagon Theory. This theory was an analytical tool to uncover six key elements that contributed to fraud: stimulus (pressure), capability, collusion, opportunity, rationalisation, and ego. These six elements formed the basis for the coding and interpreting of qualitative data obtained from interviews and documentation, providing a

comprehensive understanding of how weaknesses in the internal control system were exploited during the credit approval process.

Table 1. List of Research Informants

Informant Initial	Gender	Position	Years of Service	Credit Experience (Years)
EW	Male	Credit Proposer	13	7
A	Male	Credit Proposer	6	5
Y	Female	Credit Proposer	10	8
F	Male	Credit Supervisor	14	9
Z	Male	Credit Supervisor	15	15
W	Female	Credit Supervisor	20	15
D	Female	Credit Decision Maker (Sub Branch Manager)	15	15
H	Male	Credit Decision Maker (Branch Business Manager)	20	15
E	Female	Credit Decision Maker (Sub Branch Manager)	7	7
RH	Male	Credit Decision Maker (Branch Manager)	30	28

The profiles of the 10 research participants who were the key actors in the credit granting and monitoring procedure at the state bank are shown in Table 1. The informants were credit proposer, supervisor and decision taker and have between 6 and 30 years of working experience in total and between 5 and 28 years of specific experience in the credit industry. They came from various positions, including credit analysts, credit supervisors, and branch managers. This diversity in roles and experience provided significant depth of information in uncovering the mechanisms and potential fraud within the credit disbursement process in the banking environment.

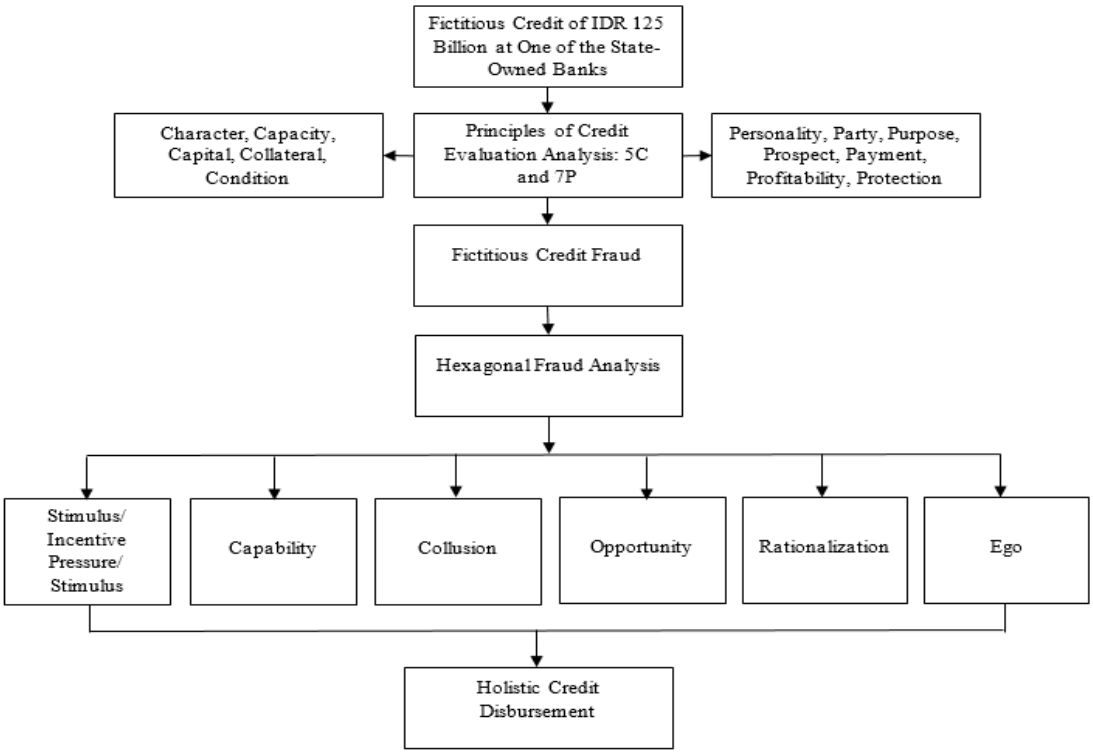

Figure 1. Theoretical Framework

Figure 1 illustrates the process of analysing a fictitious credit case at a state-owned bank by integrating the 5C principles (Character, Capacity, Capital, Collateral, Condition) and the 7P principles (Personality, Party, Purpose, Prospect, Payment, Profitability, Protection) in the credit assessment process. Although these principles are intended to serve as guidelines for evaluating the creditworthiness of borrowers, fictitious credit cases still occur in practice. As a result, secondary analysis was guided by the Fraud Hexagon Theory, which presents six factors that contribute to the act of fraud: the Stimulus/Pressure, Capability, Collusion, Opportunity, Rationalisation, and Ego. The six are interrelated and provide a foundation of how fraudsters may use internal control weaknesses to perpetrate an organization. This examination results in suggestions for an integrated credit appraisal methodology, which evaluates the administrative and financial side of borrowers, and also takes into account psychological, social and structural risk factors that may push towards fraudulent behaviour. Consequently, credit decisions become more inclusive and forward-looking.

RESULTS AND DISCUSSION

Universal lending is a credit evaluation technique that considers different angles of potential borrowers. This process is the study of financial and non-financial variables that could impact a borrower to meet its credit commitment and to resist the degradation of credit quality. The 5C7P credit analysis, is expected to reduce also fraud or fake loans. However, as a synthesis of a number of interviews for all the cases, they screen incoming applications for credit and talk with supervisors about loans they are reviewing, fictitious loans continue to be made and these contribute to deteriorating credit quality, are classified as non-performing loans (NPL).

In the Fraud Hexagon theory context, stimulation (or motivation) refers to internal and external pressures that drive individuals to commit fraudulent acts. According to interviews with several employees at a state-owned bank branch, such pressures manifest in various forms, including managerial pressure and political or structural external influences. One of the most dominant internal pressures is the high-performance target. A senior employee with more than 15 years of experience in credit stated: “Due to target pressure, sometimes credit approvers are forced to approve applications even if the data is weak. Some even modify the data so the client can qualify. This form of creativity violates the rules” (I/H/R8/2025). While such pressure aims to increase productivity, it ironically promotes fraud through compromised verification processes.

A credit approver added: “Individually, officers may have their preferences or filters. But their subjectivity often deviates from the SOP... that’s where the problem lies” (I/RH/R10/2025). In addition to internal pressures, informants mentioned external interventions from political figures or local power holders. Another credit approver stated: “I was once dragged into an issue involving a DPR member due to a verification problem. It turned out there were political elements behind it” (I/H/R8/2025). These pressures influence decision-making and induce fear and excessive caution, leading to stagnation or non-objective credit decisions.

Furthermore, the lack of strict control over the internal reward system presents a subtle form of pressure. The same respondent remarked: “Many say that in certain units, you can get a good promotion decree (SK), which often becomes a motivation. However, we must ensure that it doesn’t lead people to work carelessly to obtain that SK”

(I/H/R8/2025). This system fosters a work culture that prioritises numerical results over the quality of processes, encouraging shortcuts that are prone to violations.

A representative from ORIC noted: "Sometimes management is too trusting and approves loans without in-depth analysis" (I/W/R6/2025), highlighting how systemic pressures often lead to the sacrifice of prudent banking principles for the sake of speed or target achievement. A statement from SBM further supports this: "When target pressure is high, SOP becomes a mere formality and is not fully implemented" (I/E/R9/2025). Even at the field level, pressure reduces the quality of supervision. A credit approver emphasised: "We must verify, because in many cases, after the goods are purchased, the person disappears, never provides updates, and is never revisited…" (I/H/R8/2025). This illustrates how pressure leads to inadequate time and resource allocation, weakening credit monitoring.

Another credit approver offered a unique perspective: pressure does not only stem from numerical targets but also the fear of sanctions if expectations are not met. "Most are afraid to make decisions and simply hand them over to their superiors" (I/D/R7/2025). As a result, decisions become centralised, and credit proposers tend to "just carry them out" to avoid blame if the loan later fails. Statements from proposers and approvers confirm that pressure leads to procedural leniency and opens the door to document and data manipulation. A credit proposer admitted: "High targets push proposers to try too hard, including modifying business data or overly accommodating clients to please officers" (I/A/R2/2025).

Most informants agree that solutions to such pressure include strengthening SOPs, clarifying reward systems, and fostering staff integrity. One credit approver stated: "Our field staff have the capability… but it must be honed and optimized" (I/H/R8/2025). Motivation (or incentive) as a form of pressure to commit fraud whether financially driven or not is also reinforced by a credit supervisor: "Management demands for optimal employee productivity lead to excessive pressure for credit expansion which due to rushed processes results in poor-quality loans where proposers fail to adequately verify, particularly in personality assessments and other credit checks" (I/Z/R5/2025). This pressure is internal and external, such as in the pre-collateral process, which is rushed for immediate review without complete documentation, or inflated collateral values influenced by third-party interventions at the instruction of bank staff or executives.

These practices are designed to speed up the loan process and help meet performance goals. In turn, management has an incentive to portray consistent performance for bonuses and company profits. Furthermore, the technology publicised by managers, combined with its players' declining transport allowances and salaries, exerts more pressure on staff to ignore prudential principles and chase credit volume. Based on the study by Achmad et al. (2022), it proves that pressure has a positive relationship with fraud detection on financial reporting. Based on the above, simulation or pressure in Fraud Hexagon theory representation is the fact on the real banking working field especially on credit issuance. When managerial and system pressures are not coupled with strong internal controls and personal integrity, the likelihood of fraud will increase dramatically. If a consistent SOP, a proportionate reward structure, and well-rounded development of personnel adapting to the pressure that may incite them to commit fraud are provided, it will go some way toward preventing such acts.

Furthermore, a debtor's ability to repay a loan is one of the key elements in assessing capacity within the banking system. This assessment aims to ensure that the debtor has sufficient financial and operational capacity to fulfill credit obligations in a timely and sustainable manner. Based on interviews with several bank employees, this process involves multiple stages of verification, both administrative and field-based. The initial step in evaluating a debtor's ability is verifying financial statements, including reviewing bank transaction records and actual cash positions. A senior informant with 30 years of experience stated: "Usually, I ask my team to study and trace the cash flow in the bank statements. Then we verify it on-site. That's when the questions start to emerge, and the real situation becomes clear" (I/RH/R10/2025). This direct verification practice is conducted to prevent frequent manipulation of financial data, such as falsified bank statements or the presentation of profits that do not reflect actual conditions. According to respondents, such manipulation is not only carried out by the debtors:

"Data manipulation is highly possible from the debtor, from those assisting the debtor, and even from within the bank. Commonly altered data includes business information, licenses, and bank reports" (I/RH/R10/2025). In many cases, well-prepared financial reports do not guarantee data validity. Several officers revealed that many businesses showing unhealthy cash flow still received credit approval. This creates a loophole for fraud, especially if the supervisory system is weak. As a mitigation effort, direct visits to the debtor's business and residence (On The Spot OTS) are conducted. This verification is not only carried out at the beginning but also periodically, especially during the first trimester after loan disbursement. A credit supervisor explained: "In OTS verification, we can't rely on a single source. Sources must come from multiple parties like suppliers and customers. Otherwise, we risk being misled by one-sided reports" – (I/W/R6/2025). However, field implementation is often inconsistent. As noted by a credit officer: "Applications for additional credit or extensions are often not based on capital criteria. In fact, some clients are approved even though their credit score and capital don't meet the requirements, simply because the application was instructed by management" – (I/EW/R1/2025).

This statement reflects the "capability" element in the Fraud Hexagon theory, which refers not only to technical skills but also to structural positions and one's capacity to bypass systems and weaken internal controls. A credit decision-maker added that managerial pressure often opens the door for individuals to exploit their ability to engage in deviant acts: "Due to target pressure, sometimes credit approvers are forced to approve applications even if the data is weak. Some even modify the data so the applicant can qualify. It's a form of creativity that violates the rules" – (I/H/R8/2025). In this context, individuals with knowledge, authority, and access to the decision-making process can become key actors in fraud, especially when lacking integrity. This is supported by a credit proposer who stated: "If we don't follow their pattern, for example by not submitting a certain percentage, the process can stall. Field officers try to resolve issues in various ways, including channeling payments through local accounts to make it appear that they've been settled" (I/A/R2/2025).

This situation shows that fraud is driven not only by pressure (stimulus) or opportunity, but also by the perpetrators' ability to exploit institutional gaps, whether through technical manipulation or collusive strategies. Moreover, educating debtors and ensuring consistent supervision are integral parts of fraud prevention strategies. If debtors only make payments when reminded by officers, repayment sustainability becomes reliant on

personal relationships rather than on systematic mechanisms. A credit supervisor emphasized the importance of such education: "If debtors are punctual but still need reminders from staff, the staff must gradually educate them to make payments without reminders. Otherwise, if there's a staff turnover, the loan may default" (I/W/R6/2025).

The research of Larum et al. (2021) and Yanti & Riharjo (2021) revealed that the competency of the person and their position are important factors to predict the fraud. Those who have the ability to access information, make decisions, and have the knowledge are more likely to defraud particularly in underperforming systems under strain. As such, capacity should not be considered an unmitigated good. Capability without integrity or rigorous scrutiny can be a key instrument in watering down and covering up fraud. So, the approach to fight fraud needs to entail authority mapping; the quality of supervision needs to be improved; layered controls need to be maintained; and the value of integrity should permeate the whole credit process.

Collude means that two or more parties are involved in fraudulent, that is, dishonest activity to gain some advantage at the expense of other people or companies. Within a financial institution, collusion can take place among bank officers (internal members) and borrowers, brokers, or other outsiders (external members). Such collusion as an internal-external nexus thrives since it is increasingly harder to detect, let alone prevent, bribery scandals. This is confirmed by the data collected from interviews with various actors and shows how collusion has become the way the system works- especially when it is a question of the disbursement of subsidized and commercial loans.

One of the main triggers of collusion is the intense pressure to meet targets. As stated by a credit decision-maker with 15 years of experience: "Due to target pressure, sometimes credit officers are forced to approve applications even when the data is weak. Some even modify the data to make applicants eligible. This is a form of creativity that contradicts regulations (I/H/R8/2025)." This statement highlights how pressure to meet targets drives compromises in procedures and integrity. Furthermore, data manipulation is not only carried out by external parties. Another credit officer with 30 years of experience explained: "Manipulation can come from the debtor, those who assist them, or even from our own internal staff. Manipulated data may include business licenses, bank statements, identity documents, and even financial records – (I/RH/R10/2025)." He added, "Yes, collusion does happen. Sometimes even our staff pressure others to take loans from us – (I/RH/R10/2025)," indicating the presence of internal pressure and active interference.

Weaknesses in the verification process also provide significant opportunities for collusion. A credit supervisor with 12 years of experience emphasized the importance of triangulating information during On The Spot (OTS) visits, citing the practice of name borrowing in credit applications, often done in the names of relatives or cooperative employees, even though the businesses are not theirs: "Sometimes applications are made under the name of a relative or a cooperative employee, but the business does not belong to them (I/W/R6/2025)."

Another form of collusion occurs through familial or personal relationships that bypass standard procedures. A credit staff member reported, "I have seen loan applications approved without verification because of a family relationship between the debtor and the branch head (I/A/R2/2025)." He further explained other manipulative techniques, such as making payments through local accounts to create the impression of timely repayment, even when no business activity supports it: "Field officers deposit payments into local

accounts so it appears as if repayments have been made. However, if there are no supporting transactions or business activities, it becomes suspicious – (I/A/R2/2025)."

Collusion can also be found in the provision of credit references and the use of fictitious data. A credit supervisor with 15 years of experience stressed the need to evaluate the quality of references: "Mapping can be done to evaluate how reliable credit references are. If a certain reference consistently performs poorly, it should be reviewed (I/Z/R5/2025)." He noted that signs of collusion also appear when references come from the same source and are prepared by the officers themselves: "References provided by officers often come from the same individuals, in large numbers, and are filled in by the staff themselves (I/Z/R5/2025)." A credit decision-maker with seven years of experience added that even highly complete documentation does not guarantee the legitimacy of a business: "The character of the customer can be seen from the beginning; if it is not complete, it will affect the outcome. Sometimes the submitted data is very complete but is overused or even unrelated to their actual business (I/E/R9/2025)." This shows that document completeness can be the result of systemically orchestrated collusion.

Ultimately, collusion is not merely a violation but has become a normalized and collectively justified practice in daily operations. A credit supervisor with nine years of experience revealed that the manipulation of farmer group data and mass account openings has become commonplace: "*Farmer group data is usually entered into the system without proper verification, and mass account openings are done to channel funds so it appears as though disbursement has been completed* – (I/F/R4/2025)." This illustrates how manipulative practices are justified in the pursuit of targets, reducing the evaluation of the 7P principles to mere formality.

These results collectively suggest that collusion is inconsistent with the guidelines of visibility and monitoring in a system of credit allocation. The rules of payment, prospect and personality in 7P model are a subject to distortion due to existence of personal relations, manager's pressure and social justifications. This findings is strengthened by the literature presented by Sari & Nugroho (2020) that states when there is a collusion among internal actors it will be easier for frauds to occur within financial institution. Hence, collusion, as a central theme in the Fraud Hexagon model, should be at the forefront of fraud prevention. Concrete measures such as a uniform guidance (ethical and mental), field verification including multi-source (including independent third party), routine and random audit and introduction of safe, effective whistleblower reporting system are urgently needed. Absent a thorough overhaul of both systems and organizational culture, collusion will be a persistent threat that quietly undermines the stability of the financial system.

Opportunity refers to the ability or conditions that allow perpetrators to commit fraud based on the belief that their actions will go undetected. In financial institutions, such opportunities arise due to weak oversight systems, inadequate document verification, and lax operational procedures that are not strictly enforced. One informant from the credit application division stated, "Debts to third parties that are not recorded in SLIK (Financial Information Service System) represent one of the opportunities that can be exploited by staff to commit fraud." (I/A/R2/2025). This finding is supported by a credit approval officer who emphasized that additional verification through third parties, such as suppliers and buyers, is a crucial step in ensuring the legitimacy of a business. One respondent explained that, in addition to confirming information with residents, the

following steps must be taken: (1) "Checking the credit payment history in SLIK," (2) "confirming payments to suppliers either in cash or on credit," (3) "verifying with residents," and (4) "confirming with neighboring entrepreneurs running similar businesses." (I/E/R9/2025).

Fraud opportunities also manifest in sham loans or fictitious credit, often involving document forgery, including collateral, identity cards, SID print dates, and signatures. A credit approver recounted, "In 2016, I once reviewed documents related to a borrower's identity and family card. The borrower used their parents' names, younger than the borrower, by forging the family card and identity documents. Signature forgery was also quite frequent." (I/D/R7/2025). Such manipulation is made possible by weak verification of physical documents and digital records. Another credit approver confirmed, "Data manipulation is highly possible whether by borrowers, third parties, or internal staff. Bank statements can be forged, reversed, or manipulated. IDs are often falsified as well." (I/RH/R10/2025).

In addition, the practice of credit tokenization splitting loan limits across several names to avoid exposure limits illustrates how systemic loopholes are exploited. A credit officer noted, "Due to target pressure, sometimes we are forced to approve applications even when the data is weak. Some even modify the data to make applicants eligible." (I/H/R8/2025). Furthermore, a credit proposer revealed that control over disbursement processes often does not lie with the branch level: "The branch head does not sign credit documents, but loans can still be disbursed. Many steps are skipped to meet the NDPTU target".

The weakness of internal supervision and the lack of strict compliance with standard operating procedures significantly increase the likelihood of white-collar crime. Internal audits, which are supposed to serve as the first line of control, are often considered ineffective. A study by Agusputri & Sofie (2019) supports this finding, stating that ineffective supervision positively correlates with fraud, including in banking cases. Fundamentally, this condition violates the Collateral aspect of the 5C principle, in which no valid or verified collateral exists. The disbursement of credit without rigorous collateral verification opens the door to manipulation by both internal and external actors. Thus, in this context, opportunity is not merely a technical loophole it becomes a primary prerequisite that drives fraud within a credit system plagued by weak oversight and poor integrity among its executors.

Rationalization, as one of the key elements in the Fraud Hexagon Theory, explains how perpetrators justify fraudulent acts in order to maintain a self-image as moral individuals rather than criminals. In the context of fraud within the credit approval process in financial institutions, the most common form of rationalization involves manipulating financial data and administrative documents to make loan applications appear viable and acceptable within the banking system. In one in-depth interview, a credit decision-maker explicitly acknowledged the possibility of deliberate data manipulation by various parties, both external (borrowers) and internal (bank employees): "If we talk about manipulation in the sense of intentionality yes, there is an element of intent. That's highly possible from the borrowers. From those who assist the borrowers, very likely, and also from our internal side, very likely, Sir." (I/RH/R10/2025)

The respondent further elaborated on the types of data manipulation commonly encountered in loan applications: "What often comes up take a look at the table, right? Yes, this data is frequently altered, yes. Then there are permits like SIUP, TDMP, or SKU those too, Sir. That's possible. Then fake bank statements, or just reversed entries, rearranged, they say." (I/RH/R10/2025). These statements illustrate how fraudulent practices are sometimes rationalized as "administrative strategies" to assist borrowers facing technical constraints, even though such actions clearly violate the bank's Standard Operating Procedures (SOP). Additionally, in written interview notes, a loan officer who requested anonymity stated that management replaced an auditor following the discovery of fraudulent activity: "During the financial audit of the branch, management replaced the previous auditor because fraudulent activities were found involving fake deposits and installment-based rescue operations." (I/A/R2/2025).

This implies that auditor turnover could be a way for but not limited to to help clean the previous fraud track record. From the normative aspect, the term of office for an auditor is limited to a maximum of five years pursuant to Article 11 paragraph (1) of the Government Regulation of the Republic of Indonesia No. 20 of 2015. But such changes may be used in practice to avoid accountability and cover up continuing fraud. Supporting this, the research of Syahria (2019) revealed that there is negative and significant relationship between auditor switch and fraud detected in financial statement. The rate of auditor change and the probability that fraud goes undetected are both greater, and this, too, becomes a systemic rationalization involving senior management.

Rationalization is also a common thread in the manipulation of the "capacity" aspect within the 5C principles. In practice, it was found that credit officers often approve applications despite objective weaknesses in borrower data. However, due to performance target pressure, the process continues. This is reflected in the statement of a credit decision-maker regarding financial verification and bank statements: "Usually, I ask my team to analyze and trace the cash flow in the bank statements. After that, they conduct site visits. Then there's a Q&A session, and the real situation becomes clear." (I/RH/R10/2025). However, in practice, this process is often treated as a mere formality or even bypassed entirely due to the pressure to meet the NDPTU (Approved Value Per Unit Per Year) target. A credit proposer confirmed this: "That's because the NDPTU target has to be met. So, many approvals are made even though they don't fully follow the procedures." (I/A/R2/2025)

This opens the door for "pseudo-credit" credits granted on the basis of forged or manipulated documents, which do not truly depict the financial situation of the debtor. Actors inside might rationalize this as a "performance policy," but in the context of the Fraud Hexagon this is a transparent and articulated form of rationalizing fraud. Consequently, rationalization in this sense is not only a psychological process of individual actors, but also a collective, institutionalized one in terms of corporate policy. When performance goals and rewards are justification for manipulative behavior, fraud starts to look more like "business strategy".

Next is ego, which is also one of the key elements in the Fraud Hexagon Theory, explaining how the drive to maintain personal image, achievement, and social status can become a strong motive for committing fraud. Individuals with a high ego are often driven to appear successful and superior in the eyes of others, even if that appearance must be achieved through unethical means. In financial institutions, ego manifests not only as

individual ambition but also through institutional culture that emphasizes target achievement as the sole indicator of success, regardless of whether the means to achieve it are ethical. Field findings reinforce the role of ego as a stimulus for fraud. Several informants stated that the dominance of leadership image, pressure to meet targets, and the personalization of institutional success create systemic pressure that can drive manipulative practices. As one credit proposer expressed: "I suffered due to leadership arrogance because I failed to meet my target in February 2017. Therefore, I had to take personal responsibility for the remaining debt and make instalment payments so the company could achieve monthly performance indices. This was nothing more than an attempt by the leader to remain relevant." (I/RH/R10/2025).

This statement illustrates how a leader's ego can translate into pressure on subordinates to deviate from standard procedures to maintain personal reputation and achievement. The leader's presence represents the institution's success, thus fostering an unhealthy work environment. A credit decision-maker shared a similar view with 15 years of experience: "Because of target pressure, sometimes credit approvers are forced to approve applications even when the data is weak. Some even modify the data so the applicant can pass. This is a form of creativity that violates the rules." (I/H/R8/2025). This reveals how institutional ego and performance pressure contribute to procedural violations, especially when achieving targets becomes more critical than data validity and procedural integrity. Another credit proposer also highlighted the existence of collective ego within the system: "It's because the NDPTU (Annual Unit Approval Value) target must be achieved. So, many approvals are given even when they do not fully follow procedures... We all want the program to succeed, but if the methods are wrong, it will eventually harm the institution." (I/A/R2/2025) In this context, ego is no longer merely individual but institutionalised through an organisational culture that prioritises targets without critically reflecting on their achievement. This opens the door to systemic procedural violations.

Furthermore, a credit decision-maker explained how subjectivity in credit processing also represents another manifestation of ego: "At a personal level, officers already have their preferences or filters. But their subjectivity often does not align with the applicable SOP." (I/RH/R10/2025). This highlights how horizontal ego the belief that one's judgment surpasses procedural standards also triggers violations that can lead to fraud. In many cases, SOP noncompliance is not due to ignorance but overconfidence in personal experience. However, these findings contrast with those of Achmad et al. (2023), who argue that the dominance of CEO photos in annual reports does not correlate with fraud in financial reporting. They claim that symbolic narcissism (such as excessive visual appearances) does not necessarily lead to actual fraudulent behaviour. Nevertheless, the field context at a state-owned bank shows that ego goes beyond symbolic visuals and is reflected in managerial decisions, organizational culture, and structural workflows that generate excessive performance pressure and justify deviant actions. Thus, the ego element in the Fraud Hexagon plays a crucial role in driving fraud, especially when institutions and individuals are overly focused on achievement without adequate control mechanisms to ensure that those achievements are attained ethically. In this context, ego serves not only as a source of pressure but also as a rationalization mechanism and a catalyst for more complex collusion systems.

These findings indicate that technical or individual weaknesses do not merely cause fraud in loan disbursement at state-owned banks. Still, they result from a complex interaction between systemic pressure, weak internal controls, an organisational culture focused on target achievement, and institutionalised collusion and rationalization. The factors in the Fraud Hexagon stimulus, capability, collusion, opportunity, rationalization, and ego are shown to reinforce each other, creating a fraud-prone environment. The integration of the 5C7P credit evaluation principles remains insufficient without strengthening ethics, character development, and independent, multi-layered supervision. These findings affirm that fraud prevention solutions must be holistic, addressing banking practices' structural, procedural, and cultural aspects.

Discussion

Theoretically, the internal credit control system is designed based on the creditworthiness evaluation principles of 5C (Character, Capacity, Capital, Collateral, Condition) and 7P (Personality, Party, Purpose, Prospect, Payment, Profitability, Protection), which are normatively recognized as foundational frameworks for mitigating the risk of non-performing loans (Fauzi et al., 2023; Sasmita et al., 2021). However, the occurrence of fictitious credit despite adherence to procedural analysis reveals a gap in implementation and weak operational-level control. This study's main findings indicate that technical loopholes do not solely cause credit disbursement fraud but result from a complex interaction of systemic pressure, collusion, and structurally institutionalised rationalisation by the perpetrators.

As explained in the Fraud Hexagon theory by Vousinas (2019), six key elements drive fraudulent behaviour: stimulus (pressure), capability, collusion, opportunity, rationalization, and ego. In terms of pressure, performance targets were found to push officers to relax procedures or even modify data (I/H/R8/2025), while capability both technical and structural was exploited by internal actors to circumvent SOPs (I/RH/R10/2025). Collusion was observed in the form of personal relationships between debtors and bank officials and identity lending that was inadequately verified (I/W/R6/2025; I/A/R2/2025). Opportunities emerged from weak internal audit and oversight systems, including inadequate collateral verification (I/E/R9/2025; I/D/R7/2025). Rationalization often took the form of justifying document manipulation as an administrative strategy to meet NDPTU targets (I/A/R2/2025), while ego both personal and institutional was a driving force behind procedural violations in the interest of maintaining status or reputation (I/RH/R10/2025).

By integrating the 5C7P credit evaluation framework with the Fraud Hexagon theory, this study offers a comprehensive understanding of the root causes of fictitious credit. It shows that administrative approaches alone are insufficient. Therefore, the proposed solutions are holistic, encompassing consistent reinforcement of SOPs, the creation of fair and proportional incentive systems, education on personal integrity, behavioral risk detection training, randomized independent audits, and the use of AI-based technologies for predictive fraud pattern detection (Achmad et al., 2022; Tabelessy et al., 2023). This integrative approach aligns with the findings of Siddiq & Sutopo (2024), who emphasize the importance of character-based and psychosocial assessments in the credit approval process, supporting the agenda of strengthening ethics-based and transparent banking governance.

The main strength of this study lies in its integrative and contextual approach, which simultaneously combines the operational credit evaluation framework of 5C7P with the behavioral and systemic fraud detection tool of the Fraud Hexagon, particularly in the context of banking practices in Indonesia. Unlike previous studies such as Bader et al. (2024) and Achmad et al. (2022), which focus solely on financial statement fraud using secondary data and regression analysis, this research presents primary data derived from in-depth interviews with frontline banking personnel. This provides a more concrete and applicable illustration of how pressure, capability, collusion, and rationalization manifest in real-world credit practices. Furthermore, this study extends the application of the Fraud Hexagon into individual credit evaluation beyond just financial reporting which has been underexplored in other studies such as those by Siddiq & Sutopo (2024) or Mahardika & Kaweda (2025), which are more macro in nature. It also addresses a gap in Rasheed et al. (2024), which emphasized the dominance of the Fraud Triangle in the literature, by offering a more complex and contextual Hexagon framework. Hence, this study supports and strengthens previous findings, while also complementing them with cross-theoretical and field-based practical approaches, opening new directions in credit control strategies grounded in psychosocial analysis and system integrity.

The implications of these findings indicate that fraud prevention in the credit disbursement process within the banking sector cannot rely solely on internal control systems rooted in administrative procedures. Instead, an integrative approach is required one that combines the principles of creditworthiness evaluation (5C and 7P) with a deeper understanding of motivational, behavioural, and systemic weaknesses as explained in the Fraud Hexagon. These findings highlight the importance for financial institutions to build early detection systems that not only focus on borrowers' technical data but also map the potential for fraud based on stimulus (pressure), technical capability, collusive relationships, systemic opportunity, psychological rationalisation, and egocentric drive. Banks must strengthen field supervision systems, conduct randomised independent audits, establish ethics- and performance-based reward and punishment mechanisms, and train credit officers to recognise psychosocial and relational fraud patterns. Theoretically, this integrative model expands the scope of credit risk assessment through a multidisciplinary approach that is underrepresented in previous studies. It also serves as a foundational model for developing future credit risk mitigation policies and AI-based early warning systems capable of identifying fraud indicators in a predictive and adaptive manner.

CONCLUSION

This study demonstrates that integrating the traditional credit evaluation models 5C and 7P with a behavioural approach through the Fraud Hexagon offers a more comprehensive understanding of the causes behind fictitious lending in the banking sector, particularly in state-owned banks. Empirical findings reveal that fraud in credit disbursement is not solely the result of procedural weaknesses but also systemic pressure, internal-external collusion, perpetrator capability, rationalisation, and ego institutionalisation within organisational culture.The practical implication of this research is the need for financial institutions to develop internal control systems that are not only administrative but also anticipatory of fraud perpetrators' psychosocial and structural aspects. This can be achieved through behaviour-based risk detection training, strengthening independent audits, and leveraging predictive technologies such as AI. Theoretically, this study makes

a significant contribution by expanding the scope of credit risk analysis through a multidisciplinary approach that combines financial theory, behavioural psychology, and organisational governance. The limitation of this research lies in its focus on a single branch of a state-owned bank in East Java and the use of a qualitative case study approach, which restricts the generalizability of the findings. Therefore, future research is recommended to involve multiple financial institutions and employ quantitative validation to enhance the accuracy and applicability of the proposed model.

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