

**USING MONEY LAUNDERING ACT AS A TOOL FOR MONITORING DEPOSITS AND  
FRAUDS IN THE NIGERIAN BANKING INDUSTRY: AN EMPIRICAL APPROACH**

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## **ABSTRACT**

Nigeria became the first country in Africa to adopt a comprehensive legislation criminalizing money laundering. The Money Laundering Act No 3 of 1995 as amended in MLA No. 46 2003 is the process by which illegitimate or “dirty fund” derived from illegitimate business are channeled into the financial system in order to conceal or disguise their true origin and make them appear to have come from a clean or legitimate source. MLA was designed to check corruption, sharp practices and illegal activities in the financial system. The banking system is the medium through which funds flow into and out of the country. Some factors were identified as causes of fraud and illegitimate acquisition of wealth. This study empirically tested if there is no significant relationship between deposits on the one hand, and the following explanatory variables-fraud, actual/expected loss and MLA between 1989 – 2004. The Ordinary Least Square method (OLS) was employed in the study. Furthermore, correlation coefficient, t-test , F-test and the standard error were used in testing the relationship between the variables formulated in the hypotheses. From the four tests carried on the fitted regression model, three of them show that the regression is very useful in explaining variability in deposits. More importantly, it has been proved that money laundering act has a positive impact on the amount of deposits in Nigeria.

## 1.1 INTRODUCTION

Money Laundering simply connote disguising financial assets, so that they can be used without detection of the illegal activity that produced them. The magnitude of money laundering activities on the image and national economy is enormous and frightening,

This illicit trade has pervaded both the national and international business and banking industry with unabated vigour. Osilowo (2004: 1-4) explained money laundering as the process by which criminals attempt to conceal the true origin and ownership of the proceeds of their criminal activities. Cash lends anonymity to many forms of criminal activity and is the normal medium of exchange in the world of drug trafficking. The most common form of money laundering that banks encounter on a daily basis takes the form of accumulated cash transactions which will be deposited in the banking system or exchange for valued items such as bank drafts; bank cheques; money orders e.t.c. New detailed regulations have been introduced in many countries to strengthen detection of money laundering and to improve the supervision of financial institutions.

Over time, corruption has heightened beyond the imagination of regulatory initiatives. Vogl (1998: 33) stated that estimates of the present scale of money laundering transactions are almost beyond imagination (about 2 to 5 percent of global GDP). Money laundering is the after effects of international corruption, and efforts to curb money laundering can help to minimize corruption. The linkage between those who take bribe must find safe international financial channels through which they can bank their ill-gotten gains. Those who provide the bribes may well assist the bribe takers to establish safe financial channels to launder the cash. Majority of the world's largest banks all of which are headquartered in the leading industrial countries are used in the global money laundering game.

The objectives of the Money Laundering Act are to criminalize the laundering of the proceeds of organized crimes and to check the incidence of financial malpractices in the country, the proceeds of which are usually siphoned to other countries. It is against this backdrop that this paper attempts to look at money laundering act as a tool for monitoring deposits and frauds, causes of frauds and financial

malpractices and prevention. Section 1 of this paper, therefore discusses the statement of problem and scope of study. Section 2 focuses on the theoretical or analytical framework while Section 3 contains the research methodology and model specification. Section 4 dwells on data presentation and analysis. The paper ends with conclusion and recommendation.

## **1.2 PROBLEM STATEMENT**

Globally, and in Nigeria today, money laundering is the process by which illegitimate business are channeled into the financial system in order to conceal their true origin. Fraud perpetrated in the banking industry through money laundering has been a concern to the shareholders, regulatory authorities and the public at large. Frauds constitute a threat to the continued corporate existence of an organization. The growth of bank frauds over the years has constituted a worrisome issue to individuals and corporate individuals. This is because majority of the stakeholders, retirees, customers, present employee e.t.c rely on the banks for payment. Stemming the tide of bank frauds will go a long way in alleviating the economic hardship being experienced currently by these categories of citizens and would help again in reassuring the stakeholders, raising their confidence level in the system and avert the revocation of a bank's license.

## **1.3 SCOPE OF THE STUDY**

This study is limited to insured banks in Nigeria, commercial and merchant banks inclusive. Insured banks have their deposits liabilities insured with the Nigeria Deposit Insurance Corporation (NDIC). The findings of this research will be very useful to the regulatory authorities to know if there is significant improvement since the introduction of MLA in 1995 and also in applying the Money Laundering Act to bank and non-bank financial institutions in the future

## **2.1 ANALYTICAL/THEORETICAL FRAMEWORK**

From inception of the **Money Laundering Act in 1995**, the bank and other financial institutions had no legal obligation to verify the source of funds or to report the lodgments of suspicious or very huge amount of money to the authorities. The implication of this lapse was that the financial institutions are

legally incapacitated to perform their patriotic duties as good corporate citizens by instantly reporting suspicious deposits to the authorities. Money Laundering has continued to eat deep into the economic and social fabric of our society, living in its trail, a battered and heavily debilitating socio-economic structure.

**The Money Laundering Act No. 3 of 1995 (as amended in 2003)** came into force on 28<sup>th</sup> February 1995. It is meant to check the illegal drug trade and other drug related criminal activities. It will also ensure that the beneficiaries of this drug trade will not be able to convert the ill-gotten wealth without concrete evidence of the source of such monies. In accordance with the provisions of the Act, financial institutions are required to report to the Central Bank of Nigeria all international transfer of funds and securities in excess of \$10,000 (Ten thousand Dollars) in and out of the country. They are also to report any suspicious transactions regardless of the amount involved to both the CBN and the National Drug Law Enforcement Agency (NDLEA) within 7 days of any lodgment, be it cash or cheque, in excess of N500, 000 (Five hundred thousand Naira) for an individual and N2 million (Two million Naira) per body corporate. The Act empowers the NDLEA to call for the records of financial transaction from any financial institution. The Agency can also freeze any bank account pending the outcome of an investigation. Penalties prescribed in the Act for violation of any of its provisions include imprisonment of between 15 and 25 years. According to Osilowo (2004:2) the stages of money laundering can be categorized into three:

- (1) Placement – This involves the physical disposal of cash proceeds derived from illegal activity
- (2) Layering - Separating illicit proceeds from their source by creating complex layers of financial transactions designed to disguise the audit trail and provide anonymity.
- (3) Integration – The provision of apparent legitimacy to criminally derived wealth. **Section 2** of Money Laundering Act provides for full disclosure of \$10,000 and above or its equivalent for domiciliary account and **Section 6** requires disclosure of suspicious transactions. All suspicious transactions should be promptly reported to the NDLEA

**Section 10 (1)** requires a financial institution to disclose and report to the Agency in writing within 7 days, any single transaction, lodgment or transfer of funds in excess of (a) N2,000,000 or its equivalent, in the case of a body corporate.

**Section 14** of the MLA 1995 creates an offence of assisting a drug trafficker to retain the benefits of his proceeds. This is punishable by a maximum of 25 years imprisonment or a fine or both.

**Section 15** of the MLA 1995 states that where a director or employee who tips off owners of the funds or any person who destroys or removes a register or record required to be kept under the Act or any person who makes or accepts cash payment for a transaction of an amount in excess of N500,000 or its equivalent for an individual and N2m or its equivalent for a body corporate or being a bank fails to report a transfer or from a foreign country of a sum greater than \$10,000 to the CBN and NDLEA, or being a bank fails to identify its customers in accordance with the provisions of the Act shall be punishable by a maximum of 25years imprisonment or a fine or both while a bank that contravenes this section may have its licence revoked. **Section 21** provides banks with protection from suit by customers for breaches of confidentiality and allows the NDLEA to give consent to continue to operate an account after suspicious activity has been disclosed to the authorities

**Section 2 of MLA 1995** as amended in 2003; provides for disclosure of transactions of \$5000 and above for domiciliary account customers, Section 3 provides that any person or financial institution that fails to comply with the requirement of customer identification and the submission of returns within 7 days from the date of the transaction is liable to a fine of N1m for each day the offence continues. In addition, a bank's licence can be revoked. The above does not preclude other sanctions to be meted out by the regulatory authority. The disclosure requirements for Section 10 have now been amended to N5m (corporate) and N1m (individuals) from the existing figures of N2m (corporate) and N500, 000 individuals. According to CBN annual report and statement of accounts (2003:15-16) survey conducted to ascertain the level of compliance by banks with the provisions of the ML Act No.3 of 1995, as amended revealed some lapses on the part of banks.

They included non-disclosure of reportable transactions, late, incomplete or non-remittance of returns; and inadequate or poor customer identification. The incidence of frauds and forgeries persisted in 2003. There were 1,036 reported cases of fraud and forgery involving N3.6 billion, \$3.5 million, DM 120 and Euro 895.0. Out of this number of incidents, 369 cases of fraud were successfully perpetrated and resulted in losses to banks amounting to N1.5 billion, \$271,882, and Euro 895. By NDIC's (2002) analysis, seven commonest types of fraud and forgeries cases are presentation of forged cheque, granting of unauthorized loans, posting of fictitious credits, suppression of cash/cheques, fraudulent transfer and withdrawals, outright theft and loss of money to armed robbers.

The Concise Oxford Dictionary of current English (1974:485) defined fraud as deceitfulness, criminal deception and use of false representations. Hur-Yagba (2003:83) opined that there is a general consensus among criminologists that fraud is caused by three elements called: Will, Opportunity, Exit (WOE) i.e. the will to commit frauds by the individual, the opportunity to execute the fraud and the exit which is the escape from sanctions against successful or attempted fraud or deviant behavior. According to Harrell cited in Financial Standard (2003:11) he argued that no matter what we do in life, if we have a positive attitude, we would always be 100 percent in all human endeavors. This is even evident in the numerical value of the word "Attitude". We can check this by assigning value to each letter; **A=1... Z=26 isn't Attitude =100**. Harrell's work and experiences is from established psychological and behavioural research, for gaining control of our carrier. Gire (2005:4-5) posited that attitude tend to vary in strength-some being much stronger or weaker than others. The importance of determining the strength of an attitude lies in the fact that strong attitudes are presumed to be more difficult to change. People tend to hold attitudes only toward objects that exist in their psychological world.

The tripartite models of attitudes –the affective, behavioral tendency and the cognitive components have implication for attitude change. The cognitive component refers to one's

knowledge or beliefs about the attitudinal object, the affective component relates to a person's feelings about the object while the behavioral tendency component relates to the predisposition to act in a certain manner toward the object of attitude. These variables have strong implications on Nigerian attitude to fraud.

Chizea (1991:22) explained fraud as any premeditated act of criminal deceit, trickery or falsification by a person or group of persons with the intention of altering facts in order to obtain undue personal monetary advantage. He mentioned the following as typical manifestation of fraud: cash thefts from the tills of bank by staff, forgeries of a customer's signature, use of forged cheque to withdraw money from his account with the bank, unauthorized and illegal transfer of fund from a customer's account, opening and operating of fictitious (ghost) account for illegal transactions, lending to fictitious borrowers through fictitious account opened at a branch, suppression of cheque by disloyal staff, payment against unclear effects, granting loans without adequate information and security from borrowers or lenders. The list is endless.

In his contribution, Kolawole (2003:56) attributed cases of frauds in the banking system to unskilled employee who are not professionals; our legal system that prolong cases of fraud for too long making room for undue interference. Atijosan (1993:29) also stated that frauds could be carried out through addition of fictitious transactions, altering transactions through wrong posting of accounts and deleting transactions by omitting specific accounts. Archibong (1993:23) noted that the long-term survival and growth of any organization depends on how the issue of fraud and fraudulent practices in any organization is handled. Ojo (1997:80-83) stated that the current economic downturn, unstable political environment and fragile financial outlook in Nigeria require adequate preventive and control tools to manage the banks and other institutions and enterprises. The notable efforts made by the relevant authorities to strengthen bank regulatory framework are:

- (i) The Accounting Standards for Banks and Non-banks financial institutions (Part 1) issued by the



Nigerian Accounting Standard Board (NASB), (ii) The Prudential guidelines for licensed banks issued by the Banking supervision Department of the CBN on 7<sup>th</sup> November, 1990, (iii) The adoption of International agreement on bank's capital adequacy or Basle Accord on capital adequacy. These measures were meant to stem the tide of bank failures by establishing standard policies to regulate banking business. Accountants, bank professionals through the audit and inspection unit could assist in putting in place and ensuring compliance with the required internal control systems and procedures to tackle the problem of frauds and related financial malpractices. Section 32 of the Nigerian Deposit Insurance Corporation (NDIC) Act No.22 of 1988 (as amended) stipulated "any licensed bank or such other financial institution which insures its deposits with the corporation shall be required to provide fidelity bond coverage". The fidelity insurance policy covers frauds and forgeries committed by staff of insured banks. The insurance policy is intended to reduce the adverse effect of insider frauds and forgeries on the banks. Therefore, it is expected that all insured banks be expected to take up fidelity insurance cover and renew it on annual basis.

## **2.2 CAUSES AND PREVENTION OF BANK FRAUDS**

Chizea (1991) and Atijosan (1993) opined that computers are used to perpetrate fraud and it is sometimes referred to as computer fraud. Computer fraud entails input manipulation, operations manipulation, and file manipulation, program manipulation e.t.c .The use of computers and on-line banking has facilitated money-laundering activities in the financial system. Bank frauds have assumed various dimensions the world over. Employees who are reflection of the larger society assist in consummating bank frauds. Some of the causes of fraud are discussed below. By NDIC's (2002) analysis, seven commonest types of fraud and forgeries cases are presentation of forged cheque, granting of unauthorized loans, posting of fictitious credits, suppression of cash/cheques, fraudulent transfer and withdrawals, outright theft and loss of money to armed robbers.

The causes of money laundering can be represented in a linear mathematical model:

$$ML = f(x) \dots\dots\dots\text{equation (1)}$$

Expressing this in a linearly econometric form, we have

$$ML = b_0 + b_1X_1 + \mu \dots\dots\dots\text{equation (2)}$$

Further expressing this in an explicit form, we have

$$ML = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + b_7X_7 + b_8X_8 + b_9X_9 + \mu$$

Where ML = Money Laundering

$b_0$  = Intercept

$X_1$  = Lack of Experienced and adequate personnel

$X_2$  = Internal Audit and Control

$X_3$  = Inadequate Book Keeping/Accounting Procedure

$X_4$  = Poor credit administration

$X_5$  = Inadequate job rotation/Segregation of duties

$X_6$  = Ineffective bank Management

$X_7$  = Poor Knowledge of the Job/Clearing fraud

$X_8$  = Delay Justice

$X_9$  = Moral decadence and Wrong value system/Society expectation

$\mu$  = Stochastic disturbance term

According to apriori expectations,  $b_1, b_3, b_4, b_5, b_6, b_7, b_8, b_9 > 1$

$$b_2 < 1$$

It is important to note that the above model is specified in order to discuss the determinants of money laundering, not for a data analytical purpose. The causes of the factors leading to Money Laundering activities are discussed below:

**(i) Lack of Experienced And Adequate Personnel**

In view of rapid expansion in the banking industry in the mid '80's, provision was not made to train bankers to fill the personal shortage. This led to the dilution of standards and professionalism was thrown to the wind. Honesty and integrity, which are the hallmark of banking, took a secondary

position. This is reflected in the lack of competent hands among the management cadres of liquidated and distress bank. The CBN and the Chartered Institute of Bankers of Nigeria should assist to bridge the gap by assisting to train the required personnel for the banking industry.

**(ii) Internal Audit And Control**

There is absence of internal auditing procedures to ensure compliance with standards. This has contributed to bank loses as a result of inefficiencies, inaccuracies, irregularities and willful manipulations. There is the need to ensure that there exists an independent and competent internal audit or inspection unit. Systems of control must be put in place to safeguard assets, accuracy and reliability of the records. The need for an independent and competent internal audit or inspection unit becomes very relevant.

**(iii) Inadequate Book Keeping/Accounting Procedure**

Improper bookkeeping record gives rise to an unhealthy meddlesomeness. This has led some accountant and auditors comprising ‘doctoring’ or window dressing financial statements to present a rather distorting or misleading state of affairs of enterprises being serviced by colluding with bank management. There should be strong accounting controls and security measures, which are subject to periodic re-assessment for the continued good health of the organization. The supervisory control arm of the CBN should be strengthen to check inconsistent accounting policies and practices in banks. This would in the long run pave way for comparison of bank performance.

**(iv) Poor Credit Administration**

This is the bane of many Nigerian banks. Many loans granted are not properly appraised. And this as resulted in an increase in volume of non-performing assets or bad debts putting many banks in precarious financial situations. Cases abound of unauthorized lending and lending to ghost borrowers. The Failed Bank (Recovery of Debts) and Financial Malpractices in Banks Decree No. 18 1994 should be strengthened while the Economic and Financial Crime Commission (EFCC) should operate as an

independent unit of the government to enable it deal with cases of Advance Fee Fraud ‘419’ whose transaction sometimes passes through bank.

**(v) Inadequate Job Rotation/ Segregation of Duties**

Where a staff stays too long on one schedule, it provides an opportunity to commit and cover frauds. Also where schedules meant for different individuals are cumulated in one person, it gives an opportunity to also commit fraud. Bank management should avoid an individual with too much jobs by employing individuals to fill the gap.

**(vi) Ineffective Bank Management**

Some of the top management staff lacks knowledge of principles and practice of management such as planning, control, directing, coordination and supervision. Thus, they exhibit poor judgment and promote fraudulent behavior. Bank management requires training, retraining and re-orientation on values.

**(vii) Poor Knowledge of The Job**

Some bank employees exhibit lack of knowledge of their duties and responsibilities and therefore easily fall prey to fraudsters. There is need for training and retraining of employees.

**(viii) Clearing Fraud**

All parties in the clearing system such as drawer, presenting/collecting bank, paying/drawee bank must comply to clearing guidelines. Clearing fraud is an unlawful conferment of financial or monetary benefit upon any person through the clearing system to which that person otherwise would not be entitled. These include presentation of spurious instruments on other banks that is fake or forged cheque; drawing instruments on unfounded accounts by a bank and/ or with the connivance of customers of the banks; issuance of bank drafts, manager cheque and bankers payments to other banks. When there is insufficient funds in the bank account to accommodate the instrument; and wrong presentation of instruments of high value on other banks with fraudulent intent. To minimize the incidence of clearing fraud, there should be an enabling environment for employees to work. This

implies clean environment, centralize waste disposal, good equipments such as good photocopiers, air conditioners in good working order and adequate, employment of high calibre staff/officials assigned clearing duties with good track records, motivation of staff to avoid temptation, accountability of lines of authority must be clear and supervision and control are very essential in a clearing environment

**(ix) Society Expectation**

The unquestioning attitude towards who are involved in frauds/sudden wealth especially from bank staff that eagerly yearns to meet rising society expectation. There is the need by the larger society to change their value system by questioning sources of all wealth. This measure would require government support.

**(x) Delayed Justice**

The lack of adequate capacity to detect, investigate and prosecute reported cases of fraud by the law enforcement agents. The judiciary is often slow in dispensing cases of fraud and the non-disclosure of frauds and lack of cooperation from the affected institutions because of the adverse publicity it brings to them encouraged bank employees to engage in frauds.

**(xi) Other Issues**

The list of frauds and forgeries in the banking industry is by no means exhaustive in this paper. However, it is pertinent to mention that bank staff need to comply with operational guidelines, code of conduct, while management need to be security conscious to protect their assets. Banks must render statements Account to their customers in order to resolve differences that are fraud suspect. Special Squad at the state and federal intelligence division of the Nigerian police should be trained and retrained to deal with cases of fraud. Staff dismissed in banks on account of fraud should be circularized to other banks to prevent re-employment. All bankers irrespective of their status should be registered with the Chartered Institute of Bankers of Nigeria so that the institute can watch over their activities and can summon anyone to the disciplinary committee on account of fraud. Others include:

**MORAL DECADENCE:** High moral decadence and get rich quick syndrome are some of the causes of financial malpractice in the banking place; employees suspected to have these traits are placed under surveillance. These categories of employees exploit the slightest opportunity to commit fraud.

**WRONG VALUE SYSTEM:** The society places too much emphasis on material wealth to the extent that we failed to question how individuals come by their wealth. A way out is to question individual's sources of wealth.

**INSECURITY AND TEMPORARINESS OF EMPLOYMENT:** Empirical studies by (NDIC) have proved that employees with less security and temporary status are more prone to committing fraud in the bank than those with permanent employment who have a lot at stake. Many frauds in the bank have been linked to staff on industrial attachment, casual workers and even youth corpsers. Temporary staff should be converted to permanent staff within the shortest possible time.

**WEAK INTERNAL CONTROL:** Fraudsters are experts in exploiting the loopholes in the control systems of an organization to defraud. Appropriate measures must be put in place to detect lapses as quickly as possible for remedial action

### **3.1 RESEARCH METHODOLOGY AND MODEL SPECIFICATION**

This section seeks to highlight or spell out in detail the research design adopted in the entire study and to test the hypotheses formulated. The data collected for this study is historical and consists of annual reports of Nigeria Deposit Insurance Corporation (NDIC) - various issues on the subject matter (See table 1 below). The least square method is adopted in the data analysis and also to test the relationship between the variables formulated in the hypotheses. The remainder of this section is divided into various sub-sections scope, hypotheses, model specification, measurement of variable and data sources, data analysis, presentation and results.

## Scope

The period covered in this study is 1989-2004 and the data were obtained from NDIC Annual Reports. The analysis covers only the insured commercial banks and merchant banks. Insured banks are those that insure their deposit liabilities with the Nigerian Deposit Insurance Corporation through the payment of premium. Descriptive analysis is adopted with the aid of statistical tables.

## Test of Hypotheses

- (i) Ho: That there is no significant relationship between deposits before and fraud between 1989 -2004.
- (ii) Ho: That there is no significant relation between deposits and actual loss between 1989 – 2004.
- (iii) Ho: That there is no significant relationship between deposits and MLA between 1989 – 2004.

## Model Specification

In an attempt to investigate the relationship between deposits on the one hand, fraud, actual and money laundering on the other hand, this study adopts a disequilibrium model which takes into account only the state of affairs of insured banks in Nigeria. In this dimension deposits mobilization for insured banks, is postulated as a function of fraud, actual loss and money laundering act. Therefore, the model specification is represented as:

$$Y = a_0 + a_1F_1 + a_2L_2 + a_3ML + \mu \quad \dots\dots\dots \text{Equation (1)}$$

Where D = Deposit

F = Fraud

L = Actual /expected loss.

M = Money Laundering Act of 1995, being captured with a dummy.

$\mu$  = Stochastic or disturbance term.

The a priori expectations are stated mathematically below:

$$\frac{\partial D}{\partial F} < 0$$

$$\frac{\partial D}{\partial L}$$

$$\frac{\partial D}{\partial M_L} < 0$$

$$\frac{\partial L}{\partial M_L}$$

$$\frac{\partial D}{\partial M_L} < 0$$

$$\frac{\partial M_L}{\partial M_L}$$

### **Measurement of Variable And Data Sources**

For the purpose of estimating equation 1, the least square method is used to ascertain the impact of bank fraud on deposit for insured banks (As shown in table 1). It is assumed in this study fraud has inhibited deposit mobilization in insured banks in Nigeria. This implies that there is a indirect relationship between frauds for insured banks and deposit mobilization and actual loss in a year. The figures for uninsured banks, though not reflected in the data are held constant. This would assist us to show the relationship between frauds, actual loss and deposit mobilization for insured banks. The sources of various secondary data used in this study are the Nigeria Deposit Insurance Corporation (NDIC-various issues). These data covers the period 1989- 2004.

### **4.1 DATA ANALYSIS, PRESENTATION AND DISCUSSION**

$R^2$  represents the proportion of total variability in the observed value that is explained by the multiple regression of deposits, fraud, actual loss and money laundering Act. Since  $R^2 \neq 0$ , this implies that the model explains the variability which suggests that fraud, actual loss and money laundering act are significantly related to deposits in their present linear form. In fact, using the second regression (table 3) which is the version that we got when we corrected the regression (table 2) for auto-correlation, the  $R^2 = 0.99$ . This implies that approximately 99% of the variability in the observed deposits is explained by fraud, actual loss and money laundering act on the other hand. Conversely, 1% of deposits variability is



unexplainable by the fitted regression model. It is pertinent to note that the larger value of  $R^2$  is a good sign that fraud, actual loss and money laundering act are useful in explaining a considerable proportion of the variability in deposits.

However, we should not judge the adequacy of the fitted regression model solely on the  $R^2$ .

This leads to the analysis of F-test of the multiple regression model utility. Given that:

$H_0: a_1 = a_2 = a_3 = 0$  (The deposit model is not useful)

$H_1 : a_1 \neq 0$  (The deposit model is useful)

Test of significance  $F^* = 49.43$

Rejection Region (RR): For  $\alpha = 0.05$ , we reject  $H_0$ ; since  $0.05 > 0.02$ . The fitted regression model is strong enough to be used for prediction. Although the F-test indicates that the fraud, actual loss and money laundering act are useful explanatory variables in determining the amount of deposits, one should not conclude automatically that every independent variable in the model is individually useful as well. Thus, we test the hypotheses about the explanatory variables vis-à-vis the apriori expectation. It is important because the parameters of these arguments represent the additional contribution of the fraud, actual loss and money laundering act in accounting for changes in the amount of deposits, given the presence of the other independent variables in the model. With respect to the apriori expectations, all the independent variables conform correctly. In other words, the result of the regression model shows that fraud will have inverse effect on deposits; actual loss will have indirect impact on deposits; and the money laundering act will have direct and positive relationship with deposits. By implication, the higher the fraud cases, the lower the amount of deposits, the greater the amount of actual losses, the lower the amount of deposits, and the introduction of money laundering act will boost deposits considerably.

Given the standard errors of the fraud, actual loss and money laundering act, one can proceed to answer the question: which, if any, of these explanatory variables are unrelated to the amount of deposits? Our approach is to use the information in the sample estimator,  $a_i$ , to test the null hypothesis that  $a_i = 0$ . Accepting the null hypothesis suggests that either fraud, actual loss or money laundering act has no additional predictive value and therefore could be deleted from the fitted regression model. However, in this analysis, the rule of thumb adopted is that if  $a_i$  is less than one standard error away from 0, we conclude that the independent variable is not a significant predictor of the amount of deposits in the presence of the other two explanatory variables. By implication, from the result of the regression, the sample estimator of fraud is 0.0039795, which is less than one. This means that the inclusion of fraud in the fitted regression model is not a significant predictor of deposits in the presence of actual loss and money laundering act.

Furthermore, the result of our regression analysis shows that a unit decrease in actual loss will stimulate deposits by 15 million, holding fraud and money laundering act constant. Also, a unit increase in money laundering act will boost deposits by 225,908 million units holding fraud and actual loss constant. This leads us to the conclusion that actual loss and money laundering act are vital and significant factors in determining deposits.

Using the t-test for individual  $a_i$ ;

$H_0: a_i = 0$  (that is, each of the independent variable is unrelated to deposits, given the presence of the other explanatory variables in the model).

$H_i: a_i \neq 0$  ( that is, each of the independent variables is related to deposits, given the presence of the other independent variable in the model). Since the  $t_1$  are smaller than the tabular value of  $t = 2.160$  at the 5% level (two –tail test) and with 13df, we conclude that  $a_i$  are not statistically significant at the 5% level (that is, we cannot reject  $H_0$ , that  $a_0 = 0$ )

Out of four tests carried out on the fitted regression model, three of them show that the regression is very useful result in explaining variability in deposits. More importantly, it has been proved that money laundering act has a positive impact on the amount of deposits in Nigeria. In fact the money laundering act has boosted the post-1995 deposits in Nigeria.

## 5.1 CONCLUSION AND RECOMMENDATIONS

The boards of the insured banks had apparently failed to institute appropriate controls and sound management information systems for all facets of their banks operations; and this has contributed to rampant cases of fraud in insured banks. Some of the chief executives were known to have thrived in unethical and unprofessional conducts. Lending by management of amounts that were by far in excess of authorized limits, without the knowledge and concurrence of the board. Facts before the NDIC, the police, and the Decree 18 Tribunal revealed that massive frauds were perpetrated in all the failed and distressed banks. For example, a former Managing Director of Gamji Bank gave cash and properties worth over N103million, while he was being tried for stealing N57 million. According to THISDAY (2003:25) Investigation conducted by NDIC and accepted by CBN, revealed that the former managing director perpetrated fraud worth N1,086,438.33billion belonging to Federal Inland Revenue Service (FIRS).

From the hypotheses tested, the study shows that deposits of insured banks have significant influence on the explanatory variables for the period 1989 -2004.f We, therefore, **recommend** that bank manangement should strengthen their internal control system; employ qualified personnel to work in it. This would to a large extent help to rebuild the public confidence in the banking industry. The N25 billion recapitalization for banks fixed for 31<sup>st</sup> December 2005 would then be realizable because the banks would be in a position to mobilize the over N400 million outside the banking system. Leaders who occupy position always want to leave up to societal expectation of acquiring wealth illegally. The Money Laundering Act cannot succeed without attacking our wrong societal values. Ill-gotten wealth by individuals should be questioned so as to reduce the tendency to acquire wealth at all cost. The Economic and Financial Crimes Commission (EFCC) should be given all necessary support in arresting all forms of financial crimes in the society. This means that individuals (Nigerians) should willingly submit names of suspected individuals to the commission.

Going back to Harrell's analysis, fraudsters should take control of their destiny in their hands. They should shun financial crimes, understand the power of attitude, take control of their life, reframe from bad attitude, find the purpose of their existence, motivate themselves for positive work that would shape their destiny, see change as an opportunity and leave a lasting legacy on this planet.

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## APPENDIX

**Table 1: Summary of Insured bank's Deposit, Fraud and Actual/Expected Loss**

| Year | Y (Deposit)<br>N'000m | X (Fraud)<br>N'000m | Actual/Expected Loss<br>N'000m |
|------|-----------------------|---------------------|--------------------------------|
| 1989 | 50,200                | 104,967.74          | 15,341                         |
| 1990 | 43,411.40             | 804,196.90          | 22,482.10                      |
| 1991 | 59,436.90             | 388,512.70          | 26,678.60                      |
| 1992 | 88,218                | 411.75              | 73.11                          |
| 1993 | 144,791.00            | 2,543.00            | 750.60                         |
| 1994 | 177,373.80            | 3,399.39            | 950.65                         |
| 1995 | 210,945.60            | 1,011.36            | 229.13                         |
| 1996 | 258,968.10            | 160,068.00          | 375.24                         |
| 1997 | 314,185.50            | 3,777.90            | 227.44                         |
| 1998 | 392,478.25            | 3,196.51            | 692.85                         |
| 1999 | 569,798.48            | 7,404.28            | 2,780.06                       |
| 2000 | 838,592.56            | 2,851.11            | 2780.06                        |
| 2001 | 1,017,195.72          | 11,243.94           | 906.30                         |
| 2002 | 1,226,624.12          | 12,919.55           | 1,299.69                       |
| 2003 | 1,415,785.85          | 9,383.67            | 857.46                         |
| 2004 | 1,321,204             | 8,309.83            | 1,804.45                       |

Table 2. Ordinary Least Squares Estimation

```

*****
Dependent variable is D
16 observations used for estimation from 1989 to 2004
*****
Regressor          Coefficient          Standard Error          T-Ratio[Prob]
INT                99219.7              201950.0                .49131[.632]
F                  .025433              .037276                 .68230[.508]
L                  -1.2768              14.1574                 -.090185[.930]
ML                 629942.5             234315.6                2.6884[.020]
*****
R-Squared          .47545               R-Bar-Squared          .34431
S.E. of Regression 397761.5             F-stat. F( 3, 12)     3.6256[.045]
Mean of Dependent Variable 508075.6           S.D. of Dependent Variable 491218.8
Residual Sum of Squares 1.90E+12           Equation Log-likelihood -226.6993
Akaike Info. Criterion -230.6993          Schwarz Bayesian Criterion -232.2445
DW-statistic       .41013
*****
Diagnostic Tests
*****
* Test Statistics *      LM Version          *      F Version          *
*****
* A:Serial Correlation*CHSQ( 1)= 10.0413[.002]*F( 1, 11)= 18.5366[.001]*
*
* B:Functional Form *CHSQ( 1)= .0053599[.942]*F( 1, 11)= .0036862[.953]*
*
* C:Normality *CHSQ( 2)= .71633[.699]* Not applicable *
*
* D:Heteroscedasticity*CHSQ( 1)= 2.9603[.085]*F( 1, 14)= 3.1783[.096]*
*****
A:Lagrange multiplier test of residual serial correlation
B:Ramsey's RESET test using the square of the fitted values
C:Based on a test of skewness and kurtosis of residuals
D:Based on the regression of squared residuals on squared fitted values
Cochrane-Orcutt Method AR(2) converged after 20 iterations
*****

```

Table 3. Cochrane-Orcutt Method AR(5) converged after 54 iterations

```

*****
Dependent variable is D
16 observations used for estimation from 1989 to 2004
*****
Regressor          Coefficient          Standard Error          T-Ratio[Prob]
INT                318534.9             100626.1                3.1655[.008]
F                  -.0039795            .0059067                -.67372[.513]
L                  -15.9074             12.1381                 -1.3105[.215]
ML                 225908.5             187979.8                1.2018[.253]
*****
R-Squared          .99497               R-Bar-Squared          .97484
S.E. of Regression 75445.4              F-stat. F( 8, 2)     49.4342[.020]
Mean of Dependent Variable 508075.6           S.D. of Dependent Variable 491218.8
Residual Sum of Squares 1.14E+10           Equation Log-likelihood -129.7750
Akaike Info. Criterion -138.7750          Schwarz Bayesian Criterion -142.2517
DW-statistic       2.2299
*****

```

Parameters of the Autoregressive Error Specification





