GROWTH OF BANK FRAUDS AND THE IMPACT ON THE   NIGERIAN BANKING   INDUSTRY

BY
IKPEFAN, O.A (LECTURER) B.Sc (Hons), MBA, ACIB, ACA, FMNIM
DEPARTMENT OF BANKING AND FINANCE,
COVENANT UNIVERSITY, OTA

Tel:08053013418
e-mail **ochei_ikpefan@yahoo.co.uk**

JULY,2006

ABSTRACT

In recent past, there has been upward movement of bank frauds in Nigeria. For instance, the figure rose to N8 309.83billion in 2004 as against N 3399.39 billion in 1994 representing an increase of over 350%. This no doubt has lowered the confidence of the public and bank customers and hence the need for this research. 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.

INTRODUCTION

The issues of banking frauds, thefts, defalcation and forgeries have assumed unprecedented proportions and dimensions in the banking industry. Fraud in the Nigerian Banking industry is endemic and intractable. Fraud has its root firmly entrenched in the social setting and the extent of growth depends on our wrong sense of value we choose to cultivate in terms of acquisition of wealth. Therefore, the high propensity to defraud of the average Nigerian is the direct product of our materialistic society. The banks are merely a reflection of the society in which they operate. Ogbu (2003:42) stated that frauds in Nigerian banks continued on the rise in 2002 with 77 banks of the 90 in operation recording cases involving the sum of N12.9 billion. In 2001, the figure was 943 cases involving N11.2 billion. The NDIC report showed the actual loss to have exceeded the expected provisions for only N1.3 billion. Onyeogocha (2001:34) has attributed it to insider abuses and even board tussles. It was reported in NDIC 1996/7 Annual report and Statement of Accounts that the number of frauds reached a magnitude of N1,006 million in 127 cases reported in commercial banks and 587 cases involving N1,543 million. Hur-Yagba (2003:82) in his finding posited that majority of cases of fraudulent activities are designed with all the pretence of a bonafide action that they can easily pass undetected.

Aderibigbe (1999:12-13) in his study and findings on internal Audit functions and frauds opined that cashiers are the main perpetrators of frauds, closely followed by accounting clerks. The incidence of fraud perpetration by these categories of staff is much pronounced in the banking industry. The cumulative effect of all these is lost of public confidence in the banking industry and thus it was reported by (This Day July 11, 2004:35) that currently we have about

N400 billion outside of the banking system waiting to be mobilized. With the reported cases of frauds in banks this becomes a herculean task. There are escalating cases of reported clearing frauds in the country. It is not an understatement to mention that with the clamp down by the police force of the Advance Fee Fraud otherwise known as '419', perpetrators of the fraud have focused their attention on the clearing system.

Despite the action of the police, there is loss of customers, reduction in shareholders' fund as well as erosion of the bank's capital base and ultimately closure of some banks due to banks failures.

The revocation of license of Peak Merchant Bank limited in the first quarter of 2003 and Savannah Bank on 19th February 2002 were due to shady deals. Ikpefan (2003:23) in his paper pointed out that in a bid to come out of distress, Peak Merchant Bank collected Federal Inland Revenue Service (FIRS) cheque totaling N1,086,144.33 billion cleared through three commercial banks and converted the proceeds. Frauds has not helped discontinuity of distress in banks globally but has led to the closures of some banks in other part of the world and this phenomenon need to be checked in Nigeria if she need to advance politically, economically, industrially among the comity of nations. It is against this backdrop that this paper attempts to look at the growth of banks frauds in the banking industry with (facts and figures), causes and prevention of bank frauds and the impact on the banking industry. Section 1 of this paper, therefore discusses problem statement, objective of study and scope of the study. Section 2 focuses on theoretical framework/literature review. Section 3 contains the methodology and model specification while Section 4 dwells on data presentation and discussion of findings. The paper ends with conclusion and recommendation.

1.2 PROBLEM STATEMENT

In Nigeria today, fraud in the banking industry has been a topical issue not only to the shareholders, regulatory authorities but the public at large. This stem from the fact that frauds constitute a threat to the continued corporate existence of an organization. The growth of bank frauds over the years has constituted a problem. This is because all stakeholders, retirees, customers, present employee e.t.c rely on such system as a means of livelihold. Stemming the tide of bank frauds would 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 and raising their confidence level in the system. This become pertinent now that the present policy thrust of CBN is on intermedediation of excess fund outside the banking system estimated at about N400 billion. The overall result would have positive impact on the stakeholders in respect of the recently concluded recapitalization by way of heightening their confidence in the banking system.

1.3 **OBJECTIVE OF STUDY**

As stated earlier, there has been continued growth of frauds in the banking industry over the years, which has constituted a problem not only to shareholders, customers but to regulatory authorities and the general public. The purpose of this write-up is to conduct an empirical research into the growth of bank frauds, find out how much is involve, identify the causes, to test the impact of frauds on deposit mobilization, actual loss on insured banks and to proffer solutions especially now where many banks are facing distress which may ultimately lead to their closure.

1.4   THE SCOPE OF THE STUDY

This study is limited to insured commercial and merchant banks in Nigeria. The

study covers the period 1989- 2004 and the data for the analysis is obtained from the NDIC.

2.1 CONCEPTUAL FRAMEWORK/LITERATURE REVIEW

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**.Harell'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. 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 7th 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 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.

From 2002 NDIC Annual Report and Statement of Accounts, the required minimum insurance coverage for each bank is fixed at 15% of its paid up capital as at 31st December of the preceding year. From the banks returns cited in NDIC Report (2002) only 74 representing 82.2% responded as against 90 banks existing in 2001 with only 81who responded representing 90%. The return also showed that 55 insured banks, representing 61.1 percent of the total number of insured banks in operation had adequate cover in 2002 as compared to about 67.8% of insured banks in 2001, depicting a decrease of 6% points. Considering the unstable security environment in Nigeria replete with various dimensions of frauds, some banks are yet to take advantage of this safeguard to protest frauds and forgeries. It would be necessary for licensed banks to take fidelity insurance cover. It would not be farfetched to assert that the magnitude of bank frauds may have led to the drop in the overall balance of payments deficit and Gross Domestic Product from 10.20 percent in 1998 to 2.2 percent in 2003 (See CBN Annual Statement of Account 2003)

GROWTH OF BANK FRAUDS

Table 1 shows that there is a linear relationship between amount involved in fraud and deposit mobilize between (1989-2004)) for insured banks. This confirms the hypothesis in chapter three that fraud has a significant influence on deposit mobilization for insured banks. The actual loss does not commensurate with the amount of fraud between 1989-2004 while the

amount of fraud rose from N104,967m in 1989 to N12, 919.55b in 2002 and dropped slightly to N8,309.83b in 2004, amount of expected loss fluctuated between the period 1989-2004.From N15.341mm in 1989 it dropped to N227.44m in 1997 rose to N1094.55b in 2000 and then dropped to N854.46m in 2003 and rose again to 1,804.45b in 2004.(See Table 4). The proportion of total expected loss corresponds to the actual loss for the period. From table 3, out of a total number of 115 in 1994 only 40 had adequate coverage of their fund with NDIC leaving 75 uninsured banks unsafe in case of distress or outright closure of such banks. Because the spate of distress syndrome in the economy, the number of banks dropped to 89 out of which only 49 were insured were insured and adequately covered. The rest 40 uninsured banks were unsafe in case of distress or outright closure. Total number of reported cases of fraud rose from 170 to 850 in 2003.(See table 3 below).

Table 2 that, there was a steady increase in profit between 1999 – 2002 except in 2003, when it dropped to 82.324m (11.67%) this also led to a drop in the net interest margin, yield on earnings, returns on equity, returns on asset to 7.7%, 20.32%, 29.11%, and 2% respectively. The increase in bank fraud between (1989-2004) from table four does not show any linear relationship with profit before tax in table two while fraud dropped by 27.37% in 2003, profit before tax dropped marginally by only 11.67% in 2003.This also does not depict any linear relationship. The funding cost shows an increase between 1998-2003 in agreement with the increase in fraud in the same period except in 2003 when funding cost dropped by 26.20% almost at par with the decrease in fraud by 27.37%. Despite the increase in fraud, there is an overall increase in non-interest income during the period covered. It rose from N57,135million in 1998 to N162, 044m in 2003.

TABLE 1 BANK'S STAFF INVOLVED IN FRAUDS AND FORGERIES (EXTRACT)

Rank	1998		1999		2000		2001		2002		2003	
	No	%	No	%	No	%	No	%	No	%	No	%
Supervisors &Managers	112	36.01	178	29.9	132	26.8	55	36.1	16	18.80	25	23.58
Officers Accountant & Executive Assistance	72	23.15	144	24.2	101	20.5	60	39.42	48	56.50	41	38.68
Clerks & Cashiers	82	26.37	92	15.4	137	27.8	30	19.74	13	15.30	25	23.58
Typists, Technicians & Stenographers	12	3.86	37	6.2	20	4.1	-	-	-	-	-	-
Messengers, Drivers, Cleaners, Security, Guards & Stewards	26	8.36	127	21.3	81	16.4	5	3.29	4	4.70	7	6.60
Temporary Staff	5	1.61	15	2.5	8	1.6	2	1.32	4	4.70	8	7.55
Uncategorised Staff	2	0.64	3	0.5	14	2.8	-	-	-	4.70	-	-
Total	311	100	596	100	493	100	152	100	85	100	106	100

TABLE 2 :*EARNINGS AND PROFITABILITY (EXTRACT)*

INDICATORS	1998	1999	2000	2001	2002	2003 N'000
Profit before tax (N'000	Not available	46,528	63,2266	95,124	93,203	82,324
Net Interest Margin (%)	11.16	10.73	9.12	11.55	10.47	7.71
Yield on Earnings (%)	17.55	4.64	4.62	27.37	27.55	20.32
Funding Cost (%)	8.09	9.42	9.47	11.37	13.05	9.63
Return on Equity (%)	86.08	80.59	99.45	114.29	41.63	29.11
Return on Asset (%)	4.42	4.13	3.96	4.82	2.63	2.00
Non – interest	-	57,135	85,418	111,968	121,233	162,044

Income (N'000)						

TABLE 3 : *BANKS RESPONSE TO NDIC FIDELITY INSURANCE COVER (EXTRACT)*

Year	No of Banks In Operation	No of Banks that complied	Total No of Fraud Cases	Total Amount Involved (N'000)	Actual Expected Loss (N'000)	Proportion of Total Expected Loss to Amount Involved (%)	No of Insured Banks with Adequate Cover. (C/M)
1994	115	72	170	3399.39	950.65	27.97	40
1995	115	73	147	1,011.36	229.13	22.66	42
1996	115	84	606	1,600.68	375.243	23.44	64
1997	115	68	487	3777.89	227.44	6.02	46
1998	89	70	573	3197.91	692.25	21.66	51
1999	90	54	195	73944.28	2730.06	36.87	34
2000	89	14	403	2851.11	1094.55	37.9	14
2001	90	81	943	11,243.94	906.3	8.06	61
2002	90	74	796	12,919.55	1,299.69	10.06	55
2003	89	56	850	9,838	854.46	9.13	49

CAUSES AND PREVENTION OF BANK FRAUDS

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

$ML = f(x)$ ……..equation (1)

Expressing this in a linearly econometric form, we have

$ML = b_0 + b_1 x_1 + \mu$ ………..equation (2)

Further expressing this in an explicit form, we have

$ML = b_0 + b_1 x_1 + b_2 x_2 + b_3 x_3 + b_4 x_4 + b_5 x_5 + b_6 x_6 + b_7 x_7 + b_8 x_8 + b_9 x_9 + \mu$

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

μ = 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 fraud activities are discussed below:

Chizea (1991) and Atijosan (1993) opined 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 Bank frauds has assumed various dimensions. Employees sometimes who are reflection of the larger society assist in consummating bank frauds. Some of the causes of fraud are discussed below. By NDIC's (2004:39) 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, cheques and cash defalcation, loss of money to armed robbers and outright theft of money. Some of the causes of fraud 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 missing gaps. 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 encourage and 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 pass 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 lack 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, and paying /drawee bank must comply with 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 photocopies, 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 involve in frauds/sudden wealth especially from bank staff that eagerly yearn to meet rising society expectation. There is the need by the larger society to change their value system by questioning source of all wealth. This measure would require government support.

(x)   Delay 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 Miscellaneous 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.

3.1 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 (Secondary).

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 disequilibrum 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:

$$Y = a_0 + a_1F_1 + a_2L_2 + a3ML + \mu \quad \ldots\ldots\ldots\ldots \text{Equation (1)}$$

Where D = Deposit

F = Fraud

L = Actual /expected loss.

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

μ = Stochastic or disturbance term.

The a priori expectations are stated mathematically below:

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

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

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

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 PRESENTATION AND DISCUSSION OF FINDINGS

This section deals with analysis of data presented in the table below. It invoked the use of some techniques of analysis such as the multiple regression analysis of the ordinary least square (OLS) method, the coefficient of regression, coefficient of determination, the T-test statistics, F-test statistics and the Durbin-Waston test..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.

Table 4: **Summary of Insured bank's Deposit, Fraud and Actual/Expected Loss**

Year	Y (Deposit) N'000m	X (Fraud) N'000m	Actual/Expected Loss 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

SOURCE: NDIC ANNUAL REPORT AND STATEMENT OF ACCOUNTS (VARIOUS ISSUES)

In fact, using the second regression of the appendix in (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.

TABLE 5: MAIN FINDINGS

MAIN FINDINGS
Dependent Variable: Deposit

		Explanatory Variable			Summary Statistics				
	Constant	F	L	ML	R^2	DW	F Stat.	Adj R^2	SSW
	318534.9	-0.60398	-15.9084	225908.5					
	(3.1655)	(0.06737)	(1.3105)	(1.2018)	0.99497	2.2299	49.4342	0.97484	1.14
Std Error	100626.1	0.005907	12.1381	187979.8					
Prob.	0.008	0.513	0.215	0.253			0.02		

*Indicates significant of 5% level.
Note- Values are in Parenthesis

Table 5 shows a summary of the regression model. 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 = 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_1 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.

Hi: $a_i \neq 0$ (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 N1,086,438.33billon 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. We, therefore, **recommend** that bank mananagement 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 will no doubt heighten the confidence of stakeholders in the Nigerian banking industry and if fraud is shunned it will also help in mobilizing the over N400 million outside the banking system. Leaders who occupy position always want to leave up to societal expectation of acquiring wealth illegally. For instance, 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.

REFERENCES

Aderibigbe, P (1999).   The Internal Audit Function And Fraud, ICAN News Vol.4, No. 1

Archibong, E.E (1993)   Fraud Prevention And Control: Whose duty, Journal of the Institute of

                Chartered Accountants of Nigeria, Vol XXVI, and No.2 April/June

Atijosan, Y (1993)   Panacea For Computer Fraud, Journal of the Chartered Institute of

                Accountants   of Nigeria, Vol. XXXVI, No.1, Jan/March

CBN (2002)   Annual Statements of Account

Chizea, B (1991)   Frauds in the Banking Industry, Journal of the Chartered Institute of

                Bankers of   Nigeria, Oct- Dec, ISSN 0189-6679

Financial Standard (2003)   Attitude is Everything, March 10, Vol. 4, No. 20

Gire, J.T (2005)   Attitude Change for National Development: A Challenge for

                Nigerian Psychologists, Being a Keynote Address Presented at the

                Annual Conference of the Nigerian Psychological Association, held at

                the Benue State University, Makurdi, June 2-4, 2005.

Hur-Yagba (2003)   Frauds in the Nigerian Banking industry, Abuja Management Review,

                Faculty of   Management Sciences, University of Abuja.

Ikpefan, O. A (2003)   Bank Distress: Concepts, Causes and Magnitude, Role of Trade Union

                and Bank   Management, Journal of the Chartered Institute of Bankers

                of Nigeria, Oct-Dec   ISSN 0197-6679.

Kolawole, S. E (2003)   How Legal System Increases Banking Fraud, The Guardian, February 3 NDIC
Report   Annual And Statement of Account (Various issues).

Ogbu, C (2003)   Banks Lose N13 billion To Frauds, The Punch, Vol.17, No. 18860

Ojo, A. T. (1997)   Finance And Accounting For Transparency, Journal of Nigerian Institute

                of Management,(July-December) Vol.33, Nos 3 and 4

Onyeagocha, S.U .O (2001)   Problems and Challenges of Nigerian Financial Institutions in Credit

                Operations, Journal of The Chartered Institute of Bankers of Nigeria,

                July- Dec, ISSN 0197- 6679

The Concise Oxford Dictionary English

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
```