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BANK FRAUD AND ITS EFFECT ON NIGERIAN ECONOMY- A STUDY OF SELECTED QUOTED BANKS

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ABSTRACT: *This study assessed the effect of bank fraud on Nigerian economy field survey research methods were employed in the study. Data were collected from the financial statements of the selected banks in Nigeria This study adopted both descriptive and inferential statistics to achieve the stated objective. The descriptive statistics used included measures of central tendency such as mean, maximum and minimum and measure of variability such as, variance and standard deviation. The inferential statistics adopted was OLS Model –Multiple Linear Regression Analysis. Customers' deposits and Bank distress were regressed on the various explanatory variables to determine the impact of banking fraud on the Nigerian economy. The study established that the relationships are significant and that the models can be used for meaningful analysis and decision making. Again it was ascertained that there is a great level of interaction between bank fraud and economic development of Nigeria. This research work has attempted to highlight the incidence and magnitude of fraud and some of its negative impact on the Nigeria economy. Fraud inflicts severe financial difficulty on banks and their customers. The study recommended that banks need to strengthen their internal control systems to be able to detect and prevent fraud and fraudulent activities and to protect its assets. The regulatory and supervisory bodies of banks in Nigeria need to improve their supervision using all tools at their disposal to appropriately check and curtain the incidence of fraud and fraudulent practices in the banking industry in Nigeria.*

KEYWORDS: Bank Fraud, Bank Distress, Gross Domestic Product, Per Capital Income

INTRODUCTION

Background to the Study

The banking industry is one of the most important financial institutions in Nigeria, and a central nervous system to the economy with special emphasis on its roles and challenges Dennis, (2013). The Nigerian banking sub-sector is a mainstay of the nation's economy as it is involved in the administration and marshaling of financial resources to various sector of the economy which allow the economy to grow and expand. The banking subsector, at times venture into project financing in the real sector of the Nigerian economy, this therefore, support the process of economic growth and development of nation CBN, (2009). Any tension therefore in this sub sector will cause serious distortion in the nation's economy.

This was experienced in the late 2007 till the end of year 2010 when the nation had a bitter experience of financial turmoil due to the financial recklessness of Banks' top management

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CBN, (2010). Prior to this period of financial turmoil in the banking sub-sector in the country, Nigerian bank is notable among other things for high recruitment of labour force Okpara, (2009) and in a bid to ensure an efficient and effective performance, banks get the best hands to handle daily transactions and activities. Huge amount are expended to carry out their recruitment exercise, and most often this may be outsourced to other human resources consulting firms, also when the recruitment and selection exercise had been done, they also commit fortunes towards training and retraining of staff member all of which is to improve the technicality and dexterity of each employee so that he/she could contribute immensely towards achieving the corporate goal of the bank. This has also enhanced the employment rate of the country and the contribution of the banking sector to marketing capitalization was also immense and remarkable CBN, (2009).

The financial crisis that rocked this sector few years back led to depletion of the solvency and capital base of some banks, evaporation of customers' confidence, decline in asset prices and reduction in the banks' assets which in turn eroded the equity base of these banks and also ignited the a new liquidity crisis and so on CBN, (2009). All banking crisis are different even if they share a common features, but the generally follow a period of significant credit expansion and a sharp rise in stock market in a largely self- sustained mechanism CBN Publication (2010). Notable among the causes that led to banking crisis in Nigeria are fraud, misappropriation of assets and insiders' abuse among other reasons which during this period made banks to be characterized by macroeconomic instability, slow growth in real economic activities, corruption and risk of fraud CBN Publication (2009).

Cases of fraud are on the increase in the Nigerian banking sector today, despite the clamp down on fraudulent bank executives by the Central Bank of Nigeria in 2010 CBN, (2010). Till date no effective measure can be said to have been put in place to prevent fraud in its entirety anywhere in the World Wikipedia, (2017). Many Nigerian commercial banks continue to accumulate high financial deposit base without actually effectively lending in a commensurate way to investors and business organizations in the real sector. Many a times the rules for lending are very stringent making the lending process very cumbersome for private businesses genuinely in need of access to capital for further production purposes. In the last quarter of the last decade bank regulation in Nigeria became so lapse that bank officials were able to accumulate private wealth of unthinkable proportions and commercial banks often found it difficult to distinguish between its assets and those of major shareholders who incidentally became the CEO of such banks leading to a high spate of banking irregularities particularly at the management levels in banks Paul, Ikpefan & Deborah, (2014). The banking sector has become one of the most critical sectors and commanding heights of the economy with wide implications on the level and direction of economic growth and transformation and on such sensitive issues as the rate of unemployment and inflation which directly affect the lives of our people CBN, (2010). Today, the very integrity and survivability of these laudable functions of Nigerian banks have been called into question in view of incessant frauds and accounting scandals. The incessant frauds in the banking industry are getting to a level at which many stakeholders in the industry are losing their trust and confidence in the industry Oseni, (2006). Also, the wave of fraud in Nigerian banking sector has lately become a source of discomfiture to the nation as apparent in the seeming attempts of the law enforcement agencies to successfully track down culprits Oseni, (2006).

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Fraud is the number one enemy of the business world. No entity or work is immune from it Nwankwo, (1991). The fear is now widespread that the increasing wave of fraud in the recent years, if not prevented might pose certain threats to economy and political stability and the survival of financial institution and the performance of the industry as a whole.

Banking business has become more complex with the increase advancement of information and communication technology, which has drastically changed the nature and mode of operational procedures of banks in Nigeria. This in turn has also changed the nature of fraud and fraudulent practices Uchenna & Agbo, (2013). Customers now heavily rely on the internet for major banking business and transactions Berney, (2008), this has led to a number of online transactions, which has also afforded fraudsters the opportunity to attack customers who are not physically in attendance on the web to substantiate transactions. Cases of various criminal activities are often spoken of, ranging from cheque fraud, cheque kitting, counterfeit cheques and counterfeit negotiable instruments. These fraudulent activities have bedeviled the banking industry in Nigeria. Evidence from the Nigerian Deposit Insurance Company NDIC, (2008), reveals that the report of the examination and special investigations showed that some banks were still inflicted with the menace of fraud, weak board and management oversight, inaccurate financial reporting, window dressing, poor book keeping practices, non performing credits, related party transactions, declining asset quality and attendant large provisioning requirements, inadequate debt recovery, non compliance with banking rules and regulations, and significant exposure to the capital market through share and margin loans. It has been said that one of the factors that impacted most on the performance of the banking system in Nigeria and consequently on the economy was the fraudulent practices Okpara, (2009).

Statement of the Problem

The central bank of Nigeria attributed the backward development in the nation’s economy to weaknesses in the internal control system and operational procedures of banks CBN, (2010). This has therefore given a picture of how fraud and other financial mismatch have eaten deep into the financial strength of Nigerian banks therefore, the damage which the menace of fraud do to financial sector in particular and the nation’s economy at large is immeasurable and grave. Hence the hazard of banking fraud to nation’s economy, the need for proper banking operation efficiency and an attempt to put an end to this economic degradation is a motivation for this study.

No known research work has dealt on the direct impact of banking fraud to Nigerian economy. The extant of literature are therefore saturated with knowledge on the impact of fraud to organizational performance, and with special emphasis on banking industries. The nature, types of fraud, the causes and its effect on the industry are mostly discussed in the present literature, and perhaps it influence on the micro economy. Little or no evidence is provided on the direct relationship of banking fraud on the nations’ economy, given the importance and the value that the sector has to Nigerian economy. These omissions in the literature therefore form a major gap in this study and it is against this back drop that this study is conducted to find out empirically the influence of that fraud and fraudulent activities have on economic variables such as Gross domestic income, per capital income and employment rate.

This study therefore, is an attempt to examine the extent to which banking fraud and other unethical practices have impacted on the national economy generally.

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Research Questions

What is the influence of banking distress on gross domestic income, unemployment rate and per capital income?

Objectives of the Study

Assess the influence of banking distress on gross domestic income, unemployment rate and per capital income.

Research Hypothesis

Distress of banks in Nigeria has no significant relationship with gross domestic income, unemployment rate and per capital income.

LITERATURE REVIEW

Conceptual Framework

Fraud can be described as diverse means used by resourceful people to get an advantage over another by suppressing the truth, trickery misinformation, false suggestions, cunning, deceit, and other methods by which to cheat. By extension, fraud is clued embezzlement, theft, or any attempt to steal or unlawfully obtain the assets of banks Bank Administration Institute, (1989). Employees, customers, in conjunction with others within and outside the bank can commit fraud. Frauds are not new in banks; they are as old as the industry itself Chieze & Onu, (2013). Therefore, it is not surprising when it is realized that many Nigerians have chosen to become a sudden millionaires by engaged themselves in all sort of manna and activities that is constitutionally and traditionally wrong all in the name of becoming millionaire overnight, as a result of this fraudsters launch different attack on the bank with the wrong notion that the banking industry is one of the most buoyant and the most profitable sector of economy. It is believe that the banks make a lot of profit annually and is always liquid. Consequently, any amount of financial loss to bank will not materially affects its operation/existence however, this is not correct, because the published accounts of some banks show that some of their banks cannot even fully provide for losses sustained through fraud in their accounts Idowu, (2009). In view of this, management control systems aimed at preventing fraud and reducing fraud to its beeriest minimum.

Fraud has been classified in various ways and using various parameters. However for the purpose of this research work, we shall employ the perpetrators criteria stated by Adeyemo (2012). A summary of the above shows that forgery is a type of frauds which falsify or manipulate documents. Basically it must be proved that: there is falsification in writing or alteration of an instrument, also that instrument is apparently capable of defrauding and intent to defraud. Experience has shown that most of such fraud is perpetrated by internal staff or by outsider who act in collusion with bank staff. These bank employees release the specimen signature of the customers being forged Nwaze, (2008).

According to Adebayo & Topson, (2014), the causes of frauds and other fraudulent activities can be classified into primary and secondary. While the primary cause of a problem are often overlooked in most cases, and the secondary causes are chased. This research work will try to discuss the primary and the secondary cases so that corrective measures may be taken to

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combat this menace. The primary causes of this economic dreadful conditions may linked to the general level of corruption, outrageous unemployment, serious social decadence, and wrong societal value system and deficient legal processes supported with bad governance. These causes are inter-related and with time they get holistic in nature. Corruption is an age-long phenomenon, and it is as old as human race. It has its root in all ideology, moral, culture, polity and intellect. It has eaten deep into the society to the point of losing sight of its detrimental and parasitic symbiosis with many polities including Nigeria and their citizens all over the world Akindele, (2005). Shogunle, (2012) gives some features to identify corruptions and they are any crime carried out primarily for economic gain; any crime requiring some form of organization (i.e. interaction, no one man show; any crime involving the use or non use or misuse of legitimate power, authority, force, techniques or commerce, industry or public service and administration. Derogatory value system and social decadence, which is also a form of a remote cause of fraud has plagued the country with misplaced value system; the sources of wealth of an average Nigerian is a thing of no consequence Adebayo & Tompson, (2014). While secondary cause of fraud are attributed to the direct consequences of the plaque of the primary causes and are often referred to as the immediate cause. Asukwo, (1999) listed the following as the causes of frauds in banks; Greed which is a drive to acquire gains far beyond one's income and immediate or long term needs; genetic cause, a hereditary characteristic passed from parents to offspring; poverty through poor income; poor internal control system which may include ineffective supervision, absence of timely audit, absence of operations manual, weak operational guidelines; lack of proper training causing incompetence and errors etc.; inadequate staffing – results in serious problem of work planning and assignment.

Banking Industry and Nigerian Economy

While many people believe that banks play only a narrow role in the economy taking deposits and making loans, the modern bank has had to adopt new roles in order to remain competitive and responsive to public needs. Rose, (1999) states that the banking industry principal roles today includes, the intermediation role which entails transforming savings received primarily from households into credit (loans) for business firms and others in other to make investments in new buildings, equipment, and other goods Dennis, (2013). The payment role is another important role of the bank towards the economic development of the nation, and it involves the process of carrying out payments for goods and services on behalf of their customers, such as by issuing and clearing cheques, remitting funds, providing a conduit for electronic payments, and dispensing currency and coin Anyaele, (2005).

Another role is the guarantor role banks stand behind their customers to pay off customer debts when those customers are unable to pay, such as by issuing letters of credit, while the agency role involves the process of acting on behalf of customers to manage and protect their property or to issue and redeem their securities, usually provided through the bank's trust department. Banks can also play a policy role serving as a conduit for government policy in attempting to regulate the growth of the economy and pursue social goals. Anyaele, (2005), highlighted the roles of banks in the economic development of Nigeria in and West Africa in general; He said that commercial banks make both short-term and medium term loans and overdrafts available to those involved in economic activities. Short term loans are advanced for the period of six months to one year. This loan attracts interest that is charged on the account. While medium term loans are given for the period of one to five years. This loan attracts interest that is charged on the account. An overdraft is a facility which allows trustful

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customers to draw more than the deposit they have in the bank. Banks charge interest on overdrafts.

Commercial banks through issuance of traveler's cheques and opening of letters of credit help in the development of international trade which contributes to the economic development of Nigeria in particular and West Africa in general Paul, Ikpefan & Deborah, (2014). Banks render expert financial advice to those engaged in various businesses that involved directly or indirectly in economic development activities, commercial banks also play significant role in food production by directly or indirectly giving agricultural loans to farmers, and sponsoring agricultural conferences/seminars Ogunleye, (2010). Banks offer employment opportunities in their banks to many citizens thereby contributing to manpower development and reducing the rate of unemployment in Nigeria and in West Africa in general Dennis, (2013). Banks discount bills of payments for their customers before their maturity dates; this help to make more money available for economic activities in a country, banks use the difference types of cheques provided them to assist in increasing economic activities and also making remitting of money easy. Commercial banks participate in the buying and selling of shares and stocks and Federal Government treasury bills which contributes in the development of money and capital markets which are important indices to economic development (Dennis, 2013; Adebayo & Topson, 2014).

Theoretical Framework

The Fraud Triangle Theory as described by Cressey, (1971) as a classical theory and designated the propensities for fraud as a triangle of perceived opportunity, perceived pressure and perceived rationalization. Every fraud executor is confronted with some kind of pressure or "need". Pressures that motivate individuals to commit fraud are financial pressures (high medical bills or debts), vices (drugs, gambling, and alcohol), and work-related pressures (high pressure for good results at work or a need to cover up someone's poor performance or to report results that are better than actual performance compared to those of competitors) and other pressures (frustration with the nature of work, or even a challenge to beat the system) Donald, (1986). This „need" or greed usually has a combination of other factors such as the opportunity and the attitude to commit the fraud. The executor of fraud must believe that he or she can commit the fraud without being caught (or if caught, nothing grave will happen) Abdullah & Mansur, (2015). The opportunity to commit fraud is possible when employees have access to assets and information that allow them to both commit and conceal fraud. Opportunities are provided by a weak internal control environment, lack of internal control procedures, failure to enforce internal controls and various other factors such as apathy, ignorance, lack of punishment and inadequate infrastructure (ACFE, 2010; Duffield & Grabosky, 2001; Levi, 2008). Access must, therefore, be limited to only those systems, information, and assets that are truly necessary for an employee to complete his or her job. The third driver of fraud is ability of the perpetrators to find a way to rationalize their actions as acceptable. Rationalization or Absence of guardians refers to the manner in which people think about their work, performance and contribution within the workplace Kiragu, Wanjau, Gekara, & Kanali, (2013). They, therefore, attach a value that they should derive from the company for being productive or delivering something of value. Absence of guardians, on the other hand, refers to the situation where there are limited or no processes in the organization to test the integrity of the financial information or processes. The absence of the integrity process includes an

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absence or ineffective role of internal auditors, external auditors, Board of Directors and reporting requirements – banks, regulators and appropriate management review.

Empirical Framework

Several researches have been undertaken in this area with each researcher giving a different view and results. Uchenna & Agbo, (2013) examined the impact of fraud and fraudulent practices on banks' performance in Nigeria. They found out that fraud inflicts several financial difficulties on banks and customers. This work however, failed to show the direct impact banking fraud and financial mismatch has on some economic variables such as gross domestic income, unemployment rates and per capital income, which are the main theme of this work. Also Ojeaga, Ikpefu & Odejimi, (2014) also investigated factors eliciting fraud in Nigerian banking sector. It was discovered that high bank deposit were primarily responsible for a high rise fraudulent occurrences in the Nigerian banking sector particularly management fraud, as most banks failed in their primary role of lending to the real sector of the economy and because of this there are excessive idle funds in the banks which necessitated management fraud and other insiders' abuse. Some other factors that were also jointly responsible for these occurrences include high interest rates, low commercial bank lending and poor oversight function by the Central Bank and other financial regulatory agencies. The work also failed to show the impact of these factors on the performance of banks and consequently of the nation's economy.

Asli & Emna, (1998) examined the determinants of banking crises: evidence from developing and developed nations in 1980-84. It was then suggested that crises tend to erupt when the macroeconomic environment is weak, especially when economic growth is low and the inflation rate is high. Also, high real interest rates are related with systemic banking sector problems.David, Lucey & Winne, (2015) also assessed banking and occupational fraud risk in Kenya, their findings showed a positive correlation between bank size and occupational fraud risk, also the result showed a significant influence of bank size on occupational risk in Kenyan commercial banks.

Table 1: Fraud and Forgery cases and amount of money lost by Nigerian Banks (2006-2015)

Year	No of Fraud and Forgery cases reported	Amount Involved (# billion)	Loss to Banks (#'billion)	No of Fraud cases that Led to Losses
2007	1193	4.6	2.6	612
2008	1553	10	2.9	825
2009	1974	24.49	3.7	746
2010	3852	33.3	7.0	656
2011	5960	19.7	11.4	357
2012	2527	29.5	5.8	498
2013	4371	16.72	6.7	591
2014	2472	31.09	9.6	482
2015	3439	22.71	10	513
2016	2308	17.92	12.3	308
Total	29,649	210.03	72	5,588

Source: CBN Annual Reports for 2007-2016

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Table 1 shows the fraud and forgery cases and amount of money lost by banks during the study period. The actual losses to banks grew steadily from 2007-2016.

METHODOLOGY

Research Design

This research work will be a quantitative study. The relationship between bank fraud and economic consequences on the nation, as depicted in the conceptual frame work, will be estimated using the correlation analytical tool and the effect of bank fraud and fraudulent activities in Nigerian banking sector on the economic variables will be estimated basically using time series econometrics models. Correlation will also be used to scrutinize variables of interest, so as to examine the existence or otherwise of multi-co linearity.

Besides econometrics models were estimated to obtain feedback effects of the impact of bank fraud and fraudulent activities on Nigerian economy.

Population of the Study

The list of quoted banks as released by the companies and the Nigerian Stock Exchange fact book from the first and second tier securities market is 15. The lists of all these banks are as follows:

S/N	BANKS
1	ACCESS BANK PLC
2	DIAMOND BANK PLC
3	ECOBANK PLC
4	FBN HOLDINGS PLC
5	FCMB PLC
6	FIDELITY BANK PLC
7	GUARANTY TRUST BANK
8	SKYE BANK
9	STERLING BANK PLC
10	UBA PLC
11	UNION BANK PLC
12	UNITY BANK PLC
13	WEMA BANK PLC
14	ZENITH BANK PLC
15	STANBIC IBTC HOLDINGS PLC

Source: NSE Publications, 2017

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Sample Procedures and Sampling Size

Sample of all the 15 Banks are considered over the period of 2005 -2014 using purposive sampling technique. The reason for the selection of this sampling frame was due to the availability of data, as it was expected that the selected banks was willing to furnish the researcher with the needed information, required to carry out this work, while the selection of the period was informed by the fact that year 2007 is a period after the consolidation exercise. This study therefore used 2007 as the base year in order to assess the level and impact of banking fraud at post-consolidation and also the data that will be collected between these years will still be recent.

Sources of Data

This work employed secondary source of data. Secondary data were obtained from the audited annual reports of the quoted banks in Nigeria, central bank of Nigeria, Nigerian Deposit Insurance Company and National Bureau of Statistics over the period 2007 – 2016.

Method of Data Analysis

This study adopted both descriptive and inferential statistics to achieve the stated objectives. The descriptive statistics used included measures of central tendency such as mean, maximum and minimum and measure of variability such as, variance and standard deviation. The inferential statistics adopted was OLS Model –Multiple Linear Regression Analysis and Analysis of variance (ANOVA).Customers' deposits and Bank distress will be regressed on the various explanatory variables to determine the impact of banking fraud on the Nigerian economy.

Model Specifications

Model for Banking Distress on Gross Domestic Income, Unemployment Rate and per capital income

The specific model for this study is as follows:

$GDP_t = f(Fr, Ls, Ml, e)$.................. (3)

$UR_t = f(Fr, Ls, Ml, e)$.................. (4)

$PC_t = f(Fr, Ls, Ml, e)$.................. (5)

This model can be expressed mathematically as follows:

$GDP_t = \beta_0 + \beta_1 Fr_t + \beta_2 Ls_t + \beta_3 Ml_t + e_t$.................. (6)

$UR_t = \beta_0 + \beta_1 Fr_t + \beta_2 Ls_t + \beta_3 Ml_t + e_t$.................. (7)

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$PC_t = \beta_0 + \beta_1 Fr_t + \beta_2 Ls_t + \beta_3 Ml_t + e_t$………………. (8)

Where: BD = Bank Distress

GDP = Gross Domestic Product

UR = Unemployment Rate

PC = Per Capital Income

e = Error Term

We also consider the impact of each of the indicators of economic variables and Bank Distress to determine the contribution of each of them to the result obtained in equation four.

Table 4a: Pooled OLS Regression Result of .Estimated GDP Model

Variables	Pearson correlation	Co-efficient	t-Statistic	P-value
Constant	1.	34185.258	1.543	.174
Amount fraud	.720	.720	2.591	.041
involve	-.096	-.045	-.162	.876
Actual Loss	-.116	-.134	-.482	.647
Money Laundry			2.333	
F-Statistic				.174
F-Significance			.734	
R			.538	
R^2			.308	
Adj R^2				.856
Durbin-Watson				

Source: Author's Compilation from SPSS, 2016. Version 20

Estimated GDP Model. Therefore, the fitted Regression Model is**:**

GDP = 34185.258 + 0.720 (Fr), -0.045 (Ls) -0.134 (Ml)

t-statistics (1.543)(2.591)(-.162) (-.482)

R^2 = 0.538

f-statistics = 2.333

Estimated Unemployment Rate Model

$UR_t = f(Fr, Ls, Ml, e)$………………………… (1)

$UR_t = \beta_0 + \beta_1 Fr_t + \beta_2 Ls_t + \beta_3 Ml_t + e_t$……… ……(2)

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Where UR = Unemployment Rate

Fr = Fraud in time t

Ls = Actual/Expected Loss

Ml= Money Laundry measured using Dummy variables

Table 4b: Pooled OLS Regression Result of Estimated Unemployment Rate Model

Variables	Pearson correlation	Co-efficient	t-Statistic	P-value
Constant	1.	17.846	4.296	.005
Amount fraud	.628	.649	2.268	.064
involve	.152	.202	-.282	.506
Actual Loss	-.259	-.282	-.989	.361
Money Laundry			2.094	
F-Statistic				.202[a]
F-Significance			.715[a]	
R			.512	
R^2			.267	
Adj R^2				.556
Durbin-Watson				

Source: Author's Compilation from SPSS, 2016. Version 20

Estimated Unemployment Rate Model. Therefore, the fitted Regression Model is **:**

UR = 17.846 + 0.649 (Fr), + 0.202 (Ls) -0.282 (Ml)

t-statistics (4.296)(2.268)(-.282) (-.989)

R^2 = 0.512

f-statistics = 2.094

Estimated (PCI) Per Capital Income Model

$PC_t = f(Fr, Ls, Ml, e)$………………………………… (1)

$PC_t = \beta_0 + \beta_1 Fr_t + \beta_2 Ls_t + \beta_3 Ml_t + e_t$………….. ……(2)

Where PCI = Per Capital Income

Fr = Fraud in time t

Ls = Actual/Expected Loss

Ml= Money Laundry measured using Dummy variables

e = error

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Table 4c: Pooled OLS Regression Result of Estimated (PCI) Per Capital Income Model

Variables	Pearson correlation	Co-efficient	t-Statistic	P-value
Constant	1.	1791.215	3.876	.008
Amount fraud	.738	.750	2.817	.030
involve	.079	.131	.492	.640
Actual Loss	.103	.126	-476	.651
Money Laundry			2.727	
F-Statistic				.137[a]
F-Significance			. .760[aa]	
R			.577	
R^2			.365	
Adj R^2				.974
Durbin-Watson				

Source: Author's Compilation from SPSS, 2016. Version 20

Estimated (PCI) Per Capital Income Model

Therefore, the fitted Regression Model is **:**

PCI = 1791.215 +.750 (Fr), + 0.131 (Ls) + 0.126 (Ml)

t-statistics (3.876)(2.817)(.492) (-.476)

R^2 = 0.577

f-statistics = 2.727

RESULT AND DISCUSSION OF FINDINGS

From the results analyzed in table 4a above, the independent variables (fraud involved, actual loss and money laundering) were perfectly both positive and negative correlated and hence there is multi-co linearity in the result with the dependent variable (GDP) constant with 1, fraud involved (Fr) at .720 , actual loss (Ls) at -.096 and money laundering(Ml) at -.116 respectively

From the results analyzed in table 4c above, the independent variables (fraud involved, actual loss and money laundering) were perfectly both positive and negative correlated and hence there is multi-co linearity in the result with the dependent variable (UR) constant with 1, fraud involved (Fr) at .628 , actual loss (Ls) at .152 and money laundering(Ml) at -.259 respectively

From the estimated (UR) Unemployment Rate model in table 4d above, we noticed that 51.2 percent influenced by change in unemployment rate is caused by change in Banking Distress of R^2. The remaining 48.8 percent is caused by variable that are not included in the model which is accounted for by the stochastic term. The result also conforms to a priori expectation because the parameter estimates of amount fraud involved, actual loss, and money laundry appears with positive signs, this means that there is relationship exist between bank distress and unemployment rate.

The economic implication of the result is that a one (1) percent increase in actual loss will result in 28.2 percent increase in the level of unemployment rate in Nigeria. Consequently, a 1 percent increase in money laundry will result in 98.9 percent increase in the level of unemployment rate as result of monies that supposed to be available to provide employment for general public had flight away of the economy of which contribute to high level of unemployment rate. In other words, the result of the regression model shows that fraud will have inverse effect on unemployment rate; actual loss will have indirect impact on unemployment rate; and the money laundering will have direct and negative relationship with unemployment rate, t-test shows that the parameter estimates of amount fraud involved is statistically significant and that of actual loss and money laundry is not statistically significant. In computing the Analysis of Variance (ANOVA) in the regression model, the f-statistics test computed for (fraud involved, actual loss and money laundering) showed a figure of 2.094 at 5% level of significance. Therefore with all these aforementioned explanations and analysis, it therefore implies that (fraud involved, actual loss and money laundering) have significant determinant on level of unemployment rate in the country.

Durbin Watson (Dw) test with values .556 respectively revealed that there is no existence of first order serial correlation in the model. Thus, the empirical results are suggestive; indicating that the hypothesized link between frauds involved actual loss and money laundering and unemployment rate.

Standard Deviation is a measure of spread of dispersion in the series. From the above table 4d the standard deviation for PCI, Fr, Ls and Ml are 622.17186, 2832.86620, 4528.99818, and 0.42164 respectively.

The result of the estimated PCI Per Capital Income model in table 4d above tell us that approximately 58 percent change in per capital income is influenced by change in fraud involved, actual loss and money laundering given the efficient of determination R^2 and the remaining 42 percent in per capital income necessitated by variables that are not included in the models which is accounted for by the random term e.

The result also conforms to our prior expectation because the parameter estimates of fraud involved (Fr), actual loss (Ls) and money laundering (Ml) appears with positive signs. This means that there is a direct relationship between bank distress and per capital income. The economic implication of the result is that a 1 percent increase in actual loss (Ls) will result in 49.2 percent decrease in per capital income . Also, a 1 percent increase in money laundering will result in approximately 48 percent decrease in per capital income. In other words, as the per capital income of the country for a particular year is measured by dividing the GDP by total population of the country, as result of inversely relationship between bank distress and GDP will also have changes influenced on per capital income of the country. The t-test and f-test also shows that the parameter estimates of fraud involved (Fr), actual loss(Ls) and money laundering (Ml) are statistically significant. This can be conclude by rejecting the null hypothesis and accepting the alternative hypothesis which states that there is a significant relationship between fraud involved (Fr), actual loss(Ls), money laundering (Ml) and per capital income.

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The Durbin Watson (Dw) test with values of 0.974 revealed that there is absence of serial correlation in the model.

From the results analyzed in table 4d above, the independent variables (fraud involved, actual loss and money laundering) were perfectly positive correlated and hence there is multi-co linearity in the result with the dependent variable (PCI) constant with 1, fraud involved (Fr) at .738 , actual loss (Ls) at 0.079 and money laundering(Ml) at 0.103 respectively

CONCLUSION

Base on the findings of this study, it could be concluded that there is a great level of interaction between bank fraud and economic development of Nigeria. This research work has attempted to highlight the incidence and magnitude of fraud and some of its negative impact on the Nigeria economy. Fraud inflicts severe financial difficulty on banks and their customers. It also leads to the depletion of shareholders funds and banks capital base as well as loss of customers money and confidence in banks. Such losses may be absorbed by the profits for the affected trading period and this consequently reduces the dividend available to shareholders. Losses from fraud which are absorbed by the equity capital of the bank impair the banks financial health and constrain its ability to extend loans and advances for profitable operations. In extreme cases, rampant and large incidents of fraud could lead to a bank's failure or distress.

The loss in funds affected the economy and it reduced the amount of money available to small or medium scale firms for developing the economy in which will increase level of unemployment rate, reduction in GDP and per capital income of the country. The costs of fraud are always passed on to the society in the form of increased customer inconvenience, opportunity costs, unnecessary high prices of goods and services and lack of infrastructure facilities that will aid the economy.

Fraud can increase the operating cost of a bank because of the added cost of installing the necessary machinery for its provision, detection and protection of assets. Moreover, devoting valuable time to safeguarding its assets from fraudulent men distracts management.

This unproductive diversion of resources always reduces output and low profits which in turn could retard the growth of the bank and economy. It also leads to a diminishing effect on the asset quality of banks.

RECOMMENDATIONS

In view of the devastating effect of fraud and fraudulent activities on the Nigeria economy, the following recommendations are suggested by the researcher:

a) Banks need to strengthen their internal control systems to be able to detect and prevent fraud and fraudulent activities and to protect its assets.

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b) The regulatory and supervisory bodies of banks in Nigeria need to improve their supervision using all tools at their disposal to appropriately check and curtain the incidence of fraud and fraudulent practices in the banking industry in Nigeria.

c) The Government, in every society, plays a key role in financial and other crime prevention. In this regard, the relevant institutions established to fight fraud including the Central Bank of Nigeria (CBN), Nigeria Deposit and Insurance Corporation (NDIC), Securities and Exchange Commission (SEC), National Insurance Commission (NAICOM), Economic and Financial Crimes Commission (EFCC), Independent Corrupt Practices Commission (ICPC), the Police, Judiciary, Standard Organization of Nigeria (SON), among others, should ensure the enforcement of various legal provisions in the fight against fraud in Nigeria.

d) Staff should not be allowed to stay on one function for long a period; they should be periodically rotated in order to avoid the possibility of exploring existing operational loopholes and short comings for personal gains.

f) Management should designed a software that will enable them to know the username used to checked both the running and dormant accounts with huge balance more than a time in a day. Reactivation of dormant accounts with huge balance should go beyond the normal laid down procedure and necessary sanctions should be melt out to an erring staff caught flouting the rules

g) The staff should be properly screened before they were employed and satisfactory references must always be obtained. Name, offence, state/local government of origin, institution and even the amount involves of terminated or dismissed staff of banks should be circulated among the other banks and published inside the national daily news.

h) The banks should always organize management and staff training so as to update their knowledge about effects of bank fraud. This can be achieved by attending financial crime awareness courses offer by accountancy firm, CBN, NDIC, NSE the police and other anticorruption agencies like, EFCC and ICPC

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