

DIGITALES ARCHIV

ZBW – Leibniz-Informationszentrum Wirtschaft
ZBW – Leibniz Information Centre for Economics

Akonye, Chinazu; Okaro, Sunday Chukwunedu; Okoye, Emma I.

Article

Litigation infraction charges and financial performance of deposit money banks in Nigeria

Provided in Cooperation with:

University of Benin, Benin City, Nigeria

Reference: Akonye, Chinazu/Okaro, Sunday Chukwunedu et. al. (2020). Litigation infraction charges and financial performance of deposit money banks in Nigeria. In: Accounting and taxation review 4 (2), S. 117 - 133.
https://www.atreview.org/admin/12389900798187/ATR%204_2_%20117-133.pdf.

This Version is available at:
<http://hdl.handle.net/11159/4690>

Kontakt/Contact

ZBW – Leibniz-Informationszentrum Wirtschaft/Leibniz Information Centre for Economics
Düsternbrooker Weg 120
24105 Kiel (Germany)
E-Mail: [rights\[at\]zbw.eu](mailto:rights[at]zbw.eu)
<https://www.zbw.eu/econis-archiv/>

Standard-Nutzungsbedingungen:

Dieses Dokument darf zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden. Sie dürfen dieses Dokument nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, aufführen, vertreiben oder anderweitig nutzen. Sofern für das Dokument eine Open-Content-Lizenz verwendet wurde, so gelten abweichend von diesen Nutzungsbedingungen die in der Lizenz gewährten Nutzungsrechte.
<https://zbw.eu/econis-archiv/terms-of-use>

Terms of use:

This document may be saved and copied for your personal and scholarly purposes. You are not to copy it for public or commercial purposes, to exhibit the document in public, to perform, distribute or otherwise use the document in public. If the document is made available under a Creative Commons Licence you may exercise further usage rights as specified in the licence.

ISSN: 2635-2966 (Print), ISSN: 2635-2958 (Online).

©International Accounting and Taxation Research Group, Faculty of Management Sciences,
University of Benin, Benin City, Nigeria.

Available online at <http://www.atreview.org>

Original Research Article

Litigation Infraction Charges and Financial Performance of Deposit Money Banks in Nigeria

Chinazu Akonye¹, Sunday C. Okaro², & Emma I. Okoye³

^{1,2 &3} Department of Accountancy, Nnamdi Azikiwe University Awka, Nigeria

For Correspondence, Email: akonyechinazu@gmail.com

Received: 17/05/2020

Accepted: 19/06/2020

Abstract

This study investigated the effect of litigation infraction charges (LICs) arising from the settlement of legal violations of agreed terms and conditions banking transactions with counterparties on the financial performance of Deposit Money Banks (DMBs) in Nigeria. Litigation Infraction Charges for DMBs comprises of Legal Professional Charges (LPCs) and court-imposed Charges (CICs). The specific objectives of this study are to ascertain; firstly, the effect of Legal Professional Charges (LPCs) on the financial performance of DMBs in Nigeria and secondly, the effect of Court-Imposed Charges (CICs) on the financial performance of DMBs in Nigeria. The study adopted the ex-post facto research design. This study made use of secondary data obtained from the Nigerian Stock Exchange factbooks, and Annual reports & accounts of the eight (8) sampled DMBs for its analysis. Purposive sampling technique was adopted to select eight (8) Domestic Systemically Important Banks (D-SIBs) according to the Central Bank of Nigeria (CBN) 2014 ranking for banks in Nigeria. The population consists of sixteen (16) DMBs whose shares were listed on the Nigerian Stock Exchange as at December 31, 2018. This study made use of Panel Least Square (PLS) regression analysis with the aid of E-View 9.0 statistical software. The results of the regression analyses showed that legal Professional Charges (LPCs), and court-imposed Charges (CICs) each has a significant negative influence on return on Equity of DMBs in Nigeria. The study recommends that deposit money banks should always abide by all terms, conditions and transaction dynamics agreed on terms with customers and counterparties. This will minimise substantial litigation infraction charges awarded to counterparties on legal violation settlements which affect the DMBs' financial performance. Also, deposit money banks should incorporate Alternative Dispute Resolution (ADR) in their transaction contract documents and also explore ADR option, which is cheaper than court legal proceedings.

Keywords: Litigation, Professional charges, Court-imposed charges, Domestic systemically important banks, Alternative dispute resolution.

JEL Classification Codes: M42, 43

This is an open access article that uses a funding model which does not charge readers or their institutions for access and is distributed under the terms of the Creative Commons Attribution License. (<http://creativecommons.org/licenses/by/4.0>) and the Budapest Open Access Initiative (<http://www.budapestopenaccessinitiative.org/read>), which permit unrestricted use, distribution, and reproduction in any medium, provided the original work is properly credited.

© 2020. The authors. This work is licensed under the Creative Commons Attribution 4.0 International License

Citation: Akonye, C., Okaro, S.C., & Okoye, E.I. (2020). Litigation infraction charges and financial performance of deposit money banks in Nigeria. *Accounting and Taxation Review*, 4(2): 117-133.

1.0 INTRODUCTION

Violation of terms, conditions and transaction dynamics by DMBs has been adduced as the major cause of increasing litigations involving banks with its attendant heavy monetary penalties arising from these litigations that affect the financial performance of DMBs in Nigeria. Despite the existence of policies, circulars, guidelines, regulations, off/onsite monitoring by the Central Bank of Nigeria, the issue of litigation infraction charges for settlement of damages on court judgments imposed on DMBs annually calls for concern. These litigation infraction charges: Legal Professional Charges (LPCs) and court-imposed Charges (CICs) arising from breach of counterparty agreed terms and conditions are drag-downs on the reported financial performance of the DMBs in Nigeria. Thus, Litigation infraction charges adversely affect shareholders' value maximisation creation in these banks in terms of their return on equity (ROE). However, despite the unprecedented adverse effect of litigation infraction charges on bank's financial performance, little or no attention, to the best knowledge of the researchers, has been given to the Billion of

Naira incurred as court-imposed charges or claims for damages from DMBs in Nigeria on legal infractions. While previous studies (such as Bhagat, Bizjak & Coles, 1998; Harwood, 2018; Ismaila & Damola, 2018; Goldstein, 2018; McNuly & Akhigbe, 2014; Nelson, 2017; Zeidan, 2012 & 2013) focussed on banks' illegal actions or misconducts, none of these studies, to the best knowledge of the researchers, considered the effect of legal infractions charges on the financial performance of DMBs in the Nigerian environment. This neglect by prior scholars to conduct a study on the effect of litigation infraction charges on the financial performance of DMBs in Nigeria prompted this research. This is the knowledge gap this study seeks to fill.

This paper is structured into five sections, with the first being the introductory section. Section two discusses the literature and develops hypotheses with emphasis on conceptual review, theoretical review and review of empirical studies. Section three harps on the methodology. This is followed by section four which focuses on estimation results and discussion of findings, and

finally, section five presents the conclusion and recommendations.

2.0 LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT.

Litigation Infraction Charges (LICs) and Banks' Financial Performance

Litigation infraction charges (LICs) are charges for settlement of claims and damages imposed on DMBs for litigation judgements against a bank for wrongdoing or legal violations. LICs are charges on DMBs for legal breaches. A fine is money that a court of law or other legal authority imposes on an individual or corporate personality as punishment for a crime or other offence; the amount of a fine can be determined on a case by case, but it is often announced in advance before offence is committed and adjudged (Bray, 2012). Litigation infraction charges are not operational business expenses, rather charges attracted by violations or illegal behaviours by individuals or agents of corporate bodies to serve as a deterrent to others. The legal personality of companies allows individuals, groups and corporate organisations who have suffered injuries due to unprofessional dispositions of DMBs to sue and claim damages on DMBs which in most cases are awarded by courts of law. Recently, Access Bank Nigeria Plc was fined N4.7 Million as damages for gross negligence, loss of business, general damages and cost of litigation over illegal debiting of a company's account, breach of trust and gross negligence in the way and manner a company's account was handled by the bank in conducting search Corporate Affairs Commission in addition to the restriction on the corporate account after account opening (Achor, 2020). The spate of these awards by courts has become a major concern to financial analysts and shareholders due to the frequencies,

amounts involved and the financial impact on DMBs' performance. Litigation charges are levies or penalties imposed on DMBs by the Courts for legal violation of various CBN circulars, regulations and policies, as well as Banks & Other Financial Institutions, Acts guiding their banker-relationship with their clients, customers and even employees. The DMBs disclose these charges imposed on banks by courts under the Litigation Liability Section (LLS) of the Banks' published annual reports (BOFIA, 1991). These litigation infraction charges are fully charged on the Statement of Comprehensive Income of these DMBs annually with their drags-down effect on financial performance. Bhagat, Bizjak and Coles (1998) reviewed the effects of corporate lawsuits on shareholders' wealth and the interactive effects of litigation on the corporation's external environment. They opined that irrespective of who brings a lawsuit charging a company for wrongdoing, be it a government agency, another corporation or a private citizen, the defendant firm suffers from statistically significant losses in its stock price.

Bhagat et al. (1998) further stated that the impact of lawsuits on shareholder dividends varied significantly with the type and severity of the lawsuit, among others. A business organisation's ethical actions are bound to generate additional costs which in a competitive environment may not lead to maximisation of shareholder value, may lead to more unethical behaviours being condoned by the investors and investment in ethical actions could provide financial benefits to the banks (Marsat & Williams, 2011). For example, avoiding environmental disasters, reducing waste and financial lawsuits may reduce future costs. The latter argument has been affirmed by Khaveshi, Nikhashemi, Yousefi and Haque (2012)

who opined that companies with a higher level of sustainability disclosure have higher share price and net profit. Harwood(2018)reviewed how challenging the litigation climate is for many of the World's banks and found that JPMorgan announced a \$400m loss for Q3 in October 2017 as the bank had set aside \$23 billion for litigation costs arising from series of regulatory investigations resulting in litigation and economic crisis-related suits. While this is not peculiar to JP Morgan alone, it is the same for other banks both internationally and locally, with the rising cost of litigation infraction charges yearly. According to Lloyd (2018),there has been a remarkable shift in the way that people view banks in the last five or six years and before the global economic crisis of 2007-2008, most people started from the point that banks were straightforward and honest, but now the whole climate has changed, banks' reputations have been tarnished, not only in the eyes of the public and press but also in the eyes of the judges. Therefore, litigation charges negatively affect the financial performance of deposit money banks in both intrinsic and extrinsic dimensions. It also tarnishes the reputational image for banks.

Litigation Infractions Charges (LICs)

Litigation infraction charges (LICs) are charges incurred by DMBs on the settlement of lawsuits claims and damages from litigation judgements over professional misconducts, gross negligence, breach of trust and general damages on violation of agreed terms and conditions in the banks' relationship with the general banking public. Litigation Infraction Charges comprises of Legal Professional Charges (LPCs) and court-imposed Charges (CICs). They are briefly discussed below:

Legal Professional Charges (LPCs)

LPCs are charges incurred by deposit money banks on bills of solicitors and lawyers who defended the banks on lawsuits on legal breaches with counterparties.

Court-Imposed Charges (CICs)

CICs are charges imposed on deposit money banks by law courts as compensations/settlements for damages claimed on litigations by counterparties.

Return on Equity(ROE)

ROE is a financial performance measure used to ascertain how much profit a company generates with the money ordinary shareholders have invested (Khan, Shaik, Shah, Zahid, & Shaik, 2017). The investors and corporate leaders use ROE to measure how much profit is accruable to owners of capital and to determine the returns on their investments; the higher the return or income earned, the better the position of the owner of the company (Purnamasari, 2015). According to Lingga and Tirok (2012), ROE is most the valued profitability ratio in evaluating stock returns, followed by Return on Assets (ROA). Kharatyan (2017) opined that firms with relatively higher ROE are highly competitive. This aligns with the assertions of Brigham and Daves (2004), who maintains that every company's main objective is to maximise shareholders wealth.

Theoretical Review

The Shareholders' Value Maximization Theory and Agency Theory are mostly considered when measuring financial performance, revenue and returns on investment management. This is because excellent financial performance, revenue retention efficiency and better returns on investment are all indications of a better value proposition to both managers

and shareholders notwithstanding the existence of a conflict of interests between the agents (Managers) and the principals (shareholders). Therefore, efficiency in the utilisation of resources by the agents (managers) helps the principal (shareholders) to maximise value for their investments which are measured by return on equity (ROE). However, since managers are not obligated to maximise shareholders' value under the Agency Theory, this study, therefore, is anchored on the Shareholder Value Maximisation theory which is the most appropriate theory that focuses on the principles of wealth creation for the owners and stakeholders of businesses to drive this study. The shareholders' value maximisation theory is explained below.

Shareholders' Value Maximisation Theory

Friedman (1970) founded the shareholders' value maximisation theory which focuses on the principles of wealth creation in the form of use of business resources to engage in activities designed to increase business profits observing the rules of the game in open and free competition, without deception or fraud by businesses which eventually results in value Maximisation to both the owners and the society. Shareholders' Value Maximisation is measured by the returns accruing to shareholders from the business' financial performance considering the Return on Asset (ROA), Earning Per Share (EPS), Return on Equity (ROE) etc. Every company's main objective is to maximise shareholders wealth (Brigham & Daves, 2004). Therefore, litigation infraction charges would hamper better returns and earnings to shareholders as it constitutes major drag-down on the banks' earnings and their profitability which negatively affect financial performance (ROE).

Review of Empirical Studies.

Harwood (2018) conducted a study on litigation fines on the six largest banks in the US, including JPMorgan and Bank of America from 2008-2012. The study was aimed at identifying and grouping components of these litigation costs for these banks. The study adopted a descriptive method using a pie chart and percentages to represent various components of litigation fines for the banks. The data analysis showed: Claims for Mis-selling 46%, claims by hedge funds 13%, claims to arise from defective legal documentation 27%, claims consequent on regulatory investigations 49%. The result of the study also showed that JPMorgan topped the list with litigation costs of over \$100 billion. A retest of the research result through a survey on litigation fines showed 31% of respondents saying that litigation fines would not rise, 35% maintained that litigation cost would rise while 34% opined that litigation costs would remain the same. The study concluded that the different picture from these respondents reflects the wide range of cases that different types of banks are facing. The study recommended that banks should explore an arbitration process which is cheaper in managing their litigation infraction charges.

Nelson (2017) examined the components of litigation fines incurred by 8 Banks in United States of America (US) and European (EU) banks from 2008 to 2016. The study adopted a survey approach in generating the data used in the research. A multi-coloured Bar Chart was used to distinguish litigation fines incurred by various banks in the two climes. Among all the US banks surveyed, the Bank of America has been the worse hit with total litigation fines since 2008 as \$73 billion.

followed by JPMorgan whose second-largest operation cost of \$40 billion is litigation fines. The study revealed that Royal Bank of Scotland was at the top among EU bank with its litigation fines from 2008-2017 as \$30 billion. The study found out that the highest of litigation fines was paid by US & EU banks in 2014 with US & EU banks paying \$33.2 billion and \$25.8 billion respectively. The total litigation fines paid by the US & EU banks for the study period (2008-2016) were \$273 billion. The study concluded that the highest of these litigation fines originated from mortgage-bond infraction, followed by mis-selling of financial products and lastly on mis-sold payment protection insurance and interest rate hedging products with a strong effect on profitability.

McNulty and Akhigbe (2014) conducted an investigation on bank litigation, bank performance and operational risk: Evidence from the financial crisis. The research objectives were to: analyse a new data set on bank legal expense, show that legal expense predicts future bank performance using both econometric and & case-study evidence and to find the relation between legal expense and bank performance. The researchers opined that excess litigation against a bank, a form of operational risk, is one indicator of risk because litigation often reflects a failure to maintain a strong system of internal control. The researchers carried out bank financial performance analysis of unique hand-collected data-set on bank legal expense from 102 American institutions using regression. Their results reflected differences among banks in total bank legal expense, which included the expenses of litigation. The results are consistent with the hypothesis that high legal expense predicts weak future bank performance. They further stated that if investors had legal expense

information regularly, there would be greater market discipline. The study recommended that bank regulators should require legal expense to be reported in annual financial reports and that legal expense ratios be publicly available to facilitate greater market discipline in banking with respect to operational risk. Existing reporting creates unnecessary information asymmetries since investors are not as informed as they could be about operational risk, no doubt leading to mispricing of bank securities.

Zeidan (2013) investigated the effects of illegal behaviour on the financial performance of US Banking Institutions. The study was motivated by whether financial performance is affected by corporate violations of laws and regulations. A sample of 128 publicly traded banks that were subject to enforcement actions by US regulatory authorities over a period of 20 years was used. Ordinary Simple Regression method was adopted. The study revealed that there is a significant negative relationship between corporate violations and market reaction. However, the market reaction did not vary meaningfully in accordance with the severity of repetitiveness of the corporate violations. The results of the study are in conformity with previous research on industries other than banking, which notably showed a negative market reaction. This confirms that shareholders in the banking industry react in a manner considerably like their counterparts in other industries on corporate violations.

Zeidan (2012) researched to examine the effects of corporate illegality on financial performance within the banking industry in order to assess whether the regulatory framework is effective in curbing violations. The study was a comparative

analysis of the performance of 84 publicly traded US banks that were subject to enforcement actions from US regulatory authorities over a 20-year period. The financial performance of each violating bank was analysed several quarters after each violation and compared to the financial performance benchmark of non-violating competitors. The findings were contrary to prior studies that show a negative effect of illegality on financial performance. The results of this investigation failed to show any significant and sustained effect of enforcement actions. The researcher concluded that this could be due to the unique situation of the banking industry. Nevertheless, the degree of impact depended on firm attributes, as smaller and riskier firms were affected more than others

Goldstein (2018) investigated how challenging the litigation climate is for many of the World's banks and found out from JPMorgan Chase's result for the third 2017 that JPMorgan announced a \$400m loss for Q3 in October 2017 as the bank had set aside \$23 billion for litigation costs arising from series of regulatory investigations resulting in litigation and economic crisis-related suits. This is not peculiar to JP Morgan alone; it is the same for other banks both internationally and locally, with the rising cost of litigation infraction charges. Goldstein (2018) opines that there has been a remarkable shift in the way that people view banks in the last five or six years. Before the economic crisis, most people started from the point that banks were straightforward and honest, but now the whole climate has changed. Banks' reputations have been tarnished, not only in the eyes of the public and press but also in the eyes of judges. Therefore, litigation

charges negatively affect the performance of commercial banks in both intrinsic and extrinsic dimensions. It also tarnishes reputational image for banks

3. METHODOLOGY

This study adopted the ex-post facto research design. A total population of sixteen (16) Deposit Money Banks listed on the Nigeria Stock Exchange (NSE) as at December 31, 2018 was used. The eight (8) Domestic Systemically Important Banks (D-SIBs) in Nigeria, according to Central Bank of Nigeria (CBN) ranking of 2014 was used as the sample size for this study. Secondary data were sourced for eleven years (2008-2018) from the NSE factbooks and annual reports & accounts of the eight (8) domestic systemically important banks in Nigeria. The data were analysed using Panel Least Square (PLS) regression, Granger Causality test and

Hausman test with the aid of E-View 9.0 statistical software. The variables of this study which consists of legal Professional Charges (LPCs), Court-Imposed Charges (CICs) and Return on Equity (ROE) were captured in a modified model as adapted from the model of Ismaila & Damola, 2017 on Regulatory Non-Compliance. The modified model is made up of return on equity, Legal Professional Charges (LPCs) and court-imposed Charges (CICs) of the D-SIBs, as shown below:

$$\text{Financial Performance} = f(\text{LICs}) \dots \dots \dots (1)$$

The static linear model is presented in the second equations

$$\text{ROE}_{it} = \beta_0 + \beta_1 \text{LIC}_{it} + \varepsilon_{it}, \text{BSZ}_{it}, \text{LEV}_{it} \dots \dots \dots (2)$$

Model (2) above is further decomposed into models (3) and (4) below to capture the effect of each of the independent

variables(LPCs & CICs) on Return on Equity, respectively.

$$Y = f(X) + \mu$$

The above model could be re-constructed as thus;

$$ROE_{it} = \beta_0 + \beta_1 LPC_{sit} + \beta_2 BSZ_{it} + \beta_3 LEV_{it} + \mu_{it} \quad (3)$$

$$ROE_{it} = \beta_0 + \beta_1 CIC_{sit} + \beta_2 BSZ_{it} + \beta_3 LEV_{it} + \mu_{it} \quad (4)$$

Where:

β_0 = Intercept of the regression

$\beta_1, \beta_2, \beta_3$, = Coefficients of Litigation Infraction Charges Indices

μ_{it} = error term capturing other explanatory variables not explicitly included in the model of bank i in period t

Y = dependent variable (Financial Performance)

X = independent/explanatory variable (Litigation Infraction Charges)

CIC_{sit} = Court-imposed Charges of bank i in period t (independent variable)

ROE_{it} = Return on Equity of bank i in period t (dependent variable)

LPC_{sit} = Legal Professional Charges of bank i in period t (independent variable)

BSZ_{it} = Bank' Size of bank i in period t (control variable)

LEV_{it} = Leverage of bank i in period t (control variable)

i = individual bank (1, 2 8)

t = time period (1, 2 10)

4. ESTIMATION RESULTS AND DISCUSSION OF FINDINGS

Table 4.1: Descriptive Statistics

	ROE	LPCs	CICs	BSZ	LEV
Mean	0.138	0.269	0.520	10.861	7.131
Median	0.120	0.210	0.585	10.800	5.975
Maximum	0.230	0.420	0.640	12.020	15.150
Minimum	0.060	0.140	0.240	9.930	3.270
Std. Dev.	0.064	0.223	0.187	0.769	3.924
Skewness	0.462	0.554	0.312	0.195	0.895
Kurtosis	1.728	1.548	2.932	1.640	2.629
Jarque-Bera	1.029	1.389	2.873	0.834	1.392
Probability	0.598	0.499	0.238	0.659	0.499
Sum	1.380	7.690	17.200	08.610	71.310
Sum Sq. Dev.	0.037	1.609	17.326	5.321	38.606
Observations	88	88	88	88	88

Source: E-Views 9.0 Descriptive Output, 2020

Interpretation

Table 4.1 displays the descriptive statistics for the independent, dependent and control variable of the study. Table 4.1 shows the result of the panel data set of 88 observations with the combination of time

series data and cross-sectional data (i.e 8 banks x 11 years). Mean is used to measure the central tendency. However, the standard deviation is an amount by which every value within a data-set varies from the mean. It is the most robust and widely used

measure of dispersion and measure of risk. Higher standard deviation implies a higher risk. The observed average return on equity is 13.8%, with a maximum of 23%, a minimum of 6% and a standard deviation of 6.4%. The observed degree of the average legal professional charges is 26.9% with a minimum of 14%, a maximum of 42% and a standard deviation of 22.3%. The observed degree of the average Court-imposed Charges is 52% with a minimum of 24%, a maximum of 64% and a standard deviation of 18.7%. Skewness indicates the symmetry of the distribution. A positive skewed

distribution indicates scores that are clustered to the left and the tail of the distribution extending to the right while a negatively skewed distribution demonstrates scores that are clustered to the right and the tail of the distribution extends to the left. Kurtosis, on the other hand, defines the peak of the distribution. A peak indicates positive kurtosis. A flat distribution indicates negative kurtosis. Legal professional charges (LPCs) and Court-imposed Charges (CICs) have positive values of 0.554 and 0.312, respectively.

Table 4.2: Pearson Correlation Matrix

	ROE	LPCs	CICs	BSZ	LEV
ROE	1.000	-0.466	-0.472	-0.758	-0.845
LPCs	-0.466	1.000	0.070	-0.701	-0.370
CICs	-0.472	0.070	1.000	0.225	0.468
BSZ	-0.758	-0.701	0.225	1.000	0.738
LEV	-0.845	-0.370	0.468	0.738	1.000

Source: E-Views 9.0 correlation output, 2020

Interpretation of Pearson Correlation Matrix

Correlation analysis helps to determine the degree of association between two or more variables. Pearson correlation coefficient was used to examine the strength of direction of the association between the study variables. From the findings on the correlation analysis in table 4.2, the study

found that there was a negative correlation coefficient between LPCs, CICs, BSZ, LEV and ROE by correlation factors of -0.466, -0.472 and -0.758 respectively.

Test of Hypothesis 1

H₀₁: Legal Professional Charges have no significant effect on Return on Equity of listed Deposit Money Banks in Nigeria.

Table 4.3: Panel Least Square (PLS) Regression Analysis showing the effect of LPCs on ROE

Dependent Variable: ROE

Method: Panel Least Squares

Date: 03/12/20 Time: 10:13

Sample: 2008 2018

Periods included: 11

Cross-sections included: 8

Total panel (balanced) observations: 88

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.228197	0.036876	6.188204	0.0000
LPC	-0.017600	0.003515	-5.007032	0.0000
BSZ	-0.005304	0.003191	-1.662266	0.1006
LEV	-0.008851	0.001245	-7.110665	0.0000
R-squared	0.540595	Mean dependent var	0.127125	
Adjusted R-squared	0.522461	S.D. dependent var	0.036010	
S.E. of regression	0.024884	Akaike info criterion	-4.500463	
Sum squared resid	0.047061	Schwarz criterion	-4.381362	
Log likelihood	184.0185	Hannan-Quinn criter.	-4.452712	
F-statistic	29.81047	Durbin-Watson stat	1.362031	
Prob(F-statistic)	0.000000			

Source: E-Views 9.0 Panel Regression Output, 2020

Interpretation of Regression Result

ROE = 0.228197 - 0.017600LPCs

Table 4.3 shows the regression result of ROE and LPCs. It shows that legal professional charges has a significant negative effect on ROE measured with a beta coefficient $\beta_1 = -0.017600$ and t-statistic = -5.007032 respectively and p-value = 0.0000 which is statistically significant at 5% significance level. The beta coefficient shows that if legal professional charges increase by one unit, then the banks' ROE would reduce by 0.02%. The adjusted R^2 value = 0.522. The adjusted R^2 value of

0.522 implies that 52.2% of the total variation in ROE is explained by LPCs, BSZ and LEV fluctuation by 52.2% while other factors outside the model explain the remaining 47.8%

Decision

The null hypothesis is therefore rejected at 5% level of significance, since the Prob(F-statistic) = 0.000000 is less than the critical value of 5%, implying that a significant negative relationship exists between LPCs and ROE of deposit money banks in Nigeria.

Table 4.4: Granger Causality Test showing the Causality between LPCs and ROE

Pairwise Granger Causality Tests

Date: 03/12/20 Time: 10:31

Sample: 2008 2018

Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
LPCs does not Granger Cause ROE	64	4.13990	0.0208
ROE does not Granger Cause LPCs		0.15974	0.5037

Source: E-Views 9.0 Output, 2020

Interpretation of Diagnostic Test

Table 4.4 indicates that there is no reverse causation between legal professional charges and ROE, but rather, there is a causality link between LPCs and ROE at a P-value of 0.0208 which is statistically significant at 5%. Consequently, the null hypothesis is

rejected for the alternative hypothesis which states that legal professional charges has a significant effect on financial performance (ROE) of listed deposit money banks in Nigeria at 5% level of significance.

Table 4.5: Hausman Test Comparing FEM and REM between LPCs and ROE

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	12.144344	3	0.0143

Source: E-Views 9.0 Post Regression Output, 2020

Hausman Test Rule

H₀: Random effect model is preferred to the fixed-effect model (If the P-value > 5% Accept H₀)

H₁: Fixed effect model is preferred to the Random effect model (If the P-value < 5% Accept H₁)

Interpretation of Hausman Test

On comparison of the results between the fixed effect model (FEM) and random effect model (REM), the results of the Hausman specification test in table 4.5 showed that the chi-square probability is significant at

5% with P-values of 0.0143 in table 4.5. The result suggests that the fixed effect regression model is most appropriate for the sampled data. Thus, this result corroborates the regression results in table 4.3 which uphold that Legal Professional Charges has a significant effect on financial performance (ROE) of listed deposit money banks in Nigeria at 5% level of significance

Test of Hypothesis 2

H₀₂: Court-imposed charges have no significant effect on Return on Equity of listed Deposit Money Banks in Nigeria

Table 4.6: Panel Least Square (PLS) Regression Analysis showing the effect of CICs on ROE

Dependent Variable: ROE

Method: Panel Least Squares

Date: 03/12/20 Time: 10:42

Sample: 2008 2018

Periods included: 11

Cross-sections included: 8

Total panel (balanced) observations: 88

Variable	Coefficient	Std. Error	t-Statistic	Prob.
----------	-------------	------------	-------------	-------

C	0.263701	0.042143	6.257265	0.0000
CIC	-0.081886	0.002033	-6.092679	0.0000
BSZ	-0.006256	0.003656	-1.711127	0.0911
LEV	-0.009425	0.001423	-6.624012	0.0000
R-squared	0.395890	Mean dependent var	0.127125	
Adjusted R-squared	0.372044	S.D. dependent var	0.036010	
S.E. of regression	0.028535	Akaike info criterion	-4.226639	
Sum squared resid	0.061884	Schwarz criterion	-4.107538	
Log likelihood	173.0656	Hannan-Quinn criter.	-4.178888	
F-statistic	16.60166	Durbin-Watson stat	1.368553	
Prob(F-statistic)	0.000000			

Source: E-Views 9.0 Panel Regression Output, 2020

Interpretation of Regression Result

$$ROE = 0.263701 - 0.001886CIC + \mu$$

Table 4.6 shows the regression result of ROE and CICs. It shows that, given a unit increase in CICs, ROE will decrease by 8.2%. The regressed result also shows that ROE relates negatively with CICs at a coefficient factor of $\beta_1 = -0.081886$ and associated t-statistic = -6.092679. The probability value for the slope coefficient shows that $P(x_1 = 0.0000 < 0.05)$. This implies that CICs has a statistically significant negative relationship on ROE at 5% significance level. The adjusted R-squared of

0.37 suggests that variation in ROE is explained by CICs, BSZ and LEV fluctuation by 37% while other factors outside the model explain the remaining 63%.

Decision

The null hypothesis is therefore rejected at 5% level of significance, since the Prob(F-statistic) = 0.000000 is less than the critical value of 5%, implying that a significant negative relationship exists between CICs and ROE of deposit money banks in Nigeria.

Table 4.7: Granger Causality Test showing the Causality between CICs and ROE

Pairwise Granger Causality Tests

Date: 03/12/20 Time: 10:49

Sample: 2008 2018

Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
CIC does not Granger Cause ROE	64	9.33794	0.0000
ROE does not Granger Cause CIC		0.29759	0.7437

Source: E-Views 9.0 Output, 2020

Interpretation of Diagnostic Test

Table 4.7 indicates that there is no reverse causation between corporate governance charges and ROE, but rather, there is a causality link between CIC and ROE at a P-value of 0.0000 which is statistically significant at 5%. Consequently, the null

hypothesis is rejected for the alternative hypothesis which states that court-imposed charges have a significant effect on financial performance (ROE) of listed deposit money banks in Nigeria at 5% level of significance.

Table 4.8: Hausman Test Comparing FEM and REM between CICs and ROE

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	8.898562	3	0.0000

Source: E-Views 9.0 Hausman Output, 2020

Interpretation of Hausman Test

On comparison of the results between the fixed effect model (FEM) and random effect model (REM), the results of the Hausman specification test in tables 4.8 showed that the chi-square probability is significant at 5% with P-values of 0.0000 in table 4.8. The result suggests that the fixed effect regression model is most appropriate for the sampled data. Thus, this result corroborates the regression results in table 4.6 which uphold that there is a significant negative relationship between courts imposed charges and financial performance (ROE) of listed deposit money banks in Nigeria at 5% level of significance.

Discussion of Findings

This study examined the effects of Litigation Infraction Charges on the financial performance of DMBs in Nigeria for the period 2008-2018. The independent variable (Litigation Infraction Charges) was decomposed into Legal Professional Charges (LPCs) and court-imposed Charges (CICs)

while the dependent variable (financial performance) was measured by Return on Equity (ROE). Bank size (BSZ) and leverage (LEV) were employed as control variables to boost the study results.

Hypothesis 1 regression result reveals an adjusted R^2 value of 0.522. The adjusted R^2 (coefficient of multiple determinations) implies that 52.2% of the total variation in the dependent variable (ROE) of listed deposit money banks in Nigeria is jointly explained by the explanatory variables (LPCs, BSZ and LEV). The adjusted R^2 of 52.2% shows that 47.8% of the variation in the dependent variable is explained by other factors not captured in the study model and did not constitute a problem to the study because the F-statistics value of 29.81047 with an associated $\text{Prob.} > F = 0.000000$ which indicates that the model is fit to explain the relationship expressed in the study model and further suggests that the explanatory variables are appropriately selected,

combined and used. This suggests that apart from legal professional charges, bank size and leverage there are other factors that mitigate return on equity of DMBs in Nigeria. The results show that legal professional charges have a significant negative effect on ROE measured with a beta coefficient (β_1) and t- the value of -0.017600 and -5.007032 respectively and p- the value of 0.0000 which is statistically significant at 5%.

Hypothesis 2 regression results show that a unit increase in CICs will decrease ROE by 8.2%. The regressed result also shows that ROE relates negatively with CICs at a coefficient factor of $\beta_1 = -0.081886$ and associated t-statistic = -6.092679. The probability value for the slope coefficient shows that $P(x_1 = 0.0000 < 0.05)$. This implies that CICs has a statistically significant negative relationship on ROE at 5% significance level. The adjusted R-squared of 0.37 suggests that variation in ROE is explained by CICs, BSZ and LEV fluctuation by 37% while other factors outside the model explain the remaining 63%.

The finding of this study contradicts the findings of Ismaila & Damola (2018), which posited that penalties imposed by regulators on infractions in the Nigerian banking industry have no significant impact on the performance of DMBs. However, our finding corroborates the results of (Harwood, 2018; Goldstein, 2018; McNuly & Akhigbe, 2014; Nelson, 2017) who postulate that banks' legal costs for wrongdoings or misconduct cause reputational risks to banks. However, an important aspect of litigation infraction charges was not given attention in all the foreign and local studies reviewed. No known study, to the best of the knowledge

of the researchers, has comprehensively carried out any research to articulate these litigation infraction charges: Legal Professional Charges (LPCs) and court-imposed Charges (CICs) yearly reported by DMBs and its effect on the DMBs' financial performance (ROE) which is the gap that motivated this study. This study is unique because the data used for analysis are actual charges on Legal Professional Charges (LPCs) and court-imposed Charges (CICs) incurred by the DMBs on litigations with counterparties and their effect on the DMBs' financial performance (ROE)

5.0 CONCLUSION AND RECOMMENDATIONS

Conclusion

This study revealed that Litigation Infraction Charges which is further decomposed into (Legal Professional Charges-LPCs and court-imposed Charges-CICs) has a significant negative relationship with the return of equity at 5% significant level. The result implies that Litigation Infraction Charges are very high amongst deposit money banks in Nigeria and this is as a result of high costs involved in litigations, prosecutions and also the value of the claim for damages by counterparties. This implies that the quantum of banking guidelines and policies churned out regularly by the Central Bank of Nigeria has not been able to induce the level of adherence and compliance by deposit money banks on counterparty transactions and its negative effects on the financial performance of deposit money banks in Nigeria.

Recommendations

Shareholders of Deposit Money Banks in Nigeria can maximise their values when they receive impressive returns through the conservative attitude of banks'

management. Litigation infraction charges are drag-down to the financial performance of Deposit Money Banks in Nigeria, especially with the hiring of external solicitors to defend the banks in the litigations with counterparties. Given the financial burdens arising from the legal professional charges and courts imposed charges, it would be proper for the deposit money banks to: (i) Abide by all terms, conditions and transaction dynamics agreed with counterparties to minimise the spate of litigation infraction charges (legal professional and courts imposed charges) in favour of counterparties for settlements of legal breaches. (ii) Deposit Money Banks should incorporate Alternative Dispute Resolution (ADR) in their transaction contract documents and also explore ADR option which is cheaper than court legal proceedings, (iii) Deposit Money Banks should employ and payroll their lawyers who represent their banks on litigations in courts rather than a more expensive engagement of external solicitors, thereby minimising the effect of legal professional charges on DMBs' financial performance (ROE).

REFERENCES

- Abioye, O. (2017). Infractions: CBN, SEC fine three banks for offences and violations. Available at: <http://www.punchng.com/infractions-cbn-sec-fine-three-banks/>.
- Achor, A. (2020). Court fines access bank N4.7m for negligence, breach of trust. Available at: <https://www.onlinenigeria.com/news3/news/generals/11377-court-fines-access-bank-n4-7m-for-negligence-breach-of-trust>.
- Baucus, M.S., and Baucus, D.A., (1997). Paying the piper: An empirical examination of longer term financial consequences of illegal corporate behaviour. *Academy of Management*, 40 (1), 129-151.
- Becker, G.S., (1968). Crime and punishment: An economic approach. *The journal of political economy*. 76 (2), 169-217.
- Bello, O. (2018). 9 listed banks pay N643.6m for infractions. Available at: <https://leadership.ng/2017/05/28/9-listed-banks-pay-n643-6m-infractions>
- Bhagat, S., Bizjak, J., and Coles, J., (1998). The shareholder wealth implications of corporate lawsuits. *Financial Management* 7, 5-27
- BOFIA (1991). Banks and other financial institutions act 1991. Available at: <https://www.cbn.gov.ng/out/publications/bsd/1991/bofia>.
- Bratton, W.W. (2002). Enron and the dark side of shareholders' value. *Talene Law Review*, New Orlean.
- Bray, S. (2012). Announcing remedies. *Cornell Law Review*. 97. *SSRN 1967184*
- Brigham, E. F., and Daves, P. R., (2004). *Intermediate financial management*, Eight edition, Thomson
- Collins, E.D (2018). Definition of compliance. Available at: <https://www.collinsdictionary.com/dictionary/english/compliance>.
- Conduct Cost Project Research Foundation (2016). World's 20 biggest banks rack up £252bn conduct costs' in five years. Available at: <http://www.theguardian.com/business/2016/jul/18/worlds-20-biggest>.

- Economic Systemic Risk Board (2015). Report on misconduct risk in the banking sector. Available at: https://www.esrb.europa.eu/pub/pdf/other/150625_report_misconductrisk.en.
- Friedman, M. (1970). The social responsibility of business is to increase its profits. *New York Times Magazine*, September 13, 32-33, 122-124
- Frooman, J. (1997). Socially irresponsible and illegal behaviour and shareholder wealth: a meta-analysis of event studies, *Business and Society*, 36, 221-249.
- Harrington, W. (1988). Enforcement leverage when penalties are restricted. *Journal of Public Economics* 37(1), 29-53.
- Harwood, S., (2018). Legal business and stephenson: David & Goliath. Available at: <https://www.shlegal.com>.
- Ismaila, Y. & Damola, E. (2018). Regulatory non-compliance and performance of deposit money banks in Nigeria. *Journal of financial regulation and compliance*, 26 (3), 425-441. Available at: <https://doi.org/10.1108/JFRC-04-2017-0041>.
- Kharatyan, D., Lopes, J., & Nunes, A., (2017). Determinants of return on equity: Evidence from NASDAQ 100 XXVII. *Jornadas Hispano-Lusas Gestión Científica*
- Khavesh, A., Nikhashemi, S.R., Yousefi, A., & Haque, A., (2012). Voluntary sustainability disclosure, revenue and shareholder wealth – A perspective from Singaporean companies. *Business Management Dynamics*, 1 (9), 6-12.
- Koster, H. (2017). Financial penalties and bank performance, *Journal of banking & finance* Available at: www.researchgate.net/publication.
- Koster, H. and Pelster, M. (2017), Financial penalties and the systemic risk of banks. Available at: www.suomenpankki.fi/globalassets.
- Koster, H. & Pelster, M. (2017). What is the impact of financial penalties on the performance and stock returns of banks. *Journal of banking and Finance*. Available at: <https://doi.org/10.21036/LTPUB10564>.
- Lingga, D. S.K., & Tirok, J., (2012). Empirical studies on EVA and profitability ratios association with annual stock return for Indonesia companies. Available at: <http://journal.binus.ac.id/index.php/JAF> A/article/view/283/277.
- Goldstein, A. (2018). Bank of America, JPMorgan chase have paid the largest fines. Available at: <https://www.marketwatch.com/story/banks-have-been-fined-a-staggering-243-billion-since-the-financial-crisis>.
- McNulty, J.E. & Akhigbe, A. (2014). Bank litigation, bank performance and operational risk: Evidence from the financial crisis.
- Nelson, E. (2017). The bill for banks behaving badly since the financial crisis: \$273 billion and counting. Available at: <https://qz.com/1031152>.
- Olawoyin, O (2019). Innoson Motors Secures Court Order Against Guaranty Trust Bank over Controversial Debt. Available at: <https://www.premiumtimesng.com/news/headlines/323072-innoson-motors->

[secures-court-order-against-gtbank-over-controversial-debt.](#)

Purnamasari, D. (2015). The effect of changes in return on assets, return on equity, and economic value added to the stock price changes and its impact on earnings per share. Available at: www.iiste.org

Rapheal, A. (2018). *4 banks pay N493.2m fines in 2 Years*. Available at: <http://sunnewsonline.com/4-banks-pay-n493-2m-fines-in-2-years>.

Slater, S. (2015). World's biggest banks fined \$235 billion since 2008 financial crisis. Available at: <https://nomictimes.indiatimes.com/news/international/business>.

Zack (2018). What is shareholder equity? Available at: <https://finance.zacks.com/shareholder-equity-3844>.

Zeidan, M. J. (2013). Effect of illegal behaviour on the financial performance of US banking institutions. *Journal of business ethics*. Available at: <https://www.jstor.org/stable/23327207>.

Zeidan, M.J. (2012). The effects of violating banking regulations on the financial performance of the US banking industry. *Journal of financial regulation and compliance*, 20 (1), 56-71. Available at: <https://doi.org>.