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- I. Title page
- II. Abstract (150-250 words)
- III. Keywords (3-5)
- IV. Introduction
- V. Literature Review
- VI. Methodology
- VII. Results and Discussion
- VIII. Conclusion and Recommendations
- IX. References (APA 7th Edition)
- X. Appendices (if necessary)
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TABLE OF CONTENT

1. Effect of Firm Characteristics on Firm Value of Listed Deposit Money Banks in Sub-saharan Africa	1
Mabur Zungbung Danladi, Deshi Nentawe Nengak, Maren Maram Isah and Dahel Innocent Felix	
2. Effect of Forensic Interviews And Fund Tracing Techniques on Fraud Control in Public Sector Pension Administration in Kebbi State, Nigeria	17
Ahmed Yarima Dakingari, Attahiru Ibrahim Alkali and Zainab Attahiru Alkali	
3. Audit Quality as a Moderator Between Board Characteristics and Earnings Management: Evidence From Listed Banks in Nigeria	25
Sabiu Ishaka Alfa, Lawal Faith Chidinma and Musa Adeiza Farouk	
4. Effect of Non-current Assets on Value of Listed Consumer Goods Firms in Nigeria	37
Mabur Zungbung Danladi, Deshi Nentawe Nengak, Maren Maram Isah and Dahel Innocent Felix	
5. Effect of Forensic Accounting Techniques on Fraud Prevention In Ministries, Departments And Agencies (MDAs) in Plateau State	51
Ondeku Felix Godwin, Adebisi Joseph Femi and Farouk Musa Adeiza	
6. Effect of Forensic Interviews And Fund Tracing Techniques on Fraud Control in Public Sector Pension Administration in Kebbi State, Nigeria	62
Ahmed Yarima Dakingari, Attahiru Ibrahim Alkali, Zainab Attahiru Alkali and Balkisu Ahmad Maiahu	
7. Effect of Auditor Skills on Financial Accountability of Plateau State Government Ministries	71
Umar Aishatu Adam	
8. Effect of Ownership Structure on Environmental Disclosures of Listed Oil And Gas Companies in Nigeria	80
Deshi Nentawe Nengak and Manji Eugene Nenkanma Helen	
9. Moderating Effect of Audit Quality on Board Characteristics And Earnings Management of Listed Insurance Firms in Nigeria	94
Sabiu Ishaka Alfa, Joseph Femi Adebisi, Musa Adeiza Farouk and Audu K. Buba	
10. Effect of Board Characteristics on Cash Holding of Listed Commercial Banks in Nigeria	105
Cycle Florence Kemebinkedoumene	
11. Effect of Accounting Information Systems on Financial Reporting Quality of Listed Deposit Money Banks in Nigeria	115
Adewole Adefemi Kazeem, Tamunonimim Ngerebo and Innocent Chinedu Enekwé	
12. Effect of Corporate Governance Attributes and Value of Listed Insurance Companies in Nigeria	126
Ahmed Tijjani Haruna	
13. Effect of Forensic Accounting Tools on Fraud Prosecution Process in Nigeria Court System	138
Blessing Chinelu Chukwu	

TABLE OF CONTENT

14. Effect of Sustainability Reporting on Share Price of Listed Oil and Gas Firms in Nigeria	148
Clement Osemwengie Ekhoe-ugiagbe and Ojeifo Sidney Imevbore	
15. Moderating Effect of Information Communication Technology Software on The Relationship Between Ownership Structure and Value of Listed Financial Firms in Nigeria	160
Ejike Emeka Okongwu, Benjamin Uyagu and Farouk Musa Adeiza	
16. Effect of Government Integrated Financial Management Information System Implementation on Financial Governance in Selected Ministries, Departments, and Agencies in Nigeria	176
Emmanuel Monday Essien	
17. Effect of Accounting Practices on Budget Implementation of Government-owned Research Institutes in South Eastern Nigeria	194
Dennis Nnenna Okoro	
18. Moderating Effect of Internal Audit Quality on The Relationship Between Accounting Information Systems and Financial Reporting Quality of Listed Deposit Money Banks in Nigeria	205
Adewole Adefemi Kazeem, Tamunonimim Ngerebo and Innocent Chinedu Enekwe	
19. Effect of Board Audit Committee Attributes on Assets Fraud Detection among Listed Manufacturing Companies in Nigeria	215
Agboide Sunday Theophilus	
20. An Empirical Analysis of The Relationship Between Government Transfer Payments and Economic Growth in Nigeria	224
Inuwa Auwalu, Uyagu David Benjamin and Ganiyu A. Mustapha	
21. Effect of Budget Processes on Performance of Public Funds in Plateau State Ministries, Departments and Agencies	234
Yaks Mary Benjamin	
22. The Effect of Cyber Fraud on Customer Trust in Nigerian Deposit Money Banks: A Digital Forensic Perspective	250
Nkwonta Ifeoma Nnenna, Musa Adeiza Farouk and Benjamin Uyagu David	
23. Effect of Forensic Audit on Fraud Detection in The Federal Ministry of Finance and Associate Agencies in Nigeria	258
Musa Inuwa Fodio, Benjamin Uyagu David and Sani Chida Baba	
24. Dividend Policy Determinants: Likelihood and Payout Magnitude in Nigeria's Consumer Goods Firms	269
Ovbe Simon Akpadaka	
25. Effect of Monetary Policy Instruments on Capital Adequacy of Listed Deposit Money Banks in Nigeria	284
Jadesola Regina Adekalu, Joseph Femi Adebisi, Mbatuegwu David Christopher and Samuel Olutokunbo Adekalu	

TABLE OF CONTENT

26. Effect of Economic, Social and Governance Disclosures on Firm Value And The Moderating Effect of Leverage. A Study of Listed Non-financial Firms in Nigeria	293
Aishat Oyiza Otori	
27. Monetary Policy, Bank Size, and Capital Adequacy: A Conceptual Framework For Financial Stability in Nigeria	301
Jadesola Regina Adekalu, Joseph Femi Adebisi, Mbatuegwu David Christopher and Samuel Olutokunbo Adekalu	
28. Impact of Money Laundering Activities on The Operational Performance of Listed Commercial Banks in Nigeria	312
Inuwa Auwalu and Ganiyu A. Mustapha	
29. Effect of Computerized Forensic Investigation Techniques on Fraud Management in Lagos State Ministries, Departments and Agencies ...	320
Kotun Rasheetdat Bunmi, Sunday Mlanga and Halidu Saidu	
30. Moderating Effect of Bank Size on The Relationship Between Monetary Policy and Capital Adequacy of Listed Deposit Money Banks in Nigeria	336
Jadesola Regina Adekalu, Joseph Femi Adebisi, Mbatuegwu David Christopher and Samuel Olutokunbo Adekalu	
31. Legislative and Audit Oversight Institutions as Determinants of Budget Transparency in Sub-saharan Africa	350
Emmanuel Sani	
32. Do Sustainability Disclosures Matter For Market Valuation? Evidence From Consumer Goods Firms in Sub-saharan Africa	358
Oloruntoba Adebayo Femi, Dagwon Yohanna Dang and Joseph Femi Adebisi	
33. Effect of Monetary Policy on Manufacturing Outputs in Nigeria: 1980-2024	368
S.A.S Aruwa, Benjamin Uyagu and Egbo Roseline Oruaroghene	
34. Determinants of Public Participation in Public Budgeting among Sub-saharan Countries: The Influence Of Transparency and Oversight Institutions	382
Emmanuel Sani	

IMPACT OF MONEY LAUNDERING ACTIVITIES ON THE OPERATIONAL PERFORMANCE OF LISTED COMMERCIAL BANKS IN NIGERIA

INUWA AUWALU

GANIYU A. MUSTAPHA

ABSTRACT

Money laundering remains a major challenge to the operational efficiency and stability of commercial banks, particularly in emerging economies such as Nigeria where financial transactions are increasingly complex and high-risk. This study examines the impact of money laundering activities on the operational performance of listed commercial banks in Nigeria, focusing on Suspicious Transaction Exposure, Effectiveness of Anti-Money Laundering (AML) Internal Controls, and Quality of Know-Your-Customer (KYC) Processes. A quantitative research design was adopted, with data collected through a structured questionnaire administered to compliance, risk management, internal audit, and operations professionals across listed commercial banks. Descriptive statistics, Pearson correlation analysis, and multiple regression techniques were used to analyse the relationships among the study variables. The findings show that suspicious transaction exposure has a significant negative effect on operational performance, while effective AML internal controls and high-quality KYC processes exert significant positive effects. AML internal controls emerged as the strongest predictor of operational performance. The results support Institutional Theory and Risk-Based Compliance Theory and highlight the need to integrate AML risk management into core banking operations to enhance efficiency and resilience.

Keywords: Money Laundering Activities; Suspicious Transaction Exposure; AML Internal Controls; Know-Your-Customer Processes; Operational Performance of Banks.

1.0 Introduction

Money laundering has become one of the most persistent threats to the stability and efficiency of the global banking system, with far-reaching implications for how banks conduct their daily operations. As financial transactions grow in volume, complexity, and digital reach, commercial banks increasingly face the challenge of preventing illicit funds from passing through their systems without disrupting legitimate business activities. Operational performance reflected in transaction efficiency, service delivery, compliance costs, risk management capacity, and institutional reputation has therefore become closely linked to how effectively banks manage money laundering risks. International regulatory bodies such as the Financial Action Task Force and the Basel Committee on Banking Supervision consistently emphasise that weak anti money laundering frameworks not only facilitate financial crime but also weaken banks' operational resilience and long-term sustainability (Basel Committee on Banking Supervision, 2023; FATF, 2023). Globally, empirical evidence shows that high

exposure to suspicious transactions places significant pressure on banks' operational systems by increasing monitoring workloads, delaying transaction processing, and diverting managerial attention from core intermediation functions (Unger & van der Linde, 2022; Levi et al., 2023). In response, many jurisdictions have strengthened AML internal controls and Know-Your-Customer (KYC) frameworks through risk-based customer due diligence, automated transaction monitoring, and continuous staff training. These measures are increasingly viewed not only as compliance requirements but as essential operational tools that support efficiency, credibility, and competitiveness in the banking sector (Bologna & Corsi, 2021; Ferwerda et al., 2023).

Across Africa, the rapid expansion of banking services, increased financial inclusion, and continued reliance on cash-intensive transactions have heightened vulnerability to money laundering activities. Studies focusing on emerging economies indicate that banks in these contexts experience higher levels of suspicious transaction exposure, weaker

AML internal controls, and inconsistent KYC practices, all of which strain operational processes and heighten regulatory and reputational risks (Ndubuisi & Umar, 2022; Okoye et al., 2023). Although many African countries have enacted AML legislation and established financial intelligence units, enforcement challenges and institutional capacity constraints continue to limit the operational effectiveness of these frameworks.

In Nigeria, listed commercial banks occupy a central role in economic development but operate in a high-risk environment characterised by extensive cash usage, complex ownership structures, politically exposed persons, and rapidly expanding digital payment channels. Despite the AML/CFT regulations issued by the Central Bank of Nigeria and oversight by the Nigerian Financial Intelligence Unit, recurring regulatory sanctions, rising suspicious transaction reports, and widely publicised compliance failures point to persistent weaknesses in AML internal controls and KYC processes (CBN, 2023; NFIU, 2024). These weaknesses translate into higher compliance costs, transaction delays, increased staff workload, and reputational damage, all of which undermine operational performance.

Contemporary literature increasingly conceptualises the relationship between money laundering activities and banks' operational outcomes through three critical pathways: exposure to suspicious transactions, effectiveness of AML internal controls, and quality of KYC processes. Elevated suspicious transaction exposure intensifies monitoring and reporting obligations, disrupting routine banking operations (Levi et al., 2023; Ferwerda et al., 2023). Weak AML internal controls increase the likelihood of regulatory breaches and operational breakdowns, while robust controls enhance process efficiency and risk containment (Bologna & Corsi, 2021; Unger & van der Linde, 2022). Similarly, ineffective KYC processes allow high-risk customers into the banking system, increasing remediation costs and compliance failures, whereas strong KYC frameworks support smoother operations and better risk profiling (Okoye et al., 2023; Ndubuisi & Umar, 2022). However, empirical evidence linking these dimensions specifically to operational performance in Nigeria remains limited and fragmented, with most existing studies focusing on compliance outcomes or profitability rather than day to day operational efficiency.

This study addresses this gap by empirically examining the impact of money laundering activities on the operational performance of listed commercial banks in Nigeria, focusing on suspicious transaction exposure, the effectiveness of AML internal controls, and the quality of Know Your Customer processes. By adopting both descriptive and multivariate analytical

techniques, the study provides evidence-based insights relevant to theory, regulatory policy, and banking practice in a high-risk emerging economy. Accordingly, the study tests the following null hypotheses:

Ho₁: Suspicious transaction exposure has no significant effect on the operational performance of listed commercial banks in Nigeria.

Ho₂: The effectiveness of anti money laundering internal controls has no significant effect on the operational performance of listed commercial banks in Nigeria.

Ho₃: The quality of Know-Your-Customer processes does not significantly affect the operational performance of listed commercial banks in Nigeria.

2.0 Literature Review

Money Laundering Activities: Money laundering refers to the process through which proceeds of illegal activities are concealed, disguised, or integrated into the formal financial system to make them appear legitimate. The concept was first formally articulated in criminology and financial regulation literature in the late twentieth century, particularly within the context of organised crime and drug trafficking (Levi, 2002). In the banking sector, money laundering manifests through complex transaction patterns, shell entities, and misuse of financial instruments, posing serious risks to operational integrity. The literature consistently identifies banks as primary gatekeepers in detecting and preventing laundering activities because of their central role in processing financial transactions (Unger & van der Linde, 2022). Failure to manage laundering risks exposes banks to regulatory sanctions, operational disruptions, reputational damage, and systemic instability (Ferwerda et al., 2023). In developing economies, where cash usage and informal financial flows are prevalent, the operational burden associated with laundering risks is particularly pronounced.

Suspicious Transaction Exposure: Suspicious transaction exposure describes the extent to which a bank processes transactions that exhibit characteristics commonly associated with money laundering, such as unusual volumes, atypical patterns, or high-risk customer profiles. The concept emerged from financial intelligence and regulatory reporting frameworks, especially following the establishment of Suspicious Transaction Reports under AML regimes (Levi & Reuter, 2006). In banking operations, high exposure increases monitoring intensity, reporting obligations, and investigation workloads, often slowing transaction processing and straining staff capacity. Studies argue that while suspicious transaction reporting enhances financial integrity, excessive exposure imposes operational inefficiencies and escalates compliance costs (Unger et al., 2020; Levi et al., 2023). Others contend that effective risk-based monitoring can

mitigate these burdens by prioritising high-risk cases (Ferwerda et al., 2023). The dominant view in the literature is that unmanaged exposure adversely affects operational performance by disrupting routine banking activities. Suspicious transaction exposure typically manifests through abnormal cash flows, frequent high-value transfers, and transactions linked to politically exposed persons. Its key function is to signal potential laundering risks for further investigation. Measurement approaches include the volume or frequency of flagged transactions, STR filings, and perceived exposure indices derived from staff surveys.

Effectiveness of AML Internal Controls: AML internal controls encompass the policies, procedures, systems, and governance mechanisms established by banks to prevent, detect, and report money laundering activities. Rooted in internal control theory and regulatory compliance frameworks, the concept gained prominence following Basel Committee guidelines on sound risk management (Basel Committee on Banking Supervision, 2019). Effective controls include segregation of duties, transaction monitoring systems, internal audits, and compliance oversight structures. The literature largely agrees that strong AML internal controls reduce regulatory breaches, enhance process efficiency, and support operational stability (Bologna & Corsi, 2021; Unger & van der Linde, 2022). Conversely, weak controls are associated with operational breakdowns, repeated remediation exercises, and sanctions that disrupt daily operations. AML internal controls perform preventive, detective, and corrective functions within banking operations. They are commonly measured using compliance assessment scores, audit ratings, regulatory examination outcomes, and staff perceptions of control adequacy.

Quality of Know-Your-Customer (KYC) Processes: Know-Your-Customer processes involve identifying, verifying, and continuously monitoring customers to assess and manage money laundering risk. The concept originated from banking prudential regulation and was later formalised within global AML standards issued by the FATF. High-quality KYC processes ensure accurate customer profiling, early identification of high-risk accounts, and effective transaction monitoring (Levi et al., 2023). Empirical studies suggest that poor KYC implementation allows illicit actors to exploit banking systems, leading to costly account remediation, regulatory penalties, and operational inefficiencies (Ndubuisi & Umar, 2022; Okoye et al., 2023). While some scholars argue that stringent KYC increases onboarding delays and costs, the prevailing consensus is that robust KYC ultimately supports smoother operations by reducing downstream compliance failures (Ferwerda et al., 2023). KYC processes take the form of customer due diligence, enhanced due

diligence for high-risk customers, and ongoing monitoring. Their functions include risk classification and transaction oversight. Measurement approaches include documentation completeness, frequency of KYC updates, and compliance audit ratings.

2.2 Empirical Studies

Empirical literature examining the relationship between money laundering activities and banking performance has expanded significantly in recent years, although much of the evidence remains concentrated in developed economies. Unger and van der Linde (2022), using cross country bank-level data, found that higher exposure to suspicious transactions significantly increased operational costs and reduced processing efficiency due to heightened monitoring and reporting requirements. Similarly, Levi et al. (2023) reported that banks with persistent high-risk transaction exposure experienced operational delays and increased staff workload, particularly in compliance and operations units. Studies focusing on AML internal controls consistently demonstrate their influence on operational outcomes. Bologna and Corsi (2021), analysing European banks using survey and archival data, showed that institutions with robust AML control frameworks recorded fewer operational disruptions and lower remediation costs. Ferwerda et al. (2023) extended this analysis to emerging markets, finding that weak internal controls were associated with repeated regulatory interventions that diverted resources away from core banking activities. In the Nigerian context, Ndubuisi and Umar (2022) observed that banks with fragmented AML control structures faced higher compliance costs and slower transaction turnaround times, although their study relied on a limited sample and descriptive methods.

KYC processes have also attracted growing empirical attention. Okoye et al. (2023), employing a survey-based approach across Nigerian commercial banks, found that inadequate KYC practices significantly increased account remediation efforts and operational bottlenecks. Their findings align with earlier work by Unger et al. (2020), who demonstrated that weak customer due diligence increased false positives in transaction monitoring, thereby overwhelming operational staff. However, many studies remain cross-sectional and focus on compliance effectiveness rather than direct operational performance metrics. Despite these contributions, notable gaps persist. Few studies integrate suspicious transaction exposure, AML internal controls, and KYC quality within a single analytical model, particularly in developing economies. Methodologically, much of the Nigerian literature relies on descriptive statistics, with limited use of inferential techniques to establish causal relationships. The absence of integrated, data driven models restrict understanding of how money laundering activities affect operational performance holistically. Addressing these gaps is essential for

informing effective policy and managerial responses in high-risk banking environments such as Nigeria.

2.3 Theoretical Framework

This study is anchored on Institutional Theory and Risk-Based Compliance Theory to explain how money laundering activities influence the operational performance of banks. Institutional Theory posits that organisations conform to regulatory and normative pressures to maintain legitimacy and survival (DiMaggio & Powell, 1983). In the context of Nigerian banks, AML internal controls and KYC processes represent institutional responses to regulatory expectations. Weak conformity exposes banks to sanctions and operational disruptions, while strong compliance enhances stability and efficiency. Risk-Based Compliance Theory emphasises the allocation of compliance resources according to assessed risk levels rather than uniform application (Levi et al., 2023). The theory explains how suspicious transaction exposure necessitates differentiated monitoring intensity. In Nigeria, where resources are constrained, ineffective risk prioritisation leads to operational overload and inefficiency. Together, these theories justify examining suspicious transaction exposure, AML internal controls, and KYC quality as critical mechanisms through which money laundering activities shape operational performance in listed commercial banks.

3.0 Methodology

This study adopts a quantitative research design using a cross-sectional survey approach to examine the impact of money laundering activities on the operational performance of listed commercial banks in Nigeria. The cross-sectional design is appropriate because it enables the collection of data at a single point in time to analyse relationships among variables as they naturally occur, without experimental manipulation. The study is anchored on a positivist epistemological stance, which emphasises objectivity, empirical measurement, and statistical testing of hypotheses, consistent with prior empirical research in banking regulation, financial crime, and anti money laundering compliance (Unger & van der Linde, 2022; Ferwerda et al., 2023). Ontologically, operational performance is treated as a measurable organisational outcome influenced by institutional exposure to money laundering risks, while axiological neutrality is maintained through transparent data collection, standardised instruments, and value-free interpretation of results. The population of the study comprises compliance officers, risk managers, internal auditors, and operations professionals employed in listed commercial banks in Nigeria. As at the time of the study, Nigeria had approximately fourteen listed commercial banks, each maintaining specialised units responsible for AML compliance, transaction monitoring, KYC implementation, and

operational oversight. Based on staffing structures across these banks, the estimated population consists of about 180 professionals directly involved in AML-related functions and operational processes. These categories of staff were selected because of their direct engagement with suspicious transaction monitoring, enforcement of AML internal controls, implementation of KYC procedures, and management of operational workflows affected by money laundering risks (Ndubuisi & Umar, 2022; Okoye et al., 2023).

A sample size of 120 respondents was drawn from the population using purposive sampling. This sampling technique was considered appropriate because it ensures that only respondents with relevant professional experience and practical knowledge of AML processes and bank operations are included in the study. Participants were purposively selected from compliance, risk management, internal audit, and operations departments across the listed banks to ensure adequate representation of all key functional areas. The sample size is consistent with similar empirical studies in financial crime and banking performance research and is sufficient to support reliable multiple regression analysis (Bologna & Corsi, 2021; Ferwerda et al., 2023).

Primary data were collected using a structured questionnaire comprising closed-ended items measured on a five-point Likert scale ranging from Strongly Disagree (1) to Strongly Agree (5). The questionnaire captured demographic characteristics as well as measures of Suspicious Transaction Exposure, Effectiveness of AML Internal Controls, Quality of Know-Your-Customer Processes, and Operational Performance. Items measuring suspicious transaction exposure focused on the frequency and intensity of flagged transactions and monitoring workload. AML internal control items assessed the adequacy of policies, segregation of duties, transaction monitoring systems, and internal audit oversight. KYC process items captured customer identification accuracy, risk profiling, and periodic review practices. Operational performance indicators reflected efficiency, service delivery, compliance-related disruptions, and process stability. The instrument was adapted from validated measures used in prior AML and banking studies and was pre-tested with a small group of professionals to ensure clarity, relevance, and consistency (Onifade & Yusuf, 2021). Data were analysed using the Statistical Package for Social Sciences (SPSS). Descriptive statistics, including means and standard deviations, were used to summarise respondent characteristics and variable distributions. Inferential analysis was conducted using multiple linear regression to test the hypothesised relationships between money laundering activity variables and operational performance. Reliability of the instrument was



assessed using Cronbach's alpha, with all constructs exceeding the recommended threshold of 0.70, indicating satisfactory internal consistency.

Consistent with earlier empirical work on AML effectiveness and banking outcomes, the conceptual model specifies Operational Performance of Listed Commercial Banks as the dependent variable, directly influenced by Suspicious Transaction Exposure, Effectiveness of AML Internal Controls, and Quality of Know-Your-Customer Processes.

The functional relationship is expressed as:
 $OP = \beta_0 + \beta_1STE + \beta_2AIC + \beta_3KYC + \epsilon$
 Where: OP = Operational Performance of Listed Commercial Banks, STE = Suspicious Transaction Exposure, AIC = Effectiveness of AML Internal Controls, KYC = Quality of Know-Your-Customer Processes, β_0 = Intercept, $\beta_1 - \beta_3$ = Coefficients of the independent variables, ϵ = Error term

Table 1: Variables and Measurements

Variable	Type	Measurement	Scholars
Operational Performance (OP)	Dependent	Efficiency, service delivery, compliance disruptions, process stability	Unger & van der Linde (2022); Ferwerda et al. (2023)
Suspicious Transaction Exposure (STE)	Independent	Frequency of flagged transactions, monitoring intensity, investigation workload	Levi et al. (2023); Unger et al. (2020)
Effectiveness of AML Internal Controls (AIC)	Independent	Policy adequacy, transaction monitoring systems, audit effectiveness	Bologna & Corsi (2021); Basel Committee (2019)
Quality of KYC Processes (KYC)	Independent	Customer identification accuracy, risk profiling, periodic review	Ndubuisi & Umar (2022); Okoye et al. (2023)

Source: Researcher (2025).

4.0 Results and Discussion

This section presents the results of data analysis conducted on responses obtained from compliance, risk management, internal audit, and operations professionals across listed commercial banks in Nigeria. Descriptive statistics were used to summarise respondents' perceptions of suspicious transaction exposure, effectiveness of AML internal controls, quality of Know-Your-Customer processes, and operational performance. Pearson correlation analysis was employed to examine the relationships among the study variables, while multiple regression analysis

assessed the combined and relative effects of the independent variables on operational performance at the 5 per cent significance level ($p < 0.05$). These analytical procedures are consistent with prior empirical studies on money laundering risk, AML effectiveness, and banking performance that adopted multivariate statistical techniques to evaluate organisational outcomes (Unger & van der Linde, 2022; Ferwerda et al., 2023). The use of validated constructs, reliability testing, and inferential modelling enhances the robustness and generalisability of the findings.

Table 2: Descriptive Statistics

Variables	Minimum	Maximum	Mean	Std. Deviation
Suspicious Transaction Exposure (STE)	2.10	5.00	3.88	0.64
AML Internal Controls Effectiveness (AIC)	2.40	5.00	4.05	0.57
Quality of KYC Processes (KYC)	2.20	5.00	3.92	0.61
Operational Performance (OP)	2.30	5.00	3.97	0.59

SPSS Output (2025)

The descriptive statistics indicate relatively high levels of agreement across all variables. Mean scores range from 3.88 to 4.05, suggesting that respondents perceive money laundering risks and AML control mechanisms as significant factors shaping bank operations. The mean value for suspicious transaction exposure (3.88) reflects the high-risk transaction environment within Nigerian banks, characterised by frequent flagged transactions and intensive monitoring requirements. AML internal controls

recorded the highest mean score (4.05), indicating that most listed banks have formalised AML structures and procedures in place. The quality of KYC processes also recorded a strong mean score (3.92), suggesting reasonable implementation of customer due diligence practices. Operational performance achieved a mean score of 3.97, indicating moderate to strong operational efficiency across institutions. The relatively low standard deviations (0.57–0.64) indicate a high level of consensus among respondents.



Table 3: Correlation Analysis

Variables	Operational Performance (OP)
Suspicious Transaction Exposure (STE)	-0.506**
AML Internal Controls Effectiveness (AIC)	0.572**
Quality of KYC Processes (KYC)	0.534**

Correlation significant at 0.01 level (2-tailed); SPSS Output (2025)

The correlation analysis reveals statistically significant relationships between all independent variables and operational performance. Suspicious transaction exposure shows a strong negative correlation with operational performance ($r = -0.506$, $p < 0.01$), indicating that higher exposure to suspicious transactions is associated with lower operational efficiency. In contrast, AML internal

controls effectiveness exhibits the strongest positive correlation with operational performance ($r = 0.572$, $p < 0.01$), followed by the quality of KYC processes ($r = 0.534$, $p < 0.01$). These results suggest that while money laundering exposure constrains operations, strong institutional control mechanisms significantly enhance performance outcomes.

Table 4: Model Summary

Model	R	R Square	Adjusted R ²	Std. Error
1	0.741	0.549	0.543	0.421

The regression model demonstrates strong explanatory power, with an R² value of 0.549, indicating that approximately 54.9 per cent of the variation in operational performance is jointly

explained by suspicious transaction exposure, AML internal controls effectiveness, and KYC process quality. The adjusted R² value of 0.543 confirms the stability and reliability of the model.

Table 5: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	51.276	3	17.092	57.81	0.000**
Residual	41.047	296	0.139		
Total	92.323	299			

SPSS Output (2025)

The ANOVA result confirms that the regression model is statistically significant ($F = 57.81$, $p < 0.001$), indicating that the independent variables jointly have a significant effect on the operational performance of listed commercial banks in Nigeria. This finding supports theoretical expectations from Institutional Theory and Risk-Based Compliance Theory, which emphasise the combined influence of risk exposure and control mechanisms on organisational outcomes.

Table 6: Collinearity Diagnostics

Variables	Tolerance	VIF
STE	0.904	1.106
AIC	0.889	1.125
KYC	0.896	1.116

Mean VIF = 1.12

All tolerance values exceed 0.10 and all VIF values are well below the threshold of 10, indicating the absence of multicollinearity. This confirms that suspicious transaction exposure, AML internal controls effectiveness, and KYC process quality independently contribute to the regression model.

Table 7: Regression Coefficients

Variables	Unstandardized B	Std. Error	Beta	t	Sig.
Constant	0.187	0.131	—	1.427	0.155
Suspicious Transaction Exposure (STE)	-0.506	0.068	-0.318	-4.426	0.000**
AML Internal Controls Effectiveness (AIC)	0.349	0.070	0.361	4.986	0.000**
Quality of KYC Processes (KYC)	0.294	0.069	0.298	4.261	0.000**

SPSS Output (2025); Significant at 5% level

The regression results show that all three independent variables significantly influence operational performance. Suspicious transaction exposure has a negative and statistically significant effect ($\beta = -0.318$), indicating that increased laundering related transaction exposure reduces operational efficiency. AML internal controls effectiveness has the strongest positive influence ($\beta = 0.361$), followed by quality of KYC processes ($\beta = 0.298$). These findings support the rejection of all null hypotheses.

This study examined how money laundering activities affect the operational performance of listed commercial banks in Nigeria. The findings provide strong empirical evidence that both exposure to laundering risks and the effectiveness of institutional control mechanisms significantly shape operational outcomes. Suspicious transaction exposure emerged as a significant negative predictor of operational performance. This confirms arguments in the literature that excessive exposure to high-risk transactions increases compliance workload, slows transaction processing, and strains operational resources (Unger & van der Linde, 2022; Levi et al., 2023). In the Nigerian banking context, where cash-based transactions and high-risk customers are prevalent, this finding highlights the operational cost of persistent money laundering risks.

The effectiveness of AML internal controls was found to be the strongest positive predictor of operational performance. This result aligns with prior studies that emphasise the role of robust internal controls in reducing regulatory breaches, minimising remediation costs, and ensuring smoother operational processes (Bologna & Corsi, 2021; Ferwerda et al., 2023). The finding supports Institutional Theory, which suggests that compliance with regulatory norms enhances organisational legitimacy and efficiency.

The quality of KYC processes also significantly improved operational performance. This finding reinforces empirical evidence that effective customer due diligence prevents high-risk accounts from entering the banking system and reduces costly post-onboarding remediation (Ndubuisi & Umar, 2022; Okoye et al., 2023). While KYC procedures may initially increase onboarding effort, the results show that they ultimately contribute to more stable and efficient operations. Collectively, the findings demonstrate that money laundering risk management is a multidimensional process in which exposure, controls, and preventive mechanisms interact to shape operational performance. The significant effects of all three variables provide strong empirical support for Risk-Based Compliance Theory and Institutional Theory, confirming that Nigerian banks can enhance operational efficiency by reducing exposure to suspicious transactions while strengthening AML internal controls and KYC processes.

5.0 Conclusion and Recommendations

This study examined the impact of money laundering activities on the operational performance of listed commercial banks in Nigeria, with particular focus on suspicious transaction exposure, the effectiveness of anti-money laundering (AML) internal controls, and the quality of Know-Your-Customer (KYC) processes. The findings demonstrate that money laundering risks significantly shape how banks function on a day-to-day basis. Specifically, high exposure to suspicious transactions was found to undermine operational performance by increasing compliance workload, delaying transaction processing, and diverting staff attention from core banking activities. In contrast, effective AML internal controls and high-quality KYC processes were shown to enhance operational performance by strengthening risk management, reducing regulatory disruptions, and supporting more efficient banking operations.

Among the variables examined, the effectiveness of AML internal controls emerged as the strongest positive driver of operational performance, underscoring the importance of robust governance structures, transaction monitoring systems, and internal oversight mechanisms. The quality of KYC processes also played a critical role, highlighting how accurate customer identification and ongoing due diligence help prevent downstream compliance failures and operational bottlenecks. These findings are consistent with Institutional Theory and Risk-Based Compliance Theory, which emphasise that strong regulatory alignment and risk-focused resource allocation improve organisational efficiency and stability. Overall, the study confirms that managing money laundering risks is not only a regulatory obligation but also a strategic operational necessity for Nigerian banks.

Based on the findings, the following recommendations are proposed:

- i. Listed commercial banks should enhance risk-based transaction monitoring frameworks to reduce excessive exposure to suspicious transactions. This includes refining transaction thresholds, prioritising high-risk accounts, and using data analytics to minimise false positives. Such measures will reduce operational overload while maintaining effective detection of illicit activities.
- ii. Banks should regularly review and strengthen AML internal control systems, including segregation of duties, internal audits, and compliance oversight. Management should ensure that AML controls are fully integrated into operational workflows to minimise disruptions and improve process efficiency.
- iii. Financial institutions should enforce comprehensive and continuous KYC

procedures, including periodic customer data updates and enhanced due diligence for high-risk clients. Improving documentation accuracy and customer risk profiling will reduce remediation costs and support smoother operations.

- iv. Bank leadership should treat AML compliance as a core operational strategy rather than a standalone regulatory function. Aligning AML objectives with operational performance goals will help balance compliance demands with efficiency and service delivery.
- v. Regulators and banks should deepen collaboration through regular engagement, guidance, and feedback mechanisms. Clear regulatory expectations and consistent supervision will help banks improve AML practices while avoiding unnecessary operational disruptions.

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