

# Maintaining Financial Integrity

The Bank is committed to upholding the integrity of Malaysia's financial system by ensuring compliance to AML/CFT standards to detect and prevent abuse by criminals.

## The Bank's Role

As the competent authority under the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 (AMLA 2001), the Bank in collaboration with various stakeholders plays a key role in ensuring a holistic and robust national anti-money laundering and countering financing of terrorism (AML/CFT) framework is in place. This includes its role as the country's financial intelligence unit (FIU) and the AML/CFT supervisory authority for reporting institutions which consist of financial institutions<sup>1</sup>, non-bank financial institutions (NBFIs)<sup>2</sup>, and designated non-financial businesses and professions (DNFBPs)<sup>3</sup>. The Bank also serves as the chair and secretariat of the National Coordination Committee to Counter Money Laundering.

## National Coordination Committee to Counter Money Laundering (NCC)

The NCC, which was established in 2000, has continued to drive coordination, implementation

and monitoring of AML/CFT initiatives at the national level by serving as an inter-agency platform to ensure cohesive and responsive actions in tackling emerging and evolving money laundering and terrorism financing (ML/TF) risks. The NCC Roadmap 2021-2023 (NCC Roadmap) with 67 initiatives were developed to uphold the integrity of our national AML/CFT regime and the financial system, and at the same time, ensuring Malaysia's compliance with international standards set by the Financial Action Task Force (FATF). As at end 2022, one third of these initiatives have been completed or are progressing well for ongoing action plans, with the remaining two thirds on track to be completed by end 2023. Some of the initiatives carried out in 2022 are discussed in this chapter, including establishment of the National Scam Response Centre, formalisation of collaboration between the Bank and the Companies Commission of Malaysia (SSM), enhancement to supervisory practices as well as other awareness activities.

## Sharing of Financial Intelligence<sup>4</sup> and Supporting Law Enforcement

The Bank, through the FIU, receives, analyses and discloses financial intelligence to relevant domestic law enforcement agencies and where relevant, to foreign financial intelligence units. The successful use of financial intelligence to combat crimes depends upon the quality and timeliness of suspicious transaction reports (STRs) and cash threshold reports (CTRs) received from reporting institutions. For this, reporting institutions are required to ensure its customers onboarding and transactions monitoring processes can effectively identify any behaviour or transactions that appear out of the ordinary, as no other parties have access to customers' accounts. Reporting institutions must

<sup>1</sup> Refer to licensed banks, investment banks, Islamic banks, insurers, takaful operators, money services business; prescribed development financial institutions; approved issuers of designated payment instruments and designated Islamic payment instruments, financial advisers, Islamic financial advisers, insurance brokers, takaful brokers.

<sup>2</sup> Refer to Lembaga Tabung Haji and institutions carrying on activities relating to building credit, leasing or factoring business.

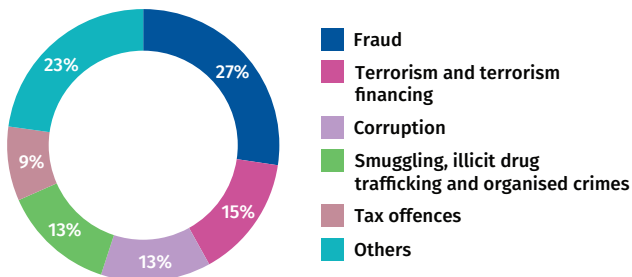
<sup>3</sup> Refer to lawyers, accountants, company secretaries, trust companies, dealers in precious metals or precious stones, casinos, gaming businesses, registered estate agents, moneylenders and pawnbrokers.

<sup>4</sup> Refers to information received and held by the financial intelligence unit (FIU), such as suspicious transaction reports, cash threshold reports as well as results of the FIU's analyses.

also ensure that their employees are adequately trained to pick up the irregularities in their engagements with customers. These would enable reporting institutions to report STRs to the FIU, in a timely manner. For greater operational efficiency, reporting institutions are increasingly adopting technological solutions for onboarding of customers and continuous transactions monitoring.

In 2022, 242,914 STRs were received, a 27% increase from 2021. Both STRs on fraud and money laundering offence continued to increase. High-risk crimes<sup>5</sup> represent approximately 70% of the FIU’s disclosures to law enforcement agencies and foreign FIUs. The remaining 30% involved other crimes such as tax offences, human trafficking and illegal remittance. These disclosures resulted in the arrests of 51 individuals, freezing and seizing of assets of more than RM570 million as well as revenue recovery of RM372 million in relation to crimes such as organised crimes and tax offences.

**Chart 1: Financial Intelligence Disclosures by Serious Offences in 2022**



Note: "Others" include offences related to proliferation financing, human trafficking and migrant smuggling, illegal remittance, etc.

Source: Bank Negara Malaysia

Efforts were also taken to enhance reporting institutions’ transactions monitoring capabilities for effective detection of suspicious transactions. In 2022, the Bank issued a number of advisories and reports to raise awareness among the reporting institutions on emerging risks and trends, common modus operandi and prevalent high-risk crimes. The Bank also held engagement sessions on the expected standards of suspicious transaction reporting. The goal is to improve reporting institutions’ analytical capability for better quality STRs going forward.

<sup>5</sup> High risk crimes refer to fraud, corruption, organised crimes, smuggling and drugs trafficking, as identified under the National Risk Assessment on ML/TF 2020. In addition, terrorism, terrorism financing and proliferation financing are also deemed as priority from national security perspective.

## Measures to Elevate and Coordinate Fraud Response

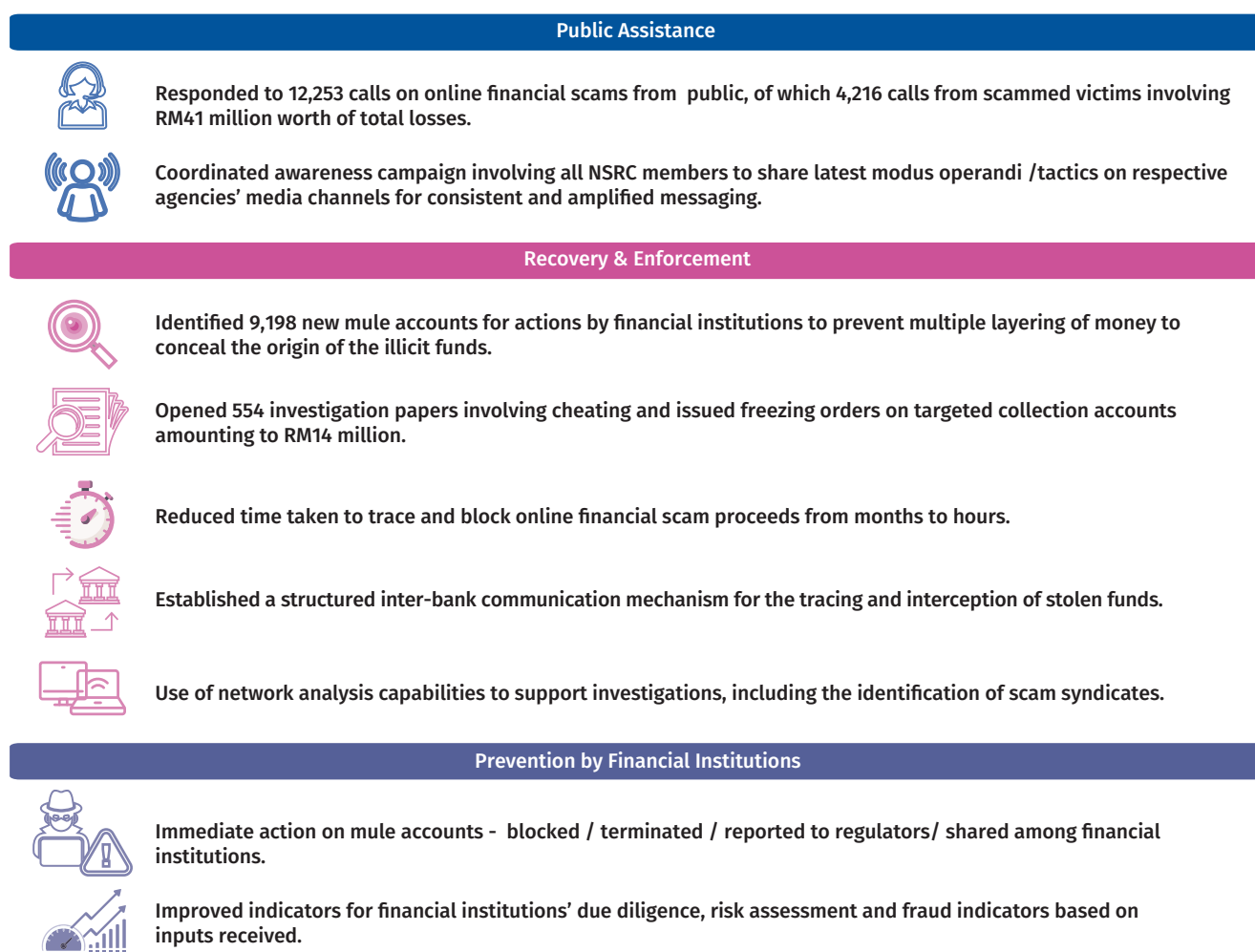
Fraud continued to rank as one of the top high-risk crimes in all three iterations of the national risk assessment (NRA) on ML/TF since 2013. One aspect of fraud that has been on the rise since the pandemic is online financial scams. Similar observations have been seen globally, where criminals have sought to exploit the pandemic to commit scams, fraud and cybercrime, resulting in the Financial Action Task Force (FATF) setting a priority to assess the challenges and related money laundering techniques, as well as facilitating the sharing of best practices with member countries.

Recognising the need for a coordinated rapid and effective response to combat online financial scams, the National Scam Response Centre (NSRC) was established in October 2022. The NSRC brings together a diverse range of resources and expertise from the National Anti-Financial Crime Centre (NFCC), Polis Diraja Malaysia (PDRM), the Bank and the Malaysian Communications and Multimedia Commission (MCMC) as well as financial institutions and telecommunication companies. The NSRC’s detection of fund flows facilitated improvements in tracing and intercepting online scam proceeds. Diagram 1 provides more details on the NSRC’s progress.

Given the cross-border nature of fraud, a regional initiative called the Multi-jurisdictional Anti-Fraud Project was undertaken in collaboration with the Singapore’s Suspicious Transaction Reporting Office (STRO) and Indonesia’s Financial Transaction Reports and Analysis Centre (INTRAC). The purpose of this project is to build a response mechanism for fraud cases that involve cross-border transactions between Financial Intelligence Consultative Group (FICG)<sup>6</sup> member countries with the aim to detect, trace and recover funds for the victims. This project will help members of the FICG share financial intelligence information quickly and easily, thus supporting swift actions by authorities to combat fraud and recover stolen money. The terms to govern the sharing of financial intelligence information between the FIUs is being finalised for adoption and is aimed to be fully operational by Q2 2023.

<sup>6</sup> The FICG is a regional body of Financial Intelligence Units (FIUs) from ASEAN 10, New Zealand and Australia. It is currently co-chaired by the Bank and Australian Transaction Reports and Analysis Centre (AUSTRAC).

Diagram 1: NSRC’s Progress and Achievements in 2022



Source: Data from NSRC as at December 2022

## AML/CFT Supervision to Elevate Compliance Culture

The Bank’s supervisory oversight in relation to AML/CFT compliance covers a vast number of reporting institutions (approximately 30,000). Given this coverage, we maintain a risk-based approach, that is to apply our supervisory focus and resources based on the materiality and risk of each institution. Additionally, the Bank continues to leverage on SupTech to facilitate analysis of large, granular data received from reporting institutions as well as data from other sources for early detection of risks and better compliance oversight.

### Supervision of the Financial Sector

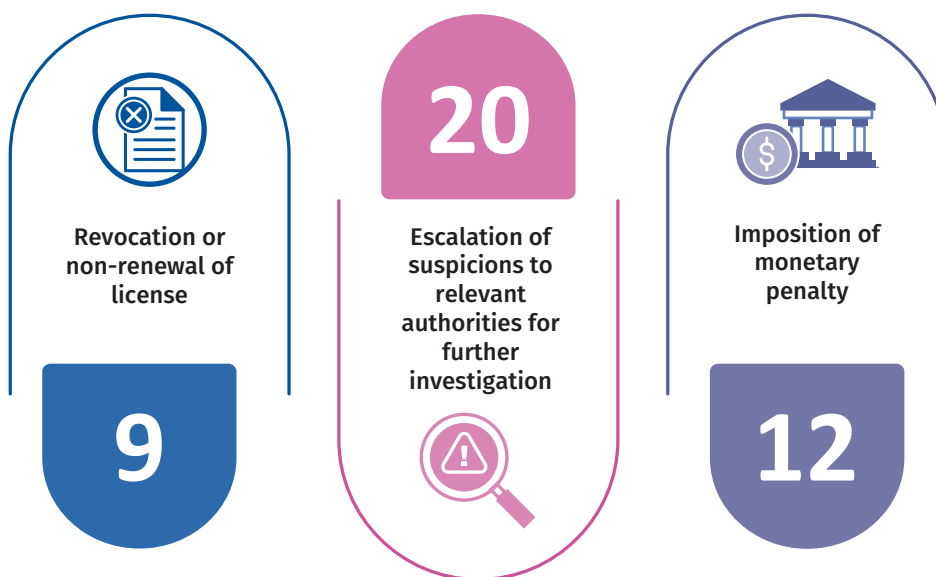
In 2022, the Bank intensified reviews on specific AML/CFT concerns and risk areas, particularly those identified in the NRA 2020 findings. Specifically,

the Bank undertook reviews on correspondent relationships, corruption, fraud and targeted financial sanctions. The review of financial sector’s compliance with requirements in managing correspondent relationships revealed that acceptable measures are in place as part of their due diligence assessments to mitigate potential ML/TF risks<sup>7</sup>.

The Bank’s usage of SupTech to monitor the money services business since 2017 has allowed for more targeted reviews on the industry. This enabled a more effective supervisory intervention to deter illegal activities and non-compliances involving money services businesses. Diagram 2 provides supervisory interventions triggered by analytical outcomes in 2022.

<sup>7</sup> The review on effectiveness of financial sector’s control measures in managing risks from corruption, fraud and targeted financial sanctions is still on-going.

Diagram 2: Interventions Triggered by Analytical Outcomes in 2022 Involving Money Services Businesses



Source: Bank Negara Malaysia

To improve overall standards of AML/CFT risk management by reporting institutions, the Bank shares outcomes of reviews conducted in the form of thematic reports. These set out best practices in the industry and our minimum AML/CFT expectations. One such report is from the thematic review on AML/CFT control measures to combat mule accounts. This review was conducted amid heightened levels of scams detected between 2019 to 2021. Among others, the review found that most of the banking institutions rely on traditional transactions monitoring mechanisms that are not ideally designed to detect mule accounts. Given the limitations of traditional transactions monitoring methods, particularly in picking up transaction patterns over time that do not fit the risk profiles of the mule account owners, banking institutions must expedite adoption of data analytics for advanced transactional and customer behaviour analyses, considering the evolving risks and methods. For banking institutions with areas for improvement, the Bank issued supervisory letters requiring concrete plans to address the gaps identified.

Beyond the thematic reports, the Bank also expanded information-sharing across the financial industry. In 2022, the Bank organised the inaugural compliance dialogue for the non-bank electronic money issuers to discuss compliance concerns and implementation challenges. The session included discussions on the latest modus operandi of fraud

schemes, as well as supervisory concerns and expectations to elevate compliance levels.

**Supervision of Designated Non-Financial Businesses and Professions (DNFBPs) and Non-Bank Financial Institutions (NBFIs)**

As the competent authority, the Bank conducts AML/CFT supervision on DNFBPs and NBFIs. The Bank’s risk-based supervisory approach on these sectors has evolved since 2016<sup>8</sup>. In 2022, the Bank has taken more stringent enforcement approach on identified non-compliances in order to instil greater compliance culture, including the issuance of Directive Orders<sup>9</sup>.

The Bank continued the use of its off-site monitoring tool, the refined Data and Compliance Report (DCR)<sup>10</sup> to require more granular data and compliance information. In 2022, with further refinements in the

<sup>8</sup> In 2016, the Bank established a dedicated supervisory unit to oversee AML/CFT matters for DNFBPs and NBFIs in light of the growing sophistication and complexity of ML/TF risks from these sectors.

<sup>9</sup> Refer to an order issued pursuant to section 22 of the AMLA 2001 to direct a reporting institution to carry out remedial measures of non-compliances within a certain duration failing which the reporting institution can be liable for a fine. Under section 92 of the AMLA 2001, the Bank may also, with the agreement of Deputy Public Prosecutor, issue compound for non-compliance.

<sup>10</sup> DCR is one of the supervisory tool adopted by the Bank as the competent authority, which allows the Bank to assess the reporting institutions’ exposure to ML/TF risks while allowing reporting institutions to self-assess and understand their compliance to the AML/CFT requirements. The DCR is issued pursuant to sections 8(3) (a), 16(6) and 25(2) of the AMLA 2001 read together with section 143(2) of the Financial Services Act 2013 and section 155(2) of the Islamic Financial Services Act 2013.

process, the DCR submission by reporting institutions increased by 55% from the previous year. This wide-ranging risk and operational data collected from reporting institutions via DCR, complemented with the use of data analytics, led to improved understanding of institutional level ML/TF risks and efficiency of supervisory processes. With this, the Bank was able to more accurately identify reporting institutions with higher ML/TF risk exposures and areas of high ML/TF risks for targeted supervisory attention. The reporting institutions were also informed on the specific areas for improvement at institutional level.

Over the years, the Bank has fostered progressive informal collaborations with other regulatory and supervisory authorities of DNFBPs. This enables the Bank to better coordinate and combine efforts with respective authorities' to jointly achieve an effective AML/CFT supervisory oversight. In 2022, the Bank formalised its partnership with the Companies Commission of Malaysia (SSM), as the regulatory authority for company secretaries and trust companies, through a Terms of Collaboration (TOC). This has led to more collaborative initiatives such as the joint issuance of DCR, and SSM led joint on-site examinations on company secretaries. The Bank and SSM also jointly issued a "Reference Note on Beneficial Ownership for Legal Persons" to clarify respective regulatory expectations. Similar arrangements with other self-regulatory authorities in the legal and accounting sectors are planned in the near future.

A multi-pronged awareness strategy was adopted for DNFBPs and NBFIs given the large number of reporting institutions. In 2022, the Bank conducted 47 engagement sessions to communicate its regulatory and supervisory expectations. This was complemented by industry-led AML/CFT programmes, led by certified industry experts from the Bank's 'Train-the-Trainer' programme which was introduced in 2021. The Bank also continued to produce regular newsletters on AML/CFT topics to ensure DNFBP sectors are updated with latest developments.

## Going Forward

The Bank is committed to upholding the integrity of the Malaysian financial system by ensuring compliance to AML/CFT standards to detect and prevent abuse by criminals. In doing so, our efforts will continue to focus on the three key thrusts in relation to AML/CFT measures as outlined in the Financial Sector Blueprint 2022 – 2026:

1. Enhance integrated efforts and improve coordination to better prevent, detect, disrupt, and dismantle financial crimes at the earliest opportunity;
2. Deepen our understanding of emerging and higher ML/TF risk areas and develop appropriate policy responses; and
3. Encourage industry-led collaborative initiatives to elevate compliance culture.