

# Maintaining Financial Integrity

Bank Negara Malaysia (BNM) continues to strengthen collaborative efforts and improve AML/CFT coordination to better prevent, detect, disrupt and dismantle financial crimes.

## BNM's Role

As the competent authority, BNM administers the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 (AMLA 2001). This includes our role as the country's financial intelligence unit (FIU) and the anti-money laundering, and countering financing of terrorism (AML/CFT) supervisory authority for reporting institutions.<sup>1</sup> BNM collaborates with various stakeholders in ensuring a holistic and robust AML/CFT framework is in place. In doing so, we leverage on the National Coordination Committee to Combat Money Laundering (NCC), a national inter-agency platform<sup>2</sup> that is responsible for the coordination, implementation and monitoring of Malaysia's AML/CFT initiatives.

The NCC Roadmap 2021-2023 (NCC Roadmap) was developed to ensure cohesive implementation of targeted measures to uphold the integrity of our national AML/CFT regime, and to ensure compliance with international standards set by the Financial Action Task Force (FATF). As most of the action plans are nearing completion, the NCC is developing a new set of strategic plans. This will chart the way forward to

further strengthen AML/CFT initiatives and to enhance the countering proliferation financing (CPF) regime in Malaysia. The new Roadmap is expected to be implemented in the second half of 2024.

As a member of the FATF and the Asia/Pacific Group on Money Laundering (APG), Malaysia undergoes Mutual Evaluation (ME) on a periodic basis. The previous ME for Malaysia was conducted in 2015.<sup>3</sup> The ME is a peer review assessment process<sup>4</sup> by member countries, covering core areas such as legal and institutional frameworks, preventive measures and enforcement actions taken. Results of ME reports are important reference points for the international financial community in the evaluation of a country's efforts to enhance its AML/CFT regime in line with global standards, as well as ensuring consistency of applying the standards across jurisdictions to enhance overall effectiveness in combating financial crimes. The upcoming ME of Malaysia in 2024-25 will focus on assessing compliance and effectiveness in complying with the revised FATF Standards<sup>5</sup>, including the measures taken to address the gaps identified in Malaysia's 2015 ME report.

As the ME process requires a whole-of-nation approach, an ME Taskforce, comprising of representatives from NCC members, was established in February 2023 to ensure the coordination and readiness of stakeholders<sup>6</sup> in undergoing this process. The Taskforce directed much of its focus during the year to assess the gaps and formulate action plans to ensure Malaysia's compliance with FATF Standards. The Taskforce also facilitated identification of appropriate resources among NCC members to implement necessary reforms and enhancements to regulatory and supervisory measures.

<sup>1</sup> Reporting institutions are defined in the First Schedule of AMLA 2001. It includes financial institutions, Non-Bank Financial Institutions (NBFIs) and Designated Non-Financial Businesses and Professions (DNFBPs).

<sup>2</sup> Members include the Attorney General's Chambers, Companies Commission of Malaysia, Immigration Department of Malaysia, Inland Revenue Board of Malaysia, Labuan Financial Services Authority, Malaysian Anti-Corruption Commission, Ministry of Domestic Trade and Consumer Affairs, Ministry of Finance, Ministry of Foreign Affairs, Ministry of Home Affairs, Ministry of International Trade and Industry, National Anti-Financial Crime Centre, Registrar of Societies, Royal Malaysia Police, Royal Malaysian Customs Department, Securities Commission Malaysia and BNM.

<sup>3</sup> Publication of Malaysia's 2015 ME report can be accessed via <https://www.fatf-gafi.org/en/publications/Mutualevaluations/Mer-malaysia-2015.html>

<sup>4</sup> The FATF and APG conduct ME to assess member countries' compliance with international standards for combating ML/TF. These evaluations involve peer reviews, where member countries review each other's AML/CFT framework.

<sup>5</sup> The FATF Standards are internationally endorsed global standards against money laundering and terrorist financing.

<sup>6</sup> Includes financial institutions and DNFBPs.

## Strengthening International Relationships

Given the evolving and cross-border nature of financial crimes, BNM continued to strengthen our partnerships with other agencies to ensure greater cross-border coordination. In February 2023, we entered into an enhanced MoU with the Australian Transaction Reports and Analysis Centre (AUSTRAC). Building on the

agreement of the MOU in 2003, the enhancements included expansion of its coverage to allow closer cooperation on security challenges facing the region under the Comprehensive Strategic Partnership (CSP) framework between Malaysia and Australia. We also engaged with the Financial Follow-Up Unit, State of Palestine to finalise an MOU to facilitate the exchange of financial intelligence. This MOU was signed on the sidelines of the Egmont<sup>7</sup> Plenary meetings in January 2024.

### AML/CFT capacity-building initiatives led by BNM



*Technical assistance programmes held for the Qatar Financial Information Unit in May and August 2023.*



*FATF Standards Training Course for APG members in November 2023.*

<sup>7</sup> The Egmont Group of Financial Intelligence Units (FIUs) provides a platform for the secure exchange of expertise and financial intelligence to combat ML/TF, whilst fostering better communication of FIUs.

BNM also continued to represent Malaysia as the co-chair of the Financial Intelligence Consultative Group (FICG).<sup>8</sup> We successfully hosted the virtual AML/CFT Hackathon from June to July 2023, in partnership with FICG. The hackathon provided an avenue to showcase innovative ideas to combat financial crimes and design

thinking to promote collaboration between the private and public sectors. BNM also continued to collaborate with other FICG members such as Singapore, Indonesia, Philippines and Australia to combat transnational financial crimes under the Multi-Jurisdictional Anti-Fraud Project and the Regional Information Sharing Platform.<sup>9</sup>

## AML/CFT Regional Collaboration Efforts on Digitalisation: Conclusion of the AML/CFT Hackathon 2023

With the theme 'Outsmarting Financial Crime with Innovative Solutions', the aim of the virtual AML/CFT Hackathon was to encourage innovative approaches to combat financial crimes using cutting-edge digital technology.

Over 660 individuals from over 20 countries from the Asia and Pacific region participated in the hackathon. Participation came from various segments of society, including regulatory bodies and law enforcement agencies (LEAs), financial institutions, the fintech community and academia.

Three winning prototypes were selected from 43 shortlisted submissions. The three prototypes showcased the potential for advanced capabilities to synthesise and stay ahead of sophisticated financial crimes by leveraging digital tools. Details on the three winning prototypes are set out in Diagram 1. As society becomes increasingly digitalised, BNM will continue to promote the adoption of technology to advance AML/CFT prevention and enforcement efforts.

Diagram 1: Winning Teams' Prototypes

	Verifier (Australia)	RMATES (Malaysia)	KoderX (Singapore/Malaysia)
<b>Description</b>	A secure platform for banks to share insights on customer's financial crime risks with privacy protection	A tool that detects patterns and alerts anomalies in mobile device digital footprints for real-time identification of suspicious activities	A defence mechanism against malware and impersonation fraud, with a secure end-to-end encryption
<b>Key benefit</b>	Insightful platform for intelligence agencies	Preventing risk of financial losses for consumers	Enhancing bank-client communication
<b>Tech feature</b>	Safe and secure data-sharing using non-sensitive personal data	Anomaly analyser powered by machine learning models	An app protected by a secure encryption algorithm

Source: Bank Negara Malaysia

<sup>8</sup> FICG, a collective regional body, consisting of heads and senior representatives of Financial Intelligence Units (FIUs) from ASEAN, New Zealand and Australia.

<sup>9</sup> Further reading on BNM's international and regional AML/CFT initiatives can be found in Chapter 2.5 International Engagements.

## AML/CFT Supervision to Elevate Compliance Culture

BNM adopts a risk-based approach in supervising AML/CFT compliance for over approximately 30,000 reporting institutions across various sectors. We apply our supervisory focus and resources based on assessment of the materiality and risk of the sectors and institutions.

The effectiveness of AML/CFT compliance is anchored on strong supervision and clear expectations set on the reporting institutions that are aligned to the international standards set by FATF. During the year, BNM revised the AML/CFT and Targeted Financial Sanctions (TFS) for Financial Institutions (FIs), as well as the Designated Non-Financial Businesses and Professions (DNFBPs) and Non-Bank Financial Institutions (NBFIs) policy documents in line with the revised FATF Standards. Seven industry engagements were conducted with FIs and DNFBPs to socialise the key amendments articulated in the revised policy documents. These policy documents have been issued in February 2024.

BNM continued with its efforts to increase awareness across the private and public sectors to uphold a culture of integrity, transparency and accountability. Industry conferences on AML/CFT are one of the means for BNM to advance this agenda. One such instance is BNM's collaboration with the Asian Institute of Chartered Bankers (AICB) to organise the International Conference on Financial Crime and Terrorism Financing (IFCTF). We also provided technical expertise for *Suruhanjaya Syarikat Malaysia's* (SSM) National Conference. These events provided an avenue for key players from the private and public sectors to discuss the latest trends in financial crimes and AML/CFT compliance matters with a range of diverse experts and experienced practitioners.

BNM continues to adopt a multi-channel strategy to strengthen the awareness of the DNFBP sectors on the latest AML/CFT initiatives. This includes issuing periodic newsletters, which are accessible by DNFBP reporting institutions through the designated 'E-Platform channel'. The E-Platform, which was launched in 2022, now has been fully subscribed by a majority of the DNFBP sectors (approximately 28,000 registered users). Our outreach programmes are also complemented with industry-led initiatives, such as the sharing of best practices to support the industry's compliance with supervisory and regulatory expectations.

BNM uses various supervisory tools to effectively carry out risk-based supervision of DNFBPs and NBFIs. We focused our onsite and off-site supervisory reviews on reporting institutions in higher risk sectors, resulting in 161 supervisory engagements conducted in 2023, more than a two-fold increase from the previous year. The reviews evaluated the effectiveness of board and senior management to implement sound and robust internal risk and compliance measures to address AML/CFT risks. We also assessed the overall compliance level of the reporting institutions against our regulatory standards. Sector specific targeted assessments were also carried out, such as on the quality and adequacy of Suspicious Transaction Report (STR) submissions. As a result of the reviews, enforcement actions were taken on DNFBPs, with the issuance of directive orders and monetary penalties against non-compliances.

BNM continued to advance the deployment of supervisory technology (Suptech) solutions in supporting our supervisory activities. In 2023, automated assessments on the implementation of TFS by reporting institutions were successfully operationalised. Suptech solutions also enabled supervisors to maintain an updated profile of reporting institutions in the DNFBP sector.

In enhancing oversight, BNM collaborates with other regulatory and supervisory authorities of DNFBPs to promote better alignment and coordination on initiatives. In 2023, BNM embarked on an inaugural joint supervision of accountants with the Malaysian Institute of Accountants (MIA) to assess and enhance AML/CFT compliance within the accounting fraternity.

## Sharing of Financial Intelligence and Supporting Law Enforcement

BNM remains committed to effectively share financial intelligence through its FIU, to support the detection and deterrence of financial crimes. As such, the FIU works closely with domestic LEAs and where relevant, foreign FIUs to support financial investigations on money laundering and terrorism financing (ML/TF) activities.

In 2023, reporting institutions submitted 317,435 STRs, a 31% increase from the previous year. Fraud remained the top reported suspected offence, accounting for 23% of the total STRs reported. The other reported offences were mainly on suspected money laundering, tax offences and organised crimes. The number of STRs

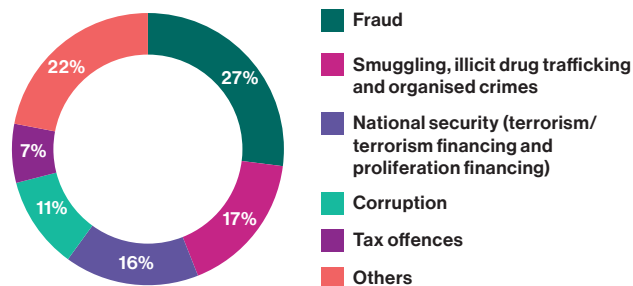
## Maintaining Financial Integrity

received in 2023 has more than doubled since 2020. To process and analyse the large number of STRs received, we continue to leverage on technology, including data analytics capabilities. BNM has been collaborating closely with supervisory authorities and engaging with reporting institutions regularly to improve STR reporting mechanisms and quality. This is undertaken through individual or industry-wide engagement sessions – one of which was the AML/CFT Compliance Workshop 2023 organised by BNM for the insurance and takaful sector. Such sessions aim to improve awareness on the expected standards of suspicious transaction reporting, as well as sharing of emerging risks and *modus operandi* of prevalent high-risk crimes.

The FIU actively shared financial intelligence with domestic LEAs and more than 50 foreign FIU counterparts in 2023 to support cross-border investigations. Approximately 71% of the disclosures made to domestic LEAs and foreign FIUs during the year relate to high-risk crimes<sup>10</sup> (Chart 1).

The disclosures and continuous close engagement between the FIU and LEAs have supported ongoing investigations on major crimes such as drugs trafficking, smuggling, corruption, organised crimes and fraud. These investigations resulted in the arrests of more than 100 individuals, seizure of criminal proceeds and revenue recovery of above RM290 million. The disclosures also supported the monitoring and investigation of cases related to national security<sup>11</sup> matters.

**Chart 1: Financial Intelligence Disclosures by Serious Offences in 2023**



Note: 'Others' include offences related to environmental crimes, human trafficking and migrant smuggling, illegal remittance, etc.

Source: Bank Negara Malaysia

The National Scam Response Centre (NSRC),<sup>12</sup> established in 2022, continued to ensure swift responses to online financial scams and a more coordinated approach to aid the recovery of stolen funds. Diagram 2 provides more details on the NSRC's key outcomes.

Building on the efforts of the NSRC, the National Fraud Portal (NFP) is being developed to further strengthen Malaysia's defences against financial fraud. The NFP will be rolled out by mid-2024 and aims to elevate the capability of NSRC to respond to scams, beyond traditional enforcement approaches. Payments Network Malaysia Sdn. Bhd. (PayNet), which operates as a shared payment infrastructure in Malaysia, will be playing a central role in the NFP.

**Diagram 2: NSRC's Key Outcomes in 2023**

### NSRC Key Outcomes in 2023



Opened 8,754 investigation papers involving cheating and freeze orders on targeted collection accounts amounting to RM69 million



Identified and disrupted 59,684 suspected mule accounts to prevent multiple layering of transactions to conceal the origin of stolen funds



Attended to 66,997 calls on online financial scams from the public, of which 25,991 calls were from scammed victims

Source: Data from NSRC as at December 2023

<sup>10</sup> High-risk crimes include fraud, corruption, organised crimes, smuggling, drugs trafficking, as identified under the National ML/TF Risk Assessment (NRA) 2020, as well as terrorism/terrorism financing and proliferation financing.

<sup>11</sup> National security covers areas such as terrorism, terrorism financing and proliferation financing.

<sup>12</sup> The NSRC is a joint effort between the National Anti-Financial Crime Centre (NFCC), Polis Diraja Malaysia (PDRM), BNM, and the Malaysian Communications and Multimedia Commission (MCMC), as well as financial institutions and telecommunication companies.

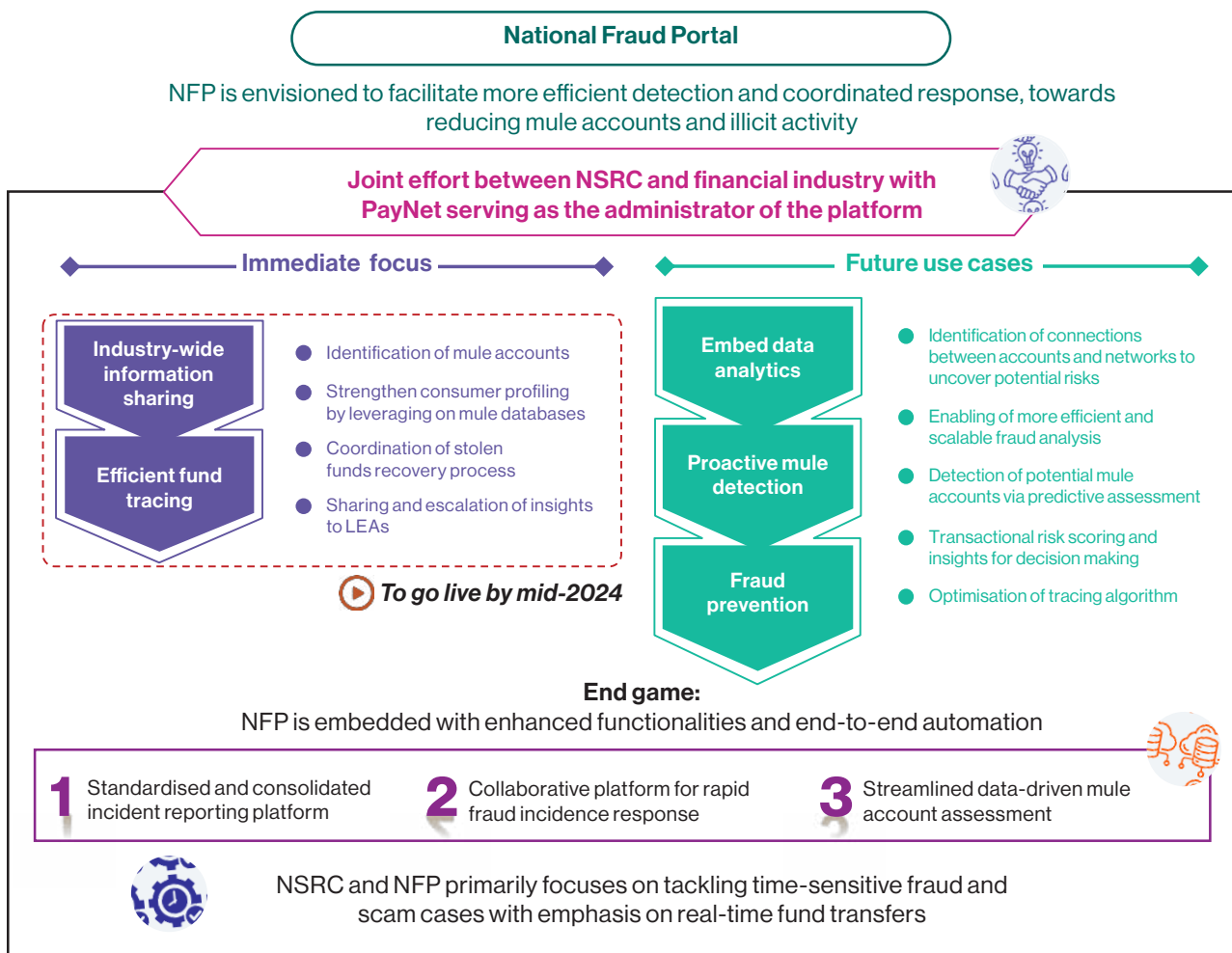
The NFP is expected to be equipped with tools to support analyses before and after the detection of fraud. These tools will in turn expedite the tracing of stolen funds and facilitate prompt actions to be taken on fraudsters and scammers. The NFP is designed with the primary capabilities to -

- Increase greater automation of the tracing process to improve recovery of stolen funds. Key to this is access to credible data and information within the payment ecosystem. On this, the NFP facilitates the integration of transaction data from various sources. It also facilitates greater information sharing among financial institutions to allow stolen funds in suspected accounts to be quickly blocked, pending further investigations.
- Support data-driven assessments and identification of mule accountholders.<sup>13</sup> The NFP will promote

greater standardisation on the classification of mule accounts by financial institutions and will serve as a comprehensive database on mule accounts. With access to a wider set of reliable information, this feature within the NFP is expected to improve how financial institutions identify mule accounts and inform their next course of actions. This may include blocking and restricting access to the account, as well as conducting enhanced monitoring on the mule accounts.

In the future, the NFP may include other functionalities that provide predictive analytics to facilitate pre-emptive actions to combat fraud. This may include detecting and halting transactions that are suspected to be fraudulent to reduce fraud losses. These functionalities will also enable quicker escalation of fraud cases to PDRM and faster initiation of legal actions.

**Diagram 3: National Fraud Portal (NFP)**



Source: Bank Negara Malaysia

<sup>13</sup> Mule accountholders are individuals who allow their accounts to be used by another person to deposit fraudulent funds.

## Going Forward

We are committed to uphold the integrity of the Malaysian financial system. In 2024, focus will be directed to

implementing the strategies and action plans outlined in the NCC Roadmap. Collectively, this will elevate and strengthen Malaysia's AML/CFT/CPF regime, and the fight against financial crimes.

## BNM's Enforcement Approach and Disclosures of Enforcement Actions

In discharging its mandate, BNM exercises its powers to take supervisory and enforcement actions against financial institutions and other parties that contravene the laws administered by us. This is important to promote financial stability, protect consumers and preserve the integrity of our financial system. BNM discloses enforcement actions taken to serve as an important deterrent against future misconduct and irresponsible behaviour.

### Role of the Enforcement Committee at BNM

The Enforcement Committee (EC) is responsible for deliberating and deciding on enforcement actions to be imposed on financial institutions for breaches of applicable laws and regulatory requirements (Diagram 1). Operating through the power delegated by the Governor under the respective laws, it acts to ensure objective, fair and consistent decisions on proposed enforcement actions. Members of the EC comprise BNM's Deputy Governors and the relevant Assistant Governors in charge of regulation, supervision and enforcement matters.

**Diagram 1: Laws Currently Administered by Bank Negara Malaysia**

Central Bank of Malaysia Act 2009
Financial Services Act 2013
Islamic Financial Services Act 2013
Development Financial Institutions Act 2002
Money Services Business Act 2011
Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001
Currency Act 2020

Source: Bank Negara Malaysia

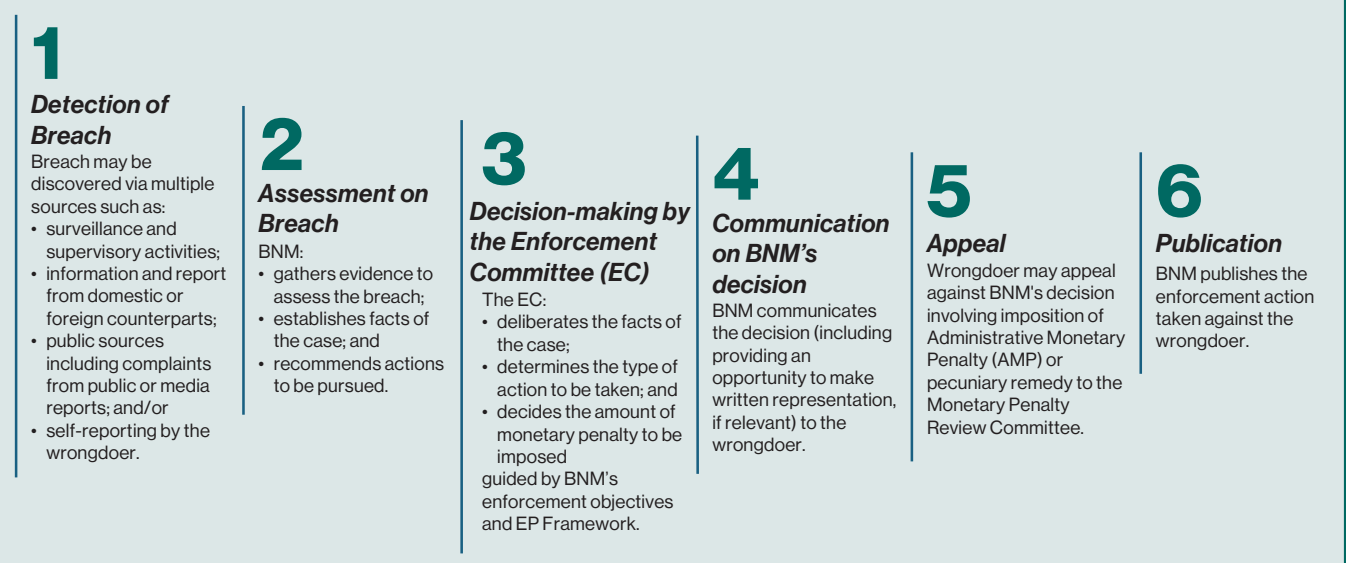
### BNM's enforcement and penalty framework

Enforcement decisions by BNM are guided by the Enforcement and Penalty (EP) Framework. The EP Framework outlines the enforcement tools<sup>1</sup> provided under the laws administered by BNM also provides specific guidance on the determination of appropriate enforcement actions, including the computation of monetary penalties. A key consideration that goes into these decisions is the severity of the breach. The determination of severity is made by evaluating many factors, including any adverse impact to third parties or broader public interest arising from the breach, and whether the breach points to a more serious breakdown in governance and controls within financial institutions.

Where monetary penalties are considered, BNM's relevant laws stipulate the maximum penalty that can be imposed. Within these limits, the EC arrives at an appropriate and proportionate penalty after taking into account aggravating and mitigating factors such as the severity of the breach, the extent of care and due diligence taken to mitigate the breach, and effectiveness of actions taken to prevent future misconduct. Additionally, the EC also considers the deterrent effect of enforcement actions to reinforce a strong compliance culture. Diagram 2 outlines the typical process for enforcement actions undertaken by the EC.

<sup>1</sup> Enforcement tools include administrative monetary penalty (AMP), instruction to remedy breach, and public or private reprimand.

**Diagram 2: Overview of Bank Negara Malaysia's Enforcement Process**



Source: Bank Negara Malaysia

**Disclosure of enforcement actions**

Since 2019, enforcement actions are published by BNM on its website. The publication notices set out details of the breach, including the relevant provisions of legislation that were breached, a description of the nature of the offences and the enforcement actions taken. Where the offender is a regulatee of BNM, information is also provided on any actions required or taken to remedy the breach. We also disclose aggregate information on our supervisory and enforcement actions in our annual reports.

Taking steps to disclose our enforcement actions is how we ensure accountability for enforcement actions taken by BNM and promote public confidence in BNM's role as a regulator and supervisor of the financial system. As earlier noted, the disclosures also serve to provide a credible deterrent against future breaches and misconduct, as well as provide learning points to the other players in the industry.