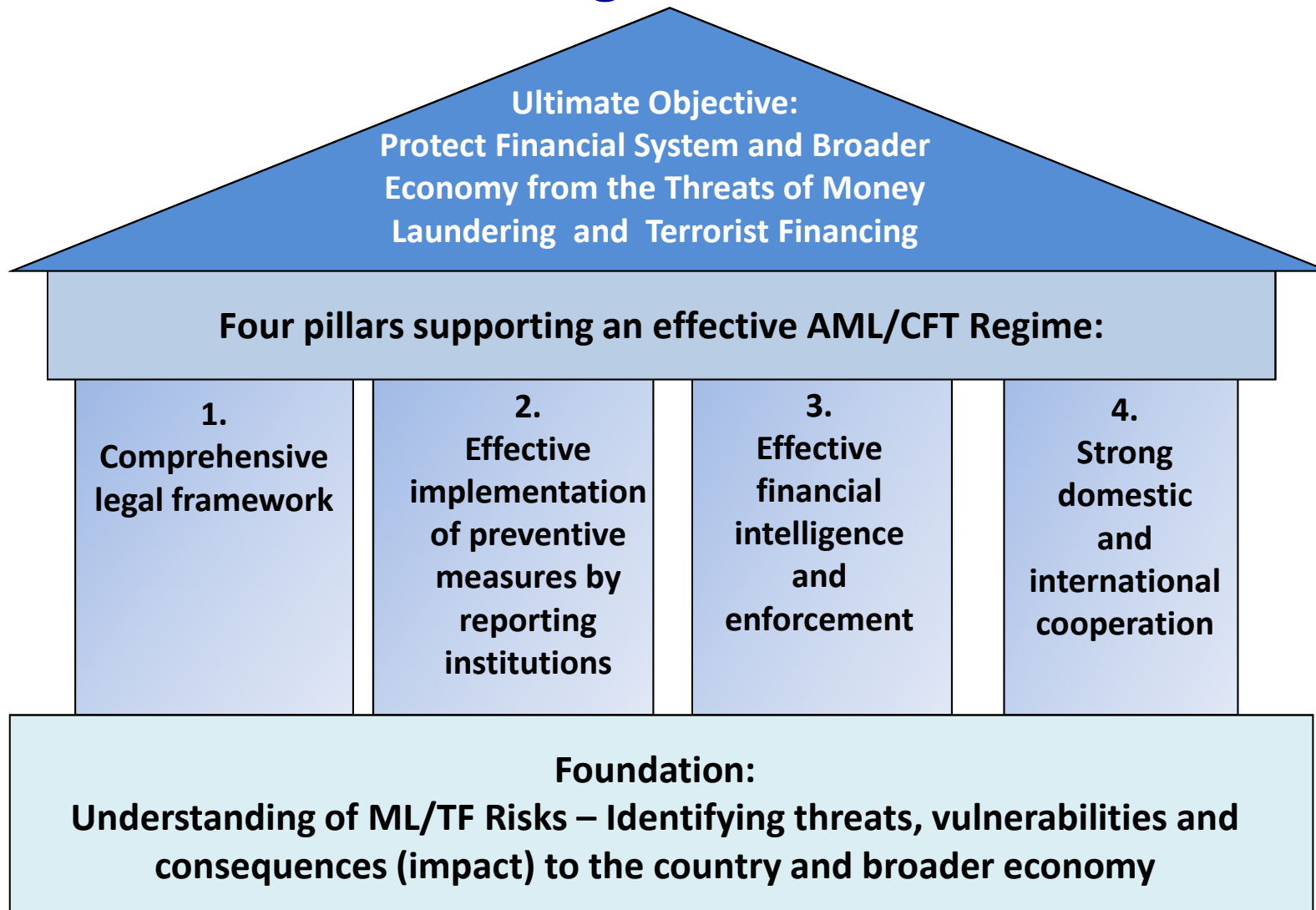


Malaysia's National Risk Assessment



Cooperation and collaboration are vital for an AML/CFT regime to be effective



Purpose of NRA

The FATF Recommendations

- ✓ Application of AML/CFT measures commensurate with the identified risks
- ✓ Risk based approach is the central for AML/CFT measures

To identify, assess, and understand key money laundering / terrorist financing threats and vulnerabilities facing the country.

- Identification ML/TF trends and pattern
- Determine ML/TF threats and vulnerabilities



To apply appropriate control measures to mitigate the risks

- Changes to anti-money laundering/counter-financing of terrorism (AML/CFT) policies and framework
- Inputs towards the development of AML/CFT Strategic Plan
- Assist in the allocation and prioritization of AML/CFT resources

Outputs:

1. NRA
2. Sectoral assessment
3. Other risk assessment
4. Statistical analysis

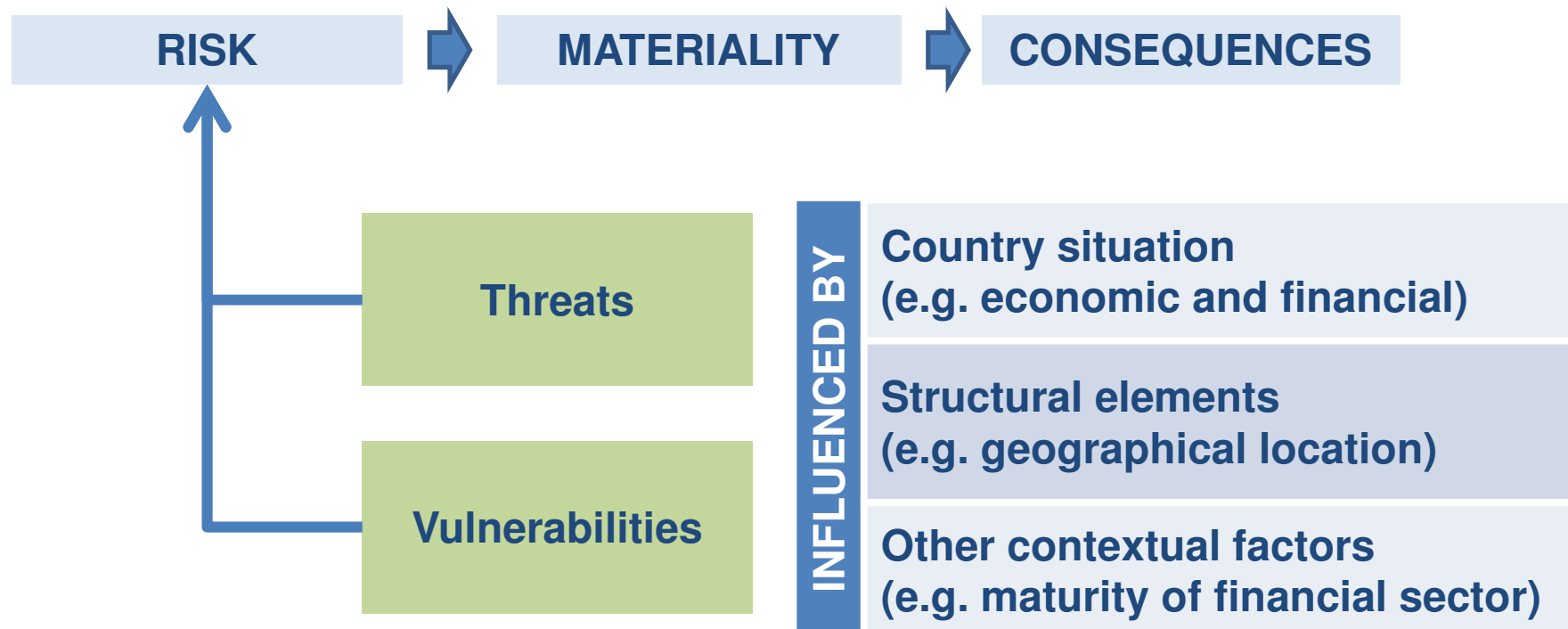
Outputs:

1. Amendment to law
2. Revision of guidelines/policies
3. Guidance to reporting institutions
4. AML/CFT Strategic Plan
5. Manpower review, budget allocation



Risk and Context

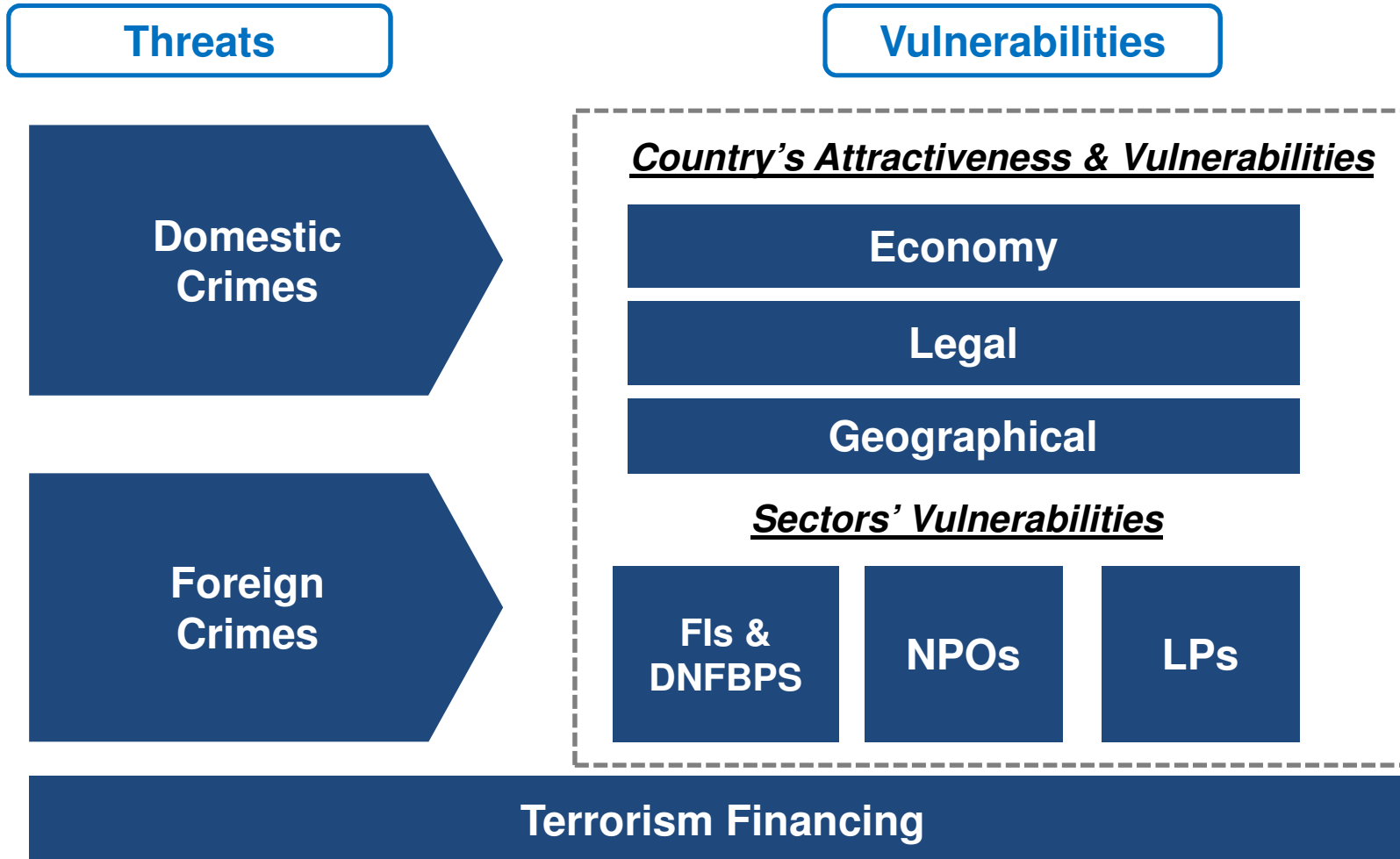
FATF's new assessment methodology focuses on:



Understanding of risk and more importantly, the effectiveness of risk mitigation measures will be key to the MEE and ratings



Scope of NRA



Note:

1. FIs Financial Institutions
2. DNFBPs Designated Non-Financial Businesses & Professions
3. NPOs Non-Profit Organizations
4. LPs Legal Persons



Methodology of NRA

Threats

Domestic Crime

Foreign Crime

Vulnerabilities

Economy

Legal

Geographical

FIs & DNFBPS

Non-Profit Organizations

Legal Persons

Terrorist Financing

| Statistical Data | Perception Survey | Independent /External Reports | Expert Views |
|------------------|-------------------|-------------------------------|--------------|
| ✓ | ✓ | ✓ | ✓ |
| ✓ | ✓ | ✓ | ✓ |
| | | | |
| ✓ | n/a | ✓ | ✓ |
| ✓ | n/a | ✓ | ✓ |
| ✓ | n/a | ✓ | ✓ |
| ✓ | ✓ | ✓ | ✓ |
| ✓ | n/a | n/a | ✓ |
| ✓ | n/a | n/a | ✓ |
| ✓ | ✓ | ✓ | ✓ |

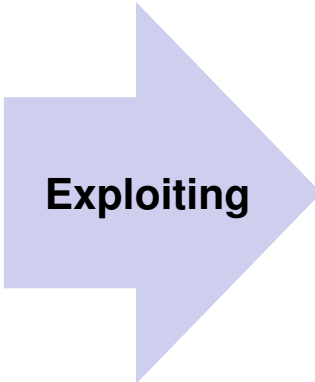


NRA Result – Relationship between Threats and Vulnerabilities

Crimes that pose high ML threat – generating potential illegal funds



1. High incidents and proceed generated
2. Perceived as high extent & impact
3. Conform with int./independent reports



Sectors that are highly vulnerable to ML



1. Huge financial size / High volume of transactions
2. High accessibility
3. Attractiveness to ML
 - Cash intensity
 - Store of values
 - Fund transfer facility
 - Cross border element
 - Various delivery channels
4. High Incidents of ML going thru the sectors – e.g. STRs, investigation

Influenced by Country's Vulnerabilities Factors

| <i>Economic</i> | <i>Geographical</i> | <i>Legal</i> |
|--|---|---|
| <ul style="list-style-type: none"> • Highly cash-based economy • Well diversified financial sectors & high integration with international financial markets • High existence of non-bank remittance transfer • High international trade - Prone to trade-based ML • High % of informal economy • Large volume of physical movement of currency | <ul style="list-style-type: none"> • Porous border – easy movement • Lack of border control • Gaps in maritime security • High arrival of tourist | <ul style="list-style-type: none"> • Knowledge & understanding of judiciary • Rotating judges • Gap in existing framework of fin. crimes enforcement • Poor controls & accountability framework |

Domestic Threat – Rank of Prevailing Crimes

| | | IMPACT | | |
|-------------------|--------|-------------|---|---|
| | | LOW | MEDIUM | HIGH |
| EXTENT OF THREATS | HIGH | | | <ul style="list-style-type: none"> • Fraud • Smuggling (incl. customs & excise duties evasion) • Drugs • Tax crimes • Corruption & bribery |
| | MEDIUM | | <ul style="list-style-type: none"> • Forgery • Theft & robbery • Counterfeiting of currency <p>Terrorism Financing</p> | <ul style="list-style-type: none"> • Organized crimes • Human trafficking & migrant smuggling |
| | LOW | | <ul style="list-style-type: none"> • Counterfeiting & piracy of products • Insider Trading & market manipulation • Murder • Environmental crimes • Extortion • Kidnapping • Sea piracy | <ul style="list-style-type: none"> • Sexual exploitation • Arms trafficking |
| Level of Risk: | | High | Medium | Low |



ML Risk – Financial Sectors

- Inherent risk – without consideration of control measures

| | | <i>Likelihood</i> | | |
|-------------------------|--------|---|--|--|
| | | POSSIBLE | LIKELY | VERY LIKELY |
| Extent of Vulnerability | HIGH | | | <ul style="list-style-type: none"> Banking (incl. BSN, Bank Rakyat, Agro Bank) Money Changers Non-bank remittance service providers |
| | MEDIUM | <ul style="list-style-type: none"> Stockbroking Leasing & Factoring Life insurance Money Lenders Non-bank cards E-money | <ul style="list-style-type: none"> Fund mgt. co / unit trust co. Offshore Banks Non-Bank Deposit Taking Companies | |
| | LOW | <ul style="list-style-type: none"> Development Fis (SME Bank, Bank Pembangunan, EXIM Bank) | | |
| Level of risk: | | High | Medium | Low |



ML Risk – Non-Financial Sector

- Inherent risk – without consideration of control measures

| | | <i>Likelihood</i> | | |
|-------------------------|--------|--|--|-------------|
| | | POSSIBLE | LIKELY | VERY LIKELY |
| Extent of Vulnerability | HIGH | | Legal Entities* – onshore / offshore | • Casino |
| | MEDIUM | <ul style="list-style-type: none"> Gaming Companies Jewellers Accountants | <ul style="list-style-type: none"> Offshore Trust Company Secretaries Real Estate Trust Companies Non Profit Orgs. | • Lawyers |
| | LOW | <ul style="list-style-type: none"> Pawn Brokers Notaries | | |

* Companies and partnerships

Level of risks:

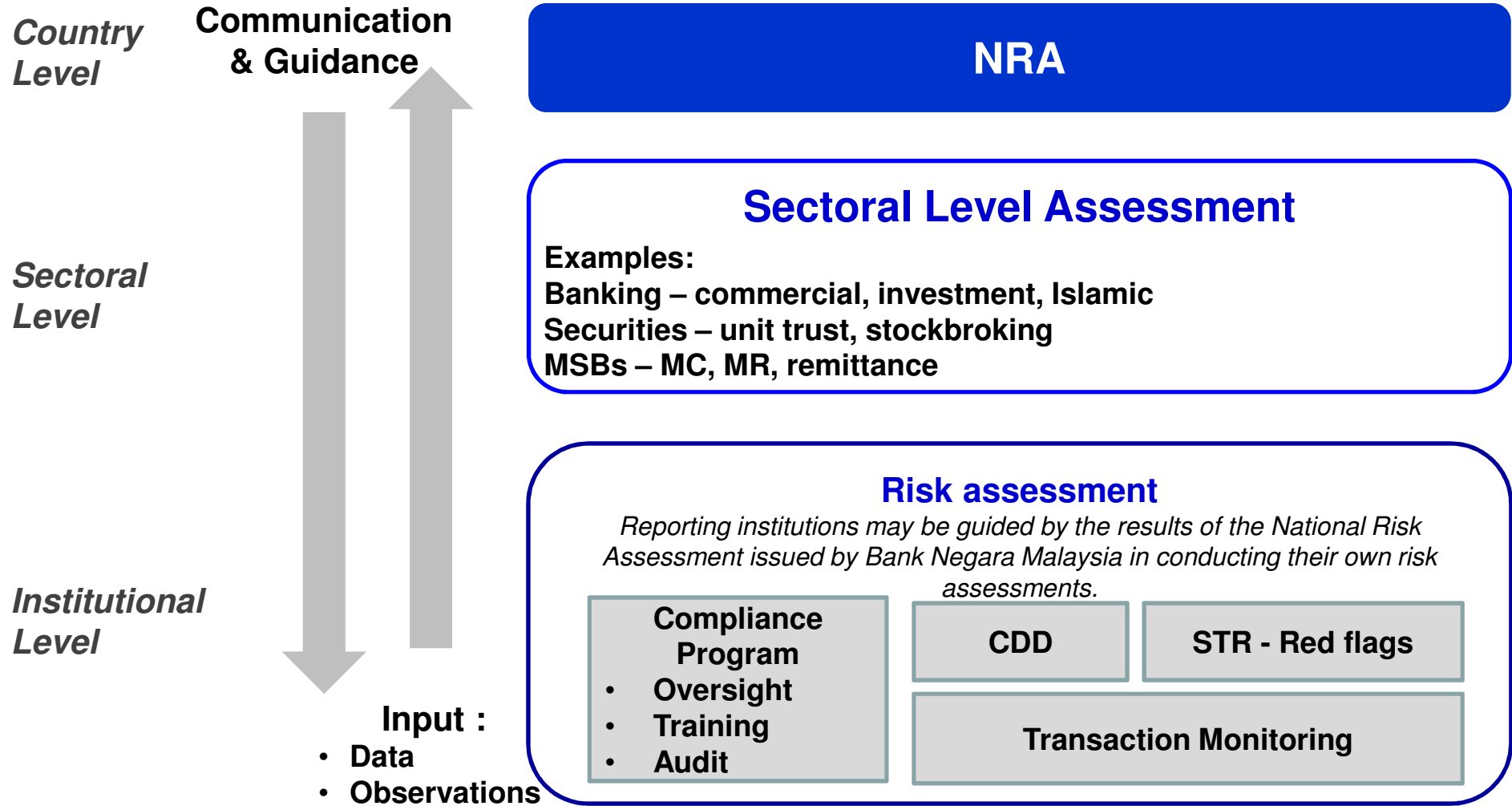
High

Medium

Low



Inter linkages Between NRA, Sectoral and Institution's Risk Assessment



Reflecting NRA Findings into Compliance Programs

- Higher risk identified to be considered as higher risk indicators in FI's risk assessment
- Development of specific red-flags for the crimes identified
 - LEAs to be working with FIs
- Classification of products/services that prone to the identified crimes

| Crimes | Potential products/services & Methods (e.g.) |
|------------|---|
| Frauds | Deposits (mule account) , wire transfer |
| Drugs | Deposits, wire transfer |
| Corruption | Investment banking, private banking (incl. proxy) |
| Smuggling | Trade finance, deposits |
| Tax crimes | Trade finance, private banking (incl. proxy) |

- Proposal on sharing of accounts suspected to be used as mules accounts
- Tailored training for specific function that prone to the identified crimes
 - E.g. trade finance officer → smuggling / tax evasion



CONCLUSION :

NRA is a tool to facilitate our understanding of ML/TF risks and effective AML/CFT regime is critical for Malaysia to...

1. Reduce overall crime in the country.
2. Increase government revenue and reduce leakages in the economy.
3. Preserve the integrity and reputation of our financial system.
4. Create conducive environment for businesses and investors, and support Government's economic transformation agenda.
5. Strengthen Malaysia's reputation as a country committed to combat money laundering and the financing of terrorism and proliferation.



Thank you

