Malaysia’s National Risk Assessment
Cooperation and collaboration are vital for an AML/CFT regime to be effective

Ultimate Objective:
Protect Financial System and Broader Economy from the Threats of Money Laundering and Terrorist Financing

Four pillars supporting an effective AML/CFT Regime:

1. Comprehensive legal framework
2. Effective implementation of preventive measures by reporting institutions
3. Effective financial intelligence and enforcement
4. Strong domestic and international cooperation

Foundation:
Understanding of ML/TF Risks – Identifying threats, vulnerabilities and consequences (impact) to the country and broader economy
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:

**RISK**

**MATERIALITY**

**CONSEQUENCES**

- Country situation (e.g. economic and financial)
- Structural elements (e.g. geographical location)
- Other contextual factors (e.g. maturity of financial sector)

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

**Threats**
- Domestic Crimes
- Foreign Crimes

**Vulnerabilities**

**Country’s Attractiveness & Vulnerabilities**
- Economy
- Legal
- Geographical

**Sectors’ Vulnerabilities**
- FIs & DNFBPs
- NPOs
- LPs

**Terrorism Financing**

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

<table>
<thead>
<tr>
<th>Threat</th>
<th>Statistical Data</th>
<th>Perception Survey</th>
<th>Independent/External Reports</th>
<th>Expert Views</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Crime</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Foreign Crime</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

### Vulnerabilities

<table>
<thead>
<tr>
<th>Vulnerability</th>
<th>Statistical Data</th>
<th>Perception Survey</th>
<th>Independent/External Reports</th>
<th>Expert Views</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economy</td>
<td>✓</td>
<td>n/a</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Legal</td>
<td>✓</td>
<td>n/a</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Geographical</td>
<td>✓</td>
<td>n/a</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>FIs &amp; DNFBPS</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Non-Profit Organizations</td>
<td>✓</td>
<td>n/a</td>
<td>n/a</td>
<td>✓</td>
</tr>
<tr>
<td>Legal Persons</td>
<td>✓</td>
<td>n/a</td>
<td>n/a</td>
<td>✓</td>
</tr>
<tr>
<td>Terrorist Financing</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>
**NRA Result – Relationship between Threats and Vulnerabilities**

**Crimes that pose high ML threat – generating potential illegal funds**
- Frauds
- Drugs Trafficking
- Corruption
- Smuggling
- Tax Crimes

**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

**Exploiting**

**Influenced by Country’s Vulnerabilities Factors**

<table>
<thead>
<tr>
<th>Economic</th>
<th>Geographical</th>
<th>Legal</th>
</tr>
</thead>
</table>
| • 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 |
| • Porous border – easy movement
  • Lack of border control
  • Gaps in maritime security
  • High arrival of tourist |
| • Knowledge & understanding of judiciary
  • Rotating judges
  • Gap in existing framework of fin. crimes enforcement
  • Poor controls & accountability framework |
### Domestic Threat – Rank of Prevailing Crimes

<table>
<thead>
<tr>
<th>IMPACT</th>
<th>LOW</th>
<th>MEDIUM</th>
<th>HIGH</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXTENT OF THREATS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HIGH</td>
<td>• Fraud</td>
<td>• Smuggling (incl. customs &amp; excise duties evasion)</td>
<td>• Organized crimes, Human trafficking &amp; migrant smuggling</td>
</tr>
<tr>
<td>MEDIUM</td>
<td>• Forgery</td>
<td>• Counterfeiting of currency</td>
<td>• Terrorism Financing</td>
</tr>
<tr>
<td>LOW</td>
<td>• Counterfeiting &amp; piracy of products</td>
<td>• Insider Trading &amp; market manipulation</td>
<td>• Sexual exploitation</td>
</tr>
</tbody>
</table>

**Level of Risk:**
- **High**
- **Medium**
- **Low**

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**Domestic ML/TF Risk Assessment (NRA)**

**BANK NEGARA MALAYSIA**
CENTRAL BANK OF MALAYSIA

8 National ML/TF Risk Assessment (NRA)
**ML Risk – Financial Sectors**

- Inherent risk – without consideration of control measures

### Likelihood

<table>
<thead>
<tr>
<th>Extent of Vulnerability</th>
<th>POSSIBLE</th>
<th>LIKELY</th>
<th>VERY LIKELY</th>
</tr>
</thead>
<tbody>
<tr>
<td>HIGH</td>
<td></td>
<td></td>
<td>• Banking (incl. BSN, Bank Rakyat, Agro Bank)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Money Changers</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Non-bank remittance service providers</td>
</tr>
<tr>
<td>MEDIUM</td>
<td>• Stockbroking</td>
<td>• Fund mgt. co / unit trust co.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Leasing &amp; Factoring</td>
<td>• Offshore Banks</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Life insurance</td>
<td>• Non-Bank Deposit Taking Companies</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Money Lenders</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Non-bank cards</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• E-money</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LOW</td>
<td>• Development Fis (SME Bank, Bank Pembangunan, EXIM Bank)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Level of risk:**
- High
- Medium
- Low
### ML Risk – Non-Financial Sector

- Inherent risk – without consideration of control measures

<table>
<thead>
<tr>
<th>Extent of Vulnerability</th>
<th>Likelihood</th>
<th>Level of risks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>HIGH</strong></td>
<td>POSSIBLE</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>LIKELY</td>
<td>Medium</td>
</tr>
<tr>
<td></td>
<td>VERY LIKELY</td>
<td>Low</td>
</tr>
</tbody>
</table>

#### Legal Entities* – onshore / offshore
- Casino

#### Non-Financial Sector
- Gaming Companies
- Jewellers
- Accountants
- Offshore Trust
- Company Secretaries
- Real Estate
- Trust Companies
- Lawyers
- Non Profit Orgs.
- Pawn Brokers
- Notaries

* Companies and partnerships
Inter linkages Between NRA, Sectoral and Institution’s Risk Assessment

Country Level

Communication & Guidance

Sectoral Level

Examples:
Banking – commercial, investment, Islamic
Securities – unit trust, stockbroking
MSBs – MC, MR, remittance

Institutional Level

Input:
- Data
- Observations

Risk assessment
Reporting institutions may be guided by the results of the National Risk Assessment issued by Bank Negara Malaysia in conducting their own risk assessments.

Compliance Program
- Oversight
- Training
- Audit

CDD
STR - Red flags
Transaction Monitoring
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

<table>
<thead>
<tr>
<th>Crimes</th>
<th>Potential products/services &amp; Methods (e.g.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frauds</td>
<td>Deposits (mule account), wire transfer</td>
</tr>
<tr>
<td>Drugs</td>
<td>Deposits, wire transfer</td>
</tr>
<tr>
<td>Corruption</td>
<td>Investment banking, private banking (incl. proxy)</td>
</tr>
<tr>
<td>Smuggling</td>
<td>Trade finance, deposits</td>
</tr>
<tr>
<td>Tax crimes</td>
<td>Trade finance, private banking (incl. proxy)</td>
</tr>
</tbody>
</table>

- 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