

MALAYSIA NATIONAL RISK ASSESSMENT

on Money Laundering and Terrorism Financing 2020 (NRA 2020)

The NRA is a globally acknowledged process to assess and facilitate the understanding of the money laundering and terrorism financing (ML/TF) risks in the country. The NRA examines ML/TF related threats affecting the country (in particular methods, scale and sources of ML/TF activities) and identifies ML/TF vulnerabilities across various financial and non-financial sectors. The NRA represents Malaysia's collective effort undertaken under the ambit of the National Coordination Committee to Counter Money Laundering (NCC) and is conducted periodically in accordance with the international best practices and recommendations set out by the Financial Action Task Force (FATF).

The NRA 2020 is the fourth iteration of this assessment. The assessment draws on a wide range of quantitative and qualitative data sources, which include statistics from various agencies, reporting institutions, internal and external reports. It also draws on input from surveys and focus group discussions conducted with law enforcement agencies, reporting institutions as well as other domestic and international stakeholders.

The NRA 2020 consists of two broad assessments, namely the ML/TF threats emanating from serious crimes (threat risk assessment) and vulnerabilities of financial and some non-financial sectors to ML/TF threats (sectoral risk assessment).

The NRA 2020 consists of two broad assessments:

1 Threat Risk Assessment

provides an understanding of the method, scale and sources of domestic crimes and the landscape of terrorism activities, regionally and globally, that pose a ML/TF threat in Malaysia. The assessment also considers the effectiveness of anti-money laundering/countering financing of terrorism (AML/CFT) enforcement measures in addressing the ML/TF risks.

2 Sectoral Risk Assessment

assesses the vulnerabilities of the reporting institutions in the financial and non-financial sectors to ML/TF abuse, based on inherent features and characteristics of the respective sectors that can be exploited by criminals or facilitate criminal activities. The assessment also identifies structural gaps that are susceptible for abuse, as well as measures the effectiveness of AML/CFT structures/mechanisms within these sectors in mitigating the inherent vulnerabilities identified.

The findings of this assessment serve to provide critical input to the formulation of national and institutional AML/CFT policies and measures. The findings will also guide the reporting institutions to better assess the effectiveness of their AML/CFT controls and take the necessary measures to manage and mitigate the risks identified in the NRA 2020. The public at large will also benefit from greater awareness and deeper understanding of the ML/TF risks in the country.

Key Findings

5 High-Risk Crimes

- Fraud
- Corruption
- Smuggling
- Illicit Drug Trafficking
- Organised Crimes

6 Other Notable Crimes

- Environmental Crimes
- Human Trafficking/ Migrant Smuggling
- Tax Offences
- Sexual Exploitation
- Forgery
- Extortion

4 High-Risk Sectors

- Banks
- DPI Issuers
- Lawyers
- Dealers in Precious Metals or Precious Stones

6 Common Sectors Abused for High-Risk Crimes and Terrorism Financing



Sectors are being abused through:

facilitation of placement or layering of illicit proceeds; and

provision of higher risk professional services

MSBs: Money Services Businesses
CMIs: Capital Market Intermediaries (e.g. Stock Broking Companies, Derivative Broking Companies, Fund Management/Unit Trust Companies, and including Registered Market Operators (i.e. Digital Assets Exchanges (DAXs))
DPMS: Dealers in Precious Metals or Precious Stones (e.g. jewellers, luxury jewellery/watch retailers, bullion dealers, jewellery manufacturers/wholesalers, etc.)
DPI issuers: Non-Bank Issuers of Designated Payment Instruments

Threat Risk Assessment: Key Highlights

The threat risk assessment examines serious crimes and terrorism activities that pose ML/TF threat in Malaysia. Serious offences listed in the Second Schedule of the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 (AMLA) are grouped into 22 serious crime categories and subjected to quantitative and qualitative assessments on inherent risks and effectiveness of AML/CFT control measures to determine their risk ratings. The ML/TF net risk rating is divided into four categories – high, medium-high, medium and low.

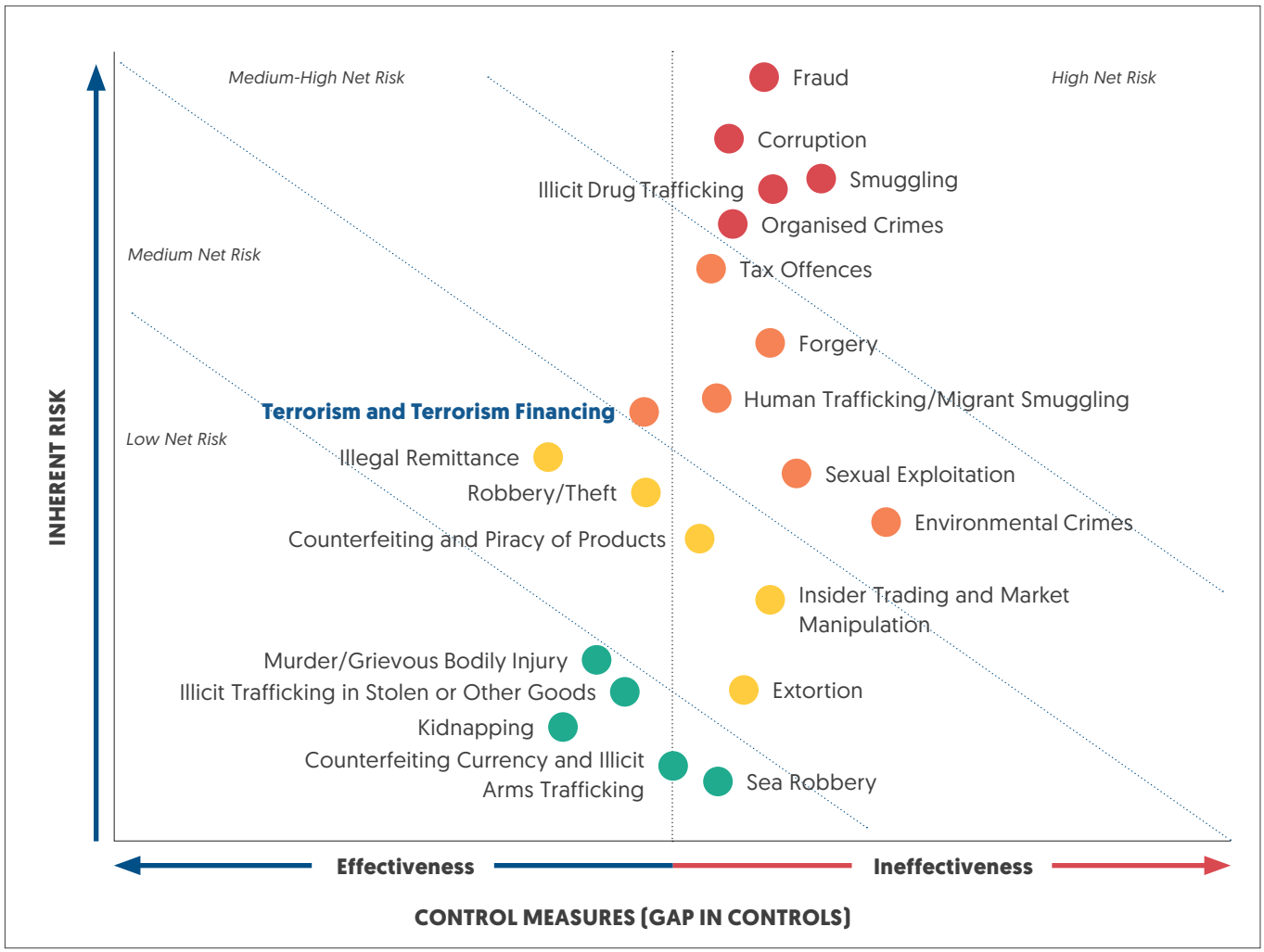
Fraud, corruption, smuggling, illicit drug trafficking and organised crimes remain as the most prevalent predicate offences, where ML threat was rated as high. In addition, higher number of cases (occurrence) and value of proceeds (severity) are also observed for fraud, corruption and illicit drug trafficking as compared in NRA 2017.

Environmental crimes and extortion recorded a higher level of ML risk due to increasing prevalence of illegal importation of plastic waste, illegal waste dumping, illegal mining and cyber-related extortion such as ransomware over the last few years.

Lower ML risk is observed for kidnapping, counterfeiting and piracy of products, murder and grievous bodily injury, counterfeiting currency and robbery/theft due to lower occurrences and severity compared to other crimes.

TF risk in Malaysia remains at medium-high. This is due to challenges in detecting low value transactions. TF threat in Malaysia largely involves overseas remittances and small amounts of funds being raised by individuals for the purpose of travelling to conflict zones. Terrorism activities continue to be funded through legitimate funds, including salaries, support from family members and donations from sympathisers. The terrorist organisations have optimised social media to recruit, raise funds and disseminate their propaganda.

Threat Risk Assessment: Key Highlights



Risk Rating		Risk Definition
High		Current information and assessment of risk and control factors indicate that the crimes pose substantially high ML threat. There is high probability for the crimes to generate potential illegal funds.
Medium-High		Current information and assessment of risk and control factors indicate that the crimes pose substantial ML threat. There is above average probability for the crimes to generate potential illegal funds.
Medium		Current information and assessment of risk and control factors indicate that the crimes pose moderate ML threat. There is average probability for the crimes to generate potential illegal funds.
Low		Current information and assessment of risk and control factors indicate that the crimes pose low ML threat. There is low probability for the crimes to generate potential illegal funds.

Highlights on Key Crimes

Fraud

- **Cheating** and **illegal investment schemes** are the most prevalent and severe fraudulent activities respectively.
- Increasing number of mule accounts are used to move illicit proceeds over the last few years.
- Strategic partnerships among agencies in various initiatives including monitoring, sharing of information, public awareness and investigation are important in preventing fraudulent activities.

Corruption

- Concerns remain over widespread systemic corrupt practices.
- Intensified efforts by Malaysian Anti-Corruption Commission (MACC) to pursue graft cases remain key.
- In addition to enforcement actions, strong political commitment is critical to ensure the success of the national **anti-corruption plan** and **initiatives**.

Smuggling

- Challenges posed by large-scale illicit trade activities and smuggling syndicates persist.
- While border control has improved, the **long and porous borders** with numerous illegal entry points pose inherent challenges.
- Addressing the loopholes in current legislation and resource limitations are key to combat the crime.

Illicit Drug Trafficking

- Malaysia remains vulnerable to illicit drug trafficking due to its proximity to **Asia's Golden Triangle**.
- Positive development in targeting proceeds of crimes in drug enforcement and prosecution but concerted international efforts remain critical.

Organised Crimes

- Perceived to have **strong interconnectedness** with most, if not all, serious crimes.
- Greater coordination between law enforcement agencies is key to combat organised crimes effectively.

Terrorism and TF

- Terrorism and TF showed a decreasing trend due to the **decline of Islamic State (IS)**.
- Challenges in detecting **under-the-radar** movement of cash in small amounts remain.
- Enforcement actions hindered the propagation of terrorism threats on social media.

Other Notable Crimes

Environmental Crimes

- Malaysia is viewed as a source country and transit hub for **wildlife trafficking**.
- Enforcement should also focus on other prevalent crimes such as **waste trafficking** and **illegal mining**.
- Effective combative actions require stronger ML controls and agencies coordination.

Human Trafficking/ Migrant Smuggling

- Strategic geolocation and sociocultural similarities made Malaysia a transit and destination for the crime.
- Control measures including investigation, prosecution and better protection to victims must be improved.
- National plan and coordinated approach by the law enforcement agencies are critical to address the crimes.

Tax Offences

- Despite increasing receipts from direct taxation, tax-to-GDP ratio is relatively low. **Tax evasion and avoidance** may be the contributing factors.
- Inland Revenue Board of Malaysia (IRBM) is among many agencies that have used ML tools extensively to combat tax offences.
- Greater focus on criminal prosecution against tax criminals is required in addition to intensified enforcement effort towards revenue recovery.

Sexual Exploitation

- Interconnected with **human trafficking** and **migrant smuggling**.
- Most victims are **females** from other Asian countries.
- **High burden of proof** in existing legislation poses difficulties to prosecute the main perpetrators.

Forgery

- Most forgery cases investigated involved **official government documents**.
- High connectivity to other crimes may pose threat to national security.
- Under-reporting of forgery cases involving private sector documents may point to higher threat.

Extortion

- Perceived to be of **higher threat** due to the lack of willingness of the victims to come forward.
- Greater understanding of evolving modus operandi (e.g. ransomware) and its corresponding financial elements can improve enforcement actions against the perpetrators of the crime.

Key Risk Drivers for Crimes

The use of cash, money mules, professional facilitators/enablers (e.g. lawyers, accountants, company secretaries) and the involvement of organised crime groups help obscure the source, purpose and beneficial ownership of illicit proceeds of criminal enterprises, making it more challenging to be detected. Meanwhile, public sector corruption involving the abuse of power and position by government officials undermines the rule of law by allowing criminal activities to occur. In addition, technological advancements open up new and creative ways for criminal enterprises to exploit in conducting illicit activities.

Corrupt Practice

Corruption facilitates high-risk crimes and other notable crimes such as forgery, human trafficking/migrant smuggling and environmental crimes

Syndicated

Organised crimes are perceived to have strong interconnectedness with other crimes, while enforcement seems fragmented

Technology

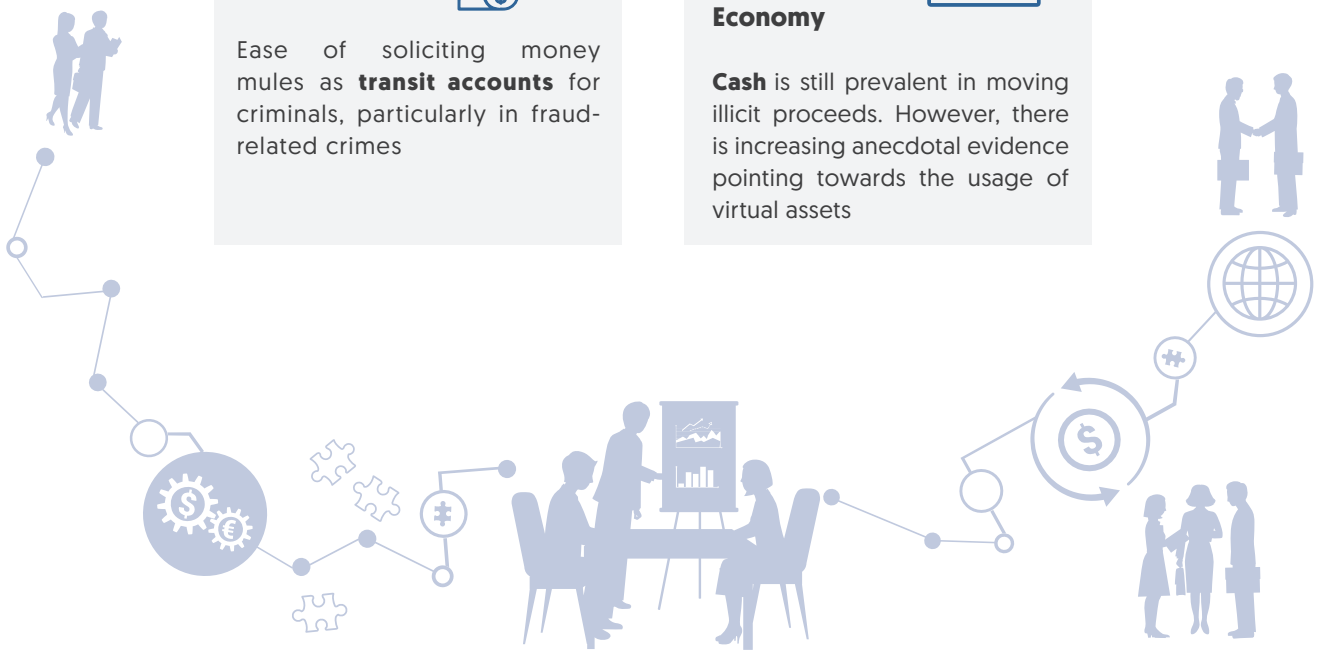
Technology-enabled crime facilitates fraud, extortion and the forgery of government-issued documents (e.g. fake work permit pass stickers)

Money Mule

Ease of soliciting money mules as **transit accounts** for criminals, particularly in fraud-related crimes

Cash-Based Economy

Cash is still prevalent in moving illicit proceeds. However, there is increasing anecdotal evidence pointing towards the usage of virtual assets



Outlook for 2021 and Beyond

High-risk crimes are expected to remain the same for the next three years. Nevertheless, technological advancement including the use of virtual assets, poses a growing threat to the ML/TF landscape in Malaysia. The increasing adoption of technology such as online marketplaces and cryptocurrencies has widened the reach of criminals to perpetrate their illicit activities (e.g. scamming unsuspecting victims).

Sectoral Risk Assessment

The NRA 2020 assessed a total of 26 sectors, comprising 17 financial and 9 non-financial sectors, including banking institutions, insurance and takaful operators, CMIs, DPI issuers and Labuan sectors, as well as professional services/gatekeepers such as lawyers, accountants and company secretaries.

Characteristics and features of each sector vary significantly, resulting in differing associated ML/TF risks.

The assessment methodology was built to assess all sectors comparatively, incorporating both quantitative and qualitative aspects.

Sectoral Risk Assessment for Financial Sectors

Overall, improvements in the effectiveness of control measures across the 17 financial sectors were seen in the NRA 2020 as compared to the NRA 2017. This resulted in the decrease or no change in the net risk ratings for most sectors. For several sectors, improvements of control measures are in line with respective sector's business growth.

FINANCIAL SECTORS	Money Laundering			Terrorism Financing		
	Inherent Risk	Control Measures	Overall Net Risk	Inherent Risk	Control Measures	Overall Net Risk
Banking Institutions	●	▲	■	●	▲	■
DPI Issuers	●	▲	■	●	▲	■
Money Services Businesses	●	▲	■	●	▲	■
Capital Market Intermediaries	●	▲	■	●	▲	■
Insurance Intermediaries	●	▲	■	●	▲	■
Insurance/Takaful Operators	●	▲	■	●	▲	■
Moneylenders	●	▲	■	●	▲	■
Non-Bank Financial Institutions	●	▲	■	●	▲	■
Labuan Money Brokers	●	▲	■	●	▲	■
Leasing Companies	●	▲	■	●	▲	■
Factoring Companies	●	▲	■	●	▲	■
Labuan Capital Market Intermediaries	●	▲	■	●	▲	■
Labuan Factoring Companies	●	▲	■	●	▲	■
Banking Intermediaries (i.e. Money Brokers)	●	▲	■	●	▲	■
Pawnbrokers	●	▲	■	●	▲	■
Labuan Banks	●	▲	■	●	▲	■
Labuan Insurance/Takaful Operators	●	▲	■	●	▲	■

Legend:

Inherent Risk	● High	● Medium-High	● Medium	● Low
Control Measures	▲ Weak	▲ Marginal	▲ Acceptable	▲ Strong
Overall Net Risk	■ High	■ Medium-High	■ Medium	■ Low

Sectoral Risk Assessment for DNFBPs

Overall, there are improvements in the effectiveness of the control measures across all nine Designated Non-Financial Businesses and Professions (DNFBPs) sectors as compared to NRA 2017. These, however, are still not sufficient to raise the overall controls rating. A few sectors have elevated risks given the inherent change to their vulnerabilities and adjustments to the expectations on control measures.

DNFBP SECTORS	Money Laundering			Terrorism Financing		
	Inherent Risk	Control Measures	Overall Net Risk	Inherent Risk	Control Measures	Overall Net Risk
Dealers in Precious Metals or Precious Stones	●	▲	■	●	▲	■
Lawyers	●	▲	■	●	▲	■
Company Secretaries	●	▲	■	●	▲	■
Accountants	●	▲	■	●	▲	■
Casino	●	▲	■	●	▲	■
Registered Estate Agents	●	▲	■	●	▲	■
Gaming Outlets	●	▲	■	●	▲	■
Labuan Trust Companies	●	▲	■	●	▲	■
Trust Companies	●	▲	■	●	▲	■

Legend:

Inherent Risk	● High	● Medium-High	● Medium	● Low
Control Measures	▲ Weak	▲ Marginal	▲ Acceptable	▲ Strong
Overall Net Risk	■ High	■ Medium-High	■ Medium	■ Low

Definition of Net ML/TF FI and DNFBP Sectoral Risk Ratings

Risk Ratings	Definitions
High	**Most vulnerable** due to **high exposure** to ML/TF risks. RIs in the sector require **intensive** AML/CFT regulatory and supervisory **scrutiny** to serve as effective mitigants, with a focus on sub-sectors with higher net risk scores.
Medium-High	**Significantly vulnerable** due to **substantial exposure** to ML/TF risk. RIs in the sector require **regular** AML/CFT regulatory and supervisory **scrutiny** to serve as effective mitigants, with a focus on sub-sectors with higher net risk scores.
Medium	**Moderately vulnerable** due to **some exposure** to ML/TF risk. RIs in the sector require **on-going** AML/CFT regulatory and supervisory **scrutiny** to serve as effective mitigants, with a focus on sub-sectors with higher net risk scores.
Low	**Least vulnerable** due to **low exposure** to ML/TF risks. RIs in the sector require on-going AML/CFT regulatory and supervisory **engagement** to ensure residual risks are effectively mitigated, with a focus on sub-sectors with higher net risk scores.

Financial Sector: Key Changes from NRA 2017 and Key Risk Drivers

- **Improvements/no change in net risk rating for most sectors** as improvement in control measures are in line with business growth.
- Decreased net risks due to **RI's improved compliance and AML/CFT understanding**, coupled with proportionate supervision and market entry controls.

- **Banks** were rated high for ML and TF vulnerabilities, contributed by large sector size, wide range of financial products/services offered (including via non-face-to-face channels) and prevalence of ML/TF cases.

- **DPI issuers** were rated high for TF due to higher exposure to cross-border remittance, cash and non-cash transactions and prevalence of TF cases.

Key Risk Drivers for Financial Sectors

Money Laundering

The exploitation of mule accounts, funds transfers, cross-border remittance, the use of cash, as well as the utilisation of deposit accounts and other investment products i.e., unit trusts and shares to convolute transactions in more complex ML transactions.

Role of banks as the nexus to all financial and non-financial sectors and its wide networks rendered it as an ideal channel to be abused by criminals.

Key Risk Drivers

Terrorism Financing

Ambiguous nature of TF transactions (i.e. low value and vague descriptors of transfers), coupled with complicated financial trails involving multiple recipients (e.g. family members, mule accountholders) poses further challenges to identify TF transactions and aggravates associated TF risks.

Banking and DPI products such as card-based e-money with high account limits (for peer-to-peer transfers and cross-border cash withdrawals) was seen to facilitate TF transactions.

Risk Outlook for 2021 and Beyond

Digitalisation



Abuse of digital platform operators (i.e. DPI issuers and DAXs) with increasing use of enhanced e-wallets features (i.e. higher account limit with cross-border access and usage) and virtual assets are expected to heighten the vulnerability of the DPI issuers and DAXs in the near future.

Impact of COVID-19



The accelerated adoption of electronic and online platform (including non-face-to-face channels) during the COVID-19 pandemic also triggered other associated risks e.g. online fraud, online gambling and cybercrimes.

Interconnectedness of Threat and Sectoral Vulnerabilities

Three common financial sectors abused for top high-risk ML crimes and TF through:



Banks

- Provision of various higher risk products and services that are interconnected and allows for easy access to criminals.
- Exploitation of mule accounts to avoid detection.



CMIs

- Purchase of unit trusts and shares, with potential of co-mingling with illicit proceeds such as from fraud and corruption.



MSBs

- Cross-border remittances facilitate easy movements of cash.
- Low value funds transfers (TF) and vague descriptors.

DNFBP Sector : Key Changes from NRA 2017 and Key Risk Drivers

Improvements in controls effectiveness seen across all sectors. These, however, are insufficient to improve overall controls ratings. Largest improvement seen in AML/CFT awareness and growing understanding.

Net TF risk mostly remains unchanged except instances of **abuse for DPMS and company secretary sectors** through the use of gold jewelleries or facilitation of establishment of domestic legal persons linked to foreign spouses for TF funds. These, however, are not prevalent.

Heightened ML net risk for **lawyers** given increased likelihood of abuse or facilitation of criminal activities through its broad range of professional services.

High ML and TF net risk for **DPMS** remain unchanged, where products commonly used as kickbacks or for benefit from criminal activities, aggravated by overall weak control measures of the sector.

Key Risk Drivers for DNFBPs

- **Use of Professional Services/Gatekeepers**

  Lawyers, accountants and company secretaries having higher risk due to role as facilitators/enablers through management of client's money, setting up of shell/shelf/complex structure of legal persons and provision of nominee services in obscuring ownership/control

- **High Cash-Intensive Business**

  Some sectors, including DPMS and casino, with high cash intensity may allow **financial obscurity** given non-traceable nature of cash

- **Nature of Products/Services That Can Be Abused for ML/TF**

  High value or stored-value products used as kickbacks or means to facilitate ML/TF activities

- **Elevated Intra-Sector Risks**

  Firms or sub-sectors offering higher risk products or services may pose higher risk within the same sector (e.g. business-to-consumer bullion dealing or luxury watch/jewellery retailers within the DPMS sector)

Risk Outlook for 2021 and Beyond

Professional Facilitators/ Enablers

Increasing use of professional facilitators/ enablers to facilitate and structure ML activities, including setting up and use of shell companies as fronts, layering of illicit proceeds through client accounts

Technology Shift

Shift towards digital distribution model including non face-to-face channels

Misrepresentation

Falsely representing/illegal activities as licensed business e.g. illegal investment schemes

Interconnectedness of Threat and Sectoral Vulnerabilities

3 common DNFBP sectors abused for top high-risk ML crimes and TF through:

DPMS

- Luxury items used as kickbacks or for benefit
- Higher-end segment posed higher vulnerabilities

Lawyers

- Provision of higher risk professional services, especially one-stop-centre service providers
- Facilitation of placement or transfer of illicit proceeds

Company Secretaries

- Setting up of shell/shelf/complex legal persons or structures

Recommendations

Arising from the NRA 2020, 43 recommendations are proposed to address identified gaps and enhance the relevance and efficacy of existing measures. The recommendations are clustered into seven targeted key outcomes and have been incorporated within the five strategic focus areas of the NCC Roadmap 2021-2023, which encapsulates key responsibilities to be fulfilled by member agencies and relevant Ministries.

Outcomes from Threat Risk Assessment

OUTCOME 1

Future-proof **legal and operational framework** that accord necessary investigative powers and capacity

OUTCOME 2

Seamless **exchange of information** and effective **strategic partnership**

OUTCOME 3

Effective preventive, policy, surveillance and enforcement action to address high-risk crimes

Outcomes from Sectoral Risk Assessment

OUTCOME 1

Effective **risk management** including adequate response to higher risk areas

OUTCOME 2

Adequate AML/CFT **control measures** to mitigate risks

OUTCOME 3

Enhanced **knowledge, capacities and capabilities** of public and private stakeholders

OUTCOME 4

Improved **coordination** among AML/CFT stakeholders



Five Strategic Focus Areas under the NCC Roadmap 2021-2023

43

Recommendations

Incorporated within the NCC Roadmap's strategic focus areas to address risks and gaps

Legal, Regulatory and Coordination

Enhance AML/CFT regulatory framework to ensure relevance and efficacy

Capacity Building and Awareness

Improved understanding of sector-specific vulnerabilities and control measures

Risk

Identification of emerging risks and understanding the vulnerabilities through continuous coordination and collaboration

Preventive

Strengthened preventive measures through risk-informed supervision and private-sector collaboration

Enforcement

Effective investigation and prosecution of criminal activities and confiscation of illicit proceeds

