

# MALAYSIA

# NATIONAL RISK ASSESSMENT

On Money Laundering and Terrorism Financing 2023 (NRA 2023)



# Overview

The National Risk Assessment (NRA) is conducted periodically by the National Coordination Committee to Counter Money Laundering (NCC). It represents the country's collective understanding of the money laundering (ML) and terrorism financing (TF) risks in Malaysia.

The NRA 2023 is Malaysia's fifth assessment. It includes a more detailed assessment of transnational aspects of crimes and flow of illegal proceeds. These assessments help drive and strategise national and institutional AML/CFT policies and measures in a more effective and targeted manner. This NRA should be read together with the NRA 2020 for a better understanding of the evolution of Malaysia's ML and TF risks.

## 2A. Scope and Methodology

**The NRA 2023 consists of two risk assessments:**

**Threat Risk Assessment**
Analysis of serious crimes that generate illicit proceeds, as well as terrorism and TF

**Sectoral Risk Assessment**
Analysis of the extent of various financial and non-financial sectors which can be abused to launder illicit proceeds

**This assessment is based on quantitative and qualitative data sources obtained from:**

- ML prosecutions
- Serious crimes and ML investigation papers
- Financial intelligence
- Perception / expert survey
- Literature review (i.e. international reports, news and articles)
- Focus group discussions with relevant stakeholders (e.g. retired judges, law enforcement agencies (LEAs) and private sector)

## 2B. Key Findings

While there are shifts to the sectoral ratings, threat findings remain largely unchanged despite the COVID-19 pandemic. LEAs have undertaken a more coordinated and effective response to counter ML/TF amidst a changing environment.

**5**
High-Risk Crimes

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

**7**
Other Notable Crimes

- Tax Crimes
- Forgery
- Human Trafficking/ Migrant Smuggling
- Sexual Exploitation
- Environmental Crime
- Illicit Trafficking in Stolen & Other Goods
- Illicit Arms Trafficking

**3**
High-Risk Sectors[1]

**Financial Institutions:**

- Banks

**DNFBPs:**

- Lawyers
- DPMS

**6**
Sectors Vulnerable of Being Abused[2] for High-Risk Crimes and TF

**Financial Institutions:**

- Banks
- DPI Issuers
- MSBs

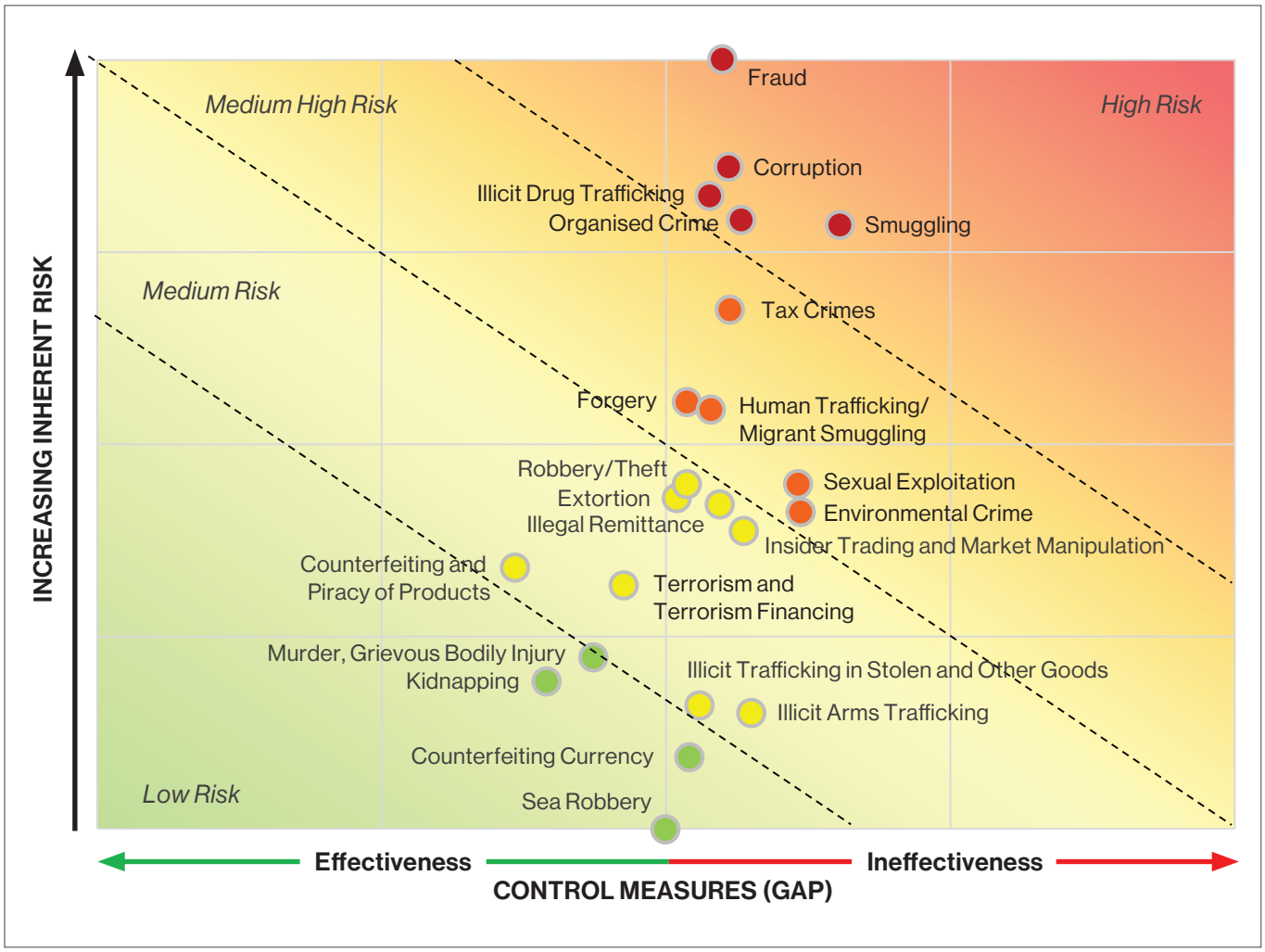
**DNFBPs:**

- Lawyers
- Company Secretaries
- DPMS

**DNFBPs:** Designated Non-Financial Businesses and Professions are referred to as the 'non-financial sectors', including casinos, gaming outlets, registered estate agents, DPMS, and gatekeeping service providers
**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
**MSBs:** Money Services Businesses

[1] Refer to sectors that are most vulnerable due to high exposure to ML/TF risks, given the size of the sector, its nature of business and the likelihood of ML/TF occurrences.
[2] Refer to sectors that criminals frequently exploit for high-risk crimes and TF, given the size of the sector, the breadth of products and services offered and/or the range of customers served.

## 3A. Threat Risk Assessment: Key Highlights




Fraud, corruption, illicit drug trafficking, organised crime and smuggling remained the most prevalent crimes that pose high ML risk.

Illicit trafficking in stolen and other goods recorded a higher level of ML risk due to higher number of cases and lack of ML investigations. A higher level of ML risk is also observed for illicit arms trafficking due to challenges in detecting arms trafficking activities.

Lower risk is observed for terrorism and TF due to the fall of Islamic State (IS), intensified military campaigns against IS-affiliated groups in the region and the absence or death of prominent IS leaders domestically. In addition, TF risk is mitigated by strong international cooperation and robust regulatory measures.

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

*NRA 2023 utilises data from 2020 to 2022.

## 3B. Highlights on Key Crimes

### Fraud

- Cheating is a major contributor to fraud risk, with money mules playing a key role in these activities. Due to the current broad digital adoption, most fraud cases are cyber-enabled, i.e. online scams.
- Continuous strengthening of control measures is crucial in addressing the heightened inherent risk.
- The National Scam Response Centre (NSRC) was established in 2022 through a public-private partnership between LEAs and the financial and communication sectors. This boosted the capability to detect mule accounts (including those being used as transit accounts for international scams) and respond to scams.

### Corruption

- The risk of corruption remains elevated as reflected in the high number of investigations over the assessment period.
- Despite the successes in some high-profile cases, the overall low conviction rates suggest insufficient effectiveness of the control measures in addressing corruption.
- Implementing targeted preventive measures among the youth to raise awareness and drive a cultural shift towards transparency and integrity is key in preventing corruption.

### Smuggling

- Malaysia's strategic location in the region, exacerbated by its long coastline and numerous entry points, poses vulnerabilities to smuggling activities.
- Syndicates and perpetrators utilise innovative ways to circumvent restrictions posed by the authorities during the COVID-19 pandemic.
- Joint enforcement measures on the country's border are crucial to combat smuggling activities.

### Illicit Drug Trafficking

- Malaysia remains an attractive destination for drug syndicates as a transit route for the distribution of drugs to other foreign markets, as well as a destination for illicit drugs.
- Despite ongoing law enforcement efforts, drug syndicates have demonstrated their ability to circumvent law enforcement interventions.
- Strengthening international collaboration is important amidst challenging global and regional drug situations.

### Organised Crime

- Illegal gambling/illegal betting and unlicensed moneylending have moved to the cyberspace.
- Gambling/lottery draw is offered via the online platform, while illegal gambling/illegal betting websites/loans are advertised via social media.
- Joint enforcement between LEAs is necessary given the connection to other crimes.

### Terrorism and TF

- Terrorism and TF have dwindled due to the fall of IS and the absence/death of prominent IS leaders domestically.
- Effective preventive and enforcement measures such as deradicalisation strategy to prevent, disrupt and neutralise terrorist activities have helped reduce the risk of terrorism and TF.
- TF cases in Malaysia are often self-financed or perpetrated by sympathisers or supporters.

## 3C. Other Notable Crimes

### Tax Crimes

- Appears to be connected to fraud, corruption and organised crime.
- Greater focus on ML investigation and prosecution is required to deter tax crimes.

### Human Trafficking/ Migrant Smuggling

- Many human trafficking/ migrant smuggling cases are associated with labour exploitation involving the hiring of illegal foreign workers.
- Continuous strong commitment from the Government is essential to ensure effective implementation of the National Action Plan on Anti-Trafficking in Persons (2021-2025).

### Environmental Crime

- Malaysia remains a source and transit hub for wildlife trafficking.
- Most cases are syndicated and linked to other high-risk offences.
- Better ML investigations and collaborations with relevant agencies, ministries and NPOs could improve effectiveness, focusing on addressing crimes, i.e. waste trafficking and illegal logging.

### Sexual Exploitation

- Sexual exploitation is often underreported due to the lack of willingness of the victims to come forward.
- In addition, some foreign workers are being exploited by human traffickers to work in the sex industry.
- Enhance cooperation with foreign LEAs to exchange information and conduct joint operations are essential to strengthen response to sexual exploitation.

### Forgery

- Appears to be connected to corruption, smuggling, fraud and human trafficking.
- The public and private sectors stand to benefit from applying verification technology solutions to better detect forgery by validating unique features of documents.

### Illicit Trafficking in Stolen and Other Goods

- Illicit trafficking in stolen goods is usually syndicated and often associated with vehicle theft syndicates.
- Increased focus on ML investigation and prosecution is required to combat the crime.

### Illicit Arms Trafficking

- Majority of the investigations were conducted on illicit possession of firearms, suggesting potential undetected arms trafficking activities in the country.
- Effective combative actions require greater focus on ML investigations and prosecutions, as well as stronger agencies collaboration in areas such as information sharing and joint investigation.

**NPO:** Non-profit Organisation

## 3D. Transnational Elements of High-Risk Crimes

Malaysia's primary sources of ML risks emanate from illegal activities perpetrated domestically, while transnational laundering occurrences are less prevalent. Malaysia is being used as a transit point for some illegal goods, such as drug smuggling from the Golden Triangle.

## 3E. Key Risk Drivers for Crimes

The NRA 2023 noted several key risk drivers that have accelerated financial crimes, particularly ML, to become more complex and sophisticated. These key drivers have not only facilitated the commissioning of crimes but also posed challenges to LEAs to combat these crimes. Higher-risk crimes continue to be facilitated by corrupt officials, while the use of mule accounts to obscure the source of funds remains prevalent. Nonetheless, the national anti-corruption strategy and the amendments to the Penal Code and Criminal Procedure Code to target money mules, as well as a standardised industry approach to streamline the identification, assessment and monitoring of mules, are expected to strengthen efforts to combat these crimes.



**Corruption**

**Corruption** continued to facilitate higher-risk crimes such as **illicit drug trafficking, organised crime, smuggling and environmental crime.**



**Money Mule**

**Money mule** facilitates various crimes, particularly **fraud.**

## 3F. Risk Outlook

- **High-risk crimes are expected to remain the same for the next three years.** Malaysia's likelihood of being a transit and/or destination of money laundering from foreign predicate offences may increase due to increased global interdependencies and the openness of Malaysia's economy.
- Besides the five high-risk crimes, LEAs, financial intelligence unit (FIU) and reporting institutions should continue to be on alert for some of the emerging crimes, especially human trafficking and environmental crime.
- Despite the lower terrorism and TF risk during the period under review, **the outlook for terrorism remains cautious** as the threat of terrorism is far from static due to terrorist groups' ability to adapt to the changing environment in which they operate. Moreover, prolonged international conflicts may potentially trigger a spillover of terrorism and TF to the region. As such, the LEAs, FIU and reporting institutions should remain vigilant to terrorism and TF risks.

## 4A. Sectoral Risk Assessment for Financial Sector

Overall, changes to the net ML/TF risks of the financial sector, as compared to NRA 2020, were mainly driven by changes to the sectors' size and nature of business, risk likelihood and control measures. Changes to control measures were driven by improvements observed in the supervisory function and activities conducted in the sectors.

Inherent Risk

Control Measures

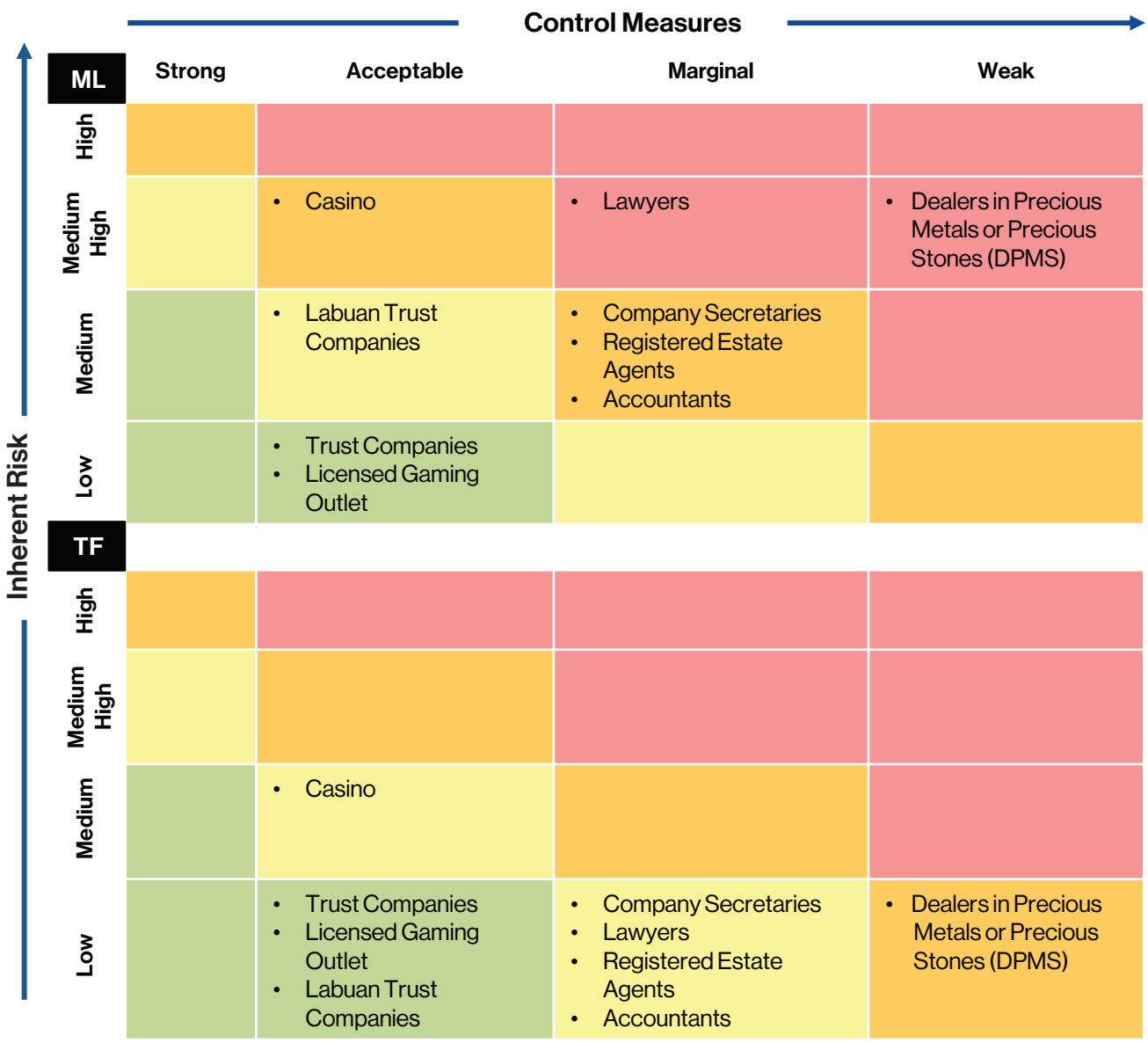
| | Strong | Acceptable | Marginal | Weak |
|---|---|---|---|---|
| **ML** | | | | |
| High | | • Banking Institutions[1] | | |
| Medium High | | • CMIs | | |
| Medium | | • MSBs<br>• DPI Issuers<br>• Labuan Banking Institutions<br>• NBFIs<br>• Insurance and Takaful Operators<br>• Moneylenders | • Labuan Money Brokers | |
| Low | | • Pawnbrokers<br>• Labuan Insurance and Takaful Operators | • Insurance Intermediaries<br>• Banking Intermediaries<br>• Leasing<br>• Factoring<br>• Labuan CMIs | |
| **TF** | | | | |
| High | | | | |
| Medium High | | • Banking Institutions<br>• DPI Issuers<br>• MSBs | | |
| Medium | | • CMIs<br>• Insurance and Takaful Operators | • Labuan Money Brokers | |
| Low | | • Pawnbrokers<br>• NBFIs<br>• Labuan Banking Institutions<br>• Labuan Insurance and Takaful Operators<br>• Moneylenders | • Insurance Intermediaries<br>• Banking Intermediaries<br>• Leasing<br>• Factoring<br>• Labuan CMIs | |

**Abbreviations**

**CMIs:** Capital Market Intermediaries (including Digital Asset Exchanges (DAX))
**MSBs:** Money Service Businesses
**NBFIs:** Non-Bank Financial Institutions
**DPI Issuers:** Designated Payment Instrument Issuers

[1] Banking institutions high net risk is driven by its size as the largest financial sector, widest coverage with branches located throughout the country, as well as the nature of business providing key financial products.

## 4B. Sectoral Risk Assessment for Designated Non-Financial Businesses and Professions (DNFBPs)




Meanwhile, changes observed in the net ML/TF risks of DNFBPs were mainly driven by changes to the DNFBPs' size and nature of business. Some improvements were also observed in certain DNFBPs' compliance with their AML/CFT obligations.

| Definition of Net ML/TF Sectoral Risk Ratings for the Financial Sector and DNFBPs | |
|---|---|
| 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 **ongoing** 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 **ongoing** AML/CFT regulatory and supervisory **engagement** to ensure residual risks are effectively mitigated, with a focus on sub-sectors with higher net risk scores. |

## 4C. Key Changes from NRA 2020 and Key Risk Drivers

### Financial Sector

#### Banking Institutions (TF)

- The net TF risk of the sector decreased from High to Medium High.
- This is driven by the decrease of customers from higher TF risk countries, e.g. conflict zones, as well as lower TF investigations and intelligence involving the sector.
- An established Public-Private Partnership (PPP) -TF platform enables sharing of information with LEAs and higher quality/quantity of TF Suspicious Transaction Reports (STRs).

#### MSBs (ML)

- The net ML risk of the sector decreased from Medium High to Medium.
- This is driven by the decrease in the sector's transaction volume and value, which were heavily impacted by the travel restrictions imposed during COVID-19.

*These numbers are expected to return to pre-COVID levels. Please refer to the Future Outlook section.*

#### DPI Issuers (ML/TF)

- The net ML risk of the sector decreased from Medium High to Medium, while the net TF risk from High to Medium High.
- This is contributed by improvements to the sector's overall control measures driven by the sharing of supervisory capabilities with the MSBs sector, which resulted in more intensified supervisory activities.

#### Labuan Banking Institutions (ML)

- The net ML risk of the sector increased from Low to Medium.
- This is driven by an increase in the sector's higher ML risk customers, e.g. politically exposed persons (PEPs) and high net worth individuals.

#### Labuan Money Brokers (ML/TF)

- The net ML and TF risk of the sector increased from Medium to Medium High.
- This is driven by the sector's increase in transaction volume and value, as well as higher ML and TF risk customers.

#### Insurance Intermediaries (ML/TF)

- The net ML and TF risk of the sector decreased from Medium High to Medium.
- This is contributed by improvements to the supervisory activities conducted on the sector.

#### Pawnbrokers (TF)

- The net TF risk of the sector decreased from Medium to Low.
- This is driven by the lower likelihood of TF activities involving the sector, i.e., the absence of cases during the review period.

### DNFBPs

#### DPMS (TF)

- The net TF risk of the sector decreased from High to Medium High.
- This is driven by lower exposure towards higher TF risk customers and the general decrease observed in TF activities during the review period.

#### Registered Estate Agents (ML)

- The net ML risk of the sector increased from Medium to Medium High.
- This is driven by an increase in exposure towards higher ML risk customers and the higher likelihood of ML observed, i.e., intelligence on the sector.

#### Company Secretaries (TF)

- The net TF risk of the sector decreased from Medium High to Medium.
- This is driven by lower exposure towards customers from higher TF risk countries.

#### Licensed Gaming Outlet (ML)

- The net ML risk of the sector decreased from Medium to Low.
- This is driven by a decrease in its local network and presence in higher ML risk locations, due to the closure of branches nationwide.

## 4D. Interlinkages with Threat

### Financial Sector




**Banking institutions**, by virtue of their offering, network and integral role in the financial system, continue to be the sector most linked to crimes. Crimes which require services beyond this sector, such as fraud, corruption and organised crime, appear to also misuse other sectors allowing transfer services, such as **DPI issuers, MSBs** and, to a certain extent, **digital asset exchanges**.

### DNFBPs




**Professional enablers** such as **lawyers** and **company secretaries** remain as sectors which may include facilitation of legal persons being abused for crimes, while **DPMS** is misused to store value of illegal proceeds.

## 4E. Future Outlook

### Financial Sector

With the lifting of COVID-19 travel restrictions, the **MSBs'** transaction volume and value are expected to increase and return to pre-pandemic levels. As at end-2023, remittance transactions have exceeded the pre-pandemic value by 43%, while money-changing transactions are at 79% of the pre-pandemic value.

The uptake of e-payments in Malaysia (e-money transactions increased by 26% in 2023) is projected to keep growing, driven by consumer spending and collaboration between public and private sectors to enhance its availability, involving **banking institutions, DPI issuers** and **CMIs**.

Expected lower cash intensity for **moneylenders** due to the adoption of electronic fund transfers for loan disbursement and the emergence of digital moneylending.

### DNFBPs

Increasing use of professional enablers to facilitate and structure ML activities.

## 5. Key Recommendations

The NRA 2023 proposed 16 recommendations to further strengthen responses to prevailing crimes and ML/TF vulnerabilities. These recommendations aim to address gaps identified and expand implementation successes through the replication or continuation of effective measures. The recommendations are structured into five strategic focus areas under the NCC Roadmap 2024-2026 as follows:






**Legal, Regulatory and Coordination**

Promoting dialogue between LEAs in areas such as challenges faced in investigations, given the increasing use of technologies by criminals to perpetrate crimes and proactively seek solutions to overcome these challenges. In addition, industry-led initiatives will continue to improve the implementation of AML/CFT measures.



**Capacity Building and Awareness**

Strengthening the capacity of LEAs, prosecutors, FIU, supervisors and reporting institutions through training and workshops. The focus will be centred on deepening the understanding of emerging risks and the modus operandi of ML. In addition, public awareness and education initiatives on mule accounts targeting vulnerable groups will be prioritised to ensure public vigilance.



**Risk**

Identify emerging risks and challenges through collaboration with civil societies to enhance understanding of the modus operandi of crimes and support analysis. This will also include communication between LEAs, prosecutors and judges to discuss case-specific challenges while promoting mutual awareness and trust.



**Preventive**

Strengthening preventive measures through cross-sectoral joint supervision guided by information sharing from LEAs and intervention strategies to address enablers that facilitate crimes.



**Enforcement**

Enhance risk-based enforcement action on non-compliance with regulatory requirements to further improve the reporting institutions' compliance culture.