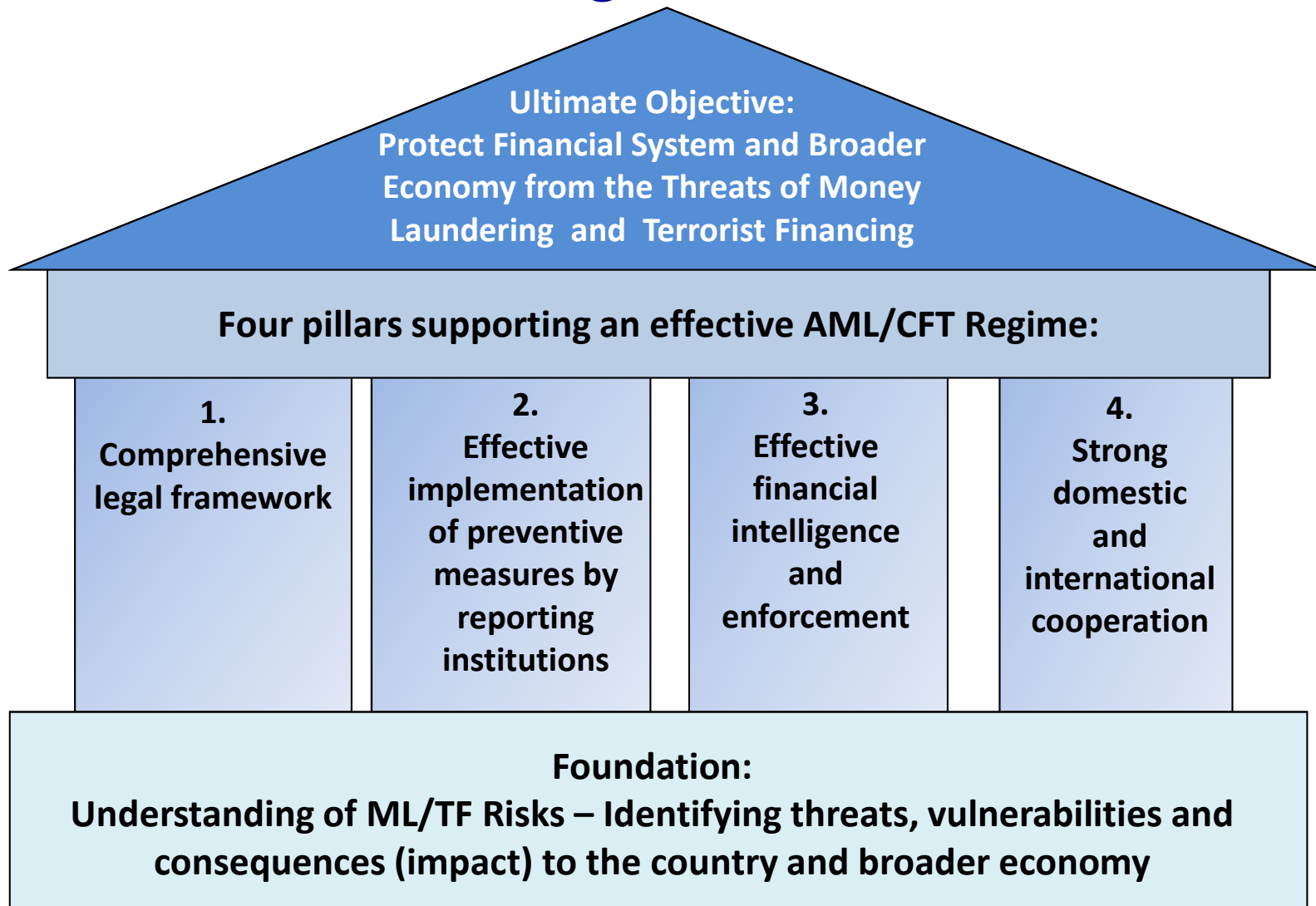


# Malaysia's National Risk Assessment

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



# Purpose of NRA

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## 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

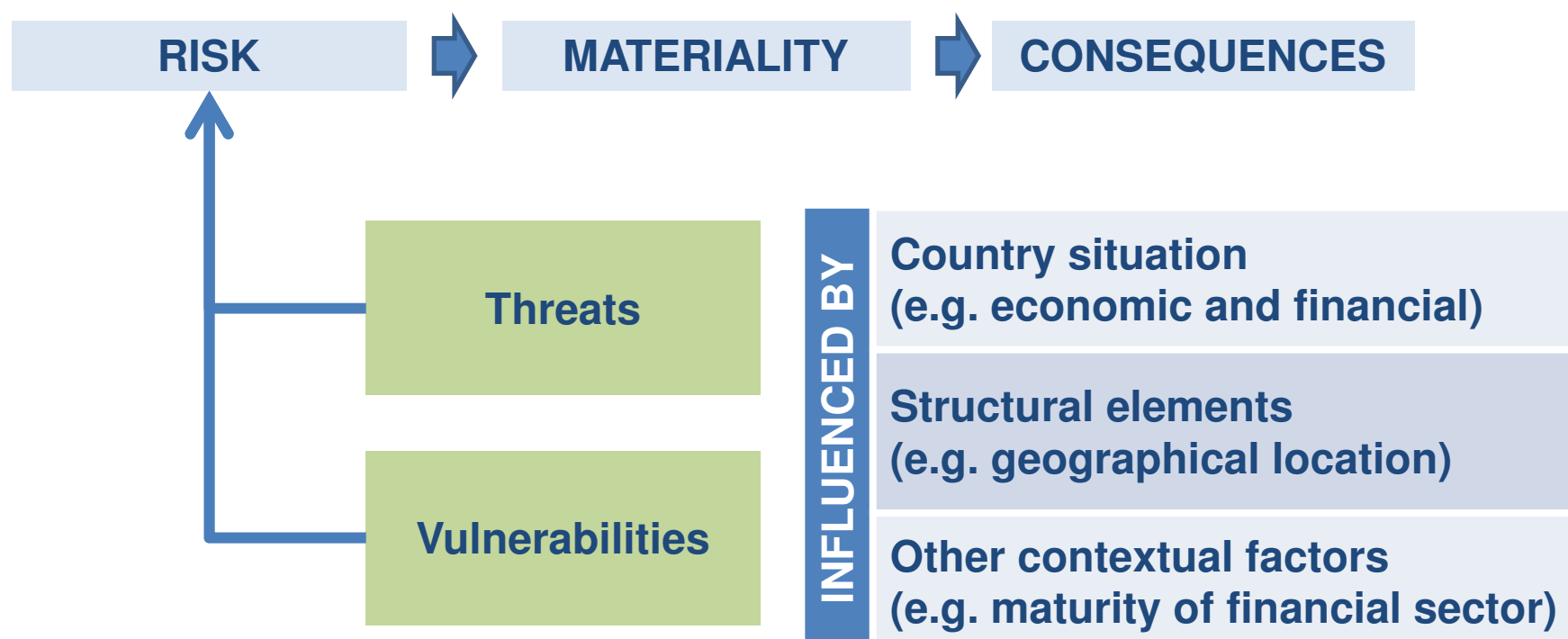
## Outputs:

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

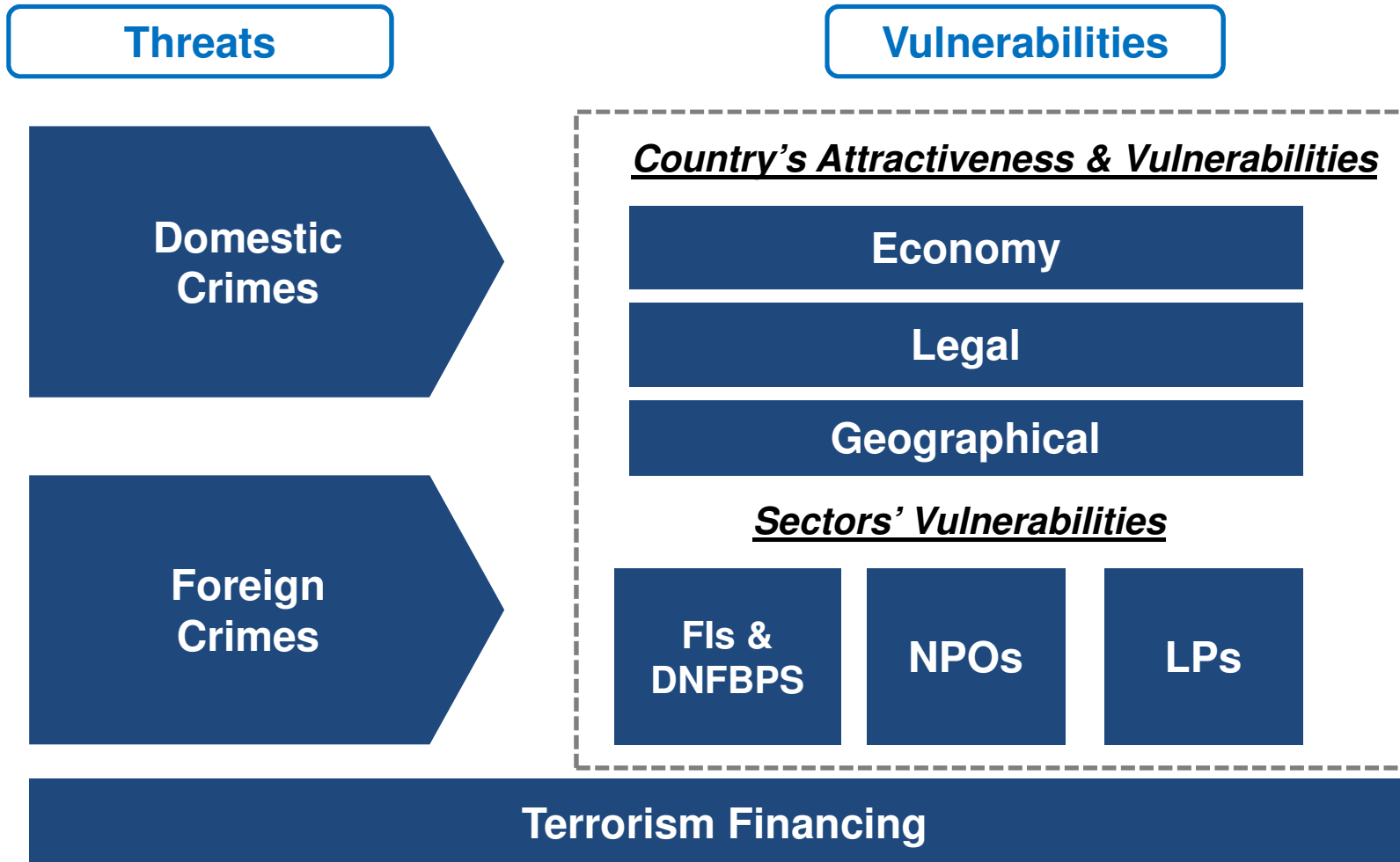
FATF's new assessment methodology focuses on:



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

	Statistical Data	Perception Survey	Independent /External Reports	Expert Views
<b>Threats</b>				
Domestic Crime	✓	✓	✓	✓
Foreign Crime	✓	✓	✓	✓
<b>Vulnerabilities</b>				
Economy	✓	n/a	✓	✓
Legal	✓	n/a	✓	✓
Geographical	✓	n/a	✓	✓
FIIs & DNFBPS	✓	✓	✓	✓
Non-Profit Organizations	✓	n/a	n/a	✓
Legal Persons	✓	n/a	n/a	✓
Terrorist Financing	✓	✓	✓	✓



# NRA Result – Relationship between Threats and Vulnerabilities

## Crimes that pose high ML threat – generating potential illegal funds



Frauds



Drugs  
Trafficking



Corruption



Smuggling



Tax  
Crimes

Exploiting



Banking



MSBs



Casino

## 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**

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

## Influenced by Country's Vulnerabilities Factors

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

## Domestic Threat – Rank of Prevailing Crimes

		IMPACT		
		LOW	MEDIUM	HIGH
EXTENT OF THREATS	HIGH			<ul style="list-style-type: none"> <li>• Fraud</li> <li>• Smuggling (incl. customs &amp; excise duties evasion)</li> <li>• Drugs</li> <li>• Tax crimes</li> <li>• Corruption &amp; bribery</li> </ul>
	MEDIUM		<ul style="list-style-type: none"> <li>• Forgery</li> <li>• Theft &amp; robbery</li> <li>• Counterfeiting of currency</li> </ul> <b>Terrorism Financing</b>	<ul style="list-style-type: none"> <li>• Organized crimes</li> <li>• Human trafficking &amp; migrant smuggling</li> </ul>
	LOW		<ul style="list-style-type: none"> <li>• Counterfeiting &amp; piracy of products</li> <li>• Insider Trading &amp; market manipulation</li> <li>• Murder</li> <li>• Environmental crimes</li> <li>• Extortion</li> <li>• Kidnapping</li> <li>• Sea piracy</li> </ul>	<ul style="list-style-type: none"> <li>• Sexual exploitation</li> <li>• Arms trafficking</li> </ul>
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"> <li>Banking (incl. BSN, Bank Rakyat, Agro Bank)</li> <li>Money Changers</li> <li>Non-bank remittance service providers</li> </ul>
	MEDIUM	<ul style="list-style-type: none"> <li>Stockbroking</li> <li>Leasing &amp; Factoring</li> <li>Life insurance</li> <li>Money Lenders</li> <li>Non-bank cards</li> <li>E-money</li> </ul>	<ul style="list-style-type: none"> <li>Fund mgt. co / unit trust co.</li> <li>Offshore Banks</li> <li>Non-Bank Deposit Taking Companies</li> </ul>	
	LOW	<ul style="list-style-type: none"> <li>Development Fis (SME Bank, Bank Pembangunan, EXIM Bank)</li> </ul>		
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"> <li>Gaming Companies</li> <li>Jewellers</li> <li>Accountants</li> </ul>	<ul style="list-style-type: none"> <li>Offshore Trust</li> <li>Company Secretaries</li> <li>Real Estate</li> <li>Trust Companies</li> </ul> Non Profit Orgs.	• Lawyers
	LOW	<ul style="list-style-type: none"> <li>Pawn Brokers</li> <li>Notaries</li> </ul>		

\* Companies and partnerships

Level of risks:

High

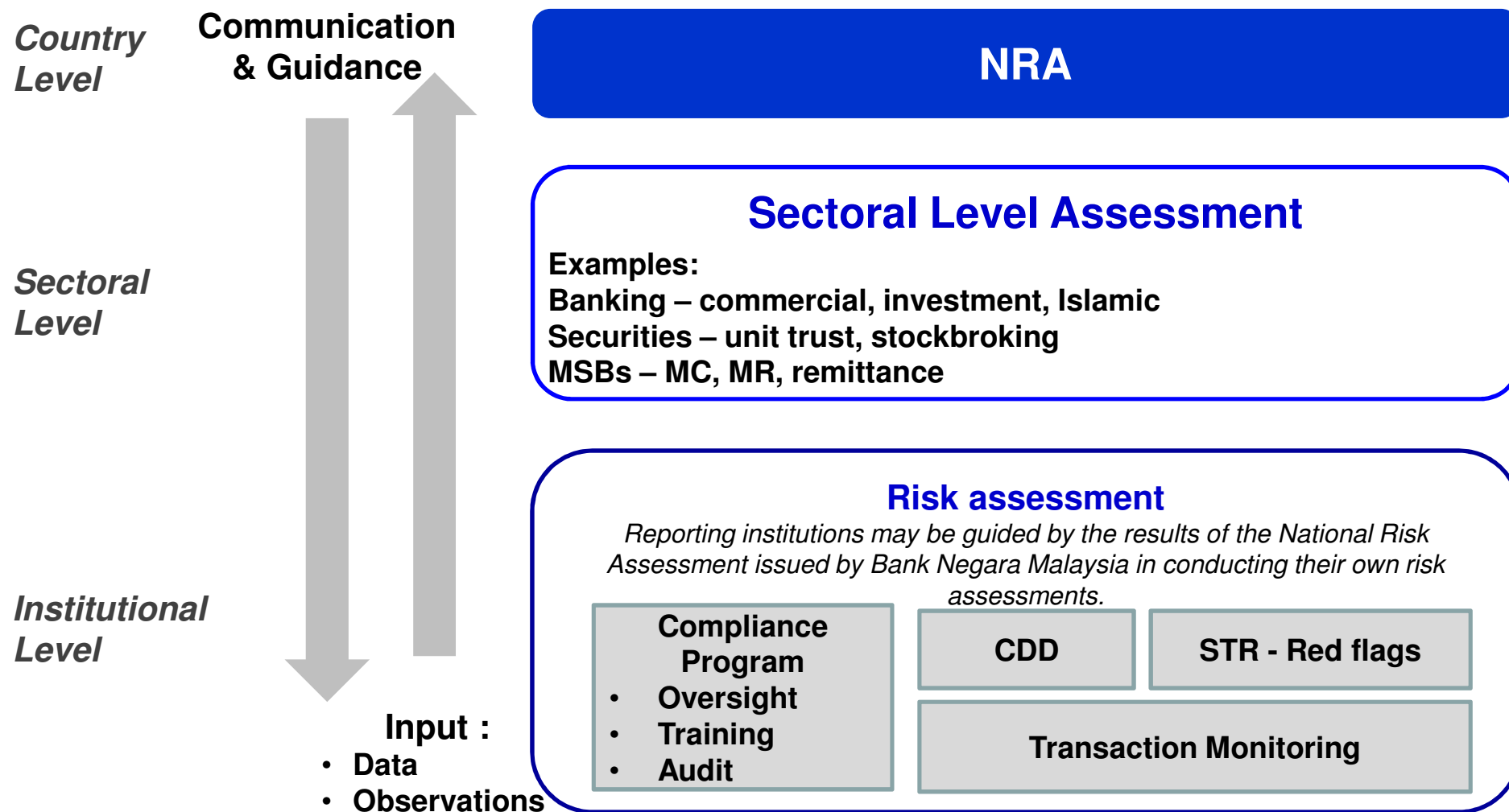
Medium

Low



**BANK NEGARA MALAYSIA**  
CENTRAL BANK OF MALAYSIA

# 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**

