

Maintaining Financial Integrity

The Bank is committed to safeguard the integrity of Malaysia's financial system amidst the pandemic, by supporting reporting institutions in upholding the standards for anti-money laundering and countering financing of terrorism (AML/CFT).

The Bank's role

Under the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 (AMLA 2001), the Bank serves as the country's Financial Intelligence Unit (FIU) and is responsible for driving a robust national AML/CFT regime in collaboration with relevant Ministries and agencies, to safeguard against risks and threats of money laundering and terrorism financing (ML/TF). This includes supporting, supervising and enforcing compliance with AML/CFT regulations by reporting institutions, consisting of financial institutions, non-bank financial institutions (NBFIs)¹, and designated non-financial businesses and professions (DNFBPs)².

This role entails close collaboration with domestic law enforcement agencies (LEAs) to ensure prompt and effective dissemination of financial intelligence. Additionally, relevant information on the latest trends, techniques and threats of ML/TF are also shared with the LEAs and reporting institutions to encourage vigilance and responsiveness in addressing the evolving nature of such crimes. The Bank also acts as the chair and secretariat to the National Coordination Committee to Counter Money

Laundering (NCC), which comprises representatives from 16 ministries and government agencies. This inter-agency platform is responsible for coordinating, implementing and monitoring national AML/CFT initiatives.

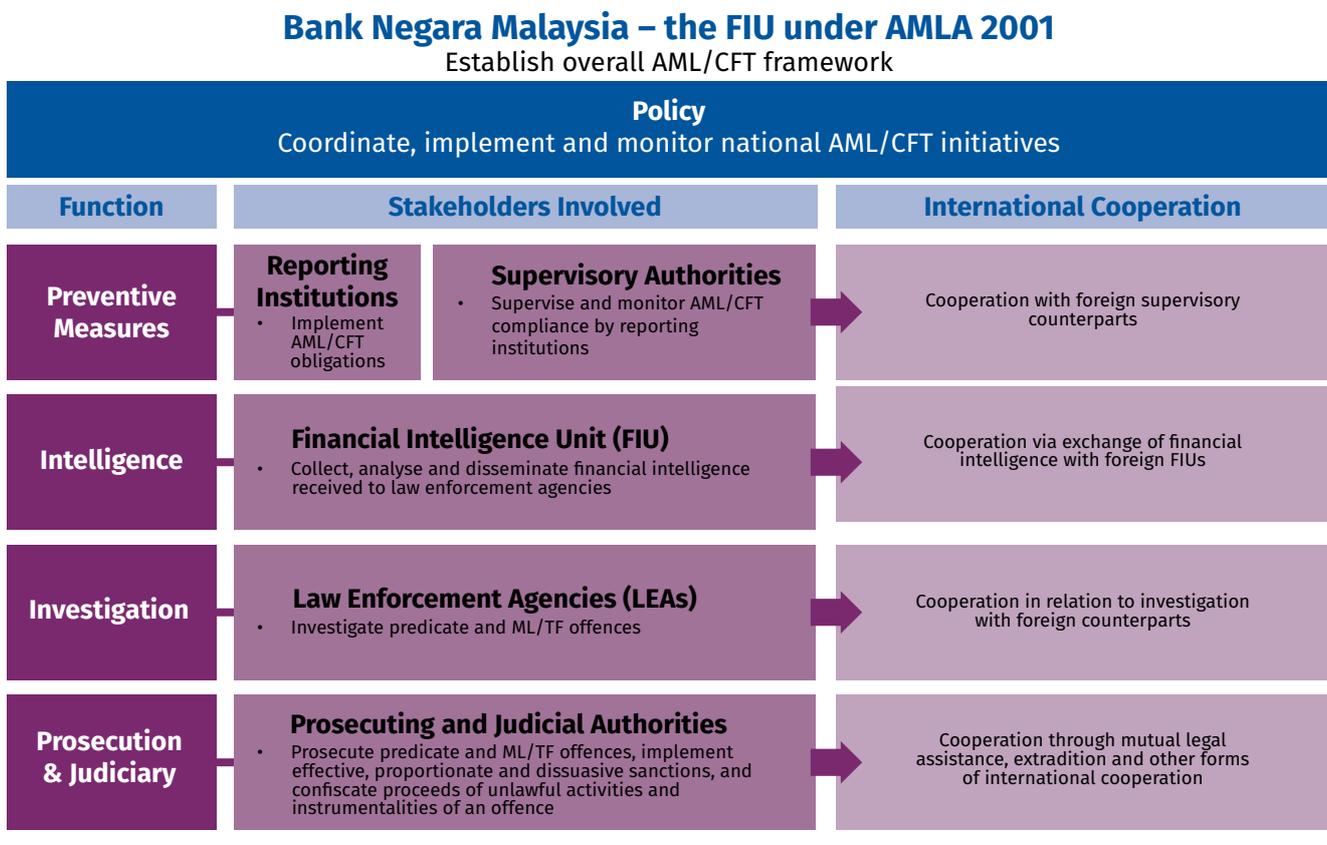
Responding to the COVID-19 pandemic

The Bank shifted its priorities to support industry players in navigating the pandemic and to be vigilant against criminal abuses arising from pandemic-driven vulnerabilities. To this end, a Circular on Regulatory Expectation on AML/CFT Measures during the COVID-19 Pandemic was issued in April 2020 to provide additional guidance on the application of AML/CFT requirements to take into account the impact of COVID-19 on business operations. Among others, the document clarified regulatory flexibilities for reporting institutions to implement remote customer due diligence (CDD) measures given the movement restrictions order, to preserve continued access to financial services. The Bank also produced a series of advisories to financial institutions, insurance and takaful operators, as well as, the money services businesses on COVID-19 related crimes, ML/TF trends and red flags to assist in transaction monitoring, as well as, detection of suspicious transactions. These efforts, along with the reporting institutions' sound business continuity plans (BCP), were aimed at safeguarding the integrity of and confidence in the financial system, while ensuring uninterrupted financial services to the public during the pandemic. Reporting institutions continued during this period to submit suspicious transaction reports (STRs), supported by monitoring and analytical capabilities that largely remained intact, particularly amongst financial institutions.

¹ Includes credit corporations, leasing and factoring businesses and postal financial services.

² Includes casinos, lawyers, accountants, dealers in precious metals or precious stones, gaming businesses, pawnbrokers, trust companies and registered estate agents.

Diagram 1: Malaysia's AML/CFT Regime



Strengthening of AML/CFT framework

The Bank regulates and supervises over 30,000 reporting institutions in the financial and non-financial sectors under the AML/CFT framework. As the first line of defence against financial crimes, these institutions are subjected to requirements stipulated within the relevant policy documents³ to identify and mitigate ML/TF risks.

During the year, the Bank issued two guidance documents⁴ on beneficial ownership and verification of customers' identity. They are aimed at facilitating the operationalisation of requirements under the respective policy documents and provide recommendations for reporting institutions to strengthen controls around higher risk transactions and relationships.

³ Anti-Money Laundering, Countering Financing of Terrorism and Targeted Financial Sanctions Policy Documents for Financial Institutions, DNFBPs and NBFIs

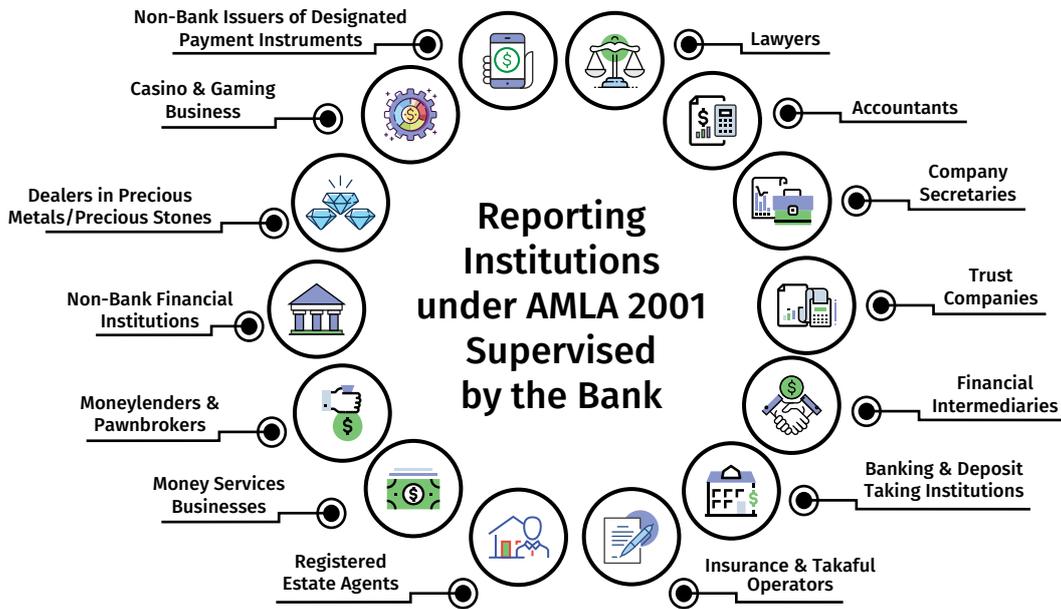
⁴ Guidance on Beneficial Ownership and Guidance on Verification of Individual Customers for Customer Due Diligence.

As the secretariat of the NCC, the Bank undertook a holistic review of the existing arrangements, which led to, among others, the recalibration of the national strategic focus to be in line with evolving technological and risk landscapes. The new national strategic plan places greater emphasis on enhanced collaboration through joint-agency initiatives and the utilisation of technology such as data analytics, in supporting intelligence, supervision and investigation functions. Lastly, it will also incorporate findings from the ongoing National Risk Assessment (NRA), a countrywide assessment on Malaysia's exposure to high-risk crimes, and sectoral vulnerabilities including to emerging risks within the ML/TF landscape, that is conducted every three years.

Supervision of DNFBPs and NBFIs

Given the pandemic, the Bank adapted its supervisory approach for DNFBPs and NBFIs by conducting its activities remotely. This included examinations involving video conferencing and the use of off-site surveillance tools such as the Data and Compliance Report 2020 (DCR). The DCR was accompanied by 12 online DCR clinics to aid reporting

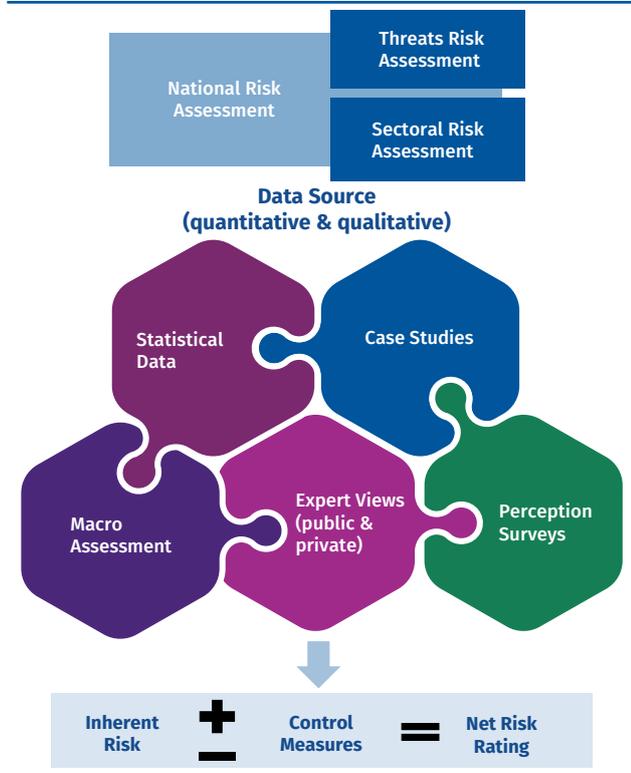
Diagram 2: Reporting Institutions Under the AMLA 2001



institutions in their responses, which led to a tenfold increase in DCR submissions in comparison to 2019. The Bank also conducted several virtual engagement sessions both independently and in collaboration with self-regulatory bodies (SRBs)⁵ and industry

associations to address industry-wide AML/CFT issues and to enhance AML/CFT regulatory understanding. This included six-series of webinars, provision of experts for SRB webinars or dialogues, publication of three awareness videos, and the issuance of newsletters on bite-sized AML/CFT topics as well as COVID-19 related issues. Overall, these engagements to raise awareness recorded a two-fold increase in participation from the previous year. In addition, progress was made to encourage more industry-driven efforts, SRB-led monitoring of AML/CFT compliance and train-the-trainer programmes, to better support and sustain continuous improvements in the implementation of AML/CFT measures by reporting institutions.

Diagram 3: National Risk Assessment



Sharing of financial intelligence and supporting law enforcement

As the custodian of financial intelligence under the AMLA 2001, the Bank collects, analyses and disseminates financial intelligence on suspected ML/TF activities based on reports submitted by reporting institutions to domestic LEAs and foreign FIUs, for their further investigations on offences under their purview. To enable this and consequentially safeguard the financial system,

⁵ SRB refer to bodies that represent specific professions (e.g. lawyers, accountants, or company secretaries), and which are made up of members from the profession, have a role in regulating the persons that are qualified to enter and who practice in the profession, and/or also perform certain supervisory or monitoring type functions.

the Bank relies on proper implementation of reporting obligations, including the conduct of CDD as well as timely and quality STRs and cash threshold reports (CTRs) submissions by reporting institutions. As a member of the Financial Action Task Force (FATF)⁶ and the Egmont Group of FIUs⁷, the Bank is committed to comply with the FATF Recommendations⁸, and has specific obligations to observe operational independence and strict confidentiality in dealing with intelligence information, shared between enforcement agencies and foreign FIUs.

The number of STRs submitted by reporting institutions increased by 18% to 133,978 in 2020. Specifically, the Bank observed significant increases in STR submissions relating to fraud, illegal gaming, illegal betting and suspected tax offences. More than 80% of the 2020 financial intelligence disclosures to LEAs were on suspected high risk crimes⁹, with the majority arising from fraud (42%). The disclosures resulted in successful arrests and subsequent prosecution of more than 50 persons involved in corruption and illegal gambling activities. In addition, these disclosures contributed to seizures of proceeds of crime worth more than RM366 million and the recovery of more than RM172 million. The disclosures also contributed to the freezing of illegal proceeds located overseas and recovery of fraudulently transferred funds.

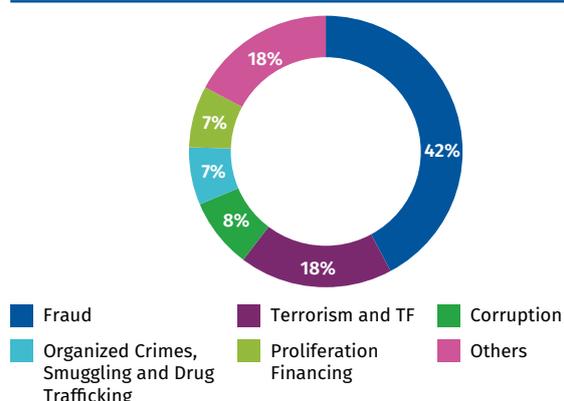
Based on the fraud-related STRs received, it is also observed that the recruitment of mule accountholders¹⁰ has been more prevalent in facilitating various types of scams. In addressing these growing concerns, a holistic and coordinated approach has been formulated by the authorities with strict enforcement actions pursuant to the AMLA 2001. To intensify efforts, the Bank has also taken preventive initiatives by increasing public education and engagement efforts through our 'Amaran Scam' platform to warn the public against the misuse of

their accounts. In addition, the Bank encourages more seamless information sharing amongst reporting institutions and relevant authorities, to further strengthen early warning mechanisms for better detection of mule accountholders and freezing of funds in such accounts.

The Bank leverages on its strong relationships with key stakeholders in its continuous fight against financial crimes. One such platform is the Malaysian Financial Intelligence Network or MyFINET, a public-private partnership platform in Malaysia, which facilitates information sharing between the public and private sectors and subsequently, enhances the private sector's capabilities in detecting suspicious behaviour and transactions relating to serious crimes, such as corruption, proliferation financing (PF)¹¹ and insider trading. This platform has also enabled the country to offer seamless support to foreign FIUs, evidenced by the prompt recovery of fraudulently transferred funds in bank accounts in Malaysia amounting to RM7 million.

The Bank continues to enhance its capability to monitor and detect crimes by utilising data science to analyse STRs. This data-driven solution flags urgent STRs which require immediate attention. This is part of a larger effort to leverage on data science to pre-empt emerging risks, enhance effectiveness of analysis, particularly of complex cases, and generate high quality and impactful disclosures to relevant LEAs.

Chart 1: Percentage of disclosures by serious crimes



Source: Bank Negara Malaysia

⁶ The FATF is an inter-governmental body that sets international standards and promotes effective implementation of legal, regulatory and operational measures for combating threats to the integrity of the international financial system.
⁷ The Egmont Group of FIUs provides a platform for the secure exchange of expertise and financial intelligence to combat ML/TF, whilst fostering better communication amongst FIUs.
⁸ The FATF Recommendations are the internationally endorsed global standards against ML/TF, proliferation financing and other related threats.
⁹ High risk crimes include fraud (42%), corruption (8%), organised crimes (3%), smuggling (1%), drugs trafficking (3%) as identified under the NRA 2017, as well as terrorism and terrorism financing (18%) and proliferation financing (7%).
¹⁰ Mule accountholders are individuals who allow their accounts to be used by another person to deposit fraudulent funds.

¹¹ PF refers to the financing of proliferation of weapons of mass destruction (WMD) in accordance with the relevant United Nation Security Council Resolutions, i.e. UNSCR 1718(2006) on Democratic People's Republic of Korea and its successor resolutions and UNSCR 2231(2015) relating to Iran.

Global participation to fight financial crimes

The Bank represents the country internationally by participating in various global fora. As the Co-Chair of the Asia/Pacific Group on Money Laundering (APG)¹² from 2020-2022, the Bank is pursuing several areas of priorities, encompassing enhanced supervision of DNFBP sectors, increasing expertise and use of data analytics by authorities, and promoting best practices in public-private partnerships. Additionally, the Bank also extended technical experts for mutual evaluations¹³ conducted by the FATF and the APG.

An important aspect is the strong relationship the Bank has with various foreign FIUs, which is undertaken through our membership in the Egmont Group of FIUs, and through Memorandum of Understandings (MoUs) with other jurisdictions. To date, Malaysia has entered into 44 MoUs, with an additional four in negotiation.

At the regional level, the Bank is co-leading three projects within the Financial Intelligence Consultative Group (FICG), a regional forum which aims to enhance cross-collaboration in the exchange of financial intelligence and capacity building based on transnational crime priorities, while improving the understanding of key regional ML/TF risks. The projects include the development of red flags on transnational laundering of corruption proceeds and the development of a secured platform for communication and sharing of information between regional FIUs.

Going forward

The Bank will continually strive to protect the integrity of the financial system. Looking ahead, this would include leveraging on technology to improve monitoring, driving quality financial intelligence disclosures and maintaining effective collaboration with important stakeholders. By becoming more adept at anticipating and prioritising emerging threats, we will be more responsive and effective at combating ML/TF threats.

¹² The APG is a regional inter-governmental organisation, focusing on ensuring its members effectively implement the international standards set by the FATF. The APG is part of a global network of similar bodies (i.e. FATF-Style Regional Bodies, FSRBs) and is the largest in terms of membership and geographical size.

¹³ Mutual evaluations are peer-country review system, which analyses the levels of compliance with international AML/CFT standards, as well as its effectiveness of measures undertaken by the country.