National Risk Assessment (NRA) & FATF Mutual Evaluation

Supervision Department

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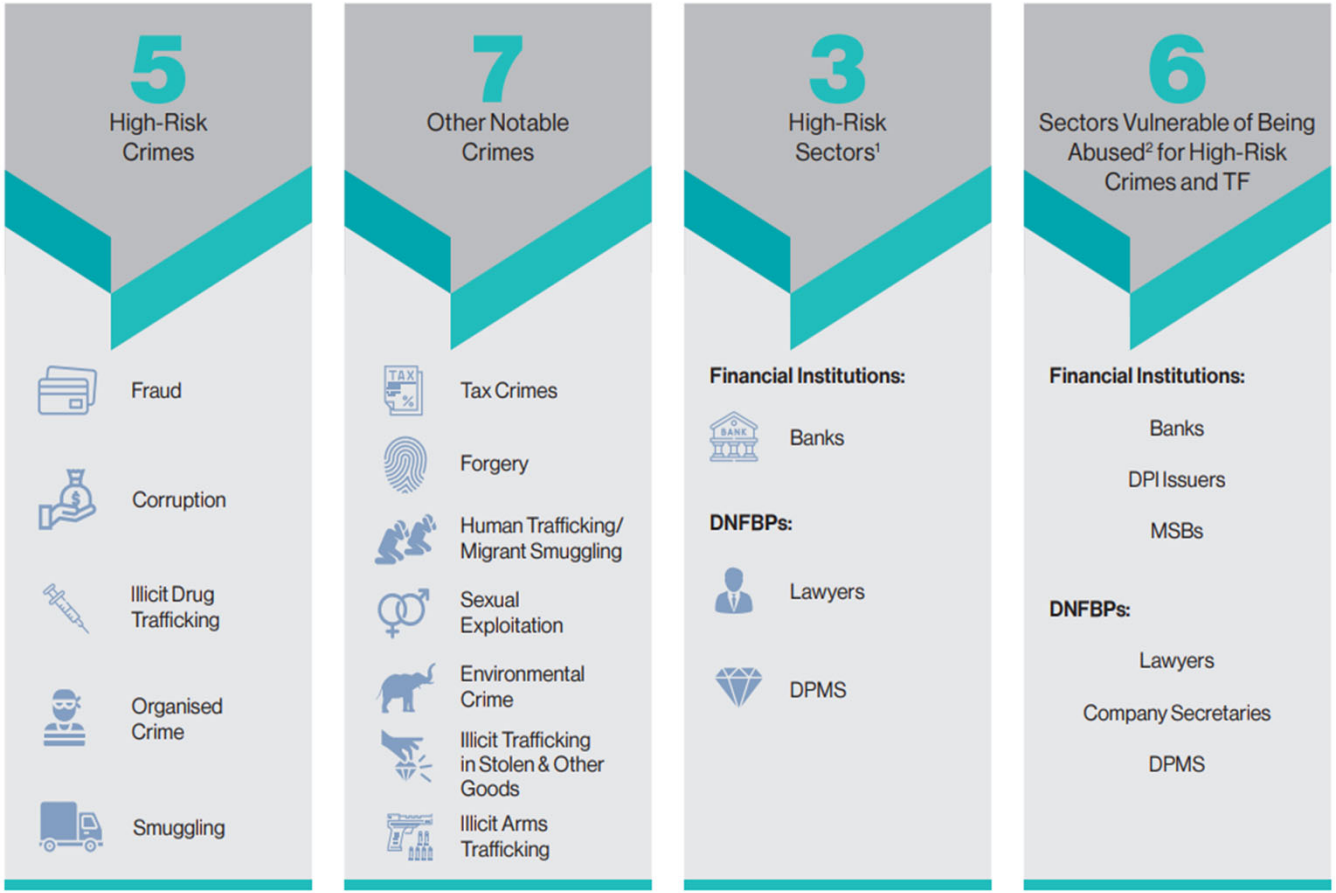
Labuan FSA
Financial Services Authority

National Risk Assessment (NRA)

- The National Risk Assessment (NRA) is conducted periodically by the National Coordination Committee to Counter Money Laundering (NCC).
- Malaysia's collective understanding of the money laundering (ML) and terrorism financing (TF) risks.
- Comprised of Threat Risk and Sectoral Risk Assessment based on qualitative data sources obtained from various source.
- Threat findings remains unchanged.



- ***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***

Refer NRA2023 Executive Summary report at :
https://www.labuanfsa.gov.my/clients/asset_120A5FB8-61B6-45E8-93F0-3F79F86455C8/contentms/img/documents/AML_CFT/latest_updates/2024/Malaysia-National-Risk-Assessment-on-Money-Laundering-and-Terrorism-Financing-2023_04122024.pdf

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.

Highlights on other Notable Crime

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.

Key Risk Drivers for Crime

- The NRA2023 noted several key risk drivers that have **accelerated financial crimes**, particularly ML, to become more complex and sophisticated.
- **Higher-risk crimes** continue to be **facilitated by corrupt officials**, while the use of **mule accounts** to **obscure the source of funds** remains prevalent.

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.**

Key Risk Drivers for Crime

- **High-risk crimes** are expected to **remain the same for the next three years**, 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.
- Despite lower terrorism case 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.

Sectoral Risk Assessment (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.

Control Measures → (Strong, Acceptable, Marginal, Weak)

Inherent Risk ↑

ML	Strong	Acceptable	Marginal	Weak
High		• Banking Institutions[1]		
Medium High		• CMIs		
Medium		• MSBs • DPI Issuers • Labuan Banking Institutions • NBFIs • Insurers and Takaful Operators • Moneylenders	• Labuan Money Brokers	
Low		• Pawnbrokers • Labuan Insurance	• Insurance Intermediaries • Banking Intermediaries • Leasing • Factoring • Labuan CMIs	

TF				
High				
Medium High		• Banking Institutions • DPI Issuers • MSBs		
Medium		• CMIs • Insurers and Takaful Operators	• Labuan Money Brokers	
Low		• Pawnbrokers • NBFIs • Labuan Banking Institutions • Labuan Insurance • Moneylenders	• Insurance Intermediaries • Banking Intermediaries • Leasing • Factoring • Labuan CMIs	

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.

Sectoral Risk Assessment (DNFBP Sector)

Control Measures →

Inherent Risk ↑

	Strong	Acceptable	Marginal	Weak
ML				
High				
Medium High		• Casino	• Lawyers	• Dealers in Precious Metals or Precious Stones (DPMS)
Medium		• Labuan Trust Companies	• Company Secretaries • Registered Estate Agents • Accountants	
Low		• Trust Companies • Licensed Gaming Outlet		
TF				
High				
Medium High				
Medium		• Casino		
Low		• Trust Companies • Licensed Gaming Outlet • Labuan Trust Companies	• Company Secretaries • Lawyers • Registered Estate Agents • Accountants	• Dealers in Precious Metals or Precious Stones (DPMS)

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.

NRA2023 Key Recommendation

- 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

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Labuan FSA Expectation

RI are expected to :

(a) study the NRA2023 together with NRA2020

(b) remain **vigilant** to **threat and risk** identified from NRA

(c) include the **threat and risk identified** from NRA as part of **institutional risk assessment**

(d) improve internal controls on AML/CFT measures to identify, manage and/or mitigate the potential risk exposed

(e) improve compliance culture and **STR reporting**

Other Matters

1. Observation for Improvement
2. Focus Area
3. Communication Channel

1. Observation for Improvement

Understanding of Risk

- NRA and other Labuan risk assessment or thematic review reports / result.
  - *The high-risk crime identified in 2020/2023 are Fraud, Corruption, Smuggling, Illicit Drug Trafficking, Organised Crime and the other notable crimes. Specifically, further risk drives of threats for Labuan includes the following: fraud, corruption and tax offence.*

Implementation of Preventive Measures

- Institutional Risk Assessment (IRA) / Risk Based Approach (RBA)
- Demonstrate the understanding and alignment to AML/ CFT requirements
- Demonstration / case studies of good practices
- Strengthen STR submission
- Understanding of CDD screening and TFS screening
- Concern on over reliance on commercial database for potential delays

Other Emerging Risks

- Dual passports customer risks – FIs' practices
- Exposure to DPRK
  (a) Customer
  (b) Indirect relationship

2. Focus Areas

Institutional Risk Assessment (IRA)

Sanction Screening & CDD/ECDD

Ability to identify indicators/red flag

- Conduct IRA based on the parameters stipulated under the AML/CFT Guidelines and guided by the **NRA result**
- How IRA would impact on the business direction/strategy/risk management and planning

(some RI was found lack of awareness and understanding on IRA)

- Sanction screening – ensure DCO/CO check UNSC/MOHA website for updates and subscribe to UNSC mailing list
- On-going due diligence screening on customer database
- Identification of BO
- Exposure to higher risk countries
- Controls on TFS-TF/PF

- Able to understand, identify and differentiate between ML/TF/PF.
- Transaction Monitoring
- Effectiveness of STR framework– low STR submission

- Understand ML/TF/PF risk and established appropriate level of control measures to manage risks
- Importance of on-going monitoring/screening of clients and enhanced CDD
- Effectiveness of STR framework

3. Communication Channel

- Labuan Associations

  (Association of Labuan Banks, Labuan Investment Banks Association, Association of Labuan Trust Companies, Labuan International Insurance Association)
- Labuan Compliance Officer Networking Group

  (Labuan Bank, Investment bank, Insurance, Trust Companies and DFS)
- Labuan FSA Website

  (AML/CFT updates, guidelines, thematic review result or engagement slides , other materials, investor alert, enforcement action and detailed AML/CFT/CPF breaches)
- Onsite Inspection/Examination
- Sharing thematic result during IFCTF
- Engagement or Sharing Session by Supervisor (one to one or one to many)
- RI may also direct reach to Relationship Manager, Director or Director General if deemed necessary

THANK YOU

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Labuan FSA
Financial Services Authority

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