

Encik Abu Hassan Alshari Yahaya: Continuing efforts to combat money laundering and terrorism financing in Malaysia

Keynote address by Mr Encik Abu Hassan Alshari Yahaya, Assistant Governor of the Central Bank of Malaysia, at the Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) Compliance Conference 2014, Sesana Kijang, Kuala Lumpur, 17 September 2014.

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It is my great pleasure and honour to welcome all of you today to our annual Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) Conference. Today's line up of programme and most importantly, your presence here today underscores our continuing efforts to combat money laundering and terrorism financing in Malaysia and the critical importance of the role that financial services industry contributes in supporting regulators, government and law enforcement to tackle and mitigate the threats.

I am pleased to note that today we have close to 350 participants representing banking, insurance, takaful, investment and securities industries in Malaysia. I also would like to take this opportunity to express my appreciation to all the speakers and moderators for your willingness to share knowledge and views for the two concurrent sessions that we will be having later this morning.

Money laundering is a serious global problem

Money laundering is a serious global problem. At the global level, the International Monetary Fund (IMF) estimated the extent of money laundering to be at 2% to 5% of global GDP. According to the United Nation Office on Drugs and Crime (UNODC), that translated to 800 billion to 2 trillion US dollars in current GDP. UNODC acknowledged that the margin between those figures is huge but we will agree that even the lower estimate underlines the seriousness of the problem.

Money laundering is directly linked with crimes as crimes are largely motivated by money. In Malaysia, for the period between 2011 and 2012 alone, total amount investigated for serious crimes by our law enforcement authorities stood at RM13.1 billion. This is the amount that has the potential to be laundered through our system. We recognize that the actual extent of money laundering is difficult to measure. Certain type of crime may not be even reported, let alone investigated. For example, in the case of corruption, if both the giver and taker are willing giver and willing taker, the case will not be reported unless there is report from third party. It also acknowledged by the international convention, that for every 10 crimes committed, only one will get reported.

Crimes and money laundering jeopardized socio-economic development of the country

Crimes and money laundering would jeopardize socio-economic development our country. Serious crimes such as drug trafficking, corruption, tax evasion are intrinsically damaging to the country as they can weaken the economy. Not taking sufficient enforcement measures on the proceeds of crimes will perpetuate more crimes in the country as the benefits from the proceeds would incentivize perpetration of more and bigger crimes. Crimes also reduce productivity and increase leakages in the economy as resources and manpower need to be channeled towards combating crimes instead of more productive utilization of resources.

From the reputational perspective, Malaysia cannot afford to be seen as a weak link in the chain of international efforts to combat money laundering and terrorism financing. Although in the previous Mutual Evaluation in 2007, we received commendable ratings, the coming Mutual Evaluation in November this year will be based on a more holistic methodology where

greater focus will be on the effectiveness of our implementation. If we did not attain good rating, the consequences could be high. We do not want our country to be listed in the FATF Public Statement as country with significant deficiency in AML/CFT.

As you are aware, compliance with FATF Standards helps maintain our country's reputation and the reputation of our businesses, including financial institutions, on the world stage. Globally, a country's rating on compliance with FATF Standards on AML/CFT is often considered as a key measure of the robustness of the country's AML/CFT regime. Unfavourable rating would mean that Malaysian businesses, including financial institutions, would face greater scrutiny, higher costs of doing business, delays and other time consuming and unnecessary barriers when doing business with overseas counterparts.

The impact of money laundering and terrorism financing risks to the financial institutions and financial system is no less severe. We all understand that financial institutions operate on the basic tenets of public confidence and integrity. In the short term, a financial institution that is seen condoning money laundering and terrorism activities will lose public confidence and the confidence of their depositors. The institution will also face higher liquidity risks as funds derived from illegal activities tend to be less stable. Ultimately, in the long term, coupled with higher cost of doing business, the institution's ability to perform its important economic intermediation process will also be affected.

Understanding of money laundering and terrorism financing risks is key for an effective AML/CFT measures

For an AML/CFT measure to be effective, we need to understand our money laundering and terrorism financing risks and vulnerabilities. Understanding of the risks will facilitate our efforts in channeling our resources and priority towards areas that would pose the greatest risks to the country and the institutions. Recognising these needs and in line with the requirements of the FATF Standards, at the country level, we had conducted a national risk assessment (or the NRA) to identify, assess and understand specific money laundering and terrorism financing threats in the country, in particular the scale, sources and methods of those threats, as well as the vulnerabilities and risks across various sectors. We will share with you shortly the result of the NRA so that you will have better understanding of the risks at the country's level. Subsequently, the results of this NRA needs to be translated into your institution's own policies, procedures and risk controls.

Effective AML/CFT regime is important. It prevents criminals benefiting from crime proceeds and reduces crime pervasiveness

With the negative impact of money laundering and terrorism financing in mind, we all have a strong incentive to ensure that our AML/CFT regime is effective. There is no other option. Financial institutions, being one of our most important partners in combating money laundering and terrorism financing risks, play an important role of deterring and detecting money laundering and terrorism financing activities. As we know that criminals are generally motivated by money, access to legitimate financial services is a key mechanism by which criminals can realise the benefits of their crimes. And if we worked together, we can do a great deal to help make Malaysia to be a hostile place for criminals and terrorist financiers. But we know that this is not easy. Whilst large majority of those who use financial services do so for entirely legitimate purposes, criminals and terrorist financiers also need access to financial services. And the challenge for you, and for all of us, is how we can prevent and detect that abuse.

The good news about the industry efforts to comply with AML/CFT law and regulations is that the vast majority of our institutions are doing a good job, with comprehensive compliance programme in place and most importantly, suspicious transactions (or the STRs) are being diligently reported. Financial institutions (particularly banking institutions) are consistently the top contributors for STRs submitted to Bank Negara Malaysia. The STRs submitted are

valuable to us and to law enforcement agencies. Based on the feedback that we received from the law enforcement agencies, the STRs submitted have provided leads to their investigation and have resulted in the number of joint initiatives. More than 70% of the STRs disclosed to the enforcement agencies have resulted in the opening-up of Enquiry Papers or Investigation Papers. The remaining of the information disclosed will be used as part of the database for future investigation.

Compliance with AML/CFT law and regulations in the financial institutions require high commitment from all level of staff, particularly the front-liners. Non-compliances will be seriously dealt with. At the international level, we have witnessed banks been penalised to the tune of billion of dollars for failure to comply with AML/CFT law and regulations. In Malaysia, we have also taken and will continue to take strong actions on banks that failed to comply and implement AML/CFT law and regulations. With the implementation of the Financial Services Act, there are various forms of enforcement actions that can be taken by Bank Negara Malaysia including private and public reprimand. In terms of the penalties, the amendment to the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 (AMLATFA) that came into force on 1 September 2014 had increased the penalty amount. For instance, maximum penalties under general offence that normally applies for non-compliances with requirements under Part IV of the AMLATFA (that is on reporting obligations by the reporting institutions) have been increased from RM250,000 to RM1 million.

Cooperation and collaboration among regulators, supervisors, law enforcement authorities and reporting institutions are vital for an AML/CFT regime to be effective

Needless to say, preventing and deterring money laundering and terrorism financing is only possible if there is a working partnership between all the law enforcement authorities, regulators, supervisors and the private sector. Without that, our efforts will be futile. Hence, for an AML/CFT regime to be sound, cooperation and collaboration is not an option but a vital requirement. Having said that, it is important for me to stress that having a comprehensive AML/CFT framework alone is not enough. What is more important is how effective are our implementation and its impact in reducing money laundering and criminal activities.

At the end of the day, the test is on how good we are in achieving the ultimate objective of an effective AML/CFT regime, that is to ensure that the financial system and the broader economy are protected from threats of money laundering and the financing of terrorism, thereby strengthening financial sector integrity that contributes to the safety and security of the country.

Before I end my speech, let me recap the following key points:

- i. Crimes and money laundering could pose significant threat to our financial system, economy and society;
- ii. Understanding of risks is key in ensuring that our AML/CFT measures are commensurate with the risks, in order for us to protect the financial institutions and the integrity of our financial system;
- iii. Non-compliances will be viewed very seriously and strong regulatory and supervisory actions are to be expected;
- iv. Cooperation and collaboration between financial institutions and LEAs are vital for an effective AML/CFT regime; and
- v. Legal, regulatory and operational frameworks alone are not sufficient without effective execution and overall implementation. Results would need to be measured based on the outcome and impact.

In relations to the Mutual Evaluation that will be undertaken from 13 to 25 November this year, I wish inform that some financial institutions will be called to meet the assessors during the on-site assessment in November. The purpose of the meeting is for the assessors to assess how effective AML/CFT measures are being implemented by the reporting institutions. We have identified several potential institutions as per the criteria given by the assessors. If your institution is being selected, you will receive formal notification from us in due course. Nevertheless, there are also high possibilities that the assessors may request to meet institutions of their choice during the on-site assessment.

On the final note, I would like to once again thank all of you here today for attending this conference and for the moderators and panellists who are willing to share their experiences for the collective benefits of everyone attending the conference today. I would also like to thank the Association of Banks, Malaysia (ABM), Association of Islamic Banking Institutions Malaysia (AIBIM), Life Insurance Association of Malaysia (LIAM), Malaysian Investment Banking Association (MIBA), Malaysian Takaful Association (MTA) and the Securities Commission Malaysia for coordinating the participation from your members. I wish all of you a successful and productive conference ahead.