

## Nor Shamsiah Mohd Yunus: Building trust and transparency - collaborate, accelerate, strengthen

Speech by Ms Nor Shamsiah Mohd Yunus, Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the 11th International Conference on Financial Crime and Terrorism Financing (IFCTF) 2019, Kuala Lumpur, 5 November 2019.

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Last year, I spoke at this same conference about our shared responsibility to combat financial crime and the need for us to have a deep understanding of new and emerging risks. I also called on reporting institutions to strengthen their compliance functions.

I was therefore delighted to learn that the theme of this year's conference is "Building Trust and Transparency: **Collaborate, Accelerate, Strengthen**".

This afternoon, I would like to briefly expand on some of the ideas that I put forward last year, which will build on this year's conference theme.

First, on the point on **collaboration**. We speak a lot about how combating financial crime is a shared responsibility. This is because of its massive impact, imposing a cost to governments, businesses and individuals. A Thompson Reuters report from 2018 revealed that nearly half of 2,000 plus large companies surveyed were victims of financial crimes in the past one year, losing an estimated 3.5% of their turnover.

This goes to show that this is a battle that needs to be waged together. Key to this is the sharing of information. Over the years, we have put in place various arrangements to enable smooth information flows between the financial sector and the law enforcement community, within a controlled environment.

These "public-private partnerships" (PPP) are vital as they allow the financial intelligence unit, law enforcement agencies and reporting institutions to leverage on intelligence-led collaboration and information sharing to detect financial crime and terrorism financing. This will further support investigation and prosecution processes. For Malaysia, our goal is to formalise and further deepen what we have built over the years. As such, I am pleased to announce that the PPP will be officially launched shortly by our Prime Minister. I wish to also express my appreciation to other participating agencies in the PPP namely Polis Diraja Malaysia, the Suruhanjaya Pencegahan Rasuah Malaysia, Jabatan Kastam Diraja Malaysia and the Securities Commission Malaysia, and also the 18 reporting institutions.

Second, reporting institutions must **accelerate** efforts to further expand and develop their AML/CFT toolkit to deal with new and emerging risks.

At our end, Bank Negara is in the process of reviewing our AML/CFT policies. A key outcome of this review is the move of our regulatory framework towards being more "risk-based" and "principles-based". We have come a long way since the AMLA was gazetted in 2001. Since then, reporting institutions have matured in understanding and have fully implemented the regulatory requirements. This is also supplemented by the issuance of various guidance, technical notes and updates on regulation.

We believe that the industry is ready to build and expand its capacity in this area. While we are moving to being more risk-based, there is still a lot more to be done. This includes educating everyone in the industry that "risk-based" does not mean "total risk aversion". While it is crucial to protect our financial system from being abused, it is also necessary for financial institutions to serve their roles and purposes in the economy and for the society. Accordingly, the new

regulatory framework demands reporting institutions to take greater ownership of their individual AML/CFT frameworks. Reporting institutions must strengthen their internal governance and controls to preserve financial integrity, not because Bank Negara tells them so, but because it is the right thing to do.

This demands a high level of maturity by the industry. For individual institutions which have established a mature control environment, there will be greater latitude to design control frameworks in a way that is more operationally flexible. On the other hand, for individual institutions who are not quite there yet, the new framework raises the compliance bar, calling for them to strengthen awareness, governance and processes to ensure they have the capabilities to preserve integrity of the financial system.

On this point, I wish to applaud the Financial Services Professional Board (FSPB) on its recent publication of standards on whistleblowing and on managing conflicts of interest. By working together to set and voluntarily commit to baseline standards, the industry can demonstrate its readiness for a more risk-based regulatory approach. I hope that the industry will adopt these standards and this means moving beyond symbolic gestures, to the diligent implementation of policies and programmes that promote the desired culture.

Bank Negara is also committed to ensuring that regulatory requirements support the country's digital economy agenda. We are in the midst of developing e-KYC policy guidance to streamline practices of industry players in leveraging new technology. The guidance will clarify desirable outcomes of e-KYC adoption, and set out best practice as well as standardised parameters to measure effectiveness of e-KYC solutions. Our hope is that with its promise of seamless digital on-boarding of customers and lower costs, increased prevalence of e-KYC will help increase competition while also advancing the financial inclusion agenda – and this must be done without compromising on financial integrity outcomes. We will consult the industry and other relevant parties through the publication of an exposure draft early December this year.

Third, we must **strengthen** our defences in view of new risks and changing environment.

Recent years have seen authorities across the globe intensifying action against financial institutions for harbouring criminal activity. We see multi-billion dollar fines and all forms of regulatory sanctions, with some facing the threat of closure.

On our part, Bank Negara will continue to use supervisory levers to sustain positive changes and drive improvements in the compliance culture in the industry. This includes seeing increased oversight by senior management and board of directors, more robust remedial measures and increased investments in strengthening compliance.

We prefer if the industry can strengthen their defences against financial crimes pre-emptively, on their own. But Bank Negara will also not hesitate to use enforcement levers to deal with instances where there are persistent gaps and non-compliance with rules. Over the years, we have worked to enhance our enforcement framework to ensure that enforcement actions are just, proportionate and transparent. In order to uphold transparency of enforcement actions, we have started publishing actions taken against financial institutions for non-compliances of rules under our purview. The intention is to clarify our regulatory expectations and to expedite change in culture by knowing the incentives and consequences of non-compliance.

In January, we lowered the daily Cash Threshold Report (CTR) from RM50,000 to RM25,000. Up to September, over five million CTR reports were received, representing about RM483 billion in cash transactions. It is still too early to draw any concrete conclusions, but what we have observed across the industry is the total value of cash transactions reported has increased marginally, while the number of CTR reports received have nearly doubled. The significant increase in CTR received since January provides us important data points that enable more rigorous monitoring of peculiarities in cash transactions and identification of ML/TF risk on newly

identified entities that have not been captured previously. These additional insights also lead to better quality of disclosures to relevant law enforcement agencies especially in relation to fraud, tax evasion and corruption crimes.

The regulatory and law enforcement community is also in the midst of exploring introducing a Cash Transaction Limit (CTL) to complement the existing financial integrity measures. While new to Malaysia, many other countries such as France, Italy and India have already implemented it. This measure will further mitigate the abuse of cash by addressing the ease of conducting high-value cash transactions. Even with the rise of electronic payments, we cannot wash over the fact that criminals still prefer cash because it is widely accepted, anonymous in nature and untraceable. For this purpose, the National Coordination Committee to Counter Money Laundering (NCC) will be consulting the public on this proposal later this month. The NCC wants to make an informed decision. As such, we hope that all of you could get the word out and encourage the public to provide feedback on the proposed measure.

## **Closing**

As a regulator, Bank Negara can only do so much to protect the financial system against money laundering and terrorism financing risk. Reporting institutions, as responsible corporate citizens, must also play their parts to safeguard the financial system and economy.

Our hope is that over these two days, participants at this conference will draw new insights and perspectives, forge new networks, and strengthen their resolve in carrying out this important mission to uphold the integrity and the trust of the people in our financial system.

Thank you.