

The ESG–AML Convergence Challenge: A New Financial Criminology Perspective for Malaysia

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ABSTRACT

There is a growing intersection between AML and ESG, signalling a new phase in the criminology of finance. Although there is plenty of work on ESG and AML dimensions independently, little work is done in the overlapping space of the two in terms of risky activities and enforcement. Accordingly, this research proposes the ESG–AML Convergence Model as a novel theoretical instrument that facilitates an investigation into the assessment of how an advanced sustainability scene, like Malaysia's forward-looking ESG landscape (including green finance and Islamic banking), may engender potential misuse cases of anti-money laundering. Using criminological theories like routine activity theory and convenience theory, the model shows how the perceived legitimacy of ESG initiatives can “conceal” AML risk. This helps fraudsters take advantage of greenwashing, due diligence and regulatory silos. One of the important findings, particularly concerning, is that there are systemic weaknesses in Malaysia's financial system, manifested in ESG and AML compliance functions not being aligned; due-diligence processes are fragmented; and technology is limited in ensuring that transactions of an ESG type can be tracked. This conceptual paper provides specific actions based on government-wide governance, state-of-the-art analytics, and trans-regulatory coordination to better manage such risks in the future. Our contribution to the literature is twofold. This study will contribute to academic knowledge and provide tools for regulators, financial service providers and policymakers, by connecting the fields of financial criminology and sustainable finance policy, that further sustainability and financial integrity in developing countries.

Keywords: ESG Compliance, Anti-Money Laundering (AML), Financial Criminology, Islamic Finance, Sustainable Finance Regulation.

INTRODUCTION

The Malaysian financial industry faces a dilemma exposed by two opposing trends in regulation: the global appetite for Environmental, Social and Governance (ESG) objectives on one hand and an increasingly stringent focus by regulators to harden Anti-Money Laundering (AML) standards. This convergence has great potential for supporting sustainable development but also creates interrelated challenges in terms of crime prevention and financial regulation. For Malaysia to achieve its vision of promoting global Islamic finance and sustainable finance, the intertwining of ESG compliance and AML obligations requires discipline examination by financial criminology. Recent research indicates that Malaysia has implemented ambitious sustainable finance frameworks, such as Bank Negara Malaysia's (BNM) Value-Based Intermediation (VBI) for Islamic banks, Climate Change and Principle-based Taxonomy (CCPT), and Sustainable and Responsible Investment (SRI) framework for the Securities Commission. These well-intended ESG efforts have resulted in operational complexities that can be exploited for financial crimes. In other words, the proselytisation of sustainability carries potential criminogenic effects as the room for oversight slackens, and new forms of transactions may potentially account for illicit actors rinsing themselves clean from an ESG perspective.

Malaysia's continued challenges with respect to anti-money laundering highlight why ESG–AML convergence matters so much. Malaysia is the 72nd most risky country in the world for money laundering and 54th out of 128 countries on the Basel Institute's 2022 Money Laundering Risk Index (MLRI). Scandals such as the 1MDB case bring to the fore how opaque money laundering scams can penetrate frail regulatory defences, the fragility of which is exacerbated when oversight lags behind innovative financial products and ESG-flavoured markets. Enforcement challenges persist in areas such as professional services, real estate, and money service businesses, which remain compliance gaps, even as the financial industry adopts new forms of ESG-oriented financing that may create additional openings.

This important gap is the one this article aims to fill by studying how the ESG agenda, in aiming at legitimate sustainability goals, can also offer avenues for new money laundering practices. This is even more important because many Malaysian banks are incorporating ESG factors into their customer due diligence (CDD) and Know-Your-Customer (KYC) procedures. They risk creating dangerous blind spots if existing anti-money laundering (AML) controls are not bolstered. In a recent study on Asian markets, for example, it was found that green finance expansion without proper accompanying measures could reduce AML effectiveness, as a negative correlation to AML performance was found to have had an effect on governmental green bonds (Ngo et al., 2025). Therefore, there is an imperative mandate for a more effective intersection between sustainable development efforts and sound financial crime measures.

Theoretically, this study is important because it links environmental economics and compliance behaviour with criminological theory in the analysis of ESG–AML convergence. This study builds on established models of other white-collar crimes, such as the convenience theory approach, which maintains that fraud is a function of financial pressure, opportunity, and rationalisation, in relation to the emerging domain of ESG compliance risk. In so doing, this study sheds new light on the evolving financial crime dynamics in sustainable finance contexts, such as how the “ethical halo” of ESG might make practitioners lower their guard against wrongdoing. The paper is structured as follows: First, a thematic literature review and review of extant empirical work and theories about ESG–AML linkages are presented, which also include empirical evidence examples from cases illustrating how sustainability agendas can be co-opted. Subsequently, the study presents a conceptual model, the ESG–AML Convergence Model, which captures these thoughts around four key dimensions of ESG governance. This study concludes by reflecting on the policy implications that indicate, among other things, that prevailing pressures may at best be counterproductive or have relevant unforeseen costs and that visual tools should lead to reforms (mapping of regulatory coexistence, for instance). Finally, the conclusion summarises the findings and provides directions for further work in this developing area of financial criminology.

LITERATURE REVIEW

ESG–AML Convergence: A New Domain in Financial Criminology

The ESG integration with AML compliance nexus. It is undeniable that this is a nascent topic in financial criminology. While mainstream AML literature is surprisingly quiet about the issue of sustainability projects, ESG research hardly touches upon financial crimes at all. This, in part, has resulted in conceptual silos around where this push for ethical finance might connect (or be held back) by dirty money. Razali et al. (2022) argue that ESG policy and principles must change in line with how strictly financial integrity (which incorporates, of course, environmental and social issues as well as good governance) is enforced in practice in countries like Malaysia, if credible sustainable finance is to be practised. In this direction, Shahrom and Kunhibava (2023) observed that Malaysia's policy commitment to ESG, such as via the CCPT and SRI Sukuk, has been mixed in its implementation. In reality, ESG and AML goals can even though they're theoretically aligned toward more transparency and accountability work against each other. For example, the rapid greenlighting of green investments could mean that thorough due diligence is lacking, or banks look the other way when they see something suspicious going on in an account that funds socially beneficial projects. Yusoff et al. (2023) warned that the multiplication of legitimate, sound, but benign sustainability activities create a field of view for compliance if they develop faster than AML controls. In conclusion, the early literature indicates that such a framework is required to analyse institutional practices and the state-architecture of financial crime in relation to the sustainability agenda.

Theoretical Perspectives: Convenience and Routine Activity Theories

To understand how ESG initiatives can lead to illicit finance, this study refers to criminological theories that are usually applied to white-collar crime. Convenience Theory provides a useful lens. As outlined by Gottschalk (2017), financial crimes arise not only from opportunism or pressure but also from an offender's strategic weighing of benefits, costs, and enforcement risk, effectively choosing the "convenient" path of illicit behaviour when it offers a comparative advantage over ethical behaviour. From an ESG perspective, convenience theory suggests three factors that could be the motives for crime. The first motive is economic; institutions that are desperately trying to meet ESG targets may divert resources away from compliance. The high-cost investments required for ESG infrastructure may cause management to be less diligent regarding AML procedures. Olawale et al. (2025) and Yusoff et al. (2023) found that some firms reallocate compliance budgets in favour of ESG reporting, potentially weakening AML vigilance. Second, organizational opportunity: ESG and AML functions often operate in separate silos within financial institutions. As Ramadhan (2024) observes, this fragmentation, evident in some Malaysian banks, weakens internal controls and creates gaps that money launderers can exploit. Third, behavioural rationalisation: ESG's ethical glow can create a cognitive bias. Therefore, compliance officers could let down their guard, considering that deals associated with environmental or social causes are inherently low-risk. This "ethical halo" effect (Gottschalk, 2017) can create a lax environment where dirty money can be laundered under the guise of doing good through sustainability practices.

Furthermore, Routine Activity Theory (RAT) has significant theoretical implications for this study. RAT is a theory which posits that crime occurs when motivated offenders encounter suitable victims who are not protected from capable guardians in any given point in time and space. In the ESG finance, RAT also finds structural changes that lead to more target and guardian (absent) pairs. ESG-linked financial products, such as green bonds, carbon credits and sustainability-linked loans, have fuelled the explosive growth of capital flows in ever more complex and sophisticated forms. These instruments are also complicated, involve numerous intermediaries, cross-border transactions and new disclosure burden economies around the rules that can be gamed and avoided. Sreeram (2024), and Liu and Lai (2021) add that green bonds and Islamic sukuk have extra complexities which could restrict the exposure to misallocation. Meanwhile, starry-eyed villains may step up their game by considering the convenient coincidence that an increase in corporate "greenwashing", in which companies exaggerate or outright lie about going green, can equally serve as smoke for dirty money.

For example, companies can mistakenly categorise proceeds from illegal logging as profits from reforestation programs and use a "sustainable" reputation to cover up suspicions. Hu et al. (2024) and Guo et al. (2024), investors in ESG securities through the use of smoke screens tarnish their reputation and raise more capital, they could intentionally launder the proceeds of environmental crime through legitimate ESG investments. Simultaneously, traditional guardians (regulators, auditors, and compliance) may be unable to verify ESG claims and follow ESG-themed transactions. Insufficient training on ESG topics, poor data analytics and fragmented enforcement across jurisdictions hinder guardians' ability to stop ESG-driven financial crimes." At its core, RAT posits that what is more important than any single bad actor or company is that in travelling down the path of structural change towards ESG finance, new vulnerabilities are generated that sophisticated money launderers like Singh are going to be canny enough to take advantage of.

Integration Challenges in ESG and AML Compliance

Other recently published reports also emphasise the significant challenges in incorporating ESG within typical AML/CFT models, as they are currently described in the literature. Effective implementation While there is some subjectivity in interpreting the key findings, a recurring theme is the lack of organisational alignment and technology to track ESG and financial crime risks. Olawale et al. (2025) emphasise that most financial institutions are struggling to provide a single, integrated compliance function and that ESG due diligence is an afterthought, like AML or KYC.

The research identified that some organisations had either developed their own data infrastructure or interdepartmental cooperation to effectively integrate ESG monitoring alongside transaction monitoring. This is complicated by the two banking systems in Malaysia, where Islamic financial institutions run on two

different platforms, and the rift widens. Islamic financial institutions are not only subject to secular ESG and AML duties; they must also adhere to Shariah principles. Siregar (2025) also points out that it is uncertain whether the Fiqh rule about the disposal of proceeds of specific crimes, including environmental crime in Islamic law, has ever been tested in practice. This is a regulatory black hole where Islamic law offers no clear-cut solutions, nor do secular laws, so there is space that potential criminals could exploit.

Technology was the second most difficult point between countries. Advanced analytics and machine learning may be a worthwhile alternative for identifying complex money laundering patterns; however, ESG data often do not fit into existing AML models. Ramadhan (2024) recommends criminology-informed machine learning models using social and institutional risk factors. Although many AML systems are often calibrated to detect traditional transaction typologies, they are challenged by ESG-related anomalies. ESG metrics (such as a firm's carbon credit trading or supply chain ratings) are heterogeneous and lack standardisation. This can lead to false negatives in transaction monitoring, as illicit flows tied to "green" projects may not trigger traditional red flags. Prakash (2025) finds that AI systems trained on conventional suspicious transaction patterns underperform when confronted with ESG-linked financial flows. Moreover, there is an ethical imperative to ensure that anti-crime algorithms do not unjustly penalise legitimate and sustainable ventures. If compliance technology is not carefully calibrated, banks might de-risk by avoiding entire categories of ESG investments or nonprofit organisations for fear of AML breaches, undermining the social inclusion goals of ESG. Indeed, the Financial Action Task Force (FATF) has warned that poorly implemented AML standards can lead to wholesale de-risking and financial exclusion in nonprofit and high-risk sectors (Pavlidis, 2023). Pavlidis (2023) terms this the "dark side" of AML unintended consequences, such as de-risking and NPOs being cut off from banking, which paradoxically harms social outcomes. Aligning technology and policies to avoid such unintended outcomes is a delicate challenge for regulators and banks alike.

Regulatory Frameworks and Overlaps in Malaysia

Malaysia's regulatory landscape for finance is multi-agency and multifaceted, creating comprehensive coverage and potential overlaps. Bank Negara Malaysia (BNM) and the Securities Commission Malaysia (SC) are the two primary regulators sharing ESG and AML oversight. BNM has led climate and ESG integration in banking by rolling out the CCPT climate taxonomy and requiring banks to embed ESG risk considerations, while also serving as the nation's principal AML/CFT supervisor. The SC, on the other hand, oversees ESG in capital markets through guidelines for sustainable and responsible investment (e.g. the SRI Sukuk Framework) and mandates on ESG disclosures for publicly listed companies (Bank Negara Malaysia & Securities Commission Malaysia, 2025). The SC also enforces AML regulations for securities brokers, fund managers, and other capital-market intermediaries. In principle, this division addresses different segments of the financial sector; however, in practice, there is a significant jurisdictional overlap. Many modern financial products and institutions blur the lines between banking and capital markets. For instance, a green sukuk issuance by an Islamic bank fall under both the BNM as the bank's prudential and AML regulator and the SC as the capital markets regulator. Coordination mechanisms do exist, notably the Joint Committee on Climate Change (JC3), established in 2019 by the BNM and SC to harmonise climate and ESG-related strategies. Through JC3, regulators have made progress in climate risk management (e.g. integrating CCPT into lending practices) and promoted climate finance solutions and disclosures across sectors. However, the implementation of these policy goals still faces obstacles. Recent reviews have identified the challenges of harmonising regulatory expectations of various authorities and promoting outcomes that are consistently aligned across mainstream and Islamic institutions.

Table 1 Regulatory Overlaps In Esg And Aml Supervision (Malaysia)

Regulator / Body	ESG Responsibility	AML Responsibility	Overlap / Conflict Area
Bank Negara Malaysia (BNM)	CCPT, VBI, climate / sustainability guidance for banks	Primary AML/CFT supervisor for banks; FIU / STR regime	Green sukuk by banks; ESG credit policies with AML implications
Securities	SRI framework; ESG	AML/CFT for capital	Listed FIs face dual

Commission (SC)	disclosures for PLCs; governance codes	market intermediaries	ESG/AML oversight; data-sharing gaps
Labuan FSA	Offshore Islamic finance; cross-border ESG-linked issuance	AML supervision of Labuan entities	Cross-border activities and onshore–offshore coordination
MOF / FIU	Policy incentives; inter-agency coordination	Central STR analysis and dissemination	Taxonomy alignment; ESG-linked STR tagging and feedback

Malaysia’s multilayered system, in which banking, capital markets, insurance, and other areas are overseen by different bodies, can lead to scattered oversight, unintentionally allowing regulators to miss irregularities or engage in regulatory turf battles. As shown in Table 1, each regulator has defined ESG and AML roles; however, criminals can exploit the gaps between them. For example, a money launderer might channel illicit funds into a “green” investment fund supervised by the SC while moving related cash through banking channels under the BNM’s purview, betting on the lack of information sharing between the two. Few studies have been done suggest that overlapping jurisdictions create regulatory blind spots that can be exploited by sophisticated actors. One of these was done by Zakaria et al. (2025), who reported other instances of nonalignment among Malaysian regulators in different domains (e.g. competition law and securities law) that suggest the existence of similar coordination problems in ESG–AML oversight in Malaysia. In view of these institutional constraints, a further argument is made in favour of greater harmonisation of the ESG–AML regulatory architecture, including standardised due diligence criteria and mutual reporting platforms between agencies. Without a robust strategy, the country's ambitious sustainable financial agenda will be threatened by uneven enforcement and the prospect of regulatory imbalances.

Emerging Risks and Unintended Consequences

With Malaysia and other nations striving towards ESG targets, risks are now being formed at the crossroads from where sustainability and financial crimes converge. One major sector is environmental crime and laundering of “green” crimes, such as illegal logging, wildlife trafficking, and unregulated mining, which have not been the traditional concern of financial regulators. However, environmental crime is currently considered a major predicate for money laundering, especially in countries with significant natural resources, such as Malaysia. Illegal logging and wildlife poaching that produce so much dirty money take place in Malaysia’s vast rainforests and are a threat to the rich biodiversity found in the country. Ruggiero (2022) and Zafeiriou et al. (2023) explain how this type of dirty money can be laundered through allegedly ethical ESG investments. Illegal deforestation profits, for example, the proceeds of which might be put through a green bond project for reforestation or renewable energy, would instantly attain a sustainable veneer, arguably making the money trail more difficult to follow. Sustainable tags are a smoke screen that makes it difficult for law enforcement to tell the difference between legal and illegal capital flows in the absence of complete transparency.

A remarkable example is the carbon credit hoax in the case of the European Union’s Emissions Trading Scheme, where, within a few years, fraudsters began to take advantage of carbon markets, eventually pilfering billions of euros, which was referred to as the “fraud of the century” (Aguirre, 2024). These schemes exploited policy gaffes in all climate efforts and demonstrated that climate-oriented finance can be penetrated by organised crime, like a pig in any other market. As one description puts it, strict emissions trading was meant to save the planet, but scam artists soon figured out how to game the system and profit grandly (Aguirre, 2024). In Malaysia, a voluntary carbon market and renewable energy investments can also invite fraud if there is no strict supervision. Consultancies caution that the lack of transparency and the complexity of many carbon credit projects, sometimes employing cross-border trading and unconventional assets, form an ideal ecosystem for abuse by organised criminals, such as bribery, money laundering, and financial obfuscation through shell companies.

The final area of risk resides in the social and governance aspects of ESG, such as through the exploitation of

socially motivated financial systems. With financial systems increasingly inclusive and rooted in communitarian participation, via microfinance, crowd funding, and charitable trusts, criminals might explore new opportunities to “sneak in” ill-gotten money. Teichmann et al. (2024) and Al-Kubaisi et al. (2024) note that microfinance and community development loans, which are advertised as aiding the poor, may also be used to launder small-to-moderate cash amounts. These places are usually under-moderated, and trust based in nature, making it very easy for instigators to take advantage. For example, the involvement of non-profit organisations (NPOs) or non-governmental organisations (NGOs) and charities in these crimes that serve in capacities for terrorist financing (TF) and money laundering (ML) or abuse funds channelled into the veins of terrorism as observed: in Pakistan (Al-Kubaisi et al., 2024). Banking and social welfare are now so intertwined in Malaysia that the social attempt to serve the poor (a social goal) may conflict with AML goals if banks, for instance, relaxed their requirements around due diligence because they perceive it as serving towards financial inclusion (Pavlidis, 2020). This tension illustrates the way that twin aims of ESG and AML efforts can run counter to each other: An effort to make access wider (“S,” or Sustainability, in ESG) can rub up against an effort to keep bad actors out of the financial system. The FATF has recognised this dilemma and cautioned on the wholesale de-risking of non-profits or high-risk areas in the name of AML/CFT compliance, not only because it risks financial exclusion, but also potentially creates new risks by pushing transactions out to less regulated sectors (Pavlidis 2024). Now regulators are wrestling with how to calibrate the guidance so as not to force banks out of relationships that are important for social or environmental needs, while still keeping a tight rein.

In short, the literature outlines a range of threats-in-prospect where ESG meets AML, from the ‘greenwashing’ of proceeds associated with environmental crime, through to manipulation of social impact finance markets or perversion unintended incentives/scam harbours offered by well-meaning sustainability programs. This problem illustrates the requirement for an integrated approach to identify and address unexpected impacts. In the following section, we shall use these ideas to consider a model of institutional harmonisation, risk dimensions, technology uses and behaviourist nuance in the governance response to the ESG–AML continuum.

Conceptual Framework

Building on the theoretical and empirical considerations above, we develop the ESG–AML Convergence Model as an effective framework for navigating the complicated intersections of sustainability goals with financial crime prevention. Drawing upon financial criminology, theories of regulatory compliance, and sustainable finance, this counternarrative works from the assumption that a further increase in the importance of ESG finance would indirectly result in new backdoors to money laundering being unlocked if the anti-money laundering (AML) regime did not adapt.

The model recognises four primary dimensions of convergence: institutional merging, risk assessment synthesis, technology merging, and behavioural dynamics. Each provides a way of addressing a weakness of the existing policy approaches and is inspired by the criminological theories reviewed above.

Institutional Integration

This pillar emphasises the importance of dismantling the silo structures of compliance and fostering partnerships between financial intermediaries and regulators on ESG and AML matters. Integrated ESG–AML convergence is dependent on mature governance arrangements, with smooth information flow across functions (i.e. sustainability teams and compliance units in the case of a bank) and regulators (i.e. BNM and SC in Malaysia). A more unified institutional approach could see combined compliance committees, consistent reporting requirements, and examiners trained across ESG and AML disciplines. The goal is to prevent regulatory arbitrage and ensure that no area of a financial institution is overlooked. Olawale et al. (2025) underscore that policy coherence between ESG and AML objectives is essential; for example, banks should be evaluated on how well their sustainability efforts align with their AML controls, not the other in isolation. In Malaysia, this might involve harmonising guidelines issued by different agencies so that an Islamic bank’s value-based intermediation report is also scrutinised for AML implications. Institutional integration directly counters the convenience-theoretic opportunity that criminals exploit when they face uncoordinated regulators

or compartmentalised oversight systems.

Risk Assessment Synthesis

The second pillar focuses on blending ESG risk factors with traditional anti-money laundering (AML) risk models. Currently, banks perform KYC and transaction monitoring largely based on customer financial profiles and known predicate offences; ESG risks (such as a client's carbon emissions profile or supply chain labour practices) are rarely part of that calculation. This model calls for the development of integrated risk assessment methodologies that consider both financial crime risk and ESG credentials. For instance, a high ESG risk score (perhaps due to operations in a pollution-heavy industry) might warrant enhanced due diligence, similar to a high money-laundering risk score. Conversely, companies with strong ESG transparency may be less likely to engage in secretive transactions; however, this assumption must be validated with data. Yusoff et al. (2023) found that many Malaysian institutions treat ESG due diligence separately, leading to duplicative and conflicting processes. A synthesised approach would help avoid scenarios such as a loan officer approving a "green" project that the AML team would have flagged as high-risk if they knew the full context. In particular, with the rise of sustainability-linked loans and green sukuk, integrated risk models are needed to ensure that credit decisions, ESG scoring, and AML checks inform one another. By doing so, the bank can identify red flags, such as a client touting an environmental project that does not add up financially, which could indicate a front for illicit money laundering.

Technology Integration

The third pillar addresses the technological gap in monitoring ESG-related financial flows. Legacy AML systems, rule-based engines, or even machine learning models trained on conventional transactions often cannot "see" the risks in ESG-themed transactions. The model advocates the deployment of advanced analytics, such as machine learning algorithms, blockchain traceability, and real-time data analytics, specifically tuned to detect anomalies in green finance instruments. For example, machine learning models can be trained on datasets of known greenwashing and fraud cases to identify subtle patterns (such as frequent fund transfers around carbon credit purchases or donation spikes around ESG announcements). Blockchain has the ability to be used to develop an unfalsifiable audit trail within ESG funds, so that provenance of the funds (such as within a carbon trading platform scenario or in charitable crowdfunding) can be tracked and verified. Integration of technology is key in two ways: finding illegal activity becomes more effective and compliance will continue to match advances. Ramadhan (2024) and Prakash (2025) agree on the necessity for AI applications to combine behaviour-based cues with multi-sectoral data, to identify complex frauds across environmental and financial sectors. And it's vital that factors do not exhibit any algorithmic bias which might unreasonably hinder projects such as ESG, (such as one community development project being "flagged as having too high a cash turnover"). Regulators should promote modern sandbox models in which new Regtech for ESG-AML can be tested and refined. And when all is said and done, that convergence of ESG and AML through technology investments not only combine "risk reduction," it also paves a way for institutions to excel in an increasingly crowded landscape where more traditional financial providers have long had the upper hand over both sets of priorities.

Behavioural Dynamics

The fourth relates to the nature of criminology-related disciplines in human behaviour and organisational culture. People are still needed to drive both systems and tools, in addition to tone at the top, so there is still an issue. They look at the cognitive biases, incentive structure and moral hazards that could cause AML train wrecks in a world where ESG is on everyone's mind. If management has too strong a focus on green targets associated with achieving certain number of green projects, it is a licence to ignore other ESG elements, such as bribery and child labour. The model suggests that institutions implement training and controls to guard against the "halo effect" of ESG, by making clear employees know socially beneficial projects will be subject to the same scrutiny as any other project. Behavioural-based approaches could include seconding compliance officers into ESG teams (and bringing them back) to develop a more nuanced perspective or scenario exercises where employees have to identify money laundering issues in what seems to be only positive-impact fund. Third, based on the principles of organizational crime theory, this dimension also acknowledges that there are

external pressures (e.g. from the government to promote green lending or from stakeholders to pressure strong ESG performance) that may inadvertently give rise to internal rule bending. Györy (2020) and Lord et al. (2018) demonstrate how institutional pressures can erode internal controls and justify non-compliance. Thus, the model advocates aligning performance metrics and regulatory expectations so that banks are not punished for taking a cautious approach to ESG investments. In essence, the behavioural dynamics pillar seeks to manage the human factor, ensuring that neither complacency nor undue pressure undermines AML diligence amid the rush to embrace ESG compliance.

The incorporation of our earlier theoretical discussions underpins these four pillars. The ESG–AML Convergence Model explicitly embeds convenience, routine activity, and organizational theories to explain why each pillar is needed. Convenience theory informs the Institutional Integration and Behavioural pillars: it reminds us that if an ESG route is seen as an easier, less scrutinised path (a “convenient” loophole), both legitimate and illegitimate actors may gravitate to it. For instance, if sustainable finance departments operate with less oversight, even well-meaning staff might shift questionable clients there, rationalising it as supporting a good cause, which constitutes a form of greenwashing. Routine Activity Theory underlines the Risk Assessment and Technology pillars: it points out how the proliferation of ESG products has expanded the pool of suitable targets (financial instruments that can harbour illicit funds) and how technology and integrated risk checks are needed as capable guardians to oversee these new avenues of money laundering. Organizational crime theory justifies the need for institutional coherence and cultural safeguards, noting that, otherwise, internal silos and external ESG pressures can distort decision-making.

To operationalise the model, this study proposes a risk categorisation matrix that classifies ESG–AML risks into the three ESG dimensions: Environmental, Social, and Governance. In the Environmental strand, risks include “green crime” proceeds (such as those from pollution and illegal resource extraction) being laundered through green financial instruments. A pertinent example is dirty money from illegal logging being invested in green bonds or carbon credit schemes, a scenario that Malaysia is actively trying to address given its natural resource endowments. In the Social strand, risks emerge when initiatives aimed at financial inclusion or social impact (such as microfinance, crowdfunding, or charitable trusts) are exploited by illicit actors taking advantage of relaxed due diligence or community trust. For instance, lax vetting might allow criminal money to flow through a microloan program in small bits and pieces beneath the radar. Under the Governance thread, there are risks such as corporate misbehaviour, that is, companies or individuals using ESG and ethical branding as a shield to disguise corrupt practices, fraud, or money laundering. One illustration might be a company that seeks to cultivate the trust of investors by claiming to have sound governance and social responsibility while cooking its books or funnelling bribes, based on the bet that regulators will look elsewhere. Yusoff et al. (2023) invoke the spectre that the discursive employment of ‘ethical’ as a branding tool could legitimise unethical activity simply by bestowing respectability upon it. With triggers and red flags within these ESG areas identified, risk experts can then determine the types of controls which they may need to apply with more vigour.

Ultimately, the model serves as a roadmap to guide future coordination and technology evolvments that promote ESG – AML harmonization. These may be cross-industry interdepartmental compliance committees in banks; replete with ESG, risk and AML officers sitting side by side at the table roundly on a regular basis / jurisdictional concurrency between major regulators through to joint product supervision and upskilling programs that birth multilingual professionals who get the underbelly of ESG/financial crime compliance and what happens where they meet each other.

On the technology side, it requires comprehensive monitoring systems supported by AI that can analyse transactional data in conjunction with ESG performance information, audit trails underpinned by blockchain for supply chains and initiatives to trade carbon credits, and interoperability standards for sharing of harmonised data. For instance, a suspicious activity report may include ESG context, or an ESG report may highlight AML-related concerns. Ferri (2024) calls for a rethinking of strategy design to consider such innovations, corresponding to this study’s appeal for an integrated RegTech approach.

By bridging real-world compliance decisions with trends in financial innovation and non-financial risk regulation, the ESG–AML Convergence Model offers a robust framework for understanding and mitigating the

emerging risks of financial crime in sustainable finance. This not only contributes to academic discourse but also serves as a practical guide for policymakers and compliance officers to implement proactive and integrated ESG/AML governance.

CONCLUSION

This study examines the issues at the intersection of ESG, compliance, and AML control in Malaysia's financial sector. Demonstrate how a lack of alignment between sustainability practices and financial crime prevention strategies leads to gaps through the ESG-AML Convergence Model. The results indicate that Malaysia's spirited proliferation towards ESG integration, although necessary to meet sustainable objectives, also carries new operational risks that need to be addressed. Notably, convenience theory demonstrates how legitimising ESG activities diminishes oversight and creates opportunities to launder criminal cash. Similar to theft, routine activity theory helps clarify the significance of the development of green finance products and social finance initiatives that give rise to new criminal opportunity structures or change current opportunity structures and thus can also become 'push' factors for CWOs to commit environmental crime.

The ESG–AML Convergence Model suggested in this study provides a comprehensive framework to focus on these challenges and consists of four pillars: institutional, risk synthesis, technology, and behavioural management. The model's strength lies in its blend of criminological theory and pragmatic compliance measures. This dual perspective yields both academic insights and actionable advice for practitioners. For example, the model's emphasis on integrated governance and unified oversight directly addresses the observed shortcomings of Malaysia's fragmented regulatory system. Currently, multiple bodies oversee different facets of ESG and AML compliance, and a lack of coordination mechanisms has been identified as a weakness in the system. Adopting this model would involve enhanced intra-agency collaboration and potentially centralised guidance for ESG–AML issues to prevent blind spots, contradictions, and a lack of clarity that were brought to the fore by this core scenario.

The results of this research should be a wake-up call for financial institutions to halt the cycle of siloed compliance. Banks and markets need proper governance of succession, ESG, and financial crime management. This is particularly the case in Islamic finance where trying to square Shariah-compliant criteria and ESG imperatives, let alone AML requirements, poses special challenges. Switching for some of these places might be even more targeted solutions, like getting a Shariah advisor close enough to compliance officers so that they do not only play catch when it comes to the criminal side but they also have something to say about the ethical side, which is very important that you are not straddling two paths entirely different. This study, moreover, highlights the technological consequences of ESG–AML avoidance. Powerful analytics capable of processing complicated ESG data (including climate metrics and social impact scores) with robust money laundering detection are likely to need significant investment.

However, institutions that manage to develop these capabilities can have a competitive advantage, showing stakeholders and regulators alike that they can grow safely and securely.

On a broader level, Malaysia's navigation of ESG–AML convergence will influence its reputation as a regional leader in sustainable and Islamic financing. Effective management of these intertwined challenges can enhance the country's credibility and competitiveness in the global market. Conversely, missteps such as a major green finance scandal or a perception that AML enforcement was weak could undermine confidence in ESG activities and the credibility of the financial system. The stakes are high because both sustainability and financial responsibility are necessary for healthy, equitable growth.

Looking ahead, this study opens several avenues for future research. Empirical testing of the ESG–AML Convergence Model would be a valuable next step; for instance, conducting case studies or collecting data from financial institutions to assess how integrating ESG and AML indicators affects risk outcomes. Developing specific risk assessment methodologies (perhaps industry-specific ESG–AML risk matrices) and examining the challenges of implementation across different contexts (banks vs. asset managers, conventional vs. Islamic sectors) are also pertinent areas for future research. Both ESG frameworks and money laundering

techniques are evolving rapidly, underscoring the need for continuous research to keep theoretical models current and guidance practical.

In conclusion, the importance of addressing ESG–AML crossover issues cannot be overestimated. As Malaysia advances its sustainable finance journey and positions itself as a regional financial hub, managing the convergence of ESG objectives and AML obligations will be paramount for financial stability and genuine sustainable outcomes. The framework and discussions presented in this paper lay the groundwork for this effort. Effective implementation will require sustained commitment from regulators, financial intermediaries, and the broader financial ecosystem, leveraging interdisciplinary insights to ensure that the pursuit of ESG excellence does not come at the expense of financial integrity, but rather that the two goals reinforce each other in building a resilient and ethical financial future.

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