

A Multi-Layered Governance Framework for AML/CFT Resilience: A Narrative Review of Challenges and Effectiveness in Malaysia

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ABSTRACT

The global fight against money laundering and terrorist financing (AML/CFT) faces escalating challenges from digital assets, offshore finance, and increasingly sophisticated criminal networks. For jurisdictions such as Malaysia, a dynamic financial hub with significant Islamic finance and offshore sectors, these evolving threats intersect with governance vulnerabilities, as illustrated by the 1MDB scandal. Beyond compliance concerns, this context raises a broader regulatory governance question: how can AML/CFT systems sustain effectiveness amid institutional complexity, technological disruption, and competing normative demands? This narrative literature review synthesises and critically evaluates scholarly research on Malaysia's AML/CFT frameworks to move beyond compartmentalised, sector-specific analysis. Drawing on legal, qualitative, and policy-oriented studies, the review integrates six interconnected themes, including the limitations of asset recovery tools, cross-border crypto and offshore risks, the dual role of technology, sector-specific vulnerabilities, systemic governance failures, and tensions between enforcement efficiency and fundamental rights. The analysis finds that regulatory effectiveness is not determined by any single legal or technological instrument. Rather, it emerges from alignment across three interdependent layers: foundational governance architecture, operational enforcement mechanisms, and normative institutional principles. Misalignment across these dimensions generates systemic vulnerability, even where formal compliance structures exist. The study contributes a multi-layered governance alignment model that conceptualises AML/CFT resilience as a dynamic institutional outcome. It calls for synchronised legal, technological, and institutional reform and highlights the need for interdisciplinary empirical research to examine cross-sectoral threat flows and enforcement trade-offs.

Keywords: Anti-Money Laundering (AML), Counter-Financing Terrorism (CFT), Governance, Financial Regulation, and Malaysia.

INTRODUCTION

The global financial system is the lifeblood of international trade. However, its architecture presents a persistent vulnerability: susceptibility to co-optation for laundering illicit funds and financing terrorism. Anti-Money Laundering and Counter-Financing of Terrorism (AML/CFT) frameworks represent the international community's coordinated response to this threat, operating through an interconnected set of laws, regulations, and supervisory practices designed to protect the integrity of the financial sector (Financial Action Task Force [FATF], 2023). In an era defined by rapid digitalisation, the proliferation of cryptocurrencies, and increasingly sophisticated organised crime networks, these frameworks face unprecedented challenges. The stakes extend beyond mere regulatory compliance issues. Effective AML/CFT regimes are foundational to national security, economic stability, and public trust in financial institutions. As the methods of illicit finance evolve alongside technological and globalised advancements, the perennial challenge for jurisdictions worldwide is to ensure that their regulatory architectures are not merely present but are dynamically effective, resilient, and equitable. Beyond questions of compliance, AML/CFT regimes present a deeper theoretical challenge: how regulatory systems can sustain effectiveness under conditions of institutional complexity, technological disruption, and shifting normative expectations.

This challenge is particularly acute for emerging and dynamic economies, such as Malaysia, which occupies a strategic position in Southeast Asia's financial landscape. Malaysia's economic narrative is one of robust growth, sophisticated Islamic finance offerings, and the development of international financial hubs, such as Labuan IBFC. However, this success has attracted heightened ML/TF risks, as demonstrated by the 1MDB scandal, which revealed catastrophic failures across governance, enforcement, and international banking controls (Jones, 2020). The scandal underscored that possessing a formal AML/CFT legal structure aligned with FATF recommendations is a necessary but insufficient condition for effectiveness. Thus, Malaysia's context serves as a critical case study, a microcosm in which global AML/CFT dilemmas manifest with localised intensity. The nation grapples with the dual imperative of fostering a competitive and innovative financial sector while erecting an impregnable defense against financial crime. This tension demands empirical attention and a robust conceptual framework capable of explaining how governance structures, operational tools, and institutional norms interact to produce or undermine regulatory effectiveness.

To date, scholarly enquiries into Malaysia's AML/CFT landscape have yielded valuable but fragmented insights. Research has effectively mapped the formal architecture of the regime by analysing key legislation, such as the Anti-Money Laundering, Anti-Terrorism Financing, and Proceeds of Unlawful Activities Act 2001 (AMLAFTA) and its provisions for civil forfeiture (Ganesan et al., 2025; Raof and Mohd-Sulaiman, 2023). Significant work has also identified specific risk vectors, including vulnerabilities in the money services business sector (Yaacob & Harun, 2019), regulatory ambiguities surrounding digital currencies (Mohamed et al., 2023), and the unique compliance challenges of Islamic finance (Aish et al., 2022; Arsyad et al., 2025). Furthermore, the role of technology has been acknowledged both as a nascent solution in the form of regTech and artificial intelligence (AI) (Arsyad et al., 2025) and as a formidable new threat in cryptocurrency laundering (Kabra & Gori, 2025). Comparative studies have usefully benchmarked Malaysia's approach against that of its regional neighbours in areas such as offshore banking (Chandra et al., 2024).

Despite this growing body of literature, crucial gaps in understanding remain. Existing knowledge remains fragmented into thematic or sectoral silos, with studies on forfeiture, digital assets, or Islamic banking rarely engaging in sustained dialogues with one another. Consequently, there is a lack of a synthesised, holistic view of how these disparate challenges interact within Malaysia's regulatory ecosystem. More fundamentally, existing studies rarely conceptualise AML/CFT effectiveness as a systemic governance outcome emerging from the alignment or misalignment of structural authority, enforcement capacity, and normative orientation. Consequently, regulatory success and failure are often analysed in isolation rather than as properties of an interconnected institutional system. For instance, how do sector-specific risks in Islamic finance intersect with evolving cryptocurrency threats? How do proposed technological solutions, such as AI, align with existing legal tools and the broader governance environment? Most critically, the fundamental tension between achieving enforcement efficiency (through tools such as unexplained wealth orders [UWO]) and safeguarding fundamental rights (such as privacy and due process) remains under-theorised in the Malaysian context, often treated as a peripheral concern rather than a central design principle (Nordin et al., 2012). The dynamic interplay between political will, institutional capacity, and regulatory technicality, as vividly exposed by the 1MDB case, is similarly insufficiently examined as an integrated governance system.

A narrative literature review is the most appropriate methodology for addressing these gaps and advancing the field. Unlike systematic reviews that seek to aggregate quantitative findings, narrative reviews are designed to synthesise and interpret a diverse corpus of qualitative, legal, and policy-oriented research (Greenhalgh et al., 2018). This allows for the critical integration of insights from doctrinal legal analysis, case studies, qualitative interviews, and comparative policy research into a coherent analytical framework. In particular, it enables theory-building through analytical synthesis, allowing dispersed doctrinal, empirical, and policy insights to be integrated into a structured governance model. This approach is essential for constructing a holistic understanding of a multifaceted problem, where the research questions are exploratory and explanatory, concerned with the "how" and "why" of complex regulatory phenomena rather than the measurement of isolated effects.

Therefore, this narrative review aims to synthesise and critically evaluate the extant literature on AML/CFT frameworks, challenges, and effectiveness, with a specific focus on Malaysia. It moves beyond a

compartmentalised listing of issues to construct an integrated multi-layered governance model that conceptualises regulatory effectiveness as a dynamic outcome of alignment across structural, operational, and normative dimensions. Specifically, the model elucidates the relationships between six core thematic areas: (1) legal and regulatory tools; (2) evolving technological threats; (3) technological interplay as a solution; (4) sector-specific risks; (5) systemic governance failures; and (6) the balance between enforcement and rights. By weaving these strands together, this review provides scholars, policymakers, and practitioners with a comprehensive map of the current knowledge landscape, identifies its most pressing contradictions and underexplored connections, and proposes a direction for future research that is interdisciplinary and attuned to the complex realities of combating financial crime in the 21st century. In doing so, this study contributes to regulatory governance scholarship by offering an alignment-based explanation of AML/CFT effectiveness that moves beyond sectoral or tool-specific analysis toward a systemic understanding of institutional resilience.

AML/CFT Frameworks, Challenges, and Effectiveness in Malaysia

1. Legal and Regulatory Tools: The Pursuit of Effective Asset Recovery

The literature converges on the assessment that Malaysia's Anti-Money Laundering, Anti-Terrorism Financing, and Proceeds of Unlawful Activities Act 2001 (AMLAFTA), while providing a legal basis for asset forfeiture, contains significant operational deficiencies in its civil recovery mechanisms. Scholars uniformly critique Section 56 of AMLAFTA, arguing that its procedural requirements and civil standard of proof create a formidable hurdle for prosecutors, often allowing illicit assets to remain beyond the state's reach (Ganesan et al., 2025). This shared diagnosis has prompted a forward-looking debate on legal innovation, most notably the proposal to adopt unexplained wealth orders (UWOs) modelled on the United Kingdom's framework (Raof & Mohd-Sulaiman, 2023). The core agreement is that shifting from a purely conviction-based model to one that places an explanatory burden on the holder of suspicious wealth is a logical evolution in disrupting criminal enterprises.

However, this apparent consensus masks an important tension in the literature. The debate is less about the technical design of such tools and more about the philosophical balance between state power and individual rights. While studies champion UWOs for their potential efficacy, they largely sidestep rigorous empirical analysis of their practical implementation risks, such as the potential for abuse, impact on innocent third parties, or socio-legal ramifications of reversing the burden of proof (Ganesan et al., 2025; Raof & Mohd-Sulaiman, 2023). Methodologically, this area is dominated by doctrinal legal analysis and comparative policy proposals, which are strong in normative prescriptions but weak in empirical validation. There is a pronounced absence of quantitative studies measuring the deterrent effect of existing or proposed forfeiture regimes, leaving a gap in evidence-based policy formulation.

Theoretically, this theme moves the AML/CFT discourse beyond the prevention of money laundering into the realm of post-hoc economic justice and disruption. It implicitly engages with deterrence theories and the economic motivations of crime, suggesting that confiscation is as crucial as detection. For Malaysian policymakers, the implications are twofold. First, AMLAFTA's civil forfeiture provisions must be reformed to lower procedural barriers. Second, and more complexly, any move toward UWOs must be accompanied by robust, legally embedded safeguards, such as strict judicial oversight and the right to legal representation. This will provide clear avenues for appeals to prevent the erosion of fundamental property rights and maintain the legitimacy of the financial enforcement regime.

2. Evolving Threats: The Cross-Border and Digital Challenge

A robust strand of the literature meticulously documents how technological innovation and financial globalisation have fundamentally altered the threat landscape. Researchers are unanimous in identifying cryptocurrencies and offshore financial centres (OFCs), such as the Labuan IBFC, as primary vectors for modern money laundering (Chandra et al., 2024; Kabra & Gori, 2025; Mohamad et al., 2025). These platforms offer obfuscation, jurisdictional arbitrage, and speed, which traditional territory-bound regulatory systems struggle to counter. The literature agrees that Malaysia, as an active participant in both Islamic digital finance and offshore banking, is at risk of convergence.

However, a striking contradiction emerges between regulatory intent and market behaviour. For example, Mohamed et al. (2023) detail a regulatory environment for digital currencies that is contradictory and creates dangerous loopholes. In contrast, Sukumaran et al. (2022) revealed that Malaysian investors' adoption of cryptocurrency is driven by perceived value, with perceived risk being an insignificant deterrent. This disconnect suggests that regulatory confusion may not stifle the market but rather create an ungoverned space that is ripe for exploitation. Methodologically, studies on threats blend legal analysis with qualitative interviews (Mohamed et al., 2023) and investor surveys (Sukumaran et al., 2022); however, a significant gap remains in forensic, data-driven analyses of actual laundering typologies within these channels in the Malaysian context.

The theoretical implication is a necessary paradigm shift from viewing AML/CFT as a domestic compliance exercise to understanding it as a global network-governance problem. This forces engagement with theories of nodal governance and regulatory pluralism. The practical challenges for practitioners and regulators in Malaysia are immense. This necessitates moving beyond crafting domestic rules to actively participating in and shaping international standard-setting (e.g., the FATF's Travel Rule for Virtual Assets) and fostering real-time operational collaboration with foreign counterparts. The effectiveness of national frameworks is inextricably linked to the strength of these transnational partnerships.

3. Technological Interplay: The Double-Edged Sword

Scholars engaging with technology in AML/CFT articulate a clear duality: technology is simultaneously the source of novel threats and the promise of transformative solutions to combat them. The literature acknowledges that the same attributes that make cryptocurrencies a laundering tool—speed, complexity, and data richness—can be harnessed by RegTech and SupTech for superior monitoring and analysis (Arsyad et al., 2025). There is agreement that artificial intelligence (AI) holds particular potential for pattern recognition in transaction monitoring, customer risk scoring, and detecting complex, nonlinear laundering schemes.

The central debate here is not about utility but about governance and ethics. A significant gap exists between technological capabilities and regulatory readiness. As Arsyad et al. (2025) point out, there is a stark absence of a comprehensive legal or Shariah-compliant governance framework for AI in finance, particularly in niche areas such as Islamic banking. This raises profound questions regarding algorithmic transparency, bias, and accountability. Can a “black box” AI system that flags a transaction for freezing be reconciled with the requirements for due process, explainability, and Shariah principles of fairness? Methodologically, this theme is in its infancy, with research primarily comprising conceptual and legal analyses (Arsyad et al., 2025). There is a dearth of empirical studies testing the real-world efficacy, bias, or societal impact of deployed AML algorithms in the Malaysian ecosystem.

Theoretically, this theme compels the AML/CFT field to evolve from a techno-legal hybrid into a fully integrated techno-legal-ethical discipline. It introduces concepts from data ethics, algorithmic accountability, and digital governance into core financial regulations. For Malaysian authorities and financial institutions, the practical pathway involves parallel tracks: investing in technological infrastructure and proactively developing governance frameworks. This includes establishing standards for algorithmic audits, ensuring human oversight of critical AI decisions, and crucially, building the technical literacy of regulators, Shariah board members, and judges to enable informed oversight of these powerful tools.

4. Sector-Specific Risks: The Imperative of a Genuine Risk-Based Approach

A consistent thread in the literature advocates for a nuanced, sector-specific application of AML/CFT controls, validating the risk-based approach (RBA) enshrined in international standards. Studies have effectively demonstrated that risks are not uniform. Research on money services businesses (MSBs) confirms that foundational measures, such as customer due diligence, record-keeping, and employee training, are critical for mitigating risks in this cash-intensive, high-volume sector (Yaacob & Harun, 2019). Concurrently, research on Islamic finance explores its unique vulnerabilities stemming from complex profit-sharing structures (mudarabah and musharakah) and ethical branding that might be exploited as a veneer of legitimacy (Aish et al., 2022).

A profound and troubling contradiction arises from the findings of Aish et al. (2022), who suggest that Islamic banks may, under certain conditions, experience positive financial performance correlated with corruption and money laundering environments. This finding starkly contradicts the ethical and Shariah-based foundations of Islamic finance, and reveals a potential integrity gap between principles and practice. Methodologically, although sector-specific studies provide valuable granularity, they often operate in silos. A significant gap exists in research that traces laundering chains across sectors; for example, how illicit cash might be placed through an MSB, layered via a cryptocurrency exchange, and then integrated into an Islamic investment fund. This fragmented view limits our holistic understanding of the criminal ecosystem.

The theoretical contribution of this study is its empirical reinforcement of the RBA as more than a regulatory slogan; it is an operational necessity grounded in the heterogeneous risk profiles of banks. It also prompts a critical theoretical enquiry into the sociology of finance: how do ethical or religious branding (such as Shariah compliance) interact with and potentially mask operational risks? For Malaysian regulators, the practical implication is the need for deep, sector-specific risk assessments that go beyond mere compliance. It requires specialised supervisory expert teams that understand both the technicalities of Tawarruq financing and the red flags in Hawala networks. Furthermore, it calls for regulatory frameworks that encourage information sharing between sectors to detect cross-systemic money laundering patterns.

5. Systemic Governance Failures: The 1MDB Paradigm

As Jones (2020) argues, the 1MDB scandal serves as a cardinal case study in the literature, transcending a discussion of technical loopholes to expose the catastrophic collapse of multi-layered governance. Scholarly analysis of this case has created a powerful consensus: the existence of laws (Malaysia had AML legislation) is entirely futile without the concurrent presence of political will, institutional independence, and a culture of accountability in the country. The case vividly illustrates the failure points: compromised corporate governance in a state-owned enterprise, the abdication of due diligence by international financial institutions, regulatory capture, and the neutralisation of oversight bodies.

The primary contradiction illuminated here is the vast gap between formal compliance and actual enforcement. While most research focuses on designing and improving formal systems (laws and technologies), the 1MDB case demonstrates that the most sophisticated system is fragile if the underlying governance environment is eroded. Methodologically, this theme relies heavily on qualitative case studies and documentary analysis (Jones, 2020), which is appropriate for uncovering complex causal pathways but can be critiqued for its uniqueness. However, its value lies not in statistical generalisability but in analytical generalisability, because it provides a template for understanding how systemic failures can occur.

The theoretical implications are profound, forcing the AML/CFT field to integrate political economy and institutional theory into its core. It argues that anti-corruption and AML/CFT are inseparable. A practical lesson for Malaysia and similar jurisdictions is that technical capacity building must be underpinned by governance reforms that ensure the de facto independence of regulators, law enforcement, and judiciary. This includes transparent appointment processes, secure funding, robust whistleblower protection, and a vibrant and free civil society and media to act as external watchdogs. The scandal underscores that defending financial integrity is at its heart a political and institutional challenge.

6. The Balance Between Enforcement and Rights: The Quest for Legitimacy

The final theme woven through the literature is the enduring tension between the imperatives of effective enforcement and the protection of fundamental human rights. Early work, such as that by Nordin et al. (2012), explicitly framed AML measures, such as suspicious transaction reporting, from a consumer rights perspective, questioning their impact on privacy and the presumption of innocence. This concern is echoed in contemporary debates surrounding civil forfeiture and proposed UWOs, where lowering the state's burden of proof directly engages property rights. due process (Ganesan et al., 2025; Raof and Mohd-Sulaiman, 2023).

A notable gap in the literature is the chronological and analytical imbalance. Following initial rights-based critiques, much of the subsequent scholarship has prioritised enforcement efficiency, with rights considerations

often relegated to a cautionary footnote rather than a central design parameter. There is a stark lack of empirical research measuring the collateral impact of AML regimes on legitimate customers, the scale of “de-risking,” and the frequency. consequences of erroneous account freezes or the socioeconomic impact on communities unfairly targeted by financial surveillance.

Theoretically, this theme injects an essential normative, legal, and philosophical dimension into a field often dominated by technocratic- and security-driven discourses. It grounds AML/CFT within the broader frameworks of human rights law, rule of law, and principles of proportionality. For Malaysian policymakers and practitioners, the practical imperative is to consciously incorporate safeguards into enforcement machinery. This includes designing clear, accessible, and timely remedies for individuals adversely affected by AML actions, ensuring that judicial oversight is meaningful and not rubber-stamping, and fostering a regulatory culture that views rights protection not as an obstacle to enforcement but as the foundation of its long-term legitimacy and public trust.

The synthesis of these six themes reveals that the challenge of crafting an effective AML/CFT regime in Malaysia is not a series of discrete problems but a complex, interconnected system. Strengthening legal tools is undermined without addressing governance failures, deploying technology against evolving threats raises new ethical dilemmas, and pursuing enforcement across diverse sectors must be constantly weighed against fundamental rights. Therefore, future research must break free from thematic silos and adopt interdisciplinary approaches that can model these dynamic interactions. The path forward requires not only better laws or newer technologies but also a holistic commitment to building resilient institutions and fostering ethical innovation. safeguarding the democratic principles that ultimately make the fight against illicit finance a worthy effort.

Methodological Approach

This study adopts a narrative review design to synthesise and critically evaluate the fragmented scholarly literature on Malaysia’s anti-money laundering and counter-financing of terrorism (AML/CFT) frameworks. Although narrative in structure, the review was conducted using a transparent and bounded search strategy to enhance methodological rigour and minimise selection bias.

A structured database search was conducted using Scopus as the primary indexing platform. Scopus was selected because of its comprehensive coverage of peer-reviewed journals in law, finance, criminology, governance, and public policy. The search covered publications from 2000 to 2025, reflecting the post–Anti-Money Laundering Act (AMLA) implementation period and subsequent regulatory evolution in Malaysia.

Search terms were developed to capture studies examining money laundering mechanisms, AML regulation, and financial crime governance within the Malaysian context. Keyword combinations included variations of the following:

- “money laundering” AND “Malaysia”
- “AML regulation” AND “Malaysia”
- “financial crime” AND “Malaysia”
- “AML governance” OR “regulatory framework” AND “Malaysia”

Only English-language publications were included, consistent with the dominant language of indexed Malaysian AML scholarships.

After the Scopus search, titles and abstracts were screened for relevance, and potentially eligible studies were then reviewed in full text to confirm inclusion. The review applied clear inclusion criteria. Articles were included if they:

- Were peer-reviewed journal articles indexed in Scopus;
- Explicitly examined money laundering, AML regulation, or financial crime mechanisms;

- Focused on Malaysia as a primary or significant empirical context;
- Provided conceptual, empirical, legal, regulatory, or institutional analysis;
- Were published between 2000 and 2025;
- Were accessible in full-text format.

The following categories were excluded:

- Studies not focused on Malaysia;
- Articles discussing terrorism financing without a substantive linkage to money laundering;
- Conference papers, editorials, book reviews, and research notes (unless theoretically essential);
- Pure criminological case reports lacking financial, institutional, or regulatory relevance;
- Non-English publications;
- Studies without full-text accessibility.

These criteria were designed to ensure analytical relevance while maintaining coherence with the study's governance-focused objective.

Following screening, approximately 13 core articles were identified as central to shaping the conceptual development of the proposed framework. These studies provide foundational insights into Malaysia's regulatory architecture, institutional enforcement mechanisms, compliance structures, and identified structural gaps.

Rather than conducting a quantitative synthesis, the review employed qualitative thematic analysis. The selected literature was examined to identify recurring dimensions of regulatory design, operational enforcement tools, and normative governance principles. Patterns of fragmentation, misalignment, and institutional layering were systematically mapped to inform the development of an integrated, multi-layered governance model.

The objective was not to exhaustively catalogue all Malaysian AML literature but to synthesise conceptually significant strands and construct a coherent explanatory framework. In line with theory-building narrative scholarship, emphasis was placed on analytical integration rather than statistical aggregation.

Although efforts were made to apply structured search and selection criteria, the narrative nature of this review necessarily involves interpretive judgment in determining conceptual relevance and analytical emphasis. Reliance on a single database (Scopus) and English-language publications may also limit exposure to grey literature or practitioner-based regulatory analyses. Accordingly, the framework should be understood as an analytically synthesised interpretation of the Malaysian AML/CFT scholarship rather than an exhaustive systematic catalogue.

Critical Analysis of the Literature

While the body of research provides a multifaceted diagnosis of Malaysia's AML/CFT landscape, a critical analysis reveals significant strengths alongside pronounced limitations that curtail its explanatory power and practical utility.

The principal strength of the existing scholarship lies in its comprehensive sectoral and thematic coverage. The literature successfully moves beyond a monolithic view of financial crime to dissect unique vulnerabilities within critical niches, from the cash-intensive corridors of money services businesses (Yaacob & Harun, 2019) to the complex structures of Islamic finance (Aish et al., 2022). This granularity validates the risk-based approach in principle and provides a detailed map of where regulatory attention must be focused. Furthermore, the inclusion

of a seminal case study, such as the 1MDB scandal (Jones, 2020), serves as an invaluable gravity-bound anchor for the entire field. It transforms abstract discussions of “governance failure” into a concrete, devastating narrative, forcing an acknowledgement that technical compliance is a hollow shell without political will and institutional integrity.

However, these strengths are counterbalanced by significant weaknesses and inconsistencies in the methodology. Research is heavily skewed toward doctrinal and qualitative analyses, with a notable scarcity of robust empirical and data-driven studies. For instance, while legal scholars convincingly argue for unexplained wealth orders (UWOs) (Raof & Mohd-Sulaiman, 2023), there is a complete absence of empirical research in the Malaysian context that models their potential impact, assesses the risks of abuse, or measures their deterrent effect. Similarly, quantitative studies such as Aish et al. (2022), while methodologically sophisticated in their use of panel data, are limited by their narrow geographic focus (Pakistan and Malaysia), raising questions about the generalisability of findings that link Islamic bank performance to corrupt environments.

This highlights the broader issues of sampling and contextual bias. Much of the research, particularly on Islamic finance and digital currencies, is inward-looking, focusing on Malaysia’s domestic regulatory framework without sufficiently situating it within the transnational networks that define modern money laundering (ML). Studies have identified cross-border threats (Kabra & Gori, 2025; Mohamad et al., 2025), but seldom follow the methodological imperative to trace these flows empirically or analyse Malaysia’s role within global enforcement chains. Consequently, the literature often prescribes national solutions to inherently international problems. There is also a temporal bias: early work raised critical questions about consumer rights (Nordin et al., 2012); however, this normative dimension has been largely overshadowed by a focus on enforcement efficiency in subsequent years. Technological tools, creating an unresolved and under-analyzed tension at the heart of the regime itself.

The most critical gaps exist at the intersection of themes and in the transition from policy to practice. First, there is a profound disconnect between theory, policy, and implementation. The literature excels at identifying problems (e.g., regulatory gaps for crypto, weak civil forfeiture) and proposing high-level solutions (e.g., adopting UWOs, implementing AI). However, it consistently falls short of providing actionable and implementable blueprints. How should a Shariah-compliant AI governance framework be constructed and audited (Arsyad et al., 2025)? What specific, legally sound safeguards must accompany the UWO regime to prevent overreach? However, these operational questions remain unanswered. Second, research exists in thematic silos. The crucial interconnections between sectors, technologies, and governance failures have been underexplored. How do laundering typologies migrate from MSBs to the crypto ecosystem and then to seemingly legitimate Islamic investment products? The failure to model these intersectoral pathways limits a holistic understanding of the criminal ecosystem.

In summary, the literature provides an essential but incomplete foundation. It has successfully diagnosed a wide array of static vulnerabilities and historical failures. However, to guide Malaysia toward a resilient, future-proof AML/CFT system, future research must adopt more interdisciplinary and empirical methodologies. It must bridge the gap between legal prescriptions and operational realities, consciously reintegrate normative rights-based analyses, and, crucially, develop frameworks that understand financial crime not as a collection of isolated sectoral issues but as a dynamic system flowing through the very intersections that current research leaves unmapped.

A Multi-Layered Governance Framework for Dynamic AML/CFT Resilience

The synthesis of the six key themes reveals that the effectiveness of an anti-money laundering and counter-financing of terrorism (AML/CFT) regime is not determined by any single legislative instrument, technological tool, or sector-specific reform. Rather, it emerges from the dynamic interaction, coherence, and integrity of the broader regulatory ecosystem. The 1MDB scandal (Jones, 2020) stands as a stark testament to this reality, demonstrating that the mere presence of formally compliant laws and regulatory structures is catastrophically insufficient when deeper governance layers are fragmented or compromised. Regulatory effectiveness must therefore be understood not as a static outcome of rule design, but as a systemic property shaped by the alignment of institutional architecture, operational capacity, and normative orientation.

To move beyond siloed analysis, this study proposes a multi-layered governance framework for dynamic AML/CFT resilience. The framework conceptualises effectiveness as an emergent property arising from the alignment and synergy of three interdependent layers: the Foundational Governance Layer, the Operational Response Layer, and the Normative Balancing Layer. The Foundational Governance Layer encompasses legislative authority, institutional mandates, and inter-agency coordination structures that define the formal architecture of control. The operational response layer translates this architecture into supervisory practices, investigative tools, and compliance mechanisms. The normative balancing layer reflects the ethical orientation, regulatory culture, and rights-based considerations that shape behavioural responses within institutions.

Threat vectors permeate these layers simultaneously, and resilience is achieved not through isolated reforms but through adaptive feedback loops that recalibrate the system when misalignment occurs. As illustrated in Figure 1, the model depicts both downward structural influence and upward corrective feedback, highlighting that regulatory reform and enforcement escalation are triggered when operational or normative failures destabilise the broader governance architecture. Effectiveness is thus presented as continuously recalibrated through institutional interaction rather than secured through static compliance.

Figure 1: A Multi-Layered Governance Framework for Dynamic AML/CFT Resilience in Malaysia

Multi-Layered Governance Alignment Model of AML/CFT Regulatory Effectiveness

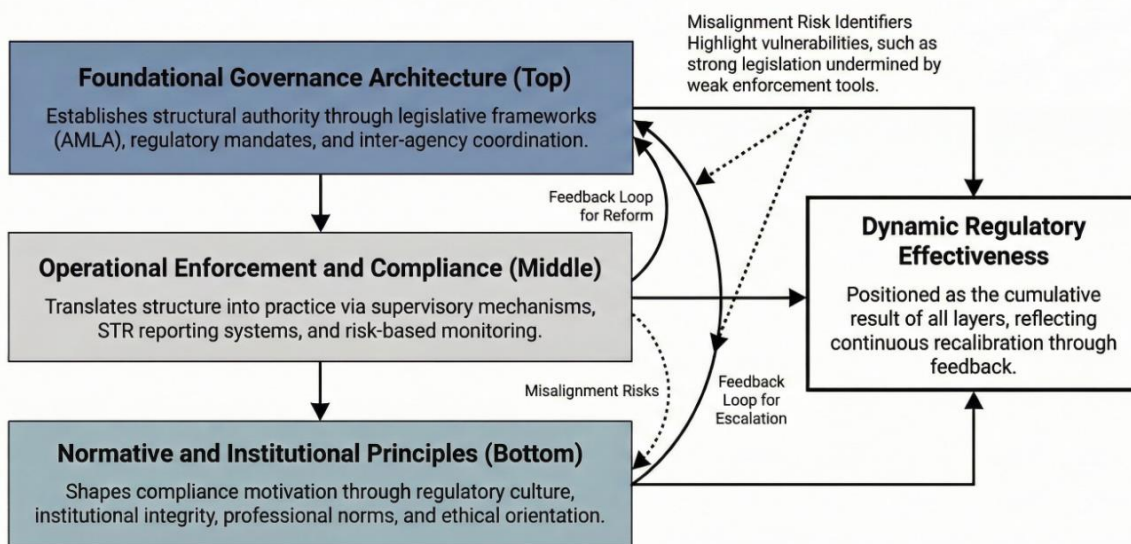


Figure 1 presents a multi-layered governance alignment model in which AML/CFT regulatory effectiveness is conceptualised as a dynamic and systemic outcome rather than a function of isolated compliance measures. The model comprises three vertically structured and interdependent layers: foundational governance architecture, operational enforcement and compliance, and normative and institutional principles. Downward arrows represent the structural influence of legislative authority and institutional design on operational practices and behavioural norms. Upward feedback loops illustrate adaptive recalibration, whereby operational deficiencies or normative failures trigger reform or enforcement escalation within the governance architecture. Dotted arrows indicate potential misalignment risks between layers, highlighting that formal legal strength may be undermined by weak enforcement capacity or compromised institutional integrity. Regulatory effectiveness is therefore depicted as an emergent property arising from alignment and continuous feedback among structural, operational, and normative dimensions within the broader institutional ecosystem.

Positioning Within Governance and Regulatory Theory

The proposed multi-layered governance model builds upon, yet departs from, established regulatory theory frameworks, such as Braithwaite’s concept of nodal governance and Ayres and Braithwaite’s responsive regulation.

Nodal governance theory conceptualises regulation as dispersed across multiple actors—state regulators, financial institutions, professional bodies, and transnational organisations—rather than monopolised by a central authority (Burris, Drahos & Shearing, 2005). This perspective is highly relevant to Malaysia’s AML/CFT landscape, where enforcement involves coordination among Bank Negara Malaysia, enforcement agencies, reporting institutions, and international standard-setting bodies. However, nodal governance primarily emphasises structural decentralisation and networked authority. It offers limited analytical guidance on how internal institutional misalignment may undermine regulatory effectiveness, even when networks formally exist.

In contrast, responsive regulation focuses on behavioural adaptation and enforcement escalation (Ayres & Braithwaite, 1992). Its regulatory pyramid model proposes that enforcement should intensify in response to non-compliance, moving from persuasion to punitive sanctions. Although this framework captures the dynamic nature of enforcement strategy, it predominantly concentrates on regulator–regulated interactions and compliance responsiveness.

The present framework extends these approaches by integrating structural, operational, and normative dimensions within a single analytical model. Rather than focusing solely on actor networks (nodal governance) or enforcement escalation (responsive regulation), it conceptualises regulatory effectiveness as a dynamic outcome of alignment across the foundational governance architecture, operational enforcement tools, and underlying normative principles. Misalignment among these layers, such as strong formal regulation coupled with weak operational tools or fragmented institutional norms, may generate systemic vulnerability, even in the presence of active regulatory actors.

In this way, the proposed model contributes to regulatory theory by introducing an alignment-based explanation of effectiveness and highlighting that enforcement strength alone is insufficient if institutional layers operate in structural disjunction.

Limitations and Directions for Future Research

This study adopts a narrative and theory-building approach that prioritises conceptual integration over empirical measurement. Although structured search procedures were employed, the review does not constitute a systematic review or meta-analysis. Therefore, selection decisions may reflect an interpretive emphasis rather than statistical comprehensiveness.

The framework is also developed within the Malaysian regulatory context, which may limit its direct generalisability to jurisdictions with materially different institutional architectures. Regulatory cultures, enforcement capacity, and financial sector maturity vary significantly across jurisdictions, potentially affecting the transferability of the proposed governance model.

Furthermore, the study does not empirically test the proposed multi-layered governance model. The conceptual relationships identified, particularly the alignment among foundational governance, operational tools, and normative principles, require validation through empirical methods such as regulatory case analysis, institutional interviews, or quantitative assessment of enforcement outcomes.

Future research may extend this work by conducting comparative cross-jurisdictional analyses, longitudinal studies of regulatory adaptation, or mixed-method investigations examining how institutional alignment affects AML enforcement effectiveness in practice.

CONCLUSION

This narrative review synthesises a diverse body of scholarship to construct a holistic understanding of AML/CFT effectiveness in Malaysia, reframing it as a problem of systemic governance alignment rather than isolated technical deficiency. The analysis demonstrates that formidable legal instruments, advanced technological tools, and detailed sectoral risk assessments cannot, in isolation, secure resilience. The 1MDB case illustrates that formal compliance structures collapse when foundational governance integrity is compromised. At the same time, an exclusive emphasis on enforcement efficiency, detached from normative safeguards, risks

eroding legitimacy and public trust. Regulatory durability, therefore, depends not merely on rule strength, but on the coherence and interaction of institutional layers.

The principal contribution of this review is the development of a multi-layered governance alignment framework that conceptualises AML/CFT effectiveness as an emergent property of dynamic interactions among three interdependent layers: foundational governance, operational response, and normative balancing. By integrating six previously fragmented thematic domains, the model advances scholarship beyond checklist compliance and sector-specific diagnoses toward a systemic explanation of institutional resilience. Effectiveness is thus understood as continuously recalibrated through feedback processes that respond to misalignment, operational breakdown, and normative tension.

Practically, this perspective implies that Malaysian policymakers must pursue synchronised and layered reform strategies. Strengthening asset recovery through instruments such as UWOs must occur alongside the reinforcement of regulatory independence, judicial integrity, and procedural safeguards. Similarly, the adoption of artificial intelligence and the regulation of digital assets must be embedded within robust governance frameworks and supported by transnational coordination.

Future research should extend this integrative framework through empirical and interdisciplinary enquiry. Studies that trace inter-sectoral laundering pathways, assess the distributive impact of AML measures, and model the interaction between institutional reform and enforcement outcomes are particularly needed. By examining how alignment across governance layers shapes regulatory performance, scholarship can move beyond diagnosing vulnerabilities toward identifying sustainable pathways for building resilient financial integrity systems.

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