

# **Balancing AML/CFT Compliance and Digital Payment Innovation among Small and Medium Enterprises in Malaysia**

**Lim Kong Kiong, Dr Rashad Yazdanifard**

*Kings University College, Kuala Lumpur*

## **Abstract**

This study investigates the influence of Malaysia's Money Services Business (MSB) Act on the adoption of online payment systems within the small and medium-sized enterprise (SME) sector. Drawing upon Institutional Theory, the Diffusion of Innovation Theory (DIT), and the Technology Acceptance Model (TAM), it develops an integrated multi-theoretical lens to examine regulatory and technological dynamics. The MSB Act imposes stringent Anti-Money Laundering (AML) and Counter-Financing of Terrorism (CFT) obligations on payment service providers, shaping compliance costs, operational practices, and SMEs' technology adoption decisions. Employing a mixed-method approach that combines regulatory document analysis, legal review, and interviews with SME stakeholders, this research explores how obligations such as Know Your Customer (KYC), Customer Due Diligence (CDD), and transaction monitoring influence SMEs' readiness and willingness to adopt digital payment platforms.

Findings reveal a twofold effect: while compliance enhances trust and strengthens the integrity of the financial system, it simultaneously presents challenges for SMEs by increasing operational complexity and financial burdens. To address these challenges, the study examines the potential of Regulatory Technology (Reg-Tech) innovations—such as artificial intelligence (AI), blockchain, and electronic KYC (e-KYC)—to reduce compliance pressure while preserving regulatory effectiveness. A conceptual framework and visual pathway models are proposed to illustrate the interaction between regulatory requirements and SME adoption behaviours. This research makes both theoretical and practical contributions by informing policymakers, regulators, and SME operators on strategies to balance financial stability with digital payment innovation in emerging economies.

**Keywords:** Money Services Business Act 2010; online payment adoption; SMEs; regulatory compliance; Reg-Tech; anti-money laundering; technology adoption models