Shufti Pro
Identity Verification

Real-Estate Industry

Identity Verification to Tackle Money Laundering Threats

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White Paper

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Real-Estate: A Fast Growing Industry

The real estate industry incorporates many aspects of the property, including development, appraisal, marketing, selling, leasing, and management of commercial, industrial, residential, and agricultural properties [1]. This industry generates billions of dollars in revenue annually and contains ample opportunities for entrepreneurs to turn a profit.

The global real estate market size was valued at $6,872.8 billion in 2018 and is projected to reach $8,662.2 billion by 2026, growing at a CAGR of 2.8% from 2019 to 2026 [2].

The growth of the real estate sector depends on the growth in population and the rate of employment in a country, which creates a demand for property and thus a rise in property prices. In case of a decrease in the economy rate that negatively affects the per capita income, property prices in real estate go down as well.

Additionally, the demand for real estate is also driven by employment rates, interest rates, access to capital public-private partnerships, and an increase in efforts by the government for infrastructure developments. Growing public-private partnerships in different countries such as India and China is fueling the growth of the real estate industry, for instance, the Government of India in December 2017 drafted a new policy on public-private partnerships to offer affordable housing to the citizens and attract private developers [1].

[1] Century Planet - Real Estate

[2] Real-estate market outlook

Similarly, China adopted the public-private partnerships model, under which private businesses will invest in government infrastructure projects.

The global real estate industry is divided based on property, business, and region. By property, the market is divided into residential, commercial, industrial, and land. The land segment garners the largest share in terms of revenue and the industrial segment is expected to grow in the next couple of years. Moreover, the increasing demand for agricultural land is expected to provide lucrative opportunities for land real estate market expansion.

By business, this sector is segmented into sales and rental and by region, it is analyzed across North America, Europe, Asia-Pacific, and LAMEA (Latin America, Middle East, and Africa Geographic Information System) [1]. In 2018, by business, the sales portion accounted for the largest share in the global market in terms of revenue.

In 2019, approximately 210,000 companies were operating in the residential brokerage and management field in the US, generating $200 billion in revenue and 35,000 companies were operating in the commercial brokerage and management field, generating $35 billion in revenue [2].

In this whitepaper, we will discuss the growing threat of frauds and money laundering in the real estate sector and how identity verification solutions can help businesses stay secure from criminal entities.

[1] Real-estate market outlook

[2] Franchise Help - Industry Analysis 2020

Real Estate growth

1

Top 50 US real estate firms account for about 20% of revenue **(First Research)**

2

In 2019, the average commercial real estate sale was $1.2 million **(Realtors, April 2020)**

3

Real estate sector will account for 22% of a total commercial drone this year **(FAA, 2016-2036)**

4

The revenue market size of real estate sales & brokerage is $162.8bn in 2020. **(ibisworld)**

5

In 2020 the US housing market's combined value hit $33.6 trillion **(World Property Journal, January 2020)**

6

Global real estate investment market increased from ($8.9 to $9.6) trillion (2018-19) **(MSCI)**

7

Global Real estate sector is expected to reach $2216.2 billion in 2023 **(Globe News Wire, June 2020)**

Threat of Money Laundering In Real-Estate

The real estate sector has long been used to hide illegal money gained through corruption, tax evasion, bribery, or other similar means. Criminals end up hiding their money through shell corporations that are listed as owners of luxury properties, thereby hiding money effectively used further to fund social crimes.

In 2015, 36,342 properties were listed under offshore companies in London alone [1]. There are major luxury properties globally that are bought and managed by shell corporations. Moreover, over £180 million of London's properties were bought as a result of criminal proceedings [1]. Other attractive safe havens for money launderers around the world include New York City, Florida, California, and Canada, where they hide their money through high-value real estate deals. To combat the illicit buying of high-value properties and money laundering through them, the governments and regulators around the world have increased their scrutiny on the real estate sector as well. Regulatory authorities in different regions are increasing regulations for real estate companies, which has prompted dealers and agents to verify and authenticate both parties in a real estate transaction before completing the sale.

[1] Transparency International

01. What is money laundering?

The phrase "money laundering" covers all procedures to conceal the origins of criminal earnings so that they appear to originate from a legitimate source [1]. There are 3 stages of money laundering:

Placement

Placement is the physical disposal of cash proceeds earned through illicit criminal proceedings such as drug trafficking among others.

- Placing cash on deposit at a bank (mixing with a legitimate credit to cloud audit trail)
- Physically moving cash between jurisdictions
- Purchasing high-value goods for personal use or expensive presents
- Purchasing negotiable assets in one-off transactions

Layering

Layering is separating the proceeds of crime from their source by creating complex layers of transactions to mask their origin and hamper the investigation, reconstruction, and tracing of the proceeds.

[1] Investopedia - Money laundering

Integration

Integration is the placement of the laundered proceeds back into the economy as apparently legitimate business funds. This is done by realizing property or legitimate business assets, redeeming shares or units in collective investment schemes obtained with criminal proceeds, switching between forms of investment, or by surrendering paid-up insurance policies.

02. Frauds and scams

Money laundering is not the only threat, increasing the risk of real estate transactions. Another crime known as identity theft is penetrating the real estate market. Fraudsters commit identity fraud by impersonating a property's owner and by selling it to gain financial benefits for themselves. The original owner of the property can remain oblivious for months as hardly many people check the status of their properties all too often and they end up losing millions of dollars and are often deprived of their life long savings.

One of the ways to protect from such scams is to be able to identify buyers/sellers effectively and it is the responsibility of a real estate agent or company to verify both the buyers as well as the seller before proceeding to sell a property.

Other frauds in the real estate industry include wire fraud, check fraud, mortgage fraud, and email fraud **[1]**.

[1] Stealth Mail - Real-estate wire fraud

Revenue losses due to real estate frauds

Americans lost nearly $150 million to real estate scams in 2018. **(FBI)**

Email frauds overall accounted for $1,776,549,688 losses in 2019. **(FBI)**

2019 registered 11,677 real estate/rental fraud victims with a combined monetary loss of $221 million. **(FBI)**

One in every 109 mortgage applications have indications of fraud. **(CNBC)**

$150 million in personal assets were stolen in BEC/EAC real estate scams in 2018. **(FBI)**

Impact of Money Laundering on Real Estate Sector

Money laundering is a disease that can cause damage to any industry it gets involved with. Its impact on real estate varies with the degree of laundering done in different regions.

> According to Mansion Global, money laundering through real estate is about $1.6 trillion a year [1].

Distortion of prices

Distortions of prices in real estate and the concentration on limited sectors lead to an increase in the property prices, thus making it difficult for people with legal sources of funds to purchase a property at reasonable prices. Moreover, it reduces housing affordability, something that has been witnessed in several cities in both developed and developing countries.

Criminals' interest in UK property

A few years back in 2015, following a sudden increase in transactions from offshore companies, the National Crime Agency UK warned that foreign criminals were using the property market in the UK to launder their dirty money. But even after three years, this behavior continues to occur.

[1] Mansion Global

At least $5.5 billion worth of property in the UK is bought with suspicious wealth [1]. This number has adversely impacted the UK property market. Criminals' interest in the property has caused the average prices of homes to rise, especially within London boroughs, which has had a widespread effect on the rest of the market. Developers are now prioritizing more profitable high-end luxury homes that are popular with foreign investors.

Decline in local taxes

Many believe that these occurrences are a huge contributing factor to the housing shortage, as overseas buyers remove the availability of housing stock for UK citizens. This corruption extends beyond a purely economic impact. When overseas homeowners leave a house unoccupied, not only does this lead to a decline in local taxes, but it also affects the local area by creating ghost communities that are unappealing to live in.

[1] Risk Screen

AML and KYC Requirements

Every real-estate agency or estate agents are required to follow KYC and AML regulations set by the regulatory authorities of their regions. Let's have a look at the KYC and AML guidelines placed by the Financial Action Task Force (FATF) for the real-estate sector.

01. KYC requirements

KYC is intended to enable a real estate agent to form a reasonable belief that the true identity of each customer is known. In the normal course of acting for customers, real estate agents may also learn surrounding information which could be helpful in terms of AML/CFT, e.g. the reason for the sale/purchase, and/or the source of funding.

According to the guidelines provided by FATF [1] the real estate agents must follow the following steps while performing KYC:

- Identify and verify the identity of each customer/client.
- Identify the beneficial owner, and take reasonable risk-based measures to verify the identity of any beneficial owner. The measures that have to be taken to verify the identity of the beneficial owner will vary depending on the risk.
- Obtain appropriate additional information to understand the customer's circumstances and business, including the expected nature and level of transactions.

[1] FATF

02. AML requirements

The degree and nature of monitoring by a real estate agent will depend on the size of the agent's business, the AML/CFT risks that it has, the monitoring method being utilized (manual, automated, or some combination), and the type of activity under scrutiny.

Depending upon the size of the real estate agent's business, effective monitoring may include the following:

- Record keeping consistent with any relevant duty of care, and/or local domestic requirements or limitations.
- The role of the compliance officer (e.g. Money Laundering Reporting Officer or MLRO) including their function concerning:
    - Monitoring transactions, e.g. routine or spot-checking.
    - Making external suspicious transaction reports to the national authorities.
    - Regular reporting to senior management about AML/CFT performance.
- The role of the government in identifying cash elements of the transaction

AML/KYC Regulations in Different Regions

Every country or region has a different threshold, standard, and regulators to manage KYC and AML operations in the real estate sector, so it's imperative to understand the specific requirements for each region individually.

01. United Kingdom

According to the comprehensive guidance produced by HMRC (Her Majesty's Revenue and Customs) department in the UK, the estate agents and real-estate companies have to comply with the KYC and AML regulations to combat money laundering activities. The key obligations that these businesses or individuals have to follow are:

- ### Customer due diligence

Identify and verify buyers/sellers, and perform additional checks on 'high risk' clients including the understanding of their source of wealth. Establish beneficial ownership for entity clients, and there must be an individual assessment of the AML risk posed by each client.

- ### Report suspicious activity

Perform regular monitoring of customers and high-risk clients and appoint an officer for identifying unusual activity or transactions by customers and reporting it to the relevant authorities.

Record keeping

Businesses should maintain adequate records of customer due diligence performed on each client and other related documentation or data about their identities and their assets.

Staff awareness

Train your staff to ensure they understand the regulatory framework of their region and their compliance obligations and are equipped to spot money laundering and terrorist financing by clients.

When should CDD be performed

Perform CDD before entering into a business relationship or occasional transaction. HMRC considers that the due diligence process should be performed during the signing of a Memorandum of Sale in residential sales or Heads of Agreement in commercial sales.

Other requirements related to systems, controls, policies, and procedures including the following obligations to:

- Prepare a written risk assessment to identify risks of ML and TF
- Monitor the effectiveness of the business's policy, controls, and procedures and keep them up to date to explain how the business manages the risks of ML and TF identified in risk assessments.
- Perform enhanced due diligence on PEPs, and individuals entrusted with prominent public functions, held in the UK or abroad

02. United States

Out of all the real-estate transactions happening in the US, 78% of them must comply with the BSA's strict anti-money laundering requirements [1]. While the remaining 22%, however, are primarily "all-cash" deals in which real estate professionals are under no legal obligation to monitor, identify and evaluate transactions in real-time or flag and report those that are suspicious.

The US Treasury Department's Financial Crimes Enforcement Network (FinCEN) is taking action to address this gap in the US AML regime with increased scrutiny of money laundering risks in the real estate sector. In 2012, FinCEN issued renewed regulations for non-bank residential mortgage lenders and required originators to establish an AML program and file SARs [2]. Later in January 2016, FinCEN issued the first "Geographic Targeting Order" related to the real estate sector, a few months before the release of the Panama Papers.

In the GTO issued, FinCEN began requiring US title insurance companies and their partners to identify the persons behind companies who used to pay all cash for high-end residential real estate transactions in Manhattan ($3 million and up) and Miami-Dade County ($1 million and up) [2]. FinCEN later in August 2016 renewed the GTOs also and expanded them to include the following areas:

- All boroughs of New York City, NY
- Miami-Dade, Broward and Palm Beach Counties, FL
- Los Angeles, San Francisco, San Mateo, San Diego, and Santa Clara Counties, CA
- Bexar County, TX

[1] Thomson Reuters

[2] FinCEN - Geographic Targeting Order

AML guidelines

All companies must ensure that the BSA and AML monitoring systems are capturing large spikes in activity, potential unusual or large wire transfers, and rapid movement of funds (cash to wire or vice versa) [1]. Businesses need to ensure that proper customer due diligence is being performed and recorded on real estate-related customers and transactions.

The real-estate industry should stay up to date on any regulatory changes, such as the previously mentioned GTOs, to be better prepared. Additional red flags that companies need to pay attention to regarding the loans for real estate purchases include:

- CDs used as collateral
- Unexpected payments to pay down or off a large loan
- The stated purpose of a loan is ambiguous or unclear
- Inconsistent or inappropriate use of loan proceeds
- Overnight loans
- Loan payments by third parties
- Permanent mortgage financing with an unusually short maturity
- Structured down payments or escrow money transactions
- Attempt to sever the paper trail
- Wire transfer of loan proceeds
- Disbursement of loan proceeds by multiple bank checks

[1] AML Guidelines

- Loans to companies outside the U.S.
- Financial statement of the business differs significantly from similar businesses

KYC and CDD guidelines

Knowing your customer, understanding their interest in the usage of a property will help agents evaluate a situation where one or more red flags are raised. If such cases arise, where customer-related red flags are present, the real estate agent should apply increased levels of CDD, which could include the following:

- Get additional information, such as a driver's license, passport, or other reliable identification documents, to confirm the true identity of the customer.
- If a legal entity is involved, such as an LLC or a corporation, take additional measures to identify who controls or owns the entity and take risk-based measures to verify the identity of the owner. This is commonly referred to as beneficial ownership information.
- Gather other appropriate information based on the agent's experience and knowledge to understand the customer's circumstances and business. Anti-Money Laundering Guidelines for Real Estate Professionals.

Reporting suspicious activity

When real-estate companies are confronted with suspicious activity, they always have the option of reporting the information to local law enforcement or the FBI.

Moreover, the agents may also consider filing a suspicious activity report, which is reported to the FinCen. These reports are primarily designed for use by financial institutions and are a significant tool for enforcement agencies to combat money laundering. Real estate businesses or agents are not required to file a SAR, but they should be aware of the availability of this tool to the extent that they have reasonable suspicion that a transaction may be used for illegal financial activity.

Combating ML with Enhanced Due Diligence

With the increasing money laundering cases in the real estate sector, AML and PEP screening of your clients (both individuals or businesses) can help agencies combat this issue and also uncover fraud scams. Background checks can help verify the individuals against sanction lists and exposed personalities that are not officially allowed to buy or sell any property. This will secure your organization from regulatory fines. Continuous and regular AML compliance must be assured and comprehensive records should be made simultaneously.

Moreover, manual procedures make it difficult for organizations to perform effective due diligence according to the standards and laws placed by the regulatory authorities. The enhanced identity verification solutions powered by AI and machine learning technologies can perform these tasks in less time with high accuracy and reduce the significant burden from the companies.

How Shufti Pro can Empower Your AML Compliance Department

For the real estate sector, working with high-risk entities can lead to hefty financial losses. Acquiring a foolproof AML solution will ensure that your clients are not blacklisted or Politically Exposed Persons (PEPs), saving you from substantial non-compliance penalties.

Shufti Pro's automated AML compliance solution can help real estate businesses identify high-risk clients, perform PEP screening, and real-time sanction list monitoring. Its AML screening software leverages big data and hybrid technology for higher accuracy and consistent results. Global AML verifications are done in real-time to enable organizations to mitigate the financial risk associated with high-risk customers.

01. Updated criminal databases

Shufti Pro AML screening solution has access to 1700+ datasets acquired from international sources including OFAC, EU, HMT, UN, DFAT, and others. These criminal records include the list of politically exposed personalities, money launderers, cybercriminals, terrorists, and similar entities. Against these sanction lists, each entity is screened to make sure that onboarding identity has not been a part of any criminal activity before or currently. Furthermore, the AML data bank is updated every 15 minutes.

In-depth Identity Verification

The transfer and flow of illegal money across the globe have increased the need for identity verification processes in the real estate industry. Criminals are always looking for ways to launder their illegal proceeds and they also exploit the real estate sector to get it done.
Panama Leaks is one of the recent examples of money laundering cases. The lack of monitoring systems can increase such cases in the coming years as well, therefore in-depth identity verification of the property buyer and seller is essential. Identity verification is not as complicated as it seems. Online customer identity verification services, like Shufti Pro, can help you verify the identities in real-time providing a streamlined process.

Shufti Pro's customized identity verification solutions can be used by real estate providers in several ways including the processing of transactions, locating properties, detecting and preventing identity fraud, performing in-depth due diligence of customers, and complying with regulatory measures.

01. Customer due diligence through identity document verification

With the help of Shufti Pro's digitized identity verification solution, real estate companies can perform robust customer due diligence to authenticate buyers and sellers instantly. The process involves ID verification of both parties through ID document verification. Shufti Pro's ID verification software uses a hybrid technology of AI and Human Intelligence to verify users within 30-60 seconds.

It uses OCR (Optical Character Recognition) technology to extract user data and process it accurately. This decreases the chances of human error that comes with manual verification methods and ensures the usage of authentic information to make the sale or purchase of the property.

Various documents can be used to verify the identity of a person including ID cards, driver's licenses, passports, or any other form of government-issued IDs. The real estate agent can choose to verify the buyer and seller with the document(s) they prefer and proceed to authenticate the sale accordingly.

02. Biometric authentication of high-risk transactions

Real-estate firms can secure high-risk transactions through Shufti Pro's facial biometric authentication feature. By integrating Shufti Pro's biometric authentication solution, businesses can secure their account login processes through facial recognition having features like liveness detection, 3D mapping, etc, which extracts biometric markers to ensure the presence of human face during sign-up and verify the user's real identity for high-risk transactions or approvals.

03. KYB verification of corporate entities before closing any deals

To perform verification of corporate clients and companies, real estate firms can use Shufti Pro's AI-powered KYB identification tool, which enables in-depth screening by utilizing updated data of 200 million companies in 100 countries, collected from credible sources.

With Shufti Pro's KYB checks real estate organizations can verify business details before onboarding them as a client or a vendor. They only have to provide the jurisdiction code and business registration number and all legitimate data including but not limited to business registration addresses, business statements, UBOs, etc. is gathered in one place.

Shufti Pro - Your Trusted Partner for KYC and AML Screening

Shufti Pro provided document verification, AML screening, and ongoing screening services to the real estate company Amsterdam Coin Exchange (ACE), to perform in-depth screening of their customers. ACE majorly operates in the real estate investments and offers investments in rented residential real estate, specifically Dutch homes and migrant housing.

"By starting a collaboration with Shufti Pro we hope it will enable us to get to know our clients better: who is our client, who are the owners/ultimate stakeholders, and does the relationship with our client pose a risk? This is particularly true where we aim to extend our services geographically, in particular outside the Netherlands and our European Union. With sound policy and our business alliance with Shufti Pro, we want to prevent unknowingly contributing to financial and economic crime. Moreover, we can use our integrated software to regularly scan our existing customer base for new signals. Such a collaboration can help us move even closer to achieving our long-term goals of prosperity and decentralized cooperation between all our stakeholders."

Samreen Vos, compliance officer of ACE

Conclusion

Money laundering is one of the biggest hurdles in the growth of the real estate industry around the globe. Not verifying the identity of the person or background of an organization you are entering in business which can create serious issues for real estate agents and companies, as such individuals may be trying to launder money by purchasing a property. Therefore, all businesses in this sector need to perform robust identity verification of their customers to combat money laundering and to save themselves from substantial non-compliance penalties.

Ready to combat money laundering and keep your compliance game up?

Contact our experts

Apply for a no-commitment free trial

Get non-discriminatory access to all features of the selective service of Shufti Pro for 15 days.

Get a free trial

www.shuftipro.com sales@shuftipro.com

Shufti Pro True Identity Builds Trust

Expanding services to 230+ countries and territories in a short period of time, Shufti Pro envisioned playing a pivotal role in creating cyberspace where every transaction is verifiable and secure. With enough experience in technologies like machine learning (ML), OCR, artificial intelligence, and Natural Language Processing (NLP), Shufti Pro strives to provide the best identity verification services to verify customers and businesses online.

Shufti Pro's cost-effective solutions help businesses to prevent fraud and illicit crimes that can ruin the integrity and brand reputation of your business. Our perfect solution suite consisting of KYC verification, AML screening, ID verification, Facial Recognition, Biometric Authentication, Video KYC, OCR, and KYB helps to improve your company's fraud prevention, Know your Customer (KYC) and Anti Money Laundering (AML) regulatory efforts by automating the workflow. With single API integration, Shufti Pro empowers you to verify customers with document checks from 3000+ ID templates and business entities from 200 million companies data.

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