Te Tari Taiwhenua
Internal Affairs

Sight unseen property purchases – ML/FT risk update

This update is for real estate agents, lawyers and conveyancers, and other sectors involved in property transactions who are 'reporting entities' for the purposes of the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 (the Act).

The purpose of this update is to help reporting entities who are involved in real estate transactions to understand money laundering and financing of terrorism (ML/FT) risks associated with sight unseen property purchases. This will assist reporting entities to understand how sight unseen property purchases may impact on the level of ML/FT risk to their business, and implement policies, procedures and controls in AML/CFT programmes to mitigate such risks.

Sight unseen property purchases – the purchase of property without the buyer having seen it physically in person – are an attractive method of laundering money and financing of terrorism (ML/FT). This type of transaction is usually conducted non-face-to-face (such as through virtual means) and adds layers between the customer and the transaction which can obscure the source of funds and hide beneficial owners.

The key to protecting your business is identifying and managing risks. If you are involved with sight unseen property purchases, this type of transaction must be addressed in your Risk Assessment and AML/CFT Programme. It may be a good time to review these documents to ensure they reflect your business risk profile and any risks are managed appropriately. Please note that you **must** take supervisor guidance (such as this update) into account in your Risk Assessment and AML/CFT Programme (see section 57(2) of the Act).

Red flags and risk indicators

Sight unseen property purchases could be a red flag for ML/FT activity. Higher risk indicators that may require further scrutiny are:

- The customer shows interest in purchasing property without normal levels of interest in price, characteristics of the property, or other details, for example, rental yields or investment outlook
- A third party is acting on behalf of the customer, and the customer or beneficial owner is added to the sale and purchase agreement at the last minute
- The transaction does not match the customer's business or personal profile
- A property is bought and sold quickly
- The customer is reluctant to provide identity, or source of funds/wealth information and documentation
- Verification documentation is, or looks, fraudulent
- Unusual or complex ownership structure where beneficial ownership is hidden
- The customer is based in a country with a higher level of assessed ML/FT risk
- Payments received from bank accounts belonging to third parties who have no clear link to the customer
- Sale and purchase price are significantly undervalued or well above market price
- The customer intends to complete the sale without the use of a mortgage

These risk indicators are not limited to sight unseen property purchases and may also apply other types of property transactions.

AML/CFT requirements

If your business is involved in sight unseen property purchase transactions, you should review your AML/CFT programme to ensure that your policies, procedures and controls address the risks that your business faces. The following are some of the key obligations that you need to be aware of for sight unseen property transactions:

- Customer due diligence (CDD) – in particular delayed verification[1], electronic identity verification[2], and relying on another reporting entity or persons in another country[3].
- Politically exposed persons[4]
- Account and transaction monitoring and suspicious activity reporting[5] – this will assist you in identifying suspicious activity
- Wire transfers and prescribed transaction reporting[6] – when receiving funds into your trust account from or for your client

[1] Sections 16(3) and 24(3) of the Act.

[2] See our Explanatory Note clarifying requirements for electronic identity verification.

[3] Section 33 of the Act. See also question 80 on our Frequently Asked Questions for more information.

[4] See question 19 on our Frequently Asked Questions and our findings from a targeted compliance review of policies, procedures and controls relating to politically exposed persons here.

[5] See page 36 of the Real Estate Agents Guideline or page 39 of the Lawyers and Conveyancers Guideline for more information.

[6] See question 24 on our Frequently Asked Questions for more information.

Examples of when you might encounter increased ML/FT risk in sight unseen property purchases

Real estate agent: purchaser
You are selling a property for your client (vendor). You conduct a virtual walkthrough of the property with a potential purchaser and they make an unconditional offer. As you are closing the sale, a trust is added to the sale and purchase agreement at the last minute. The trustees have not seen the property. You assess that the use of a nominee by the purchaser and the addition of a trust at the last minute could be an attempt to conceal the true purchaser and increases ML/FT risk. While you are not required to conduct CDD on the purchaser in this instance as you do not have an agency agreement with them, you form a suspicion that the purchaser may be layering and obscuring funds through the property purchase, so you submit a SAR to the FIU.

Lawyer/conveyancer: purchaser
You have been instructed by your client (purchaser) to act for them on the purchase of a property. The purchaser has not seen the property and does not appear to be concerned with the purchase price, or characteristics of the property. They make an offer well above market price, but this does not match your knowledge of their business or personal profile. You assess that the discrepancy between the purchase price and what you know about the financial means of purchaser, a sight unseen property purchase, and a lack of due diligence on the property by the purchaser increases ML/FT risk. You conduct enhanced CDD, verifying the source of wealth or funds. You form a suspicion that the purchaser may be layering and obscuring funds through the property purchase and submit a SAR to the FIU.