Property at risk from money launderers

By MATT NIPPERT

NEW REGULATIONS tightening money-laundering regulations for banks risk driving black money into real estate and distorting property markets, a consultant has warned.

The Anti-Money Laundering and Countering Financing of Terrorism Act came into force for banks and financial institutions in June last year, but coverage of professionals – lawyers, accountants and real estate agents – is being phased in on an indeterminate timeframe.

Ron Pol, a lawyer and anti-money laundering consultant with amlAssurance, said the phase-in would likely take two years, opening a window in which real estate would become more attractive to launderers.

"When hundreds of millions of dollars of criminal funds can no longer go directly into banks, it will find other ways into the financial system. Real estate has always been an attractive way to hide and invest ill-gotten gains," he said.

"Ironically, being temporarily exempt from the new regulations appears to have raised the bar and risks, while also lowering the culpability thresholds for real estate agents."

Pol, who has begun a PhD through Griffith University looking at anti-money laundering policies for professionals, said the experience of Florida and England had shown property markets could be distorted by an inflow of dirty money.

Campaigner: Anti-money laundering consultant Ron Pol said real estate has always been an attractive way to hide and invest ill-gotten gains.

"There was a huge price spike in Miami, fuelled by South American drug cartels, even as property prices languished elsewhere in the United States. And at the top end of the London property market, fuelled by Russian oligarchs and corrupt officials from various countries, demand for £30m-plus properties far outstripped even London's buoyant property market," he said. Pol said while there was no research suggesting Auckland's property boom was being accentuated by money laundering, the experience of Miami and London showed the risks of such distortions occurring.

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While not yet covered by the new law, real estate agents are required under the Financial Transactions Reporting Act (FTRA) to notify authorities of "suspicious transactions" in order for these deals to be looked into.

While both the old and new regulations require mandatory reporting of suspicious transactions, the latter came with sterner due diligence requirements and stiffer penalties for non-compliance. "With the new act, New Zealand's banks now have the equivalent firepower of all three branches of the defence force, together with full intelligence capabilities and special forces to repel misuse of their business by criminals," Pol said.

"By comparison, with only the FTRA, the average New Zealand real estate agent sits in an isolated West Coast maimai, in a southerly gale, armed only with good intentions, a rusty old shotgun and visibility to the end of an outstretched arm."

Pol said adherence to reporting requirements in the sector were "patchy," with many real estate agents unaware of what was classed as suspicious.

"The classic example is a briefcase full of cash. In the last year alone I know of buyers offering cash for the entire settlement amount," he said.

Pol urged greater awareness by professionals of their existing obligations and new risks, noting inter-governmental group the Financial Action Task Force had identified the old regime as "seriously deficient" in tackling financial crime.

Helen O'Sullivan, chief executive of the Real Estate Institute of New Zealand, said considerable work was under way in the sector preparing agents for the new regulations.

She said agents were already required to report suspicious transactions and hoped knowledge of this was widespread.

"If someone turns up in your office with over $10,000 in cash, that's something to be aware of. And it's something that always should have raised flags, quite frankly," she said.

O'Sullivan agreed the risk of launderers increasingly using real estate, potentially distorting markets, was something to monitor.

"New Zealand's on the international mind map in a way it probably wasn't 20 years ago – we can't close our eyes to this possibility," she said.