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**Article:**

Zavoli, I [orcid.org/0000-0002-0162-1103](https://orcid.org/0000-0002-0162-1103) and King, C (2020) *New development: Estate agents' perspectives of anti-money laundering compliance—four key issues in the UK property market*. *Public Money & Management*, 40 (5). pp. 415-419. ISSN 0954-0962

<https://doi.org/10.1080/09540962.2020.1727182>

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**New developments: Estate agents' perspectives of anti-money laundering compliance — four key issues in the UK property market\***

**Dr Ilaria Zavoli**

School of Law, University of Leeds, UK

**and Dr Colin King**

Institute of Advanced Legal Studies, University of London, UK

Dr Ilaria Zavoli

School of Law

Liberty Building

University of Leeds

Leeds

LS2 9JT

UK

I.Zavoli@leeds.ac.uk

Dr Colin King

[colin.king@sas.ac.uk](mailto:colin.king@sas.ac.uk)

**ABSTRACT**

In recent years, money laundering in the property market has come under scrutiny across the world, attracting significant attention from governments, regulators, policy-makers, NGOs, academics and others. However, there remain gaps in knowledge, which is particularly important given practical difficulties in the implementation of anti-money laundering (AML) obligations. This article offers new insights into such implementation in the context of the UK AML regime and the real estate sector. The authors analyse four important issues relating to the UK AML obligations: customer due diligence (CDD); reporting suspicion; training requirements; and letting (rental) agents.

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## **IMPACT**

Money laundering in the property market is a significant problem across the globe, yet there is limited understanding of how anti-money laundering (AML) rules are implemented in practice. This article draws on semi-structured interviews with estate agents and compliance officials in the UK to explore this often-overlooked perspective. Interviewees take AML rules seriously, however they are often faced with significant difficulties in practice. This article shows that – in the eyes of interviewees – governments and law enforcement do not understand how the sector operates. Failure to deal with this lack of understanding means that the problem of money laundering via property sales and rentals will continue.

**Key words:** Estate agents; money laundering; property market; real estate; government policy

Money laundering in the property market has attracted significant attention in recent years in a number of countries. In the UK, it has been widely suggested that corrupt capital is being used to buy property, often using offshore companies with non-transparent ownership (Transparency International UK, 2017). Indeed, in 2016, the then prime minister stated that the UK should ‘clean up our property market and show that there is no home for the corrupt in Britain’ (Cameron, 2016). In Canada, an expert panel was established in British Columbia in 2018 following concerns about money laundering in the real estate sector (Maloney et al., 2019). Subsequently, it was announced that there would be a public inquiry into money laundering in the British Columbian economy (Office of the Premier, 2019). Similar concerns about money laundering in the property market are evident in other jurisdictions, for example Australia (Austrac, 2015), Hong Kong (Estate Agents Authority, 2018), Singapore (Council for Estate Agents, 2017), and the US (FinCEN, 2019). Money laundering in the property market is also attracting attention at EU level (Remeur, 2019). Clearly, this issue is now on the table for governments across the globe. The aim of this article is to offer new insights into the implementation of anti-money laundering (AML) efforts in the property market in the UK by drawing upon inside views from those on the ground: (real) estate agents and compliance officials. The research for this article included 17 semi-structured interviews with estate agents and compliance officials (responsible for AML, either in-house or on a consultancy basis). The interviews were conducted in person and via Skype/phone over a period of five months between November 2017 and March 2018.

The total amount of money laundered in a particular year, or in a particular sector, is unknown. Despite various efforts claiming to measure the extent of money laundering (UNODC, 2011), it is impossible to (accurately) do so (Levi et al, 2018; Alldridge, 2016, pp. 15–16). Indeed, the lack of reliable figures is now explicitly recognized at a policy level. For example, a House of Commons briefing paper acknowledges: ‘by its very nature it is difficult to quantify what the scale of the problem

is. The proceeds are hidden and often only come to light in the event of prosecutions' (Edmonds, 2018, p. 4). In addition, the Financial Action Task Force (FATF) acknowledges difficulties with various 'estimates' on money laundering:

*estimates should be treated with caution. They are intended to give an estimate of the magnitude of money laundering. Due to the illegal nature of the transactions, precise statistics are not available and it is therefore impossible to produce a definitive estimate of the amount of money that is globally laundered every year. The FATF therefore does not publish any figures in this regard (FATF, 2019).*

Of course, it would be desirable to have significant knowledge in this area, not least given various proclamations as to the scale of the problem or the threat posed by money laundering. In relation to the property market, concerns have been expressed that money laundering is a threat to the economy, society, and political stability (Transparency International UK, 2015, p. 6; see also van Duyne, Harvey and Gelemerova, 2018, p. 225 for a critical perspective).

So, what approaches have been adopted to explore this area? Some studies have attempted to examine money laundering in the property market by means of 'red flags' or proxies (Unger, 2013, p. 663). Others have built on this approach by using data mining (Ritzen, 2011). Other studies have focused on suspicious activities within the sector (FinCEN, 2006). Unsurprisingly, there are significant barriers to accurately reflecting the scale of money laundering in the property market. As Petrus van Duyne colourfully puts it: 'our knowledge in this area can be likened to that of an archaeologist who has to describe the economy of a Stone Age settlement on the basis of a few pottery fragments, a spear point and half a jawbone' (van Duyne, 1994, p. 62). Given such methodological difficulties, our approach in this article is quite different. Rather than attempting the impossible (i.e. quantifying the extent of money laundering), or addressing the complexities of AML rules and obligations across the property sector in response to this perceived threat, we take a qualitative approach to explore one specific aspect: how the real estate sector in the UK is responding to its role and obligations. The focus is on four key issues that arose in our interviews: customer due diligence (CDD); reporting suspicion; training requirements; and letting (rental) agents.

### **Customer due diligence**

Interestingly, there were varying perspectives on the role of estate agents in doing AML, with one interviewee contending that 'it is an absolutely pointless exercise' (interview 12), and another suggesting that 'we should have an obligation as a first responder if you like, we can be a very good source of information' (interview 6). However, there was more agreement with regards to the costs of compliance and the burdens that this brings for estate agencies (for example interviews 1; 9; 14). Unsurprisingly, the CDD requirements in the Money Laundering, Terrorist Financing and Transfer of

Funds (Information on the Payer) Regulations 2017 (hereafter ‘ML Regs’) sparked significant discussion. In particular, there were criticisms that such checks involved a doubling-up or even a tripling-up of work. In other words, banks and/or solicitors will often have done the same checks already (for example interviews 4; 11; 12; 13). Thus, estate agents repeating the same CDD checks was described as ‘overkill’ (interview 4). Many noted that estate agents do not handle money, so should not be under any AML obligations (for example interviews 4; 10; 11; 12; 13). Others, however, noted that different actors in a transaction (i.e. banks, solicitors, estate agents) offer different eyes on a transaction and will be better placed to spot particular discrepancies and to ask for an explanation (for example interview 5).

A recurring theme was that CDD checks are being done simply ‘to tick a box’ (interview 9) or that systems and processes are in place ‘to cover their own backsides’ (interview 3). Others spoke about doing the minimum that is required to be compliant (for example interview 14). Interviewee 1 said that CDD ‘must go right the way through from cradle to grave’ and suggested using a traffic-light system, i.e. if everything is right, then it is green; if there is something wrong, but not a criminal offence (for example a form has not been fully filled in correctly), then it is amber; and, if something is a ‘fail’ under the ML Regs, then it is a red.

Interviewees identified certain areas where CDD checks can be problematic, for example where a foreign buyer is involved and there is no face-to-face contact (for example interview 1). Another difficulty is where documentation might be fake — again, this arises particularly where there are foreign clients and the documentation is in a language other than English (for example interviews 6; 8). A further difficulty relates to the source of funds (for example interview 3). There can also be issues where there is to be a quick exchange of contracts; in such instances, it might not be possible to do AML checks properly (for example interview 11). The use of internet searches and social media was noted as a means of finding further information on people if necessary (for example interviews 3; 12).

An issue raised by many participants was reliance on checks done by others. It was recognized by some that this is permitted under the current law, but that the estate agent remains liable if the required checks have not been properly carried out (for example interview 10). Some stated that they do not rely upon CDD checks by others on that basis (for example interview 8). It was noted that if an estate agent asks too many questions, then a person trying to launder money through that agency can simply withdraw from the purchase ~~sale~~ with no consequence (for example interview 9).

### **Reporting suspicion**

It is axiomatic that deciding to file a suspicious activity report (SAR) is a significant one. It was recognized that estate agents often ‘want to be on the safe side’ (interview 10), to cover themselves against future action (for example interview 1). While these were recurring issues, a small number did stress that they only submit a SAR to the UK Financial Intelligence Unit where there is genuine concern (for example interview 8). There was some concern about the ‘tipping-off’ offence (for example

interview 5), i.e. the offence of making a disclosure likely to prejudice a money laundering investigation being undertaken by law enforcement authorities. Interestingly, some noted the difficulties in maintaining confidentiality as to whether or not a report is being made. For example, while the only people who ought to know are the individual agent who reports their suspicion to the money laundering reporting officer (MLRO) and the MLRO, the reality is otherwise. As interviewee 3 stated: this type of business ‘mainly works in open plan offices as a team and therefore the whole team is going to know about the situation, particularly in the market now where we’re fairly low volume of transactions so everybody is going to know, and therefore the risk of something getting out is far greater than it perhaps would be indicated by the regulations’. Interviewee 3 went on to say that the ML Regs ‘weren’t written by someone who operates in the front-line of estate agents’.

The SAR system itself came in for criticism. It was noted that the system was designed for the banking sector and does not transfer well to other sectors (for example interview 1). There were also criticisms as to the registration process and the process of actually filing a report. For example, an estate agent will have a ‘gateway’ with HMRC, but if they want to file a SAR they have to do that through the NCA portal, which is not linked to the HMRC gateway. As interviewee 14 stated: ‘it’s more complicated than it need be...If I want to tip off the state, that I think something’s dodgy going on, why not make it easy for me to do so?’. Moreover, there were concerns that the support from the state could be improved (for example interview 6). A final point to note here is whether estate agents should receive any updates on SARs submitted. At the moment, there is no individualized feedback on specific SARs. Thus, it was suggested by participants that they do not know whether their reports are useful or not. Interviewee 11 said that ‘it would be helpful to have feedback, to have pointers as to what to look for, because we are very much in the dark. We can’t even talk to anyone else about it because of tipping off concerns’. Others, however, stated that they had no interest in any follow-up information (for example interview 15).

### **Training requirements**

While estate agents are required by the ML Regs to undergo regular AML training, the regulations leave room for interpretation on how, and how often, estate agents should do this. Our research revealed inconsistencies and variations between agencies. Generally, participants were aware of the need to obtain proper training on AML and of its importance in providing them with adequate understanding and tools to prevent and detect suspicious activities. For instance, interviewee 7: ‘we go to as many anti-money laundering courses as we can here, read as much as we can...to make sure we know what we can’; and interviewee 12: ‘we try and be as thorough as we can be’. However, estate agents can find it difficult to fulfil this obligation in practice due to additional factors (for example lack of financial resources and precise guidelines). In particular, a difference exists between large and small agencies (for example interviews 13; 14) as to the financial resources available to them for effective training.

Some agencies struggle to find enough funds to cover training costs: ‘it is...your smaller, independent [agency] that has not got access to those resources’ (interview 13).

A further issue relates to differences in the quality of the training provided, given that some agencies do it in-house (for example interviews 1; 7; 12; 14; 15), whereas others prefer to outsource it (for example interviews 3; 13). Furthermore, the collection of informative material through websites (such as that of HMRC and of the National Association of Estate Agents) was highlighted as useful support. For instance, some interviewees recognized webinars as a valuable option for training purposes (for example interview 15).

A final point worth noting in relation to training relates, again, to variations across different agencies. There is no prescribed approach under the ML Regs. Thus, it is unsurprising that different choices have been made. Some said that the training should be done three or four times a year (for example interview 1); others thought that this should be done every 12 months (for example interview 13).

### **Letting (rental) agents**

In 2018, the 5<sup>th</sup> EU AML Directive brought letting agents within the AML regime where a monthly rent is over 10,000 euro (EU Directive, 2018, Art. 1). This directive is due to be implemented in the UK in 2020 (HM Treasury, 2019, p. 4). While letting agents were not initially part of the research focus, it quickly became apparent that this sector is one of concern for (sales) estate agents. Indeed, participants identified various means by which money could be laundered through lettings. For instance, this can be done by disguising the identity of the tenant and renting a property to a person that is both the owner and the tenant (for example interview 3). Another method is to have an upfront payment for the rent of a property followed by a withdrawal from the transaction with a reimbursement of the sum paid (for example interviews 3; 6). Another approach is to invest criminal money into many cheap properties and then sub-let them (for example interviews 6; 9; 15), allowing money launderers to integrate their capital into numerous properties and being less likely to come to the attention of AML authorities (for example interview 9).

Participants expressed significant concern as to the lack of regulation of letting agents’ activities. For some, this issue came as a surprise (for example interviews 1; 10) and it was widely considered a gap in the AML legislative framework (for example interview 15). Indeed, some interviewees argued that there is no difference between sales and lettings for AML purposes because ‘there is just as much money laundering that goes on through lettings’ (interview 3), and ‘it is easier to do money laundering through lettings than it is through sales’ (interview 3). Moreover, leaving letting agents out of AML provisions might prompt inconsistencies in the sector because ‘there is going to be less checks and balances on letting than there is on the sale environment’ (interview 3). Others suggested that the lack of regulation might be due to the nature of the letting business: ‘letting is a much faster business and you would be spending days doing AML on all your tenants’ (interview 12).

A further point to mention here is the sense of different legislative treatment concerning letting agents compared to (sales) estate agents. Some participants thought that the legislation does not cover letting agents because ‘Letting agents are not estate agents’ (interview 15). Indeed, a person banned from estate agency can, nonetheless, operate as a letting agent (for example interview 3). A further, significant distinction between letting agents and sales agents is that the former receive money in their accounts from the tenant, whereas the latter generally do not handle money (for example interviews 10; 12; 13).

## **Conclusions**

This article has outlined some key issues in the implementation of AML legislation in the UK real estate sector. The aim of this article is not to critique the AML regime or its application in practice, rather it is simply intended to present the (often) overlooked perspective of those involved in the buying and selling of domestic property in the UK. It was clear from the interviews that participants would like to see a more tailored approach to AML obligations—one that takes account of sector-specific circumstances and the lived reality of AML in the real estate sector. Instead, however, the current regime demonstrates a gap between policy-makers’ and others’ perceptions and the reality of how the sector operates; failure to consider this gap is likely to lead to continued lingering discontent in the sector.

## **Acknowledgement**

This research was supported by a British Academy ‘Tackling International Challenges’ research grant: IC160112.

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