



Financial Monitoring Unit (FMU)
Government of Pakistan
2nd Floor, SBP Main Building, I.I Chundrigar Road, Karachi

RED FLAG INDICATORS FOR REAL ESTATE SECTOR

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Under Section 7(1) of AML Act 2010 which states that reporting entities including Real Estate Agents, property dealers / brokers, housing authorities, and builders and developers are required to promptly report Suspicious Transaction Report (STR) for transaction conducted or attempted, at their counter or through such real estate agents/developers, if it knows, suspects or has reason to suspect that the transaction or a pattern of transactions of which the transaction:

(a) involves funds derived from illegal activities or is intended or conducted in order to hide or disguise proceeds of crime.

(b) is designed to evade any requirements of this section

(c) has no apparent lawful purpose after examining the available facts, including the background and possible purpose of the transaction; or

(d) involves financing of terrorism, including fund collected, provided, used or meant for, or otherwise linked or related to, terrorism, terrorist acts or organizations and individuals concerned with terrorism.

In order to identify a suspicion that could be indicative of Money Laundering (ML) or Terrorism Financing (TF), FMU has prepared the red flags indicators that are specially intended as an aid for the real estate sector. These red flags may appear suspicious on their own; however, it may be considered that a single red flag would not be a clear indicator of potential ML / TF activity. However, a combination of these red flags, in addition to analysis of overall financial activity and client profile may indicate a potential ML / TF activity.

Red Flags for Purchaser/Seller Behavior:

- Purchaser/Seller's economic profile does not align with the cost of the property.
- Source of funds cannot be identified or is unclear.
- Client or transaction is from country or jurisdiction in relation to which the FATF has called for countermeasures or enhanced client due diligence measures or jurisdiction known to have inadequate measures to prevent money laundering and the financing of terrorism.
- The client or any of its associated person / entity found positive match while screening against UN Security Council Resolutions (UNSCRs).
- Purchaser / Seller is linked to negative news or named in a news report on a crime committed or under Law Enforcement investigation/inquiry).

- The use of intermediaries who are not subject to adequate AML/CFT laws and measures and who are not adequately supervised.
- Client insists on using an intermediary (either professional or informal) in all interactions during transactions without sufficient justification.
- Clients who appear to be acting on somebody else's instructions without disclosing the identity of such person.
- Unexplained delegation of authority by the client by using powers of attorney.
- Purchaser/Seller appears to be acting as proxies for the purchase of the properties and makes attempts to conceal the identity of the beneficial owner.
- Purchaser buys property in the name of a nominee such as an associate or a relative (other than a spouse or child), or on behalf of minors or other persons who lack the economic capacity to carry out such purchases or on behalf of Politically exposed person (PEP).
- Political exposed client who is linked to negative news / crime or any client who is family member or close associate of such political exposed person.
- Purchaser/Seller provides an address that is unknown, believed to be false, or simply a correspondence address, e.g. a post office box number which might not provide details of the actual address.
- Purchaser/Seller is suspected to be using forged, fraudulent or false identity documents for due diligence and record keeping purposes.
- Significant and unexplained geographic distance between the agent and the purchaser/seller during the sale.
- Purchaser/ Seller appears unconcerned about the economic or investment value of the property he/she is purchasing /selling or associated commissions and fees.
- Purchaser buys property without making any attempt to inspect or review the brochure or marketing material of the property.
- Purchaser/seller respectively buys/sells multiple properties in a short time period and seems to have less concerns about the location and price of each property.
- Purchaser/seller seems very keen about AML/CFT reporting threshold requirements.
- Purchaser/seller is a shell company or trust and representatives of the company refuse to disclose the identity of the beneficial owners.
- Purchaser's known business activity and purpose do not match the real estate transaction, e.g. purchaser is a non-profit organisation but the property is purchased for investment which requires a large loan.

- Purchaser/Seller appears hesitant or declines to put his name on any documents that would connect him with the property.
- Purchaser/Seller appears to be using business funds for personal use, or vice versa.
- Recording the sale of a vacant land and the sale of a newly completed in building in less time than construction would normally take.

Red Flags for Transactional Patterns:

- Payments from purchaser are financed by an unusual source, e.g. from an offshore bank located in a jurisdiction identified as high-risk and non-cooperative by FATF.
- Transaction, whether property is sold directly by a developer or sold in a sub-sale by a purchaser, is entered into at a value significantly different (much higher or much lower) from the real or market value of the property.
- Purchaser pays the initial deposit with a cheque from a third party, other than a spouse or parent.
- Payment for purchase was done through multiple cash transactions and paid direct to the project account or Seller insisted to get the huge payments in cash only.
- Speed of the transaction (transactions that are unduly expedited without a reasonable explanation may be higher risk).
- Use of complex loans, or other obscure means of finance, versus loans from regulated financial institutions.

Disclaimer:

These red flags are developed for guidance purpose and may appear suspicious on their own; however, it may be considered that a single red flag would not be a clear indicator of potential ML / TF activity. However, a combination of these red flags, in addition to analysis of overall financial activity and client profile may indicate a potential ML / TF activity. While every effort has been made to ensure the accuracy and check all relevant references/ resources, errors and omissions are possible and are expected. Financial Monitoring Unit (FMU), its officers and its stakeholders are not responsible for any mistakes and/or misinterpretation.