



# **Anti-Money Laundering and Countering Financing of Terrorism**

**Real Estate Sector Risk Assessment 2024**





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## Executive Summary

This sectoral risk assessment (SRA) provides a comprehensive analysis and update from the previous assessment conducted in 2019, of potential Money Laundering (ML), Terrorism Financing (TF), and Proliferation Financing (PF) risks, threats, and vulnerabilities in the real estate sector. The assessment aims to identify and re-evaluate key areas of concern, enabling proactive measures to mitigate risks, enhance regulatory compliance and foster sustainable business practices.

A clear understanding of the SRA methodology empowers real estate agents to make well-informed choices regarding the ongoing enhancement of anti-money laundering/combating financing of terrorism/countering proliferation financing (AML/CFT/CPF) practices. Data collected from various sources assisted with the SRA and the sector was evaluated against the variables outlined in the Money Laundering and Financing of Terrorism Act (Prevention and Control) Act 2011-23 (MLFTA). While specific business characteristics may expose individual entities within a sector to varying risks, it is crucial to have a clear understanding of the overall segment. As such, the SRA does not focus on the residual risks identified by individual entities but offers a more extensive evaluation of the risks associated with the industry sector.

Throughout the examined period, no instances of TF were confirmed in Barbados. Furthermore, money laundering within the real estate sector predominantly occurred at low levels.

The information gleaned from real estate agents who participated in the Compliance Unit's risk assessment exercise has led to a better understanding of the inherent risks within the sector. This has significantly contributed the changes seen between the 2019 and 2024 risk assessments, which have led to an overall reduction in the risk rating of the sector from high in 2019 to medium in 2024. Additionally, the level of confidence in the information provided, improved from a rating of low to a rating of moderate.

## Background Information on ML/TF/PF

Money laundering is a three-step process where persons attempt to disguise the source of money or assets derived from criminal activity. The aim of ML is to transform illegal or dirty proceeds of crime into legal or clean money. The three steps involved in the process are:

- 1) Placement - The placement of the proceeds of crime into the financial system, sometimes by techniques such as structuring currency deposits in amounts to evade reporting requirements or co-mingling currency deposits of legal and illegal enterprises.
- 2) Layering - The layering of these proceeds by moving them around the financial system, often in a complex series of transactions to create confusion and complicate the paper trail.
- 3) Integration - Integrating the funds into the financial and business system so that they appear as legitimate funds or assets.

Terrorism Financing is the act of providing finances to support terrorists or terrorist organisations to enable them to carry out their activities.

Terrorists have the ability to source funds and develop means to obscure the links between the funds sourced and how they are used. In some cases, persons accused of terrorism may commit crimes to finance their activities and hence transactions related to terrorism financing may resemble money laundering.

It is worth emphasizing that while ML is concerned with funds generated from unlawful sources, funds used for terrorist activities are often legitimate in nature. The source of funds is, therefore, not the sole consideration for real estate agent. The conversion of assets into money and the subsequent direction of that money must be observed.

Proliferation Financing is the act of providing funds or financial services which are used, in whole or in part, for the manufacture, acquisition, possession, development, export, trans-shipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons and their means of delivery and related materials (including both technologies and dual use goods used for non-legitimate purposes) as defined by the Financial Action Task Force (FATF).

## Methodology

This section indicates the techniques and tools used for gathering data in addition to the scope of the SRA. A clear understanding of the SRA methodology allows designated non-financial businesses and professionals (DNFBPs) to make informed decisions based on the sector wide risk assessment and supports a culture of continuous improvement in AML/CFT/CPF practices.

### *Background Information in the SRA*

Information was gathered from several sources to assist with the SRA. These include:

- Questionnaires
- Risk Assessment data
- Desk Based Reviews
- Onsite Examinations
- Polls in Outreach Sessions
- Statistics provided by law enforcement agencies (LEAs) and the Financial Intelligence Unit (FIU)
- Report on Assessment of National Money Laundering and Terrorist Financing Risk, 2019.

The real estate sector has been assessed against the variables set out in the MLFTA. These include:

- Inherent Characteristics
- Nature of products and services
- Nature of the Clientele
- Geographic reach of sector's activities
- Nature of Delivery Channels

### *Scope*

The Compliance Unit is responsible for supervising the following four (4) sectors.

- Attorneys at Law
- Real Estate Agents
- Accountants
- Dealers in Precious Metals and Stones

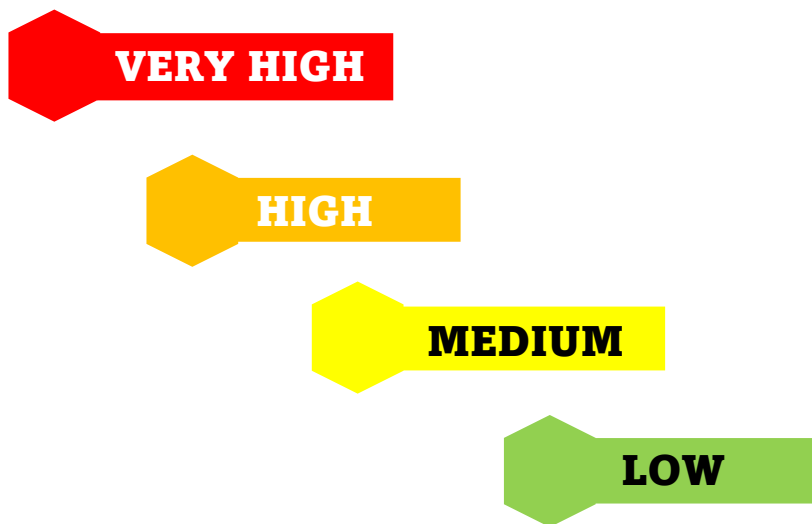
The scope of this report is focused on the real estate sector.

***Limitation***

The goal of the SRA is to verify the probable inherent ML/TF/PF risk across the sectors, acknowledging that individual entities within a sector may face different risks due to specific business characteristics. Therefore, the SRA does not focus on the residual risks identified by the individual entities; however, it does provide a broader assessment of risks associated with different industry sectors.

***Risk Scale***

The risk scale below indicates the risk scale applied to all sectors.



## Assessment of Threats

The Compliance Unit applies a risk-based approach to the monitoring of the DNFBP sector in Barbados on a continuous basis in compliance with our regulatory demands under the MLFTA.

Pursuant to Part 1 of the Second Schedule of the MLFTA real estate agents captured under the act refer to those engaged in the purchase, sale, or other disposal of real property.

Real Estate Agents form a part of the representative gatekeepers of the non-financial business sector with responsibility for ensuring the integrity and transparency of the activity with which they are engaged.

### *Global Trends*

**Ransomware:** The main prevailing trend during the period under review was ransomware, and it showed a significant increase as compared to previous years. This increase could be attributed to the Covid-19 pandemic and the prevailing circumstances at the time. Ransomware refers to malware which subjects the individual's data to ransom by online hackers. Critical data is encrypted preventing access to files, data, and applications by the user.

**Fraudulent Ultimate Beneficial Owner (UBO) Checks:** Another prevailing trend was significant increases in false beneficial ownership (BO) information being provided by clients. The impact of Covid-19 on the restricting movement of persons led to significant transactions being conducted digitally and/or virtually. The resulting impact being the attempted movement of illicit funds through legitimate businesses and the identity of the true BOs shrouded. The framework for BO requires legal arrangements; corporations and partnerships, to disclose the relevant ownership registry of their beneficial owners. The general requirement in Barbados requires the disclosure of all UBOs with 20% share interest or greater.

**Internet Scams:** Numerous persons were defrauded of funds by schemes such as the Nigerian 419 Fraud Scam. Monies were diverted to foreign countries by hackers who posed as fictitious individuals in one jurisdiction while actually having no presence in the country in which the transaction was being conducted.

**Unusually Large Cash Deposits:** certain business enterprises were the recipients of several unusually large cash deposits not in keeping with usual cash transactions. The funds were alleged to have come from suspected smuggling of foreign currency by various criminal enterprises through DNFBPs.



According to international studies, the real estate sector suffers from certain deficiencies which are integral to effective compliance management; namely, the low reporting of suspicious transactions and activities, poor compliance with know your customer/client (KYC) and customer due diligence (CDD) obligations, and lack of efficient internal controls.

### ***Barbados Trends***

The National Risk Assessment of Barbados 2019 categorised the real estate sector as high and similar to that of the Attorneys, the sector was unregulated and underperforming in relation to their compliance obligations for AML/CTF/CPF. The real estate sector engages with not only locals clients but foreign purchasers and vendors. The client base of the real estate sector is varied and is likely to include PEPs, High Net Worth clients, and corporate entities. The real estate sector indicated that challenges occur between the legal sector and the real estate sector with regards the KYC and CDD sharing of information. The real estate sector further indicated that they do not engage in cash transactions and rely on the attorneys-at-law to conduct the necessary controls; while the legal sector indicates that their client funds are stored in client accounts at the bank. Despite indications that the attorneys-at-law sector may be a safeguard for the real estate transaction the sectors remain under legislative obligation to ensure that the appropriate controls are in place to ensure that their respective businesses are not abused by criminals. The role of the Compliance Unit is to adequately regulate the real estate sector to ensure that all controls are being applied efficiently.

There were no instances of TF and PF revealed in Barbados for the period in review. The STRs for the period did not reveal any likely instances of TF or PF. The involvement of the real estate sector as actors in TF and PF was likely to be very limited to non-existent garnering minimal to no local support.

ML within the real estate sector continued to feature with predominantly low levels. The real estate sector does not feature as associated with any predicate offences including that of ML pursuant to the MLFTA. There were no convictions for ML noted for the period. Available data suggests that ML continued to demonstrate no levels of activity by the sector.

### ***Typologies***

Data produced by the FIU suggests various typologies that can be aligned to the sector notably the use of fraudulent documents. During the height of the Covid-19 pandemic the sector was subjected to an influx of fraudulent documentation from identification, bank statements, pay slips, job letters, in support of loan applications for the purchase of land and/or properties and other items. The aim of AML supervision is not to turn the real estate sector into investigators but require diligent checks when carrying out CDD and KYC.

***Vulnerabilities***

By ensuring that potential vulnerabilities are reduced and that risks are sufficiently mitigated, we are more likely to reduce threats. It is inadvisable to conduct business transactions with real estate entities that do not hold the requisite operating license as they pose a significant threat to the safety of the AML/CFT/CPF regime. Other factors which contribute to the vulnerability of this sector are the price fluctuations and speculation within the market, high value of assets, difficulties in assessing the true market value of property, and the fact that the legal owner is not necessarily the economic owner and the need to identify the true owner in such circumstances. Under reporting of suspicious and aborted transactions continues to present a challenge for this sector and significantly undermines the machinery of the AML regime in Barbados to sufficiently carry out their investigations. Failing to employ risk factors such as customer, geographical and transactional risks can threaten the integrity of the business entity resulting in poor risk ratings by the Compliance Unit.

## Red Flags

Real estate transactions can be vulnerable to money laundering due to the large sums of money involved and the potential for complex transactions. Real estate agents should be vigilant and aware of certain red flags that may indicate money laundering activities. Here are some money laundering red flags for real estate agents:

1. **Cash Transactions:**

- Large cash payments for properties, especially when it deviates from common practices in the local real estate market.

2. **Unusual Source of Funds:**

- Inability of the buyer to provide a clear and legitimate source of funds for the property purchase.

3. **Quick Flipping:**

- Frequent and rapid buying and selling of properties without reasonable explanations, especially if the properties are held for a short duration.

4. **Unusual Ownership Structures:**

- Complex ownership structures, trusts, or legal arrangements that seem designed to obscure the true beneficial owner of the property.

5. **Offshore Transactions:**

- Transactions involving offshore entities or individuals, particularly those located in jurisdictions known for weak anti-money laundering controls.

6. **Inconsistent Buyer Behaviour:**

- Buyers who seem disinterested in property details, appear unconcerned about the property's features, or show a lack of genuine interest in the transaction.

7. **Overpayment or Underpayment:**

- Payment amounts significantly higher or lower than the property's market value without a plausible explanation.

8. **Use of Shell Companies:**

- Involvement of shell companies or entities that do not have a clear business purpose in the real estate transaction.

**9. Unexplained Financings:**

- Buyer finances the purchase through unconventional or unexplained means, such as loans from undisclosed sources or individuals.

**10. Incomplete or False Documentation:**

- Missing or falsified documentation, including incomplete identity information, inconsistent details, or forged documents.

**11. Large Upfront Payments:**

- Significant upfront payments or non-refundable deposits that are out of the ordinary for standard real estate transactions.

**12. Unusual Property Features:**

- Properties with features that make them potentially attractive for money laundering, such as properties with no apparent income potential.

**13. Third-Party Payments:**

- Payments made by a third party on behalf of the buyer without a clear justification.

**14. Purchase through Trusts or Nominees:**

- Purchase of properties through trusts or nominees where the true beneficiary is not readily apparent.

**15. High-Risk Geographic Areas:**

- Properties located in high-risk geographic areas or regions known for money laundering or illegal activities.

Real estate agents should be familiar with anti-money laundering regulations, conduct thorough due diligence, and be attentive to these red flags. If any suspicious activities are identified, it is crucial to report them to the FIU. Real estate agents can use the STR link on the Compliance Unit's website, [complianceunit.gov.bb](https://complianceunit.gov.bb), to submit their STRs. Implementing robust Know Your Customer (KYC) procedures and maintaining proper documentation can help mitigate the risk of involvement in money laundering transactions.

## Interpretation of Data

### *Scope*

In this SRA, we have used data which was gathered between the years 2020 – 2023. This data was gathered in the form of questionnaires sent to entities, and risk assessments data as well as information gathered during desk-based reviews and on-site examinations.

### *Real Estate Agents*

This sector was determined to be the second largest with respect to the entities which fell under the scope of the Compliance Unit. The structure of the sector included sole proprietorships, and corporations. The client base comprised of predominantly local clientele and engagements are initiated on a face-to-face basis. The number of entities used in this data set was three hundred and seventeen (317). This figure is not to be taken as total number of DNFBSs in the real estate sector since distributed questionnaires have only yielded one hundred and twenty-one (121) responses from real estate agents for the reporting period. Therefore, 121 responses to the questionnaires formed the basis for the statistics included in this report. The average annual income generated by the real estate sector was approximately \$154,440,000.

# Sector Risks

## *Real Estate Agents*

**2024** **MEDIUM**

**2019** **HIGH**

Summary	Risk Rating 2024	Risk Rating 2019
Inherent Characteristics	Medium	Medium
Nature of Products and Services	Medium	High
Nature of Clientele	Medium	High
Geographic Reach	Medium	High
Delivery Channels	Medium	High
Level of Confidence in Information	Moderate	Low



## Summary of Ratings

### **MEDIUM**

In the 2019 assessment, the real estate sector was unsupervised and as such the ratings for the sector were largely based on the typologies provided by FATF.

Subsequently, the real estate sector is currently being supervised by the Compliance Unit. The risk rating changes are a direct result of the information gathered from the real estate agents who took part in the Compliance Unit's risk assessment exercise. The information gleaned has led to a better understanding of the sector and its inherent risks, which has led to the overall improvement in the sector's risk rating.

Using the assumption that the five (5) rating factors are weighted equally, and the level of confidence in the information is taken into consideration, it was determined that the overall rating for the real estate agents is reducing and is now rated as medium.

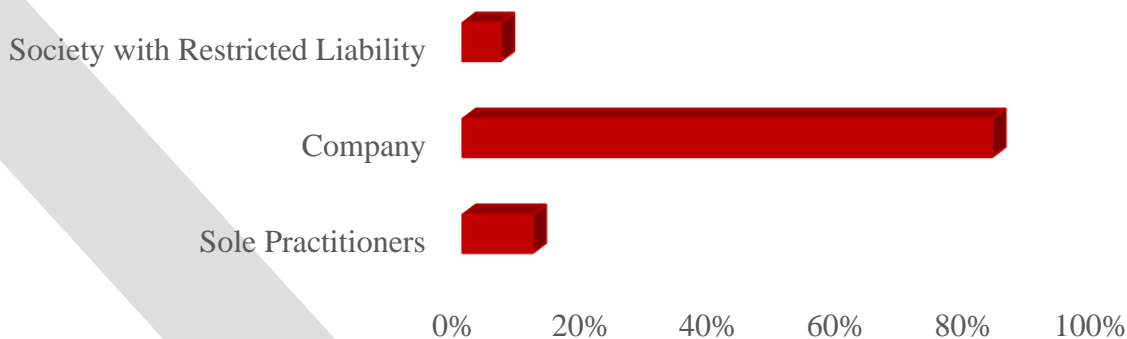
The rating for the level of confidence in the information provided improved from a rating of low to a rating of moderate.



## Inherent Characteristics

**MEDIUM**

**Business Types of Real Estate Agents**



There are three hundred and seventeen (317) real estate agents which are comprised of sole proprietors and corporations which includes society with restricted liability entities. The majority of the real estate agents are companies which comprise of local and international real estate agencies or those who utilise an international license. Most of the real estate operations are conducted in Barbados while some of the larger agencies operate in the Caribbean Region and South America. The majority of the real estate sector is comprised of at least 75% small companies (i.e. companies with less than 5 staff members). Integration of the real estate sector occurs with the following sectors:

- Attorneys-at-law
- Banking sectors

As the chart above shows, most real estate agencies in Barbados are made up of companies who command the space capturing 83% of the market. 11% of real estate agents are classified as sole proprietors and the remaining 6% of agents are classified as a society with restricted liability.

The sector’s inherent characteristics have maintained the overall risk rating of medium they received in 2019 for 2024 risk assessment.





## Nature of Products and Services

### **MEDIUM**

The real estate agents are primarily classified as DNFBPs through the sale, disposal, or purchase of real estate. The main role of the real estate agent is to locate buyers for an advertised property and introduce them to each other. Real estate agents are also seen as gatekeepers as they provide access to the financial system. Due to a better understanding of the nature of products and services provided, the risk rating for this category was downgraded from high in 2019 to medium in 2024. The real estate agent relationships are usually direct, however, in some instances the real estate agent may utilize another real estate agent to market properties and source potential purchases which is known as co-broking.

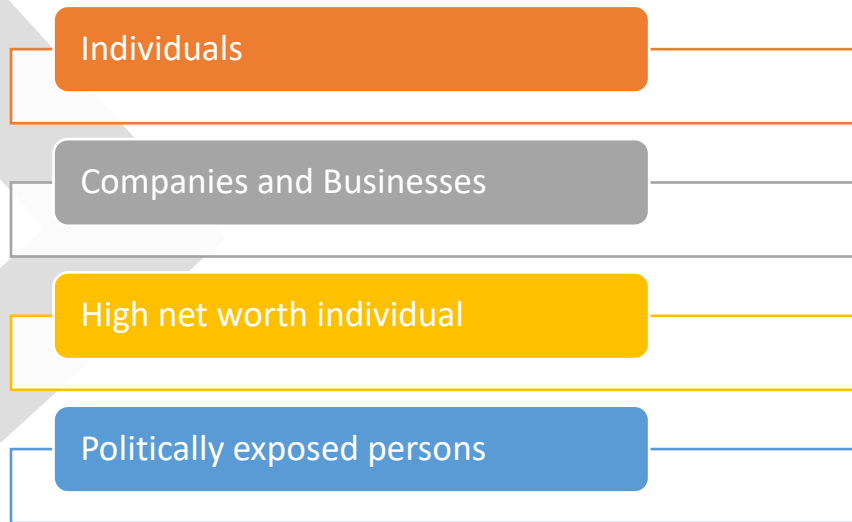


## Nature of Clientele

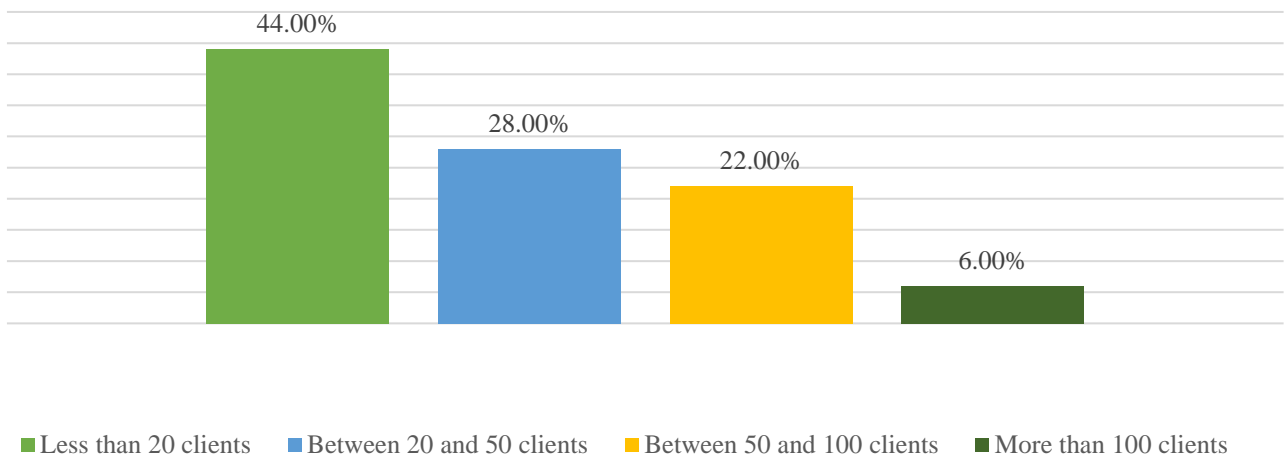
**MEDIUM**

The majority of real estate transactions result in one off customer relationships. The relationships are usually direct, but in some instances the co-broking process is used which is where the real estate agent uses another real estate agent to market properties and source potential purchasers.

Real estate agents interact with various categories of clients, such as:



**Average Size of Client Portfolio**



The previous graph illustrates the average size of the real estate agents' client portfolio. 44% of those surveyed have less than twenty (20) clients, while those with more than one hundred (100) clients, account for 6% of the sector.

Most clients finance the purchase of real estate using a mortgage obtained from a local financial institution. CDD is performed by the real estate agent in addition to the financial institution. The probability of real estate agents encountering clients seeking to purchase transactions with cash (inclusive of cheque or wire transfer) is usually minimal. In instances where the purchase is self-financed such as through the use of personal savings or the sale of shares in a company, the agent still conducts customer due diligence procedures to confirm that the source of funds is legitimate.

With a better understanding of the nature of the clientele and the processes used by agents in their customer relationships, this category was downgraded from the high-risk rating it received in 2019 to a risk rating of medium in 2024.



## Geographic Reach

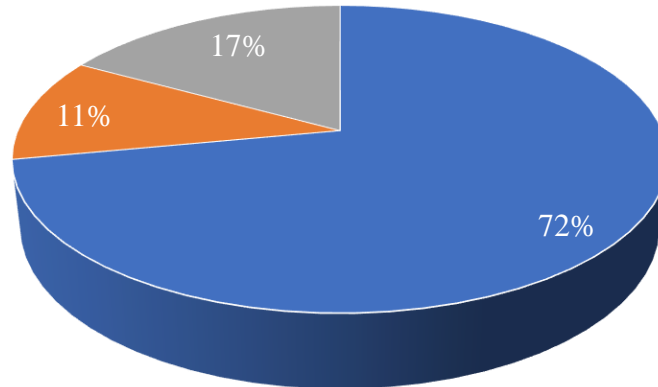
**MEDIUM**

Majority of the activities within this sector are conducted on a domestic level. Activities which are conducted regionally and/or internationally, or which involve countries of concern, constitute a relatively small volume of the overall business activities for the sector. However, the aforementioned activities are not conducted on an ongoing and regular basis.

The real estate agents sector services both local and foreign clients. 72% of the sector stated their customer base is mainly local clients; 11% stated their customer base consists of mainly foreign clients; and 17% stated their client base is a mixed balance of local and foreign clients as the chart below indicates.

**Real Estate Agents Geographic Reach**

- Mainly Local Clients
- Mainly Foreign Clients
- Mixed Balance of Local and Foreign Clients



In Barbados, there is no restriction in the real estate market as to who can purchase property which is listed for sale. Therefore, any prospective customer from high-risk jurisdictions can purchase property which is listed for sale. However, based on both on-site and off-site examinations conducted, it was noted that there are rare occurrences of customers from high-risk jurisdictions purchasing substantial real estate in Barbados. With this information emanating from the examinations, this category received a risk rating of medium in 2024. An improvement from the high risk rating it received in 2019.



## Delivery Channels

**MEDIUM**

Delivery channels may be face to face or non-face to face for individuals and business relationships. As they interact directly with their clients, no transactions are conducted with intermediaries which indicates there is no complexity with their delivery channels. Due to this information, this category's risk rating went from high in 2019 to medium in 2024.

## Glossary

AML/CFT/CPF	Anti-Money Laundering/Combating Financing of Terrorism/Countering Proliferation Financing
BO	Beneficial Ownership
CDD	Customer Due Diligence
CTSPs	Corporate Trust Service Providers
DNFBPs	Designated Non-Financial Businesses and Professionals
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
KYC	Know Your Customer/Client
LEAs	Law Enforcement Agencies
LPA	Legal Profession Act 1972-35
ML	Money Laundering
MLFTA	Money Laundering and Financing of Terrorism Act (Prevention and Control) Act 2011-23
PEPs	Politically Exposed Persons
PF	Proliferation Financing
SRA	Sectoral Risk Assessment
STR	Suspicious Transaction Reports
TF	Terrorism Financing
UBO	Ultimate Beneficial Owner



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