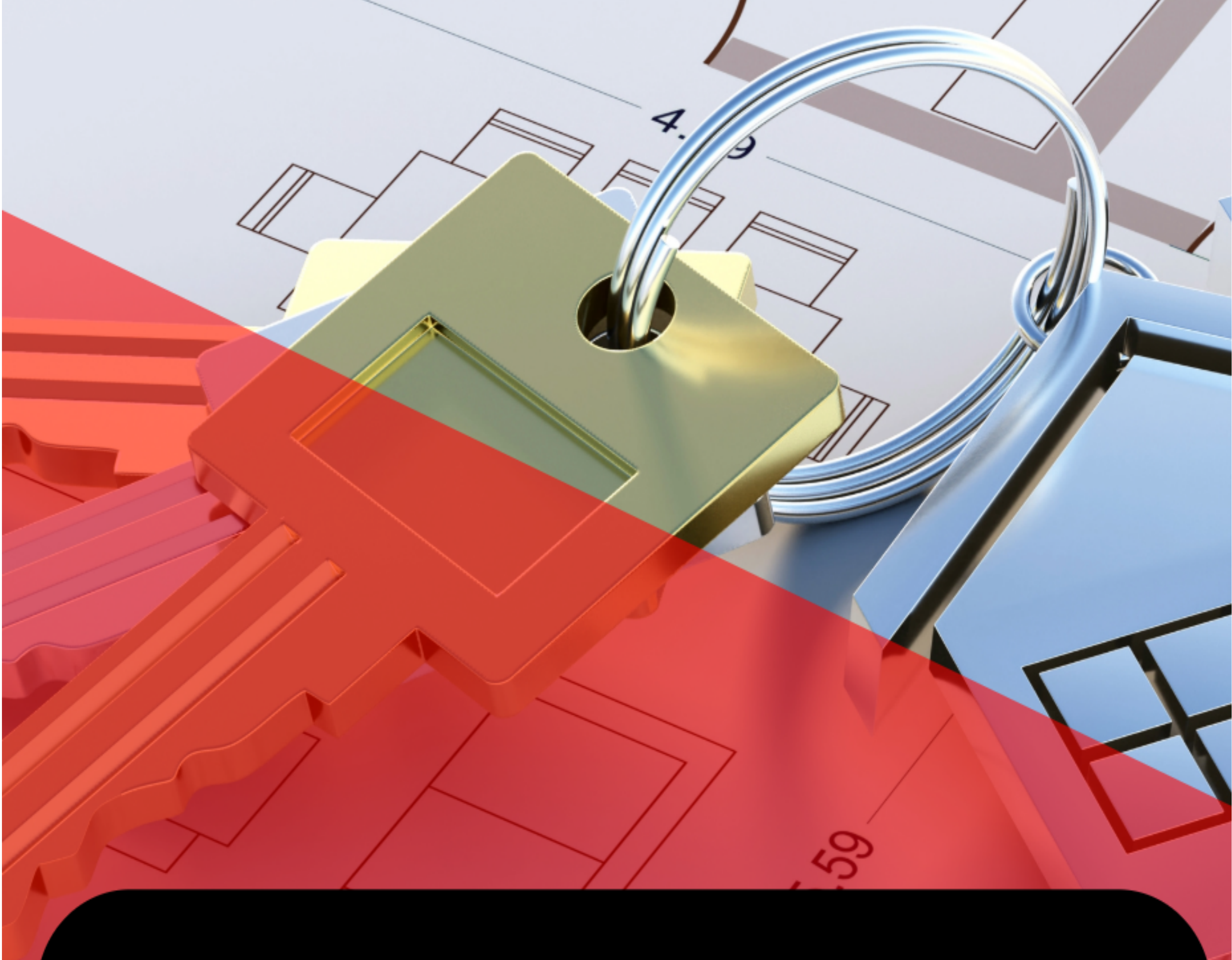
Economic and Financial Crimes Commission



Assessment of the Money Laundering and Terrorist Financing Risks in Nigeria's Real Estate Sector

TABLE OF CONTENTS

ABBREVIATIONS

CTR	Currency Transaction Report
DNFBPs	Designated Non-Financial Businesses and Professions
EFCC	Economic and Financial Crimes Commission
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IMBLN	Institute of Mortgage Brokers and Lenders of Nigeria
LASRERA	Lagos State Real Estate Regulatory Authority
ML(PP)A	Money Laundering (Prevention and Prohibition) Act 2022
NFIU	Nigerian Financial Intelligence Unit
NIESV	Nigerian Institute of Estate Surveyors and Valuers
NIRA	National Inherent Risk Assessment
REDAN	Real Estate Developers Association of Nigeria
SCUML	Special Control Unit Against Money Laundering
SROs	Self-Regulatory Organisations
STR	Suspicious Transaction Report
T(PP)A	Terrorism (Prevention and Prohibition) Act 2022
UBO	Ultimate Beneficial Owner

1 EXECUTIVE SUMMARY

The Real Estate sector plays a significant role in Nigeria's economy, contributing approximately 6.5% to the country's GDP in 2023. The size of the Nigerian Real Estate market is estimated at over $20 billion, making it an attractive target for illicit financial activities. Despite the huge contributions, the sector has been classified as high-risk for ML/TF based on the National Inherent Risk Assessment (NIRA) conducted by the Nigerian government. The Real Estate sector in Nigeria has become increasingly vulnerable to Money Laundering and Terrorist Financing (ML/TF) activities.

The sectoral risk assessment for the real estate sector was conducted to determine the key vulnerabilities within the Real Estate industry, to identify the level of the Money laundering/terrorist financing risks at the different segments of the sector in Nigeria (residential, commercial and hospitality) as well as develop an empirical basis for risk categorization of operators within the sector, which will ultimately inform a risk-based supervision approach that will lead to efficient allocation of resources amongst others. The assessment covered the period 2021-2023 and examined activities of real estate agents and agencies, estate developments and developers, estate surveyors and valuers, etc. The assessment did not focus much on legal practitioners as a legal sector risk assessment will be conducted separately.

The report used a survey instrument to collect primary data from different stakeholders, while secondary data was collected from published reports such as the National Residual Risk Assessment Report (2022), the National Inherent Risk Assessment of Money Laundering and Terrorism Financing (2022), Money Laundering and Terrorist Financing (ML/TF) typologies reports, and other international guidance documents.

The survey instrument was distributed to 300 real estate operators and stakeholders across the six geo political zones of the country, a total of 243 questionnaires were fully completed and returned. The questionnaires were analyzed using simple percentages.

The assessment revealed that geographical risk is rated medium high due to very low exposure to cross border transactions and very marginal connection to high-risk jurisdictions. The assessment also showed that products offered by real estate operators are predominantly residential property services, with 63% engaged in the development and sale of residential properties and 58% in the sale/purchase of residential land. Real estate operators perceived development and sale of commercial property to be of 'very high risk' (28%) of ML/TF, while that of residential property as only 'high risk' (36%). Other services are generally perceived as medium to low risk.

The overall transaction and channel risk assessment for the real estate sector is classified as Low, while the overall client/customer risk assessment for the real estate sector is classified as Medium-High. This is driven by poor client profile maintenance amongst real estate operators and inadequate categorization of their client risk profiles.

The assessment also examined some typologies and case studies involving the real estate sector which indicated that proceeds of drug trafficking, fraud and corruption, politically exposed persons as well as use of legal persons are used to acquire properties.

The overall risk rating for the real sectoral risk assessment is Medium-High with contributory factors such as client risk as medium high, transaction and channel risk as low risk, geographic risk as medium high and the risk mitigation is rated as medium.

Overall Risk Rating for the Real Estate Sector

Key Contributing Factors	Risk Level	Aggregate Risk Rating
Client Risk	Medium-High	**Medium-High Risk**
Transaction and Channel Risk	Low	
Geographic Risk	Medium-High	
Risk Mitigation	Medium	

The report recommended that real estate professionals should strengthen internal policies, procedures and controls, and appropriate screening and investigations to ensure high standards when hiring professionals that need to perform AML/CFT duties and be trained on the complexity of their responsibilities, also strengthen collaboration between countries, financial institutions, and regulatory authorities for detecting and preventing money laundering activities that exploit the real estate market for illicit purposes.

1.1 INTRODUCTION

The real estate sector remains a very strong and powerful investment globally, it drives employment generation and creation of sustainable jobs, and has the great potential of growing the economy of any nation. Nigeria is one of the most populous countries with over 230 million people in the world, and the fourth largest economy in Africa with a gross domestic product of $252 billion[1] this growth has put immense pressure on the housing infrastructural needs of the country which includes real estate products and services.

Real estate sector can have a big impact on Nigeria's urbanization and economic development and contribute to the housing industry's greater stability.

In the fourth quarter of 2023, Nigeria's Gross Domestic Product stood at 21.77 trillion Nigerian naira (NGN), with the real estate sector which made a considerable contribution to Nigeria's gross domestic product (GDP) ,It contributed 6.06% to real GDP in Q4 2023, lower than the 6.18% it recorded in the corresponding quarter of 2022. Moreover, Nigeria has one of the largest GDPs in Africa.[2] The real estate sector also has the capacity to attract foreign direct investment (FDI) which injects capital inflows into the country, promotes economic expansion, and makes it easier to transfer technologies.[3]

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[1] https://businessday.ng/news/article/africas-gdp-giants-top-10-largest-economies-of-2024-imf/

[2] Nigerian Gross Domestic Product Report Q3, 2023

[3] https://businessday.ng/opinion/article/the-role-of-real-estate-investment-in-nigerias-economic-recovery/#:~:text=Real%20estate%20can%20have%20a,inflationary%20or%20depressed%20economic%20period.

Abuse of the real estate sector (property in the form of land or buildings) has long been described as one of the oldest known ways to launder ill-gotten gains. Real estate is as attractive to criminals as it is to any investor (prices being generally stable and likely to appreciate over time) and is also functional (the property can be used as a second home or rented out, generating income). Real estate also provides a veneer of respectability, legitimacy and normality. This applies to both residential and commercial properties as part of a reliable and profitable investment strategy. Money laundering through real estate transactions integrates black funds into the legal economy while providing a safe investment. It allows criminals to enjoy assets and derived funds having camouflaged the origin of the money used for payment[4].

Conversely, it is said that the link between real estate and money laundering is a global phenomenon. Property investments allow criminals to add legitimacy during the layering process and normalize their ill-gotten wealth. The real estate sector is attractive to criminals due to its profitability, including the appreciation of housing over time, re-sale value after renovations and income generated from rents. In recent years, the use of the real estate sector for money laundering has increased significantly.[5]

1.2 OBJECTIVES

The primary objective of this sector's risk assessment is to determine the vulnerabilities of the real estate sector in relation to the types of products and services offered in the sector, the type of clientele that are involved, the geography/location of the various products and services, the delivery channels that are used in the entirety of the transactions and other linked

[4] https://www.europarl.europa.eu/cmsdata/161094/7%20-%2001%20EPRS_Understanding%20money%20laundering%20through%20real%20estate%20transactions.pdf
[5] https://www.acamstoday.org/wp-content/uploads/2015/05/AT_v11_n4.pdf

integrated sectors. These will further expose the techniques, methods and mechanisms for laundering the proceeds of crime through the sector.

The specific objectives of the sectoral risk assessment are as follows:

1. To identify specific risk factors in the sector i.e., Product/Service risks, Customer Risk, Delivery Channel Risk and Geographical Risk.
2. To identify the level of the Money laundering/terrorist financing risks at the different segments of the sector in Nigeria (residential, commercial and hospitality).
3. To develop an empirical basis for risk categorization of operators within the sector, which will ultimately inform a risk-based supervision approach that will lead to efficient allocation of resources.
4. Identify the techniques and methods used by criminals to launder money through the real estate sector;
5. Raise awareness of the fact that the lack of real estate regulations for operators in Nigeria can be a significant barrier to investment in the country.

1.3 SCOPE OF THE ASSESSMENT

The risk assessment will cover a broad spectrum of activities and actors within the real estate industry. It will include real estate agents and agencies, estate developments and developers, estate surveyors and valuers, etc. The assessment will also cover various subcategories of the sector, including residential, commercial, and hospitality real estate developments, also ancillary industry actors such as construction companies linked to real estate.

The assessment will not focus much on legal practitioners as a legal sector risk assessment will be conducted separately. The period of the assessment covers 2021 - 2023.

1.4 METHODOLOGY

The assessment covered the inherent risk in the real estate sector as well as the controls for mitigating the risks.

The primary data was sourced through a survey instrument specifically for the real estate sector, with a focus on firms and operators. Other relevant actors in the real estate space were also surveyed, including Self-Regulatory Organizations (SROs), which are mainly governing associations for sector operators, as well as Regulators and Supervisors, comprising public agencies with oversight on money laundering and terrorist financing issues. Additionally, the assessment incorporates statistics from the NFIU and secondary data and information sourced from published literature, such as the National Residual Risk Assessment Report (2022), the National Inherent Risk Assessment of Money Laundering and Terrorism Financing (2022), Money Laundering and Terrorist Financing (ML/TF) typologies reports, and other international guidance documents.

Risk Categorization

From the qualitative and quantitative data analysis, the assessment adopted a four-scale risk categorization approach comprising: High (H), Medium-High (MH), Medium (M) and Low (L) risk levels. For each type of risk assessment for geographic, client, transaction and channel, and controls and mitigation, key contributing factors are identified and assigned risk levels. Based on the risk levels specified, a risk rating is then assigned.

Risk Levels and Colour Codes

Risk Level	Colour Code
High	
Medium-High	
Medium	
Low	

2.1 OVERVIEW OF LAWS/REGULATIONS AND REGULATORY BODIES FOR REAL ESTATE SECTOR IN NIGERIA

Land administration in Nigeria is governed by the Land Use Act (1978), which vests powers on the state governors to hold land/property in trust on behalf of its citizens. It is worthy to note even though there are no robust overarching legislation, there are disparate legislation governing activities of real estate developers, estate agents and brokers. However, there are disparate legislation that regulates activities of real estate professionals and other competent authorities as well as self-regulatory organizations.

2.1.1 LAGOS STATE REAL ESTATE REGULATORY AUTHORITY

In Nigeria, the sub-national governments have powers to legislate activities of land and related properties in their states. Lagos State is considered as the commercial nerve center in Nigeria, also described as the cultural, financial, and entertainment capital of Africa, with a significant influence on commerce, entertainment, technology, education, politics, tourism, art, and fashion, thus resulting in high demand of goods and affordable homes. It has a housing deficit of approximately 30 million units. [6]

Accordingly, Lagos State Government enacted the Lagos State Estate Agency Regulatory Law, Cap L28, Laws of Lagos State, 2015 ("Law") presently in operation in the State. It provides for the establishment of the **Lagos State Real Estate Regulatory Authority**. The Law is to regulate real estate transactions by identifying persons eligible to be licensed as Real Estate Practitioners and provides for the issuance or renewal of annual permits, as well as collating and registering Real Estate transactions in the State. Specifically, the Authority has the responsibility for maintaining a register of Licensed Real Estate Practitioners and sanctioning of unlicensed Estate Agents in the State. In its bid to sanitize and promote transparency, the State must keep a database of persons

[6] https://businessday.ng/life-arts/article/why-lagos-remains-the-21st-century-real-estate-hub/

dealing in Real Estate transactions, regulate and monitor the activities of all Practitioners. Thus, the State must ensure strict compliance and adherence to the law in its efforts to protect its citizens and rid the State of unethical practices in the Sector.[7]

2.1.2 NIGERIAN INSTITUTION OF ESTATE SURVEYORS AND VALUERS (NIESV)

The Nigerian Institution of Estate Surveyors and Valuers (NIESV) is a non-profit, voluntary, professional organization set up in 1969 to cater for the interest of the landed profession in Nigeria. The Institution was accorded official recognition six years later by the promulgation of the Estate Surveyors and Valuers Registration Act (see laws of Nigeria 1990. Volume 7. Chapter iii) which is more popularly known as Decree Number 24 of 1975 (Now CAP. E13 LFN 2004). The legislation establishes the Estate Surveyors and Valuers Registration Board of Nigeria (ESVARBON) as the regulatory body for the profession.

2.1.3 INSTITUTE OF MORTGAGE BROKERS AND LENDERS OF NIGERIA (IMBLN)

The Institute of Mortgage Brokers and Lenders of Nigeria (IMBLN) is the regulatory body for all Mortgage professionals and Real Estate Practices in Nigeria established by law of the Federation following the passing of the institution of Mortgage Brokers and Lenders Establishment Act, 2022. The institution is charged with the responsibility of ensuring that the competence and conduct of practice of all Mortgage professionals and Real Estate Practitioners in Nigeria are of a sufficiently high standard to ensure professionalism in the industry.[8]

[7] https://lasrera.lagosstate.gov.ng/about.jsp

[8] Imbl.org.ng

2.1.4 REAL ESTATE DEVELOPERS ASSOCIATION OF NIGERIA (REDAN)

The Real Estate Developers Association of Nigeria (REDAN) is the principal self-regulatory organization (SRO) comprising of public and private sector responsible for housing development in Nigeria, having been conferred with official recognition by the Federal Government of Nigeria since November 2002. REDAN collaborates and cooperates with other institutions and organizations in the Housing and Real Estate Development Industry. It works in close concert with the Federal Ministry Power, Works and Housing; which has since assigned a fully functional desk for REDAN activities.

2.2 OVERVIEW OF LEGAL FRAMEWORK FOR ANTI MONEY LAUNDERING/COUNTERING FINANCING OF TERRORISM (AML/CFT)

Dealers in real estate, estate developers, estate agents and brokers are part of the Designated Non-Financial Businesses and Professions (DNFBPs) which is regulated by the Special Control Unit Against Money Laundering (SCUML) using the underlisted legal framework:

1. Money Laundering (Prevention and Prohibition) Act, 2022
2. Terrorism (Prevention and Prohibition) Act, 2022
3. Economic and Financial Crimes Commission (Anti-Money Laundering, Combating the Financing of Terrorism and Countering Proliferation Financing of Weapons of Mass Destruction for Designated Non-Financial Businesses and Professions, and Other Related Matters) Regulations, 2022
4. Nigerian Financial Intelligence Unit Act, 2018

2.3 SUPERVISION OF THE REAL ESTATE SECTOR IN NIGERIA

In Nigeria, Designated Non-Financial Businesses and Professions (DNFBPs) are regulated and supervised by the Special Control Unit against Money Laundering (SCUML) in compliance with the Money Laundering (Prevention and Prohibition) Act, 2022 (MLPPA, 2022). These Businesses and professions which includes dealers in real estate, estate developers, estate agents and brokers [9] play a vital role as they boost economic activities in both the formal and informal sectors of the economy.

2.3.1 FUNCTIONS OF SCUML

SCUML is a department in the Economic and Financial Crimes Commission (EFCC)[10] charged with the following responsibilities:

[9] S.30 Money Laundering and Prevention Act,2022
[10] S.17 Money Laundering and Prevention Act,2022

1. register and certify designated non-financial businesses and professions in accordance with the provisions of MLPPA, 2022 relevant laws and applicable regulations;
2. monitor and supervise designated non-financial businesses and professions in accordance with the provisions of MLPPA, 2022, relevant laws and applicable regulations;
3. take necessary enforcement actions to ensure compliance with this Act, relevant laws and applicable regulations;
4. conduct off-site, on-site, and on the spot checks, inspection of designated non-financial businesses and professions for the purposes of money laundering control and supervision;
5. establish and maintain a comprehensive database of designated non-financial businesses and professions;
6. receive cash-based transaction reports and currency transaction reports from designated non-financial businesses and professions in accordance with the provisions of MLPPA, 2022;
7. sensitize designated non-financial businesses and professions regarding their responsibilities under MLPPA, 2022; and
8. perform other function necessary to fulfil its responsibilities under this Act or any other relevant laws and applicable regulations.

2.4 CTR REPORTING BY REAL ESTATE OPERATORS

Section 6 of Money Laundering Prevention and Prohibition Act, 2022 (MLPPA, 2022), requires DNFBPs which includes dealers in real estate, estate developers, estate agents and brokers to register with SCUML, while Section 11 MLPPA, 2022 requires DNFBPs to render threshold currency transaction reports (CTR) to SCUML.

It is important to mention that, for the purposes of our data, dealers in real estate**, estate developers, estate agents and brokers as well as estate Surveyors and valuers** are grouped together and referred to as "dealers in real estate". Information from SCUML revealed that in the period under review

2021-2023 a total of 6,408 real estate dealers have been registered. Find details in table 1 below:

Table 1: Registration of Real Estate Dealers

YEAR	REGISTRATION
2021	1518
2022	1854
2023	3036
TOTAL	**6408**

2.5 CURRENCY TRANSACTION REPORTS AND NIL REPORT FILINGS

SCUML data revealed that a total of 95,286DNFBPS have been filed as well as nil reports of 2,622.

Table 2: No of CTRs Filed by Real Estate Dealers between 2021 - 2023

YEAR	CTRS FILED	NIL REPORTS FILED
2021	40,569	425
2022	20,311	219
2023	34,406	1978
TOTAL	95,286	2622

2.6 STR FILINGS ON REAL ESTATE SUBMITTED BY BANKS BETWEEN 2021 - 2023

Data received from NFIU revealed that a total of two thousand seven hundred and twenty-one (2,721) suspicious transaction reports have been filed by banks involving the real estate sector, using keyword searches.

Table 3: No of STRs Reported by Banks involving the Real Estate Sector between 2021 – 2023

YEAR	NO. OF STR FILED
2021	781
2022	699
2023	1,241
TOTAL	2,721

ON SITE EXAMINATION

Between the 4th Quarter of 2023 and February, 2024, SCUML conducted a total of 203 onsite examinations within the real estate sector out of which 113 and 73 entities are in the high and medium risk categories respectively.

ADMINISTRATIVE SANCTIONS

Following the enactment of the Money Laundering (Prevention and Prohibition) Act, 2022 and the Economic and Financial Crimes Commission (Anti-Money Laundering, Combating the Financing of Terrorism for Designated Non-Financial Businesses and Professions, and Other Related Matters) Regulations,2022 that empowered the Special Control Unit Against Money Laundering (SCUML) to issue administrative sanctions to DNFBPs with varying degrees of infractions

SCUML has issued various types of sanctions to real estate operators as shown in table 4

Table 4: Administrative Sanctions to Real Estate Operators

TYPES OF SANCTION	2022	2023	2024
WARNING LETTERS	5	12	31
MONETARY FINES	-	25	34
VALUE OF MONETARY FINES	-	**N28,300,000**	**N41,000,000**
NON-COMPLIANCE STICKERS	-	2	-

3.0. THE MONEY LAUNDERING RISKS ASSOCIATED WITH REAL ESTATE

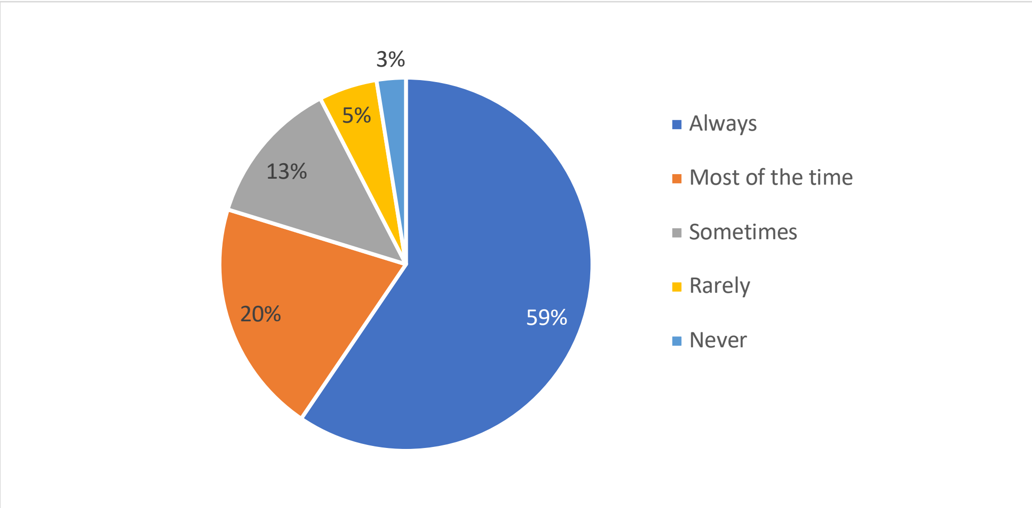
According to the National Inherent Risk Assessment 2022, (NIRA, 2022), the real estate sector in Nigeria is highly exposed to activities of unlicensed operators due to weak entry controls, particularly at the real estate agency and development subsector of the industry. By virtue of Land Use Act, there are limitations to foreigners owning landed properties in Nigeria. However, there are procedures to be followed for foreigners to acquire interest in land in Nigeria. Real estate transactions are conducted mainly through banks, and even though Nigeria is largely a cash-based economy, few cash transactions feature in real estate transactions. Money laundering vulnerabilities are present particularly in the high end, luxurious properties many of which are unoccupied in highbrow areas of Federal Capital Territory (FCT) and Lagos.

There is also the use of third parties (family members or proxies) and corporate vehicles for the purchase of real estate. Transactions in real estate can also be conducted without passing through lawyers or via banks, although this is not the norm.

Although a lot of real estate transactions are done using financial institutions (FIs) which are largely supervised for anti-money laundering/countering the financing of terrorism (AML/CFT) obligations, the use of third party, cash, lawyers and insufficient information on the Ultimate Beneficial Owner (UBO) in the real estate sector encourages anonymity in some of the transactions within the sector. Property sales are sometimes consummated using a power of attorney and as such not registered in the land's registry, and the UBO data is not captured at the land registry. Transactions in real estate are usually between a willing buyer and a willing seller. We have no major foot prints of real estate transactions consummated using cryptocurrencies although this is possible via wallet-to-wallet transactions. However, during an investigation involving a bitcoin investment scam in 2021, EFCC discovered that the suspect purchased a piece of land using bitcoin from XX, a real estate project by the

X group. There is also the prevalent use of structured cash payment given that the economy in itself is largely cash based.[11]

Figure 1: New Client Risk Assessment by Real Estate Firms



The chart above derived from an analysis of responses from real estate operators revealed that 59% of real estate firms always conduct money laundering/terrorist financing (ML/TF) risk assessments when onboarding new clients, demonstrating strong adherence to compliance practices. However, the remaining firms, particularly the 20% that conduct assessments most of the time and the 13% that do so sometimes, highlight areas where practices could be more consistent. The 5% of firms that rarely and 3% that never conduct these assessments are at significant risk of facilitating ML/TF activities due to insufficient initial due diligence. Understanding the frequency of ML/TF risk assessments during client onboarding helps in identifying gaps and improving compliance programs, ensuring all firms consistently apply robust risk assessment practices to mitigate potential ML/TF risks effectively.

[11] https://www.nfiu.gov.ng/NiraReports

3.1 ANALYSIS OF RISKS IN THE REAL ESTATE SECTOR

This section of the report details the findings from the quantitative analysis of the samples of suspicious transaction reports (STRs) analyzed by the NFIU, the analysis from onsite examinations conducted by SCUML within the years under review and a survey of operators in the real estate sector to support an assessment of the risk of money laundering and terrorist financing through real estate operations in Nigeria.

Overall Risk Assessment

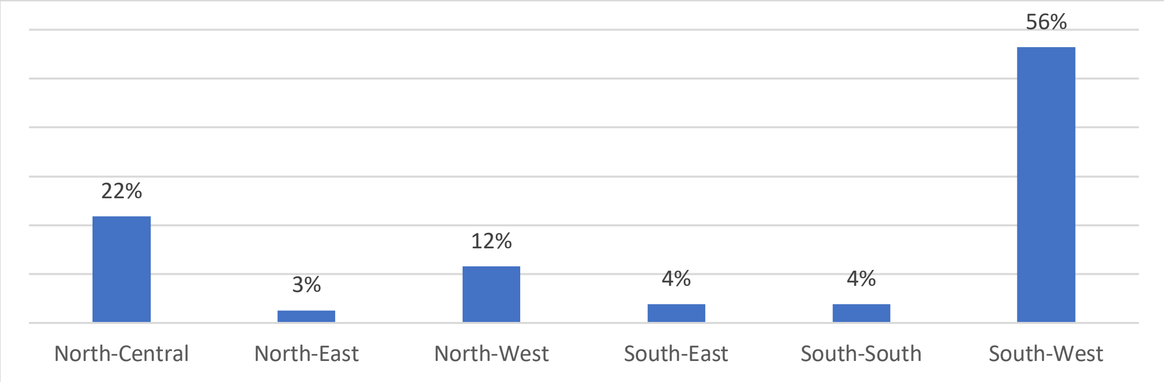
The assessment determined the overall ML/TF risk of the real estate sector to be Medium-High Risk.

Key Contributing Factors	Risk Level	Aggregate Risk Rating
Client Risk	Medium-High	**Medium-High Risk**
Transaction and Channel Risk	Low	
Geographic Risk	Medium-High	
Risk Mitigation	Medium	

3.1.1 Geographical Risk

Results from the survey analysis by SCUML revealed that formal real estate operations primarily occur in the South-West and North-Central regions. 56% of real estate firms in Nigeria primarily operate in the South-West region while 22% are based in the North-Central region, with both regions accounting for 78% of real estate activities. This is followed by the North-West with 12%. This concentration in the South-West and North-Central region highlights the need for focused risk management strategies tailored to this areas' specific challenges. See Figure 3.2 below:

Figure 2: Operations of Real Estate Firms in Nigeria



Also results from the survey revealed, that 88% of real estate firms in Nigeria do not engage in transactions with foreign jurisdictions, indicating a strong domestic focus. The 12% of firms that do engage in international transactions must navigate additional complexities and risks associated with cross-border activities. Majority of international transactions for real estate firms originate from Western Europe (50%), followed by Sub-Saharan Africa (25%), and both Middle-East and North Africa, and Central and Eastern Europe (13% each). See Figure 3.3 below:

Figure 3: Transactions with Foreign Jurisdictions

Figure 3.3a: Engagement with Foreign Jurisdictions

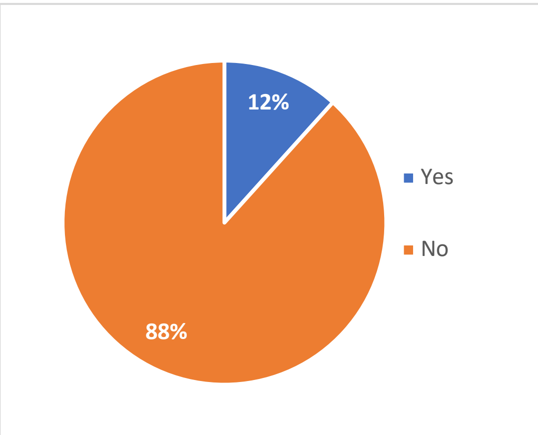
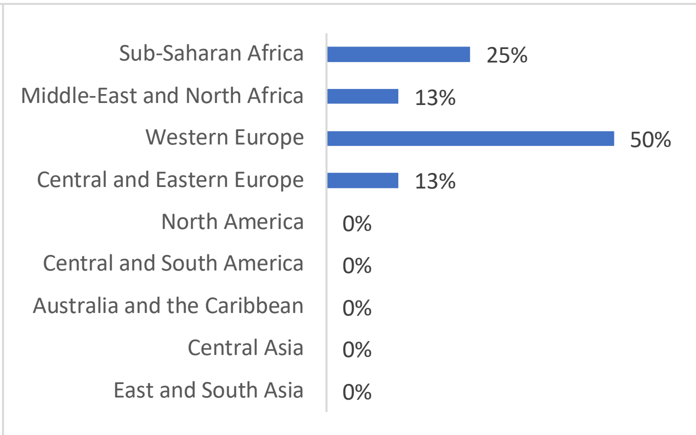


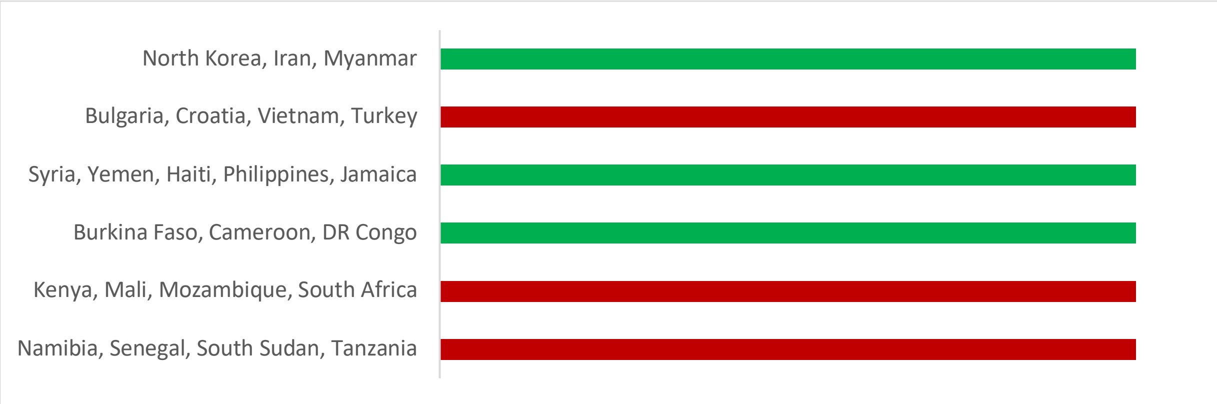
Figure 3.3b: Origin of Transactions with Foreign Jurisdictions



In addition to strong domestic focus, the operations of real estate firms in Nigeria also has very limited exposure to high risk international jurisdictions.

Figure 4 indicates that over the period of interest, there were no real estate transactions originating from any FAFT black-listed countries and only marginal connection with grey-listed jurisdictions.

Figure 4: Country Origin of International Transactions



Key: Green – No transaction | Red – At least 1 transaction

With respect to verification of geographical origin of high-value domestic transactions, the survey results indicate that although there is a relatively high level of compliance (60% say they do), it is concerning that 40% say they do not undertake any form of verification (see Figure 5a). This may require further engagement and sensitization of operators on geographic risks in real estate transactions. Further, Figure 3.5b suggests that such transactions mostly originate from urban centres, where high commercial and public sector activities could be used to mask transactions.

Figure 5a: Geographic origin verification of high-value domestic transactions

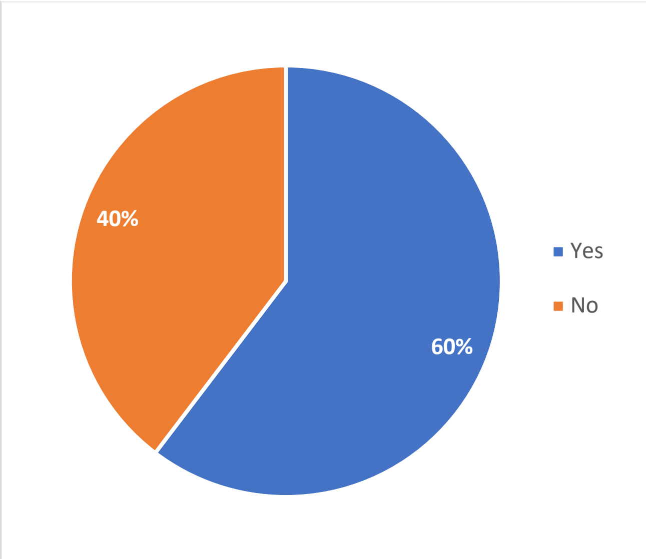
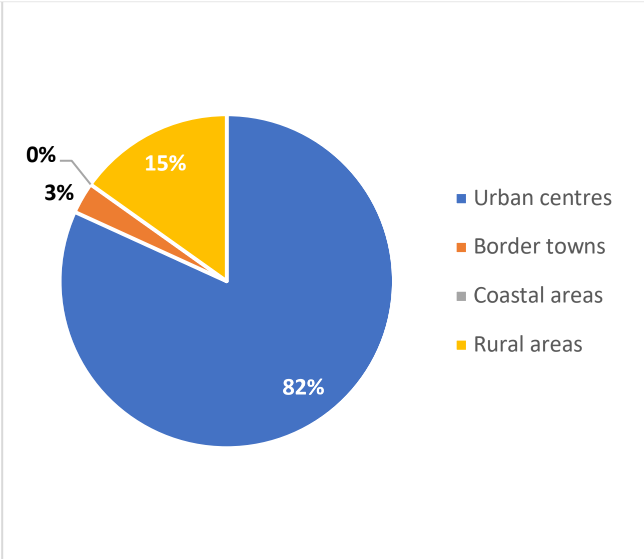
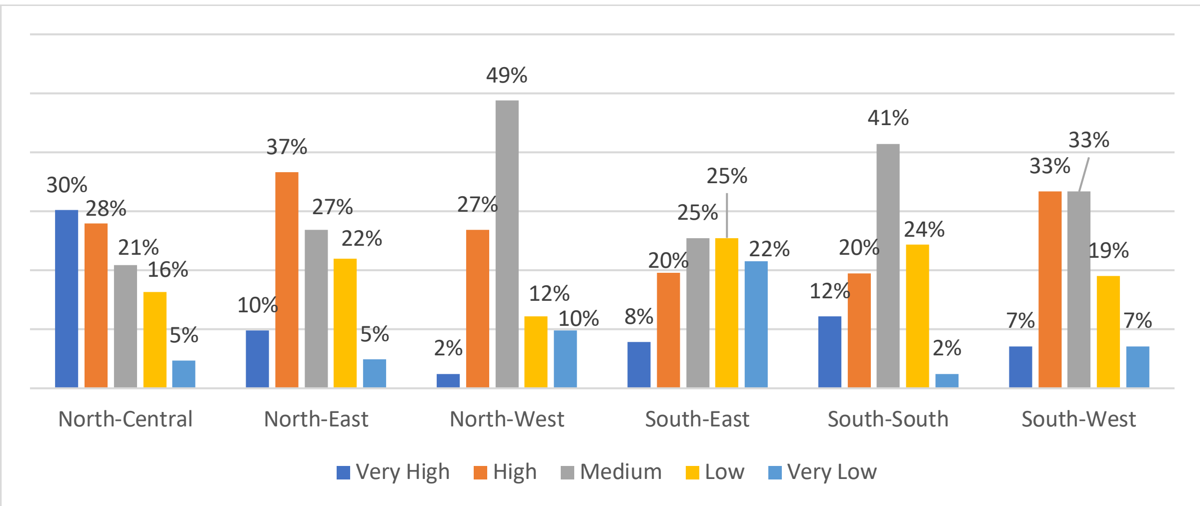


Figure 5b: Primary origins of domestic high-value payments



Furthermore, the survey analysis revealed varying perceptions of ML/TF risk across different regions in Nigeria. The North-East, South-West, and North-Central regions are perceived as having the highest risks, which should necessitate enhanced compliance measures. The North-West and South-South regions have significant perceptions of medium risk, while the South-East is viewed more optimistically with higher perceptions of low risk. See Figure 6 below:

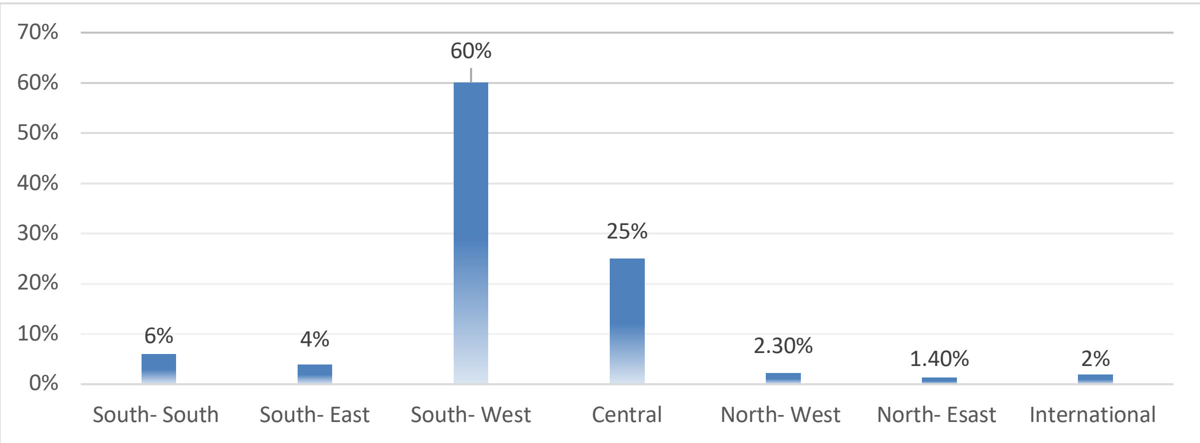
Figure 6: Regional Perception of ML/TF Risks in Real Estate



A sample report on the analysis from the onsite examination conducted by SCUML revealed most of the real estate operators have completed or have ongoing projects in major cities such as Abuja and Lagos, which are in the North-Central and South-West regions respectively, and is an indication that the higher risk perceptions may be due to the higher levels of real estate activities in the regions.

Following the STR analysis by the NFIU, majority of real estate companies 60% operate in the South-West, followed by 25% in the North Central by a far lower margin, with only 2% having international presence as seen in Figure 7 below:

Figure 7: Regional Concentration of Real Estate Activities



Source: NFIU (2023)

Overall Geographic Risk Assessment

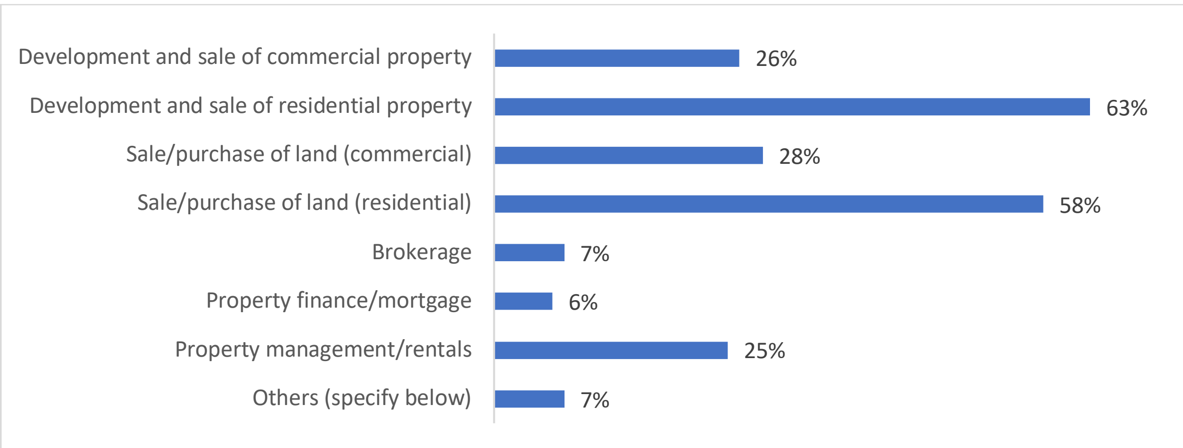
The overall geographic risk assessment for the real estate sector is classified as **Medium-High**. While the real estate sector in Nigeria has very low exposure to cross border transactions and very marginal connection to high-risk jurisdictions, there is significant exposure to money laundering and terrorist financing from the non-verification of origins of domestic high value transaction. The risk is further heightened given that most of such transactions involves individual client types.

Key Contributing Factors	Risk Status	Risk Rating
Cross-border exposure		**Medium-High Risk**
Exposure to high-risk jurisdictions		
Origin of high value domestic funds		
Client type in high value transactions		
Regional risk perceptions		

3.1.2 Product Type Risk

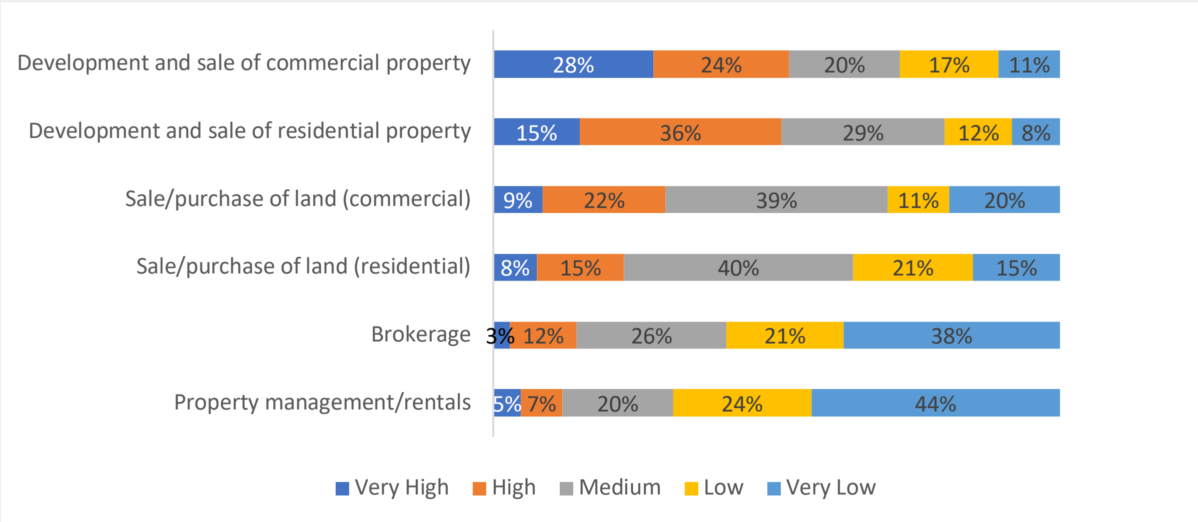
Results from the survey analysis by SCUML revealed that that real estate firms predominantly offer residential property services, with 63% engaged in the development and sale of residential properties and 58% in the sale/purchase of residential land. Other significant services include commercial property development (26%) and property management/rentals (25%). The diverse range of services highlights the need for tailored compliance measures to manage the specific risks associated with each service type. See Figure 8 below:

Figure 8: Product and Service Offerings



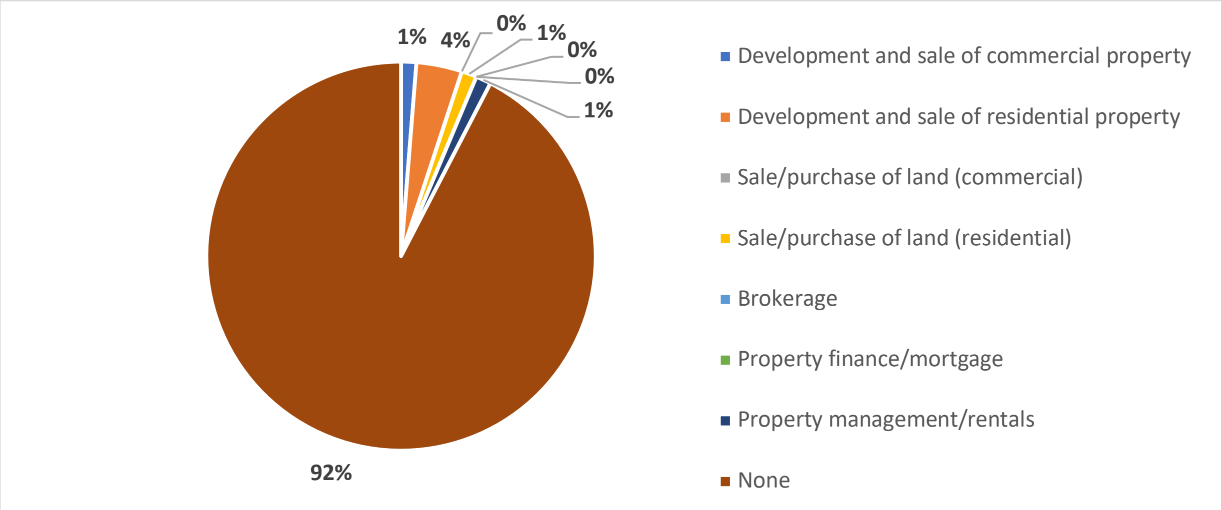
Also, the survey inferred ranking of products and services according to their vulnerability to ML/TF provides a valuable framework for real estate firms to prioritize their AML compliance efforts. Real estate operators perceived development and sale of commercial property to be of 'very high risk' (28%) of ML/TF, while that of residential property as only 'high risk' (36%). Other services are generally perceived as medium to low risk. It is interesting to note the difference in risk perceptions for develop and undeveloped (land) commercial and residential properties. Operators generally perceive developed properties to carry higher risk. This offers opportunity to tailor monitoring and compliance measures to these product categories. See Figure 9 below:

Figure 9: Risk Perception by Product and Service



Furthermore, the survey indicates that 92% of real estate firms have not had their products or services implicated in Money Laundering/Terrorist Financing (ML/TF) investigations over the past five years. This is an indication strong compliance practices across the sector. However, a small proportion of firms have faced investigative issue. Figure 10 indicates that with respect to development and sale of residential property, 4% of real estate operators have been investigated in the last five years. This also aligns with the perception of high risk with respect to developed residential property.

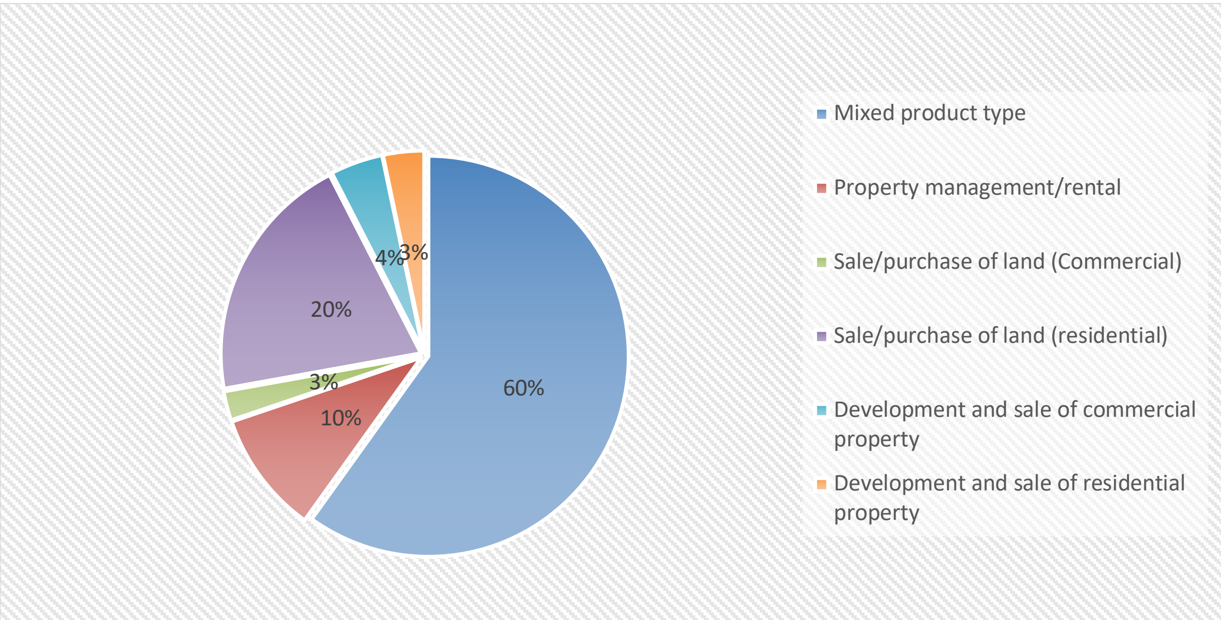
Figure 10: Products and Services Implicated in ML/TF Investigations



Additionally, the onsite examinations revealed that most agencies deal in residential properties as opposed to commercial or hospitality.

Following the STR analysis by the NFIU, 60% were Mixed product type, 20% were sale/purchase of the land (residential), 10% were property management/rental, 4% were Development and sale of commercial property, 3% Development and sale of residential property, and 3% sale/purchase of the land (commercial) as seen in figure 11 below:

Figure 11: Real Estate Product and Services from STR Report Analysis

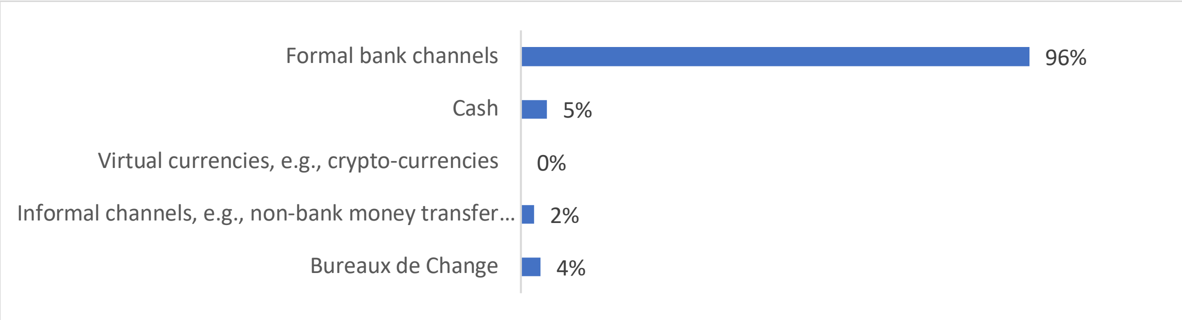


Source: NFIU 2022

3.1.3 Payment Channels Risk

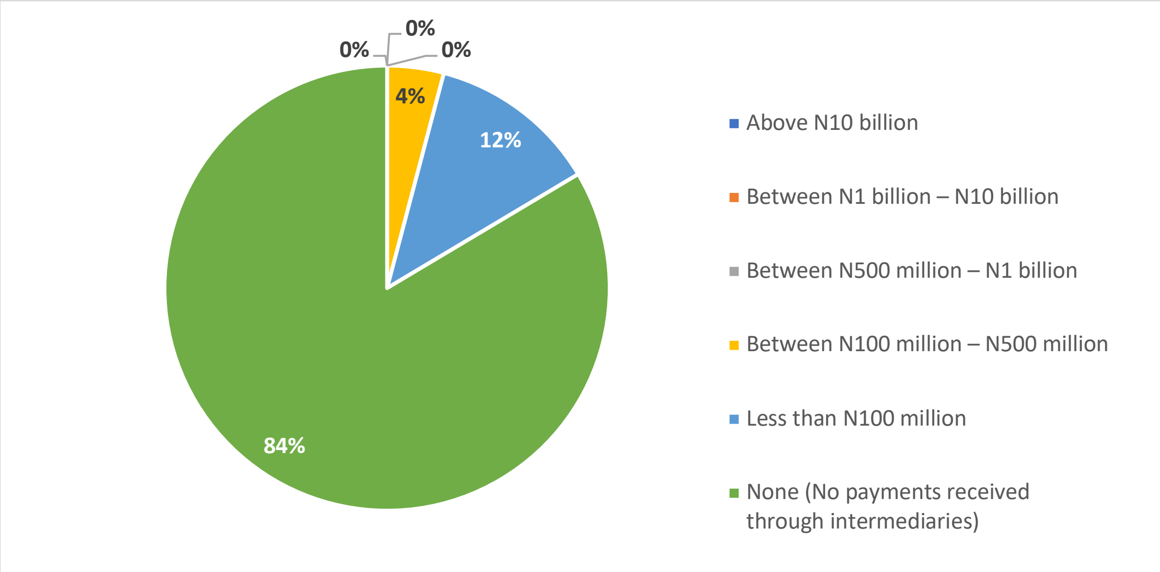
Results from the survey analysis by SCUML revealed, 96% of real estate firms receive payments through formal bank channels, indicating strong compliance with financial regulations and reduced ML/TF risks. The limited use of cash (5%), informal channels (2%), and Bureau de Change (4%) suggests lower reliance on high-risk payment methods, although these still require careful monitoring. The absence of virtual currencies (0%) further reduces potential ML/TF risks as indicated in Figure 12.

Figure 12: Payments Channels in Real Estate Transactions



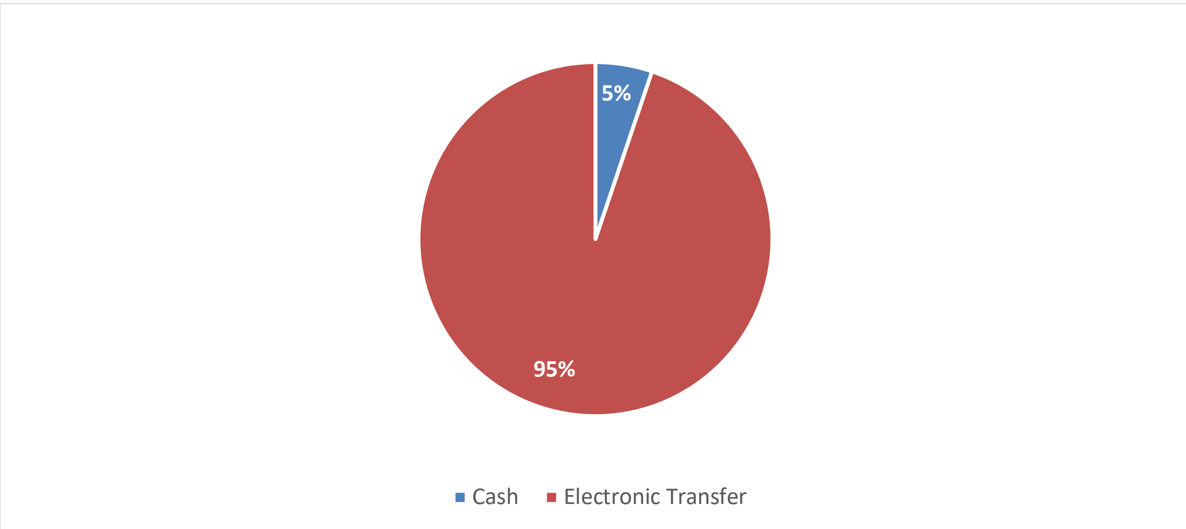
Furthermore, the survey revealed that 84% of real estate firms do not receive any payments through intermediary sources, indicating strong compliance with financial regulations and reduced ML/TF risks. It should be noted, however, that this does not completely address UBO issues. For the 12% of firms that have received payments through intermediaries, the financial volume is relatively low (less than N100 million), with only 4% receiving between N100 million and N500 million. See Figure 13.

Figure 13: Volume of Payments Received through Intermediaries



To corroborate the above, the onsite examination showed most real estate agencies transact through electronic transfers and bank payments as opposed to cash. Following the STR analysis by the NFIU, 95% of STRs analyzed were Electronic Transfers while 5% were Cash based transactions as seen in Figure 14.

Figure 14: Percentage of Real Estate STRs by Channel (2021-2023



Source: NFIU 2024

Overall Transaction and Channel Risk Assessment

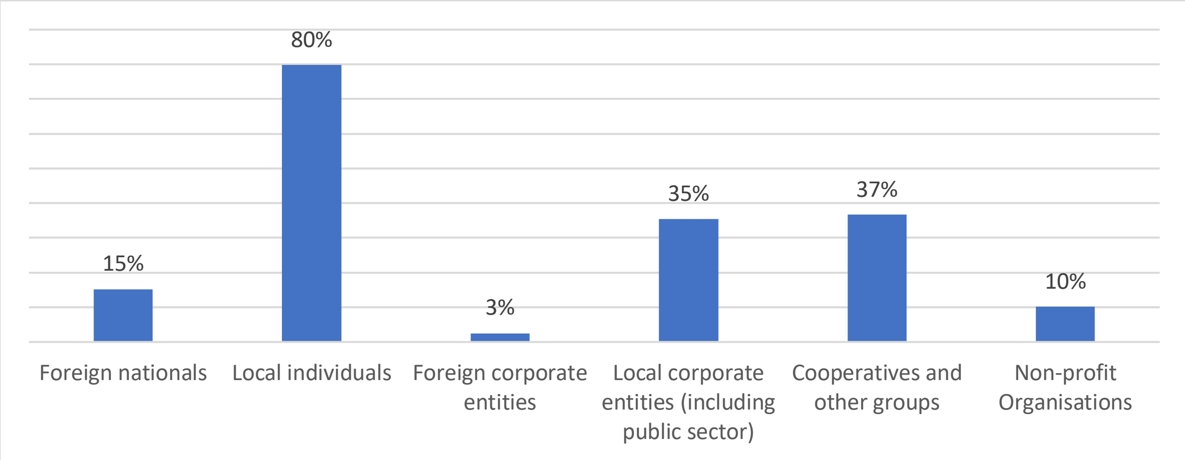
The overall transaction and channel risk assessment for the real estate sector is classified as **Low**. Long standing financial regulations restricting transaction above certain limits to bank transfers have resulted in the use of formal bank channels for most transactions above such limits, including in real estate. In addition, many real estate operators are mainly involved in residential property development where sale and purchase transactions have low complexity. The product range in the sector is limited further reducing the risk of money laundering and terrorist financing through transactions and channels.

Key Contributing Factors	Risk Status	Risk Rating
Limited product range		**Low Risk**
Prior product implication in ML/TF		
Payment channels		
Transaction complexity		
Payments through intermediary sources/ channels		

3.1.4 Client Type Risk

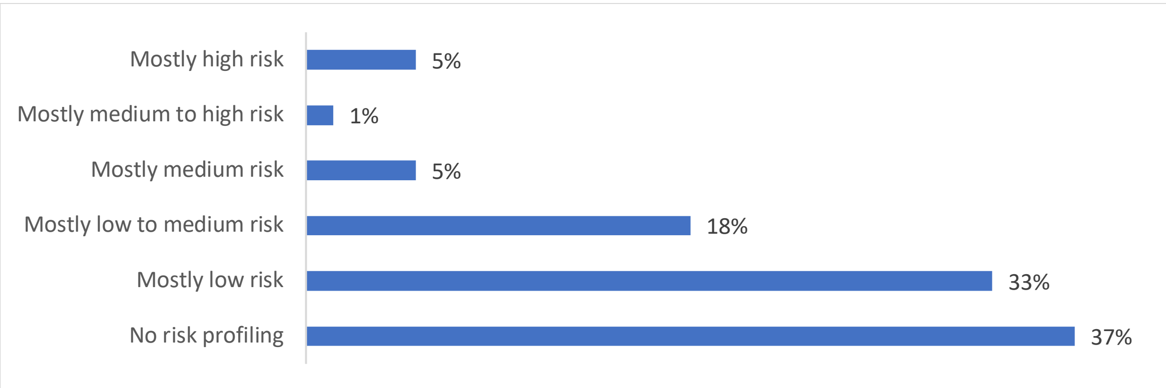
Results from the survey analysis by SCUML revealed that real estate businesses primarily serve local individuals (80%), indicating a strong focus on the domestic market. However, the client base some diversity, including cooperatives (37%), local corporate entities (35%), and non-profits (10%). The presence of foreign clients (15% 0foreign nationals and 3% foreign corporate entities) introduces additional ML/TF risks that require enhanced due diligence and compliance efforts. See Figure 15.

Figure 15: Client Types Served by Real Estate Operators in Nigeria



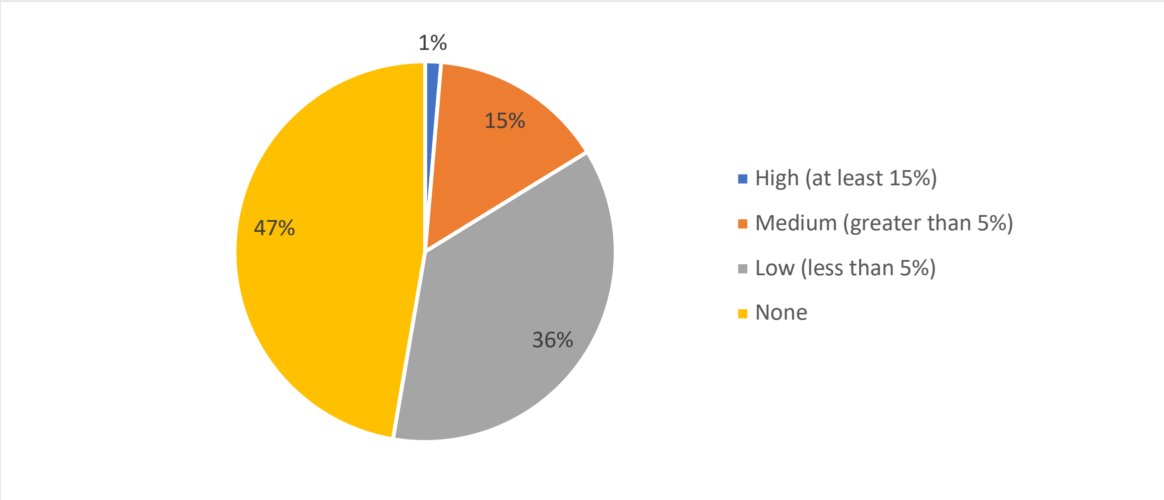
With respect to risk profiling of clients (Figure 16), the survey analysis revealed that 37% of real estate firms do not perform any ML/TF risk profiling of their clients, indicating a significant gap in their risk management practices. The remaining firms categorize their clients into various risk levels, with 33% considering their clients' mostly low risk. Effective risk categorization is crucial for implementing targeted AML measures and managing potential ML/TF risks.

Figure 16: Client Risk Profile of Real Estate Operators



Furthermore, the survey analysis revealed that 47% of real estate firms have no PEPs amongst their clients, while 36% have a low proportion, and smaller percentages have medium (15%) and high (1%) proportions of PEPs as shown in Figure 17. While a high number indicates that there are no PEPs in the client base, this may be an indication of challenges not having a comprehensive database for effective PEP identification and classification within the sector.

Figure 17: Proportion of PEPs in Client Base of Real Estate Operators



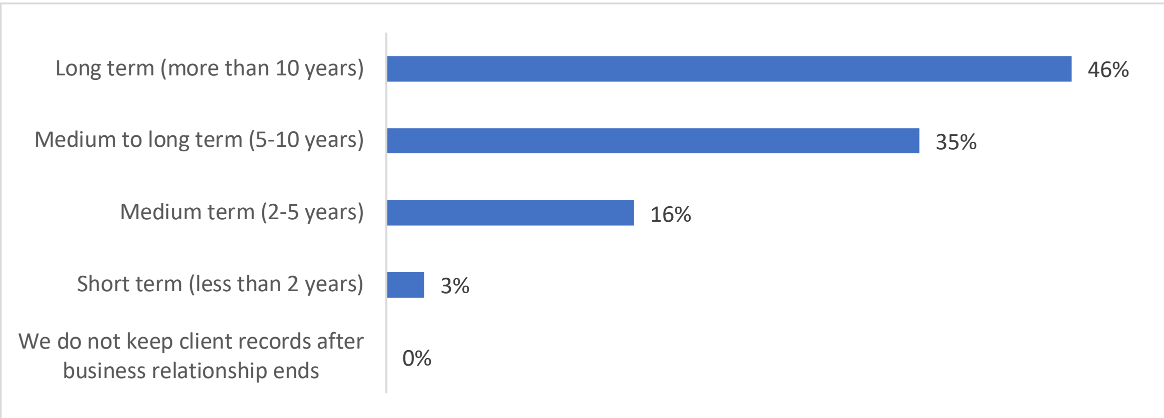
The onsite examination by SCUML revealed among other things, poor implementation of PEP due diligence. In particular, many were found to lack a mechanism for carrying out PEP identification and application of commensurate due diligence. In this regard, 87 real estate operators were sanctioned for not having a documented AML/CFT/CPF policy manual that include a procedure for PEP identification, due diligence, and reporting. Understanding the proportion of PEPs among clientele helps firms tailor their compliance programs to address the specific risks associated with PEPs, ensuring comprehensive risk management across the sector.

It is however pertinent to note that PEPs from Nigeria have been reported to be involved in real estate transactions in foreign jurisdictions leading to Nigeria being ranked fifth amongst countries with the most PEPs involvement in real estate money laundering schemes in the United States, according to an American think-tank, Global Financial Integrity which focuses on illicit financial flows, corruption, illicit trade and money laundering in a report tilted: "Acres Of Money Laundering: Why American Real Estate Companies are the Dream of the Kleptocracy[12]."

[12] https://hedang.org/nigeria-ranked-5th-in-property-and-money-laundering-as-diezani-leads-the-ring/#:~:text=Nigeria%20has%20been%20ranked%20ranks,trade%20and%20money%20laundering%20in

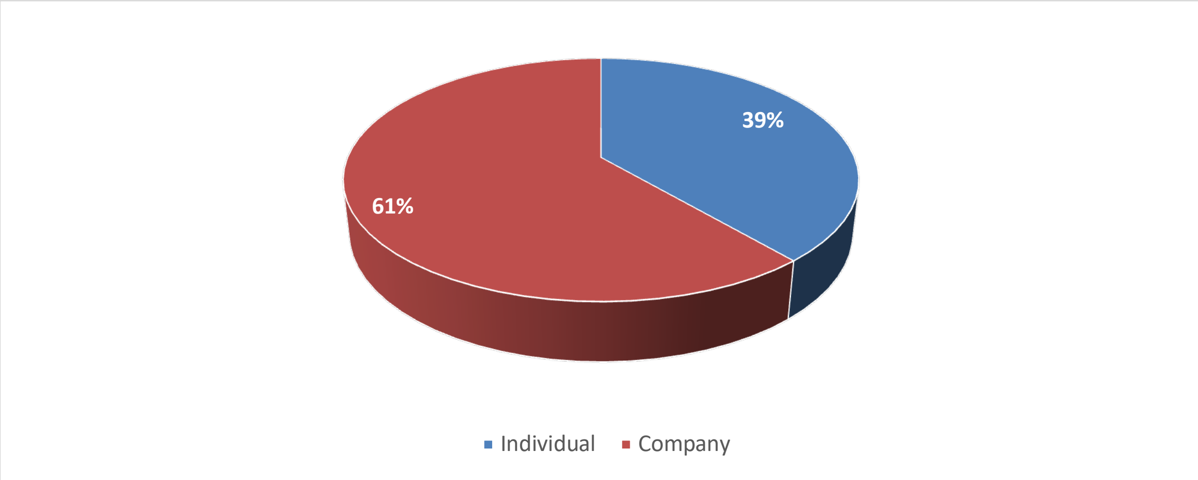
From Figure 18 on client records, the survey analysis revealed a significant majority of real estate firms prioritize long-term retention of client records, with 46% keeping records for more than 10 years and 35% for 5-10 years. This practice supports compliance with regulatory requirements and enhances the firms' ability to manage and mitigate ML/TF risks over time. A smaller percentage (16%) retain records for 2-5 years, while only 3% keep records for less than 2 years. Understanding the retention period of client records helps firms develop robust policies that ensure compliance and effective risk management, contributing to the overall integrity and security of the real estate sector.

Figure 18: Duration of Client Records Held



Following the STR analysis by the NFIU, 212 were extracted from goAML for the Real Estate sector, which revealed that 61% were Individual transactions while 39% were Company types as seen in the chart below:

Figure 19: Percentage of Client Type for STRs for Real Estate (2021-2023)



Overall Client Risk Assessment

The overall client/customer risk assessment for the real estate sector is classified as **Medium-High**. This is driven by poor client profile maintenance amongst real estate operators and inadequate categorization of their client risk profiles. This is confirmed from case studies in ML typologies that reveal various client types laundering the proceeds of crime in the real estate sector. Differences between survey responses and findings from onsite examinations which indicate inadequate maintenance of AML policies documents further heightens client risk. The risk is however tempered by the fact most operators engage primarily with local individuals and maintain ongoing client relationships in the client base.

Key Contributing Factors	Risk Status	Risk Rating
Predominantly local individual clientele		**Medium-High Risk**
Significant ongoing relationships		
Client profile review and update		
Exposure to PEPs		
Beneficial ownership checks		
Record-keeping		

3.1.4 Integrated sector risk

Following the STR analysis by the NFIU and the onsite examinations, the banking sector was shown to be largely linked with the real estate sector as against all other sectors.

3.1.5 Terrorist Financing risk

The onsite examinations showed increasing number of real estate firms registering on the Nigerian Sanctions Committee (NSC) alert system and subject their transactions to targeted financial sanctions screening on the United Nations and Nigerian sanctions list.

Out of the 64 entities that were sanctioned in the Q1 2024 for not implementing targeted financial sanction for various categories of persons, 60 have taken appropriate remedial actions and are now fully compliant.

Findings from the 2023 typologies report of TF in Nigeria revealed renewed investment drive by terrorists specifically the Islamic State of West Africa Province (ISWAP) in the real estate sector. This follows the directive of the Head of province of ISWAP on the need for financial independence of IS-Province through boosting locally generated revenue amidst paucity of funds at the center. This directive translates to aggressive investment by the group in real estate, landed properties and farm houses. The motive is to create a legitimate front for the group where illicit funds will be laundered undetected[13].

[13] https://www.nfiu.gov.ng/AdvisoryAndGuidance?filePath=C%3A%5CNFIU%5Cwwwroot%5Cdocuments%5C2_YMK8AC&fileName=Typologies%20Report%20on%20Terrorism%20Financing%20in%20Nigeria%20-%20December%202023&handler=DownloadFile page 17

4.0 ML/TF INDICATORS IN THE REAL ESTATE SECTOR AND CASE STUDIES

The following are some useful indicators of ML/TF in the real estate sector:

General Indicators
• Client sells property below market value with an additional "under the table" payment offer. • Client purchases property without viewing it. • Client is known to have paid large remodelling or home improvement invoices with cash, on a property for which property management services are provided. • Client buys back a property that he or she recently sold.

- Frequent change of ownership of same property, particularly between related or acquainted parties.
- If a property is re-sold shortly after purchase at a significantly different purchase price, without corresponding changes in market values in the same area.

Client Behaviour - Natural Persons (Individuals) and/or Legal Persons (e.g. Companies, Businesses, Trusts, Foundations, Societies and Cooperatives)

- Client is traced to negative news or crime (e.g. he is named in a news report on a crime committed.)
- Client appears hesitant or declines to put his name on any document that would connect him with the property.
- Client uses different names on Offers to Purchase, closing documents and deposit receipts.
- Client purchases property in the name of a nominee such as an associate or a relative (other than a spouse), or on behalf of minors or incapacitated persons or other persons who lack the economic capacity to carry out such purchases.
- Client attempts to hide the identity of the true client or requests that the transaction be structured to hide the identity of the true client.
- Client provides an address that is unknown, believed to be false, or simply a correspondence address.
- Client inadequately explains the last-minute substitution of the purchasing party's name.
- Client (buyer) takes on a debt significantly higher than the value of the property.
- Client appears unconcerned about the economic or investment value of the property he is purchasing.
- Client purchases property without inspecting it.

- Client purchases multiple properties in a short time period, and seems to have few concerns about the location, condition and anticipated repair costs, etc., of each property.
- Client queries about the AML/CFT reporting requirements.
- Buyer is a shell company and representatives of the company refuse to disclose the identity of the true owners.
- Client is a recently created legal entity and the amount of the transaction is large compared to their assets.
- Client's known business activity and purpose does not match the real estate transaction. For example, the client is a non-profit organisation but the property is purchased for investment and the client intends to have a large loan.

Transaction Patterns

- Client arrives at a real estate closing or makes a real estate purchase with a significant amount of cash, or negotiable instruments which do not state the true payer (e.g. bank drafts).
- Client pays substantial down payment in cash and the balance is financed by an unusual source or offshore bank.
- Client pays rent or the amount of a lease in advance using a large amount of cash.
- Transaction is entered into at a value significantly different (much higher or much lower) from the real or market value of the property.
- Property is sold in a series of successive transactions; with each transaction at a significantly higher or lower price than a recent market price. In particular, if the transactions were conducted between the same parties.
- Transaction uses unusual or unnecessarily complex legal structures without any economic logic.
- Transactions in the form of a private contract, where there is no intention to notarise the contract, or where this intention is expressed but does not finally take place.

- Transactions which are not completed, in seeming disregard of a contract clause penalising the buyer with loss of the deposit if the sale does not go ahead.
- Transactions relating to the same property or rights that follow in rapid succession (e.g. purchase and immediate sale of property) and which entail a significant increase or decrease in the price compared with the purchase price.
- Transactions entered into at a value significantly different (much higher or much lower) from the real value of the property or differing markedly from market values.
- Recording of the sale of a building plot followed by the recording of the declaration of a completely finished new building at the location at an interval less than the minimum time needed to complete the construction, bearing in mind its characteristics.
- Recording of the declaration of a completed new building by a non-resident legal person having no permanent domicile, indicating that the construction work was completed at that person's own expense without any subcontracting or supply of materials.

TYPOLOGIES AND CASE STUDIES INVOLVING REAL ESTATE

Case studies found in typologies report and advisories on ML in Nigeria reveal the extensive use of the real estate sector in laundering the proceeds of crime.

Typology 1 - Use of Real Estate in Laundering Proceeds of Drug Trafficking

Case Study 1 - Use of Foreign Drug Trafficking

In 2023, Mr. AB was caught and arrested with 10kgs of cocaine which he imported into Nigeria from Brazil. During interrogation, he confessed that one Mr AI (the Baron) was the owner of the drugs and was the person who sponsored his trip. Mr AI was subsequently arrested after about one and half years of surveillance. In the course of the surveillance, investigations carried out before his arrest revealed that 13

properties in different locations within Lagos were traced to him. The investigation revealed the properties were proceeds from his illicit drug business.
He was charged to court and convicted.

Case Study 2 - Use of Drug Proceeds to acquire Real Estate

The NDLEA investigated a case which involved a drug baron commonly referred to as Mr. HPS who was arrested in Lagos, Nigeria. Mr. HPS owns a lot of landed properties, despite not having any legitimate means of income. It was also discovered that he used real estate agents to acquire the properties which are listed in the names of members of his family. As part of the investigative process, it was also discovered that he used cash for the settlement of the purchase prices.

Case Study 3 - Use of Drug Mules to acquire Real Estate

Madam R.A was arrested at the Nnamdi Azikiwe International Airport, Abuja on suspicion of having ingested some wraps of narcotic substances. Enquiry on where she got the drugs from revealed that she was sponsored by Chief XY, a notorious and volatile drug baron who is in control of illicit drug trade in Lagos. Chief XY was traced and arrested.
Investigation further revealed that Chief XY had several landed properties in Lagos and several bank accounts. He acquired some of the properties in the name of some individuals to cover up his drug and money laundering activities.

Typology 2 – Use of Real Estate to Launder Proceeds from Corruption

Case Study 4 - Corruption and Fraud Using Real Estate[14]

In 2021, Mr XD of the Joint Admission and Matriculation Board (JAMB) was arraigned at the Federal High Court, Abuja by the Independent Corrupt Practices and Other Related Offences Commission (ICPC) for involvement in N5.2 billion fraud. He committed the fraud while holding government position as the Registrar of JAMB and National Examinations Council (NECO).

[14] https://www.nfiu.gov.ng/AdvisoryAndGuidance?filePath=C%3A%5CNFIU%5Cwwwroot%5Cdocuments%5CAoKapciN_GU8QPB&fileName=Advisory%20on%20Kleptocracy%20and%20public%20corruption%20in%20Nigeria&handler=DownloadFile

The Commission filed an 18-count charge against Mr XD for allegedly diverting N5.2 billion from the two agencies.

In the course of the trial, a witness Mr BP was called by the judge to explain his role as a private solicitor to Mr XD. The witness told the court how he incorporated several companies and bought properties for Mr XD.

Some of the properties were bought in the name of the witness' law firm in Abuja, Lagos, and Ghana, to hide the identity and ownership. He also told the court that Mr XD used multiple aliases and other fronts including his children to hide buildings, hotels schools, and private shares in companies while in office. Mr BP said one of Mr XD's children who was a front is a serving member of the House of Representatives. He further told the court that 577,500 units of shares in KDU Microfinance Bank at the cost of one naira per ordinary share were acquired for the accused, besides properties bought in the name of his younger brother, Alhaji KER and JUQ Ltd. He put the share capital of the bank at N70 million.

Mr BP in his submission said even though Mr XD didn't appear as a director/shareholder in many of the documents tendered, all the names were supplied by him. Mr BP said he was paid through several bank drafts issued by one Dr RT on behalf of Mr XD.

Case Study 5 - Laundering of Funds Through PEP Related Accounts

The FIU received an STR from Bank XYZ on Account A, belonging to Company A which involved the receipt of funds amounting to the sum of N40,217,653.85 from X State government account as payment for architectural work carried out. Mr. BB (an architect) and Mr. CC are the signatories to Account A and the directors of Company A. Out of the total funds received, 84.69% was sent to individual accounts the next day.

The reported deposit though in line with Mr. BB's line of work was carried out without any documents to support stated purpose of funds and the pattern of outflows did not match the stated purpose.

Further analysis of Account A revealed a transfer from an internal account in Bank ABC with no economic justification provided and a transfer to a real estate developer. Mr. BB's personal account however revealed inflows from companies linked to family members of X State's Governor. These companies were also the beneficiaries of funds from various X State government accounts similar to those reported in Account A. The subject receiving state government funds either directly or via proxy by means of PEPs indicated possibilities of government funds being laundered by Mr. BB.

Case Study 6 - Ex-Nigerian oil minister embezzles US$1.5 billion and invests in U.S. Real Estate[15]

NX, a former Nigerian Minister of Petroleum Resources, and her business associates VK and PT acquired vast quantities of Nigerian crude oil that were then sold to third party oil trading companies. Through this scheme, NX and her coconspirators acquired over US$1.5 billion in profits that were then laundered into real estate, yachts, aircrafts and jewellery. In a 2017 forfeiture complaint, the DOJ sought the forfeiture of US$144 million in assets, including two condos in Manhattan, two properties in California, properties in London and an US$80 million luxury yacht acquired by VK in 2012. These numbers did not include the 80 properties Madueke had also acquired in Nigeria. NK used a series of corporations and LLCs to acquire the properties. To hide the source of the payments, VK wired to the money first to a property management company, which in turn wired the money to the title insurance company. In another instance, when VK tried to acquire a property in New York, the bank of the title insurance company declined the transaction. VK then wired the money directly to the developer of the property. Nearly all of the properties were acquired utilizing the services of various lawyers that acted as registering agents for the companies.

Typology 3 – Use of the Real Estate Sector to Launder Proceeds from Fraud

Case Study 7 - Laundering the Proceeds of Employment Fraud in the Real Estate Sector

A petition was written by one Mr A against Mrs V wherein the complainant paid the sum of $300,000.00USD in cash to the suspect sometime in June, 2022 to facilitate his appointment as the Managing Director of a government agency. Investigation

[15] https://gfintegrity.org/report/acres-of-money-laundering-why-u-s-real-estate-is-a-kleptocrats-dream/

revealed that from the sum of $300,000.00USD received by the suspect, N88,000,000.00 (approx. $116,244.81) was used to purchase a Four Bedroom Duplex located in Abuja. The suspect also purchased two vehicles (Toyota Hilux and Toyota Venza 2020 Model) from an auto dealer located at Central Business District, Abuja in the sum of N20,000,000.00 each. (approx. $26,419.27). The implication of this revelation is that the money collected by the suspect was laundered through a Bureau De Change operator. That she used the Bureau De Change operator to pay for the said property and the vehicles. In the course of the investigation, the proceeds of crime i.e., the Four Bedroom Duplex and the two vehicles which are; Toyota Hilux and Toyota Venza 2020 Model were recovered from the suspect.

Case Study 8 - Laundering the Proceeds of Procurement Fraud in the Real Estate Sector

The EFCC received an anonymous tip on the activities of a Cotton Association, some agricultural mechanization companies and some Prime Anchors of the Central Bank of Nigeria's Agric Programme to cotton farmers across the Country. It was alleged that some of the individuals successfully processed CBN loan through a commercial bank, using fake collaterals which was enabled by a staff of the bank. Investigations conducted revealed that the Prime Anchors obtained the loan in connivance with one Mrs T who is the Head of Agriculture Business in the Commercial Bank which received the over N2,000,000,000 (approx., $2,641,927.65) from the Central Bank for the benefit of the cotton farmers. Investigation revealed that Mrs T facilitated loan application for eleven customers by providing acceptable third-party collaterals at a fee which is paid upon disbursement of the loan to the farmers. Investigations also revealed that all the collateral documents supplied were fake and did not emanate from the Land Authority. A compromised staff of the land authority enabled the shenanigan while the bank relied on all the fake documents and search reports to disburse loans to (11) customers.

Investigation further revealed that Mrs T purchased three-bedroom terrace costing N79,769,000.00 (approx. $105,371.96), purchased stocks costing N95,000,000.00 (approx. $125,491.56) with her commission from the transactions that she facilitated. The younger brother of Mrs T also enabled the laundering of proceeds of this crime as he utilised some proceeds for renovation and furnishing of Mrs T's home property in Abuja while another sibling invested a portion of the proceed, using his own investment company. Proceeds of crime were also laundered using various corporate bodies home and abroad i.e., Dubai, Grenada. The suspect also used some corporate bodies, using the proceeds of her crime, to acquire Grenada Citizenship23 for herself and her son, having invested in the Country. All funds linked to the suspect were traced and recovery of the proceeds of crime is ongoing. Interim Forfeiture Court Order has been gotten for one of the properties in Abuja as well as her Shares and Dividends. Monetary recoveries of $100,000 have also been made and the case is being prepared for prosecution.

Case Study 9 - Use of Legal Person to Launder Proceeds from Fraud through the Real Estate Sector[16]

Mrs. B, a Director of a private hospital offering Anti Retroviral Treatment (ART) to mothers and their children manipulated the procurement and payment systems of the hospital. The hospital received periodic donations from external donors for operations and upkeep. Mrs. B and her husband, Mr. B caused an account to be opened with a bank in a neighboring state in the name of a company incorporated in the neighbouring state. Mr. B was a Director in this company. In paying for supplies delivered to the hospital, Mrs. B submitted the account of her husband's company in the neighbouring state and huge amounts were indeed electronically transferred into this account.

Using the funds from the hospital, the company bought a mansion in one of the affluent areas in the neighbouring state and expensive cars. The property has since been seized through Mutual Legal Assistance Agreements between the two countries and the case is still before the courts.

5.0

[16] https://www.esaamlg.org/reports/TYPOLOGIES-REPORT-ON-ML-THROUGH-THE-REAL-ESTATE-SECTOR..pdf

5.1 RISK MITIGATION

5.1 Regulatory Environment

5.1.1 Declaration of Business Activities to SCUML

Dealers in Real Estate are covered in Nigeria as Real Estate Agents, Persons engaged in development and sales of real estate and Estate brokers. By virtue of section of the Money Laundering (Prevention & Prohibition) Act, 2022, these categories of persons are under obligation to comply with AML obligations and CFT/CPF obligations under the Terrorism (Prevention & Prohibition) Act, 2022. These legislations provide the primary framework for their AML/CFT/CPF regulation and obligations as reporting entities in Nigeria.

Section 6(1) of the Money Laundering (Prevention and Prohibition) Act, 2022 mandates Dealers in Real Estate to make declaration of business activities before commencement of business or within 3 months from the commencement of the Act, in the case of existing business. The Central Bank of Nigeria (CBN) circular dated August 2, 2012, requires banks and other financial institutions to obtain evidence of registration with the Special Control Unit against Money Laundering (SCUML) before establishing business relationships with any DNFBP including dealers in real estate.

This requirement is enforced by all banks and financial institutions before opening bank accounts or providing financial services to any DNFBP, including the dealers in real estate. This ensures that all real estate operators are brought under AML/CFT/CPF supervision.

5.1.2 Entry Controls Measures

As a major step in combating ML/TF/PF in the real estate sector, the Real Estate Developers Association of Nigeria (REDAN) has since adopted the SCUML Guidance Note on Conducting Market Entry Control and Ongoing Monitoring of DNFBPs by Self-regulatory Bodies and Government Licensing Authorities. Consequently, the Association has adopted the full range of AML/CFT/CPF market entry controls which includes conduct of criminal background checks, implementation of Targeted Financial Screening, and Politically Exposed Persons Due Diligence and Beneficial ownership verification as prerequisite for onboarding new members. REDAN also mandates its members to sign an undertaken to comply with AML/CFT requirements of SCUML as part of the onboarding documents.

Dealers in Real Estate as part of the DNFBP sector are under obligations to undertake AML/CFT/CPF preventive measures. They carry out KYC and CDD on an ongoing basis, implement targeted financial sanction screening, put in place procedures to detect and report suspicious transactions, conduct beneficial ownership verification and PEP due diligence. They also undertake risk assessment based on customer, product, geography, and delivery channel. High-risk customers, including PEPs, (foreign and domestic PEPs), public servants, and students, are identified through these assessments. The nature of the product and geographical factors also contribute to the overall risk rating. Delivery channels such as bank transfers, cash, and third party and professional intermediaries' transactions are closely monitored, and reporting thresholds are strictly adhered to. Supervisory engagement with the sector including onsite compliance examinations has shown considerable improvements in compliance across the sector.

5.1.3 Obligations to take Preventive Measures by Real Estate Operators

Dealers in real estate as part of the DNFBP sector are under obligations to undertake AML/CFT/CPF preventive measures which includes Know Your Customer and Customer Due Diligence measures on an ongoing basis, implement targeted financial sanction screening, mechanisms to detect and report suspicious transactions, conduct beneficial ownership verification and Politically Exposed Persons (PEPs) due diligence.

Risk Assessment

Real estate operators also undertake risk assessment based on customer, product, geography, and delivery channels to determine the risk profile of the customer. Operators have been able to categorize their various products in terms of location, price, value, profile of customers and the methods of payments to make a judgement of the overall risk profile of the customer. This process has been able to identify customers in the high-risk category such as PEPs, (foreign and domestic PEPs), public servants, and students.

5.1.5 Risk Based Outreaches and Sensitization

SCUML in collaboration with Self-Regulatory Bodies and the Nigerian Financial Intelligence Unit (NFIU) has conducted targeted outreaches across the six geological zones. Sensitization workshops and training programs have been organized across the six geo political zones to educate reporting entities including real estate operators on topics such as Identification and reporting of suspicious transaction reports, beneficial ownership, Targeted Financial Sanctions, and Risk Assessment. Supervisory bodies regularly engage reporting entities to improve their understanding of risks and encourage timely reporting. Follow up examinations to these workshops have shown considerable improvement in compliance. For example, following the sensitization conducted in the Q4 2022, there was significant increase in the number of real estate operators subscribed to the Nigerian Sanction Committee (NSC) alert system, screening of customers on the UN and Nigerian List as well as increased use of the CAC beneficial ownership register to verify BO information.

5.3 Establishment and Operationalization of the Ad hoc Committee on Unlicensed DNFBPs

As part of the efforts to rid the sector of unlicensed DNFBPs, SCUML has also set up an inter-agency committee which comprises the SRBs, NFIU and law enforcement agencies. Through this collaboration, a number of unlicensed operators have been identified and referred for investigation to the EFCC.

5,4 Developing Risk Mitigation Strategies

SCUML worked to strengthen regulations related to customer due diligence (CDD), beneficial ownership, and reporting requirements. These enhanced regulations ensured that real estate professionals adhered to strict AML/CFT standards.

5.4.1 Customer Due Diligence (CDD) Requirements:

SCUML has mandated that all real estate professionals, including agents, brokers, and developers, must conduct comprehensive CDD on their clients. This includes:

- Verifying the identity of the client, including beneficial ownership information.
- Ascertaining the source of funds used in real estate transactions.
- Ongoing monitoring of client activities and transactions.
- Enhanced due diligence (EDD) measures required for high-risk clients, such as politically exposed persons (PEPs) or those with links to high-risk jurisdictions.
- Detailed customer records and transaction histories must be maintained to facilitate effective monitoring and reporting of suspicious activities.

5.4.2 Transaction Monitoring and Reporting:

SCUML utilized new technology for enhanced reporting which has led to efficient monitoring of transactions to identify questionable threshold transactions such as:

- Unusually large or frequent cash transactions.
- Structuring of transactions
- Transactions involving PEP
- Transactions involving minors
- Real estate professionals are required to report any suspicious transactions or activities to NFIU in a timely manner.

5.4.3 Compliance Training and Awareness:

SCUML has implemented mandatory AML/CTF training programs for all real estate professionals, including agents, brokers, and property developers

- The training covers the identification of money laundering red flags, the applicable laws and regulations, TFS, PEP, STR identification and filing, BOI and the reporting obligations.
- SCUML collaborates with NFIU and other government agencies to carry out the training.
- SCUML regularly updates the training materials and disseminates industry-wide alerts on emerging money laundering trends and typologies to keep the real estate sector informed.
- Emphasis is placed on promoting a culture of compliance within the real estate industry and ensuring that all participants understand the importance of AML efforts and the consequences of non-compliance.

5.4.4 Standard Operating Procedures (SOPs)

SCUML developed standard operating procedures for risk identification, assessment, and mitigation. These SOPs provided clear guidelines for real estate professionals to follow, ensuring a consistent approach to managing ML/TF risks.

5.4.5 Regulatory Collaboration and Information-Sharing:

SCUML has established clear communication channels and collaboration mechanisms with real estate operators, self-regulatory bodies, and other government agencies such as the Financial Intelligence Unit, to facilitate the sharing of information and intelligence on money laundering activities in the real estate sector. SCUML actively participates in interagency meetings and working groups to coordinate the implementation of AML/CTF measures and to develop a comprehensive understanding of the evolving risks in the DNFBP sector.

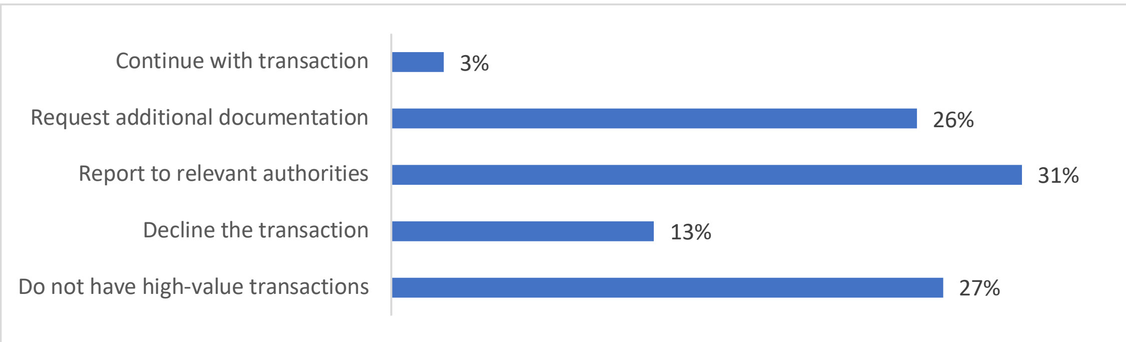
5.4.6 Administrative Sanctions

Given the outcome of the National Residual Risk Assessment, which rated the dealers in real estate as the DNFBP sector with highest risk level, SCUML has focused its supervisory efforts to the real estate more than other sub sectors, which includes amongst others, implementation of its administrative sanctions. The administrative sanction guideline was developed as part of the EFCC regulation 2022, used to address violations ranging from non-implementation of Targeted Financial Sanction, Politically Exposed Person due diligence, beneficial ownership verification, failure to keep records etc.

Sanctions are implemented in a graduated manner ensuring that it is effective, proportionate, and dissuasive. The range of sanctions includes warning letters, monetary fines, and license revocations in collaboration with SROs, non-compliance stickers. By implementing these robust mitigating controls, SCUML aims to create a more transparent and accountable real estate sector in Nigeria, effectively mitigating the risks of money laundering and other financial crimes.

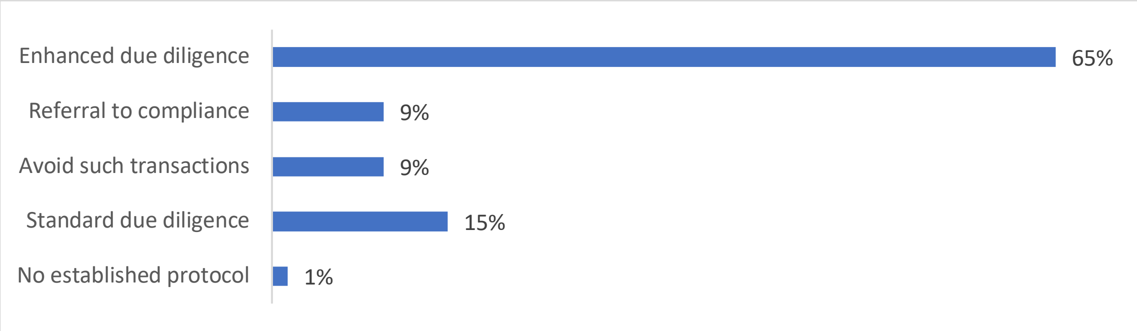
The results from the survey instrument further revealed risk mitigation measures taken by real estate firms in the sector. 31% of real estate firms report to relevant authorities when they cannot verify the source of funds for high-value transactions, while 26% request additional documentation, and 13% decline the transaction. A significant proportion (27%) do not engage in high-value transactions, eliminating this risk. Only 3% of firms continue with the transaction without verification. See Figure 20 below:

Figure 20: Actions when Unable to Verify Source of Funds



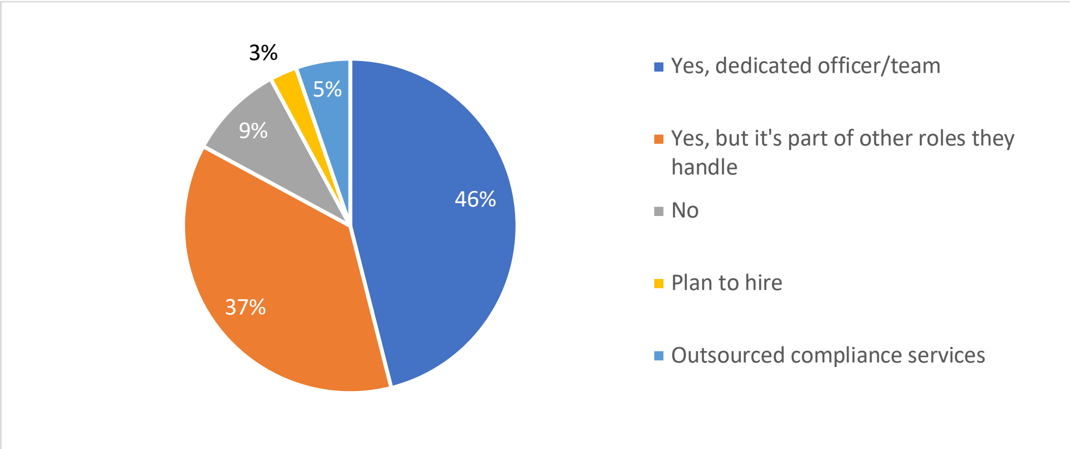
Also, Figure 21 indicates that 65% of real estate firms use enhanced due diligence when dealing with transactions involving complex and opaque corporate structures, indicating a strong focus on thorough investigation and risk management. 15% of firms use standard due diligence, while 9% each refer to compliance or avoid such transactions. Only 1% have no established protocol. See chart below:

Figure 21: Actions when Transactions involves complex and opaque structures



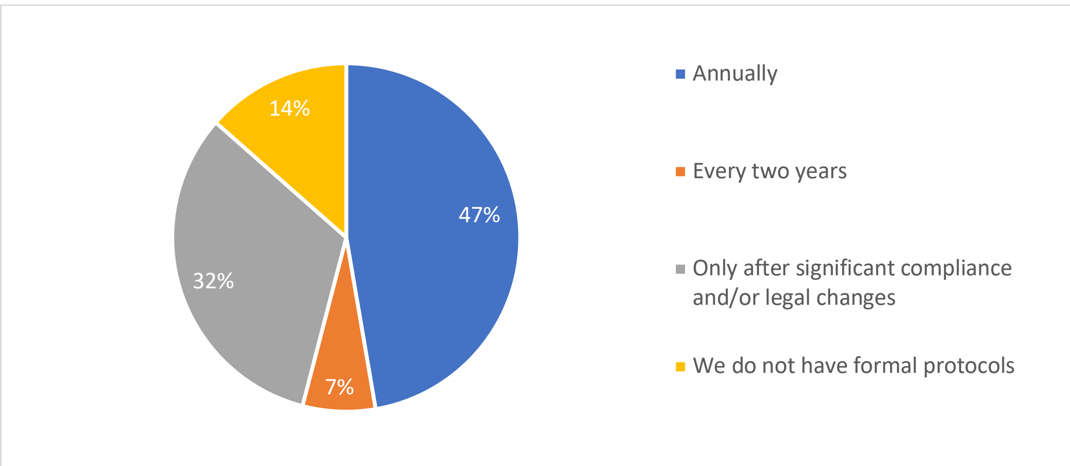
Furthermore, Figure 22 shows that 46% of real estate firms have a dedicated compliance officer or team to handle AML/CFT matters, while 37% integrate this function with other roles. Nine percent of firms do not have a compliance function, 5% plan to hire, and 3% outsource their compliance services. Effective risk mitigation requires a strong compliance function to handle AML/CFT matters, ensuring comprehensive compliance and reducing ML/TF risks. As such, firms must prioritize establishing or enhancing their compliance capabilities to strengthen their risk management strategies and improve overall AML efforts.

Figure 22: Compliance Officer Function in Real Estate Firms



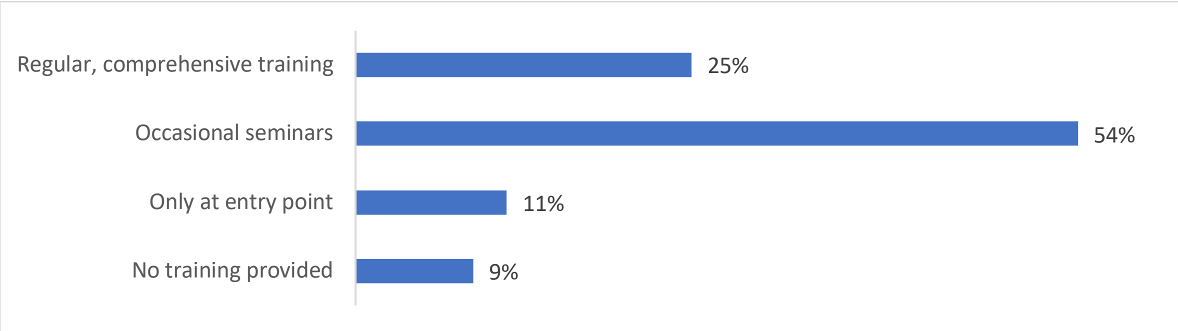
With respect to risk assessment protocols, 47% of real estate firms update their risk assessment protocols annually, 7% update every two years, 32% update only after significant compliance and/or legal changes, and 14% do not have formal protocols. A requirement for effective risk mitigation is regular and systematic updating of risk assessment protocols to reflect changes in the regulatory environment and emerging risks. Firms that do not have formal protocols or update infrequently may be at greater risk of non-compliance and exposure to ML/TF risks. It is essential for firms to prioritize the regular review and updating of their risk assessment protocols to ensure comprehensive compliance and effective risk management. See Figure 23 below.

Figure 23: Frequency of Updates to Risk Assessment Protocols



On how training is provided to employees, Figure 5.6 indicates that 54% of real estate firms provide occasional seminars on ML/TF prevention, 25% offer regular, comprehensive training, 11% provide training only at the entry point, and 9% do not offer any training. This highlights the necessity for continuous and thorough training programs to keep staff well-informed and capable of detecting and preventing ML/TF activities. Firms should prioritize regular training initiatives to strengthen their risk management strategies and improve overall AML efforts. At 20%, firms who only provide training on ML/TF an entry point or do provide at all is significant.

Figure 24: ML/TF Trainings Offered



Overall Risk Mitigation Assessment

The overall mitigation risk assessment for the real estate sector is classified as **Medium**. Factors such as the presence of control functions, albeit weak, training and significant irregular review of risk mitigation protocols contribute to heighten this risk. On the other hand, recent work of SCUML through engagement with real estate operators to improve compliance and strengthen protocols appears to be yielding results and serves as a mitigant in this regard. However, additional work needs to be carried out in the aspect of ensuring regular training and policy documentation culture is adopted by real estate operators.

Key Contributing Factors	Risk Status	Risk Rating
Protocols for High-risk transactions	Low	**Medium Effectiveness**
Protocols for Complex transactions	Low	
Transaction monitoring	Medium	
Compliance function	Medium	
ML/TF policies	Medium	

Review of ML/TF protocol and policies	Medium	
Training and other resources	Medium	

6.0 RECOMMENDATIONS

The following are some recommendations to mitigate the ML/TF risk in the real estate sector:

- Real estate professionals should develop internal policies, procedures and controls, and appropriate screening and investigations to ensure high standards when hiring professionals that may need to perform AML/CFT duties.
- Real estate professionals should also develop or have in place an ongoing training programmes for professionals. Such training programmes can also be facilitated or provided by professional associations representing agents and the real estate sector. Real estate professionals should be trained commensurate with the complexity of their responsibilities.
- Real estate operators should register on the NFIU's goAML platform to ensure that they file STRs.
- In addition to filing STRs real estate professionals should maintain thorough records of their transactions to ensure compliance with AML laws and regulations. These records include relevant documents such as contracts, agreements, and financial statements. Proper record-keeping allows for transparency and accountability in real estate transactions, making it easier to trace the flow of funds and identify potential red flags.
- Collaboration between countries, financial institutions, and regulatory authorities is crucial for detecting and preventing money laundering activities that exploit the real estate market for illicit purposes.

7.0 CONCLUSION

In conclusion, the Nigerian real estate sector shows a proactive stance in managing ML/TF risks through structured compliance measures, regular training, and rigorous transaction monitoring. However, areas for improvement remain, particularly in the adoption of advanced compliance tools and consistent verification of high-value transactions. The sector's reliance on local clientele and urban-centric operations necessitates ongoing vigilance and adaptability to evolving ML/TF threats. Enhancing compliance capabilities and fostering a culture of continuous improvement will be crucial in strengthening the sector's resilience against ML/TF risks.

This comprehensive assessment underscores the importance of a multi-faceted approach to risk management, integrating robust compliance frameworks, regular staff training, and effective use of external resources to mitigate the risks associated with money laundering and terrorist financing in the Nigerian real estate sector.