

# WHY estate agents should go back to manual processes

FOLLOWING FIRTH

OCTOBER 2024



**MIP**

A SOCIAL SOLUTION IN A DIGITAL DIMENSION



Purchasing a property is a complex process. Before pen is even put to paper, sellers, buyers and real estate agents have to have a number of legal documents ready. While many of these are largely standardised, each transaction requires a number of personal details, not to mention the signatures of all parties involved.

In recent years, this process has been digitised to a large extent, with various declarations, Offers to Purchase, and other legally binding documents available in digital formats or via email. This may make the process easier, but it also creates huge opportunities for fraud.

The large sums of money that are regularly exchanged in the process of buying and selling a property have made the real estate industry a prime target for criminals. Scams can range from simple phishing emails to collect personal data, to people lying about having properties for sale or rent. Regardless of the details of any particular type of fraud, the end result is always the same: Huge sums of money being lost by buyers and sellers, with the knock-on effect of potential identity theft.





## Growing liability

Statistics from WonderNet reveal that in 2021, an average of 97 South Africans fell victim to cybercrime every hour. Considering that only 60% of South Africans have regular access to the internet, this proves how effective the tactics used by cybercriminals are.

A great deal of effort has been put into education campaigns, and most people know not to click on suspicious links or provide their ID number or banking details to just anyone. Unfortunately, cyber criminals have upped their game accordingly, and these days, it's extremely difficult to tell real and fake emails apart, or to identify fraudulent requests for information or money. When a property buyer is waiting for an email from the conveyancing attorneys to provide them with banking details to make a deposit, for example, they would have no reason to question whether that email was actually sent by the company – particularly when the email address and domain look right.

This was highlighted in a high-profile court case last year, where a buyer of a property who was swindled out of R5-million was awarded damages when she sued the conveyancing attorneys whose email accounts were hacked. Despite the fact that the legal firm had technically done nothing wrong, the judge ruled that it had failed in its duty of care when it did not warn the buyer about the threat posed by hackers.



“The plaintiff’s case established clearly that sending bank details by email is inherently dangerous. So (it) must either be avoided in favour of, for example, a secure portal, or it must be accompanied by other precautionary measures like telephonic confirmation or appropriate warnings which are securely communicated,” the judge said.



## **Increasing risks**

The growing prevalence of fraud in the real estate industry has prompted the Financial Intelligence Centre (FIC) to recommend that Estate Agents adopt a risk-based approach to all transactions. This includes gathering sufficient information regarding their clients and their transactions, and adopting controls that are “adequate and proportionate” to mitigate potential risks. As part of this approach, estate agents must keep records of customer due diligence and transactional records, and all risk control measures including policies, processes and systems must be documented.



Once again, technology becomes a double-edged sword for property practitioners. While many of these can be automated and digitised, making the process quicker and easier for estate agents and their customers, the minute any data is stored electronically it becomes vulnerable. Despite this, the FIC recommends that real estate agents use Fintech, Regtech and Suptech to the fullest extent.

There is no doubt that technology use in the industry will continue to increase as more service providers come up with solutions aimed specifically at real estate agents, but the reality is that as technology becomes more prevalent, so too do potential risks. The growing sophistication of cybercrime targeted directly at the real estate sector has been so significant that the Attorneys Indemnity Insurance Fund no longer covers attorneys who fall victim to cybercrime. Real estate agents who have insurance may also find that they are not fully covered as companies deal with an increase in scams as a result of the electronic interception of communication between attorneys, estate agents and their clients.



Transaction amounts are so high in the property market that it is worth any amount of time and effort on the part of criminals to infiltrate legitimate businesses. It's no wonder, then, that fraud in the real estate industry has become so complex that it requires professional cybersecurity teams to mitigate it effectively. As AI continues to penetrate all areas of our lives, this situation is only going to get worse.

The unfortunate reality is that the only way to 100% guarantee the prevention of real estate fraud is to go back to manual processes. It may seem counter-intuitive for estate agents to go back to doing things like physically agreeing payment details to ensure there is no risk, but this will provide assurances and safeguards for all parties. This will not only help to protect buyers and sellers, it will enhance the reputation of estate agents in the long term.



**RICHARD FIRTH**  
*CHAIRMAN & CEO, MIP HOLDINGS*