

# INDUSTRY CHANGE & RISING AML RISK

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## Settlement Agencies at Risk – Why conveyancers must change and how they can stop being a channel for ML/TF

Settlement Agencies and conveyancers play a crucial role in property transactions. The trusted position of handling client funds, temporary accounts, and settlement flows makes them an attractive channel for money laundering (ML) and, in some cases, terrorism financing (TF). Recent national-level work by AUSTRAC, combined with the growing regulatory focus on Tranche 2 entities, signals that the industry must move quickly from historically limited AML/CTF controls to robust, enterprise-grade risk management. This article explains the evolving threat, evaluates the policy and operational changes required to mitigate ML/TF risk, and assesses the practicality and limitations of these changes for the sector. (AUSTRAC, 2024a).

### The Increased Sophistication of Criminal Actors

AUSTRAC's *National Risk Assessment 2024* highlights that criminal actors adapt quickly to exploit gaps in professional services and property markets. The channels that appear low risk can be highly attractive when controls are weak or inconsistent (AUSTRAC, 2024a). The report highlights that industries newly brought into the AML/CTF perimeter, including legal practitioners, conveyancers and settlement agents, face particular scrutiny because their transactional role can obscure the illegal origin of funds and the true beneficial owners behind property purchases (AUSTRAC, 2024a).

Conveyancers themselves recognise the challenge. A survey conducted for PEXA (published in *the Australian Conveyancer*) found that many practitioners are unfamiliar with new obligations and concerned about costs, resourcing and settlement delays as compliance requirements intensify. More than 70 per cent of respondents reported feeling unprepared for the incoming Tranche 2 reforms (PEXA 2024a; Australian Conveyancer, 2024). This gap between regulatory expectation and operational readiness creates a window of vulnerability that organised criminals can and will target.

### What Needs to Change – Core Proposals

To shift the industry from vulnerability to resilience, five interlocking changes would be necessary:

- 1. Mandatory, documented ML/TF risk assessments (ISO 31000 aligned)**

Every settlement agency must conduct an enterprise-wide ML/TF risk assessment that covers customers, payment channels, transaction types, geography, and service delivery models. Risk assessments determine proportional Controls and are the foundation of a risk-based program. AUSTRAC guidance makes clear that risk assessment is the first and necessary step in program design (AUSTRAC, 2023). Without it, agencies cannot rationally prioritise controls or demonstrate to regulators that they are mitigating the right risks.

- 2. Clear governance. Appoint a compliance officer and embed three lines of defence.**

Small firms often lack internal separation of duties, but will still need to nominate an AML/CTF Compliance Officer. This person can be the principal licensee, business owner or another staff member. There is no requirement to have a separate reporting line or independent role; however, this person must have sufficient authority and oversight to implement and maintain the AML/CTF Program.

For larger businesses, a named AML/CTF Compliance Officer with direct reporting lines to senior management (and an annual Board update for larger firms) is essential. Embedding a three-line model, comprising operations, compliance, and independent assurance, reduces conflicts and clarifies who must act when alerts are triggered. AUSTRAC's Tranche 2 reforms make it clear that regulators will expect overt governance, not informal or ad-hoc responsibility (AUSTRAC, 2024b).

**3. Minimum technical controls. Screening, recordkeeping and transaction monitoring.**

Basic identity verification (eg, ScanCheck) is necessary but not sufficient. Conveyancers must combine identity verification with sanctions and adverse media screening, transaction monitoring rules for escrow and settlement flows, and auditable record-keeping. Off-the-shelf, low-cost tools exist that scale to small firms. The policy choice is to mandate capabilities to prevent a lowest common denominator outcome (PEXA, 2024).

**4. Operational policies and proportionate training.**

Documented procedures for client acceptance, enhanced due diligence (EDD) for high-risk clients, suspicious matter reporting (SMR) workflows, and retention schedules are needed. Training must be annual and role-specific so that frontline staff can recognise red flags, while partners, senior conveyancers, and those who approve exceptions must understand the legal thresholds. Training reduces detection lag and increases the likelihood of timely reporting (AUSTRAC, 2023).

**5. Sector coordination and public-private information sharing.**

Conveyancers operate in a networked marketplace that includes agents, lenders, and settlement platforms. Industry bodies should establish a centralised mechanism for sharing typologies, sanctions lists, and threat alerts. Such coordination helps small firms pool their intelligence and keeps the entire value chain resilient, thereby reducing the exploitation of the weakest link. AUSTRAC's risk assessments are a public good, but industry-specific typologies and cooperation add practical value on the ground (AUSTRAC, 2024a; PEXA, 2024)

### Evaluating The Worth and Implications of These Changes

These reforms would significantly discourage ML/TF activity by increasing the friction, reducing anonymity, and enhancing detection. Mandatory risk assessments and transaction monitoring close the informational asymmetries that criminals exploit. Governance and training enhance the likelihood that suspicious activity is recognised and reported, and technical controls make it more difficult to launder illicit funds through property transactions (AUSTRAC, 2024a)

However, there are trade-offs and limitations.

- **Cost and capacity for small firms.** Smaller conveyancers will face upfront costs in technology, staff time and training. This could consolidate the market if smaller operators cannot afford compliance or push them to outsource to third-party AML providers. Policymakers should consider striking a balance, with mandated minimums and scaled expectations based on the size and risk profile of each entity. Industry pooling (shared screening services) can mitigate costs (Australian Conveyancer 2024)
- **Operational delays and customer experience.** More checks can lengthen settlement timelines. Clear guidance on acceptable verification paths, electronic verification, and standardised data collection templates can reduce friction while preserving controls. Technology such as APIs and e-

verification will be key (PEXA, 2024).

- **False positives and resource diversion.** Transaction monitoring generates alerts. Small businesses risk being overwhelmed by low-value, low-risk, false positives. Practical tuning of rules and access to sector typologies will be necessary to keep resource demands reasonable. Independent audits can help calibrate systems before full roll-out.
- **Criminal adaptation.** As controls tighten in one channel, criminals will shift tactics. Continuous risk assessment, cross-sector data sharing, and regulatory agility are essential. The *National Risk Assessment 2024* explicitly states that ML/TF risk is dynamic and requires ongoing reassessment (AUSTRAC, 2024a).

Overall, the proposed changes are necessary and proportionate. They will materially reduce the attractiveness of settlement agencies as a laundering channel by increasing detection probability and reducing anonymity. The short-term costs and operational impacts are real but manageable with phased implementation, technology adoption, and sector collaboration.

The alternative, leaving controls weak while regulatory scrutiny and penalties increase, is both riskier and more costly in the medium term. Conveyancers and Settlement Agencies should treat AUSTRAC's Tranche 2 reforms as an opportunity to professionalise risk management rather than an unwelcome burden. With the right mix of governance, assessed risk appetite, proportionate technology, and sector cooperation, the industry can bridge the gap between its current state and AUSTRAC's expectations for the future (AUSTRAC, 2024a; AUSTRAC, 2024b).

## References

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