Ministry for Regulation
Te Manatū Waeture

Anti-money laundering (property transactions) cost-benefit analysis

19 September 2025

RRT references: RRT2024-05 / RRT2024-30 / RRT2024-48 / RRT2024-51 / RRT2024-52 / RRT2024-198 / RRT2024-19

Background

The Anti-Money Laundering and Countering Financing of Terrorism Act 2009 and secondary legislation empowered by it place a number of AML/CFT requirements on real estate agents and other people involved in property transactions. Submissions to the Ministry for Regulation's red tape tipline and subsequent Ministry investigation identified four ways in which this regulation could be improved.

- **Replace the Amended Identity Verification Code of Practice 2013** with a new guideline or code. At the time the Ministry for Regulation contacted DIA about this issue, DIA was aware of the problems with the Code and work was underway to replace it. This work is expected to be complete by the end of 2025. It is not clear if the Ministry for Regulation had any effect on the speed or nature of this outcome, so we have not quantified the net benefit of the changes and the estimated net value of our contribution here is **$0**.
- **Educate the sector on:** transparency around fees charged to vendors and commercial lessors; providing clarity to clients on how their personal information will be protected; the fact real estate agents need to update customer due diligence information only when there is a risk-based reason or trigger for this. DIA was supportive of these points when the Ministry for Regulation raised them, and indicated they may take them into account in future guidance updates. However, it's not clear whether DIA will make any meaningful changes to address these points, and even if they do the benefits will be difficult to quantify, so we do not attempt to put a dollar figure on them.
- **Reevaluate the AML/CFT risk associated with commercial leasing** to determine if AML/CFT obligations relating to commercial leasing transactions can safely be reduced for real estate agents. The Ministry for Regulation briefed the Ministry for Justice on this matter on 24 March 2025, but has not received any commitments as of 19 September. The current estimated net value of our contribution here is thus **$0**, though this could change in future.

- **Clarify unclear AML/CFT audit guidelines**. DIA's 2019 AML Audit guidelines (now replaced with Audit Guidelines 2025) incorrectly advised reporting entities they were required to conduct AML/CFT audits every two years, whereas DIA's AML/CFT Programme Guideline (AML-CFT-Programme-Guideline-October-2024.pdf) and the audit section of the FAQs on the DIA website correctly gave the time period of every three years unless the reporting entity's AML/CFT supervisor has notified them that every four years is sufficient. The two-year time period was correct until 2021, when it was replaced by the three- or four-year time period. Some reporting entities may not have been aware of the change, and the incorrect guidance could have caused confusion and for some reporting entities to continue to conduct AML/CFT audits more frequently than legally required. We consider this confusion more plausible because the relevant primary legislation, the AML/CFT Act 2009, gives a time period of "every 2 years or during a different time period prescribed by regulations", and only the secondary legislation, the AML/CFT (Requirements and Compliance) Regulations 2011, gives the correct default three-year time period. Furthermore, at least one website of a major business providing AML/CFT auditing services still gives the incorrect two-year time period and another does not clearly state a time period (as at 19 September 2025). The Ministry for Regulation brought this issue to the attention of DIA 24 March 2025, and DIA committed to correcting the guidance. The corrected guidance was published on 16 May 2025. Below we estimate the net benefit of the Ministry's intervention on this matter to be a **one-off benefit of between $10,152 and $130,270.**

In February 2025, a Cabinet paper was proactively released that highlighted upcoming AML/CFT reforms.[1] These reflected decisions made late in 2024, and broadly describe a three-part programme of reform in line with the Associate Justice Minister's statement[2] from October 2024. It is plausible some of the issues identified by the Ministry for Regulation could have been addressed in this work programme without our intervention.

Cost-benefit analysis of clarifying the unclear AML/CFT audit guidelines

Factual and counterfactual

In the factual, the guidance was corrected on 16 May 2025.

We assume in the counterfactual (situation that would have occurred without the Ministry for Regulation's intervention) the guidance would have been corrected as part of the work programme on AML/CFT mid-way between the date the Ministry for Regulation informed DIA of the incorrect guidance (24 March 2025) and an estimated completion date of AML/CFT workstream 3 (the end of 2026).[3] This gives a date of 10 February 2026, 270.5 days later than in the factual. This assumption may overstate the benefits of the Ministry for Regulation's intervention because the small fix could have occurred earlier in the AML/CFT

[1] AMLCFT_Release_Pack_FINAL.pdf

[2] Government to provide significant regulatory relief for business | Beehive.govt.nz

[3] A Bill containing the initiatives in the third and final workstream is intended to be introduced by April 2026, so we take the end of 2026 as the ballpark completion date for this work.

work programme, but it may understate benefits because the fix may not have occurred at all. These conflicting sources of bias partially balance each other.

Number of reporting entities subject to AML/CFT audit requirements

The reporting entities for whom the incorrect guidance is relevant is all reporting entities under the AML/CFT Act 2009 excluding high-value dealers. (This RRT issue was classified as relating to property transactions based on the industry of the submitter, but the incorrect guidance was intended to inform a wider range of reporting entities.) These entities are supervised by the Reserve Bank (65 entities), the Financial Markets Authority (1,459 entities), and Department of Internal Affairs (4,907 entities excluding high-value dealers).[4] This gives a total of 6,431 entities.

As sensitivity analysis, we alternatively assume that only the 4,907 reporting entities supervised by DIA could be affected by the incorrect DIA guidance.

Benefit 1: Preventing firms from conducting unnecessary audits

The first benefit of this intervention is the cost savings from a reduction in unnecessary audits.

We conservatively assume all reporting entities are required to conduct an AML/CFT audit every three years. That is, we ignore the fact some reporting entities may be told by their statutory supervisor that they are required to conduct audits only every four years.

We further assume that while the incorrect guidance is in place, and as a direct result of it, some firms conduct audits every two years even though they are not required to.

In the absence of good information to suggest what proportion of reporting entities make this mistake because of the incorrect guidance, we assume 1-5%.

We assume an audit costs $1,500 to $3,000 on average for firms that conduct unnecessary audits.[5] This could involve the cost of paying an external auditor or staffing costs of performing the function internally.

We therefore estimate the total cost of unnecessary audits that would have occurred in the counterfactual but were prevented in the factual to be:

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[4] The three supervisors maintain public lists of the reporting entities they supervise at AML/CFT list of reporting entities - Reserve Bank of New Zealand - Te Pūtea Matua, AML/CFT - Reporting Entities | Financial Markets Authority, and Department of Internal Affairs AML/CFT Reporting Entities · AMLOnline. Numbers of entities are as at 18 September 2025. The supervisors note the lists may not be comprehensive lists of all entities with reporting obligations under the Act, with the implication others may exist that they don't know about. We assume businesses that legally should be reporting entities but have not made their existence known to the appropriate supervisor are unlikely to be conducting the legally required audits and can therefore be ignored for the purposes of our analysis.

[5] Experience The Best in AML/CFT Audit Services | 2025 suggests the average cost of an audit for a small reporting entity is likely to be in the $1,500 to $3,000 range. On the assumption that businesses that follow the incorrect guidance are more likely to be small, we use this range rather than adapting it to be more appropriate for larger firms too.

= additional time incorrect guidance would have been in place (270.5/365 years)

x number of reporting entities required to conduct audits (4907 to 6431)

x fraction of these entities misled by the guidance (0.01 to 0.05)

x excess audits conducted each year by each misled entity (1/6)[6]

x cost per audit ($1,500 to $3,000)

= $9,091 to $119,150 as a one-off benefit.

Benefit 2: Reducing time reporting entities spend clarifying requirements when guidance is contradictory

The second benefit of the intervention is the time savings from reporting entities not having to spend time clarifying their legal responsibilities after they come across contradictory guidance.

We assume 5% to 20% of reporting entities face this problem each year, and it takes each 10 to 20 minutes of additional effort to resolve their confusion.

We therefore estimate the total time cost saved by removing this source of confusion to be:

= additional time incorrect guidance would have been in place (270.5/365 years)

x number of reporting entities required to conduct audits (4907 to 6431)

x fraction of these entities facing this problem (0.05 to 0.20)

x time spent resolving confusion (1/6 to 1/3 hours)

x hourly cost of time ($35)[7]

= $1,061 to $11,121 as a one-off benefit.

Costs

There is a remote possibility an unnecessary audit that would have occurred under the counterfactual but not the factual would have caused a reporting entity to improve its processes and thus prevented an instance of money laundering or terrorist financing. We do not attempt to quantify the potential foregone benefit from this possibility.

Some cost was also incurred by DIA to correct the guidance and update it on their website. This was a straightforward exercise, so the cost was probably very small. We do not attempt to quantify it.

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[6] We assume audits conducted by entities are smoothed over years, so entities are required to conduct a third of an audit each year in both the factual and counterfactual. However, in the counterfactual misled firms instead conduct half an audit each year. This yields a sixth of an excess audit each year by misled firms in the counterfactual (being the half audit undertaken minus the required third of an audit).

[7] Median hourly earnings from wages and salaries in the year to the June 2025 quarter (Labour market statistics (income): June 2025 quarter | Stats NZ).

Summary

We estimate the net benefit of the Ministry for Regulation’s intervention that sped up the correction of the incorrect guidance on audit time periods was

= $9,091 to $119,150 + $1,061 to $11,121

= $10,152 and $130,270 as a one-off benefit.