

Best's Insurance Law Podcast

[Reducing Risk: Why Real Estate Brokerages are Especially Vulnerable to Fraudsters – Episode #222](#)

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Guest Expert: Richard Rosenblum of [Richard Rosenblum, CFE, CFCS](#)
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John Czuba: Welcome to Best Insurance Law podcast, the broadcast about timely and important legal issues affecting the insurance industry. I'm John Czuba, manager of Best's Insurance Professional Resources.

We're very pleased to have with us today qualified member expert service provider, Richard Rosenblum. Richard is a licensed multi-state real estate broker. He provides litigation support and advisory services for all aspects of residential real estate.

As an expert witness for residential real estate agent and brokers-related case reviews and testimony, Richard has extensive experience and knowledge to their standards of care requirements and expertise pertaining to negligence and malpractice. Richard is a certified fraud examiner, certified financial crime specialist, and is a former federal agent.

Richard, we're very pleased to have you with us today.

Richard Rosenblum: Thanks, John. If I can give a quick disclaimer, and that's that I'm not an attorney, and my comments and what we're going to speak about today should not be considered an expert opinion applicable to any one individual or specific scenario. It'll be all 30,000-foot view from above, John. I'm glad to be here and look forward to this.

John: Happy to have you with us, Richard. Today's discussion is why real estate brokerages are especially vulnerable to fraudsters, and what can be done to reduce risk. For our first question, Richard, as the headline states, why are real estate brokerages especially vulnerable to fraudsters?

Richard: John, great question. If you think about it, real estate checks all the boxes for fraudsters. There's big money. In fact, I just looked up before I jumped on this call. Currently on Zillow, \$535,000 is the average New Jersey home list price, and across the nation, it's about \$360,000, so there's a lot of money involved.

We have consumers that are lay persons in the middle of a transaction while there's a lot of confusion and moving parts going on. Couple that with deadlines and stress, and you have the perfect storm.

For example, the moving parts include mortgage, home inspection, appraisal. Some states, there's an attorney involved, title insurance involved, homeowners' insurance involved, so there's a lot of moving parts.

Interestingly enough, real estate comes in as a top stress factor along the lines of getting married, doing a job change, having children. It's right there with top-life stressor. Industry people typically are not knowing of the red flags of the real estate fraudsters that are operating out there.

Agents aren't trained to deal with the fraud aspect. They're trained to deal with the sales aspect. That, coupled with there's a lot of inexperienced agents out there. There's a low bar to entry to become a real estate agent. Because of that, you've got agents doing very few transactions and very inexperienced agents often. That's the gist of why real estate is a great target for fraudsters.

John: Richard, what is most vulnerable at a real estate brokerage?

Richard: Two things, you have the people themselves, which I touched on a little bit here the reasons why that they're not geared like a business would be towards thinking about fraud and thinking about, we'll call them evil-doers, or people with bad intentions.

Real estate agents generally are wired to be people-people and like dealing with people and trusting of people versus other industries and computer industries. People are trained to be thinking about hacks and breaches and viruses and those kinds of things. Real estate, because it's a people business, tend to have their guard down.

Then the other vulnerability, besides the people themselves, is what I just touched on, is the computer systems and the emails that are being used, and the computer system itself.

There's a lot of vulnerability for hacks and business email compromise and things like that, which is actually a very hot button in our industry where a email will get intercepted, and then an agent or a buyer will get lured into thinking they're dealing with one person, a title company, for example, but they're really dealing with a bad person, a bad guy, I'll say.

John: Richard, how are risk threats to a real estate brokerage unique to the industry?

Richard: They're unique in that the real estate agents themselves just aren't trained or wired for fraud prevention. That's probably the number one reason why it's different. Most businesses, I'm sure at AM Best, security is number one, especially with their computer system. That's probably the highest priority because that's where their gold is, so to speak.

That's a very valuable asset, whereas real estate, the attention to the computer systems is not as high profile. Hacks are a major concern, which, to be honest with you, we do have different insurances for that type of issue, like a cyber and things like that.

The ideal scenario is to resolve those types of problems upfront versus rely on cyber insurance and insurance and those other insurances that will hopefully solve for some of those problems, but those should be used as safety nets, not as the first line of defense, which sometimes it can be.

John: Richard, what are some of your recommendations to brokerages to reduce the risk?

Richard: The recommendation is that training of the personnel be professional and business-like. Our industry, I'm going to use the word soft targets only because I'm wearing my certified fraud examiner hat today. It suffers from the personnel not being properly trained on detecting fraud and detecting compliance issues and things like that.

Where the problem lies, in my opinion, is a lack of training. There would be an office teaming with 1,000 agents, for example, but the focus on anti-fraud and compliance may be lower than it should be.

To answer your question more directly, it comes from the tone at the top from management. If management sets the tone of protecting the computer system and keeping people aware and training and safety and security, then it'll trickle down. Set the tone at the top is my recommendation.

John: Richard, one final question today, what should be the number one priority of brokerages interested in reducing the risk exposure?

Richard: The number one priority should be the focus on changing the lens that the management is looking at the business from. Rather than taking the approach that, hey, that's what we have insurance for, take the approach of, let's be proactive and set an infrastructure and a framework in place so that we drive the cost of breaches and we drive the cost of prevention down.

By having a framework and having systems, the brokerages will be able to do that. A great business model for people to think about is how the mortgage industry has done that. They, too, were and they still are a ripe target for fraudsters because that's where the money is. They're the lenders.

The degree of computer, we'll say, literacy and computer security and the degree the tone at the top and the way mortgage companies operate is far more sophisticated than the average real estate brokerage does. It's just a different mindset that would change with a different lens of management.

John: Richard, thanks so much for joining us today.

Richard: Thank you, John.

John: You're listening to Richard Rosenblum of [Richard Rosenblum, CFE, CFCS](#) in Washington, New Jersey. Special thanks to today's producer, Frank Vowinkle.



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