

# AAM Advisory's model approach to being compliant

*The management of this fast-growing financial advisory firm in Singapore has set a tone of a strong compliance culture. This creates a clear way for all staff to stay focused on doing the right thing for clients, and adds a competitive edge that many firms overlook.*

Asian wealth management has become an industry where conversations about compliance are frequent, increasingly complex and time-consuming for everyone, including senior management.

Not everyone embraces this reality.

But putting in place the people and checks-and-balances to turn this from a threat to an opportunity, is critical for a sustainable business.

Yet any initiatives won't be successful unless a firm can instill the right culture and mind-set to drive the behaviour it needs to across the organisation – especially among the front-line.

These individuals are then more likely to accept and understand what is required to stay compliant, and why.

This, in turn, leads to a more cohesive, consistent and coordinated way of interacting with clients, and also internally.

AAM Advisory (AAM) is among what seem to be a handful of firms to have got the formula right.

Directed by its compliance function and supported by senior management, how this 100-person firm operates would make many larger organisations envious.

"We had a great report back from our local regulators in mid-2015, requiring only some minor adjustments, and which have already been put in place," says AAM chief executive officer, Matthew Dabbs.

Ultimately, he adds, it is about making things easier to conduct business in a compliant manner.

## COMMITMENT TO THE CULTURE

Not every wealth management firm is as disciplined as AAM.

Even now, with the profiles of the clients being onboarded, and transactions for



**MATTHEW DABBS**  
AAM Advisory

existing clients, under a regulatory microscope, many firms adopt an approach of 'build a book first, ask questions and try to make it compliant later'.



**ANU PHANSE**  
AAM Advisory

AAM, though, is different. Key for the firm to act and behave in the most compliant manner has been the commitment of its management.

In 2010, for instance, there was just one person in compliance. But as this individual struggled to keep up with the requirements imposed by the regulatory agenda, and the growth of the front-line, the compliance function received a lot more attention internally. Today, with five compliance professionals and more than 30 advisers, the ratio at AAM is higher than most of its competitors in the financial advisory (FA) space.

According to Anu Phanse, head of compliance, who joined the firm in late 2012, the objective is to hire at least one compliance officer for every 10 additional advisers, thereby maintaining the ratio.

Having several colleagues to cover much of the daily compliance tasks also

gives her the chance to focus more on advisory and regulatory compliance.

“The regulatory landscape has changed quite a lot in the last few years and we have to move continuously to keep up with the pace of regulatory changes,” says Phanse. “Many financial institutions have been fined for compliance failures and now more emphasis is being placed on compliance functions globally to avoid reputational risks.”

Phanse’s experience in audit, compliance and business process re-engineering provides a different perspective on processes and controls to create efficiencies. This involves, for example, looking at the current controls which are in place to assess if they are effective, or can be improved. “We prefer to have preventive controls,” she explains.

### **BEING THOROUGH**

When it comes to reviewing new business, AAM believes its processes are more rigorous than many of the FA firms in Singapore.

For example, there is a transaction sign-off process for every deal clients undertake, as well as for any top-ups to existing payment plans, insurance schemes or other investments. This is a fact Phanse takes pride in stating.

Despite transactions being in line with a client’s risk profile, AAM directors and compliance still perform a review to ensure suitability, as well as protect the interests of the client. Even when the client instruction is to do just a simple fund switch, which doesn’t lead to any additional revenue for AAM, the firm does a review to make sure that it’s in the interest of the client.

But this is a delicate balancing act.

### **Compliance checklist**

*In line with Singapore’s balanced scorecard framework, AAM streamlined the way in which it monitors and maintains compliance by following five checklists.*

*To implement it, Phanse says the checklist is divided up by what she calls ‘doers’ and ‘reviewers’.*

*The ‘doers’, she explains, compile the information and documents which the firm requires from clients, and then submit everything in line with the checklist.*

*The ‘reviewers’ are then split into two groups, and they look at different aspects of the submission. The first of these involves the review by the firm’s directors, which means they look at specific items to assess and sign-off against. The second stage involves compliance, where the compliance team makes sure everything on both the AAM internal processes, as well as the regulations, is ticked off.*

Phanse doesn’t want either herself or her compliance department to be viewed as a hurdle. Instead, she works with the sales team as a business partner to ensure that the most compliant outcome is achieved quickly, with minimal business impact.

AAM’s compliance team works on a 24-hours turnaround time for review of cases to ensure the additional controls do not slow down the sales process.

This is also built into her team’s KPIs to ensure this is followed consistently.

However, if a client has an urgent withdrawal request and is in need of urgent funds, her team is dynamic enough to respond quickly and work with the advisers to prioritise such cases.

As a priority, Phanse has also made sure the firm is fully compliant with Singapore's anti-money laundering (AML) regulations by updating the firm's entity-wide risk assessment and tightening other controls.

Indeed, one of the notable areas in which the regulators in Singapore – and around the world – have cracked down is AML, in terms of both legislation and enforcement. In line with this, AAM has updated its policies relating to stricter requirements around proof of identity and residence for clients, as well as source of funds and overall wealth.

### COMPLIANT WITHOUT COMPLAINTS

It isn't possible for a wealth advisory firm to keep all of its clients happy all the time. "Markets have been volatile," says Phanse, "so although firms can ensure advisers have given the necessary disclaimers to clients, and that clients understand them, there is a potential risk of client dis-satisfaction."

Yet AAM has managed to grow its business without having to heavily use a complaints management system. AAM has a full complaints handling process but the volume of complaints is really low. Many FA firms face a much larger number of complaints, requiring them to implement an IT system just to deal with the volumes to manage them.

This seems a redundant concept to Phanse, given that she and her team only have to handle maybe two or three complaints a year.

The firm avoids many more by operating largely on the philosophy of treating the customer fairly, by ensuring they understand the level of risk that they take on any transaction.

AAM's detailed risk questionnaire requires clients to answer about six or seven questions; based on the outcome, the firm uses a risk code to understand whether a client's risk outlook is cautious, balanced or growth-oriented.

However, once in a while clients who have opted for growth outlook which subjects their portfolios to high volatility respond negatively when the market doesn't perform as they want it to.

These are the complaints that compliance cannot do anything about. The approach is to professionally explain to the client that they read and signed the relevant documentation, so they ought to have been prepared.

Where there are justified complaints, Phanse jumps into action and, in conjunction with her management, they take a very firm stance. "We deal with complaints very, very strictly," she says. "We have even terminated advisers in the past because we want to set the right example to make sure that our sales team is following company policies and doing things in the right way."

Mostly, however, not having to be distracted too often by unhappy customers means that AAM can channel its compliance resources in more productive ways, to support the advisers' efforts to win new business.

### CARROT AND STICK

There are clear guidelines for AAM's advisers on regulatory compliance and standards of documentation expected of them.

### Championing compliance

*AAM believes it is important to make a positive example of people who foster a compliant attitude.*

*Generally in the FA industry, advisers get awarded for achieving volumes of sale. AAM tries to also focus on the qualitative aspects of a sale by rewarding its quality focused advisers.*

*The firm gives out a Compliance Champion Award every quarter – SGD1,000 (USD696) plus a certificate. "This is to recognise advisers who have been doing proper documentation and meeting compliance requirements. We want to tell our advisers that the quality of sale is a priority. If you take care of the quality, the quantity will take care of itself," says Phanse.*

Phanse and her team help advisers to monitor their continuing professional development (CPD) hours and follow up with them. Every year, they each must complete 33 hours of CPD; if they don't, the compliance team doesn't sign off any new business for them.

On the flipside, the firm realises the importance of giving recognition for advisers who conduct themselves and their business in a strictly compliant manner, including submitting the appropriate paperwork. For Dabbs, if his advisers are doing a good job, he says recognition beyond just their commission is important.

The firm can also leverage this to reinforce its value proposition that its advisers strive to look after the client's best interests, money aside. ■