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Compliant Wealth Management in a World of Regulatory Rectitude

As co-founder and CEO of independent Singapore wealth manager AL Wealth Partners, Anthonia Hui has a treasure trove of experience and many nuggets of advice for those setting out in the industry or venturing away from 'corporate' brands to create their own wealth advisory and asset management businesses. In the second of two recent interviews with Hubbis, Hui elucidates her vision of compliant wealth management in the new world of global regulatory correctness and in a globe where privacy of information and data appear to be things of the past.

HUI OPENS THE INTERVIEW BY focusing on what has become a priority for her and her company, and that is demanding so much of the time and energy of many high-net-worth (HNW) clients and advisers, namely the regulatory environment.

"We live in the aftermath of the Panama Papers, other disclosures, and in this region the Malaysian 1MDB denouement," she observes. "The 1MDB crisis has even further heightened the regulators' eagerness to look at what kind of clientele and business approaches the private wealth manager, private bankers, all kinds of financial sector practitioners are dealing with. More than ever before in the several decades since I have worked in this industry, we all need to respect the regulations and act in compliance with them. This is essential for the health and well-being of the wealth management industry as a whole, for all the stakeholders."

Sustainable now also means compliant

The mission for an independent firm these days, Hui explains, is not simply to create a business that produces revenues and profits, but to fashion a sustainable business that is viable financially and utterly compliant. Accordingly, she believes it is vital to work with the type of clientele suitable for the firm and also for the providers' core competencies and value systems.

"A lot of people might not think deeply about all these elements, they might have thought only about starting the business to gather assets and make money as their primary objectives. But the world has changed, and all these facets must be considered in depth."

Hui's wealth of insights

Hui had spent over 30 years working in banking before she embarked on what have been more than 10 exciting, challenging and thoroughly enriching years running the firm. She also helped found the Singapore Association of Independent Asset Managers (AIAM) in 2011 and with her wealth of experience and contacts, she has a deep understanding of the needs and expectations of high-net-worth (HNW) clients.

As an independent and armed with this profound experience, Hui also has an angle of refraction on the industry that is perhaps more cautious than many of the younger participants who are trying to forge a career, build their clientele and please their bosses, or indeed that the bosses in larger institutions who might be aiming to boost their bonuses.

Careful of the easy target

One danger, Hui observes, is that there are some very wealthy individuals around the world who are apparently relatively easy to engage as clients - so-called 'low-hanging fruit' - but who might not behave or communicate as transparently in their activities as they should in the newly compliant world that we all live in.

"There are people who have plenty of wealth," she remarks, "and who don't want others to ask a lot of questions, perhaps because they have something to hide, or perhaps because they are thriving."

By way of example, she pointed to some of the newer markets where wealth accumulation is growing most rapidly - China, India and some of the smaller ASEAN countries - and where there might be a larger proportion of newly wealthy clients who do not appreciate what the local and global regulators are looking at and who therefore resist adopting the right mindset about regulation and compliance.

Being selective, being cautious

"Do they all understand compliance?", Hui asked, rhetorically. "Certainly not all of them and I believe it is, therefore, the duty of the practitioner, the wealth manager, to essentially educate these clients and to help them to be compliant. But there is the danger of course that the growth of the wealth management business and the rewards on offer might conspire to the practitioners do not confront these issues upfront with the clients."

Hui delved deeper into client selection and de-selection. "This is one of the things I have been helping to educate this community of ours about," she explains. "I believe it is vital to work with the right type of client, someone

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compatible with your value system and that you are able to work with easily. We all have a certain way of doing things and believe in certain disciplines. If you end up struggling, not being able to fulfil the expectations of the client and you are unhappy, you might end up losing the business next year that you have this year, or end up in bigger trouble than you expected or that you can handle, if a client pushes you to act in a way which is compromising your own value system."

Hui gave a hypothetical example of a client asking to buy stocks in a small listed company with very low trading volumes. "You might immediately ask the client why they are buying that stock and he might reply that a friend of his had advised him it is a good share to buy," she says. "So, do you take the order, or do you try to look a bit further to see if the client might have some insider information?"

When is a trade worth trading?

For many relationship managers, Hui observes, a trade is a trade, it is what they need to make their targets. But in today's regulatory environment perhaps the advisory and execution firm needs to ask the questions. "But I feel," Hui remarks, "that there are frequently not enough questions being asked. The boxes might have been ticked that establish the client as aggressive, someone who often buys this kind of smaller stock, so the red flag is not raised, the trade is made. And if you probe this type of client, they might say it is none of our business, please just go ahead and make the trade."

The danger then is the client starts bullying the RM. "But in my experience, it is better to challenge the client, to state that the questioning is because you want to protect them and their best interests," Hui states. "And if I think the client is closer to the grey line of insider trading, I have in the past refused to take the order. Yes, we lose revenue, but we do not risk our jobs or our licences."

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Hui turned to whether there is sometimes excessive pressure from the larger private banks and other firms for their RMs to produce revenues, perhaps to turn blind eyes to client activities.

Don't cut corners

"Sometimes," she observes, "due to personal pressure of trying to earn more money, people still want to cut corners, as we have seen in the 1MDB case. However, there is continued pressure from the regulator today in heightening the individual accountability rules, which might frighten some players into not venturing into the grey areas."

But there are, she remarks, still many unclear areas, for example if the adviser is involved in the mainland Chinese market, where it is very difficult to fully conduct due diligence that will result in 100% peace of mind that they are dealing with the right type of client who is compliant in all regulations. "If they are with a listed company there," she notes, "it is easier, but finding their sources of wealth in many cases is not so easy, especially identifying the original source of wealth. These areas are potential time bombs, not just for the advisers, but for the clients. And the time bomb is ticking very fast."

Hui closes the interview by looking back at the industry as it was and assessing where it is today.

We are where we are

"Private bankers and wealthy individuals are in the limelight today," she observes. "In the past, we were only a secondary, if not a third-tier player in terms of the banking industry. Because EAMs have raised their profile, we share the limelight as regulators appear to treat all high-net-worth individuals as high-risk clients, we are all in the regulators' focus."

Accordingly, it is more difficult for the advisers today to operate in a way that they feel that they have done all is expected of them, whilst also properly servicing the client and protecting their best interests. "That is the most critical element," she says, "as you must be totally conscientious. Ignorance is no excuse for

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the regulators today. The simple example is if we are not a tax expert, how could I know my client is a tax evader? But that kind of excuse would not stand up to the regulators or in court and will not protect you."

Hui explains that the regulators see HNW clients as high-risk partly because of the events of recent years, from the new worldwide regulations to the Panama Papers disclosures, to 1MDB and other events and developments. "There is a view that the industry had the means and tools to provide them with the service to hide their wealth, at least for that wealth not to be known in the public view."

But those days, she explains, no longer exist, due to the Common Reporting Standard-AEOI, FATCA and other changes. And many countries that did not have a worldwide income tax regime would now have become a global income tax administration. And those that used to be somewhat gentler in terms of enforcement, in terms of tax noncompliance, many of them, she says, are moving toward the far more aggressive end of the scale.

"The regulators now have the tools, the regulations, and they have the data," she observes, "and because of all that I think the high-net-worth individual is in the spotlight. It appears a natural consequence of the whole series of developments worldwide. And who is the easiest person to tax, with little muscle or resource to defend themselves? It is the individual because nobody on their own wants to fight a government, but a corporation has the capacity to fight a government"

Moreover, Hui observes that even major corporations these days, BigTechs for example, are losing some of the battles with some governments or multilateral bodies such as the European Union. "So," she says, "who are the individuals who feel that they want to pick a fight with the government when they have all your data?" In other words, compliance is no longer a choice, it is an absolute necessity.

Nurturing the wealth industry

Hui ends the discussion by reiterating that she cares passionately about the industry to which she has devoted her entire working life. Only a few missteps by just a few in the industry can corrode the positive image that many of the more trustworthy, compliant, responsible members of the wealth management community have worked so many years, or decades, to build.

"We only need to have one bad apple to corrupt the image and the credibility of the wider industry," she says. "There are many high-quality practitioners who invest their entire life to build their integrity and the credibility of the industry at large. That is why I do not like to see or hear of firms or individuals in this industry that turn blind eyes to non-compliance." ■