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Don't dim on DIMS

David Greenslade | Strategi | 12 November 2013

So, you have read the Financial Markets Authority's "Guidance Note: Discretionary Investment Management Services" and decided it is all too hard and you will stop offering DIMS? Hopefully not - but I have had many long conversations with financial advisers recently who are thinking just that.

For many Authorised Financial Advisers (AFAs), the FMA's DIMS guidance note creates significantly more work - especially for those who are acting as 'brokers' in this area and for those who have had a minimalist approach to documentation. If you as a standalone AFA think it is tough, just imagine the machinations that trustee companies and others who do not have an independent custodial platform must be going through right now! For them, the Financial Markets Conduct Act (FMC Act) and the Ministry of Business, Innovation and Employment consultation document could cost them a fortune in new processes and documentation.

AFAs who are offering DIMS (other than those in the big trustee/sharebroking companies) and who are not using an independent custodial service should have got the message loud and clear from the FMA's DIMS guidance note - it is time to move to a custodial service before the FMA starts enforcing its "expectations". The decision to use an independent custodial service needs to be carefully thought through and the FMA has outlined its expectations in the guidance note.

But non-corporate AFAs who offer DIMS should not be overwhelmed by the DIMS guidance note. After all, it simply comes down to:
- implementing new or refining existing procedures;
- producing new documentation and updating some old forms;
- ensuring additional items are covered in ongoing reviews;
- updating your Adviser Business Statement (ABS)
- and, then, providing ongoing proof you're meeting what the FMA wants, what is in the FMC Act, and proposed new Code of Professional Conduct for AFAs.

Doing all this will cost time and money - but, retaining the opportunity to provide DIMS will potentially cost less in revenue terms than the lost opportunity cost of ceasing to provide DIMS.

So you may be asking, "Where is the upside in DIMS?" Let's look at it from a number of angles:

- You cannot just stop offering DIMS to new clients and have the problem go away. To alleviate the DIMS burden, you would need to get every client to whom you currently

provide DIMS to extricate themselves from the existing agreement. These clients might be on a wrap platform and like the DIMS service, so it might be easier for them to change advisers rather than alter all their investments to suit your new way of operating. In other words, you might lose clients.

- The DIMS guidance note makes sense for AFAs who are not working in a trustee company or a QFE which has a large in-house or external custodial system. The DIMS guidance note aims to protect clients through making them more aware of what they are engaging in, and ensuring they get the right initial and ongoing information. I think this is fair enough if the client is giving more authority to the financial adviser to make buy and sell decisions on the client's behalf. Since the Ross Asset Management (RAM) scandal, there has been considerable investor concern around how secure their money is. The DIMS guidance note helps prevent another RAM – and you can talk through with a client or prospect how your service is different to that of RAM. In other words, you might win clients.
- Offering DIMS lessens your competition so makes it easier to get new clients. Personalised DIMS can only be provided to a retail client for Category 1 products by an AFA who is licensed to do so under the Financial Advisers Act or by a QFE adviser, but then only in respect of Category 1 products for which the QFE is the product provider or promoter. My assumption is clients with investment portfolios over, say, $250,000 (a totally arbitrary figure) would like to have all the reporting and administration undertaken centrally rather than handle the paperwork themselves. They possibly do not want to use a multi-sector managed fund nor have a totally standardised portfolio that automatically rebalances just like a multi-sector fund. They may want to discuss things with their financial adviser plus have the flexibility to add in the occasional new investment other than managed funds. This is right up the alley of an AFA offering DIMS. My hypothesis is that an increasing number of QFEs will move to a narrow product range consisting entirely of their own managed or promoted products. This means they do not need AFAs and can have more of their staff revert to being QFE advisers. If this becomes the case, there will be fewer advisers and firms in the market offering DIMS which cover a diverse range of products. Consumer research tells us that the more wealthy and savvy a person is, the more they expect solutions to be customised to meet their needs – and, hey presto, DIMS is ideal.

There is not a massive amount of time to get sorted for DIMS. AFAs should get started now and, where necessary, put pressure on their platform providers and fund suppliers to update the relevant forms. AFAs will need to review the adviser/client authority. The investment mandate needs to be carefully considered as there are a number of specific things the FMA expects to see in these documents. When doing this, take into consideration the Financial Markets Conduct Act, the proposed new Code of Professional Conduct, the FMA's DIMS guidance note, and previous FMA guidance notes relating to analysis, suitability, disclosure

and ABS.

But don't dim on DIMS. Retaining it may be good for your business!

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