

**Submission to the Parliamentary Joint Committee
On Corporations and Financial Services**

Issues associated with recent financial product and services provider collapses such as Storm financial , Opes Prime and other such issues.

Submitted by:
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Dear Sir,

I am a former client of Storm financial.

I became a client of Storm financial (SF) and Colonial Geared Investments (CGI) / Colonial Margin Lending (CML) in 2001 and later Commonwealth Bank (CBA) .

I had Storm branded index funds with SF, margin loan with CGI/CML and housing investment loan with initially Westpac, then – on SF advice - CBA.

The collapse of SF has left me financially ruined in much the same manner as many other SF clients, (the events of which I am sure you are well aware of). I will not go into much fine detail here, suffice to say I have lost all my life's savings, including an inheritance left to me by my late father for his grandchildren. I am now in excess of \$200,000 in debt.

My margin loan LVR blew out to 108% which created a shortfall of approx \$34,000. After many harassing phonecalls from CML, I was forced to pay this shortfall as I was very worried about getting a bad credit rating / black mark against my good name. I was also left with little choice but to close down the margin loan facility at this time, and was hit with substantial break fees simply for doing so.

As a low income earner, the only way I could finance this debt was through relatives, who were kind enough to give me a helping hand when I needed it most. Without this assistance my family and I may no longer have been able to stay in our own home.

I went with SF as I had fully checked out their credentials, they appeared very successful. I also had several favourable recommendations from existing clients.

When I first signed up with SF, my home was fully paid off, and I also had a modest portfolio of individual blue-chip shares which I had built up over many years, and a lump sum of cash. This was all signed over to SF. At this point, I was aware of what margin lending was, but had had no prior experience with it.

Some individuals have commented that I was “greedy” for investing with SF and taking out a margin loan using my home as security. I can only speak for myself here, but I come from a very modest background and was simply trying to create a secure financial future for my children, and to try and self-fund my own retirement. To create a self-funded retirement is what the Australian Government is constantly encouraging us to do.

Hence I chose a Certified financial planning company, members of FPA and fully approved by ASIC, and the advisers were fully accredited financial planners.

I was aware that SF fees were probably the highest around, but was prepared to accept this, as I was led to believe they were – in their own words – the best in the industry. Consequently, I thought my money would be very professionally managed.

Like other clients I was advised that margin lending was “the way to go”, and that the risk of investing was negligible (providing funds and LVRs are monitored carefully). I was also told that my money would be invested in index type funds, which they assured me were very safe. I was also assured by SF, if a worst-case-scenario happened, they had a number of safety net strategies in place to protect assets and even if the company went belly-up they had professional indemnity insurance.

So, I believe I had done everything right by my family and myself, to safe-guard our future.

I am not a “high-flyer”.

I did not go on any lavish overseas trips with SF.

All went well until the beginning of 2008, or thereabouts, and the stockmarket began it’s downwards slide.

I contacted SF on two separate occasions during the year (2008) to discuss my desire to - if not sell out completely – sell down my position in light of what was happening. I was advised by SF that this would be the worst thing I could do and to just hang on tight. SF assured me the market, according to historical trends, would eventually recover. Advisors even sucked me into borrowing more as the market was – in their words – “well down” and it was an “excellent buying opportunity”. Yes, I admit I made the tragic mistake of not obtaining independent advice about SF at this time. How were clients supposed to know the underlying truth? I am a machinery parts specialist NOT a financial expert, this is why we were paying SF such high fees.

Most people know what transpired over the next couple of months. In fact my wife tried several times (often unsuccessfully) to contact SF for advice as at this time I was sick in hospital. She was told they simply couldn’t give any advice and couldn’t help us (I later found out they had been gagged by ASIC).

Therefore, like most clients, as our funds were frozen, financial advice “gagged” and, in a total state of confusion, we were forced to sit and watch as the whole saga played out. Any so-called “protections” put in place by SF obviously did not work.

Then, in early December, I received one single phone from CML advising that my margin loan was in default, funds were frozen, and I now owed them \$33,906.51. This was later backed up with an official letter in the mail. I, like many others was horrified to find the funds were sold out from under us. Were they simply dumped back into the market or were there buyers for these funds? Who profited from all this? I was NOT aware that the funds could be sold up without my prior knowledge.

Like many other SF clients, I NEVER RECEIVED A MARGIN CALL from CML. I was NEVER GIVEN THE OPPORTUNITY to correct the margin loan situation. At the time, I wasn't even aware of my true position in regards to the loan as I was NEVER CONTACTED BY CML or CGI.

I found out much later I could have had margin loan information access on the internet -if it had been set up- (and it wasn't). At the time I wasn't aware I could do this. Evidence now appears to suggest that this would not have been of much use anyway, as much CML / CGI information on the internet was always hopelessly out-of-date.

My understanding of standard margin loan practice is that once a certain loan-to-security level is reached (on my loan statement for June 2008 it says 89.81 %, although I am aware the figure can vary slightly at different times), a margin call is triggered. Once in margin call the client is contacted immediately and is given a certain period of time to correct the situation.

THIS DID NOT HAPPEN.

WHY ??????????

I understand the true reasons for this are yet to be fully determined, however, it is clear that hapless investors were like “lambs to the slaughter” and completely powerless to do anything about it.

CML blames SF / SF blames CML / lies, mis-truths, cover-ups, possibly fraudulent loan applications, conflicts of interest, etc. I have heard plenty.

None of this can diminish the fact that hundreds of clients have had their financial future and lives destroyed THROUGH NO FAULT OF THEIR OWN.

These large organizations simply MUST be held accountable for all this. If they simply blame the fact that their own systems and procedures simply could not cope with the large volume of clients on their books that is clearly THEIR OWN PROBLEM, not the innocent investors'.

It is now clear that SF's own financial model system was fatally flawed and SF was simply a huge profit making machine, whose desire to keep the monies rolling in was far more important than looking after the best interests of their clients. Why exactly then were clients with incomes of less than \$40,000 per annum able to take out loans of millions of dollars? The banks are equally guilty here, even more so perhaps, because the bottom line is **THEY WERE THE FINANCE PROVIDERS.**

It has now been shown that SF and CBA were in a **VERY, VERY** close relationship. Obviously, as long as loans could be written up and commissions and funds kept rolling in, the simple concept of **DUTY OF CARE** to clients was conveniently ignored. Where was the duty of care shown by any of these organizations during all this??
I SEE NONE.

We, as clients placed our absolute trust in these organisations in exactly the same manner as one would their doctor or solicitor. I am now aware that SF had **ONLY \$20,000,000** in indemnity insurance. Given the fact that they had many hundreds of millions under advice, this is clearly so grossly inadequate is almost beyond belief. Why then if ASIC investigated SF in the first half of 2008 did they give them the all clear ????
Where were the financial regulators during all of this ??? I was of the impression they are there to prevent these types of things from happening in the first place.

What I find the most disturbing about this whole situation is the complete **CONTEMPT** the banks seem to hold for their clients.

Firstly, for the CBA to completely **DENY ALL RESPONSIBILITY** for the situation clients find themselves in.

Secondly, to only admit liability in the face of overwhelming evidence, as per the ongoing investigations conducted by ASIC.(CBA also as per media reports have confessed to shortcomings with its investment and margin lending practices).

Thirdly, having admitted to being partially responsible for client's situations, instead of trying to help rectify the problems it in itself caused, the CBA used it's position and clients' desperate financial situations to stealthily encourage clients into **SIGNING AWAY THEIR LEGAL RIGHTS** by signing deeds of arrangement containing the very minimum amount of financial compensation possible. All of this under the guise of assistance with "financial hardship for clients of SF".

I find totally this **TOTALLY REPUGNANT** and **WICKED TO THE CORE**. This may be **LEGAL** but it is most certainly not **ETHICAL**.

I have always been under the impression that banks were accountable to a **CODE OF ETHICS**.

WHERE ARE THE ETHICS HERE ?

The dire need for a complete overhaul of the entire financial services industry in this country is obvious. The banking industry in Australia needs to be accountable for its actions. From my position and the many other SF clients the banks are not accountable to anyone but themselves (and their shareholders). Legislation should be introduced to change this state of affairs.

I will NEVER trust banks or financial advisors EVER again.

Given the true scope of these financial disasters, the ramifications caused to thousands of investors, and the myriad of serious legal and moral questions posed, I believe no less than a ROYAL COMMISSION is now justified. Those at the top of said financial organisations, if proven guilty of deceptive practices and/or outright fraud, should face CRIMINAL CHARGES and PROSECUTION.

Then, and only then, may true justice finally be served for all victims involved.

Yours Faithfully,

Philip R. Schurmann