

Committee Secretary  
Parliamentary Joint Committee on Corporations and Financial Services  
PO Box 6100  
Parliament House  
Canberra ACT 2600  
Australia

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**RE: Inquiry into Financial Products and Services in Australia**

Dear Sir,

As former Storm clients we have received, through the client network SICAG, various forms and statements from

- Worrells Solvency and Forensic Accountants
- Financial Ombudsman Service
- Financial Planners Association
- ASIC
- And various Members of Parliament.

suggesting we claim for damages from, lodge a formal complaint about or start a dispute process with Storm Financial and the Banks involved for the financial position in which we find ourselves. However, not being forensic accountants, insurance assessors or financial planners ourselves we have NO IDEA what we can formally claim, complain about or dispute. We do know we had very successfully managed our own financial affairs for some 55 years and have only gotten into trouble since trusting an “expert” to do it for us. We did ask the questions “What happens if...” And “Is it prudent to borrow so much” but we had the assurances that these people were the experts, were members of all the professional bodies, had professional indemnity insurance to cover any lapses etc., etc., etc. We put our trust (and money) into the hands of “professionals” and expected the results that we, as professionals, endeavour to produce in our field of expertise.

The areas that have left me with questions are as follow and I address these questions to your specific terms of reference

**1. The Role of Financial Advisers.**

- We were sent forms, along with a letter of recommendation from Storm, to pre-pay interest by capitalizing on the marginal loan prior to June 20, 2008 for tax purposes and to set the interest rate for the coming year. We had a meeting with our Advisor that day and we decided we did NOT need to do this as interest rates were set to fall, we did not need any tax deductions (we made huge losses due to up-front costs & already falling market etc.) and the increase in the loan would raise the LVR a further 8% to 74%. However, several months later when we received end-of-year paperwork, to do our tax return, we saw that the interest had been paid. Now due to this collapse we have had to break that loan agreement and were charged a Break Fee of over \$26000.
- During the most critical period when all this was happening (November 2008) we could not get any advice from our “Financial Advisers” as to what to do as they had a gag order on them from ASIC. We had several avenues open to us to access funds (from family) to try and prevent the sell down of our portfolio but we did not have the knowledge of the system to undertake this.

## **2. The General Regulatory Environment for these Products and Services.**

- Assurance that margin calls would happen at 80% so there was a buffer in the system to avoid total collapse. These buffers, along with others (having sufficient cash reserves to weather a margin call), were what let us believe that all events were covered. But allowing the margin calls to go to 100% and beyond also took the cash reserve. I'm not sure who is to blame here as I think Storm and the banks were "negotiating" – all I know is that they were negotiating with our money and we were not being included in the negotiations.
- At our initial consultation we were advised that, as retirees, we could only borrow 60% of the value of our home. On presentation of the recommendation we noticed the Home Equity Loan was at 80%. We questioned this but were assured that our "portfolio" could "handle" this. Once again we deferred to "the professionals".

## **3. The Role played by Commission Arrangements Relating to Product Sales and Advice, including the potential for conflicts of interest, the need for appropriate disclosure, and remuneration models for financial advisers.**

- On initial investment with Storm products we were "advised" to move the taxable portion of our Super out of QSuper and into Colonial First State Geared Super. The reasoning for this was explained to us as due to the enhanced performance due to gearing. It WAS NOT explained to us that we would be charged a Contribution Fee of \$20,344.08 or that Storm would receive a Trailing Commission from this Account.
- In this economic crisis, when the Prime Minister and Treasurer are imploring banks to show compassion and restraint, the banks are charging huge Break Fees for Margin Loans that we have been paying high interest rates on but have no choice but to close down due to margin calls. And in the case of some clients it was the bank's decision to close down the loan not the client's decision, but they still charged the top break fee. The market has crashed 50% and we expect losses but the banks have had no losses – they got all their loan money back, they got top interest rates on that money up to the last second of the process (it took us 3 weeks to decipher their jargon and get all the processes completed) and they charged fees for every process along the way. On top of this the Government has increased their business through the cash guarantees and are now propping up commercial loans to keep them in business.

## **4. The Role Played by Marketing and Advertising Campaigns.**

- During initial contact Storm provided paperwork documenting professional affiliations, licensing and insurance compliance. This was a factor in our placement of trust in their professionalism.
- The fact that Storm has gone through this scenario previously with reported complaints to ASIC and compensation paid but nothing was disclosed until it all happened again. (The Sunday Mail 1/2/09 page 51) Emmanuel Cassimatis was very proud to announce at every Investor Update that "we have NEVER had a margin call".

## **5. The Adequacy of Licensing Arrangements for Those who Sold the Products and Services.**

## **6. The Appropriateness of Information and Advice Provided to Consumers considering Investing in these Products and Services, and How the Interests of Consumers can Best be Served.**

## **7. Consumer Education and Understanding of these Financial Products and Services.**

- A high degree of importance was placed on “educating” prospective clients but in hind sight this only “educated” (or should I say indoctrinated) us on the aspects they were trying to “sell” us on. It was not a fully rounded education and future requirements for education prior to participation should be conducted by external independent organizations (e.g. Centrelink runs Financial Awareness Seminars)

#### **8. The Adequacy of Professional indemnity Insurance Arrangements for those who Sold the Products and Services, and the Impact on Consumers.**

- Signed contracts that upfront fees were for the “life” of the investment – a minimum of 5-7 years was stated as the period for profitable investment. We now (after paying out over \$100,000 less than 2 years ago) have to pay another Financial Planner to manage our meager remaining investments. Isn't this what professional indemnity is for?

#### **9. The Need for Legislative or Regulatory Change.**

- I leave it up to you to decide the changes to regulations and legal requirements of the industry to ensure this situation cannot happen over and over again to unsuspecting and “innocent” investors, trying to ensure their future financial security.

Now; to add insult to injury; we didn't get the first stimulus package as we were not pensioners and we missed out on the second package because our tax payable was offset by franking credits on shares, which we now no longer have, and will probably get charged Income Tax on the earnings of these shares that we have owned for 30 odd years.

Now; after 30 years in the Education Department and 4 years of retirement; we are on Centrelink payments, are taking anxiety/depression medication, are seeing a Psychologist, have started a part time job and owe \$384,000 on the home we have owned for 20 years. This submission may have done no more than allow me to vent my frustration but if it adds to the call for investigation, helps the momentum toward banking reform or prevents future investors from going through the heart ache and stress that we are then I have not wasted my time, or yours.

Jo-Anne & Alan Harding