

Submission to the Senate Inquiry into Financial Products & Services

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Committee Secretary, Parliamentary Joint Committee on Corporations and Financial Services
Department of the Senate
PO Box 6100 Parliament House
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TERMS OF REFERENCE

1. the role of financial advisers;
2. the general regulatory environment for these products and services;
3. the role played by marketing and advertising campaigns;
4. the adequacy of licensing arrangements for those who sold the products and services;
5. the appropriateness of information and advice provided to consumers considering investing in those products and services, and how the interests of consumers can best be served;
6. consumer education and understanding of these financial products and services;
7. the adequacy of professional indemnity insurance arrangements for those who sold the products and services, and the impact on consumers; and
8. the need for any legislative or regulatory change.

Role of Financial Advisers and my personal outcome

My decision to invest with Storm Financial was based on; 'word of mouth' testimonials and in the knowledge that Storm Financial was a member of the Financial Planning Association and approved by the regulatory body, ASIC.

I attended the Storm Financial educational tutorials and all information sharing meetings held at Redcliffe. The statistical data presented and explanations of the 'buffers' put in place for a down-turning market gave me confidence in the competency of the organization.

My confidence was also boosted by comments shared by my financial advisor that his parents, other relatives and friends were also investors.

I invested my superannuation from 24 years of teaching with Education Queensland together with a margin loan from Macquarie Bank in August 2007. This was prepared on my behalf by Storm Financial. It appeared to be a good choice to lead me safely into self-funded retirement.

I did not mortgage my home but it was held as security. I followed the advice given and borrowed further to offset the down-turn in the market. This led to my losing 90% of my investment.

General Regulatory environment for these products and services

From my understanding, margin lending has been a product widely used, if initially for the more affluent investor. Storm Financial offered this product using statistical data that convinced investors like myself of its ability to assist in achieving the goal of being a self-funded retiree.

My own research in checking Storm Financials credentials indicated that the regulatory environment approved their model of operation.

Considering the devastating impact Storm Financials model has had on ordinary investors, there appears to be a need for increased transparency regarding investment models.

The role played by marketing and advertising campaigns

The use of well known television identities in promoting a company influences the decisions of would-be clients. This added to my assumption that Storm Financials model of operation had integrity and would not put the life-savings of investors at risk.

The adequacy of licensing arrangement for those who sold the products and services

The role the banks play in providing margin loans to financial planning companies has been questioned by those shareholders devastated by the collapse of Storm Financial. Poor communication of investors loan to value ratio led to investors not being able to make timely decisions or take appropriate action.

The appropriateness of information and advice provided to consumers considering investing in those products and services and how the interests of consumers can best be served

Under the 'Our Obligation to you' heading of the "Your Protection Under the Corporations (Act 2001) Law' of the Storm Financial plan states;
'Our purpose at Storm Financial is to make money for our clients and ourselves – honestly, ethically and justly.'

This statement now has no creditability. With the collapse of Storm Financial, the model they operated within has been widely criticized.

Whilst statistical data during the educational tutorials took prospective clients through the September 11 event and the strategies put in place to protect the investor, the necessary trigger points were not acted upon by Storm Financial or the investment banks during the late 2008 downturn. The questions now waiting to be answered are; (a) who is to blame? and (b) what compensation is due to the investor?

Consumer education and understanding of these financial products and services

Storm Financial clients paid high up front fees that were promoted as being 'long term' and competitive. Storm Financial invested in client educational tutorials and regular feedback meetings. Opportunities were presented for clients to discuss their confidence in the company in an informal setting during these 'feedback meetings'.

Whilst I was a new client, my overall impression was that long standing clients were satisfied with the competency and transparency of the company. I did not participate in any of the overseas trips, but had the impression that the company portrayed a 'family atmosphere'. The integrity of the company and the value they placed on the client was always referred to in tutorials and the meetings.

With the information that has subsequently come to light, myself and many others are questioning how could so many, hard working, forward thinking people, seeking only to provide themselves the means to a comfortable self-funded retirement, have got it so wrong.

Perhaps if we had known, as we now do, that ASIC had been monitoring Storm Financial for some time, and that complaints had been received, then we may have been in a position to question and seek alternatives.

The adequacy of professional indemnity insurance arrangements for those who sold the product and services and the impact on consumers.

Throughout all educational and meetings the safety of the Storm model was reinforced. Flippant comments hinting at the level of indemnity insurance cover were often made. To discover now that a less than satisfactory cover is in place is unimaginable.

Clients rely on the Financial company and the investment banks providing the margin loans to ensure that their investments have appropriate insurance cover for unprecedented events such as has occurred.

Whilst my losses are not as catastrophic as many, I have lost my superannuation and savings due to a flawed investment model and what I see as a lack of transparency around financial products and services available.

To realize that we are all now facing an insurance cover that is not sufficient to cover investor losses is daunting. For my situation, it took 24 years to gain the superannuation I invested with no possible hope in building that up again to anywhere near what it was.

The need for any legislative or regulatory change

The investors with Storm Financial have at times been portrayed as greedy, risk takers. From my understanding the majority of investors are mature aged, having worked all their life and seeking to self-fund their retirement for a comfortable future.

I am saddened by the horror stories of so many who have contributed to the Australian economy, their communities and families and now find themselves without their home and striving to pay off debts.

For some, even to prepare a submission is too daunting. They are focusing hour by hour, day by day to simply survive and to face the difficult challenges surrounding them. That this should be their consequence for attempting to take care of their own retirement surely highlights the need for more transparency and accountability in the financial planning and banking industries.