

## **SUBMISSION TO THE 2009 PARLIAMENTARY INQUIRY INTO FINANCIAL PRODUCTS AND SERVICES IN AUSTRALIA**

As former clients of Storm Financial we submit the following statement.

### **Our story**

Having been in the building game for many years our portfolio accumulated for the purpose of becoming self-funded retirees consisted of several properties and a sum of cash. Many times we were advised to "balance" our portfolio by including shares. We spoke to several Financial Advisors and obtained Statements of Advice before deciding on Storm because of their friendliness and attitude and the recommendation of friends. While we felt their fees were high they were explained to depict that they were in keeping with other finance advisors over a period – we were blinded by their explanation and sold with their sales pitch. We first started talking to Storm in February 2007 with our first investment taking place at the end of June 2007. We made it clear to Storm that we would not sell any properties to invest but wanted to use our investment properties as the collateral to borrow against. We mentioned that we did not want to put our own private home against any loan as we had never done so in the past for our other properties and did not want to put it at risk. As with most clients this too was ignored and borrowed against as it "gave us a better chance and looked good in our plan". These are the sort of ways Storm did business and why we wish now that we never had got involved. Many times we have been asked why we trusted Storm. We were ordinary people who trusted professional businesses, belonging to their professional bodies, who did a job for us. We never asked the dentist why he was drilling our teeth, or questioned the doctor why he gave us a certain type of medicine or questioned our accountant. We paid them to do a professional job and we thought we would get the same from Storm as our financial advisor.

In the short eighteen months of dealing with the combination of Storm Financial and the Commonwealth Bank of Australia (who we have been a customer with for 50 years and who have never contacted us about the Storm issue), Macquarie Bank and partially due to the collapse of the market, we have now lost just about everything we worked so hard for in the past 40 years. Our retirement, set for this year has been thrown out the window and we continue to work to pay the interest on the loans in the hope of saving the house we live in and what ever else we can salvage. We will continue and sell our properties, lowering our loans (in excess of \$1.6M) to try to save our private home.

While we realise and accept that there are up to 5 influences on our losses namely:

- Our own belief and trust in a professional body to become self-funded retirees
- What we see as the aggressive way storm invested on our behalf, their high fees
- The greed of the banks in their lending and property valuing processes
- The cancelling of our margin loans by Macquarie Bank in a down market
- And the state of the financial world (Global recession)

**Storm Financial** – the aggressive way they invested on our behalf, very quickly putting us in deep debt – especially as the markets started to drop, and the high fees – in all we paid Storm \$131,552.00 for 18 months advice on how to loose our portfolio put together after working for 40 years (hard manual labour). We had a great relationship with our advisor in Redcliffe but as we now see, he appears to have been more of a go-between and our very un-personal plan was put together and driven from the head office in Townsville. Once in error we were sent paperwork direct from Townsville asking us to sign for more investment and when we spoke to our advisor he knew nothing about it. We were pawns for Storm to get more commission and fees to build the business and it is hard to see that they ever had our interests at heart.

### **Macquarie Bank**

Our margin loan was with Macquarie Bank and because the bulk of our shares were sold down at a very big loss to keep our LVR at an acceptable level we did not have a margin call. Macquarie sold their margin lending section, but like many other Storm clients our loan was not included and we were given timelines to pay and close this loan. Macquarie had a substantial amount of cash from our sold shares on which they paid no interest for approximately 5 months until we finally negotiated to have it in an account that did pay interest but it had to be pledged to the loan. The pledged cash (and the represented share loss) plus other assets/cash we had managed to save were used to pay out our loan on the due date (after the prepaid interest term had expired). Had we been able to

keep this loan going (by paying the interest on it) and wait for the market to pick up we would not have suffered such a loss in this aspect of our investments. Why was our loan, and other Storm client loans, not purchased by Leveraged Equities Ltd?

### **Commonwealth Bank -**

A customer for 50 years, for both private and business, approximately 8 loans (over half of them fully paid out – principal and interest) and yet they treat you like scum, driven by greed not only for profit but also glory – How many awards did the Aitkenvale branch receive for the highest loan values etc. while they played with our lives? Never in those 50 years have we ever missed a payment. Since the Storm collapse we have never been contacted by the Commonwealth Bank about any facet of our dealings with them that are tied to Storm. This includes 3 loans (totalling in excess of \$1.6M). While with Storm the CBA re-valued our properties, some above current market values, (Our 5 properties (including 4 rental houses) that were valued by the bank in mid 2007 and re-valued by a computerised method in mid 2008 (12 months in a very bad market) rose by 7%, 8%, 11%, 15%, 31%. The house that CBA claim rose by 31% in 12 months is a very old house (1975 model) in the back of Strathpine. We have not had all properties re-valued as we are scared to learn the truth, but the only one we did have a new valuation on was valued as the same as the original value (0% increase) as it is in a small town, but the bank saw fit to increase that house by 7% so it is now about \$30,000.00 over the market value given to us by a local real estate agent who thought we were looking at selling and did not know why we wanted the value done. We could never sell it for the value the CBA have now put on it. Obviously the person looking at the revaluing did not know what area our properties were in or what style of houses they were (and how could they at a desk up in Townsville). We questioned the re-values and the loan but were told how lucky we were as the bank never offers this normally and we were only one of 400 people to receive the offer. Also they insisted the extra capital was handy in this type of market as we could catch the upswing. I would love to speak to someone from the bank and ask them to compensate us for the extra interest we have paid etc. and lower the loan to match the house values. We needed a small loan from CBA a few months ago that we could not raise from personal avenues to pay out our margin loan with Macquarie. The branch said we had a chance at getting it as our "figures" still covered, but it had to go to the head office because of our loan sizes. You guessed it, despite never missing a loan payment in 50 years, and both of us still working we were refused – was this because we were with Storm!! Who knows - but they were offering us more money 12 months previous to this.

The press has mention that Storm and the CBA had their computers linked or compared. When I was recently in the bank about the above loan I saw our records at the bank. On the screen were all our details about our Macquarie Bank loans (loan limit, loan amount and the shares we owned). We have never given these details to the CBA as they were all done after our loans with the CAB were put in place. They were up to date as at last November/December as they reflected the sold shares last October (2008). How did they get to know about the details – obviously through Storm? We don't remember ever giving permission for this to happen; maybe it was hidden in the paperwork we signed at some stage with Storm. We would like the commission or the ombudsmen to tell us if it is ethical or allowed that such Macquarie records, that have no reflection on our CBA loans (that are all against properties), are kept on another banks computer system without our consent or knowledge.

I guess in all of this, not only have our lives and plans been ruined, our healthy financial situation crumbled, but possibly the worst part is - our health has suffered. You never get that back, it just means more doctor's visits and increased costs for more prescriptions.

When people ask us how we cope with such a situation - we try very hard to look at the positive and say we still have our close nit family, and our beautiful granddaughter to love and cherish. (Oh I nearly forgot - and the joy of working instead of our planned well earned retirement!!)

### **QUESTION**

If Storm Financial had kept trading, the Commonwealth Bank had not foreclosed on them and Macquarie had not closed our Margin Loans – where would we all be today. From our own position – probably slowly climbing our way out of the recession like most markets with our collateral and hard earned portfolio still in tact.

## **RESPONSE TO THE PARLIAMENTARY TERM OF REFERENCE**

### **The role of financial advisers**

When you engage a Certified Financial Planner you are engaging a recognised professional in his profession. His is to look at your lifestyle, goals and requirements and develop a financial strategy suitable for you that should help in reaching your goals. Clients from Storm Financial did not receive this. It appears they used the "one size fits all" method and did not tailor the Statement of Advice/Financial plan to each of their clients.

So a customer can have faith when hiring a professional there should be some assurance through a regulatory body that gives them that assurance. Less commission driven planning, tighter control on each financial planner and adequate insurance to protect their clients with the value regulated against the size of investments and capital base of the company/individual.

### **The general regulatory environment for these products and services**

- Better regulatory licensing for all advisors
- Regular audits (e.g. every 12 months) of the companies in relation to their financial status, record keeping, and quality of advice.
- Disclosure of commissions and spin-offs from products disclosed at all audits.

### **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**

The collusion with the banks and Storm were evident by the initial trust and supplying of information which appears greater than in any normal association. Was it true that some of the Storm staff are reported to be ex bank staff and were hired because of the banking knowledge to execute loans. Both the bank and Storm profited by larger loans. That is until one of them seemed to get cold feet. Better disclosure and auditing in the industry is needed.

### **The role played by marketing and advertising campaigns**

When you an ordinary citizen and not a professional in the field it is hard to distinguish between reality and the spiel of a good salesman - especially one that uses many confusing graphs and diagrams and jargon in their presentations. Professional body controlled Audits along with penalties for false advertising may have some impact but would not have an impact until complaints are actioned.

### **The adequacy of licensing arrangements for those who sold the products and services**

We were informed that Storm had all the certificates and licenses ensuring to their credibility in the financial field. Someone needs to check on the practices carried out by so called professionals and if the boundaries are being pushed too far.

### **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**

Pre Storm we were like many others debt free. The Government supports and endorses the need to be self funded retirees to take the strain off the public purse and to be self funded retirees most of us need advice. The Statement of Advice we received from Storm was looked at by our accountant and while he was not completely satisfied with the concept and aggressiveness he informed us their advice followed standard practices for financial advisors. All information and advice provided to consumers, needs to disclose all aspects and be standard in the way they are given.

### **Consumer education and understanding of these financial products and services**

We attended the educational sessions held by Storm and did understand the basic principles of investing. But unless we take a full course we will never be experts. As a consumer in need of advice we engage with someone who advertises and has the paperwork from their professional body to say they are the "experts". What degree of education and understanding of financial products and services should a consumer have? Maybe presentations on a large scale should be attended by regulators.

**The adequacy of professional indemnity insurance arrangements for those who sold the products and services, and the impact on consumers**

Professional indemnity insurance should be gauged and related to the size of the business and the amount of funds they have invested through them. The amount of professional indemnity insurance held by an organisation should be made public to their clients by the company.

**The need for any legislative or regulatory change**

The need for legislative changes has been highlighted by the practices of Storm Financial, Opes Prime etc. The general public have a right to be able to approach Financial Advisers with confidence knowing that they have been regulated to a professional standard for their industry.