Submission to the Senate Inquiry into Financial Products & Services

Ann Giudicatti & Errol Rose

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Committee Secretary,
Parliamentary Joint Committee
on Corporations & Financial Services,
P O Box 6100,
Parliament House,
CANBERRA. 2600

Dear Sir/Madam,
Background.

Our names are Errol Rose and Ann Giudicatti. We are like thousands of other clients of the failed Storm Financial. We are a couple aged 58 and 50 years. The purpose of this submission is not to go into detail about our personal circumstances, but to add our voices in the outcry against this injustice.

We employed Storm as our financial advisors at different times, Errol joining in December 2000 and I joined the first half of 2006. Errol joined after selling his business and I went to Storm to invest so as to have a self funded retirement so as not to be reliant on an aged pension in my old age. He was referred by a relative, and I was referred by him.

Neither of us had ever seen a financial advisor before this. We wanted to provide a future for ourselves and not be reliant on Government pensions. This of course may never happen now.

Even after attending all the information and education sessions we must admit that we were not experts on Storm's model but at every stage and by everyone within the organisation, we were told this was a totally safe means of creating wealth. "You will never get ahead by working for your money; make your money work for you". We understood that as we had invested in the stock market, and understood that the stock market fluctuated. We had no problem with this, but we were told and understood that our investment would even out over the years to provide a return of around 7 to 8%, which was better than any term deposit would make, but not a huge return in reality. We paid large amounts of money to Storm for advice. We paid the fees upfront as was advised by Storm. Every time we took another "STEP" we paid more fees.

We both had margin loans and had mortgaged homes & investment properties to invest the money in the share market. Never did we see or talk to anyone from the banks who loaned us these large amounts of money about our needs or our ability to repay large loans In effect; we can only assume that the banks were totally comfortable with Storms practices.

From what we understand, Storm had the stamp of approval from every sector of the industry in which they worked. FPA, ASIC, BANKS, were all aware of the practice used by this company. Yet it was left to go under. We would like to know what happened. We still don't understand how it was allowed to happen. Was this an appropriate product that Storm was selling?

Towards the end of 2008 we were preparing to retire and had cut back on work considerably. We are now back working harder than ever, why, we are not quite sure? Without the banks, Storm would not have been able to operate as they did. They would not have made the fortune that they amassed without the complete co-operation of the banks involved. And I'm sure the banks weren't there out of the goodness of their hearts, either. They were there because they were filling their own coffers very nicely thank you. When times got tough for the banks, the Commonwealth Government gave their full support to the banks by guaranteeing deposits. When times got tough for Storm, the banks withdraw their support.

Between October and December 2008, thousands of hard-working Aussies who were clients of Storm, were wiped out financially. It totally destroyed the lives of people who had believed they were in the best of hands with Storm Financial. The banking industry in this country has been a law unto itself up until now. This must change. Banks, Financial planning organisations, regulatory bodies and governments must all take responsibility for what has happened here, and learn from it.

Now please let me address the terms of reference to this inquiry.

1. ***The Role of Financial Advisors***

The role of advisors should reflect the needs as well as the position, age and goals of their client. In other words, individual and specific to each **person**. This was not the case with Storm. Risk should be explained very clearly, and advice of what **COULD** happen, in a worst case scenario.

2. The general regulatory environment or these products and services.

Statements of advice should be short and to the point. Storm's statement of advice was very wordy and hard to understand. The payments made to advisers were unclear. The affiliation with the banks providing the loans was not disclosed. This needs to change.
To give financial advice, Financial planners should have to apply to a board of registration, just like other professional people and be struck off if found to operating outside guidelines of this registration. (I.E. doctors who are found to be negligent). They should have adequate indemnity insurance to allow for suing if malpractice (I.E. bad advice) is found to have occurred.) If they are found to have broken the law, then the full force of the law should be applied through the legal system in this country.

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.

The role of financial advisors should be to inform clients of any "relationship" or affiliation with anyone who profits from the clients investment, besides the advisor. When people go to a financial advisor associated with a bank, they know the affiliation is with **that** bank, but independent advisors need to have more of an open policy. They need to disclose honestly their reasons for choosing a certain provider and what remuneration is for them, as well as the service provider. They should advise their client of strategies used to protect their investment. (I.E. Automatic adjustment of LVR when it passes a nominated point or value.)

How can the banks, in this economic climate reap such huge profits still, when the whole financial world has lost around 50%? I would like to know how this works. The fees we were charged to brake our loan agreements (not our choice either) were exorbitant. How do the banks justify this?
What happened to our shares that were sold out and who profited from this sale? What was the relationship with Storm and the banks and did they (the banks) have this relationship with any other financial advising firm?

4. The Role Played by Marketing and Advertising Campaigns

Storm did have good marketing products, as well having high profile sporting people plug their company. This didn't influence us to any degree in buying their product. The information and education nights were what sold us. The assurances that our investments were safe and the strategies they implemented all rang true.

5. The adequacy of licensing arrangements for those who sold the products and services

From all the outward appearances storm had all the endorsements required from every regulatory body. It held certificates, licences and endorsements from very educated and prominent people. Where were the regulatory bodies and what was there role. Who watches the watchdogs?

6. 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.

The way clients of Storm were "groomed" to invest **ALL** of their life savings, Superannuation's, homes, other investments was wrong. The old adage, 'don't put all your eggs in the one basket' holds true. How wise we are in hindsight.

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

We thought we were well educated as a series of information and education were compulsory before we could sign up with Storm. We were told this was an industry requirement and not Storms own requirement. We realised this to be true and in the SOA we signed to say we had attended these information sessions. **What good were now?**

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

Indemnity insurance should be on par with the amount of funds under investment. It should be enough to cover any legal action or any loss from clients under a financial organisations advice. In other words, if $20million of client's money was invested, insurance should be large enough to cover this amount of loss. Do we get the hugh amount of fee's back that we paid for poor financial advise.

9. The need for any legislative or regulatory change

We are not informed enough to suggest to this Senate Inquiry a strategy or approach to this devastating loss suffered by thousands of hard working, honest Australians who thought they were doing the right by looking after themselves in retirement. All we can do is plead with every fibre of our heart and soles that NO ONE, EVER, has to go through the torture we & many just like us, have gone through. The magnitude of human tragedy that has occurred from debacle should NEVER be allowed to happen again. It is clear to us there is a need for reform on many different levels of the finance industry. The toll this has taken on ex-Storm clients will never be measured. Please do us justice.

Yours truly,

Ann Giudicatti
&
Errol Rose