Submission to
Parliamentary Joint Committee
on
Corporations and Financial Services

Inquiry into Financial Products and Services in Australia, specifically Storm Financial and Associated Banks.

Background :

As ‘late baby boomers’ we had a goal of becoming self funded retirees to avoid having to rely on government handouts. We realised that our superannuation would be insufficient for this to happen, so in 2006, we looked for financial advice from a reputable financial planning firm and attended seminars to learn more about this very foreign concept of investing in the stock market instead of property which we had previously done.

Unfortunately we chose Storm Financial who appeared extremely professional and claimed to be experts in this field. We felt we asked the appropriate questions to verify their professionalism, such as their affiliation to a professional body, indemnity insurance, auditors, advisors, Legal Registration and their backing and involvement with other financial institutions. At no time were we given any reason to doubt this company and their ability to manage our financial affairs. All appeared in order.

We now feel cheated and conned by what now is proving to be an unethical and unregulated profession, that is collaborating corruptly with the banking institutions principally for their own financial gain and that of the banks.

Key concepts of Initial Storm Information Seminar:

- **“The greatest crime in wealth creation is to do nothing”**
- **“This is a long term approach to financial security” (our aim was to self fund our retirement)**
- **“Expect markets to be volatile, this is normal. The Storm model caters for, and works with volatile markets but ongoing ‘steps’ made on both rising & falling markets need to be done for long term gain.**
- **“Storm strategies allow & cater for worst case scenarios with adequate buffers in place to protect original capital investments – nothing will ever be as bad, or reach the level of the 1929 Wall St crash” – ‘Storm Strategies are safe.’**
- **“The people who panic and get out of a falling market are the ones at risk”**
- **Case scenarios worked through and discussed during seminar.**

1. **The role of financial advisers;**
   To provide expert advice on all forms of financial management. They should be able to give independent personal and professional advice and be accountable to an

independent professional body. Their fees and trailing commissions should be open and transparent.

2. **<u>The general regulatory environment for these products and services;</u>**
We were under the impression that Storm Financial, as a member of the Financial Planning Association of Australia was working under ethical guidelines and regulated by ASIC. Why was Storms 'Financial Model' not thoroughly investigated by ASIC? Why was 'the banks' lucrative association with Storm also not investigated by ASIC? Who is accountable - STORM – THE BANKS – ASIC?
Or were they all in bed together.

3. **<u>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;</u>**
For many years we had been with the same bank without any concerns. Storm encouraged us to change banks as we could be guaranteed better interest rates and easier access to additional funds for future 'Investment Steps' – this meant refinancing existing loans we had for rental properties until these properties could be sold and the money invested with Storm – all this incurred additional costs.

The original fees of **$34,042** were paid for lifetime access to Storm Financial Advice. We were led to believe that after our portfolio grew to **$500k** that the total management fee per annum would be 0.79%. We subsequently incurred additional fees of **$32, 561** in 2 years during 6 'Steps' following our initial investment. It is difficult to follow the breakdown of these fees.

4. **<u>The role played by marketing and advertising campaigns;</u>**
All marketing, information seminars and access to advisors was exceptional.

Questions about negative aspects or concerns were addressed with descriptive (white board) positive explanations, which revisited the original Storm Concepts.

We were encouraged to make ongoing further 'Steps' frequently.

With each step we questioned the ongoing funding of further loans and this was **<u>always minimised</u>** as being taken care of with the ongoing growth of the portfolio.

On many occasions we left meetings with some confusion but had faith in our advisor to act on our behalf, as our thoughts were **"They are the professionals with the greater knowledge and experience, and we have to trust somebody due to our lack of depth of knowledge in this field"**

5. **The adequacy of licensing arrangements for those who sold the products and services;**
   All people selling financial planning products should be licensed and have the ability to personalise investment strategies. They should not just be salesmen selling a product and promoting the positive side of their products but be accountable for also providing in-depth information about the negative aspects and risks.

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 regulating body should provide independent, easy to understand information about all products and services, especially with regard to Margin Lending. The concept of '**good debt verses bad debt**' is still very confusing – by taking the advice of Storm regarding this, our initial investments in property and owning our own home proved to be a much sounder and safer investment strategy.

   If we had done nothing and never become involved with Storm we would still completely own our home worth **$500k**

   We would still have **$90k** cash

   By saving the 26 x monthly loan repayments of $3,178 would have a further **$82k**

   And a greater amount in Pauls superannuation

   Losses in excess of $500,000 over 26 month period

7. **Consumer education and understanding of these financial products and services;**
   They (Storm) were experts in reassuring their clients that their strategies and model were sound and would achieve the desired results over the long term with minimal risks.

   Storm clients were clearly misinformed of the risks involved in their strategies especially with regard to **margin lending**. It is very difficult to remember any discussions about this.

8. **The adequacy of professional indemnity insurance arrangements for those who sold the products and services, and the impact on consumers; and**
9. **The need for any legislative or regulatory change.**
   Clearly this was totally inadequate under the circumstances – once again we asked the appropriate questions regarding this and were misled into a false sense of security by more lies and deception.

<u>Additional term of reference</u>

10. **<u>The involvement of the banking and finance industry in providing finance for investors in and through Storm Financial, Opes Prime and other similar businesses, and the practices of banks and other financial institutions in relation to margin lending associated with those businesses.</u>**

    Specific Commonwealth Bank staff were designated to look after Storm clients to arrange finance – In October 2006 we spoke with a CBA 'Storm Representative' at CBA Headquarters in Townsville and had dealings with another Branch Manager re loan establishment.
    In January 2009 – A Commonwealth Bank Financial Planning Advisor mentioned to us that "a whole team was allocated due to the volume of work and number of Storm clients"– **it would be hard to comprehend that these people had <u>no</u> knowledge of the Storm Model and strategies, and the risks associated with the anticipated margin lending.**
    Superannuation – under Storms advice was switched from MLC to CBA Colonial First State – Immediately this lost **$10k** in fees (not identified by adviser) – is now down to half of original **$88k to $44k.** This is another case CBA benefiting from its involvement with Storm Financial – You scratch my back and I'll scratch yours.!!!!

Present Situation

- Now unable to access agreed lifetime Financial advice through Storm – loss of **$34k**
- Macquarie Bank exited margin lending and we were forced to close down this facility even though our account was **'in order'**
- Macquarie Bank sold the majority of its margin lending portfolio to 'Leveraged Equities Pty Ltd' and storm loans were <u>not</u> included in the sale. We were required to repay our loan.
- Our remaining shares in 'Challenger' were sold due to their link with Storm and this margin lending arrangement.
- Rebate of prepaid interest was to be approx **$26k** but Macquarie deducted **$13k** due to early exiting – even though this was Macquarie's decision to exit Margin Lending.
- As a result of above we now have to repay the mortgage on our house of **$360k** to the Commonwealth Bank, with ongoing interest over ?????however many years
- Instead of retiring in our early 60's it's looking like mid to late 70's
- Not knowing what questions to ask, who to ask, who to trust and who to believe !!!!!
- Sleepless Nights and anxiety +++
- We are at a loss as to why the Commonwealth Bank and Macquarie Bank allowed our lending ratio to far exceed a level to ensure financial safety.

- We fail to understand why we no longer have an investment portfolio and the ability to recoup our market losses. Had we been allowed to remain in the market we would now be on the road to recovery.
- **The Government of Australia was able to 'prop up' our banks during difficult financial times so they were able to and go on to increase their profits....... Surely now they in turn should be in the position to pass some of these profits back to the customers they let down so significantly.**

Elisabeth & Paul Reeve