

# **Submission to the Parliamentary Joint Committee on Corporations and Financial Services into Financial Products and Services in Australia**

## **Background**

We are a couple (aged 57 and 61 years) who through hard work and careful saving owned our home and then acquired sufficient funds to invest in other areas.

Our wish was to provide financial stability for ourselves and our family – to be self funded retirees.

In February 2007 we invested with Storm Financial and as a result we now face financial hardship that is almost impossible to bear.

On Storm's advice we took out a loan on our family home and an investment property. This loan plus other assets we had (a managed fund portfolio and private shares) was used as security on a further margin loan.

My husband's superannuation was also cashed in to purchase more Storm investments all of which were sold in late 2008 when the market was at its lowest leaving us with a massive mortgage as well as in negative equity with our margin loan.

We are fortunate that were both able to return to the workforce (both of us had been working part-time). We are just managing to service our loans but long term our future is uncertain.

***Our submission supports the inquiry into issues associated with the collapse of Storm. We hope that any legislation which can be put in place that would prevent others from being put in the same position as us would be welcome.***

## **Terms of Reference**

### **1-6 financial advisors, products and services etc**

We first sought the advice of a financial planner in the mid 1990's.

We were conservative investors and on our advisors advice purchased MLC managed funds.

We always assumed that he was recommending the most appropriate product for us, that he was the expert.

Even when he sold his business to Storm we did not fully understand that he was now only selling their product.

Storm then had all our personal information. They were then able to compile a plan that was specifically for us but which we now realize was the same as most other Storm clients.

In hindsight we realize that whilst our advisor knew our situation he was employed by Storm to promote a product.

Few people outside of the industry would understand licensing arrangements.

**Recommendation:**

***More regulation of the finance industry***

***Most Storm investors were successful in their working lives, or they would not have been in a position to invest. You cannot be successful and dumb so something was wrong. Investment savings have to be safe.***

7. Consumer education and understanding of these financial products and service.

At the time we invested with Storm we thought we knew the product. Unfortunately what we thought would happen in a margin call did not happen.

**Recommendation:**

***That the enquiry investigate the reasons why the “buffers” we assumed were in place did not prevent the fiasco that followed the share market fall. People will never want to save for their retirement unless there are guarantees that their funds are secure.***

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

Our financial plan from Storm contained information about compensation arrangements but we do not have any detailed information about them. We can only assume that they are inadequate if Storm customers do not receive any such compensation.

**Recommendation:**

***That the enquiry investigates ways in which customer’s investments can be protected***

9. The need for any legislative or regulatory change

The pain the Storm disaster has caused is immeasurable. It is not just about the money. It is the worry about the future. All of us would have our own story, some worse than others.

**Recommendation:**

***There is a need for legislative or regulatory change that prevents this from ever happening again***

The involvement of banks in providing finance to Storm customers.

Our financial plan from Storm included loan approvals from various banks-based on information supplied by Storm not ourselves.

Borrowing to invest is hardly radical but we ended up with loans of approximately \$2million -yet we were semi retired.

We are of the era that believed that the bank would not be willing to lend money unless it was safe.

***Recommendation:***

***We welcome the committee's decision to investigate the role of the bank in lending finance to Storm customers. We would also like them to investigate the reasons why we were treated differently from other margin loan borrowers – i.e. margin calls at agreed points.***

Conclusion:

We realize that the market dropped drastically and we understand and accept that our investment portfolio would have been hugely affected regardless of who had been our advisor BUT we did expect to always have either a portfolio of investments OR the funds to reestablish one when the market stabilized.

Hopefully the enquiry can provide us with some answers.

Thank you for the opportunity to participate.