

**SUBMISSION TO PARLIAMENTARY INQUIRY INTO
FINANCIAL PRODUCTS & SERVICES**

**SPECIFICALLY STORM FINANCIAL AND
ASSOCIATED BANKS**

Emailed to: corporations.joint@aph.gov.au

SUBMISSION TO PARLIAMENTARY JT COMMITTEE ON CORPORATIONS & FINANCIAL SERVICES SPECIFICALLY STORM FINANCIAL AND ASSOCIATED BANKS

Background

We are a couple aged 61 and 62 who emigrated from the UK 36 years ago and became Australian Citizens and subsequently typical Aussie battlers.

We have heeded warnings and advice from the government for a need to be self sufficient in retirement and not be dependent on the State. We have both been paying into superannuation funds for about 20 years and it is clear that super alone will not keep us in our old age.

We are ex Storm clients who sought advice from what was believed to be professionals. If we all had the know how to handle stocks and shares there would be no need for advisors and they would all be out of a job, but the reality is we are not all experts nor do we claim to be.

Storm did however claim to be experts.

I refer to the terms of reference below followed by a brief summary.

Terms of reference:

1. The role of the financial advisor

A financial advisor should be someone who is an expert in the management of cash, shares, any kind of investment and be able to advise the individual on what is **their** best road to financial independence. They should not be giving the same advice to the masses as in the case of Storm who sent out form letters to all their clients when the bottom dropped out of the market. Where was that personal professional advice when we all needed it the most?

Storm clients have been called greedy by some equally misinformed people which is offensive to all concerned. We were clients for only a year so reaped absolutely no benefits whatsoever – should we have been signed up at all when the markets were looking so bleak? Why not - isn't that when the astute buyer can buy at a lower price? Didn't we employ Storm because they were the **experts** who could guide us to an independent retirement income so that we would not be a drain on the country's economy? If we all understood financial investment in depth we would have no need for advisors would we.

Does the role of the financial advisor need to be reviewed?

Do customer Investments need to be protected?

Should there be a code of ethics for advisors?

Is an advisor different to a planner? – It seems now to me a planner is just selling a product not actually advising the best plan.

2. The general regulatory environment for these products

We contacted ASIC prior to committing to our Storm investment and were categorically told that ASIC had nothing bad on them – nothing to suggest

there could be a problem. Yes, they had operated under different names in the past, but nothing to worry about on their record. So why would you not use a company that had apparently got ASIC approval?

Does ASIC need to be held accountable and reviewed themselves?

3. *The role played by commission arrangements relating to product sales and advice ... conflicts of interest ... disclosure ... remuneration model*

We have paid over \$40,000 to Storm for ongoing advice but at the time when we needed their advice the most – absolutely nothing was forthcoming – they received money under false pretences.

**Should fees be regulated?
Should commissions be investigated?
If you don't get what you pay for should you be reimbursed?
If so how?**

4. *Marketing and advertising campaigns*

The marketing and advertising by Storm was top class and professionally presented. The theory that if you own your own home then surely you should be making that investment work for you – makes sense.

All their strategies made sense and we were assured that our home would never be under threat because:

a) the investment would grow and eventually outweigh the debt

b) even if the bottom fell out of the market it would always recover (using Iraq and 9/11 as examples)

Yes – **but they failed to mention** that you have to remain in the market for that recovery to happen and that there was (unknown to us all) a possibility that Colonial could sell down your stocks* and fail to let you know about your margin call and therefore you would no longer be in the market and consequently unable to make a recovery, and lastly

c) money was put aside in the “dam” to cover all possibilities – or so we were led to believe.

We were in this for the long term not the short term but ours must have been the shortest term on record!

Was there any false advertising involved?

***When the stocks were sold down the market must have been flooded – who bought all those stocks at rock bottom prices?
Was there any insider trading going on?**

5. Adequacy of licensing arrangements

Licensing of Financial Planners needs to be reviewed. From what I have heard there were not many Storm advisors who were licensed with FPA – they were merely salesmen selling the product – with little actual understanding, our advisor depended on Head Office in Townsville for guidance – which did not come when it was needed.

Should it be mandatory for advisors/planners to be licensed?

6. Appropriateness of information and advice

Clearly advice given to the majority of Storm clients was not appropriate. They were encouraged to mortgage their homes and take on huge loans – called “good debt”. Good debt is something we have always had difficulty coming to terms with because being of the “baby boomer” era debt was always considered bad and should be paid off as quickly as possible. We have always paid our debts, owned our own home, and had an excellent credit rating – something which we are now struggling to keep by trying to pay of a large loan and hold on to our home.

Should information and advice be scrutinized by a governing body before being made public?

7. Consumer education

Storm had a good consumer education program and we attended these sessions to become “enlightened” – however the sessions on reflection were biased in Storm’s favour. We were told it would take 12 months to become investors as we needed to attend the information sessions to fully understand the model before being signed up. However when we stalled in actually signing up and moved south interstate our advisor was quick to hop on a plane and come personally to get our signatures to get us into the market asap.

Should consumer education come from a governing body rather than the company selling the product? Should the information from a company be reviewed and endorsed firstly by a governing body?
--

8. Adequacy of professional indemnity insurance

Clearly in the case of Storm their insurance was inadequate. There was nowhere near enough to cover the damage to their clients and suppliers.

Should the issue of indemnity insurance be reviewed to provide protection for investors’ life savings?

9. Need for change

Definitely, this must not be allowed to happen again. This debacle has not only meant losses financially but the emotional stress on people in their declining years has been immeasurable. Many have felt helpless and embarrassed to see their life’s work disappear. And it should be noted that many would not be in this situation if not for the government stressing the need for self-sufficiency. Now the government itself is placed in the situation

of having to financially provide for many older people who had in fact sufficient funds to get by pre-Storm.

We support the inquiry into issues associated with the collapse of Storm and pray that legislation will be put in place to prevent others from being put through the same ordeal.

10. Bank practices

Ahh the banks, they are just as guilty as Storm. They worked in tandem – you scratch my back and I'll scratch yours, then when things turned nasty they washed their hands of the partnership. Even now with the economic climate as it is the banks are doing their own thing raising interest rates once more despite the government's attempts to control the country's economics. Who are the banks answerable to ?? only themselves it appears, they do what they like, when they like, and don't count the human cost at all. It's only about \$\$\$\$\$\$ And what a wonderful bonus they got with all those high priced break fees.

In our case all applications for loans i.e. Bank of Qld and Colonial were dealt with by Storm. We did not meet with any representatives of the banks. The only call we received from the Bank (after all the paperwork was done and the loan approved) was to ask us to send them a copy of our home insurance naming them as interested party.

**Do the Banks need to be held equally accountable when they are working jointly with financial planners?
What is their duty of care?**

Summary

In summary we were a couple who owned their own home, had a little put aside, had a small investment originally of \$25,000 with MLC (7 years) which was doing nicely pre-Storm, and owed nothing to anyone.

After our advisor joined the Storm group we took a loan (mortgage) on their expert advice for \$312,000 to improve our investment position and matched that with a loan from Colonial. We were very hesitant with this as mentioned earlier but were assured that this was something that needed to be done to ensure financial security.

Now when things started to look iffy – that is to say when **Colonial's** money came under threat – we were margin called. This was however **AFTER** our stocks were sold down. We were able to meet the margin call by drawing on superannuation money – so had we been suitably advised and paid the call and stayed in the market we could possibly now be in a position to recover losses and repay the \$312,000.

As it stands we are instead paying the BoQ loan of \$312,000 off monthly and had to throw the rest of the unpreserved superannuation, and our tax refunds at the loan to get the interest rate down to a manageable amount.

How long will we be able to keep paying the loan – who knows at our age? My husband has a heart condition and so his work life expectancy is limited. Our advisor was aware of his heart condition way back 7 yrs ago because he had a problem getting MLC insurance – how then did he manage to get a loan?

Fortunately, or unfortunately depending on how you look at it, he is at the moment working full time and I am assisting by working part time and my meagre earnings go straight to BoQ.

We hope that Damien Scattini proceeds with his Class action and gets some kind of compensation for all those people in need of his expertise. We need to be able to put this behind us and get on with our lives.

Respectfully, we also hope that the inquiry leads to action not just talk. We need answers as to why we no longer have a portfolio and why we are not now on the road back to recovery. What went wrong? Who was at fault?

Names supplied but withheld.