SUBMISSION TO THE 2009 PARLIAMENTARY INQUIRY INTO
FINANCIAL PRODUCTS AND SERVICES IN AUSTRALIA
From Adriaan & Janis Boon

We first met Emmanuel Cassimatis about 1984 when he was an insurance rep with MLC and trading as Emmanuel Cassimatis & Associates Pty Ltd. Our first investment with him was in May 1994 after we sold out of a business partnership and invested the proceeds of the sale. We had paid off our home by this stage and Mr. Cassimatis had us mortgage our home to invest in shares. He was our adviser at this point but we were later transferred to Bernadine Frawley and then to Carey Fraser. The business has been through a number of name changes since we have been with them – i.e. Cassimatis Securities Pty Ltd, Ozdaq Securities Pty Ltd and Storm Financial Pty Ltd.

Over the years we continued to invest with borrowings from Colonial Geared Investments (CGI) and Westpac, on the recommendations from Storm, as well as reinvesting the dividends from the portfolio. We considered ourselves as conservative investors and were nervous about the size of the debt which had grown to above $1.5 million by June 2008, because the biggest debt prior to investing with Storm was buying our house. We were always assured that the investment was safe and whenever we suggested, (which we did on a number of occasions), that we pay some of the debt down we were always advised against it. Carey Fraser told us, “The investment is earning more than the interest charged on the loan. You will never lose your house.” We accepted that advice; after all Storm Financial were the experts.

In 2002 when there was a fall in the market CGI wrote to us advising us of a margin call. However, in 2008 we were not contacted by CGI or Storm when we had margin calls. In fact, we were not told anything and our entire portfolio disappeared. Even then we had to work out for ourselves where the money from the sale of the portfolio had gone. In the first week of October 2008 we had signed forms to convert our portfolio to cash but this took weeks and a large part of the value was lost. At the time I told Carey Fraser, in the Storm Townsville office, that whatever happens we did not want to lose our house; she told us that the house was not part of it. A comment we still do not understand as we have been left owing a large mortgage on our home. The money we borrowed against the house from Westpac and invested has all been taken by CGI. Part of our portfolio was a Westpac/BT Share Fund. Can CGI take that? We are now fighting to hang on to our home, as it is mortgaged with Westpac to approximately 80% of its value.

We note that our MLC Fund was sold down 3 – 4 days before the quarterly dividend was to be paid and apparently we don’t receive that because the fund was closed. Therefore some thousands of dollars were missed out on, which we could ill afford. And money that was put into a Commonwealth Accelerator Account against our fixed margin loan was frozen. We asked that the money be put in a Commonwealth Bank term deposit for 3 months before the loan was due and where it would earn an additional 1.3% but were refused. The bank said they were not set up to hold term deposits as security. Another $2500 we missed out on. CGI had the gall to say the money in the Accelerator Account was ours, yet we were not able to use it to full advantage. We still would not have been able to access the funds because the term deposit would still have been attached to the Accelerator Account. It is interesting to read Colonial’s INVESTOR REVIEW January 2009 edition which is headed up *‘The global financial crisis hits home. It’s important to remember that every action has an equal and opposite reaction.’* If they believe that then why did they sell us down instead of riding the downturn out?

My wife had planned to give up her part time job at the end of 2008 but has instead taken on extra work, and I had planned to retire at the end of June 2009 after having gone through neck cancer treatment in mid 2008. We both turn 60 years of age this year. It was never our intention to be mega rich but rather to be self funded retirees living modestly and not having to rely on the government. We also had hopes of assisting our children and grandchildren. Now we find that the whole of our investment has disappeared and we are left with a very large mortgage with high repayments.

Response to the Parliamentary Terms of Reference

1. <u>The Role of Financial Advisers</u>
   Financial Advisers should be suitably qualified persons who can look at all aspects of your lifestyle, needs and aims in life and develop a financial strategy to suit each client. The recommended strategy should help the client achieve their goals effectively and at a risk level they are comfortable with at all times.
   - All Financial advisers should be registered with the appropriate authority.
   - Appropriate qualifications should be required and legislated for. Advisers who have been in the industry for a number of years and who do not have the necessary qualifications should also be required to obtain the appropriate level of qualification.
   - All fees and commissions from others sources such as banks and funds should be disclosed. Product selling should be transparent and separated from financial planning.

2. <u>The General Regulatory Environment for These Products and Services</u>

3. <u>The Role Played by Commissions</u>

The payment of commissions no doubt restricts the advice to the product from which the commission flows giving rise to conflicts of interest, where the advice given is of more benefit to the adviser than the client.

- All commissions should be disclosed and product selling should be transparent and separated from financial planning.

4. <u>The Role Played by Marketing and Advertising Campaigns</u>

The Regulatory Authority would need to ensure that any Marketing and Advertising Campaign was not misleading.

- The Authority should audit investor seminars from time to time to assess the accuracy of information given.
- There should be penalties for false advertising.

5. <u>The Adequacy of Licensing Arrangements for Those who Sold the Products and Services</u>

The requirements needed to become a Financial Adviser appear grossly inadequate. Someone only needs to be of good fame and character, and give an assurance that they will not behave inappropriately.

- Licensees should be required to meet certain qualifications before being granted a license.
- The License should distinguish between 'Financial Advisers' and 'Financial Product Sellers'.

6. <u>The appropriateness of Information and Advice Provided to Consumers.</u>

7. <u>Consumer Education and Understanding of These Financial Products and Services</u>

More should be done to educate investors prior to making financial decisions to enable them to be confident when making those decisions. There can be a tendency to submissive towards the adviser who is perceived to be the expert.

- All levels of fees and charges should be disclosed by the financial adviser and/or financial product seller.
- Regulatory Authorities should attend investor workshops from time to time to assess the information given.

8. <u>The Adequacy of Professional Indemnity Insurance</u>

- Indemnity Insurance should be a legal requirement and directly tied to the amount of funds under management.

9. <u>The Need for Any Legislative or Regulatory Change</u>

- Separate the giving of financial advice from the selling of financial products or ensure there is complete transparency between the two.
- Investigate and set an appropriate LVR level.
- Change the way bank and lending loans are calculated by including all outstanding debts in particular, home loans, thus giving a truer LVR level.