

28<sup>th</sup> July 2009

**Submission to:**

Committee Secretary  
Parliamentary Joint Committee on Corporations and Financial Services  
PO Box 6100  
Parliament House  
Canberra ACT 2600  
Australia

**From:**

Fiona Alongi

**Inquiry into Financial Products and Services in Australia – Storm Financial**

Dear Mr Ripoll

I offer the following submission to you on behalf of my elderly parents, Robert (72) and Barbara Jones (75), who have been financially and emotionally destroyed by the Storm Financial collapse and reprehensible actions of Storm and the banks involved, notably CBA, Colonial Geared Investments and Bank of Queensland (North Ward Branch). My parents began investing with Storm Financial approximately 10 years ago (not long after my father retired), in order to achieve a safe, modest, self-funded retirement and to leave some sort of financial legacy to their grandchildren. They never aspired to be 'rich' and were not greedy or 'high flyers'. They have worked hard and have always been fiscally conservative and very careful with their assets. They are not by nature 'risk takers'. They never wanted to be a burden to anyone.

**Background**

During early 2008, my parents (like most investors) were concerned about the downturn in the Stock Market, but were confident that Storm and their advisor had their situation under control and were repeatedly told as much. My parents first learned that there was a problem with Storm Financial in mid-December 2008 when an article appeared in the Townsville Bulletin reporting that Storm was in immediate danger of collapse. After immediately telephoning the offices of Storm, my parents were assured that this was merely a media beat-up perpetrated by Storm's 'jealous' competitors and the press. My parents trusted Emmanuel Cassimatis and their advisor David McCulloch and therefore believed this explanation wholeheartedly. My parents thought that they had established a very trusting relationship over the years not only with Mr Cassimatis and Mr McCulloch, but with everyone they were involved with at Storm. In the proceeding months during which time the market started to fall, Mr Cassimatis and Mr McCulloch repeatedly assured my parents that they would be financially secure and that there were strategies in place to cover these contingencies. In fact, Mr Cassimatis told my parents on a number of occasions over the years and even up until the end, that *'the market would only ever soar'* and I quote. My brother and I however were gravely concerned and tried over the ensuing weeks to gain information from Storm and more specifically from their advisor as to what their financial position actually was.

My parents tried to get an appointment to discuss their situation face to face with their advisor. Our first appointment (just before Christmas) was cancelled at the last minute without explanation. We feared the worst. My parents rescheduled their appointment, which they could not secure until after the Christmas 2008/New Year 2009 period, for January 9, 2009 (the earliest they could get). On arriving at the Storm offices on January 9, 2009 (the date on which, we would learn afterwards, that Storm Financial was placed into receivership) we were informed that their regular advisor, Mr McCulloch was sick (there seemed to be some confusion at Storm as to whether this was in fact the case), and for that reason they had considered cancelling our appointment yet again. However, Storm had organised for an unfamiliar advisor from the Brisbane office to explain to us via video/computer link-up, exactly what my parents' current 'situation' was. Up until this point in

time there was no indication exhibited by Storm staff as to how dire my parents' situation really was. Everything appeared to be 'business as usual'. My brother joined via phone from the United States where he resides. After pleasantries were exchanged and Storm's response to the media reports was read to them, my parents were told that the '*Storm charity*' (the exact words spoken by this representative) was about to end, that their portfolio had been sold down into negative equity to service their margin loan (this was unknown to them), that they had a shortfall against the margin loan and actually owed money and that they had no cash or investments remaining. They were then advised that they had a large home loan mortgage with Bank of Queensland, that they would not be able to service it and that they would have to sell their home of 22 years (which they had owned outright previous to joining Storm) and find rental accommodation. Finally, they were advised that they should immediately apply for the full aged pension to establish an 'income stream'. My parents were of course shocked, distraught and devastated as were my brother and I. How could this happen? How could this have happened with no prior warning? Didn't Storm have strategies in place to prevent or at least buffer them against any downturn? How could my elderly parents (indeed anyone) have been placed into this precarious position by Storm and the Banks? Why had CGI sold them down into negative equity without their knowledge?

### **The Role of Financial Advisors**

Surely, ones' financial advisor should know the short and long-term financial needs of their client and design strategies for investment based on these needs. These strategies should also be designed with regard the level of risk the client can accept without jeopardising their assets especially something as fundamental as their family home. That should NEVER be put at risk. These strategies should also take into consideration a clients age. My Parents and many like them who find themselves in this appalling situation can never rebuild or hope to recoup their losses even on a very modest scale. Clients should be fully informed by their advisors about the strategy, especially when serious risks become apparent. They were certainly paying enough in fees. Do financial advisors not have a duty of care to their clients just like any other providers of products and services? Storm Financial never explained to my parents that they were leveraging against their home. They never explained that they were at serious risk of losing their home should the market fall significantly or for whatever reason they could not make the repayments on that loan. I can find no evidence that Storm ever submitted a risk analysis to my parents.

### **The Role of the Bank**

We have also discovered major deficiencies in, and have very grave concerns about the loan establishment process conducted by Storm Financial and the Bank of Queensland in relation to my Parents' home loan mortgage.

Firstly, at NO time did my parents meet with a Bank of Queensland employee or loan manger to discuss obtaining this loan, the financial details in the application or execution of the mortgage documentation after the loan was approved. A completed loan application form was presented to our parents by their Storm Financial adviser. They signed this application form without representatives from either Storm Financial or the Bank of Queensland explaining the content of this document, the risks involved or the possible implications of the facility that was being applied for. This occurred in November 2007. The Stock Market was already starting to decline at this time, as was the housing market. Exposing my Parents in this way at this time was, to say the very least, incredibly irresponsible, unethical and unconscionable.

My Parents were never advised to seek independent legal advice when they signed the mortgage documentation (which was witnessed by their Storm Financial adviser). I understand this is a common recommendation (in many cases insisted on) by banks or their representatives, to people taking out a loan that is secured by their home.

My parents are elderly, financially unsophisticated (that is why they paid huge fees to their financial advisor) and very trusting in nature and simply did not understand the arrangement they

were entering into. Doesn't the Bank of Queensland as the provider of this loan have a duty of care to ensure that my parents understood that their home was at risk if the loan repayments could not be met for whatever reason? It is my firm belief that if they had been made aware of the risks involved and the full implications of this loan, they would never have put their home at risk. One is also forced to ask what relationship existed between Storm Financial and the Bank of Queensland (North Ward Branch) to allow this to occur.

I have identified several aspects of their stated financial position, which are blatantly incorrect. There are many substantial omissions, and details that are totally inaccurate and incorrect in their loan document. Is it standard banking practice to accept a document with omissions or inaccuracies? It also appears from discrepancies in documents provided by Storm to my parents that the value of my parents' home may have been inflated. This however is very hard to prove. The additional financial commitment from this loan was clearly unaffordable for my parents even with their portfolio intact. I understand that the Bank of Queensland had a duty of care to check the accuracy of the information contained in the application, including seeking supporting documentation.

I cannot conceive how it would have been possible for the Bank of Queensland (or indeed any Bank) to approve this loan, had the lending officers taken the time to verify our parent's actual financial circumstances at the time the loan application was assessed. It is apparent that the Bank accepted the information completed on the Consumer Lending Application by Storm Financial without question.

### **Some questions that need answering (there are so many)**

#### **The Banks**

1. How were the Banks able to lend money to people who had little or no capacity to repay their loans?
2. How could, and why did, the Banks lend money to people that they never interviewed?
3. How could the Banks approve loans based on inaccurate/incorrect loan documentation?
4. What *Code of Banking Practice* do the Banks follow with regard lending practices?
5. Where is the *Duty of Care* that is supposed to be shown to the clients of the Banks?
6. Where is their compassion and understanding?
7. How were people allowed to be geared so high and have their home put at risk?
8. Why was the Margin Loan allowed to be sold down at such a large percentage?
9. Where did all the money/shares/portfolio go and why? Who bought them?

#### **Storm Financial**

1. Why was the same investment strategy used by Storm for all of their Clients, no matter what their age and circumstances?
2. What about an assessment of risk being carried out as people advanced into retirement or if their circumstances changed?
3. How could Storm and the Banks be so closely allied? Is this not a conflict of interest?
4. What *Code of Practice* did Storm follow?
5. What was Storm's *Duty of Care* and under what *Code of Conduct* did they operate?
6. How could Storm put people at risk (especially the elderly and those who have retired), of losing their most important asset, their home?
7. Why was Storm 'gagged' and not permitted to speak with its' clients at a time when their clients desperately needed information and guidance? Why was Storm prevented from explaining to their clients that they had been 'gagged' and for what reason?
8. Where did all the money go?
9. Why did Storm not have enough insurance coverage?

## The relationship between Storm Financial and the Banks

1. What was the relationship between Storm Financial, CBA, CGI and Bank of Queensland?
2. Were these relationships tended in writing?
3. Did these relationships work to any *Code of Conduct* or indeed any guidelines at all?
4. Who profited from these relationships? I suspect not the client.
5. Who, if anyone was monitoring and regulating these relationships?

I have so many more unanswered questions. My parents were once self-funded retirees, securing a modest but most importantly an independent living. Now they rely solely on the Centrelink aged pension, have absolutely no other financial resources and have lost all dignity, trust and hope. After completing exhaustive research on behalf of my parents it has become very clear that there are no reasonable alternatives for them at their age. With the recent fall in residential property values, the equity in my parent's home has substantially diminished. If they sell their home they have no prospect of realising sufficient money, after the current outstanding loan balance is paid, to purchase an alternative property such as a small single bedroom unit. Also, due to the recent rent increases in Townsville, they will not be able to afford the rental expense of suitable, safe accommodation. I have been advised that the waiting list for a housing commission home is lengthy (years) and they face years on waiting lists for aged care accommodation. Where will they live? My Parents never had mortgage and have never rented in their life. I am extremely concerned that my parents will not be able to afford to eat, let alone make loan (interest only) repayments.

Added to this disastrous mix is the fact that my father has, and may have had for some time, Dementia. I have seen his condition worsen due to the recent changes in their financial circumstances. Even more disturbing is the comment made to me by my parents many times since this situation arose, that if they lose their home then there really is nothing to live for and they may as well be dead. My parents simply cannot see a future for themselves. What will become of them and people like them, affected by this deplorable situation?

Our dealings with the BoQ have been nothing short of frustrating with the use of delaying tactics and the passing of our problem from the local branch (North Ward) that my parents have been dealing with, to an unspecified branch in Brisbane. Once again we have to deal with a stranger over the phone or correspond by mail. This is not a very personal or efficient method to use in this very difficult situation, considering that one of BoQ's claims to fame is that you don't need to deal with an impersonal branch/manager in Brisbane. Supposedly, you can have all your financial needs met and issues dealt with by a friendly, trustworthy, independent local Manager (except it would appear when the situation becomes difficult or a serious problem arises). The silence from BoQ has been deafening. Thank goodness for SICAG, which has been a lifeline to people like us who are trying desperately to negotiate this financial quagmire and find some help, guidance and support. We have also met some very kind, generous, genuinely concerned individuals in various professions who have also helped us immensely. It has gone some way to restoring my parents' faith in humanity. Nothing can compensate our family for the stress, anguish and grief that has engulfed us since December last year. And there are so many others like us. I am absolutely terrified that my parents will never recover from this and despair of what the future may bring. I just want my parents to be able to stay in their home and know that they are safe, comfortable and relatively happy in the years they have remaining. I am not surprised that the world is experiencing a 'financial meltdown' if this is how our financial institutions behave. My parents trusted Storm Financial. They trusted that Storm and the banks were doing the right thing for them, not ultimately destroying them.

We would like to see all involved at Storm, CBA, CGI and BoQ investigated to the full extent of the law and hope that stricter government regulations ensure that this never, ever happens to anyone or any family again.

Yours sincerely

Fiona Alongi